

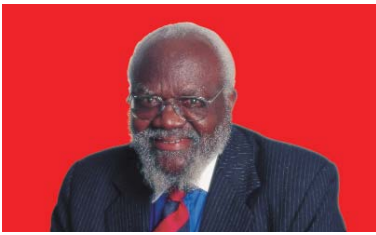
Annual Financial Report & Accounts

2003



Kenya Airways
The Pride of Africa

Contents



I am pleased to report that Kenya Airways continued to pursue its vision — to become a world-class network airline by 2005 - despite enormous challenges occasioned by the Gulf War, the terrorist attack in Mombasa, a depressed domestic economy, the run-up to the general election in Kenya, political uncertainty in certain African countries and stiff competition .

Nina furaha kutoa taarifa kwamba shirika la Kenya Airways limeendelea kufuatilia maono yake — kupata madaraka ya shirika la ndege la kimataifa ifikapo mwaka 2005 — ingawa kumekuwa na changamoto tele kutokana na vita vya Ghuba la Uajemi, mashambulizi ya kigaidi ya Mombasa, uchumi uliozoroteka nchini Kenya, hali ya kutaharuki katika bara la Afrika na mshindano makubwa .

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Highlights of the year

Group Results

Turnover

Up 9.1% (KShs Millions)

2002 - 2003

27,461

2001 - 2002

25,165

Profit Before Tax

Down 48.3% (KShs Million)

2002 - 2003

547

2001 - 2002

1,059

Capital and Reserves

Down 1.4% (KShs Millions)

2002 - 2003

7,338

2001 - 2002

7,444

Operating Profit

Down 30.7% (KShs Million)

2002 - 2003

839

2001 - 2002

1,211

Net Profit for the year

Down 60.2% (KShs Millions)

2002 - 2003

345

2001 - 2002

868

Earnings per share

Down 60.1% (KShs millions)

2002 - 2003

0.75

2001 - 2002

1.88

Key Financial Statistics

Debt/Equity ratio

Up 18.5%

2002 - 2003

2.31

2001 - 2002

1.95

Operating Margins

Down 35.4% (KShs Millions)

2002 - 2003

3.1

2001 - 2002

4.8

Operating Statistics

Revenue Passenger KM

Up 7.2% (Millions)

2002 - 2003

3,994

2001 - 2002

3,725

Passengers Carried

Up 5.3%

2002 - 2003

1,621,429

2001 - 2002

1,539,872

Available Seats KM

Up 9.6% (Millions)

2002 - 2003

5,872

2001 - 2002

5,359

Passenger Load Factor

Down 2.15% (Percentage)

2002 - 2003

68.0

2001 - 2002

69.5

Cargo Tonnes Uplifted

Up 20.9% (Tonnes)

2002 - 2003

28,497

2001 - 2002

23,574

Notice to the annual general meeting 2003

Ilani ya mkutano mkuu 2003



Notice is hereby given that the 27th Annual General Meeting of the Company will be held at the Kenya Airways Headquarters, North Airport Road, Embakasi, Nairobi on 21st November 2003 at 11.00 a.m. for the following purposes:-

1. To read the Notice convening the Meeting.
2. To consider the Audited Balance Sheet and Accounts for the year ended 31 March 2003 together with the Directors and Auditors Report thereon.
3. To approve payment of a first and final dividend of Kshs. (0.50) per share on the ordinary share capital payable on or about 28th November 2003 to shareholders registered at the close of business on 31st July 2003.
4. To elect Directors:
 - i) Mr. Titus Tukero Naikuni who was appointed by the Board to the position of Group Managing Director effective 12th February 2003.
 - ii) Mr. Joseph Magari who was appointed by the Board on 30th January 2003 to fill a casual vacancy created by the resignation of Mr. Joseph Kinyua, retires in accordance with Article 90 and being eligible offers himself for election.
 - iii) Mr. I.E. Omolo Okero, having attained the age of 74 years, who retires by rotation, and being eligible by virtue of a special notice given under section 186(5) of the Companies Act, offers himself for re-election pursuant to the following ordinary resolution of the company:

That Mr. I.E. Omolo Okero, having attained the age of 74 years, be and is hereby re-elected a director of the Company.
 - iv) Mr. H.K. Kiplagat retires by rotation and being eligible offers himself for re-election.
5. To approve the remuneration of the Directors.
6. To authorize the Directors to fix the remuneration of the Auditor.

By order of the Board
L. G. Kamau
Secretary
P.O. Box 19002, Nairobi
Date: 1st September, 2003

Notes:

1. Any member may by notice duly signed by him or her deliver to the Secretary not less than 7 and not more than 21 days before the day appointed for the Annual General Meeting give notice of his intention to propose any other person for election to the Board, such notice to be accompanied by a notice signed by the person proposed of his or her willingness to be elected. The proposed person need not be a member of the Company.
2. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy which is attached to this notice, must be duly completed by the member and must either be lodged at the offices of the company's share registrars, Barclays Advisory & Registrar Services, Bank House, Moi Avenue, P.O. Box 30120, Nairobi or be posted, so as to reach Barclays Advisory & Registrar Services not later than Thursday 20th November 2003 at 11.00 a.m.

Ilani inatolewa hapa kuwa mkutano mkuu wa kila mwaka wa 27 utafanyika katika Kenya Airways Headquarters, North Airport Road, Embakasi, Nairobi siku ya 21st Novemba 2003 saa tano asubuhi kuendesha shughuli zifuatazo:-

1. Kusoma ilani ya kuitisha mkutano.
2. Kupokea Taarifa za Fedha za mwaka uliyomalizika tarehe 31 Machi 2003 pamoja na Taarifa za Wakurugenzi na za Wakaguzi wa Hesabu.
3. Kuidhinisha ulipaji mgao wa faida wa mwisho wa Kshs. [0.5] kwa hisa za kawaida kulipwa mnamo au karibu na tarehe 28 Novemba 2003 kwa wenye hisa waliosajiliwa hadi kufikia kufungwa kwa shughuli za kazi tarehe 31 Julai 2003.
4. Kuchagua Wakurugenzi:
 - i) Bw. Titus Tukero Naikuni aliyechaguliwa na halmashauri kuwa Mkurugenzi Mkuu wa Kundi tarehe 12 Februari 2003.
 - ii) Bw. Joseph Magari aliyechaguliwa na Halmashauri tarehe 30 Januari 2003 kujaza nafasi iliyoachwa wazi kutokana na kujiuzudi kwa Bw. Joseph Kinyua, anastaafu kulingana na Kifungu nambari 90 na kwa vile anastahili anajitolea kuchaguliwa.
 - iii) Bw. I.E. Omolo Okero, ametimiza umri wa miaka 74, anastaafu kwa zamu, na kwa vile anastahili kulingana na ilani maalum iliyotolewa chini ya Kifungu nambari 186(5) ya Sheria za Makampuni, anajitolea kuchaguliwa tena kufuatia maafikiano ya kawaida ya Kampuni kama ifuatavyo: KUWA Bw. I.E. Omolo Okero, anayetimiza umri wa miaka 74, amechaguliwa tena hapa kama mkurugenzi wa Kampuni.
 - iv) Bw. H.K. Kiplagat anastaafu kwa zamu na kwa vile anastahili anajitolea kuchaguliwa tena.
5. Kuidhinisha malipo ya Wakurugenzi.
6. Kuwaruhusu Wakurugenzi kuamua malipo ya Wakaguzi wa vitabu vya Hesabu.

Kwa Amri ya Halmashauri
L.G. Kamau
Katibu
P.O. Box 19002, Nairobi
Tarehe: 1st Septemba 2003

Muhimu:

1. Mwanachama yeyote anaweza kumpendekea amtakaye kuchaguliwa katika Halmashauri, kwa ilani yenye saine yake, kuletwa kwa katibu katika muda usiyopungua siku 7 na usiyozidi siku 21 kabla siku ya Mkutano Mkuu, ilani hiyo lazima iwe na ingine yenye saine ya yule anayependekezwa kuonyesha amekubali kuchaguliwa. Anayependekezwa si lazima awe ni Mwanachama wa Kampuni.
2. Mwanachama mwenye haki ya kuwa katika mkutano na mwenye uwezo wa kupiga kura lakini hana nafasi ya kuhudhuria ana haki ya kumchagua Wakala atakayempigia kura. Wakala huyo si lazima awe ni mwanachama wa Kampuni. Ili kukubaliwa, fomu ya wakala iliyoshikanishwa na tangazo hili, sharti ijazwe na Mwanachama na ni lazima ipelekwe kwa msajili wa hisa za Kampuni, Barclays Advisory & Registrar Services, Bank House, Moi Avenue, S.L.P 30120, Nairobi au kupitia posta ili ifike Barclays Advisory & Registrar Services kabla ya saa tano asubuhi alhamisi tarehe 20 Novemba 2003.

Board of Directors



1. Mr. Isaac E. Omolo Okero - Chairman

Mr. Omolo Okero aged 74, attended Makerere University and attained a BA degree and thereafter, an LLB degree from Bombay University. He is a barrister of the Middle Temple and an Advocate of the High Court of Kenya. He worked in the Civil Service between 1962 and 1969 rising to the position of Deputy Public Prosecutor and Commissioner of Customs. He had a successful political career between 1969-1979 as a Member of Parliament for Gem Constituency. He served on the cabinet as minister for Transport Power & Communications, of Health & of Information & Broadcasting. He is Chairman of the Kenya Association of Air Operators. He joined the Kenya Airways Board in April, 1991.

2. Mr. Titus T. Naikuni - Managing Director

Mr. Titus Naikuni aged 49 years, holds a Bachelor of science Honours Degree in Mechanical Engineering (University of Nairobi), is a registered engineer in Kenya, a member of the Institute of Engineers (UK), a Chartered Mechanical Engineer and is a graduate of Harvard Business School Management Development Programme. He joined the Magadi Soda Company in 1979 as a trainee engineer and rose to the position of Managing Director of the Company in 1995 as well as Managing Director of Magadi Railway Company in 1996. Between August 1999 and March 2001 Mr. Naikuni was a member of a team of World Bank sponsored Kenyan technocrats who were engaged by the Government to turn around the economy. Mr. Naikuni has had extensive boardroom experience having served on various company boards including Brunner Mond (South Africa), as well as Chairman Kenya Power & Lighting Company and Chairman Housing Finance Company Limited. He received the Manager of the Year Award in Kenya in 2002.

3. Mr. Chris Smyth - Group Finance Director

Mr. Smyth aged 46 years, holds a Bachelor of Commerce degree from the University of Natal in Durban and is a registered Chartered Accountant in South Africa. He joined Kenya Airways in December 2001 from Radiospoor Telecom, a company that operates in the cellular telephone industry in Johannesburg where he was the Finance Executive. Mr. Smyth has had a wide experience in a variety of finance roles in several industries, including aviation, telecommunications, steel manufacturing and hospitality. He has a special interest in aviation and holds a commercial pilots licence.

4. Mr. Robert Ruijter - (Non-Executive Director)

Mr. Ruijter aged 52 years, is a Chartered accountant and a member of the association of Corporate Treasurers (MCT) of the UK. He has also worked with Philips Electronics as Group Director of Finance. He joined KLM in March 2001 as Chief Finance Officer and Managing Director. He joined the Kenya Airways Board on 31st May 2001.

5. Mr. Henny Essenberg - (Non-Executive Director)

Mr. Essenberg aged 58 years, joined KLM in 1970 after completing his studies in Economics at the University of Rotterdam. From 1990 till 1995 he was Vice President Cargo Services in KLM's Cargo Division. He was Managing Director Air UK from 1995 till 1998 (based in the UK). In 1999 he returned to KLM as Executive Vice President Passenger Business. His present responsibilities cover KLM's Alliance activities. He is also a Board member of Opodo (a European Internet Travel Portal).

6. Mr. Michael L. Somen - (Non-Executive Director)

Mr. Somen aged 66 years, is a Barrister-at-Law, Grays Inn, England, MA(Honors), Brasenose College, Oxford and an Advocate of the High Court of Kenya. He is a Director of several other Companies including the Nairobi Stock Exchange Limited, the Nairobi Hospital, Marshalls (East Africa) Limited and Safari Rally Limited. He joined the Kenya Airways Board in April 1991.

7. Mr. Dinesh Kapila - (Non-Executive Director)

Mr. Kapila aged 57 years, is an advocate of the High Court of Kenya, Barrister-at-Law, Lincoln's Inn, England, and partner in DV Kapila and Co. Advocates, a Nairobi law firm. He joined the Kenya Airways Board in April 1991.



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8. Mr. Hosea M. Kiplagat - (Non-Executive Director)

Mr. Kiplagat aged 54 years, was the Chairman of the Co-operative Bank of Kenya and serves on the Boards of several Companies. He joined Kenya Airways Board in 1994.

9. Dr. Chris Obura - (Non-Executive Director)

Dr. Obura aged 67 years, holds graduate and postgraduate qualifications in Dentistry from the University of London and the Royal College of Surgeons. He served in the Government as Chief Dental Officer, Ministry of Health, and was a Senior Lecturer and External Examiner in the University of Nairobi. Dr. Obura has extensive business interests, and is a Director of several Companies in banking, insurance, transportation and pharmaceuticals including African Mercantile Banking Company, Ashbu Securities, Rhone Poulenc, Lion of Kenya Limited, Mitchell Cotts, Howse and McGeorge, etc. Dr. Obura joined the Board of Kenya Airways in January 1997.

10. Mr. Sammy P. Kyungu - (Non-Executive Director)

Mr. Kyungu aged 55 years, is the Permanent Secretary Ministry of Information, Transport and Communication. In 1997 Mr. Kyungu was appointed Director of Education before being elevated to Permanent Secretary, Ministry of Labour & Human Resource Development in March 2001. He joined the Kenya Airways Board in January 2002.

11. Mr. Joseph Magari - (Non-Executive Director)

Mr. Magari aged 58 years, is the Permanent Secretary, Ministry of Finance. He holds a bachelor of science degree (Statistics & applied economics) from Makerere University and a Master of Arts (Economics) from York University, Toronto. Mr. Magari joined the Ministry of Finance & Planning in 1971 rising to become the Director of Fiscal & Monetary Affairs in 1982 and the Permanent Secretary to the Treasury in 1991. He was re-appointed Permanent Secretary to the Treasury in January 2003 and joined the Board of Kenya Airways on 30th January 2003.

12. Mr. Hans Korteweg - (Alternate Non-Executive Director)

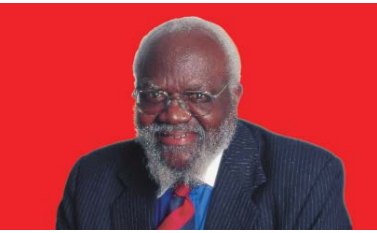
Mr. Korteweg aged 51 years, is KLM Vice President Alliances. He holds graduate qualification in law, economics and political studies (Paris). In 1998 he was appointed Vice President for Strategy and Commercial Co-operation in the Passenger Service Division from where he rose to his present position of Vice President Alliances.

13. Mr. Remco Smit - (Alternate Non-Executive Director)

Mr. Smit joined KLM in 1990 after completing his studies in business economics at the Erasmus University of Rotterdam. Later he obtained the degree of chartered management accountant at the Vrije Universiteit Amsterdam. He served in various financial positions for KLM in the Netherlands, Singapore and London. Currently he is the Holding Manager for KLM and responsible for the monitoring of KLM's corporate holdings. As a result of this he is a board member and director of various companies within the KLM Group and has served in the board of Braathens S.A.F.E. prior to KLM divesting its shareholding. He was appointed an alternate of Robert Ruijter in the board of Kenya Airways since 21 June 2002 and is KLM's representative in the finance and audit committee.

The Chairman's statement

Taarifa ya Mwenyekiti



I am pleased to report that Kenya Airways continued to pursue its vision - to become a world-class network airline by 2005 - despite enormous challenges occasioned by the Gulf War, the terrorist attack in Mombasa, a depressed domestic economy, the run-up to the general election in Kenya, political uncertainty in certain African countries and stiff competition .

ECONOMY

World

After the severe but brief down turn of the global economy triggered by September 11 terrorist attacks on the USA, a slow but steady recovery began, with trade and industrial production picking up in most parts of the world. However, after a strong first quarter, the pace and sustainability of the recovery were undermined by the crisis in the equity markets, which fell sharply, triggered by corporate accounting scandals in the USA. This was further worsened by the depreciation of the U.S. dollar. The US economy recovered in the fourth quarter of 2002, registering a growth rate of 4%. Europe and Japan registered marginal rates.

Although overall recovery is still expected to continue throughout 2003, it is still predicted to be weaker than earlier expected due largely to the effects of the Gulf War. The first quarter Gross Domestic Product (GDP) growth in the USA dropped to 1.6%. Only the emerging economies in Asia are expected to consolidate their recovery, albeit at a slower pace, as a result of negative impact of the Severe Acute Respiratory Syndrome (SARS) virus.

Nina furaha kutoa taarifa kwamba shirika la Kenya Airways limeendelea kufuatilia matarajio yake makubwa - kupata daraja ya shirika la ndege la kimataifa ifikapo mwaka 2005 - ingawa kumekuwa na changamoto tele kutokana na vita vya Ghuba la Uajemi, mashambulizi ya kigaidi ya Mombasa, uchumi uliozoroteka nchini Kenya, taharaki ya hali ya siasa katika bara la Afrika na mashindano makubwa .

UCHUMI

Dunia

Baada ya kuzoroteka vibaya kwa uchumi duniani kutokana na mashambulizi ya kigaidi kule nchini Marekani mnamo Septemba 11, polepole nafuu ilianza kuonekana, mapato ya biashara na ya viwanda yalianza kupanda katika dunia nzima. Hata hivyo, baada ya robo nzuri ya kwanza mwakani, mwenendo wa kuimarika ulikumbwa na mzozo katika soko la hisa, ambapo mambo yalioroteka mno kutokana na kashfa za uhasibu wa fedha za makampuni huko Marekani. Hali hii iliharibiwa zaidi na kushuka kwa dola ya Marekani. Uchumi wa Marekani uliimarika katika robo ya nne ya mwaka 2002, ikikuwa kwa kiwango cha asilimia 4. Ulaya na Japan zilionyesha viwango duni vya ukuaji.

Ingawa kwa ujumla kuimarika huku kunatarajiwa kuendelea mwaka mzima wa 2003, inatabiriwa utakuwa hafifu hasa kwa sababu ya athari ya vita vya Ghuba la Uajemi. Maendeleo ya maisha kwa jumla ilirudi chini kufikia asilimia 1.6 kwa mwaka. Chumi zinazojitokeza bara Asia ndizo zitakayoikomboa ile ya Marekani, ingawa yaelekea itachukua muda mrefu kutokana na kuzuka kwa virusi vinavyodhuru upumuaji (SARS).



Africa

Africa continued to have mixed fortunes and wide disparities in economic growth in 2002. Though averaging 3% in 2002, equivalent to per capita income growth of about 0.5 percent, economic growth was below the level needed to address poverty. Whatever gains were made in 2002 were offset by a combination of internal and external factors, including civil unrest, political instability and armed conflicts, natural disasters (drought and floods), depressed commodity prices, political instability and HIV/AIDS.

The effects of the Gulf War are expected to further slow down the rate of economic recovery in Africa. Prospects for future growth will depend crucially on an upturn in the global economy and improvements in the political and economic conditions as well as the absence of natural disasters.

Prospects for growth are predicated on successful implementation of economic reforms, including the degree of successful exploitation of export and investment opportunities presented by such initiatives as the African Growth and Opportunity Act (AGOA), and the New Partnership for Africa's Development (NEPAD).

Kenya

Overall economic performance for the year 2002 continued to disappoint. The economy, as measured by GDP, expanded by a mere 0.9% in 2002 compared with 1.2% in 2001. The 12-month overall inflation, however, increased to 7.5% from 1.1% in the same period. The increase in overall inflation was mainly attributed to increases in the

Afrika

Afrika iliendelea kupata nafuu tofauti iliyohitilafiana katika uchumi mwaka wa 2002. Uchumi ulikua kwa kiwango cha chini sana. Ingawa kulikuwa na ukuaji wa takriban asilimia tatu, ilikwa ni kiwango pato asilimia 0.5, ukuaji huu ulikuwa duni kuweza kusaidia kupunguza umasikini. Mambo mazuri yalipopatikana mwaka wa 2002 yalidhalilishwa na dhoruba hapa na pale, pamoja na hali ya kutaharuki nchini, siasa na vita, majanga tofauti (ukame na mafuriko), bei ya bidhaa kushuka taharuki za kisiasa na ukimwi.

