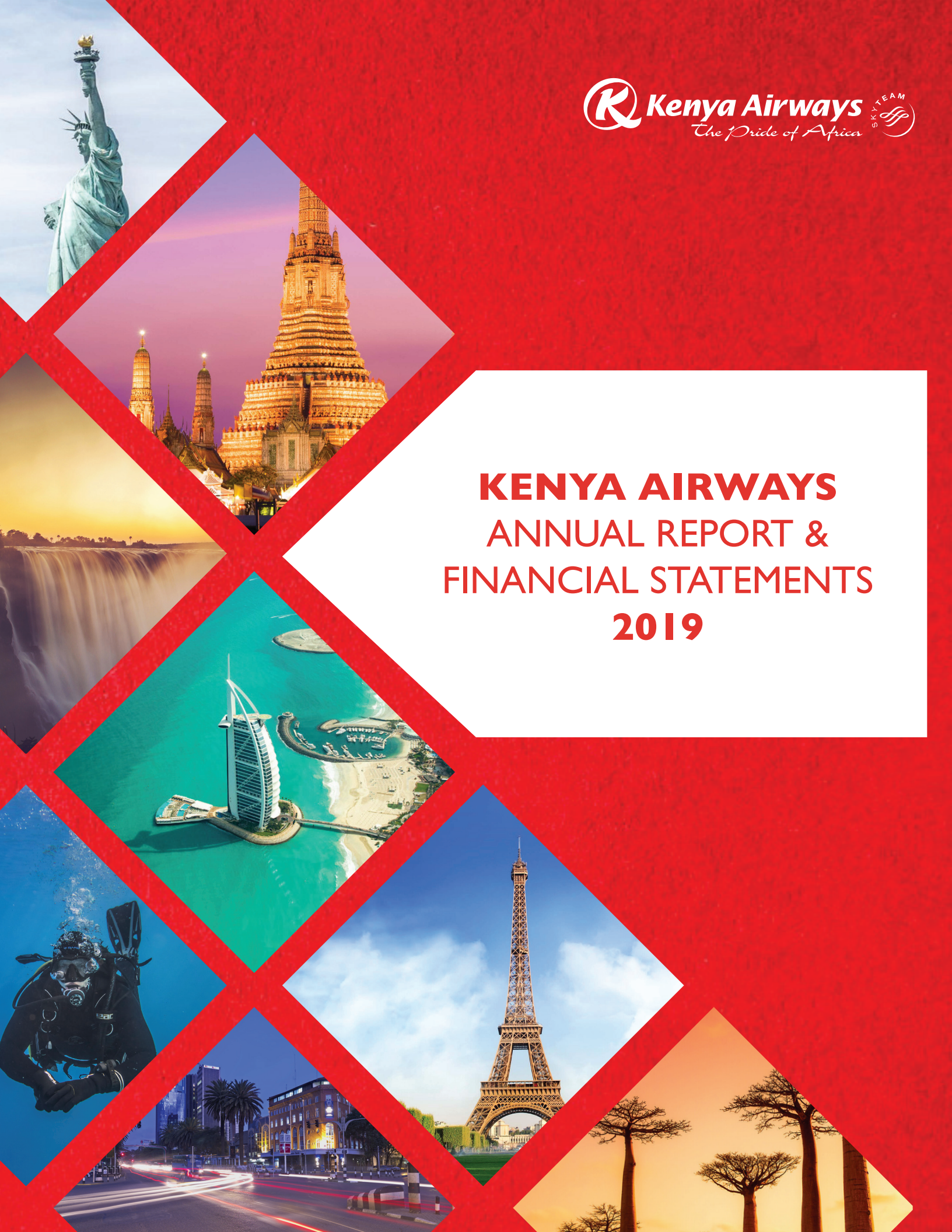


KENYA AIRWAYS
ANNUAL REPORT &
FINANCIAL STATEMENTS
2019



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destination and let us fly you there.
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CORPORATE INFORMATION

EXECUTIVE DIRECTORS	Allan Kilavuka - Group Managing Director - Appointed on 1 January 2020 Sebastian Mikosz - Group Managing Director - Resigned on 31 December 2019
NON-EXECUTIVE DIRECTORS	Mr. Michael Joseph - Chairman Dr. Kamau Thugge Mr. Jozef Veenstra * Ms. Caroline Armstrong Major Gen (Rtd) Michael Gichangi Mrs. Esther Koimett Dr. Martin Oduor- Otieno, CBS Ms. Carol Musyoka Mr. John Ngumi - Appointed on 10 June 2019 Mr. Solomon Kitungu - Appointed on 23 April 2020 Prof. Paul Maringa - Resigned on 27 February 2020 Mr. Jason Kap-Kirwok - Resigned on 10 June 2019 Mr. Nicholas Bodo - Alternate Director to Prof P. Maringa – Resigned on 27 February 2020 Dr. Haron Sirima - Alternate Director to Dr. K. Thugge – Appointed on 18 July 2019 Mr. Festus King'ori - Alternate Director to Dr. K. Thugge – Resigned on 18 July 2019 * Dutch
COMPANY SECRETARY	FCS Catherine Musakali Certified Public Secretary (Kenya) Dorion Associates Thompson Estate, off Ole Dume Road P.O. Box 29737 - 00202 Nairobi
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari, P.O. Box 40092 - 00100 Nairobi
REGISTERED OFFICE	Kenya Airways Headquarters and Base Airport North Road, Embakasi P.O. Box 19002 - 00501 Nairobi
REGISTRARS AND TRANSFER OFFICE	Custody & Registrars Services Limited 6th Floor, Bruce House Standard Street P.O. Box 8484 - 00100 Nairobi

CORPORATE INFORMATION (Continued)

PRINCIPAL BANKERS

Citibank N.A.
Citibank House, Upper Hill Road
P.O. Box 30711 - 00100
Nairobi

Standard Chartered Bank Limited
48 Chiromo, Level 5
Westlands Road
P.O. Box 30003 - 00100
Nairobi

Absa Bank Kenya Plc
The West End Building, 4th Floor
Waiyaki Way, Head Office
P.O. Box 30120 - 00100
Nairobi

National Bank of Kenya Limited
13th Floor, National Bank Building
Harambee Avenue
P.O. Box 72866 - 00200
Nairobi

Equity Bank Limited
7th Floor, Equity Centre
Upper Hill
P.O. Box 75104 - 00200
Nairobi

PRINCIPAL LEGAL ADVISORS

Coulson Harney LLP
5th Floor, West Wing, ICEA Lion Centre
Riverside Park, Chiromo Road, Nairobi
P.O. Box 10643-00100, Nairobi, Kenya
www.bowmanslaw.com

Tripleoklaw Advocates
5th Floor, Block C, ACK Garden House
1st Ngong' Avenue, off Bishops Road
P.O. Box 43170 - 00100
Nairobi

DUBAI

An aerial photograph of Dubai, United Arab Emirates, showing the turquoise Arabian Gulf water, sandy beaches, and the iconic Burj Al Arab hotel. The city's urban landscape is visible on the right side of the frame, extending from the coast into the distance. The sky is clear and blue.

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BOARD OF DIRECTORS

The current Board composition with brief resumes is as set out below:



Michael Joseph was appointed Chairman of Kenya Airways Plc in October 2016. He is also a Non-Executive Director on the Boards of Vodacom Group South Africa, MFS Africa and Safaricom Plc. Michael is also an advisor to the Vodafone Group mostly related to mobile financial services and Safaricom Plc. He was until October 2017 employed by Vodafone Group Services Limited as the Director of Mobile Money and was responsible for leading the strategic growth and development of successful M-Pesa proposition across the Vodafone footprint.

Michael was the founding CEO of Safaricom Plc, steering the company from a subscriber base of less than 18,000 in 2000 to over 17 million subscribers at his retirement in November 2010 making it the most successful company in East Africa. This phenomenal growth straddling nearly a decade was notable for the launch of many innovative products and services. He was behind the launch of the highly successful and phenomenal growth of M-Pesa and its related services.

Michael is the recipient of many awards, including CEO of the year awarded by the Kenya Institute of Management and the Elder of the Order of the Burning Spear (award given by the President of Kenya to those who have made a positive impact in Kenya). He has extensive international experience in company start-ups, the implementation and operation of large wireless and wire-line networks. He is also a keen conservationist and serves as Chairman of Lewa Wildlife Conservancy, a leading conservancy in Northern Kenya.

Mr. Michael Joseph (74)
Chairman and Independent Non-Executive Director

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Allan was appointed acting Group Managing Director and Chief Executive Officer with effect from 1 January 2020 and confirmed as the Group Managing Director and Chief Executive Officer with effect from 1 April 2020. He was previously the Chief Executive Officer and Managing Director of Jambojet Limited, a fully owned subsidiary of Kenya Airways Plc. With over 23 years' experience in leadership and management, and extensive knowledge and experience in the Africa business environment, Allan has proven success in new organization set ups, change management, financial planning, integrations, process improvement and company compliance and responsible strategic leadership.

Allan started his career in audit, accounting and advisory at Deloitte East Africa. He later joined GE as the Africa share service leader and held various senior leadership roles in GE businesses and in corporate both in Kenya and South Africa before joining Jambojet Limited.

Allan has a Bachelor of Commerce Degree from the University of Nairobi and holds a Postgraduate Certificate in Psychology from the University of Liverpool. He has trained at GE's world class Crotonville Leadership Institute in New York, USA in Executive Leadership, Advanced Management and Financial Planning. He is also a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Mr. Allan Kilavuka (47)
Group Managing Director and CEO

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Jos Veenstra is responsible for investments and corporate development at Air France-KLM. He has extensive experience in leading complex airline-related M&A projects and holds several board positions in a wide variety of companies that are closely related to the aviation industry. Among these companies are Epcor in Amsterdam, SkyNRG in Amsterdam, KLM UK Engineering in Norwich, KLM E&M Malaysia and KLM Health Services. He is also responsible for managing KLM's innovation fund that invests in start-up companies with innovative products that support the aviation industry. Jos holds a Masters in Business Economics from the University of Groningen (Netherlands), followed by a postgraduate degree as Chartered Accountant (CPA). Prior to his current position, Jos worked as an auditor for KPMG and as Vice President Finance & Control for KLM's Engineering & Maintenance division.

Mr. Jozef (Jos) Veenstra (53)
Non-Executive Director



Caroline has 23 years' experience in the banking industry both within and outside of Kenya. Voted as one of Kenya's Top 40 Under 40, she started her career as a management trainee and rose through the ranks to become a respected senior executive in the industry. She has led several projects with the key project being the implementation of 7 new IT systems delivered in parallel at HF Group, which drove its IT transformation. In addition to an illustrious banking career she also served as the Vice-Chairperson on Kenya's Mining Task Force and served as a Director on the Board of the HF Foundation.

Ms. Caroline Armstrong (45)
Independent Non-Executive Director



Dr Thugge worked as a Senior Economic Advisor in the Ministry of Finance from the year 2010. He has also worked at the International Monetary Fund (IMF) in various capacities for over 21 years. He was the Head of the Fiscal and Monetary Affairs Department, Treasury between 2004 and 2005, and the Economic Secretary and Head of Economic Affairs Department, Treasury between 2005 and 2008. He has sat on the Boards of the Central Bank of Kenya, the Monetary Policy Committee of the Central Bank of Kenya, the Kenya Revenue Authority and the Capital Markets Authority.

Dr. Kamau Thugge (62)
Non Executive Director



Esther has over 40 years' experience in public service, most of which has been in investment promotion, banking, privatization and public enterprise reforms. She is currently the Principal Secretary in the State Department of Broadcasting & Telecommunications. Esther is a holder of a Bachelor of Commerce degree and a Master of Business Administration degree from the University of Nairobi. She also holds an Advanced Management Programme certification from Strathmore University.

Esther has held various senior positions in Government and the Parastatal sector, including being the Investment Secretary and the Director General, Public Investments & Portfolio Management at the National Treasury, Permanent Secretary, Ministry of Tourism and Principal Secretary, Transport. She has also served as the Managing Director, Kenya Post Office Savings Bank. She serves as a Non-Executive Director on several Boards including Safaricom Plc and the Africa Trade Insurance Agency.

Mrs. Esther Koimett (63)
Non-Executive Director



John is a first-rate banker, with 40 years' experience providing corporate & investment banking, and investment management services to local, international and global corporates, state-owned enterprises, sovereign and quasi-sovereign entities, and financial services groups across East Africa.

John is currently Executive Chairman, Eagle Africa Capital Partners Limited, a boutique firm he co-founded with two colleagues in 2016 upon retirement from Standard Bank Group. He is also the non executive Chairman of inter alia Kenya Pipeline Company Limited, Carepay Kenya Limited and Wananchi Group Holdings Limited. He also serves as a non executive Director on the Board of Base Titanium Limited. Among his previous Board appointments was serving as the inaugural Chairman of the Board, Konza Technopolis Development Authority, and being a non executive Director on the inaugural Board of Communications Commission of Kenya (since renamed Communications Authority)

John's career in the financial services sector encompasses both formal employment and entrepreneurship. In his formal career he worked in various capacities at Barclays Bank, Citibank, Grindlays Bank, National Westminster Bank and Standard Bank Group, which trades in East Africa as Stanbic Bank. In these roles, John arranged some of the region's landmark financing deals, and was a key player in the regulatory and product evolution of East Africa's financial markets from backwaters to some of the most exciting in Africa. His entrepreneurial career includes being a co-founder of the Loita Capital Partners, one of Africa's locally owned investment banking groups.

Although no longer formally involved in banking, John maintains a keen interest in banking and financing developments, as well as in corporate matters, principally in his capacity as a Senior Advisor to the Kenya Private Sector Alliance (KEPSA)

Mr. John Ngumi (64)
Independent Non-Executive Director



Dr. Martin Oduor-Otieno's career started out in Accounting and Banking but has now shifted to Leadership and Governance. He is currently an independent Business Advisor and Accredited Executive Coach, and runs the Consulting Firm, The Leadership Group Limited. Prior to this, he worked with Deloitte East Africa as a Partner, Financial Services Industry from May 2013 to December 2016. He had an illustrious career at KCB Group Plc, between October 2005 and December 2012, most of which he was the Chief Executive Officer, presiding over rapid transformation and growth for the bank. He has also held senior positions in Barclays Bank both in Kenya and in South Africa, in addition to an earlier decade spent in various finance roles at British American Tobacco Kenya and as an accounting trainee at the professional services firm, Ernst & Young (EY).

Dr. Martin Oduor-Otieno has also had a stint in the Public Sector as Permanent Secretary Ministry of Finance/Treasury in the Government of Kenya between 1999 and 2001. He holds an Executive MBA degree from ESAMI/Maastricht Business Schools and a Bachelor of Commerce degree from the University of Nairobi. He is also an alumnus of the Harvard Business School's Advanced Management Program and a Fellow of the Kenya Institute of Bankers, the Institute of Certified Public Accountants of Kenya, the Institute of Certified Secretaries of Kenya and the Institute of Directors of Kenya. In addition, he is an Accredited Governance Auditor.

Dr. Martin Oduor-Otieno holds Non-Executive Directorships in Standard Bank Group, Standard Bank of South Africa, East African Breweries Limited, British American Tobacco Kenya Plc, GA Life Assurance Limited and is also a Trustee of SOS Children's Villages Kenya and member of the International Senate of SOS KDI and President International Coaching Federation Chapter

Dr. Martin Oduor-Otieno, CBS (63)

Non-Executive Director

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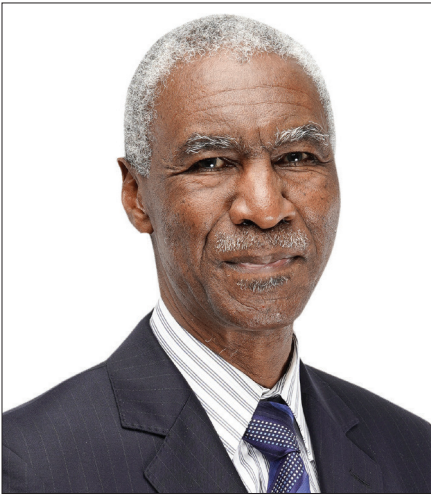
Mr. Solomon Kitungu is the Principal Secretary for the State Department for Transport. He has previously served as an officer in various position at the National Treasury including the position of Investment Director from 2003 – 2009 and from October 2017 to January 2020. He has also previously served as the Executive Director and CEO of the Privatization. Mr. Kitungu holds a Bachelor of Arts degree in Economics (1987) from the University of Nairobi and a Master of Arts degree in Economics (1990) from the University of Manchester, United Kingdom. Mr. Kitungu has also attended the Advanced Management Programme, and many other trainings in public sector management and reforms, investment management and reforms, privatizations, negotiations, infrastructure, investment analysis and Public Private Partnerships, among others.

Mr. Kitungu has served as director/alternate director in many Boards of Directors of State Corporations

Mr. Solomon Kitungu (58)

Non-Executive Director

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Major General Gichangi joined the Kenya Air Force as a pilot in 1975, and rose through the ranks serving in all its flying operations hierarchy command positions. He retired from the military in 2006 as the Chief of Strategic Plans and Policy at the Defence Headquarters, on being appointed the Director General of The National Intelligence Service. He served in this position until 2014.

He holds a Masters Degree in Aviation Management from Griffith University in Australia and is a graduate of the National Defence College. He has a Commercial Pilots License from the Federal Aviation Authority of The United States of America and one from the Kenya Civil Aviation Authority, and is a qualified flying instructor. In recognition of his service to the nation, he has been honoured as an Elder of the Order of the Golden Heart (EGH) and a Chief of the Order of the Burning Spear (CBS). He was awarded the Distinguished Conduct Order (DCO) medal for an act of Valour while flying in the Kenya Air Force.

Major General (Rtd) Michael Gichangi (61)
Independent Non-Executive Director



Carol Musyoka has several years of financial leadership experience. She has extensive deal origination, negotiation, structuring and execution experience, having been involved in several landmark corporate finance transactions in Kenya. Her executive management and board experience includes her role as the Corporate Director, Barclays Bank of Kenya as well as the Executive Director and Chief Operating Officer of KRep Bank, Kenya's first micro finance institution. Carol has had considerable credit risk and corporate banking experience and training over her banking career. She currently sits as a non-executive director on the boards of East Africa Breweries Ltd, British American Tobacco Ltd and the national carrier, Kenya Airways. She has previously served on, and retired from the Boards of at least 12 private, public and Not for Profit organizations.

Carol currently provides bespoke training solutions to a number of companies in the region on Leadership and Corporate Governance. For the last seven years, Carol has also been the Academic Director for the corporate governance programs at Strathmore University Business School. On an international level, Carol is part of the Durham, North Carolina based Duke Corporate Education (www.dukece.com) faculty and is involved in providing leadership deliveries for some of their global clients. Carol is a holder of a Bachelor of Law degree from the University of Nairobi and a Master of Law degree from Cornell University, USA. Carol, a recipient of the 2010 Eisenhower Fellowship for International Leadership, lives in Nairobi, Kenya

Ms. Carol Musyoka (47)
Non-Executive Director



Dr Haron Sirima, OGW is currently the Director-General, Public Debt Management Office at the National Treasury and Acting Chairman, Kenya Mortgages Re-finance Company Ltd. A career central banker, he joined the Central Bank of Kenya in 1986 as a graduate trainee and rose through the ranks to the position of Deputy Governor, Central Bank of Kenya and Vice Chairman, Monetary Policy Committee. He has previously served as Deputy Director Management Department, Ministry of Finance and also Adjunct Professor at Jomo Kenyatta University of Agriculture and Technology. Dr Sirima has been involved in the design and implementation of public debt management reforms including the preparation of the Kenya's Debt & Borrowing and legal framework for public finance management at the National Treasury. He holds a B.A Economics and B.Phil Economics degrees from University of Nairobi, Master's degree in Economics from University of Manchester, UK and PhD in Entrepreneurship from Kenyatta University

Dr. Haron Sirima, OGW (57)

Alternate to Dr.Kamau Thugge

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MANAGEMENT TEAM & PROFILES



Hellen holds a Bachelor of Commerce degree from Kenyatta University and an MBA (Strategic Management) from United States International University. Hellen has wide experience in Finance and Audit having previously worked as the Head of Corporate Finance as well as Head of Internal Audit at Kenya Airways. As part of succession planning, Hellen also led the Pricing and Revenue Management function for a period of 2 years. Prior to joining Kenya Airways, she worked at East African Breweries Ltd, Ernst & Young and Family Bank.

Hellen is a Certified Internal Auditor, Certified Information Systems Auditor and holds certification in Control self assessment. She has a diploma in Airline Management from IATA, certificate in Executive business development from the Gordon institute of business management and is a certified coach and mentor.

Hellen Mathuka
Chief Financial Officer

Peter is an I.T. professional with over 20 years of experience, holding senior management positions with corporations both in Kenya and the United States of America. His work experience in the I.T. sector spans the manufacturing, aerospace, and airline industries, where he has headed up various I.T. divisions in demanding environments.

He is currently the Ag. CIO for Kenya Airways where he formulates and leads the IT strategy, oversees the running of the airline's I.T. portfolio and responsible for Transforming KQ into a Digital Airline. His previous roles at KQ include Head of I.T. Operations, Manager - Communications and Infrastructure and Manager Airport I.T. Division.

The Airline Operators Committee (AOC) at JKIA elected Peter as its Chair for two consecutive terms. In this capacity, Peter was instrumental in the conceptualization, design, and delivery of the very first collaborated airport I.T. solution in Africa, that transformed the passenger experience at JKIA that leveraged on self-service.

In recognition of these innovative efforts and others at KQ, Peter was awarded 2018 Company of The Year Award and Transport Sector Award by CIO East Africa for the technology transformation at JKIA.

Peter holds a BSc in Engineering and Executive Management qualifications from various institutions



Peter Ndegwa Mungai
Ag. Chief Information Officer



Evelyne joined Kenya Airways in February 2019 to provide leadership on the People and Culture transformation agenda for the company. Evelyne has over 15 years of senior leadership & management experience and brands including The Co-operative Bank of Kenya, IBM Corporation, PwC, Ernst & Young, Standard Chartered Bank Kenya and Oxfam Great Britain. Evelyne is a holder of a Bachelor of Arts (BA) in Land Economics from the University of Nairobi (UON) and a Master of International Business Administration (MIBA) from the United States International University (Africa).

She is also a certified Executive Leadership Coach (CELC) and Professional Career Coach (CPCC). Evelyne is a member of several professional HR organisations including Institute of Human Resource Management (IHRM), Association of Talent Development (ATD), Society for Human Resources Management (SHRM) and the International Coaching Federation (ICF). She also serves on the board of AG Group International.

Evelyne Munyoki
Chief Human Resources Officer

MANAGEMENT TEAM PROFILES



Dick Murianki has over eighteen years' experience in the airline industry and over twenty years in accountancy and general management. Dick has served Kenya Airways in various managerial roles over the years. He was Finance Manager for the then cargo subsidiary- Kencargo Airlines International Limited, Commercial Business Performance Manager for the commercial department, Group Head of Internal Audit, Head of Financial Control and Ag. Chief Financial Officer prior to his current role as Director for the cargo business in Kenya Airways.

Prior to joining Kenya Airways, he worked with Ernst and Young Public Accountants for over 8 years in accountancy and business consultancy roles. Dick holds an MBA from Moi University – Kenya, and a Bachelor of Commerce degree from the University of Nairobi. He is a member of the Institute of Certified Public Accountants of Kenya and a Certified Internal Auditor.

Dick Murianki
Director, Cargo

Captain Paul Njoroge is the Director of Operations at Kenya Airways and also serves as a Captain for the Dreamliner B787 fleet. Previously he held the position of Director of Flight Operations at Kenya Airways where he led a dynamic team made up of 1,440 staff members whose main role was to provide a safe and efficient operation by ensuring strict adherence to standard operating procedures, policies and laws of different areas. Prior to that, Capt. Paul was the Head of Flight Operations Training, where he led a team of qualified trainers who would ensure all airline crew are current in their training.

His other positions have included First Officer in the B737 fleet (2003-2005), First Officer in B777 fleet (2005-2008), Captain in the Embraer 170 fleet (2008-2010), Captain in the B737 fleet (2010-2018) and an Internal Auditor (2015).

Captain Paul Njoroge
Operations Director



Evans was appointed the Director Technical for Kenya Airways in February 2020 having acted in the role since May 2019. As the Technical Director, Evans leads and develops the overall strategy for the department as well as overseeing the engineering and maintenance functions as the Accountable Manager under both the KCAA and EASA regulations for Kenya Airways Approved Maintenance Organization. He is responsible for a team of around 600 professionals who provide industry leading aircraft maintenance and engineering solutions from the headquarters in JKIA, Nairobi as well as the other operating bases within Africa.

Prior to this, Evans held the positions of Business Development Manager, Maintenance Cost Optimization Lead, Maintenance Control Centre Manager, Duty Control Engineer, Senior Avionics Engineer among others having risen through the ranks as an apprentice. Evans is a licensed aircraft maintenance engineer and has held certification responsibilities on various aircraft types including B737CL/NG, B767, B777 and E170/190. He attended the Technical University of Kenya for Electrical and Electronics Engineering and is currently enrolled at the Strathmore Business School for leadership training.

Evans Kihara
Director Technical

MANAGEMENT TEAM PROFILES

Francis Musila has been with Kenya Airways for over 13 years and has wide operations experience having been Technical Director, Ground Services Director, Head of Operations Control Centre and led the Fleet Development efforts of KQ. He is currently the Director, Special Projects where he coordinates the airline's Aviation Sector Reforms project and staff ideas/initiative scheme to achieve sustainable restart of operations. He continues to provide strategic leadership on Fleet Development. He is also a Board Member of Jambojet and Chair of its Audit & Risk Committee.

He is an accomplished operations executive and business leader with over 25 years work experience. He is calm, disciplined, solution oriented, people focused and likes to get things done.

Francis has maintained relevance, undertaking several industry courses, which included attaining an IATA diploma in Airline Management confirming him as a consummate airline professional. He has attended several management courses, such as the Executive Development Programme with GIBS and Building Tomorrow's Leader Programme with the London Business School.

He graduated from the renowned Cranfield University, UK with an MSc in Gas Turbine Technology. His undergraduate course was in Aeronautical Engineering from Manchester University, also in the UK. Before joining the airline industry to pursue his passion of Engineering and Management, Francis worked in the Banking industry for 12 years.



Francis Musila
Director, Special Projects



Julius joined Kenya Airways in 2001 and is currently Director for Sales responsible for development and implementation of the global commercial sales strategy. He has extensive international commercial experience in delivering growth and improving performance in the aviation industry having worked in various roles across three continents. Prior to his current role, he was General Manager commercial Sales (Europe, America, and Asia) from June 2014 to November 2018 and Head of Pricing, Revenue Management and Distribution from June 2009 to May 2014.

He holds a Bachelor of Arts in Building Economics from the University of Nairobi and has attended various management and leadership courses, including the Executive Development Programme with Gordon Business School, South Africa.

Julius Thairu
Sales Director

Dennis joined Kenya Airways in February 2019 and was appointed to lead the Corporate Communications and Public Affairs Department which provides strategic support to the Airline's operations in July. The function is also responsible for Regulatory affairs and Corporate Responsibility (including Sustainability reporting). Prior to joining the airline, Dennis worked with TradeMark East Africa as the Director Corporate Communications. He has a wealth of experience spanning over 18 years in corporate communications, marketing and commercial management having worked in senior management and leadership roles with some of East Africa's blue-chip companies including the Nation Media Group, Lafarge Bamburi Cement and Farmers Choice Ltd. He holds a bachelor's degree from the University of Nairobi and is an alumnus of the INSEAD Business School.



Dennis Kashero
Director, Corporate Communications & Public Affairs

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Michael Joseph
Chairman

CHAIRMAN'S STATEMENT

Economic Overview

In 2019, the world real Gross Domestic Product (GDP) recorded decelerated growth of 2.9 percentage points compared to a growth of 3.5 per cent in 2018, the slowest since the 2007/2008 global financial crisis. Global trade also slowed down, with volume growth falling to 1.2 per cent compared to 3.7 per cent in 2018. This was mainly attributed to trade tensions between China and USA and the EU and UK respectively, a decline in global trade and investment and a slowdown in labour productivity. Sub-Saharan Africa's growth slightly slowed to 3.1% from 3.3% in 2018 spurred by increased agricultural production from favourable weather conditions and high infrastructural investment.

The Africa Development Bank (AfDB) in its Africa Economic Outlook 2020 reports that Kenya's real GDP grew by 5.4% in 2019, down from the 6.3% achieved in 2018 as a result of reduced Government spending and less than favourable weather conditions in the country which suppressed agricultural production. The exchange rate remained stable due to the narrowing current account deficit, from 5.0% of GDP in 2018 to 4.9% in 2019, thanks to increased diaspora transfers.

Foreign exchange reserves rose from \$9 billion in 2018 to \$9.4 billion at the end of August 2019. The fiscal deficit is estimated at 7.5% of GDP in 2019, down from 8.8% in 2018 thanks to ongoing fiscal consolidation and greater domestic resources mobilization.

Financial Performance

From an operational standpoint, year 2019 marked a significant milestone in our network growth as we celebrated the first anniversary of the inauguration of our most ambitious route, New York, and the launch of services to Rome and Geneva. The routes continue being strategic investments. Our focus on strengthening our African footprint still remains. This is also in line with our strategic mission of contributing to the sustainable development of Africa.

We continued to focus on the turnaround programme. Some of the actions taken to ensure business sustainability included focus on cost reduction initiatives, revenue enhancement initiatives, Network expansion, revamping our customer experience and changes in the senior management. This saw KQ revenues grow significantly, boosted by growth in passenger revenue, cargo and ancillary services. At the same time, we managed to keep our operating costs at manageable levels.

Despite the above the Group recorded a net loss of Kshs 12,985 million compared to Kshs 7,558 million reported in year 2018. Some of the contributors to this loss include an increase in operating costs associated with a 15% rise in capacity deployed

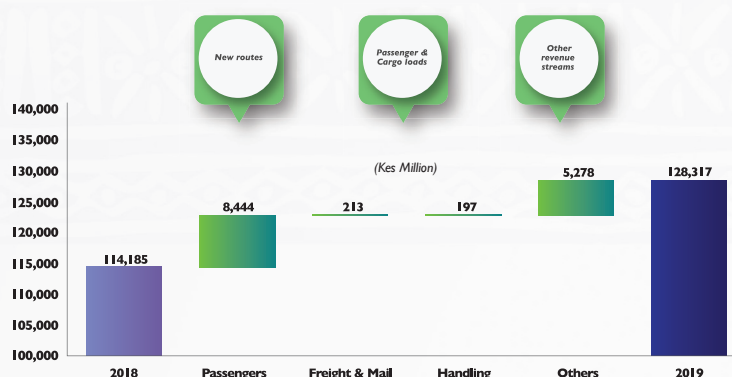
to offer increased connectivity between city pairs, investment in new routes and the adoption of the International Financial Reporting Standard 16 (IFRS 16).

The new lease accounting IFRS standard, implemented effective 1 January 2019 on a modified retrospective basis requires operating leases which were previously off-balance sheet to be recognised as assets in the balance sheet by determining the value of the right of use. Equally the lease rentals which were previously expensed are now recognised in the balance sheet as liabilities by determining the value of such payments over the life of the lease period. The impact of the adoption of this new accounting standard is covered in detail in the annual financial statements.

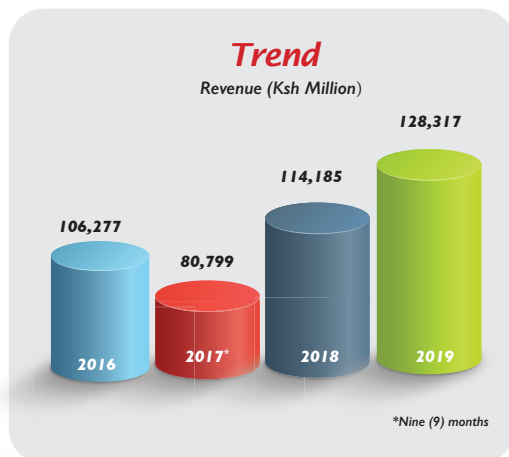
Although fundamental Management changes happened at the end of 2019, namely the departure of the Group Managing Director & CEO, Mr. Sebastian Mikosz, improvement of KQ's financial position remained a key focus. We are grateful to Sebastian for steering the airline through the headwinds and ensuring the airline continued to pursue its strategy. We wish him well in his future endeavours.

The Board and Management would like to assure our stakeholders that the transition has been smooth and seamless with the appointment of Mr. Allan Kilavuka as substantive Group Managing Director & CEO. Allan was the Chief Executive Officer and Managing Director at Jambojet Ltd, a fully owned subsidiary of Kenya Airways Plc. He brings to Kenya Airways over 23 years' experience in leadership and management, and extensive knowledge and experience in the Africa business environment. The Board is confident that Allan will provide the necessary leadership to guide the Company through the next phase of its growth and to ensure that Kenya Airways plays a key role in the transformation of the Aviation sector in the Country.

Total revenues improved



CHAIRMAN'S STATEMENT



Government Support

2019 was especially important for Kenya Airways as the National Assembly submitted a proposal to the Kenya cabinet for nationalisation of the airline following the now abandoned Privately Initiated Investment Proposal (PIIP) for Jomo Kenyatta International Airport. The recognition of aviation as a strategic arm that contributes to the country's economic growth by the Government of Kenya (GoK) was an important milestone. Discussions on consolidation of efforts toward developing Kenya into an aviation hub in Africa and the world are in progress and to this end, the airline and other aviation sector players are working with the Government of Kenya through the Ministry of Transport to ensure that all the preliminary actions to actualise the aviation sector reforms are met.

Opening Africa for Trade

The Agreement establishing the African Continental Free Trade Agreement (AfCFTA) came into force on 30 May 2019. The operational phase of the AfCFTA was launched during the 12th Extraordinary Session of the Assembly of the African Union in Niamey, Niger on 7 July 2019. This is a significant initiative that will boost air passenger and freight in Africa by unlocking what is arguably the world's largest free trade area, a 1.2 billion population market. It is expected that AfCFTA will boost intra-Africa trade through the elimination of import duties and non-tariff barriers, and the African Union (AU) Free Movement Protocol to ease visa restrictions that African countries impose on African visitors. To date, 30 countries have both signed and approved ratification of the Agreement. Trading under the AfCFTA Agreement was due to commence on 1 July 2020 but was postponed as a result of the COVID-19 global pandemic. As we welcome the AfCFTA we are firm in our stand that the necessary regulation infrastructure be established before the African airspace is deregulated, for fair competition among players.

Kenya Airways hosted IATA's African Regional Aviation Forum, themed, "Aviation Connecting Enriching Africa" on 17th September 2019. We were honoured to play host to the 400 delegates from the aviation sector in Africa and the Middle East, among them Kenya's Transport Principal Secretary who represented the Cabinet Secretary as Chief Guest and IATA Africa & Middle East Regional Director. Analysis presented at the forum show extremely good prospects for the air transport market in Kenya which is projected to grow by 249% by 2037, resulting in an additional 11.8 million passenger journeys by 2037. This increased demand would support approximately US \$11.3 billion of GDP and almost 859,000 jobs.



Muhammad Ali Albakri Regional Vice President, Africa & Middle East – IATA with Kenya Airways staff

Kenya Airways Driving Growth of Tourism

Kenya's 2019 international visitor arrivals increased by 0.4 per cent to 2.035 million in 2019, maintaining visitor numbers over the 2 million mark achieved the previous year. This is a sign of continued confidence on Kenya as a world class tourist destination and we are proud of our contribution towards keeping Kenya on the world tourism map through providing the connections that support our tourism product.



CHAIRMAN'S STATEMENT



KQ Aircraft at the JKIA

Going Forward

The global economic and geopolitical context is uncertain particularly because of the current crisis occasioned by the Covid-19 pandemic. As a result of this crisis, the Airline suspended most of its operation from 25th March 2020. The crisis has significantly affected economies around the world, particularly the aviation sector. We estimate that it will take at least a year to gain the confidence of the travellers and start recovering the travel demand. We however must look at the bright side of this crisis and the opportunity it presents us to recalibrate and reset our business in order to adopt measures that will future proof our Airline.

The Board's continued focus will be on steering the organization towards financial health. The airline remains a strategic national asset, contributing to Kenya and Africa's economic growth through providing the air travel connections that supports trade and commerce throughout the continent.

The National Aviation Sector Management Bill 2020 that is to be tabled in parliament will kick off the much-needed reforms in Kenya's aviation sector. The enhanced collaboration and cooperation between sector players will position the airline more favourably in our hub, ensuring our competitiveness in the region and across the continent.

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.

Mr. Michael Joseph
Chairman

TAARIFA YA MWENYE KITI

Maelezo Jumla ya Kiuchumi

Katika mwaka wa 2019, ukuaji wa Pato halisi la Taifa (GDP) la Dunia ulipungua kwa pointi 2.9% ikilinganishwa na ukuaji wa 3.5% mnamo 2018, ukuaji wa polepole zaidi tangu kilele cha tatizo la kifedha duniani la 2007/2008. Biashara ya kimataifa pia ilipungua, huku viwango vya ukuaji vikipungua hadi asilimia 1.2 ikilinganishwa na asilimia 3.7 mnamo 2018. Hali hii ilitokana na mvutano wa kibiashara kati ya Uchina na USA na EU na Uingereza mtawaliwa, kushuka kwa biashara na uwekezaji wa kimataifa na kushuka kwa uzalishaji wa wafanyakazi. Ukuaji wa Afrika kusini mwa Jangwa la Sahara ulipungua kidogo hadi 3.1% kutoka 3.3% mnamo 2018 ulipochochewa na uzalishaji wa kilimo ulioongezeka kutokana na hali ya hewa nzuri na uwekezaji mkubwa wa miundo msingi.

Benki ya Maendeleo ya Afrika (AfDB) katika chapisho lake la Africa Economic Outlook 2020 inaripoti kuwa Pato la Taifa la kweli la Kenya lilikuwa kwa 5.4% katika mwaka wa 2019, likiwa limepungua kutoka 6.3% iliyopatikana mnamo 2018 kutokana na punguzo katika matumizi ya Serikali na hali mbaya ya hali ya hewa nchini ambayo ilivuruga uzalishaji wa kilimo. Kiwango cha ubadilishaji kilibaki thabiti kwa sababu ya kubanwa kwa nakisi ya biasharanje ikilinganishwa na maduhuli, kutoka 5.0% ya Pato la Taifa (GDP) katika mwaka 2018 hadi 4.9% katika mwaka wa 2019 kutokana na uhamishaji pesa ulioongezeka kutoka kwa wenyeji wanaoishi nchi za nje.

Akiba ya fedha za kigeni iliongezeka kutoka Dola za Marekani bilioni 9 za katika mwaka wa 2018 hadi Dola bilioni 9.4 mwishoni mwa Agosti 2019. Nakisi ya fedha inakadiriwa kuwa 7.5% ya Pato la Taifa (GDP) katika mwaka wa 2019, ikiteremka kutoka 8.8% mnamo 2018 kutokana na ujumuishaji wa fedha na matumizi sahihi zaidi ya rasilimali za ndani ya nchi yanayoendelea.

Utendaji wa Kifedha

Kwa mtazamo wa kiutendaji, mwaka wa 2019 iliashuhudia tukio muhimu katika ukuaji wa mtandao wetu tuliposherehekea maadhimisho ya kwanza ya uzinduzi wa njia zetu zenye matumaini sana, New York, na uzinduzi wa huduma kwenda Roma na Geneva. Njia hizi zinaendelea kuwa uwekezaji wa kimkakati. Lengo letu la kuimarisha nyayo zetu za Kiafrika bado lipo katika mipango yetu. Hii pia inaambatana na dhamira yetu ya kimkakati ya kuchangia maendeleo endelevu ya Afrika.

