



KENYA AIRWAYS ANNUAL REPORT & FINANCIAL STATEMENTS 2020



Despite the tides, we cruised the skies

When the 2020 turbulence came, our wings stayed in the sky thanks to our strong resilience and the will to keep going. We kept on delivering essential time-sensitive cargo around the world.

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Corporate Information

EXECUTIVE DIRECTORS

Allan Kilavuka - (Appointed 1st January 2020)

NON-EXECUTIVE DIRECTORS

Mr. Michael Joseph - Chairman
Mr. Jozef Veenstra *
Ms. Caroline Armstrong
Major Gen (rtd) Michael Gichangi
Mrs. Esther Koimett
Dr. Martin Oduor-Otieno
Ms. Carol Musyoka
Mr. John Ngumi
Dr. Haron Sirima
Mr. Solomon Kitungu (Appointed w.e.f 23rd April 2020)
Mr. Nicholas Bodo (Alternate to Mr. Solomon Kitungu)
* Dutch

COMPANY SECRETARY

Habil A. Waswani
Certified Secretary
Kenya Airways Headquarters and Base
Airport North Road, Embakasi
P.O. Box 19002 - 00501
Nairobi

AUDITORS

PricewaterhouseCoopers LLP
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P.O Box 43963-00100 Nairobi, Kenya

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



Fahari Aviation

We chased new horizons through drone technology by launching permanent unmanned aerial vehicle (UAV) operations and the emerging aviation technology subsidiary, Fahari Aviation.



KQ Pharma

We opened a state of art facility with up to standard procedures to ensure the highest integrity in handling of the pharma consignments. Our hub has the capacity to handle both loose and built-up units of up to 300 tonnes.

Board of Directors

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

Mr. Michael Joseph (75)

Chairman and Independent Non-Executive Director

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 is also the Chairman of Safaricom Plc, and is its founding CEO, where he steered 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. Allan Kilavuka (48)

Group Managing Director and CEO

Allan has been at the helm of Kenya Airways since April 2020 as the airline's Group Managing Director and Chief Executive Officer. He replaced Sebastian Mikosz whose term ended on 31 December 2019. He was previously the Chief Executive Officer and Managing Director of Jambojet Limited, a fully owned subsidiary of Kenya Airways Plc.

Allan took over this role right at the beginning of a very difficult time for Kenya Airways and the aviation industry in general. He has managed to navigate the airline through these turbulent times and keep the planes flying through a string of measures and initiatives.

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. He was also integral to the turnaround of two GE Africa businesses: GE Power Services Africa and GE Industrial Solutions, both based in South Africa.

Allan started his career at Deloitte East Africa in Nairobi, where he specialized in Audit, Accounting, Outsourcing and Custodianship. He later joined GE as the Africa share service leader and held various senior leadership roles in GE businesses and in GE 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).



Board of Directors (Continued)



Jozef (Jos) Veenstra (54) **Non-Executive Director**

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 Master's 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.



Caroline Armstrong (46) **Independent Non-Executive Director**

Caroline has over 25 years' career experience, the majority having been in financial services in Kenya, the continent and internationally.

She started her career as a management trainee and worked hard to rise through the ranks to become a key C-suite executive, before choosing to leave the industry to take on a new career path.

She is now in consulting focusing on strategy formulation, implementation and change management, customizing solutions that enable the achievement of the set goals. In addition to serving on the board of Kenya Airways, where she is honoured to chair the Human Resources Committee, she serves on the board of the National Housing Corporation, a key player in the delivery of the country's Affordable Housing Programme, a Big 4 agenda.

There she chairs the board's Finance, Strategy & Business Development Committee and is a member of the Technical Committee. She serves on the board of JamboJet as the KQ representative, and is the first female Chairperson of AIB Axys Africa Limited. Her broad and successful career and her various board roles, translate into a unique ability to not only provide strategic guidance but to provide tactical support where required. Her in depth knowledge of KQ, its context and its recent history have proved to be invaluable and continue to do so

Board of Directors (Continued)

Major General (rtd) Michael Gichangi (62) Independent Non-Executive Director

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.



Carol Musyoka (48) 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 several 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.



Board of Directors (Continued)

Dr. Martin Oduor-Otieno (64) **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.

Esther Koimett (64) **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.

Board of Directors (Continued)

John Ngumi (65)

Independent Non-Executive Director

John is a first rate banker, with over 40 years' experience providing corporate & investment banking, and investment management services, to state & private corporates and governments across East Africa.

John is currently in private practice as Chairman of Eagle Africa Capital Partners, an advisory firm he co-founded with two colleagues upon his retirement from Standard Bank Group. He is also active as a non-executive Chairman/director of various public and private enterprises, including the Industrial & Commercial Development Corporation, Carepay Kenya limited, Wananchi Group Holdings, and Base Titanium Limited. He is active in the public discourse space on matters economic and serves as an Advisor to the Kenya Private Sector Alliance - KEPSA.

Prior to retirement, John had worked variously for Barclays Bank, Citibank, Grindlays Bank, National Westminster Bank and Standard Bank Group, parent bank of Stanbic Bank Kenya Limited. Previously he also served as inaugural non-executive Chairman of Konza Technopolis Development Authority and is the immediate past non-executive Chairperson of Kenya Pipeline Company Limited.



Solomon Kitungu, (59)

Non-Executive Director

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.



Board of Directors (Continued)



Dr. Haron Sirima, OGW (58) **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 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 B.A Economics and B.Phil. Economics degrees from University of Nairobi, a Master's degree in Economics from University of Manchester, UK and a PhD in Entrepreneurship from Kenyatta University

Mr. Habil A. Waswani (44) **Company Secretary**

Habil joined Kenya Airways Plc in March 2021. He has over 19 years Corporate and Commercial law experience having worked in similar senior levels at National Bank of Kenya Limited, Kenya Reinsurance Corporation Limited, and Diamond Trust Bank Kenya Limited (DTB), all publicly listed institutions.

Habil holds a Bachelor of Laws (LL.B) Degree from The University of Nairobi, a Diploma in law from the Kenya School of Law. He is a graduate of the Global Executive Master of Business Administration (GEMBA) Degree programme from the United States International University in collaboration with the Columbia Business School, Columbia University, New York. He has attended various professional management and corporate governance capacity building courses.

Habil is an Advocate of the High Court of Kenya and a Certified Public Secretary. He is a member of good standing with the Law Society of Kenya (LSK), the Institute of Certified Secretaries of Kenya (ICSK) and the Institute of Directors (IOD).





2020 World Travel Awards

Our excellence in the sky was once again recognised by the World Travel Award as Africa's Leading Airline in Business and Africa's Leading Airline in Economy Class. We also bagged the title Africa's leading brand in 2020.



Pride Centre

Pride Centre was named as one of IATA's 2020 Regional Top Performing Accredited Training Center in recognition of outstanding performance in delivering IATA training programs in 2019 in Africa & Middle East.

Management Team & Profiles

Mr. Allan Kilavuka

Group Managing Director and CEO

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Allan started his career at Deloitte East Africa in Nairobi, where he specialized in Audit, Accounting, Outsourcing and Custodianship. He later joined GE as the Africa share service leader and held various senior leadership roles in GE businesses and in GE 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).



Hellen Mathuka

Chief Financial Officer

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 Public Accountant of Kenya (CPA(K)), 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.



Management Team & Profiles (Continued)

Mr. Habil A. Waswani

Chief Legal Officer, Risk and Compliance

Habil joined Kenya Airways Plc in March 2021. He has over 19 years Corporate and Commercial law experience having worked in similar senior levels at National Bank of Kenya Limited, Kenya Reinsurance Corporation Limited, and Diamond Trust Bank Kenya Limited (DTB), all publicly listed institutions.

Habil holds a Bachelor of Laws (LL.B) Degree from The University of Nairobi, a Diploma in law from the Kenya School of Law. He is a graduate of the Global Executive Master of Business Administration (GEMBA) Degree programme from the United States International University in collaboration with the Columbia Business School, Columbia University, New York. He has attended various professional management and corporate governance capacity building courses.

Habil is an Advocate of the High Court of Kenya and a Certified Public Secretary. He is a member of good standing with the Law Society of Kenya (LSK), the Institute of Certified Secretaries of Kenya (ICSK) and the Institute of Directors (IOD).