Madhara ya vita vya Ghuba la Uajemi yanatarajiwa kuathiri zaidi kufufuka kwa uchumi Barani Afrika. Matazamio ya kukua siku za usoni yatategemea sana mabadiliko ya kiuchumi kote duniani, hali ya kisiasa na kupunguka kwa majanga.

Matazamio ya kukua hutabiriwa kulingana na utekelezaji wa kufufua uchumi, pamoja na kuongeza zaidi biashara nje na rasilmali kupitia mikataba kama vile mvuvumko wa African Growth and Opportunity Act (AGOA) na ule wa New Partnership for Africa's Development (NEPAD).

Kenya

Kwa ujumla, hali ya uchumi mwaka wa 2002 uliendelea kuhuzunisha. Uchumi ulikuwa kwa kiwango cha chini sana. Uchumi ukikadiriwa na GDP, ulikua kwa kiwango duni cha asilimia 0.9 mwaka 2002, ikilinganishwa na asilimia 1.2 katika 2001. Kwa muda wa miezi 12, viwango vya ongezeko la gharama ya maisha vilizidi hadi asilimia 7.5 kutoka asilimia 1.1 katika kipindi hicho. Kwa ujumla kupanda huku kwa bei kulisababishwa na kupanda kwa bei ya mafuta na bidhaa kama hizo. Bei ya vyakula ilipanda pia kwa sababu ya majira ya kiangazi.



prices of crude petroleum and related products and in domestic prices of basic foods due to normal dry seasonal weather patterns.

Interest rates continued a downward trend in 2002, while the Kenya shilling remained for the most part stable, with a slight appreciation following the successful general election at the end of 2002.

The depressed state of the economy in 2002 translated into weak demand for outbound travel, while pre-election security concerns and the terrorist bombings in Mombasa impacted negatively on in-bound travel towards the end of the year. The economy is projected to grow by at least 4% in 2003.

The airline industry

The year 2001 was an exceptionally bad year because of September 11 terrorist attacks on America. In 2002, a slow recovery began as airlines implemented painful restructuring. However, the Gulf War has further interrupted this recovery.

Full year 2002 results show a slight net increase in international passenger traffic on IATA carriers over 2001 at 0.06%. However, passenger capacity fell by 4.3%, resulting in a 3.3% improvement in the overall passenger load factor for the year. Freight traffic shows an increase of 6.5% for the year. Overall, capacity (passenger and freight combined) fell by 2.5%.

The war in Iraq came at a time when the airlines, having accumulated \$30 billion of losses since

Kiwango cha riba kiliendelea kushuka mwaka wa 2002, huku thamani ya shilingi ya Kenya ikiwa imekwama pale pale, kisha ikapanda kidogo tu baada ya kumalizika salama kwa uchaguzi mkuu mwishoni mwa 2002.

Hali hii ya uchumi uliozoroteka mwaka wa 2002 ulipunguza usafiri wa nje na hali ya wasiwasi kabla ya Uchaguzi Mkuu na visa vya kigaidi Mombasa vilidhuru mno safari hizo za kwenda nje.

Inatarajiwa uchumi utakua angalau kwa asilimia 4 katika mwaka wa 2003.

Biashara ya usafiri wa ndege

Mwaka wa 2001 ulikuwa mbaya sana kwa sababu ya mashambulizi ya Septemba 11 nchini Marekani. Mwaka wa 2002, ukombozi ukaendelea kupatikana polepole huku mashirika ya ndege yakifanya mabadiliko yasiyopendeza kama vile kupunguza idadi ya wafanyikazi. Kwa bahati mbaya, vita vya Ghuba la Uajemi vimekatiza ukombozi huu hata zaidi.

Matokeo ya mwaka mzima wa 2002 yaonyesha kulikuwa na ongezeko la faida kutokana na kuongezeka kwa wasafiri katika misafara ya ndege za IATA (Shirika la Kimataifa la Uchukuzi wa Angani) yakilinganishwa na mwaka wa 2001 yalipokuwa ni asilimia 0.06. Hata hivyo idadi ya wasafiri ilishuka kwa asilimia 4.3 na kuleta ubora wa asilimia 3.3 mwakani kwa ujumla. Usafirishaji wa mizigo unaonyesha ongezeko la asilimia 6.5 mwakani. Tukiunganisha hali zote mbili — wasafiri na usafirishaji wa mizigo, mambo yalizama kwa asilimia 2.5.

Vita katika nchi ya Iraq vilikuja kwa wakati ambao mashirika ya ndege, baada ya kulimbikiza hasara ya bilioni 30 tangu 9/11, yanakabiliana na mojawapo ya mipigo mikubwa katika historia ya



September 11, are still struggling with the effects of the worst crisis in the history of the industry. According to IATA sources, the armed conflict and the SARS virus may have added another \$10 billion dollars of losses on international traffic, thus extending the current traffic slump in the industry. The slump in air travel is expected to further spur painful restructuring throughout the industry, and could accelerate consolidation even as the industry segments into low-cost operations.

Aero political developments

As airlines struggle to cope with the lingering effects of September 11, the Gulf War, and the SARS virus, three obstacles stand in the way of change in the industry and continue to contribute to stagnation: the restrictive bilateral system, national ownership rules and the attitude of competition authorities.

Airlines, through IATA, are urging member states (through the International Civil Aviation Organisation, ICAO) to examine regulatory provisions on these issues and policy options in the light of experiences of liberalisation during the past decade. In line with this, ICAO hosted the 5th World Wide Air Transport Conference on 24th-29th March 2003 in Montreal. The objective was to develop a framework for the progressive liberalisation of international air transport with safeguards to ensure fair competition, safety and security and measures to ensure effective and sustained participation of developing countries.

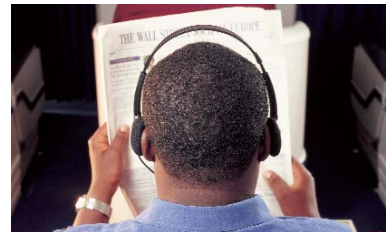
biashara hii. Kulingana na habari kutoka IATA, vita hivyo pamoja na virusi vya maradhi ya SARS vinaweza kuwa vimeongeza hasara nyingine ya bilioni 10 dola za Marekani kwenye usafiri wa kimataifa, na hivyo kudidimisha zaidi hali ya biashara hii.

Kudorora kwa safari za angani kunatarajiwa kusababisha mabadiliko magumu katika kiwanda kizima, na hata kulazimu mashirika kuungana katika baadhi ya shughuli ili kugawana gharama.

Siasa na maendeleo ya biashara ya angani

Kadiri mashirika ya ndege yanapoendelea kukabiliana na matukio ya Septemba 11, vita vya Ghuba la Uajemi na kuzuka kwa maradhi ya virusi vinavyodhuru upumuaji (SARS), vikwazo vitatu vinajitokeza na kutatiza maendeleo katika kiwanda: mpango unaopinga mashirika kuungana, sheria za kitaifa za kumiliki mali na ile hali ya tawala za kiserikali kujiingiza katika mashindano.

Mashirika, kupitia IATA yanahimiza nchi wanachama (kupitia Civil Aviation Organisation, ICAO) kuchunguza sheria zinazosimamia mambo haya na kuona kama kuna uwezekano wa kuwa na njia nyingine za kutimiza mambo kama vile kumbukumbu ya mwongo uliopita inavyoonyesha. Hivi basi, ICAO ilifanya mkutano mkuu wa tano wa dunia nzima wa uchukuzi wa safari za ndege tokea tarehe 24 hadi 29 Machi 2003 mjini Montreal. Lengo lilikuwa kubuni sheria za kuwezesha uhuru katika uchukuzi wa angani wa kimataifa kukiwa na vipengele vinavyohakikisha kuna usawa wa mashindano, usalama, ulinzi na vifungu vinavyohakikisha nchi zinazoendelea zinashiriki bila ubaguzi wowote ule.



Shareholding

The number of shareholders, which as of our report last year stood at 91,307, has since declined to 90,934. The shareholder profile as at 31st March 2003 is on page 30.

Cross-listing in Tanzania

Following the successful listing the Company's shares in the Uganda Securities Exchange (USE) last year and pursuant to the announcement by the Tanzania authorities of their intention to liberalise the capital account in October 2002, Kenya Airways announced its plans to cross-list its shares on the Dar-es-Salaam Stock Exchange by end of first quarter of 2003.

An Information Memorandum and related document was finalised and submitted to the Tanzanian Capital Markets Authorities during the first quarter of 2003. Regrettably the liberalisation of the capital account has delayed the cross-listing exercise beyond the target date of 31st March 2003.

This listing aims at raising the profile of the company in Tanzania, offering Kenyan shareholders additional liquidity for trading their shares and enhancing customer loyalty with our Tanzania customers. This is in addition to supporting the integration of the economies of the three East African countries in line with the aspirations outlined in the Treaty for the Establishment of the East African Community.

Dividend

The Board is recommending for approval by the Shareholders a final dividend of Ksh. 0.50 per share payable to the shareholders of the

Umiliki wa hisa

Idadi ya wanahisa, ambayo kulingana na taarifa yetu ya mwaka jana ilikuwa 91,307, hivi sasa imeteremka na kufikia 90,934. Takwimu ya wanahisa mnamo Machi 31 2003 ni kama ilivyo katika ukurasa wa 30.

Uuzaji hisa nchini Tanzania

Kufuatia kuanzishwa kulikofaulu kwa uuzaji wa hisa za kampuni katika soko la hisa la Uganda (USE) mwaka uliyopita, na hatimaye kutangazwa na serikali ya Tanzania madhumuni yake ya kuacha huru biashara ya hisa mnamo Oktoba 2002, Kenya Airways ilitangaza mipango ya kujiandikisha kuuza hisa zake katika soko la Dar-es-Salaam Stock Exchange imalizikapo robo ya kwanza ya mwaka wa 2003.

Tayari shirika limetuma taarifa ya habari kamili Information Memorandum kuonyesha hamu yetu ya kuorodheshwa katika soko hilo kwa halmashauri ya Tanzanian Capital Markets Authorities (CMSA) katika robo ya kwanza ya mwaka wa 2003 kwa madhumuni ya kukamilisha kuorodheshwa ifikapo tarehe 31 Machi 2003. Ni jambo la kusikitisha kuwa lengo hili halikukamilika kwa vile maafikiano ya kuacha huru biashara ya hisa hayakukamilika katika muda uliyotarajiwa.

Shabaha ya kuorodheshwa huku ni kuinua hadhi ya shirika letu nchini Tanzania, kuwapa wenye hisa wa Kenya mapato ya ziada kutokana na uuzaji wa hisa na kuongeza utiifu wa wateja wetu wa Tanzania. Vile vile hii inatilia nguvu dhamira ya nchi zetu tatu kuanzisha Jumuiya ya nchi za Afrika Mashariki.

Migawo

Bodi inapendekeza kuidhinishwa na wanachama kwa mgawo wa mwisho wa Ksh. 0.50 kwa kila



Company on the register of shareholders as of 31st July 2003 and will be paid commencing 28th November 2003.

Directors

The members of the Board who served during the year are shown in the report of Directors on page 30.

Mr. Brian Presbury, former Group Managing Director left the company in February with his contract due to expire shortly thereafter. He was replaced in that position by Mr. Titus Naikuni. (Mr. Naikuni's biodata is on page 3)

Mr. Mwaghazi Mwachofi, the then Permanent Secretary to the Treasury who joined the Board on 30th April 2001 resigned on 30th August 2002 and was replaced by Mr. Joseph Kinyua who also resigned on 3rd January 2003 to be replaced by Mr. Joseph Magari on 30th January 2003.

Mr. Dries van Luyk who had represented KLM on the Board since 15th December 1995 retired on 26th November 2002. He was replaced by Mr. Henny Essenburg, presently KLM's Vice President for Passenger Services.

Both Mr. Isaac E. Omolo Okero and Mr. Michael Lewis Somen retire by rotation at this year's AGM and being eligible, offer themselves for re-election.

I .E. Omolo Okero
Chairman

hisa ilipwe wenyehisa wa kampuni waliyosajiliwa ifikapo tarehe 31 July 2003 na italipwa kutoka tarehe 28 Novemba 2003.

Wakurugenzi

Wanachama wa halmashauri waliohudumu katika mwaka tunaozungumzia wanaonyeshwa katika ripoti ya wakurugenzi katika ukurasa wa 30.

Mr. Brian Presbury, aliyekuwa Meneja Mkurugenzi wa kundi na Afisa Mkuu, aliondoka kutoka shirika mnamo Februari 2003, baada ya mkataba wake kumalizika. Halmashauri inatoa shukrani kwa Bw. Presbury kwa mchango wake. Nafasi yake ilichukuliwa na Bw. Titus Naikuni. (Maelezo kumhusu Bw. Naikuni yamo katika ukurasa wa tatu).

Bw. Mwaghazi Mwachofi, aliyekuwa Katibu Mkuu katika Wizara ya Fedha aliyekiunga na halmashauri tarehe 30 Aprili 2001, alijiuzulu tarehe 30 Agosti 2002 na nafasi yake kuchukuliwa na Bw. Joseph Kinyua ambaye pia alijiuzulu tarehe 3 Januari 2003 na nafasi yake kuchukuliwa na Bw. Joseph Magari tarehe 30 Januari 2003.

Bw. Dries van Luyk aliyekuwa akiwakilisha KLM katika halmashauri tangu tarehe 15 Decemba 1995 alistaafu tarehe 26 Novemba 2002. Nafasi yake ilichukuliwa na Bw. Henny Essenburg, ambaye pia wadhifa wake katika KLM ni Makamu wa Rais wa Huduma kwa Wasafiri.

Bw. Isaac Omolo Okero na Bw. Michael Lewis Somen wote wawili wanastaafu kwa zamu katika Mkutano Mkuu wa mwaka huu, na kwa vile wanastahili wanajitolea kuchaguliwa tena.

I.E. Omolo Okero
Mwenyekiti

Management Team



1. Mr. Titus T. Naikuni - Group Managing Director & CEO

Mr. Titus Naikuni aged 49 years, holds a Bachelor of Science Honours Degree in Mechanical Engineering (University of Nairobi), is a registered engineer in Kenya, a member of the Institute of Engineers (UK), a Chartered Mechanical Engineer and is a graduate of Harvard Business School Management Development Programme. He joined the Magadi Soda Company in 1979 as a trainee engineer and rose to the position of Managing Director of the Company in 1995 as well as Managing Director of Magadi Railway Company in 1996. Between August 1999 and March 2001 Mr. Naikuni was a member of a team of World Bank sponsored Kenyan technocrats who were engaged by the Government to turn around the economy. Mr. Naikuni has had extensive boardroom experience having served on various company boards including Brunner Mond (South Africa), as well as Chairman Kenya Power & Lighting Company and Chairman Housing Finance Company Limited. He received the Manager of the Year Award in Kenya in 2002.

2. Mr. Chris Smyth - Group Finance Director

Mr. Smyth aged 46 years, holds a Bachelor of Commerce degree from the University of Natal in Durban and is a registered Chartered Accountant in South Africa. He joined Kenya Airways in December 2001 from Radiospoor Telecom, a company that operates in the cellular telephone industry in Johannesburg where he was the Finance Executive. Mr. Smyth has had wide experience in a variety of finance roles in several industries, including aviation, telecommunications, steel manufacturing and hospitality. He has a special interest in aviation and holds a commercial pilots licence.

3. Mr. Lewis G. Kamau - General Counsel & Company Secretary

Mr. Kamau aged 52 years, joined the Company in 1979 as Legal Officer after a two year period as State Counsel in the Attorney General's Chambers. Mr. Kamau holds an LLB honours Degree (UON) and LLM Degree (McGill). He is an Advocate of the High Court of Kenya and a Certified Public Secretary. He was appointed to the position of General Counsel and Company Secretary in July 1996. Mr. Kamau is a member of the board of the Centre for Corporate Governance.

4. Mr. Phil Mwakitawa - Ag. Commercial Director

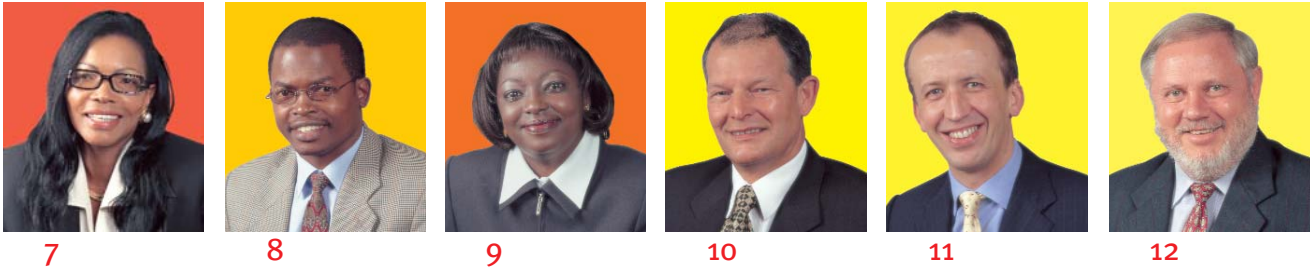
Mr. Mwakitawa aged 41, holds a Master of Science Degree in Economics from the Kiev Institute of National Economy. He joined Kenya Airways in 1990 as a Management Trainee and progressed to Head of Network Planning in 1995, where he was in charge of formulating and implementing the KQ/KLM Joint Network Vision. He was appointed Ag. Commercial Director in November, 2002.

5. Mr. Steve Clarke - Technical Director

Mr. Clarke aged 51 years, is responsible for all aircraft engineering matters. He holds a Bachelor of Technology degree (Mechanical Engineering) and an MSc (Management Studies) both from Brunel University. He is a Chartered Engineer and is a member of the Institution of Mechanical Engineers and the Royal Aeronautical Society.

6. Capt. James Ouma - Chief Pilot

Captain Ouma aged 50 years, undertook his pilot training at the East African Flying School, Soroti, in Uganda, in 1974 and completed his commercial pilot licence in Perth, Scotland, in 1975. In 1978 he proceeded to Denmark for his Airline Transport Pilots licence. His new duties include heading the Flight Operations Department and ensuring safe and efficient operations of Kenya Airways aircraft.



7. Ms. Catherine Muigai Mwangi - Director Corporate Communications

Muigai Mwangi aged 44 years, has been Corporate Communications Director of Kenya Airways since May, 2001. Before joining the airline, she was General Manager of Fedex. She has also served as Assistant Director, Communications, at the Kenya Wildlife Service and Group Account Director at Ogilvy and Mather E.A. Limited. Muigai Mwangi holds a Bachelor of Arts degree from the University of Nairobi and a Postgraduate Diploma in Mass Communication from the School of Journalism, University of Nairobi. She is a member of the Marketing Society of Kenya, American Business Association and South African Business Association. She is also an advisor to AEISEC, a student-led educational foundation.

8. Dr. Jason Kap-Kirwok - Director Corporate Strategy & Industry Affairs

Dr. Jason R. Kap-Kirwok aged 42 years, joined Kenya Airways from the Common Market for Eastern and Southern Africa (COMESA) where he served as the Chief of Strategic Planning and Research. He has more than 15 years experience in research, planning and management. Dr. Kap-Kirwok holds Bachelors of Science degree from the University of Nairobi, a Masters of Business Administration from Eastern University College, and a Doctor of Philosophy in Strategic Management from Washington Int. University. Besides contributing actively in development and management discourse, Dr. Kap-Kirwok is an aspiring poet and has published a poetry collection titled Heartbeats of the Mind .

9. Mrs. Monica Oyas - Director Human Resources

Mrs. Oyas aged 42 years, is the Group Director, Human Resources (HR). She joined the Kenya Airways Group in January 2002 from ABN AMRO Bank. Over the last 18 years, she held senior HR and administration positions at the Kenya Broadcasting Corporation, Union of National Radio and Television Organisations Programme Exchange Centre, and Ministry of Information and Broadcasting respectively. Mrs. Oyas holds a Master of Science Degree in Industrial Sociology/Social Psychology/International Relations (University of Nairobi), a Post Graduate Diploma in Industrial Relations and Human Resources Management (Cambridge Tutorial College, UK) and Post-Graduate Certificate in Human Resources skills in Banking and Finance (Euromoney Training Institute, London)

10. Mr. Mike Flinders - Managing Director Kenya Airfreight Handling Limited

Mike Flinders aged 54 years, joined Kenya Airways as a Consultant in January 1997, took up the position of General Manager in June 1997 and upon the de-linking of Kenya Airfreight Handling Ltd (KAHL) from Kenya Airways in August 1997 was appointed Managing Director KAHL. He is also a Director of Kencargo Airlines International Ltd. He is a graduate in Business Studies from Newcastle Polytechnic.