Tuliendelea kuzingatia mpango wa kulibadilisha shirika ili lilete faida. Baadhi ya hatua zilizochukuliwa ili kuhakikisha kwamba kuna uendeleu wa biashara ni pamoja na kuzingatia miradi ya kupunguza gharama, mipango ya kuongeza mapato, upanuzi wa Mtandao, kuboresha tajriba ya wateja wetu na mabadiliko katika uongozi wa ngazi za juu. Hili lilisababisha mapato ya KQ kukua kwa kiwango kikubwa, yakipigwa jeki na mapato kutoka kwa abiria, mizigo na huduma nyingine ndogo. Wakati huo huo, tulifanikiwa kuweka gharama zetu za uendeshaji katika viwango vinavyoweza kudhibitiwa.

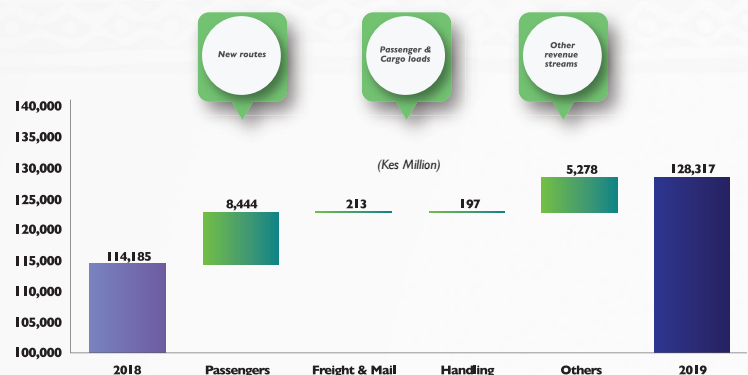
Licha ya hayo yaliyotajwa hapo juu Shirika lilipata hasara kamili ya Kshs milioni 12,985 ikilinganishwa na Kshs milioni 7,558 zilizoripotiwa katika mwaka wa 2018. Mambo mengine yaliyochangia hasara hii ni pamoja na kuongezeka kwa gharama za uendeshaji zinazohusiana na ongezeko la 15% ya idadi ya ndege zilizotumika ili kuongeza muunganisho kati ya jozi za miji, uwekezaji katika njia mpya na kuanza kutumiwa kwa Kiwango cha 16 cha Kuripoti Fedha Kimataifa (IFRS 16).

Kiwango cha mkataba mpya wa uhasibu cha IFRS, kilichotekelezwa kuanzia tarehe 1 Januari 2019 kwa msingi uliorekebisha unaorejelea mambo ya awali kinahitaji mikataba ya ukodishaji ambayo hapo awali haikuwa kwenye mizania itambuliwe kama mali ya shirika katika mizania kwa kubainisha thamani ya haki ya matumizi. Vivyo hivyo ukodishaji wa kupanga ambao ulipiwa hapo awali unatambuliwa kwenye karatasi ya mizania kama madeni kwa kukadiria thamani ya malipo haya katika kipindi chote cha muda wa ukodishaji. Athari za kutumiwa kwa kiwango hiki kipya cha uhasibu zimepitwa kwa kina katika taarifa za kifedha za kila mwaka.

Ingawa mabadiliko ya kimsingi katika uongozi yalifanyika mwishoni mwa mwaka wa 2019, yaani kuondoka kwa Mkurugenzi Msimamizi wa Shirika na Afisa Mtendaji Mkuu, Bwana Sebastian Mikosz, uboreshaji wa hali ya kifedha ya KQ umebaki kuwa lengo kuu. Tunamshukuru Bwana Sebastian kwa kuliongoza shirika hili la ndege kuvuka misukosuko na kuhakikisha kuwa shirika liliendelea kutekeleza mkakati wake. Tunamtakia heri katika shughuli zake za siku zijazo.

Bodi na uongozi wangependa kuwahakikishia wadau wetu kwamba mpito huo umekuwa laini na usio na matatizo kutokana na uteuzi wa Bwana Allan Kilavuka kama Mkurugenzi Msimamizi wa Shirika na Mkurugenzi Mkuu Mtendaji. Allan alikuwa Afisa Mkuu Mtendaji na Mkurugenzi Mtendaji wa Jambojet Ltd, kampuni ndogo inayomilikiwa kikamilifu na Shirika la Ndege la Kenya (plc). Amekuja katika Shirika la Ndege la Kenya akiwa na tajriba ya zaidi ya miaka 23 katika uongozi na usimamizi, na maarifa na uzoefu mwingi katika mazingira ya kibiashara ya Afrika. Bodi ina uhakika kwamba Allan atatoa uongozi unaofaa kuiongoza Kampuni katika hatua inayofuata ya ukuaji wake na kuhakikisha kwamba Shirika la Ndege la Kenya linatekeleza jukumu muhimu katika mabadiliko ya sekta ya Anga nchini.

Total revenues improved



TAARIFA YA MWENYE KITI



Usaidizi wa Serikali

Mwaka wa 2019 ulikuwa muhimu sana kwa Shirika la Ndege la Kenya kwani Bunge la Kitaifa liliwasilisha ombi kwa baraza la mawaziri la Kenya la kutaifisha shirika hilo la ndege kufuatia Pendekezo la Uwekezaji wa Kibinafsi (PIIP) la Uwanja wa Ndege wa Kimataifa wa Jomo Kenyatta ambalo halikufanikiwa. Utambuzi wa vyombo vya anga kama kitengo cha kimkakati ambacho kinachangia ukuaji wa uchumi wa nchi kupitia Serikali ya Kenya (GoK) ilikuwa hatua muhimu. Majadiliano kuhusu uimarishaji wa juhudi za kuikuzi Kenya kuwa kitovu cha vyombo vya angani barani Afrika na kote ulimwenguni yanaendelea na kuhusu hilo shirika hili la ndege na wabia wengine wa sekta ya vyombo vya angani wanafanya kazi na serikali ya Kenya kupitia Wizara ya Uchukuzi ili kuhakikisha kwamba hatua zote za awali za kuafikia mabadiliko katika sekta ya vyombo vya angani zinatimizwa.

Kuifungua Afrika kwa Biashara

Makubaliano yaliyoanzisha Mapatano ya Biashara Huru ya Bara la Afrika (AfCFTA) yalianza kutumika tarehe 30 Mei, 2019. Awamu ya kiutendaji ya AfCFTA ilizinduliwa wakati wa Kikao Maalum cha 12 cha Bunge la Umoja wa Afrika huko Niamey, Niger tarehe 7 Julai 2019. Huu ni mpango muhimu ambao utaongeza abiria wa ndege na mizigo barani Afrika kwa kufungua kile ambacho ni eneo kubwa la biashara huru duniani, soko la idadi ya watu bilioni 1.2. Inatarajiwa kwamba AfCFTA itakuza biashara ya ndani ya Afrika kwa kuondoa ushuru wa forodha na vizuizi visivyo vya ushuru, na Itifaki ya Mwendu Huru wa Umoja wa Afrika (AU) ili kupunguza vikwazo vya visa ambavyo nchi za Afrika zinawekea wageni waafrika. Kufikia sasa, nchi 30 zimetia sahihi na kuthibitisha uidhinishaji wa Mkataba huo. Ufanya biashara chini ya Mkataba wa AfCFTA ulitakiwa kuanza tarehe 1 Julai 2020 lakini uliahirishwa kwa sababu ya maradhi ya COVID-19 yaliyoenea ulimwenguni.

Tunapokaribisha AfCFTA tunashikilia msimamo wetu kwamba miundo msingi muhimu ya kanuni inapaswa kuanzishwa kabla anga hewa ya Afrika kuwekwa huru, kwa ushindani sawa baina ya wahusika.

Shirika la Ndege la Kenya lilikuwa mwenyeji wa Mkutano wa Vyombo vya Angani vya Kikanda vya Afrika vya IATA wenye mada “Vyombo vya Angani Vinaunganisha na Kustawisha Afrika” tarehe 17 Septemba 2019 Tulikuwa na heshima ya kuwa mwenyeji wa wajumbe 400 kutoka sekta ya vyombo vya angani barani Afrika na Mashariki ya Kati, kati yao akiwemo Katibu Mkuu wa Wizara ya Usafiri ambaye alimwakilisha Waziri kama Mgeni Mkuu na Mkurugenzi wa IATA Afrika na Kanda ya Mashariki ya Kati. Uchambuzi uliowasilishwa katika mkutano huo unaonyesha matarajio mazuri sana kwa soko la usafirishaji wa angani nchini Kenya ambao unakadiriwa kukua kwa 249% ifikapo 2037, na kusababisha safari za ziada za abiria milioni 11.8 ifikapo 2037. Ongezeko hili la mahitaji litasimamia takriban Dola za Marekani bilioni 11.3 za Pato la Taifa (GDP) na karibu ajira 859,000.



Muhammad Ali Albakri Regional Vice President, Africa & Middle East – IATA with Kenya Airways staff

Jinsi Shirika la Ndege la Kenya Linavyosaidia Ukuaji wa Utalii

Idadi ya wageni wa kimataifa waliowasili nchini Kenya mwaka 2019 iliongezeka kwa asilimia 0.4 hadi milioni 2.035, ikidumisha idadi ya wageni iliyopita kiwango cha milioni 2 kilichofikiwa mwaka uliopita. Hii ni ishara ya imani ya siku zote kuhusu Kenya kama mahali pa kiwango cha kimataifa cha utalii na tunajivunia mchango wetu katika kuiweka Kenya kwenye ramani ya utalii ya ulimwengu kupitia kutoa viunganisho vinavyounga mkono bidhaa zetu za utalii.



TAARIFA YA MWENYE KITI



KQ Aircraft at the JKIA

Tunayotarajia

Muktadha wa kiuchumi na kijiografia ulimwenguni hautabiriki hasa kwa sababu ya shida ya sasa inayotokana na maradhi enezi ya Covid-19. Kutokana na shida hii, Shirika la ndege lilisimamisha shughuli zake nyingi tangu tarehe 25 Machi 2020. Shida hii imeathiri sana uchumi kote ulimwenguni, hasa sekta ya vyombo vya angani. Tunakadiria kuwa itachukua angalau mwaka mmoja kupata imani ya wasafiri na kuanza kurejesha mahitaji ya usafiri. Hata hivyo lazima tuangazie upande wenye matumaini wa tatizo hili na fursa ambayo linatupatia kurekebisha na kupanga upya biashara yetu ili kuchukua hatua ambazo zitalifanya shirika letu la ndege kuwa thabiti siku za usoni.

Msisitizo unaoendelea wa Bodi hii utakuwa ni kuliongoza shirika kuwa imara kifedha. Shirika hili la ndege linabaki kuwa mali ya kimkakati ya kitaifa, likichangia ukuaji wa uchumi wa Kenya na bara la Afrika kwa kutoa muunganisho wa usafiri wa angani ambao unasaidia biashara kote katika bara hili.

Rasimu ya Usimamizi wa Sekta ya Vymbo vya Anga ya Kitaifa ambayo itawasilishwa bungeni itanzisha mabadiliko yanayohitajika sana katika sekta ya vyombo vya angani nchini

Kenya. Ushirikiano ulioimarishwa kati ya wadau wa sekta hii utalipa shirika hili la ndege nafasi nzuri katika kitovu chetu, ukihakikisha ushindani wetu katika ukanda huu na kote katika bara la Afrika.

Kwa niaba ya Bodi ya Wakurugenzi, ninachukua fursa hii kutoa shukrani zangu za dhati kwa wateja wetu, Serikali ya Kenya, wanahisa, Uongozi, wafanyakazi, wauzaji, na wadau wengine kwa msaada wao wa kila wakati.

Mr. Michael Joseph
Mwenye Kiti

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Allan Killavuka

Group Managing Director and CEO

CHIEF EXECUTIVE OFFICER'S STATEMENT

2019 was a commendable year for Kenya Airways, a year where the airline experienced growth in both passenger numbers and revenues. As part of our growth strategy, we continued our network expansion by launching three new routes and increasing frequencies to different markets in Africa.

In appreciation of our service offering and commitment to deliver world class service, Kenya Airways was once again recognised as Africa's Leading Airline in Business Class (for the 7th time, consecutively), and Africa's Leading Airline in Economy Class (for the 3rd time) by the World Travel Award. In addition, the Nairobi Securities Exchange in partnership with Equileap ranked us 5th among the listed companies in Kenya that promote gender balance in their organisations. Our gratitude to all our customers for this accolade and to staff across our customer touch points for staying true to our values.

The year was however not without its fair share of operational challenges. I am however pleased to report that the company's resilience was once again demonstrated, thanks to the airline's business agility and commitment to improving our service to our customers. We have laid our commitment to running a sustainable business, with continued focus on improving our customers experience, reducing costs & curbing wastage, strengthening operational efficiency, stabilizing the organisation – particularly as it concerns our people and structure, profitable growth, and engagement with all our stakeholders.

PASSENGER GROWTH

A vibrant tourism sector buoyed by a stable political environment in 2019 saw growth in traffic to and from various key markets across the network to Kenya. Domestic traffic flows (Nairobi-Mombasa and Nairobi-Kisumu routes) continued a growth trajectory, registering a growth in traffic of 7%, contributing to a growth in total passenger numbers to a record 5.1 million, an increase of 6.7% from the previous year. Overall, the airline achieved a cabin factor of 77 per cent.

While we had hoped for even better performance in 2020, the unprecedented impact of the COVID -19 pandemic on aviation and the global economy poses the biggest challenge yet on the future of operations.

REVENUE GROWTH

Passenger revenue

Passenger revenues during the year ended December 2019 improved by 8.9% to Kshs 103.6 Billion. Despite the increase in competition and overcapacity on most traffic flows, there was significant improvement in the airline's average fare mainly driven by growth in higher yielding traffic to and from Kenya, increase in premium business class traffic and commercial efficiencies.

Cargo Revenue

During the 12 months period ended December 2019, Cargo volumes grew by 6.3% from 64,238 tonnes in 2018 to 68,264 tonnes in 2019 and a revenue growth of Kshs 0.2 Billion compared to the prior year. This was attributed to a better product mix that saw growth in the premium valuable cargo segment, general cargo and courier services.



Other Revenue

The airline continued to grow its ancillary footprint by introducing an enhanced number of extra seat proposition options which saw the launch of the Economy Comfort class on all its wide-body aircraft. The airline also continued to significantly grow its distribution scope to all relevant direct booking channels.

NETWORK EXPANSION

During the year, we launched 3 additional routes; We introduced operations to Geneva and restarted flights to Rome, with the circuit operated on the Boeing 787-800 Dreamliner. We also introduced a service to the coastal town of Malindi to provide optimal onward connection for passengers travelling on the Rome - Geneva flight. In the region we increased capacity to Bujumbura, Burundi operated in partnership with Jambojet.

We also deployed additional capacity on some routes to capitalise on increased demand by introducing the Boeing 787-800 Dreamliner to Johannesburg and Kinshasa, and upgraded the Mauritius, Livingstone, Victoria Falls and Cape town routes from the Embraer 190 to the Boeing 737-800.

Partnerships

The airline also entered into partnerships with Alitalia, Oman Air and British Access rail. These partnerships increased seamless connectivity for our passengers to other destinations in Asia, Europe, the Far East and South America.

As part of restructuring of the Africa network we suspended operations to Libreville and Cotonou in September opting to serve our customers through existing partnerships. We will continue to review our network to ensure we focus on profitable routes or those that have an overall positive contribution to the network especially in the wake of the COVID-19 pandemic whose impact will affect the global economy.

CHIEF EXECUTIVE OFFICER'S STATEMENT

New York First Anniversary

The launch of our service to New York in October 2018 was a significant milestone for the airline. One year later, the route has continued to perform well. As at 31st December 2019, we had carried 104,000 passengers (Jan-Dec 2019), connected 34 African countries to North America and maintained an average a cabin factor of 76%. We have so far signed 15 codeshares agreements with Delta Airlines to enable our customers have better onward connection to other points in North America.



TRAINING AND CAPACITY DEVELOPMENT

Kenya Airways and Jambojet signed an agreement with Flight Safety International (FSI) for the provision of a De Havilland Dash 8 400 (DH8 400) simulator to support the training of cockpit crew and maintenance teams. The simulator will improve the availability and quality of training for Jambojet pilots and will also be a training centre for other DH8 400 operators in Africa. This is a step forward in building the capacity of our training facility and programmes at the Pride Centre in addition to cementing our focus on safety and quality.

FLEET DEVELOPMENT

The year saw the return of the subleased B787-8 aircraft from Oman Air to support our route expansion into the European market. We also took delivery of two Embraer 190 aircraft on short term lease to replace the two E190's that were damaged during maintenance. The leases of the two B737-700s were also extended for three years to maintain the fleet numbers required in the network.

The three B777-300ER subleases to Turkish Airlines were extended for a further three years to 2023 as part of the ongoing strategic fleet rationalisation. The B787-8 cabins were modified to include an economy comfort section as an ancillary revenue generator.

The Company embarked on ambitious but necessary aircraft re-financing projects for both the Tsavo and Samburu facilities. This was in order to restructure the company's debt, whose biggest component is aircraft financing represented by these two facilities, thus generating much needed cash from the value of the aircraft assets. Neither transaction was concluded as the respective parties could not agree on the final terms. The Company continues to meet the repayment of these loan facilities.

Jambojet took delivery of two De Havilland Canada Dash 8400 aircraft as the airline gears up for regional growth. One of the aircraft was used as an ACMI aircraft for KQ operations to Burundi, Malawi (during airport runway repair) and to Malindi in support of the restart of Rome flights in June 2019.

FLEET IN-SERVICE		
KQ Fleet	31 Dec 2018	31 Dec 2019
B787-8	8	9
B777-300ER	-	-
B737-800	8	8
B737-700	2	2
B737-300	-	-
B737-300F	2	2
E190	15	15
Sub-Total KQ Fleet	35	36
Jambojet Fleet		
DHC-Q400	5	6
TOTAL Fleet	40	42

FLEET MOVEMENT IN 2019	
Boeing 777-300ER	All three aircraft subleases with Turkish Airlines extended by an additional 3 years to 2023.
Boeing 737-300	Aircraft is not airworthy and will be deregistered and used for training
Embraer 190	The two extensively damaged aircraft were replaced by 2 used E190s on 3-year leases.

CHIEF EXECUTIVE OFFICER'S STATEMENT

The Company will continue to pursue avenues to reduce the debt levels from aircraft financing. Over the next five years, 11 passenger aircraft will exit the fleet as their leases expire. The Company has begun exploring the market for possible replacements to the retiring fleet, with a focus on reduced ownership and operational costs.

The focus on an improved and consistent cabin product will continue with the completion of the B737-700's cabin refurbishment project in Q2 2020 and establishment of a mid-life refurbishment programme for the rest of the fleet by the end of 2020.

COSTS

Operating costs grew by 12.6 % driven by an increase in capacity deployed, and fleet ownership costs attributed to the return of two Boeing 787 aircraft that had been subleased to Oman Air. The Airline benefitted from the reduced global fuel prices and maintained low fuel costs through its hedging program. Without the fuel hedge, the impact on the company's cash position would have been severe.

MARKET SHARE

KQ's market share continued to be under intense pressure from foreign state backed carriers who grew their capacities in our key markets to capitalise on the opportunities to grow their business. Ethiopian Airlines capacity grew by about 14% while RwandAir's capacity was up 20%, with Emirates and Qatar growing marginally but continuing to erode our market share. KQ's competitiveness continues to be impeded by high direct operating costs. due to this we are focusing on systematic improvement in our operational efficiency and optimising our cost structure. This in turn will lead to improved customer offering and better utilisation of our assets.

OUR PEOPLE

We made significant strides on our People Agenda in 2019 particularly in the areas of talent, organisational development & learning, employee experience, health, diversity, and industrial relations. The KQ Talent brand is strong and we were well represented in various fora as a preferred employer and with a strong employee talent development record, and equal opportunity employer as supported by the growing number of women in senior leadership roles in the company.

As at the end of the Financial Year 2019, Kenya Airways had a headcount total of 3,734 staff. We had 223 joiners with at least 39% comprising of management staff, a clear indication of a business in transformation mode and deliberate infusion of new skill sets. We had a talent retention rate of 94%, an improvement from the previous year of 92% indicating that our talent profile is stable.

In January 2020, we also saw movement of staff from the outsourced labour providers into Kenya Airways by insourcing 835 staff. This is geared at improving employee engagement, motivation and delivering an excellent experience to our customers.

Recognition & Awards



Network Rationalisation



Best Talent Acquisition team in Sub-Saharan Africa in the LinkedIn Africa Talent Awards 2019.



Most admired aviation brand Kenya



The Airline of Choice - Cargo Services - Aviation Business Excellence Awards



Ranked 5th amongst listed companies in Kenya that ensure gender balance by NSE in partnership with Equilib.



KQ ranked one of the top 10 companies to work for in Kenya in 2019

IN CONCLUSION

The impact of the COVID-19 pandemic on the global economy, and its effect on aviation is unprecedented.

Airlines, travel companies and the tourism sector are among the most affected businesses, with an estimated 25 million aviation jobs and 100 million travel and tourism jobs at risk.

Our focus in 2020 will be on recalibrating the organisation to create a model that is agile, responsive and relevant to the needs of the changing market and our diverse customers.

We will undertake a rationalisation of our network to respond to the suppressed demand. Other initiatives include assuring our staff and customers of safe travel though adopting to new health requirements and strengthening of our cargo and maintenance repair and overhaul (MRO) business lines. I am confident that with your support, we can do it and we will do it. Together, we can.

Allan Killavuka
Group Managing Director and CEO

TAARIFA YA AFISA MTENDAJI MKUU

Mwaka wa 2019 ulikuwa mwaka wenye mafanikio kwa Shirika la Ndege la Kenya (Kenya Airways). Ulikuwa mwaka ambao shirika hili la ndege liliendelea kuongeza idadi ya abiria na mapato ikilinganishwa na mwaka uliopita. Tuliendelea kupanua mtandao wetu kama sehemu ya mkakati wetu wa ukuaji kwa kuzindua njia tatu mpya, ambazo ni pamoja na Roma, Geneva na Malindi na kuongeza idadi ya safari na uwezo katika masoko tofauti barani Afrika.

Kwa kupendezwa na utoaji wetu wa huduma na tunavyojitolea kupeana huduma za kiwango cha kimataifa, Shirika la Ndege la Kenya Airways lilitambuliwa tena kama Shirika la Ndege Linaloongoza Barani Afrika katika Daraja la Biashara (kwa mara ya 7, mfululizo), na Shirika la Ndege Linaloongoza Barani Afrika kwenye Daraja la Uchumi (kwa mara ya tatu) na Tuzo la Safari Ulimwenguni. Pia, Nairobi Securities Exchange wakishirikiana na Equileap walituweka katika nafasi ya 5 kati ya kampuni zilizoarodheshwa kwenye soko la hisa nchini Kenya ambazo zinakuza usawa wa kijinsia kazini. Tunawashukuru sana wateja wetu wote kwa tuzo hizi na kwa wote tunaoshihikiana nao katika vituo mbalimbali ambapo wateja wetu wanatufikia kwa kuzingatia maadili yetu.

Hata hivyo, mwaka huo haukukosa changamoto za kiutendaji. Hata hivyo, nina furaha kuripoti kwamba, kutokana na bidii ya kibiashara ya shirika hili la ndege na kujitolea kikamilifu kwa wafanyakazi kuboresha viwango vya huduma, uthabiti wa kampuni hii ulidhihirika tena mwaka mzima. Shirika la Ndege la Kenya bado limejitolea kuendesha biashara endelevu, likiendelea kuzingatia uboreshaji wa tajriba ya wateja wetu, kupunguza gharama na kuzuia uharibifu, kuimarisha ufanisi wetu wa kiutendaji, kuleta utulivu katika shirika - hasa kwa kuwa inahusu watu na muundo wetu, ukuaji wa faida, na ushirika na wadau wetu wote.

ONGEZECO LA ABIRIA

Sekta ya utalii iliyonawiri kutokana na mazingira tulivu ya kisiasa katika mwaka wa 2019 ilishuhudia ongezeko la usafiri kwenda na kutoka masoko makuu mbalimbali kote katika mtandao wa njia zetu kuja Kenya. Mtiririko wa trafiki wa ndani ya nchi (Njia za Nairobi-Mombasa na Nairobi-Kisumu) ulipata 7% ya ukuaji wa trafiki na kuchangia idadi kubwa zaidi ya abiria milioni 5.1 waliosafirishwa kwa ndege, ongezeko la asilimia 6.7 kutoka mwaka uliopita. Kwa jumla, shirika hili la ndege lilifanikiwa kujaza abiria kwa jumla ya asilimia 77.

Ingawa tulikuwa tumetarajia utendaji bora zaidi katika mwaka wa 2020, athari ambayo haijawahi kutokea ya maradhi enezi ya COVID-19 kwa sekta ya anga na uchumi wa dunia inaleta changamoto kubwa sana kwa operesheni za siku zijazo.

ONGEZECO LA MAPATO

Mapato yanayotokana na abiria
Mapato yanayotokana na abiria katika kipindi kilichomalizika Desemba 2019 yaliimarika kwa 8.9% hadi Kshs bilioni 103.6. Licha ya kuongezeka kwa ushindani na kuwepo kwa uwezo zaidi ya inavyohitajika katika njia nyingi za usafiri, kulikuwepo na maboresho makubwa katika nauli wastani ya ndege ambayo hasa ilisababishwa na ukuaji wa safari zenye mapato makubwa kuja na kutoka Kenya, kuongezeka kwa wasafiri wa kiwango cha biashara na ufanisi wa kibiashara.

Mapato kutoka kwa Mizigo

Katika kipindi cha miezi 12 kilichomalizika Desemba 2019, kiwango cha Mizigo kilikua kwa 6.3% kutoka tani 64,238 mnamo 2018 hadi tani 68,264 mnamo 2019 na ongezeko la mapato la Kshs bilioni 0.2. Hii ilitokana na mchanganyiko bora wa bidhaa ambayo ilishuhudia ukuaji katika sehemu muhimu ya mizigo, mizigo ya jumla na huduma za barua na vifurushi.



Mapato Mengine

Shirika hili la ndege liliendelea kukuza shughuli zake kwa kuanzisha pendekezo la uchaguzi wa idadi ya viti vya ziada vilivyoboreshwa ambavyo viliishia katika uzinduzi wa Daraja la Starehe la Uchumi kwenye ndege zake zote pana. Shirika hili la ndege pia liliendelea kukuza kwa kiasi kikubwa mawanda ya kujitangaza kwa njia zote husika za kuhifadhi nafasi ya usafiri moja kwa moja.

UPANUZI WA MTANDAO

Katika mwaka huo, tulizindua njia 3 zaidi; tulianzisha shughuli za kwenda Geneva na kuanza upya safari za ndege kwenda Roma na safari hizo ziliendeshwa na Boeing 787-800 Dreamliner. Pia tulianzisha huduma ya kwenda kwenye mji wa pwani wa Malindi ili kutoa muunganisho bora wa mbele kwa abiria wanaosafiri kwenye ndege ya Roma - Geneva. Katika ukanda huu tuliongeza uwezo wa safari za Bujumbura, Burundi kwa ushirikiano na Jambojet.

Pia, tuliweka uwezo wa ziada kwenye njia zingine ili kufaidi kutokana na ongezeko la mahitaji kwa kuanzisha safari za Boeing 787-800 Dreamliner hadi Johannesburg na Kinshasa na tukaboresha njia za Mauritius, Livingstone, Victoria Falls na Cape Town kutoka Embraer 190 hadi Boeing 737-800.

Ushirikiano

Shirika hili la ndege pia liliingia katika ushirikiano na Alitalia, Oman Air na reli ya Uingereza. Ushirikiano huu uliongeza muunganisho ulionyooka wa abiria wetu kwenda sehemu zingine huko Asia, Ulaya, Mashariki ya Mbali na Amerika Kusini.

Kama sehemu ya kurekebisha mtandao wa Afrika tulisimamisha safari za kwenda Libreville na Cotonou mnamo Septemba tukaamua kuwatumikia wateja wetu kupitia kwa ushirikiano uliopo. Tutaendelea kukagua mipango ya mtandao wetu ili kuhakikisha kwamba tunalenga njia zenye faida au zile ambazo zina mchango chanya kwa mtandao wetu hasa kutokana na maradhi enezi ya COVID-19 ambayo athari yake kwa uchumi wa dunia haijawahi kuonekana.

TAARIFA YA AFISA MTENDAJI MKUU

Maadhimisho ya Kwanza ya Safari za New York

Uzinduzi wa huduma yetu kwenda New York mnamo Oktoba 2018 ulikuwa hatua muhimu kwa shiriki hili la ndege. Mwaka mmoja baadaye, njia hii imeendelea kuwa na ufanisi. Kufikia tarehe 31 Desemba 2019, tulikuwa tumebeba abiria 104,000 (Januari-Desemba 2019), tumeunganisha nchi 34 za Kiafrika na Marekani Kaskazini na tukaweza kujaza abiria kwa wastani wa asilimia 76. Hivi sasa tumetia sahihi makubaliano 15 ya abiria kutumia ndege zetu kwa pamoja na Shirika la Ndege la Delta (Delta Airlines) ili kuwawezesha wateja wetu kuwa na muunganisho bora wa mbele hadi sehemu zingine huko Marekani Kaskazini.



MAFUNZO NA UKUZAJI UWEZO

Shirika la Ndege la Kenya Airways na Jambojet zimetia sahihi makubaliano na FlightSafety International (FSI) kwa utoaji wa simuleta ya De Havilland Dash 8400 (DH8 400) ili kusaidia katika mafunzo ya wafanyakazi wa chumba cha rubani na kikundi za matengenezo. Simuleta hii itaboresha upatikanaji na ubora wa mafunzo kwa marubani wa Jambojet na pia itakuwa kituo cha mafunzo kwa waendeshaji wengine wa DH8 400 barani Afrika. Hii ni hatua moja mbele katika kujenga uwezo wa kituo chetu cha mafunzo na programu katika Kituo cha Pride mbali na kuimarisha lengo letu la kuwasilisha usalama na ubora wa kiwango cha juu.

KUONGEZA IDADI YA NDEGE

Mwaka huu ulishuhudia kurejeshwa kwa ndege B787-8 iliyokuwa imekodishwa kutoka Shirika la Ndege la Oman (Oman Air) ili kusaidia upanuzi wa safari zetu hadi soko la Ulaya. Pia tulipokea ndege mbili za Embraer E-190 kwa ukodishaji wa muda mfupi ili kuchukua nafasi ya E190 mbili ambazo ziliharibika wakati wa matengenezo. Ukodishaji wa hizi B737-700 mbili pia uliongezwa kwa miaka mitatu ili kudumisha idadi ya ndege zinazohitajika katika mtandao.

Ukodishaji wa B777-300ER tatu kwa Shirika la Ndege la Uturuki (Turkish Airlines) uliongezwa kwa miaka mitatu zaidi hadi 2023 kama sehemu ya mkakati unaoendelea wa kupanga upya idadi ya ndege zinazohitajika. Vyumba vya B787-8 vilibadilishwa ili kuwa na sehemu ya kiuchumi yenye starehe kama kizalishaji cha mapato ya ziada.

Kampuni ilianzisha miradi miwili mikuu lakini inayostahiki ya kufadhili

upya ndege kwa ajili ya asasi za Tsavo na Samburu. Kusudi lake lilikuwa ni kupunguza deni la kampuni, ambayo sehemu yake kubwa ni kufadhili ununuzi wa ndege, huku wakati huo huo ikizalisha pesa nyingi zinazohitajika kutoka kwa thamani ya mali ya ndege. Hakuna shughuli iliyokamilishwa kwa kuwa pande husika hazikuweza kukubaliana kuhusu masharti ya mwisho.

Jambojet ilipokea ndege mbili za De Havilland Canada Dash 8400 huku shirika hili la ndege likijitayarisha kwa ukuaji wa kikanda. Moja ya ndege hizo ilitumika kama ndege ya ACMI kwa safari za KQ kwenda Burundi, Malawi (wakati wa ukarabati wa barabara za uwanja wa ndege) na Malindi ili kuunga mkono kuanza tena kwa safari za Roma mnamo Juni 2019.

NDEGE ZINAZOTUMIKA		
KQ Fleet	31 Dec 2018	31 Dec 2019
B787-8	8	9
B777-300ER	-	-
B737-800	8	8
B737-700	2	2
B737-300	-	-
B737-300F	2	2
E190	15	15
Jumla Ndogo ya Ndege za KQ	35	36
Ndege za Jambojet Fleet		
DHC-Q400	5	6
Jumla ya ndege	40	42

NDEGE ZILIZOONDOKA MWAKA WA 2019	
Boeing 777-300ER	Ukodishaji wa ndege zote tatu na Shirika la Ndege la Uturuki (Turkish Airlines) umeongezwa kwa miaka 3 zaidi hadi 2023.
Boeing 737-300	Ndege haifai kusafiri angani na itaondolewa usajili ili itumiwe kwa mafunzo
Embraer 190	Ndege hizo mbili zilizoharibiwa sana zilibadilishwa na E190 mbili zitakazotumika kwa ukodishaji wa miaka 3.

Kampuni itaendelea kutafuta njia za kupunguza viwango vya deni vinavyosababishwa na ufadhili wa ununuzi wa ndege. Katika miaka mitano ijayo, ndege 11 za abiria zitatoka kwenye orodha ya ndege zetu kwa kuwa muda wao wa ukodishwa utamalizika. Kampuni imeanza kuchunguza soko kwa uwezekano wa kubadilisha ndege ambazo muda wake wa kutumika umeisha, kwa kuzingatia umiliki ulioboreshwa na gharama za kuziendesha.

TAARIFA YA AFISA MTENDAJI MKUU

Umakini wa bidhaa iliyoboreshwa na vyumba vya ndege vilivyo thabiti utaendelea baada ya kukamilika kwa mradi wa kurekebisha vyumba vya B737-700 katika Q2 2020 na uanzishaji wa mpango wa urekebishaji wa ndege zifikapo katikati ya maisha yake kwa ndege zote ifikapo mwisho wa 2020.

GHARAMA

Gharama za uendeshaji biashara ziliongezeka kwa 12.6% zikisukumwa na ongezeko la idadi ya ndege zilizotumika, na gharama za umiliki wa ndege zilizotokana na kurudishwa kwa ndege mbili za Boeing 787 ambazo zilikuwa zimekodishwa na Shirika la Ndege la Oman (Oman Air). Shirika hili la ndege lilinufaika kutokana na bei ya mafuta iliyopunguzwa ulimwenguni na lilidumisha gharama ya chini ya mafuta kupitia programu yake ya kuchukua tahadhari ya hasara. Bila kuchukua tahadhari ya matumizi ya mafuta, athari kwenye nafasi ya pesa ya kampuni ingekuwa kali.

UMILIKI WA SOKO

Umiliki wa soko la KQ uliendelea kuwa chini ya shinikizo kubwa kutoka kwa mashirika ya ndege ya kigeni yanayofadhiliwa na mataifa yao ambayo yalikuza uwezo wao katika masoko yetu muhimu ili kutumia nafasi hizo kukuza biashara zao. Uwezo wa Shirika la ndege la Ethiopia ulikuwa kwa karibu 14% wakati uwezo wa RwandAir uliongezeka kwa 20%, huku Emirates na Qatar zikikua kwa kiasi kidogo lakini zikiendelea kupunguza umiliki wetu wa soko. Ushindani wa KQ unaendelea kuzuiliwa na gharama kubwa za moja kwa moja za oparesheni ambazo washindani wetu wengi hawana. Kutokana na haya tunaendelea kulenga uboreshaji wa kimfumo katika utendaji wetu na kuboresha mfumo wetu wa kigharama. Hatua hii itachangia katika kuboresha bidhaa tunazotoa kwa wateja na kuboresha matumizi ya rasilimali zetu kwa ufanisi zaidi.

WATU WETU

Tulipiga hatua muhimu katika Ajenda yetu ya Watu hasa katika maeneo ya vipaji, maendeleo ya shirika na ujifunzaji, tajriba ya wafanyakazi, afya, uanuwai, na uhusiano wa viwanda. Chapa ya Vipaji vya KQ ni thabiti na iliwakilishwa kwa uwazi zaidi katika vikao mbalimbali kama mwajiri thabiti mwenye rekodi thabiti ya uendelezaji wa vipawa vya wafanyakazi, na ajenda ya usawa wa kijinsia kwa kuongeza idadi ya wanawake katika uongozi wa ngazi ya juu na dhima katika kampuni.

Kufikia mwisho wa Mwaka wa Fedha 2019, Shirika la Ndege la Kenya lilikuwa na jumla ya wafanyakazi 3,734. Tulikuwa na watu 223 waliojiunga na shirika huku angalau 39% wakijumuisha wafanyakazi wa ngazi ya uongozi, ishara ya biashara iliyo katika hali ya mabadiliko na inayoingiza kwa makusudi seti mpya za ustadi. Tulikuwa na kiwango cha kuhifadhi vipawa cha 94%. Huu ni uboreshaji kutoka mwaka uliopita tulipokuwa na 92%, hali inayoonyesha kuwa wasifu wetu wa vipawa uko sawa.

Katika Mwezi wa Januari 2020, pia tuliona wafanyakazi kutoka kwa watoa huduma wa nje wakiajiri wafanyakazi 835 katika Shirika la Ndege la Kenya. Hatua hii inalenga kuboresha ushiriki wa wafanyakazi, motisha na kutoa tajriba bora kwa wateja wetu.

Recognition & Awards



Network Rationalisation



Best Talent Acquisition team in Sub-Saharan Africa in the LinkedIn Africa Talent Awards 2019.



Most admired aviation brand Kenya



The Airline of Choice - Cargo Services - Aviation Business Excellence Awards



Ranked 5th amongst listed companies in Kenya that ensure gender balance by NSE in partnership with Equilib.



KQ ranked one of the top 10 companies to work for in Kenya in 2019

KWA KUHITIMISHA

Athari za maradhi enezi ya COVID-19 kwa uchumi wa dunia, na athari zake kwa vyombo vya anga hazijawahi kutokea.

