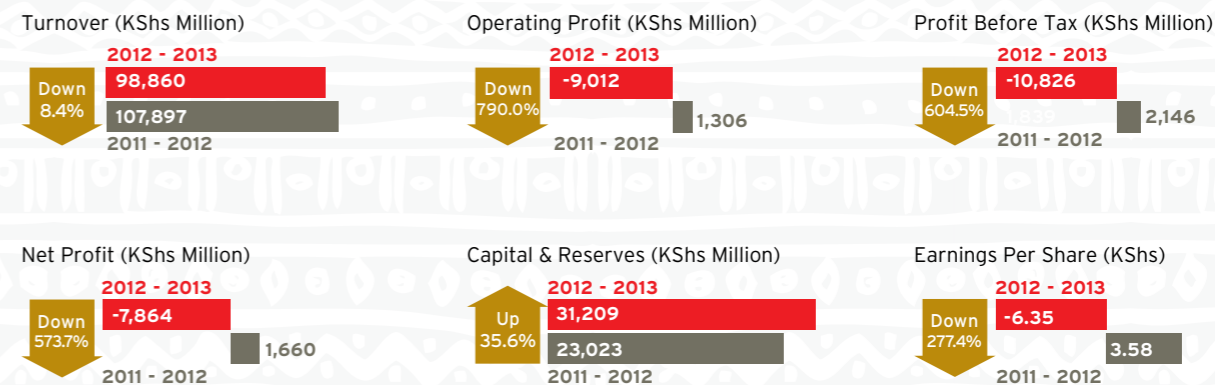


# CONTENTS

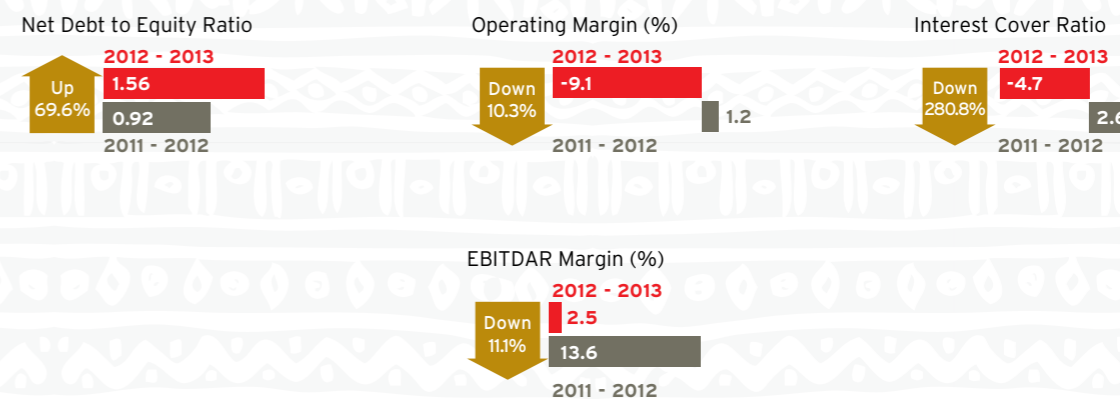
	<b>Page No</b>
Performance Highlights	3
Board of Directors	6
Chairman's Statement	12
Taarifa ya Mwenyekiti	18
Management Team	24
Chief Executive's Statement	30
Taarifa ya Afisa Mkuu	42
Corporate Governance	54
Corporate Information	58
Directors' Report	59
Statement of Directors' Responsibilities	60
Report of the Independent Auditor	61
Consolidated Income Statement	62
Consolidated Statement of Comprehensive Income	63
Consolidated Statement of Financial Position	64
Company Statement of Financial Position	65
Consolidated Statement of Changes in Equity	66
Company Statement of Changes In Equity	67
Consolidated Statement of Cashflows	68
Notes to the Financial Statements	69
Shareholder Analysis	118
Proxy Form	123

See the world  
through *our* eyes...  
Welcome to Abu Dhabi.

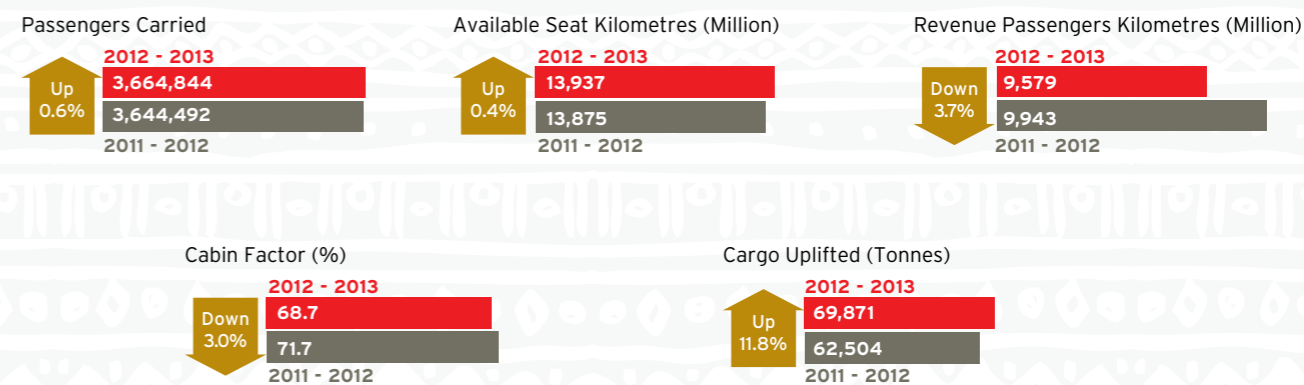
### Group Results



### Key Financial Statistics

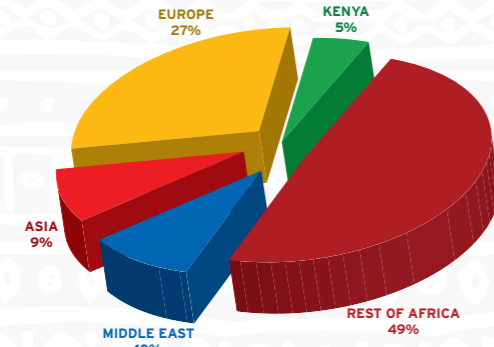


### Operating Statistics

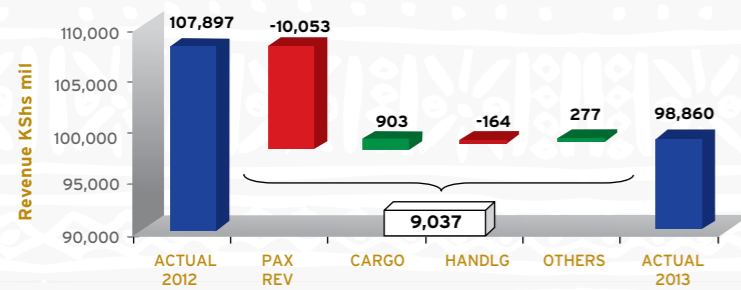
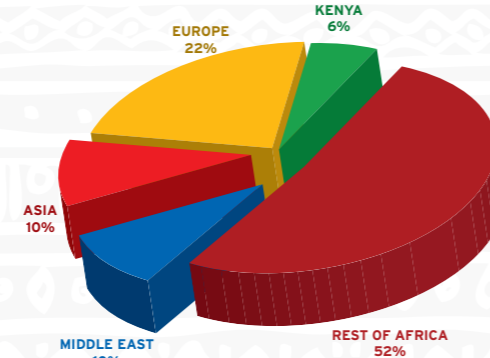


## TURNOVER BY REGION

2012

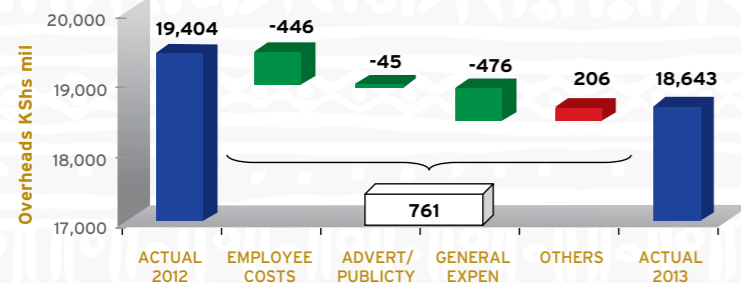
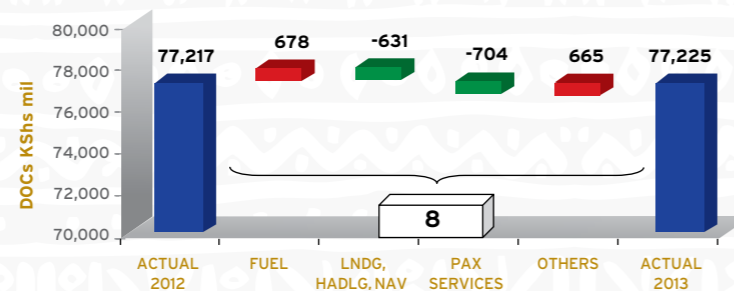


2013



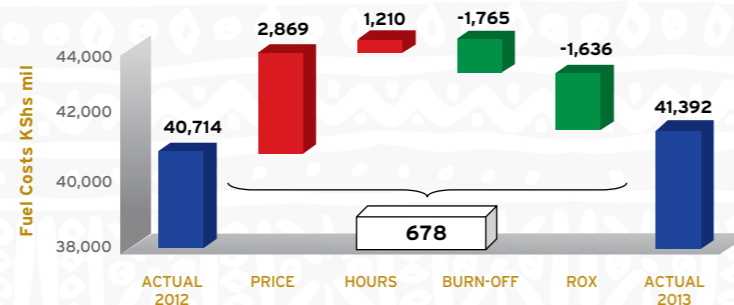
## TURNOVER

## DIRECT OPERATING COSTS



## OVERHEADS

## FUEL COSTS



## FINANCIAL HIGHLIGHTS

## The Group

	2013		2012		2011	
	KShs. Million	US\$ Million	KShs. Million	US\$ Million	KShs. Million	US\$ Million
<b>Turnover</b>						
Passenger	85,099	1,000.9	95,152	1,074.2	75,355	945.6
Freight & Mail	9,714	114.3	8,811	99.5	6,522	81.8
Handling	1,705	20.1	1,869	21.1	1,492	18.7
Other	2,342	27.5	2,065	23.3	2,467	31.0
	<b>98,860</b>	<b>1,162.8</b>	<b>107,897</b>	<b>1,218.1</b>	<b>85,836</b>	<b>1,077.1</b>
Direct costs	(77,225)	(908.3)	(77,217)	(871.7)	(53,419)	(670.3)
Fleet ownership costs	(11,178)	(131.5)	(9,970)	(112.6)	(9,622)	(120.7)
Overheads	(18,643)	(219.3)	(19,404)	(219.1)	(16,980)	(213.1)
Restructuring costs	(826)	(9.7)	-	-	-	-
<b>Operating (loss)/profit</b>	<b>(9,012)</b>	<b>(106.0)</b>	<b>1,306</b>	<b>14.7</b>	<b>5,815</b>	<b>72.9</b>
<b>Operating margin%</b>	<b>-9.1%</b>		<b>1.2%</b>		<b>6.8%</b>	
Net finance costs	(486)	(5.7)	(1,097)	(12.4)	(1,207)	(15.1)
Fuel hedge derivatives	602	7.1	2,467	27.9	328	4.1
Share of results of associate	(230)	(2.7)	238	2.7	(188)	(2.4)
Other costs	(1,700)	(20.0)	(768)	(8.7)	254	(3.2)
<b>(Loss)/profit before tax</b>	<b>(10,826)</b>	<b>(127.3)</b>	<b>2,146</b>	<b>24.2</b>	<b>5,002</b>	<b>62.7</b>
Income tax credit/(expense)	2,962	34.8	(486)	(5.5)	(1,464)	(18.4)
<b>(Loss)/profit for the year</b>	<b>(7,864)</b>	<b>(92.5)</b>	<b>1,660</b>	<b>18.7</b>	<b>3,538</b>	<b>44.3</b>
<b>(Loss)/profit after tax margin%</b>	<b>-8.0%</b>		<b>1.5%</b>		<b>4.1%</b>	
Dividends	-	-	374	4.2	693	8.7

## OPERATING STATISTICS

	2013	2012	2011
Passengers	3,664,844	3,644,492	3,136,789
Revenue Passenger			
Kilometres (RPK's-millions)	9,579	9,943	8,896
Available Seat Kilometres (ASK's-millions)	13,937	13,875	12,854
Cabin Factor (%)	68.7	71.7	69.2
Cargo Tonnes	69,871	62,504	56,401
Pax yield/ RPK inc Fuel Surcharge (Usc)	9.81	9.90	9.76
<b>Employees</b>			
Airline	3,470	3,563	3,207
Group	4,006	4,834	4,355

## Aircraft in service at year end

Aircraft Type	2013	2012	2011
Boeing 777-200	4	4	4
Boeing 767-300	6	5	6
Boeing 737-800	5	5	5
Boeing 737-700	4	4	4
Boeing 737-300	5	6	6
Embraer 190	12	4	1
Embraer 170	5	5	5
B747-400 Freighter	1	1	-
B737-300 Freighter	1	-	-
<b>Total</b>	<b>43</b>	<b>34</b>	<b>31</b>



**STANDING FROM LEFT TO RIGHT**

Alex Mbugua | Evanson Mwaniki | Salma Mazrui Watt | Josef Veenstra | Vincent Rague  
 Ron Schipper | Ayisi Makatiani | Dr. Titus Naikuni | Dr. Cyrus Njiru | Amb. Dennis Awori  
 Dinesh Kapila | Peter Hartman

**NOT IN THE PICTURE**



Joseph Kinyua



Fiona C. Fox

**Evanson Mwaniki:**  
**Non Executive Chairman (74 years)**

Mr. Mwaniki holds a Bachelor of Arts (Hons) from the University of London. He was the General Manager of Shell and BP between June 1989 and December 1994. Over this period Mr. Mwaniki's notable achievements included turning around the company from a loss position in 1989 to profitability. He also led the oil industry negotiations with the Government of Kenya on liberalisation of the oil industry, leading to actual decontrol in October 1994 and prepared Kenya Shell & BP Kenya (including restructuring the organisation) for effective marketing in the new (liberalised) business environment.

Mr. Mwaniki has represented the oil industry in various influential forums. These include the Federation of Kenya Employers and the East Africa Association. Mr. Mwaniki currently sits on the boards of various companies, including British American Tobacco Kenya (Non-Executive Chairman), East African Breweries Ltd, East African Packaging Industries Ltd and Lion of Kenya Insurance Company Ltd.

On the corporate social responsibility side, Mr. Mwaniki has rendered long voluntary service in educational institutions including the Alliance High School where he served for many years as the Chairman of the Board of Governors and the Starehe Boys' School where he currently serves on the Board of Trustees.

**Dr. Titus Naikuni:**  
**Group Managing Director and Chief Executive Officer (59 Years)**

Dr. Naikuni holds a Bachelor of Science Honours Degree in Mechanical Engineering from the University of Nairobi. He is also a graduate of the Harvard Business School's Programme for Management Development (PMD71) and was awarded a Doctor of Science Engineering by the Jomo Kenyatta University of Agriculture and Technology in 2008, an honorary award in recognition of his contribution to development. He joined the Magadi Soda Company in 1979 as a trainee engineer and rose to the positions of Managing Director of that company in 1995 and combined it with being Managing Director of the Magadi Railway Company (a subsidiary of Magadi Soda Company) in 1996.

Between August 1999 and March 2001 Dr. Naikuni was a member of a team of World Bank sponsored Kenyan technocrats, known as the "Dream Team" who were engaged by President Moi to turn around the Kenyan economy. In this capacity Dr. Naikuni served as permanent secretary to the Ministry of Information, Transport and Communications and was a member of the Board of Kenya Airways during that period. He returned to Magadi Soda Company in April

2001 where he continued to serve as Managing Director of Magadi Soda and Magadi Railway Companies, a position he held up to his present appointment with Kenya Airways in February 2003.

Titus received the Manager of the Year Award in Kenya in 2002. In 2009, during the 15th Aviation & Allied Business Leadership Conference in Addis Ababa, Ethiopia, Dr. Naikuni was awarded the 2009 Aviation & Allied Business Individual Achievement Award.

**Alex Wainaina Mbugua:**  
**Group Finance Director (49 years)**

Mr. Mbugua was appointed the Group Finance Director of the Kenya Airways (KQ) Group on 14th July 2008. He is an MBA graduate with specialization in Corporate Finance and Investment Banking; a Certified Public Secretary; Certified Public Accountant; and a member of the Institute of Certified Public Accountants of Kenya. Mr Mbugua is an alumni of Harvard Business School having completed the Advanced Management Program (AMP 183) in October 2012. In the past 28 years, during his highly successful career, Mr. Mbugua has gained significant knowledge and expertise in the fields of finance, strategy, information technology and general management.

As Group Finance Director of KQ Group, Mr. Mbugua has been responsible for and overseen certain key milestones including chairing of the KQ Ten Year Strategic Planning committee for the development of "Project Mawingu" and presiding over the capital raising project that involved both debt and equity financing to fund Project Mawingu, including the high profile 2012 rights issue offer that raised net proceeds of KES 13.8 billion for KQ.

Prior to his current position with KQ, Mr. Mbugua held the position of Chief Financial Officer of Africa Open Pit Mines, AngloGold Ashanti in Johannesburg.

Mr. Mbugua held board positions at AngloGold Holdings (UK) and also in 8 mining subsidiaries spread out in 5 African Countries. Other board positions have included Bain Hogg Ltd and Norfolk Holdings (K) Ltd together with KQ subsidiaries Kenya Airfreight Handling Ltd and JamboJet Ltd.

Mr. Mbugua's previous roles included Chief Executive Officer, Combined Systems Group, Africa Division PwC, Johannesburg (2000 -2003); Finance and Administration Director, Bain Hogg Insurance Brokers, Kenya (1997 -1999); Chief Financial Officer, Express Kenya (1992-1997); Financial Consultant, International Air Transport Association (1990 -1991) and Audit Consultant, KPMG, Kenya (1985 - 1989).

**Dinesh Kapila:**  
**Non-Executive Director (67 Years)**

Mr. Kapila is an advocate of the High Court of Kenya, Barrister-at-law, Lincolns' Inn, England, a partner in D.V. Kapila & Company Advocates and a practitioner in corporate, commercial and conveyancing matters. He has been actively involved in the overall privatisation strategy in Kenya as a member of the Parastatal Reform Programme Committee of the Government of Kenya.

He has been a member of the Attorney General's Task Force formed for revising and updating laws relating to companies, partnerships, investments and insolvency. He has been a member of New Issues and Economic Rejuvenation Committees of the Nairobi Securities Exchange. He has attended the Harvard Business School's executive program in corporate governance.

He has assisted in the restructuring and privatisation of Kenya Airways and was duly recognised by the World Bank for his exceptional contribution. He has also been involved in the restructuring of Kenya Ports Authority as well as The National Cereals and Produce Board. He has advised the private sector in matters pertaining to telecommunications, railways, banking, hotels, properties, industries, farming etc. and is a director of several private companies. He was appointed to the Board of Kenya Airways in April 1991, and since October 1998 has been the Chairman of the Board's Audit and Risk Management Committee and is currently also Chairman of the Airline's subsidiary companies, Kenya Airfreight Handling Limited, African Cargo Handling Limited and Kencargo Airlines International Limited.

**Dr. Cyrus Njiru:**  
**Non Executive Director (45 Years)**

Dr. Cyrus Njiru is the Permanent Secretary, Ministry of Transport in the Republic of Kenya. Originally trained as a Civil Engineer in Kenya, Japan, the Netherlands and the United Kingdom, Dr. Njiru later specialised in infrastructure finance, development and management. He received training in business and corporate management in the UK and Denmark. He also received further training and work experience in the USA and the UK. Before his current appointment, Dr. Njiru was Permanent Secretary in the Office of the Deputy Prime Minister and Ministry of Trade.

Before joining the services of the Government of Kenya, Dr. Njiru was a Principal Adviser on Infrastructure Development and Management at the African Development Bank's headquarters in Tunis, Tunisia. Before joining the African Development Bank, Dr. Njiru was Research and Consultancy

Manager at the Institute of Development Engineering in the UK, with responsibility for infrastructure projects in Asia and Africa.

A highly trained and experienced professional, Dr. Njiru has considerable skills and international experience in project finance, infrastructure development and management. He has considerable work experience in Europe, Asia and Africa, and has consulted widely for international organisations such as the World Bank and the UK Department for International Development and SIDA.

**Peter Hartman:**  
**Non Executive Director (64 Years)**

Mr. Peter Hartman studied Mechanical Engineering at Amsterdam Polytechnic, followed by Business Economics at Erasmus University in Rotterdam, where he received his Master's degree. Mr. Hartman joined KLM as a work analyst for the Controllers Department of Engineering & Maintenance on 29 October 1973. He was appointed Controller - Work for Third Parties at Engineering & Maintenance in 1975. In the years that followed he held various positions as controller in the Netherlands and abroad. In 1984, he was appointed Director - Technical Contract Services responsible for sales of KLM technical maintenance services to other airlines. In 1987 he was appointed Project Manager - Schiphol 2000.

On 1 January 1989, he became Vice President - KLM Ground Services Schiphol. In this capacity he was responsible for all handling processes at Schiphol and all KLM outstations. Mr. Hartman became Senior Vice President - Customer Services on 1 October 1990, and on 15 April 1994, he was appointed Executive Vice President - Personnel & Organisation. On 1 January 1996, Mr. Hartman took up the post of Executive Vice President - Engineering & Maintenance followed by his appointment on 6 August 1997 to the KLM Board of Managing Directors. On the 1 April 2007, he became the President and CEO of KLM.

**Ambassador Dennis Awori:**  
**Non-Executive Director (58 Years)**

Ambassador Dennis Awori was recently elected to the Board by the shareholders following the Annual General Meeting on 14 October 2011.

He has extensive experience in the corporate world having worked for many years in the motor industry, formerly with Toyota East Africa in both Kenya and Uganda. He served as Kenya's Ambassador to Japan and Korea from 2003 to

2009. Upon his return to Kenya, he immediately rejoined Toyota as Chairman and executive advisor to Toyota Tsusho Africa covering Eastern Africa.

In April 2010 he was appointed to the NEPAD National Steering Committee, a body appointed by the Government of Kenya to promote Kenya's effective participation in regional infrastructure development. During the later part of his career he also established a Business Consultancy and Advisory service and successfully performed several consultancies for USAID, World Forestry Services, Kusters Engineering and other corporates and NGOs.

Ambassador Awori is a keen sportsman and represented Kenya and East Africa in rugby in the 1980s. He has also chaired the Rugby Football Union in both Kenya and Uganda.

**Ron Kornelis Adriaan Schipper:**  
**Non Executive Director (67 Years)**

Mr. Ron Schipper was born in 1945 in Bussum in the Netherlands. He joined KLM in 1969, flew for 3 years as a cabin attendant and was then transferred to cabin crew management where he worked in various management positions until 1977.

He was appointed Manager of the Cabin Crew Training Department at Schiphol in the same year. He left the Netherlands in 1980 for his first posting abroad as Manager Cabin Crew seconded to Nigeria Airways in Lagos. In 1982 he was appointed Sales Manager, Kenya based in Nairobi after which he was transferred to the UK in 1984 as District Manager, Northern England based in Manchester.

In 1986 Mr. Schipper was appointed General Manager Ghana and in 1989 he spent a brief period in France as interim General Manager based in Paris before returning to the Netherlands to take up the appointment of Executive Secretary of the Passenger Division. Thereafter he was seconded in 1991 to Antillean Airlines in Curacao as Managing Director. He returned to the continent close to his heart, Africa, in 1994 and held the position of Vice President and Area Manager Africa based in Johannesburg until he retired in 2008. He continues to live in Johannesburg.

**Joseph Kinyua:**  
**Non Executive Director (62 Years)**

Mr. Kinyua is the Permanent Secretary, Ministry of Finance. He is a career economist having served in various capacities in the Treasury and Central Bank. He has also been involved in several projects with the International Monetary Fund both within Kenya and abroad. He holds MA and BA degrees in Economics (University of Nairobi). He is currently a member

of the Board's Audit and Risk Management Committee and the Nominations Committee.

**Ayisi Boniface Makatiani:**  
**Non Executive Director (46 Years)**

Mr. Ayisi Makatiani is head of Fanisi Capital Ltd, a company established in 2009 to manage a USD50M Venture Capital/Private Equity fund investing in small and medium-sized enterprises across East Africa. Previously he was head of the African Management Services Company (AMSCO), founded by the International Finance Corporation - the World Bank's private-sector arm. Mr Makatiani obtained a degree in engineering from Massachusetts Institute of Technology before setting up Africa Online, which became the continent's largest internet service provider.

Mr Makatiani is also an adviser to the President of Kenya, and was a member of the UN Secretary General's Taskforce on ICT and was Vice-Chairman of Kenyatta University Council between 2009 and 2011. In 2010, Mr. Makatiani received the national honour and award of the Elder of the Order of the Burning Spear (EBS), one of the highest that can be awarded to a civilian by the head of state. Voted one of the top 10 CEOs in East Africa several times, Ayisi Makatiani is both a Global Leader for Tomorrow and a Young Global Leader at the World Economic Forum.

He chairs the Company's subsidiary JamboJet Limited and is a member of the Board's Audit and Risk Management Committee.

**Salma Mazrui Watt:**  
**Non Executive Director (47 Years)**

Mrs. Mazrui-Watt has significant expertise in business leadership, sales and marketing, corporate communications and strategic planning in both the private and public sectors and is an organizational development specialist.

She is the Chief Executive Officer of KiBeNi Limited, an agri-business company and until late 2011 was the Regional Director, Partnerships Development and External Relations, WWF East & Southern Africa Regional Programme Office (ESARPO). She has also been Group Head of Marketing, Africa Online Holdings Ltd, and Managing Director, Trans Union Kenya Ltd and was the Vice Chair for the East African Credit Bureau Association (EACBA).

Between September 2004 and December 2005, she was CEO for the Kenya Private Sector Alliance (KEPSA) and was the Chief Operations Officer for AAR Health Services where she worked for 9 years across Eastern Africa. Prior to that she ran her own business, Corporate Promotions,

a freelance corporate communications firm from 1991 to 1996. She has extensive work experience in East, West and Southern Africa. Salma holds a Bachelor of Science degree in Economics from George Mason University, Virginia, USA and a Masters in Business Administration from the University of Nairobi.

She has a Certificate in Corporate Governance from the Commonwealth Association on Corporate Governance. She is a member of Kenya's National Economic and Social Council and is on the Governing Council for KCA University in Nairobi. She is also the chairman for Population Services International, Kenya office a non executive director for the African Fund for Endangered Wildlife, Women in Law and Development and of Kenya Airways.

**Josef Bernadus Veenstra:**  
**(Alternate to Mr. Peter Hartman & R.K Schipper) (46 Years)**

Mr. Veenstra is a Chartered Accountant. After completing his studies at the University of Groningen in 1991 he worked with KPMG as an auditor. He joined KLM in 1996.

He has been Vice President Finance & Control of KLM Engineering & Maintenance from 2001 till 2005. Since 2005 he has been Vice President Mergers, Acquisitions and Holdings for Air France-KLM, and in that position he is responsible for the monitoring of Air France's and KLM's holdings. He is a KLM appointed alternate Director of Kenya Airways and a member the Audit and Risk Management Committee.

**Vincent Rague:**  
**(Alternate to Mr Joseph Kinyua) (60 Years)**

Mr Rague is currently Senior Financial Adviser to the Treasury and sits on the Boards of three private equity funds. He has 24 years' experience at the IFC and World Bank spanning investments, project finance and banking in Africa, Europe and Asia.

He was previously the Chief Investment Officer and Global Head of property finance at the IFC and served in a variety of senior management positions including being IFC's first regional representative to South Africa where he was responsible for setting up and managing IFC's office and operations in Southern Africa.

Prior to joining the World Bank, Mr Rague worked at the Ministry of Finance and the Central Bank of Kenya as well as serving on the Boards of several companies during his career abroad. He holds a BA (Hons) from Nairobi University, an MBA from Darden Business School, University of Virginia and an Executive Development Program (EDP) from Harvard Business School.

**The IMF projects that the global economy will grow by 3.5% in 2013, an improvement from the 3.2% achieved in 2012.**

**Kenya Airways experienced an extremely difficult operating environment.**

**K**enya Airways has not been immune to external factors affecting the aviation industry and indeed given the many challenges encountered, your company recorded weak performance during the 2012/2013 financial year. Air transport continues to face strong headwinds from continued global economic weakness and high fuel prices, which is likely to moderate any expected improvement. Indeed oil price volatility continues to be a challenge and a major concern to our business.

#### Industry Overview

The IMF projects that the global economy will grow by 3.5% in 2013, an improvement from the 3.2% achieved in 2012. This growth is led by emerging economies, developing countries and the US. Economic growth in 2011 was 3.9%, signaling that in 2012 the decline leveled off as constraints to economic growth begun to ease. This is positive news to the airline industry, which has traditionally been known to register losses every time the global economy grows at less than 2%.

The airline industry profitability has equally had a bad streak returning a profit of USD 19.2 billion in 2010, which declined to USD 8.8 billion in 2011. This return was, as is common with the industry, sitting on a razor thin margin of about 1.3%. Profitability for 2012 was forecast by IATA to decline further to USD 6.7 billion.

This, coupled with the thin margins, places the industry in a very precarious situation should there be a spike in any of its input costs. A combination of factors including stable oil prices, rising yields and controlled capacity should see profitability in 2013 growing to USD 8.4 billion, a 25% growth, according to IATA projections.



**The World Bank projects that Kenya could achieve at least 5% GDP growth in 2013.**

Regions	Net Profits, Billions of Dollars (\$)				
	2009	2010	2011	2012F	2013F
Global	(4.6)	19.2	6.8	6.7	8.4
North America	(2.7)	4.1	1.7	2.4	3.4
Europe	(4.3)	1.9	0.4	0.0	0.0
Asia-Pacific	2.6	11.4	5.4	3.0	3.2
Middle East	(0.6)	0.9	1.0	0.8	1.1
Latin America	0.5	0.9	0.3	0.4	0.7
Africa	(0.1)	0.1	0.0	0.0	0.0

Source : IATA

Two big threats to the airline industry today are oil prices and the Euro zone crisis. Today, fuel has come to account for at least 30% of industry operating costs up from 13% a decade ago. This situation sees the sensitivity of airline profitability to spikes in oil prices rising to alarming levels. Although expanding crude oil stocks will serve to stabilize oil prices, any spikes owing to the fickle nature of the industry, would result in catastrophic effects on profitability.

The Euro zone crisis remains a threat to industry profitability. This is of particular concern since at least 20% of Kenya Airways' revenues are generated from Europe. The United Kingdom and Spain have returned to recession while other economies have been teetering on the brink of bankruptcy. The IMF places the 2013 GDP growth forecast for the Euro Area at -2%, an improvement over the -4% achieved in 2012. The UK is expected to return to positive growth in 2013 after the 2% dip in 2012. The recession and sovereign debt issues imply less disposable income and austerity measures, which point to lower spending on travel for both leisure and business.

The Euro zone faces the possibility of disintegrating either fully or in part. IATA forecasts that a full disintegration would lead to a 4% shrink in passenger traffic growth and a 5% dip in operating profit, while a partial break-up of 2% and 2.5% reduction respectively. However, the industry would see a 4% growth in both traffic and operating profit were the Euro zone crisis to be resolved. Given its dependence on Europe, Kenya Airways' revenue remains exposed should the Euro zone disintegrate.

The projected 3.5% global economic growth and the 25% growth in profitability in 2013 all portend well for the airline industry. However, the sluggish economic recovery - especially in Europe - along with unstable fuel prices continues to depress airline profitability.

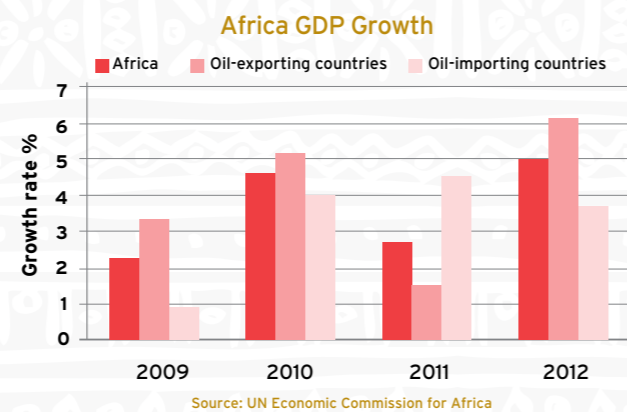
According to IATA, regionally international air travel performance was as follows:

- Middle Eastern airlines contributed almost a third of the growth in international travel in 2012. While in 2011 the pace of international travel was less than the capacity expansion from significant aircraft deliveries that was not the case in 2012. Middle Eastern airlines experienced international traffic growth of 15.4% in 2012, 6.5% faster than 2011 and well above the expansion in capacity (12.5%).
- International air travel on Asia-Pacific airlines also contributed to the growth in overall international travel, almost a fifth of the total. Airlines in the region saw a 5.2% increase in international air travel in 2012, up on 2011 when the expansion was 4%. The region had seen a slowing growth trend in the middle months of the year, but over the last quarter there was acceleration in growth, contributing to the solid overall performance. Recent months have shown signs of a revival in the Chinese economy, with business confidence moving further into expansionary territory. Furthermore, growth momentum in both Asian imports and exports picked up in Q4 2012, also providing a boost to air transport demand in the region.
- African airlines carry a smaller share of total international RPKs, but they experienced solid growth year-to-date. In fact, airlines in the region recorded one of the strongest growth rates for 2012, increasing 7.5% in 2012. The strength of domestic markets, with some African nations posting the fastest economic growth rates globally, has provided sustained demand for air transport services. International travel on Latin American airlines had similar performance, with the second strongest growth rate in 2012 of 8.4%. Robust demand in major economies like Brazil is being driven by rising incomes and falling unemployment.

- European airlines saw international air travel expand 5.3% in 2012, but that is a sharp slowdown on 2011 when growth was 9.5%. The Eurozone crisis negatively impacted employment and consumer confidence in many countries. In fact, about a quarter of the growth in European airlines' international traffic in 2012 came from outside the Eurozone. Nevertheless, airline capacity management increased load factors in 2012 compared to 2011, and that helped improve financial performance for European carriers.
- North American airlines experienced the slowest growth in international air travel in 2012, expanding just 1.3%. Moreover, this result is a fraction of the 4.1% growth in 2011. According to IATA, the slower growth in 2012 is a result of restructuring and consolidation efforts in both home and overseas markets.
- Domestic air travel markets expanded 4% in 2012. All markets increased except for India, but there was significant variation in growth rates among the various countries.

#### AFRICA

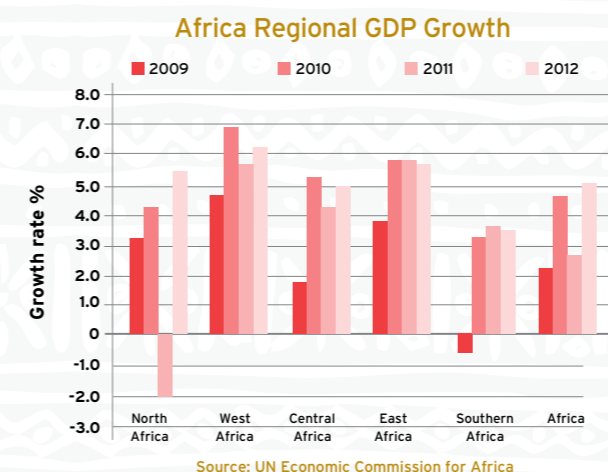
Sub-Saharan Africa's growth forecast for 2012 has been placed at 4.8%, a 0.5% drop from 2011. For a decade now, Africa's economic growth has largely remained bullish except in 2008 when the global economic slowdown dampened its upward trend. High oil and food prices slowed its growth and still remain a threat. Its quick recovery thereafter to pre-recession levels is testament of the deep restructuring efforts made by African countries over the last decade. This, according to the UN's Economic Report on Africa (ERA 2012), points to Africa's potential to be a 'global growth pole'.



Going forward, Africa's opportunity remains high. The same factors that have led to its strong performance over the last decade will continue to propel its growth into the future. Economic management continues to improve and flourish, which, according to the IMF, has placed 10

sub-Saharan African economies as part of the 20 fastest growing economies.

Rising commodity prices (oil and other natural minerals), have also boosted Africa's economic growth. Global focus for oil and other mineral exploitation has largely been in Northern, West, Central and Southern Africa. However, Eastern Africa has now become the new frontier. Discoveries of large oil and gas deposits, gold and other minerals in Eastern Africa have attracted global attention.



Africa has continued to be more hospitable to international business. The environment and ease of doing business has improved leading to an influx of multinational companies into Africa.

The foregoing factors have served to attract trade to Africa, and more specifically, Eastern Africa. Airlines continue to play a key role in stimulating and supporting this trade, placing them at the centre of Africa's economic growth. Kenya Airways has, in particular, assisted in opening up Africa to the world. Movement of people and commodities and the challenges of accessing parts of the continent have all been eased.

In its World Economic Outlook of January 2013, the IMF projects that sub-Saharan Africa economy will expand by 5.7% in 2014, a marginal drop from its 5.8% projection for 2013.

#### KENYA

Kenya's GDP has traditionally slowed down before and during election years. In its Kenya Economic Update of December 2012, the World Bank projected that Kenya's GDP would grow by 4.3% in 2012, slightly lower than the 4.4% achieved in 2011.

