

Business and Financial Review

Year Ended 31st March 2007



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Global Economy

- **Growth in world economy**
 - High growth rate in Developing Nations
 - Africa in recovery stage
 - Increased Chinese and Indian interest in Africa
- **Softening in Oil prices from mid-2006 but still higher than previous year**



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Airline Industry

- Passenger traffic up 5.9% on prior year slightly below 7.6% achieved in 2005 (IATA data).
 - Industry long term Passenger forecast estimated at average 5-6%
- **Fastest growing regions in passenger traffic:-**
 - Middle East 15.4%
 - Africa 8.6% (KQ Africa 9.6%)
- Freight traffic up 4.6% over the previous year
- **Industry achieved improved cost efficiency since 2001 (IATA data)**
- Industry challenge is to improve profitability by achieving further cost efficiencies in 2007.

Source: IATA Website



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Industry Performance

International Passenger Statistics: Calendar Year End 2006 Over 2005

	RPK% Growth	ASK% Growth	PLF % 2006	PLF % 2005
Africa	8.6	8.7	68.3	68.6
Asia/Pacific	5.3	2.8	74.6	72.7
Europe	5.3	4.5	77.0	76.4
Middle East	15.4	15.6	73.4	73.6
North America	5.7	4.8	80.2	79.5
South America	(2.4)	(2.9)	73.0	72.6
Industry	5.9	4.6	76.0	75.1
KQ (March year-end)	12.7	13.7	73.6	74.2

Source: IATA Website

: & Internal KQ



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Industry Performance

First Quarter Passenger Traffic -2007 Statistics from IATA Website

	RPK% Growth	ASK% Growth	PLF % 2007	PLF % 2006
Africa	10.1	10.3	67.5	68.8
Asia/Pacific	5.9	5.3	74.3	74.3
Europe	6.6	4.9	74.7	73.6
Middle East	19.7	16.4	75.2	73.4
North America	6.1	5.2	78.2	73.7
South America	(2.8)	(2.1)	73.0	77.4
Industry	7.0	5.9	74.9	74.4
KQ	15.5	16.9	70.9	71.8

Source: IATA Website

: & Internal KQ



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Industry Performance

International Cargo Statistics: Year End Calendar 2006 Over 2005

	FTK% Growth 2006	FTK% Growth 2005
Africa	5.9	7.9
Asia/Pacific	4.7	5.2
Europe	1.7	2.1
Middle East	16.1	16.8
North America	6.0	6.2
South America	(2.6)	3.0
Industry	4.6	5.2
KQ (Based on March year end)	12.5	25.9

Source: IATA Website

: & Internal KQ



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JKIA Rehabilitation

- **Divided into 3 Projects:**
 - Apron and Taxiways
 - Terminal 4 and Vehicle parking
 - Rehabilitation of current terminals 1-3
- **Progress:**
 - Work on Apron and taxiways to finish by Oct 07 (2 months delay mainly due to rainy season effect)
 - Terminal 4 and Parking cost justification review with KAA consultants and world bank before tender
 - Rehabilitation of terminal 1-3 documentation being worked on between KAA with input from all stakeholders



Key Activities for past one year



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People

- **Abinitio training pilot training in the year**
 - **60 pilots at KShs 240m**
- **Leadership centre**



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Performance Improvement Project - PIP

- **What we set out to achieve:**

- To reduce budgeted costs by KShs 1.3B for the FY 2006/07
- To improve customer service at JKIA
- To improve customer service on board KQ flights

- **What we achieved**

- Cost Initiatives benefitsKsh 787.1M
- JKIA customer service initiatives.....Success rate of 52%
- Customer service on board KQ flight.....Success rate of 76%



Fleet

•Entry

- Leasing of an additional B767 in June 2006
- Received 3 B737-800's between October and December 2006 replacing 3 B737-200's
- 4th B777 delivered in February 2007

•Exit

- Retirement of the last 2 B737-200 w.e.f February 2007



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Network

- **Successfully launched services to:**
 - Oct 06: Charles de Gaulle (Paris)
 - Nov 06: Dzaoudzi combined with Moroni
 - Mar 07: Cotonou (Benin) extending to Abidjan
 - Mar 07: Monrovia via Accra
 - Mar 07: Direct service to Lubumbashi



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Corporate Social Responsibility - Projects

- Makueni & Taita Taveta Water Wells With AMREF
- Mukuru Community School jointly built with KLM & Boeing
- Refurbishment of Kwale primary school
- Tree planting in Kiserian 130,000 seedlings planted
 - Co-sponsored by: **KQ, KLM, Rolls Royce, Coca Cola, TARDA, Athi Water Services & KD Wire Company**
- Sponsorship of Sabatia eye clinic
- Computer donations to several schools
- Various sponsorship events



Mukuru Community School Before



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CSR Cont.