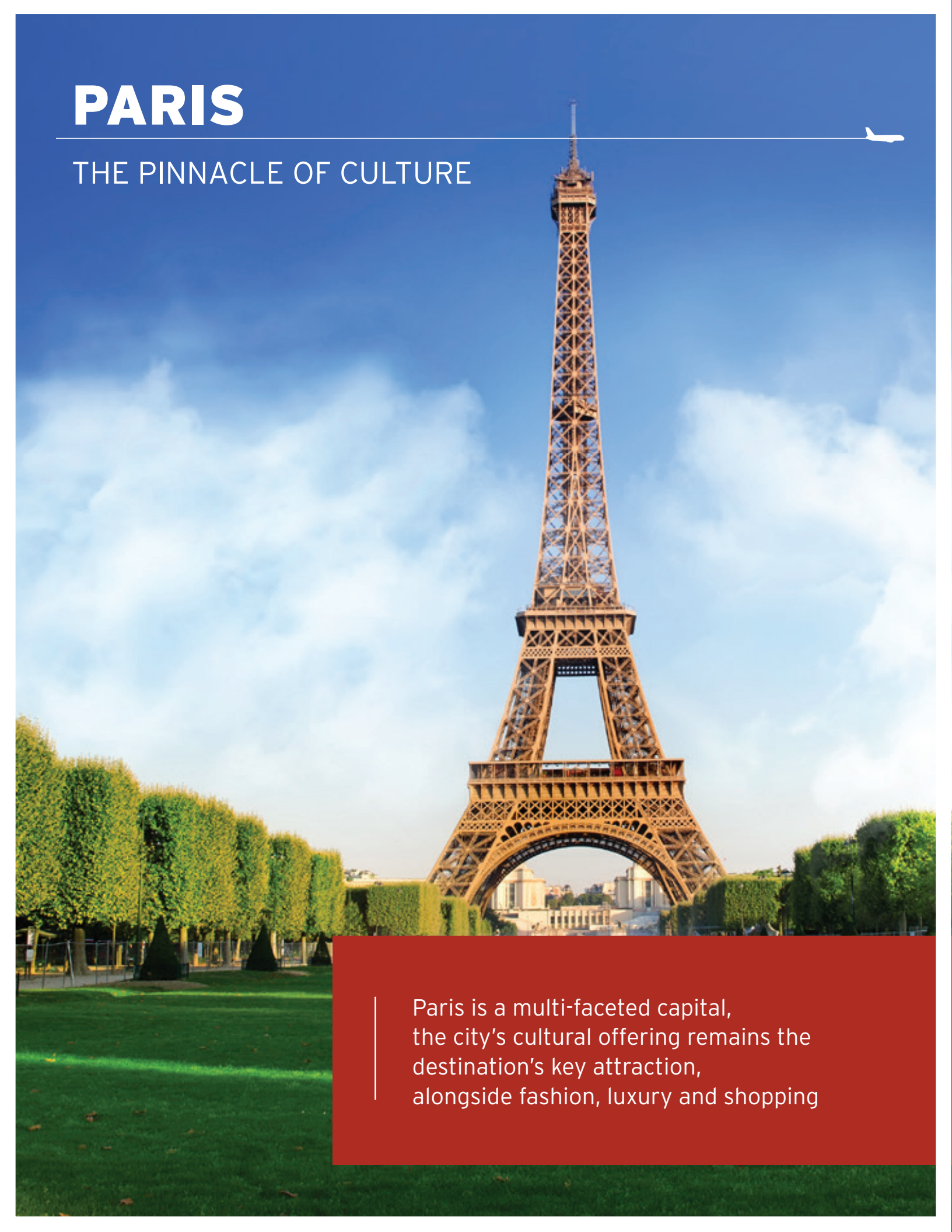
Mashirika ya ndege, kampuni za usafiri na sekta ya utalii ni kati ya biashara zilizoathiriwa zaidi, na inakadiriwa kuwa kazi milioni 25 zinazohusu vyombo vya angani na kazi milioni 100 zinazohusu usafiri na utalii ziko hatarini.

Lengo letu katika mwaka wa 2020 litakuwa ni kurekebisha shirika ili kuunda modeli ambayo ni nyepesi kubadilika, inayotimiza na inayofaa kwa mahitaji ya soko la sasa linalobadilika na wateja wetu tofauti. Tutapanga upya mtandao wetu ili kutimiza mahitaji yaliyokandamizwa. Juhudi nyingine ni pamoja na kuwahakikishia wafanyakazi na wateja wetu kuhusu usafiri ulio salama kwa kuzingatia mahitaji mapya ya kiafya na uimarishaji wa biashara yetu ya mizigo na ukarabati, matengenezo na uchunguzi wa kina (MRO) wa laini zetu za biashara. Nina hakika kwamba kwa msaada wako, tunaweza kufanikiwa na tutafanikiwa. Pamoja, twaweza.

Allan Killavuka
Group Managing Director and CEO

PARIS

THE PINNACLE OF CULTURE

A full-page photograph of the Eiffel Tower in Paris, France. The tower is the central focus, shown from a low angle looking up. The sky is a clear, vibrant blue with scattered white clouds. In the foreground, there is a lush green lawn and a row of tall, manicured trees. The tower's intricate iron lattice structure is clearly visible. A red rectangular box is overlaid on the bottom right of the image, containing white text.

Paris is a multi-faceted capital, the city's cultural offering remains the destination's key attraction, alongside fashion, luxury and shopping

NAIROBI

MAGICAL KENYA AWAITS



The only city in the world with a national park that boasts an enticing culinary journey, smart innovations, and a great nightlife.

STATEMENT OF CORPORATE GOVERNANCE

Corporate Governance

The Board of Kenya Airways Plc understands that Corporate Governance is critical for the success of the Company and the achievement of the Company's mission and vision. In this regard, the Board adopted Corporate Governance practices that are in line with the principles and standards set out under the Code of Corporate Governance for Issuers of Securities in Kenya ("the Code").

The Board recognizes that it has overall responsibility for the governance of the Group and is committed to providing strategic direction, the necessary support and advice to management and providing oversight. The Board is committed to high standards of Corporate Governance and ethical behaviour characterized by effective and responsible leadership, accountability, fairness, probity and integrity, transparency, efficiency and effectiveness. The Board is further committed to recognising the legitimate interests of various stakeholders including shareholders, staff, customers, the Government and the public and is committed to ensuring that the Group as a whole has embraced good Corporate Governance in its structure, policies, practices and operations.

The Board recognizes that the long term sustainability of the Group heavily depends on it. In this regard, the Board has taken time to formulate appropriate strategies and policies for the delivery of the strategy. At the same time, the Board is keen in ensuring that management is focused on achievement of targets while fostering a culture that values ethical behaviour, integrity and respect and the need to conduct the business and operations of the Group in accordance with generally accepted corporate practices.

Board of Directors

The Articles of Association of the Company vests the governance of the Company in the Board of Directors. The Board is composed of eleven Directors as set out below:

Mr. Michael Joseph	-	Independent Non-Executive Director (Chairman)
Mr. Allan Kilavuka	-	Group Managing Director
Mr. Solomon Kitungu	-	Non-Executive Director
Mr. Jozef Veenstra	-	Non-Executive Director
Dr. Kamau Thugge	-	Non-Executive Director
Mrs. Esther Koimett	-	Non-Executive Director
Ms. Carol Musyoka	-	Non-Executive Director
Dr. Martin Oduor-Otieno, CBS	-	Non-Executive Director
Ms. Caroline Armstrong	-	Independent Non-Executive Director
Major Gen (Rtd) Michael Gichangi	-	Independent Non-Executive Director
Mr. John Ngumi	-	Independent Non-Executive Director
Dr Haron Sirima	-	Alternate to Dr. Kamau Thugge

The Chairman is responsible for leadership and effective performance of the Board and for the maintenance of relations between Directors and management. The Board acts collectively but remains aware that Directors are individually and collectively responsible for the governance of the Group.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

The Responsibilities of the Board

The Board takes its responsibilities seriously and clearly understands its role, powers, duties and functions. In the performance of its role, the Board is guided by a Board Manual which contains a Board Charter, which was last reviewed in 2019. The Board Charter has been disclosed on the Company's website as required by the Code. The Board is also guided by a number of policies including a Code of Business Conduct, a Directors' Code of Conduct, a Conflict of Interest and Gifts Policy, Insider Trading Policy, Board Induction and Development Policy, Dispute Resolution Policy, Board Diversity Policy, Board Appointment Procedures as well as a Stakeholder Management Policy, which are all contained in the Board Manual.

The Board develops and annually approves its Work Plan, which enables it to have a balanced view of the business and to be sufficiently forward looking, with approximately 60% of its time being spent on matters that help it shape the future. The Work plan also enables the Board to plan its activities to advance and to ensure that its Board meetings are planned and executed in an effective manner. Besides Board and Committee meetings, the Work Plan sets out other Board activities including Board Evaluation, Board retreats and training as well as investor briefings. The Board's Work Plan is approved before the commencement of the financial year to which it relates. The agenda for Board meetings is derived from the Board Work plan.

The full Board plans quarterly meetings in order to conduct its affairs. However, when need arises, the Board also holds special meetings to fulfill its mandate and to guide the management as appropriate. The Directors receive all relevant information for the discharge of their obligations in an accurate, timely and clear form so that they can guide and maintain full and effective control over strategic, financial, operational and compliance issues.

Board appointment, composition and succession planning

As a result of the current shareholding structure, ten out of the eleven members of the Board are Non-Executive Directors. Four out of those eleven Directors are Independent, including the Chairman of the Board.

The Board considers that collectively, the Directors have the range of skills, knowledge and experience necessary to direct the Group. In this regard, the Board has developed a detailed skills matrix that guides it in recommending Directors for appointment. The Board's skills matrix is aligned to the Company's strategy and provides guidance for diversity in knowledge and experience, governance and industry skills, personal attributes as well as non-skills considerations such as gender and age. The skills matrix is used in conjunction with the Board appointment procedures and Board Diversity Policy which are published on

the Group's website. Nominations to the Board are handled by the Corporate Governance and Nominations Committee, which vets all potential Directors before recommending them to the Board for appointment. The Board then makes recommendations to the Shareholders during the Annual General Meeting.

Non-Executive Board members are appointed for an initial term of three years. The Board implements term limits in line with the Articles of Association, the Board Charter and the Board rotation schedule. In this regard, the Independent Non-Executive Directors serve for a maximum of three terms of three years each. Re-appointment to the Board for a further term is dependent on good performance, with the Corporate Governance and Nominations Committee assessing the Director's performance and fit on the Board.

Each Director has a detailed letter of appointment setting out the terms and conditions of service including their fiduciary duties. The Chairman has a specific letter of appointment as Chairman of the Board. Each Director has accepted their appointment in writing.

The Board manages its succession planning with the assistance of the Corporate Governance and Nominations Committee. The Committee has put in place a succession plan for the Board and in line with the skills matrix, reviews existing and desired competencies and guides the Board and shareholders accordingly whenever appointments are to be made. All except the Group Managing Director are subject to rotation in accordance with the Company's Articles of Association, the Code, as well as the Board's Rotation Policy. In this regard, three Directors will retire by rotation at the Annual General Meeting.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Board appointment, composition and Succession planning (Continued)

Board Rotation schedule

Director	Year of first appointment	Year of re-election	Year of re-election	Year of re-election	Year of re-election	Year of re-election	Year of re-election	Year of re-election
Dr. Kamau Thugge	2013	2016			2019			2022
Ms. Caroline Armstrong	2014		2017			2020		
Mr. Michael Joseph	2016				2019			2022
Mr. Jozef Veenstra	2017					2020		
Major Gen (Rtd) Michael Gichangi	2017			2018			2021	
Ms. Carol Musyoka	2017			2018			2021	
Dr. Martin Oduor-Otieno	2017			2018			2021	
Mrs. Esther Koimett	2017			2018			2021	
Mr. John Ngumi	2019							2022
Mr. Solomon Kitungu	2020					2020		

Notes:

- One third of the number of Directors (other than the Executive Director) are required to retire by rotation in each year
- The Directors to retire in every year shall be those who (i) have been appointed by the Board since the previous annual general meeting in accordance with Article 67, (ii) being subject to retirement by rotation, have been the longest in office since their election or appointment, but as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

During the year under review, Mr. Michael Joseph and Dr. Kamau Thugge were re-appointed to the Board at the Annual General Meeting of the Company held on 10 June 2019 while Mr. John Ngumi was appointed to the Board of Directors on the same day. The three Directors were vetted by the Corporate Governance and Nominations Committee and in line with the Board Appointment Procedures, the Board Diversity Policy and the Skills Matrix, were recommended by the Board to the shareholders and were duly elected/re-elected to the Board unanimously.

The Board has approved a succession plan for senior management. The Human Resource Committee is responsible for ensuring that the succession plan is reviewed regularly and that the necessary interventions are in place to ensure that the Group is not exposed to the risks that come with gaps in the organizational structure.

Board induction and continuous skills development

Upon appointment, Directors undergo a detailed, rigorous and formal induction programme in line with the Group's Board Charter and the Board Induction and Development Policy. The aim of the induction programme is to enable the new Director to become effective in their new role as quickly as possible. The new Director is therefore provided with pertinent information to help them understand the Group and their role. The new Director is also required to experience firsthand the key operations of the Group and a detailed walk about programme is prepared for this purpose. New Directors also meet senior management, the Company Secretary and the Chairman of the Board before their first Board meeting. New Directors are also provided with an appointment letter setting out pertinent matters relating to their appointment as a Director and receive among others, copies of the Company's Articles of Association, the Board work plan, the Board Charter and relevant Board Policies.

During the year under review, one newly elected Director, Mr. John Ngumi was inducted into his role.

The Corporate Governance and Nominations Committee considers and recommends Board development programmes to ensure that the Board is kept up-skilled. During the year under review and in line with the Board development plan, Board members attended Board training particularly with regard to the operations of the Group. In particular, Board members attended training on disaster preparedness.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Code of business conduct & ethics

The Group is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. A formal Code of Business Conduct and Ethics has been approved by the Board and is fully implemented to guide the Board, Management, employees and stakeholders on acceptable behaviour in conducting business.

All Board members and employees of the Airline are expected to avoid activities and financial interests that could undermine their responsibilities to the airline. The Board has approved a Conflict of Interest and Gifts Policy as well as a Code of Conduct specific to the Board. Directors are required to declare any conflict of interests upon appointment. In addition, a Director with an actual or potential conflict of interest in relation to a matter before the Board is required to disclose such interest and to recuse himself or herself from the discussions relating to the matter in question. In this regard, declaration of conflict of interest is a standing agenda item during Board and Committee meetings. In addition, Board members are required on an annual basis to make a declaration of any conflict of interest.

The Group has a strict insider trading policy to which the Directors and senior management must adhere. The Board is not aware of any insider dealings during the period under review. All related party transactions have been considered by the Audit and Risk Committee and have been disclosed in the consolidated and company financial statements.

It is also expected that all Directors will exercise independent judgment and shall act in the best interest of the Group. In addition, during the annual Board Evaluation, the Board assesses the independence of the Independent Non-Executive Directors using a tool approved by the Board. During the year under review, the Board assessed the independence of the following Directors, who were all classified as being Independent Non-Executive Board members:

- Mr. Michael Joseph;
- Ms. Caroline Armstrong;
- Major General (Rtd) Michael Gichangi; and
- Mr. John Ngumi.

Board evaluation

The Board has commissioned a Board evaluation exercise and will, once completed consider the results, identify any gaps and discuss potential ways of closing those gaps

Governance audit

The Board is in the process of implementing the recommendations of the second Governance audit in order to ensure that it is adopting best practices in Corporate Governance. In addition,

the Board ensures the completion of the annual self-assessment as required by the Capital Markets Authority.

Transparency and disclosure

The Group is committed to ensuring that shareholders and other stakeholders are provided with full, accurate and timely information about its performance. This is achieved by the distribution of the Group's annual report, the publication of half year and full year results in the press and on the Company's website. These are also released to the securities markets and capital markets authorities. There are also two investor briefings per annum for institutional investors.

Periodically there are press releases announcing other major Group developments, which could be considered as being price sensitive information. In this regard, the Group also complies with the continuing listing obligations of the Capital Markets Authorities and Securities Exchanges applicable in Kenya, Uganda and Tanzania. The annual report is published each year on the Company's website together with the notice of the Annual General Meeting. There is regular communication with the staff as guided by the Human Resource policies. In addition, the Board holds frequent meetings with key stakeholders.

External consultants

When required, the Board seeks external advice or assistance on issues over which there is concern, if it is considered necessary.

Attendance at Board meetings

Board members commit to regularly attend and to be effectively participating in Board meetings through robust debate. This is made possible by early planning. Board attendance for the period under review is as set out below:

Mr. Michael Joseph	-	10/10
Ms. Caroline Armstrong	-	10/10
Mr. Jozef Veenstra	-	8/10
Major Gen.(Rtd) Michael Gichangi	-	9/10
Dr. Martin Oduor-Otieno	-	10/10
Ms. Carol Musyoka	-	10/10
Mrs. Esther Koimett	-	7/10
Mr. John Ngumi	-	4/4
Mr. Nicholas Bodo	-	10/10
Dr. Haron Sirima	-	1/4

Relationship between the Board and Management

There is a clear separation of roles between the Board and management, and this separation has been clearly stipulated in the Board Charter. The role of the Chairman of the Board is separate from that of the Group Managing Director and Chief Executive Officer, and in line with good governance practice,

STATEMENT OF CORPORATE GOVERNANCE (Continued)

the Board has delegated authority for the conduct of day-to-day business to the Group Managing Director and Chief Executive Officer. This delegation has been clearly defined in the Board Charter and in the Delegation of Authority matrix approved by the Board during the year under review. The Board nonetheless remains accountable for the overall management and long-term success of the Group.

Committees of the Board

The Board has four standing committees namely:

- Audit and Risk Committee;
- Corporate Governance and Nominations Committee;
- Strategy and Business Development Committee; and
- Human Resources Committee.

The committees meet regularly under formal Terms of Reference (TORs) set and approved by the Board. The Committees' meet before scheduled Board meetings and prepare and present their reports to the Board. The composition of the Committees is determined by the Board following recommendations from the Corporate Governance and Nominations Committee. The members of the Audit and Risk Committee are elected by the Shareholders at the Annual General Meeting.

The reports of each of the Committees are presented in this report.

Report of the Audit and Risk Committee

This report highlights the composition, attendance of meetings, role and key activities of the Audit and Risk Committee during the year. The report further outlines some of the focus areas for Financial Year (FY) 2020.

Current Membership

- Dr. Martin Oduor-Otieno - Chairman
- Mr. Jozef Veenstra - Member
- Mr. John Ngumi - Member
- Major Gen (Rtd) Michael Gichangi - Member
- Ms. Caroline Armstrong - Member

The Group Managing Director and Chief Executive Officer, the Chief Finance Officer and the Head of Internal Audit are permanent invitees to the Audit and Risk Committee.

All the Committee members are Non-Executive Directors, with three of them being Independent Non-Executive Directors. At least two of the members possess extensive professional knowledge and experience in the audit and accounting field.

Attendance of meetings for FY 2019

- Dr. Martin Oduor-Otieno - 6/6
- Mr. Jozef Veenstra - 6/6
- Mr. John Ngumi* - 2/3
- Major Gen (Rtd) Michael Gichangi* - 3/3
- Ms. Caroline Armstrong* - 3/3
- Ms. Carol Musyoka** - 3/3
- Mr. Jason Kapkirwok** - 3/3
- Mr. Festus King'ori** - 2/3

* Member of the Audit and Risk Committee from July 2019

** Member of the Audit and Risk Committee until July 2019

Mandate and role of the Audit and Risk Committee

The mandate of the Audit and Risk Committee of the Board is set out in the Board Charter. The Committee is established to assist the Board in the effective discharge of its oversight responsibilities over:

- **Financial reporting and related internal controls**

The Committee is responsible for ensuring that adequate systems and processes of accountability are in place; including the necessary internal control systems required to provide assurance over the integrity and timeliness of financial reporting. The Committee also reviews management accounts of the Group on a quarterly basis and financial statements at least twice during the year. This includes review of the management letter from the independent auditor. The Committee also oversees the consistent application of Group accounting policies and ensures alignment of these to the International Financial Reporting Standards (IFRS).

- **Risk management**

The Committee is responsible for ensuring that the Group has an effective process of identifying, assessing and evaluating, managing and monitoring and reporting significant risks.

- **Internal audit**

The Committee is responsible for monitoring and reviewing the performance and effectiveness of the Group's internal audit function, ensuring that the function is adequately resourced and equipped with the necessary tools. The Committee approves the internal audit plan annually and reviews all significant findings from audit reviews.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Report of the Audit and Risk Committee (Continued)

Mandate and role of the Audit and Risk Committee (Continued)

• Independent auditor

The Committee is responsible for monitoring and reviewing the performance of the independent auditor, evaluating their independence and objectivity, recommending their appointment or change and approving the level of audit fees payable to them. Being the point of liaison between the independent auditor and the Board, the committee is also responsible for managing relationships.

• Ethics and Compliance

The Committee is responsible for monitoring compliance with the Group's Business Code of Conduct. This also entails ensuring that an effective whistle blowing mechanism aimed at encouraging stakeholders to report matters that would be helpful in enforcing good governance practices within the Group.

Key activities in FY 2019

During the year under review, the Committee continued to provide oversight over financial reporting with regards to consistent application of Group accounting policies and alignment to the International Financial Reporting Standards (IFRS). There was also continued focus on monitoring of the internal control environment across the Group. The Committee also focused its attention on management actions to address the prevailing capital adequacy, liquidity, profitability and going concern challenges in the business.

Looking forward

The focus of the Committee in 2020 continues to be the strengthening of the internal control and governance processes across the Group. This will be supported by leveraging on technology-based solutions - Highbond tool (formerly known as ACL GRC) that will enhance the effectiveness of data analytics, continuous auditing and management of internal audit workflow. In addition, the framework developed in 2019 to measure and evaluate the internal control environment on a periodic basis will be rolled out, as well as focus on the actions to ensure the business remains a going concern.

Dr. Martin Oduor-Otieno
Chairman – Audit and Risk Committee

Report of the Corporate Governance and Nominations Committee

Current membership

- Mr. Michael Joseph - Chairman
- Mrs. Esther Koimett - Member
- Major General (Rtd) Michael Gichangi - Member
- Ms. Carol Musyoka - Member
- Mr. Allan Kilavuka - Group Managing Director/CEO

In compliance with the Code, the Chairman of the Committee is an Independent Non-Executive Board member. One other member of the Committee is an Independent Non-Executive Director, while the rest of the members other than the Chief Executive Officer are Non-Executive Board members.

Mandate

The Committee's mandate is to oversee and monitor the Group's Corporate Governance policies, practices and guidelines and to establish transparent policies and processes for the identification of suitable candidates for nomination and election or re-election as Directors of the Group.

Achievements during the year under review

During the year under review, the Committee held six meetings with very good attendance as shown below:

Mr. Michael Joseph	-	6/6
Mrs. Esther Koimett	-	2/2
Major General (Rtd) Michael Gichangi	-	5/6
Ms. Carol Musyoka	-	6/6
Mr. Festus King'ori*	-	4/4

*Member of the Corporate Governance and Nomination committee until 18 July 2019

The following achievements were realized, among others:

- Subjected the Board and its committees to an annual Board Evaluation;
- Providing oversight over the implementation of the recommendations arising from the Corporate Governance Audit;
- Reviewed and made recommendations for the composition of Board Committees and subsidiary Boards based on skills;
- Assessed and recommended to the shareholders the appointment/re-appointment of three Directors;
- Ensured Board training;
- Assessed the Company's corporate governance practices against the Capital Markets Authority's Code of Corporate Governance Practices for Issuers of Securities;

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Report of the Corporate Governance and Nominations Committee (continued)

Achievements during the year under review (continued)

- Ensured the assessment of independence for the Independent Non-Executive Board members;
- Ensured the annual declaration of conflict of interest for Board members;
- Managed the transition from the outgoing Group Managing Director; and
- Developed and recommended to the Board, a Board Work Plan.

Looking forward

The Committee is committed to driving the Corporate Governance Agenda of the Company and in this regard it shall continue to benchmark against best practice with a view to adopting best practices that will further the business objectives of the Group.

Mr Michael Joseph
Chairman – Corporate Governance and Nominations Committee

Report of the Strategy and Business Development Committee

Current membership

Maj. Gen. (Rtd) Michael Gichangi	-	Chairman
Mr. Nicholas Bodo	-	Member
Mr. John Ngumi	-	Member
Ms. Caroline Armstrong - Ogwapit	-	Member
Mr. Jos Veenstra	-	Member
Dr. Haron Sirima	-	Member
Mr. Allan Kilavuka	-	Group Managing Director/CEO

Mandate

The mandate of the Strategy and Business Development Committee is to advise the Board on the main strategic priorities of the Group. The Committee is also required to review the execution of commercial and operational activities, plans, budgets and to give opinions on major investments, divestments and external growth, acquisition and disposal of assets to the Board.

Achievements during the year under review

During the year under review, the Committee held eleven meetings with attendance as shown below:

Major General (Rtd) Michael Gichangi	- 11/11
Ms. Caroline Armstrong	- 8/11
Mr. Josef Veenstra	- 8/11
Mr. John Ngumi	- 6/7
Mr. Nicholas Bodo	- 6/7
Dr. Haron Sirima	- 0/7

The Committee has among others:

- Provided guidance for the review and generation of the new Kenya Airways 2020 to 2024 Strategic Plan which links traceable objectives, performance indicators, initiatives and actions in order to improve the airlines performance and operational results;
- Guided the review of the Joint Venture agreement between Kenya Airways and Air France and KLM, and the establishment of a Kenya Airways Frequent Flyer Program;
- Ensured that the appropriate steps have been taken in converting the Kenya Airways Technical Department into a Maintenance Registered Organisation (MRO);
- Reviewed and gave its opinion and recommendations on Kenya Airways fleet development and network review proposals; and
- Reviewed and gave guidance on several business cases the ongoing digitization enhancement programs and processes.

Looking forward

Whereas growth is projected in the global and regional aviation industry, Kenya Airways will continue to face increased and strong competition in the years 2020 and beyond in its traditional market. The Committee will therefore continue to ensure that the airline remains focused on delivering on its 2020 – 2024 Strategy and Work Plans, with an emphasis on its guiding principle of ‘Back to Basics’, in order to deliver on the stipulated Key Performance Indicators.

The Committee will also continue to focus and provide guidance on the airline’s processes, performance and execution of strategies in order to remain proactive in relation to emerging trends, technology, concepts and best practises in the industry in order to continue improving its performance and ensure the turnaround and sustainability of its business.

Maj Gen (Rtd) Michael Gichangi
Chairman – Strategy and Business Development Committee

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Report of the Human Resources Committee

Current membership

- Ms. Caroline Armstrong - Chairperson
- Ms. Carol Musyoka - Member
- Dr. Martin Oduor-Otieno - Member
- Mr. Allan Kilavuka - Group Managing Director/CEO

Mandate

The Human Resources Committee assists the Board in fulfilling its mandate with regard to the human capital and the talent agenda for the Group. The overall scope is to ensure that the Group provides an enabling environment for the employees and the company to thrive through distinctive employee experience, inspiring leadership, and a high-performance culture to deliver the Group's strategic aspirations.

The Committee is empowered to:

- Ensure the Group has in place and implements Human Resources strategic objectives;
- Continually review Human Resources management policies of the Group;
- Identify and recommend implementation of best practices concerning staff development and retention; and
- Review and propose an optimal organizational structure, including staffing levels.

Achievements during the year under review

During the year under review, the Committee held five meetings with attendance as shown below:

Ms. Caroline Armstrong	- 5/5
Dr. Martin Oduor-Otieno	- 5/5
Mr. Sebastian Mikosz	- 5/5
Mrs. Esther Koimett	- 0/2
Major General Rtd. Michael Gichangi	- 1/2
Ms. Carol Musyoka	- 2/3
Mr. Nicholas Bodo	- 3/3

The year 2019 was a significant year for the Group, and there were substantial achievements under the Human Resource (HR) agenda, some of which are highlighted below:

- There was a net headcount growth of 67 in 2019. We had 223 new employees joining the company with at least 39% comprising of management staff, indicative of a business in transformation mode and deliberate infusion of new skill sets. In the same year, we also had 224 exits, with at least 54% being voluntary exits;
- We had a talent retention rate of 94%, an improvement from

the previous year of 92%. The Group talent profile is stable, with an average age of 39 years and average service tenure of 11 years. Fifty-six percent (56%) of the staff are below 40 years of age;

- Re-organization of the Group structure in May 2019 ventilated numerous career development and progression opportunities for our staff for new roles. There was also a deliberate infusion of new skill sets from external hires in specific functional areas;
- Significant progress was made in the bold transformation journey and re-organization of the Technical Maintenance organization which started in May 2019. This is expected to cover 24 months with critical achievements in culture change and leadership development;
- Kenya Airways was recognized as a strong talent brand with strong growth in follower population on the professional social platform – LinkedIn and further recognition as the Best Talent Acquisition team in Sub-Saharan Africa in the LinkedIn Africa Talent Awards 2019. The use of LinkedIn recruiter tools has improved the quality of hires and the development of deeper talent pools across key industries and geographies;
- Kenya Airways was also recognized and ranked as one of the top 10 companies to work for in Kenya in 2019 by the 'Brighter Monday Top 100 Companies to Work for in Kenya' report;
- At least 98% of regulatory training done, non-regulatory and leadership & management development training was done in the year with limited financial resources. The latter training saw 120 Kenya Airways leaders trained by GE on leadership and business skills. Additionally, 32 managers started an 18-month leadership development journey based on Franklin Covey Leadership Development. Two women leaders were sponsored into the IATA Women in Aviation Leadership program in 2019;
- In 2019, 60% of the top leadership team were women, a statistic never achieved before, and Kenya Airways was ranked 5th amongst the listed companies in Kenya for taking steps to ensure gender balance initiatives and achievements;
- The Group changed the Group resourcing model from the use of third party outsourced labour to employment on Kenya Airways contractual terms. This has had a significant positive impact on the employer brand, customer experience, staff morale, and stabilization of the organization. We recruited 890 staff previously employed by the third party labour providers in a record three months;
- Humanizing the Kenya Airways people brand by connecting with our staff more in 2019 for instance, we had the Family Fun Day, Christmas party and other staff engagement forums across different functions in the Group;
- Enhanced medical scheme for all staff to access a variety of medical services at our KQ Pride Clinic and access to better-quality medical care. We launched the ophthalmology services, dental, ultrasound services, and creche services for the staff;

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Report of the Human Resources Committee (continued)

Achievements during the year under review (continued)

- In 2019 we also launched corporate wellness initiatives, including the revamped Staff canteen and the Staff gym to ensure a healthy, productive and happy workforce;
- It was a relatively busy year for industrial relations with the unions, multiple engagement meetings and at least one fully signed collective bargaining agreement in 2019;
- The HR department onboarded and strengthened HR capacity and capabilities with at least eight experienced hires in KQ health, People & Culture partnering, HR Hub services and the Employee Relations areas; and
- The achievements above were implemented within budget in 2019.

Looking forward

For the success of the Group, the management and the Board will continue to focus on improving customer experience, maximizing revenues, operational efficiency, stabilization of the organization, and cost optimization. There will be continued focus on management of key stakeholders including unions and regulatory bodies. The above is underpinned by a cultural transformation driven by the company values and behaviours as well as a strong people brand to deliver on the brand promise and the strategic mandate for 2020 and beyond. We have a focus on productivity and providing an inspiring employee experience to drive a high-performance culture, provide talent development opportunities and acquiring the skills for the future of the Group's success.

The Committee remains focused on ensuring that the Group attracts and retains high performing, committed and motivated staff who show integrity with whom we can collectively deliver the Group's success and growth.

Ms. Caroline Armstrong
Chairperson – Human Resources Committee

Internal controls

The Board through the Audit and Risk Committee ensures that the Group has defined procedures for internal controls to ensure the integrity of the assets of the airline and the reporting of complete and accurate financial 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 organisation 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 by the Internal audit team. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators. Weekly meetings are held by Executive management to monitor performance and to agree on measures for improvement.

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

Risk governance

The Board has put in place an Enterprise Risk Management Framework. The Audit and Risk Committee is responsible for ensuring that both strategic and operational risks are identified and managed in accordance with the processes set out in the Enterprise Risk Management Framework.

Internal audit

The Internal audit function reports to the Board through the Audit and Risk Committee. Internal audit is independent of management and is not involved from an operational perspective in the activities it reviews. Internal audit provides assurance that the design and operation of the Group's risk management and internal control system is effective. A risk-based audit approach is used to ensure that the annual audit Work Plan targets the higher risk activities in each business unit or function. All audits are conducted in a manner that conforms to international standards on auditing.

External auditor relationship

The Audit and Risk Committee oversees the appointment and relationship with the external auditor including the requirement to ensure the independence of the external auditor. The Audit and Risk Committee meets with the external auditor sometimes, in the absence of management.

Strategic planning process

The Board has adopted both a long term and short term strategic planning process. Management are guided in the planning process by the Strategy and Business Development Committee, which proposes to the Board the adoption of both the long term and short terms plans. In addition, the Board approves the annual business plan supported by an agreed budget. The plans take into account identified risks and opportunities. The Strategy and Business Development Committee is responsible for monitoring the implementation of approved plans.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Compliance with laws, regulations and standards

The airline industry is highly regulated, and the accountable manager is charged with the responsibility of ensuring compliance with applicable laws, regulations, standards and protocols. The Board seeks to ensure compliance with applicable laws and regulations and receives regular reports on legal matters. The Board is not aware of any material departures from required compliance.

Directors' emoluments and loans

The Board has put in place a Board Remuneration Policy and the aggregate amount of emoluments paid to Directors including benefits enjoyed for services rendered during the financial year 2019 are disclosed in the notes to the financial statements, and more particularly set out in the Director's Remuneration Report contained in this annual report on pages 57 to 59. The Shareholders approved the Board Remuneration Policy and Board remuneration at the Annual General Meeting held on 10 June 2019.

At no time during the year were there any arrangement to which the Group was a party, whereby Directors acquired benefits by means of transactions in the Group's shares outside applicable law.

Directors interests in the shares of the Group as at 31 December 2019 was as follows: -

Directors' interests

<i>Name of Director</i>	<i>Number of Shares</i>
Cabinet Secretary to the National Treasury	2,847,844,811
Mr. Nicholas Bodo	1,050
Ms. Carol Musyoka	6,675
Major General (Rtd) Michael Gichangi	2,025

Company secretary

The Company Secretary of the Company is FCS Catherine Musakali, a member of the Institute for Certified Secretaries and is in good standing.

Information technology (IT)

The Board has embraced a Digital Transformation Programme aimed at bringing excellence in technology to Kenya Airways by leveraging the power of modern digital & innovative solutions to drive new business paradigms, delight our customers, enable operational excellence and drive value for our people, our business partners and our shareholders. There is a renewed focus on cybersecurity to establish resilience.

There is also a focus on improved integration to deliver flexibility and performance.

Procurement

The objective of the Kenya Airways procurement policy is to deliver the best possible value for money and spend optimization for the Group's procurement requirements through the use of professional procurement practices aligned with the Group's corporate objectives.

The procurement policy is set out to provide uniformity, inclusivity, fairness, professionalism, honesty and transparency in the management of procurement activities within the context of Corporate Policies, with the key aim of obtaining value for money. The Policy aims at optimizing supply chain efficiency, effectiveness and enhanced supplier relationships by designing supply frameworks, rationalizing the supplier base, and developing long term strategic partnerships with competent, like minded suppliers. Integrity remains the gate to conducting business with Kenya Airways.

Stakeholder Management

The reputation of the Group is a key focus for the Board. The Communications & Public Affairs Department plays a key role in how the public (shareholders, customers, suppliers, investors and the general public), as well as staff, perceive Kenya Airways. The Department manages the organisation's reputation and ensures that the demands of the ever-changing business and regulatory environments are taken into consideration in decision-making. The Board is responsible for guiding the strategic direction for communication strategies across the Group and the department is responsible for implementing these.

An engagement strategy targeting key stakeholders including media and internal staff to improve the public's appreciation and to increase confidence in Kenya Airways has been developed. Underpinning this strategy is the building of internal capacity for content development, and alignment of existing digital communication solutions and processes, enabling greater control of Kenya Airways' reputation.

CAPE TOWN

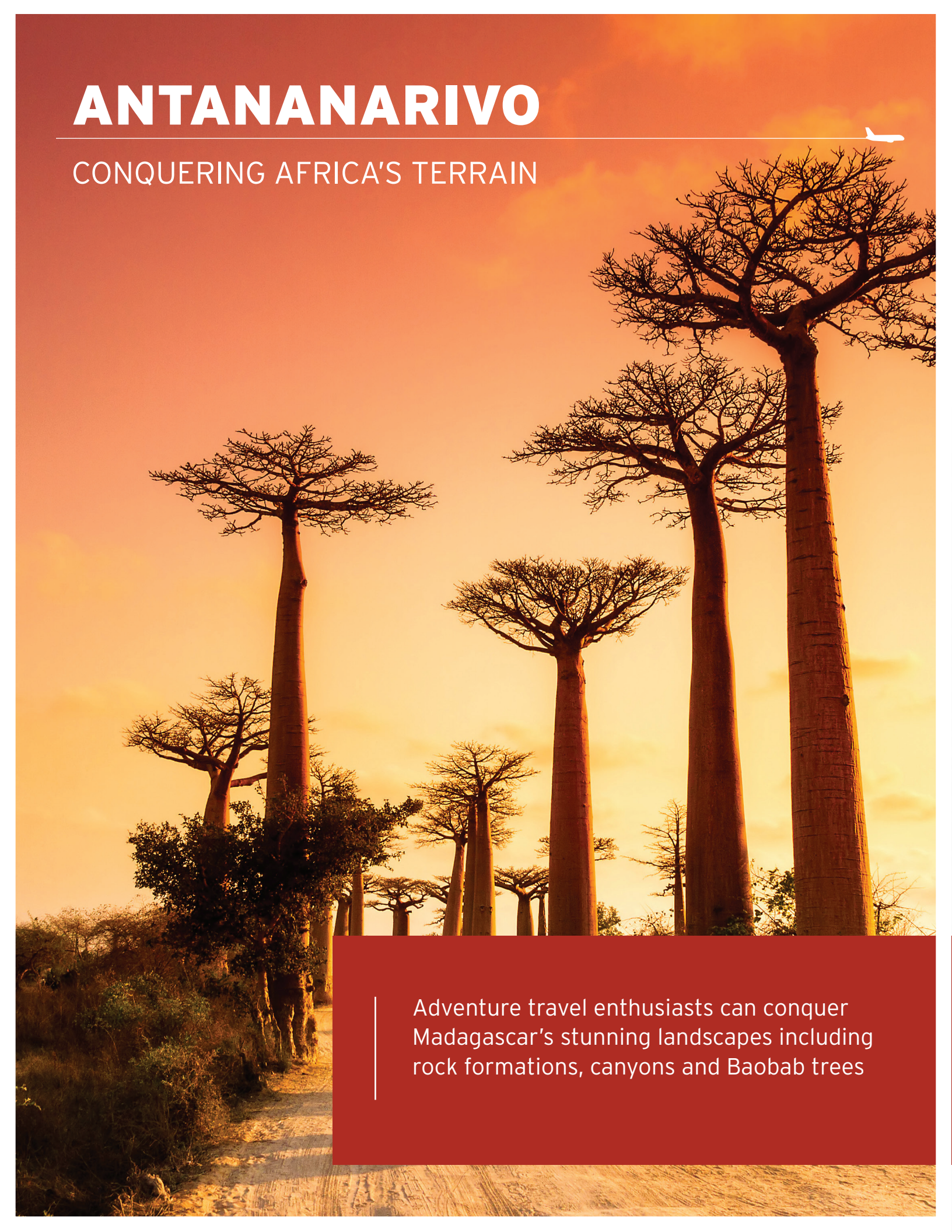
HAVE THE TIME OF YOUR LIFE



The city that is crowned by the iconic Table Mountain and pristine beaches welcomes you to explore Africa's very own wine country.