Kenya is quite literally becoming the gateway into the region, which presents it with an opportunity to play a key role in the growing African trade. Furthermore, interesting developments have been taking place in Kenya, raising its attractiveness as far as global and African trade is concerned. Its geographic location, relatively developed

financial systems and physical infrastructure have led to an influx of multinational companies basing their regional hubs. Also generating global interest has been the discovery of oil deposits within Kenya's northern frontier and the commissioning of huge infrastructural projects, namely the Lamu Port South Sudan Ethiopia Transport corridor (LAPSET) and Konza techno city. Prior to the just-concluded political elections under a transformative new constitution, the dark cloud of the disputed 2007/08 elections hung over the country. But, with the elections held in March 2013 having been peaceful, confidence has been re-established increasing opportunities for further growth and development.

As global trade focus shifts to Africa, the Eastern Africa region led by Kenya stands out due to the foregoing reasons. Kenya, and indeed Kenya Airways, is in an ideal position to play a pivotal role in this shift in trade interest.

Standing in the way of Kenya's promising future is the Al-Shabaab terror group menace and, in a smaller way, the impending ICC trials at The Hague. The Somali terror group has launched terror attacks within Kenya, which prompted the deployment of Kenyan defence forces in Somalia in 2011. The troops have since joined the African Union forces helping to restore peace in Somalia. Tourist arrivals have been impacted further by the negative travel advisories that have been issued on Kenya, and Kenya Airways has particularly felt their impact.

Going forward, the World Bank projects that Kenya could achieve at least 5% GDP growth in 2013 and beyond with a caveat that the March 2013 election would have to be peaceful and credible. This has now happened and opportunities lie ahead. For this longer term growth to take place, political, economic and weather-related shocks would have to be carefully managed. The country, just like Kenya Airways, needs to give special interest to the Euro zone crisis. This area is Kenya's largest trade partner and also the biggest source of tourists to Kenya. Diversification of markets is needed to mitigate the risks associated with the Euro zone crisis. Barring the challenges mentioned above, Kenya's future prospects remain high.

#### Company Performance

The financial year 2012-2013 was characterised by harsh economic and geopolitical conditions that adversely impacted on the performance of Kenya Airways. Commercial aviation worldwide was negatively affected by the sustained underperformance of the European economy as well as volatility in fuel prices.

Although the larger African markets remained buoyant, Kenya witnessed constricted passenger traffic. The causal factor for this lull was the advisories issued against travel to the country by key market sources in the West due to fears of retaliatory attacks from the Al-Shabbab terror group, together with the unpredictable electioneering process.



In spite of the adversities mentioned above, Kenya Airways expanded its footprint into Delhi and Kilimanjaro during the first half of the year, and later re-opened Eldoret in October. However, in a bid to minimise losses the airline cut back capacity offered to Europe and suspended operations into Muscat, Jeddah and N'Djamena.

The group achieved a turnover of KShs 98.9 billion, down from KShs 107.9 billion realized last year. This decline is largely attributed to constrained passenger traffic together with immense pressure exerted on yields. This resulted in KShs 7.9 billion loss after tax compared to 2011-2012 profit of KShs 1.6 billion.

## REVENUES

### Passenger

The capacity put in the market place at 13,937 million Available Seat Kilometres (ASK) was flat compared to prior year. Passenger traffic declined by 3.6% to 9,579 million Revenue Passenger Kilometres (RPK) on account of reduced passengers particularly those originating from Europe, unprecedented competitive pressures drove passenger yields down, with the network average declining by 1.3% against last year. Passenger revenues at KShs 85.1 billion declined from KShs 95.2 billion achieved last year primarily due to depressed passenger loads, network-wide pressure on yields and stronger Kenya Shilling in the year.

The passenger traffic growth trends in Middle East & Asia, Far East and Africa regions remained positive due to increased capacity made possible by either offering additional frequencies or operating larger aircraft. Additional uplifts to and from the Middle East and Asia was stimulated by the introduction of Delhi in India together with three additional weekly frequencies into both Mumbai and Dubai. The Far East destinations benefited from the operations of the larger B777 aircraft compared to the B767 which has 33% less capacity operated in the previous year.

Traffic within Africa grew due to increased capacity. Additional frequencies were introduced to Juba; more wide body aircraft were flown into Kinshasa; and two extra weekly flights were scheduled to Dakar via Abidjan. The capacity offered into Europe was reduced by 22% compared to last year in order to minimise losses occasioned by low seat occupancy levels.

Passengers transported within Kenya remained at last year's levels despite the loss of traffic from major feeder markets in Europe. This is mainly attributable to increased point to point travel within Kenya.

### Cargo

Total cargo tonnage grew by 17.8% compared to last year on account of the introduction of B747 freighter operations between China and Nigeria. Further growth within the network was driven by increased belly capacity offered by

additional wide body services. The achieved yields however reduced by 2.6% against last year due to shift in sales focus to market the extra capacity availed.

### Exchange rate

The Kenya Shillings strengthened against the US Dollar with the average exchange rate for the year closing on KShs 85.02 per US Dollar against a prior year average of KShs 88.58 per US Dollar. This shrunk the turnover reported in Kenya Shilling terms by KShs 4 Billion given that a larger portion of revenues are US Dollar denominated. However, major operating cost elements denominated in US dollars, took some reprieve because of the strengthened Kenya shilling.

## COSTS

### Direct Operating Costs

Direct operating costs at KShs 77.2 billion remained largely unchanged compared to prior year. Fuel cost at 38.5% of total operating costs remains our largest operating component compared to 38.2% last year. The average cost of jet fuel per gallon in US cents went up by 5% compared to last year.

### Overheads

Overheads at KShs 19.5 billion were at par with prior year, despite the inclusion of KShs 826 million staff rationalization cost. Management has undertaken stringent cost containment measures that have also seen non-employee related costs reduced by 5% in the year.

## PROSPECTS

IATA latest forecasts indicate that global aviation industry is expected to achieve net profits of USD 10.6 billion in 2013, albeit with a lot of caution on the performance of Europe. Further, our focus markets of Africa, Asia and Pacific all indicate positive trends compared to the previous year.

The Board and management of Kenya Airways have taken solid steps to address the losses made in the year. The second half results, though still negative, are much better than those of the first six months.

### Aero politics and Market Access

Kenya Airways launched three (3) new routes during the period under review with the introduction of flights to Delhi- India, Kilimanjaro-Tanzania and Eldoret- Kenya. Kenya Airways additionally signed commercial partnerships with a number of carriers, with the view of expanding its network within Africa and beyond. These included code share agreements with Air Burkina, Air Namibia, China Eastern, Vietnam Airlines and Etihad Airways.

The Government continues to support the local aviation and a notable achievement was the amendment of the Kenya Civil Aviation Act to conform to the provisions of the Constitution of Kenya 2010. The International Interests and Aircraft Equipment Bill were also enacted in January 2013.

The Act has brought into force the Convention on International Interests in Mobile Equipment (Cape Town, 2001). It expands protection for global financiers, sellers and lessors of aircraft in case of default or insolvency by local firms. Implementation of the treaty is expected to boost investor confidence and is expected to reduce the risk that financiers take in extending credit to buyers in Kenya.

During the past year, stakeholders of the air transport value chain operated in an increasingly competitive environment. In conjunction with the trend towards liberalization, the airline industry has undergone major structural transformation as it continues to adjust to a dynamic marketplace. On one hand, airline strategy and planning has focused more on alliances, consolidation and cross-border equity investments so as to benefit from network-based economies of scale and scope.

There has been a proliferation of national passenger rights regimes and competition regulations in recent years. A major challenge is the conflicting regulatory responses taken by different states. Today over 50 countries have some form of aviation-specific passenger rights regime; 30 countries have introduced regimes in the past seven years. In Kenya the Consumer Protection Act 2012 has given the responsible Cabinet Secretary power to provide for passenger rights and the standards of service by air carriers. Kenya Airways continues to work closely with the Ministry of Transport to sign and review Bilateral Air Service Agreements, with the issues of double taxation and over regulation still being the main challenges to the sustainable growth of aviation in Africa.

### Shareholding

The number of shareholding on the Register of Members as at 31st March 2013 was 77,403. Out of these 38,009 shareholders have immobilized their shareholding in favour of CDSC Nominees Limited and opened accounts on the Central Depository System. The shareholder profiles as at 31st March 2013 is on page 118.

### Dividend

The Directors do not recommend payment of a dividend.

### Appreciation

I take this opportunity to express my sincere appreciation to our customers, shareholders, the Government, management, staff, suppliers and fellow board members for their dedicated contribution and support towards the growth of the airline.

### Directors

The members of the Board who have served during the year are shown in the report of the Directors on page 58.

### Evanson Mwaniki



Chairman

**K**ampuni yenu haikufanya vyema katika mwaka wa matumizi ya fedha wa 2012/2013. Usafiri wa ndege unaendelea kukumbwa na changamoto kutokana na athari za kiuchumi ulimwenguni pamoja na mfuko wa bei za juu za mafuta, jambo ambalo linatarajiwa kushusha hali yoyote ya biashara iliyoimarika. Kwa kweli, mabadiliko ya mara kwa mara ya kupanda na kushuka kwa bei za mafuta yanaendelea kuwa changamoto kubwa mbali na kututia wasiwasi katika biashara hii yetu.

#### Maelezo kuhusu Sekta ya Ndege

Shirika la Fedha Duniani (IMF) linakadiria kukua kwa uchumi ulimwenguni kwa asilimia 3.5 yaani 3.5% mnamo mwaka huu wa 2013, jambo linaloonyesha kuimarika kutokana na 3.2% iliyoshuhudiwa mwaka wa 2012. Kukua huku kwa uchumi kunatokana na kuzuka kwa chumi mpya, mchango wa nchi zinazoendelea na Marekani. Mnamo 2012, uchumi ulikua kwa 3.9%, jambo linaloonyesha kwamba mnamo 2012 kushuka kwa uchumi kulifikia kiwango sambamba wakati ambapo matatizo ya kiuchumi yalianza kupungua. Hizi ni habari njema kwa sekta ya ndege ambayo kwa muda mrefu imekuwa ikienda hasara hasa wakati uchumi wa dunia unapokua kwa kiwango cha chini ya 2%.

Faida za Sekta ya ndege zimekuwa zikiyumbayumba, kwani mnamo 2010 sekta hii ilileta faida ya dola bilioni 19.2 za Marekani ambayo ilipungua hadi dola bilioni 8.8 za Marekani mwaka wa 2011. Mapato haya kama ilivyo kawaida, yalikuwa ya kiwango cha chini yakiwa ni 1.3%. Faida za 2012, zilikadiriwa na IATA kwamba zitashuka hadi Dola bilioni 6.7 za Marekani.

Hili, pamoja na faida za chini, zinaiweka sekta ya ndege katika hali ngumu hasa iwapo matumizi yake yatapanda tu kwa kima kidogo. Hali mbalimbali zikijumuisha na bei thabiti za mafuta, mapato yanayoongezeka na nafasi zilizothibitiwa zinatarajiwa kuleta faida mnamo 2013 ya hadi dola bilioni 8.4 za Marekani, ambacho ni kiwango cha 25% cha kukua kwa uchumi, kulingana na mtazamo wa IATA.

Maeneo	Faida baada ya Ushuru (Dola Bilioni)				
	2009	2010	2011	2012F	2013F
Ulimwenguni	(4.6)	19.2	6.8	6.7	8.4
Marekani Kaskazini	(2.7)	4.1	1.7	2.4	3.4
Uropa	(4.3)	1.9	0.4	0.0	0.0
Bara Asia-Pasifiki	2.6	11.4	5.4	3.0	3.2
Mashariki ya Kati	(0.6)	0.9	1.0	0.8	1.1
Marekani ya Kusini	0.5	0.9	0.3	0.4	0.7
Bara la Afrika	(0.1)	0.1	0.0	0.0	0.0

Usuli : IATA

Vitisho viwili vikubwa katika sekta ya ndege kwa wakati huu ni bei za mafuta na Migogoro iliyopo nchi za Uropa. Kufikia sasa mafuta yanafikia 30% ya gharama za uendeshaji

ambapo ni ongezeko la 13% ikilinganishwa na mwaka uliopita. Hali hii inathibitisha hali nyeti ya faida za sekta ya ndege zinapokumbwa na matatizo ya mfumuko wa bei za mafuta hadi kufikia viwango vya kutia wasiwasi Ingawa kuongezeka kwa mafuta ambayo hayajasafishwa utasaidia kudhibiti mfumuko wa bei za mafuta, ongezeko lolote lile, hasa kulingana na kubadilika kwa hali ya sekta, utaathiri vibaya faida.

Migongano iliyopo Bara Uropa ni tatizo kubwa linaloathiri faida za sekta hii. Hili ni tatizo kubwa hasa ikitiliwa maanani kwamba hadi 20% ya mapato ya Shirika la Ndege la Kenya, yanapatikana Uropa. Nchi za Uropa na Uhispania bado hazijaimarika huku nchi zingine zikiwa karibu kufilisika kabisa. Shirika la Fedha Duniani (IMF) linakadiria kuongezeka kwa kiwango cha GDP cha namba hasi -2%, ambapo inaonyesha kuimarika kwa namba hasi -4% iliyopatikana 2012. Uingereza inatarajiwa kurudia hali ya kukuza uchumi wake mwaka huu wa 2013 kutokana na kushuka kwa 2% mnamo 2012. Kushuka kwa viwango vya uchumi na kuwepo madeni kunamaanisha watu wachache wanatumia fedha zao fedha kwa usafiri kwa ajili ya kujifurahisha ama hata kibiashara.

Kuna uwezekano wa Nchi za Ukanda wa Ulaya kutengana kabisa ama zingine kubakia. IATA inatabiri kwamba kutengana kabisa kwa mataifa ya eneo hili kutapungua wateja kwa 4% na kushusha faida ya matumizi kwa 5%, ambapo kupungua kiasi tu kutasababisha hadi 2% na 2.5% mtawalia. Hata hivyo, sekta ingekua kwa asilimia 4% ya wasafiri na mapato ya matumizi, tatizo hili lingesulihishwa. Kutokana na kuwa Shirika la Ndege la Kenya limetegemea sana Uropa, basi mapato yake yataendelea kuathirika ikiwa nchi za ukanda wa Uropa itavunjika.

Makadirio ya ukuaji wa uchumi kwa asilimia 3.5% na asilimia 2.5% ya kukua kwa mapato 2013 ni ishara njema kwa sekta hii. Hata hivyo, kuimarika polepole kwa uchumi - hasa Bara Uropa - pamoja na bei zisizokuwa thabiti za mafuta zinaendelea kuathiri faida za sekta ya ndege.

Kulingana na IATA, usafiri wa ndege kimaeneo ulikuwa kama ifuatavyo:

- Ndege za Mashariki ya Kati zilichangia karibu thuluthi ya kuongeka kwa usafiri wa ndege wa kimataifa mnamo mwaka wa 2012. Ingawa mwaka wa 2011 usafiri wa kimataifa ulikuwa mchache mno, ikilinganishwa na upanuzi wa uwezo wa kusafiri kwa ndege, hali ilikuwa tofauti mnamo 2012. Ndege za Mashariki ya Kati zilishuhudia kuongezeka kwa usafiri wa ndege wa kimataifa wa 15.4% mnamo 2012, 6.5% haraka kushinda 2011 na zaidi ya kuongezeka kwa nafasi kwa 12.5%.
- Safari za ndege za kimataifa za ndege za Asia-Pasifiki pia zilichangia ukuaji wa jumla wa safari ndege za kimataifa, kama vile 1/5 (moja ya tano) ya usafiri wote. Mashariki ya ndege ya eneo hili yalishuhudia kukua kwa 5.2%

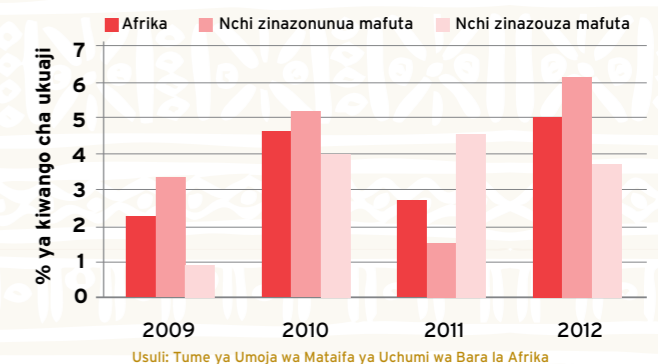
katika safari za ndege za kimataifa mnamo mwaka wa 2012, ikiwa ni ongezeko, ikilinganishwa na mwaka wa 2011 wakati ambapo ukuaji ulikuwa asilimia nne (4%). Eneo hili limeshuhudia ukuaji wa uchumi wa polepole sana katika miezi ya katikati ya mwaka, lakini miezi ya mwisho wa mwaka kulikuwa na ongezeko la ukuaji wa uchumi, kulikochangia uthabiti kwa jumla. Miezi ya hivi karibuni imeonyesha kuimarika tena kwa uchumi wa Uchina, huku imani za kibiashara zikielekeza upanuzi wa eneo. Pia, kuongezeka kwa bidhaa zinazonunuliwa na zinazouzwa nchi za nje kuliimarika katika miezi mine ya mwisho wa mwaka wa 2012, hali iliyoimarisha haja za usafiri katika eneo hilo.

- Ingawa mashirika ya ndege za Afrika yana mgawo mdogo kati ya jumla ya RPK za kimataifa bado yanakua hadi leo. Kwanza, mashirika ya ndege katika eneo hili yalishuhudia kiwango kikubwa cha ukuaji mnamo mwaka wa 2012, ongezeko 7.5% mnamo 2012. Uthabiti wa soko za ndani za nchi, na viwango vya kukua kwa uchumi vya hali ya juu ulimwenguni kwa baadhi ya mataifa ya Afrika, kumeleta haja ya huduma za usafiri wa ndege. Usafiri wa ndege wa kimataifa wa mashirika ya ndege ya Marekani Kusini pia ulifanya vyema ukichukua nafasi ya pili ya kiwango cha kukua vyema mnamo mwaka wa 2012 kwa 8.4%. Haja ya usafiri ya viwango vya juu katika chumi kubwa kubwa kama vile Brazil zinaendeshwa na mapato yanayoibuka na pamoja na ukosefu wa ajira.
- Mashirika ya Ndege ya Ulaya yalishuhudia ongezeko la safari za ndege la 5.3% mnamo mwaka wa 2012, ingawa huku ni kushuka kwa kiwango kikubwa ikilinganishwa na mwaka wa 2011 ambapo kiwango kilikuwa 9.5%. Tatizo la migogoro ya eneo la Ulaya liliathiri vibaya nafasi za kazi na matumizi katika nchi nyingi. Ni wazi kwamba, karibu robo ya ongezeko la ukuaji katika mashirika ya ndege ya Ulaya mnamo 2012 ilitoka nje ya eneo la migogoro. Hata hivyo, usimamizi wa nafasi za ndege uliongeza mizigo mnamo 2012 ikilinganishwa na mwaka wa 2011, jambo ambalo lililosaidia kuimarisha mapato katika mashirika ya ndege za Ulaya.
- Mashirika ya Ndege za Marekani Kaskazini ndiyo yaliyoshuhudia ukuaji wa kiwango cha chini zaidi cha usafiri wa ndege za kimataifa mnamo mwaka wa 2012, yakipanuka kwa kima cha 1.3% pekee. Hata hivyo, matokeo haya ni kiasi tu cha kukua kwa 4.1% cha mwaka wa 2011. Kulingana na IATA, kiwango hiki cha ukuaji cha mwaka wa 2012 kinatokana na mabadiliko na juhudi za pamoja katika soko za humu na katika nchi za nje.
- Soko za ndani ya nchi zilikuwa kwa 4% mwaka wa 2012. Soko zote zilipanuka isipokuwa za Bara Hindi ingawa kulikuwa na tofauti kubwa katika viwango vya ukuaji kati ya nchi mbalimbali.

#### AFRIKA

Makadirio ya ukuaji wa nchi zilizo chini ya Afrika ya Sahara kwa mwaka wa 2012 yalikuwa 4.8% ambacho ni kiwango kilichoshuka kwa asilimia 0.5 kutoka 2011. Kwa mwongo mmoja sasa, uchumi wa Afrika umekuwa ukukua isipokuwa mwaka wa 2008 ambapo uchumi wa dunia ulishuka na hivyo kuathiri uchumi wa Afrika. Mfumuko wa bei za mafuta na chakula ziliathiri ukuaji wa uchumi wa Afrika na hadi sasa bado ni tisho kubwa. Kuinuka kwake baadaye kwa kiwango cha kutia moyo ni ushuhuda wa mabadiliko na juhudi zilizofanywa na mataifa ya Afrika katika mwongo mmoja sasa. Kulingana na maelezo yafuatayo ya Ripoti ya Kiuchumi ya Afrika ya Umoja wa Mataifa (ERA 2012), ni wazi kwamba Afrika ina uwezo mkubwa wa kuwa 'nguzo ya ukuaji ulimwenguni'.

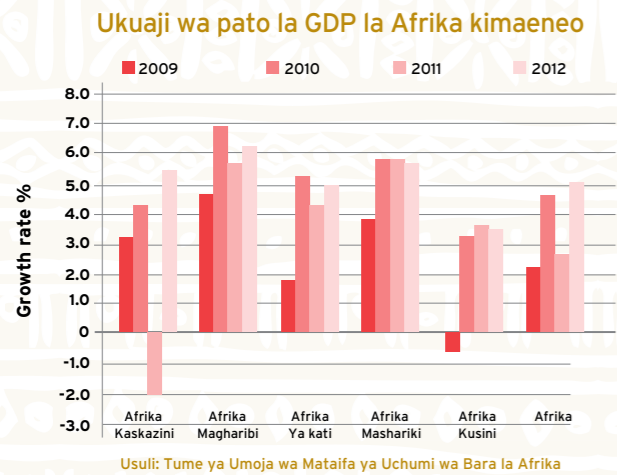
#### Ukuaji wa pato la GDP la Afrika kwa jumla



Kwa hakika, nafasi ya Afrika imeimarika sana. Vipengele vile vile vilivyosababisha utendakazi bora katika mwongo uliopita vitaendelea kusukuma mbele ukuaji wake katika siku za usoni. Usimamizi wa uchumi unaendelea kuimarika, ambao kulingana na Shirika la Fedha Duniani, kuna chumi 10 za nchi za Afrika zilizopo chini ya Sahara ambazo ni baadhi ya chumi 20 zinazokua haraka.

Mfumuko wa bei za bidhaa (mafuta na mali asili nyingine), pia zimekuza uchumi wa Afrika. Ulimwengu, katilia maanani kuwepo kwa mafuta na mali asili nyingine katika Afrika ya Kaskazini, Magharibi na Kusini. Hata hivyo, eneo la Afrika mashariki limekuwa eneo jipya linalozingatwa. Kupatikana kwa kiwango kikubwa cha mafuta na gesi, dhahabu na madini mengine katika eneo hili kumeifanya dunia ianze kulilimuka eneo zima.

Afrika imeendelea kuwa karimu kwa bishara za kimataifa. Mazingira pamoja na urahisi wa kufanya biashara umeimarika na kusababisha kuja kwa makampuni makubwa makubwa ya kimataifa barani Afrika.



Sababu zilizotajwa hapo awali zimechangia kuvutia biashara Afrika, hasa katika eneo la Afrika Mashariki. Makampuni ya ndege yameendelea kuwa na wajibu muhimu wa kushawishi kuwepo kwa usaidizi wa biashara hii, na hivyo kuyafanya yawe kitovu cha ukuaji wa uchumi. Shirika la ndege la Kenya, hasa limesaidia pakubwa kuitanga Afrika kwa ulimwengu mzima. Changamoto za usafiri wa watu na mizigo katika maeneo mengi barani vimerahisishwa. Katika ripoti yake ya World Economic Outlook ya Januari 2013, Shirika la Fedha Duniani (IMF) linakadirika kwamba uchumi wa Afrika utakua kwa 5.7% mnamo mwaka wa 2014, yakiwa ni makadirio ya chini kutokana na yale ya asilimia 5.8% ya 2013.

## KENYA

Pato la jumla la Kenya limekuwa likipungua kabla na wakati wa mwaka wa uchaguzi. Katika ripoti mpya ya Uchumi wa Kenya ya Desemba 2012, Benki ya Dunia inakadirika kwamba Pato la Jumla la Kenya litakua kwa 4.3% mwaka huu wa 2012 ikiwa ni chini kidogo ya ile 4.4% iliyopatikana mwaka wa 2011.

Yamkini Kenya kwa kweli inakuwa lango kuu la eneo hii, hali inayoipa nafasi ya kuchukua wajibu mkubwa katika ukuaji wa biashara ya Afrika. Zaidi ya hayo, kuna mambo ya kupendeza ambayo yamekuwa yakifanyika Kenya na kuimarisha uzuri wake wa kibiashara ulimwenguni na hata Afrika. Eneo lake Kijeoografia, mifumo ya fedha iliyoendelea kiasi na miundomsingi imesababisha makampuni makubwa makubwa ya kimataifa kufungua maafisi yao ya kimaeneo hapa. Pia, jambo lingine la kufurahisha ulimwengu limekuwa ugunduzi wa mafuta katika sehemu za Kaskazini mwa Kenya na kuanzishwa kwa miradi mikubwa ya kimiundomsingi kama vile Bandari ya Lamu South Sudan Ethiopia Transport corridor (LAPSSET) na Konza techno city.

Kabla ya kumalizika kwa uchaguzi uliopita chini ya katiba mpya, wingu jeusi la uchaguzi uliopingwa wa 2007/2008 lilitanda nchini. Lakini, baada ya uchaguzi wa amani wa Machi, 2013, imani imerudi na sasa kunaongezeko la nafasi za kukua zaidi na maendeleo.

Wakati mtazamo wa biashara wa ulimwengu ukiwa katika eneo la Afrika, Afrika Mashariki ikiongozwa na Kenya, imejitokeza kwa dhahiri kwa sababu tulizozitungumzia. Kenya, na hasa Shirika la Ndege la Kenya lina nafasi nzuri ya kuchukua jukumu muhimu katika mtazamo huu mpya wa kibiashara.

Changamoto moja kubwa inayoweza kutatatiza katika siku za usoni za Kenya ni tatizo la kundi la kigaidi la Al-Shabaab na kwa kiwango kidogo, Kesi za jinai za mahakama ya ICC huko Uholanzi, Hague. Kundi hili la kigaidi la Somalia, limekuwa likishambulia Kenya hali iliyopelekea kupelekwa kwa vikosi vya Usalama vya Kenya nchini Somalia mnamo mwaka wa 2011. Vikosi hivi vya usalama kwa sasa vimejiunga na jeshi la Umoja wa Afrika vikisaidia juhudi za kuleta usalama nchini Somalia. Watalii nchini pia wameathiriwa na ushauri mbaya unaotolewa kuhusu kutembelea Kenya, na Shirika la Ndege la Kenya kwa kweli limeathirika sana kwa ajili ya ushauri huu.

Kesi zilizoko ICC zinatarajiwa kuanza mwezi Mei na Julai 2013 kwa Naibu wa Rais na Rais wa Kenya mtawalia. Kuna uwezekano, ijapokuwa hatuutarajii kamwe, kwamba, huenda kesi hizi zikaathiri uhusiano wa kibiashara na washirika wetu walio na maoni thabiti ya kushirikiana na waliostakiwa katika mahakama ya ICC.

Hali kadhalika, Benki ya Dunia ina kadiria kwamba kuna uwezekano wa Jumla ya Pato la Kenya kukua kwa 5% mnamo mwaka wa 2013 ikitarajiwa kwamba uchaguzi wa Machi mwaka wa 2013 ni lazima uwe wa amani na wa kuaminika. Hili lishatendeka na sasa kuna nafasi nyingi sana mbele yetu. Ili kuwe na maendeleo ya muda mrefu, matatizo ya kisiasa, kiuchumi na ya hali ya anga ni lazima yasimamiwe vizuri zaidi. Nchi, kama Shirika la Ndege la Kenya ni lazima iwe na mtazamo mpya wa tatizo la nchi Ulaya zenye migongano. Eneo hili ni mshiriki mkubwa sana wa Kenya kibiashara na pia chanzo kikubwa cha watalii wanao kuja Kenya. Kuwepo na soko zingine badala kunahitaji kushughulikia matatizo kama yale yanayohusishwa na tatizo eneo hili. Pamoja na kutilia maanani changamoto tulizotaja hapo juu matarajio ya Kenya ya siku za usoni bado ni ya hali ya juu.

## Matokeo ya Kampuni

Mwaka wa fedha wa 2012-2013 ulikumbwa na hali ngumu kiuchumi na kisiasa zilizoathiri vibaya matokeo ya Shirika la Ndege la Kenya. Biashara ya ndege duniani kote iliathiriwa vibaya na hali ya uchumi ya nchi za Ulaya pamoja na mfumuko wa bei za mafuta.

Ijapokuwa soko kubwa za Afrika zilikuwa na mafanikio kibiashara, Kenya ilikuwa na wasafiri wachache. Hili lililokana na onyo lililotolewa kwa wasafiri dhidi ya kutembelea Kenya na baadhi ya nchi za magharibi zinazochangia wasafiri wengi zikiogopa mashambulizi ya kulipiza kisasi ya kundi la kigaidi la Al-Shabbab, pamoja na kuwa Kenya ilikaribia kufanya uchaguzi mkuu.

Licha ya onyo hili lililotajwa hapo juu, Shirika la Ndege la Kenya liliendelea kupanua safari zake za ndege hadi Delhi na Kilimanjaro miezi sita ya mwanzo wa mwaka na kisha baadaye shirika lilifungua njia ya Eldoret mnamo mwezi wa Oktoba. Hata hivyo, katika juhudi za kupunguza gharama kampuni ilipunguza safari za kwenda Ulaya na kutoa safari za Muscat, Jedda na N'Djamena.

Shirika hili lilipata jumla ya mapato ya Ksh 98.9 bilioni ambazo ni kiwango cha chini ikilinganishwa na Ksh 107.9 bilioni zilizopatikana mwaka jana. Kushuka huku kunatokana na kupungua kwa idadi ya wasafiri na matumizi mengi ya mapato yaliyopatikana. Hali hii ilichangia hasara ya mapato ya Ksh 7.9 bilioni baada ya ushuru ikilinganishwa na faida ya mwaka wa 2011-2012 ya Ksh bilioni 1.6.

## MAPATO

### Wasafiri

Uwezo wa kusafirisha abiria unaopimwa kwa Kiti Kilichopo kwa Kilomita (ASK) ulikuwa milioni 13,937 ikilinganishwa namwaka jana. Wasafiri walipungua kwa 3.3% na kufika milioni 9,579 idadi ya wasafiri inayopimwa kwa Mapato ya Abiria kwa Kilomita (RPK) ilipungua hasa kwa abiria kutoka Ulaya. Hili lilisababishwa na changamoto za ushindani katika soko zilizochangia pakubwa kushusha idadi ya wasafiri. Kwa jumla, kiwango cha wasafiri kilishuka kwa 1.3% ikilinganishwa na mwaka uliopita.

Mapato kutokana na abiria yalikuwa Ksh 85.1 bilioni kutoka Ksh 95.2 bilioni zilizopatikana mwaka jana kwa sababu ya wasafiri wachache, matatizo katika mfumo wa usafiri na shilingi iliyoimarika mwaka jana.

Safari za wasafiri katika Mashariki ya Kati na Asia, Mashariki ya Mbali na maeneo ya Afrika ziliongezeka kutokana na kuongezeka kwa nafasi ama kwa sababu ya kuongezeka kwa safari za ndege au kutokana na matumizi ya ndege kubwa. Kuongezeka kwa wasafiri kutoka na kwenda Mashariki ya Kati na Asia kulisababishwa na kuanzishwa kwa safari za Delhi, Bara Hindi pamoja na safari tatu za ziada za kwenda Mumbai na Dubai. Maeneo ya Mashariki ya Mbali yalifaidika na ndege ya B777 ikilinganishwa na ile ya B767 ambayo ina kiasi cha 33% chini ya kile kilichokuwa mwaka jana.

Usafiri Afrika uliongezeka kutokana na kuongeka kwa nafasi. Kulikuwa na safari zaidi za kwenda Juba; ndege kubwa kiasi zilienda Kinshasa; na safari mbili zaidi za kwenda Dakar kupitia Abidjan ziliongezwa. Nafasi za kwenda Ulaya zilipunguzwa kwa 22% ikilinganishwa na mwaka jana ili kupunguza hasara zinazosababishwa na kusafirisha abiria wachache.

Kiwango cha wasafiri waliosafirishwa nchini Kenya hakikubadilika na kilibakia kama kile cha mwaka jana licha ya shirika kupoteza wasafiri kutoka masoko makubwa ya Ulaya. Hii inatokana na kuongezeka kwa safari kutoka sehemu moja hadi nyingine hapa nchini Kenya.

## Mizigo

Kiwango cha mizigo kiliongezeka kwa 17.8% ikilinganishwa na mwaka uliopita kutokana na kuanzishwa kwa ndege ya aina ya B747 kati ya Uchina na Nigeria. Ukuaji zaidi ulisababishwa na ongezeko la kubeba mizigo kwa kutumia ndege kubwa. Hata hivyo, mapato yalipungua kwa 2.6% ikilinganishwa na yale ya mwaka jana kwa sababu ya haja ya kuuza nafasi za ziada zilizokuwepo.

## Kiwango cha ubadilishanaji wa fedha

Shilingi ya Kenya iliimarika dhidi ya Dola ya Marekani huku kiwango cha wastani cha ubadilishanaji kikiwa Ksh 85.02 kwa Dola ya Marekani ikilinganishwa na kiwango cha mwaka uliotangulia cha Ksh 88.58 kwa Dola 1. Hali hii ilipunguza mapato ya jumla yaliyoripotiwa Kenya kwa Ksh bilioni 4 ikichukuliwa kwamba kiwango kikubwa cha mapato huwa katika Dola za Marekani. Hata hivyo, gharama nyingi za utenda kazi zinazofanywa kwa Dola ya Marekani zilifaidika kutokana na kuimarika kwa shilingi.

## GHARAMA

### Gharama za uendeshaji

Gharama za uendeshaji zilipanda na kufikia Ksh 77.2 billioni hali ambayo inaonyesha kutobadilika ikilinganishwa na ile ya mwaka jana. Gharama za mafuta zilifikia 38.5% za gharama zote na kuendelea kuwa gharama za juu zaidi ya gharama zetu zote ikilinganishwa na 38.2% mwaka jana. Kiwango cha wastani cha mafuta ya ndege kwa geleni kwa senti za Marekani zilipanda kwa 5% ikilinganishwa na mwaka jana.

### Gharama za wafanyakazi

Gharama za wafanyakazi zilikuwa Ksh 19.5 bilioni kama mwaka jana, hata baada ya kuongezwa kwa Ksh milioni 826 za gharama ya malipo ya wafanyakazi walioondoka kazini. Uongozi wa Kampuni umechukua hatua za kupunguza gharama. Hatua zilizochukuliwa zimeshuhudia kupungua kwa gharama za wasiokuwa wafanyakazi wa shirika kwa 5% mwaka jana.

## MATARAJIO YA BAADAYE

Kwa mujibu wa IATA, makadirio ya faida katika mashirika ya ndege kote duniani ni kupata faida ya baada ya ushuru ya Dola za Marekani bilioni 10.6 mnamo mwaka wa 2013 ikitegemea soko za Ulaya. Pia, mtazamo wetu wa soko za Afrika, Asia na Pasifiki yanaonyesha matumaini ya kuimarika ikilinganishwa na mwaka uliopita.

Halmashauri na Uongozi wa shirika la Ndege la Kenya wamechukua hatua kabambe zakushughulikia hasara zilizopatikana mwaka jana. Matokeo ya sehemu ya pili ya mwaka, ingawa bado hayafurahishi, yanaonyesha matumaini zaidi kushinga yale ya miezi sita ya mwanzo.

## Siasa na Soko za biashara ya ndege

Shirika la ndege la Kenya lilizindua njia tatu (3) mpya kati ya muda unaozungumziwa zikiwa ni safari za kwenda New Delhi - India, Kilimanjaro - Tanzania, na Eldoret - Kenya. Vilevile, Shirika lilitia sahihi mikataba ya ushirikiano na baadhi

**Taarifa ya Mwenyekiti (unaendelea)**

ya mashirika ya ndege, kwa ajili ya madhumuni ya kutaka kupanua mfumo wake wa usafiri Afrika na nje ya Afrika. Hii ilijumuisha mpango wa makubaliano wa hisa na Mashirika ya Ndege ya Burkina, Namibia, China Eastern, Vietnam na Etihad.

Serikali inaendelea kuunga mkono biashara za ndege na mafanikio muhimu yalikuwa kubadilishwa kwa Sheria ya anga ya Kenya ili kuambatana na matakwa ya Katiba ya Kenya ya mwaka wa 2010. Sheria ya Matakwa ya Kimataifa na Bidhaa za Ndege pia ilipitishwa Januari 2013.

Kifungu hiki cha Sheria kiliwezesha kuwepo kwa Mapatano ya Matakwa ya Kimataifa kwa Vyombo vya Usafiri (Capetown, 2001). Hii inapanua ulinzi kwa wakopeshaji ulimwenguni, wauzaji na wakodi ndege ikiwa watu wavunja mikataba ya malipo au kuvunjika kwa makampuni. Uteelezaji wa mkataba huu utapiga jeki imani ya wawekezaji na inatarajiwa kupunguza hatari ambazo wakopeshaji hukumbana nazo wakati wa kukopesha wanunuzi wa Kenya.