**KQ/KL Launch of Mukuru Community Centre School
Jointly built by KLM & Boeing at a cost of KShs18m**



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Mukuru Community School



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Financial Highlights

	<u>2006</u>	<u>2007</u>	Var	Var%
• Group turnover (KShs mil)	52,804	58,792	5,987	11.3%
• Operating costs (KShs mil)	44,948	51,153	(6,205)	(13.8%)
• Operating Margin%	14.9%	13.0%		(1.9%)
• Profit before tax (KShs mil)	6,960	5,975	(985)	(14.2%)
• Profit after tax (KShs mil)	4,829	4,098	(731)	(15.1%)
• Net Margin%	9.2%	7.0%		(2.2%)
• EPS (KShs)	10.45	8.87	(1.58)	(15.1%)
• Cash from ops (KShs mil)	11,301	8,706	(2,595)	(23.0%)
• Final dividend recom'ded (KShs)	1.75	1.75	0.0	0.0%



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Neil Canty Finance Director



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Fleet at Year-End

2007

2006

Aircraft in Service

Boeing 777-200	4	3
Boeing 767-300	6	5
Boeing 737-800	3	0
Boeing 737-700	4	4
Boeing 737-300	4	4
Boeing 737-200	0	3
Saab 340	<u>2</u>	<u>2</u>
TOTAL	23	21



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Group Income Statement

<u>KShs M</u>	2007	2006	Var	% Var
Total Revenue	58,792	52,804	5,987	11.3
DOCs	(35,126)	(30,347)	(4,779)	(15.7)
Fleet Own'ship(excl. int)	(6,209)	(5,105)	(1,104)	(21.6)
Gross Profit	17,457	17,352	104	0.6
Overheads	(9,818)	(9,496)	(322)	(3.4)
Operating Profit	7,639	7,856	(217)	(2.8)
Operating Margin %	13.0%	14.9%		(1.9%)
Net financial expenses	(1,144)	(1,220)	75	6.2
Forex Profit/(Loss)	(775)	(191)	(585)	(307.0)
Other Non Ops Items	256	514	(258)	(50.2)
Profit Before Tax	5,975	6,960	(985)	(14.2)
Taxation	(1,877)	(2,131)	254	11.9
Profit After Tax	4,098	4,829	(731)	(15.1)
Profit after tax margin %	7.0%	9.2%		(2.2%)