ANTANANARIVO

CONQUERING AFRICA'S TERRAIN



Adventure travel enthusiasts can conquer Madagascar's stunning landscapes including rock formations, canyons and Baobab trees

PERFORMANCE HIGHLIGHTS

Group results

Turnover (KShs Million)

Dec-19

128,317

114,185

Dec-18

Net Loss (KShs Million)

Dec-19

(12,985)

(7,558)

Dec-18

Operating Loss (KShs Million)

Dec-19

(853)

(683)

Dec-18

Capital & Reserves (KShs Million)

Dec-19

(17,896)

(2,489)

Dec-18

Loss before Tax (KShs Million)

Dec-19

(12,975)

(7,588)

Dec-18

Loss per Share (KShs Million)

Dec-19

(2.23)

(1.30)

Dec-18

Key Financial Statistics

Debt to Equity

Dec-19

(4.3)

(3.4)

Dec-18

Interest Cover

Dec-19

0.09

0.54

Dec-18

Operating Margin (%)

Dec-19

(0.7)

(0.6)

Dec-18

EBITDAR Margin (%)

Dec-19

20

0.2

Dec-18

Operating Statistics

Passengers Carried

Dec-19

5,160,896

4,839,023

Dec-18

Cabin Factor (%)

Dec-19

77.0

77.6

Dec-18

Available Seats KM (millions)

Dec-19

16,731

14,551

Dec-18

Cargo Uplifted (Tonnes)

Dec-19

68,264

64,238

Dec-18

Revenue Passengers KM (millions)

Dec-19

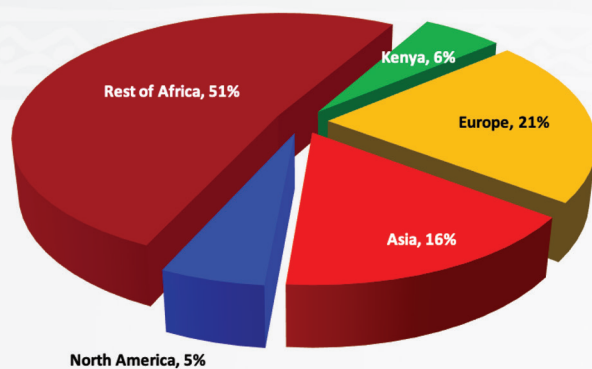
12,881

11,287

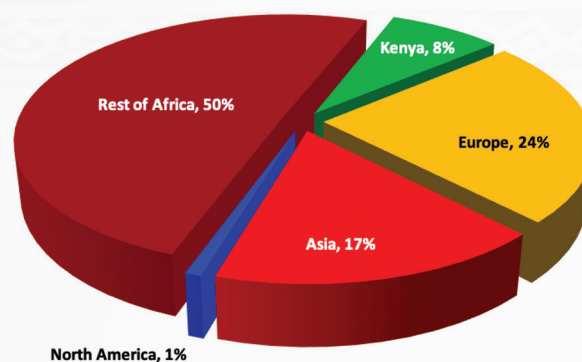
Dec-18

TURNOVER BY REGION

2019



2018



THREE YEAR SUMMARY OF PERFORMANCE HIGHLIGHTS

Financial Highlights

The Group	Dec-19		Dec-18		9 months ended Dec 17 (Restated)	
	KShs. Million	US\$ Million	KShs. Million	US\$ Million	KShs. Million	US\$ Million
Turnover						
Passenger	103,631	1,013.8	95,187	939.4	67,613	653.9
Freight & Mail	8,681	84.9	8,468	83.6	5,544	53.6
Handling	2,390	23.4	2,193	21.6	1,546	15.0
Other	13,615	133.2	8,337	82.3	6,095	58.9
Total	128,317	1,255.3	114,185	1,126.9	80,799	781.5
Direct Expenditure	(80,977)	(792.2)	(75,030)	(740.4)	(51,719)	(500.2)
Fleet Ownership Costs	(25,343)	(247.9)	(18,929)	(186.8)	(12,535)	(121.2)
Overheads	(22,850)	(223.5)	(20,909)	(206.3)	(15,538)	(150.3)
Operating Profit (Loss)	(853)	(8.3)	(683)	(6.7)	1,007	9.7
Operating Margin%	(0.7%)		(0.6%)		1.2%	
Net Finance Costs	(10,001)	(97.9)	(5,017)	(49.5)	(4,921)	(47.6)
Other Costs	(2,121)	(20.7)	(1,888)	(18.6)	(2,393)	(23.1)
Loss before tax	(12,975)	(126.9)	(7,588)	(74.9)	(6,306)	(61.0)
Income tax credit / (expense)	(10)	(0.1)	30	0.3	(112)	(1.1)
Loss for the year	(12,985)	(127.0)	(7,558)	(74.6)	(6,418)	(62.1)
Loss after Tax margin%	(10.1%)		(6.6%)		(7.9%)	

Operating Statistics

	Dec-19	Dec-18	9 months ended Dec 17
Passengers	5,160,896	4,839,023	3,432,999
RPK's (Millions)	12,881	11,287	8,079
ASK's (Millions)	16,731	14,551	10,596
Passenger Load Factor (%)	77.0	77.6	76.2
Cargo Tonnes	68,264	64,238	47,908
Exchange Rate	102.22	101.33	103.39
Employees			
Airline	3,816	3,736	2,969
Group	4,775	4,763	4,576
Aircraft in Service at Year End			
Boeing 787-8	9	8	7
Boeing 737-8	8	8	8
Boeing 737-700	2	2	2
Boeing 737-300	0	0	2
Embraer 190	15	15	15
B737-300 Freighter	2	2	2
Bombardier Dash 8-400	6	5	3
Total	42	40	39
Dormant			
Boeing 777-200	0	0	1
Boeing 737-300	1	1	2
Leased/Sub-leased			
Boeing 777-300	3	3	3
Boeing 787-8	0	1	2
Total	46	45	47

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated and company financial statements of Kenya Airways Plc (“Kenya Airways” or the “Company”) and its subsidiaries (together, the “Group”) for the year ended 31 December 2019, in accordance with Section 653(1) of the Kenyan Companies Act, 2015, which discloses the state of their financial affairs.

PRINCIPAL ACTIVITIES

The principal activities of the Group are international, regional and domestic carriage of passengers and cargo by air, the provision of ground handling services to other airlines and the handling of import and export cargo. The Group operates domestic and international flights and flies to 56 destinations in Africa, Middle East, Asia, Europe and North America.

As at 31 December 2019, the Group operated 42 aircraft, either owned or on operating leases. These comprised nine Boeing 787 wide body jets, ten Boeing 737 narrow body jets, fifteen Embraer regional jets, two Boeing 737 freighters and six Bombardier Dash 8-400.

RESULTS

The Group’s and Company’s loss for the year ended 31 December 2019 is KShs 12,985 million (2018: 7,558 million) and KShs 13,017 million (KShs 7,812 million) respectively. The Group’s and Company’s results for the year ended 31 December 2019 are set out on pages 70 - 71 and 72 respectively.

DIVIDENDS

The Directors do not recommend payment of dividends in respect of the current financial year (2018: nil).

DIRECTORS

The current Board of Directors who held office during the year and to the date of this report are as shown on page 4.

BUSINESS OVERVIEW

Our Values

- Safety - we shall always consider safety as a number one priority, for our people and guests;
- Customer first - we shall always anticipate and deliver to the needs of those we serve - our guests;
- Respect - we shall always show respect to everyone we meet;
- Integrity - we shall always act with integrity;
- Passion - we shall always inspire passion in our people to create quality solutions; and
- Trust - we build trust in our daily relationships.

Vision

Be the Pride of Africa, by inspiring our people and delighting our guests consistently.

Mission

To maximize stakeholder value by consistently:

- Providing highest levels of customer satisfaction;
- Upholding the highest level of safety and security;
- Maximizing employee satisfaction; and
- whilst being committed to corporate and social responsibility.

Strategic Objective

Contributing to the sustainable development of Africa.

Summary

Kenya Airways has continued its focus on the turnaround programme. Substantial management changes have been made with the objective of ensuring financial and operational sustainability. The Group has undertaken many actions including the following:

- Key focus on boosting revenue and improving the customer journey;
- Network expansion through introduction of new routes;
- Senior management changes; and
- Organisational changes.

Within the context of the actions highlighted above, the Board of Kenya Airways is announcing the results showing:

- A change in the Group operating loss margin from 0.6% in the year ended 31 December 2018 to 0.7% for the year ended 31 December 2019; and
- A change in the Group net loss margin from a loss of 6.6% in the year ended 31 December 2018 to 10.1% in the year ended 31 December 2019.

The Group will continue to focus on improving operations and growing an efficient network, including the creation of more city pairs in Africa and in the world as well as focusing on improved service quality and service delivery.

REPORT OF THE DIRECTORS (Continued)

BUSINESS OVERVIEW (Continued)

Turnaround program

During the year, the Executive continued the business turnaround programme. The programme has the following objectives:

- Return to profitability through revenue enhancement and cost optimisation; and
- Refocusing and realigning the business model and enhancing partnerships.

The Group's and Company's operating loss for the year ended 31 December 2019 was KShs 853 million and KShs 1,400 million respectively.

Capacity and traffic

The Group's capacity measured in terms of Available Seat Kilometres (ASK) stood at 16,731 million in 2019 a 15% increase over last year's 14,550 million. The uptake of this capacity measured in terms of Revenue Passenger Kilometres (RPK) closed at 12,881 million in 2019 compared to 11,287 million in 2018.

The year was marked with expansion into 3 new destinations namely; Rome, Geneva and Malindi. Excluding the new routes, however, there was a reduction in capacity due to continued focus on route frequency rationalization. Nevertheless, together with those routes introduced in the year 2018, new routes continue to show improved gains, accounting for 14% of total capacity deployed.

Turnover

The Group's and Company's turnover closed at KShs 128,317 million and KShs 121,640 million respectively for the year ended 31 December 2019 as compared to KShs 114,185 million for the Group and KShs 107,820 million for the Company for the year ended 31 December 2018. The revenue was impacted positively by improved passenger numbers from new routes as well as ancillaries, but the industry continues to remain highly competitive as airlines continue to be weighed down by continuous pressure on yield.

Cargo and freighter

Cargo tonnage on both passenger belly and freighter aircraft stood at 68,264 tonnes for the year ended 31 December 2019 as compared to 64,238 tonnes for the year ended 31 December 2018. The cargo business continues to focus on boosting the cargo product across the network and revenue maximization has improved the cargo performance for the year.

Direct operating and fleet costs

The total direct operating costs amounted to KShs 80,977 million for year ended 31 December 2019 at Group level and KShs 78,602 million at Company level as compared to KShs 75,030 million at Group level and KShs. 72,318 million at Company level for the year ended 31 December 2018. Global fuel prices have been favourable throughout the year while other direct operating costs increased in-line with network expansion.

Fleet ownership costs at Group level amounted to KShs 25,343 million and KShs 23,919 million for the Company for the year ended 31 December 2019 as compared to KShs 18,929 million at Group level and KShs.17,616 million at Company level for the year ended 31 December 2018. IFRS 16, which came into effect on 1 January 2019, resulted in higher lease costs being recognized in the income statement.

Overheads

The Group's and Company's overheads amounted to KShs 22,850 million and KShs 20,519 million respectively for the year ended 31 December 2019 as compared to KShs 20,909 million at Group level and KShs 18,792 million at Company level for the year ended 31 December 2018.

Employee statistics

The tables below summarise the number and composition of employees in terms of gender:

i) Categorisation by employment contract

	2019	2018
Permanent	3,734	3,905
Contracted - Outsourced	1,041	858
Total	4,775	4,763

ii) Categorisation by gender

	2019		2018	
	Male	Female	Male	Female
Senior leadership	60%	40%	75%	25%
Head of Departments	60%	40%	64%	36%
Senior managers	68%	32%	82%	18%
Others	60%	40%	60%	40%
Overall	60%	40%	60%	40%

REPORT OF THE DIRECTORS (Continued)

Significant risks and mitigating actions

The Group is exposed to risks that may impact the achievement of its core objectives. There is an Enterprise Risk Management (ERM) process that is aimed at proactively identifying and managing these risks. The process also entails periodic reporting to the Audit and Risk Committee.

The table below summarizes the significant risks faced by the Group and Company:

	Risk	Description	Mitigating actions
1	Competition	Competitive operating environment as a result of action from other players (existing and new entrants)	<ul style="list-style-type: none"> • Continuous monitoring of action by competition; • Continuous development of our products and quality of services; • Leveraging on strategic partnerships with other industry players; and • Continuous development of the KQ brand.
2	Liquidity risk	Inability to service our financial obligations as and when they fall due	<ul style="list-style-type: none"> • Implementation of various initiatives to improve efficiency across the Group; and • Effective cash flow management.
3	Safety and security risks	Occurrence of incidences that threaten the safety and security of our customers and employees or result into damage of assets	<ul style="list-style-type: none"> • Continuous safety and security risk assessment and prompt resolution of gaps identified; • Strict adherence to security policy and procedures; • Regular training on safety and security matters; and • Close collaboration with relevant security authorities.
4	Volatility in fuel prices	Fluctuations in the fuel prices driven by global crude oil prices	<ul style="list-style-type: none"> • Continuous monitoring of trends in global fuel prices; • Competitive sourcing of fuel suppliers; and • Fuel hedging arrangements.
5	Regulatory risk	Failure to comply with various regulatory requirements thereby resulting into fines and penalties	<ul style="list-style-type: none"> • Continuous monitoring of changes in laws and regulations; and • Established mechanisms to ensure strict compliance and continuous monitoring of compliance.
6	Impairment of assets	Possible impairment of aircraft and related equipment caused by judgment and estimation uncertainty associated with determining the cash flow forecasts	<ul style="list-style-type: none"> • Focus on improving profitability and cash flow generation
7	IT and cyber security	Failure of IT infrastructure and external attacks to the IT environment	<ul style="list-style-type: none"> • Establishment of disaster recovery plans (DRPs) and business continuity plans (BCPs); and • Robust processes to safeguard against IT infrastructure threats.
8	Currency exposure (Blocked / Trapped funds)	Inability to repatriate funds trapped in some of the markets that we operate in	<ul style="list-style-type: none"> • Continuous monitoring of economic performance of our markets; • Ticket sales in hard currencies in risky markets; • Continuous engagement with relevant government authorities in those markets;
9	Litigation risk	Legal action arising from normal cause of business with third parties or employees	<ul style="list-style-type: none"> • Strict adherence to contractual terms; and • Involvement of internal and external legal counsel.
10	Geopolitical risks	Possible negative impact on the operations as a result of political changes or instability affecting our markets	<ul style="list-style-type: none"> • Continuous monitoring of political activities across different markets; • Wide network coverage and destinations; and • Close collaboration and engagement with relevant stakeholders and governments.

REPORT OF THE DIRECTORS (Continued)

Significant Corporate risks and mitigating factors (Continued)

	Risk	Description	Mitigating actions
11	Credit risk	Inability to recover debts from our customers in full	<ul style="list-style-type: none"> • Periodic review of the credit policy and strict enforcement of credit terms; and • Continuous monitoring of debtor performance and follow up.
12	Accounting and financial reporting risks	Failure to meet various accounting and reporting requirements under IFRS <ul style="list-style-type: none"> - IFRS 16 Leases - IFRS 9 Financial Instruments - IFRS 15 Revenue from contracts with customers - IAS 1 Presentation of financial statements 	<ul style="list-style-type: none"> • Continuously seeking professional advice on technical matters; and • Development and upskilling of staff through training.
13	Disruption in supply of essential goods and services	Possible disruption in the supply of essential goods and services	<ul style="list-style-type: none"> • Use of multiple vendors for essential supplies of goods and services; and • Rigorous vetting process for vendors.
14	Fraud	Misappropriation or misuse of assets belong to the Group by staff and external stakeholders	<ul style="list-style-type: none"> • Strict enforcement of the Code of Business Conduct; • Fraud awareness programs focusing of preventive measures; and • Whistleblowing mechanisms.

DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS

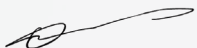
Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance provisions of section 719 (2) of the Kenyan Companies Act, 2015. The Directors monitor the effectiveness, objectivity and independence of the auditor. The Directors also approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees.

BY ORDER OF THE BOARD



Catherine Musakali
Secretary

26 May 2020

DIRECTORS' REMUNERATION REPORT

INFORMATION NOT SUBJECT TO AUDIT

Chairman's statement

The Directors remuneration policy sets out the guidelines that the Group have applied to remunerate its Executive and Non-Executive Directors. The Directors remuneration report has been prepared in accordance with the relevant provisions of the Capital Markets Authority (CMA) code of Corporate Governance and the requirements of the Kenyan Companies Act, 2015.

The Group's Corporate Governance and Nominations committee ("the committee") of the Board is responsible for overseeing and monitoring the Group's corporate governance policies, practices and guidelines.

The Committee is mandated to review the remuneration of the Directors to ensure that the same is competitive and aligned with the business strategy and long-term objectives of the Group.

During the period under review, no Director had entitlement to share options arrangements or other long-term incentives.

The Directors' remuneration policy at a glance is set out below:

Executive Directors

The Executive Director is remunerated in accordance with the staff remuneration policy. His remuneration package comprises a base salary, pension/gratuity and other benefits designed to recognise the skills and experience of an Executive Director.

Non-Executive Directors

In recognition of their contribution to the Company, Non-Executive Directors receive fees as well as sitting allowances for Board and Committee meetings. The fees are approved by Shareholders at Annual General Meetings and are payable on a monthly basis. The Non-Executive Directors are not covered by the Group's incentive programs and do not receive performance-based remuneration. No pension contributions are payable on their fees.

Travel and related expenses

The Group reimburses travel and accommodation expenses related to attendance of Board meetings for Non-Executive Board members who are not Kenyan residents. There is a travel policy for Non-Executive Directors.

Implementation report

During the year under review, there was no arrangement to which the Group was a party where Directors acquired benefits by means of transactions in the Group's shares outside the applicable law. The Group has a strict insider trading policy to which the Directors and senior management must adhere to. There were no Directors' loans at any time during the year.

Directors' Contract of Service

The tenures of the Directors in office at the end of the current financial period are tabulated below:

Director	Start of Contract	End of Contract	Notice Period
Mr. Michael Joseph	2016	2022	N/A
Mr. Jozef Veenstra	2017	2020	N/A
Mr. Jason Kap-Kirwok	2015	2019	N/A
Ms. Caroline Armstrong	2017	2020	N/A
Dr. Kamau Thugge	2013	2022	N/A
Ms. Carol Musyoka	2017	2021	N/A
Mrs. Esther Koimmet	2017	2021	N/A
Dr. Martin Odour-Otieno	2017	2021	N/A
Major Gen (Rtd) Michael Gichangi	2017	2021	N/A
Mr. John Ngumi	2019	2022	N/A
Prof. Paul Mariga	2017	2020	N/A

DIRECTORS' REMUNERATION REPORT (Continued)

INFORMATION SUBJECT TO AUDIT

At the previous Annual General Meeting (AGM) shareholders voted for the adoption of the Directors remuneration through proposal and secondment on the floor of the AGM.

The results of the election were as follows

Vote	Number of ballots	Total shares	Percentage of total votes cast
Against	54	54,010	0.001%
For	227	5,518,070,779	99.997%
Spoilt	23	8,069	0.000%
Withheld	188	94,765	0.002%
	<u>492</u>	<u>5,518,227,623</u>	<u>100.000%</u>

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate.

The remuneration paid to Directors in the period under review and the prior year is summarised in the table below:

31 December 2019

Director	Salary KShs 000	Allowances KShs 000	Fees KShs 000	Compensation for loss KShs 000	Value of non cash benefits Kshs 000	Total KShs 000
Mr. Michael Joseph	-	-	18,000	-	-	18,000
Mr. Sebastian Mikosz	40,062	29,020	-	11,116	10,984	91,182
Mr. Jozef Veenstra*	-	1,136	526	-	-	1,662
Ms. Caroline Armstrong	-	1,358	887	-	-	2,245
Principal Secretary-National Treasury	-	-	526	-	-	526
Principal Secretary-Transport	-	-	790	-	-	790
Ms. Carol Musyoka	-	1,048	526	-	-	1,574
Mrs. Esther Koimett	-	437	-	-	-	437
Dr. Martin Odour-Otieno	-	1,048	887	-	-	1,935
Mr. Nicholas Bodo	-	1,048	-	-	-	1,048
Mr. Ngumi John	-	568	294	-	-	862
Dr. Haron Sirima	-	44	-	-	-	44
Major Gen (Rtd) Michael Gichangi	-	1,441	728	-	-	2,169
Mr. Jason Kap-Kirwok	-	605	443	-	-	1,048
Mr. Festus King'ori	-	524	-	-	-	524
Total	40,062	38,277	23,607	11,116	10,984	124,046

DIRECTORS' REMUNERATION REPORT (Continued)

INFORMATION SUBJECT TO AUDIT (Continued)

31 December 2018

Director	Salary KShs 000	Allowances KShs 000	Fees KShs 000	Value of non cash benefits Kshs 000	Total KShs 000
Mr. Michael Joseph	-	-	18,000	-	18,000
Mr. Sebastian Mikosz	42,022	16,430	-	4,440	62,892
Mr. Jozef Veenstra*	-	830	526	-	1,356
Mr. Jason Kap-Kirwok	-	1,354	887	-	2,241
Ms. Caroline Armstrong	-	917	887	-	1,804
Principal Secretary-National Treasury	-	-	526	-	526
Principal Secretary-Transport	-	-	526	-	526
Ms. Carol Musyoka	-	874	526	-	1,400
Mrs. Esther Koimett	-	437	-	-	437
Dr. Martin Odour-Otieno	-	1,005	887	-	1,892
Mr. Nicholas Bodo	-	655	-	-	655
Mr. Festus King'ori	-	874	-	-	874
Major Gen (Rtd) Michael Gichangi	-	743	526	-	1,269
Total	42,022	24,119	23,291	4,440	93,872

* Fees and allowances are payable to Koninklijke Luchtvaart Maatschappij (KLM) Royal Dutch Airlines.



Catherine Musakali
Company Secretary

Nairobi

26 May 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of Company as at the end of the financial year and of their profit or loss for that year. It also requires the Directors to ensure that the Group and Company maintain proper accounting records that are sufficient to show and explain the transactions of the Group and of Company and disclose, with reasonable accuracy, their financial position. The Directors are also responsible for safeguarding the assets of the Group and the Company, and for taking reasonable steps for the prevention and detection of fraud and error.

The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. They also accept responsibility for:

- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and
- (iii) making accounting estimates and judgments that are reasonable in the circumstances.

The Directors are aware of the material uncertainty caused by the negative working capital position, the recurring losses and the uncertainty associated with the Global COVID-19 as disclosed in note 2(e) to the financial statements. The Directors acknowledge that the continued existence of the Group and the Company as going concern depends on the measures that the Directors will put in place to return the Group and Company to profitable operations as disclosed in note 2(e). The Directors are therefore of the view that the Group and Company will remain a going concern for at least the next twelve months from the date of this report.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.



Michael Joseph
Chairman



Allan Kilavuka
Managing Director

26 May 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENYA AIRWAYS PLC

Opinion

Report on the Audit of the Consolidated and Company Financial Statements

We have audited the consolidated and company financial statements of Kenya Airways Plc, (“the Company”) and its subsidiaries (together “the Group”), set out on pages 70 to 160, which comprise the consolidated and company statements of financial position as at 31 December 2019, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the consolidated and company financial statements give a true and fair view of the consolidated and company financial position of Kenya Airways Plc as at 31 December 2019, and of its consolidated and company financial performance and consolidated and company cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the audit of the consolidated and company financial statements* section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw your attention to note 2(e) in the annual consolidated and company financial statements, which indicates that the Group and Company incurred a loss after tax of KShs 12,985 million (2018: KShs 7,558 million) and KShs 13,017 million (2018: KShs 7,812 million) respectively during the year ended 31 December 2019 and, as of that date, the Group’s and Company’s current liabilities exceeded their current assets by KShs 42,155 million (2018: KShs 101,536 million) and KShs 44,244 million respectively (2018: KShs 104,803 million) respectively. As stated in note 2(e), COVID-19 negatively impacts the operations of the Group and Company and this may result in material uncertainties for the future financial position, performance and cash flows of the group and Company. These events or conditions, along with other matters as set forth therein, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company’s ability to continue as going concerns.

Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENYA AIRWAYS PLC (Continued)

Report on the Audit of the Consolidated and Company Financial Statements (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Revenue recognition</p> <p>The Group's and Company's passenger revenue amounted to KShs 103,631 million and KShs 99,384 million respectively for the year ended 31 December 2019 as disclosed in note 7(a) to the financial statements. Passenger tickets sales, net of discounts and taxes are initially recorded as current liabilities in the "Sales in Advance of Carriage" account and recognised as revenue when the ticket is flown or expires. The Group's and Company's value of unflown tickets in relation to passenger revenue as at 31 December 2019 amounted to KShs 14,859 million and KShs 14,666 million respectively as disclosed in note 34 to the financial statements.</p> <p>Revenue determination and recording relies on complex IT systems in determination of the point of service delivery for flown tickets and the fair value of the services. Additionally, the assessment of the value of expired unutilised tickets to be written back to revenue uses estimates regarding the timing of recognition based on terms and conditions of the ticket and historical trends.</p> <p>Due to the complexity of the IT systems involved in the revenue determination and recognition and the judgement required for the estimation of the unutilised and expired tickets, revenue recognition is considered a key audit matter.</p> <p>For the revenue accounting policy, refer to note 3(c) and for the process used to estimate the write back to revenue refer to note 4(d).</p>	<p>Our audit procedures to address the risk of material misstatement relating to revenue recognition included:</p> <ul style="list-style-type: none"> • Assessing the Group's revenue recognition policy against the relevant International Financial Reporting Standards and, in particular, the revenue standard, IFRS 15: <i>Revenue from Contracts with Customers</i>; • Testing the design, implementation and operating effectiveness of controls over the ticketing and revenue accounting systems; • Matching all the flown tickets in the lift files to the passenger flight manifests; • Reperforming a reconciliation between the total tickets sold, the total revenue recognised (i.e. the total uplifts in the year) including uplifts done by other carriers, the expired tickets recognised in revenue and the sales in advance of carriage (i.e. the unutilised tickets); • Evaluating the reasonability of management's policy for recognising the expired tickets against the terms and conditions of the tickets sold and historical trends; • Re-computing the write back of expired tickets in the year based on management's policy; and • Inspecting manual journals posted to the revenue account for validity. <p>Based on procedures performed, we concluded that the revenue recognition criteria of the Group were in line with the applicable International Financial Reporting Standards. In addition, the disclosures pertaining to revenue were found to be appropriate in the financial statements.</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENYA AIRWAYS PLC (Continued)

Report on the Audit of the Consolidated and Company Financial Statements (continued)

Key audit matters (continued)

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Valuation of foreign currency hedging reserve</p> <p>The Group and Company has hedged its foreign currency risk in relation to its borrowings and lease liabilities against forecasted US dollar denominated future revenue streams. The cash flow hedge is accounted for at fair value and gains and losses arising from fair value changes are deferred in equity if the hedge is considered effective and recognised in the statement of profit or loss when hedges are considered ineffective.</p> <p>As at 31 December 2019, the cash flow hedge reserve balance for the Group and Company amounted to debit balance of KShs 8,896 million as reflected in the statements of changes in equity on pages 77 and 78 respectively.</p> <p>The valuation of the cash flow hedge reserve has been identified as a key audit matter due to the significant management assumptions underlying the determination of the effectiveness of the hedge and the future USD revenue forecasts.</p> <p>Refer to note 3(i) for the accounting policy on cash flow hedges and note 26 for related disclosures.</p>	<p>We evaluated the methodology and key assumptions adopted by the Directors in testing the hedge effectiveness and determining the fair value of the cash flow hedge by:</p> <ul style="list-style-type: none"> • Testing the design and implementation of controls around the management reviews of the cash flow hedge effectiveness assessment; • Reviewing the computations to test the accuracy and completeness of the inputs into the cash flow hedge computation; • Re-computing the period end valuation of the cash flow hedge reserve and checking reasonableness of exchange rates used; • Evaluating the reasonability of the future USD revenue forecasts from sale of passenger tickets; • Engaging our in-house IFRS expert in reviewing the hedge instrument and verifying whether it meets the criteria for hedge accounting as per provisions of IFRS 9: <i>Financial Instruments</i>; and • Re-performing the hedge effectiveness testing and verifying whether it meets the provisions IFRS 9: <i>Financial Instruments</i>. <p>Based on audit procedures completed, we concluded that the cash flow hedge and hedge effectiveness assessments meet the requirements of IFRS 9: <i>Financial Instruments</i>. The period end valuation of the hedge and accompanying disclosures were also found to be appropriate.</p>
<p>Impairment of aircraft and related equipment</p> <p>As disclosed in note 16 of the consolidated and company financial statements as at 31 December 2019, the Group's and Company's aircraft and related equipment amounted to KShs 77,087 million and KShs 77,007 million as at 31 December 2019 respectively; constituting 39% and 38% of the total assets of the Group and the Company respectively.</p> <p>As required by IAS 36: <i>Impairment of assets</i>, the Directors conduct annual impairment tests to assess the recoverability of the carrying value of its aircraft and related equipment.</p> <p>The determination of impairment is based on the Directors' assumptions and significant judgement is made and thus may be subject to bias. Accordingly, impairment of aircraft and related equipment is considered as a key audit matter.</p> <p>Further details on the process used to assess the indicators of impairment in aircraft and related equipment are set out on note 4(a).</p>	<p>Our procedures to address the risk relating to impairment of aircrafts and related equipment included:</p> <ul style="list-style-type: none"> • Assessing the competence, capabilities and objectivity of the Group's and Company's professional valuers, and verified their qualifications and experience; • Discussing the scope of their work and reviewed their terms of engagement to determine that there were no matters that affected their independence and objectivity or imposed scope limitations upon them; • Assessing the valuation methodology and assumptions used by the independent professional valuers to estimate the fair value of the aircraft and related equipment; and • Checking the accuracy and completeness of the input data provided by management to the independent professional valuers, to support evidence, such as flight statistics, maintenance schedules and the total number of aircraft and related equipment. <p>Based on procedures completed, we concluded that the methodology and assumptions used by the Directors in assessment of impairment were appropriate. In addition, the disclosures pertaining to the impairment of aircraft and related equipment were found to be appropriate in the financial statements.</p>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENYA AIRWAYS PLC (Continued)

Report on the Audit of the Consolidated and Company Financial Statements (continued)

Key audit matters (continued)

<p>Valuation of the right of use asset and lease liability related to aircraft and related equipment</p> <p>The Group and Company in the current year have adopted IFRS 16: <i>Leases</i> that is effective for all annual periods that begin on or after 1 January 2019. The Group and Company applied the standard retrospectively using the cumulative effect of initial applying a new standard. As such the comparatives for the 2018 financial year have not been restated.</p> <p>The first time adoption of the standard resulted in the recognition of lease liabilities of KShs 83,059 million and KShs 75,568 and a right of use asset of KShs 75,725 and KShs 68,553 for Group and Company respectively, in relation to aircraft and related equipment for leases previously classified as operating leases applying IAS 17.</p> <p>The lease liabilities have been measured at the present value of the remaining lease payments, discounted using the Group's and Company's discount rate at the date of initial application.</p> <p>The right of use assets has been measured at its carrying amount as if the standard had been applied since the commencement date, but discounted using the Group's and Company's discount rate at the date of initial application.</p> <p>We considered the first-time application of the standard as a key audit matter for aircraft and related equipment leases due to material nature of the leases and the significant management assumptions underlying the determination of the discount rate.</p> <p>Refer to note 3(h) for the accounting policy on leases and for the process used to estimate the discount rate refer to note 4(i).</p>	<p>Our procedures to address the risk relating to valuation of right of use asset and lease liability related to aircraft and related equipment included:</p> <ul style="list-style-type: none"> • Evaluating the Directors' determination of the lease period for each of the aircraft lease contracts; • Evaluating the Directors' determination of other elements to be included in the cost of the right of use assets; • Reviewing the lease agreements so as to ensure that all the lease payments have been included in the determination of the lease liability; • Engaging our in-house fair value specialist in reviewing and re-computing the discount rate used in the model; and • Re-computing the lease liability and right of use asset for aircraft and related equipment as recorded. <p>Based on procedures completed, we concluded that the methodology and assumptions used by the Directors in the valuation of right of use asset and lease liability related to aircraft and related equipment were appropriate. In addition, the disclosures pertaining to the right of use asset and lease liabilities were found to be appropriate in the financial statements.</p>
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENYA AIRWAYS PLC (Continued)

Report on the Audit of the Consolidated and Company Financial Statements (continued)

Key Audit Matters (continued)

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Fleet accounting of prepaid maintenance asset and return condition provisions</p> <p>The Group and Company operated 27 and 21 aircrafts respectively under operating lease arrangements as at 31 December 2019.</p> <p>Under the terms of the operating lease arrangements with the lessors, the Group and Company is contractually committed to return the aircraft and engines in a certain condition at the date of return. Accordingly, the Group and Company have recognised a return condition provision amounting to KShs 7,591 million and KShs 5,733 million respectively as at 31 December 2019 as disclosed under note 32.</p> <p>In addition, the lease agreements require the Group and Company to make payments towards the maintenance of the aircraft. The lessors are contractually obligated to reimburse the Group and Company for the qualifying maintenance expenditure incurred on the aircraft if the Group and Company has a maintenance reserve credit. As at 31 December 2019, the Group and Company had a prepaid maintenance asset of KShs 5,533 million and KShs 4,696 million respectively as disclosed under note 22.</p> <p>The return condition provision requires the Directors to determine whether there is an unavoidable contractual obligation at the end of each reporting period and this is calculated taking into account the number of hours or cycles operated, the expected future cost of future maintenance and the discount rate to use.</p> <p>Due to the significant management assumptions underlying the determination of the expected future costs of future maintenance and the discount rate, fleet accounting of prepaid maintenance asset and return condition provision is considered a key audit matter</p> <p>Further details on the process used to estimate the return condition provision are set out in note 4(h).</p>	<p>Our procedures to address the risk relating to fleet accounting of prepaid maintenance asset and return condition provisions included:</p> <ul style="list-style-type: none"> • Reviewing the lease agreements so as to gain an understanding of the significant terms which influence the economics of, and hence accounting for, the Group's and Company's obligations; • Testing the completeness of the provision by ensuring that all significant return condition obligations included in aircraft operating lease contracts were included in the calculation; • Assessing the Directors' assumptions as to the expected future cost of maintenance by corroborating the estimate of the cost of maintenance work to third party price lists and quotes, or to historic invoices; • For the maintenance reserve, we obtained confirmations from the lessors of the maintenance reserve payments held at the end of the reporting period; and • Assessing the recoverability of the balance from the lessors by considering the expected future maintenance cost against which the Group and Company could claim. <p>Based on procedures completed, we concluded that the Group and Company the assumptions used by the Directors in assessment of the return condition provision and recoverability of the prepaid maintenance asset were appropriate and had been accurately applied. In addition, the disclosures pertaining to the return condition provision and the prepaid maintenance asset found to be appropriate in the financial statements.</p>

Other information

The Directors are responsible for the other information. The other information comprises Statement of Corporate Governance, Report of the Directors, Directors' remuneration report and the schedule of Principal Shareholders and Share Distribution which were obtained prior to the date of this auditor's report. The other information does not include the consolidated and company financial statements and our auditors' report thereon.

Our opinion on the consolidated and company financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and company financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and company financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENYA AIRWAYS PLC (Continued)

Report on the Audit of the Consolidated and Company Financial Statements (continued)

Responsibilities of the Directors for the consolidated and company financial statements

The Directors are responsible for the preparation and fair presentation of the consolidated and company financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the Directors determine are necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company and its subsidiaries or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and company financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and company financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated and company financial statements, including the disclosures, and whether the consolidated and company financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board Audit and Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENYA AIRWAYS PLC (Continued)

Report on the Audit of the Consolidated and Company Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated and company financial statements (Continued)

We also provide the Board Audit and Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board Audit and Risk Committee, we determine those matters that were of most significance in the audit of the consolidated and company financial statements of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Kenya Companies Act, 2015

Report of the Directors

In our opinion the information given in the Report of the Directors on pages 53 to 56 is consistent with the financial statements.

Directors' Remuneration Report

In our opinion the auditable part of the Director's Remuneration Report presented on pages 57 to 59 has been prepared in accordance with the Kenyan Companies Act, 2015.