11. Mr. Guy Mertens - Managing Director Kencargo Airlines International Ltd.

Guy Mertens aged 42 years, holds a Bachelor of Public Administration degree from Belgium s Erasmus College. He joined Kencargo in May 2002. He started his aviation career in 1989 in Belgium with El Al as Assistant Cargo Manager before moving to Vietnam in 1993 as Country Manager for Air Hong Kong, a cargo airline owned by Cathay Pacific. Mid 1994 he moved to Hong Kong for the same company as Manager Cargo Services. He joined Polar Air Cargo in May 1997, an American cargo airline, as their director in charge for Terminal Services for the Asia-Pacific region, based in Hong Kong. Mr. Mertens was in charge of setting up and managing airport offices in the region, and he has broad experience in operations as well as in customer services.

12. Mr. Johan Borstlap - Managing Director Flamingo Airlines Limited

Mr. Borstlap aged 50 years, is the Managing Director of Flamingo Airlines, a wholly owned subsidiary of Kenya Airways which operates domestic routes. Mr Borstlap, has had 20 years of all-round aviation experience and holds pilot licences on several aircraft types.

Chief Executive's Statement Taarifa ya Afisa Mkuu



The air transport sector was severely affected by the aftermath of the September 11 attack in the USA, pre-election uncertainty in Kenya and the impending Gulf war. On the African continent, some countries-particularly Ivory Coast and Zimbabwe-continued to experience political instability. These saw passenger numbers decline considerably, forcing some players in the aviation industry to take austerity measures to ensure their survival. The situation in Kenya was compounded by a terrorist attack in Mombasa-a key tourist destination-and the subsequent travel advisories by some western governments. Despite the difficulties, Kenya Airways continued to pursue strategies aimed at helping it achieve its vision: to become a world-class network airline by 2005. These include fleet and network development, service and product enhancement, information technology and staff training .

Fleet Development

Kenya Airways has a long-term fleet development plan, which is reviewed periodically to align it to changes in the market place. According to the latest review, Kenya Airways projects to operate ten narrow body aircraft from 2003 through 2005; and six, seven and eight wide body aircraft for 2003, 2004 and 2005 respectively.

The fleet projections are based on a forecast of air travel demand by route, taking into account past and recent trends and future expectations. It also takes into account new routes to be opened.

Following the completion of the delivery of three new 767-300 wide body aircraft, and five narrow-body (four Boeing 737-700 and one Boeing 737-200 QC), the next fleet of wide body aircraft - the Boeing 777-200ER (three in all)-will be delivered between May 2004 and June 2005.

Uchukuzi wa angani uliathiriwa sana na matukio ya mashambulizi ya Septemba 11 kule Marekani, hali ya wasiwasi kabla ya uchaguzi mkuu nchini Kenya na vita vilivyokuwa vinapamba moto katika Ghuba la Uajemi. Katika bara la Afrika, nchi kadhaa — hasa Ivory Coast na Zimbabwe — ziliendelea kutatizwa na misukosuko wa kisiasa. Mambo haya yalifanya idadi ya wasafiri kupungua kiasi kikubwa, jambo ambalo lilisababisha wahusika wengi katika kiwanda cha usafiri wa ndege kuchukua hatua ngumu ili waweze kunusurika. Hali katika nchi ya Kenya ilikuwa mbaya zaidi kufuatia mashambulizi ya kigaidi kule Mombasa — sehemu inayotembelewa sana na watalii — na ushawishi wa nchi za ng ambo kushauri wananchi wao kutosafiri sehemu zisizo na usalama, uliharibu mambo zaidi.

Ingawa kulikuwa na matatizo haya yote, shirika la Kenya Airways liliendelea kufuatilia mipango ya kuliwezesha lifikie maono yake — kuwa shirika la kimataifa lenye kushirikiana na mashirika mengine ifikapo mwaka wa 2005. Hii ni pamoja na aina ya ndege zinazotumika na uimarishaji wa misafara, huduma na kule kupendekeza vifaa, teknolojia ya mawasiliano na mafunzo kwa wafanya kazi .

Uimarishaji wa Aina ya Ndege

Shirika la Kenya Airways lina mipango kabambe ya muda mrefu, ambayo inachunguzwa mara kwa mara ili ilingane na mabadiliko katika soko la biashara hii. Kulingana na matarajio hivi punde, shirika la Kenya Airways linakusudia kuwasilisha ndege kumi zenye muundo mwembamba tokea mwaka wa 2003 hadi 2005; na zile za muundo mpana zitakuwa 6 mwaka wa 2003, 7 mwaka wa 2004 na 8 mwaka wa 2005.

Mipango kuhusu aina ya ndege zinazotumika



Alliances and Partnership Development

Forging strategic and tactical alliances and partnerships with key regional and intercontinental carriers is a central plank in Kenya Airways' strategy to develop its network and consolidate market position. The efforts to forge alliances and partnerships focus on exploring possibilities for appropriate levels of co-operation based on definite criteria for what constitutes strategic or tactical co-operation. Thus the levels of co-operation could vary from the strongest to the weakest i.e. equity participation, joint venture, code sharing, joint pricing, joint marketing and sales, or special pro-rate arrangements, schedule synchronization and through-check-in agreements.

In the financial year 2002/2003, Kenya Airways made a strategic investment in Precision Air Services Limited involving the acquisition of 49% of equity, having earlier signed a code share agreement with it. Other agreements signed included a memorandum of understanding with Air Malawi. In order to expand market reach and improve traffic feed from West Africa, KQ signed a commercial agreement with Air Senegal. It also expanded commercial arrangements with Rwandair Express, and is in code share or expanded special prorate agreement discussions with a number of Far Eastern Airlines, including Cathay Pacific, Thai Airways, China Airlines, China Eastern Airlines, Japan Airlines and Dragon Air. Meanwhile, Kenya Airways and KLM have deepened their relationship with expanded code share destinations and a better frequent flyer programme.

Network Development

During the year 2002/3, we have continued strengthening Nairobi as the main hub in the region through better connectivity and increased frequencies in line with our network strategy.

Additional flights were mounted as follows; two additional flights to Dar es Salaam, three night flights to Addis Ababa, one additional flight to Accra and Abidjan, two additional flights to Mumbai, three additional flights to Johannesburg, three additional flights to London-Heathrow and three additional flights to Dubai.

inatagemea utabiri wa mahitaji ya mkondo kulingana na safari za angani, yakilinganishwa na matukio ya sasa na ya hapo awali pamoja na matarajio ya siku za usoni. Zaidi ya hayo, mikondo mipya inayokusudiwa kuanzishwa inaangaliwa.

Kutokana na kumalizika kwa ununuzi wa ndege tatu aina ya 767-300 zenye miundo mipana, na tano aina ya miundo miembamba (yaani ile ya aina Boeing 737-700 na Boeing 737-200 QC), aina nyingine yenye miundo mipana — Boeing 777-200ER ndege tatu kwa jumla) — zitanunuliwa kati ya Mei 2004 na Juni 2005.

Uimarishaji wa Ushirika

Kuunda ushirika makini ulio na matumaini pamoja na mashirika ya eneo hili na yale ya kimataifa ni mojawapo ya njia kabambe ya kuimarisha mtandao wa Kenya Airways na kuunganisha msimamo wake kibiashara. Juhudi za kuunda ushirika huu zinalenga kuleta uwezekano wa kushirikisha mashirika kulingana na jinsi utaweza kuleta uhusiano bora na wa manufaa. Hivyo basi viwango vya ushirika vyaweza kuwa vya hali ya juu sana au vya hali duni. Yaani kuhusisha usawa kwa ushirika, kusawazisha huduma, kuwa na muundo mmoja, kuweka bei na soko moja au kutumia mipango inayoshabihiana kwa makadirio, kusikizana kwa nyakati za safari na jinsi wateja wanavyohudumiwa wanapowasili uwanja wa ndege.

Kulingana na makadirio ya fedha ya mwaka wa 2002/2003, shirika la Kenya Airways lilitengeneza rasimili kubwa katika shirika la Precision Air kwa kupatana ugawanaji wa asilimia 49 wa mapato sawa baada ya kuweka sahihi ya ushirika hapo awali. Makubaliano mengine yaliyowekwa sahihi kimbele ni pamoja na yale kati ya Air Tanzania, Oman Air na Air Malawi. Ili kuipanua soko na kuboresha msafara kutoka Afrika Magharibi, shirika la Kenya Airways lilitia sahihi ya kibiashara na Air Senegal. Pia liliongezea mipango ya kibiashara na Rwandair Express, na lina mipango ya ushirika au makusudio ya kujadili usawa wa kibiashara na mashirika kadhaa ya ndege kule Mashariki ya mbali, pamoja na Cathay Pacific, Thai Airways, China airlines, China Eastern Airlines, Japan Airlines na Dragon Air. Kwa upande mwingine, mashirika ya Kenya Airways na KLM yameshamiria uhusiano wao kwa kuongezea



The majority of these additional flights were as a result of demand on the routes and also a call to provide different schedule timings for improved connectivity at Nairobi Hub.

Our presence is now strongly being felt in East, Central and Western Africa through our increased frequencies.

Within East Africa, our presence will be felt more strongly once we finalise the network integration with our new partner in Tanzania, Precision Air Services Limited, with increased flights between Kenya and Tanzania.

We have also incorporated additional B737-700 in June 2002 and December 2002 respectively. These have been utilised to mount the additional flights to Johannesburg, Dubai and Accra/Abidjan.

We aim to remain the airline of choice in Africa through more frequencies, new destinations and increased/short connectivity through our Nairobi Hub, to Africa and the World.

Information Technology

This was a challenging year for Kenya Airways IT programme as we had to re-organize priorities and focus on tactical cost-effective solutions to support the initiatives of the business which were responding to the global downturn in the travel industry.

However, we did manage to successfully deploy some significant projects. The rationale used to determine which IT projects were undertaken was derived from assessing its contribution to service delivery efficiencies, customer service, revenue improvement, cost/overhead reduction and the mandatory requirement for operating within the airline industry.

Kenya Airways recognizes that technology is becoming an important business driver and we have focused our systems acquisitions and development on the policy of adopting industry accepted tools, systems and standards.

In our response to offering efficient and cost effective solutions, we embarked on introducing workflow technology across all the major

ushirika wa sawasawa katika safari zao pamoja na mpango bora wa wasafiri wa mara kwa mara.

Uimarishaji wa Safari Mbalimbali

Katika mwaka wa 2002/3, tumeendelea kuiongezea Nairobi nguvu kama makutano ya usafiri wa ndege eneo hili kupitia upokezanaji bora na nyongeza ya misafara kulingana na msimamo wa utando wa safari zetu.

Safari zingine ziliongezwa kama ifuatavyo; mbili kwenda Dar es Salaam, tatu za usiku kwenda Addis Ababa, moja hadi Accra na Abidjan, mbili zaidi kuelekea Mumbai, tatu zaidi Johannesburg, tatu za kuelekea London-Heathrow na tatu zikaongezewa za kuenda Dubai.

Idadi kubwa ya safari hizi zilitokana na himizo katika misafara hiyo pamoja na mwito wa kuwa na ratiba tofauti iliyokusudia kuwezesha wasafiri kuasili Makutano ya Nairobi kwa wakati mmoja.

Kuwepo kwetu sasa kunahisiwa sana Mashariki ya Afrika, Kati na hata Magharibi kutokana na nyongeza ya misafara.

Katika Afrika ya Mashariki, kuwepo kwetu kunahisiwa zaidi pindi tutakapokamilisha kuunganisha utando na mshirika wetu mpya nchini Tanzania, Precision Air, kwa kuongeza safari zaidi kati ya Kenya na Tanzania.

Pia, kwa ziada tumehusisha B737-700 mwezi wa Juni 2002 na Desemba 2002. Hizi ndege zimehitajika ili kuongezea safari zaidi kuenda Johannesburg, Dubai na Accra/ Abidjan.

Tunakusudia kuendelea kuwa shirika la ndege la kuvutia barani Afrika kupitia kwa misafara, maeneo mapya ya kusafiria, kuwezesha wasafiri kubadilisha ndege kwa wingi na haraka wakitumia Makutano ya Nairobi, hadi sehemu zingine za Afrika na ulimwengu mzima.

Teknolojia ya Mawasiliano

Huu ulikuwa mwaka uliojaa changamoto kwa mpango unaohusu Teknolojia ya Mawasiliano ya shirika la Kenya Airways kwa sababu tulipaswa kuchagua kipaumbele na kulenga masuluhisho ambayo yanaleta uwezekano ili kusaidia miradi ya kibiashara ambayo ilionekana kana kwamba inakumbwa na matatizo yaliyoipinda dunia nzima katika soko la usafiri wa ndege.



business processes. Workflows efficiently automate business processes that would otherwise require an impractical level of time, money, resources and capacity to execute. This year, Kenya Airways achieved significant results and savings from the introduction of workflow systems in two major areas. The process of leave approval and management in Human resources; the automation of operational analysis, distribution of flight packets for processing to revenue accounting personnel and calculation of uplift-based taxes which are critical in any airline operation.

Kenya Airways achieved a milestone when we managed to use third party technology to install reservations access to the KLM host using computers, a local VPN set-up at a general sales agent (GSA) site and some readily available software with minor customization. This breakthrough will now enable us to utilize computers as next generation terminals to the KLM Host, whose infrastructure does not support access to PCs.

We also made significant enhancements to the corporate Intranet, which provides the internal communications backbone to staff. Now at the click of a mouse, an employee can efficiently access executive announcements, people's whereabouts, internal vacancy notices, travel information, staff regulations and all that is happening within KQ's network. We also ventured into Internet gateways, which enable staff to keep in touch and receive communication when travelling. Our websites also underwent major change to accommodate better content and functionality for our customers as we prepare to launch into the Internet booking engine.

We undertook an in-house development for a courier management solution, which provided an automated launch platform for a courier product introduced by Kencargo, our subsidiary organization. This was the first product launched from day one on a completely automated environment developed in-house.

On the communication front, we have achieved significant efficiencies by being internally

Hata hivyo, tulifaulu kutekeleza baadhi ya miradi hasa iliyokuwa muhimu. Njia iliyotumika kuchagua ni miradi ipi itekelezwe ilitegemea ukaguzi uliofanywa kuamua ni mchango upi mradi utaoongezea huduma kuwa bora, kuboresha usimamizi wa fedha, kupunguza mahitaji ambayo si ya lazima na sharti la lazima la kufanya kazi kulingana na sheria za kiwanda cha usafiri wa ndege.

Shirika la Kenya Airways linatambua kuwa Teknolojia ya Mawasiliano inakua kwa kasi mno na kushikilia usukani na kwa hivyo tunalazimika kujihami na vifaa vinavyokubalika na kubuni sheria za kusimamia mipango na viwango.

Kutoa masuluhisho ambayo yana gharama nafuu na ya kufaulu, tulianzisha mtiririko wa teknolojia katika sehemu zote za biashara yetu. Mtiririko huu huwa ni wa moja kwa moja na ukikosekana husababisha hasara kwa kupoteza muda, pesa, rasilmali na hata uwezo wa kutekeleza kazi. Mwaka huu, Kenya Airways imepata matokeo mazuri na kuokoa pesa kiasi kizuri kwa kuanzisha mtiririko huu katika sehemu mbili muhimu. Utaratibu wa kutoa kibali cha mfanyakazi kuenda likizo na usimamizi katika idara ya Wafanya Kazi; kukagua juhudi moja kwa moja na kuwasambazia waweka hazina zile takwimu za fedha zinazopatikana kwa misafara mbalimbali na kupiga hesabu ya ushuru mbalimbali, jambo ambalo ni muhimu katika usimamizi wa shirika la ndege lolote lile.

Kenya Airways iliweza kupiga hatua kubwa kwa kuweka mitambo iliyoivezesha kuwa na mawasiliano ya kuwawekea wateja nafasi za kusafiri kupitia kwa shirika la KLM. Hii iliwezekana kupitia kompiuta masafa ya VPN iliyowekwa kwa afisi ya Mwakilishi Mkuu wa Mauzo. Upenyo huu sasa utawezesha kutumia kompiuta kama kizazi cha pili kupitia KLM kama mwenyeji.

Pia tulifaulu kuboresha mtandao wetu wa kampuni ambao haswa ni uti wa mgongo wa mawasiliano kati ya wafanyakazi. Kufumba na kufumbua, mfanyakazi anaweza kupokea matangazo maalum, makao ya watu mbalimbali, nafasi za kazi katika kampuni, habari za usafiri, marekebisho ya kikazi katika kampuni na yote yanayofanyika katika mtandao mzima wa Kenya Airways. Pia tulijaribu tukaanzisha ule mtandao



connected to all our major establishments within Kenya using the modern telecommunications infrastructure laid out by Telkom Kenya. This means that, not only can we centrally support all systems and services from the headquarters, but also all the establishments are internally connected to the head office thus reducing the cost of voice communication significantly.

In the last quarter of the financial year, we embarked on the replacement of legacy revenue and financial systems. These systems were originally designed over 10 years ago and emerging technologies have required that the system designs be changed to currently supported platforms and business requirements especially incorporating web technology. In addition, there is a big demand for more seamless and workflow-based solutions from all divisions of the organization, which are under pressure to contribute to revenue improvement and efficiency while keeping a curb on costs and resources.

These replacement projects are strategic in that they will enable both the finance and service departments to provide quality administrative services, while yielding timely and pertinent decision making information to the management. These projects are expected to continue well into the next financial year.

The New Website Booking Engine

The KQ website is being redesigned and will be live by 30th April 2003. New features include country-specific sites that will give users specific information that is relevant to them based on their location e.g. fares, schedules etc. Secondly, it has been developed to have various languages and in the course of 2003, it will be possible for users to choose their language. The new site will also have a booking engine that will allow users to book and pay for their tickets online.

Inventory Distribution

The role of inventory distribution is to ensure that seats are available for purchase by our passengers throughout the world. Travel agents use computer reservations systems (CRS) such as Amadeus, Sabre, Worldspan and Galileo to

ambao unawezesha wafanyakazi wetu wapokee habari wanaposafiri. Kadhalika mtandao wetu aina ya Website ulifanyiwa ukarabati mkubwa ili kuboresha yaliyomo na umuhimu wake kadiri tunavyojizatiti kuongezea vifaa zaidi. Tulifanya maendeleo ya ndani-kwa-ndani kupata suluhisho la usafiri wa mizigo, jambo ambalo liliandalia jukwaa zuri shirika letu dogo la Kencargo. Huu ulikuwa mradi wa kwanza kuzinduliwa ndani kwa ndani katika mazingira sawia.

Katika mawasiliano ya simu, tumepiga hatua kwa kuunganishwa kwa sehemu mbalimbali ambazo ni za maana kwetu nchini kwa kutumia mitambo ya Telkom Kenya. Hii ina maana kuwa sio tu kuwa tunaweza kusimamia mawasiliano katoka makao yetu makuu mjini Nairobi, lakini tunaweza kufanya hivyo kwa yeyote yule aliyeunganishwa na afisi kuu na hivyo kupunguza gharama.

Tukiwa robo ya mwisho katika mwaka wa makadirio ya fedha, tulianza kubadilisha miundo ya jadi katika mambo ya kuweka rasilmali na upangaji wa pesa. Miundo hii ilianzishwa miaka kumi iliyopita na teknolojia imebuni mambo mapya na inabidi kuenda na majira na haswa kukumbatia teknolojia ya utando. Zaidi ya hivyo kunahitajika masuluhisho yasiyokuwa na hitilafu kutoka sehemu nyingi za shirika ambazo zinabidika kuchangia uboreshaji wa mapato na kupunguza gharama na rasilmali.

Miundo hii itakuwa kwa mpango kwa maana itawezesha idara za fedha na huduma kutoa mwongozo na uamuzi bora kwa usimamizi. Miundo hii itaendelea hadi mwaka ujao.

Mtandao (Website) mpya wa kununulia tikiti Mtandao wa Website ya KQ unaundwa upya na utaanza kutumika tarehe 30 Aprili 2003. Mambo mapya ni kama vile kutoa habari kuhusu nchi moja moja, jambo litakalowapatia wateja habari zinazohusu sehemu zao k.v. nauli na ratiba ya safari. Pili, website hii imeundwa ikiwa na lugha mbalimbali na katika mwaka wa 2003, itawezekana wanaoitumia kuchagua lugha ya kutumia. Mtandao huu mpya utawawezesha wateja kuitisha na kununua tikiti kupitia internet.

