

COMMENTARY

On behalf of the Board of Directors of Kenya Airways Plc (KQ), I am pleased to report an improved performance, with growth in revenue coupled with better managed expenditure to deliver an optimistic outlook of our turnaround plan.

I would like to highlight some changes to our financial reporting. Following the Directors resolution in 2017 to change the Group's financial year end from 31 March to 31 December, the 2018 financial statements cover a twelve month period from 1 January 2018 to 31 December while the financial statements for 2017 cover a nine month period from 1 April 2017 to 31 December 2017.

This therefore means that the 2018 results are not directly comparable with the 2017 results as it is a representation of 12 months against the 9 months in 2017. Were the 2017 results to be annualised there would be have been improvement in the results for the year. The considerations the made in preparation of the financial statements on a going concern basis are included in note 2(e) to the financial statements.

The financial statements also include a restatement of the statement of financial position as at 1 April 2017, statement of profit or loss and other comprehensive income and statement of financial position for the 9 month period ended 31 December 2017 as disclosed in note 40 of the financial statements:

1. Borrowings – as at 31 December 2017, the borrowings relating to aircraft acquisitions were erroneously classified as non-current liabilities whereas the Airline had not met one of the covenants and as such did not have an unconditional right to defer payment for the next 12 months;
2. Fleet accounting of the prepaid maintenance asset and return condition provision – to recognise prepaid maintenance asset and return condition provision not accounted for in previous years; and
3. Mandatory convertible note – To correct the split between debt and equity in the 9 month period ended 31 December 2017.

Kenya Airways has continued to focus on delivering the turnaround programme that we embarked on in 2016. In the last year ended 31 December 2018, the capital optimisation program dubbed 'project safari' was completed. We have also undertaken various actions to ensure financial and operating efficiency to enhance business sustainability. These undertakings include; Network expansion through introduction of new routes, revenue enhancement initiatives through boosting of ancillary revenue streams, improving the customer experience, senior management changes and continued focus on cost reduction initiatives.

Within the context of the actions highlighted above, the airline announces the 2018 financial results which show that:

Growth in Revenue

Total revenue for the 12 months amounted to KShs 114.45 billion in 2018, as compared to KShs 80.79 billion for the 9-month period ended 31 December 2017.

The growth in total revenue was mainly boosted by growth in passenger revenue from KShs 63.9 billion in the previous 9-month period of 2017 to KShs 88.7 billion in the year ended December 31, 2018.

Passenger numbers were 4.84 million at close of December 2018, while the 9-month period ended 31 December 2017 recorded 3.43 million passengers. The airline achieved a cabin factor of 77.6% (12-month period) over the reporting period, while the 9-month period ended 31 December 2017 recorded 76.2%.

In addition to the growth in passenger revenues, revenue from Cargo amounted to KShs 8.68 billion for the year ended 31 December 2018 as compared to KShs 5.7 billion for the 9-month period ended 31 December 2017.

Operating costs

In 2018, Kenya Airways implemented various cost cutting initiatives that enabled the airline to manage expenses despite extreme market pressures. Fuel, personnel and the cost of aircraft remain the top three drivers of airline costs contributing to about two thirds of total operating cost for the airline.

Fuel price volatility remains a major challenge for airlines around the world, and Kenya Airways is no exception. The price per barrel saw an upward trend from the beginning of the year with Brent Crude prices peaking at a three year high of USD 86 per Barrel in September 2018, before reducing in the last three months of the year to close at a low of USD 49 per Barrel in December 2018. As a result, we saw our fuel costs rise by 73.6% from KShs 19 billion incurred in the 9-month period in 2017 to KShs 33b in the full year ended in December 2018. The total cost of fuel in the 12-month period of 2017 was KShs 25.5 billion, a 30% increase.

Fleet ownership costs also increased to KShs 18.9 billion from a restated amount of KShs 12.5 billion incurred in the previous 9 -month period

In total, the direct operating costs, fleet ownership costs and overheads came to KShs 115.1 billion, against the total revenue indicated above, this is a strong indication that the airline is once again able to sustain its operations for its own internally generated revenues.

Kenya Airways recorded an operating loss of Ksh 683 million and a loss before tax position of KShs 7.59 billion for the year ended 31 December 2018.

Outlook

Kenya Airways will continue to implement the prudent financial management and the turnaround initiatives started in 2018. Continuous improvement of operations, efficient network growth and improvement of service quality and delivery are necessary to enable the airline to hold its own in a highly competitive environment.

In line with global practice, Kenya Airways has embraced the unbundling of products and services and will be introducing several measures to grow its ancillary revenue. Kenya Airways is also focusing on reducing its operating costs while paying close attention to customer delight initiatives.

On behalf of the Board of Directors, I take this opportunity to express my sincere appreciation to our customers, the Government of Kenya, shareholders, management, staff, suppliers and other stakeholders for their continued support.