Mwaka uliopita, washika dau wabiashara za ndege walifanya kazi katika mazingira yenye ushindani mkubwa. Pamoja na haja ya kuiweka huru, sekta hii imefanyiwa mageuzi makubwa hata ikiwa ingali inajitahidi kutenda kazi katika soko linaloshinda likibadilika badilika. Kwa upande mwengine, mikakati na mipango ya shirika imo katika ushirikiano, umoja na usawa, na uwekezaji wa katika nchi za nje ili kufaidika na mifumo ya kiuchumi kulingana na mahitaji na mitazamo.

Kumeibuka haki mbalimbali za wasafiri katika mataifa mbalimbali na kanuni za kufanya biashara katika soko moja katika miaka ya hivi karibuni. Changamoto kubwa imekuwa migongano ya uratibu iliyoibuka katika mataifa mbalimbali. Kwa sasa, zaidi ya mataifa 50 yana utaratibu fulani wa haki za wasafiri walioweka; Nchi 30 zimeanzisha utaratibu wa aina fulani kati ya muda wa miaka saba iliyopita. Hapa Kenya, Kifungu cha Sheria ya kuwalinda Watumizi wa Bidhaa ya mwaka wa 2012 imempa Katibu wa Wizara husika mamlaka ya kutoa haki za wasafiri na vigezo vya utendakazi kwa wanaofanya biashara ya ndege.

Shirika la Ndege la Kenya linaendelea kushirikiana na Wizara ya Usafiri ili kuweka sahihi na kufanyia mabadiliko huduma za Mikataba ya Safari za Nje huku maswala ya ushuru wa mara mbili na uratibu wa kupita kiasi vikisalia changamoto zinazoathiri ukuaji wa wa muda mrefu wa biashara ya ndege barani Afrika.

**Uwanahisa**

Idadi ya wanahisa katika kitabu cha Regista kufikia tarehe 31, Machi, 2013, ilikuwa wanahisa 77,403. Kati ya hawa, wanahisa 38,009, walitoa hisa zao kwa kampuni ya CDSC Nominees Limited na kufungua akaunti katika Mfumo wa Kuweka Fedha kwa Pamoja. Maelezo ya wana hisa kufikia tarehe 31, Machi, 2013 yamo katika ukurasa wa 118.

**Mgawo wa Mwisho**

Wakugenzi wanaomba mwaka huu kusiwe na mgawo wa mwisho wa hisa.

**Shukrani**

Nachukua nafasi hii kuwashukuru wateja wetu, wanahisa, Serikali, uongozi, wafanyakazi, Serikali, wasimamizi, wanao tuuzia bidhaa na wanachama wenzangu wa Halmashauri kwa kujitolea kwao kukuza shirika hili la ndege.

**Wakurugenzi**

Waliokuwa Wanachama wa Halmashauri mwaka huu wameonyeshwa katika ripoti ya Wakurugenzi katika ukurasa wa 58.

**Evanson Mwaniki**

**Mwenyekiti**

# We'll fly you over the Victoria falls.

*(In something more comfortable than this.)*





***STANDING FROM LEFT TO RIGHT***

Frederick Sine | Mbuvi Ngunze | Titus Naikuni | Tom Kadoyo | Alex Mbugua | Chris Diaz  
Captain Paul Mwangi | Yves Guibert | Jimmy Kibati | Kevin Kinyanjui | Alban Mwendar

**Dr. Titus Naikuni:**  
**Group Managing Director & CEO (59 Years)**

Dr. Naikuni holds a Bachelor of Science Honours Degree in Mechanical Engineering from the University of Nairobi. He is also a graduate of the Harvard Business School's Programme for Management Development (PMD71) and was awarded a Doctor of Science Engineering by the Jomo Kenyatta University of Agriculture and Technology in 2008, an honorary award in recognition of his contribution to development. He joined the Magadi Soda Company in 1979 as a trainee engineer and rose to the positions of Managing Director of that company in 1995 and combined it with being Managing Director of the Magadi Railway Company (a subsidiary of Magadi Soda Company) in 1996. Between August 1999 and March 2001 Dr. Naikuni was a member of a team of World Bank sponsored Kenyan technocrats, known as the "Dream Team" who were engaged by President Moi to turn around the Kenyan economy. In this capacity Dr. Naikuni served as permanent secretary to the Ministry of Information, Transport and Communications and was a member of the Board of Kenya Airways during that period. He returned to Magadi Soda Company in April 2001 where he continued to serve as Managing Director of Magadi Soda and Magadi Railway Companies, a position he held up to his present appointment with Kenya Airways in February 2003.

Titus received the Manager of the Year Award in Kenya in 2002. In 2009, during the 15th Aviation & Allied Business Leadership Conference in Addis Ababa, Ethiopia, Dr. Naikuni was awarded the 2009 Aviation & Allied Business Individual Achievement Award.

**Mbuvi Ngunze:**  
**Chief Operating Officer (45 Years)**

Mbuvi holds a Bachelor of Commerce degree accounting option from the University of Nairobi. He is a Chartered Accountant (England and Wales) and is also a graduate of the Harvard Business School's Management Development Program (PMD75). He joined Price Waterhouse in Nairobi in 1990 and was seconded to Manchester in the United Kingdom where he was articled. In the UK, he started off as an Audit Assistant and left 5 years later as an Assistant Manager. In 1995, he rejoined Price Waterhouse in Kenya as Audit Manager, leading audits of various blue chip companies, and also involved in training and recruitment. In 1998, he joined Bamburi Cement (a Lafarge subsidiary) as Finance Manager and was promoted to the Finance Director's position in February 1999.

He held this position up to March 2002 when he was appointed Managing Director Hima Cement Uganda (Lafarge). In May 2006, he moved to the headquarters of Lafarge in Paris.

He first took up the role of Mission Director in the Group Audit Department for six months, and then was appointed Group Vice President Internal Communications in November 2006. In March 2009, he was appointed General Manager for Lafarge's operations in Tanzania (Mbeya Cement). He joined KQ in September 2011 as Chief Operating Officer. Mbuvi has extensive Board room experience having served on the Board of Bamburi Cement (from 1999), Hima Cement, Mbeya Cement, and serving as Secretary to the East African Cement Producers Association.

**Alex Wainaina Mbugua:**  
**Group Finance Director (49 Years)**

Mr. Mbugua was appointed the Group Finance Director of the Kenya Airways (KQ) Group on 14th July 2008. He is an MBA graduate with specialization in Corporate Finance and Investment Banking; a Certified Public Secretary; Certified Public Accountant; and a member of the Institute of Certified Public Accountants of Kenya. Mr Mbugua is an alumni of Harvard Business School having completed the Advanced Management Program (AMP 183) in October 2012. In the past 28 years, during his highly successful career, Mr. Mbugua has gained significant knowledge and expertise in the fields of finance, strategy, information technology and general management.

As Group Finance Director of KQ Group, Mr. Mbugua has been responsible for and overseen certain key milestones including chairing of the KQ Ten Year Strategic Planning committee for the development of "Project Mawingu" and presiding over the capital raising project that involved both debt and equity financing to fund Project Mawingu, including the high profile 2012 rights issue offer that raised net proceeds of KES 13.8 billion for KQ.

Prior to his current position with KQ, Mr. Mbugua held the position of Chief Financial Officer of Africa Open Pit Mines, AngloGold Ashanti in Johannesburg.

Mr. Mbugua held board positions at AngloGold Holdings (UK) and also in 8 mining subsidiaries spread out in 5 African Countries. Other board positions have included Bain Hogg Ltd and Norfolk Holdings (K) Ltd together with KQ subsidiaries Kenya Airfreight Handling Ltd and JamboJet Ltd.

Mr. Mbugua's previous roles included Chief Executive Officer, Combined Systems Group, Africa Division PwC, Johannesburg (2000 -2003); Finance and Administration Director, Bain Hogg Insurance Brokers, Kenya (1997 -1999); Chief Financial Officer, Express Kenya (1992-1997); Financial Consultant, International Air Transport Association (1990 -1991) and Audit Consultant, KPMG, Kenya (1985 -1989).

**Captain Paul K. Mwangi:**  
**Director Flight Operations (54 Years)**

Captain Paul Mwangi is an alumnus of Alliance High School and a firm believer in the school's motto "strong to serve". He has served KQ in various capacities since 1984. As the Director of Flight Operations, he is responsible for the training and operations of crew (pilots and cabin crew) and for In-flight Management. He joined the airline in 1984 at the age of 25, initially as a cadet officer and then as a co-pilot.

He underwent progressive training in the flying of various fleets and recently checked out as Captain of Boeing 777. During his extensive flying career, he has flown a number of aircraft types including Fokker 27s and 50s, Boeing 737s, Airbus, Boeing 767 and currently, Boeing 777. Paul not only serves KQ as a Captain but also plays the role of instructor and examiner for the Kenya Civil Aviation Authority and is a part-time lecturer in Airline Operations for the Moi University MBA Program.

Paul joined KQ management in 1998 as Manager of Quality Systems and Standards. Since then he has served in various diverse roles including Fleet Manager for the Airbus A310-300, B767-300s, Head of Fleets Management, Head of Operations Control Centre and is currently the Director of Flight Operations. In addition to obtaining his Airport Transport License (ATPL) in Oxford UK, he also holds an MSC degree in Air Transport Management from the City University of London.

He has complemented his training with IATA Diplomas in Airline Operations and Airline Strategic Management in Geneva and recently successfully completed the Programme for Management Development (PMD) at The University of Cape Town, South Africa. In 2011, Paul attended a Programme for Management Development (PMD) over a period of four months at Hull University Business School in Yorkshire (UK) on Systems thinking in the Public Sector.

**Yves Guibert:**  
**Director Ground Services (50 Years)**

Mr. Guibert, a French national, began his aviation career in Tahiti when he joined a subsidiary of Union Transports Aeriens (UTA) in 1986 as a Load Controller. He left French Polynesia three years later having qualified as a Dispatch and Airport Duty Controller and joined UTA in Paris in the position of a Relief Station Manager. For close to two years, he relieved station management and worked in various countries around the UTA network worldwide.

In 1991, when Air France absorbed UTA, he was expatriated to South Africa to join the station management. He joined

Virgin Atlantic as Station Manager overseeing the running the Johannesburg and the opening the Cape Town Station in 1998. In 2001, he moved to Nigeria and opened the Lagos Station followed by Port Harcourt. Upon the creation of Virgin Nigeria in 2005, he was detached to the new entity and undertook the task of building ground services from scratch before becoming the Director Customer Service. At the time he left Virgin Nigeria to join KQ in April 2009, he was managing its entire ground services, training and in-flight services.

**Kevin Kinyanjui:**  
**Informational Systems Director (46 Years)**

Mr. Kinyanjui has over 23 years' experience in the Information Technology field. This includes 6 years at a management consulting firm PricewaterhouseCoopers, 6 years at Bamburi Cement Limited and a total of 4 years in the banking sector, most recently at Housing Finance. He has attended many technical IT and management courses both locally and abroad. As an IT management consultant, he carried out numerous management consultancy assignments in the finance, hospitality, manufacturing and service industries in both private and public sector organisations.

These organisations were spread out in Kenya and in other African countries including Uganda, Tanzania, Malawi and Ethiopia. At Bamburi Cement where he was head of IT, initially for the cement company alone and thereafter for all group companies in Kenya and Uganda, he was instrumental in strategy formulation, shifting the group to an end user computing environment, integrating ERP systems and putting in place a complete IT organisation.

Mr. Kinyanjui was the first IT director at Housing Finance where he oversaw similar planning and implementation activities for banking business systems. This included the evaluation and selection of a completely new banking system platform. As IS Director at KQ, Mr. Kinyanjui has overseen a very busy period of Selection and implementation of many new business systems. These include e-ticketing, a new integrated passenger services systems suite, a new integrated Oracle E-Business Suite, a new suite of Integrated Operations Control and Management Systems, and customer & Staff Web Services.

In 2001, the Computer Society of Kenya awarded him the Chairman's Achievement Award in recognition of his achievements in the IT field. In 2010 Kevin's team received a CIO East Africa Top Award for the Transport Sector.

**Jimmy Kibati:**  
**Acting Commercial Director (45 Years)**

Jimmy Kibati has over 20 years experience in commercial airline business, business development, planning and strategy. Jimmy joined Kenya Airways on 2nd November 1992 following completion of his graduate Bachelor of Arts degree from Kenyatta University. Jimmy's first role was Customer Service Agent at JKIA, and he later rose through the ranks from Load Controller to Customer Service Supervisor before moving to the Head Office as the Schedules Planning Officer in 1995.

Between 1995 and 2005, Jimmy worked in various capacities in Kenya Airways including as Manager Network Planning & Alliances, Area Manager Uganda, Rwanda and Burundi and finally rose to Head of Network Planning & Airline Strategy. In 2005, Jimmy left Kenya Airways to work for the start up carrier Virgin Nigeria in Nigeria as the Head of Network Planning & Commercial Development, rising through the ranks to Director Commercial Planning in 2008 and finally Chief Commercial Officer, where he led the re-branding of that airline to Nigerian Eagle.

Jimmy rejoined Kenya Airways as Head of Network Planning and Airline Strategy in 2010, where he led 'Project Mawingu' - Kenya Airways' 10 Year plan and was head of the team that worked on the process and requirements that led to Kenya Airways becoming a full member of the Skyteam Alliance in June 2010.

Jimmy is currently Kenya Airways' representative in the Skyteam Supervisory Board, KQ Chair of the KQ/KLM joint venture relationship and the African representative of IATAs Simplifying the Business (StB) Steering Committee. On 23rd January 2013, Jimmy was appointed Acting Commercial Director, where he is currently overseeing the restructuring of the commercial department and driving the execution of the company's commercial strategies.

Jimmy has undergone the Executive Management Development Program at Gordon Institute of Business Science - University of Pretoria and various other IATA and international training programmes.

**Tom Obonyo Ouma Kadoyo:**  
**Technical Director (57 Years)**

Tom Kadoyo is an alumni of Starehe Boys High School and strongly believes in the school's motto "Natulenge Juu", which means "Aim High". Tom holds Master of Science degree in Aeronautical Engineering from Riga Institute of Civil Aviation. He has gone through progressive training at Boeing and Airbus on diverse aircraft. Tom is currently attending

the Executive Management Development Program at Gordon Institute of Business Science - University of Pretoria. Tom joined KQ in 1986 as a graduate trainee rising through the ranks as Development Engineer, Senior Development Engineer, Principal Development Engineer, Manager Engineering Development, Head of Base Maintenances and currently, Technical Director.

Before joining KQ, Tom worked with the Ministry of Tourism and Wildlife as assistant engineer in charge of Air Wing section from June 1985 - December 1986. Tom has 26 years' experience with the airline industry.

**Alban M. Mwendar:**  
**Group HR Director (51 Years)**

Mr. Mwendar is an alumnus of the Alliance High School, and holds a Bachelor of Education (B.Ed.) degree and a Masters in Business Administration (MBA) degree, both attained at the University of Nairobi. He is also a Fellow Member of the Institute of Human Resources Management of Kenya and recently completed his diploma at the highly accredited coaching organisation, the Academy of Executive Coaching in the United Kingdom.

Mr. Mwendar has extensive experience within multinational businesses in the corporate sector having joined Unilever (Kenya) Ltd in 1987 as a Management Trainee, and rising up the ranks within the HR function and in Logistics. He left Unilever in 1995 to take up the role of Head of Human Resources at British American Tobacco (Kenya) Ltd, a role he held until the year 2000 when he was appointed Group HR Director at Kenya Commercial Bank.

At KCB he spearheaded cultural reform programmes and internal branding initiatives that turned the bank from a parastatal organisation to the present day commercial organisation that prides itself as having the largest branch network in East & Central Africa. In 2004, Mr. Mwendar was appointed Group HR Director of East Africa Breweries Ltd, a Diageo plc subsidiary, and again led internal rebranding initiatives that launched Diageo into the Eastern African markets. During the course of his career, Mr. Mwendar has played a consultancy and advisory role on HR matters to numerous individuals and organisations and has made several presentations to HR practitioners in the region. He has also attended numerous professional courses abroad including in institutions such as Harvard Law School. He has been a past Vice Chairman of the Kenya Institute of Bankers, member - Board of Governors of Alliance High School, and Assistant Chairman - Institute of HR Management of Kenya. He currently sits on the Council of the Agricultural Society of Kenya. He joined KQ in August 2011.

**Chris Diaz:**  
**Marketing Director (44 Years)**

Chris Diaz was appointed Marketing Director of Kenya Airways on 7th November 2012

Along with his current position, Chris is a board member of the Brand Kenya Board and is involved in supporting the marketing of Kenya to the world. Chris is also a Trustee on the board of the Chartered Institute of Marketing in the UK, which is the largest professional marketing body in the world. Chris joined Kenya Airways from BIDCO Group, where his responsibilities included Group Marketing and Communications, Corporate Affairs and business development across multiple countries and he currently serves as a non Executive board member.

Chris was born in Mombasa and schooled at Allidina Visram at the Coast up to A-levels. He was one of the first marketing Fellows (FCIM) in East Africa and holds a Chartered status, Bachelor of Commerce (Hons) degree in accounting, Diploma in Marketing and a Masters of Science in International Marketing (UK).

Chris was awarded the Head of State Commendation (HSC) by the President of Kenya in 2003 and was also honoured by the Marketing Society of Kenya with the Warriors Award in 2009 and the Fellows Award in 2011, for successful marketing and supporting the growth of world class brands. Chris has also previously served as Director in CMC Motors Group, African Marketing Confederation and is currently a board member of the World Marketing Summit Group. He has presented talks in conferences across Africa, Asia and Europe on best Marketing trends and innovative Branding strategies.

He has a passion for conservation, environment, supporting special sustainability projects for community development.

Chris is very passionate about high quality corporate strategic communications and is experienced in building consistent international Brands for services and products. He enjoys and stimulates positive teamwork and strongly encourages humility and attention to detail as a Brand personality to deliver outstanding customer service.

**Frederick ("Rick") Sine:**  
**Fleet and Asset Development Director (65 Years)**

Frederick ("Rick") Sine is the Kenya Airways ("KQ") Fleet and Asset Development Director, responsible for the acquisition and disposal of aircraft for KQ, the oversight of major aircraft modification programs and the development of long term fleet plans. He brings to the position extensive executive airline, business and leadership experience, in operating and support activities at both large and small companies, in US domestic and international markets.

With a long career with several US airlines, has a broad background in the management of technical activities and in the buying, leasing, modifying, supporting and operating of transport category aircraft.

Prior to joining KQ, Rick held the position of Managing Member with Aerospace Executive Support Service, acting as senior consultant to aerospace organizations where his clients included Accenture, BearingPoint, Spirit Airlines, In-flight Canada, Louis Berger Services and many others. In addition, Rick spent two years providing executive level leadership for corporate management, business development and product delivery for Interactive Voice Technologies, an innovative organization supplying voice-enabled, hands-free solutions for the completion of inspections and operating activities in high-noise environments.

Rick was Vice President with Boeing Airplane Services for three years, where amongst other responsibilities; he negotiated aircraft purchase and lease agreements, identified and managed third party support vendors and developed operating policies and procedures for major aircraft modification and support programmes.

Other key positions held by Rick include Vice President, Line Maintenance with US Airways, Chief Operating Officer of Avatar Alliance, Aircraft Maintenance Operations Manager with United Parcel Service and Senior Director of Component Repair with Pan American World Airlines. Rick began his career holding an active duty commission with the US Air Force for nine years, where he was Aircraft Maintenance Officer.

Mr. Sine is a graduate of the USAF Academy in Colorado Springs, Colorado, is an FAA licensed aircraft mechanic, holds a 25 year membership with the Society of Automotive Engineers and was President of the Air Force Association for the Northwest Region of the United States.



Kenya airways carried a total of 3.664 million passengers

### Kenya Airways experienced an extremely difficult operating environment.

**D**espite the challenges we remain committed to turning around the business by implementing various initiatives that are aimed at facilitating sustained recovery. Given the high price of fuel, the continuing Euro zone crisis, a weak global economy, an extremely volatile market and other challenges that continue to affect the aviation industry, Kenya Airways will maintain a strong focus on controlling costs for us to remain competitive. The company has set targets to achieve cost savings in all areas of our business by improving our work practices and processes without compromising or negatively impacting on our service to our customers. We intend to continue focusing on our valued customers and responding to their changing requirements.

#### COMMERCIAL HIGHLIGHTS

During the financial year 2012/13, Kenya airways carried a total of 3.664 million passengers compared to 3.644 million in the previous year. Passenger revenue stood at USD 1,000.9 Million compared to USD 1,074.2 Million in the previous year, representing a 7% decline on prior year performance.

The decline on performance over prior year was occasioned by adverse factors in the industry and our home market. Some of these factors include; the Euro zone crisis followed by the Al Shabab threats following the intervention by Kenya Defence Forces into Somalia, thereby leading to expanded travel advisories from the Tourist Source markets; and the general elections in Kenya - our home market.

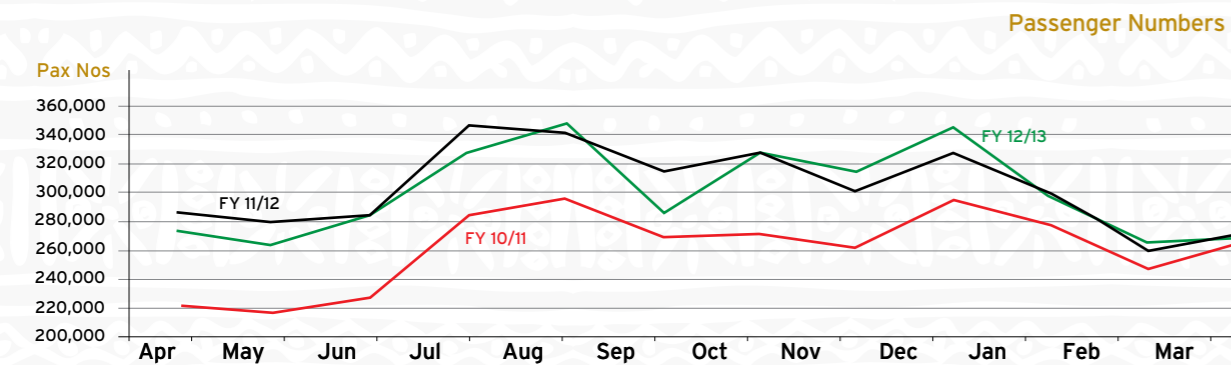
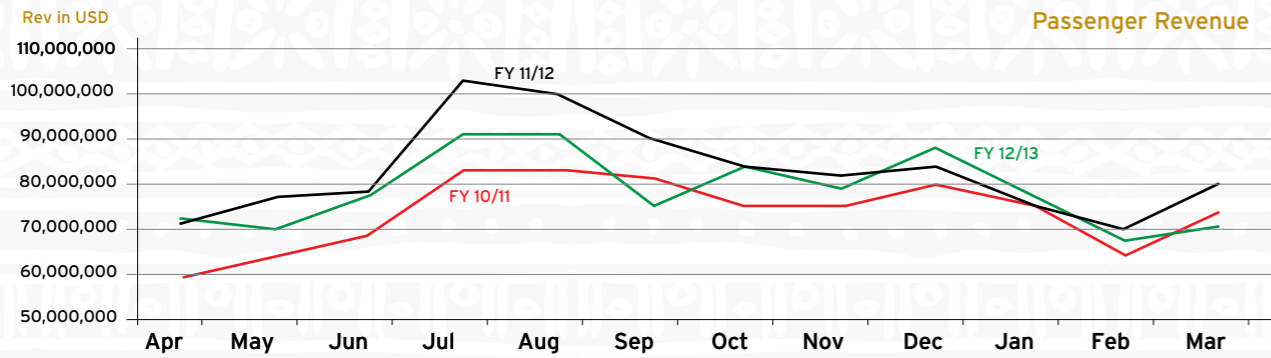
The company's strategy was to reduce the cost of operation on non-profit making routes and consequently, we stopped operations to Rome on 11th May 2012, Muscat on 12th June 2012, Zanzibar on 6th June 2012, Jeddah and Ndjamena on 24th November 2012. New operations that commenced during the course of the financial year included; DEL on 15th May 2012 at three (3) frequencies a week, JRO on 2nd July 2012 at six (6) frequencies a week and ELD on 17th Oct 2012 at ten (10) frequencies a week.

AOS	REVENUE IN USD 000s			PAX NUMBERS		
	FY 2011/12	FY 2012/13	Var. %	FY 2011/12	FY 2012/13	Var. %
Kenya	193,428	209,808	8.5%	1,138,399	1,184,383	4.0%
East & North Africa	100,763	95,954	(4.8%)	482,136	474,467	(1.6%)
Southern Africa	124,034	115,353	(7.0%)	402,091	378,973	(5.7%)
West & Central Africa	134,570	129,988	(3.4%)	426,464	420,524	(1.4%)
Middle East & Pakistan	27,477	25,683	(6.5%)	117,035	110,000	(6.0%)
India & Rest Of Asia	35,642	41,572	16.6%	150,611	187,844	24.7%
Far East & Asia	66,211	74,173	12.0%	188,803	232,427	23.1%
Europe & America	279,051	238,060	(14.7%)	825,460	729,533	(11.6%)
<b>Grand Total</b>	<b>961,176</b>	<b>930,591</b>	<b>(3.2%)</b>	<b>3,730,999</b>	<b>3,718,151</b>	<b>(0.3%)</b>

*The financial year 2012/13 was undoubtedly a challenging year for the company.*

Dr. Titus Naikuni



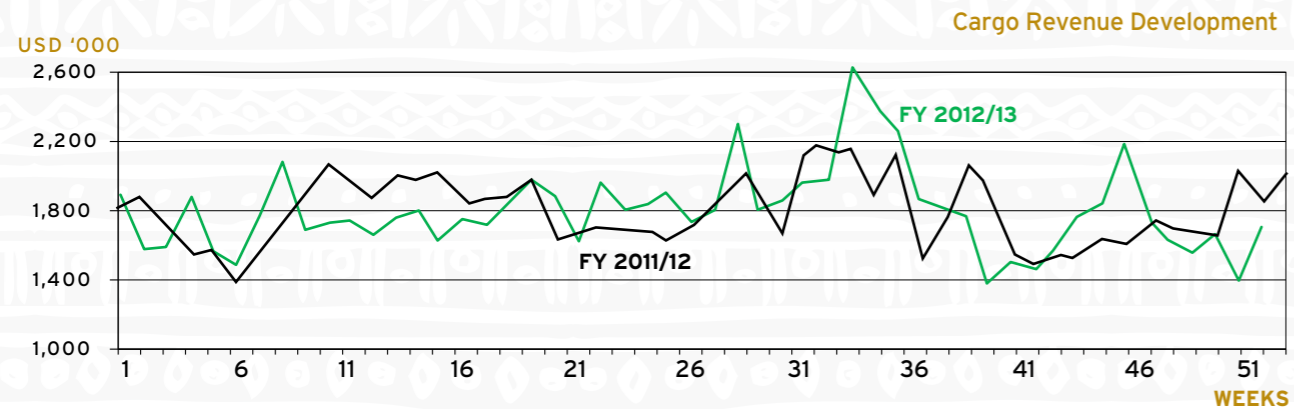


**CARGO & MAIL**

**Cargo Revenue**

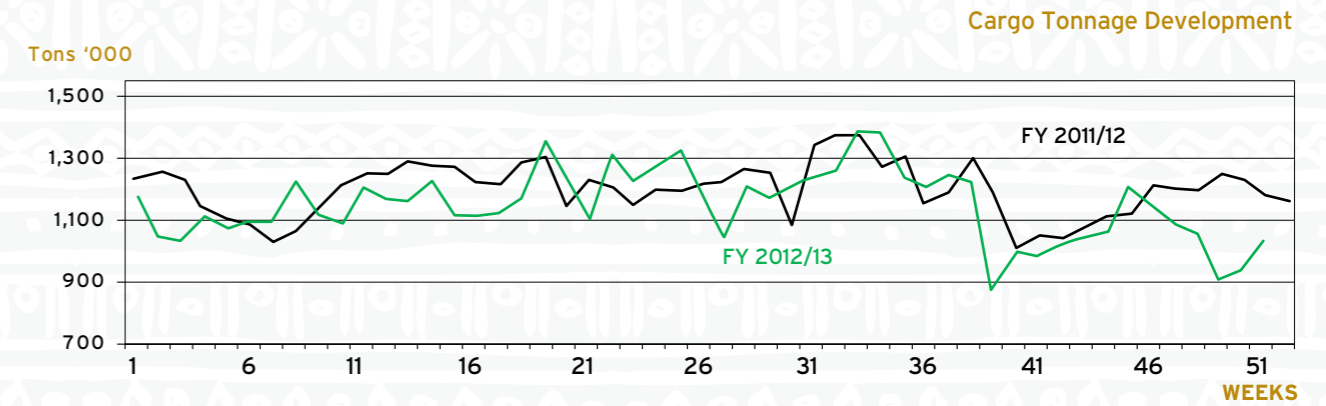
Freight sales revenues balanced off at previous year levels of Kshs 8.1 Billion. Perishable traffic remained the mainstay product but was subjected to price dumping over the summer period due to capacity increase by competition. The Courier and Mail product ratio grew by 1% to 12% of overall cargo revenue largely driven by courier volumes. Mail traffic fell marginally below previous year's level by 3 % due to restrictions of interline traffic via Hong Kong. This issue has been resolved and the product is expected to rebound during the next financial year.

Warehouse revenues grew by 7.5% during the year under review buoyed by increased import demand and improved efficiency.



**Cargo Tonnage**

Cargo capacity Available Ton Kilometer (ATK) remained largely at previous year's levels aligned with capacity adjustments implemented on the passenger business to cope with a challenging business environment, with total uplifts stabilizing at 62,000 tons.



**Safari Freighter**

The freighter load factor stood at 62% representing an uptake of 63,157 ('000) Revenue Ton Kilometer (RTK) against a capacity offering of 102,206 Available Ton Kilometer (ATK '000). Overall capacity was reduced from May 2012 due to weakened demand on the Amsterdam to Guangzhou traffic.

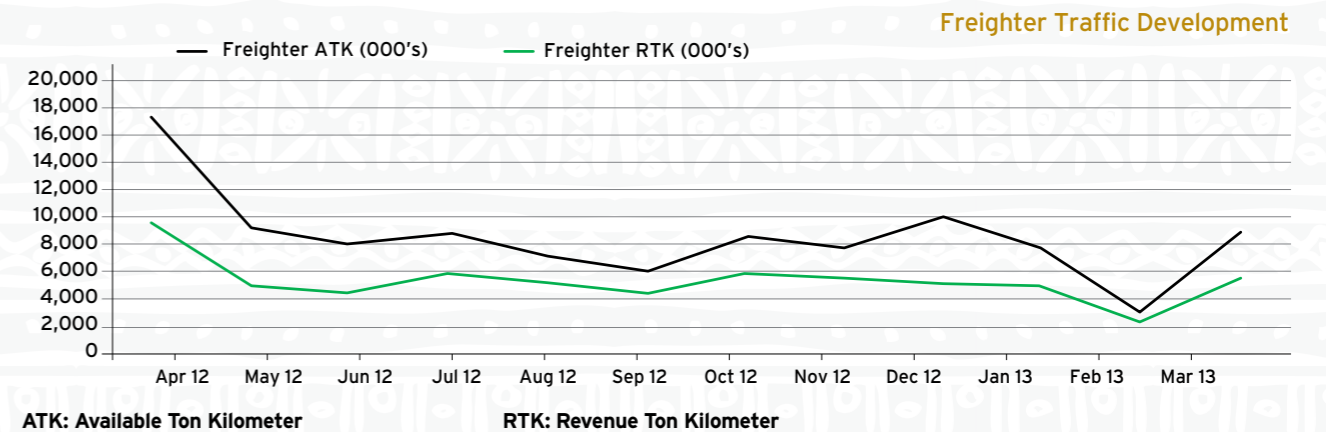
The Safari Freighter is a joint partnership between Kenya Airways, KLM and Martinair Cargo leveraging on capacity synergies on the triangular route - Amsterdam to Guangzhou, Lagos, Nairobi and back to Amsterdam.

The product has firmly solidified Kenya Airways Cargo market leadership position on the Guangzhou to Lagos route.

**B737 Freighter**

The conversion process of the first B737-300 freighter was completed and the aircraft was delivered in Nairobi late March 2013. Boeing Shanghai in partnership with AEI converted the B737-300 aircraft, Registration Marks, 5Y-KQC, which entered into service in April 2013. This freighter is entirely owned by Kenya Airways. Further improvements on cargo performance are expected with the entry into service of the B737-300 Freighter that will open up additional markets.

Routes that have been planned for this operation include, Dar-es-Salaam, Entebbe, Kinshasa, Kigali, Juba, Mwanza, and Douala, among other regional routes.



**Web Sales**

Web sales performance continued to register improvements in response to various initiatives put in place to drive sales through this channel. These initiatives included: new website look and feel and a new web booking portal. During the period under review, a total of USD 34.8 Million was driven through this channel, compared to USD 28.8 Million in the previous year, representing a growth of 21%.

Online sales are significant in Kenya, Europe and Middle East due to high internet penetration in these markets. Travel agents continued to drive the bulk of the network sales with close to 80% of sales being driven by the indirect channel.

**Contact Centre**

AOS	CHANNEL SHARE			
	GSA	BSP AGENTS	DIRECT OFFICE	ONLINE SALES
Kenya	0%	67%	27%	6%
East & North Africa	31%	38%	30%	1%
Southern Africa	15%	64%	19%	2%
West & Central Africa	35%	40%	25%	0%
Middle East & Pakistan	34%	61%	1%	4%
India & Rest Of Asia	3%	94%	2%	1%
Far East & Asia	26%	70%	3%	1%
Europe & America	11%	79%	4%	6%
<b>Network Total</b>	<b>18%</b>	<b>61%</b>	<b>18%</b>	<b>3%</b>

The 24/7 contact centre continued to expand its scope and avail services to customers in response to their needs. The Voice Recording System implemented at the Contact Centre has assisted in carrying out live and recorded Quality Monitoring of conversations with all customers' interactions. All these efforts are aimed at improving focus in driving good Customer Care delivery.

This convenience in communication to our customers has translated into sales opportunities as evidenced by growth in Contact Centre sales from year to year. During the financial year 2012/2013, a total of Kshs. 480 Million compared to Ksh. 262 Million in the previous year was recorded as sales, translating to a growth of 83%. The tremendous growth recorded has come through due to the high focus of the internal operational efficiencies, which not only attracted repeat business, but attracted new business owing to the transactional convenience and customer experience.

**MARKETING**

During the period under review, for the first time, the company appointed a marketing director whose key role is to support strategic marketing, Passenger and Cargo Marketing, Loyalty, Customer experience, Brand innovation and Development of customer solutions, ancillary revenues and Brand communications for Kenya Airways as a leading global brand.

To strengthen internal marketing strategies and enhance the Kenya Airways brand promise and values to all staff, the marketing department introduced the Brand Ambassador program on 21st December 2012. This initiative was coined out of the need to encourage all staff to build a strong connection to the brand and enhance their support for the turnaround of the airline's profitability through increased ticket sales and support.

Consequently, the company has seen its Contact Centre double its sales with non-sales back office staff earning commissions out of such ticket sales. So far, the program has brought in revenues of over Kshs 35 Million from a stream that would otherwise have gone untapped. It is planned that this program will extend to other innovative ideas that will increase the company's brand awareness and loyalty.

This program was well received by the company's staff who focused on increasing the marketing of the brand to new customers and consistently positioning the "Pride of Africa" across the globe.

During the months of January, February and March 2013, non-sales staff for the Brand Ambassador program, sold over a 1000 tickets to new customers. The rest of the sales staff and Contact Center have supported the Brand Ambassador program with focused targeted sales, and strategic support has been initiated on various network routes to expand the sales and business marketing.

To celebrate 36 years of the Kenya Airways Brand, the company launched an external marketing drive with 36 grand prizes for all customers flying out of locations in Kenya. The promotion received strong support and positioned the airline well in the market as well as supported sales from Kenya to the rest of the network.

The marketing team continues to roll out global branding visibility, and carried out the marketing of the Cargo, KQ holidays and travel business across the network. The brand visibility has been strategically well developed to pull and push marketing activities, all focused on growing the customer base and revenue on well researched executions.

Kenya Airways is a World Class brand and the marketing team will continue to support the expansion of the business, and the delivery of the Ten (10) year Plan ("Project Mawingu") expectations based on new aircraft deliveries.

To enhance the customer experience, the marketing team is currently working with all teams to improve on the airline's global Skytrax rating and customer service.

Strategic Marketing programs and communication, international sponsorships and partnerships, cargo freighter marketing and KQ holidays repositioning have been planned and the next financial year will witness exciting engagements and the growth of the KQ brand across our network.

**Sponsorships**

Kenya Airways continued to sponsor a number of activities in the industry and the country in general. Notable amongst such sponsorships during the financial year 2012/2013 were the Kenya Rugby Team, Maasai Mara Marathon and the under 13s Rugby Sevens Team.

**Kenya National Sevens Rugby Team**

The Kenyan National Sevens Rugby Team participated in the HSBC World IRB series. The first leg of the series was held in New Zealand and Australia and the final one in London, on the 12th and 13th May 2013. Kenya Airways' support has assisted in making the team turn semi-professional.