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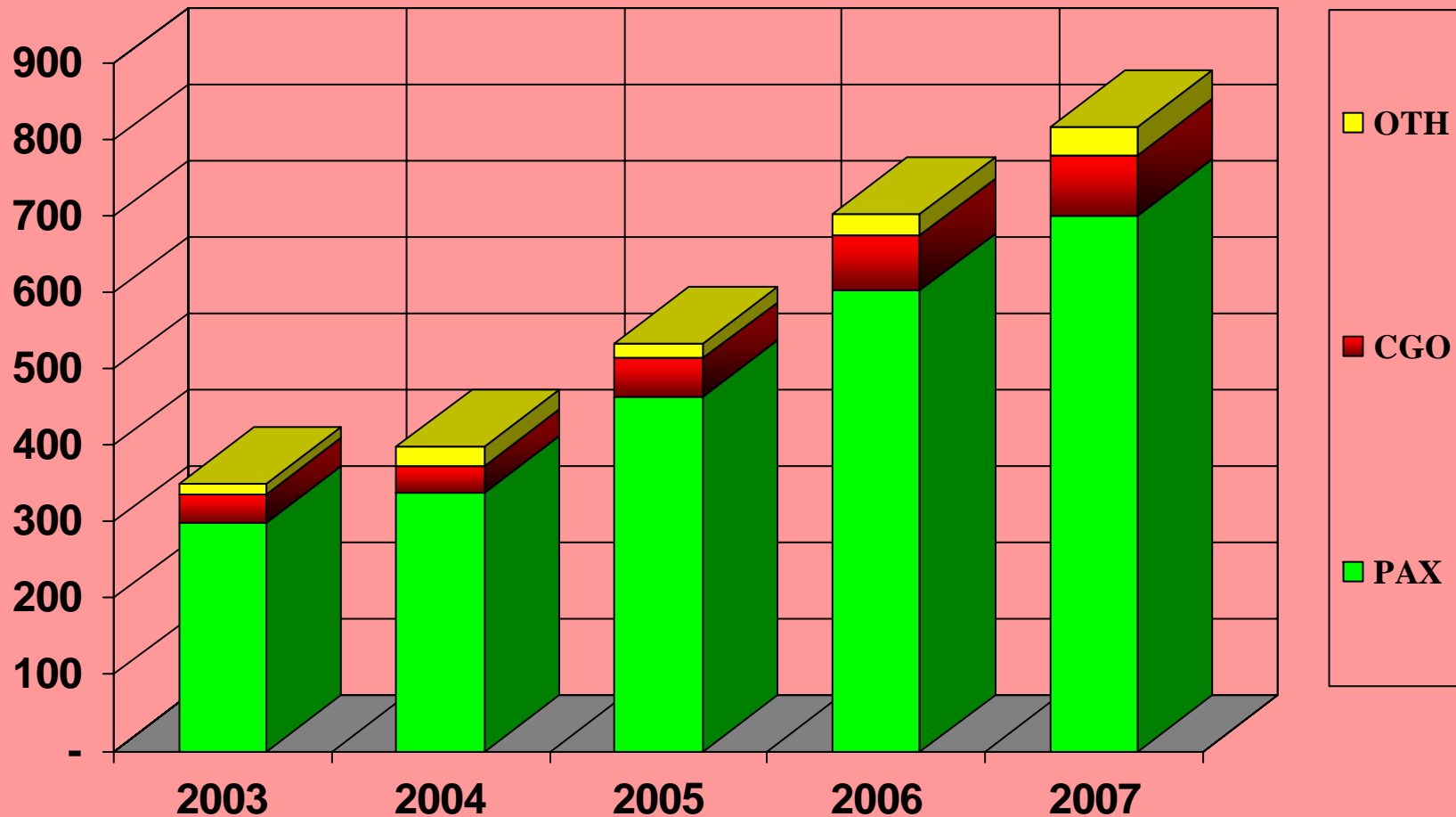
Group Turnover

<u>KShs M</u>	<u>% Split</u>	<u>2007</u>	<u>2006</u>	<u>Var</u>	<u>% Var</u>
Passenger	85.8%	50,447	45,266	5,181	11.4
Cargo	9.8%	5,756	5,453	303	5.6
Handling	1.9%	1,139	1,172	(33)	(2.8)
Others	2.5%	1,450	914	537	58.8
Total Revenue	100%	58,792	52,804	5,987	11.3



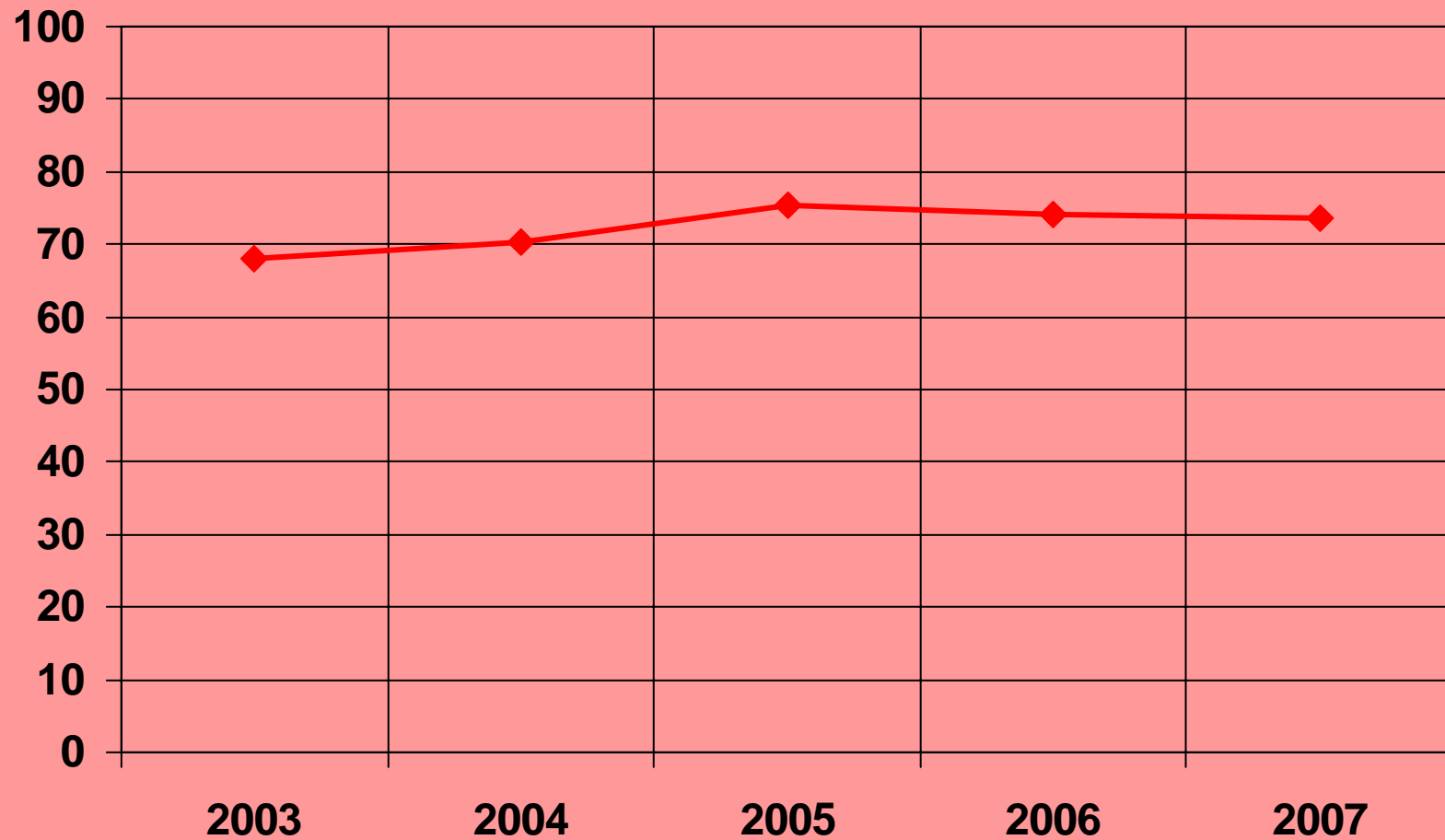
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Turnover in USD M