Evelyn Munyoki

Chief Human Resources Officer

Evelyn joined Kenya Airways in February 2019 to provide leadership on the People and Culture transformation agenda for the company. Evelyn is a seasoned HR leadership development professional and coach with over 15 years of senior leadership and management experience in various industries and working for local and international employer brands including The Co-operative Bank of Kenya, IBM Corporation, PwC, Ernst & Young, Standard Chartered Bank and Oxfam Great Britain.

Evelyn 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). Evelyn is a member of several professional HR organizations 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 Amref Health Africa in Kenya.

Management Team & Profiles (Continued)

Julius Thairu

Ag. Chief Commercial & Customer Officer

Julius joined Kenya Airways in 2001 and is currently Acting Chief Commercial & Customer Officer responsible for strategy development and execution of revenue and customer initiatives. 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 Director for Sales responsible for development and implementation of the global Commercial sales strategy. He was also 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.



Peter Ndegwa Mungai

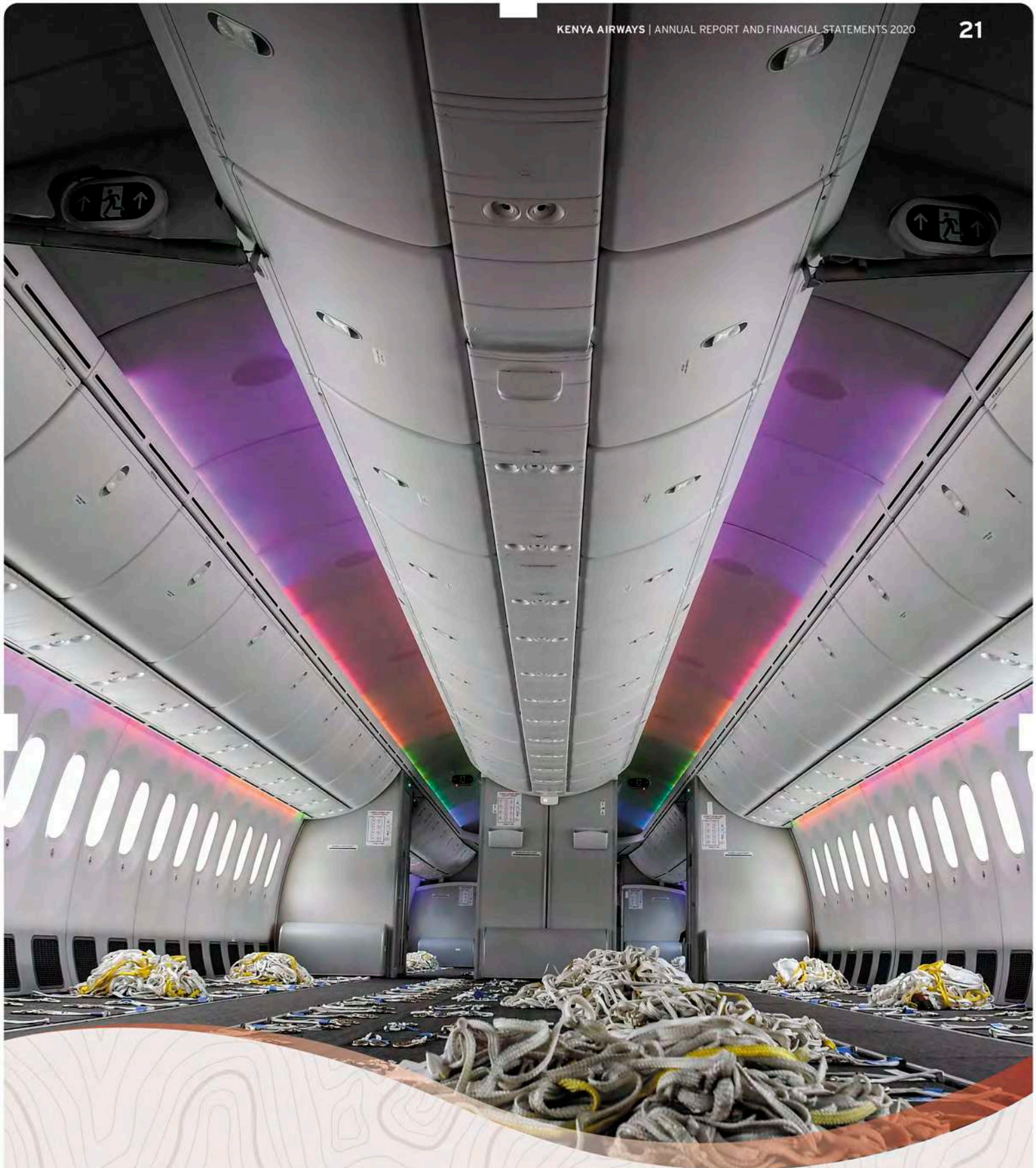
Ag. Chief Information Officer



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 I.T. and Digital strategy, oversees the running of the airline's I.T. portfolio and responsible for Transforming KQ into a Digital Airline. His previous roles at Kenya Airways 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.



Preighter *(Passenger Aircraft converted to carry cargo)*

How did we keep vital goods moving during the pandemic? We transformed some of our Boeing 787 aircraft for cargo transportation in response to the growing demand and need for increased cargo capacity. In the process, we became the first airline to repurpose a Boeing 787 into a "Preighter".



KQ Clear for Take Off

We resumed flight operations in July 2020, following the lifting of the restriction of movement in and out of Nairobi. As we continue to operate under exceptional circumstances, we remain committed to offering a world class service.



Michael Joseph
Chairman

Chairman's Statement

Economic Overview

2020 was an exceptionally challenging year as the global economy went into an unprecedented crisis due to the COVID-19 pandemic. According to the International Monetary Fund (IMF) the world economy recorded a depressed growth of US\$ 83,844.99 billion down from the US\$ 87,552.44 billion recorded in 2019. The reduction was due to lower Personal Consumption Expenditure (PCE), exports, private inventory investment, non-residential fixed investment, and state and local Government spending but partly offset by increases in federal government spending and residential fixed investment.

The economy recorded reduced activities due to restrictions placed by Governments and private decisions. The uncertainty in the post-pandemic landscape and policies has discouraged investment, and concerns on the viability of the global value chains and the course of the pandemic have weighed on international trade and tourism.

Impact of COVID-19 on the Aviation Sector

The impact of the pandemic on the airline industry has been severe. The travel restrictions imposed by many countries and regions severely affected aviation. In April 2020, 90% of the aviation business all but disappeared. By the end of the year, air travel demand was down 66%, annual airline revenues reduced by 61%, and close to 50 million aviation-related jobs were at risk. Overall, in 2020, global passenger capacity and traffic declined by 55% and 65%, respectively. According to the International Air Transport Association (IATA), this is by far the sharpest decline in aviation history. The industry-wide passenger load factor was on average 17.8% points lower compared to 2019, at 64.8%. While global air cargo performance recorded significant improvement as 2020 drew close, it fell short of 2019. Total Cargo Kilometres (TCKs) fell by 10.6%. According to the International Civil Aviation Organization (ICAO), airlines recorded an estimated USD 370 billion loss of gross passenger operating revenues.



In Africa, the total number of passengers carried by African airlines in 2020 declined by nearly 64% to 34.7m compared to 95m in 2019, with 43% domestic, 19% intra-Africa and 38% intercontinental. Cargo performance of African carriers recorded significant improvement as 2020 drew close, but it fell short of 2019 performance. Total Cargo Kilometres (TCKs) fell by 10.6%. TCKs of African carriers improved by 5.4% year on year in December and 1% yoy in 2020 overall - in both cases, the second-best performance after the North America region.

Overall, the pandemic led to an increase in debts to US\$ 220 billion, forcing many airlines to seek state support to survive. The crisis highlighted the need for urgent action to cushion Airlines from the health and economic consequences of the pandemic and set the stage for a lasting recovery. Governments injected almost US\$227 billion to keep the industry alive. In Africa, inter-governmental organisations and private sector institutions like the African Union, African Civil Aviation Commission (AFCAC), African Development Bank (AfDB), Afrexim Bank and African Finance Corporation (AFC) pledged US\$30b to Africa's aviation sector.