Certified Public Accountants (Kenya)
Nairobi

26 May 2020

CPA Fredrick Okwiri - P/No 1699
Signing partner responsible for the independent audit

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs million	2018 KShs million
Revenue	7(a)	127,678	114,185
Other income	7(b)	639	-
Total income		128,317	114,185
Direct costs	8(a)	(80,977)	(75,030)
Fleet ownership costs	8(b)	(25,343)	(18,929)
Overheads	8(c)	(22,850)	(20,909)
Operating loss		(853)	(683)
Finance costs	9	(10,031)	(5,130)
Interest income	9	30	45
Other losses	10	(2,121)	(1,820)
Loss before taxation	11	(12,975)	(7,588)
Taxation (charge)/credit	12(a)(i)	(10)	30
Loss for the year		(12,985)	(7,558)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on property revaluation	16	2,468	-
Deferred tax on revaluation	30	(740)	-
		1,728	-
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in fair value in relation to fuel hedges	26(d)	435	(435)
Gain on hedged exchange differences - borrowings	28(a)(iii)	1,289	2,045
Gain on hedged exchange differences - lease liabilities	29	676	-
		2,400	1,610
Other comprehensive income for the year, net of tax		4,128	1,610
Total comprehensive loss for the year		(8,857)	(5,948)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

	Notes	2019 KShs million	2018 KShs million
Loss for the year is attributable to:			
Owners of the Company		(12,986)	(7,554)
Non-controlling interest	27	1	(4)
		<u> </u>	<u> </u>
Loss for the year		(12,985)	(7,558)
		<u> </u>	<u> </u>
Total comprehensive loss for the year is attributable to:			
Owners of the Company		(8,858)	(5,944)
Non-controlling interest	27	1	(4)
		<u> </u>	<u> </u>
Total comprehensive loss for the year		(8,857)	(5,948)
		<u> </u>	<u> </u>
Earnings per share:			
Basic loss per share (KShs)	13	(2.23)	(1.30)
		<u> </u>	<u> </u>

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs million	2018 KShs million
Revenue	7(a)	121,001	107,820
Other income	7(b)	639	-
Total income		<u>121,640</u>	<u>107,820</u>
Direct costs	8(a)	(78,602)	(72,318)
Fleet ownership costs	8(b)	(23,919)	(17,616)
Overheads	8(c)	(20,519)	(18,792)
Operating loss		<u>(1,400)</u>	<u>(906)</u>
Finance costs	9	(9,471)	(5,127)
Interest income	9	34	51
Other losses	10	(2,143)	(1,798)
Loss before taxation	11	<u>(12,980)</u>	<u>(7,780)</u>
Taxation charge	12(b)(i)	(37)	(32)
Loss for the year		<u>(13,017)</u>	<u>(7,812)</u>
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on property revaluation	16	2,366	-
Deferred tax on revaluation	30	(710)	-
		<u>1,656</u>	<u>-</u>
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in fair value in relation to fuel hedges	26(d)	435	(435)
Gain on hedged exchange differences - borrowings	28(a)(iii)	1,289	2,045
Gain on hedged exchange differences - lease liabilities	29	676	-
		<u>2,400</u>	<u>1,610</u>
Other comprehensive income for the year, net of tax		<u>4,056</u>	<u>1,610</u>
Total comprehensive loss for the year		<u><u>(8,961)</u></u>	<u><u>(6,202)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 KShs million	2018 KShs million
ASSETS			
Non-current assets			
Property, aircraft and equipment	16	89,357	99,835
Intangible assets	17	2,874	2,962
Right-of-use-assets	18	69,562	-
Return conditions asset	19	4,686	2,587
Aircraft deposits	21	3,327	3,076
Deferred taxation	30	207	198
		170,013	108,658
Current assets			
Prepaid maintenance asset	22	5,533	3,398
Inventories	23	2,115	2,098
Trade and other receivables	24	13,647	14,437
Fuel derivatives	26(a)	-	354
Current tax recoverable	12(c)	1,270	1,258
Cash and bank balances		3,095	6,431
		25,660	27,976
TOTAL ASSETS		195,673	136,634
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25(a)	5,824	5,824
Share premium	25(a)	49,223	49,223
Mandatory convertible note	25(b)	9,630	9,630
Treasury shares	25(c)	(142)	(142)
Foreign currency hedging reserve	26(c)	(8,896)	(10,861)
Fuel hedging reserve	26(a)	-	(435)
Revaluation surplus		6,639	4,911
Accumulated loss		(80,224)	(60,688)
		(17,946)	(2,538)
Equity attributable to owners of the company			
Non-controlling interests	27	50	49
		(17,896)	(2,489)
Total equity		(17,896)	(2,489)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 31 DECEMBER 2019

	Notes	2019 KShs million	2018 KShs million
Liabilities			
Non-current liabilities			
Borrowings	28	69,468	5,186
Lease liabilities	29	68,533	-
Deferred taxation	30	2,723	2,013
Onerous lease provision	31	-	30
Return condition provision	32	5,016	2,382
Asset retirement obligation	33	14	-
		145,754	9,611
Current liabilities			
Fuel derivatives	26(a)	-	789
Borrowings	28	6,625	77,362
Lease liabilities	29	11,497	-
Onerous lease provision	31	-	701
Return condition provision	32	2,575	1,793
Sales in advance of carriage	34	14,859	17,551
Trade and other payables	35	30,685	30,038
Provisions	36	1,574	1,278
		67,815	129,512
TOTAL EQUITY AND LIABILITIES		195,673	136,634

The financial statements on pages 70 to 160 were approved and authorised for issue by the Board of Directors on 26 May 2020 and signed on its behalf by:



Michael Joseph
Chairman



Allan Kilavuka
Managing Director

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

ASSETS	Notes	2019 KShs million	2018 KShs million
Non-current assets			
Property, aircraft and equipment	16	88,516	99,099
Intangible assets	17	2,862	2,943
Right-of-use-assets	18	59,551	-
Return conditions asset	19	3,743	2,141
Investment in subsidiaries	20(a)	435	601
Aircraft deposits	21	3,327	3,076
		<hr/>	<hr/>
		158,434	107,860
		<hr/>	<hr/>
Current assets			
Prepaid maintenance asset	22	4,696	3,018
Inventories	23	2,115	2,098
Trade and other receivables	24	30,776	29,952
Fuel derivatives	26(a)	-	354
Current tax recoverable	12(c)	1,256	1,252
Cash and bank balances		2,900	6,243
		<hr/>	<hr/>
		41,743	42,917
		<hr/>	<hr/>
TOTAL ASSETS		200,177	150,777
		<hr/> <hr/>	<hr/> <hr/>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25(a)	5,824	5,824
Share premium	25(a)	49,223	49,223
Mandatory convertible note	25(b)	9,630	9,630
Treasury Shares	25(c)	(142)	(142)
Foreign currency hedging reserve	26(c)	(8,896)	(10,861)
Fuel hedging reserve	26(a)	-	(435)
Revaluation surplus		6,353	4,697
Accumulated loss		(82,869)	(63,738)
		<hr/>	<hr/>
Total equity		(20,877)	(5,802)
		<hr/>	<hr/>
Liabilities			
Non-current liabilities			
Borrowings	28	69,468	5,186
Lease liabilities	29	59,527	-
Deferred taxation	30	2,723	2,013
Onerous lease provision	31	-	30
Return condition provision	32	3,336	1,630
Asset retirement obligation	33	13	-
		<hr/>	<hr/>
		135,067	8,859
		<hr/>	<hr/>

COMPANY STATEMENT OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2019

	Notes	2019 KShs million	2018 KShs million
Liabilities			
Current liabilities			
Fuel derivatives	26(a)	-	789
Borrowings	28	6,625	77,362
Lease liabilities	29	10,057	-
Onerous lease provision	31	-	701
Return condition provision	32	2,397	1,793
Sales in advance of carriage	34	14,666	17,412
Trade and other payables	35	50,763	48,423
Provisions	36	1,479	1,240
		85,987	147,720
TOTAL EQUITY AND LIABILITIES		200,177	150,777

The financial statements on pages 70 to 160 were approved and authorised for issue by the Board of Directors on 26 May 2020 and signed on its behalf by:



Michael Joseph
Chairman



Allan Kilavuka
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital KShs million	Share premium KShs million	Mandatory convertible note KShs million	Treasury shares KShs million	Foreign currency hedging reserve KShs million	Fuel hedging reserve KShs million	Revaluation reserve KShs million	Accumulated loss KShs million	Total KShs million	Non-controlling interest KShs million	Total equity KShs million
At 1 January 2018		5,824	49,221	9,630	(142)	(12,906)	-	4,911	(53,134)	3,404	53	3,457
Issue of ordinary shares through conversion of mandatory convertible note	25(a)	-	2	-	-	-	-	-	-	2	-	2
Loss for the year		-	-	-	-	-	-	-	(7,554)	(7,554)	(4)	(7,558)
Other comprehensive income for the year		-	-	-	-	2,045	(435)	-	-	1,610	-	1,610
At 31 December 2018		5,824	49,223	9,630	(142)	(10,861)	(435)	4,911	(60,688)	(2,538)	49	(2,489)
At 1 January 2019 - as previously reported		5,824	49,223	9,630	(142)	(10,861)	(435)	4,911	(60,688)	(2,538)	49	(2,489)
Effect of change of accounting policy for IFRS 16	3(aa) (e)	-	-	-	-	-	-	-	(6,550)	(6,550)	-	(6,550)
At 1 January 2019 - restated		5,824	49,223	9,630	(142)	(10,861)	(435)	4,911	(67,238)	(9,088)	49	(9,039)
Loss for the year		-	-	-	-	-	-	-	(12,986)	(12,986)	1	(12,985)
Other comprehensive income for the year		-	-	-	-	1,965	435	1,728	-	4,128	-	4,128
At 31 December 2019		5,824	49,223	9,630	(142)	(8,896)	-	6,639	(80,224)	(17,946)	50	(17,896)

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital KShs million	Share premium KShs million	Mandatory convertible note million	Treasury shares KShs million	Foreign currency hedging reserve KShs million	Fuel hedging reserve KShs million	Revaluation reserve KShs million	Accumulated loss KShs million	Total KShs million
At 1 January 2018	5,824	49,221	9,630	(142)	(12,906)	-	4,697	(55,926)	398
Issue of ordinary shares through conversion of mandatory convertible note	-	2	-	-	-	-	-	-	2
Loss for the year	-	-	-	-	-	-	-	(7,812)	(7,812)
Other comprehensive income for the year	-	-	-	-	2,045	(435)	-	-	1,610
At 31 December 2018	5,824	49,223	9,630	(142)	(10,861)	(435)	4,697	(63,738)	(5,802)
At 1 January 2019 - as previously reported	5,824	49,223	9,630	(142)	(10,861)	(435)	4,697	(63,738)	(5,802)
Effect of change of accounting policy for IFRS 16	-	-	-	-	-	-	-	(6,114)	(6,114)
At 1 January 2019 - restated	5,824	49,223	9,630	(142)	(10,861)	(435)	4,697	(69,852)	(11,916)
Loss for the year	-	-	-	-	-	-	-	(13,017)	(13,017)
Other comprehensive income for the year	-	-	-	-	1,965	435	1,656	-	4,056
At 31 December 2019	5,824	49,223	9,630	(142)	(8,896)	-	6,353	(82,869)	(20,877)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

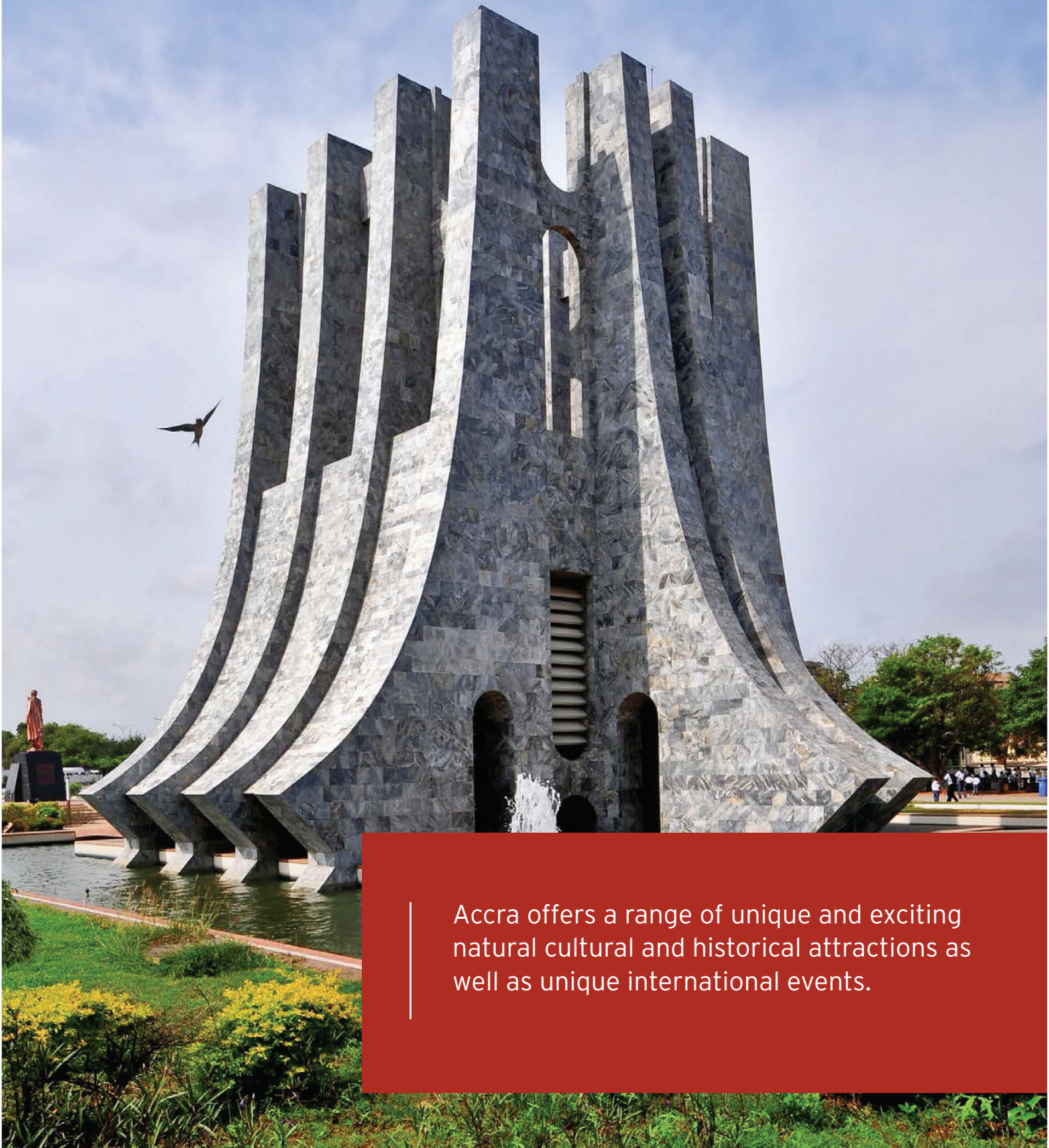
	Notes	2019 KShs million	2018 KShs million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	38(a)	20,655	11,238
Interest received		30	45
Interest paid		(4,683)	(4,838)
Income tax paid	12(c)	(61)	(62)
		<hr/>	<hr/>
Net cash generated from operating activities		15,941	6,383
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, aircraft and equipment	16	(1,284)	(732)
Proceeds of disposal of property, aircraft and equipment		15	673
Proceeds from sale and leaseback	15	2,945	-
Purchase of intangible assets	17(b)	(24)	(75)
Deposits paid for aircraft purchases	21	(528)	(311)
Aircraft deposit refunds received	21	324	2,486
Onerous lease payments	31	-	(1,023)
		<hr/>	<hr/>
Net cash generated from investing activities		1,448	1,018
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities	29	(13,805)	-
Repayments of borrowings	28(a)(iii)	(6,859)	(7,301)
Commitment and commission fees paid during the year	28(d)	(61)	(25)
		<hr/>	<hr/>
Net cash used in financing activities		(20,725)	(7,326)
		<hr/>	<hr/>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(3,336)	75
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		6,431	6,356
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,095	6,431
		<hr/> <hr/>	<hr/> <hr/>
REPRESENTED BY			
Cash and bank balances		3,095	6,431
		<hr/> <hr/>	<hr/> <hr/>

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs million	2018 KShs million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	38(a)	19,247	11,095
Interest received		34	51
Interest paid		(4,681)	(4,835)
Income tax paid	12(c)	(41)	(35)
		<hr/>	<hr/>
Net cash generated from operating activities		14,559	6,276
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, aircraft and equipment	16	(1,219)	(621)
Proceeds of disposal of property, aircraft and equipment		15	673
Proceeds from sale and leaseback	15	2,945	-
Purchase of intangible assets	17(b)	(19)	(74)
Deposits paid for aircraft purchases	21	(528)	(311)
Aircraft deposit refunds received	21	324	2,486
Onerous lease payments	31	-	(1,023)
		<hr/>	<hr/>
Net cash generated from investing activities		1,518	1,130
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities	29	(12,500)	-
Repayments of borrowings	28(a)(iii)	(6,859)	(7,301)
Commitment and commission fees paid during the year	28(d)	(61)	(25)
		<hr/>	<hr/>
Net cash used in financing activities		(19,420)	(7,326)
		<hr/>	<hr/>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(3,343)	80
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		6,243	6,163
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,900	6,243
		<hr/> <hr/>	<hr/> <hr/>
REPRESENTED BY			
Cash and bank balances		2,900	6,243
		<hr/> <hr/>	<hr/> <hr/>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1 REPORTING ENTITY

Kenya Airways Plc (“the Company”) is a limited liability company incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The annual financial statements comprise the consolidated and company financial statements. The subsidiaries in the group are namely Kenya Airfreight Handling Limited, Kencargo Airlines International Limited, Jambojet Limited, African Cargo Handling Limited and Pride oil Limited (together referred to as the “Group” and individually as “Group Companies”).

The Group is primarily involved in 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 address of its registered office is as shown on page 4. The Company’s shares are listed on the Nairobi Securities Exchange, Dar es Salaam Stock Exchange and the Uganda Securities Exchange.

2 BASIS OF PREPARATION

(a) Basis of Accounting

The consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Kenya Companies Act, 2015.

For Kenyan Companies Act, 2015 reporting purposes in these financial statements, the balance sheet is represented by the statement of financial position and the profit and loss account is presented within the statement of profit or loss and other comprehensive income.

A summary of significant accounting policies is presented in note 3.

(b) Basis of measurement

The consolidated and company financial statements have been prepared on the historical cost basis of accounting except for Land and buildings which are measured at revalued amounts and derivative financial instruments which are measured at fair value.

(c) Functional and presentation currency

These consolidated and company financial statements are presented in Kenya shillings (KShs), which is also the Group’s and Company’s functional currency. Except as otherwise indicated, financial information presented in KShs has been rounded to the nearest million shilling (KShs million).

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors’ best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

(e) Going concern

The Group and Company incurred a net loss after tax of KShs 12,985 million (2018: KShs 7,558 million) and KShs 13,017 million (2018: KShs 7,812 million) respectively during the year ended 31 December 2019 and, as of that date, the Group’s and Company’s current liabilities exceeded current assets by KShs 42,155 million (2018: KShs 101,536 million) and KShs 44,244 million (2018: KShs 104,803 million) respectively. In addition, as at 31 December 2019, the Group’s and Company’s total liabilities exceeded total assets by KShs 17,896 million (2018: KShs 2,489 million) and 20,877 million (2018: KShs 5,802 million) respectively. These conditions have been compounded by the effects of COVID-19 which has been declared a global health pandemic by the World Health Organisation (WHO) and has negatively affected the global economy including the airline industry.

The above conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s and Company’s ability to continue as a going concern, and therefore may be unable to realize its assets and discharge its liabilities in the normal course of business.

As reported last year, the Group and Company have continued with the business turnaround plan.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 BASIS OF PREPARATION (continued)

(e) Going concern (continued)

The Group and Company have strategic initiatives in place with focus on:

- a) Network optimisation through growth and increased partnerships;
- b) Opening new routes with focus on high yield routes;
- c) Operational excellence aimed at cost efficiency and improved service delivery;
- d) Grow Capacity;
- e) Improved customer experience with a view to grow market share;
- f) Change of business model and use of technology to drive growth;
- g) Grow scale in non-passenger related revenues; and
- h) The proposed nationalisation of the airline.

In addition, as part of the balance sheet restructuring in 2017, the Government of Kenya (GoK) issued guarantees in the aggregate amount of USD 750 million in favour of Exim Bank and a consortium of Kenyan banks in relation to certain obligations of the Group and Company to Exim Bank and the consortium of Kenyan Banks. Part of the guarantee to the local banks includes USD 175 million (USD 42 million loan facility and USD 133 million as letter of credit facility) to provide working capital requirements to the Group and Company. As at 31 December 2019, the Group and Company had fully utilised the facility.

The actions under the above initiatives were already bearing fruit with a slight improvement in the revenue performance of the Group and Company during the year ended 31 December 2019. The Directors believe the plans will, in the medium to long term, improve the Group's and Company's performance, cash flows and liquidity position. The execution of some of the plans have however been negatively affected by the uncertainty regarding the outbreak of COVID-19 pandemic.

The key shareholders have been and continue to be appraised of and involved in the process of the required long-term support and turnaround plan.

The Government of Kenya has committed, through a letter of support, to continue providing the required financial support to the Group and Company to enable it to implement its turnaround program and meet its financial obligations as and when they fall due, for at least the next 12 months from the date of approval of the annual financial statements for the year ended 31 December 2019. In showing its commitment to supporting Kenya Airways, the Government has injected KShs 5 billion in February 2020 to facilitate the overhaul of the E-190 fleet.

The Government has also initiated an Aviation sector reform program that will, among other things, see the consolidation of Aviation sector assets in Kenya. This program is, in part, aimed at nationalisation of the airline into a state corporation that will belong to a group structure that sees the merger of the

airport and the airline assets thus significantly strengthening the consolidated aviation balance sheet.

The Directors recognise that there can be no assurance that the Group and Company will be successful with its strategic initiatives and balance sheet restructuring plans. Actual results could differ materially due to numerous factors including the material disruption of our strategic operating plan as a result of COVID-19, and our ability to execute our strategic operating plans in the long term; risks of doing business globally, including demand for travel and the impact that global economic and political conditions have on customer travel patterns; competitive pressures on pricing and on demand; changes in aircraft fuel prices and disruptions in supply.

In evaluating the going concern assumption in preparation of the financial statements, the Directors have also considered the uncertainty relating to the impact of COVID-19 as disclosed in note 43 to the financial statements.

As a result of the crisis, the Group has currently suspended its passenger transport business across the international and domestic network with exception of cargo and chartered passenger repatriation. In this regard, the Group and the global aviation industry as a whole has realised significant disruption in business and an increasingly negative impact on air travel demand, revenue generation, working capital, as well as overall macroeconomic uncertainty.

The Group and Company are putting in place the following critical initiatives to reduce expenses and conserve cash in order to ensure that the Group and Company are a going concern during this volatile situation:

- Constructive negotiations are ongoing with lenders and lessors for granting of moratoriums on the loan repayment and deferral of lease payments.
- The Group has also taken austerity measures to reduce costs. These measures include but not limited to Director and staff pay cuts, reducing and deferring capital expenditure, freezing recruitment discretionary spending and implementing voluntary leave options.
- The Kenyan Government, which is the largest shareholder, is demonstrating strong support and commitment to help Kenya Airways to face the challenges. The Government is well appraised of the impact of COVID-19 on the business operations and is in discussions with the Directors and management with a view to offering relief through a cash injection in the short term. The quantum of that relief shall be made public once this is agreed upon including the terms and conditions of the additional funding support.

Although the Directors believe the initiatives will be successful and have prepared the financial statements on a going concern basis, the events, conditions and assumptions described above inherently include material uncertainties that may cast significant doubt on going concern as a result of the current COVID-19 situation. However, the Directors have assessed

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 BASIS OF PREPARATION (continued)

(e) Going concern (continued)

the current trading and cash flow projections, and, after carefully considering the progress of the initiatives above and expectation of cash injection from the Government in the near term, have a reasonable expectation that the Group and Company will continue in operational existence for the foreseeable future. Accordingly, the Directors have prepared the consolidated and company financial statements on a going concern basis based on the plans described above and letter of financial support from the Government.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated and company financial statements have been applied consistently to all periods presented in these financial statements except for IFRS 16 that has been adopted in the current year.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(ii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in the subsidiary that does not result in loss of control are accounted for as equity transactions.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in that investee. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(b) Transactions in foreign currencies

Transactions in foreign currencies during the year are converted into the respective functional currencies of Group companies at rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rates ruling at the reporting date. The resulting differences from conversion are recognised in profit or loss in the year in which they arise.

Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated at the exchange rate ruling at the transaction date.

However, foreign currency differences arising from the translation of qualifying cash flow hedges (Borrowings and lease liabilities relating to aircraft) are recognised in other comprehensive income to the extent that the hedge is effective.

(c) Revenue recognition

Revenue represents the fair value of the consideration received or receivable for sale of goods and services and is stated net of value added tax (VAT), rebates and discounts.

The Group recognises revenue from the following major sources:

- providing international, regional and domestic carriage of passengers by air;
- providing international, regional and domestic carriage of freight and mail by air; and
- providing handling services to other airlines and the handling of import and export cargo.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when rights and obligations of the service has been transferred to the customer.

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all its

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition (continued)

revenue arrangements except for passenger interline, sales on board and sale of holiday packages where the Group acts as an agent. The specific recognition criteria described below must also be met before revenue is recognised.

• *Passenger, freight and mail*

Revenues from passenger ticket sales, including non-distinct ancillary fees and revenue from cargo airway bills, net of discounts, are recognised as traffic revenue when rights and obligations of the service has been transferred to the customer being at the point when the air transport has been carried out. The value of the tickets sold and still valid but not used by the end of the reporting period is reported as unearned revenue in the Sales in Advance of Carriage account. This item is reduced either when Kenya Airways or another airline completes the transportation or when the passenger requests for a refund. Unutilised tickets are recognised as revenue using estimates regarding the timing of recognition based on historical trends.

• *Handling services*

Sale of handling and ramp services is recognised when rights and obligations of the service has been transferred to the customer. That is being at the point in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a percentage of the total services to be provided.

• *Lease rental income*

Revenue from lease rental income is recognized when rights and obligations of the asset is transferred to the customer, that is being at the point in which the asset is utilised by the lessee.

• *Sub lease rental income*

Revenue from sub lease rental income is recognized when rights and obligations of the leased asset is transferred to the customer, that is being at the point in which the asset is utilised by the lessee.

• *Other Revenue*

Engineering services

The Group uses the “percentage of completion method” to determine the appropriate amount of revenue and cost relating to third-party maintenance contracts to be recognised in the statement of profit or loss in each period, when the outcome can be estimated reliably. When the outcome of a maintenance contract cannot be estimated

reliably, contract revenue is recognised only to the extent of contract cost incurred that are likely to be recoverable.

Training services

Revenue from training services are recognised when rights and obligations of the service is transferred to the customer based on level of completion of the service while advance payments are recognised as contract liabilities.

Interest income

Income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable.

(d) Frequent flyer programmes

Kenya Airways Plc is currently hosted on Air France/KLM frequent flyer programme called Flying Blue. Under the Flying Blue Programme, members earn miles by using both airline and non-airline partners. Kenya Airways is invoiced by Air France/KLM and is required to pay for the miles that are earned on the programme. Accumulated miles can be used by members to get a variety of awards ranging from free tickets to flight upgrades. Kenya Airways Plc earns revenue as miles are redeemed on its services. KENYA AIRWAYS PLC

(e) Property, aircraft and equipment

(i) *Recognition, measurement and subsequent expenditure*

Land and buildings are initially measured at cost and then are subsequently measured at the fair value on the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

Other categories of property, aircraft and equipment are included in the financial statements at their historical cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The Group allocates the amount initially recognised in respect of an item of property, aircraft and equipment to its significant components and depreciates separately each component. Aircrafts are componentised into airframe, engine, landing gear, auxiliary power (APU) unit and cabin reconfigurations. Major maintenance of engines and APU including replacement spares and parts, labour costs and/or third-party maintenance service costs, are capitalised and depreciated over the average expected life between major maintenance events.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the cost

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, aircraft and equipment (continued)

of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of replacing part of an item of property or aircraft or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property, aircraft and equipment are recognised in profit or loss.

Gains and losses on disposal of property, aircraft and equipment are determined by comparing the proceeds of disposal with the carrying amount of the item of property, aircrafts and equipment and are recognised in profit or loss in the year in which they arise.

(ii) Depreciation

Depreciation is calculated on the straight-line basis to allocate the cost or revalued amounts to their residual values over the estimated useful lives of the property, aircrafts and equipment. The depreciation rates for the current and comparative year are as follows:

<i>Aircraft and related equipment:</i>	%
Boeing 787, 777, 737-300 & 737-700	5.56 - 20.00
Embraer E190	5.56 - 20.00
Simulator	5.00
 <i>Other property and equipment:</i>	 %
Ground service equipment	25.00
Motor vehicles	25.00
Communication assets	12.50
 Other assets	 20.00 - 30.00
Buildings	2.50
Leasehold land	Over the period of the lease
Freehold land	Not depreciated

The depreciation methods, useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

(iii) Revaluation

Land and buildings are revalued every three years. The carrying amounts are adjusted to the revaluations and the resulting increase, net of deferred tax, is recognised in other comprehensive income and presented in the revaluation reserve within equity.

Revaluation decreases that offset previous increases of the same asset are charged or recognised in other comprehensive income with all other decreases being charged to profit or loss.

Revaluation surpluses are not distributable.

Depreciation on revalued land and buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

(iv) Non-depreciable assets

These are assets that have not yet been brought to the location and/or condition necessary for it to be capable of operating in the manner intended by management. In the event of partially completed construction work that has necessitated advance or progress payments, or work-in-progress, depreciation will only commence when the work is complete. Property, aircrafts and equipment are classified as work-in-progress if it is probable that future economic benefits will flow to the Group and the cost can be measured reliably.

Amounts held within work in progress that are substantially complete, in common with other fixed assets, are assessed for impairment.

(f) Intangible assets - capitalised software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the cost to complete the development. Internally developed software is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software is capitalised only if the definition of an intangible asset and the recognition criteria are met. All other expenditure is expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Intangible assets - capitalised software (continued)

The costs are amortised on the straight-line basis over the expected useful lives, from the date the software is available for use. Software is amortised for a period not more than five years. Amortisation methods, useful lives and residual values are reviewed and adjusted if appropriate, at each reporting date.

(g) Intangible assets – landing slot

Landing slots are measured initially at cost. No amortisation charge is recognised for landing slots as their useful lives are considered to be indefinite. Following initial recognition, landing slots are measured at cost less accumulated impairment losses, if any. Capitalised landing rights based within the European Union (EU) are not amortised, as regulations provide that these landing rights are perpetual.

(h) Leases

Group's lease portfolio

The Group leases comprise of buildings and aircraft and related equipment leases.

Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under

residual value guarantees;

- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated and company statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group remeasured the lease liabilities of some aircraft leases which were modified in the current year.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and onerous leave provisions impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases (continued)

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated and company statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

The Group as a lessor

The Group enters into lease agreements as a lessor with respect to some of its aircraft and properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Return conditions provision

Return condition provisions represents the estimate of the cost to meet the contractual lease end obligations on certain aircraft and engines held under lease arrangements. The present value of the expected cost is recognised over the lease term considering the existing fleet plan and long-term maintenance schedules.

Prepaid maintenance asset

Prepaid maintenance asset are payments made in advance to lessors in terms of the aircraft lease contract for maintenance of the aircraft. The lessors are contractually obligated to reimburse the lessees for the qualifying maintenance expenditure incurred on the aircraft if the lessee has a maintenance reserve credit. At the beginning of the lease period, the Group needs to determine how much of the maintenance reserve payments is recoverable and how much relates to supplemental rent. The prepaid maintenance asset is assessed annually for recoverability against the Group's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve prepayments are treated as supplemental rent and expensed accordingly.

(i) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and fuel price risk exposures. Derivatives are initially recognised at fair value; any directly attributable transaction costs are recognised in profit or loss. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The Group designates:

- Specific derivatives to hedge fuel price risks; and
- Non-derivative financial liabilities to hedge foreign currency risk in a cash flow hedge relationship.

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

All hedging activities are carried out in accordance with the Group's internal risk management policies, as approved by the Board of Directors, and in accordance with the applicable regulations where the Group operate.

When a derivative is designated as a cash flow hedging instrument, the effective portion of the changes in fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of the changes in fair value of the derivative is recognised immediately in profit or loss. The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period as periods during which the hedged item affects the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Derivative financial instruments and hedge accounting (continued)

If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. Any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or excised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

(j) Aircraft purchase

(i) Aircraft subsidy

The Group receives credits from manufacturers in connection with the acquisition of certain aircraft engines. These credits are offset against the cost of new aircraft where the credit is in effect a discount on the price.

(ii) Deferred income

Credits relating to delays in delivery are deferred and recognised in profit or loss on delivery of the aircraft.

(iii) Deferred expenditure

The Group amortises cost of obtaining aircraft financing over the loan repayment period. The deferred expenditure is capitalised to the related borrowing (see note 28(d)).

(iv) Aircraft deposits

The Group makes deposits to manufacturers/lessors in relation to acquisition of aircraft. Some of these deposits earn a nominal interest annually. The Group amortises discounts arising from the difference between the maturity value of the deposits and their fair value based on amortised cost.

(k) Employee benefits

(i) Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group have a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(ii) Leave accrual

The monetary value of the unutilised leave by staff as at year end is carried in accruals as a payable and movements in the year are recognised in profit or loss.

(iii) Employee Share Ownership Scheme (ESOP)

The Group operates an ESOP that was set up during the Initial Public Offering in 1996. The scheme is inactive and currently holds 496,625 shares (2018: 496,625 shares). As part of the 2017 capital restructuring, a new ESOP scheme was created and the trustee allocated 142,164,558 ordinary shares which had not been issued to staff at the close of the year.

(iv) Defined contribution plan

The employees of the Group participate in a defined contribution retirement benefit scheme. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Group and employees. The Group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme. The Group's contributions to defined contribution schemes are charged to profit or loss in the year to which they relate. The Group has no further obligation once the contributions have been paid.

(v) Staff gratuity

The Group has a gratuity arrangement for certain staff who are not covered by the defined contribution plan. Entitled staff are eligible for gratuity upon retirement/leaving the Group based on their contracts.

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current taxation

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Taxation (continued)

(ii) *Deferred taxation*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(m) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of the business including direct material costs and other overheads incurred to bring the asset to the existing location and condition. Cost of issues is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of disposal. An allowance is made for obsolete, slow moving and defective inventories.

(n) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprises cash in hand, bank balances and short term deposits net of bank overdrafts.

(o) Share capital

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

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction.

(p) Compound instruments

The component parts of compound instruments (convertible notes) issued by the Group are classified separately as financial

liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon the conversion or at the instrument's maturity date.

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of any income tax effects and is not subsequently re-measured. The component will remain classified as equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital/share premium account.

(q) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(i) *Classification of financial assets*

The Group classifies financial instruments into three categories as described below.

Financial assets that meet the following conditions are measured subsequently at amortised cost:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Financial instruments (continued)

Financial assets (continued)

(i) Classification of financial assets (continued)

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:
- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(ii) De-recognition

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

On derecognition of a financial asset measured at amortised cost, the difference between the assets carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss

previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

(iii) Offsetting of financial assets and liabilities

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

(r) Impairment

(i) Financial assets

The Group recognises an allowance for expected credit losses (ECLs) for its Trade receivables, Aircraft deposits and Bank balances. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Other assets include cash and bank balances and deposits which the Group uses counter party external rating equivalent both to determine whether the financial asset has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Impairment (continued)

(i) Financial assets (continued)

before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, there being

assets that take substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Other borrowing costs are recognised as an expense as per note 9.

(u) Provision for liabilities

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

Provisions for employee legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions for employee restructuring are recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been announced publicly.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be insignificant.

(v) Related parties

The Group is controlled by Kenya Airways Plc incorporated in Kenya being the ultimate parent. There are other companies that are related to Kenya Airways Plc through common shareholdings or common Directorships.

The Group discloses the nature and amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the Directors, executive officers and related companies.

(w) Segment reporting

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

(x) Dividends

Dividends payable are recognised as a liability in the period in which they are declared.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Comparatives

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

aa) Adoption of new and revised International Financial Reporting Standards

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019*

Impact of initial application of IFRS 16 Leases

In the current year, the Group has applied IFRS 16 *Leases* (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted.

In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The date of initial application of IFRS 16 for the Group is 1 January 2019.

The Group has applied IFRS retrospectively using the cumulative effect of initial applying the new standard recognised on 1 January 2019. The comparatives for the 2018 financial year have not been restated. The Group has recognized lease liabilities at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lease liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group has recognized a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The Group has, on a lease-by-lease basis, measured the right-of-use asset at its carrying amount as if the Standard had been applied since the commencement date, but discounted using the Group's incremental borrowing rate at the date of initial application.

The impact of the adoption of IFRS 16 on the consolidated and company financial statements is described below:

a) Impact on the definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

b) Impact on lessee accounting

(i) *Former operating leases*

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- a) Recognises right-of-use assets and lease liabilities in the consolidated and company statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated and company statement of profit or loss; and
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Adoption of new and revised International Financial Reporting Standards (continued)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 (continued)*

Impact of initial application of IFRS 16 Leases (continued)

b) Impact on lessee accounting (continued)

The Group have used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Group has adjusted the right-of-use asset at the date of initial application by the provision onerous leases contracts recognised under IAS 17 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review;
- The Group has elected not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application;
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) *Former finance leases*

The Group did not have any finance leases under IAS 17. Assets held under other leases were classified as operating leases and were not recognized in the Group's statement of financial position.

Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

d) Impact on lessor accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

The Group has reassessed its operating sublease agreements on the date of initial application of the standard and has not reclassified the leases. By reference to the right-of-use assets, they remain operating sublease agreements.

e) Financial impact of initial application of IFRS 16

Impact on profit or loss

	Group 2019 KShs million	Company 2019 KShs million
Increase in sub-lease income	(3,380)	(3,380)
Increase in depreciation of right of use	11,079	10,101
Increase in finance costs	4,997	4,471
Decrease in lease rentals	(10,425)	(9,120)
	<hr/>	<hr/>
	2,261	2,072
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Adoption of new and revised International Financial Reporting Standards (Continued)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 (Continued)*

Impact of initial application of IFRS 16 Leases (Continued)

e) Financial impact of initial application of IFRS 16 (Continued)

Impact on assets, liabilities and equity as at 1 January 2019

Group	At 1 January 2019 (as previously reported) KShs million	Adjustment KShs million	At 1 January 2019 (as restated) KShs million
ASSETS			
Non-current assets			
Right-of-use assets	-	75,725	75,725
Return conditions asset	2,587	(598)	1,989
EQUITY AND LIABILITIES			
Non-current liabilities			
Lease liabilities	-	(69,399)	(69,399)
Return condition provision	(2,382)	(488)	(2,870)
Asset retirement provision	-	(13)	(13)
Onerous lease provision	(30)	30	-
Current liabilities			
Lease liabilities	-	(13,660)	(13,660)
Trade and other payables	(30,038)	1,152	(28,886)
Onerous lease provision	(701)	701	-
Capital and reserves			
Accumulated loss	<u>(60,688)</u>	<u>(6,550)</u>	<u>(67,238)</u>
Company			
ASSETS			
Non-current assets			
Right-of-use assets	-	68,553	68,553
Return conditions asset	2,141	(598)	1,543
EQUITY AND LIABILITIES			
Non-current liabilities			
Lease liabilities	-	(63,101)	(63,101)
Return condition provision	(1,630)	(372)	(2,002)
Asset retirement provision	-	(12)	(12)
Onerous lease provision	(30)	30	-
Current liabilities			
Lease liabilities	-	(12,467)	(12,467)
Trade and other payables	(48,423)	1,152	(47,271)
Onerous lease provision	(701)	701	-
Capital and reserves			
Accumulated loss	<u>(63,738)</u>	<u>(6,114)</u>	<u>(69,852)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Adoption of new and revised International Financial Reporting Standards (Continued)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 (Continued)*

Impact of initial application of IFRS 16 Leases (Continued)

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 6.3% for the Group and 6.1% for the Company.

For tax purposes the Group and Company receives tax deductions in respect of the right-of-use assets and the lease liabilities in a manner consistent with the accounting treatment.

Group and Company as a lessee:

- The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of KShs 75,725 million and KShs 68,553 million and lease liabilities of KShs 83,059 million and KShs 75,568 million and asset retirement provision of KShs 13 million and KShs 12 million for Group and Company respectively. It also resulted in a decrease in lease rentals of KShs 10,425 and KShs 9,120 and an increase in depreciation of KShs 11,079 and KShs 10,101 and interest expense of KShs 4,997 and KShs 4,471 for Group and Company respectively;
- The provision for onerous lease contracts of KShs 731 million required under IAS 17 has been derecognized;
- Accrued rent as a result of straight lining of KShs 1,152 million previously recognised with respect to operating leases have been derecognized; and
- The application of IFRS 16 resulted in the recognition of additional return condition provision of KShs 488 million and KShs 372 million for Group and Company respectively. It also resulted in the reclassification of KShs 598 million being engine re-certification costs from return condition asset to the right of use asset for Group and Company.

The application of IFRS 16 has an impact on the consolidated and company statement of cash flows of the Group and Company.

Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include interest paid as part of financing activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by KShs 13,805 million and KShs 12,500 million for Group and Company, being the lease payments, and net cash used in financing activities has increased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Adoption of new and revised International Financial Reporting Standards (Continued)

- (i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 (Continued).*

IFRIC 23 Uncertainty over Income Tax Treatments (Continued)

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group applies significant judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions.

The Interpretation did not have an impact on the consolidated and company financial statements.

Annual Improvements to IFRS Standards 2016-2017 Cycle

The Annual Improvements to IFRS Standards 2016-2017 cycle makes amendments to the following standards:

- IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated and company financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2020, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The application of the amendment did not have an impact on the consolidated and company financial statements.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment; and
 - or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Adoption of new and revised International Financial Reporting Standards (Continued)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2019 (Continued).*

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement (Continued)

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments had no impact on the consolidated and company financial statements as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

These amendments had no impact on the consolidated and company financial statements as the Group do not have long-term interests in its associate and joint venture.

(ii) *New and amended standards in issue but not yet effective in the year ended 31 December 2019*

<i>New standards and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to IFRS 3: Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of material	1 January 2020
Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IFRS 17 Insurance Contracts	1 January 2022
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date yet to be set by IASB

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2019*

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2019 (Continued).*

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to various standards.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts, regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

The Directors of the Group do not anticipate that the application of the standard in the future will have an impact on the consolidated and company financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2019 (Continued).*

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

(iv) *Early adoption of standards*

The Group did not early adopt new or amended standards in the year.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In applying the Group's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about

the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) *Impairment of aircraft and related equipment*

The Directors assess the impairment of aircraft whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

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

- Management's decision to discontinue use of a certain fleet;
- Significant decline in the market value beyond that which would be expected from the passage of time and normal use;
- Significant changes in technology and regulatory environments; and
- Evidence from internal reporting which indicates that the performance of the asset is, or will be, worse than expected.