As a result of the 2012 IRB series, the company has witnessed increased brand visibility across the world with the team managing to reach the semi finals and the finals at various stages during the tournament.

As one of the biggest ambassadors of the brand "Kenya", the rugby team attracted over 300,000 stadium spectators and over 2000 hrs of TV viewership across the KQ network during the IRB series only. KQ achieved huge exposure as the main sponsor of the rugby team. This sponsorship has also ensured that the KQ brand enjoys wide international exposure even in countries where we do not operate.

**Maasai Mara Marathon**

Kenya Airways sponsored various marathon opportunities aimed at supporting sports tourism and Kenya as a tourist destination. Among other marathons sponsored was the Maasai Mara marathon which took place on September 22nd 2012.

**Under 13s Rugby Sevens Team**

Kenya Airways sponsored the Independent Association of Prep Schools' Under-13s Sevens Rugby Team to participate in the 2013 Rosslyn Park Prep Schools Tournament in London. As part of our commitment to highlight the sustainable development of rugby as a sport the airline's sponsorship in the form of air tickets, to the tune of KShs1.1 million, enabled the team to travel to the United Kingdom to participate in the world's largest rugby bonanza for schoolboys.

**HUMAN CAPITAL**

As at 31st March 2013, Kenya Airways' headcount stood at 4,006, with an additional 234 outsourced staff primarily in Flight Operations and Ground Services. This represents a 17% headcount reduction in permanent staff numbers. In a bid to control escalating employee costs, the Company undertook a staff rationalization exercise in September 2012 that saw 599 staff leave either through Voluntary Early Retirement or redundancy. A move to use outsourced labour was also implemented.

**Talent Management**

In managing our talent, during the period under review, our key focus was to help the business restructure key areas and to live within reduced staff numbers and still deliver the objectives. There was an increased emphasis on staff psychometric and aptitude assessments both at recruitment and for existing staff, so as to optimize placements and focus on appropriate development initiatives. Succession planning was also conducted to identify critical development needs of would-be successors to key positions in the business. Key to this was also the development of key employee capability building programmes which will drive the robust training solutions that enhance both technical and leadership skills across the business.

At the same time, we continued enhancing Human Resource Processes through customization to address changing business requirements. We adopted the use of People Management and Development for Airlines (PMDA) toolkit to undertake this review. The customized processes are mainly in the area of the recruitment, leave, performance management and the Core Human Resources Module. This will ensure that the Human Resources Department responds efficiently to the business needs of the day, and achieve customer satisfaction and excellent service delivery.

**Learning and Development**

During the financial year 2012/13 the team continued to help in the development of leadership capabilities and delivery of the already established programs.

**Corporate Training**

The delivery of the already existing leadership development programs intensified within the year 2012/13. These programs included Personal Effectiveness, where a total of 329 staff members were trained, Learning to Lead with 81 staff trained and Business Leadership where 15 staff members were trained.

The above programs were complimented by other courses that targeted specific skill sets. These included; Presentation skills (33), Finance for Non-Finance managers (88) and Stress Management (229).

In February 2013, we rolled out staff engagement workshops targeting all staff, by the end of the financial year 2,486

staff had attended. The aim of this workshop was to build an engaged workforce and increase productivity. The workshops are scheduled to be rolled out to the outstations during the next financial year.

#### Leadership and Executive Development

To enhance the already existing leadership development offering, three key programs continued to be offered in 2012/13. These included:

- Executive Development (24 staff members trained) - targeting staff identified as potential successors to Directors,
- Coaching and Mentoring (111 staff members trained) - targeting staff in leadership positions tasked with coaching and mentoring within their teams,
- Customer Care (175 staff members trained) - This was the second phase of training that targeted staff in Ground Operations.

#### Flight Operations Training

We conducted Flight Operations Officer courses in-house and introduced Embraer Extended Operations (ETOPs) training in Nairobi. This had a positive savings effect on the training budget.

By the end of March 2013, one hundred and twenty four Pilots including forty five (45) Cadets had undergone conversion training in the Pride Centre and third party simulators. Direct Entry and In-house Captains together with Second Officers performed their conversion training on various fleet types of Kenya Airways.

#### Technical Training

During the financial year 2012/13, the Technical Training school conducted courses that ensured that Production had qualified staff that can support aircraft maintenance. With increased aircraft numbers, especially the Embraer family, several specialized courses were conducted to ensure that the company has Engineers/Technicians who can handle these specialized tasks. These included Engine run courses, transit courses, differences and other trainings that are specific to the E190/170 aircraft.

The financial year witnessed continued delivery of refresher/continuous trainings courses to maintenance staff to ensure that they remained current as per the regulations.

A key highlight for the financial year 2012/13 was the re-introduction of the Apprentice Program. For this purpose, 19 diploma graduates joined the company in November 2012. They are currently undergoing skills training at NYS Engineering College, which is part of their two (2) year training programme before being absorbed into Production sections of Technical Department.

#### Industrial Relations

Enhancing Industrial Relations between the Company and the Unions was in key focus, albeit with difficulty this year, with regular Management/Union meetings taking place in order to appraise the Union leadership on business performance. The Unions are Kenya Airline Pilots Association (KALPA), Aviation and Airport Services Workers Union (AASWU - AASWU renamed) and National Union of Air Transport Employees (NUATE) of Nigeria.

#### Kenya Airlines Pilots Association (KALPA)

We engaged with the Association's leadership through scheduled Group Managing Director/KALPA quarterly meetings, and Seniority and Promotion Committee meetings, as well as other meetings called on a need basis.

During the year, a considerable amount of time was spent on the issue of engaging expatriate captains into the business on short fixed term contracts, which was finally agreed upon by both parties. The Company has undertaken to completely exhaust the available and competent pilots eligible for promotion to Captain within the business and the local market. It has also advertised externally for pilots to fill in the gap that will not be covered by the available internal and local pilots. A Kenyanisation programme has been worked on to ensure that employment of the expatriate pilots will not slow down the growth and development of local Kenyan pilots.

#### Aviation and Airport Services Workers Union (AASWU)

As a result of the staff rationalization programme that was undertaken midyear, suit was filed by AASWU against the Company and thereafter, there has been limited Management/Union interaction to discuss business performance issues as the case ought to be. This situation has been further exacerbated by internal wrangles within the Union that have hindered effective communication.

#### National Union of Air Transport Union (NUATE) - Nigeria

The Company conducted negotiations with the Union and have signed up a two - year wage Agreement with them.

#### Amalgated Transport and General Workers Union (ATGWU) - Uganda

The Company has received a demand for recognition of this Union. Uganda has 19 employees in unionisable role (H1-H9). The company is considering the demand.

#### INFORMATION SYSTEMS (IS)

A number of new or improved business systems were implemented during the financial year 2012/13. The company continued to further invest in its IT infrastructure so as to improve on availability and redundancy of its network especially in the JKIA hub and its outstations.

#### Customer Service Channels

The company revamped its web site offering with a friendlier look and feel. In addition, a new service that allows customers to find out the flight status has been introduced. Kenya Airways has also started engaging its customers on social media, including; Facebook and Twitter, and further improvements on these platforms are expected to be carried out during the next financial year. KQ has launched mobile phone check-in facility for its domestic routes towards the end of the financial year and expects to roll this out for other destinations during the next financial year.

#### Common Use Self Service (CUSS) Kiosks at JKIA

During the year under review, Kenya Airports Authority worked with the airlines and ground handlers in JKIA to introduce a new Common Use IT platform (CUSS) at JKIA. The platforms were competitively evaluated by a technical IT committee of the airlines and ground handlers. The Project was managed by Kenya Airways. A new platform from ARINC was selected and implemented and went live at the check-in counters in August 2012. This Project also included the CUSS Kiosks for customers to self check-in at all the units at JKIA, thereby providing them with more convenience.

#### New Departure Control System (Altea DCS)

The migration of our Departure Control System (DCS) from KLM's CODECO to Amadeus' Altea DCS continued during the period under review. 90% of the KQ stations are now connected to Altea DCS and only six (6) stations remain to be connected by the next financial year.

#### Revenue Integrity

The company continued working on reducing passenger booking violations. Such violations include duplicate bookings, use of fake names, name changes, Incomplete Itineraries, No-Shows, hidden groups, group violations and ticket quality checks. A new Revenue Integrity System was put in place to reduce such violations.

#### Electronic Miscellaneous Document (EMD) and Airline Ancillary Services (AAS)

All airlines are required to conform to the Electronic Miscellaneous Document (EMD) which is an IATA industry standard, by the end of December 2013. This initiative facilitates the transitioning from paper documents such as Miscellaneous Charges Orders (MCOs), Excess Baggage Tickets (EBTs) that are a mode of payment for additional passenger services; to EMDs. Additionally, EMDs can enable other ancillary services (e.g leg room, exit window, lounge access, merchandise,) to be distributed and sold across the major Global Distribution Systems (GDSs) used by travel agents. During the period under review, the KQ Sales offices were enabled to sell EMDs, and currently, the company is working on activating them on the online web services e-Commerce and travel agents GDSs.

#### IATA Simplified Interline Settlement (SIS)

IATA created an industry initiative to introduce completely paperless billing, invoicing and settlement through the IATA clearing house. This will lead to financial benefits to the industry. The Passenger SIS, Cargo SIS and Miscellaneous SIS all went live within the current financial year.

#### Unit Loading Device (ULD) Management System

The Ground Services department implemented a new ULD system to give better visibility of their movement across the KQ network. Its other benefits include:

- Integration with the Baggage Management System which provides updates to the movement of units used for baggage
- Reduced airline messaging/communication costs as the application uses email instead of SITATEX.

#### Cargospot System

The implementation of the Cargospot system is aimed at increasing the utilization of our Cargo Management System - in the outstations so that cargo operations and revenue data can be highly visible to all stakeholders within KQ. 27 stations within the cargo network have to date been migrated onto Cargospot, and seven (7) others will be completed during the next Financial Year.

#### Medical Biometric

In order to ensure that the company only meets medical costs for the rightfully insured employees and their approved dependants, the Medical Services Division implemented a Biometric Identification Solution. This has further reduced fraud at various service points, for instance, participating hospitals and pharmacies.

#### FLIGHT OPERATIONS

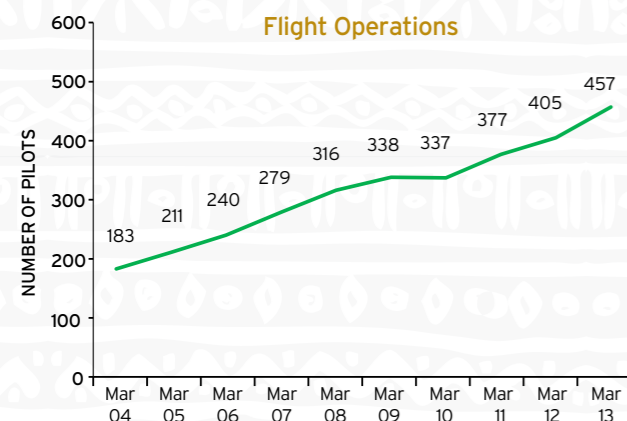
During the period under review the flight operations department continued to support the provision of qualified crew through recruitment and training. A total of 21 Ab-Initio cadets were commissioned for training as pilots in South Africa while 12 direct entry pilots were recruited as second officers from the Kenyan market.

The company's major challenge remains the insufficient number of captains in the local market. In an effort to address this problem a couple of initiatives have been put in place as detailed below:

- Increased engagement with the pilots' union, Kenya Airline Pilots Association (KALPA);
- The signing of a memorandum of agreement with KALPA on the recruitment of direct entry captains in October 2012;
- Having an Airline Transport Pilots' License (ATPL) is a key pre-requisite for a pilot to be promoted into command. KALPA has put in place measures for its KQ pilot members with experience in flying the wide-body aircraft to ensure that they acquire the same;

- d) Weekly and monthly review of captains requirements, recruitment and training plans and the execution thereof;
- e) In February 2013 the company contracted with Direct Personnel, a company that recruits and supplies personnel for all areas of the aviation industry, to source for direct entry captains rated on fleet types similar to Kenya Airways, and
- f) Early command preparation of first officers with ATPLs but are yet to build up the required flying hours for promotion into command, by attending the command course where any challenges are identified and addressed.

During the year a total of 39 first officers attended the command course out of which 17 were promoted into command. Four (4) direct entry captains were recruited for the Embraer fleet and 11 others have successfully completed the interview process. The total number of pilots' strength closed at 457 which compares to 405 in the prior year.



In order to contain and manage costs, the department embarked on the following cost reduction initiative programs:

- Optimizing utilization of cabin crew at home base to reduce hotel costs e.g. Thai cabin crew operating Bangkok-Guangzhou and Bangkok-Hong Kong sectors, Ghanaian cabin crew operating Accra-Monrovia and Accra-Freetown sectors;
- Containing cabin crew layover nights within guaranteed levels except with the express authority of the In-Flight Managers due to operational reasons;
- Home base recruitment and training e.g. training of new Thai cabin crew in Bangkok;
- Reduced external crew forums;
- Review of in-flight catering loading standards e.g. newspapers and magazines, packaging of disposable items such as a plastic cups, and
- Review of supply chain processes for in-flight supplies e.g. change of suppliers, direct delivery by KQ transport to main caterer in Nairobi and improved management of catering equipment at the outstations.

### GROUND SERVICES

During the period under review, the Ground Services department was restructured around three key poles: Passenger Services, Ramp Services and outstations. Passenger Services within the company focused on delivering excellent customer service while the Ramp Services actively focused on driving safety.

### Customer Service

As part of the Altea suite implementation, Ground Services rolled out the check-in and aircraft loading modules of the product. This new generation system has improved our electronic ticket controls and has enhanced our service offering to our internal and external customers. (Launch of mobile phone check-in on domestic flights out of Nairobi, transmittal of aircraft loadsheet directly in cockpit).

To date, the company has rolled out 83% of our Network with a target to roll out the remaining eligible stations within the next five months.

In November 2012 the company rolled out a Baggage Management System (BMS) which replaced the previous baggage reconciliation system. With the full implementation of the BMS, we will consolidate all the baggage loading information of the network in one system. This has already drastically improved our visibility and traceability of customer baggage and reduced the number of baggage misconnecting at the Nairobi Hub.

### Safety

The company recorded a decrease in the number of safety incidents reported during this financial year with particular success on the Nairobi Ramp services active campaign. Through the AFRAA Ground handling subcommittee and in cooperation with other member airlines, the company continues to engage with the Ground Handling Agents (GHA) in safety awareness sessions. We are equally promoting increase reporting and audit coordination.

### TECHNICAL

Technical Department embarked on a number of initiatives to improve Safety, efficiency and reliability.

### Safety Management Systems (SMS)

In May 2012, the technical department commenced the implementation of a formal Safety Management System initiative. SMS seeks to embed a culture of safety to all levels of the organization. Risk assessment and mitigation measures are then rectified and tracked for permanent closure.

The above initiative evolved with various safety training sessions for staff and safety awareness at the work place using visual performance measurement boards. Technical

department currently have safety champions in all production areas and they drive the continuous improvement of the process of identifying and eliminating risks.

### Efficiency

#### Process Improvement

In light of the increased fuel prices and fierce competition in the aviation industry, there was a need to review the business processes in the company in order to eliminate waste. This was also necessary to realize the company's aggressive growth plans.

In this regard, existing processes were reviewed and roles refined to align to the improved processes. Duplicated roles were eliminated to improve accountability, increase productivity and delivery.

During the period under review, to enhance maintenance Personnel Training, technical skills development process was refined to incorporate industry standard tenets focusing on practical approach and multi-skilling. This resulted in utilization of fewer staff, higher level of competence and flexibility.

Consequently, apprentice intake now requires two years of hands-on experience before being absorbed into our active workforce. Certifying staff are now required to have European Safety Aviation Agency (EASA) standard certification (B1/B2) equivalent. This requires a total of five (5) skill sets for avionics (B2) and three (3) for mechanical (B1); previously only one skill set was considered sufficient.

### Reliability

#### Pro-active maintenance

In order to meet customer demands for on time performance and a consistently reliable product, the company enforced a pro-active maintenance philosophy. This involves both Preventive & Predictive maintenance. Defects are not just fixed but improved on by eliminating them from all sources hence maximizing equipment uptime, safety, cost reduction and cabin product improvement. It also involves proactive replacement of key components before they fail hence no impact on the airline's flight window.

#### Materials Availability

During the period under review, one of the areas of improvements was Materials Availability. Availability of materials and spares affects the ability of our maintenance crew to repair defects in a timely manner and hence affects the release of aircraft back into service from maintenance. The following improvements were implemented:

#### Review of Spares support contracts

A number of high value spares used in aircraft maintenance are leased or exchanged under contract from aircraft manufacturers and major suppliers. During the last financial year the spares assortment and contract terms of all the key spare contracts for the KQ fleet were revised to improve availability of essential spares in Nairobi and to optimize spares costs. The contracts with suppliers were revised and reassigned as necessary and significant improvements in availability and unit costs are already being realized in some areas such as in the Embraer fleet.

#### Technical Warehouse refurbishment

Refurbishment of the Main technical warehouse in Nairobi was concluded in November 2012 at an estimated cost of KES 100 Million. This involved replacement of all the aging racking that had been in place for decades with a set of new racking as well as provisioning of better material handling equipment. The new racking provides better utilization of space and improved visibility and accessibility of spares as well as meeting international standards in safety and audit compliance. Significant improvements in service times and inventory accuracy have been recorded since the completion of this initiative. The warehouse also successfully passed the European Aviation Safety Agency audit soon after the refurbishment.

Review of Spares and materials Master data was completed in June 2012 and focused refining of spares interchangeability data as well as replenishment levels. This was jointly carried out by the engineering and planning sections. This effort was aimed at improving accuracy of the materials status for the purpose of usage and replenishment.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

**K**enya Airways' long term vision is to contribute to the sustainable development of the African continent. This is achieved through sustainable programs that assist the common mwananchi to participate actively in society. Giving back to society through education, providing water, environmental safety and health are among the key projects that Kenya Airways embarked on during the financial year 2012/13.

We have a detailed Environmental Policy that guides the company's operations and are also developing a new Environmental Management System Manual (called the Environmental Management Manual Version 1, abbrev. EMM) that is in line with the requirements of ISO 14001, EMAS (EU Eco-Management Audit Scheme) and BS8555 (British Standards). The Manual documents environmental impact assessment, improvements and involvement in conservation initiatives. The EMM will also provide for mechanisms for implementation, monitoring and evaluation of our environmental management processes.

We have put in place initiatives to enable us manage better our energy consumption. An energy audit has been conducted and recommendations of the audit are being implemented in a phased approach. Our Environmental Policy calls for a reduction and /or prevention of the company's environmental impacts and monitoring of the performance of such environmental programs. Biodiversity conservation falls in this category. A new chapter on biodiversity will be included in the EMM. A procedure on Waste Management will be included in the EMM which will also prohibit the purchase of equipment with Ozone Depleting Substances that are not allowed under the EMM.

We are also implementing efforts to reduce the environmental impacts of products /services as documented in the Environmental Policy. A paperless office is encouraged through duplex printing and emphasis on e-mail communications where possible. The EMM also has a chapter on environmental friendly purchasing. Company owned motorized vehicle/equipment undergo a preventive maintenance regime to reduce CO2 emissions. Kenya Airways is also providing a platform where passengers can help offset Carbon Emissions related to their travel.

The purpose of all the CSR activities is to create positive change in society and support improvement in the lives

of individuals and the environment in which the company operates. The key highlights and achievements during the period under review included investment in communities through various projects aimed at enriching and empowering people through basic education, health and poverty reduction. In this regard, the company injected Kshs. 45m in various projects.

In support of education the company completed the construction of various facilities as follows:

- Computer lab in Songeni Secondary School in Makueni County;
  - Primary School in Ongora in Kisumu County;
  - Girls' dormitory in Lemek in Maasai mara, dining hall and bio gas project in Maasai Mara using funds raised from the Maasai Mara Marathon, and
  - Esageri dormitory in Baringo for the special needs children.
- Environmental conservation and water projects undertaken during the period under review included:
- Donation of seedlings to Eco-plant for environmental conservation for Ngong Forest;
  - Completion of the Gaigedi water project in Vihiga;
  - Completion of the Samburu-Lesidai water project in Turkana, and
  - Anti-poaching campaign partnership with Born Free foundation together with the Kenya Wildlife Service.

As a result of Kenya Airways contribution to the various education projects by providing either cash contributions and/or materials, significant milestones have been achieved including, an increase in the number of children enrolling in the relevant schools, reduction in the number of school drop outs and noticeable improvement in the students' performance in national exams.

Improvement in performance was also attributed to the availability of better school facilities which included computer labs and decent dormitories which facilities greatly assisted in the provision of a more conducive learning environment for the students.

**Dr. Titus Naikuni**



**Group Managing Director & CEO**



1



2



3



4

### 1. ENVIRONMENT

Virginia McKenna - Founder and Trustee of Born Free Foundation signs the partnership agreement with Kenya Airways during the function at Nairobi National park.

### 3. WATER

Former Deputy Prime Minister Hon. Musalia Mudavadi tastes the water from a well that was constructed by Kenya Airways at Gaigedi - Vihiga County.

### 2. EDUCATION

Group Finance Director, Alex Mbugua breaks the ground to officially start the construction of a dormitory at Esageri school for the deaf.

### 4. EDUCATION

Dr. Titus Naikuni donates exercise books to Namunyak Primary school, Narok County.

Mwaka wa matumizi ya fedha wa 2012/2013 kwa hakika ulikuwa mwaka wa changamoto nyingi. Shirika la Ndege la Kenya bila shaka lilikumbwa na mazingira ya kazi yaliyojaa matatizo mengi. Licha ya matatizo haya, tungali tumejitolea kuimarisha biashara kwa kutekeleza mikakati kadha wa kadha inayolengwa kuleka faid. Kutokana na bei za juu za mafuta, tatizo la migogoro ya eneo la bara Uropa, uchumi wa ulimwengu usio thabiti, soko lisiloaminika na changamoto nyingine zinazoendelea kuathiri sekta ya ndege, Shirika la Ndege litaendelea kuwa na mtazamo thabiti wa kudhibiti gharama ili kuendelea kutoa huduma bora. Kampuni inayomikakati ya kupunguza gharama katika shughuli zake zote za biashara kupitia kuimarisha shughuli za kazi bila kuathiri huduma zetu bora kwa wateja wetu. Tunatarajia kuendelea kuwahudumia wateja wetu tunaowathamini pamoja na kushughulikia mahitaji yao yanayobadilika mara kwa mara.

#### MAELEZO YA KIBIASHARA

Katika mwaka wa fedha wa 2012/2013, Shirika la Ndege la Kenya lilisafirisha kiasi cha wasafiri milioni 3.664 ikilinganishwa na wasafiri milioni 3.644 mwaka uliopita. Mapato kutoka kwa wasafiri yalikuwa Dola za Marekani milioni 1,000.9 ikilinganishwa na Dola za Marekani milioni 1,074.2 mwaka uliopita, ikiwa ni kiwango kilichoshuka cha 7% ikilinganishwa na mwaka uliopita.

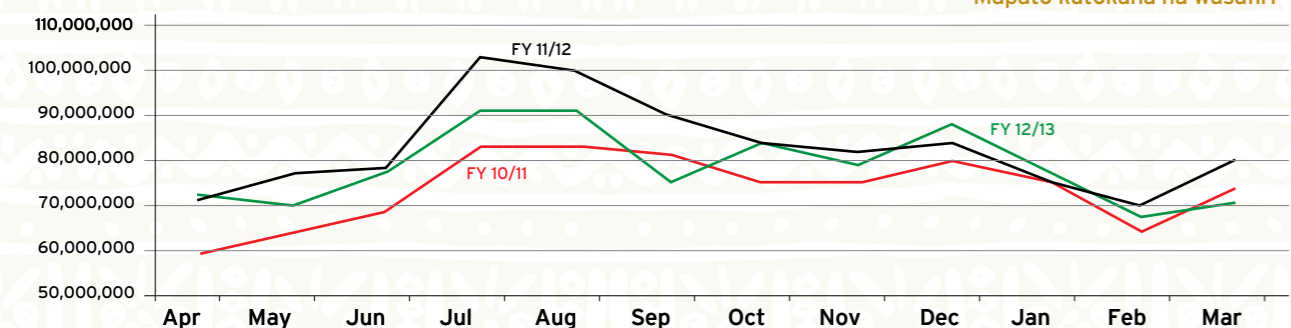
Kushuka huku kwa mapato mwaka uliotangulia kulitokana na mambo kadha wa kadha katika sekta na soko letu hapa nchini. Baadhi ya mambo haya yakiwani tatizo la migogoro iliyopo katika eneo la bara Uropa likifuatiwa na tishio la Al-Shabbab baada ya serikali kuingilia kati kwa kupeleka vikosi vya usalama huko Somalia. Hili lilisababisha watalii kutoka soko za yanayoleta watalii wengi kutahadharishwa wasitembelee nchini Kenya. Nao Uchaguzi Mkuu nchini ukasambaratisha soko letu humu nchini.

Mkakati wa kampuni ukawa wa kupunguza gharama za utenda kazi kwa kusimamisha baadhi ya njia za safari zisizoleta faida, na kwa ajili hii, tulisimamisha njia ya safari za kwenda Roma tarehe 11 Mei, 2012, tukasimamisha safari za Muscat tarehe 12, Juni 2012, Zanzibar, Juni 6, 2012, Jeddah na Ndjamena tarehe 24, Novemba 2012.

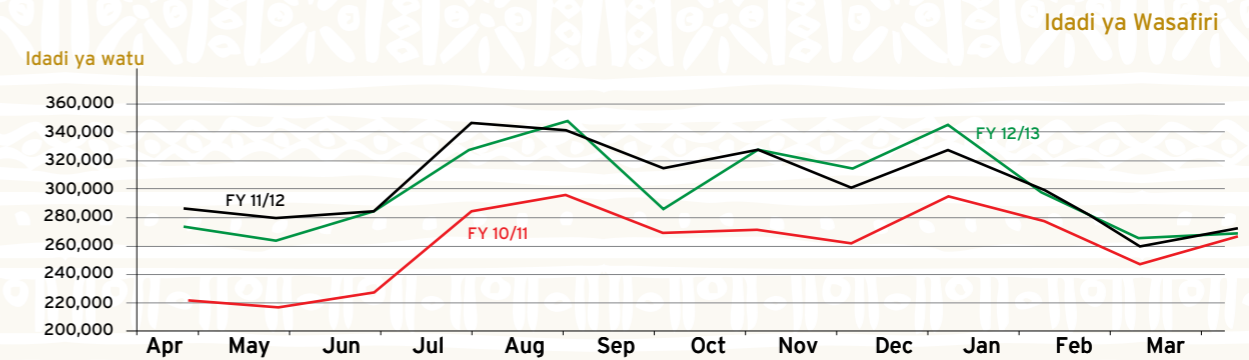
Njia mpya za Safari zilizoanzishwa mnamo mwaka huu wa fedha ni pamoja na; DEL, tarehe 15, Mei 2012 safari tatu (3) kwa juma, JRO, Tarehe 2, Julai 2012, safari sita (6) kwa juma na ELD tarehe 17, Oktoba, safari za mara kumi (10) kwa juma.

AOS	MAPATO KATIKA DOLA ZA MAREKANI			KWA MTU MMOJA		
	FY 2011/12	FY 2012/13	Var. %	FY 2011/12	FY 2012/13	Var. %
Kenya	193,428	209,808	8.5%	1,138,399	1,184,383	4.0%
Eneo La Afrika Mashariki Na Kaskazini	100,763	95,954	(4.8%)	482,136	474,467	(1.6%)
Eneo La Afrika Kusini	124,034	115,353	(7.0%)	402,091	378,973	(5.7%)
Afrika Magharibi Na Kati	134,570	129,988	(3.4%)	426,464	420,524	(1.4%)
Mashariki Ya Kati Na Pakistan	27,477	25,683	(6.5%)	117,035	110,000	(6.0%)
Bara Hindi Na Asia Kwa Jumla	35,642	41,572	16.6%	150,611	187,844	24.7%
Mashariki Ya Mbali Na Asia	66,211	74,173	12.0%	188,803	232,427	23.1%
Uropa Na Marekani	279,051	238,060	(14.7%)	825,460	729,533	(11.6%)
<b>Kiasi Kwa Jumla</b>	<b>961,176</b>	<b>930,591</b>	<b>(3.2%)</b>	<b>3,730,999</b>	<b>3,718,151</b>	<b>(0.3%)</b>

Mapato kutoka kutokana na Wasafiri (Dola za Marekani Milioni)



Mapato kutokana na wasafiri



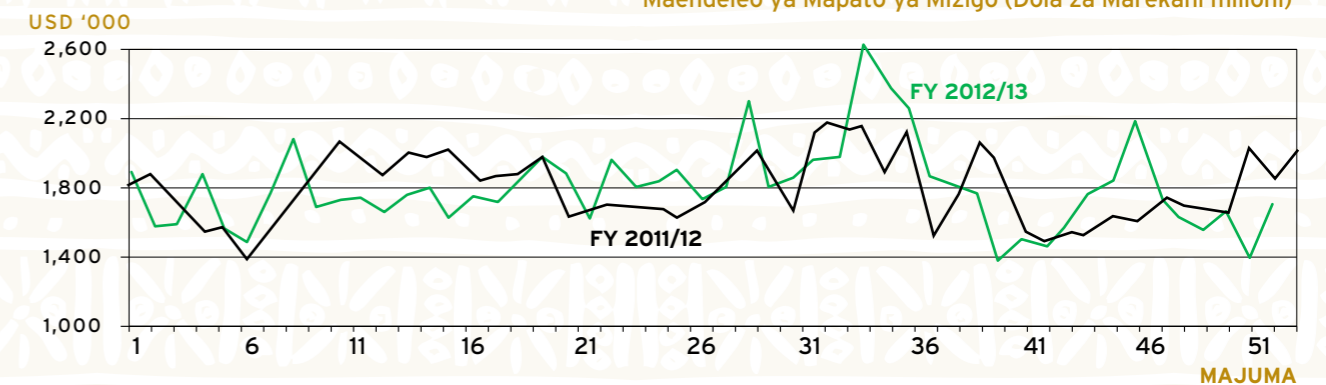
#### MIZIGO NA BARUA

Mapato ya mauzo kutokana na kubeba mizigo yalifikia kiwango cha Ksh 8.1 bilioni. Mizigo ya kuharibika upesi ndiyo iliyokuwa biashara nzuri ijapokuwa bei zilishuka wakati wa majira ya joto kutokana na washindani wetu kuongeza nafasi za mizigo.

Kiwango cha Usafirishaji wa Barua na vifurushi kilikua kwa kati ya 1% hadi 12% ya kiwango chote cha mizigo ikifanikishwa sana kwa kuwepo vifurushi vingi. Usafirishaji wa barua ulipungua kwa kiasi kikubwa 3% ikilinganishwa na mwaka uliopita kutokana na masharti yaliyopo miongoni mwa ndege zinazopitia Hong Kong. Tatizo hili limesuluhishwa na bidhaa hii inatarajiwa kuimarika mwaka ujao wa fedha.

Mapato kutokana na kuhifadhi mizigo yaliongezeka kwa asilimia 7.5% katika mwaka unaozungumziwa kutokana na mahitaji yauagizaji vitu nchini na utendakazi ulioimarika.

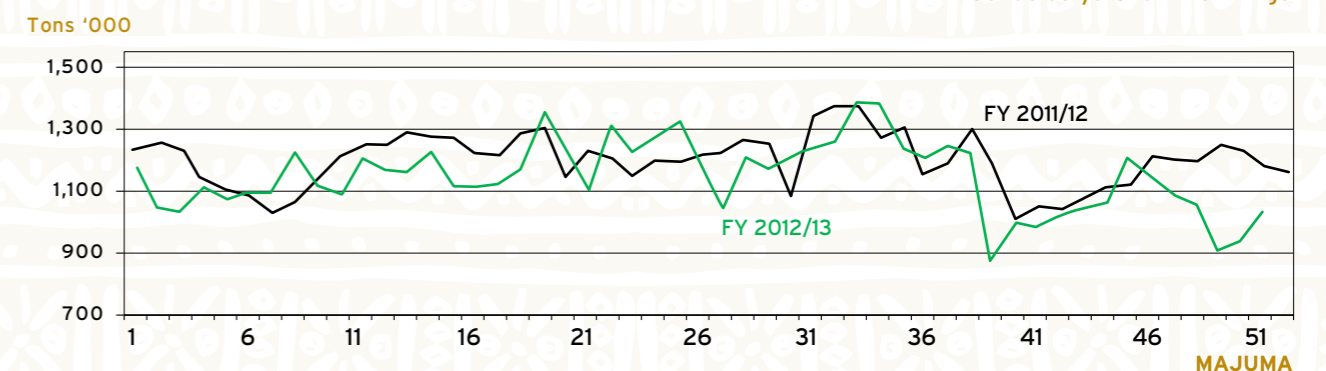
Maendeleo ya Mapato ya Mizigo (Dola za Marekani milioni)



#### Uzani wa mizigo

Nafasi za Mizigo inayopimwa kwa Tani Moja kwa Kilomita Moja (ATK) kwa kiwango kikubwa zilibakia zile za viwango vya mwaka jana kulingana na mabadiliko ya nafasi yaliyotekelezwa ya biashara ya wasafiri ili kuweza kushughulikia changamoto za kibiashara na kuzifanya zifikie uzani wa tani 62,000.

Maendeleo ya Uzani wa Mizigo



**Safari Freighter**

Kipengee cha Safari Freighter kilifikia 62% ikiwakilisha Mapato ya Tani kwa Kilomita ya 63,157 ('000) dhidi ya nafasi zilizokuwepo za 102,206 kwa Tani kwa Kilomita. (ATK'000). Nafasi zotekwa jumla zilipungua kutoka mwezi Mei 2012 kwa sababu ya kupungua kwa mahitaji katika njia ya Amsterdam hadi Guangzhou.

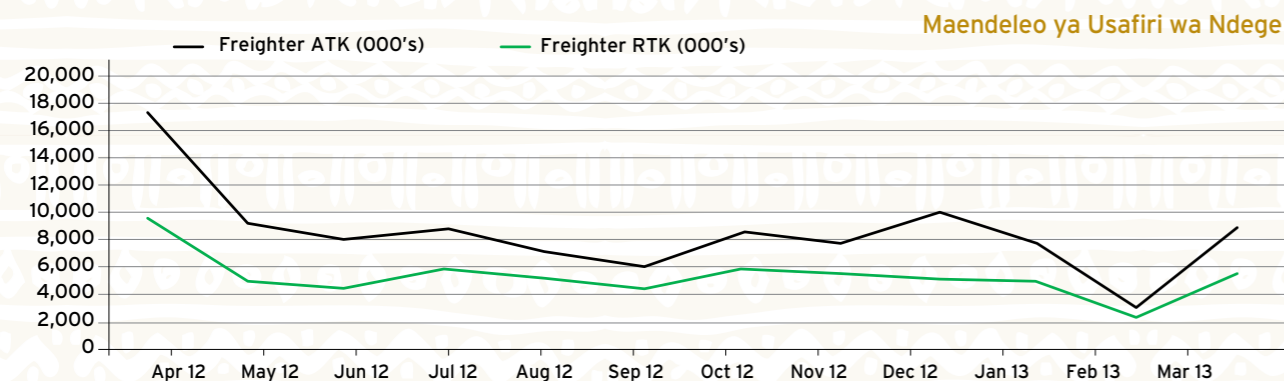
Kipengee cha Safari Freighter ni ushirika kati ya Shirika la Ndege la Kenya, KLM na Martinair Cargo ikitegemea nafasi zilizopo kuhusu na jinsi ilivyopangwa njia tatu, kuunganisha Amsterdam hadi Lagos, Nairobi na kurudi Amsterdam.

Hii ni bidhaa iliyoletaudhabiti na kujenga Shirika la Ndege la Kenya katika soko la safari za mizigo kwenye njia ya Guangzhou na Lagos.

**Ndege za B737F**

Mbadiliko ya kwanza ya Ndege ya B737-300 yalimalizika na ndege ikaletwa Nairobi mwishoni mwa mwezi Machi, 2013. Kampuni ya utengenezaji ndege ya aina ya Boeing Shanghai ikishirikiana na AEI ilibadilisha ndege ya B737-300, yenye number 5Y-KQC, iliyoanza huduma zake Aprili 2013. Ndege hii inamilikiwa na Shirika la Ndege la Kenya. Tunatarajia kuimarika kwa uchukuzi wa mizogokutokana na kuanzishwa kwa huduma nyingine ya ndege ya B737-300 inayotarajiwa kufungua masoko mengine.

Njia zinazonuiwa kujumuishwa ni Dar-es-Salaam, Entebbe, Kinshasa, Kigali, Juba, Mwanza, na Douala, miongoni mwa njia nyingine.

**Mauzo kupitia mtandao**

Mauzo kupitia mtandao yamezidi kuimarika mno kutokana na mikakati kabambe iliyoanzishwa na kampuni ili kuongeza mauzo kupitia njia hii. Haya yanajumuisha mathalan, sura mpya ya Tovuti inayovutia na mpango mpya wa ukataji tiketukupitia tovuti. Kufikia mwaka wafedha wa 2012/2013, jumla ya Dola za Marekani 34.8 milioni za mauzo ya tiketi zilipitia njia hii, ikilinganishwa na Dola za Marekani 28.8 milioni za mwaka uliotangulia. Hali hii inaonyesha kuimarika kwa kiwango cha 21%.