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Passenger Load Factor %



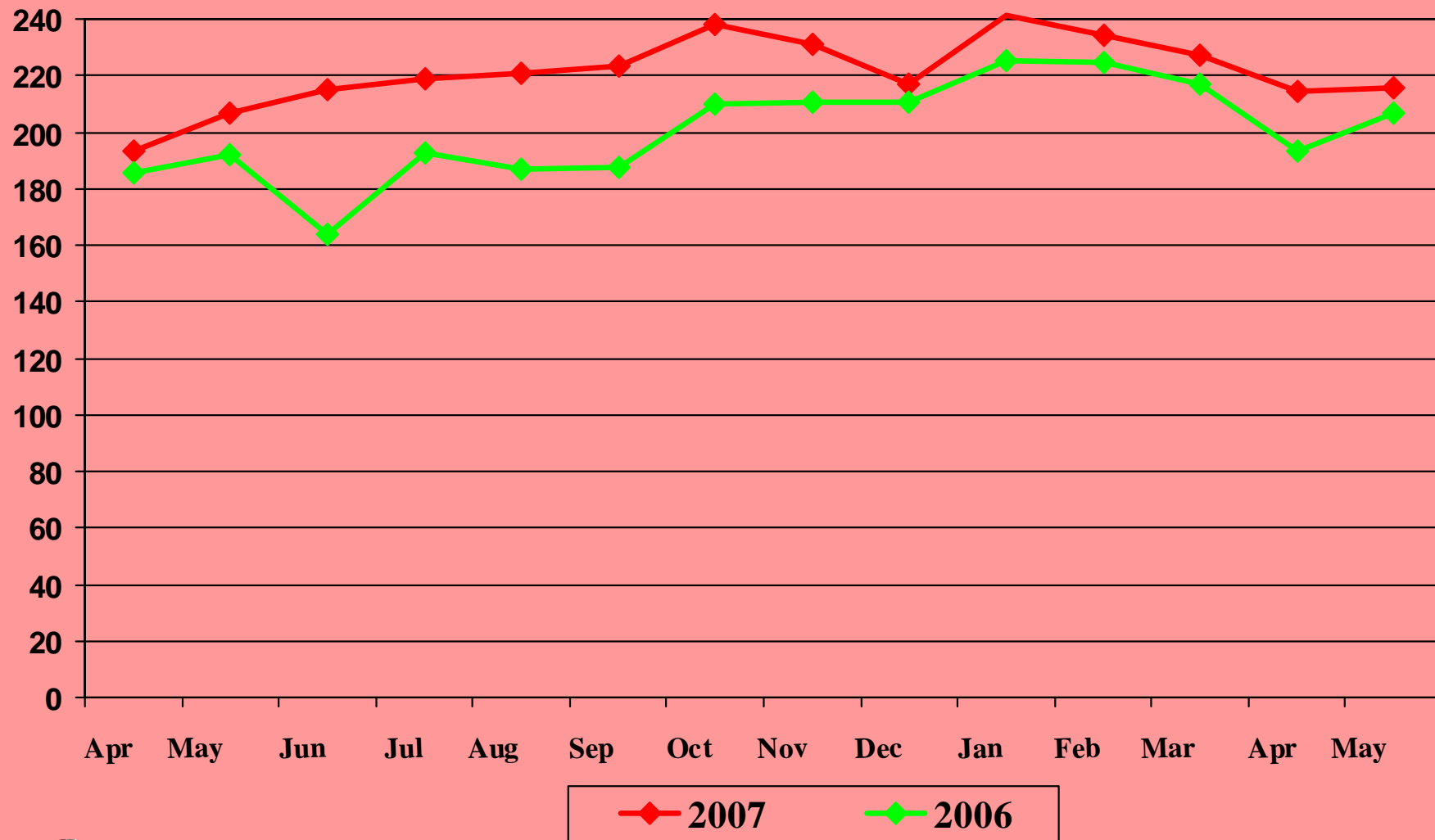
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Fuel Costs