The Group in the current year carried out a review of the recoverable amount of the aircraft and related equipment, see note 16.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (Continued)

b) *Property, aircrafts and equipment and intangible assets*

Useful life of assets

Useful lives and residual values are reassessed annually taking into consideration the latest fleet plans and other business plan information. The assets are depreciated to their residual values over their estimated useful lives.

c) *Revaluation of land and buildings*

Land and buildings are measured at revalued amounts. The fair value is determined based on the market and cost approaches using comparable market prices for similar items when available and replacement cost when appropriate.

d) *Unused ticket revenue*

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

In the current year, the Company changed its estimate regarding the timing of recognition of unused ticket revenue from 24 months to 13 months. This resulted in the recognition of KShs 3,135 million to revenue.

e) *Impairment of financial assets*

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The measurement of impairment losses across all categories of financial assets requires judgement and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's Expected Credit Losses (ECL) calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Historical default and expected loss rates;
- The Group's criteria for assessing if there has been a significant increase in credit risk; and

- Development of ECL models, including the various formulas and the choice of inputs.

f) *Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount. Non-financial assets that are not subject to amortisation are tested annually for impairment. These calculations require the use of estimates and assumptions such as future expected cash flows and pre-tax discount rate. In the Directors' judgement, the carrying value of Jambojet investment has been impaired as per note 19(a).

g) *Deferred tax asset*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

h) *Return condition provisions*

The Group is required to fulfil certain obligations which may include the completion of certain overhauls to the airframe, auxiliary power unit, engines and the refurbishment of seats at the date of return of the aircraft. The provision for return conditions is determined based on the best estimate of the future costs that will be incurred to fulfil the return conditions. The measurement of the provision includes assumptions relating to expected costs, escalation rates, discount rates commensurate with the expected obligation maturity and long-term maintenance schedules.

i) *Determination of discount rate*

The Group on application of IFRS 16 as at 1 January 2019, applied a discount rate to each lease that was determined by taking into account the risk free rate, adjusted for factors such as credit rating linked to the life of the underlying asset.

j) *Asset restoration obligations*

The Group has identified certain contractual obligations associated with the restoration of leased properties at the end of the lease term. The counterpart of this restoration obligation is booked as a complement through the initial book value of the right-of-use assets and is depreciated over the lease term.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are presented separately above), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

k) Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several property lease contracts that include extension options.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or terminate.

l) Classification of rental property as property, plant and equipment or investment property

The Group determines whether a property should be classified as investment property or property, plant and equipment by considering the following factors;

- The intention for the use of the property;
- The proportion of rental income to the total income;
- The portion that is held for rentals or capital appreciation versus the portion that is held for use in the production or supply of goods or services or for administrative purposes; and
- The significance of ancillary services provided to the occupants of the property.

Included in land and buildings is a property valued at KShs 2,978 million that is currently partly leased out to third parties and occupied by the Group. The Group has treated the property as land and buildings as opposed to investment property since the intention for the use of the property has not changed. The Directors have maintained that they hold the property solely for its own use and not to earn rentals or for capital appreciation or both.

5 FINANCIAL RISK MANAGEMENT

Operating in the aviation industry, Kenya Airways Plc carries out its activities in an extremely dynamic, and often highly volatile, commercial environment. Therefore, both opportunities and risks are encountered as part of everyday business for the Group and Company. The Group's and Company's ability to recognise, successfully control and manage risks early in their development and to identify and exploit opportunities is key to its ability to successfully realise the corporate vision.

The Group and Company has exposure to the following risks from its use of financial instruments:

- a) Market risk
- b) Credit risk
- c) Liquidity risk
- d) Capital management

Changing market conditions expose the Group and Company to various financial risks and management have highlighted the importance of financial risk management as an element of control for the Group and Company. The policy of the Group and Company is to minimise the negative effect of such risks on cash flow, financial performance and equity.

This note presents information about the Group's and Company's exposure to each of the above risks, the Group's and Company's objectives, policies and processes for measuring and managing risk and the Group's and Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Group's and Company's Board of Directors have overall responsibility for the establishment of an oversight of the Group's and Company's risk management framework. The Board of Directors have established the Risk Management Committee, which is responsible for developing and monitoring the Group's and Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's and Company's risk management framework

The Group's and Company's risk management policies are established to identify and analyse the risks faced by the Group and Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (continued)

The Group's and Company's risk management framework (continued)

to reflect changes in the market conditions and Group's and Company's activities. The Group and Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee oversees how management monitors compliance with the Group's and Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to risks faced by the Group and Company. The Audit and Risk Management Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit and Risk Committee.

(a) Market risk

Market risk is the risk that changes in market prices, such as changes in interest rates, jet fuel prices or foreign exchange rates will affect the Group's and Company's income or the value of

its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising returns.

Where possible, the Group and Company uses derivatives to manage market risks. As such, transactions are carried out within the guidelines set by the Board of Directors. Generally, the Group and Company seeks to apply hedge accounting to manage volatility in profit or loss.

(i) Interest rate risk

The Group's and Company's exposure to market risk due to changes in interest rates primarily relates to its cash deposits and borrowings.

Most of the Group's and Company's debts are asset secured, reflecting the capital intensive nature of the airline industry. The Group and Company has a mix of fixed rate interest loans and variable rate interest loans.

Exposure to interest rate risk

The interest rate profile of the Group's and Company's interest bearing financial instruments as reported to management of the Group and Company is as follows:

Group and Company	Nominal amount			
	2019		2018	
	Effective interest rate	KShs million	Effective interest rate	KShs million
Fixed rate instruments				
Local bank facility	2%	183	2.00%	244
Mandatory convertible note – liability component	12.03%	3,689	12.03%	3,456
		3,872		3,700
Variable rate instruments				
Local bank revolving facility	7.96%	4,281	7.89%	4,300
African Export-Import Bank facility	7.21%	15,943	6.45%	17,455
Citi/ JP Morgan facility	3.43%	54,766	3.30%	60,331
		74,990		82,086
Total exposure		78,862		85,786

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

Sensitivity Analysis

A 1% increase/decrease in the interest rates at the reporting date would have increased/ decreased profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant and is only applied on variable interest bearing instruments.

	Profit or loss/ equity	
	2019	2018
	KShs	KShs
	million	million
Variable rate instruments		
1% increase	(750)	(821)
1% decrease	750	821
	=====	=====

(a) Market risk (Continued)

(ii) Jet fuel price risk

The Group and Company are exposed to jet fuel price risk to the extent that there are significant changes in the prices of jet fuel. To minimise exposure to fluctuations in prices, the Group and Company consider the use of fuel hedge instruments periodically to manage exposure to fuel risk. The Group's and Company's risk management objective is to hedge the jet fuel price risk by effectively fixing the price of the expected future purchases which are highly probable. The Group and Company uses Options as its derivative financial instruments, while the entire risk of jet fuel purchase are designated as the hedged item.

At the inception of the hedge and in subsequent periods, the hedges are expected to be highly effective in achieving off-setting changes in the fair value attributable to the fuel purchases during the period for which the hedges is designated.

The Group and Company measures and assesses the hedge effectiveness monthly. The Group's and Company's policy is to hedge a maximum of 41% of the current year's projected fuel requirements. The Group and Company did not enter into any fuel hedge contracts in the current year.

(iii) Currency risk

The Group and Company are exposed to currency risk to the extent that there is mismatch between the currencies in which sales, purchases and borrowings are denominated. The currencies in which these transactions are primarily denominated are US Dollars (USD), Euros and Sterling Pounds.

To mitigate the foreign currency risk exposure, management hedges highly probable forecast USD sales against USD loans and lease liabilities to ensure that the foreign currency obtained from their sales is used to settle any foreign denominated liabilities. The main liabilities are the repayment of borrowings and lease liabilities relating to aircraft. Generally, liabilities are denominated in currencies that match the cash flows generated by the underlying operations of the Group and Company – primarily US Dollars. In addition, interest on borrowings and lease liabilities are denominated in the currency of the borrowing and lease liabilities.

The various currencies to which the Group and Company were exposed at 31 December 2019 and 31 December 2018 are summarised in the table below (all amounts expressed in Kenya Shillings million). The exposure is only in relation to the major non-Kenya shilling denominated balances:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(iii) Currency risk (Continued)

Group
31 December 2019

	GBP KShs millions	USD KShs millions	Euro KShs millions	Total KShs millions
Financial assets				
Prepaid maintenance asset	-	5,533	-	5,533
Aircraft deposits	-	3,327	-	3,327
Trade and other receivables	371	8,460	1,054	9,884
Cash and cash equivalents	44	1,645	129	1,818
	<u>415</u>	<u>18,965</u>	<u>1,183</u>	<u>20,563</u>
Financial liabilities				
Return condition provision	-	(7,591)	-	(7,591)
Trade and other payables	(260)	(15,436)	(1,137)	(16,833)
Mandatory convertible note	-	(3,689)	-	(3,689)
Lease liabilities	-	(13,168)	-	(13,168)
	<u>-</u>	<u>(20,919)</u>	<u>46</u>	<u>(20,718)</u>
Net exposure	<u>155</u>	<u>(20,919)</u>	<u>46</u>	<u>(20,718)</u>
Financial liabilities				
Loans and borrowings	-	(75,173)	-	(75,173)
Lease liabilities	-	(66,862)	-	(66,862)
	<u>-</u>	<u>(142,035)</u>	<u>-</u>	<u>(142,035)</u>
Net exposure	<u>-</u>	<u>(142,035)</u>	<u>-</u>	<u>(142,035)</u>
31 December 2018				
Financial assets				
Prepaid maintenance asset	-	3,398	-	3,398
Aircraft deposits	-	3,076	-	3,076
Trade and other receivables	641	8,485	781	9,907
Cash and cash equivalents	21	3,507	136	3,664
	<u>662</u>	<u>18,466</u>	<u>917</u>	<u>20,045</u>
Financial liabilities				
Return condition provision	-	(4,175)	-	(4,175)
Trade and other payables	(300)	(20,983)	(781)	(22,064)
Mandatory convertible note	-	(3,456)	-	(3,456)
	<u>-</u>	<u>(10,148)</u>	<u>136</u>	<u>(9,650)</u>
Net exposure	<u>362</u>	<u>(10,148)</u>	<u>136</u>	<u>(9,650)</u>
Financial liabilities				
Loans and borrowings	-	(82,330)	-	(82,330)
	<u>-</u>	<u>(82,330)</u>	<u>-</u>	<u>(82,330)</u>
Net exposure	<u>-</u>	<u>(82,330)</u>	<u>-</u>	<u>(82,330)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(iii) Currency risk (Continued)

Company:

	GBP KShs millions	USD KShs millions	Euro KShs millions	Total KShs millions
31 December 2019				
<i>Financial assets</i>				
Prepaid maintenance asset	-	4,696	-	4,696
Aircraft deposits	-	3,327	-	3,327
Trade and other receivables	371	7,742	1,054	9,167
Cash and cash equivalents	44	1,574	129	1,747
	<u>415</u>	<u>17,339</u>	<u>1,183</u>	<u>18,937</u>
<i>Financial liabilities</i>				
Return condition provision	-	(5,733)	-	(5,733)
Trade and other payables	(260)	(15,034)	(1,137)	(16,431)
Mandatory convertible note	-	(3,689)	-	(3,689)
Lease liabilities	-	(2,722)	-	(2,722)
	<u>-</u>	<u>(21,176)</u>	<u>(1,137)</u>	<u>(23,085)</u>
Net exposure	<u><u>415</u></u>	<u><u>(9,839)</u></u>	<u><u>46</u></u>	<u><u>(9,638)</u></u>
<i>Financial liabilities</i>				
Loans and borrowings	-	(75,173)	-	(75,173)
Lease liabilities	-	(66,862)	-	(66,862)
	<u>-</u>	<u>(142,035)</u>	<u>-</u>	<u>(142,035)</u>
Net exposure	<u><u>-</u></u>	<u><u>(142,035)</u></u>	<u><u>-</u></u>	<u><u>(142,035)</u></u>
31 December 2018				
<i>Financial assets</i>				
Prepaid maintenance asset	-	3,018	-	3,018
Aircraft deposits	-	3,076	-	3,076
Trade and other receivables	641	7,992	781	9,414
Cash and cash equivalents	21	3,420	136	3,577
	<u>662</u>	<u>17,506</u>	<u>917</u>	<u>19,085</u>
<i>Financial liabilities</i>				
Return condition provision	-	(3,423)	-	(3,423)
Trade and other payables	(300)	(20,584)	(781)	(21,665)
Mandatory convertible note	-	(3,456)	-	(3,456)
	<u>-</u>	<u>(24,003)</u>	<u>(781)</u>	<u>(24,784)</u>
Net exposure	<u><u>662</u></u>	<u><u>(9,957)</u></u>	<u><u>136</u></u>	<u><u>(9,459)</u></u>
<i>Financial liabilities</i>				
Loans and borrowings	-	(82,330)	-	(82,330)
	<u>-</u>	<u>(82,330)</u>	<u>-</u>	<u>(82,330)</u>
Net exposure	<u><u>-</u></u>	<u><u>(82,330)</u></u>	<u><u>-</u></u>	<u><u>(82,330)</u></u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(iii) Currency risk (Continued)

Sensitivity analysis

A 10% percent appreciation or depreciation of the Kenya shilling against the following currencies would increase/ (decrease) the reported profit or loss and equity by amounts shown below. This analysis is based on foreign currency exchange rates variances that the Group considered to be reasonably possible at end of the reporting period. This analysis assumes that all other variables in particular interest rates remain constant.

<i>Profit or loss</i>	Group		Company	
	2019 KShs millions	2018 KShs millions	2019 KShs millions	2018 KShs millions
GBP	16	36	16	36
USD	(2,092)	(1,015)	(984)	(996)
EURO	5	14	5	14
	<u>(2,071)</u>	<u>(965)</u>	<u>(963)</u>	<u>(946)</u>
<i>Other Comprehensive income</i>				
USD	<u>(14,203)</u>	<u>(8,233)</u>	<u>(14,203)</u>	<u>(8,233)</u>

The exchange rates applied during the year are as follows:

	Average rates		Closing rates	
	2019	2018	2019	2018
GBP	130.17	135.45	133.36	129.12
USD	102.23	101.20	101.38	101.83
EURO	<u>114.46</u>	<u>119.81</u>	<u>113.67</u>	<u>116.60</u>

(b) Credit risk

Credit risk is the risk of financial loss to the Group and Company if a customer or a counter-party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's and Company's receivables from customers, cash and bank balances and aircraft deposits.

The carrying amount of the financial assets represents the maximum credit exposure.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. Generally, trade receivables are written-off if past due for more than one year. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

The Group and Company do not have significant concentrations of credit risk on derivative counterparties where transactions are limited to financial institutions possessing high credit quality since the risk of default is low

The Board of Directors sets the Group's and Company's treasury policies and objectives and lays down parameters within which the various aspects of treasury risk management are operated. The Board has set limits for investing in specified banks and financial institutions and cash surpluses are maintained with credible institutions.

The carrying amount of financial assets represents the maximum exposure to credit risk:

	Group		Company	
	2019	2018	2019	2018
	KShs	KShs	KShs	KShs
	million	million	million	million
Trade receivables	10,720	10,775	10,261	10,399
Other receivables	92	254	23	197
Due from related companies	-	-	18,260	16,481
Aircraft deposits	3,327	3,076	3,327	3,076
Bank balances	3,063	6,431	2,868	6,243
	<u>17,202</u>	<u>20,536</u>	<u>34,739</u>	<u>36,396</u>
Total	<u>17,202</u>	<u>20,536</u>	<u>34,739</u>	<u>36,396</u>

In order to minimise credit risk, the Group has tasked its Risk Management Committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the Risk Management Committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	Lifetime ECL
Doubtful	Amount is past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit impaired
In default	Amount is >360 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

The tables below detail the credit quality of the Group's and Company's financial assets as well as the Group's and Company's maximum exposure to credit risk by credit risk rating grades.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Group	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount		Loss allowance		Net carrying amount	
				KShs million	KShs million	KShs million	KShs million		
31 December 2019									
Trade receivables	N/A	Doubtful	Lifetime ECL	11,891	(1,171)	10,720			
Other receivables	N/A	Doubtful	Lifetime ECL	411	(319)	92			
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	3,063	-	3,063			
Aircraft deposits	N/A	Performing	12 month ECL	3,327	-	3,327			
Due from related companies	N/A	Doubtful	Lifetime ECL	126	(126)	-			
				<u>18,818</u>	<u>(1,616)</u>	<u>17,202</u>			
31 December 2018									
Trade receivables	N/A	Doubtful	Lifetime ECL	12,259	(1,484)	10,775			
Other receivables	N/A	Doubtful	Lifetime ECL	491	(237)	254			
Bank balances									
Aircraft deposits	A, BBB, B+, B-	Performing	12 month ECL	6,433	(2)	6,431			
Due from related companies	N/A	Performing	12 month ECL	3,076	-	3,076			
	N/A	Doubtful	Lifetime ECL	206	(206)	-			
				<u>22,465</u>	<u>(1,929)</u>	<u>20,536</u>			
Company									
31 December 2019									
Trade receivables	N/A	Doubtful	Lifetime ECL	11,420	(1,159)	10,261			
Other receivables	N/A			461	(438)	23			
Bank balances	A, BBB, B+, B-	Doubtful	Lifetime ECL	2,868	-	2,868			
Aircraft deposits	N/A	Performing	12 month ECL	3,327	-	3,327			
Due from related companies	N/A	Performing	12 month ECL	18,447	(187)	18,260			
		Doubtful	Lifetime ECL						
				<u>36,523</u>	<u>(1,784)</u>	<u>34,739</u>			
31 December 2018									
Trade receivables	N/A	Doubtful	Lifetime ECL	11,871	(1,472)	10,399			
Other receivables	N/A	Doubtful	Lifetime ECL	632	(435)	197			
Bank balances									
Aircraft deposits	A, BBB, B+, B-	Performing	12 month ECL	6,245	(2)	6,243			
Due from related companies	N/A	Performing	12 month ECL	3,076	-	3,076			
	N/A	Doubtful	Lifetime ECL	17,282	(801)	16,481			
				<u>39,106</u>	<u>(2,710)</u>	<u>36,396</u>			

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Credit risk profile based on provision matrix

Group

31 December 2019	< 30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
ECL rate	1.7%	14.3%	11.9%	23.9%	23.6%	98.1%	9.8%
Expected Gross Carrying Amount	10,109	370	202	184	178	848	11,891
Lifetime ECL	175	53	24	44	42	832	1,171
	=====	=====	=====	=====	=====	=====	=====

31 December 2018

ECL rate	3.4%	37.4%	55.4%	28.3%	31.6%	98.5%	12.1%
Expected Gross Carrying Amount	9,747	514	233	756	557	452	12,259
Lifetime ECL	327	192	129	214	176	445	1,484
	=====	=====	=====	=====	=====	=====	=====

Company

31 December 2019

ECL rate	1.8%	15.5%	12.6%	25.4%	24.0%	97.7%	10.1%
Expected Gross Carrying Amount	9,700	342	190	173	175	840	11,420
Lifetime ECL	175	53	24	44	42	821	1,159
	=====	=====	=====	=====	=====	=====	=====

31 December 2018

ECL rate	3.5%	38.7%	57.8%	28.5%	31.7%	98.9%	12.4%
Expected Gross Carrying Amount	9,408	496	223	750	552	441	11,871
Lifetime ECL	327	192	129	214	175	436	1,472
	=====	=====	=====	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

A reconciliation of the impairment loss accounts:

Group

	Trade and other receivables KShs million	Bank balances KShs million	Aircraft deposits KShs million	Due from related party KShs million	Total KShs million
31 December 2019					
At 1 January 2019	(1,721)	(2)	-	(206)	(1,929)
Decrease in loss allow- ance in the year	231	2	-	80	313
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2019	<u>(1,490)</u>	<u>-</u>	<u>-</u>	<u>(126)</u>	<u>(1,616)</u>

Group

31 December 2018

At 1 January 2018	(4,394)	(7)	-	(256)	(4,657)
Decrease in loss allow- ance in the year	2,673	5	-	50	2,728
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2018	<u>(1,721)</u>	<u>(2)</u>	<u>-</u>	<u>(206)</u>	<u>(1,929)</u>

Company

31 December 2019

At 1 January 2019	(1,907)	(2)	-	(801)	(2,710)
Decrease in loss allow- ance in the year	310	2	-	614	926
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2019	<u>(1,597)</u>	<u>-</u>	<u>-</u>	<u>(187)</u>	<u>(1,784)</u>

31 December 2018

At 1 January 2018	(4,636)	(7)	-	(966)	(5,609)
Decrease in loss allow- ance in the year	2,729	5	-	165	2,899
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2018	<u>(1,907)</u>	<u>(2)</u>	<u>-</u>	<u>(801)</u>	<u>(2,710)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The Directors believe that the unimpaired amounts that are past due are still collectible in full based on historical payment behaviour and extensive analysis of customer credit risk.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario.

The central scenario is aligned with information used by the Group for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the World Bank, the International Monetary Fund and selected private-sector forecasts. The forecasts for the macroeconomic factors were derived using ARIMA time series modelling. However, the forecasts that could not be reasonably derived using ARIMA were obtained from the sources described above.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key drivers for credit risk for receivable portfolios are: Central Bank rate, inflation, saving rates, housing price index, world economic expectation and LIBOR rate.

The economic scenarios used as at 31 December 2019 include the following range of indicators

Macro-Economic variable	2020		
	Base	Upside	Downside
Weighting	90%	5%	5%
Central Bank rate	9.33%	10.13%	8.54%
Inflation	5.46%	7.29%	3.63%
Saving rate	4.86%	6.63%	3.09%
Housing Index	-1.03%	1.39%	-3.44%
World economic expectation	-17.4%	-1.59%	-33.21%
LIBOR rates	2.57%	1.44%	-0.15%

In determining the economic scenarios to be applied. Each of the economic variables was adjusted either upside or downside using the historical standard deviation. Predicted relationships between the key indicators and default and loss rates on the trade receivables portfolios were developed based on analysing historical data over the past four years.

(c) Liquidity risk

Liquidity risk is the risk that the Group and Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's and Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's and Company's reputation.

Kenya Airways seeks to maintain sufficient cash balances to cover six months debt obligations and lease rentals.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Management perform cash flow forecasting and monitor rolling forecasts of the Group's and Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn borrowing facilities at all times so that the Group and Company do not breach borrowing limits or covenants on any of its borrowing facilities. Management have sought waivers before year-end from lenders when they have not been compliant with the covenants.

The table below analyses financial liabilities into relevant maturities based on the remaining period at year-end to the contractual maturity date. The amounts are gross and undiscounted and include estimated interest payments.

Group:	Less than 1 year KShs million	2 - 5 years KShs mil- lion	Over 5 years KShs mil- lion	Total KShs mil- lion
31 December 2019				
Borrowings	7,115	47,839	20,219	75,173
Trade and other payables	30,685	-	-	30,685
Lease liabilities	15,843	54,332	29,464	99,639
Return condition provisions	2,397	2,210	2,984	7,591
	<u>56,040</u>	<u>104,381</u>	<u>52,667</u>	<u>213,088</u>
31 December 2018				
Borrowings	77,846	184	4,300	82,330
Trade and other payables	30,038	-	-	30,038
Return condition provisions	1,793	1,236	1,146	4,175
Onerous lease provisions	701	30	-	731
	<u>110,378</u>	<u>1,450</u>	<u>5,446</u>	<u>117,274</u>
Company				
31 December 2019				
Borrowings	7,115	47,839	20,219	75,173
Trade and other payables	50,763	-	-	50,763
Lease liabilities	14,161	47,836	23,967	85,964
Return condition provisions	2,397	2,210	1,126	5,733
	<u>74,436</u>	<u>97,885</u>	<u>45,312</u>	<u>217,633</u>
31 December 2018				
Borrowings	77,846	184	4,300	82,330
Trade and other payables	48,423	-	-	48,423
Return condition provisions	1,793	647	983	3,423
Onerous lease provisions	701	30	-	731
	<u>128,763</u>	<u>861</u>	<u>5,283</u>	<u>134,907</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management

The Group's Board of Director's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business.

The Group's Board of Directors monitors the return on capital, which is defined as net operating income divided by total shareholders' equity.

The Group's Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group monitors the return on shareholder's funds which is defined as the profit for the year expressed as a percentage of average shareholder's equity. The Group and Company seeks to provide a higher return to the shareholders by investing in more profitable routes and improving on efficiencies to provide world class service to meet its growth plans.

The Group also monitors capital on the basis of a gearing ratio which is calculated as the ratio of borrowings net of bank and cash balances to shareholder's equity. Note 2(e) summarises the procedures the Directors' are putting in place to address the solvency challenges facing the company.

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

	2019 KShs million	2018 KShs million
Group		
Total equity*	<u>(17,896)</u>	<u>(2,489)</u>
Borrowings	76,093	82,548
Less: Cash and bank balances	<u>(3,095)</u>	<u>(6,431)</u>
Net borrowings	<u>72,998</u>	<u>76,117</u>
Net debt to equity ratio	<u>>100%</u>	<u>>100%</u>

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

	2019 KShs million	2018 KShs million
Company		
Total equity*	<u>(20,877)</u>	<u>(5,802)</u>
Borrowings	76,093	82,548
Less: Cash and bank balances	<u>(2,900)</u>	<u>(6,243)</u>
Net borrowings	<u>73,193</u>	<u>76,305</u>
Net debt to equity ratio	<u>>100%</u>	<u>>100%</u>

*Total equity includes all capital and reserves of the Group and Company respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(e) Accounting classifications and fair values for financial assets and financial liabilities

The table below sets out the carrying amount of each class of financial assets and financial liabilities and their fair values.

Group:				
31 December 2019	Amortised Cost	Fair value – Hedg- ing instruments	Other liabilities	Total
	KShs millions	KShs millions	KShs millions	KShs Millions
<i>Financial assets</i>				
Trade receivables	10,720	-	-	10,720
Aircraft deposits	3,327	-	-	3,327
Prepaid maintenance asset	5,533	-	-	5,533
Cash and bank balances	3,095	-	-	3,095
	<u>22,675</u>	<u>-</u>	<u>-</u>	<u>22,675</u>
<i>Financial liabilities</i>				
Loans and borrowings	-	-	75,173	75,173
Mandatory convertible note	-	-	3,689	3,689
Trade and other payables	-	-	30,685	30,685
Provisions	-	-	1,574	1,574
Lease liabilities	80,030	-	-	80,030
Return condition provision	7,591	-	-	7,591
Asset retirement obligation	14	-	-	14
	<u>87,635</u>	<u>-</u>	<u>111,121</u>	<u>198,756</u>
31 December 2018				
<i>Financial assets</i>				
Trade receivables	10,775	-	-	10,775
Aircraft deposits	3,076	-	-	3,076
Fuel derivatives	-	354	-	354
Prepaid maintenance asset	3,398	-	-	3,398
Cash and bank balances	6,431	-	-	6,431
	<u>23,680</u>	<u>354</u>	<u>-</u>	<u>24,034</u>
<i>Financial liabilities</i>				
Loans and borrowings	-	-	82,330	82,330
Mandatory convertible note	-	-	3,456	3,456
Trade and other payables	-	-	30,038	30,038
Provisions	-	-	1,278	1,278
Return condition provisions	4,175	-	-	4,175
Onerous lease provisions	-	-	731	731
	<u>4,175</u>	<u>-</u>	<u>117,833</u>	<u>122,008</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(e) Accounting classifications and fair values for financial assets and financial liabilities (Continued)

Company

31 December 2019	Armotised cost KShs millions	Fair value – Hedging instruments KShs millions	Other liabilities KShs millions	Total KShs millions
<i>Financial assets</i>				
Trade receivables	10,261	-	-	10,261
Due from related companies	18,260	-	-	18,260
Aircraft deposits	3,327	-	-	3,327
Prepaid maintenance asset	4,696	-	-	4,696
Cash and bank balances	2,900	-	-	2,900
	<u>39,444</u>	<u>-</u>	<u>-</u>	<u>39,444</u>
<i>Financial liabilities</i>				
Loans and borrowings	-	-	75,173	75,173
Mandatory convertible note	-	-	3,689	3,689
Trade and other payables	-	-	50,763	50,763
Provisions	-	-	1,479	1,479
Lease liabilities	69,584	-	-	69,584
Return condition provisions	5,733	-	-	5,733
Asset retirement obligation	13	-	-	13
	<u>75,330</u>	<u>-</u>	<u>131,104</u>	<u>206,434</u>
Total financial liabilities	<u>75,330</u>	<u>-</u>	<u>131,104</u>	<u>206,434</u>
31 December 2018				
<i>Financial assets</i>				
Trade receivables	10,399	-	-	10,399
Due from related companies	16,481	-	-	16,481
Aircraft deposits	3,076	-	-	3,076
Fuel derivatives	-	354	-	354
Prepaid maintenance asset	3,018	-	-	3,018
Cash and bank balances	6,243	-	-	6,243
	<u>39,217</u>	<u>354</u>	<u>-</u>	<u>39,571</u>
Total financial assets	<u>39,217</u>	<u>354</u>	<u>-</u>	<u>39,571</u>
<i>Financial liabilities</i>				
Loans and borrowings	-	-	82,330	82,330
Mandatory convertible note	-	-	3,456	3,456
Trade and other payables	-	-	48,423	48,423
Provisions	-	-	1,240	1,240
Return condition provisions	3,423	-	-	3,423
Onerous lease provisions	-	-	731	731
	<u>3,423</u>	<u>-</u>	<u>136,180</u>	<u>139,603</u>
Total financial liabilities	<u>3,423</u>	<u>-</u>	<u>136,180</u>	<u>139,603</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(e) Accounting classifications and fair values for financial assets and financial liabilities (Continued)

i) *Fair value of the Group's and Company's financial assets and financial liabilities that are measured at fair value on a recurring basis.*

Some of the Group's and Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides information about how the fair values of these financial assets and liabilities are determined (in particular, valuation technique(s) and inputs used).

Financial liabilities	Fair values as at		Fair value hierarchy	Valuation techniques and key inputs
	31/12/2019 KShs'million	31/12/2018 KShs'million		
Sovereign guarantee from the Government of Kenya	981 =====	1,188 =====	Level 3	No observable market inputs

There were no transfers between level 1 and 2 during the current or prior period.

6 SEGMENT INFORMATION

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

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

The major part of the business of the Group and Company falls under category of aviation transport with income from other categories comprising less than 11.2% of total income.

Analysis of turnover according to business segments:

	Passenger	Freight and mail	Handling	Lease rental income	Sub-lease income	Other revenue	Total
	KShs million	KShs million	KShs million	KShs Million	KShs Million	KShs million	KShs million
31 December 2019							
Kenya	6,115	1,020	398	132	-	623	8,288
Rest of the world	97,516	7,661	1,992	1,474	3,380	7,367	119,390
	-----	-----	-----	-----	-----	-----	-----
	103,631	8,681	2,390	1,606	3,380	7,990	127,678
	=====	=====	=====	=====	=====	=====	=====
31 December 2018							
Kenya	6,946	1,061	291	-	-	607	8,905
Rest of the world	88,241	7,407	1,902	1,461	-	6,269	105,280
	-----	-----	-----	-----	-----	-----	-----
	95,187	8,468	2,193	1,461	-	6,876	114,185
	=====	=====	=====	=====	=====	=====	=====

The Nairobi – Amsterdam and Nairobi – London routes contribute 16% of the total turnover.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 SEGMENT INFORMATION (Continued)

Analysis of costs according to business segments:

	Passenger	Freight and mail	Handling	Lease rental income	Sub-lease income	Other revenue	Total
31 December 2019	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million
Depreciation	5,779	484	121	102	-	-	6,486
Interest expense	4,395	368	101	69	-	-	4,933
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
31 December 2018							
Depreciation	6,827	607	157	105	-	-	7,696
Interest expense	4,490	399	105	68	-	-	5,062
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Analysis of operating loss per business segments:

	Group 2019 KShs million	2018 KShs million	Company 2019 KShs million	2018 KShs million
Passengers	(722)	(606)	(1,216)	(816)
Freight, mail and others	(71)	(54)	(117)	(78)
Handling	(20)	(14)	-	-
Lease rental income	(28)	(9)	(22)	(12)
Sub-lease income	(12)	-	(45)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>(853)</u>	<u>(683)</u>	<u>(1,400)</u>	<u>(906)</u>

Segment assets and liabilities

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

Geographical Segments

	2019 KShs million	2018 KShs million
Africa	72,327	67,002
Europe	27,682	27,034
Middle East	5,919	5,314
China	9,343	8,515
India	5,529	5,373
North America	6,878	947
	<u> </u>	<u> </u>
	<u>127,678</u>	<u>114,185</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2019	2018	2019	2018
	KShs million	KShs million	KShs million	KShs million
7 INCOME				
(a) Revenue				
Passengers	103,631	95,187	99,384	90,924
Freight and mail	8,681	8,468	8,681	8,468
Handling	2,390	2,193	-	-
Lease rental income	1,606	1,461	1,606	1,577
Sub-lease income	3,380	-	3,380	-
Other revenue	7,990	6,876	7,950	6,851
	<u>127,678</u>	<u>114,185</u>	<u>121,001</u>	<u>107,820</u>
(b) Other income				
Gain on sale and lease-back of engine (note 15)	639	-	639	-
	<u>639</u>	<u>-</u>	<u>639</u>	<u>-</u>
8 EXPENSES BY NATURE				
(a) Direct costs				
Aircraft fuel and oil	33,201	33,056	32,193	32,064
Aircraft landing, handling and navigation	15,349	14,126	14,926	13,763
Aircraft maintenance	10,641	8,997	10,693	8,589
Passenger services	6,105	5,764	6,084	5,747
Commissions on sales	3,797	2,968	3,767	2,944
Aircraft, passenger and cargo insurance	755	330	694	323
Crew route expenses	2,714	2,497	2,713	2,496
Central reservation system and frequent flyer programme	6,388	6,072	6,004	5,689
Other direct costs	1,185	1,154	686	637
Option premium paid	842	66	842	66
	<u>80,977</u>	<u>75,030</u>	<u>78,602</u>	<u>72,318</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2019	2018	2019	2018
	KShs million	KShs million	KShs million	KShs million
8 EXPENSES BY NATURE (Continued)				
(b) Fleet ownership costs				
Hire of aircraft and engines	-	6,597	-	5,595
Short-term lease expense	180	-	12	-
Depreciation on aircraft and related equipment (note 16)	5,756	6,902	5,751	6,898
Impairment of aircraft and related equipment (note 16)	4,414	2,590	4,414	2,590
Loss on write off of aircraft and related equipment (note 16)	2,145	-	2,145	-
Depreciation of leased aircraft and related equipment (note 18)	10,618	-	9,769	-
Depreciation of return condition asset (note 19)	1,683	1,832	1,281	1,525
Impairment of prepaid maintenance asset (note 22)	1,118	1,008	1,118	1,008
Return conditions provision reversal (note 32)	(571)	-	(571)	-
	<u>25,343</u>	<u>18,929</u>	<u>23,919</u>	<u>17,616</u>
(c) Overheads				
(i) Administration expenses				
Employee costs (note 8(d))	17,052	16,066	15,139	14,401
Legal and professional fees	915	(70)	903	(93)
Directors' remuneration (note 39(c))	124	93	124	93
Auditor's remuneration	15	15	10	10
Impairment provision relating to bank balances (note 5(b))	(2)	(5)	(2)	(5)
General expenses	3,018	2,442	2,763	2,175
Impairment of investment in subsidiary (note 20(a))	-	-	166	440
	<u>21,122</u>	<u>18,541</u>	<u>19,103</u>	<u>17,021</u>
(ii) Establishment				
General maintenance and supplies	332	1,233	255	1,457
Depreciation on property and equipment (note 16)	730	794	673	733
Amortisation of intangible assets – computer software (note 17(b))	143	180	131	148
Depreciation of leased buildings (note 18)	461	-	332	-
Low value asset expense	208	-	208	-
	<u>1,874</u>	<u>2,207</u>	<u>1,599</u>	<u>2,338</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
8 EXPENSES BY NATURE (Continued)				
(c) Overheads (Continued)				
(iii) Selling				
Advertising and publicity	165	595	185	39
Impairment provision relating to trade and other receivables (note 24)	(311)	(434)	(368)	(606)
	<u>(146)</u>	<u>161</u>	<u>(183)</u>	<u>(567)</u>
Total overheads	<u><u>22,850</u></u>	<u><u>20,909</u></u>	<u><u>20,519</u></u>	<u><u>18,792</u></u>
(d) Employee costs				
Wages and salaries	13,535	13,054	11,938	11,652
Contributions to retirement benefits	847	827	762	756
National Social Security Fund (NSSF)	30	55	28	48
Leave pay accrual (note 37)	277	311	282	286
Increase in redundancy provisions (note 36)	412	101	358	102
Other staff costs	1,951	1,718	1,771	1,557
	<u>17,052</u>	<u>16,066</u>	<u>15,139</u>	<u>14,401</u>
9 NET FINANCE COSTS				
Interest expense:				
on borrowings	4,933	5,062	4,931	5,059
on lease liabilities (note 29)	4,997	-	4,471	-
on return condition provision (note 32)	101	68	69	68
	<u>10,031</u>	<u>5,130</u>	<u>9,471</u>	<u>5,127</u>
Interest income:				
Interest income on bank deposits	(30)	(45)	(34)	(51)
Net finance costs	<u><u>10,001</u></u>	<u><u>5,085</u></u>	<u><u>9,437</u></u>	<u><u>5,076</u></u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2019	2018	2019	2018
	KShs million	KShs million	KShs million	KShs Million
10 OTHER LOSSES				
Foreign currency exchange losses	1,747	1,467	1,774	1,448
Other expenses	374	353	369	350
	<u>2,121</u>	<u>1,820</u>	<u>2,143</u>	<u>1,798</u>

11 LOSS BEFORE TAXATION

The loss before taxation is arrived at after charging/(crediting):

Lease rental income (note 7(a))	(1,606)	(1,577)	(1,606)	(1,577)
Employee costs (note 8(d))	17,052	16,066	15,139	14,401
Hire of aircraft and engines (note 8(b))	-	6,597	-	5,595
Net foreign exchange losses (note 10)	1,747	1,467	1,774	1,448
Depreciation of property, aircraft and equipment (note 16)	6,486	7,696	6,424	7,631
Impairment of aircraft and related equipment (note 16)	4,414	2,590	4,414	2,590
Loss on write off aircraft and related equipment (note 16)	2,145	-	2,145	-
Amortisation of computer software (note 17(b))	143	180	131	148
Depreciation of right-of-use asset (note 18)	11,079	-	10,101	-
Depreciation of return conditions asset (note 19)	1,683	1,832	1,281	1,525
Impairment of prepaid maintenance asset (note 22)	1,118	1,008	1,118	1,008
Impairment provision relating to trade receivables (note 24)	(311)	(434)	(368)	(606)
Impairment provision relating to bank balances (note 5(b))	(2)	(5)	(2)	(5)
Auditor's remuneration	15	15	10	10
Directors' remuneration (note 39(c))	124	93	124	93
Loss on disposal of property, aircraft and equipment	62	84	62	84
Gain on sale and leaseback of engine (note 15)	(639)	-	(639)	-
Provision for obsolete inventories (note 23)	(22)	(43)	(22)	(43)
Impairment of investment in subsidiary (note 20(a))	-	-	166	440
	<u>-</u>	<u>-</u>	<u>166</u>	<u>440</u>

12 INCOME TAX

(a) Group

(i) Taxation charge/(credit)

Income tax charge/(credit) recognised in profit or loss

	2019	2018
	KShs million	KShs million
Current income tax at 30%	49	50
Deferred income tax (note 30)	(39)	(80)
	<u>10</u>	<u>(30)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 INCOME TAX (Continued)

(a) Group (Continued)

(ii) Reconciliation of tax based on accounting loss to tax charge/(credit)

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2019 KShs million	2018 KShs million
Loss before taxation	<u>(12,975)</u>	<u>(7,588)</u>
Current tax at 30%	(3,893)	(2,276)
Tax effect of expenses not subject for tax purposes	3,256	196
Unrecognised deferred tax asset (note 30)	647	2,050
	<u>10</u>	<u>(30)</u>

(b) Company

(i) Taxation charge

Income tax charge recognised in profit or loss

Current tax at 30%	<u>37</u>	<u>32</u>
Taxation charge	<u>37</u>	<u>32</u>

(ii) Reconciliation of tax based on accounting loss to tax charge

Loss before taxation	<u>(12,980)</u>	<u>(7,780)</u>
Current tax at 30%	(3,894)	(2,334)
Tax effect of expenses not subject for tax purposes	3,195	229
Unrecognised deferred tax asset (note 30)	736	2,137
Taxation charge	<u>37</u>	<u>32</u>

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
(c) Current tax recoverable				
At beginning of year	1,258	1,246	1,252	1,249
Charge for the year	(49)	(50)	(37)	(32)
Paid during the year	61	62	41	35
	<u>1,270</u>	<u>1,258</u>	<u>1,256</u>	<u>1,252</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 EARNINGS PER SHARE - GROUP

Basic loss per share are calculated by dividing the loss attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

	2019	2018
	KShs'	KShs
	million	million
Weighted average number		
Loss attributable to owners of the Company	(12,986)	(7,554)
	=====	=====
Basic loss per share		
Weighted average number of ordinary shares (million)	5,824	5,824
	=====	=====
Basic loss per share (KShs)	(2.23)	(1.30)
	=====	=====
Instruments with an anti-dilutive impact in the period:		
Weighted average number of ordinary shares deemed to be issued in respect of mandatory convertible note (million)	1,659	1,659
	=====	=====

14 DIVIDENDS – GROUP AND COMPANY

The Directors do not recommend payment of dividend for the year ended 31 December 2019 (2018: nil). This proposal will be presented for formal approval by shareholders' at the forthcoming Annual General Meeting.