Mauzo ya kupitia mtandao ni muhimu Kenya, Ulaya na Mashariki ya Kati kwa sababu ya kusambaa kwa mtandao katika masoko haya. Mawakala waliendelea kuuza tiketi kupitia njia ya mtandao ambapo zaidi ya 80% ya mauzo yalifanyika kupitia hii.

AOS	CHANNEL SHARE			
	GSA	BSP AGENTS	DIRECT OFFICE	ONLINE SALES
Kenya	0%	67%	27%	6%
Eneo La Afrika Mashariki Na Kaskazini	31%	38%	30%	1%
Eneo La Afrika Kusini	15%	64%	19%	2%
Afrika Magharibi Na Kati	35%	40%	25%	0%
Mashariki Ya Kati Na Pakistan	34%	61%	1%	4%
Bara Hindi Na Asia Kwa Jumla	3%	94%	2%	1%
Mashariki Ya Mbali Na Asia	26%	70%	3%	1%
Uropa Na Marekani	11%	79%	4%	6%
<b>Kiasi Kwa Jumla</b>	<b>18%</b>	<b>61%</b>	<b>18%</b>	<b>3%</b>

**Kitovu cha Mawasiliano**

Kitovu cha simu cha 24/7 kilizidi kupanua mawandayake na kuendelea kutoa huduma kwa wateja ili kukidhi matakwayao mbalimbali. Mfumo wa Kurekodi Sauti ulioanzishwa katika Kitovu cha Mawasiliano umewezesha kufuatilia matukio papo kwa papo (QM) pamojana kunasa mazungumzo yote yanayohusu mahusiano na wateja. Juhudi zote hizi zimelenga kuboresha shabaha yetu ya kutoahuduma borana ya kustahili ipasavyo kwa mteja wetu.

Njia hii inayofaa ya mawasiliano na wateja wetu imeimarishamauzo ya tiketi kama inavyoshuhudiwa sambamba na kuimarikakwa mapato ya simu kutoka mwaka uliotangulia. Kipindi chamwaka wa fedha cha 2012/2013 kilikuwa na jumla ya shilingi milioni 480 za Kenya za mauzo ya tiketi ikilinganishwana shilingi milioni 262 katika kipindi ama hiki, mwaka uliopita. Hali hii inaonyesha wazi kukua kwa kiwango cha 83%.

Ukuaji huu wa hali ya juu umepatikana kwa sababu uthabiti na utendakazi bora ambao haukuboresha biasharatu bali pia umeleta biashara mpya kutokana na urahisi wa kufanya kazi, na tajriba za wateja.

**SOKO**

Kwa muda wa kipindi kinachozungumziwa, na kwa mara ya kwanza, kapuni iliajiri Meneja wa soko ambaye jukumu lake kubwa ni kusaidia mikakati ya mauzo maalum masokoni. Soko za wasafiri na mizigo, uaminifu na tajriba ya wateja, uzinduzi wa bidhaa mbalimbali mpya na kutatua matatizo ya wateja, mapato madogo, na mawasiliano ya nembo kwa Shirika la Ndege la Kenya kama jina linaloongoza ulimwenguni.

Ili kuimarisha mikakati ya ndani ya masokona kuboresha nembo ya ahadi ya Shirika la Ndege la Kenya na maadili ya wafanyakazi, idara ya masoko ilianzisha mpango wa Balozi wa Nembo tarehe 21, Desemba 2012. Ari hii ilinuiwa kuhimiza wafanyakazi wote kuelewa na kupata msukumo mpya na thabiti wa nembo ilikuimarisha msada wao wa kuleta faida kwenye kampuni kupitia kuongeza mauzo ya tiketi.

Kutokana na haya, kampuni ilishuhudia Kitovu chake cha mawasiliano kikiongeza maradufu mauzo yake ikilinganishwa na wafanyakazi wa afisi zisizokuwa za mauzo wanaolipya asilimia Fulani ya faida ya mauzo kutokana na tiketi wanazouza. Kufikia sasa, mpango huu umeleta faida ya zaidi ya Kshs 35 milioni zinazotoka katika soko ambalo kusema kweli, hatungeweza kulifikia. Inatarajiwa kwamba mpango huu utazalisha maoni mengine bunifu yatakayoongeza sifa na kujulikana kwa nembo ya kampunina kuifanya iaminike zaidi.

Mpango huu ulipokelewa vizuri na wafanyakazi wa kampuni waliokuwa na ari ya kuongeza juhudi za kuiuza nembo kwa wateja wapya na kuendelea kuwajua wateja kuhusu "Pride of Africa" kote ulimwenguni huku wakiendelea kusaidia mauzo katika mfumo wote wa usafiri kutoka Kenya. Katika miezi ya Januari, Februari na Machi 2012, wafanyakazi

wasiokuwa wa idara ya mauzo bali wa Mpango wa Balozi wa Nembo, waliuza zaidi ya tiketi 1000 kwa wateja wapya. Wafanya kazi wote wengine katika Kitovu cha Mawasiliano wanaunga mkono mpango wa Balozi wa Nembo kwa mauzo, na usaidizi maalum tayari umeanzishwa katika baadhi ya mifumo ya njia za usafiri ili kuimarisha mauzo na soko za biashara.

Wakati wa kusherehekea miaka 36 ya Shirika la Ndege la Kenya, kampuni ilizindua ari ya mauzo katika soko za nje iliyokuwa na zawadi 36 kwa wasafiri wote wanaosafiri nje ya Kenya. Jambo hili lililungwa mkono sana, na likaliweka shirika vizuri katika soko, mbali na kuimarisha mauzo kutoka Kenya na mfumo wote wa safari zake.

Kundi letu la masokobado linaendelea kuuza nembo yetu, mbali na kuendelea biashara ya mizigo na vifurushi, siku za mapumziko za KQ, pamoja na safari za kibiashara katika mfumo mzima. Kuonekana kwa nembo kumeendelezwa vizuri ili kuvuta na kusukuma shughuli za soko zakiwa yamelengwa kuuza idadi ya wateja na faida kulingana na utafiti uliofanywa.

Shirika la Ndege la Kenya ni Nembo ya Kilimwengu na timu inayoshughulikia masoko itaendelea kuunga mkono upanuzi wa biashara, na kutekeleza matarajio ya Mpango wa Miaka Kumi (10) wa Project Mawingu kulingana na jinsi ndege mpya zinavyoleta.

Ili kuboresha tajriba ya wateja, timu inaposhughulikia masokokwa sasa inashirikiana na makundi mengine yote ili kuimarisha kiwango cha kimataifa cha Skytrax na vile vile, huduma kwa wateja ulimwenguni.

Mipango ya Mikakati ya Masoko na mawasiliano, fadhili pamoja na ushirikiano wa kimataifa na ushirikiano, masoko na huduma za ndege za mizigo, pamoja na muda wa likizo zote zimeshapangwa, na inatarajiwa kwamba mwaka ujao wa matumizi ya fedha utashuhudia shughuli mpya na kukua kwa nembo ya shirika kote maeneo yetu.

**Ufadhili**

Shirika la Ndege la Kenya liliendelea kufadhili shughuli mbalimbali katika sekta zakana katika nchi kwa ujumla. Miongoni mwa ufadhili huo katika mwaka wa fedha wa 2012/2013 ni kwa Timu ya Raga, Mbizo za Maasai Mara na Timu ya Sevens ya Raga ya chini ya miaka 13.

**Timu ya Kenya ya Raga ya Sevens**

Timu ya Kenya ya Raga ya Sevens ilishiriki katika michuano ya kimataifa ya msururu wa IRB katika HSBC. Mchuano wa kwanza ulifanyika New Zealand na Australia na wa mwisho ulifanyika mjini London, tarehe 12 na 13, Mei 2013. Shirika la Ndege la Kenya limeifanya timu hiyokuimarika na kufikia kiwango cha juu.

Mbali na timu hii ya Raga kuwa kama mjumbe wa Kenya kwa

kuipa sifa maridhawa nchi yetu, timu pia iliweza kuwavutia mashabikizaidi ya 300,000 uwanjani pamoja na watazamaji kwenye runinga kwa zaidi ya saa 2000 katika maeneo ya mtandao wa shirika wakati wa michuano ya IRB. Shirika vilevile lilijitambulishakote kama mdhamini wa timu hiyo ya raga. Isitoshe, udhamini huu umelitambulisha shirika kimataifa hata katika nchi ambazov hatujawahi kushirikiana kibiashara.

#### Mbio za Maasai Mara

Shirika la Ndege la Kenya lilifadhili mbio kadha zilizoniwa kuimarisha utalii wa michezo na kuitambulisha Kenya kama kituo cha utalii. Kati ya mbio zingine zilizofadhiliwa ni mbio za Maasai Mara zilizofanyika tarehe 22, Septemba 2012.

#### Timu ya Raga ya Sevens ya chini ya miaka 13

Shirika la Ndege la Kenya lilifadhili Timu ya Raga ya Sevens ya Independent Association of Prep School ili kushiriki katika mashindano ya 2013 ya Rosslyn Park Prep School, mjini London.

Ikiwa ni njia moja wapo ya kujitolea kwetu kuzungumzia maendeleo ya Raga kama mchezo, ufadhili wa shirika wa kutoa tikiti za ndege za kiwango cha shilingi milioni moja, ulisaidia timu kusafiri hadi Ulaya kushiriki katika mchezo wa kiwango cha juu wa Raga kwa watoto wa shule.

#### WAFANYAKAZI

Kufikia tarehe 31 Machi, 2013, Wafanyakazi walioajiriwa wa Shirika la Ndege la Kenya walikuwa 4003, ilhali wengine 234 waliletwa kutoka kwingineko ili kuhudumu katika sehemu za urushaji ndege na huduma za ardhini. Huku ni kupungua kwa 17% ya idadi ya wafanyakazi wa kudumu. Ili kupunguza gharama za wafanyakazi, kampuni ilipunguza wafanyakazi mnamo Septemba, 2012 na wafanyakazi 599 waliacha kazi. Hatua ya kutumia wafanyakazi wa kutoka nje pia ilianza kutekelezwa.

#### Usimamizi wa Talanta

Kwa mujibu wa talanta zetu, katika kipindi hiki kinachorejelewa, mtazamo wetu hasa ulikuwa kubadilisha shughuli za sehemu muhimu za shirika, pamoja na kuwa na idadi ndogo ya wafanyakazi, huku tukimudu kufikia malengo ya shirika. Wanyakazi wa zamani na wale wapya walifanyiwa ukaguzi wa kiutamuli ili kuhakikisha kwamba kila mfanyakazi aliweza kuweka katika sehemu ya kazi anayoimudu na kupewa mafunzo kulingana na kazi hiyo.

Mipango ya urithi pia ilipangwa ili kutambua mahitaji ya mafunzo maalum ya wale wanaoweza kuchukua nafasi za wale walio madarakani. La muhimu pia lilikuwa kuendeleza mipango ya kujenga uwezo wa wafanyakazi utakaosukuma utoaji thabiti wa mafunzo yatakayomarisha ujuzi wa kiufundi na wa kiuongozi katika biashara yetu.

Wakati huo huo, tuliendelea kuboresha Mifumo ya Rasilimali

ya Wafanyakazi kupitia kutoa mafunzo kulingana na mahitaji ya wateja ili kushughulikia mahitaji ya kibiashara yanayobadilika mara kwa mara. Tulumia mwongozo wa vigezo vya Kusimamia Watu na Maendeleo ya Mashirika ya Ndege ili kutekeleza mabadiliko haya. Mabadiliko yalifanywa katika sehemu za uajiri, likizo, usimamizi wa utendakazi na katika na katika kitengo muhimu cha Rasilimali ya Wafanyakazi kwa jumla. Hili lithakikisha kwamba Idara ya Wafanyakazi inashughulikia vilivyo mahitaji ya kibiashara ya kila siku na kuridhia wateja kutoa huduma bora zaidi.

#### Mafunzo na Maendeleo

Katika mwaka wa fedha wa 2012/2013, kundi liliendeleza msaada wa kujenga uwezo wa usimamizi pamoja na utekelezaji wa mipango iliyoimarika tayari.

#### Mafunzo katika Kampuni

Utekelezaji wa mipango iliyopo ya kujenga uwezo wa usimamizi uliimarika zaidi katika mwaka wa 2012/2013. Miradi hii ilijumuisha nyanja zifuatazo: Uwezo wa Utekelezaji wa kibinafsi ambapo jumla ya wafanyakazi 329 walipewa mafunzo, Mpango wa Kujifunza kwa ajili ya kuongoza uliokuwa na wafanyakazi 81 na Usimamizi wa Biashara iliokuwa na wafanyakazi 15 waliopewa mafunzo. Miradi hiyo ilipokamilika, wafanyakazi walipata mafunzo ya ziada ya ujuzi mahsus kama vile: Ujuzi wa kuwasilisha (33), Usimamizi wa Fedha kwa viongozi wasiosimami fedha (88), na Kudhibiti Shinikizo za Kifikra (229).

Mnamo Februari, wafanyakazi wetu walianzisha warsha zilizoniwa wafanyakazi wote, na kufikia mwisho wa mwaka, wafanyakazi 2,486 walikuwa wamehudhuria. Lengo la warsha hizi lilikuwa ni kuwahimiza wafanyakazi wote waongeze juhudi kazini. Warsha hizi zinatarajiwa kufanywa katika matawi yote mwaka ujao wa fedha.

#### Mfumo wa Uongozi na Usimamizi

Ili kuimarisha zaidi uongozi uliopo, mipango mitatu muhimu ilianzishwa mwaka huu wa 2012/2013. Hii inajumuisha:

- Mafunzo ya viongozi wa kiwango cha juu (Wafanyakazi 24 walipokea mafunzo) - ulilenga kuwaandaa wafanyakazi kurithi nyadhifa za Wakurugenzi.
- Uzoefu na Ufuasi (Wafanyakazi 111 walipokea mafunzo)- ulilenga wafanyakazi walio uongozini na walio na majukumu ya kuwapa uzoefu na kuwafunza wafanyakazi wengine miongoni mwao.
- Maslaha ya Wateja (Wafanyakazi 175 walipokea mafunzo) - Hii ilikuwa awamu ya pili iliyolenga wafanyakazi wa huduma za Ardhini.

#### Mafunzo ya Operesheni ya Kuruka

Tulitoa mafunzo ya muda mfupi kwa Maafisa wa Operesheni wa Kurusha ndege katika shirika, na mafunzo ya 'Embraer

Extended Operations' mjini Nairobi. Hali hii ilisaidia kupunguza gharama za bajeti ya kutoa mafunzo.

Kufikia mwishoni mwa mwezi Machi, marubani 124 wakijumuisha makadeti 24, walikuwa wamepokea mafunzo ya kubadilisha ndege katika kituo cha "Pride Centre" na vituo vingine. Marubani wa mpango wa Kuingia Moja kwa Moja wa Marubani wetu, pamoja na Wasaidizi wa Marubani walipokea mafunzo ya kubadilisha ndege za aina mbalimbali za Shirika la Ndege la Kenya.

#### Mafunzo ya Kiufundi

Katika kipindi cha mwaka wa fedha wa 2012/2013 Taasisi ya Kiufundi iliandaa mafunzo yaliyolenga kupata wahudumu waliohitimu na wanaoweza kutunza ndege.

Kwa sababu ya kuongezeka kwa idadi ya ndege, mafunzo mbalimbali yalitolewa ili kuhakikisha kwamba shirika lina wahandisi wa kutosha na wanaoweza kumudu majukumu haya maalum. Mafunzo haya yalikuwa juu ya kungurumisha mitambo ya ndege, safari za ndege miongoni mwa mafunzo mengine maalum ya kuhudumia ndege za aina ya E190/170.

Mwaka huo ulikuwa na mafunzo ya wafanyakazi wanagenzi pamoja na wafanyakazi wanaohudumu ili kuhakikisha kuwa wanaenda sambamba na wakati.

Jambo muhimu la kutaja katika kipindi hicho cha mwaka wa fedha ni kurudishwa kwa mradi wa watu kujifunza kazi huku wakiwa katika ajira. Kutokana na mradi huu, mahafali 19 wa Shahada ya Diploma walijiunga na kampuni mnamo Novemba 2012. Kufikia sasa, wanapewa mafunzo katika kituo cha Mafunzo cha Uhandisi cha NYS. Mafunzo haya ni baadhi ya yale wanayopaswa kupokea katika kipindi cha miaka miwili (2) kabla ya kujiunga rasmi na Idara ya Ufundi ya Shirika.

#### Mafunzo ya Kibiashara

Kuboresha uhusiano wa kibiashara kati ya Kampuni na vyama vya wafanyakazi kulipewa kipaumbele ijapokuwa kulikuwa na matatizo mengi mwaka huu, huku kukiwa na mikutano ya mara kwa mara kati ya Uongozi wa Shirika na vyama vya wafanyakazi ili kuvijua kuhusu jinsi biashara ilivyokuwa ikiendelea. Vyama hivi husika ni kama vile Chama cha Marubani wa Kenya (KALPA), Wahudumu wa Ndege na Washirika wao (AASWU-AASWU) na Umoja wa Kitaifa wa Usafiri Angani (NUATE) cha Nigeria.

#### KALPA

Tulijadiliana na Viongozi wa Muungano kupitia mikutano ya kila baada ya miezi minne iliyopangwa kati ya Mkurugenzi Mkuu wa Kundi na KALPA, na kamati ya kupandisha vyeo, na katika mikutano mingine iliyoitishwa na punde ilipohitajika. Kampuni ilifanya vikao vingi kujadili pendekezo la kuwaajiri Makapteni wa Kutoka nje kwa mkataba wa kandarasi za muda mfupi ambalo baadaye lilikubalika. Kampuni inaniua

kuwapandisha vyeo marubani wote wenye tajriba ya kuwafanya Makapteni nje na hapa nchini. Kampuni pia imeshatangaza katika nchi za nje nafasi za kazi za marubani ambazo hazitajazwa na marubani wa hapa nchini. Mpango wa kuajiri Wakenya umeandaliwa kuhakikisha kuwa kuajiriwa kwa marubani wa nchi za nje hakutaathiri uimarikaji na udhibiti wa marubani wa humu nchini.

#### AASWU

Kutokana na mpango wa kupunguzwa kwa wafanyakazi katikati mwa mwaka jana, AASWU ilishtaki kampuni. Kutoka wakati huo, kumekuwa na maingiliano machache sana kati ya Usimamizi wa Shirika na Muungano wa kuzungumzia maswala ya maendeleo ya biashara kama inavyotarajiwa. Hali hii ilikithiri zaidi kutokana na mabishano ndani ya muungano yaliyoathiri pakubwa mawasiliano.

#### Umoja wa Kitaifa wa Safari za Angani (NUATE)

Kampuni ilianzisha mazungumzo ya makubaliano na Muungano wa NUATE na kati yao walitia sahihi makubaliano ya mishahara ya miaka miwili.

#### Muungano wa Jumla wa Wafanyakazi wa Usafiri (ATGWU) - Uganda

Kampuni imeombwa itambue muungano huu. Uganda ina wafanyakazi 19 wanaofanya kazi katika majukumu yanayotambuliwa na miungano (H1-H9). Kampuni ingali inashughulikia jambo hili.

#### MIFUMO YA HABARI (IS)

Katika kipindi cha mwaka wa fedha wa 2012/13, mifumo kadha ya mawasiliano ya kibiashara iliimarishwa. Kampuni iliendelea kuwekeza katika miundomsingi ya Habari na Mawasiliano ili kuimarisha mfumo wake wa mawasiliano, hasa katika Uwanja wa Ndege wa Jomo Kenyatta na matawi yake.

#### Mikondo ya Huduma kwa Wateja

Kampuni ilibadilisha tovuti yake na kuipa sura mpya. Pia huduma mpya inayowawezesha wateja kupata habari za ndege wanazosafiria imeanzishwa. Shirika la Ndege la Kenya pia limeanza kuwasiliana na wateja wake katika mitandao ya kijamii, inayojumuisha Facebook na Twitter. Njia hizi za mawasiliano zitaendelea kuimarishwa mwaka ujao wa fedha. Shirika la Ndege la Kenya limeanzisha huduma ya kujiandikisha kupitia simu za mkononi katika safari zake nchini kufikia mwishoni mwa mwaka huu wa fedha na inatarajia kuanzisha huduma hii katika njia zake nyingine kufikia mwaka ujao wa fedha.

#### Huduma ya Kujiandikisha Kibinafsi ya JKIA

Katika mwaka unaozungumziwa, Halmashauri ya Viwanja vya Ndege ilishirikiana na mashirika ya ndege na wafanyakazi wa ardhini kuanzisha mipango ya Mfumo wa Pamoja wa Habari na Mawasiliano (CUSS) katika kiwanja cha ndege cha JKIA. Mipango hii ilitathminiwa na kamati ya kiufundi ya Habari na Mawasiliano ya mashirika ya ndege na wafanyakazi wa



ardhini. Mradi huu ulisimamiwa na Shrika la Ndege la Kenya. Mpango mpya kutoka ARINC ulichaguliwa na kutekelezwa na kuanza kutumika katika vituo vya kujiandikisha mnamo Agosti 2012. Mradi huu pia ulijumuisha Vituo vya Mfumo wa Pamoja wa Habari na Mawasiliano (CUSS) wa wateja kuweza kujiandisha wenyewe katika vituo vyote vya JKIA, na hivyo kuwaondolea usumbufu.

#### Mfumo mpya wa Uthibiti wa Kuondoka

Kubadilisha Mfumo wetu wa Uthibiti wa Kuondoka (DCS) kutoka CODECO ya KLM hadi Amadeus' Altea DCS kuliendelea mwaka jana yote. 90% ya vituo vya Shirika la Ndege la Kenya sasa vimeunganishwa na Altea DCS ila sita tu ya vituo vyake ndivyo vinavyosubiri kuunganishwa kufikia mwisho wa mwaka wa fedha ujao.

#### Uadilifu wa Mapato

Kampuni iliendelea kupunguza visa vya kukosea wasafiri wakati wa kuwaandikisha. Visa hivi vinajuisha kujiandikisha zaidi ya mara moja, kutumia majina badia, kubadilisha majina, mipango ya safari zisizokamilika, kukatiza safari, kukosea wasafiri, na kukosekana kwa ubora wa kuangalia tiketi. Mfumo Mpya wa Uadilifu wa Mapato uliwekwa ili kupunguza visa hivi.

Hati Mchanganyiko za Kielektroniki (EMD) na Huduma Saidizi za Shirika (AAS) Mashirika yote ya ndege yanatakiwa kufuata maelekezo yaliyotolewa katika Hati Mchanganyiko za Kielektroniki (EMD) ambazo ni kigezo cha IATA cha sekta ya ndege kufikia mwisho wa Desemba 2013. Ari hii imenuiwa kumaliza utumiaji wa hati za makaratasi kama vile Masharti ya Malipo ya Jumla (MCOs), Nauli za Mizigo iliyozidi (EBTs) ambayo ni njia ya malipo ya ziada ya huduma kwa wateja ili kutumia Hati Mchanganyiko za Kielektroniki (EMD). Vilevile, hati Mchanganyiko za Kielektroniki (EMD) zinaweza kusaidia huduma nyingine (kama vile nafasi ya kuweka miguu, madirisha, kufikia kumbi, na bidhaa), kugawanywa au kuuzwa katika Mifumo ya Usambaji Ulimwenguni (GDSs) zinazotumiwa na majenti wa usafiri. Katika muda unaozungumziwa, afisi za uuzaji za Shirika la Ndege la Kenya zilipewa mamlaka ya kuuza Hati Mchanganyiko, na kufikia sasa, kampuni inajitahidi kuanza kuziweka katika mtandao kupitia tovuti, chumi-Kielektroniki na Mifumo ya Usambaji Ulimwenguni (GDSs).

Malipo ya IATA ya Mashirika ya Ndege yaliyorahisishwa (SIS) IATA ilianzisha ari ya kudai bila karatasi, kutayarisha ankara na kulipa kupitia mfumo wa malipo wa IATA. Hali hii inatarajiwa kuongeza faida katika sekta. Malipo haya (SIS) ya wasafiri, mizigo na ya mchanganyiko yalianza kutekelezwa mwaka huu wa fedha.

#### Mfumo wa Usimamizi wa Kidubwasha cha kupakia Mizigo (ULD)

Idara ya Huduma za Ardini ilitekeleza mfumo mpya wa kidubwasha cha kupakia mizigo ili kuifuatilia wakati inaposafirishwa katika mfumo mzima wa safari za ndege za shirika. Manufaa yake mengine yanajumuisha:

- Kutengamana na Mfumo wa Usimamizi wa Mizigo ambao hutoa maelezo ya vitengo vya mizigo vinavyotumiwa.
- Kupunguza gharama za mawasiliano ya shirika kwa kuwa mfumo huu unatumia barua pepe wala si SITATEX.

#### Mfumo wa Mizigo wa Cargospot

Utekelezaji wa mfumo huu unanuiwa kuingiza matumizi yetu ya Mfumo wa Usimamizi wa Mizigo katika matawi yetu ili washikadau wetu waweze kufuatilia shughuli za mizigo na mapato katika shirika. Kufikia sasa, matawi 27 yenye mfumo wa mizigo yamehamishwa hadi kwa mfumo huu. Nyingine saba itakamilika kufikia mwaka ujao wa fedha.

#### Matibabu

Ili kuhakikisha kwamba kampuni inagharamia matibabu ya wafanyakazi walio na bima na wale wanaowategemea pekee, Kitengo cha Huduma za Matibabu kilitekeleza Njia ya Kutambulisha Kielektroniki. Njia hii imepunguza ufasidi katika sehemu kadha, kama vile hospitali tunazoshirikiana nazo na maduka ya madawa.

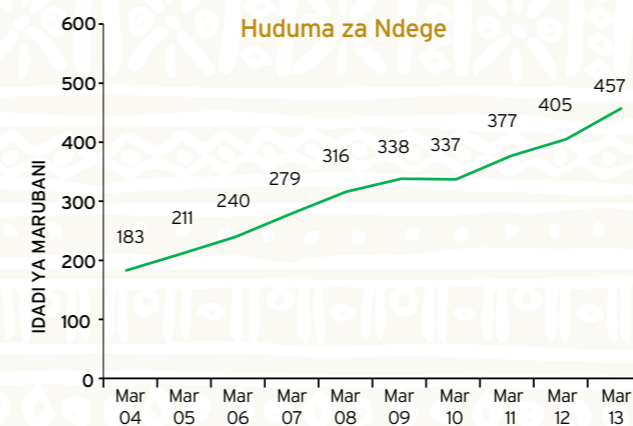
#### HUDUMA ZA NDEGE

Katika kipindi cha mwaka wa fedha cha 2012/2013 juhudi zetu kubwa katika Huduma za Ndege zimekuwa kuhakikisha kuwa tunaunga mkono huduma hii kupitia kuajiri na kuwapa mafunzo wafanyakazi wanaofanya kazi katika ndege. Katika kipindi hicho, jumla ya makadeti wa mpango wa Ab-initio 21 walisajiliwa na kasha kwenda Afrika Kusini kupata mafunzo, ilhali marubani 21 wa mpango wa kuchukuliwa moja kwa moja walijajiriwa kama wasaidizi wa marubani kutoka hapa nchini.

Moja wapo ya changamoto inazozikumba Kampuni ni ukosefu wa makapteni wa hapa nchini. Katika juhudi zetu za kutatua tatizo hili, hatua fulani zimechukuliwa kama ifuatavyo:

- Shirika linaendelea kushirikiana na Chama cha Marubani nchini (KALPA);
- Kutia sahihi mkataba wa makubaliano na KALPA kuhusu uajiri wa makapteni wa Moja kwa Moja kutoka Oktoba 2012;
- Kuwa na leseni ya Urushaji ndege ya 'Airline Transport Pilots' Licences (ATPL) ni muhimu ikiwa rubani atapandishwa cheo. KALPA imeweka mikakati ya kuhakikisha kwamba marubani wake wenye tajriba ya kurusha ndege kubwa wanapata leseni hii;
- Kukaguzi mahitaji, uajiri na mafunzo ya makapteni kila juma au mwezi na kuweka harakati ya jinsi yanavyoweza kutekelezwa.
- Mnamo Februari 2013, kampuni iliwasiliana na shirika la Direct Personnel, kampuni inayoajiri wafanyakazi wa ndege wa vitengo vyote, ili itafute makapteni wa kuingia Moja kwa Moja, kima chao kikiwa kuendesha ndege kama zile za Shirika la Ndege la Kenya; na
- Matayarisho ya Amri ya Mapema ya wasaidizi wa marubani walio na ATPL lakini ambao hawajafikia masaa yanayohitajika ili kupandishwa vyeo, ili waweze kuhudhuria kozi ya Amri ambapo changamoto wanazokumbana nazo zinaweza kutatuliwa.

Katika kipindi hiki, jumla ya maafisa 39 walihudhuria kozi ya Amri na kisha 17 walipandishwa cheo hadi kiwango cha Amri. Makapteni wanne (4) walijajiriwa kuendesha ndege za Embraer na wengine 11 wamefanyiwa mahojiano na kuhitimu. Idadi yote ya marubani ilifikia 457, tofauti na 405 wa mwaka uliopita.



#### Idadi ya marubani

Ili kupunguza na kusimamia gharama, idara ilianza kutekeleza mipango ifuatayo:

- Kutumia wafanyakazi wa huduma za ndani ya ndege ili kupunguza gharama za hoteli kama vile wafanyakazi wa kutoka Thai kufanyakazi katika njia za Bangkok-

Guangzhou na Bang-Hongkok, Waghana kufanya kazi katika sekta ya ndege za kwenda Accra-Monrovia na Accra-Freetown;

- Kupunguza masaa ya kulala kwa wafanyakazi hadi kiwango cha masaa yanayokubalika ila kwa kuruhusa ya Meneja wa ndani ya Ndege kwa sababu za kiutendakazi;
- Kuajiri wafanyakazi na kuwapa mafunzo katika mataifa wanakotoka kama vile kuwapa mafunzo wafanyakazi wabaya wa Thai huko Bangkok;
- Kupunguza makongamano ya nje ya wafanyakazi;
- Kurekebisha vigezo vya kuingiza mizigo ya maandalizi ndani ya ndege kama vile magazeti na bidhaa za kutumia na kutupa kama vile vikombe vya plastiki; na
- Kurekebisha mfumo mzima wa bidhaa zinazotumika ndegeni, kama vile kubadilisha wauza bidhaa, huduma za usafiri za shirika kupeleka bidhaa moja kwa moja hadi kwa mwandalizi Nairobi na kuimarisha usimamizi wa vifaa vya maandalizi katika matawi yetu.

#### HUDUMA ZA ARDHINI

Kwa muda unaozungumziwa, Idara ya Huduma za Ardini ilifanyiwa mageuzi katika sehemu tatu muhimu: Huduma za Wateja; Huduma za vifaa vya Kupandia na Kushuka kutoka ndegeni na Matawi ya Shirika. Huduma za Wateja katika kampuni zilizingatia kufanikisha huduma bora kwa wateja ilhali huduma za vifaa vya kupandia na kushuka kutoka kwenye ndege zilizingatia usalama.

#### Huduma kwa Wateja

Kama moja ya azma za utekelezaji wa Mfumo wa Altea, idara ya Huduma za Ardini ilianzisha huduma ya "Majilio na Usafiri" ya wateja kupakia mizigo ndani ya ndege. Mfumo huu mpya umeimarisha uthibiti wetu wa kuuza tiketi kwa njia za kielektroniki na kuimarisha huduma yetu kwa wateja wa hapa nchini na nje. (Uzinduzi wa kujiandikisha kwa njia ya simu za mkononi katika ndege zinazoondoka hapa Nairobi, na kupeleka orodha ya mizigo moja kwa moja hadi ndegeni.

Kufikia sasa kampuni imezidua 83% ya mfumo wetu huku ikitarajia kutekeleza mpango huu katika matawi mengine husika kwa muda wa miezi mitano ijayo.

Mnana Novemba 2012 kampuni ilianzisha Mfumo wa Usimamizi wa Mizigo (BMS) ambao ulibadilisha ule wa awali wa upatanisho wa mizigo. Mfumo wa Usimamizi wa Mizigo ukitekelezwa ipasavyo, tutaweka pamoja habari zote za upakiaji wa mizigo katika mfumo mmoja. Jambo hili tayari limeimarisha ufuatiliaji na utafutaji wa mizigo ya wateja na hatimaye kupunguza mizigo inayopotea katika kituo chetu cha Nairobi.

#### Usalama

Kampuni ilishuhudia visa vichache vya usalama vilivyoripotiwa wakati wa muda huu wa mwaka wa pesa kutokana na juhudi na mafanikio ya kampeni za kitengo cha huduma za kupanda na kushuka ndegeni. Kupitia kamati ndogo ya huduma

za Kupakia na Kushukisha Mizigo ya AFRAA ikishirikiana na mashirika mengine ya ndege, kampuni inaendelea kuwa na mazungumzo na Maajenti wa Kupakia na kushukisha Mizigo (GHA) katika vipindi vya kuhamasisha kuhusu usalama. Tunaendelea kuimarisha utoaji wa ripoti na uratibu wa ukaguzi.

#### UFUNDI

Idara ya ufundi ilianzisha juhudi kadha za kuimarisha usalama, ufanisi na uaminifu.

#### Mifumo ya Usimamizi wa Kiusalama

Mnamo mwezi Mei 2012, kitengo cha kiufundi kilianza kutekeleza Mfumo rasmi wa Usimamizi wa Usalama. Mfumo huu unanuiwa kuimarisha hali ya usalama katika viwango vyote vya shirika. Hatua za kutathmini hatari na jinsi zinavyoweza kuzuiwa hurekebisha na kufwatiliwa ili kuuimarisha kabisa.

Ari hii ilianza na mafunzo ya kiusalama kwa wafanyakazi pamoja na uhamasishaji wa kiusalama kazini kwa kutumia mabango ya vipimo vya utendakazi unaoonekana. Kitengo cha ufundi kwa sasa kimepeleka mabingwa katika sehemu zote za uzalishaji na wanakuza mfumo wa kutambua na kumaliza hatari.

#### UFANISI WA KAZI

##### Kuimarika kwa kazi

Kutokana na kupanda kwa bei ya mafuta na mashindano makali katika sekta ya ndege kulikuwa na haja ya kutathmini jinsi tunavyofanya kazi katika kampuni ili kuthibiti uharibifu. Jambo hili pia lilihitajika ili kufanikisha mipango kabambe ya kuikuza kampuni.

Kwa sababu hii njia zilizopo ziliangaliwa upya na majukumu kuimarishwa ili kwenda sambamba na malengo mapya. Majukumu yaliyolingana yalitolewa ili kuimarisha uwajibikaji, kuongeza uzalishaji na utoaji wa huduma.

Katika kipindi kinachozungumziwa, kuimarisha mafunzo ya wafanyakazi, maendeleo ya kujenga ufundi wa wafanyakazi yalifikiriwa upya ili kujumuisha vigezo vya sekta kwa kutilia maanani mtazamo wa kiutenda kazi, pamoja na kuwa na ujuzi mbalimbali. Jambo hili lilihusisha kupunguza wafanyakazi, utendakazi wa hali ya juu na kubadilika kulingana na hali ilivyo.

Kutokana na hayo, wanagenzi wa kiufundi wanahitaji miaka miwili ya tajriba kabla ya kuajiriwa kikamilifu. Kwa sasa, wakaguzi wanahitajika kuwa na Hati ya vigezo vya ukaguzi wa shirika la

European Aviation Safety Agency (EASA) katika kiwango cha (B1/B2). Hii inahitaji seti tano (5) za ujuzi katika masomo ya urubani (B2) na tatu (3) za uhandisi (B1); hapo awali, seti moja ya ujuzi ilitosha.

#### UAMINIFU

##### Kutengeneza kabla

Ili kushughulikia mahitaji ya wateja kwa kutoa huduma mwafaka na bidhaa za kuaminika, kampuni ilianzisha filosofia ya kuyashughulikia mambo kabla hayajaharibika. Hali hii inajumuisha kuzuia na kutabiri. Dosari hazishughulikiwi tu bali humalizwa kabisa, na hivyo kuweza kutumia vifaa kwa muda mrefu, kuthibiti usalama, kupunguza gharama na kuimarisha bidhaa za ndani ya ndege. Pia, hali hii inajumuisha kubadilisha vifaa muhimu mapema kabla ya vyote kuharibika na hivyo kupunguza athari mbaya kwenye ndege.

##### Kupatikana kwa vifaa

Katika muda unaozungumziwa, sehemu moja muhimu iliyoimarishwa ni ile ya Kupatikana kwa Vifaa. Kupatikana kwa vifaa na vipuri kunaathiri uwezo wa wafanyakazi wetu wa kutengeneza sehemu za ndege zenye matatizo katika muda ufaao na pia inaathiri muda wanaochukua ili kuifanya ndege iweze kuhudumu tene. Uimarishaji ufuatao ulitekelezwa:

##### Kuandaliwa upya Kandarasi za usaidizi wa vipuri

Kiasi kikubwa cha vipuri vya kiwango cha juu vinavyotumiwa kutengeneza ndege huwa ni vya kukodishwa au kubadilishwa chini ya kandarasi za watengenezaji wa ndege na wauzaji wakubwa wa bidhaa hizo. Mwaka wa fedha uliopita masharti ya kandarasi za vipuri mbalimbali vya ndege za shirika yalifanyiwa marekebisho kwa lengo la kujumuisha vipuri vinavyopatikana hapa Nairobi ili kupunguza gharama. Kandarasi na wauza bidhaa walibadilishwa na kandarasi kutolewa upya kama ilivyofaa na sasa kupatikana kwa vipuri hivi kumeimarika hasa vile vya ndege ya Embraer.