- Total cost up 20.0% on last year from KShs 13,221m to KShs 15,887m
 - Mainly due to price increase of 11.7% and volume growth 12.0% mitigated by US\$ reduction 4.2%
- Every 1.0% increase in the unit price reduced profit after Tax by KShs 111m
- Currently hedged 80.0% of requirements until December 2007 and 22.0% from Jan to Mar 08



Fuel Market Rates (cag)



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Fleet Ownership Costs

<u>KShs M</u>	Actual 2007	Actual 2006	Var	% Var
Hire of a/c & engines	3,643	3,215	(427)	(13.3)
Dep'n a/c, engines	2,735	2,043	(692)	(33.9)
Boeing credit	(169)	(153)	16	(10.3)
TOTAL	6,209	5,105	(1,104)	(21.6)
Fleet cost as % of Total Cost	11.9%	11.1%		(0.8%)
Fleet cost as % of Turnover	10.6%	9.7%		(0.9%)



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Net Finance Costs

<u>KShs M</u>	2007	2006	Var	% Var
Aircraft Int. expense	1,636	1,603	(33)	(2.1)
Deposit Int. (income)	(572)	(440)	132	29.9
Overdraft Interest	81	57	(23)	40.7
TOTAL	1,144	1,220	75	6.2



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Group Balance Sheet

KShs M				%
ASSETS	2007	2006	MOVT	MOVT
Aircraft	48,994	42,033	6,961	14
Aircraft Advance Payments	2,106	4,187	(2,081)	(99)
Other Assets/Investments	5,884	5,221	663	11
Total Non-Current Assets	56,984	51,441	5,543	10
Inventories	962	803	159	17
Receivables	6,518	5,393	1,125	17
Tax recoverable	639	513	126	20
Cash and Short term Investments	12,184	11,144	1,040	9
Total Current Assets	20,303	17,853	2,450	12
Total Assets	77,287	69,294	7,993	10



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Group Balance Sheet

KShs M				%
EQUITY AND LIABILITIES	2007	2006	MOVT.	MOVT.
Capital	2,308	2,308	-	-
Cumulative Profits	17,190	13,900	3,290	19
Hedge Reserve	2,142	1,049	1,093	51
Aircraft Loans	31,287	28,545	2,742	9
Deferred Taxation	7,210	4,969	2,241	31
Deferred Income	2,587	2,704	(117)	(5)
Total Non-Current Liabilities	41,084	36,218	4,866	12
Advance Sales Collections	4,156	4,538	(382)	(9)
Trade and Other Creditors	7,043	6,899	144	2
Aircraft Loans - S.T portion	3,346	4,382	(1,036)	(31)
Taxation payable	18	-	18	100
Total Current Liabilities	14,563	15,819	(1,256)	(9)
Total Equity and Liabilities	77,287	69,294	7,993	10