Financial Performance

The impact of the COVID-19 pandemic on Kenya Airways operations was significant. The restrictions on travel reduced flights and frequencies to all destinations across the entire network. Total Available Seat Kilometres (ASKs) flown during the year were 5,292, down from 16,731 from the previous year. Management has made provisions to extend the validity of tickets that were not utilised during the March to December 2020 period to allow passengers more time to travel as restrictions ease. The Group shall continue to closely monitor the situation to determine how long to maintain such tickets as open.

The Group and Company incurred a loss for KShs 36,219 million and KShs 33,084 million respectively during the year ended 31 December 2020.

The Board and Management undertook a series of cost-cutting and cash conservation measures to ensure continued operations and the airlines' survival post the pandemic. Some of the measures undertaken include constructive negotiations with lessors to restructure aircraft lease terms, austerity measures to reduce costs, including foregoing Director's remuneration, deferred salaries for staff, reducing and deferring capital expenditure, freezing recruitment, and implementing voluntary leave options and staff redundancies.

Government Support

The Government of Kenya's commitment in providing financial support to Kenya Airways helped the airline to implement its turnaround program and meet its financial obligations. In the year 2020, the Government advanced KShs 11 billion in shareholder loans. The first tranche of



Chairman's Statement

KShs 5 Billion financed the engine overhaul of the E190 aircraft fleet, which were due in 2020. The second loan disbursement of KShs 6 billion was part of the KShs 10 billion commitment by the Government to support operations following the impact of the Covid-19 pandemic.



Opening Africa for Trade

The Africa Continental Free trade Area (AfCFTA), one of the African Union Commission's flagship projects, came into effect on 1 January 2021. The AfCFTA is critical in realising the Union's aspiration on Africa's agenda 2063- a prosperous Africa based on inclusive growth and sustainable development. It follows the launch of other flagship projects connected to aviation; the Single African Air Transport Market (SAATM) launched in January 2018; and the implementation of the African passport and free movement of people launched in July 2016. These pacts are a breakthrough in catalysing the realization of the growth potential of Africa's aviation. In 2019, IATA forecasted that the air transport market in Kenya alone would grow by 249% in the next 20 years and would result in an additional 11.8 million passenger journeys by 2037. If met, this increased demand would support approximately US \$11.3 billion of GDP and almost 859,000 jobs.

As a member of the African Union, the Government of Kenya has signed and ratified both AfCFTA and SAATM. While there are excellent prospects for Kenya's economy, especially in tourism and trade, we hope that the Union and related institutions will establish the necessary regulation infrastructure before deregulation of the African airspace for fair competition among players.

Looking Forward

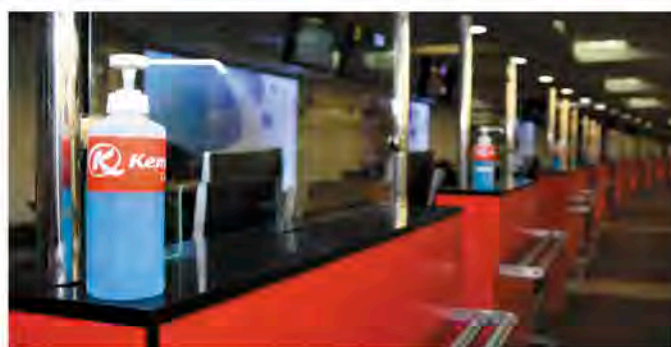
The global economy and geopolitical context continue to be uncertain in the wake of the COVID 19 pandemic. The outlook for the aviation sector continues to be bleak, with IATA projecting that global Airline financial performance will be worse and more varied than earlier projected, mainly due to difficulties in controlling the new variants of the virus and slower vaccination in some regions. The report forecasts positive outlook for the airline cargo business, which it projects to grow CTK by 13.1%, in line with the World Trade Organisation (WTO) forecast growth for world trade of 8%.

The Government's ongoing effort to reform the Aviation sector will improve the sector's competitiveness and ensure Kenya Airways' long-term sustainability, strengthening its role in supporting Kenya's economic development.



Tour of Jomo Kenyatta International Airport to assess our preparedness on the resumption of flights.

The Board will continue to steer the organisation to financial health as management continues to implement the Airlines business strategic plan which aims to make the airline competitive and sustainable in the long term. This plan includes ensuring that the airline optimizes cost, maintains a high level of customer service and adapts a business model that will diversify its product offering and derisk the business.



On behalf of the Board, I take this opportunity to express my sincere appreciation to our customers, the Government of Kenya, our shareholders for their continued support during this challenging year.

In addition, I would like to greatly appreciate outgoing Directors Carol Musyoka and Dr. Martin Oduor-Otieno for their contributions and dedication to the Board. Special praise to the management and staff for the sacrifices and selflessness in ensuring that the Pride kept flying high against the odds.

Mr. Michael Joseph
Chairman

Taarifa ya Mwenye Kiti

Maelezo Jumla ya Kiuchumi

Mwaka 2020 ulikuwa na changamoto nyingi kwa kuwa uchumi wa ulimwengu ulipata pigo ambalo halijawahi kutokea kwa sababu ya ugonjwa wa COVID-19. Kulingana na Shirika la Fedha Duniani (IMF), uchumi wa ulimwengu ulirekodi ukuaji wa chini wa Dola bilioni 83,844.99 za Marekani likiwa punguo kutoka Dola bilioni 87,552.44 za Marekani zilizorekodiwa mwaka 2019. Punguo hilo lilitokana na Matumizi ya Kawaida ya Kibinafsi (PCE) ya chini, mauzo ya nje, uwekezaji wa mali za kibinafsi, uwekezaji wa kudumu wa wageni, na matumizi ya serikali kuu na serikali za mitaa lakini kwa kiasi fulani ilifidiwa na ongezeko katika matumizi ya serikali ya shirikisho na uwekezaji wa kudumu wa wakazi.

Uchumi ulirekodi shughuli chache kwa sababu ya viziuzi vilivyowekwa na maamuzi ya Serikali na ya kibinafsi. Kutokuwa na uhakika katika mazingira na sera za baada ya ugonjwa huu kumezuia uwekezaji, na wasiwasi juu ya kujitosheleza kwa mikufu ya thamani ya ulimwengu na mwendo wa ugonjwa huu tandavu vimeathiri biashara ya kimataifa na utalii.

Athari ya COVID-19 kwenye Sekta ya Usafiri wa Angani

Athari za ugonjwa wa Covid-19 kwenye usafiri wa ndege imekuwa kubwa. Vizuizi vya kusafiri vilivyowekwa na nchi na maeneo mengi viliathiri vibaya sana usafiri wa angani. Mnamo Aprili 2020, 90% ya biashara ya usafiri wa angani ilipotea kabisa. Kufikia mwisho wa mwaka, mahitaji ya usafiri wa angani yalipungua kwa 66%, mapato ya kila mwaka ya shirika la ndege yalipungua kwa 61%, na karibu kazi milioni 50 zinazohusiana na usafiri wa angani zilikuwa hatarini. Kwa jumla, katika mwaka 2020, uwezo na idadi ya abiria ulimwengu ulipungua kwa 55% na 65%, mtawalia. Kulingana na Chama cha Uchukuzi wa Angani cha Kimataifa (IATA), hili ndilo punguo kubwa zaidi katika historia ya usafiri wa angani. Kiwango cha matumizi bora ya usafiri wa abiria kilipungua kwa wastani wa alama 17.8% ikilinganishwa na mwaka 2019, ambao kiwango chake likuwa 64.8%. Ingawa usafirishaji wa mizigo angani kote ulimwenguni ulipata ongezeko kubwa kukaribia mwisho wa mwaka 2020, ukuaji huu haukuweza kufikia ule wa 2019. Jumla ya Mizigo kwa Kila Kilomita (TCKs) ilipungua kwa 10.6%. Kulingana na Shirika la Kimataifa la Vyombo vya Angani (ICAO), mashirika ya ndege yalipata hasara ya takriban Dola bilioni 370 za Marekani za mapato jumla ya kusafirisha abiria.