#### Marekebisho ya Bohari la Ufundi

Urekebishaji wa Bohari la Ufundi hapa Nairobi ulikamilika mnamo Novemba 2012 kwa gharama ya shilingi milioni mia moja za Kenya. Jambo hili lilijumuisha kuweka mashubaka mapya pamoja na vifaa vya kuweka bidhaa. Mashubaka mapya yametoa nafasi tele na kuvifanya vipuri vipatikane kwa urahisi pamoja na kufikia vigezo vya kimataifa vya kiusalama na ukaguzi. Pia, orodha ya hesabu imeimarika tangu shughuli hii ilipomalizika. Bohari hili pia lilifanyiwa ukaguzi na European Aviation Safety Agency (EASA) baada ya kumalizika na kupitishwa.

Kuangaliwa upya kwa Data Kuu ya Vipuri na Vifaa kulimalizika Juni 2012 na kulijikita hasa katika data ya ubadilishaji wa bidhaa na viwango vya ununuzi mpya. Kazi hii ilifanywa kwa ushirikiano kati ya vitengo vya uhandisi na mipango. Juhudi hizi ziliniwa kuimarisha usawa wa hali ya vifaa kwa ajili ya matumizi na haja ya kununua vingine.

## HUDUMA ZA KAMPUNI KWA JAMII (CSR)

**R**uwaza ya Shirika la Ndege la Kenya ni kusaidia kufanya maendeleo Barani Afrika. Jambo hili litawezekana kupitia miradi mbalimbali itakayomhusisha mwanachi kikamilifu. Kuchangia katika miradi ya kijamii, kupitia nyanja za elimu, huduma za maji, usalama wa kimazingira na afya ni miongoni mwa miradi iliyotekezwa katika kipindi cha mwaka wa fedha wa 2012/2013.

Tuna sera mwafaka ya Mazingira inayoongoza shughuli za kampuni. Kwa sasa tunatayarisha Mwongozo wa Mfumo Mpya wa Usimamizi wa Mazingira unaoitwa Environmental Management Manual Version 1, ama EMM kwa kifupi. Mwongozo huu umeandikwa kulingana na matakwa ya ISO 14001, EMAS (EU Economic Management Audit Scheme) na BS8555) (Vigezo vya Uingereza). Mwongozo unazungumzia Tathmini za Athari za Mazingira yaliyoimarishwa pamoja na shughuli za shirika za uhifadhi wa mazingira. EMM pia, itatoamwongozo utakaofuatwa wakati wa utekezaji, ufuatiliaji na tathmini ya mifumo ya usimamizi wa mazingira.

Kuna pia mikakati mbalimbali iliyowekwa ili kutuwezesha kutumia vyema nguvu zetu za umeme. Nguvu za umeme zimefanyiwa ukaguzi na matokeo ya ukaguzi huo yanatekelezwa kwa viwango. Sera yetu ya Mazingira inahimiza kumaliza kabisa ama kupunguza kwa kiwango kikubwa yale matokeo ya tathmini ya mazingira iliyofanywa, pamoja na maangalizi ya karibu ya mipango iliyopo kuhusu mazingira. Utunzaji wa hali anuai umo katika kitengo hiki. Sura mpya ya hali anuai itajumuisha katika Mwongozo huu. Hali kadhalika, sura hii itajumuisha namna za kusimamia uchafu ambazo pia zitajumuisha yale yasiyotakikana kama vile ununuzi wa Vifaa vilivyo na chembechembe zinazoharibu Mazingira na ambavyo haviruhusiwi chini ya EMM.

Vilevile, tunatekeleza juhudi za kupunguza athari za mazingira za bidhaa/huduma kama ilivyoelezwa katika Sera ya Mazingira, Tunahimiza shughuli za afisi zisizotumia makaratasi kupitia utoleshaji ujumbe na matumizi ya barua pepe ikiwezekanapo. EMM pia ina sura inayozungumzia ununuzi usiochafua mazingira. Magari na vifaa vya kampuni hufanyiwa ukarabati wa mara kwa mara ili kuzuia uchafuzi wa mazingira kutokana na hewa mbaya. Shirika la Ndege la Kenya limetoa nafasi kwa wasafiri kukidhia malipo ya uchafuzi wa mazingira unaotokana na usafiri.

Shabaha ya shughuli zote za CSR ni kuleta mabadiliko mema katika jamii na kusaidia kuboresha maisha ya wananchi

pamoja na mazingira ambamo kampuni inafanya kazi. Ufanisi mkubwa wa miradi hiyo katika muda unaozungumziwa unajumuisha kuimarisha maisha na hali za jamii kupitia miradi iliyolengwa kuwanufaisha pamoja na kuwapa uwezo wanajamii kupitia elimu msingi, afya na kupunguza umaskini. Kutokana na shughuli hizi, Kampuni ilitumia Ksh 45 milioni kwa miradi mbalimbali.

Katika kusaidia maswala ya kielimu, Kampuni ilikamilisha ujenzi wa shule katika sehemu zifuatazo:

- Mahabara katika Shule ya Upili ya Songeni katika Kaunti ya Makueni;
  - Shule ya Msingi ya Ongora katika Kaunti ya Kisumu;
  - Bweni la wasichana huko Lamek, Maasai Mara, chumba cha mankuli na mradi wa 'biogas' huko Maasai Mara uliotumia fedha za Mbio za Maasai Mara, na
  - Bweni la Esageri, la watoto wenye mahitaji maalum, huko Baringo.
- Miradi ya uhifadhi na utunzaji wa mazingira pamoja na miradi ya maji iliyofadhiliwa katika muda unaozungumziwa ni:
- Msaada wa miche kwa ajili ya uhifadhi wa mazingira wa Msitu wa Ngong;
  - Kumalizwa kwa mradi wa maji wa Gaigedi, Vihiga;
  - Mradi wa maji Samburu-Lesidai ulioko Turkana; na
  - Kampeni za kupinga uwindaji haramu tukishirikiana na Taasisi ya Born Free na Huduma ya Wanyama wa Pori.

Kutokana na Shirika la Ndege la Kenya kufadhili miradi mbalimbali ya elimu ama kwa kutoa pesa taslimu au/na vifaa, mafanikio makubwa yamepatikana ya kijumuisha ongezeko la idadi ya watoto wanaoijiunga na shule zilizofadhiliwa, kupungua kwa idadi ya watoto wanaoacha shule, pamoja na kuimarika kwa matokeo ya shule katika mitihani ya kitaifa. Kuimarika kwa matokeo hayo pia kulichangiwa na kuwepo kwa vifaa na mazingira bora shuleni yaliyojumuisha mahabara ya tarakilishi, mabweni yanayofaa; vitu vilivyowawezesha wanafunzi kujifunza vyema.

**Dkt. Titus Naikuni**



**Mkurugenzi Mkuu wa Kundi na  
Afisa Mkuu Mtendaji.**



1



2



3



4

### 1. MAZINGIRA

Virginia McKenna - Mwanzilishi na Mthamini wa Wakfu wa Born Free akitia sahihi mkataba wa ushirikiano na Shirika la Ndege la Kenya wakati wa hafla hiyo katika Mbuga ya Taifa ya Nairobi.

### 3. MAJI

Naibu wa zamani wa Waziri Mkuu Mhe. Musalia Mudavadi akinywa maji ya kisima kilichojengwa na Shirika la Ndege la Kenya huko Gaigedi - Kaunti ya Vihiga.

### 2. ELIMU

Mkurugenzi wa Maswala ya Fedha, Bw. Alex Mbugua, akianzisha rasmi ujenzi wa bweni la Shule ya Esageri ya watoto wasioweza kusikia.

### 4. ELIMU

Dkt. Titus Naikuni atoa msaada wa vitabu vya kuandikia katika Shule ya Msingi ya Namunyak, katika Kaunti ya Narok.



## “CORPORATE GOVERNANCE IS THE PROCESS BY WHICH COMPANIES ARE DIRECTED, CONTROLLED AND HELD TO ACCOUNT”.

**K**enya Airways Board of Directors is responsible for the overall management of the governance of the airline and is accountable to the shareholders for ensuring that the company complies with the law and the highest standards of best practices in corporate governance and business ethics. The Directors are committed to the business and operations of the airline and the group with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good corporate governance.

### Board of Directors

The full Board meets at least five times a year. The Directors receive all information relevant to the discharge of their obligations in accurate, timely and clear form so that they can guide and maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the Board has delegated authority for conduct of day-to-day

business to the Group Managing Director and Chief Executive Officer. The Board nonetheless retains responsibility for establishing and maintaining the airline's overall internal control of financial, operational and compliance issues as well as implementing strategies for the long term success of the airline.

Nine out of the eleven members of the Board are non-executive including the Chairman of the Board, and all others except the Group Managing Director, Group Finance Director and two KLM Directors are subject to periodic reappointment in accordance with the company's Articles of Association and Guidelines of the Capital Markets Authority.

Mr Peter Hartman retires as the President and Chief Executive officer of KLM Royal Dutch Airlines in the course of 2013 and as a non-executive Director of Kenya Airways Limited and Mr Pieter Elbers, the Managing Director and Chief Operating Officer of KLM was nominated in his place.



The Directors have a wide range of skills and experience and each contributes independent judgement and knowledge to the Board's discussions.

Historically, the appointee to the position of Permanent Secretary to the Treasury and the Ministry of Transport have been members of the Board as their contribution can be invaluable.

In line with the changes in these appointments and adoption of the new Constitution this year, Mr J Kinyua and Dr C Njiru will resign as directors in the course of the year and the Principal Secretaries in Treasury and Transport Ministries will be invited to join the Board.

After the appointment of a new Director, management guides them through an induction course explaining the technical aspects and operations of the airline which include an interpretation of terminology which is specific to the airline industry. In addition the Board is able to seek external advice or assistance on issues over which there is concern, if it is considered necessary.

#### Committees of the Board

The Board has three standing committees, which meet regularly under the terms of reference set by the Board.

In addition, during the course of 2011 and until June 2012, there was also a Rights Issue sub-committee to deal with specific issues relating to the Rights Issue offer.

#### Audit and Risk Management Committee

The Board has constituted an Audit and Risk Management committee which meets four times a year or as necessary. Mr. Dinesh Kapila, an independent non executive Director chairs this sub committee whose other members include Mr. Joseph K. Kinyua or his alternate Mr Vincent Rague, Mr. Jos Veenstra and Mr Ayisi Makatiani. Its responsibilities include review of the integrity of the financial statements and formal announcements relating to the group's financial performance, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and maintaining oversight on internal control systems. The external and internal auditors, the Group Managing Director and the Group Finance Director attend all meetings of the committee. Other service line Directors attend as required to brief the committee.

#### Staff and Remuneration Committee

There is a Staff and Remuneration committee of the Board. Its membership comprises Ambassador Dennis Awori, also an independent non executive Director and the Chairman, Mr. Ron Schipper and Ms Salma Mazrui-Watt and Group Managing Director. The committee meets quarterly or as required. The committee is responsible for monitoring and appraising the performance of senior management, review of all human resource policies, determining the remuneration

of senior management and making recommendations to the Board on the remuneration of non executive Directors. The Director of Human Resources attends all meetings of the committee.

#### Nominations Committee

There is a Nominations committee of the Board. Its membership comprises Mr. Evanson Mwaniki (Chairman), Mr. Peter Hartman, Mr. Joseph Kinyua (or his alternate Mr Vincent Rague) and Ambassador Dennis Awori. The committee meets once a year or more if necessary. The committee is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. In so doing, consideration is given to succession planning, taking into account the challenges and opportunities facing the company, and to ensure the necessary skills and expertise are available on the Board in the future.

Candidates who are recommended by this sub-committee are interviewed by the Chairman and the major shareholders and their suitability assessed and discussed. The candidate is cautioned to disclose any area of conflict of interest which may undermine their position or service to the Company.

In addition, there is an opportunity for other candidates to be proposed by a shareholder for consideration and voting by the members at the Annual General Meeting.

This committee also appraises the role, contribution and effectiveness of the non-executive Directors. The Group Managing Director may also be invited to attend this meeting.

#### Rights Issue Committee

During the course of 2011, the Board established this sub-committee whose mandate was to consider important issues and oversee progress of the Rights Issue. It was chaired by Mr Dinesh Kapila and its members included Mr Evanson Mwaniki, Dr Titus Naikuni, Mr Alex Mbugua, Mr Jos Veenstra and Mr Vincent Rague. Other senior management and external advisors were requested to attend meetings of this sub-committee who were able to meet regularly to determine and make critical decisions relating to the Rights Issue which was successfully concluded in June 2012.

#### Internal Controls

The group has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organization remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal control, the Board takes into account the results of all the work carried out to audit and review the activities of the

Group. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators. Weekly meetings are held by executive management to monitor performance and to agree on measures for improvement.

Management are constantly updating and activating any changes in legislation or regulations pertinent to the Company and liaise with the Kenya Civil Aviation Authority on such changes. They participate in workshops and lobby either individually or as an industry through the Air Operators Association and other bodies for changes which are considered prudent or likely to affect the Company.

#### Code of Ethics

The airline is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. A formal code of ethics has been approved by the Board and is fully implemented to guide management, employees and stakeholders on acceptable behaviour in conducting business. All employees of the airline are expected to avoid activities and financial interests that could undermine their responsibilities to the airline.

In addition Directors disclose any potential conflict of interest which may have arisen since their appointment as a Director of the Company and, if necessary may be excluded from Board discussion on a particular agenda item.

#### Communication with Shareholders

The company is committed to ensuring that shareholders and the financial markets are provided with full, accurate and timely information about its performance. This is achieved by the distribution of the company's annual report, the release of notices in the press and on the Company's web site of its half yearly and annual results, and quarterly disclosures of operating statistics to the stock markets and capital markets authorities. There is also a minimum of two investor briefings per annum for institutional investors.

Periodically there are press releases announcing other major company developments which could be considered price sensitive information. In this regard, the company also complies with the continuing listing obligations of the Capital Markets Authorities and Stock Exchanges applicable in Kenya, Uganda and Tanzania.

The Annual Report is published each year on the Company's web site together with the notice and minutes of the Annual General Meeting.

#### Directors' Emoluments and loans

The aggregate amount emoluments paid to Directors for services rendered during the financial year 2012/13 are disclosed in the notes to the financial statements. Neither at the end of the financial year, nor at any time during the year was there any arrangement to which the company is a party, whereby Directors might acquire benefits by means of transactions in the company's shares.

The Company has a strict insider trading policy to which the Directors and senior management must adhere.

There were no Directors loans at any time during the year. Directors interests in the shares of the company, the distribution of the company's shareholding and analysis of the ten largest shareholders as at 31 March 2013 were as follows:-

#### Directors' Interests

Name of Director	Number of Shares
Permanent Secretary to the Treasury	445,920,556
Evanson Mwaniki	32,288
Ayisi Makatiani	15,700
Dinesh Kapila	16,951
Alex Mbugua	6,054
Cyrus Njiru	1,000
Salma Mazrui-Watt	4,200 (Joint Shareholding)

**EXECUTIVE DIRECTORS**

Dr. T. T. Naikuni - Managing Director  
A.W. Mbugua - Group Finance Director

**NON EXECUTIVE DIRECTORS**

E. Mwaniki - Chairman  
D. Kapila  
P. Hartman - Retired 13 June 2013  
P. Elbers - Appointed 13 June 2013  
J. Kinyua  
R. Schipper  
P. F. Hartman  
A. Makatiani  
C. Njiru  
S. Mazrui  
D. Awori  
J. Veenstra - Alternate to R.Schipper and P.Elbers  
V. Rague - Alternate to J Kinyua

**COMPANY SECRETARY**

Fiona Fox  
Certified Public Secretary (Kenya)  
Integer Business Services  
P O Box 1122, 00606 Nairobi, Kenya

**REGISTERED OFFICE**

Kenya Airways Headquarters and Base  
Airport North Road, Embakasi, Nairobi  
P. O. Box 19002, 00501 Nairobi, Kenya

**REGISTRARS**

Custody & Registrars Services Limited  
6th Floor Bruce House, Standard Street  
P O Box 8484, 00100 Nairobi, Kenya

**AUDITORS**

PricewaterhouseCoopers Limited  
Certified Public Accountants (Kenya)  
PwC Tower, Waiyaki Way, Westlands  
Nairobi, Kenya

**PRINCIPAL BANKERS**

Barclays Bank of Kenya Limited  
Barclays Plaza  
P. O. Box 30120, 00100 Nairobi, Kenya

Citibank N A  
P. O. Box 30711, 00100  
Nairobi, Kenya

**LEGAL ADVISORS**

Kaplan & Stratton Advocates  
9th Floor, Williamson House,  
4th Ngong Avenue, Upper Hill.  
P.O. Box 40111 - 00100 Nairobi, Kenya

TRIPLEOKLAW Advocates  
5th Floor, Block C, ACK Garden House,  
1st Ngong' Avenue, off Bishops Road  
PO Box 43170-00100, Nairobi, Kenya

## The Directors' Report

### For the year ended 31 March 2013

The directors submit their report together with the audited financial statements for the year ended 31 March 2013, in accordance with Section 157 of the Kenyan Companies Act, which discloses the state of affairs of Kenya Airways Limited (the Company) and its subsidiaries (together, the Group).

**Principal Activities**

The principal activities of the Group are international, regional and domestic carriage of passengers and cargo by air, the provision of ground handling services to other airlines and the handling of import and export cargo.

The Group operates domestic flights and flies to 59 destinations in Africa, Middle East, Asia and Europe.

At 31 March 2013, the Group had 43 aircraft, either owned or on operating leases. These comprised four Boeing 777 wide body jets, six Boeing 767 wide body jets, fourteen Boeing 737 narrow body jets, seventeen Embraer regional jets and two freighters; one B747 and a Boeing 737 formerly a passenger aircraft converted to a freighter.

**Results and Dividends**

The net loss for the year of Kshs 7,864 million (2012: profit of Kshs 1,660 million) has been deducted from the retained earnings. The directors do not recommend payment of dividends (2012: Kshs 374 million).

The results for the year are set out fully on pages 62 to 117 in the attached financial statements.

**Directors**

The directors who held office during the year and to the date of this report are set out on page 58.

**Auditor**

The Company's auditor, PricewaterhouseCoopers, have expressed their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act.

**Approval of Financial Statements**

The financial statements were approved by the Board of Directors on 13 June 2013.

By order of the Board

**Fiona C. Fox**



**Secretary**  
**13 June 2013**

## Statement of Directors' Responsibilities For the year ended 31 March 2013

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the Group's profit or loss. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company and of the Group's profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the Company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.

**Evanson Mwaniki**



**Director**

**13 June 2013**

**Titus Naikuni**



**Director**

## Report of the Independent Auditor To the members of Kenya Airways Limited



### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Kenya Airways Limited (the Company) and its subsidiaries (together, the Group), as set out on pages 62 to 117. These financial statements comprise the consolidated statement of financial position at 31 March 2013 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended; together with the statement of financial position of the Company standing alone as at 31 March 2013 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and for such internal control, as the directors determine necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 March 2013 and of the financial performance and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

### Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- the Company's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.



**Certified Public Accountants**  
**13 June 2013**  
**Nairobi**

## Consolidated income statement For the year ended 31 March 2013

	Notes	2013 Kshs million	2012 Kshs million
<b>Revenue</b>	6	<b>98,860</b>	<b>107,897</b>
Direct costs	7(a)	(77,225)	(77,217)
Fleet ownership costs	7(b)	(11,178)	(9,970)
Overheads	7(c)	(18,643)	(19,404)
Restructuring costs	35	(826)	-
<b>Operating (loss)/profit</b>		<b>(9,012)</b>	<b>1,306</b>
Finance costs	8	(1,907)	(1,341)
Finance income	8	1,421	244
Realised gains on fuel derivatives	9(a)	602	2,508
Fair value losses on fuel derivatives	9(b)	-	(41)
Other gains and losses	10	(1,700)	(1,019)
Share of results of associate, net of tax	19(c)	(230)	238
Gain on deemed partial disposal of interest in associate	19(c)	-	251
(Loss)/profit before income tax	11	(10,826)	2,146
Income tax credit/(expense)	12	2,962	(486)
<b>(Loss)/profit for the year</b>	13	<b>(7,864)</b>	<b>1,660</b>
<b>Attributable to:</b>			
Equity holders of the Company		(7,857)	1,652
Non-controlling interest		(7)	8
		<b>(7,864)</b>	<b>1,660</b>
<b>(Loss)/earnings per share attributable to the equity holders of the Company - basic and diluted (Kshs per share)</b>	14	<b>(6.35)</b>	<b>3.58</b>

The notes on pages 69 to 117 are an integral part of these financial statements.

## Consolidated statement of comprehensive income For the year ended 31 March 2013

	Notes	2013 Kshs million	2012 Kshs million
<b>(Loss)/profit for the year</b>	13	<b>(7,864)</b>	<b>1,660</b>
<b>Other comprehensive income/(loss)</b>			
(Loss)/gain on hedged exchange differences on borrowings	29(c)	(188)	415
Loss on hedged fuel contracts		(1,208)	(1,115)
Deferred taxation on hedges	30	419	210
Share of other comprehensive income of associate		-	(597)
Surplus on revaluation of property, plant and equipment	27(b)	5,081	-
Deferred taxation on revaluation reserve	30	(1,524)	-
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>2,580</b>	<b>(1,087)</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(5,284)</b>	<b>573</b>
<b>Attributable to:</b>			
Equity holders of the Company		(5,277)	565
Non-controlling interest	28	(7)	8
<b>Total comprehensive (loss)/income for the year</b>		<b>(5,284)</b>	<b>573</b>

The notes on pages 69 to 117 are an integral part of these financial statements.



## Consolidated statement of financial position

### As at 31 March 2013

ASSETS	Notes	2013 Kshs million	2012 Kshs million
<b>Non-current assets</b>			
Property, plant and equipment	16	71,502	49,373
Intangible assets	17	2,029	1,423
Prepaid operating lease rentals	18	1,235	5
Investment in associate	19(c)	-	230
Deferred expenditure	20	182	94
Aircraft deposits	21	19,095	4,364
Fuel derivatives	22	19	110
		<b>94,062</b>	<b>55,599</b>
<b>Current assets</b>			
Inventories	23	2,532	2,683
Trade and other receivables	24	10,413	10,219
Current income tax recoverable	12	1,060	764
Fuel derivatives	22	210	1,327
Bank and cash balances	25	14,393	6,840
		<b>28,608</b>	<b>21,833</b>
<b>TOTAL ASSETS</b>		<b>122,670</b>	<b>77,432</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners</b>			
Share capital	26	7,482	2,308
Share premium	26	8,670	-
Cash flow hedging reserve	27(a)	(1,995)	(1,018)
Revaluation surplus	27(b)	3,557	-
Revenue reserves	27(c)	13,441	21,298
Proposed dividend	15	-	374
		<b>31,155</b>	<b>22,962</b>
Non-controlling interest	28	54	61
<b>Total equity</b>		<b>31,209</b>	<b>23,023</b>
<b>Non-current liabilities</b>			
Borrowings	29	31,421	19,154
Deferred income tax	30	6,372	8,318
Deferred income	31	1,984	2,158
Finance lease obligations	32	843	1,023
		<b>40,620</b>	<b>30,653</b>
<b>Current liabilities</b>			
Sales in advance of carriage	33	9,087	6,628
Finance lease obligations	32	212	199
Trade and other payables	34	10,357	8,994
Deferred income	31	174	174
Borrowings	29	30,544	7,715
Provision for liabilities and charges	35	467	46
		<b>50,841</b>	<b>23,756</b>
<b>Total liabilities</b>		<b>91,461</b>	<b>54,409</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>122,670</b>	<b>77,432</b>

The financial statements on pages 62 to 117 were approved for issue by the board of directors on 13 June 2013 and signed on its behalf by:

Evanson Mwaniki



Director

Titus Naikuni



Director

The notes on pages 69 to 117 are an integral part of these financial statements.

## Company statement of financial position

### As at 31 March 2013

ASSETS	Notes	2013 Kshs million	2012 Kshs million
<b>Non-current assets</b>			
Property, plant and equipment	16	70,875	48,880
Intangible assets	17	2,028	1,418
Prepaid operating lease rentals	18	1,235	5
Investment in subsidiaries	19(a)	435	435
Investment in associated company	19(c)	-	155
Deferred expenditure	20	182	94
Aircraft deposits	21	19,095	4,364
Fuel derivatives	22	19	110
		<b>93,869</b>	<b>55,461</b>
<b>Current assets</b>			
Inventories	23	2,532	2,683
Trade and other receivables	24	14,374	13,817
Current income tax recoverable	12	975	762
Fuel derivatives	22	210	1,327
Bank and cash balances	25	14,318	6,519
		<b>32,409</b>	<b>25,108</b>
<b>TOTAL ASSETS</b>		<b>126,278</b>	<b>80,569</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners</b>			
Share capital	26	7,482	2,308
Share premium	26	8,670	-
Cash flow hedging reserve	27(a)	(1,398)	(421)
Revaluation surplus	27(b)	3,470	-
Revenue reserves	27(c)	10,126	18,042
Proposed dividend	15	-	374
		<b>28,350</b>	<b>20,303</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	29	31,421	19,154
Deferred income tax	30	6,398	8,343
Deferred income	31	1,984	2,158
Finance lease obligations	32	843	1,023
		<b>40,646</b>	<b>30,678</b>
<b>Current liabilities</b>			
Sales in advance of carriage	33	9,087	6,628
Finance lease obligations	32	212	199
Trade and other payables	34	16,919	14,826
Deferred income	31	174	174
Borrowings	29	30,544	7,715
Provision for liabilities and charges	35	346	46
		<b>57,282</b>	<b>29,588</b>
<b>Total liabilities</b>		<b>97,928</b>	<b>60,266</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>126,278</b>	<b>80,569</b>

The financial statements on pages 62 to 117 were approved for issue by the board of directors on 13 June 2013 and signed on its behalf by:

Evanson Mwaniki



Director

Titus Naikuni



Director

The notes on pages 69 to 117 are an integral part of these financial statements.

## Consolidated statement of changes in equity For the year ended 31 March 2013

Notes	Share capital Kshs million	Share premium Kshs million	Cash flow		Revenue reserves Kshs million	Proposed dividends Kshs million	Attributable to equity holders Kshs million	Non Controlling interest Kshs million	Total equity Kshs million
			hedging reserve Kshs million	Revaluation surplus Kshs million					
<b>Year ended 31 March 2012</b>									
At 1 April 2011	2,308	-	69	-	20,020	693	23,090	53	23,143
<b>Comprehensive income/(loss)</b>									
Profit for the year	-	-	-	-	1,652	-	1,652	8	1,660
<b>Other comprehensive income/(loss)</b>									
Gain on hedged exchange differences on borrowings	29	-	415	-	-	-	415	-	415
Loss on hedged fuel contracts		-	(1,115)	-	-	-	(1,115)	-	(1,115)
Deferred taxation on cash flow hedges	30	-	210	-	-	-	210	-	210
Share of other comprehensive income in associate, net of tax	19(c)	-	(597)	-	-	-	(597)	-	(597)
<b>Total comprehensive (loss)/income for the year</b>		-	<b>(1,087)</b>	-	<b>1,652</b>	-	<b>565</b>	<b>8</b>	<b>573</b>
<b>Transactions with owners</b>									
Dividend:									
Final for 2011 paid	-	-	-	-	-	(693)	(693)	-	(693)
Proposed for 2012	-	-	-	-	(374)	374	-	-	-
<b>Total transactions with owners</b>		-	-	-	<b>(374)</b>	<b>(319)</b>	<b>(693)</b>	-	<b>(693)</b>
<b>At 31 March 2012</b>	<b>2,308</b>	-	<b>(1,018)</b>	-	<b>21,298</b>	<b>374</b>	<b>22,962</b>	<b>61</b>	<b>23,023</b>
<b>Year ended 31 March 2013</b>									
At 1 April 2012	2,308	-	(1,018)	-	21,298	374	22,962	61	23,023
<b>Comprehensive income/(loss)</b>									
Loss for the year	-	-	-	-	(7,857)	-	(7,857)	(7)	(7,864)
<b>Other comprehensive income/(loss)</b>									
Loss on hedged exchange differences on borrowings	29	-	(188)	-	-	-	(188)	-	(188)
Loss on hedged fuel contracts		-	(1,208)	-	-	-	(1,208)	-	(1,208)
Deferred taxation on cash flow hedges	30	-	419	-	-	-	419	-	419
Revaluation surplus of property, plant and equipment	27	-	-	5,081	-	-	5,081	-	5,081
Deferred taxation on revaluation surplus	30	-	-	(1,524)	-	-	(1,524)	-	(1,524)
<b>Total comprehensive (loss)/income for the year</b>		-	<b>(977)</b>	<b>3,557</b>	<b>(7,857)</b>	-	<b>(5,277)</b>	<b>(7)</b>	<b>(5,284)</b>
<b>Transactions with owners</b>									
Issue of additional share capital		5,174	8,670	-	-	-	13,844	-	13,844
Dividend:									
Final for 2012 paid		-	-	-	-	(374)	(374)	-	(374)
<b>Total transactions with owners</b>		<b>5,174</b>	<b>8,670</b>	-	-	-	<b>(374)</b>	<b>(13,470)</b>	-
<b>At 31 March 2013</b>		<b>7,482</b>	<b>8,670</b>	<b>(1,995)</b>	<b>3,557</b>	<b>13,441</b>	-	<b>31,155</b>	<b>54</b>

The notes on pages 69 to 117 are an integral part of these financial statements.

## Company statement of changes in equity For the year ended 31 March 2013

Notes	Share capital Kshs million	Share premium Kshs million	Cashflow		Revenue reserves Kshs million	Proposed dividends Kshs million	Total equity Kshs million
			hedging reserve Kshs million	Revaluation surplus Kshs million			
<b>Year ended 31 March 2012</b>							
At 1 April 2011	2,308	-	69	-	17,593	693	20,663
<b>Comprehensive income/(loss)</b>							
Profit for the year	-	-	-	-	823	-	823
<b>Other comprehensive income/(loss)</b>							
Gain on hedged exchange differences on borrowings	29	-	415	-	-	-	415
Loss on hedged fuel contracts		-	(1,115)	-	-	-	(1,115)
Deferred taxation on cash flow hedges	30	-	210	-	-	-	210
<b>Total comprehensive (loss)/income for the year</b>		-	<b>(490)</b>	-	<b>823</b>	-	<b>333</b>
<b>Transactions with owners</b>							
Dividend:							
Final for 2011 Paid	-	-	-	-	-	(693)	(693)
Proposed for 2012	-	-	-	-	(374)	374	-
<b>Total transactions with owners</b>		-	-	-	<b>(374)</b>	<b>(319)</b>	<b>(693)</b>
<b>At 31 March 2012</b>	<b>2,308</b>	-	<b>(421)</b>	-	<b>18,042</b>	<b>374</b>	<b>20,303</b>
<b>Year ended 31 March 2013</b>							
At 1 April 2012	2,308	-	(421)	-	18,042	374	20,303
<b>Comprehensive income / (loss)</b>							
Loss for the year	-	-	-	-	(7,916)	-	(7,916)
<b>Other comprehensive income/(loss)</b>							
Loss on hedged exchange differences on borrowings	29	-	(188)	-	-	-	(188)
Loss on hedged fuel contracts		-	(1,208)	-	-	-	(1,208)
Deferred taxation on cash flow hedges	30	-	419	-	-	-	419
Revaluation surplus of property, plant and equipment	27	-	-	4,957	-	-	4,957
Deferred taxation on revaluation surplus	30	-	-	(1,487)	-	-	(1,487)
<b>Total comprehensive (loss)/income for the year</b>		-	<b>(977)</b>	<b>3,470</b>	<b>(7,916)</b>	-	<b>(5,423)</b>
<b>Transactions with owners</b>							
Issue of additional share capital		5,174	8,670	-	-	-	13,844
Dividend:							
Final for 2012 paid		-	-	-	-	(374)	(374)
<b>Total transactions with owners</b>		<b>5,174</b>	<b>8,670</b>	-	-	-	<b>(374)</b>
<b>At 31 March 2013</b>		<b>7,482</b>	<b>8,670</b>	<b>(1,398)</b>	<b>3,470</b>	<b>10,126</b>	<b>28,350</b>

The notes on pages 69 to 117 are an integral part of these financial statements.

The notes on pages 69 to 117 are an integral part of these financial statements.

## Consolidated statement of cash flows

### For the year ended 31 March 2013

	Notes	2013 Kshs million	2012 Kshs million
<b>Cash flows from operating activities</b>			
Cash generated from operations	37	334	5,639
Interest received	8	1,421	244
Interest paid	8	(1,907)	(1,341)
Income tax paid	12	(385)	(164)
<b>Net cash (used in)/generated from operating activities</b>		<b>(537)</b>	<b>4,378</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	16	(22,221)	(3,258)
Proceeds from disposal of property, plant and equipment		17	188
Purchase of intangible assets	17	(235)	(326)
Deferred expenditure	20	(88)	(94)
Deposits refunds received	21	50	318
Deposits paid for aircraft purchases	21	(16,989)	(2,053)
Boeing subsidy received	31	-	100
<b>Net cash used in investing activities</b>		<b>(39,466)</b>	<b>(5,125)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to Company's shareholders	15	(374)	(693)
Proceeds from the rights issue	26	14,488	-
Rights issue costs	26	(644)	-
Borrowings received	29	42,659	5,207
Repayments of borrowings	29	(8,371)	(3,954)
Repayment of finance lease obligations	32	(202)	(227)
Proceeds of maturity of short term deposits maturing over 90 days		-	2,204
<b>Net cash generated from financing activities</b>		<b>47,556</b>	<b>2,537</b>
<b>Net increase in cash and cash equivalents</b>		<b>7,553</b>	<b>1,790</b>
Cash and cash equivalents at beginning of year		6,840	5,050
<b>Cash and cash equivalents at end of year</b>	25	<b>14,393</b>	<b>6,840</b>

The notes on pages 69 to 117 are an integral part of these financial statements.

## Notes to the financial statements

### For the year ended 31 March 2013

#### 1 GENERAL INFORMATION

Kenya Airways Limited is incorporated in Kenya under the Companies Act as a public limited liability company, and is domiciled in Kenya. The Company's shares are listed on the Nairobi Securities Exchange.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the income statement, in these financial statements.

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, and apply to both the Group and the Company unless otherwise stated.

##### a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention except for, available for sale financial assets and derivative instruments at fair value through profit or loss and for land and buildings, which are stated at valuation amount. The financial statements are presented in Kenyan Shillings (Kshs), rounded to the nearest million.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

##### Changes in accounting policy and disclosures

###### (i) New and amended standards but not relevant to the group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 April 2012 that would be expected to have a material impact on the Group and the Company.

###### (ii) New standards and interpretations that are not yet effective and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company and the Group, except the following set out below:

Standard	Title	Applicable for financial years beginning on/after
IAS 1	Presentation of financial statements	1 July 2012
IAS 19	Employee Benefits	1 June 2012
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

##### IAS 1, Presentation of financial statements

Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in (OCI).

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Changes in accounting policy and disclosures (continued)

##### IAS 19, Employee Benefits

'Employee benefits', was amended in June 2011. The impact on the Company and the Group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The directors are yet to assess the full impact of the amendments

##### IFRS 9, 'Financial Instruments'

'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost.

The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The directors are yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

##### IFRS 10, 'Consolidated financial Statements'

This is a new standard that builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The directors are yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

##### IFRS 12, 'Disclosure of Interests in other entities'

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles

and other off balance sheet vehicles. The directors are yet to assess IFRS 12's full impact and intend to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

##### IFRS 13, 'Fair value measurement'

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group and the Company.

##### b) Revenue recognition

Passenger ticket sales and revenue from cargo airway bills, net of discounts, are recognised as traffic revenue when the air transport has been carried out. The value of the tickets sold and still valid but not used by the end of the reporting period is reported as unearned transportation revenue in the sales in advance of carriage account. This item is reduced either when Kenya Airways or another airline completes the transportation or when the passenger requests for a refund. Unutilised tickets are recognised as revenue using estimates regarding the timing of recognition based on terms and conditions of the ticket and historical trends. Past experience shows that there is insignificant liability attributable to unutilised tickets older than two years.

Other operating revenue is recognised at the time the service is provided.

Commission costs are recognised at the same time as the revenue to which they relate and are charged to direct costs. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment as a shareholder have been established.

##### c) Consolidation

###### (i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Consolidation (continued)

existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is

recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

##### (ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

##### (iii) Disposal of subsidiaries

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

##### (iv) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

Under the equity method, the investments are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. If the ownership interest in

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Consolidation (continued)

an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss as appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income, with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of (loss)/profit of an associate' in the income statement. Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates.

Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising from investments in associates are recognised in profit or loss.

#### d) Functional currency and translation of foreign currencies

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kenyan Shillings (Kshs)', which is the Company's functional currency.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items

are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign currency exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign currency exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

##### (iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

b) income and expenses for each income statement amount are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

c) all resulting exchange differences are recognised in other comprehensive income.

#### e) Intangible assets

##### (i) Computer software costs

Costs incurred on computer software are initially accounted for at cost and subsequently at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight line basis over the estimated useful lives not exceeding a period of 5 years.