Usambazaji wa orodha ya mauzo Lengo la usambazaji wa orodha ya mauzo ni kuhakikisha kuwa viti vinapatikana ili viuzwe kwa wateja wetu kokote duniani. Mawakala wa



book tickets for their customers. Distribution costs make up a significant proportion of all charges related to ticket sales. A significant share of the high distribution costs can be attributed to invalid bookings, including double and incorrectly completed reservations made by travel agents. In order to keep these costs in check, a cost control strategy, which has reduced invalid bookings significantly in the last year, has been implemented. The cost-control strategy included education of travel agents throughout the network on how to carry out the reservations as efficiently and as accurately as possible, in addition to a continuous audit of all activities on the computer reservation systems. In the next financial year, Kenya Airways will be implementing robotic software on the reservation system to automatically handle unproductive bookings and further reduce the costs associated with unproductive bookings.

Product Development

Premier World

Kenya Airways front cabin product was previously made up of 2 elements — First Class in the intra-African routes and Business class on intercontinental routes. The fact that the intra-African product, formerly dubbed First Class, was significantly below global aviation definitions of First Class, as well as the fact that corporate travel rules forbade passengers from traveling First Class on duty travel, made for a product that was ultimately deemed unproductive to the airline's aspirations.

As a result, a decision was made to make the whole front cabin an enhanced business class product. This new class, named Premier World, was launched in the 3rd quarter of the 2002/3 financial year and is now sold system-wide.

The main feature of Premier World is the flat bed that comes with a larger pillow with branded pillow cover, larger vibrant blanket and a branded headrest. The seat is fitted with laptop adapter facilities and inflight entertainment service offering a large selection of programming in both audio and visual.

safari hutumia njia za kompiuta yaani CRS (Computer Reservations Systems) kama vile Amadeus, Sabre, Worldspan na Galileo kutoa tikiti kwa wateja wao. Gharama ya mauzo ni sehemu kubwa ya malipo yote ikilinganishwa na mauzo ya tikiti. Pia, sehemu kubwa ya gharama za usambazaji huletwa na wateja wanaovunja safari zao, pamoja na mawakala wa safari wanaosajilisha wateja maradufu. Ili kupunguza hasara ya aina hii, mpango kabambe wa kusimamia gharama hii umeanzishwa na umefua dafu kwa kurekebisha mambo kwa muda wa mwaka mmoja sasa. Mpango huu ulihusisha elimu kwa mawakala wa safari katika mtandao wetu kwa jumla na kuonyesha jinsi ya kuwasajili wasafiri kwa njia bora zaidi na kwa ukamilifu kadiri iwezekanavyo pamoja na kuweka hesabu katika kompiuta. Katika mwaka wa fedha unaofuata, shirika la Kenya Airways litaanzisha mbinu mpya za kikompiuta ambazo zitashughulikia maswala haya na kupunguza gharama.

Uimarishaji wa huduma

Premier World

Kifaa cha Kenya Airways hapo mbeleni kilikuwa na mambo mawili — Daraja ya Kwanza yaani First Class kwa safari za Afrika na Daraja ya Biashara yaani Business Class kwa safari za toka bara moja hadi jingine. Kwa vile kifaa cha Daraja ya Kwanza hakikutambulikana kuwa na umaarufu wa kusafiri dunia nzima kutokana na jina lake, na pia kwa vile makampuni hayakupendelea wafanyakazi wao kusafiria daraja hii, ilibidi kutafuta mbinu kuafikia matarajio ya wasafiri.

Hivyo basi, iliamuliwa kuimarisha kipenu au kijumba cha mbele ndegeni kiwe ni Daraja ya Biashara pekee. Daraja hii mpya kwa jina la Premier World ilizinduliwa awamu ya tatu katika mwaka wa 2002/3 wa makadirio ya pesa na sasa mauzo yanaendelea kupamba moto kokote kule.

Maumbile haswa ya Premier World ni kiti-kitanda mahsusi pamoja na mto mdogo, blanketi zuri na mto wenye foronya yenye chapa — zote zikiwa na chapa ya kampuni. Kiti hiki kimewekewa vifaa vya kukuwezesha kutumia kompiuta ya kupakata na burudani tosha la maonyesho ya filamu na muziki.



Premier World has branded stationery such as ticket jackets, baggage ID tags, priority baggage tags, and lounge invitations.

It has a separate check-in counter with a branded red carpet and fastrack immigration for airports that allow it.

The Flying Dutchman Programme

The new programme has increased the tier levels from three to four and switchover from points to miles. To retain the top tier levels, the elite bonus mileage was introduced.

It is easier for members to redeem miles with the new region-to-region awards arrangements. Using miles makes the program more transparent. The new system is also more generous to top frequent flyers. It is more competitive in comparison with other airlines programmes.

This program was relaunched globally in the third quarter of the financial year.

Corporate Communications

Corporate Communications Department continued to pursue its cardinal goal of influencing the opinions of people whose decisions affect Kenya Airways business by communicating the company's vision and values, as well as implementing overall communication strategies. This was done through advertising, media releases, staff communications, Msafiri documentary, launches and sponsorships. During the year, the department expanded its media mailing list and distributed media releases among the media in and outside Kenya. It also supported various community projects as a way of creating goodwill among various publics. Among the projects supported by the airline were Thika School for the Blind, Nyumba ya Wazee and Nairobi Friends of Conservation.

The Human Resource Strategy

Over the past year, our Human Resources Strategy has been closely integrated to our business goals and has been instrumental in our enhanced professionalism, high quality customer service, product quality and the safety of our services.

Premier World imechapisha alama ya kampuni katika vifaa vyake kama vile tikiti, vitambulisho vya mizigo na katika makaratasi ya kutuma maaliko kwa minajili ya tafrija. Hii ina pahala maalum pa kuwapokea wageni pale uwanja wa ndege, pakiwa na zulia jekundu na mpango maalum wa kupitisha wasafiri kwa maafisa wa uhamiaji, kokote mpango huu unapokubalika.

Mpango wa Flying Dutchman

Mpango mpya wa Flying Dutchman umeongezea viwango toka tatu hadi nne na kubadili matumizi ya alama hadi maili. Ili kuendelea na kiwango cha juu, bakhshishi bora inayolingana na maili ilianzishwa. Ni rahisi kwa wanachama kukomboa maili kupitia kwa mpango huu wa eneo hadi eneo. Kwa kutumia maili badala ya alama kumeweka mpango huu kuwa wazi kabisa. Mpango huu mpya pia ni mkarimu sana kwa wasafiri wa mara kwa mara. Ni mpango ulio na ushindani sana ukilinganishwa na mipango mingine ya mashirika ya usafiri wa ndege. Mpango huu ulizinduliwa duniani katika awamu ya tatu katika mwaka wa makadirio ya fedha.

Mawasiliano ya Shirika

Idara ya Mawasiliano ya Shirika iliendelea kufuatilia lengo lake kuu la kushawishi maoni ya watu ambao uamuzi wao huchangia biashara ya shirika la Kenya Airways pakubwa. Idara hii imefanya hivyo kwa kuwasilisha maono na thamani za kampuni pamoja na kutekeleza miradi ya mawasiliano kwa jumla. Hii ilifanyika kupitia matangazo ya biashara, taarifa kwa vyombo vya habari, mawasiliano kwa wafanyakazi, kipindi cha televisheni kitiwacho Msafiri, uzinduzi pamoja na udhamini mbalimbali. Hapo mwakani, idara hii iliongeza orodha ya kusambazia habari zake hata ikafikia vyombo vingi vya habari nchini na nje ya Kenya. Pia ilisaidia katika miradi mbalimbali kama vile kuongezea uhusiano na wananchi. Baadhi ya miradi hiyo ni pamoja na ile ya Thika School for the Blind, Nyumba ya Wazee na Nairobi Friends of Conservation.

Mpango wa Kusimamia Wafanyakazi

Kwa muda wa mwaka mmoja, mpango wa kusimamia wafanyakazi umehusiana mno na malengo ya biashara yetu na umeongeza ubora wa taaluma, huduma kwa mteja, ubora wa vifaa na usalama wa huduma yetu. Mpango huu uliangazia malengo ya muda mfupi na yale ya



The strategy focused on both short and long-term human resources issues, by continuing to align our HR policies and objectives with the corporate objectives and therefore accelerated our pace in the on-going cultural transformation to a high performance organization. We endeavoured to ensure effective communication at all levels in our dynamic environment and are increasing mechanisms of sustainable staff motivation programmes. We adopted best practice Human Capital Acquisition techniques, which saw the addition to our company, of high calibre professionals from key organisations in a wide range of sectors. This was supported by our Compensation and Benefits Strategy as well as our capacity-building, succession planning and career development strategies.

Our Human Resources Strategy continues to build on the existing successes and to ensure our continued learning from every available opportunity that our challenges present. Recognising that it is our people who will determine how we will be judged against our vision to become a World Class Network Airline by 2005, the Human Resources Strategy will continue to ensure that both our existing and yet-to-be-sourced human capital are aware, committed and responsive to these challenges.

Our Philosophy has also been instrumental in the continued commitment to our corporate values and corporate culture. We encourage respect for the individual, integrity, professionalism, honesty, trust, innovativeness, career development, self-confidence, entrepreneurship, transparency, dialogue and social responsibility as key tenets of continuing promotion of our company's excellence.

Group Head Count

The growth in the group head count continued to be strategically managed in accordance with the dictates of the business and our human resource forecasts. The number of employees was 3,418 during the year ended March 2003, compared to 3,427 the previous year. Human Resource development remains a focal point as we continue to build individual and institutional capacity necessary to steer our focus to the

muda mrefu. Mashauri ya kusimamia wafanyakazi basi yalisawazishwa na yale ya makusudi ya shirika kwa jumla hivyo shirika likawa limeenda kasi katika mabadiliko kutoka kwa shirika linalokubali mfumo mpya hadi lile linalofanya kazi barabara. Tulijaribu kuhakikisha kuwa kuna mawasiliano yanayofaa katika viwango vyote vya mazingira yetu na mbinu za kuwatia wafanyakazi motisha.

Tulipanga na kuanzisha mtindo mpya uitwao Human Capital Acquisition ambao ulisababisha ongezeko la wafanyakazi wapya wenye taaluma za hali ya juu katika sekta mbalimbali. Mpango huu ulianda sambamba na Mpango wa Fidia na Fadhili (Compensation and Benefits Strategy) pamoja na kuongezea wafanyakazi, jinsi ya kurithi kazi na mpango wa kuimarisha taluuma.

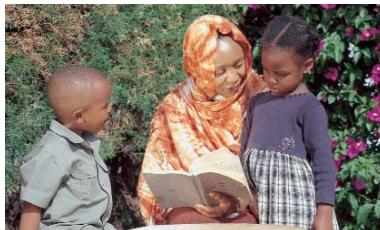
Mpango wetu wa wafanyakazi unaendelea kujengwa na kuhakikisha tunajifunza mambo mapya kutokana na nafasi yoyote ile inayotokeza na changamoto kwa kazi yetu. Pia, tunajua kuwa ni watu wetu ndio wataamua jinsi tunavyokabiliana dhidi ya swala la kuwa Shirika la Kimataifa ifikapo mwaka wa 2005. Mpango wa Wafanyakazi utaendelea kuhakikisha kuwa wafanyakazi wa sasa na wale watakoajiriwa baadaye ni wenye bidii na walio na ukamavu wa kukumbana na changamoto yoyote ya kazi.

Filosofia yetu pia imechangia bidii katika malengo na utamaduni wa shirika letu. Tunatambua na kupendekeza heshima ya mtu binafsi, ukamilifu, taluuma, uaminifu, haki, uimarishaji wa ujuzi, mazungumzo huru na huduma kwa jamii. Haya ni mambo ambayo tunaamini yataliinua jina la shirika letu.

Idadi ya Wafanyakazi

Ongezeko la wafanyakazi liliendelea kusimamiwa kwa mpango kulingana na mifumo ya biashara pamoja na utabiri wa mwelekeo wa kuajiri na kusimamia wafanyakazi. Idadi ya wafanyakazi ilikuwa 3,418 mwisho wa mwaka wa fedha hapo Machi, ikilinganishwa na 3,427 mwaka uliopita.

Swala la kuimarisha mpango wa kuajiri na kusimamia wafanyakazi ni la umuhimu mkuu tunavyoendelea kukuza kila mfanyakazi na shirika kwa jumla ili tukamilishe maono yetu ya kuwa Shirika la Ndege la Kimataifa ifikapo



attainment of our vision to become a World Class Network Airline by 2005.

Through the use of modern recruitment and selection techniques, we continue to attract and retain high calibre professionals.

Industrial Relations

The Company continued to enjoy harmonious industrial relations with open dialogue and active feedback at all levels made possible by our open-door policy. The existing partnership with unions will continue to be nurtured and improved.

The Board recognises with appreciation the contribution of all staff to the conducive business environment, which has enabled positive responsiveness to the needs of our esteemed customers. The invaluable role and contribution of each employee to this harmony will continue to be recognized.

Staff Training and Development

During the year, several planned pertinent training and development initiatives were successfully undertaken both at individual and corporate level.

With input from the performance management cycle, competency-based training programmes took the centre stage. Our staff updated and enhanced their competencies in customer care techniques, various technical competencies, communication, and through simulator training, our pilots team prepared themselves for the higher responsibilities commensurate with our fleet modernisation programme.

Staff Welfare

In addition to curative medical services, over the past year, our Health Strategy has increasingly focused on preventative medical services to staff as a means to promoting good health. Stress management, healthy living and counselling are part of the services provided by our medical staff to our staff and families.

Our preventative medical services also saw us hold educative sessions on cabin health with some Travel Agents as well as our checking-in Customer Services Staff.

mwaka wa 2005. Kupitia kwa njia mpya za kuchuja na kuajiri wafanyakazi, tumeendelea kuvutia na kuwahifadhi wafanyakazi wenye sifa nzuri katika taaluma zo.

Uhusiano na vyama vya wafanyikazi

Kampuni iliendelea kufurahia uhusiano mzuri katika maswala ya viwanda kwa kufanya mazungumzo na kupata matokeo bora katika viwango vyote kwa kupitia msimamo wetu wa kujadili mambo waziwazi. Uhusiano wetu na vyama vya kutetea maslahi ya wafanyakazi utaendelea kutunzwa na kuboreshwa. Halmashauri yetu yapendezwa na mchango wa wafanyakazi wetu wote katika mazingira mema ya kibiashara kwa wateja wetu wapendwa. Mchango huu wenye thamana kutoka kwa kila mfanyakazi utaendelea kutambulikana.

Uimarishaji wa Mafunzo kwa Wafanyakazi

Hapo mwakani, mafunzo kadha wa kadha yalitolewa kwa watu binafsi na kwa vikundi katika shirika.

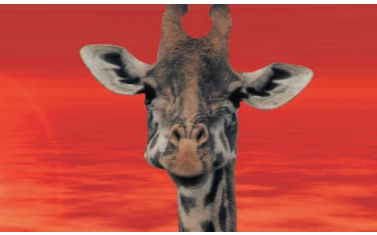
Tukizingatia mpango wa kusimamia mafunzo yanayofuata mkondo wa duara, mafunzo mbalimbali yalichukua nafasi ya mbele. Wafanyakazi wetu walijikumbusha na kuongeza ujuzi katika kuwahudumia wateja, teknolojia, mawasiliano na kwa kupitia mafunzo ya rubani kuiga kuwa angani, marubani wetu walijizatiti zaidi kwa majukumu makubwa yanayoambatana na mpango wetu wa kuongeza ndege.

Maslahi ya Wafanyakazi

Kando na huduma za kutibu magonjwa, kwa mwaka mmoja sasa Mpango wetu wa Afya umezingatia sana huduma za kuzuia magonjwa kama mojawapo ya njia za kuboresha afya. Kukabiliana na dhiki ya mawazo itokanayo na kazi, maisha bora na ushauri ni baadhi ya mambo ambayo wahuduma wetu wa afya huwapa wafanyakazi wetu na familia zao.

Huduma zetu za kuzuia magonjwa pia zilihusisha masomo kuhusu afya ndani ya ndege. Masomo haya yalikusisha Mawakala wa Safari pamoja na Wafanyakazi wetu wanaowapokea wageni hapo uwanjani.

Kama shirika linalojali maslahi, tunaendelea kuwaelimisha wafanyakazi wetu kuhusu ukimwi pamoja na mambo mengine yanayowahusu. Pia tunashughulika na kampeni juu ya ukimwi kwa vikundi mbalimbali.



As a responsible corporate organization, we continue to educate our employees on HIV/AIDS and workplace-related issues. We also undertake peer training as part of our HIV/AIDS awareness campaign.

Flight Operations

The Flight Operations Department has continued to perform well in its role as the facilitator of safe and efficient operation of all aircraft. The expansion of the fleet will enable network expansion as well. Operations to Bangkok and Hong Kong will start in September 2003. A Boeing 777 will be acquired in the second quarter of 2004.

Flight Crew Recruitment and Training

To effectively manage this expanding aircraft fleet and cover the airlines network with increased frequencies in some areas, the company would require close to 250 trained and qualified pilots. With the current numbers standing at 170, the flight operations department with the help of the human resource department, has embarked on an elaborate recruitment and training programme for Kenyan pilots.

Some 15 Ab-initio (recruits from school) trainee pilots are currently undergoing training in Addis Ababa, Ethiopia. They are expected to complete their course mid 2004, after which they will be employed as cadet pilots. Another group of 15 left for South Africa in April 2003 for a similar course. Boeing is training the first 16 pilots for the B777 as part of the purchase package. Ab-initio training programme is a first for Kenya Airways. The investment is high, as training one pilot costs close to Kshs3.5 million shillings. This investment is justified as the Airline moves towards world-class status where highly skilled workforce will be required.

KAHL/ACHL

The year just ended proved yet another difficult one for the KQ ground handling subsidiaries — African Cargo Handling Limited (ACHL) and Kenya Airfreight Handling Limited (KAHL)

There being no real upturn in the Kenyan economy, although the level of exports was

Safari za Ndege

Idara ya Safari za Ndege imeendelea kushughulikia wajibu wake vilivyo kuhusu jinsi ya kuendesha safari salama salmini na kwa ukamilifu. Upanuzi wa misafara utawezesha mtandao kupanuka pia. Safari za Bangkok na Hongkong zitaanza hapo baadaye. Ndege aina ya Boeing 777 zitanunuliwa katika robo ya pili mwaka wa 2004.

Usajili na Mafunzo kwa Watenda Kazi Ndegeni

Ili kusimamia safari hizi zote za ndege zinazoendelea kuongezeka na kufikia utando wote wa shirika letu la ndege, kampuni inahitaji marubani takriban 250 waliofuzu katika taaluma ya kuendesha ndege. Tukiwa na idadi ya marubani 170 kwa sasa, Idara ya Safari za Ndege ikishirikiana na Idara ya Kuwasajili na Kusimamia Wafanyakazi, imeanzisha mpango mahsusi wa kusajili na kutoa mafunzo kwa marubani Wakenya.

Wanafunzi wa urubani kumi na watano hivi sasa wanaendelea na masomo kule Addis Ababa, Ethiopia. Wanatarajiwa kumaliza mafunzo yao katikati mwa mwaka wa 2004 mara tu watakapojiriwa kama marubani chipukizi. Kikundi kingine cha wanafunzi kumi na watano kiliondoka mapema Mei kuelekea Afrika ya Kusini kupata mafunzo kama hayo. Shirika la Boeing linawaelimisha marubani kumi na sita kwa minajili ya kuendesha B777 kama sehemu ya kuzinunua ndege hizo. Mpango wa kuwafunza marubani chipukizi ni wa kwanza hapa nchini Kenya. Rasilmali hii ni kubwa mno kwa sababu gharama ya kumfunza rubani mmoja ni takriban milioni 3.5 Shilingi za Kenya. Rasilmali hii ni sawasawa kwa vile shirika linakusudia kuwa na madaraka ya kutambulikana kama Shirika la Kimataifa hivi kwamba wafanyakazi wenye ujuzi mzuri watahitajika.

KAHL/ACHL

Mwaka uliyopita uliendelea kuwa mgumu kwa mashirika madogo ya mizigo ya KQ — African Cargo Handling Limited (ACHL) na Kenya Airfreight Handling Limited (KAHL).