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Group Cash Flow

KShs M	2007	2006	VAR	% VAR
Cash generated by Ops	8,706	11,301	(2,595)	(30)
Income Tax paid	(212)	(1,272)	1,060	500
Net Interest Paid	(1,145)	(1,219)	74	6
Net Cash from Ops	7,349	8,810	(1,461)	(20)
Aircraft Acquisitions	(9,696)	(22,233)	12,537	129
Aircraft Loans Raised	7,807	19,086	(11,279)	(144)
Aircraft Deposit Received	5,105	7,002	(1,897)	(37)
Aircraft Deposits	(3,338)	(3,846)	508	15
Aircraft Loans Repaid	(4,226)	(3,448)	(778)	(18)
Additional Aircraft Subsidy	55	1,624	(1,569)	(2,853)
Other Capital Expenditure	(1,135)	(1,585)	450	40
Dividends paid	(808)	(577)	(231)	(29)
Other items	(73)	2	(75)	(103)
Net Cashflow for the Year	1,040	4,835	(3,795)	(365)



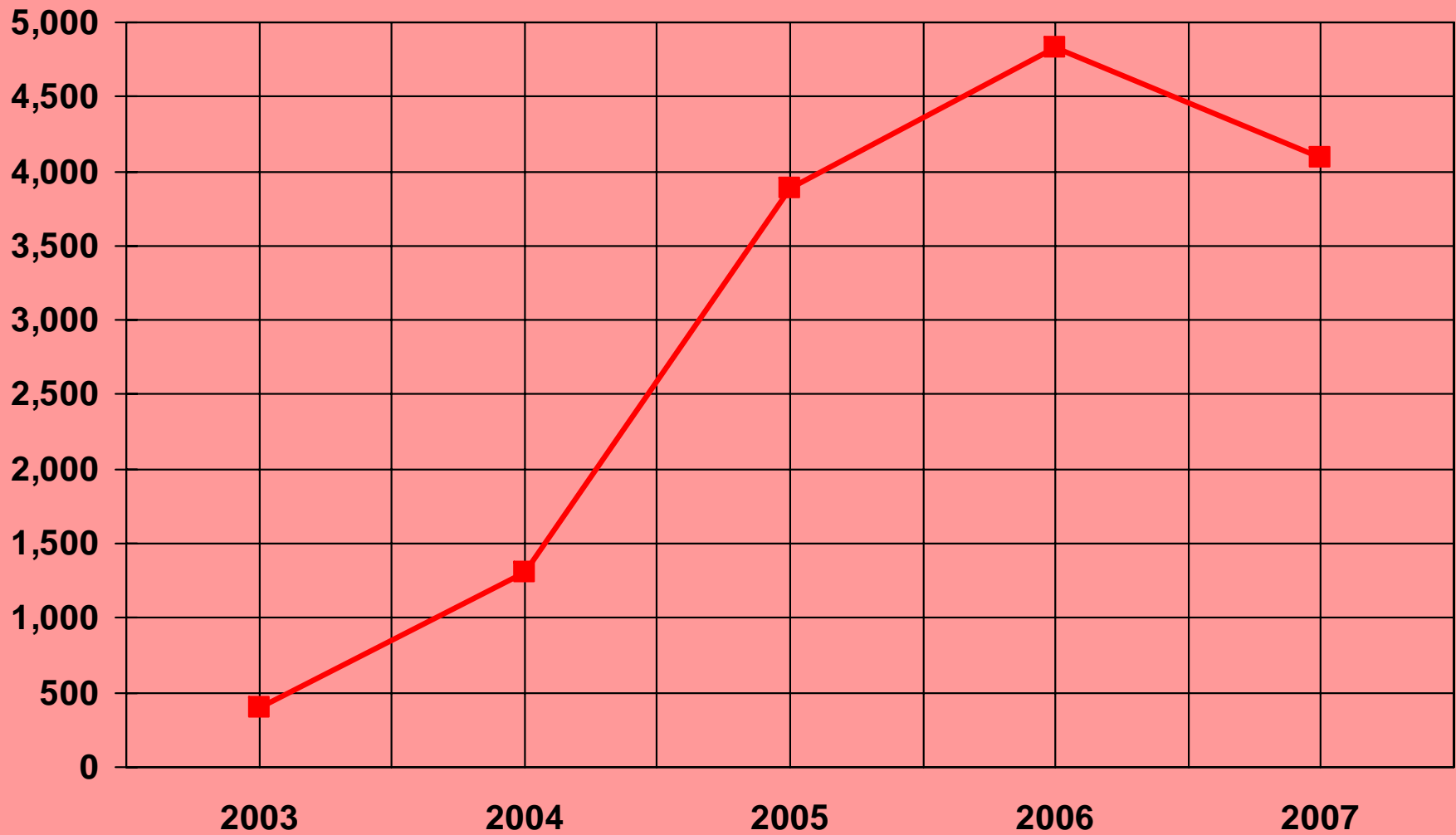
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Ratio Analysis