Barani Afrika, idadi jumla ya abiria waliobebwa na mashirika ya ndege ya Afrika mnamo 2020 ilipungua kwa karibu 64% hadi milioni 34.7 ikilinganishwa na milioni 95 mwaka 2019, huku 43% ikiwa ya ndani, 19% ndani ya Afrika na 38% nje ya Afrika. Usafirishaji wa mizigo katika mashirika ya ndege ya Kiafrika ulipata ustawi mkubwa kukaribia mwisho wa mwaka 2020, lakini haukuweza kufikia viwango vya 2019. Jumla ya Mizigo kwa Kila Kilomita (TCKs) ilipungua kwa 10.6%. TCK za mashirika ya ndege ya Kiafrika ziliongezeka kwa jumla ya 5.4% ikilinganishwa

na Desemba ya mwaka uliopita na 1% katika mwaka 2020 ikilinganishwa na mwaka uliopita - katika hali zote mbili, huu ilikuwa utendaji wa pili bora baada ya eneo la Amerika Kaskazini.

Kwa ujumla, ugonjwa wa Covid-19 ulipelekea kuongezeka kwa deni hadi Dola bilioni 220 za Marekani, na kulazimisha mashirika mengi ya ndege kutafuta msaada wa serikali ili kuendelea kuhudumu. Ugonjwa wa Covid-19 uliweka wazi haja ya kuwepo hatua za dharura za kuyalinda Mashirika ya ndege kutoka kwa athari za kiafya na kiuchumi na kuwezesha ufufuzi wa kudumu. Serikali zilitoa karibu Dola bilioni 227 za Marekani ili kuiweka tasnia hiyo hai. Barani Afrika, mashirika ya serikali mbili au zaidi na taasisi za sekta binafsi kama Umoja wa Afrika, Tume ya Afrika ya Vyombo vya Angani (AFCAC), Benki ya Maendeleo ya Afrika (AfDB), Benki ya Afrexim na Shirika la Fedha la Afrika (AFC) yaliahidi kuipa sekta ya anga ya Afrika Dola bilioni 30 za Marekani.

Utendaji wa Kifedha

Athari za ugonjwa wa COVID-19 kwenye shughuli za Shirika la Ndege la Kenya zilikuwa kubwa. Vikwazo vya kusafiri vilipunguza safari za ndege na idadi ya safari za maeneo mbalimbali kwenye vituo vyote vilivyo katika mtandao wetu mzima. Jumla ya Kilomita Kulingana na Viti Vilivyopo (ASK) zilizopitiwa katika mwaka huo zilikuwa 5,292, zikiwa zimepungua kutoka 16,731 katika mwaka uliopita. Uongozi umefanya mipango ya kuongeza muda wa uhalali wa tikiti ambazo hazikutumika katika kipindi cha Machi hadi Desemba 2020 ili kuwapa abiria muda zaidi wa kusafiri kadri vikwazo vinavyoondolewa. Kampuni itaendelea kufuatilia kwa karibu hali hiyo ili kubaini muda wa kudumisha tikiti hizo zikiwa zinaweza kutumika.

Kampuni ilipata hasara ya Shilingi milioni 36,219 na Shilingi milioni 33,084 mtawalia katika mwaka ulioishia 31 Desemba 2020.

Bodi na Usimamizi walichukua hatua kadhaa za kupunguza gharama na hatua za kuokoa pesa ili kuhakikisha kuwa shughuli zinaendelea na shirika la ndege linaendelea kuwepo baada ya ugonjwa wa Covid-19. Baadhi ya hatua zilizochukuliwa zinajumuisha majadiliano ya wazi na wapangisha ndege ili kurekebisha masharti ya kukodisha ndege, hatua kali za kupunguza gharama, zikijumuisha Mkurugenzi kufanya kazi bila ajira, mishahara ya wafanyakazi kucheleweshwa, kupunguza na kuahirisha matumizi ya mtaji, kusitisha uajiri, na kutekeleza likizo ya hiari na kupunguza idadi ya wafanyakazi.

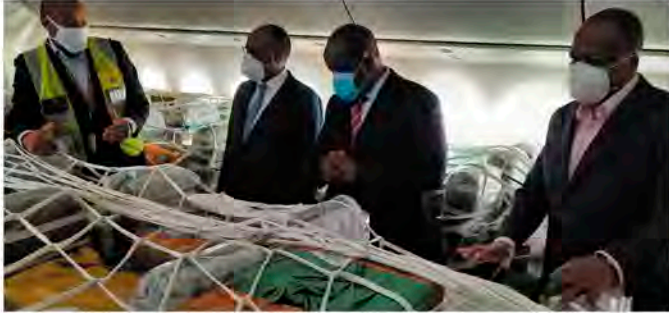
Usaidizi wa Serikali

Kujitolea kwa Serikali ya Kenya kutoa msaada wa kifedha kwa Shirika la Ndege la Kenya kulisaidia shirika la ndege kutekeleza mpango wake wa kulibadilisha liwe bora na kutimiza majukumu yake ya kifedha. Katika mwaka wa 2020, Serikali ilitoa Shilingi bilioni 11 kama mkopo kwa wanahisa. Sehemu ya kwanza ya Shilingi bilioni 5 iligharimia marekebisho ya injini za ndege za E190, ambazo zilitarajiwa mnamo 2020. Utoaji wa mkopo wa pili



Taarifa ya Mwenye Kiti

wa Shilingi bilioni 6 ulikuwa sehemu ya ahadi ya Shilingi bilioni 10 iliyotolewa na Serikali kusaidia kuendesha shughuli kufuatia athari za ugonjwa tandavu wa Covid-19.



Kuifungua Afrika kwa Biashara

Eneo Huru la Biashara Barani Afrika (AfCFTA), ambayo ni moja ya miradi muhimu ya Tume ya Umoja wa Afrika, lilianza kutekelezwa tarehe 1 Januari 2021. AfCFTA ni muhimu katika kutimiza azma ya Umoja wa Afrika katika ajenda ya mwaka 2063 ya Afrika - Afrika yenye mafanikio iliyojikita kwenye msingi wa ukuaji unaohusisha wote na maendeleo endelevu. Inafuata uzinduzi wa miradi mingine muhimu inayohusishwa na usafiri wa anga; Soko Moja la Usafiri wa Anga la Afrika (SAATM) lililozinduliwa Januari 2018; na utekelezaji wa pasipoti ya Afrika na kuondoa vizuizi vya mipaka zilizozinduliwa Julai 2016. Makubaliano haya ni mafanikio katika kuchochea kutimiza kwa uwezo wa ukuaji wa usafiri wa anga Afrika. Katika mwaka 2019, IATA ilitabiri kuwa soko la usafiri wa anga nchini Kenya pekee litakuwa kwa 249% katika miaka 20 iliyayo na litasababisha safari za ziada za abiria milioni 11.8 kufikia 2037. Ikiwa hili litatimika, ongezeko hili la mahitaji litasimamia takriban Dola za Marekani bilioni 11.3 za Pato la Ndani la Taifa (GDP) na karibu nafasi za kazi 859,000.

Kama mwanachama wa Umoja wa Afrika, Serikali ya Kenya imesaini na kuridhia AfCFTA na SAATM. Ingawa kuna matarajio mazuri kwa uchumi wa Kenya, hasa katika utalii na biashara, tunatumai kuwa Umoja wa Afrika na taasisi zinazohusiana zitaweka kanuni zinazofaa kabla ya kufunguliwa kwa anga ya Afrika kwa ushindani wa haki kati ya wahusika.

Tunayotarajia

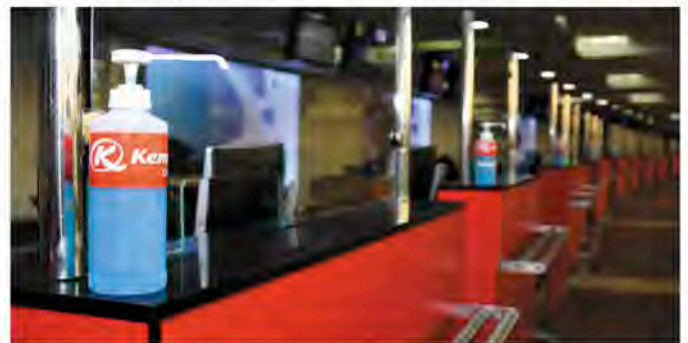
Uchumi wa ulimwengu na mazingira ya siasa za maeneo vinaendelea kutokuwa na uhakika baada ya ugonjwa wa COVID 19. Hali ya sekta ya usafiri wa anga inaendelea kutokuwa na matumaini, huku IATA ikikadiria kuwa utendaji wa kifedha wa mashirika ya ndege ulimwenguni utakuwa mbaya zaidi na tofauti zaidi kuliko ilivyotarajiwa hapo awali, hasa kwa sababu ya ugumu wa kudhibiti vibadala vipya vya virusi na kasi ya polepole ya chanjo katika baadhi ya maeneo. Ripoti hiyo inatabiri hali nzuri kwa biashara ya mizigo kwa mashirika ya ndege, ambayo inakadiria kuwa itakuza CTK kwa 13.1%, kulingana na utabiri wa Shirika la Biashara Duniani (WTO) kuwa biashara ya ulimwengu itakuwa kwa 8%.