Kwa vile hatukuwa na mambo mazuri katika uchumi wa Kenya, ingawa viwango vya kupeleka bidhaa nchi za kigeni vilikuwa bora kuliko mwaka uliyopita, vile vya kuingiza bidhaa nchini havikubadilika. Mashindano yaliendelea kuwa



slightly ahead of last year, import levels were largely unchanged. Competition remained intense with continued pressure on rates. KQ ground handling subsidiaries continue the policy of attracting and retaining business on the basis of product profile and service delivery.

Despite the economic uncertainty and intense competition, they produced acceptable levels of revenue and profit.

KAHL continued to focus on passenger aircraft and related activity, while ACHL has its focus on cargo freighters and related activity.

Two significant projects in operations were completed during the year. Firstly, the commissioning of a dedicated courier facility within the KAHL terminal building and the opening of a Ground handling equipment maintenance facility by KAHL in Mombasa. Both were elements of the ground handling subsidiaries investment programme, which also saw additional equipment being delivered in support of aircraft and cargo handling operations.

Information Technology saw the introduction on centralised communication serving not only the ground handling subsidiaries, but also Kencargo Airlines International. Cargo handling systems were consolidated, with significant investments in both hardware and software.

Human resources saw the implementation of a comprehensive management system. This, coupled with a skills gap analysis and a staff assessment programme, greatly contributed to the ground handling subsidiaries policy of moving towards a multi-skilled human resource by the end of 2004. Industrial relations remained cordial.

Kencargo Airlines International Limited

Further globalisation of trade will result in a growing air cargo market. Europe remains Africa's largest air trade partner and it is expected that northbound Africa to Europe air trade will continue to grow at an average of 5.4% per year. Southbound Europe to Africa will grow

makali kukiwa na uzito katika kima cha ushuru. Mashirika haya madogo ya KQ yanaendelea kuvutia na kukumbatia biashara kwa kuonyesha msimamo bora wa huduma.

Licha ya kutoaminika kwa uchumi na mashindano makali, mashirika haya madogo yalifikia viwango vikubwa vya mapato na faida.

KAHL iliendelea kushughulika na uchukuzi wa wasafiri na huduma zozote zilizo hitajika, nayo ACHL ikishughulikia uchukuzi wa mizigo. Mambo mawili katika miradi yalikamilika hapo mwakani. Mwanzo, maagizo ya kulipatia mamlaka shirika la KAHL kusafirisha barua na vifurushi kupitia kwa jumba lake na kuanzisha mpango wa kushughulikia mizigo katika tawi lake la Mombasa ni mambo yaliyotekelezwa. Yote mawili yalikuwa ni baadhi ya mpango wa kuongezea biashara, na ulisababisha kuongezewa vifaa ili kusaidia katika shughuli za usafiri wa ndege na mizigo.

Teknolojia ya kikompiuta ilianzisha mawasiliano sio tu kwa kusaidia mashirika haya madogo, bali pia Kencargo Airlines International. Miradi ya kusafirisha mizigo iliunganishwa na kuongezewa data na programu za kikompyuta.

Idara ya kuwaajiri wafanyakazi ilishuhudia kuanzishwa kwa mpango mahsusi wa kuwasimamia. Hii, pamoja na mpango wa kugundua upungufu wa ujuzi na kuwafanyia wafanyakazi mitihani ilichangia mno msimamo wa mashirika haya kukaribia hali ya kuwa na wafanyakazi wenye ujuzi mbalimbali ifikapo mwaka wa 2004. Uhusiano na vyama vya wafanyakazi uliendelea kuwa mwema.

Kencargo Airlines International Limited

Kuongezeka kwa biashara duniani kutasababisha kuongezeka kwa soko la kusafirisha mizigo. Ulaya bado ni mshirika mkuu wa Afrika katika biashara ya angani na inatarajiwa kuwa nchi za Afrika zilizo jirani na Ulaya zitaendelea kukua kwa wastani ya asilimia 5.4 kwa mwaka. Nchi za Ulaya zilizo kusini zikipakana na Afrika zitakua kwa wastani ya asilimia 4.4 kwa mwaka. Mpango wa AGOA pia utakua biashara ya angani kati ya Marekani Kaskazini na Afrika. Upanuzi wa misafara wa shirika la Kenya Airways pamoja na kufungua njia mpya kwenda Bangkok na Hong Kong na kuongeza safari za Ulaya utafaidi Kencargo kwa



at an average of 4.4% per year. The AGOA initiative will also lead to further growth in air trade between North America and Africa.

Kenya Airways fleet expansion, coupled with the opening of new routes to Bangkok and Hong Kong and increased frequencies to Europe will all be of benefit to Kencargo as extra capacity is needed to grow the cargo business.

However, continuous growth cannot be sustained without extra intra-Africa capacity, hence the need for a dedicated freighter. The successful launch of the Nairobi-Lilongwe-Lusaka freighter route using leased AN12 in April 2002 has created extra revenue for Kencargo's shareholders.

Planned introduction of the B737-200-QC Freighter as of April 2003 will further generate extra revenue for Kenya Airways and remove the hub constraints at Nairobi which will be mandatory for expansion of business and achieving growth in cargo revenue.

Successful launch of Kencargo Courier Product has contributed significantly to the overall increase in revenue. Further product differentiation is needed to overcome a year-on-year drop in cargo yields as more and more competitors eye the lucrative African air cargo market.

Flamingo Airlines Limited

Flamingo introduced a low cost carrier concept utilizing the Internet as an electronic base to enhance an effective reservations system. Regrettably, the Internet integrity in Kenya is inadequate and could not properly support the Internet reservation system. Consequently, Flamingo adopted a new distribution system, which resulted in significant cost reductions.

The management has therefore been forced to review the entire concept, postpone the implementation period and restore some of the original procedures to enable proper distribution. Commission payments were once again offered to the travel trade to stimulate sales and a good response has been generated.

vile nafasi ya ziada ndegeni itahitajika ili kukuza biashara ya kusafirisha mizigo.

Hata hivyo, maendeleo haya hayawezi kuhifadhiwa bila nafasi zaidi katika safari barani Afrika, hivyo basi mpango imara wa kusafirisha mizigo unahitajika. Uzinduzi uliofaulu sana wa kusafirisha mizigo toka Nairobi hadi Lilongwe na Lusaka kwa kutumia AN12 mwezi wa Aprili 2002 umeongezea kwa wenyehisa wa Kencargo mapato.

Kuanzishwa kwa usafirishaji wa mizigo na B737-200-QC mwezi wa Aprili 2003 kutazalishia Kenya Airways nyongeza ya mapato na kuondoa vikwazo vinavyoikumba katika makutano ya Nairobi jambo ambalo litalazimisha upanuzi wa biashara na kuongezeka kwa mapato ya kusafirisha mizigo.

Uzinduzi uliofaulu wa Kencargo kusafirisha barua na vifurushi umechangia mno kuongezeka kwa mapato kwa jumla. Mizigo mbalimbali inahitajika kuwekwa kwa mpango huu ili kuepuka upungufu wa toka mwaka hadi mwingine kwa sababu washindani wanaiangalia kwa matamano biashara hii ya kusafirisha mizigo barani Afrika.

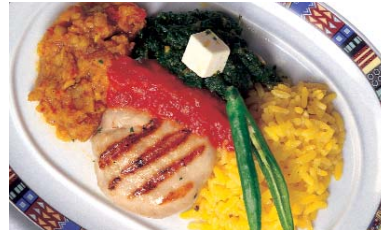
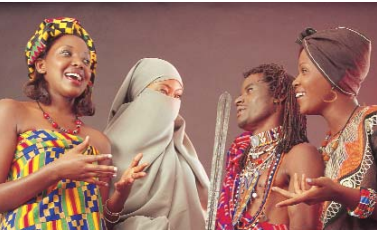
Shirika la Ndege la Flamingo

Shirika la Ndege la Flamingo lilianzisha mpango wa safari kwa bei nafuu likitumia mtandao kama njia ya kukata tikiti. Kwa bahati mbaya ukamilifu wa mtandao nchini Kenya ni hafifu na haukuwezesha ukataji wa tikiti kama ilivyotarjiwa. Hivyo basi, shirika la Flamingo lilianzisha mpango mpya wa kujisambazia habari kwa wasafiri na likapunguza gharama.

Usimamizi basi umebidika kuangalia mpango huo wote na kuahirisha muda wa kuutekeleza na kurudia njia za hapo awali ili kuwasilisha habari vema kwa wateja.

Malipo ya ujira kwa wawakilishi yalitolewa tena kwa wale wanaofanya biashara ya usafiri ili kuchangamsha upya mauzo na hadi sasa matokeo mema yameonekana.

Mwaka uliopita wa makadirio ya fedha ulishuhudia mojawapo ya misimu mibaya sana katika shughuli za usafiri wa ndege katika soko la kinyumbani la Kenya. Hili ni jambo ambalo limeshuhudiwa na hasara ya viwanda ambayo imearifiwa nchini Kenya msimu wa mwaka huu wa 2002/03.



The past financial year witnessed one of the worst periods for airline operations in the Kenyan domestic market. This statement is supported by the industry losses reported in Kenya during the 2002/03 period. Particularly difficult conditions occurred towards the second half of the year when fierce competition emerged in the domestic market resulting in price wars across the route network with fares reducing by as much as 50% on some routes.

The outlook for 2003/04 would indicate that conditions in the domestic market should recover towards the end of the current year and signs of a return to normality have already emerged. The management's hope is that trading results will turn profitable towards the second half of the financial year.

The strategic value of Flamingo as a domestic feeder service for Kenya Airways and the impact that this service has on the group network has been extensively debated and found to be desirable. However, necessity has dictated a more conservative approach to address the short-term domestic market factors for the coming year. The future outlook is considerably more encouraging. The low cost concept still remains the most promising model for Flamingo although implementation will have to be delayed. The ultimate goal remains the same.

Overall Strategy and future Outlook

A dynamic business model that seeks to maximize shareholder value drives Kenya Airways overall corporate group strategy. Specifically, the model is driven by the need to create a strategic focus with a clear direction, the need to create a model/means to achieve operational discipline and effectiveness in the pursuit of that overall direction, and the need to create a model/means to sustain performance, monitor progress and detect the need for change.

Consistent with the above, Kenya Airways pursuit of a world-class status, with a clear definition of what constitutes world-classness, provides an overall direction. Clearly defined goals and strategy frameworks in key areas of business buttress this overall focus.

Kenya Airways is also quite clear that, without

Matatizo hasa yalitokea ilipofika sehemu ya pili ya mwaka wakati mashindano makubwa yalijitokeza katika soko la humu nchini na kusababisha mgogoro wa bei katika mtandao mzima wa misafara huku nauli zikirudi chini hadi asilimia hamsini katika sehemu kadhaa.

Mambo yanavyoelekea mwaka wa 2003/04 yaonyesha kuwa hali katika soko la humu nchini huenda ikapata nafuu mwishoni mwa mwaka na dalili za kurudia hali ya kawaida zimeanza kujitokeza. Matumaini ya usimamizi ni kuwa matokeo ya biashara yatakuwa na faida hapo mwishoni mwa mwaka wa makadirio ya fedha.

Mpangilio wa Flamingo kama shirika linalochangia Kenya Airways wasafiri na umuhimu wa shirika hili kwa muungano wa mashirika ya Kenya Airways umejadiliwa kwa upana na urefu na kuonenakana kuwa unastahili. Hata hivyo, uhitaji umeonyesha kuwa msimamo imara unatakiwa ili kuchunguza mipango ya muda mfupi inayohusu soko la humu nchini kwa mwaka ujao. Sura ya siku za usoni inaonekana ni ya kutia moyo.

Mpango wa bei nafuu bado ungalipo na ni mfano mzuri kwa Flamingo ingawa kuutekeleza ni lazima uhairishwe. Lengo lake hasa litaendelea kuwepo.

Mpango kwa Jumla na Sura ya Siku za Usoni

Shirika la Kenya Airways limejengwa kwa mfano mwema wa biashara thabiti linalokusudia kuendelea kuthamini umaarufu wa wanahisa ili kuendeleza mipango yake kwa jumla. Hasa, mfano huu unaongozwa na haja ya kuanzisha msimamo ulio na mwelekeo wa wazi, kuimarisha nidhamu ya kazi pamoja, mfano tekelezi kijumla na maana ya kuanzisha mfano pia ni kukuza uwezo, kupiga maendeleo darubini na kutambua yapi yahitaji mabadiliko.

Pamoja na haya mambo yaliyotajwa hapo juu, mpango wa Kenya Airways kufuatilia nia ya kufanyika Shirika lenye Madaraka ya Kimataifa, na maelezo halisi kuhusu maana ya Shirika lenye madaraka ya Kimataifa ni mpangilio wa kijumla. Malengo yanayoeleweka barabara na misimamo katika sehemu muhimu za biashara ni msingi wa mwelekeo huu.

Shirika la Kenya Airways pia linaelewa kuwa bila nidhamu ya kazi mwelekeo wa mipango hauwezi kutekeleza mambo mengi. Kwa sababu hii, tunanuia kulinganisha viwango vyetu na vile vya



operational discipline, strategic focus cannot achieve much. For this reason, it is implementing a model intended to achieve operational discipline. This model involves benchmarking with world-class standards and tracking efforts to close the gap through a bi-weekly corporate indicator board, the Dashboard. At departmental and staff levels, performance is monitored through monthly Key Performance Indicators (KPIs) and bi-annual Key Result Areas (KRAs) reports respectively. Recognition and reward mechanisms reinforce performance and sustain cultural change.

Going forward, Kenya Airways will build on the solid foundation of success achieved and lessons learned since privatisation. It will continue to fine-tune its overall business strategy focusing on three key pillars: revenue generation, cost containment and a dynamic strategy actively explores new opportunities and effectively deals with emerging challenges.

The airline's focus has been and will continue to remain on the customer. Satisfied customers are repeat customers and repeat customers are what generate real value for our shareholders. Never has there been a time when strong focus was more required to accommodate all the stakeholders requirements in this industry.

Kenya Airways will continue to upgrade its services with a view to attracting and retaining customers. The recently introduced Premier World on our B767 European services with its flat bed and other enhanced features have undoubtedly proved popular; witnessed by the strong growth in sales in the front cabin.

We are in the process of upgrading all our meal services and these will be progressively rolled out over the coming months. Our entertainment channels continue to be expanded with additional items of interest.

Titus T. Naikuni
Group Managing Director & CEO

Daraja ya Dunia nzima na kuchunguza bidii yetu mara mbili kwa wiki tukitumia kipimo tunachokiita Dashboard ili kupunguza pengo lilioko. Katika kila idara, uwezo wa wafanyakazi unapimwa kila mwezi kupitia vipimo viitwavyo Key Performance Indicators (KPIs) na mara mbili kwa mwaka kupitia vipimo vya Key Result Areas (KRAs). Wafanyakazi wanatunukiwa zawadi ili kuongezea bidii yao ya kukubali na kukumbatia mabadiliko.

Likiendelea mbele, shirika la Kenya Airways litajitahidi kujijenga kwenye msingi wenye ushindi na mafunzo yaliyopatikana tangu libadilike kuwa la kiraia. Shirika litaendelea kunufaisha msimamo wake wa biashara kwa jumla kwa kutumia nguzo tatu; kuzalisha mapato, kuweka bei wastani na kuweka mipango tekelezi inayotalii fursa mpya na kukabiliana na changamoto yoyote inapoibuka.

Msimamo wa shirika letu la ndege limekuwa na litaendelea kumwangua mteja. Wateja watosheka ni wateja warudio na hawa ndio wenye manufaa kwa wanahisa wetu. Hakujuwa na wakati ambao msimamo haswa umethamini mahitaji ya washika dau (stakeholders) katika kiwanda hiki.

Shirika la Kenya Airways litaendelea kupandisha viwango vya huduma yake ili kuwavutia na kuwamiliki wateja. Mpango mpya wa Premier World ulianzishwa katika huduma ya Ulaya kwa kutumia B767, ukiwa na kiti-kitanda na vifaa vingine vya kupendeza na bila shaka umetia fora na kushuhudiwa na ongezeko la mauzo katika kijumba cha Daraja ya Kwanza.

Tunaendelea kupandisha viwango vya maankuli na hii itaendelea kuibuka katika miezi michache ijayo. Burudani kupitia filamu na muziki imeongezea starehe zaidi ya kupendeza.

Titus T. Naikuni
Meneja Mkurugenzi wa kundi na Afisa Mkuu

Three Year Summary of Financial Highlights

Financial Highlights

The Group	2003		2002		2001	
	KShs. Million	US\$ Million	KShs. Million	US\$ Million	KShs. Million	US\$ Million
Turnover						
Passenger	23,470	299.1	22,136	281.3	19,483	248.9
Freight & mail	2,924	37.3	2,315	29.4	2,180	27.8
Other	1,067	13.6	714	9.1	862	11.0
Total	27,461	350.0	25,165	319.8	22,525	287.7
Direct Expenditure	(20,822)	(265.3)	(18,608)	(236.5)	(16,418)	(209.7)
Gross Profit	6,639	84.7	6,557	83.3	6,107	78.0
Overheads	(5,800)	(73.9)	(5,346)	(67.9)	(4,048)	(51.7)
Interest payable	(460)	(5.9)	(461)	(5.9)	(511)	(6.5)
Interest receivable	53	0.7	237	3.0	433	5.5
Foreign exchange loss	(15)	(0.2)	(21)	(0.3)	(85)	(1.1)
Gain on disposals	107	1.4	82	1.0	148	1.9
Write back of negative goodwill	27	0.3	11	0.1	-	-
Share of results of associate	(4)	(0.1)	-	-	-	-
Profit before tax and minority interest	547	7.0	1,059	13.3	2,044	26.1
Tax charge	(185)	(2.4)	(190)	(2.4)	(687)	(8.8)
Minority interest	(17)	(0.2)	(1)	-	-	-
Profit for the year	345	4.4	868	10.9	1,357	17.3
Dividends	231	2.9	277	3.5	577	7.4

Operating Statistics

	2003	2002	2001
Passengers	1,621,429	1,539,872	1,473,799
RPK's (Millions) ¹	3,994	3,725	3,436
ASK's (Millions) ²	5,872	5,359	5,313
Passenger Load Factor (%) ³	68.0	69.5	64.7
Cargo Tonnes	28,497	23,574	22,908
Pax yield per RPK (USc) ⁴	7.3	7.4	7.2
Employees:			
Airline	2,311	2,407	2,338
Group	3,418	3,427	3,098

Aircraft in Service at Year End:

Airbus A310-300	0	1	4
Boeing 737-200	2	2	2
Boeing 737-300	4	4	4
Boeing 737-700	3	1	-
Boeing 767-300	5	5	1
SAAB 340	2	2	2
Beechcraft-1900C	1	1	1

Notes:

1. RPK (Revenue Passenger kilometres) - The number of passengers carried multiplied by the distance (Kilometres) Flown.
2. ASK (Available Seat Kilometres) - The number of seats available for sale multiplied by the distance (Kilometres) Flown.
3. Passenger Load Factor - RPK's expressed as a percentage of ASK's.
4. Pax yield per RPK - Passenger income divided by passenger kilometres travelled expressed in US cents.

Corporate Governance

Corporate governance is the process by which companies are directed, controlled and held to account .

Kenya Airways Board of Directors is responsible for the governance of the Airline and is accountable to the shareholders for ensuring that the company complies with the law, the highest standards of corporate governance and business ethics. The Directors attach great importance to the need to conduct 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 six times a year. The Directors are given appropriate and timely information so that they can 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.

Nine out of the eleven members of the Board are non-executive including the Chairman of the Board, and all other than 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.

Committees of the Board

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

Audit committee

The Board has constituted an audit committee, which meets four times a year or as necessary. Its membership comprises Mr. Dinesh Kapila (Chairman), Mr. Joseph Magari, Dr. Chris Obura, Mr. Remco Smit and Mr. Michael Somen. Its responsibilities include review of financial information in particular half year and annual financial statements, 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 executives attend as required.

Staff committee

There is a staff committee of the Board. Its membership comprises Mr. Michael Somen (Chairman), Dr. Chris Obura, Mr. Titus Naikuni and Mr. Dinesh Kapila. The committee meets quarterly or as required. The committee is responsible for monitoring and appraising the performance of senior management, including the Group Managing Director, review of all human resources policies, determining the remuneration of senior management and making recommendations to the Board on the remuneration of non-executive directors. The Group Managing Director and Director of Human Resources attend all the meetings of the committee.