The unclaimed dividends account is as follows:

	2019	2018
	KShs	KShs
	million	million
At the beginning and end of the year (note 35)	88	90
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 SALE AND LEASE-BACK ARRANGEMENTS – GROUP AND COMPANY

During the year, the Group entered into a sale and leaseback for one of the aircraft engines with Engine Lease Finance Corporation to increase the free cash flows of the Group. The lease term for the engine is 10 years with an option of extension. The transaction resulted into derecognition of the asset and a recognition of an operating lease as a Right of Use asset.

The proceeds less cost to sell was KShs 2,945 million and the net book value of the engine at the time of disposal was KShs 1,077 million.

The impact of the transaction was as follows:

	2019
	KShs
	million
Right of use asset recognised	133
Lease liabilities recognised	(1,362)
Gain on disposal recognised	(639)
	=====

The impact of the transaction on the cash flow is as follows

Proceeds from sale and lease back	2,945
Gain on disposal	(639)
	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY, AIRCRAFT AND EQUIPMENT

Group	Land and build- ings KShs million	Aircraft and related equipment KShs million	Other property and equipment KShs million	Incomplete projects KShs million	Total KShs million
Cost or valuation:					
At 1 January 2018	9,622	130,320	11,650	136	151,728
Additions	-	536	108	88	732
Transfer to intangible assets (note 17(b))	-	-	-	(176)	(176)
Transfer in/(out)	-	-	15	(15)	-
Impairment	-	(2,590)	-	-	(2,590)
Disposals	-	(2,256)	(216)	-	(2,472)
At 31 December 2018	9,622	126,010	11,557	33	147,222
At 1 January 2019	9,622	126,010	11,557	33	147,222
Additions	-	392	390	502	1,284
Impairment	-	(4,414)	-	-	(4,414)
Transfer in/(out)	-	120	29	(149)	-
Transfer to intangible assets (note 17(b))	-	-	-	(31)	(31)
Eliminated on disposal	-	(1,582)	(30)	-	(1,612)
Write off	-	(3,055)	-	-	(3,055)
Revaluation increase	1,086	-	-	-	1,086
At 31 December 2019	10,708	117,471	11,946	355	140,480
Depreciation:					
At 1 January 2018	726	31,011	10,114	-	41,851
Charge for the year	330	6,902	464	-	7,696
Eliminated on disposal	-	(1,947)	(213)	-	(2,160)
At 31 December 2018	1,056	35,966	10,365	-	47,387
At 1 January 2019	1,056	35,966	10,365	-	47,387
Charge for the year	326	5,756	404	-	6,486
Eliminated on disposal	-	(428)	(30)	-	(458)
Eliminated on write off	-	(910)	-	-	(910)
Eliminated on revaluation	(1,382)	-	-	-	(1,382)
At 31 December 2019	-	40,384	10,739	-	51,123
Net book value					
At 31 December 2019	10,708	77,087	1,207	355	89,357
At 31 December 2018	8,566	90,044	1,192	33	99,835
Net book value (cost basis)					
At 31 December 2019	2,981	77,087	1,207	355	81,630
At 31 December 2018	3,090	90,044	1,192	33	94,359

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)

Company	Land and buildings KShs million	Aircraft and related equipment KShs million	Other property and equipment KShs million	In-complete projects KShs million	Total KShs million
Cost or valuation:					
At 1 January 2018	9,045	130,273	11,059	136	150,513
Additions	-	496	78	47	621
Transfer to intangible assets (note 17(b))	-	-	-	(176)	(176)
Impairment	-	(2,590)	-	-	(2,590)
Disposals	-	(2,251)	(216)	-	(2,467)
At 31 December 2018	9,045	125,928	10,921	7	145,901
At 1 January 2019	9,045	125,928	10,921	7	145,901
Additions	-	386	357	476	1,219
Transfer in/(out)	-	120	-	(120)	-
Transfer to intangible asset (note 17(b))	-	-	-	(31)	(31)
Impairment	-	(4,414)	-	-	(4,414)
Disposals	-	(1,582)	(29)	-	(1,611)
Write off	-	(3,055)	-	-	(3,055)
Revaluation increase	1,067	-	-	-	1,067
At 31 December 2019	10,112	117,383	11,249	332	139,076
Depreciation:					
At 1 January 2018	693	31,007	9,626	-	41,326
Charge for the year	303	6,898	430	-	7,631
Eliminated on disposal	-	(1,942)	(213)	-	(2,155)
At 31 December 2018	996	35,963	9,843	-	46,802
At 1 January 2019	996	35,963	9,843	-	46,802
Charge for the year	303	5,751	370	-	6,424
Eliminated on disposal	-	(428)	(29)	-	(457)
Eliminated on write off	-	(910)	-	-	(910)
Eliminated on revaluation	(1,299)	-	-	-	(1,299)
At 31 December 2019	-	40,376	10,184	-	50,560
Net book value					
At 31 December 2019	10,112	77,007	1,065	332	88,516
At 31 December 2018	8,049	89,965	1,078	7	99,099
Net book value (cost basis)					
At 31 December 2019	2,865	77,007	1,065	332	81,269
At 31 December 2018	2,898	89,965	1,078	7	93,948

16 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)

The write off in Group and Company relates to an E -190 aircraft that was damaged during the year. The Company has lodged a claim with the insurance company which was received subsequent to year end.

Included in eliminated on disposal of Group and Company is an engine with a net book value of KShs 1,077 million that was sold and leased back. Details of the sale and lease back are disclosed in note 15.

Included in property, aircraft and equipment of Group and Company are assets with a cost of KShs 21,091 million (2018: KShs 19,815 million) and KShs 20,527 million (2018: KShs 19,395 million) respectively that are fully depreciated. The notional annual depreciation of these assets would have been KShs 406 million (2018: KShs 263 million) and KShs 310 million (2018: KShs 201 million) respectively.

Incomplete projects relates to systems yet to be available for use.

Included in land and buildings for Group and Company are properties with expired leases valued at KShs 1,967 million. The Group and Company are currently in the process of renewing the leases. Where leases have expired in the past, they have been renewed without any encumbrances and no renewal complications are expected in the foreseeable future.

Also included in land and buildings for Group and Company are properties that are the subject of court disputes valued at KShs 256 million. The Group and Company are the defendants in several legal suits in which the claimants are claiming ownership of the lands. Based on the legal advice and information currently available, the Directors do not expect any significant amounts to crystallize from the assessments. The Directors have disclosed the general nature of the dispute as they do not want to prejudice the position of the Group and Company over these matters that are currently in court.

Impairment losses recognised in the year

During the year, the Group and Company carried out a review of the recoverable amount of the aircraft and related equipment. These assets are used in the Group's and Company's passengers, freight and mail and lease rental segments. The review led to the recognition of an impairment loss of KShs 4,414 million (2018: KShs 2,590 million) which has been recognised in profit or loss. The fair value less costs of disposal was more than the value in use and hence the recoverable amount of the relevant assets has been determined on the basis of the fair value less costs of disposal.

The impairment loss has been included in the profit and loss in the fleet ownership costs line item.

The fair value of the aircraft and related equipment was determined based on the market approach that reflects the most likely trading price that may be generated for an asset under market circumstances that are perceived to exist at the time in question.

The valuation falls under level 3 of the fair value hierarchy as the inputs are not based on observable market inputs. There has been no change in the valuation technique during the year.

Assets pledged as security

The net book value of aircraft and land and buildings charged as security for loan facilities obtained to finance their purchase is KShs 72,585 million and KShs 4,318 million respectively (2018: KShs 86,953) at the end of the year. Details of the outstanding loan facilities are disclosed in note 28.

Fair value measurement of the Group's and Company's land and buildings

The Group's and Company's land and buildings were revalued as at 31 December 2019 by an independent valuer, Quice Real Estate Limited, not related to the Group. Quince Real Estate Limited are members of the Institute of Valuers of Kenya and they have appropriate qualifications and recent experience in the fair value measurements of properties in the relevant locations. The valuation conforms to International Valuation Standards (IVS), Institution of Surveyors of Kenya (ISK) guidelines and was based on open market value on arm's length terms.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)

Fair value measurement of the Group's and Company's land and buildings (continued)

The fair value of the land was determined based on the sales comparison/market approach that reflects recent transaction prices for similar properties.

The fair value for the buildings was determined using the contractors method/cost approach that reflects the cost to a market participant to construct or purchase assets of comparable utility adjusted for depreciation.

There has been no change in the valuation technique during the year.

Details of the fair value hierarchy for the Group's and Company's property carried at fair value as at 31 December 2019 and 31 December 2018 are as follows:

	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Total KShs million
31 December 2019				
Group				
Land and buildings	-	-	10,708	10,708
	=====	=====	=====	=====
Company				
Land and buildings	-	-	10,112	10,112
	=====	=====	=====	=====
31 December 2018				
Group				
Land and buildings	-	-	8,566	8,566
	=====	=====	=====	=====
Company				
Land and buildings	-	-	8,049	8,049
	=====	=====	=====	=====

There were no transfers between the levels during the current or prior year.

17 INTANGIBLE ASSETS

Intangible assets consist of:

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
Landing slot – note (a)	2,561	2,561	2,561	2,561
Computer systems and software – note (b)	313	401	301	382
	-----	-----	-----	-----
	2,874	2,962	2,862	2,943
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 INTANGIBLE ASSETS (Continued)

(a) Intangible assets – landing slot

The Group has rights to a landing slot at the London Heathrow International Airport to enable daily afternoon landings and departures on the Nairobi – London route. The rights obtained to the use of the slot are for an indefinite period as per the nature of the asset and the operationalising agreements. The slot was obtained in 2017 as an in-kind contribution from KLM Royal Dutch Airlines in exchange for ordinary shares in the company.

(b) Intangible assets – computer systems and software

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
Cost:				
At 1 January	4,900	4,649	4,726	4,476
Additions	24	75	19	74
Transfer from property, aircraft and equipment (note 16)	31	176	31	176
	-----	-----	-----	-----
At 31 December	4,955	4,900	4,776	4,726
	-----	-----	-----	-----
Amortisation:				
At 1 January	4,499	4,319	4,344	4,196
Charge for the year	143	180	131	148
	-----	-----	-----	-----
At 31 December	4,642	4,499	4,475	4,344
	-----	-----	-----	-----
Net book value:				
At 31 December	313	401	301	382
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 RIGHT-OF-USE-ASSETS

Group

	Aircraft and related equipment KShs million	Buildings KShs million	Total KShs million
Cost:			
At 1 January 2018 and 31 December 2018	-	-	-
At 1 January 2019-as previously reported	-	-	-
Effects of adoption of IFRS 16	121,659	3,450	125,109
At 1 January 2019 - restated	121,659	3,450	125,109
Additions	5,607	-	5,607
Terminations*	(2,643)	-	(2,643)
At 31 December 2019	124,623	3,450	128,073
Depreciation:			
At 1 January 2018 and 31 December 2018	-	-	-
At 1 January 2019 - as previously reported	-	-	-
Effects of adoption of IFRS 16	48,156	1,228	49,384
At 1 January 2019 - restated	48,156	1,228	49,384
Charge for the year	10,618	461	11,079
Terminations*	(1,952)	-	(1,952)
At 31 December 2019	56,822	1,689	58,511
Net book value:			
At 31 December 2019	67,801	1,761	69,562
At 31 December 2018	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 RIGHT-OF-USE-ASSETS (Continued)

Company	Aircraft and related equipment KShs million	Buildings KShs million	Total KShs million
Cost:			
At 1 January 2018 and 31 December 2018	-	-	-
At 1 January 2019 - as previously reported	-	-	-
Effects of adoption of IFRS 16	114,156	2,392	116,548
At 1 January 2019 - restated	114,156	2,392	116,548
Additions	1,790	-	1,790
Terminations*	(2,643)	-	(2,643)
At 31 December 2019	113,303	2,392	115,695
Depreciation:			
At 1 January 2018 and 31 December 2018	-	-	-
At 1 January 2019 - as previously reported	-	-	-
Effects of adoption of IFRS 16	47,127	868	47,995
At 1 January 2019 - restated	47,127	868	47,995
Charge for the year	9,769	332	10,101
Terminations*	(1,952)	-	(1,952)
At 31 December 2019	54,944	1,200	56,144
Net book value:			
At 31 December 2019	58,359	1,192	59,551
At 31 December 2018	-	-	-

* The lease termination relates to an E-190 aircraft that was damaged during the year.

Included in the additions is KShs 133 million that relates to the sale and lease back transaction. Details of the transaction are disclosed in note 15.

The Group and Company leases several assets including buildings and aircraft and related equipment. The average lease term for aircraft is 10 to 12 years, engines is 7 years and buildings is 5 to 13 years.

The various lease agreements do not provide for purchase options on expiry of the lease terms.

No restrictions have been imposed by the lessors on the Group and Company in respect to dividend pay outs, borrowings or further leasing.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 RIGHT-OF-USE-ASSETS (Continued)

Amounts recognised in the profit and loss are as follows

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
Depreciation on right of use asset	11,079	-	10,101	-
Interest on lease liabilities	4,997	-	4,471	-
Expenses relating to short term leases	180	-	12	-
Expenses relating to low value items	208	-	208	-
Income from sub-leasing	(3,380)	-	(3,380)	-
Cash outflow for leases	(13,805)	-	(12,500)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

19 RETURN CONDITIONS ASSET

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
At beginning of year - as previously reported	2,587	3,392	2,141	2,639
Effect of adoption of IFRS 16	(598)	-	(598)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At beginning of year - restated	1,989	3,392	1,543	2,639
Additions	4,380	1,027	3,481	1,027
Depreciation charge for the year	(1,683)	(1,832)	(1,281)	(1,525)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At end of year	<u>4,686</u>	<u>2,587</u>	<u>3,743</u>	<u>2,141</u>

20 INVESTMENTS

(a) Investment in subsidiaries - Company

Details of investment	Country of incorporation	Activity	2019 % of equity interest	2018 %	2019 KShs million	2018 KShs million
Kenya Airfreight Handling Limited (2,550,000 shares of KShs 20 each)	Kenya	Cargo handling for perishable products	51%	51%	51	51
JamboJet Limited (1,000,000 shares of KShs.606 each)	Kenya	Local passenger air transport	100%	100%	-	166
Kencargo Airlines International Limited (1,000,000 shares of KShs 20 each)	Kenya	Dormant	100%	100%	**	**
African Cargo Handling Limited (5,753,822 shares of KShs 100 each)	Kenya	Cargo handling	100%	100%	384	384
Pride Oil Limited (5,000 shares of KShs 20 each)	Kenya	Dormant	100%	100%	*	*
					<u> </u>	<u> </u>
					<u>435</u>	<u>601</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 INVESTMENTS (Continued)

(a) Investment in subsidiaries – Company (Continued)

* The cost of the investment is KShs 100,000 which when rounded to the nearest million gives a value of less than a million.

**The investment in Kencargo Airlines International Limited is fully impaired since the Company has been inactive thus casting doubt on the recoverability and valuation of the investment. The investment was impaired by KShs. 20 million.

The movement in the investment in Jambojet Limited is as follows:

	2019 KShs million	2018 KShs million
At the beginning of the year	166	-
Receivable balance converted to equity during the year	-	606
Impairment	(166)	(440)
	-----	-----
At the end of the year	-	166
	=====	=====

The movement in the impairment of investment in subsidiaries is as follows:

At the beginning of the year	460	20
Impairment for the year	166	440
	-----	-----
At the end of the year	626	460
	=====	=====

During the year, the Company recognised an impairment loss of KShs 166 million (2018: KShs 440 million) of Jambojet Limited, which has been recognised in profit or loss statement. This is a subsidiary of Kenya Airways Plc.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 INVESTMENTS (Continued)

(a) Investment in subsidiaries – Company (continued)

The summarised financial information of the subsidiaries is as shown below:

	Current assets		Non-current assets		Current liabilities		Non-current liabilities	
	2019	2018	2019	2018	2019	2018	2019	2018
	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million
African Cargo Handling Limited	4,250	4,005	1,300	695	1,690	1,235	1,080	488
Jambojet Limited	1,667	1,150	10,551	580	2,339	977	9,840	752
Kenya Airfreight Handling Limited	581	434	181	123	584	401	77	50
Kencargo Airlines International Limited	-	-	-	-	61	61	-	-
Pride Oil Limited	-	-	-	-	-	-	-	-
	=====	=====	=====	=====	=====	=====	=====	=====

	Revenues		Profit/(loss) before tax		Total comprehensive income	
	2019	2018	2019	2018	2019	2018
	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million
Jambojet Limited	6,298	4,994	494	77	494	77
African Cargo Handling Limited	2,368	2,256	(123)	(196)	(100)	(139)
Kenya Airfreight Handling Limited	249	243	3	(13)	2	(9)
Kencargo Airlines International Limited	-	-	-	-	-	-
Pride Oil Limited	-	-	-	-	-	-
	=====	=====	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 INVESTMENTS (Continued)

(b) Investments in associates – Group and Company

(i) African Tours and Hotels Limited:

	2019 KShs million	2018 KShs million
African Tours and Hotels Limited: (100,398 ordinary shares of KShs 20 each)	2	2
Less: Impairment on investment in associate	(2)	(2)
	<u> </u>	<u> </u>

The shareholding in African Tours and Hotels Limited represents 20.1% of the issued ordinary share capital of the company. The Company was placed under receivership several years back and, therefore, the Directors do not expect the value of the investment to be recovered. Consequently, the investment has been fully impaired.

(ii) Precision Air Services Limited:

	2019 KShs million	2018 KShs million
66,157,350 ordinary shares of KShs 3.48 (TShs 20) each	230	230
Less: Impairment of investment in associate	(230)	(230)
	<u> </u>	<u> </u>

The summarised financial information of the associate is set out below:

Total assets	6,708	7,869
Total liabilities	(20,633)	(20,613)
	<u> </u>	<u> </u>
Net liabilities	(13,925)	(12,744)
	<u> </u>	<u> </u>
Total revenue for the year	5,488	4,322
Loss for the year	(1,672)	(1,228)
	<u> </u>	<u> </u>

Kenya Airways Plc owns 41.23% equity interest in Precision Air Services Limited. The Investment was fully impaired in 2013 as the Directors do not expect the value of the investment to be recovered.

21 AIRCRAFT DEPOSITS – GROUP AND COMPANY

	2019 KShs million	2018 KShs million
Deposits for aircraft leases under long-term operating leases	3,035	2,510
Deposits paid towards acquisition of aircraft	292	566
	<u> </u>	<u> </u>
	3,327	3,076
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 AIRCRAFT DEPOSITS – GROUP AND COMPANY (Continued)

The deposits under long-term operating leases relate to lease of aircraft and engines of Boeing 737's, 787's and Embraer E190's. The deposits paid towards acquisition of aircraft represent amounts paid to Boeing Corporation for the option to purchase or lease aircrafts in the future. The latter deposits do not earn any interest and are carried at amortised cost.

	2019 KShs Million	2018 KShs million
At 1 January	3,076	5,328
Additions	528	311
Refunds**	(324)	(2,486)
Amortisation*	62	4
Foreign exchange differences	(15)	(81)
	<hr/>	<hr/>
At 31 December	<u>3,327</u>	<u>3,076</u>

* Amortisation of the aircraft deposits relates to the discount arising from the difference between the maturity value of the deposits and their carrying value.

** The refunds during the year relate to reimbursements received from various lessors in exchange for letters of credit for aircraft deposits that had previously been held as cash.

22 PREPAID MAINTENANCE ASSET

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs. million	2018 KShs million
At 1 January	3,398	4,125	3,018	4,043
Additions	4,578	2,776	4,125	2,478
Reimbursements	(1,288)	(2,442)	(1,288)	(2,442)
Impairment	(1,118)	(1,008)	(1,118)	(1,008)
Foreign exchange differences	(37)	(53)	(41)	(53)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	<u>5,533</u>	<u>3,398</u>	<u>4,696</u>	<u>3,018</u>

The Group and Company had previously subleased two of their leased aircraft to Oman Air. In line with the sublease agreements, Oman Air would make maintenance reserve payments based on utilization of the aircraft to the lessors. As at December 2019, there were maintenance reserves amounting to KShs. 1,977 million that had been paid by Oman Air but were available for utilization by the Group on completion of qualifying maintenance. Given that the benefit accrues to the Group and Company on completion of qualifying maintenance events, these reserves have not been recognized in the Group's and Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2019	2018
	KShs	KShs
	million	million
23 INVENTORIES – GROUP AND COMPANY		
Aircraft consumables	3,143	3,075
Other inventories	354	427
Provisions for obsolete inventories	(1,382)	(1,404)
	<u>2,115</u>	<u>2,098</u>

The cost of inventories recognised as an expense and included in the Group's and Company's 'Direct costs' amounted to KShs 2,085 million (2018: KShs 2,106 million).

The movement in provision for obsolete inventories is as follows:

	2019	2018
	KShs	KShs
	million	million
At beginning of the year	1,404	1,447
Decrease in provision during the year	(22)	(43)
	<u>1,382</u>	<u>1,404</u>

24 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	2019	2018
	KShs	KShs	KShs	KShs
	million	million	million	million
Trade and other receivables	15,263	16,364	32,560	32,660
Less: Provision for loss allowance	(1,616)	(1,927)	(1,784)	(2,708)
	<u>13,647</u>	<u>14,437</u>	<u>30,776</u>	<u>29,952</u>
Analysed as:				
Trade - airlines	1,841	953	1,721	803
Trade - agents	5,951	7,812	5,746	7,660
Trade - others	2,482	1,876	2,348	1,802
Trade - Government ministries and parastatals	446	134	446	134
Prepayments and VAT recoverable	2,835	3,408	2,232	2,875
Other receivables	92	254	23	197
Due from related parties (note 39(b)(i))	-	-	18,260	16,481
	<u>13,647</u>	<u>14,437</u>	<u>30,776</u>	<u>29,952</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 TRADE AND OTHER RECEIVABLES (Continued)

Movements on the provision for loss allowance of trade receivables and amounts due from related companies is as follows:

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
At 1 January	1,927	4,649	2,708	5,602
Write off during the year*	-	(2,288)	(556)	(2,288)
Decrease on provision during the year	(311)	(434)	(368)	(606)
At 31 December	<u>1,616</u>	<u>1,927</u>	<u>1,784</u>	<u>2,708</u>

*The debtors written off had previously been fully provided for. The write off was approved by the Board of Directors. In the current year, the Board approved a write off of KShs 556 million relating to a balance due from a subsidiary.

25 SHARE CAPITAL – GROUP AND COMPANY

(a) Share capital and share premium

	2019 KShs million	2018 KShsmillion
<i>Issued and fully paid:</i>		
5,823,902,621 ordinary shares of KShs 1 each	<u>5,824</u>	<u>5,824</u>

The movement in the share capital and share premium is as follows:

	Issued and fully paid No. of shares million	Share capital KShs million	Share premium KShs million	Total KShs million
At 1 January 2018	5,824	5,824	49,221	55,045
Issue of ordinary shares through conversion of the mandatory convertible note	*	*	2	2
At 31 December 2018	<u>5,824</u>	<u>5,824</u>	<u>49,223</u>	<u>55,047</u>
At 1 January 2019 and 31 December 2019	<u>5,824</u>	<u>5,824</u>	<u>49,223</u>	<u>55,047</u>

* In 2018, KQ Lenders Company 2017 Limited issued conversion notices for 314,352 shares at KShs 7.78 per share resulting in an increase in share capital by KShs 314,352 and share premium by KShs 2,131,307.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 SHARE CAPITAL – GROUP AND COMPANY (Continued)

(b) Mandatory convertible notes

On 14 November 2017, as part of its balance sheet restructuring, the Group and Company issued the Government of Kenya and KQ Lenders Company 2017 Limited mandatory convertible notes of KShs 7,744 million (USD 75 million) and KShs 5,163 million (USD 50 million) respectively. The Government of Kenya note was issued at zero interest rate while the KQ Lenders Company 2017 Limited mandatory convertible note will earn an interest of 5.11% in year 1 to year 5, 15.34% in year 6 to year 7 and 25.56% in year 8 to year 10.

The notes are mandatorily convertible to equity shares in year 10 but can be converted to equity anytime within the 10 years. On conversion to equity, the Government of Kenya will be issued with 995,254,143 ordinary shares at KShs 7.78 per share while the KQ Lenders Company 2017 Limited will be issued with 663,502,762 ordinary shares at KShs 7.78 per share.

The convertible note issued to the Government of Kenya is considered an equity instrument while the note issued to KQ Lenders Company 2017 Limited is considered a compound instrument that contains, a liability element and an equity element. The equity element is presented in equity under the shareholders' funds while the liability element has been presented in non-current liabilities under borrowings.

	2019 Kshs million	2018 Kshs million
KQ Lenders Company 2017 Limited equity component	1,886	1,886
Government of Kenya mandatorily convertible loan	7,744	7,744
	<hr/>	<hr/>
Equity component	<u>9,630</u>	<u>9,630</u>

(c) Treasury shares

Treasury shares represent the shares in Kenya Airways Plc that are held by the Trustees of the Kenya Airways Employee Share Ownership Scheme 2017, a trust set up for the purpose of incentivising certain employees through issuance of shares to employees as part of their remuneration package.

The formation of the scheme was approved at the Extraordinary General Meeting of the Company held on 7 August 2017. Accordingly, the Directors allotted 142,164,558 shares to the scheme for zero cash consideration. The shares are carried at a par value of KShs 1 each.

Under the scheme, eligible employees may be granted the shares at the discretion of the Directors for no cash consideration upon the satisfaction of various conditions as determined by the Directors from time to time. The vesting conditions are yet to be determined by the Board of Directors and as such the shares have been shown as treasury shares until the vesting conditions have been determined.

26 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES – GROUP AND COMPANY

Derivatives designated as hedging instruments

The Group purchases jet fuel on an ongoing basis as its operating activities require a continuous supply of fuel.

The Risk management objective is to hedge the risk of variation in jet fuel prices of highly probable forecast purchases of Jet fuel. The hedged risk is the benchmark Index price arising from highly probable forecasted purchase of Jet fuel and movement in spot rate of benchmark index price. The hedged item is highly probable forecasted purchases of Jet fuel. There is an economic relationship between the hedged item and the hedging instrument as the terms of the expected highly probable forecast purchases match the terms of the jet fuel option contracts. The Group has established a hedge ratio of 1:1 for the hedging relationship by performing a correlation between jet fuel purchases and benchmark index price.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES – GROUP AND COMPANY (Continued)

The hedge ineffectiveness can arise from:

- The extent to which hedging instrument is not correlated to the hedged item; and
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items.

Non-derivative financial liabilities to hedge foreign currency risk in a cash flow hedge relationship.

The risk management objective of Kenya Airways is to hedge foreign currency risk which is derived from fluctuation in exchange rates, associated with highly probable forecasted sales denominated in foreign currency. The Group has a significant portion of its revenue in foreign currency (other than KES). This exposure in foreign exchange risk affects the profitability and financial position of the Group due to variation in the foreign exchange rates. The Group's policy is to designate the monthly USD sales as a highly probable forecasted transaction in a hedging relationship based on the risk management strategy of the Group.

The hedged risk is the USD/KES foreign exchange risk in the KES conversion of foreign currency denominated forecasted sales and movement in spot rates and the hedged item is the highly probable foreign currency forecasted sales denominated in USD and the hedging instrument is foreign currency borrowings in the form of long term loans from banks and the aircraft lease payments.

Since the critical terms of the hedge relationship are perfectly matching, the Group assess the ineffectiveness of the hedge relationship monthly.

- a) The Asset and Liability position of various outstanding derivative financial instruments is given below:

Current	2019			2018		
	Liabilities	Assets	Net fair value*	Liabilities	Assets	Net fair value
<u>Cash-flow hedges</u>						
Commodity hedges	-	-	-	789	354	(435)
* the fair value is net off premium payable						

- b) Outstanding position and fair value of various derivative financial instruments:

As at 31 December 2018				
Derivative financial instruments	Type of risk	Notional Value (BBL)	Fair Value (Loss)	Line item in the balance sheet where the hedging instrument is located
<u>Cash Flow hedges</u>				
Buy	Jet Fuel Risk	1,300,00	(435)	Liability

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES – GROUP AND COMPANY (Continued)

- c) Details of amount held in Other Comprehensive Income(OCI) and the period during which these are going to be released and affecting the Statement of Profit & Loss:

Cash flow hedging reserve	2019			2018		
	Closing Values in Hedge reserves	In less than 12 months	After 12 Months	Closing Values in Hedge reserves	In less than 12 Months	After 12 Months
Cash-flow hedges						
Commodity Hedging	-	-	-	(8)	(8)	-
Foreign Currency Hedging-Borrowings	(9,572)	(1,299)	(8,273)	(10,861)	(1,110)	(9,751)
Foreign Currency Hedging-Lease liabilities	676	-	676	-	-	-
Cost of hedging reserve	-	-	-	-	-	-

Cash-flow hedges	2019			2018		
	Closing Values in Hedge reserves	In less than 12 months	After 12 Months	Closing Values in Hedge reserves	In less than 12 Months	After 12 Months
Cash-flow hedges						
Commodity Hedging	-	-	-	(427)	(427)	-
Foreign Currency Hedging	-	-	-	-	-	-

- d) Gain/(Loss) recognised in OCI and recycled (Amount of gain/(loss) recognised in Hedging Reserve and recycled during the year 2019)

Cash-flow hedges	Reserve	Opening Balance	Net Amount Recognized in Hedge reserve	Net Amount to P&L	Total Amount Recycled	Closing balance before tax
Commodity	Cash flow hedge reserve	(8)	8	-	-	-
	Cost of hedge reserve	(427)	427	-	-	-
		(425)	(435)	-	-	-
Non-Derivative financial instruments	Cash flow hedge reserve	(10,861)	298	991	-	(9,572)
Non-Derivative financial instruments	Cash flow hedge reserve	-	676	-	-	676

The Company's hedging policy only allows for effective hedge relationships to be established. The effective portion of the hedge is taken to OCI while ineffective portion of hedge is recognised immediately to the Statement of Profit or Loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 NON-CONTROLLING INTERESTS

The non-controlling interests relate to the portion of equity ownership in Kenya Airfreight Handling Limited attributable to Stamina Group B.V.

	2019 KShs million	2018 KShs million
Stamina Group B.V		
At beginning of year	49	53
Share of profit/(loss) for the year	1	(4)
	<u> </u>	<u> </u>
At end of year	<u> </u> 50	<u> </u> 49
Represented by:		
Holding in Kenya Airfreight Handling Limited	<u> </u> 49%	<u> </u> 49%

28 BORROWINGS – GROUP AND COMPANY

Loans (note 28(a))	75,173	82,330
Sovereign guarantee from the Government of Kenya (note 28(b))	(981)	(1,188)
Mandatory convertible note – liability component (note 28(c))	3,689	3,456
Deferred expenditure (note 28(d))	(1,788)	(2,050)
	<u> </u>	<u> </u>
	<u> </u> 76,093	<u> </u> 82,548
Made up of:		
Current:		
Payable within one year	6,625	77,362
Non-current:		
Payable after one year	69,468	5,186
	<u> </u>	<u> </u>
	<u> </u> 76,093	<u> </u> 82,548

(a) Loans

The make-up of the loans is as follows:

		2019		2018	
	Maturities	Avg Int Rates	KShs million	Avg Int Rates	KShs million
Citi/JP Morgan - aircraft loans	2014-2026	3.43%	54,766	3.30%	60,331
African Export - Import Bank (Afrexim) - aircraft loans	2012-2025	7.21%	15,943	6.45%	17,455
Local bank facility	2015-2022	2.00%	183	2.00%	244
Local banks revolving loan	2018-2027	7.96%	4,281	7.89%	4,300
			<u> </u>		<u> </u>
			<u> </u> 75,173		<u> </u> 82,330

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 BORROWINGS – GROUP AND COMPANY (Continued)

(a) Loans (Continued)

The aircraft loans were obtained for the purpose of funding aircraft acquisition, aircraft spare engines and pre-delivery payments for ordered aircrafts. For the purpose of holding collateral for the financiers, the aircrafts were registered in the name of special entities whose equity are held by the security trustees on behalf of the respective financiers. The legal title is to be transferred to Kenya Airways Plc once the loans are fully repaid. The special entities are as listed below:

Entity	Bank	Guarantee	Original Tenure of the loan
Tsavo Financing LLC	Citibank N.A. (London) and JP Morgan N.A.	Export-Import Bank of the United States of America (Eximbank)	12 years
Samburu Limited	African Export and Import Bank in syndication with Standard Chartered Bank	None	12 years

The local bank facility is a multipurpose revolving loan and letter of credit facility with a total value of USD 175 million which was obtained from the consortium of Kenyan banks after the restructuring in November 2017. They were drawn from Equity Bank Limited, KCB Bank Kenya Limited, NCBA Bank Kenya Limited (formerly Commercial Bank of Africa Limited and NIC Bank Limited), I&M Bank Limited, National Bank of Kenya Limited, Cooperative Bank of Kenya, Diamond Trust Bank (Kenya) Limited and Ecobank Limited for financing of working capital requirements. As at 31 December 2019 and 31 December 2018, the Group and Company had fully utilized the facilities in the form of loans (USD 42 million) and letters of credit (USD 133 million).

A corporate guarantee of KShs 1,000 million is in place for the Kenya Airways & Co-operative Bank Ab Initio Programme

(i) Covenants

The Group and Company has a number of facilities with African Export-Import Bank (Afrexim), Citibank N.A and JP Morgan N.A for the purchase of aircraft and funding of pre-delivery deposits for aircraft. The facilities contain some financial covenants, which are monitored against the annual audited financial statements. As at 31 December 2019, the Group did not comply with one of the financial covenants being, the unrestricted cash to revenue ratio. The Group and Company however obtained waivers from the financiers prior to year-end and as such the Group and Company had a contractual right to defer payment for at least 12 months at the end of the reporting period. Consequently, the balances have not been classified as current liabilities.

As at 31 December 2018, the Group and the Company did not comply with the unrestricted cash to revenue ratio and, as a result, the facilities were reclassified to current liabilities as the Group and Company did not have unconditional rights to defer payment for at least 12 months at the end of the reporting period.

(ii) Maturities of amounts included in loans is as follows:

	2019 KShs million	2018 KShs million
The borrowings maturity analysis is as follows:		
Within one year	7,115	77,846
Between two and five years	47,839	184
Later than 5 years	20,219	4,300
	—————	—————
	75,173	82,330
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 BORROWINGS – GROUP AND COMPANY (Continued)

(a) Loans (Continued)

(iii) The movement in the loans is as follows:

	2019 KShs million	2018 KShs million
At start of year	82,330	90,838
Repaid in the year	(6,859)	(7,301)
Exchange difference on hedged borrowings	(298)	(1,207)
	<u> </u>	<u> </u>
At end of year	<u>75,173</u>	<u>82,330</u>

Movement in exchange differences on hedged borrowings have been dealt with as follows:

	2019 KShs million	2018 KShs million
Total exchange differences on borrowings	298	1,207
Realised on settlement of loans	991	838
	<u> </u>	<u> </u>
Net hedge effect	<u>1,289</u>	<u>2,045</u>

(iv) Analysis of loans by currency:

Borrowings in US Dollars	<u>75,173</u>	<u>82,330</u>
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(b) Sovereign guarantee from the Government of Kenya

On 14 November 2017, as part of the balance sheet restructuring, the Government of Kenya (GOK) issued guarantees in the aggregate amount of USD 750,000,000 in favour of Exim Bank and a consortium of Kenyan banks in relation to certain obligations of the Group and Company to Exim Bank and the consortium of Kenyan Banks. The fair value of the guarantee was determined on 14 November 2017 by an independent valuer at USD 13,898,096 (KShs 1,434 million).

In return, Kenya Airways Plc issued the GOK 184,321,067 shares at KShs. 7.78 per share. The financial guarantee is measured at amortised cost over the term of the guaranteed loans.