Juhudi zinazoendelea za Serikali za kurekebisha sekta ya Usafiri wa Anga zitaboresha ushindani wa sekta hiyo na kuhakikisha kuwa kuna uendeleo wa muda mrefu wa Shirika la Ndege la Kenya, zikiimarisha jukumu lake la kusaidia maendeleo ya uchumi wa Kenya.



Bodi itaendelea kulingoza shirika hili hadi lipate ufanisi wa kifedha wakati wasimamizi wakiendelea kutekeleza mpango mkakati wa biashara ya Shirika la Ndege ambao unakusudia mwishowe kulifanya shirika kuwa na ushindani na endelevu. Mpango huu unajumuisha kuhakikisha kuwa shirika hili la ndege linapunguza gharama, linadumisha kiwango cha juu cha huduma kwa wateja na kutumia mbinu za kibiashara ambazo zitapanua bidhaa zinazotolewa na kuondoa hatari kwenye biashara.

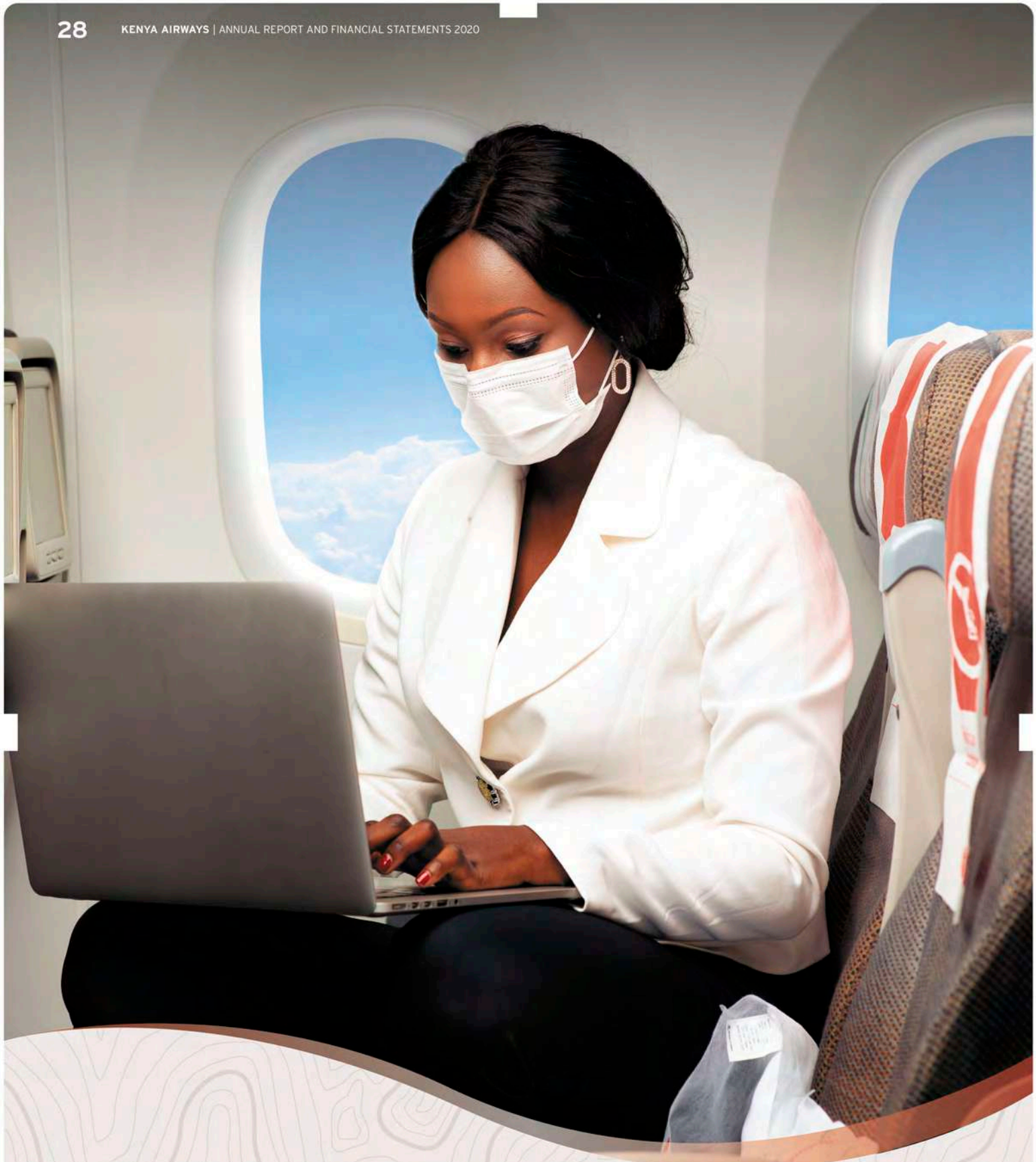
Kwa niaba ya Bodi, ninachukua nafasi hii kutoa shukrani zangu



za dhati kwa wateja wetu, Serikali ya Kenya, wanahisa wetu kwa kuendelea kutuunga mkono katika mwaka huu uliojaa changamoto.

Ningependa kuwashukuru kwa dhati Wakurugenzi wanaomaliza muda wao Carol Musyoka na Dk Martin Oduor-Otieno kwa michango yao na kujitolea kwa Bodi. Shukrani maalum kwa wasimamizi na wafanyikazi kwa kujitolea kuhakikisha kuwa Shirika la Ndege la Kenya liliendelea kupaa juu licha ya changamoto zilizopo.

Mr. Michael Joseph
Mwenye Kiti



Economy Max

In order to keep on evolving with the industry needs, we introduced Economy Max, a product that allows customers to create additional personal space by booking a seat or a row next to them. Call it on-board social distancing.



Trusted Travel

Kenya Airways Trusted Travel Pass is a digital platform helping passengers to verify the required COVID-19 test or vaccine travel requirements easily and securely, in turn giving governments the confidence to reopen borders in compliance of travellers.

A professional portrait of Allan Kilavuka, a man with short dark hair and a light beard, wearing a dark suit, light blue shirt, and a striped tie. He is standing with his hands clasped in front of him, looking directly at the camera with a slight smile. The background is a plain, light blue-grey color.

Allan Kilavuka

Group Managing Director and CEO

Chief Executive Officer's Statement

2020 was an exceptionally challenging year, characterised by disruptions occasioned by the COVID 19 pandemic. In the aviation sector, this was certainly the worst year in history, setting us back at least 15 years of growth. The impact on operations was unprecedented and disrupted the way we live, work, and do business.

It would appear like the most destabilising thing about this pandemic is that every time we seemed to have handled it, it threw us in a different spin. The grounding of aircraft and travel restrictions provided an opportunity to find innovative ways to reduce the impact. We operated 31 special repatriation flights that carried over 5,000 passengers, reconnecting them with their loved ones; expanded our cargo operations in Africa and embarked on a first-ever Boeing 787 Dreamliner repurposing project.

We were especially pleased to be awarded Africa's Leading Airline in Best Business Class, Best Economy Class, and Best Brand in the 2020 World Travel Awards. We are extremely grateful to our customers for this recognition during the challenging year. This recognition is testament to the resilience of our staff across our customer touch points for staying true to our values.

PASSENGER GROWTH

We uplifted 1.8 million passengers in 2020, a drop of 65.7% from 2019. Of this number, approximately 70% flew with us between January to March 2020, indicating severely depressed demand as a result of the pandemic.