	2007	2006	Var
Op. Margin%	13.0%	14.9%	(1.9%)
PAT Margin%	7.0%	9.2%	(2.2%)
Return on Equity	21.1%	32.6%	(11.5%)
Interest Cover	5.5	5.1	0.40
Debt Equity(On Bal/sheet)	0.9	1.0	0.13
Debt Equity(Off Bal/sheet)	1.7	1.7	0.02

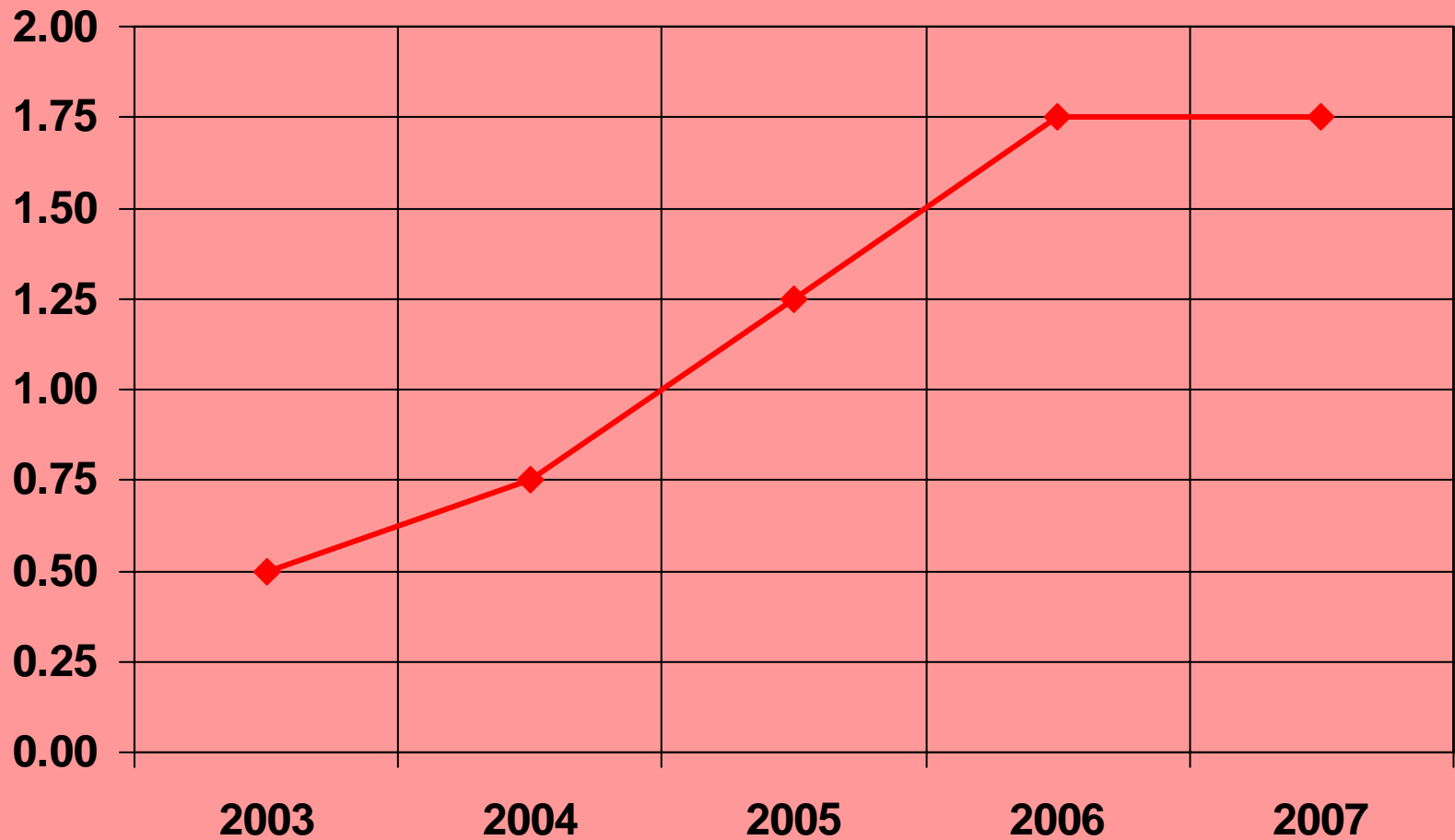


PAT (KShs mil)