Costs associated with maintaining computer software

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Intangible assets (continued)

programmes are recognised as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group, are recognised as intangible assets, when the following criteria have been met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

##### (ii) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or a jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and carried in the statement of financial position. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash generating units. An impairment loss is recognised when the carrying amount of the cash generating unit exceeds its recoverable amount.

Goodwill arising on the acquisition of subsidiaries is presented separately in the statement of financial position. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### f) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and

rewards of ownership to the Group as a lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is carried in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss unless they are directly attributable to qualifying assets in which case they are capitalised in accordance with the Group's policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on the straight line basis over the term of the lease.

#### g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, this being assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending the disbursement of the proceeds towards expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### h) Employee entitlements

The estimated monetary liability for employees' accrued leave entitlements at the end of the reporting period is recognised as an expense accrual.

The group has an Employee Share Option Scheme (ESOP) set up during the initial Public Offering in 1996. The scheme is inactive and currently holds 1,970,500 shares.

#### i) Retirement benefits costs

The Group operates a defined contribution provident fund in Kenya for eligible employees. The fund is administered by an independent investment management company and is funded by contributions from both the companies within the Group and employees. The Group also makes contributions to the statutory pension schemes in the countries in which its operations are based. Most employees engaged outside Kenya are covered by appropriate local arrangements and the Group's

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Retirement benefits costs (continued)

contributions in respect of the overseas employees are determined in accordance with best local practice.

The Group's obligations to the staff retirement benefit plans are charged to profit or loss as they fall due. The Group has no further payment obligations once the contributions have been paid.

##### j) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, if the deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current

tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

##### k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials that have been incurred in bringing the inventories to their present location and condition. Costs of issues are calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of disposal.

##### l) Property, plant and equipment

Land and buildings are carried at fair value and the valuation is performed once in every three years. The rest of Property, plant and equipment are carried at cost less accumulated depreciation or any recognised impairment loss. Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and for qualifying assets borrowing costs capitalised in accordance with the Group's accounting policy.

Previously, land and buildings were carried at cost less accumulated depreciation. A restatement of prior year financial statements as a result of this change in accounting policy was not necessary as allowed by IAS 8, paragraph 17, in respect of a change in policy from historical basis to revaluation basis for property plant and equipment.

Freehold land is not depreciated as it is deemed to have an infinite life. Depreciation on other property is charged so as to write off the cost of the assets, other than properties under construction, over their estimated useful lives, using the straight line method. Depreciation on assets under construction commences when the assets are ready for their intended use. Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of property, plant and equipment to their residual values over their expected useful lives, using the straight line method at the following rates:

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Property, plant and equipment (continued)

Aircraft	%
Boeing 777, 737-300 & 737-700	5.56
Boeing 767	33.00
Simulator	5.00
Other properties & equipment	%
Ground service equipment	25.00
Motor vehicles	25.00
Communication assets	12.50
Other assets	20-30

Leasehold improvements and buildings are depreciated over the terms of the related leases. Aircraft spare engines are depreciated over the lives of the aircraft to which they relate. The other components of an aircraft that have differing economic lives are depreciated over their respective economic lives. Gains or losses arising on disposal or retirement of an asset are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognised through profit or loss.

Increases in the carrying amount arising on revaluation are credited in other comprehensive income and accumulated in equity in a revaluation reserve. Decreases that offset previous increases of the same asset are charged in other comprehensive income; all other decreases are charged to profit or loss.

##### m) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

##### n) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to fuel price risk

and foreign currency exchange rate risk, including foreign exchange forward contracts.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

##### o) Hedge accounting

The Group designates certain hedging instruments in respect of foreign currency risk and fuel price risk as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. Movements in the hedging reserve in equity are detailed in the statement of comprehensive income.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Hedge accounting (continued)

previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

##### p) Manufacturers' compensation (credits)

The Group receives credits from manufacturers in connection with the acquisition of certain aircraft and engines. These credits are offset against the cost of new aircraft.

##### q) Financial assets

###### (i) Classification

The Group and Company classifies its financial assets in the following categories: at fair value through profit or loss (the derivative financial instruments) and loans and receivables. The directors determine the appropriate classification of the financial assets at initial recognition.

###### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

###### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', and 'bank and cash balances' in the statement of financial position. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less

any impairment.

###### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash receipts (including all fees, transaction costs and premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

###### (ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group and Company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the Group's right to receive payments is established.

###### (iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

###### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Financial assets (continued)

continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

##### r) Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

##### s) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

##### t) Financial liabilities and equity instruments issued by the Group

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

###### Classification as debt or equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

###### Financial liabilities

Financial liabilities are classified in the category of trade payables and other financial liabilities.

##### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

###### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

###### Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

##### u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

##### v) Frequent flyer programmes

Kenya Airways Limited is currently hosted on Air France's frequent flyer programme called Flying Blue. Under the Flying Blue programme, members earn miles by using both airline and non-airline partners. Kenya Airways Limited is required to pay Air France / KLM for the miles that are earned on the programme. All miles are expensed when the underlying flights occur. Accumulated miles can be used by members to get a variety of awards ranging from free tickets to flight upgrades. Kenya Airways Limited earns revenue as miles are redeemed on its services.

##### w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker makes strategic decisions and is responsible for allocating resources and assessing performance of the operating segments. The Chief Operating Decision Maker is the Chief Executive Officer.

##### x) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

##### y) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks,

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Cash and cash equivalents (continued)

other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

##### z) Dividend distribution

Dividends payable to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends are shown as a separate component of equity until declared.

##### aa) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

#### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain accounting estimates. It also requires directors to exercise judgement in the process of applying the Group's accounting policies.

In the process of applying the Group's accounting policies, directors have made estimates and assumptions that affect the reported amounts of assets and liabilities within current and future financial periods.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The critical areas of accounting estimates and judgements in relation to the preparation of these financial statements are as set out below:

##### (i) Critical accounting estimates and assumptions

###### Impairment of aircraft

A decline in the value of aircraft could have a significant effect on the amounts recognised in the financial statements. Directors assess the impairment of aircraft whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could make an impairment review necessary include the following:

- Significant decline in the market value beyond that which would be expected from the passage of time and normal use.
- Significant changes in technology and regulatory environments.
- Evidence from internal reporting which indicates that the performance of the asset is, or will be, worse than expected.

In directors' judgement, the carrying values of aircraft are not impaired as of the date of these financial statements.

###### Property and equipment

Critical estimates are made by directors in determining the useful lives and residual values of property, plant and equipment based on the intended use and economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

###### Unused ticket revenue

Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on terms and conditions of the ticket and historical trends.

##### (ii) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, the directors have made judgements in determining:

- the classification of financial assets and leases
- whether financial and non-financial assets are impaired
- the functional currency of the Company.

#### 4 FINANCIAL RISK MANAGEMENT

The Group purchases or issues financial instruments for purposes of financing its operations and managing the financial risks that arise from its operations. Various financial assets and liabilities arise directly from the Group's operations. Changing market conditions expose the Group to various financial risks and management have highlighted the importance of financial risk management as an element of control for the Group. Principal financial risks faced in the normal course of the Group's business are foreign currency rate risk, interest rate risk, credit risk, jet fuel price risk and liquidity risk. The policy of the Group is to minimise the negative effect of such risks on cash flow, financial performance and equity.

Operating in the aviation industry, Kenya Airways Limited carries out its activities in an extremely dynamic,

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

and often highly volatile, commercial environment. Therefore, both opportunities and risks are encountered as part of everyday business for the Company and the Group. The Group's ability to recognise, successfully control and manage risks early in their development and to identify and exploit opportunities is key to its ability to successfully realise the corporate vision.

##### a) Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk - interest rate risk, jet fuel price risk and foreign currency risk.

###### (i) Interest rate risk

The Group's exposure to market risk due to changes in interest rates primarily relates to its cash deposits and borrowings. Most of the Group's debts are asset related, reflecting the capital intensive nature of the airline industry. The group has a mix of fixed rate interest loans and variable interest loans. The borrowings from Affrexim bank bear a variable interest rate.

###### Fuel price

	2013 Kshs million Effect on profit	2013 Kshs million Effect on equity	2012 Kshs million Effect on profit	2012 Kshs million Effect on equity
-1% Movement	414	414	407	407
+1% Movement	(414)	(414)	(407)	(407)

###### (iii) Foreign currency risk

The Group is exposed to foreign exchange risk because it has revenues and expenses denominated in foreign currency, mainly the US Dollar, the Euro and the Sterling Pound. A significant portion of the revenue earned by the Group is denominated in readily convertible currencies. The Group also has various monetary assets and liabilities that are denominated in currencies other than the Kenya Shilling.

The sensitivity analysis presented below shows how profit and equity would change if the market risk variables had been different at the end of the reporting period with all other variables held constant.

Market risk associated with cash portfolio and borrowings under the variable interest rates relates to the potential change in interest income from decreases in interest rates. At 31 March 2013, an increase/decrease of 100 basis points would have resulted in a decrease/increase in consolidated post tax profit of Kshs 19 million (2012: Kshs 1.7 million), mainly as a result of higher/lower interest on variable rate cash deposits and variable rate borrowings.

###### (ii) Jet fuel price risk

The Group's fuel risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices. To meet this objective, the Company uses fuel hedges within approved limits and with approved counterparties accordingly. There were derivative financial instruments held to manage fuel price risk at 31 March 2013. As at 31 March 2013 the Group had in place fuel hedging contracts for 80 percent of its anticipated fuel requirements for the period up to 31 March 2014 and 36 percent of anticipated fuel requirements for the period to 31 March 2015.

The following sensitivity analysis shows how profit and equity would change if the fuel price had been different with all other variables held constant.



## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### a) Market risk (continued)

	GROUP		COMPANY	
	2013	2012	2013	2012
	Kshs million	Kshs million	Kshs million	Kshs million
	Effect on	Effect on	Effect on	Effect on
	profit/equity	profit/equity	profit/equity	profit/equity
<b>Currency-UK pounds</b>				
+1% Kshs Appreciation	(84)	(90)	(83)	(88)
-1% Kshs Depreciation	84	90	83	88
<b>Currency-Euro</b>				
+1% Kshs Appreciation	(67)	(68)	(66)	(66)
-1% Kshs Depreciation	67	68	66	66
<b>Currency-American dollars</b>				
+1% Kshs Appreciation	(10)	(92)	(6)	(88)
-1% Kshs Depreciation	10	92	6	88

Below is a summary of the financial assets and liabilities of the Group denominated in various currencies at their carrying amounts at 31 March 2013:

Closing rate	1	85.6	109.3	129.5	-	Total
	KES	USD	EUR	GBP	Others	
Currency	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
<b>Financial assets:</b>						
Bank balances	12,569	(373)	41	39	2,117	14,393
Trade and other receivables	291	6,095	163	659	3,205	10,413
Derivative financial instruments	-	229	-	-	-	229
<b>Total</b>	<b>12,860</b>	<b>5,951</b>	<b>204</b>	<b>698</b>	<b>5,322</b>	<b>25,035</b>
<b>Financial liabilities:</b>						
Trade and other payables	2,594	5,587	899	160	1,117	10,357
Borrowings	-	61,965	-	-	-	61,965
Finance lease obligations	-	1,055	-	-	-	1,055
<b>Total</b>	<b>2,594</b>	<b>68,607</b>	<b>899</b>	<b>160</b>	<b>1,117</b>	<b>73,377</b>
<b>Net exposure</b>	<b>10,266</b>	<b>(62,656)</b>	<b>(695)</b>	<b>538</b>	<b>4,205</b>	<b>(48,342)</b>

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### a) Market risk (continued)

Below is a summary of the financial assets and liabilities of the Company denominated in various currencies at their carrying amounts at 31 March 2013:

Closing rate	1	85.6	109.3	129.5	-	Total
	KES	USD	EUR	GBP	Others	
Currency	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
<b>Financial assets:</b>						
Bank balances	12,553	(432)	41	39	2,117	14,318
Trade and other receivables	147	10,200	163	659	3,205	14,374
Derivative financial instruments	-	229	-	-	-	229
<b>Total</b>	<b>12,700</b>	<b>9,997</b>	<b>204</b>	<b>698</b>	<b>5,322</b>	<b>28,921</b>
<b>Financial liabilities:</b>						
Trade and other payables	2,196	12,547	899	160	1,117	16,919
Borrowings	-	61,965	-	-	-	61,965
Finance lease obligations	-	1,055	-	-	-	1,055
<b>Total</b>	<b>2,196</b>	<b>75,567</b>	<b>899</b>	<b>160</b>	<b>1,117</b>	<b>79,939</b>
<b>Net exposure</b>	<b>10,504</b>	<b>(65,570)</b>	<b>(695)</b>	<b>538</b>	<b>4,205</b>	<b>(51,018)</b>

Below is a summary of the financial assets and liabilities of the Group denominated in various currencies at their carrying amounts at 31 March 2012:

Closing rate	1	83	111.02	131.10	-	Total
	KES	USD	EUR	GBP	Others	
Currency	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
<b>Financial assets:</b>						
Bank balances	1,428	2,257	(8)	(52)	3,215	6,840
Trade and other receivables	1,295	3,056	247	945	4,676	10,219
Derivative financial instruments	-	1,437	-	-	-	1,437
<b>Total</b>	<b>2,723</b>	<b>6,750</b>	<b>239</b>	<b>893</b>	<b>7,891</b>	<b>18,496</b>
<b>Financial liabilities:</b>						
Trade and other payables	3,391	4,130	319	366	788	8,994
Borrowings	-	26,869	-	-	-	26,869
Finance lease obligations	-	1,222	-	-	-	1,222
<b>Total</b>	<b>3,391</b>	<b>32,221</b>	<b>319</b>	<b>366</b>	<b>788</b>	<b>37,085</b>
<b>Net exposure</b>	<b>(668)</b>	<b>(25,471)</b>	<b>(80)</b>	<b>527</b>	<b>7,103</b>	<b>(18,589)</b>

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### a) Market risk (continued)

Below is a summary of the financial assets and liabilities of the Company denominated in various currencies at their carrying amounts at 31 March 2012:

Closing rate	1	83	111.02	131.10	-	
Currency	KES	USD	EUR	GBP	Others	Total
	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
<b>Financial assets:</b>						
Bank balances	1,289	2,074	(8)	(52)	3,216	6,519
Trade and other receivables	685	7,205	306	945	4,676	13,817
Derivative financial instruments	-	1,437	-	-	-	1,437
<b>Total</b>	<b>1,974</b>	<b>10,716</b>	<b>298</b>	<b>893</b>	<b>7,892</b>	<b>21,773</b>
<b>Financial liabilities:</b>						
Trade and other payables	4,704	9,097	(61)	316	770	14,826
Borrowings	-	26,869	-	-	-	26,869
Finance lease obligations	-	1,222	-	-	-	1,222
<b>Total</b>	<b>4,704</b>	<b>37,188</b>	<b>(61)</b>	<b>316</b>	<b>770</b>	<b>42,917</b>
<b>Net exposure</b>	<b>(2,730)</b>	<b>(26,472)</b>	<b>359</b>	<b>577</b>	<b>7,122</b>	<b>(21,144)</b>

##### b) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The Group proactively manages cash surpluses using a combination of short and long term investment programmes that ensure adequate liquidity to meet its short and long term obligations. Kenya Airways seeks to maintain sufficient cash balances to cover six months debt obligations and lease rentals.

Management perform cash flow forecasting and monitor rolling forecasts of the Group and Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn borrowing facilities (Note 29) at all times so that the Group and Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

Summarised in the table below is the maturity profile of financial liabilities based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows:

GROUP	Less than 1 year	2 - 5 years	Over 5 years	Total
	Kshs million	Kshs million	Kshs million	Kshs million
<b>31 March 2013</b>				
Borrowings	40,811	29,079	1,088	70,978
Finance lease obligations	246	855	-	1,101
Trade and other payables	10,244	-	-	10,244
Due to related parties	113	-	-	113
	<b>51,414</b>	<b>29,934</b>	<b>1,088</b>	<b>82,436</b>

##### 31 March 2012

Borrowings	8,720	19,432	1,589	29,741
Finance Lease obligations	239	1,068	-	1,307
Trade and other payables	8,922	-	-	8,922
Due to related parties	72	-	-	72
	<b>17,953</b>	<b>20,500</b>	<b>1,589</b>	<b>40,042</b>

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

##### b) Liquidity risk (continued)

COMPANY	Less than 1 year	2 - 5 years	Over 5 years	Total
	Kshs million	Kshs million	Kshs million	Kshs million
<b>31 March 2013</b>				
Borrowings	40,811	29,079	1,088	70,978
Finance lease obligations	246	855	-	1,101
Trade and other payables	9,949	-	-	9,949
Due to related parties	6,970	-	-	6,970
	<b>57,976</b>	<b>29,934</b>	<b>1,088</b>	<b>88,998</b>
<b>31 March 2012</b>				
Borrowings	8,720	19,432	1,589	29,741
Finance lease obligations	239	1,068	-	1,307
Trade and other payables	8,600	-	-	8,600
Due to related parties	6,226	-	-	6,226
	<b>23,785</b>	<b>20,500</b>	<b>1,589</b>	<b>45,874</b>

##### c) Credit risk

The Group is exposed to credit risk which is the risk that the counter party will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises mainly from surplus funds held in the form of bank balances or short term deposits. Credit exposure also arises from derivative counterparties as well as from agents selling commercial air transportation.

The Group does not have significant concentrations of credit risk other than on derivative counterparties where transactions are limited to financial institutions possessing high credit quality and hence the risk of default is low. Cash surpluses are maintained with credible financial institutions.

The Group largely conducts its sale of passenger and cargo transportation through International Air Transport Association (IATA) approved sales agents. All IATA agents have to meet a minimum financial criterion applicable to their country of operation to remain accredited. Adherence to the financial criteria is monitored on an on-going basis by IATA through the association's Agency Programme. The credit risk associated with such sales agents is relatively low owing to the programme's broad diversification. The Group's accounts receivable are generated largely from the sale of passenger airline tickets and cargo transportation services. Majority of these sales are in accounts receivable which are generally short term in duration. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Group has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the Group's treasury policies and objectives and lays down parameters within which the various aspects of treasury risk management are operated. The board has set limits for investing in specified banks and financial institutions.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

##### c) Credit risk (continued)

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 41.

None of the Group or Company's financial assets are either past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced). The trade receivables which were past due but not impaired relate to a number of independent customers for whom there is no history of default. The ageing analysis of these trade receivables is as follows:

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
Past due but not impaired:				
- by up to 30 days	8	98	2	95
- by 31 to 60 days	162	13	159	2
- by over 61 days	607	694	558	659
<b>Total past due but not impaired</b>	<b>777</b>	<b>805</b>	<b>719</b>	<b>756</b>

Receivables individually determined to be impaired:

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
Carrying amount before provision for impairment loss	1,282	880	1,889	1,487
Provision for impairment loss	(1,282)	(880)	(1,889)	(1,487)
<b>Net carrying amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

##### d) Fair value hierarchy

The Group specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy;

- Level 1 - Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 - Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible. The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	31 March 2013			
	Level 1 Kshs million	Level 2 Kshs million	Level 3 Kshs million	Total Kshs million
<b>Financial assets</b>				
Derivative financial instruments	-	229	-	229
<b>Financial assets</b>				
Derivative financial instruments	-	1,437	-	1,437

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 4 FINANCIAL RISK MANAGEMENT (CONTINUED)

##### e) Capital risk management

The airline monitors the return on shareholder's funds which is defined as the profit for the year expressed as a percentage of average shareholder's equity. The Group seeks to provide a higher return to the shareholders by investing in more profitable routes and improving on efficiencies to provide world class service to meet its growth plans. In 2013, Kenya Airways Limited achieved a return on shareholder's equity of (25)% (2012: 7%) in comparison to an effective interest rate of 5.22% incurred (2012: 5.5%) on borrowings.

Kenya Airways also monitors capital on the basis of a gearing ratio which is calculated as the ratio of borrowings and finance lease obligations net of bank and cash balances to shareholder's equity.

The gearing ratio for the Group at the end of the year was as follows:

	2013 Kshs million	2012 Kshs million
Equity*	31,209	23,023
Total borrowings	61,965	26,869
Total finance lease obligations	1,055	1,222
Less: Bank and cash balances	(14,393)	(6,840)
<b>Net borrowings</b>	<b>48,627</b>	<b>21,251</b>
<b>Net debt to equity ratio</b>	<b>156%</b>	<b>92%</b>

The gearing ratio for the Company at the end of the year was as follows:

	2013 Kshs million	2012 Kshs million
Equity*	28,350	20,303
Total borrowings	61,965	26,869
Total finance lease obligations	1,055	1,222
Less: Bank and cash balances	(14,318)	(6,519)
<b>Net borrowings</b>	<b>48,702</b>	<b>21,572</b>
<b>Net debt to equity ratio</b>	<b>172%</b>	<b>106%</b>

\*Equity includes all capital and reserves of the Group.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 5 SEGMENT INFORMATION

The accounting policies of the reportable segments are the same as the Group's accounting policies applied in the last audited financial statements for the year ended 31 March 2012.

Directors have determined the operating segments based on the reports reviewed by the Chief Executive Officer that are used to make strategic decisions.

Segment profit/(loss) represents the profit/(loss) earned by each segment without allocation of share of profits/(loss) of associates, investment revenue and finance costs, and income tax expense.

The major part of the business of the Group falls under the category of aviation transport with income from other categories comprising less than 4% of total income.

Analysis of turnover according to business segments for the year ended 31 March 2013:

	Passenger Kshs million	Freight and mail Kshs million	Handling Kshs million	Others Kshs million	Total Kshs million
Domestic	6,184	1,418	47	354	8,003
Foreign	78,915	8,297	1,657	1,988	90,857
	85,099	9,715	1,704	2,342	98,860

Analysis of turnover according to business segments for the year ended 31 March 2012:

	Passenger Kshs million	Freight and mail Kshs million	Handling Kshs million	Others Kshs million	Total Kshs million
Domestic	5,184	26	6	385	5,601
Foreign	89,968	8,785	1,863	1,680	102,296
	95,152	8,811	1,869	2,065	107,897

Apart from Nairobi - Amsterdam and Nairobi - London routes which contribute 21.6% of turnover in aggregate, no single route contributes more than 10% of the total Group revenues.

Analysis of operating (loss)/profit per business segments

	31 March 2013	31 March 2012
Passengers	(7,877)	692
Freight, mail and others	(1,135)	614
	(9,012)	1,306

(Loss)/profit by business segment is only analysed between "Passengers" and "Freight, mail and others".

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 5 SEGMENT INFORMATION (CONTINUED)

##### Net assets

The major revenue-earning assets of the Group comprise the aircraft fleet, all of which are registered in Kenya. Since the Group's aircraft fleet are employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to the operating segments. Since the aircraft fleet is deployed flexibly across the Company's route network, providing information on non current assets by geographical and business segments is not considered meaningful.

No single external customer contributes 10% or more of the Group's revenues.

#### 6 REVENUE

	2013 Kshs million	2012 Kshs million
Passengers	85,099	95,152
Freight and Mail	9,715	8,811
Handling	1,704	1,869
Others	2,342	2,065
	<u>98,860</u>	<u>107,897</u>

#### 7 EXPENSES BY NATURE

##### a) Direct costs

Aircraft fuel and oil	41,392	40,714
Aircraft landing, handling and navigation	10,837	11,468
Aircraft maintenance	7,822	7,610
Passenger services	5,074	6,130
Commissions on sales	4,278	3,927
Aircraft, passenger and cargo insurance	584	502
Crew route expenses	2,355	2,624
Central reservation system and frequent flyer programme	3,987	3,521
Others	896	721
	<u>77,225</u>	<u>77,217</u>

##### b) Fleet ownership costs

Hire of aircraft and engines	7,272	6,821
Depreciation on aircraft and engines	3,894	3,015
Depreciation on rotables	186	308
Aircraft purchase subsidy (Note 31)	(174)	(174)
	<u>11,178</u>	<u>9,970</u>

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 7 EXPENSES BY NATURE (CONTINUED)

	2013 Kshs million	2012 Kshs million
<b>c) Overheads</b>		
<b>Administration</b>		
Employee costs (Note 7(d) )	12,972	13,418
Legal and professional fees	379	327
Directors' remuneration (Note 38(c) )	92	96
Audit fees	12	11
General expenses	1,860	2,329
	<u>15,315</u>	<u>16,181</u>

##### Establishment

General maintenance and supplies	918	1,043
Depreciation on buildings, vehicles and other equipment	935	931
Amortisation of intangible assets and prepaid operating lease	519	326
	<u>2,372</u>	<u>2,300</u>

##### Selling

Advertising and publicity	554	599
Bad debts expense	402	324
	<u>956</u>	<u>923</u>
<b>Total overheads</b>	<u>18,643</u>	<u>19,404</u>

##### d) Employee costs and number

Information on the average number of persons employed in the Group during the year and the costs for the year is provided below:

	2013 Kshs million	2012 Kshs million
<b>Employee Costs</b>		
Wages and salaries	10,537	10,667
Contributions to retirement benefits	677	690
National Social Security Fund	9	10
Movement in leave pay provision	(169)	157
Others	1,918	1,894
	<u>12,972</u>	<u>13,418</u>

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 7 EXPENSES BY NATURE (CONTINUED)

	2013	2012
<b>Employee numbers</b>		
Kenya	3,371	4,170
Overseas	635	664
	<u>4,006</u>	<u>4,834</u>

#### 8 NET FINANCE COSTS

	2013	2012
	Kshs million	Kshs million
<b>Finance costs</b>		
Interest expense:		
On long term borrowings	(1,427)	(1,244)
On short term facilities	(439)	(46)
On finance leases	(41)	(51)
	<u>(1,907)</u>	<u>(1,341)</u>
<b>Finance income</b>		
Interest income on short term bank deposits	1,421	244
<b>Net finance costs</b>	<b>(486)</b>	<b>(1,097)</b>

#### 9 FUEL DERIVATIVES GAINS/(LOSSES)

##### a) Realised gains on fuel derivatives

Realised gains - Net receipts	602	2,508
-------------------------------	-----	-------

The realised gains on the fuel derivatives represent receipts from counter parties for fuel derivatives that matured during the financial year.

##### b) Fair value movements

	2013	2012
	Kshs million	Kshs million
Fair value losses on fuel derivatives	-	(41)

The fair value movements on fuel derivatives represent the changes in the fair value (mark to market) of the fuel derivatives that do not qualify for hedge accounting.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 10 OTHER GAINS/(LOSSES)

	2013	2012
	Kshs million	Kshs million
Foreign currency exchange losses	(1,530)	(804)
Other costs	(170)	(215)
	<u>(1,700)</u>	<u>(1,019)</u>

#### 11 PROFIT BEFORE INCOME TAX

The profit before taxation is arrived at after charging/ (crediting):

Employee costs (Note 7(d))	12,972	13,418
Operating lease rentals	7,272	6,821
Net foreign exchange losses	1,530	804
Depreciation of property, plant and equipment (Note 16(a))	5,015	4,254
Amortisation of intangible assets (Note 17)	519	326
Auditor's remuneration	12	11
Directors' remuneration:		
Fees	15	14
Other emoluments	77	82
Inventories written off	-	64
Manufacturer's compensation on aircraft (Note 31)	(174)	(174)
Loss/(profit) on disposal of property, plant and equipment	34	(156)

#### 12 INCOME TAX (CREDIT)/ EXPENSE

Current income tax	89	235
Deferred income tax	(3,051)	251
	<u>(2,962)</u>	<u>486</u>

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2013	2012
	Kshs million	Kshs million
(Loss)/profit before income tax	(10,826)	2,146
Tax calculated at domestic rates applicable to profits in the respective countries - 30% (2012: 30%)	(3,248)	644
Tax effect of:		
Share of results of associate recorded net of tax	69	(71)
Gain of deemed partial disposal of interest in associate	-	(75)
Other income not subject to tax	(1)	(147)
Expenses not deductible for tax purposes	218	135
Income tax (credit)/expense	<u>(2,962)</u>	<u>486</u>

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 12 INCOME TAX (CREDIT)/ EXPENSE (CONTINUED)

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
<b>Current income tax recoverable</b>				
At beginning of year	764	835	762	817
Charge for the year	(89)	(235)	-	(89)
Paid during the year	385	164	213	34
At end of year	1,060	764	975	762
<b>Analysed:</b>				
Current income tax recoverable	1,060	780	975	762
Current income tax payable	-	(16)	-	-
Net current income tax recoverable	1,060	764	975	762

Tax losses of Kshs 10,107 million have been carried forward from the current year.

#### 13 (LOSS)/ PROFIT FOR THE YEAR

The loss for the year amounted to Kshs 7,864 million (2012: profit Kshs 1,660 million) of which Kshs 7,916 million (2012: profit of Kshs 823 million) has been dealt with in the accounts of the Company.

#### 14 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2013	2012
(Loss)/ profit attributable to equity holders of the Company (Kshs million)	(7,857)	1,652
Weighted average number of ordinary shares (million)	1,238	462
Basic earnings per share (Kshs)	(6.35)	3.58

There were no potentially dilutive shares outstanding as at 31 March 2013 or 2012. Diluted earnings per share are therefore the same as basic earnings per share.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 15 DIVIDENDS

	Expected at the date of payment	At 31 March 2013	At 31 At 31 March 2012
Dividends - proposed (Kshs million)	-	-	374
Number of ordinary shares (million)	1,496	1,496	1,496
Dividend per share (Kshs)	-	-	0.25

A dividend of Kshs 0.25 per share amounting to Kshs 374 million relating to the year ended 31 March 2012 was approved at the last Annual General Meeting and paid during the year.

In respect of the current financial year, the directors propose no dividend. This proposal will be presented for formal approval by shareholders' at the forthcoming Annual General Meeting.

Dividend per share is arrived at by dividing the dividends payable by the number of shares in issue at the end of the reporting period.

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non resident shareholders.

The movement in the unclaimed dividends account is as follows:

	2013 Kshs million	2012 Kshs million
At beginning of year	109	109
Declared during the year	374	693
Paid during the year	(374)	(693)
At the end of year (note 34)	109	109

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 16 PLANT, PROPERTY AND EQUIPMENT

a) GROUP	Freehold land and buildings	Aircraft, engines and rotables	Other properties & equipment	In-complete projects	Total
	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
<b>At 31 March 2011</b>					
Cost	4,122	64,410	7,967	902	77,401
Accumulated depreciation	(567)	(20,314)	(5,672)	(54)	(26,607)
<b>Net book value</b>	<b>3,555</b>	<b>44,096</b>	<b>2,295</b>	<b>848</b>	<b>50,794</b>
<b>Year ended 31 March 2012</b>					
Opening net book value	3,555	44,096	2,295	848	50,794
Additions	17	2,154	753	334	3,258
Transfer from incomplete projects	-	-	3	(397)	(394)
Transfer to incomplete projects	-	-	(16)	16	-
Disposals (cost)	(13)	(217)	(48)	-	(278)
Depreciation charge	(95)	(3,323)	(836)	-	(4,254)
Disposals (accumulated depreciation)	5	194	48	-	247
<b>Closing net book value</b>	<b>3,469</b>	<b>42,904</b>	<b>2,199</b>	<b>801</b>	<b>49,373</b>
<b>At 31 March 2012</b>					
Cost	4,126	66,347	8,659	855	79,987
Accumulated depreciation	(657)	(23,443)	(6,460)	(54)	(30,614)
<b>Net book value</b>	<b>3,469</b>	<b>42,904</b>	<b>2,199</b>	<b>801</b>	<b>49,373</b>
<b>Year ended 31 March 2013</b>					
Opening net book value	3,469	42,904	2,199	801	49,373
Revaluation surplus (cost)	3,129	-	-	-	3,129
Additions	29	20,126	448	1,618	22,221
Aircraft deposits capitalised	-	2,013	-	-	2,013
Transfer from incomplete projects	10	566	165	(1,631)	(890)
Disposals (cost)	-	(373)	(65)	-	(438)
Depreciation charge	(95)	(4,080)	(840)	-	(5,015)
Disposals (accumulated depreciation)	-	324	63	-	387
Revaluation surplus (accumulated depreciation)	722	-	-	-	722
<b>Closing net book value</b>	<b>7,264</b>	<b>61,480</b>	<b>1,970</b>	<b>788</b>	<b>71,502</b>
<b>At 31 March 2013</b>					
Cost or Valuation	7,264	88,679	9,207	842	105,992
Accumulated Depreciation	-	(27,199)	(7,237)	(54)	(34,490)
<b>Net book value</b>	<b>7,264</b>	<b>61,480</b>	<b>1,970</b>	<b>788</b>	<b>71,502</b>

The group freehold land and buildings were valued by Kshs 3,851 on 31 March 2013 by Lloyd Masika, independent valuers, on the basis of open market value. The carrying amount of the asset was restated to the revalued amount of the asset, and the resulting surplus arising on revaluation net of deferred income tax was recognised in other comprehensive income and credited to the revaluation surplus in equity.

If the freehold land and buildings were stated on the historical cost basis, the carrying values at 31 March 2013 would be as follows; Cost Kshs 4,165 million, accumulated depreciation Kshs 752 million, net book value Kshs 3,413 million.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 16 PLANT, PROPERTY AND EQUIPMENT (CONTINUED)

b) COMPANY	Freehold land and buildings	Aircraft, engines and rotables	Other properties & equipment	In-complete projects	Total
	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
<b>At 31 March 2011</b>					
Cost	3,619	64,410	7,561	891	76,481
Accumulated depreciation	(416)	(20,314)	(5,394)	(54)	(26,178)
<b>Net book value</b>	<b>3,203</b>	<b>44,096</b>	<b>2,167</b>	<b>837</b>	<b>50,303</b>
<b>Year ended 31 March 2012</b>					
Opening net book value	3,203	44,096	2,167	837	50,303
Additions	17	2,154	731	323	3,225
Transfer from incomplete projects	-	-	3	(397)	(394)
Transfer to incomplete projects	-	-	(16)	16	-
Disposals (cost)	(13)	(217)	(48)	-	(278)
Depreciation charge	(82)	(3,323)	(818)	-	(4,223)
Disposals (accumulated depreciation)	5	194	48	-	247
<b>Closing net book value</b>	<b>3,130</b>	<b>42,904</b>	<b>2,067</b>	<b>779</b>	<b>48,880</b>
<b>At 31 March 2012</b>					
Cost	3,623	66,347	8,231	833	79,034
Accumulated depreciation	(493)	(23,443)	(6,164)	(54)	(30,154)
<b>Net book value</b>	<b>3,130</b>	<b>42,904</b>	<b>2,067</b>	<b>779</b>	<b>48,880</b>
<b>Year ended 31 March 2013</b>					
Opening net book value	3,130	42,904	2,067	779	48,880
Revaluation surplus (cost)	3,180	-	-	-	3,180
Additions	8	20,126	425	1,617	22,176
Aircraft deposits capitalised	-	2,013	-	-	2,013
Transfer from incomplete projects	-	566	151	(1,607)	(890)
Disposals (cost)	-	(373)	(65)	-	(438)
Depreciation charge	(82)	(4,080)	(818)	-	(4,980)
Disposals (accumulated depreciation)	-	324	63	-	387
Revaluation surplus (accumulated depreciation)	547	-	-	-	547
<b>Closing net book value</b>	<b>6,783</b>	<b>61,480</b>	<b>1,823</b>	<b>789</b>	<b>70,875</b>
<b>At 31 March 2013</b>					
Cost or Valuation	6,783	88,679	8,742	843	105,047
Accumulated depreciation	-	(27,199)	(6,919)	(54)	(34,172)
<b>Net book value</b>	<b>6,783</b>	<b>61,480</b>	<b>1,823</b>	<b>789</b>	<b>70,875</b>

The company freehold land and buildings were valued by Kshs 3,727 million on 31 March 2013 by Lloyd Masika, independent valuers, on the basis of open market value. The carrying amount of the asset was restated to the revalued amount of the asset, and the resulting surplus arising on revaluation net of deferred income tax was recognised in other comprehensive income and credited to the revaluation surplus in equity.

If the freehold land and buildings were stated on the historical cost basis, the carrying values at 31 March 2013 would be as follows; Cost Kshs 3,631 million, accumulated depreciation Kshs 576 million, net book value Kshs 3,055 million.



## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 17 INTANGIBLE ASSETS

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
<b>Cost</b>				
At beginning of year	2,855	2,135	2,833	2,113
Additions	235	326	235	326
Transfer from incomplete projects	890	394	890	394
At end of year	3,980	2,855	3,958	2,833
<b>Amortisation</b>				
At beginning of year	1,432	1,106	1,415	1,092
Charge for the year	519	326	515	323
At end of year	1,951	1,432	1,930	1,415
<b>Net book value</b>	2,029	1,423	2,028	1,418

The intangible assets represent costs of acquisition of computer software and expenditure incurred towards enhancing and extending the benefits and lives of computer software programs beyond their original specifications.

#### 18 PREPAID OPERATING LEASE RENTALS

	GROUP AND COMPANY	
	2013 Kshs million	2012 Kshs million
<b>Cost</b>		
At beginning of year	8	8
Revaluation surplus	1,227	-
At end of year	1,235	8
<b>Amortisation</b>		
At beginning of year	3	3
Charge for the year	*-	*-
Revaluation surplus	(3)	-
At end of year	-	3
<b>Net book value</b>	1,235	5

\*Amounts involved are less than Kshs one million and convert to zero on rounding.