REVENUE PERFORMANCE

Passenger Revenue

Our passenger revenue stood at Kshs. 33,705 Million as compared to Kshs. 103,631 Million in 2019, a 67.5% decline. In addition, capacity of Available Seat Kilometres (ASKs) went down to 5.3 billion from 16.7 billion in 2019, with cabin factor declining to 65.3%, 11.7 percentage points lower than 2019.

Cargo Revenue

Cargo operations were the silver lining during the lockdown. We deployed cargo freighters and converted some of our wide body passenger aircraft to freight essential supplies across the continent, Asia, Europe and the Middle East. During the 12 months period ended December 2020, Cargo volumes dropped by 27.6% from 68,264 tonnes in 2019 to 49,418 tonnes in 2020. However, revenues increased by Kshs 331 Million compared to the prior year on the back of improved yields.



KQ Introduces Cargo Service to Sharjah International Airport

NETWORK OPERATIONS

We experienced a prolonged recovery rate in our capacity owing to strict quarantine rules, global travel restrictions, and limited demand. The re-introduction of lockdowns further impacted recovery to contain additional waves of COVID-19 infections in various countries. Despite this challenging operating environment, we have ensured that our network plan has the flexibility to adapt as needed and respond to changes in demand once restrictions are lifted.

PARTNERSHIPS AND SUSTAINABILITY

Partnerships are vital in mapping out the future of our Airline, something which the global crisis has reinforced. We worked closely with airline partners, Kenya Airports Authority, the Kenya Civil Aviation Authority, County Governments, and the Kenya Tourism Board during the resumption of domestic and international flights.



Back in the skies with domestic and international flights



Water Cannon Salute

Chief Executive Officer's Statement

While we have been addressing some of the Sustainable Development Goals (SDGs) in our operations previously, we have taken steps to ensure they are a key pillar of our business.

Kenya Airways became a signatory to the United Nations Global Compact, the world's largest corporate sustainability initiative, as the only African airline member. Kenya Airways also became a signatory to the IATA 25BY 2025 initiative to increase diversity in the industry.

The airline strengthened collaboration with stakeholders in the fresh produce sector – one of the country's key sectors – including the Fresh Produce Consortium of Kenya, Kenya Flower Council, Kenya Fresh Produce Exports Association of Kenya and the Kenya Export Promotion and Branding Agency.



Stronger collaboration in the fresh produce and horticulture industry

We are taking a new and bold approach embracing more airlines and non-airline partnerships for a resilient and sustainable future. This approach will help to strengthen the airline, give us more reach and additional variety for our customers.

COVID-19 READINESS

Health and safety

With passenger operations grounded, we undertook to document new procedures and sought approval from the Kenya Civil Aviation Authority (KCAA) and other global authorities in readiness for the resumption of passenger operations. We assisted in drafting the Government COVID-19 aviation protocols, which were later adopted and promulgated by Kenya's Ministry of Transport, leading to the standardisation in handling the pandemic across the network.



Increased focus on Cargo

The COVID 19 Pandemic increased demand for air cargo to freight essential medical and food supplies across the globe. Kenya Airways quickly adapted and implemented initiatives to take advantage of the demand. These included expanding operations in Southern Africa to fly Cargo from South Africa directly to Mozambique, Zimbabwe, Zambia, Malawi and Tanzania and introducing operations to Sharjah in the United Arab Emirates.

We also invested in an ultra-modern pharma facility



located at the Jomo Kenyatta International Airport to meet the demand for pharmaceutical products globally and support maintaining high product integrity throughout the supply chain. The facility ensures that we have an ecosystem of partners that goes beyond freight capabilities and supports a sustainable and impactful approach in reducing the disease burden in Africa.



Keeping cargo moving during the pandemic

Chief Executive Officer's Statement

TRAINING AND CAPACITY DEVELOPMENT

Through 2020, we continued to offer quality training to our staff and external parties at the Pride Centre. To mitigate the COVID19 disruptions, the centre successfully transitioned to virtual classes during COVID-19 for the Pride Stars program. We are honoured to have received recognition from IATA as a training centre of excellence and we are proud to have been awarded the IATA 2020 Regional Top Performer Approved Training Centre.

FLEET DEVELOPMENT

The fleet size in service did not grow 2020. The significant reduction in network requirements led to limited aircraft utilisation. We also terminated the lease of two Boeing 737-700 aircraft deemed surplus to our network. We embarked on fleet cost restructuring, with an anticipated saving to the Airline of up to Kshs 4.8 Billion in 2021.

Fleet - In Service		
Aircraft Type	31-Dec-19	31-Dec-20
B787-8	9	9
B737-800	8	8
B737-700	2	2
B737-300 Freighter	2	2
E190	15	15
Dash 8-400 (JamboJet)	6	6
TOTAL	42	42

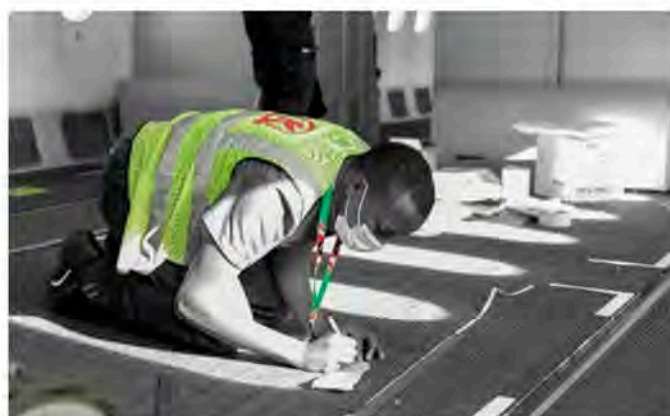
ENGINEERING AND MAINTENANCE, REPAIR AND OVERHAUL (MRO)



To consolidate our position as an MRO leader in the region, we launched a liaison office at Nairobi's Wilson Airport to bring services closer to our customers. We also received additional maintenance approvals from the Civil Aviation Authorities in Kenya, Rwanda, Tanzania, and Uganda to ensure our Company's growth strategy and dynamic positioning as an MRO of choice beyond the region.

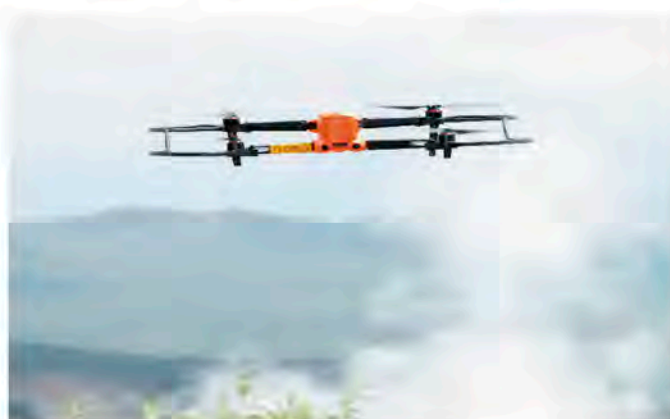


In one of our most exciting projects to date, we, in close collaboration with Avianor, a leader in the aerospace industry, embarked on repurposing two Boeing 787-8 passenger aircraft into 'Freighters' (passenger aircraft converted to carry Cargo). This repurposing, the first of its kind in the world, will support the airline's cargo operations and boost our Cargo capacity by over 500 tons a month.



Unmanned Aircraft Vehicles (Drones)

As part of Kenya Airways de-risking strategy, we ventured into the emerging Unmanned Aerial Vehicles (UAVs) technology space through our Subsidiary Fahari Aviation. This Company will train drone pilots, instructors and procure UAVs for both training and commercial operations. The product offering includes surveillance, inspections, logistics and special missions.



Chief Executive Officer's Statement

COSTS AND PRODUCTIVITY

Owing to reduced operations in the year, the Group's total operating costs declined by 38.5%. Of the total operating costs, direct operating costs declined by 61.8%. Total costs reduced by 36.7%. Based on the above revenue and cost dynamics, the Group recorded an Operating Loss Margin of 51.3%, 50 percentage points below last year.

Going forward we are focusing on keeping our costs low and doing everything to ensure that we are as efficient and productive as possible. We are working on rationalising costs to make sure we only keep those that help us to generate more revenue while driving superior customer experience.