Finance committee

There is also a finance committee. It meets three times a year or as required. It comprises Dr. Chris Obura (Chairman), Mr. Titus Naikuni, Mr. Joseph Magari, Mr. Hosea Kiplagat and Mr. Remco Smit. Among its responsibilities is to receive and consider the company's annual budget, to review the purchasing tender regulations and to consider recommendations for capital expenditure. It also reviews proposals involving opening of new routes,

capital developments, listing on other stock exchanges, insurance renewals, aircraft purchases financing and long-term leases. The Group Finance Director attends the meetings of the committee.

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 senior management meetings are held by the executive management to monitor performance and to agree on measures for improvement.

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 the management, employees and stakeholders on the acceptable behaviour in conducting business. All employees of the Airline are expected to avoid activities and financial interests, which could clash with their responsibilities to the Airline.

Communication with Shareholders

The Company is committed to ensuring that shareholders and the financial markets are provided with full and timely information about

its performance. This is usually done through the distribution of the Company's Annual report, the release of notices in the press of its half-yearly and annual results, and monthly 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.

In this regard, the Company complies with its obligations contained in the Stock Exchange's Listing Rules and the Capital Markets Authority Acts applicable in both Kenya and Uganda.

Director's Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year 2002 are disclosed in the note 27 (d) to the financial statements.

Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the Company is a party, whereby Directors might acquire benefits by means of the acquisition of the Company's shares.

There were no Director's loans at any time during the year. Director's interests in the shares of the Company, the Distribution of the Company's shareholding and analysis of the ten largest shareholders as at 31st December 2002 were as follows: -

Directors Interests

Name of Director	Number of Shares
Permanent Secretary to the Treasury	106,171,561
Mr. I.E. Omolo Okero	2,018
Mr. Dinesh Kapila	4,036
Mr. Hosea Kiplagat	151,350
Dr. Chris Obura	120,180
Mr. Michael Lewis Somen	6,966

Share Holding

The number of shareholders which as of our report last year stood at 91,307 have since declined to 90,934.

The shareholder profile as at 31st March 2003 was as follows:-

	Number of Shareholders	Number of shares held	% of issued Share Capital
1. Kenyan individual investors	87,851	145,442,617	31.51
2. Kenyan institutional investors	2,970	178,210,747	38.61
3. East African Individual investors	33	120,414	0.03
4. East African Institutional investors	5	582,748	0.13
5. Foreign individual investors	66	389,832	0.08
6. Foreign institutional investors	9	136,869,126	29.64
	90,934	461,615,484	100.00

Ten Largest Shareholders

1. KLM	120,020,026	26.00
2. Permanent Secretary Treasury	106,171,561	23.00
3. Barclays (Kenya) Nominees Limited A/C 9057	11,565,000	2.50
4. Mansukhal Khetsi Shah	9,534,968	2.06
5. Rameschandra K. Shah	8,558,694	1.85
6. Sameer Investments Limited	5,791,910	1.25
7. Khetshi Dharamshi and Company Limited	5,221,944	1.13
8. Barclays (Kenya) Nominees Limited	4,240,800	0.91
9. Shah Mahendra Kumar Khetsi	4,148,100	0.89
10. Trustees of the Kenya Airways ESOP	2,976,500	0.64
	278,229,503	60.23

Summary of Totals

Shares Range	Shareholders	Number of shares	%
0 to 500	38,425	18,531,920	4.014
501 to 5,000	49,607	63,836,593	13.829
5001 to 10,000	1,357	10,274,368	2.225
10001 to 100,000	1,381	37,278,985	8.075
100001 to 1000,000	142	39,564,979	8.573
1000001 & above	22	292,128,639	63.284

Report of the Directors

For the year ended 31 March 2003

The Directors submit their report and the audited financial statements for the year ended 31 March 2003.

1. Principal activity

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 flies to 31 destinations in Africa, Middle East and Asia, Europe and Kenya.

At year-end, the group had sixteen aircrafts in operation, either owned or on long term leases. These comprised five Boeing 767 wide body jets, nine Boeing 737 narrow body jets and two SAAB 340B turboprops.

2. Results

The results of the group for the year are shown on page 34, while those of the company are on page 37.

3. Dividend

The Directors recommend the payment of a final dividend of KShs. 0.50 per share (2002 – KShs. 0.60 per share).

4. Directors

Directors who served during the year and upto the date of this report were: -

Mr. I. E. Omolo Okero	Chairman
Mr. T. T. Naikuni	(Appointed Group Managing Director & CEO on 12.2.2003)
Mr. B. M. H. Presbury	(Appointment Ceased 11.2.2003)
Mr. F. C. Smyth	Group Finance Director
Mr. R. Ruijter	
Mr. A. B. van Luyk	(Retired on 26.11.2002)
Mr. H. Essenburg	(Appointed on 26.11.2002)
Mr. M. L. Somen	
Mr. D. Kapila	
Dr. C. W. Obura	
Mr. H. M. Kiplagat	
Mr. M. Mwachofi	(Appointment Ceased on 30.8.2002)
Mr. J. Kinyua	(Appointed on 30.8.2002, Retired on 30.1.2003)
Mr. J. M. Magari	(Appointed on 30.1.2003)
Mr. S. P. Kyungu	
Mr. R. Smit	Alternate to Mr R Ruijter (Appointed on 21.6.2002)
Mr. H. Korteweg	Alternate to Mr H Essenburg

5. Incorporation and registration

The company is incorporated in Kenya under the Companies Act, and is listed on the Nairobi Stock Exchange and the Uganda Securities Exchange.

Its registered office is:

LR No. 9042/7

KENYA AIRWAYS HEADQUARTERS AND BASE
AIRPORT NORTH ROAD, EMBAKASI, NAIROBI

and its registered postal address is:

P.O.BOX 19002

00501 NAIROBI JKIA

The registration number of the company is C 15300

6. Auditors

Ernst & Young have indicated their willingness to continue in office under the terms of Section 159(2) of the Companies Act.

By order of the board

L. G. KAMAU

Secretary

Statement of Directors responsibilities

The Companies Act requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of the financial affairs of the group and the company as at the end of the financial year and of the groups and the company's operating results for that year. It also requires the Directors to ensure the group companies keep proper accounting records which disclose, with reasonable accuracy, the financial position of the companies. They are also responsible for safeguarding the assets of the companies.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards, and the requirements of the 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 and operating results of the group and the company. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the group companies will not remain going concerns for at least the next twelve months from the date of this statement.

I.E. Omolo Okero
DIRECTOR
23 May 2003

T.T. Naikuni
DIRECTOR
23 May 2003

Report of the independent Auditors

To the members of Kenya Airways limited and its subsidiaries

We have audited the financial statements on pages 34 to 58, which have been prepared on the basis of the accounting policies set out on pages 39 to 41. We obtained all the information and explanations which we considered necessary for our audit.

Respective responsibilities of the Directors and the independent auditors

As stated on page 32, the Directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs and of the operating results of the group and the company. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the group and the company at 31 March 2003 and of the profit of the group and the company and of the cash flows of the group for the year then ended, in accordance with International Financial Reporting Standards except as noted below, and comply with the Companies Act. As stated in Note 1(i) of the financial statements, aircraft which are financed in whole or in part in foreign currency borrowings are regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The resulting net exchange differences are taken to reserves since the Directors are of the opinion that these borrowings provide a hedge against the exchange risk associated with the investments. This is not in accordance with International Accounting Standard Number 21 (IAS 21) (The Effect of Changes in Foreign Exchange Rates) which provides that the cost of such assets be fixed in Kenya Shillings at the rate ruling at the date of the original acquisition and the exchange gain or loss on the related borrowing be reflected in the profit and loss account. The departure from IAS 21 has resulted in a decrease of net profit by KShs. 165 million being gain on exchange on the loans taken to reserves in the year, and cumulative increase in net assets of KShs. 945 million as at 31 March 2003. We concur with this treatment. The financial statements comply with International Financial Reporting Standards in all other respects.

 **ERNST & YOUNG**

Certified Public Accountants

Nairobi

23 May 2003

Consolidated Profit and Loss Account

For the year ended 31 March 2003

	Note	2003 KShs. Million	2002 KShs. Million
Turnover	2	27,461	25,165
Direct expenditure	4(a)	(20,822)	(18,608)
Gross profit		6,639	6,557
Overheads	4(b)	(5,800)	(5,346)
Operating profit		839	1,211
Net financial costs	5	(422)	(245)
Net gain on disposal of property, equipment and investments	6	107	82
Write back of negative goodwill	7	27	11
Share of results of associate		(4)	-
Profit before tax and minority interest		547	1,059
Tax charge	8(a)	(185)	(190)
Profit before minority interest		362	869
Minority interest		(17)	(1)
Profit for the year		345	868
Earnings per share before tax and minority interest- Basic and Diluted (KShs.)	9(a)	1.18	2.29
Earnings per share after tax and minority interest- Basic and Diluted (KShs.)	9(b)	0.75	1.88
Dividends:			
Final dividends - proposed for the year	10	231	277
Total dividends		231	277

Consolidated Statement of recognised gains and losses

For the year ended 31 March 2003

	Note	2003 KShs. Million	2002 KShs. Million
Net exchange movement for the year	21	(255)	(202)
Net exchange movement on disposal of aircraft	21	-	(900)
Deferred tax dealt with through reserves	23	81	318
Net losses not recognised in the profit and loss account		(174)	(784)
Profit for the year		345	868
Total recognised gains		171	84
Prior year adjustment	32	-	219

Consolidated Balance sheet

As at 31 March 2003

	Note	2003 KShs. Million	2002 KShs. Million
Assets			
<i>Non-current assets</i>			
Property and equipment	11(a)	13,785	11,262
Intangible assets	12	173	165
Prepaid lease rentals on leasehold land	13	28	28
Investment in associated company	14(b)	94	-
Deposits	15	3,585	2,185
Deferred assets	16	249	290
Goodwill	7	(41)	(125)
		17,873	13,805
<i>Current assets</i>			
Inventories	17	909	924
Tax recoverable	8(b)	279	-
Receivables and prepayments	18	2,896	3,893
Cash and cash equivalents	19(a)	2,298	3,329
		6,382	8,146
Total assets		24,255	21,951
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	20	2,308	2,308
Reserves	21	4,799	4,859
Proposed dividends	10	231	277
		7,338	7,444
<i>Non-current liabilities</i>			
Interest bearing loans and borrowings	22(a)	7,918	6,118
Deferred tax liabilities	23	1,603	1,530
Minority interests		30	11
		9,551	7,659
<i>Current liabilities</i>			
Sales in advance of carriage		1,914	1,044
Trade and other payables	24	3,776	3,932
Tax payable	8(b)	-	117
Accruals for liabilities and charges	25	1,576	1,518
Interest bearing loans and borrowings	22(a)	100	237
		7,366	6,848
Total Equity and Liabilities		24,255	21,951

The financial statements were approved by the Board of Directors on 23rd May 2003 and signed on its behalf by: -

I. E. Omolo Okero Director

T. T. Naikuni Director

Consolidated Cash Flow Statement

For the year ended 31 March 2003

	Note	2003 KShs. Million	2002 KShs. Million
<i>Operating activities</i>			
Cash generated from operations	26	3,609	2,444
Income taxes paid		(427)	(65)
Net cash from operating activities		3,182	2,379
<i>Investing activities</i>			
Purchase of property and equipment		(3,876)	(1,716)
Purchase of intangible assets		(48)	(17)
Acquisition of subsidiaries		-	(675)
Acquisition of associate		(155)	-
Deposits for aircraft		(1,400)	(1,111)
Proceeds from disposal of property, equipment & investments		122	320
Interest received		53	237
Deferred expenditure		-	211
Net cash used in investing activities		(5,304)	(2,751)
<i>Financing activities</i>			
Long term borrowing		2,783	-
Repayment of long term borrowings		(818)	(574)
Interest paid		(460)	(514)
Dividends paid		(277)	(346)
Net cash generated from/(utilised in) financing activities		1,228	(1,434)
Net decrease in cash and cash equivalents		(894)	(1,806)
Cash and cash equivalents at beginning of year		3,092	4,898
Cash and cash equivalents at end of year	19(b)	2,198	3,092

Company Profit and Loss Account

For the year ended 31 March 2003

	Note	2003 KShs. Million	2002 KShs. Million
Turnover	2	25,745	23,881
Direct expenditure	4(a)	(19,806)	(17,911)
Gross profit		5,939	5,970
Overheads	4(b)	(5,263)	(4,833)
Operating profit		676	1,137
Net financial costs	5	(395)	(197)
Net gain on disposal of property, equipment and investments	6	106	85
Share of results of associate		(4)	-
Profit before tax		383	1,025
Tax charge	8(a)	(146)	(188)
Profit for the year		237	837
Earnings per share before tax (KShs.)-Basic and diluted	9(a)	0.83	2.22
Earnings per share after tax (KShs.)-Basic and diluted	9(b)	0.51	1.81
Final dividends - proposed for the year	10	231	277
Total dividends		231	277

Company Statement of Recognised Gains and Losses

For the year ended 31 March 2003

	Note	2003 KShs. Million	2002 KShs. Million
Net exchange movement for the year	21	(257)	(211)
Net exchange movement on disposal of aircraft	21	-	(900)
Deferred tax dealt with through reserves	23	80	312
Net losses not recognised in profit and loss account		(177)	(799)
Profit for the year		237	837
Total recognised gains		60	38
Prior year adjustment	32	-	10

Company Balance Sheet

As at 31 March 2003

	Note	2003 KShs. Million	2002 KShs. Million
Assets			
<i>Non-current assets</i>			
Property and equipment	11(b)	12,376	9,669
Intangible assets	12	133	148
Prepaid lease rentals on leasehold land	13	27	27
Investments in subsidiaries	14(a)	746	746
Investment in associated company	14(b)	94	-
Deposits	15	3,585	2,180
Deffered assets	16	249	290
Goodwill	7	57	-
		17,267	13,060
<i>Current assets</i>			
Inventories	17	826	887
Tax recoverable	8(b)	260	-
Amount due from subsidiary companies	27(b)	1,090	1,428
Receivables and prepayments	18	2,496	3,566
Cash and cash equivalents	19(a)	1,987	2,785
		6,659	8,666
Total Assets		23,926	21,726
Equity and Liabilities			
<i>Capital and reserves</i>			
Share capital	20	2,308	2,308
Reserves	21	4,672	4,843
Proposed dividends	10	231	277
		7,211	7,428
<i>Non-current liabilities</i>			
Interest bearing loans and borrowings	22(a)	7,918	6,118
Deferred tax liabilities	23	1,625	1,578
		9,543	7,696
<i>Current liabilities</i>			
Sales in advance of carriage		1,914	1,044
Tax payable	8(b)	-	128
Trade and other payables	24	3,620	3,764
Accruals for liabilities and charges	25	1,538	1,429
Interest bearing loans and borrowings	22(a)	100	237
		7,172	6,602
Total equity and liabilities		23,926	21,726

The financial statements were approved by the Board of Directors on 23rd May 2003 and signed on its behalf by:-

I. E. Omolo Okero Director

T. T. Naikuni Director

Notes to the financial statements

For the year ended 31 March 2003

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:-

i. Basis of preparation

The consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the International Accounting Standards Committee (IASC) and applicable requirements of the Companies Act, except as noted below on treatment of aircraft financed in whole or in part in foreign currency borrowings.

The consolidated financial statements have been prepared on a historical cost basis as modified by the inclusion of certain assets at valuation. The financial statements are presented in millions of Kenya Shillings (KShs. Million).

Aircraft which are financed in whole or in part in foreign currency borrowings are regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into Kenya Shillings at rates ruling at the balance sheet date and the net difference arising from the translation of aircraft costs and related foreign currency loans are taken to reserves. This is not in accordance with International Accounting Standard Number 21 — The Effect of Changes in Foreign Exchange Rates (IAS 21), which provides that the cost of such assets be fixed in Kenya Shillings at the rate ruling at the date of the original acquisition and the exchange gain or loss on the related borrowing be reflected in the profit and loss account. The resulting net exchange differences are taken to reserves since the directors are of the opinion that these borrowings provide a hedge against the exchange risk associated with the investments. The directors have thus concluded that the financial statements fairly present the company's and group's financial position and financial performance and the group's cash flows. The departure from the IAS has resulted in a decrease of net profit by KShs. 165 million (2002 — increase of KShs. 55 million), and a cumulative increase of assets by KShs. 945 million (2002 - KShs. 1,365 million).

ii. Basis of consolidation

The consolidated financial statements comprise the financial statements of Kenya Airways Limited and its wholly owned subsidiaries Kenya Airfreight Handling Limited (KAHL), Flamingo Airlines Limited (FAL), KQ leasing (No.1) Limited (KQ leasing), African Cargo Handling Limited (ACHL) and Kencargo Airlines International Limited (Kencargo) which is 60 % owned, after elimination of all material inter-company transactions.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Investments in subsidiaries that are included in the consolidated financial statements are carried at cost in the Parent company's financial statements.

iii. Accounting for acquisitions

Enterprises acquired during the year are accounted for using the purchase method of accounting. As from the date of acquisition, the results of operations of the enterprises are incorporated in the profit and loss account while identifiable assets and liabilities and any goodwill or negative goodwill are recognised in the balance sheet. Goodwill is carried at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a systematic basis over its estimated useful life. Negative goodwill is recognised as income on a systematic basis over the remaining weighted average useful lives of identifiable acquired depreciable assets.

iv. Foreign currency transactions

Transactions during the year are converted into Kenya Shillings at exchange rates ruling at the transaction dates. Monetary assets and liabilities which are expressed in foreign currencies are translated into Kenya Shillings at exchange rates ruling at the balance sheet date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise except as noted below.

v. Aircraft financing

Aircraft, which are financed in whole or in part in foreign currency borrowings, are regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into Kenya shillings at rates ruling at the balance sheet date and the net difference arising from the translation of aircraft costs and related foreign currency loans are taken to reserves.

vi. Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the group and has a probable benefit exceeding one year, are recognised as an intangible asset. Associated costs include staff costs of the development team and an appropriate portion of relevant overheads.

vii. Property and equipment

Property and equipment are stated at cost or valuation, less accumulated depreciation. The company's properties were last valued in 1989 by M/S Bageine Karanja Mbuu Limited, professional valuers. The surplus arising therefrom was transferred to the capital reserve and fully amortised. Aircraft which are financed in whole or in part in foreign currency borrowings are translated into Kenya Shillings at rates ruling at the balance sheet date.

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

1. Summary of Significant Accounting Policies (Continued)

vii. Property and equipment (Continued)

Depreciation is provided on the cost/valuation of assets on a straight line basis at rates designed to write down the assets to their estimated residual values over their estimated useful lives as follows: -

	<i>Rate per annum</i> %
<i>Aircraft:</i>	
Boeing 737-300 / 700	5.56
SAAB-340B	10.00
<i>Vehicles and equipment:</i>	
Ground services equipment	25.00
Motor vehicles	25.00
Communication assets	12.50
Other assets	20.00-30.00

Leasehold improvements and buildings are depreciated over the period of the leases. Aircraft spare engines and simulator are depreciated over the lives of the aircraft to which they relate. Aircraft rotables are amortized over the remaining lives of the aircraft on which they are used.

viii. Intangible assets

Costs related to the acquisition of computer software are capitalized and amortized over the expected useful life of the software. Expenditure which enhances and extends the benefits of computer software programmes beyond their original specification and lives is recognised as a capital improvement and added to the original cost of the software.

ix. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in-first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

x. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection for the full amount is no longer probable. Bad debts are written off as incurred.

xi. Turnover

Passenger ticket and cargo airwaybill sales, net of discounts, are recorded as current liabilities in the sales in advance of carriage account. When the transportation service is provided, the corresponding amounts are transferred to revenue from Sales in advance of carriage account. Commission costs are recognised at the same time as the revenue to which they relate and are charged to cost of sales. Unutilised expired tickets are recognised as revenue on a systematic basis. Joint venture income / expenses are recognised when final settlement is agreed between the parties. All other revenues are recognised at the time the service is provided.

xii. Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents that are not readily accessible are classified under deferred assets. For the purposes of the cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks, and short term highly liquid investments net of bank overdrafts. In the balance sheet, bank overdrafts are included in interest bearing loans and borrowings in current liabilities.

xiii. Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the group.

xiv. Provisions and Accruals

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. Accruals for overhaul costs for aircraft airframes and engines is made on the basis of the estimated useful life cycles of engines and airframes. The overhaul costs are based on a directors' estimate.

xv. Employee benefits

The group operates a defined contribution provident scheme for most of its employees. The scheme is administered by the trustees and funded by contributions from both the group companies and employees. The funds are managed by an investment management firm. The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute. Any contributions made to the group's funded provident scheme and to the NSSF in respect of current service are charged against income in the year of contribution.