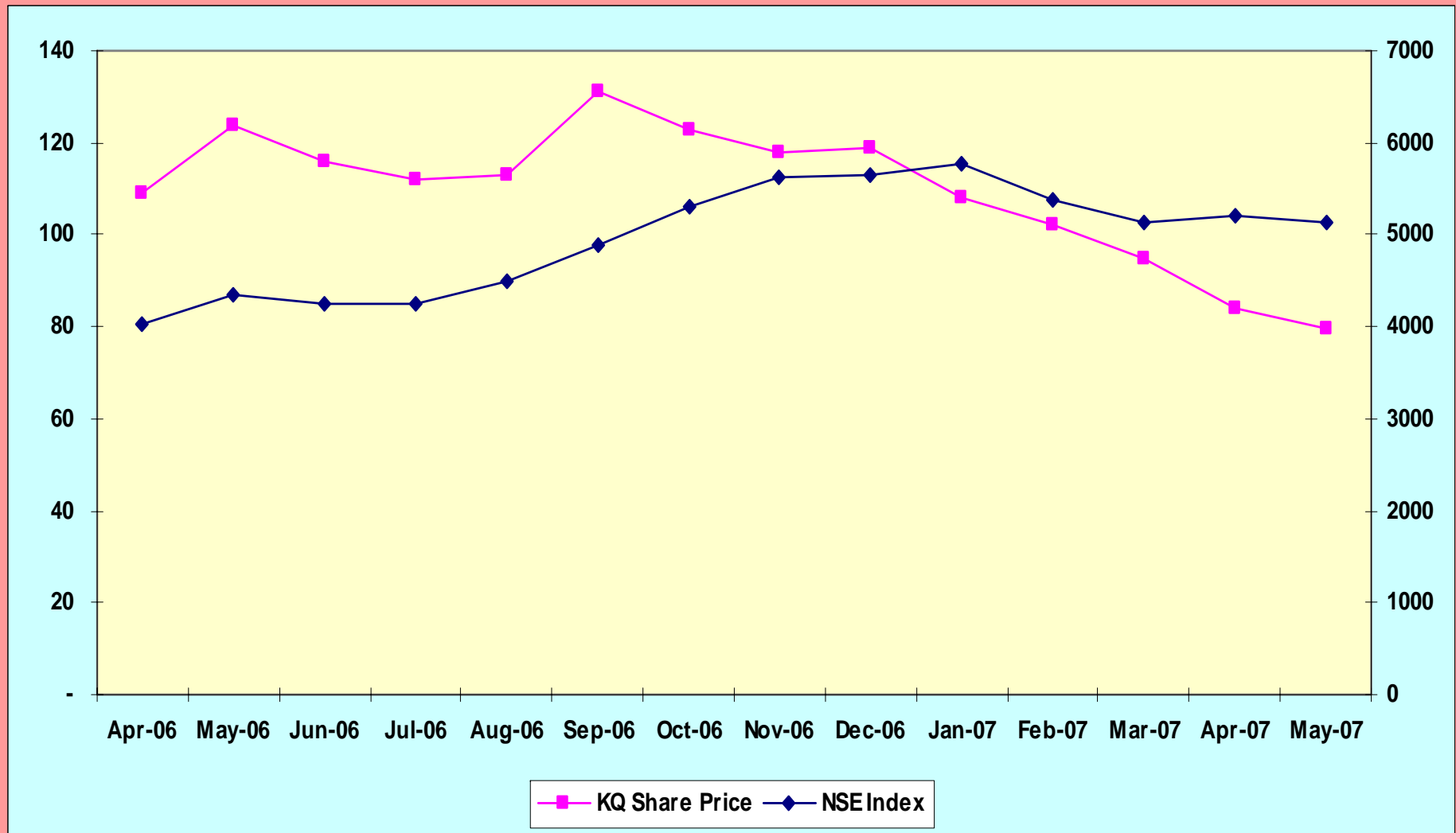
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Dividend per Share - KShs



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KQ –Share Price Vs NSE Index



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Benchmark

	KQ 06/07	AF/KL 06/07	BA 06/07	EK 06/07
Turnover (USD Mil)	817	30,226	16,559	8,057
PBT (USD Mil)	83	1,465	1,173	902
PAT (USD Mil)	57	1,140	854	836
Op. Margin(%)	13.0%	5.4%	7.1%	11.4%
Net Margin(%)	7.0%	3.8%	5.2%	10.6%

Note: Op. margin includes interest implicit in Operating Leases but not Loan Interest



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Questions and Answers



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