OUR PEOPLE

The effect of the COVID-19 pandemic on the airline industry necessitated the implementation of significant and difficult measures to mitigate its impact. Measures taken included: recruitment freezes, reduced pay for all employees, and staff rationalisation actions.

By December 2020, Kenya Airways had a total headcount of 3,652 staff, a net reduction of 1,123 staff compared to the prior year, equivalent to a 24% decline from December 2019, and this was primarily due to phased staff rationalisation actions in 2020. Our talent brand remained strong throughout 2020 despite the challenges experienced.

To better support our employees to navigate through these difficult challenges, we ramped up our employee wellness and psychosocial support and engaged financial institutions and insurance companies to provide payment moratoriums. We also had fruitful social partner, staff and external stakeholder engagements to support the Company initiatives.

We successfully transitioned employees to a remote and a hybrid on-site working model in line with COVID-19 pandemic protocols during the year. This was also supported by a policy framework and guidelines for a safe return to the workplace.

We also successfully transitioned to virtual classes and digital learning initiatives, including Massive Open Online Courses (MOOCs) during COVID-19 for the employees and external trainees.

Innovation

Launched in 2020, the 'Fahari Innovation Hub' provided staff and our partners to explore and devise solutions to corporate issues while expanding their skills and knowledge. Some of the ideas that have been birthed at the hub include the Fahari Aviation venture and the repurposing of the Dreamliners, among others.

LOOKING FORWARD

We anticipate a measured but steady return to travel with the rollout of COVID-19 vaccines and country-specific containment measures. Our future growth will depend not only on how we stabilise the organisation now but more importantly how we respond to the needs and desires of our customers. We have made customers the central piece of our recovery and sustainability.

Diversification remains key to our recovery and we will continue to innovate across the business. We are doing everything we can to emerge a more financial stable and competitive airline. Although the future remains uncertain, our aim is to rebuild the airline into a strong and sustainable organisation.

I want to commend the KQ family for their resilience and commitment to keeping the Pride of Africa flying during a very difficult season; I was truly inspired and encouraged. I am grateful to our customers, the Government of Kenya, and the support of our partners support in helping us navigate this most challenging year.

We look forward to welcoming you onboard and serving you with our warm African hospitality throughout 2021.



Allan Kilavuka

Group Managing Director and CEO

Taarifa ya Afisa Mtendaji Mkuu

Mwaka 2020 ulikuwa wa changamoto nyingi, uliojawa na usumbufu uliosababishwa na ugonjwa tandavu wa COVID 19. Katika sekta ya usafiri wa angani, kwa hakika huu ulikuwa mwaka mbaya zaidi katika historia, ukiturudisha nyuma angalau miaka 15 ya ukuaji. Athari yake kwenye shughuli haikuwa ya kawaida na ilivuruga jinsi tunavyoishi, kufanya kazi, na kufanya biashara.

Inaonekana kama jambo linaloyumbisha zaidi kuhusu ugonjwa huu tandavu ni kwamba kila wakati tulipoonekana kulishughulikia vyema, lilituvuruga kwa njia tofauti. Kusimamishwa kwa safari za ndege na vikwazo vya usafiri vilivyowekwa kulitoa nafasi ya kutafuta njia bunifu za kupunguza athari. Tulitumia ndege 31 maalum za kurudisha watu nyumbani kwao ambazo zilizobeba zaidi ya abiria 5,000, tukiwaunganisha tena na wapendwa wao; tukapanua shughuli zetu za mizigo barani Afrika na kuanza mradi wa kwanza kabisa wa kubadilisha na kutumia kwa njia tofauti Boeing 787 Dreamliner.

Tulifurahi hasa kutunukiwa Shirika la Ndege Linaloongoza Barani Afrika katika Daraja la Biashara Bora, Uchumi Bora, na Chapa katika Tuzo za Kusafiri Ulimwenguni za 2020. Tunawashukuru sana wateja wetu kwa utambuzi huu katika mwaka wenye changamoto. Utambuzi huu ni thibitisho la uthabiti wa wafanyakazi wetu katika sehemu zetu za kutagusana na wateja kwa kubaki wakweli kwa maadili yetu.

ONGEZEKO LA ABIRIA

Tulisafirisha abiria milioni 1.8 katika mwaka 2020, likiwa punguo la 65.7% kutoka mwaka 2019. Kati ya idadi hii, takriban 70% walisafiri nasi kati ya Januari hadi Machi 2020, ikionyesha mahitaji yaliyopungua kutokana na ugonjwa huu tandavu.

UTENDAJI WA MAPATO

Mapato yanayotokana na abiria Mapato yetu kutoka kwa abiria yalikuwa Shilingi milioni 33,705 ikilinganishwa na Shilingi milioni 103,631 katika mwaka 2019, punguo la 67.5%. Pia, uwezo wa Kilomita za Viti Vinavyopatikana (ASKs) ulishuka hadi bilioni 5.3 kutoka bilioni 16.7 mnamo 2019, huku asilimia ya viti vilivyokuwa na abiria ikipungua hadi 65.3%, asilimia 11.7 chini kuliko 2019.

Mapato kutoka kwa Mizigo

Shughuli za mizigo zilikuwa ishara ya matumaini wakati wa zuio la kutoka nyumbani. Tulitumia ndege za mizigo kufanya kazi na tukabadilisha ndege zetu pana za abiria kusafirisha vifaa muhimu kutoka upande mmoja hadi mwingine wa bara, Asia, Ulaya na Mashariki ya Kati. Katika kipindi cha miezi 12 kilichomalizika Desemba 2020, kiwango cha mizigo kilipungua kwa 27.6% kutoka tani 68,264 mnamo 2019 hadi tani 49,418 mnamo 2020. Hata hivyo, mapato yaliongezeka kwa Shilingi milioni 331 ikilinganishwa na mwaka uliotangulia kutokana na mavuno bora.



SHUGHULI ZA MTANDAO

Tulipitia muda mrefu kurejelea hali ya kawaida katika uwezo wetu kwa sababu ya sheria kali za karantini, vikwazo vya kusafiri ulimwenguni, na mahitaji madogo. Kuanzishwa tena kwa zuio la kutoka nyumbani kuliathiri zaidi uwezo wa awali wa kudhibiti mawimbi ya ziada ya maambukizo ya COVID-19 katika nchi mbalimbali. Licha ya mazingira haya magumu ya kufanya kazi, tumehakikisha kuwa mpango wetu wa mtandao unaweza kubadilika kwa urahisi kama inavyohitajika na kuitikia mabadiliko katika mahitaji mara tu vikwazo vikiondolewa.

USHIRIKIANO NA UENDELEU

Ushirikiano ni muhimu katika kupanga mustakabali wa Shirika letu la ndege, jambo ambalo mzozo wa ulimwengu umeimarisha. Tulifanya kazi kwa karibu na washirika wa ndege, Mamlaka ya Viwanja vya Ndege vya Kenya, Mamlaka ya Usafiri wa Anga ya Kenya, Serikali za Kaunti, na Bodi ya Utalii ya Kenya wakati wa kuanza tena kwa safari za ndani na za kimataifa.



Ingawa tumekuwa tukishughulikia baadhi ya Malengo ya Maendeleo Endelevu (SDGs) katika shughuli zetu hapo awali, tumechukua hatua kuhakikisha kuwa yamekuwa nguzo muhimu ya biashara yetu.



Taarifa ya Afisa Mtendaji Mkuu

Shirika la Ndege la Kenya lilitia saina Mkataba wa Umoja wa Mataifa wa Ulimwengu, mpango mkubwa zaidi wa uendelezaji wa kampuni, kama mwanachama pekee wa shirika la ndege la Afrika. Pia Shirika la Ndege la Kenya lilitia saina mpango wa IATA 25BY 2025 wa kuongeza uanuwai katika tasnia.

Shirika la ndege liliimarisha ushirikiano na wadau katika sekta ya mazao mabichi - moja ya sekta muhimu nchini - ikiwa ni pamoja na Ubia wa Mashirika ya Mazao Mabichi wa Kenya, Baraza la Maua la Kenya, Chama cha Mauzo ya Bidhaa Mbichi za Kenya na Shirika la Kukuza Usafirishaji Nje na Uwekaji Chapa la Kenya.