Michael Joseph
Chairman

29th April 2019

KENYA AIRWAYS PLC
SUMMARY AUDITED GROUP RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

SUMMARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	31 December 2018 (12 Months) KShs M	31 December 2017 (9 Months) (Restated) KShs M
Total income	114,185	80,799
Total operating costs	(114,868)	(79,791)
Operating loss	(683)	1,008
Other costs	(6,950)	(7,346)
Interest income	45	32
Loss before income tax	(7,588)	(6,306)
Income tax expense/(credit)	30	(112)
Loss for the period	(7,558)	(6,418)
Other comprehensive income		
Items that may or will be reclassified subsequently to profit or loss		
Gain/(loss) on hedged exchange differences	1,610	1,250
Total comprehensive loss for the period	(5,948)	(5,168)
Loss for the period is attributable to:		
Owners of the company	(7,554)	(6,422)
Non-controlling interest	(4)	4
	(7,558)	(6,418)
Total comprehensive loss is attributable to:		
Owners of the company	(5,944)	(5,172)
Non-controlling interest	(4)	4
Total comprehensive loss for the period	(5,948)	(5,168)
Basic loss per share(KShs)	(1.30)	(1.12)
Diluted loss per share(KShs)	(1.01)	(0.87)

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2018 KShs M	31 December 2017 (Restated) KShs M	31 March 2017 (Restated) KShs M
Assets			
Non-current assets	108,658	121,606	122,207
Current assets	27,976	26,017	30,257
TOTAL ASSETS	136,634	147,623	152,464
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	5,824	5,824	7,482
Share premium	49,223	49,221	8,670
Mandatory convertible note	9,630	9,630	-
Treasury shares	(142)	(142)	-
Reserves	(67,077)	(59,729)	(54,557)
Equity attributable to owners	(2,542)	4,804	(38,405)
Non-controlling interest	49	53	49
TOTAL EQUITY	(2,493)	4,857	(38,356)
Liabilities			
Non - current liabilities	9,611	10,327	37,716
Current liabilities	129,516	132,439	153,104
	139,127	142,766	190,820
TOTAL EQUITY AND LIABILITIES	136,634	147,623	152,464

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital KShs M	Share premium KShs M	Mandatory convertible note KShs M	Treasury shares KShs M	Revaluation surplus KShs M	Fuel hedging KShs M	Cashflow hedging KShs M	Reserves KShs M	Non-controlling interest KShs M	Total equity KShs M
At 1 April 2017-as previously reported	7,482	8,670	-	-	4,911	-	(14,156)	(51,871)	49	(44,915)
Prior Year Adjustment	-	-	-	-	-	-	-	6,559	-	6,559
At 1 April 2017- restated	7,482	8,670	-	-	4,911	-	(14,156)	(45,312)	49	(38,356)
Change in par value	(7,107)	7,107	-	-	-	-	-	-	-	-
Issue of ord. shares through conversion of debt	5,307	35,987	-	-	-	-	-	-	-	41,294
Issue of mandatory convertible note-Restated	-	-	9,630	-	-	-	-	-	-	9,630
Expenses directly attributable to restructuring	-	(2,543)	-	-	-	-	-	-	-	(2,543)
Issue of shares to employees share ownership scheme	142	-	-	(142)	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	-	1,250	(6,422)	4	(5,168)
At 31 December 2017 - restated	5,824	49,221	9,630	(142)	4,911	-	(12,906)	(51,734)	53	4,857
As at 1 January 2018 - as previously reported	5,824	49,221	11,465	(142)	4,911	-	(12,906)	(57,956)	53	470
Prior Period Adjustment	-	-	(1,835)	-	-	-	-	6,222	-	4,387
Effect of change of accounting policy for IFRS 9	-	-	-	-	-	-	-	(1,400)	-	(1,400)
As at 1 January 2018 - restated	5,824	49,221	9,630	(142)	4,911	-	(12,906)	(53,134)	53	3,457
Issue of ord. shares through conversion of mandatory convertible note	-	2	-	-	-	-	-	-	-	2
Total comprehensive loss for the period	-	-	-	-	-	(435)	2,045	(7,558)	(4)	(5,952)
At 31 December 2018	5,824	49,223	9,630	(142)	4,911	(435)	(10,861)	(60,692)	49	(2,493)

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	31 December 2018 (12 Months) KShs M	31 December 2017 (9 months) (Restated) KShs M
Cashflows from operating activities		
Cash generated from operations	11,239	11,595
Interest received	45	32
Interest paid	(4,838)	(4,923)
Income tax paid	(63)	(43)
Net cash generated from operating activities	6,383	6,661
Cash flows from investing activities		
Purchase of Property and equipment and intangible assets	(807)	(663)
Proceeds from disposal of property and equipment	673	18
Aircraft deposits	(311)	(439)
Aircraft deposits refunds received	2,486	-
Commitment and commission fees paid during the year	(25)	(358)
Onerous lease payments	(1,023)	(755)
Net cash generated from investing activities	993	(2,197)
Cash flows from financing activities		
Payment for share issue costs	-	(2,543)
Borrowings received	-	4,358
Repayments of borrowings	(7,301)	(9,109)
Net cash used in financing activities	(7,301)	(7,294)
(Decrease) in cash and cash equivalents	75	(2,830)
Cash and cash equivalents at beginning of period	6,356	9,186
Cash and cash equivalents at end of period	6,431	6,356

The summarised consolidated financial statements of Kenya Airways Plc has been prepared as per the requirements of the Capital Markets (Securities) (Public Offers, Listings and Disclosures) Regulation, 2002 ('the Regulations') as applicable to summary financial statements.

The summarised financial statements are not a substitute to reading the full set of financial statements available on the company website.