Prepaid operating lease rentals were valued by Kshs 1,230 million on 31 March 2013 by Lloyd Masika, independent valuers, on the basis of open market value. The carrying amount of the asset was restated to the revalued amount of the asset, and the resulting surplus arising on revaluation net of deferred income tax was recognised in other comprehensive income and credited to the revaluation surplus in equity.

If the prepaid operating lease rentals were stated on the historical cost basis, the carrying values at 31 March 2013 would be as follows; Cost Kshs 8 million, accumulated depreciation Kshs 3 million, net book value Kshs 5 million.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 18 PREPAID OPERATING LEASE RENTALS (CONTINUED)

Prepaid operating lease rentals relate to the cost incurred to acquire interests in leasehold land. The costs are carried in the financial statements as long term prepayments and amortised to profit or loss on the straight line basis over the terms of the related buildings.

#### 19 INVESTMENTS

##### a) Investment in subsidiaries

Details of investment	Country of incorporation	Activity	2013 % of equity interest	2012 % of equity interest	2013 Kshs million	2012 Kshs million
Kenya Airfreight Handling Limited (2,550,000 shares of Kshs 20 each)	Kenya	Cargo handling for perishable products	51%	51%	51	51
JamboJet Limited (5,000 shares of Kshs 20 each)	Kenya	Dormant	100%	100%	*	*
Kencargo Airlines International Limited (1,000,000 shares of Kshs 20 each)	Kenya	Dormant	100%	100%	-	-
African Cargo Handling Limited (5,753,822 shares of Kshs 100 each)	Kenya	Cargo handling	100%	100%	384	384
<b>At 31 March</b>					<b>435</b>	<b>435</b>

\*Amounts involved are less than Kshs one million and convert to zero on rounding.

The investment in Kencargo Airlines International Limited Kshs 19 million was fully provided for in the previous year since the Company has been inactive, casting doubt on the recoverability and valuation of the investment.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 19 INVESTMENTS (CONTINUED)

##### b) Other Investments

	2013 Kshs million	2012 Kshs million
(i) African Tours and Hotels Limited:		
(100,398 ordinary shares of Kshs 20 each)	2	2
Less: provision for impairment	(2)	(2)
Carrying value	-	-

The shareholding in African Tours and Hotels Limited represents 20.1% of the issued ordinary share capital of the company. The company was placed under receivership several years back and, therefore, the directors do not expect the value of the investment to be recovered. Consequently, the investment has been fully impaired.

##### (ii) SITA SC:

The company held 9 (2012:9) shares in SITA SC loyalty programme. These shares were acquired at nil consideration and therefore the investment has no corresponding value in the financial statements. SITA which had changed its name to GETS marketing Company was placed under liquidation in an extra ordinary meeting held in October 2010. The liquidation work was completed in August 2012 and based on the liquidation records Kenya Airways which held 29.53% of the Company share capital was entitled to receive USD 985,895 (Kshs. 83,110,937) net of bank charges. This amount has been accounted for under other revenues.

A provision was created in the accounts of GETS (in liquidation) to account for tax related payments which would be made on behalf of GETS (Liquidated). Once these steps have been completed, and if amounts remain payable to the shareholders, a second distribution will take place, although it is not contemplated that any amounts distributed would be material.

##### c) Investment in associate

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
Precision Air Services Limited:				
At beginning of year	230	338	155	155
Share of results after taxation	(230)	238	-	-
Share of other comprehensive income	-	(597)	-	-
Gain on deemed partial disposal of interest in associate*	-	251	-	-
Impairment of investment in associate	-	-	(155)	-
At end of year	-	230	-	155

\*During the year 2012, Kenya Airways Limited's investment in Precision Air Services Limited, an associate incorporated in Tanzania, was diluted from 49% to 41.23% following an initial public offer in the associate which Kenya Airways did not participate in. However, there was a net gain of KShs 251 Million on dilution resulting from the capital injection from the initial public offer.

The associate is a limited liability company incorporated and domiciled in the Republic of Tanzania. Its principal activity is carriage of passengers and cargo by air within Tanzania and in the East Africa region.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 19 INVESTMENT (CONTINUED)

##### c) Investment in associates (continued)

Summarised financial information in respect of the Associate is set out below:

	2013 Kshs million	2012 Kshs million
Total assets	14,947	12,613
Total liabilities	(14,659)	(11,616)
Net assets	288	997
Less: Adjustment to align accounting policies with Group*	(443)	(440)
	(155)	557
Group's share of net assets of associate	-	230
Total revenue	9,557	9,034
(Loss)/profit for the year	(746)	470
Group's share of (loss)/profit of associate	(230)	238
Group's share of associate's contingent liabilities	191	14

\* The Associate carries aircraft and aircraft components at revalued amounts, which is not in line with the Group policy of accounting for plant and equipment at cost less accumulated depreciation or any recognised impairment loss. As a result, the revaluation reserve in the Associate's financial statements is excluded from the computation of Kenya Airways Limited's share of net assets in the Associate.

#### 20 DEFERRED EXPENDITURE

	GROUP AND COMPANY	
	2013 Kshs million	2012 Kshs million
At beginning of year	94	-
Additions	88	94
At end of year	182	94

The deferred expenditure relates to B767 aircraft interiors refurbishment cost. This amount is refundable by Boeing upon delivery of B777 aircraft scheduled for delivery in 2014.

#### 21 AIRCRAFT DEPOSITS

	GROUP AND COMPANY	
	2013 Kshs million	2012 Kshs million
Deposits for aircraft leases under long-term operating leases	2,485	693
Deposits paid towards acquisition of aircraft	16,610	3,671
	19,095	4,364

The deposits under long-term operating leases relate to lease of aircraft and engines of Boeing 737's, Boeing 767's, Boeing 777's Embraer E170's and Embraer E190's.

The deposits paid towards acquisition of aircraft represent amounts paid to Boeing Corporation towards acquisition of nine Boeing 787-8 aircraft, one Boeing 777-300ER and three Embraer E190, scheduled for delivery between 2013 and 2015. These deposits do not earn any interest and are carried at amortised cost.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 21 AIRCRAFT DEPOSITS (CONTINUED)

	GROUP AND COMPANY	
	2013 Kshs million	2012 Kshs million
At beginning of year	4,364	2,797
Additions	16,989	2,053
Refunds	(50)	(318)
Amortisation*	(195)	2
Aircraft deposits capitalised (note 16)	(2,013)	-
Foreign exchange differences	-	(170)
	19,095	4,364

\* Amortisation of the aircraft deposits relates to the discount arising from the difference between the maturity value of the deposits and their fair value based on amortised cost.

#### 22 FUEL DERIVATIVES - GROUP AND COMPANY

In the normal course of its business, the Group uses fuel derivatives with approved counter parties to protect it against sudden and significant increases in fuel prices. The table below analyses the fuel derivatives into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity.

Maturity analysis of derivatives at fair value through profit or loss:

	1-6 months	7-9 months	10-12 months	1-2 years	Total
	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
<b>31 March 2013</b>					
Options	172	13	25	19	229
<b>31 March 2012</b>					
Options	955	271	101	110	1,437

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 22 FUEL DERIVATIVES - GROUP AND COMPANY (CONTINUED)

	GROUP AND COMPANY	
	2013 Kshs million	2012 Kshs million
<b>b) Derivative asset</b>		
Within one year	210	1,327
Between one and two years	19	110
	229	1,437

#### 23 INVENTORIES

Aircraft consumables inventories	2,088	2,089
Other inventories	444	594
	2,532	2,683

The cost of inventories recognised as an expense and included in the consolidated 'Direct costs' amounted to Kshs 1,418 Million (2012: Kshs 2,388 Million).

#### 24 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
Trade and other receivables	11,695	11,099	16,263	15,304
Less: Provision for impairment*	(1,282)	(880)	(1,889)	(1,487)
	10,413	10,219	14,374	13,817
Analysed as :				
Trade - airlines	1,046	837	1,027	774
Trade - agents	5,381	5,722	5,233	5,599
Trade - others	548	1,296	542	1,285
Trade - Government ministries and parastatals	30	59	30	59
Prepayments	1,706	1,179	1,690	1,164
Staff receivables	190	186	190	186
Other receivables	1,155	834	1,144	827
Due from related parties (Note 38(b))	357	106	4,518	3,923
	10,413	10,219	14,374	13,817

\*Included in the company's provision are related party balances amounting to KShs 618 million which cancel out upon consolidation.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 24 TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements on the provision for impairment of trade and other receivables are as follows:

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
At beginning of year	880	556	1,487	1,165
Provision in the year	402	324	402	322
At end of year	1,282	880	1,889	1,487

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group and Company does not hold any collateral as security.

The fair value of trade and other receivables approximates their carrying value.

#### 25 BANK AND CASH BALANCES

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
Cash in hand and at bank	1,944	5,836	1,869	5,515
Short term deposits maturing within 90 days	12,449	1,004	12,449	1,004
	14,393	6,840	14,318	6,519

The effective interest rates on short term deposits ranged from 8% - 9% (2012: 6% - 26.5%) depending on the country where the deposit has been placed.

#### 26 SHARE CAPITAL

GROUP AND COMPANY	Number of Shares (Thousands)	Ordinary Shares Kshs million
<b>Authorised:</b>		
2,000,000,000 ordinary shares of Kshs 5 each	2,000,000	10,000
<b>Issued and fully paid:</b>		
At 1 April 2012: 461,615,484 ordinary shares of Kshs 5 each	461,615	2,308
At 31 March 2013: 1,496,469,034 ordinary shares of Kshs 5 each	1,496,469	7,482

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 26 SHARE CAPITAL (CONTINUED)

##### Share capital

The company issued an additional 1,034,853,551 ordinary shares (gross proceeds KShs 14,488 million) during the year through a rights issue concluded in June 2012. The analysis of the rights issue is as below.

	Kshs million
At beginning of year	2,308
Issue of shares - rights	5,174
At end of year	7,482

##### Share premium

	Shares	Price Kshs	Kshs Million
Total proceeds	1,034,853,551	14	14,488
Ordinary share capital of Kshs 5 each	1,034,853,551	5	(5,174)
Share premium	1,034,853,551	9	9,314
Rights issue costs			(644)
Share premium net of issue costs			8,670

#### 27 RESERVES

##### a) Cash flow hedging reserve, net of tax

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
Hedged exchange differences on borrowings	(1,558)	(1,427)	(1,558)	(1,427)
Fuel hedge contracts	160	1,006	160	1,006
Share of associate reserves	(597)	(597)	-	-
	(1,995)	(1,018)	(1,398)	421

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis of adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

Losses of Kshs 442 million (2012: 582 Million) have been transferred from equity into profit or loss during the year.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 27 RESERVES (CONTINUED)

##### b) Revaluation surplus

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
Surplus on revaluation of property, plant and equipment (Note 16)	3,851	-	3,727	-
Surplus on revaluation of prepaid operating lease rentals (Note 18)	1,230	-	1,230	-
	5,081	-	4,957	-
Deferred tax on revaluation surplus	(1,524)	-	(1,487)	-
	3,557	-	3,470	-

The revaluation surplus arose on the revaluation of freehold land and buildings and prepaid operating lease rentals and is stated net of deferred tax. The surplus is not distributable.

##### c) Revenue reserves

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
	13,441	21,298	10,126	18,042

Revenue reserves represents cumulative retained surpluses available for distribution to the shareholders of the Company.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 28 NON-CONTROLLING INTEREST

	2013 Kshs million	2012 Kshs million
<b>Stamina Group B.V</b>		
At beginning of year	61	53
Share of (loss)/profit for the year	(7)	8
At end of year	54	61
<b>Represented by:</b>		
Holding in Kenya Airfreight Handling Limited	49%	49%

#### 29 BORROWINGS

##### a) Analysis of interest bearing loans and borrowings:

	2012 Average Interest rates	Maturities	GROUP & COMPANY	
			2013 Kshs million	2012 Kshs million
Citibank NA - Aircraft loans	5.36%	2007-2019	5,541	6,111
Barclays Bank PLC - Aircraft loans	4.84%	2005-2014	12,848	15,574
Co-operative Bank - Engine loan	4.55%	2012-2016	556	629
Short Term Facilities	5.94%	2014-2015	5,426	4,555
Afrexim - Aircraft Loans	5.39%	2012-2025	37,594	-
			61,965	26,869

The loans were obtained for the purpose of funding aircraft acquisition; aircraft spare engines and for pre-delivery payments for ordered aircraft.

The Barclays Bank PLC and Citibank N.A loans are repayable over periods of twelve years from the dates of disbursement of each loan. The loans were advanced to Swara Aircraft Financing Limited, Ndovu Aircraft Financing Limited, Nyati Aircraft Financing Limited and Kifaru Aircraft Financing Limited by Barclays Bank PLC and to Chui Aircraft Financing Limited by Citibank N.A and are guaranteed by Export-Import Bank of the United States of America (Eximbank). The aircraft are registered in the name of Swara Aircraft Financing Limited, Ndovu Aircraft Financing Limited, Nyati Aircraft Financing Limited, Kifaru Aircraft Financing Limited and Chui Aircraft Financing Limited, the equity in all of which are held by security trustees on behalf of Eximbank, to afford Eximbank title security over the aircraft. The aircraft are also encumbered by charges in favour of security trustees on behalf of Eximbank. The legal title for the aircraft is to be transferred to Kenya Airways Limited once the loans are fully repaid. In all cases the company holds back to back finance leases with the special purpose vehicles above.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 29 BORROWINGS (CONTINUED)

The Afrexim loans were advanced to Samburu Limited, Aberdare Limited and Amboseli Limited by African Export and Import Bank in syndication with Standard Chartered Bank. These consist of pre-delivery payments loans, with a tenor of two years and Delivery loans, repayable in twelve years from the respective disbursement dates. The legal title for the aircraft is to be transferred to Kenya Airways Limited once the loans are fully repaid. In all cases the company holds back to back finance leases with the special purpose vehicles above.

Co-operative Bank financed the acquisition of an Embraer spare engine. The loan repayable over a period of five years starting June 2012. The short term facilities were drawdown from Barclays Bank, Standard Chartered Bank, Kenya Commercial Bank, Commercial Bank of Africa and Ecobank for the financing of pre-delivery payments for ordered aircraft.

#### Covenants

The Group has signed a number of facilities with African Export-Import Bank (Afrexim) for the purchase of aircraft and funding of pre-delivery deposits for aircraft. One of the facilities, for the purchase of 10 Embraer E190 aircraft, contains some financial covenants, which are monitored against the annual audited financial statements. In view of the loss reported in these financial statements, the Group will not be in compliance with two of the financial covenants, which are earnings based, at the date of the next monitoring of the covenants.

Management has held discussions with the financiers and, on the basis of those discussions, is confident that the financiers will continue to provide support to the Group. The Group has indeed made further drawdowns on this facility after the year end.

The balance outstanding on this facility at 31 March 2013 is Kshs 22,893 million and is included in current liabilities.

#### b) Maturities of amounts included in borrowings are as follows:

	GROUP AND COMPANY	
	2013 Kshs million	2012 Kshs million
The borrowings are made up as follows:		
Within one year	30,544	7,715
Between two and five years	31,152	17,887
Later than 5 years	269	1,267
<b>Total borrowings</b>	<b>61,965</b>	<b>26,869</b>

#### c) The movement in the borrowings is as follows:

	2013 Kshs million	2012 Kshs million
At beginning of year	26,869	25,449
Additions	42,659	5,207
Repaid in the year	(8,371)	(3,954)
Exchange difference on hedged borrowings	630	167
Exchange difference on non-hedged borrowings	178	-
<b>At end of year</b>	<b>61,965</b>	<b>26,869</b>

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 29 BORROWINGS (CONTINUED)

The exchange differences have been dealt with as follows:

	GROUP AND COMPANY	
	2013 Kshs million	2012 Kshs million
Total exchange differences on borrowings	(630)	(167)
Realised on settlement of loans	442	582
<b>Net hedge effect</b>	<b>(188)</b>	<b>415</b>

The Group has multi-currency credit line facilities with a total value of Kshs 33,168 million (2012: Kshs 24,095 million) with various local and international banks for tenures of one year and renewable. At 31 March 2013, the Group had utilised guarantees amounting to Kshs 2,837 million (2012: Kshs 2,204 million) and drawdown facilities of Kshs 6,222 million (2012: Kshs 4,565 million). Unutilised facilities total of Kshs 24,109 million (2012: Kshs 17,326 million). A corporate guarantee of Kshs 1,000 million is in place for the KQ & Co-operative Bank Ab Initio Programme.

#### 30 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2012: 30%). The gross movement on the deferred income tax account is as follows:

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
<b>Deferred tax assets</b>				
Leave pay provision	(208)	(259)	(208)	(259)
Other provisions	(140)	(15)	(104)	(14)
Tax losses	(3,032)	-	(3,025)	-
Unrealised exchange losses	(103)	(57)	(102)	(54)
Fuel derivative losses	-	(12)	-	(12)
Hedge losses	(668)	(611)	(668)	(611)
	<b>(4,151)</b>	<b>(954)</b>	<b>(4,107)</b>	<b>(950)</b>
<b>Deferred tax liabilities</b>				
Accelerated capital allowances	8,931	8,842	8,950	8,863
Revaluation surplus	1,524	-	1,487	-
Hedge gains	68	430	68	430
	<b>10,523</b>	<b>9,272</b>	<b>10,505</b>	<b>9,293</b>
<b>Net deferred tax liability</b>	<b>6,372</b>	<b>8,318</b>	<b>6,398</b>	<b>8,343</b>

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 30 DEFERRED INCOME TAX (CONTINUED)

	GROUP		COMPANY	
	2013	2012	2013	2012
	Kshs million	Kshs million	Kshs million	Kshs million
<b>Comprising:</b>				
Deferred tax asset	(26)	(25)	-	-
Deferred tax liability	6,398	8,343	6,398	8,343
Net deferred tax liability	6,372	8,318	6,398	8,343

The movement in the net deferred tax liability during the year is presented below:

	GROUP		COMPANY	
	2013	2012	2013	2012
	Kshs million	Kshs million	Kshs million	Kshs million
At beginning of year	8,318	8,277	8,343	8,303
Income statement charge (Note 12)	(3,051)	251	(3,013)	250
Deferred tax dealt with in other comprehensive income	1,105	(210)	1,068	(210)
At end of year	6,372	8,318	6,398	8,343

Deferred tax dealt with in other comprehensive income relates to:

	GROUP		COMPANY	
	2013	2012	2013	2012
	Kshs million	Kshs million	Kshs million	Kshs million
Cash flow hedges	(419)	(210)	(419)	(210)
Surplus on revaluation of property, plant and equipment	1,524	-	1,487	-
	1,105	(210)	1,068	(210)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable profit is probable.

#### 31 DEFERRED INCOME - COMPENSATION FROM MANUFACTURER

	GROUP AND COMPANY	
	2013	2012
	Kshs million	Kshs million
At beginning of year	2,332	2,406
Additions	-	100
Released to income	(174)	(174)
At end of year	2,158	2,332
<b>Deferred income comprises;</b>		
Amounts due within one year	174	174
Amounts due after one year	1,984	2,158
	2,158	2,332

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 32 FINANCE LEASE OBLIGATIONS

	GROUP AND COMPANY	
	2013	2012
	Kshs million	Kshs million
At beginning of year	1,222	1,436
Repaid in the year	(202)	(227)
Exchange difference	35	13
At end of year	1,055	1,222

The finance lease obligations relate to lease of B737 aircraft which took place in the year 2011. These leases are repayable over a period of four years.

Finance lease obligations comprises:

	2013	2012
	Kshs million	Kshs million
	Amounts due within one year	212
Amounts due after one year	843	1,023
At end of year	1,055	1,222

#### 33 SALES IN ADVANCE OF CARRIAGE

Passengers	8,847	6,492
Cargo	240	136
	9,087	6,628

#### 34 TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2013	2012	2013	2012
	Kshs million	Kshs million	Kshs million	Kshs million
Trade payables	8,556	6,504	8,334	6,311
Other payables and accruals	885	1,446	812	1,317
Accruals for staff leave entitlements (Note 36)	694	863	694	863
Due to related parties (Note 38)	113	72	6,970	6,226
Unclaimed dividends	109	109	109	109
	10,357	8,994	16,919	14,826

The carrying amounts of the above payables and accrued expenses approximate to their fair values.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 35 PROVISIONS FOR LIABILITIES AND CHARGES

	GROUP			COMPANY		
	Redundancy provision	Other provisions	Total	Redundancy provision	Other provisions	Total
	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million	Kshs million
At beginning of year	-	46	46	-	46	46
Net increase charged to income statement	826	-	826	582	-	582
Utilised during the year	(405)	-	(405)	(282)	-	(282)
At end of year	421	46	467	300	46	346

##### Redundancy provision

The company implemented a staff restructuring program during the year aimed at improving operational efficiency. The program affected 599 employees and a provision of Kshs 826 million was made to cover the redundancy payments. The unionisable staff moved to the Industrial Court to block the restructuring, and the Court ruled in their favour, ordering the reinstatement of affected employees. The Company has appealed against the decision and has obtained a stay of execution order pending determination of the appeal. The provision at year end is sufficient to cover any back payments that would be necessary were the ruling to be upheld and affected employees reinstated.

##### Other provisions

Other provisions relate to a claim for breach of contract relating to termination of baggage handling and security services contract in Douala and Yaounde. The Judge verbally pronounced judgment against KQ but did not issue a written judgment. A provision of Kshs 46 million was made in light of the ruling. The airline has appealed against the amount awarded.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 36 ACCRUALS FOR STAFF LEAVE ENTITLEMENTS

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
At beginning of year	863	706	863	698
Leave entitlement for the year	621	632	589	592
Amounts utilised during the year	(790)	(475)	(758)	(427)
	694	863	694	863

#### 37 CASH GENERATED FROM OPERATIONS

##### a) Cash generated from operations

	GROUP	
	2013 Kshs million	2012 Kshs million
(Loss)/profit before income tax	(10,826)	2,146
<b>Adjustments for:</b>		
Depreciation (Note 16)	5,015	4,254
Amortisation of intangible assets (Note 17)	519	326
Aircraft purchase subsidy released to income (Note 31)	(174)	(174)
Loss/(profit) on disposal of property, plant and equipment (Note 11)	34	(156)
Share of results of associate company (Note 19 (c))	230	(238)
Gain on deemed partial disposal of interest in associate (Note 19 (c))	-	(251)
Amortisation of aircraft deposits (Note 21)	195	(2)
Unrealised exchange differences (Note 21, Note 29(c) & Note 32)	213	183
Exchange differences on settlement of loans (Note 29)	442	582
Fair value movements on fuel derivatives (Note 9)	-	41
Interest expense (Note 8)	1,907	1,341
Interest income (Note 8)	(1,421)	(244)
<b>Working capital changes:</b>		
Decrease/(increase) in inventories	151	(776)
(Increase)/decrease in trade and other receivables	(194)	940
Increase/(decrease) in sales in advance of carriage	2,459	(2,382)
Increase in trade and other payables	1,363	3
Increase in provisions for liabilities and charges	421	46
Cash generated from operations	334	5,639



## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 37 CASH GENERATED FROM OPERATIONS (CONTINUED)

##### b) Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents as at 31 March comprise the following:

	GROUP	
	2013 Kshs million	2012 Kshs million
Cash in hand and at bank	1,944	5,836
Short term deposits maturing within 90 days	12,449	1,004
	<u>14,393</u>	<u>6,840</u>

#### 38 RELATED PARTY TRANSACTIONS

##### a) Nature of related party transactions

During the year, companies within the Group entered into transactions with related parties who are not members of the Group. Details of those transactions are presented below:

##### KLM Royal Dutch Airlines (KLM)

KLM holds 26.73% equity interest in Kenya Airways Limited, and has a joint venture agreement with Kenya Airways Limited which commenced in November 1997. The agreement allows the two airlines to co-operate in developing schedules and fares and to share generated revenue benefits and costs for the core routes between Nairobi and Amsterdam.

##### Precision Air Services Limited

Kenya Airways Limited holds 41.23% (2012: 41.23%) equity interest in Precision Air Services Limited with code share on the route between Nairobi and Dar es Salaam.

As is common throughout the airline industry, Kenya Airways Limited, KLM Royal Dutch Airlines and Precision Air Services Limited from time to time carry each other's passengers travelling on the other airline's tickets. The settlement between the two carriers is effected through IATA clearing house, of which all airlines are members.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 38 RELATED PARTY TRANSACTIONS (CONTINUED)

##### b) Related companies balances

Balances outstanding at the year-end on account of transactions with related parties were as follows:

	GROUP		COMPANY	
	2013 Kshs million	2012 Kshs million	2013 Kshs million	2012 Kshs million
<b>(i) Due from related companies</b>				
Precision Air Services Limited	242	37	242	37
Stamina Group B.V	115	69	-	-
Kenya Airfreight Handling Limited	-	-	112	115
African Cargo Handling Limited	-	-	4,164	3,771
	<u>357</u>	<u>106</u>	<u>4,518</u>	<u>3,923</u>

##### (ii) Due to related companies

KLM	10	13	-	-
Stamina Group B.V	103	59	-	-
Kenya Airfreight Handling Limited	-	-	48	48
African Cargo Handling Limited	-	-	6,922	6,178
	<u>113</u>	<u>72</u>	<u>6,970</u>	<u>6,226</u>

Amounts due from and due to Kenya Airfreight Handling Limited (KAHL) arise from payments of expenses by Kenya Airways on behalf of KAHL, net of costs apportioned by KAHL for services rendered to Kenya Airways Limited. It also includes an amount of Kshs 19.6 million loan secured by KAHL from Kenya Airways Limited. The amounts due to African Cargo Handling Limited represent funds transferred to the parent company for investment.

The amounts due from African Cargo Handling Limited (ACHL) relate to cargo freight collected by ACHL on behalf of Kenya Airways (KQ) and the expenses paid by KQ on behalf of ACHL.

The amounts due to ACHL relate to cash transfers from ACHL to KQ and the ACHL IATA billings.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 38 RELATED PARTY TRANSACTIONS (CONTINUED)

##### c) Remuneration for directors' and key management compensation

The remuneration for directors' and other members of key management during the year were as follows:

	GROUP		COMPANY	
	2013	2012	2013	2012
	Kshs	Kshs	Kshs	Kshs
	million	million	million	million
Salaries and other benefits	250	246	239	236
Non monetary benefits	9	10	8	9
	259	256	247	245

Directors' remuneration (included in key management compensation above):

	GROUP		COMPANY	
	2013	2012	2013	2012
	Kshs	Kshs	Kshs	Kshs
	million	million	million	million
As executives	77	82	77	82
As non executives	15	14	15	14
	92	96	92	96
Non - monetary benefits	4	5	4	5
	96	101	96	101

#### 39 CAPITAL EXPENDITURE COMMITMENTS

As at 31 March, the Group had purchase commitments for aircraft fleet and equipment incidental to the ordinary course of business as follows:

	GROUP	
	2013	2012
	Kshs million	Kshs million
Authorised and contracted for	121,946	121,313
Authorised but not contracted for	8,187	6,503
	130,133	127,816

The bulk of authorised and contracted for commitments are in respect of purchase of aircraft.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 40 OPERATING LEASE COMMITMENTS

The aggregate payments for which the Group has commitments under operating leases at the end of the year fall due as follows:

	GROUP	
	2013	2012
	Kshs million	Kshs million
Within one year	6,671	6,350
After one year but not more than five years	10,986	12,311
More than five years	1,845	2,680
	19,502	21,341

The aircraft fleet leasing commitments include the balance of rental obligations under operating leases in respect of various aircraft. The various lease agreements do not provide for purchase options on expiry of the lease terms. No restrictions have been imposed by the lessors on the company in respect of dividend payouts, borrowings or further leasing.

#### 41 CONTINGENCIES

##### a) Contingent liabilities

	GROUP	
	2013	2012
	Kshs million	Kshs million
Guarantees	9,059	6,769
Litigation	567	643
	9,626	7,412

##### b) Guarantees

In the ordinary course of business, the Group's bankers have given guarantees on behalf of the Group in favour of third parties. In the opinion of the directors, no liability is expected to crystallise in respect of these guarantees.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 41 CONTINGENCIES (CONTINUED)

##### c) Litigation

###### i) Douala crash - KQ507

A leased aircraft, Boeing 737-800 (registration mark 5Y-KYA) operating as flight number KQ507 crashed shortly after take-off from Douala airport in Cameroon on 5th May 2007. All the 105 passengers and 9 crew members on board perished in the accident. The investigation of the accident carried out under the auspices of the Cameroon civil aviation authorities is now complete. Kenya Airways Limited is fully insured for any legal obligations arising out of the accident.

##### Claims

The claim in connection with the hull of the aircraft was concluded within three weeks of the accident with a direct payment to the aircraft lessor.

Kenya Airways Limited is fully conversant with its legal obligations with regard to compensation to the families. Negotiations with the next of kin and their lawyers are ongoing and a number of full and final settlements have already been concluded.

##### Site clear up

After the accident there had been concerns locally that the accident site had not been made sufficiently safe and secure. On 30 December 2008, the Cameroon Prime Minister appointed a local committee to oversee a clean up and restoration of the site of the accident. Kenya Airways was asked to nominate a representative and did so. To our knowledge, there have been no further developments since this date regarding the site clear up. We suspect that given the site is located in a tidal mangrove swamp, is difficult to access and the nearest habitation is some distance from the site, it will be very difficult for the committee to achieve its aims in any event.

##### Criminal action in Cameroon

A Criminal investigation into the accident was opened in the Court of First Instance in Ndokoti, Douala, Cameroon in November 2009. This is separate and distinct from the investigation undertaken by the Official Accident Investigation Commission in accordance with Annex 13 Chicago Convention. The purpose of the criminal process is to establish whether there has been any criminal wrongdoing.

A number of hearings took place. Notwithstanding subsequent publication of the official accident report, the Magistrate has indicated that he wishes to continue with his investigations. It is unclear when the next hearing may be and there have been no recent developments.

##### Coroner's Inquest

We have recently been notified of a Coroner's Inquest in England to consider the deaths of the British nationals on board. KQ has already arranged for representation and approached insurers for their support in the handling of this matter.

## Notes to the financial statements

### For the year ended 31 March 2013 (continued)

#### 41 CONTINGENCIES (CONTINUED)

##### c) Litigation (continued)

###### ii) Abidjan crash - KQ 431

On 30 January 2000, a Kenya Airways Airbus 310 aircraft registration 5Y-BEN on flight KQ431 from Abidjan (Ivory Coast) to Nairobi crashed into the sea. A total of 169 passengers perished in the crash. KQ negotiated and reached agreement in majority of the claims.

A criminal investigation was initiated to establish if there was evidence of wrong doing on the part of the Company that led to the fatal accident. The investigating Magistrate put KQ under investigation on 29 September 2010. Insurers have agreed to meet the cost of any defence (i.e the cost of legal representation in the process).

##### List of Material Litigation

###### a) Civil Suit No. 151 of 2009 (Uganda)

Breach of contract claim in which the plaintiff seeks special and general damages;

###### b) FHC/I/CS/1221/2002 (Nigeria)

claim for special and general damages for non-delivery of textile materials; and

###### c) Nairobi Industrial Court Cause No. 539 of 2011 (Kenya)

Action against the Company by a former employee. There are other various legal cases brought against the Company which are pending determination by the courts. It is not practicable to determine the timing and ultimate liabilities (if any) that may crystallise upon resolution of the pending cases. However, on grounds of prudence, management has made appropriate provisions in respect of certain cases. Due to the nature and sensitivity of these cases, detailed disclosures have not been made for each case as these may be prejudicial to the position of the Group.

###### d) Kenya Revenue Authority tax assessment

In 2011, the Kenya Revenue Authority (KRA) issued an assessment to the Company in respect of various indirect taxes for prior years, which the Company disputed. Negotiations with KRA were finalised during the year and all principal taxes agreed have been paid. Management applied for a waiver of the penalties and interest on the principal amount. The application was not granted and management is in the process of appealing to the Treasury. Management expects the new application to be successful and do not expect any material liability to crystallise.



The ten largest shareholdings in the Company and the respective number of shares held at 31 March 2013 are as follows:

Name of shareholder	Number of shares
1. Permanent Secretary To The Treasury	445,920,556
2. KLM - Koninklijke Luchtvaart Maatschappij	400,020,026
3. Standard Chartered Nominees Ltd Non Resident a/c KE11752	143,000,000
4. Standard Chartered Nominees Ltd Non Resident a/c 9057	71,116,080
5. Standard Chartered Nominees Ltd A/c 9187	25,536,865
6. Standard Chartered Nominees Ltd a/c 9230	20,630,773
7. CFC Stanbic Nominees Ltd a/c NR1030828	10,978,400
8. Standard Chartered Nominees Ltd A/c 9197	10,369,230
9. Standard Chartered Nominees Ltd Non Resident a/c 9054	9,502,796
10. Old Mutual Life Assurance Company Ltd	7,806,069
Other shareholders	351,588,239
<b>Total</b>	<b>1,496,469,034</b>

#### Distribution of shareholders:

	Number of shareholders	Number of shares	% Shareholding
Less than 500 shares	32,008	12,700,699	0.85
500 - 5,000 shares	39,974	64,049,398	4.28
5,001 - 10,000 shares	2,621	19,497,549	1.30
10,001 - 100,000 shares	2,457	63,421,235	4.24
100,001 - 1,000,000 shares	285	78,648,952	5.26
Over 1,000,000 shares	58	1,258,151,201	84.07
<b>Total</b>	<b>77,403</b>	<b>1,496,469,034</b>	<b>100.00</b>

#### Distribution of shareholders by region:

	Number of shareholders	Number of shares	% Shareholding
Foreign Institutions	30	654,203,256	43.72
Foreign Individuals	520	6,360,685	0.42
Local Institutions	3,339	654,853,112	43.76
Local Individuals	73,514	181,051,981	12.10
<b>Total</b>	<b>77,403</b>	<b>1,496,469,034</b>	<b>100.00</b>





Notes 1, 4

I/We \_\_\_\_\_

of \_\_\_\_\_

Being a \*Member/Members of the above named company, hereby appoint:

\_\_\_\_\_ of \_\_\_\_\_

or failing him \_\_\_\_\_

\_\_\_\_\_ of \_\_\_\_\_

As \*my/our proxy to vote for \*me/us on\*my/our behalf at the Annual General Meeting of the company to be held on Thursday 26<sup>th</sup> September 2013 and at any adjournment thereof.

(\*Strike out as appropriate)

Signature(s) \_\_\_\_\_

**See notes 2,3,4 below**

Signed this \_\_\_\_\_

day of \_\_\_\_\_

2013

This form is to be used\* in favour of/against the resolution. Unless otherwise instructed, the proxy will vote as he/she thinks fit. (Strike out as appropriate)

**Notes**

1. The address should be that shown in the register of members.
2. In the case of a member being a corporation, this proxy must be executed either under its common seal or signed on its behalf by an attorney or officer of the corporation duly authorized
3. A person appointed to act as a proxy need not to be a member of the company.
4. In case of joint holders, the signature of any one holder will be sufficient but names of all joint holders should be stated.

**Shareholder admission letter**

Please complete this letter and note that this admission letter must be produced at the Annual General Meeting by you or your proxy in order to record attendance. Kindly note that only the registered shareholders or their proxy notified to the company at least 24hours before the meeting will be admitted to the meeting.

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Share Account Number: \_\_\_\_\_

The Annual General Meeting of Kenya Airways will be held at the Bomas of Kenya, off Langata Road, Nairobi on Thursday 26<sup>th</sup> September 2013 at 11.00am.





## Fomu ya Wakilishi

Sehemu ya 1,4

Mimi/Sisi

wa

Kama mwanachama/wanachama wa shirika lililotajwa hapo juu, nateuwa/tunateuwa

wa

na akikosa yeye

wa

Kama mwakilishi \*wangu/wetu \*kunipigia/kutupigia kura katika mkutano wa kila mwaka wa kampuni utakaofanywa mnamo Alhamisi tarehe 26 Septemba 2013 na wakati wa ahirisho lolote litakalotokea baadaye.

(\*weka ujumaa)

Sahihi

### Sehemu ya 2,3,4 chini

Naweka sahihi siku hii

ya

2013

Fomu inatumika\* kukubali/kupinga maazimio. Kama haikueleza vingine, inachukuliwa kuwa mwakilishi atapiga kura kama anavyopendelea. (\*weka inavyostahili)

### Maelezo

1. Sanduku la posta sharti liwe ni kama lilivyo katika rejista ya wanachama
2. Kama mwanachama ni shirika, fomu ya uwakilishi sharti iwe na mhuri au sahihi ya wakili au afisa wa shirika aliyeruhusiwa.
3. Mwakilishi siyo lazima awe mwanachama wa shirika la Kenya Airways.
4. Ikiwa wanachama ni wengi, sahihi ya mmoja wao inatoshia lakini majina yote ya wanachama hao sharti yaandikwe.

### Barua ya ualishi ya wenye-hisa

Tafadhali jaza barua hii na fahamu kuwa ni sharti itolewe, ni wewe au mwakilishi wako, katika mkutano mkuu wa kila mwaka ili kutengeneza ratiba ya walioyohudhuria. Tunakujulisha kuwa ni wenye-hisa waliosajiliwa pekee au wawakilishi waliojulishwa kwa shirika saa 24 kabla ya kuanza mkutano watakaoruhusiwa kuingia mkutanoni.

Jina:

Sahihi:

Nambari ya hisa:

Mkutano mkuu wa kila mwaka wa Shirika la Ndege la Kenya utakaofanyika Bomas of Kenya katika barabara ya Langata, mnamo Alhamisi tarehe 26 Septemba 2013 kutoka saa tano asubuhi.