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

1. Summary of Significant Accounting Policies (Continued)

xvi. Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received and including acquisition charges associated with the loan/borrowing. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortized cost and revalued at year end foreign exchange rates. The exchange gains/losses on revaluation of loans and borrowings denominated in foreign currency relating to the acquisition of aircraft are taken to reserves.

xvii. Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payments required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

xviii. Loan commitment fees

Loan commitment fees in respect of aircraft acquisition are capitalized as part of the aircraft cost.

xix. Frequent flyer programmes

Kenya Airways is currently hosted on KLM frequent flyer programme known as Flying Dutchman. The programme has both airline partners and non airline partners eg. hotels, car hire companies etc. Under Flying Dutchman programme, members earn points by using both airline and non airline partners. All points are expensed in the profit and loss account. Accumulated points can be used by members to get a variety of awards ranging from free tickets to flight upgrades. For this, Kenya Airways Limited earns revenue as points are redeemed on its services. Kenya Airways Limited has also entered into similar arrangements with Northwest Airlines.

xx. Income taxes

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences (unless the deferred tax liability arises from goodwill for which amortization is not deductible for tax purposes or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss). Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses and unused tax credits; to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, carry-forward of unused tax losses and unused tax credits can be utilized (unless the deferred tax assets relating to the deductible temporary difference arises from negative goodwill which is treated as deferred income or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss). The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred tax assets and liabilities are measured at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

xxi. Dividends

Dividends on ordinary shares are charged to reserves in the period in which they relate. Proposed dividends are disclosed as a separate component of equity until approved.

xxii. Investment in Associates

Investments in associated undertakings are accounted for under the equity method of accounting. These are undertakings over which the group has between 20% and 50% of the voting rights and over which the group exercises significant influence, but which it does not control. Provisions are recorded for long-term impairment in value. Equity accounting involves recognising in the income statement the group's share of the associates' profits or loss for the year. The group's interest in the associate is carried in the balance sheet at an amount that reflects separately its share of the net assets of the associate and goodwill on acquisition.

2. Turnover

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
Passengers	23,470	22,136	22,926	21,678
Freight and mail	2,924	2,315	2,260	1,825
Others	1,067	714	559	378
	<u>27,461</u>	<u>25,165</u>	<u>25,745</u>	<u>23,881</u>

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

3. Segment information

(a) Business segments

The directors regard all group activities as relating to the airline business.

(b) Geographical segments

Turnover

The analysis of turnover by geographical segments is based on the following criteria:

In the case of passengers, freight and mail, domestic turnover is attributed to those services within Kenya, whilst turnover from inbound and outbound services between Kenya and overseas points is attributed to the geographical point in which the overseas point lies. Other turnover is attributed to Kenya.

Net assets

Geographical analysis of net assets:

The major revenue-earning assets of the group is the aircraft fleet, the majority 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 geographical segments.

The following tables present revenue and profit information regarding geographical segments.

(c) Geographical analysis of turnover

	2003 KShs. Million	The Group 2002 KShs. Million	Growth %
Kenya	3,007	2,749	9
Africa	11,357	9,986	14
East/Middle East	4,603	4,322	6
Europe	8,494	8,108	5
	27,461	25,165	9

(d) Geographical analysis of operating profit

	2003 KShs. Million	The Group 2002 KShs. Million	Growth %
Kenya	45	81	(45)
Africa	366	638	(43)
East/Middle East	178	46	286
Europe	250	446	(44)
	839	1,211	(31)

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

4. Analysis of operating expenditure

(a) Direct expenditure

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
Aircraft fuel and oil	4,623	4,115	4,513	4,055
Hire of aircraft and engines	3,394	2,556	3,182	2,528
Aircraft landing, handling and navigation	3,606	3,263	3,562	3,267
Aircraft maintenance	2,295	2,165	2,209	2,054
Aircraft re-delivery costs	266	-	266	-
Fleet introduction costs	2	446	2	446
Passenger services	1,816	1,765	1,805	1,757
Commission on sales	1,777	1,676	1,871	1,728
Aircraft, passengers and cargo insurance	72	88	93	88
Depreciation of aircraft, engines and ground services equipment	411	456	350	320
Depreciation of rotables and other equipment	26	157	26	143
Crew route expenses	837	795	837	794
Central reservation system (net) and frequent flyer programme	1,010	731	1,010	731
Others	687	395	80	-
	20,822	18,608	19,806	17,911

(b) Overheads

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
<i>Administration</i>				
Employee costs	3,140	3,246	2,911	2,947
Legal and professional fees	119	133	115	162
Directors remuneration	129	92	87	53
Audit fees	5	4	4	3
General expenses	1,137	803	1,101	684
	4,530	4,278	4,218	3,849
<i>Establishment</i>				
General maintenance and supplies	379	339	315	314
Depreciation of buildings and vehicles	445	272	319	244
	824	611	634	558
<i>Selling</i>				
Advertising and publicity	390	329	367	307
Provision for doubtful debts	56	128	44	119
	446	457	411	426
Total overheads	5,800	5,346	5,263	4,833

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

4. Analysis of operating expenditure (continued)

(c) Employee costs and numbers

Numbers

The average number of persons employed in the group during the year was as follows:

	The Group		The Company	
	2003	2002	2003	2002
Kenya	3,123	3,137	2,038	2,019
Overseas	295	290	273	272
	<u>3,418</u>	<u>3,427</u>	<u>2,311</u>	<u>2,291</u>

Costs	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
Wages and salaries	3,276	3,201	2,868	2,734
Contributions to pension scheme	124	115	110	103
Others	664	603	628	567
	<u>4,064</u>	<u>3,919</u>	<u>3,606</u>	<u>3,404</u>

5. Net financial costs

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
Interest receivable on deposits and loans	53	237	84	267
Loss on foreign exchange	(15)	(21)	(21)	(3)
Interest payable on long-term borrowings	(419)	(423)	(419)	(423)
Bank charges and overdraft interest	(41)	(38)	(39)	(38)
	<u>(422)</u>	<u>(245)</u>	<u>(395)</u>	<u>(197)</u>

6. Net gain/(loss) on disposal of Property, Equipment and Investments

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
Gain on disposal of SITA shares	-	235	-	235
Loss on dissolution of KFAL	-	(29)	-	(29)
Loss on disposal of aircraft	-	(135)	-	(135)
Net gain on disposal of other assets	107	11	106	14
	<u>107</u>	<u>82</u>	<u>106</u>	<u>85</u>

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

7. Goodwill

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
<i>Costs</i>				
Balance brought forward	(136)	-	-	-
On acquisition of African Cargo Handling Limited	-	(136)	-	-
On acquisition of Precision Air Services Limited	57	-	57	-
	<u>(79)</u>	<u>(136)</u>	<u>57</u>	<u>-</u>
<i>Amortisation</i>				
Balance brought forward	11	-	-	-
Write back of negative goodwill	27	11	-	-
	<u>38</u>	<u>11</u>	<u>-</u>	<u>-</u>
Net book amount	<u>(41)</u>	<u>(125)</u>	<u>57</u>	<u>-</u>

(i) On 24 October 2001, Kenya Airways Limited acquired 100% of the shares of African Cargo Handling Limited, making it a wholly owned subsidiary for a consideration of KShs. 734 million. The net assets acquired after adjusting for the fair values amounted to KShs. 870 million giving rise to negative goodwill of KShs. 136 million.

The negative goodwill on acquisition of African Cargo Handling Limited is recognised as income on a straight line basis over a period of five years commencing 2002.

(ii) On 20 March 2003, Kenya Airways Limited acquired 49% of the shares of Precision Air Services Limited, a limited liability company incorporated and domiciled in the Republic of Tanzania, for KShs. 155 million. The net assets acquired amounted to KShs. 98 million giving rise to goodwill of KShs. 57 million. Goodwill on acquisition of Precision Air Services Limited is amortised on a straight line basis over a period of five years commencing 2003.

8. Taxation

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
(a) Profit and loss account				
<i>Current tax charge</i>	12	347	-	319
Under provision in previous years	19	-	19	-
Deferred tax charge/(credit) (note 23)	154	(157)	127	(131)
<i>Tax charge</i>	<u>185</u>	<u>190</u>	<u>146</u>	<u>188</u>
(b) Balance sheet				
Balance as at 1 April	117	(165)	128	(160)
Charge for the year	31	347	19	319
Paid during the year	(427)	(65)	(407)	(31)
Tax (recoverable)/payable	<u>(279)</u>	<u>117</u>	<u>(260)</u>	<u>128</u>

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

8. Taxation (continued)

(C) Reconciliation of tax charge to the expected tax based on accounting profit

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
Accounting profit before tax and minority interest	547	1,059	383	1,025
Tax at the applicable rate of 30%	164	317	115	307
Tax effect of expenses not deductible for tax	373	296	298	78
Tax effect of non-taxable income, losses carried forward and capital allowances	(525)	(266)	(413)	(66)
Under provision in previous year	19	-	19	-
Current tax charge	31	347	19	319
Tax charge				
Under provision in previous year	19	-	19	-
Current tax charge	12	347	-	319
	31	347	19	319
Deferred tax	154	(157)	127	(131)
	185	190	146	188

9. Earnings per share

a) Earnings per share before tax and minority interest

The calculation of earnings per share is based upon the profit before tax (and minority interest for the group) in each year divided by the number of shares in issue at the balance sheet date.

b) Earnings per share after tax and minority interest

The calculation of earnings per share is based upon the profit after tax (and minority interest for the group) in each year divided by the number of shares in issue at the balance sheet date.

The basic and diluted earnings per share after tax and minority interest are the same.

10. Dividends paid and proposed

	The Group & Company	
	2003 KShs. Million	2002 KShs. Million
Final dividends - proposed	231	277
Total dividends	231	277
Dividend per share (KShs)	0.50	0.60

(i) A final dividend of KShs. 0.50 per ordinary share (totalling KShs. 231 million) has been proposed and the amount has been shown as a separate component of equity at 31 March 2003. The dividend will be submitted for formal approval at the Annual General Meeting.

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

10. Dividends paid and proposed (continued)

The movement in the proposed dividends account, which has been shown as a separate component of equity, is as analysed below:-

	The Group and Company	
	2003 KShs. Million	2002 KShs. Million
Balance brought forward	277	346
Final dividends proposed in the year and charged to reserves	231	277
Previous years proposed dividend approved and paid	(277)	(346)
Balance carried forward	231	277

(ii) Dividend per share is arrived at by dividing the total dividends by the number of shares in issue at the balance sheet date.

11. Property and equipment

(a) The Group	Freehold land and buildings KShs. Million	Aircraft and engines KShs. Million	Vehicles and ground services equipment KShs. Million	Total KShs. Million
<i>(i) Year ended 31 March 2002</i>				
Balance at beginning of the year, net of accumulated depreciation	400	9,577	1,272	11,249
Prior Year adjustment (Note 32)	(219)	-	-	(219)
Additions	81	-	1,635	1,716
Additions through acquisition of ACHL	703	-	163	866
Disposals	(24)	(220)	(25)	(269)
Reclassifications	(28)	-	(164)	(192)
Depreciation	(18)	(380)	(471)	(869)
Net exchange differences for the year	-	(120)	-	(120)
Net exchange differences on disposals	-	(900)	-	(900)
Closing net book amount	895	7,957	2,410	11,262
<i>At 31 March 2002</i>				
Cost or Valuation	1,037	10,578	4,094	15,709
Accumulated depreciation	(142)	(2,621)	(1,684)	(4,447)
Net Book Amount	895	7,957	2,410	11,262
<i>(ii) Year ended 31 March 2003</i>				
Balance at beginning of year, net of accumulated depreciation	895	7,957	2,410	11,262
Additions	61	3,399	416	3,876
Disposals	-	(14)	(1)	(15)
Depreciation	(25)	(410)	(483)	(918)
Net exchange differences for the year	-	(420)	-	(420)
Closing net book amount	931	10,512	2,342	13,785
<i>At 31 March 2003</i>				
Cost or valuation	1,079	13,659	4,457	19,195
Accumulated depreciation	(148)	(3,147)	(2,115)	(5,410)
Net book amount	931	10,512	2,342	13,785

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

11. Property and equipment (continued)

Additions to freehold land and buildings in the year constitute costs incurred for on-going construction projects (Work-in-progress). The reclassifications of KShs. 28 million and KShs. 164 million in 2002 relate to prepaid lease rentals on leasehold land (Note 13) and intangible assets (Note 12) respectively, which have now been shown separately on the balance sheet.

	Freehold land and buildings KShs. Millions	Aircraft and engines KShs. Millions	Vehicles and ground services equipment KShs. Millions	Total KShs. Millions
<i>(b) The Company</i>				
<i>(i) Year ended 31 March 2002</i>				
Balance at beginning of year, net of accumulated depreciation	400	8,872	1,084	10,356
Prior year adjustments (Note 32)	(10)	-	-	(10)
Additions	72	-	1,437	1,509
Disposals	(24)	(220)	(21)	(265)
Reclassifications	(28)	-	(156)	(184)
Depreciation	(10)	(320)	(369)	(699)
Net exchange differences for the year	-	(138)	-	(138)
Net exchange differences on disposals	-	(900)	-	(900)
Closing net book amount	400	7,294	1,975	9,669
<i>At 31 March 2002</i>				
Cost or valuation	494	9,808	3,168	13,470
Accumulated depreciation	(94)	(2,514)	(1,193)	(3,801)
Net book amount	400	7,294	1,975	9,669
<i>(ii) Year ended 31 March 2003</i>				
Balance at beginning of year, net of accumulated depreciation	400	7,294	1,975	9,669
Additions	75	3,396	354	3,825
Disposals	-	(14)	(1)	(15)
Depreciation	(12)	(350)	(332)	(694)
Net exchange differences for the year	-	(409)	-	(409)
Closing net book amount	463	9,917	1,996	12,376
<i>At 31 March 2003</i>				
Cost or valuation	560	12,898	3,474	16,932
Accumulated depreciation	(97)	(2,981)	(1,478)	(4,556)
Net book amount	463	9,917	1,996	12,376

Additions to freehold land and buildings in the year constitute costs incurred for on-going construction projects (Work-in-progress).

The reclassifications of KShs. 28 million and KShs. 156 million in 2002 relate to prepaid lease rentals on leasehold land (Note 13) and intangible assets (Note 12) respectively, which have now been shown separately on the balance sheet.

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

11. Property & equipment (continued)

<i>The Group</i>	Valuation /cost KShs. Million	Depreciation KShs. Million	Net book amount KShs. Million
Revalued fleet are included in the financial statements at the following amounts:			
31 March, 2003	13,516	(3,115)	10,401
31 March, 2002	10,438	(2,601)	7,837
If these assets had not been revalued they would have been included at the following amounts:			
March 31, 2003	11,498	(2,042)	9,456
March 31, 2002	8,172	(1,700)	6,472

12. Intangible Assets

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
<i>Cost</i>				
At 1 April	203	186	166	166
Additions during the year	48	17	19	-
At 31 March	251	203	185	166
<i>Amortisation</i>				
As 1 April	38	22	18	10
Amortisation during the year	40	16	34	8
At 31 March	78	38	52	18
Net Book amount	173	165	133	148

These are costs related to the acquisition of computer software and expenditure incurred towards enhancing and extending the benefits and lives of computer software programmes beyond their original specifications.

13. Prepaid lease rental

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
<i>Cost</i>				
At 1 April	30	30	29	29
Charge for the year	*	*	*	*
At 31 March	2	2	2	2
Net book amount	28	28	27	27

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

14. Investments

(a) Investments in subsidiaries

Details of investment	Country of incorporation	Activity	Percentage of equity interest	2003 KShs. Million	2002 KShs. Million
Kenya Airfreight Handling Limited (1,000 shares of KShs. 20 each)	Kenya	Cargo and passenger handling	100%	*	*
Flamingo Airlines Limited (5,000 shares of KShs. 20 each)	Kenya	Carriage of Passengers and cargo	100%	*	*
KQ Leasing (No.1) Limited (2 shares of GBP 1 each)	United Kingdom	Leasing of aircraft	100%	*	*
Kencargo Airlines International Limited (600,000 shares of KShs. 20 each)	Kenya	Cargo sales agent	60%	12	12
African Cargo Handling Limited (5,753,822 shares of KShs. 100 each)	Kenya	Cargo handling	100%	734	734
				746	746

* Amounts less than Kshs. One million

The above investments are stated at lower of cost and net realisable value.

	The Company	
	2003 KShs. Million	2002 KShs. Million
(b) Investment in associated companies		
(i) African Tours & Hotels Limited 100,398 ordinary shares of KShs. 20 each Less provision	2 (2)	2 (2)
	-	-

The holding in African Tours & Hotels Limited represents 20.1% of the issued ordinary share capital of the company. The company has been placed under receivership. A provision has been made for the investment.

	The Group & Company	
	2003 KShs. Million	2002 KShs. Million
(ii) Precision Air Services Limited		
Cost	155	-
Net share of result of associate Amount recognised as goodwill. (Note 7)	(4) (57)	- -
Closing net book amount	94	-

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

14. Investments (continued)

The holding in Precision Air Services Limited represents 49% of the issued ordinary share capital. The associate is a limited liability company incorporated and domiciled in the Republic of Tanzania. Its principal activities is domestic carriage of passenger and cargo by air in Tanzania.

(c) Other investments

The company holds 9 (2002 - 9) shares in SITA S.C loyalty programme. These are notional investments with no corresponding costs in the financial statements.

15. Deposits

Long-term deposits were as follows:

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
Deposits for aircraft leases under long-term operating lease	54	60	54	55
Deposits towards acquisition of aircraft	3,531	2,125	3,531	2,125
	<u>3,585</u>	<u>2,185</u>	<u>3,585</u>	<u>2,180</u>

Deposits for leases under long-term operating leases relate to expired long-term leases of two A-310 aircraft.

The deposits towards the acquisition of aircraft represent monies paid to Boeing towards acquisition of two Boeing 737-700 and three Boeing 777-200 aircraft scheduled for delivery between April 2003 and June 2005.

16. Deferred assets

The deferred assets of KShs. 249 million (2002 KShs. 290 million) represent bank balances in Seychelles that cannot be repatriated due to foreign exchange scarcity and foreign exchange transfer restrictions in that country.

17. Inventories

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
Aircraft consumable stocks	614	558	588	512
Other stocks	295	366	238	375
	<u>909</u>	<u>924</u>	<u>826</u>	<u>887</u>

18. Receivables and prepayments

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
Trade - Airlines	1,050	843	909	782
Trade - Agents	1,093	1,523	866	1,276
Trade - Others	137	511	137	499
Trade - Government Ministries and Parastatals	11	19	11	19
Prepayments	514	478	506	473
Staff Debtors	39	44	37	43
Other receivables	52	475	30	474
	<u>2,896</u>	<u>3,893</u>	<u>2,496</u>	<u>3,566</u>

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

19. Cash and cash equivalents

(a) Balance sheet

Cash and cash equivalents as of 31 March were as follows:

	2003 KShs. Million	The Group 2002 KShs. Million	2003 KShs. Million	The Company 2002 KShs. Million
Cash on hand and at bank	1,394	2,007	1,189	1,550
Short-term deposits	904	1,322	798	1,235
	<u>2,298</u>	<u>3,329</u>	<u>1,987</u>	<u>2,785</u>

(b) Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents as at 31 March comprise of the following:

	2003 KShs. Million	The Group 2002 KShs. Million
Cash on hand and at bank, short term deposits and treasury bills	2,298	3,329
Bank overdrafts	(100)	(237)
	<u>2,198</u>	<u>3,092</u>

Short-term deposits have an average maturity of 30 to 90 days and effective interest rates of 0.5% to 12% (2002: 1.5% - 13%) depending on the country where the deposit has been placed.

20. Share capital

	2003 KShs. Million	The Group & Company 2002 KShs. Million
Authorised: - 1,000,000,000 ordinary shares of KShs. 5 each	5,000	5,000
Issued and fully paid:- 461,615,484 ordinary shares of KShs. 5 each	2,308	2,308

21. Reserves

	2003 KShs. Million	The Group 2002 KShs. Million	2003 KShs. Million	The Company 2002 KShs. Million
Balance brought forward				
As previously stated	5,078	5,271	4,853	5,092
Prior year adjustment (Note 32)	(219)	(219)	(10)	(10)
As restated	<u>4,859</u>	<u>5,052</u>	<u>4,843</u>	<u>5,082</u>
Net exchange movement (not recognised in profit and loss account):				
Exchange movement for the year	(255)	(202)	(257)	(211)
Exchange movement on disposal of aircraft	-	(900)	-	(900)
Net exchange movement	<u>(255)</u>	<u>(1,102)</u>	<u>(257)</u>	<u>(1,111)</u>
Profit for the year	345	868	237	837
Deferred tax credit (Note 23)	81	318	80	312
Dividends	(231)	(277)	(231)	(277)
Balance carried forward	<u>4,799</u>	<u>4,859</u>	<u>4,672</u>	<u>4,843</u>

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

21. Reserves (continued)

Net exchange movement

Exchange movement for the year

Exchange movement in the year is the net difference arising from the translation of aircraft costs and related depreciation and related foreign currency loans, taken directly to reserves.