The fair value was determined by an independent valuers who has appropriate qualifications and relevant experience in fair value measurements of such assets. The valuation was determined as the difference of weighted risk free loan (taking the guarantee into consideration) and weighted risky loan (assuming no guarantee in place). The valuation falls under level 3 of the fair value hierarchy as the inputs are not based on observable market inputs. The movement for the year is presented below:

	2019 KShs million	2018 KShs million
Sovereign guarantee from the Government of Kenya – at cost	1,434	1,434
Accumulated amortisation	(453)	(246)
	<u> </u>	<u> </u>
	<u>981</u>	<u>1,188</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 BORROWINGS – GROUP AND COMPANY (Continued)

(b) Sovereign guarantee from the Government of Kenya (continued)

The movement in amortisation of the sovereign guarantee from the Government of Kenya is as follows:

	2019 KShs million	2018 KShs million
At beginning of year	246	29
Charge for the year	207	217
	<u> </u>	<u> </u>
At end of year	<u>453</u>	<u>246</u>

(c) Mandatory convertible note - liability component

At beginning of the year	3,456	3,277
Conversion of mandatory convertible note to ordinary shares (note 25(a))	-	(2)
Interest charged	425	389
Interest paid	(175)	(165)
Foreign currency differences	(17)	(43)
	<u> </u>	<u> </u>
	<u>3,689</u>	<u>3,456</u>

(d) Deferred expenditure

At start of the year	2,050	2,351
Payments	61	25
Charge for the year	(323)	(326)
	<u> </u>	<u> </u>
At end of the year	<u>1,788</u>	<u>2,050</u>

The deferred expenditure is presented in the statement of financial position as:

Current portion	296	484
Non-current portion	1,492	1,566
	<u> </u>	<u> </u>
	<u>1,788</u>	<u>2,050</u>

Deferred expenditure relates to costs incurred to obtain financing for the purchase of the Boeing 787-8 and B777-300ER aircrafts, as well as fees paid to banks upon successful restructuring of the short term loans to longer repayment periods in November 2017. The costs include commitment, arrangement, consultants, underwriters and guarantee fees. These costs are amortised over the repayment periods of the various loans.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 LEASE LIABILITIES

	2019		2018	
	Group KShs million	Company KShs million	Group KShs million	Company KShs million
At 1 January – as previously reported	-	-	-	-
Effect of adoption of IFRS 16	83,059	75,568	-	-
At 1 January - restated	83,059	75,568	-	-
Additions	6,777	3,018	-	-
Terminations*	(689)	(689)	-	-
Interest expense on lease liabilities	4,997	4,471	-	-
Lease payments	(13,805)	(12,500)	-	-
Unhedged foreign exchange differences	367	392	-	-
Hedged foreign exchange differences**	(676)	(676)	-	-
At 31 December	80,030	69,584	-	-
Maturity analysis				
Year 1	15,843	14,161	-	-
Year 2	15,728	14,048	-	-
Year 3	14,061	12,406	-	-
Year 4	12,566	10,963	-	-
Year 5	11,977	10,419	-	-
Year 6 and onwards	29,464	23,967	-	-
Undiscounted lease payments at end of the year	99,639	85,964	-	-
Less; unearned interest	(19,609)	(16,380)	-	-
	80,030	69,584	-	-
Analysed as:				
Current	11,497	10,057	-	-
Non-current	68,533	59,527	-	-
	80,030	69,584	-	-

* The termination relates to an E-190 aircraft lease that was damaged during the year. The Group and Company were discharged from its obligations on 31 October 2019

** The aircraft lease contracts are denominated in US Dollars. As from 30 June 2019, the Group and Company put in place a cash flow hedge relationship for its revenues in US dollars through the lease liabilities relating to aircraft, in US dollars, in order to limit the volatility of the foreign exchange variation resulting from the revaluation of its lease liabilities. The effective portion of the foreign exchange revaluation of the lease liabilities in US dollar at the closing rate is recorded in “other comprehensive income”. This amount is recycled when the hedged item is recognized. In accordance with IFRS 9, the hedging relationship was designated prospectively and has been set up at Company level from 30 June 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 DEFERRED TAXATION

Deferred income tax is calculated using the enacted income tax rate of 30% (2018 - 30%). The deferred income tax liability/ (asset) is made up as follows:

	Group		Company	
	2019 KShs millions	2018 KShs millions	2019 KShs millions	2018 KShs millions
Leave pay accrual	(739)	(656)	(722)	(638)
Other provisions	(1,291)	(1,076)	(1,227)	(1,038)
Tax losses	(24,599)	(24,440)	(24,334)	(24,112)
Unrealised exchange losses	(51)	(251)	(55)	(250)
Hedge losses	(3,813)	(4,842)	(3,813)	(4,842)
Accelerated capital allowances	6,012	7,470	6,065	7,530
Revaluation surplus	2,845	2,105	2,723	2,013
	<hr/>	<hr/>	<hr/>	<hr/>
Net deferred tax asset	(21,636)	(21,690)	(21,363)	(21,337)
Deferred tax assets derecognised	24,152	23,505	24,086	23,350
	<hr/>	<hr/>	<hr/>	<hr/>
	2,516	1,815	2,723	2,013
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Presented in the statement of financial position as follows:				
Deferred tax asset	(207)	(198)	-	-
Deferred tax liability	2,723	2,013	2,723	2,013
	<hr/>	<hr/>	<hr/>	<hr/>
	2,516	1,815	2,723	2,013
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
The movement on the deferred tax account is as follows:				
At start of year	1,815	1,895	2,013	2,013
Credit to profit or loss (note 12(a))	(39)	(80)	-	-
Deferred tax on revaluation surplus of property	740	-	710	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	2,516	1,815	2,723	2,013
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. At 31 December 2019, Kenya Airways Plc and JamboJet Limited estimated/assessed tax losses amounted to KShs 81,113 million and KShs 143 million respectively (2018: KShs 80,373 million and KShs 433 million respectively). Kenyan Income Tax laws allow for carry forward of tax losses for a maximum period of 10 years. The accumulated tax losses will be utilised to offset future taxable profits.

The Group and Company have not recognised deferred tax assets in the financial statements in view of the uncertainty regarding the ability of the Company to generate sufficient taxable profits in the foreseeable future to facilitate utilisation of the benefits from the deductions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 ONEROUS LEASE PROVISION – GROUP AND COMPANY

The airline has sub-leased certain aircraft that are held on operating lease at lease rentals that are lower than that charged by the primary lessors which resulted into onerous lease provision in prior as shown below:

Aircraft type	Lessee	2019 KShs. million	2018 KShs million
B787-800	Oman Air	-	49
B777	Turkish Airlines	-	682
		-	731
		-	731

Onerous lease provision is presented in the statements of financial position as follows:

To be realised within one year	-	701
To be realised after one year	-	30
	-	731
	-	731

The movement in the onerous lease provision is as follows:

At 1 January – as previously reported	731	1,858
Effect of adoption of IFRS 16**	(731)	-
	-	-
At 1 January - restated	-	(1,858)
Payments made in the year	-	(1,023)
Reversal on termination of sub-lease*	-	(71)
Foreign exchange difference	-	(33)
	-	-
At 31 December	-	731

* In the prior year, the Group and Company terminated one of its sublease agreements with Oman Air. This led to the reversal of all outstanding onerous lease provisions as at the termination date.

** During the year, the Group and Company adopted IFRS 16 and adjusted the right-of-use asset by the onerous lease provision amount in the statement of financial position at the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 RETURN CONDITION PROVISION

Return condition provision relates to a provision for an unavoidable contractual obligation to return the aircraft in certain conditions at the date of return.

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
At 1 January - as previously reported	4,175	4,650	3,423	3,898
Effect of adoption of IFRS 16	488	-	372	-
At 1 January - restated	4,663	4,650	3,795	3,898
Increase in provision during the year	4,439	1,027	3,482	1,027
Utilisations during the year	(998)	(1,521)	(998)	(1,521)
Reversal of provisions	(571)	-	(571)	-
Interest charged	101	68	69	68
Foreign exchange differences	(43)	(49)	(44)	(49)
At 31 December	7,591	4,175	5,733	3,423

The return condition provision is presented in the statement of financial position as follows:

Current	2,575	1,793	2,397	1,793
Non-current	5,016	2,382	3,336	1,630
	7,591	4,175	5,733	3,423

33 ASSET RETIREMENT OBLIGATION

Under the terms of certain property lease arrangements, the Group and Company has a contractual obligation to restore the property in a certain condition at the end of the lease term.

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShsmillion
At 1 January - as previously reported	-	-	-	-
Effect of adoption of IFRS 16	13	-	12	-
At 1 January - restated	13	-	12	-
Interest charged	1	-	1	-
At 31 December	14	-	13	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 SALES IN ADVANCE OF CARRIAGE

The value of the tickets sold and still valid but not used by the end of the reporting period is reported as unearned transportation revenue in the sales in advance of carriage account. The carrying amount of the balance is as presented below:

	Group		Company	
	2019	2018	2019	2018
	KShs million	KShs million	KShs million	KShs million
Passengers	14,759	17,382	14,566	17,243
Freight	100	169	100	169
	<u>14,859</u>	<u>17,551</u>	<u>14,666</u>	<u>17,412</u>
	=====	=====	=====	=====

Reconciliation of the sales in advance of carriage is as follows

At beginning of the year	17,551	15,167	17,412	15,068
Total tickets sold	99,054	95,517	95,230	91,712
Total tickets uplifted	(94,748)	(88,714)	(91,066)	(85,056)
Expired tickets recognised in revenue	(6,998)	(4,419)	(6,910)	(4,312)
	<u>14,859</u>	<u>17,551</u>	<u>14,666</u>	<u>17,412</u>
	=====	=====	=====	=====

The above represents the Group's and Company's obligation to provide services to customers for amounts received in advance as per the Group's policy under note 3(c). In addition, the Group and Company expects to fulfil the related performance obligations arising from sales in advance of carriage within one year.

35 TRADE AND OTHER PAYABLES

	Group		Company	
	2019	2018	2019	2018
	KShs million	KShs million	KShs million	KShs million
Trade payables	23,932	23,409	22,747	23,156
Other payables and accruals	2,144	2,051	1,675	827
Leave pay accruals (note 37)	2,464	2,187	2,407	2,125
Due to related parties (note 39 (b)(ii))	2,057	2,301	23,846	22,225
Unclaimed dividends (note 14)	88	90	88	90
	<u>30,685</u>	<u>30,038</u>	<u>50,763</u>	<u>48,423</u>
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 PROVISIONS

Group:	2019			2018		
	Redundancy provision KShs million	Other provisions KShs million	Total KShs million	Redundancy provision KShs Million	Other provisions KShs million	Total KShs million
At start of year	145	1,133	1,278	197	1,470	1,667
Paid during the year	(110)	(94)	(204)	(153)	(348)	(501)
Additional provision during the year	412	88	500	101	11	112
At end of year	<u>447</u>	<u>1,127</u>	<u>1,574</u>	<u>145</u>	<u>1,133</u>	<u>1,278</u>
Company:						
At start of year	104	1,136	1,240	135	1,470	1,605
Paid during the year	(110)	(41)	(151)	(133)	(345)	(478)
Additional provision during the year	358	32	390	102	11	113
At end of year	<u>352</u>	<u>1,127</u>	<u>1,479</u>	<u>104</u>	<u>1,136</u>	<u>1,240</u>

Redundancy provision

The Group implemented a staff restructuring program in the year 2012 aimed at improving operational efficiency. The program affected 599 employees and as at 31 December 2019 a provision of KShs 447 million is held to cover the redundancy payments arising from the accompanying litigation. The unionisable staff had moved to the Industrial Court to block the restructuring and the Court ruled in their favour, ordering the reinstatement of affected employees. The Group appealed against the decision and on 11 July 2014, the Court of Appeal ruled that the Group was justified in declaring the redundancy but had failed to meet the statutory threshold procedural fairness. The employees challenged the decision further at the Supreme Court.

Other provisions

Other provisions relate to various legal cases brought against the Group and Company which are pending determination by the courts. Management has made appropriate provisions in respect of certain cases.

37 LEAVE PAY ACCRUALS

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
At start of year	2,187	1,876	2,125	1,839
Increase in accrual during the year	277	311	282	286
At end of year	<u>2,464</u>	<u>2,187</u>	<u>2,407</u>	<u>2,125</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38 CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
Loss before taxation	(12,975)	(7,588)	(12,980)	(7,780)
Adjustments for:				
Depreciation of property and equipment (note 16)	6,486	7,696	6,424	7,631
Impairment of investment in subsidiary (note 19(a))	-	-	166	440
Impairment of assets (note 16)	4,414	2,590	4,414	2,590
Write off of assets (note 16)	2,145	-	2,145	-
Amortisation of intangible assets (note 17)	143	180	131	148
Loss on disposal property, aircraft and equipment	62	84	62	84
Gain on sale and leaseback(note 15)	(639)	-	(639)	-
Depreciation of right-of-use assets (note 18)	11,079	-	10,101	-
Loss on lease termination	2	-	2	-
Amortisation of deferred expenditure (note 28(h))	323	326	323	326
Amortisation of aircraft deposits (note 21)	(62)	(4)	(62)	(4)
Unrealised exchange gain on aircraft deposits (note 21)	15	81	15	81
Amortisation of sovereign guarantee (note 28 (a))	207	217	207	217
Unrealised exchange loss on borrowings (note 28(a)(iii))	991	838	991	838
Unrealised exchange gain on lease liabilities (note 29)	367	-	392	-
Unrealised exchange gain on onerous lease provision (note 31)	-	(33)	-	(33)
Reversal of termination of sub-lease (note 31)	-	(71)	-	(71)
Interest expense on borrowings (note 9)	4,933	5,062	4,931	5,059
Interest expense on lease liabilities (note 9)	4,997	-	4,471	-
Interest expense on asset retirement obligations (note 33)	1	-	1	-
Interest income (note 9)	(30)	(45)	(34)	(51)
Reversal of return condition provision	(1,569)	(1,521)	(1,569)	(1,521)
Depreciation of return condition asset (note 20)	1,683	1,832	1,281	1,525
Interest charged on return condition (note 32)	101	68	69	68
Unrealized exchange gain on return provision (note 32)	(43)	(49)	(44)	(49)
Unrealised exchange gain on mandatory convertible debt (note 28(c))	(17)	(43)	(17)	(43)
Working capital changes				
Inventories	(17)	(65)	(17)	(65)
IFRS 9 transition adjustment	-	(1,400)	-	(1,391)
Trade and other receivables	790	(2,628)	(824)	(8,096)
Sales in advance of carriage	(2,692)	2,384	(2,746)	2,344
IFRS 16 transition adjustment-Derecognition of straight lining rent accrual	1,152	-	1,152	-
Trade and other payables (note 35)	647	2,989	2,340	8,794
Provisions	296	(389)	239	(365)
Prepaid maintenance asset (note 22)	(2,135)	727	(1,678)	1,025
Related party balances converted to investment in subsidiary	-	-	-	(606)
	<u>20,655</u>	<u>11,238</u>	<u>19,247</u>	<u>11,095</u>
Cash generated from operations	20,655	11,238	19,247	11,095

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 RELATED PARTY TRANSACTIONS

(a) Nature of related party transactions

During the year, companies within the Group entered into transactions with related parties who are not members of the Group. Details of those transactions are presented below:

(i) Group

KLM Royal Dutch Airlines (KLM)

KLM holds 7.8% (2018:7.8%) equity interest in Kenya Airways Plc, and has a joint operations agreement which commenced in November 1997. The agreement allows the two airlines to co-operate in developing schedules and fares and to share generated revenue benefits and costs for the core routes between Nairobi and Amsterdam.

Precision Air Services Limited

Kenya Airways Plc holds 41.23% (2018: 41.23%) equity interest in Precision Air Services Limited with code share on the route between Nairobi and Dar es Salaam.

As is common throughout the airline industry, Kenya Airways Plc, KLM Royal Dutch Airlines and Precision Air Services Limited from time to time carry each other's passengers travelling on the other airline's tickets. The settlement between the two carriers is effected through IATA clearing house, of which all airlines are members.

(ii) Company

	2019	2018
	KShs	KShs
	million	million
<i>Handling expenses</i>		
African Cargo Handling Limited	127	124
	=====	=====
<i>Direct Costs</i>		
Jambojet Limited	760	110
	=====	=====
Management fee income		
African Cargo Handling Limited	719	714
	=====	=====
Jambojet Limited	42	77
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 RELATED PARTY TRANSACTIONS (Continued)

(b) Related companies' balances

Balances outstanding at the year-end on account of transactions with related parties were as follows:

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
<i>(i) Due from related companies</i>				
Precision Air Services Limited	126	206	126	206
Kenya Airfreight Handling Limited	-	-	160	174
African Cargo Handling Limited	-	-	17,796	16,135
Jambojet Limited	-	-	304	706
Kencargo International Airlines Limited	-	-	61	61
	<u>126</u>	<u>206</u>	<u>18,447</u>	<u>17,282</u>
Provisions for doubtful related party balances	(126)	(206)	(187)	(801)
	<u>-</u>	<u>-</u>	<u>18,260</u>	<u>16,481</u>

The movement in the provisions for doubtful related party balances is as follows;

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
At beginning of year	206	256	801	966
Write off during the year	-	-	(556)	-
Decrease during the year	(80)	(50)	(58)	(165)
	<u>126</u>	<u>206</u>	<u>187</u>	<u>801</u>

(ii) Due to related companies

KLM, Royal Dutch Airlines	2,057	2,301	2,026	2,263
African Cargo Handling Limited	-	-	21,770	19,903
Kenya Airfreight Handling Limited	-	-	50	59
	<u>2,057</u>	<u>2,301</u>	<u>23,846</u>	<u>22,225</u>

Amounts due from and due to Kenya Airfreight Handling Limited (KAHL) arise from payments of expenses by Kenya Airways on behalf of KAHL, net of costs apportioned by KAHL for services rendered to Kenya Airways Plc. It also includes a loan amount of KShs 19.6 million secured by KAHL from Kenya Airways Plc. Both the related party and loan balances are interest free and have no fixed repayment terms.

The amounts due from African Cargo Handling Limited (ACHL) relate to cargo freight collected by ACHL on behalf of Kenya Airways and the expenses paid by Kenya Airways on behalf of ACHL. The amounts due to ACHL relate to cash transfers from ACHL to Kenya Airways and the ACHL IATA billings. The related party balances are interest free and have no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 RELATED PARTY TRANSACTIONS (continued)

(b) Due to related companies (Continued)

The amounts due from Jambojet relate to management fees due to Kenya Airways and balances due to Kenya Airways after uplifts have been completed by Kenya Airways on behalf of Jambojet. The amounts are net of ACMI (Aircraft, Crew, Maintenance and Insurance) fees due from Kenya Airways. The related party balances are interest free and have no fixed repayment terms.

(c) Remuneration for Directors and key management compensation

The remuneration for Directors and other members of key management during the year were as follows:

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
Salaries and other benefits	372	255	341	221
Non-monetary benefits	13	33	13	33
	<u>385</u>	<u>288</u>	<u>354</u>	<u>254</u>
	=====	=====	=====	=====

The Group's Directors' remuneration included in key management compensation above comprise:

	Group		Company	
	2019 KShs million	2018 KShs million	2019 KShs million	2018 KShs million
As executives	80	58	80	58
As non-executives	33	31	33	31
	<u>113</u>	<u>89</u>	<u>113</u>	<u>89</u>
Non - monetary benefits	11	4	11	4
	<u>124</u>	<u>93</u>	<u>124</u>	<u>93</u>
	=====	=====	=====	=====

(d) Receivable from Directors

There were no balances due from Directors as at 31 December 2019 (2018: KShs 54 million).

40 COMMITMENTS

As at 31 December 2019 and as at 31 December 2018, the Group and Company had purchase commitments for aircraft parts and other equipment incidental to the ordinary course of business as follows:

	2019 KShs million	2018 KShs million
Authorised but not contracted for	<u>7,174</u>	<u>5,283</u>
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 OPERATING LEASE ARRANGEMENTS - GROUP AND COMPANY

Operating leases, in which the Group is the lessor, relate to property and owned aircraft owned by the Group with lease terms of between 2 to 5 years, with extension options. It also includes aircraft subleased to other airlines. The lessee do not have an option to purchase the property or aircraft at the expiry of the lease period.

Maturity Analysis

	2019 KShs million	2018 KShs million
Year 1	3,952	3,061
Year 2	3,671	490
Year 3	3,569	-
Year 4	721	-
Year 5	1	-
	<hr/>	<hr/>
At end of the year	11,914	3,551
	<hr/> <hr/>	<hr/> <hr/>

During the year, the Group and Company recognised aircraft lease income of KShs 1,418 million (2018: KShs 1,386 million) and property lease income of KShs 188 million (2018: 191 million) and aircraft sub-lease income of KShs. 3,380 (2018:nil) in profit or loss in respect of operating leases income.

42 CONTINGENT LIABILITIES – GROUP AND COMPANY

(a) Contingent liabilities

	2019 KShs million	2018 KShs million
Guarantees	13,767	13,788
Litigation	1,306	660
	<hr/>	<hr/>
	15,073	14,448
	<hr/> <hr/>	<hr/> <hr/>

(b) Guarantees

In the ordinary course of business, the Group's and Company's bankers have issued guarantees on behalf of the Group and Company in favour of third parties. In the opinion of the Directors, no liability is expected to crystallise in respect of these guarantees.

(c) Litigation

Douala crash - KQ507

A leased aircraft, Boeing 737-800 (registration mark 5Y-KYA) operating as flight number KQ507 crashed shortly after take-off from Douala airport in Cameroon on 5 May 2007. All the 105 passengers and 9 crew members on board perished in the accident. The investigation of the accident carried out under the auspices of the Cameroon civil aviation authorities was completed. Kenya Airways Plc is fully insured for any legal obligations arising out of the accident.

A further claim relating to the Mengwetuh family has been brought before the Court in Cameroon which is being defended.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

42 CONTINGENT LIABILITIES – GROUP AND COMPANY (Continued)

(c) Litigation (Continued)

Douala crash - KQ507 (Continued)

Site clear up

After the accident there had been concerns locally that the accident site had not been made sufficiently safe and secure. On 30 December 2008, the Cameroon Prime Minister appointed a local committee to oversee a clean-up and restoration of the site of the accident. Kenya Airways was asked to nominate a representative and did so. To the Directors knowledge, there have been no further developments since this date regarding the site clear up and it now seems unlikely there will be.

Criminal action in Cameroon

A Criminal investigation into the accident was opened in the Court of First Instance in Ndokoti, Douala, Cameroon in November 2009. This was separate and distinct from the investigation undertaken by the Official Accident Investigation Commission in accordance with Annex 13 Chicago Convention. There have been no further developments and it seems unlikely there will be

Other material litigation

Nairobi Industrial Court Cause No. 539 of 2011 (Kenya) - action against the Group by a former employee.

There are other various legal cases brought against the Group which are pending determination by the courts. It is not practicable to determine the timing and ultimate liabilities (if any) that may crystallise upon resolution of the pending cases. However, management has made appropriate provisions in respect of certain cases. Due to the nature and sensitivity of these cases, detailed disclosures have not been made for each case as these may be prejudicial to the position of the Group.

43 POST REPORTING DATE EVENTS

The existence of the coronavirus (COVID-19) was confirmed in December 2019 and has spread across the world, causing disruptions to businesses and economic activity. Governments in affected countries are imposing various health and safety measures including travel bans, quarantines, lockdowns and other emergency public security measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak.

As disclosed in note 2(e), the Group has significantly reduced its business capacity across the international and domestic network with the possibility to extend these reductions in response to the duration and spread of the virus. In particular, the Group currently only operates cargo business and limited chartered passenger flights.

The Group considers this outbreak to be a non-adjusting post balance sheet event as COVID -19 was only declared a pandemic on 11 March 2020, with its effects on flights felt from the month of March 2020. The Government of Kenya suspended all the international flights with effect from 25 March 2020 and on 7 April 2020 extended the suspension to all passengers' flights within the country. The situation is fluid and rapidly evolving and has negatively impacted the Group's revenue generation, working capital, as well as likely to significantly impact the future financial performance of the group. However, the directors do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group's future performance.

The airline in conjunction with the Government of Kenya continues to operate repatriation passenger flights. The current passenger flight suspension runs until 5th June 2020 when it is expected that the flights may resume. While the ultimate length of current suspension of the passenger flight business is uncertain, there is reasonable expectation that the flights could resume in the third quarter of the year with business expected to have start at very low capacity and a gradual ramp-up, influenced by gradual lifting of travel bans, uncertain passenger confidence and health safety measures. Discussions with key industry stakeholders are currently ongoing in relation to safe restart of passenger flights. It is expected that the airline will be able to cover its variable costs on resumption of flights. The resumption is expected to happen within the period of the moratoriums already being negotiated with lenders and lessors and thereby allowing the airline to grow back its revenue base and gradually cover its fixed costs.

43 POST REPORTING DATE EVENTS (Continued)

The Group has performed a line-by-line analysis of the statement of financial position to assess whether the current uncertainty may impact any of the amounts presented as at 31 December 2019 as highlighted below. Due to uncertainty arising from the fluid nature of the situation, it is not practicable for the directors to reliably measure the impact on the balances at future reporting dates.

The Group has performed a line-by-line analysis of the statement of financial position to assess whether the current uncertainty may impact any of the amounts presented as at 31 December 2019 as highlighted below. Due to uncertainty arising from the fluid nature of the situation, it is not practicable for the directors to reliably measure the impact on the balances at future reporting dates.

Borrowings

The Group is currently having discussions with its lenders to defer loan principal and interest payments due in 2020. This has no material effect on the consolidated and company financial Statements as at 31 December 2019.

Leases

The Group is currently having discussions with its lessors to defer lease payments due in 2020 and modify the leases that were in place as at 31 December 2019. This has no effect on the consolidated and company financial Statements as at 31 December 2019.

Hedge Accounting

The Group has designated sales as a hedged forecasted transaction in a cash flow hedge accounted for under IFRS 9. As at 31 December 2019 the transaction was accounted as a 'highly probable forecasted transaction' and any effective portions of changes in fair value were recognised in other comprehensive income. Due to the impact of the reduced capacity the sales amounts may be lower than forecasted and the Group will need to determine whether sales are highly probable and therefore whether it can still apply hedge accounting. This has no effect on the consolidated and company financial Statements as at 31 December 2019.

Impairment of aircraft and related equipment

The Group's recoverable amounts of the aircraft and related equipment were based on fair value determined by independent valuation based on market conditions as at 31 December 2019 and not value in use that uses future estimates of cash flows. Any future decrease in fair value of the aircraft and related equipment arising from changes in market conditions is likely to result in further impairment of these assets. However, this has no effect on the consolidated and company financial Statements as at 31 December 2019.

Expected credit loss (ECL)

The impact of this outbreak on the historical loss rates and macroeconomic forecasts will be incorporated into the Group's IFRS 9 estimates of expected credit loss provisions in 2020. This has no effect on the consolidated and company financial Statements as at 31 December 2019.

PRINCIPAL SHAREHOLDERS AND SHARE DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2019

Principal shareholders

The ten largest shareholdings in the Company and the respective number of shares held at 31 December 2019 are as follows:

Name of shareholder	Number of shares	% Shareholding
1. Cabinet Secretary To The National Treasury	2,847,844,811	48.90
2. KQ Lenders Company 2017 Limited	2,218,310,169	38.09
3. KLM – Koninklijke Luchtvaart Maatschappij (KLM) Royal Dutch Airlines	451,661,470	7.76
4. The Trustess of the Kenya Airways Employee Share Ownership Scheme 2018	142,164,558	2.44
5. Standard Chartered Nominees Ltd Non Resident A/c KE11752	29,547,300	0.51
6. Kamau Mike Maina	16,099,735	0.28
7. Standard Chartered Nominees Ltd A/c 9187	4,885,914	0.08
8. Shah Tanna, Karishma Vijay Shah-Tanna	3,435,900	0.06
9. Standard Chartered Nominees Ltd A/c 9230	3,382,693	0.05
10. Galot International Limited	2,652,370	0.05
11. Other Shareholders	103,917,701	1.78
Total	5,823,902,621	100.00

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
Less than 500 shares	61,745	10,765,553	0.18
501 – 5,000 shares	16,226	21,660,858	0.37
5,001 – 10,000 shares	1,083	7,680,077	0.13
10,001 – 100,000 shares	1,220	31,455,117	0.54
100,001 – 1,000,000 shares	112	26,774,265	0.46
Over 1,000,000 shares	15	5,725,566,751	98.31
Total	80,401	5,823,902,621	100.00

Distribution of shareholders by region

	Number of shareholders	Number of shares	% Shareholding
Foreign Institutions	9	481,961,529	8.28
Foreign Individuals	559	5,939,676	0.10
Local Institutions	3,029	5,233,337,968	89.86
Local Individuals	76,804	102,663,448	1.76
Total	80,401	5,823,902,621	100.00

KENYA AIRWAYS PLC

NOTICE OF THE 44TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT, in accordance with an Order issued by the High Court of Kenya in Miscellaneous Application No. E680 of 2020 on Wednesday 29th April 2020, the 44th Annual General Meeting of the Company will be held via electronic communication on **Friday 26th June 2020 at 9:00 am** to conduct the following business, and, if thought fit, to pass the Resolutions set out below. Due to ongoing Government restrictions on public gatherings Shareholders will not be able to attend the AGM in person but will be able to register for, access to information pertaining to the proposed resolutions, follow the meeting in the manner detailed below and to vote electronically or by proxy. Shareholders will have an opportunity to ask questions during the meeting as detailed below.

ORDINARY BUSINESS

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive, consider and if approved, adopt the Company's audited Financial Statements for the period ended 31st December 2019 together with the Directors' and Auditors' Reports thereon.

Proposed Resolution:

THAT the audited Financial Statements including the Balance Sheet for the year ended 31 December 2019, together with the Directors' and Auditors' Reports thereon be and are hereby approved and adopted.

4. To approve the Directors' Remuneration Report for the period ended 31st December 2019.
(As required by the Companies Act, 2015, the Shareholders will be requested to vote at the meeting or in advance of the meeting as set out below)

Proposed Resolution:

THAT the Directors' Remuneration for the year ended 31 December 2019 as contained in the Annual Report and Financial Statements be and is hereby approved.

5. To elect Directors:
 - a) Mr Solomon Kitungu retires in accordance with Article 69 of the Company's Articles of Association, and being eligible, offers himself for re-election.
 - b) Mr Jozef Veenstra, retires in accordance with Article 69 of the Company's Articles of Association, and being eligible, offers himself for re-election.
 - c) Ms Caroline Armstrong retires in accordance with Article 69 of the Company's Articles of Association, and being eligible, offers herself for re-election.

(Shareholders will be given an opportunity to elect Directors to fill the vacancies. Shareholders will be requested to elect the Board members at the meeting or in advance of the meeting. Names of persons nominated will be available 7 days before the AGM on the Company's website and at <https://digital.candrgroup.co.ke>, following the steps set out below)

6. To elect members of the Audit and Risk Committee.
(The current members are Dr. Martin Oduor-Otieno, Mr. Jozef Veenstra (who will be retiring), Mr. John Ngumi, Major Gen (rted) Michael Gichangi and Ms. Caroline Armstrong (who will be retiring).

Proposed Resolution:

THAT Mr. Jozef Veenstra and Ms Caroline Armstrong be re-elected as members of the Audit and Risk Committee on condition that they are re-elected to the Board under Agenda 5 above.

7. To resolve that Deloitte & Touche be appointed auditors of the Company to hold office until the conclusion of the next annual general meeting and that their remuneration be fixed by the Directors.

Proposed Resolution:

THAT Deloitte & Touche be appointed auditors of the Company to hold office until the conclusion of the next Annual General meeting and that their remuneration be fixed by the Directors.

8. To transact any other business of the Annual General Meeting in respect of which notice will have been given.

SPECIAL BUSINESS

9. To consider and if thought appropriate to pass the following resolutions as special resolutions:
 1. **THAT** the Articles of Association of the Company be amended by replacing Article 39.3 with the following:
The Company may give such notice in writing or by electronic means or by a combination of means permitted by the Statutes.
 2. **THAT** the Articles of Association of the Company be amended by inserting the following new Article 51B:

51B ATTENDANCE BY ELECTRONIC MEANS

51B.1 In the case of any general meeting, the Board may make arrangements for simultaneous attendance and participation by electronic means allowing persons not present together at the same place to attend, speak and vote at the meeting. The arrangements for simultaneous attendance and participation at any place at which persons are participating, using electronic means may include arrangements for controlling or regulating the level of attendance at any particular venue provided that such arrangements shall operate so that all members and proxies wishing to attend the meeting are able to attend at one or other of the venues, including venues chosen by such persons individually.

51B.2 The members or proxies at the place or places at which persons are participating via electronic means shall be counted in the quorum for, and be entitled to vote at, the general meeting in question, and that meeting shall be duly constituted and its proceedings valid if the chairman of the meeting is satisfied that adequate facilities are available throughout the meeting to ensure that the members or proxies attending at the place or places at which persons are participating via electronic means are able to:

- (a) participate in the business for which the meeting has been convened; and
- (b) see and hear all persons who speak (whether through the use of microphones, loud speakers, computer, audio-visual communication equipment or otherwise, whether in use when these Articles are adopted or developed subsequently) in the place at which persons are participating and any other place at which persons are participating via electronic means.

BY ORDER OF THE BOARD



Catherine Musakali
Company Secretary
Date: 3rd June 2020

Notes:

1. In view of the ongoing Coronavirus 2019 (COVID-19) pandemic and the related public health Regulations and directives passed by the Government of Kenya precluding inter alia public gatherings, it is impracticable, Kenya Airways Plc to hold a physical general meeting in the manner prescribed in its Articles of Association, and therefore pursuant to the Court Orders issued in Miscellaneous Application No. E680 of 2020 on Wednesday 29th April 2020, the Company shall hold the AGM using electronic means.
2. Any member may by notice duly signed by him or her and delivered to the Secretary, Office of Head of Legal Services, Kenya Airways Plc, Headquarters, Airport North Road, Embakasi, P. O. Box 19002, 00501, Nairobi, or emailed to kenyaairwaysnominations@dorion.co.ke not less than 7 and not more than 21 days before the date appointed for the Annual General Meeting, give notice of his intention to propose any other person for election to the Board, such notice is 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.
3. In accordance with Section 298(1) of the Companies Act, shareholders entitled to attend and vote at the AGM are entitled to appoint a proxy to attend and vote on their behalf. A proxy must be signed by the appointor or his attorney duly authorized in writing. If the appointor is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such body corporate. A completed form of proxy should be emailed to proxy@candrgroup.co.ke or delivered to Custody and Registrars Services Ltd, the Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, so as to be received not later than Wednesday, 24th June 2020 at 9.00am.

KENYA AIRWAYS PLC

NOTICE OF THE 44TH ANNUAL GENERAL MEETING (Continued)

When nominating a proxy the ID/Passport No, details for email and/or mobile number of the proxy must be submitted to facilitate registration. Any proxy registration that is rejected will be communicated to the shareholder concerned no later than Thursday, 25th June 2020 to allow time to address any issues.

4. A copy of this notice, proxy form and the entire Annual Report and audited financial statements and the Court Order in Miscellaneous Application No. E680 of 2020 may be viewed on the Company's website at www.kenya-airways.com or a printed copy may be obtained from the Company's share registrars, Custody & Registrar Services Limited upon request.
5. Shareholders will be able to register to follow the Annual General Meeting, vote electronically or by proxy and ask questions in the manner detailed below:-
 - (a) Shareholders wishing to participate in the meeting should register for the AGM online at <https://digital.candrgroup.co.ke> or via USSD using short code number *384*046# and following the various prompts regarding the registration process. The Costs for the USSD registration and AGM attendance will be met by Kenya Airways Plc. In order to complete the registration process, shareholders will need to have their Shares Account Number or CDSC Account Number and the ID/Passport Number which were used to purchase their shares.
 - (b) Registration for the AGM opens on Friday, 19th June 2020 at 8:00 a.m. and will close on Thursday, 25th June 2020 at 9.00am. Shareholders will not be able to register after Thursday, 25th June, 2020 at 9.00am.
 - (c) For assistance, shareholders should dial the following helpline numbers: +254 20 8690360 or + 254 20 7608216 from 8:00 a.m. to 3:00 p.m. during the registration open period. Any shareholder outside Kenya should dial the helpline number to be assisted to register or send an email to digital@candrgroup.co.ke.
 - (d) Shareholders can access the Virtual AGM using their log in credentials via <https://digital.candrgroup.co.ke> to view the livestream and vote and submit questions. Shareholders without internet access can access the Virtual AGM and vote and submit questions using their log in credentials via USSD *384*046#
 - (e) Shareholders wishing to raise any questions for the AGM may do so prior to the AGM (during the registration open period) or during the AGM by:

During AGM

1. Shareholders accessing Virtual AGM via <https://digital.candrgroup.co.ke> platform; Select Attend Event; Select (Insert Issuer Name) AGM; Select Q&A option tab and submit questions in text box provided; or
2. Shareholder accessing Virtual AGM via USSD platform *384*046#. Use the menu prompts to Select Kenya Airways Plc AGM; Select the menu option for Q&A and submit their questions (within 160 character limit for sms text)

Prior to AGM

3. Accessing <https://digital.candrgroup.co.ke>; Select Attend Event; Select Kenya Airways Plc AGM; Select Q&A option tab and submit their questions in the text box provided; or
 4. Sending their written questions by email to digital@candrgroup.co.ke; or
 5. To the extent possible, physically delivering their written questions with a return physical address or email address to the offices of Custody and Registrars Services Ltd, Company's Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue.
Note: Shareholders sending questions by email or delivering to C&R Group must provide their full details (full names, Shares Account Number//CDSC Account Number) when submitting their questions and clarifications. Also attach a copy of your ID/ Passport. All questions and clarification must reach the C&R Group on or before Wednesday, 24th June 2020 at 9.00am
- (f) Shareholders wishing to vote during the AGM may do so when prompted by:
1. Shareholders accessing Virtual AGM via <https://digital.candrgroup.co.ke> platform; Select Attend Event; Select Kenya Airways Plc AGM; Select Voting option tab and vote;
 2. Shareholder accessing Virtual AGM via USSD platform; Use the menu prompts to Select (Kenya Airways Plc AGM; Select menu option for Voting and follow the various prompts regarding the voting process

- (g) Shareholders wishing to vote prior to the AGM may do so during the registration open period by following the steps set out in (f) (1) or (f) (2) above
- (h) The Virtual AGM will be accessible to shareholders and proxies who have duly registered and received the log-in credentials. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS/USSD prompt shall be sent two hours ahead of the AGM, reminding duly registered shareholders and proxies **THAT** the AGM will begin in two hours' time.

SHAREHOLDER RESOLUTIONS INTENDED TO BE PASSED AT THE MEETING

1. **THAT** the audited Financial Statements including the Balance Sheet for the year ended 31 December 2019, together with the Directors' and Auditors' Reports thereon be and are hereby approved and adopted.
2. **THAT** the Directors' Remuneration for the year ended 31 December 2019 as contained in the Annual Report and Financial Statements be and is hereby approved.
3. **THAT** Mr. Jozef Veenstra and Ms Caroline Armstrong be re-elected as members of the Audit and Risk Committee on condition that they are re-elected to the Board under Agenda 5 above.
4. **THAT** Deloitte & Touche be appointed auditors of the Company to hold office until the conclusion of the next annual general meeting and that their remuneration be fixed by the Directors.
5. **THAT** the Articles of Association of the Company be amended by replacing Article 39.3 with the following wording:
"The Company may give such notice in writing or by electronic means or by a combination of means permitted by the Statutes."
6. **THAT** the Articles of Association of the Company be amended by inserting the following new Article 51B:

"51B ATTENDANCE BY ELECTRONIC MEANS

51B.1 In the case of any general meeting, the Board may make arrangements for simultaneous attendance and participation by electronic means allowing persons not present together at the same place to attend, speak and vote at the meeting. The arrangements for simultaneous attendance and participation at any place at which persons are participating, using electronic means may include arrangements for controlling or regulating the level of attendance at any particular venue provided **THAT** such arrangements shall operate so **THAT** all members and proxies wishing to attend the meeting are able to attend at one or other of the venues, including venues chosen by such persons individually.

51B.2 The members or proxies at the place or places at which persons are participating via electronic means shall be counted in the quorum for, and be entitled to vote at, the general meeting in question, and that meeting shall be duly constituted and its proceedings valid if the chairman of the meeting is satisfied that adequate facilities are available throughout the meeting to ensure that the members or proxies attending at the place or places at which persons are participating via electronic means are able to:

- (a) participate in the business for which the meeting has been convened; and
- (b) see and hear all persons who speak (whether through the use of microphones, loud speakers, computer, audio-visual communication equipment or otherwise, whether in use when these Articles are adopted or developed subsequently) in the place at which persons are participating and any other place at which persons are participating via electronic means.

Shareholders are encouraged to continuously monitor the Company's website <https://corporate.kenya-airways.com/investors-and-shareholders/en/> for updates relating to the AGM due to the continuous evolving situation with COVID-19 pandemic and the Government directives being subject to change. We appreciate the understanding of our shareholders as we navigate the changing business conditions posed by COVID-19 pandemic.