Exchange movement on disposals

These relate to cumulative translation effect taken direct to equity for the aircraft disposed off in the previous year, which were financed in foreign currency (see Note 11).

22. Interest-bearing loans and borrowings

(a) At 31 March, short and long-term interest bearing loans and borrowings were as follows:

	The Group and Company	
	2003 KShs. Million	2002 KShs. Million
<i>(i) Short-term</i>		
Bank overdrafts	100	237

	The Group and Company			2003	2002
	Currency rates	Average rates	Maturities	KShs. Million	KShs. Million
<i>(ii) Long-term</i>					
Eximbank loans	USD	6.6%	2010-2011	5,393	6,118
Barclays Bank PLC	USD	4.5%	2003-2014	2,525	-
				7,918	6,118

The loans were obtained for the purpose of acquiring aircraft and spare engines.

The Eximbank loans are repayable in twelve years from the dates of disbursement and are secured by a charge on the respective aircraft. The loans were advanced to Simba Finance Limited by Private Export Funding Corporation and are guaranteed by Export-Import Bank of the United States of America (Eximbank). The aircraft are registered in the name of Simba Finance Limited, a subsidiary of Eximbank.

During the year, the company secured an additional loan of USD 33,578,148.38 (KShs. 2.6 billion) from Barclays Bank PLC to finance the purchase of an aircraft B737-700 registration 5Y - KQG. The loan is payable in successive quarterly principal installment at a fixed rate of 4.5% per annum. The loan facility is guaranteed by the Export - Import Bank of the United States of America (Eximbank). The facility is secured through a charge over the financed aircraft.

(b) Maturities of amounts included in non-current borrowings are as follows:

	The Group & Company	
	2003 KShs. Million	2002 KShs. Million
Within one year	855	609
After one year	7,063	5,509
	7,918	6,118

The interest rate exposure of the total borrowings of the group is as follows:

Fixed rates borrowings	7,918	6,118
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(c) Credit line facilities

The group has a total multi-currency credit line facility worth KShs. 3,663 million held in various local and international banks for tenures of one year renewable. As at 31 March 2003 the group had utilised guarantees amounting to KShs. 985 million leaving a balance of KShs. 2,678 million as undrawn.

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

23. Deferred tax liabilities

Deferred taxes at 31 March related to the following:

	2003 KShs. Million	Credited to profit and loss account KShs. Million	Dealt with through reserves KShs. Million	2002 KShs. Million
The Group				
Deferred tax liabilities:				
Accelerated tax depreciation	2,246	69	(8)	2,185
Asset revaluations	281	-	(128)	409
Gross deferred tax liabilities	2,527	69	(136)	2,594
Deferred tax assets:				
Tax losses carried forward	(115)	85	-	(200)
Provisions and other deferred tax assets	(809)	-	55	(864)
Gross deferred tax assets	(924)	85	55	(1,064)
<i>Net deferred tax liability</i>	<i>1,603</i>	<i>154</i>	<i>(81)</i>	<i>1,530</i>
The Company				
Deferred tax liabilities:				
Accelerated tax depreciation	2,195	193	-	2,002
Asset revaluations	281	-	(124)	405
Gross deferred tax liabilities	2,476	193	(124)	2,407
Deferred tax assets:				
Provisions and other deferred tax assets	(851)	(66)	44	(829)
<i>Net deferred tax liability</i>	<i>1,625</i>	<i>127</i>	<i>(80)</i>	<i>1,578</i>

24. Trade and other payables

Trade and other payables were as follows as of 31 March:

	2003 KShs. Million	The Group 2002 KShs. Million	2003 KShs. Million	The Company 2002 KShs. Million
Trade payables	548	478	515	442
Other payables and accruals	3,228	3,454	3,105	3,322
	<u>3,776</u>	<u>3,932</u>	<u>3,620</u>	<u>3,764</u>

25. Accruals for liabilities and charges

The accruals are in respect of major maintenance of aircraft airframes and engines and accrual of staff leave entitlement. The activities in the accruals account were as follows:

	2003 KShs. Million	The Group 2002 KShs. Million	2003 KShs. Million	The Company 2002 KShs. Million
At 1 April	1,518	962	1,429	942
Additional Accruals - maintenance	686	579	686	384
Staff leave entitlement accrual	127	287	123	283
Amounts utilized during the year	(755)	(310)	(700)	(180)
At 31 March	<u>1,576</u>	<u>1,518</u>	<u>1,538</u>	<u>1,429</u>

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

26. Cash generated from operations

	The Group 2003 KShs. Million	The Group 2002 KShs. Million
Profit before tax and minority interest	547	1,059
Adjustments for:		
Depreciation	918	869
Amortisation of intangible assets	40	16
Share of result of associate	4	-
Interest income	(53)	(237)
Interest expense	460	461
Write back of negative goodwill	(27)	(11)
Net gain on disposal of property, equipment and investment	(107)	(82)
Operating profit before working capital changes	1,782	2,075
Deferred asset	41	(248)
Inventories	15	(126)
Receivables and prepayments	999	771
Sales in advance of carriage	870	(577)
Trade, other payables and provisions	(98)	549
	3,609	2,444

27. Related party transactions

During the year, group companies entered into transactions with related parties who are not members of the group. Those transactions are presented below:

(a) KLM

KLM has 26% equity investment in Kenya Airways Limited, and has a Joint Venture Arrangement with The Company which started 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.

As is common throughout the airline industry, Kenya Airways and KLM from time to time carry each other's passengers travelling on the other airline's tickets. The settlement between the two carriers is actioned through IATA Clearing House, of which both airlines are members.

(b) Amounts due from subsidiary companies

Balances outstanding on account of transactions with subsidiaries were as follows as at 31 March:

	2003 KShs. Million	The company 2002 KShs. Million
Flamingo Airlines Limited	978	803
Kenya Airfreight Handling Limited	85	203
Kencargo Airlines International Limited	376	422
	1,439	1,428
African Cargo Handling Limited	(349)	-
	1,090	1,428

Amounts due from Flamingo Airlines Limited relate to a loan advanced in the previous year for purchase of aircraft, and balances arising from purchases and payments by Kenya Airways Limited on its behalf net of collections on behalf of the subsidiary.

Amounts due from Kenya Airfreight Handling Limited arose from payments of expenses on behalf of the subsidiary, net of costs apportioned by the subsidiary for services rendered to the company. Amounts due from Kencargo Airlines International Limited represent cargo sales made by the subsidiary on behalf of Kenya Airways Limited, net of commissions. The amounts due to Africa Cargo handling Limited represent funds transferred to the parent company for investment.

(c) Other Related Parties

The group has transactions with related parties, which are conducted in the normal course of airline business. These include the provision of airline and related services.

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

27. Related party transactions (continued)

(d) Directors emoluments

	The Group		The Company	
	2003 KShs. Million	2002 KShs. Million	2003 KShs. Million	2002 KShs. Million
As Executives	96	2	65	2
Fees	6	6	6	6
As consultants	27	84	16	45
	<u>129</u>	<u>92</u>	<u>87</u>	<u>53</u>

(e) Advances to employees-The Group

At 31 March 2003 balances outstanding in the advances to employees account amounted to KShs. 39 Million (2002 — KShs. 44 million). These balances attract interest and are recoverable between one month and five years. The group has given guarantees to a bank in favour of employees amounting to KShs. 90 million (2002- KShs. 90 million).

28. Capital expenditure commitments

The company has purchase commitments for aircraft fleet and equipment incidental to the ordinary course of business as follows:

	The Group and Company	
	2003 KShs. Million	2002 KShs. Million
Authorised and contracted for	<u>32,630</u>	<u>30,281</u>

The commitments authorised and contracted for include three Boeing B737-777 aircraft with a value of KShs. 28.1 billion, due for delivery in May 2004, May 2005 and June 2005 respectively. One Boeing B737-700 with a value of KShs. 3.4 billion was delivered after year end in May 2003. Other commitments in the group amount of KShs. 1.12 billion, and relate to various capital expenditure.

29. Operating lease commitments

The aggregate payments, for which there are commitments under operating leases at the end of the year, fall due as follows:

	The Company	
	2003 KShs. Million	2002 KShs. Million
Within one year	3,064	3,171
After one year but not more than five years	10,038	10,702
More than five years	801	3,137
	<u>13,903</u>	<u>17,010</u>

The 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. The company has an option to renew the leases after expiry of the lease period on terms and conditions mutually agreed between the parties. No restrictions have been imposed by the lessors on the company in respect of dividend payouts, borrowings or further leasing.

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

30. Contingencies

(a) Contingent liabilities

- i. In the ordinary course of business, the group has given guarantees to a bank in favour of various third parties amounting to KShs. 110 million (2002 — KShs. 110 million). In the opinion of the directors, no liability is expected to arise in respect of the guarantees.
- ii. The company received a Value Added Tax assessment from the Kenya Revenue Authority of KShs. 308 million on services rendered by Galileo International Computerised Reservation System.

(b) Litigation

- i. A claim for KShs. 27,123,583 million in damages for alleged breach of contract to lease a B707 aircraft was filed against the company in 1981. The High Court dismissed the claim in May 2000. The Plaintiff's appeal to set aside the dismissal is pending determination by the courts.
- ii. East African Safari Air (EASA), a local charter airline having in August 2000 withdrawn its application to the High Court for judicial review of government's decision to withdraw its purported designation to operate air services to several European countries had filed a claim against both Government and Kenya Airways for damages of KShs. 2.5 billion, allegedly arising from its losses incurred as a result of the cancellation of its designation by Government. It had joined Kenya Airways as a party allegedly for having colluded with Government to have its designation cancelled.
- iii. The High Court ruled against the Airline in the Tobias Ouma & Others vs Kenya Airways case but rejected the plaintiff's quantification of the damages at KShs. 2.6 billion (for loss of service of all 960 ex-staff up to retirement) and instead awarded damages for an unspecified amount. The plaintiffs have since reduced their claim to KShs. 880 million. The Airline has filed an appeal against the ruling. The appeal has not been determined. The advice from external lawyers is that there are good prospects of succeeding on appeal. No provision has been made in the financial statements for these amount as the directors are of the view that the appeal is likely to succeed.
- iv. A bankruptcy petition filed against captain Musa Bulhan to recover a debt of KShs. 52 million is pending determination by the high court.
- v. African Airlines International has filed a claim against the company for an amount of US\$ 2,294,455 (KShs. 176 million) allegedly due to them on account of aircraft maintenance and lease services rendered to the company. While the plaintiffs claim has yet to be determined by the high court, the company has been successful in its counter claim of KShs. 40 million, being monies owed to the company for services rendered.
- vi. The Industrial Court, in a case filed by KALPA, has awarded a total of KShs. 39 million to 11 ex-flight engineers allegedly for the company's failing to arrange for them to undertake a final check upon being declared redundant by the Industrial Court in 1993. The Company maintains it did all it could to discharge its obligations under the Court award but was frustrated in its efforts by lack of cooperation from the flight engineers. The company has challenged the award in the High Court on the basis of excess of jurisdiction by the Industrial Court. The appeal has not been determined.
- vii. Eagle Aviation a domestic Kenyan Airline was placed under receivership by a bank for defaulting on secured borrowings. At the time, Kenya Airways had sued Eagle Aviation for debts amounting to US\$ 627,763 on account of unpaid aircraft maintenance charges and also due under the franchise agreement for operating a number of domestic routes on behalf of Kenya Airways. The agreement was terminated by Kenya Airways in July 2000 and Flamingo Airlines launched to operate on these routes.

Simultaneously the Airline exercised a lien to recover maintenance charges on an aircraft leased by Eagle Aviation from two European firms Jana and ATR who have challenged in court the exercise of the lien by the Airline.
- viii. Poussin Airtrade Ltd had claimed from the Airline the amount of KShs. 165,968,951 for alleged breach of contract to uplift their goods. The Airline had counterclaimed an amount of KShs. 85,560,000 from Poussin Airtrade being unpaid freight charges.
- ix. 32 employees have filed a dispute in the Industrial Court for wrongful dismissal in connection with allegations of involvement in illicit trafficking in narcotics. They have also taken out proceedings against the company for defamation on the same matter. Both disputes are pending before the industrial court and the high court respectively.
- x. Contingencies in respect of the company's wholly owned subsidiary, Kenya Airfreight Handling Limited are as follows: -
 - (a) A claim for USD 1 million for packages that were lost at Kenya Airfreight Handling Limited has been filed against the company. The packages were allegedly released to the wrong person. The loss is insured.
 - (b) A claim against KAHL for USD 405,000 plus damages, being the value of a consignment allegedly released to the wrong consignee, has been filed against the company.
- xi. A former employee of the company has filed a dispute in the high court for wrongful dismissal claiming damages totalling KShs. 65 million being alleged loss of employment benefits upto retirement.
- xii. In the ordinary course of business, the company and its subsidiaries are defendants or co-defendants in various litigations and claims. Although there can be no assurances, the company believes, based on information currently available, that the ultimate resolution of these legal proceedings would not likely have a material effect on the results of its operations, financial position or liquidity. These court cases may take a considerable period to be determined because of the congested court diary.

Notes to the financial statements CONTINUED

For the year ended 31 March 2003

31. Financial instruments - Financial risk management objectives and policies

(a) Interest rate risk

Current borrowings are at fixed rates averaging 5.9% p.a. Investments made by the group in various international banks generated interest income that covered the cost of borrowing by 20.29% in the year 2003 compared to 52.48% in the previous financial year.

(b) Foreign currency risk

Over 90% of the monies earned by Kenya Airways are in hard and convertible currencies.

(c) Credit risk

The Board has set limits for investing in specified banks and financial institutions.

32. Prior Year Adjustment

The group has reclassified leasehold land from Property and Equipment to prepaid lease rentals. This represents a change in accounting policy to comply with International Accounting Standard (IAS) No. 17 (leases). As part of the reclassification, the revaluation surplus on leasehold land of KShs. 219 million (company: KShs. 10 million) has been reversed in the reserves. Comparative figures have been amended accordingly to reflect the change in policy.

33. Comparatives

Prior year comparatives have been restated to conform with changes in presentation in the current year.

34. Currency

The financial statements are presented in Kenya Shillings (KShs).

Developments regarding contingent liabilities subsequent to the approval on 23rd May 2003 of the audited Annual Financial Statements

Certain of the contingencies mentioned under note 30 of the Annual Report above have been resolved since the approval by the Board of Directors of the audited Annual Financial Statements. The details of these developments, as given below, do not form part of the statutory Annual Financial Statements and are not covered by the auditors' opinion thereon.

- i. Note 30(a)(ii).** The company successfully appealed against the Kenya Revenue Authority's assessment of KShs. 308 million Value Added Tax on services rendered by Galileo International. The assessment was reversed by the VAT (Appeals) tribunal accordingly.
- ii. Item 30(b)(ii).** The plaintiff, East Africa Safari Air, has unconditionally withdrawn its KShs. 2.5 billion claim brought jointly against the company and the Government of Kenya.
- iii. Item 30(b)(vii).** The company and ATR reached an out of court settlement over the disputed lien exercised by the company over an aircraft owed by ATR for maintenance charges due from the lessee of the aircraft, Eagle Aviation. ATR agreed to partly compensate the company for the charges.
- iv. Item 30(b)(viii).** The arbitration of the claims and counterclaims between the company and Poussin Airtrade Limited was finalised at a net settlement in the company's favour.
- v. Item 30(b)(x).** Transnational Bank Limited unconditionally withdrew its claim of USD 405,000 against Kenya Airfreight Handling Limited for the release of a consignment to the wrong consignee.

Historic summaries

For the year ended 31 March 2003

Group Profit and Loss

	2003 KShs. Million	2002 KShs. Million	2001 KShs. Million	2000 KShs. Million	1999 KShs. Million
Turnover	27,461	25,165	22,525	17,840	12,834
Operating expenditure	(26,622)	(23,954)	(20,466)	(16,210)	(11,885)
Operating profit	839	1,211	2,059	1,630	949
Net Interest payable	(460)	(461)	(511)	(523)	(369)
Net Interest receivable	53	237	433	287	174
Exchange gains (losses)	(15)	(21)	(85)	252	87
Other income	-	-	-	53	-
Net gain on disposals	107	82	1	1,035	584
Write back of negative goodwill	27	11	-	-	-
Share of results of associate	(4)	-	-	-	-
Profit before tax, exceptional items and minority interest	547	1,059	1,897	2,734	1,425
Tax (charge)/credit	(185)	(190)	(687)	69	(432)
Exceptional items	-	-	147	119	-
Profit before minority interest	362	869	1,357	2,922	993
Minority interest	(17)	(1)	-	-	-
Profit for the year	345	868	1,357	2,922	993
Dividends	(231)	(277)	(577)	(577)	-
Earnings per share after tax and minority interest (KShs.)	0.75	1.88	2.94	6.33	2.15
Dividends per share (KShs.)	0.50	0.60	1.25	1.25	-

Historic summaries CONTINUED

For the year ended 31 March 2003

Group Balance Sheet	2003	2002	2001	2000	1999
	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions
Assets					
<i>Non-current assets</i>					
Property and equipment	13,785	11,262	11,249	10,120	11,244
Other non-current assets	4,088	2,543	1,327	562	371
	<u>17,873</u>	<u>13,805</u>	<u>12,576</u>	<u>10,682</u>	<u>11,615</u>
<i>Current assets</i>					
Inventories	909	924	798	840	931
Receivables and prepayments	3,175	3,893	4,839	7,062	2,960
Cash and Cash equivalents	2,298	3,329	5,054	4,356	2,205
	<u>6,382</u>	<u>8,146</u>	<u>10,691</u>	<u>12,258</u>	<u>6,096</u>
Total Assets	24,255	21,951	23,267	22,940	17,711
Equity and Liabilities					
Share Capital	2,308	2,308	2,308	2,308	2,308
Reserves	4,799	4,859	5,271	4,956	4,208
Proposed dividends	231	277	346	346	-
	<u>7,338</u>	<u>7,444</u>	<u>7,925</u>	<u>7,610</u>	<u>6,516</u>
<i>Non-current liabilities</i>					
Interest bearing loans	7,918	6,118	6,637	6,909	6,562
Deferred taxation	1,603	1,530	2,027	1,094	1,173
Minority interest	30	11	-	-	-
	<u>9,551</u>	<u>7,659</u>	<u>8,664</u>	<u>8,003</u>	<u>7,735</u>
<i>Current liabilities</i>					
Sales in advance of carriage	1,914	1,044	1,621	989	734
Trade and other payables	3,776	3,932	3,939	5,793	1,931
Other	1,676	1,872	1,118	545	795
	<u>7,366</u>	<u>6,848</u>	<u>6,678</u>	<u>7,327</u>	<u>3,460</u>
Total Equity and Liabilities	24,255	21,951	23,267	22,940	17,711
Group Cash Flow Statement					
Net cash from operating activities	3,182	2,379	3,922	3,113	749
Net cash from/(to) investing activities	(5,304)	(2,751)	(1,779)	686	(2,449)
Net cash from/(to) financing activities	1,228	(1,434)	(1,601)	(1,382)	2,038
Net (decrease) /increase in cash and cash equivalents	<u>(894)</u>	<u>(1,806)</u>	<u>542</u>	<u>2,417</u>	<u>338</u>

Operating Statistics

For the year ended 31 March 2003

Passengers Carried

Up 5.3%

2002 - 2003

1,621,429

2001 - 2002

1,539,872

Revenue Passenger KM

Up 7.2% (Millions)

2002 - 2003

3,994

2001 - 2002

3,725

Available Seats KM

Up 9.6 % (Millions)

2002 - 2003

5,872

2001 - 2002

5,359

Passenger Load Factor

Down 2.15% (Percentage)

2002 - 2003

68.0

2001 - 2002

69.5

Cargo Tonnes Uplifted

Up 20.9% (Tonnes)

2002 - 2003

28,497

2001 - 2002

23,574

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