Tunachukua njia mpya na ya ujasiri kushirikiana na mashirika ya ndege zaidi na washirika wasio wa mashirika ya ndege kwa uthabiti na uendeleu wa siku zijazo. Njia hii itasaidia kuimarisha shirika la ndege, kutuwezesha kufikia watu wengi na uanuwai wa ziada kwa wateja wetu.

KUWA TAYARI KUKABILI COVID-19

Afya na usalama

Huku shughuli za abiria zikiwa zimesitishwa, tuliamua kuandika taratibu mpya na tukaomba idhini kutoka kwa Mamlaka ya Usafiri wa Anga ya Kenya (KCAA) na mamlaka zingine za kimataifa tukijiandaa kwa kuanzishwa tena kwa shughuli za abiria. Tulisaidia kuandaa protokali za serikali za COVID-19 zinazohusu safari za angani, ambazo baadaye zilipitishwa na kutangazwa na Wizara ya Uchukuzi ya Kenya, na kusababisha usawazishaji katika kushughulikia ugonjwa huu tandavu kote katika mtandao.

Kuzingatia zaidi Mizigo

Ugonjwa tandavu wa COVID 19 uliongeza mahitaji



ya ndege za mizigo ili kusafirisha vifaa muhimu vya matibabu na chakula kote ulimwenguni. Shirika la Ndege la Kenya lilijibadilisha haraka na kutekeleza mipango ili kunufaika kutokana na mahitaji hayo. Hii ilijumuisha kupanua shughuli Kusini mwa Afrika ili kusafirisha mizigo kutoka Afrika Kusini moja kwa moja hadi Msumbiji, Zimbabwe, Zambia, Malawi na Tanzania na kuanzisha safari za kwenda Sharjah katika Falme za Kiarabu.



Tuliwekeza pia katika kituo cha kisasa cha famasia kilicho kwenye Uwanja wa Ndege wa Kimataifa wa Jomo Kenyatta ili kukidhi mahitaji ya bidhaa za dawa ulimwenguni na kusaidia kudumisha uadilifu wa bidhaa kote katika mkufu wa ugavi.



Kituo hiki kinahakikisha kuwa tuna mfumo wa washirika ambao haukomei tu katika uwezo wa kusafirisha mizigo bali pia unakuwa mhimili wa njia endelevu na yenye athari katika kupunguza mzigo wa magonjwa barani Afrika



Taarifa ya Afisa Mtendaji Mkuu

MAFUNZO NA UKUZAJI UWEZO

Kipindi chote cha mwaka 2020, tuliendelea kutoa mafunzo bora kwa wafanyakazi wetu na wahusika kutoka nje kwenye Kituo cha Pride. Ili kupunguza usumbufu wa COVID 19, kituo kilifanikiwa kuhamia kwa madarasa ya mtandaoni wakati wa COVID-19 katika programu ya Pride Stars. Tumeheshimiwa kwa kutambuliwa na IATA kama kituo cha mafunzo cha ubora na tunajivunia tuzo tuliopewa ya Kituo cha Mafunzo Kilichoidhinishwa cha Kieneo chenye Utendaji Bora cha IATA 2020.

KUONGEZA IDADI YA NDEGE

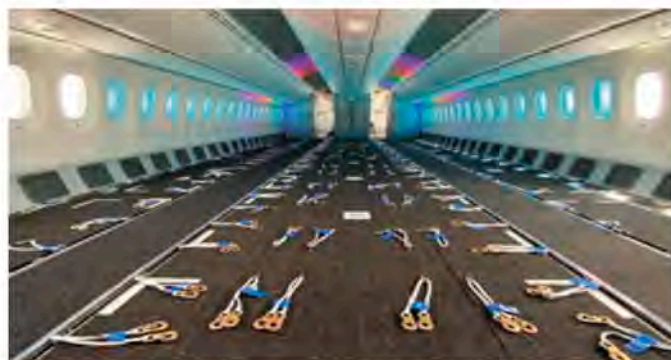
Idadi ya ndege zinazohudumu haikuongezeka mwaka 2020. Kupungua sana kwa mahitaji ya mtandao kulisababisha utumiaji mdogo wa ndege. Pia tulisitisha ukodishaji wa ndege mbili za Boeing 737-700 zilizoonekana kama ziada kwa mtandao wetu. Tulianzisha mabadiliko ya gharama za ndege, tukitarajia kuokolea Shirika la Ndege hadi Shilingi bilioni 4.8 katika mwaka 2021.

Ndege Zinazotumika		
Aina ya Ndege	31 - Desemba -19	31 - Desemba -20
B787-8	9	9
B737-800	8	8
B737-700	2	2
Ndege ya Mizigo B737-300	2	2
E190.	15	15
Dash 8-400 (JamboJet)	6	6
JUMLA	42	42

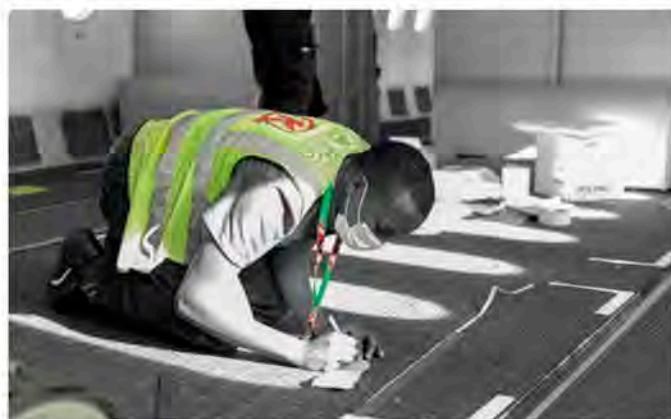
UHANDISI NA MATENGENEZO, UKARABATI NA UBORESHAJI (MRO)



Ili kuimarisha msimamo wetu kama kiongozi wa MRO katika eneo hili, tulizindua ofisi ya uhusiano katika Uwanja wa Ndege wa Wilson mjini Nairobi ili kuleta



huduma karibu na wateja wetu. Pia tulipokea idhini za ziada za matengenezo kutoka kwa Mamlaka ya Usafiri wa Anga nchini Kenya, Rwanda, Tanzania, na Uganda ili kuhakikisha mkakati wa ukuaji wa Kampuni yetu na nafasi nzuri kama MRO ya chaguo hata nje ya eneo hili.



Katika moja ya miradi yetu ya kufurahisha sana hadi leo, sisi, kwa ushirikiano wa karibu na Avianor, kiongozi katika tasnia ya anga, tulianza kubadilisha kwa matumizi tofauti ndege mbili za abiria za Boeing 787-8 kuwa 'Freighters' (ndege za abiria zilizobadilishwa kubeba Mizigo). Huu ubadilishaji wa ndege kwa matumizi tofauti, wa kwanza wa aina yake ulimwenguni, utasaidia shughuli za mizigo za shirika hili la ndege na kuongeza uwezo wetu wa Mizigo kwa zaidi ya tani 500 kila mwezi.

Vyombo vya Angani visivyo Rubani (Drones)

Kama sehemu ya mkakati wa kuondoa hatari wa Shirika la Ndege la Kenya, tulijitosa katika nafasi ya teknolojia inayoibuka ya Vyombo vya Angani visivyo Rubani



Taarifa ya Afisa Mtendaji Mkuu

(UAVs) kupitia Kampuni yetu ndogo ya Fahari Aviation. Kampuni hii itafundisha marubani wa drone, wakufunzi na kununua UAVs za mafunzo na shughuli za kibiashara. Shughuli za chombo hiki zitajumuisha upelelezi, ukaguzi, ugavi na usafirishaji wa watu na vitu na kazi maalum.

GHARAMA NA UZALISHAJI

Kwa sababu ya kupungua kwa shughuli katika mwaka huu, jumla ya gharama za uendeshaji wa Kikundi zilipungua kwa 38.5%. Kati ya gharama jumla za uendeshaji, gharama za uendeshaji za moja kwa moja zilipungua kwa 61.8%. Gharama jumla zilipungua kwa 36.7%. Kulingana na mapato ya hapo juu na mabadiliko ya gharama, Kikundi kilipata Hasara ya Gharama ya Uendeshaji ya 51.3%, asilimia 50 ya alama chini ya mwaka jana.

Kuanzia sasa tutajitahidi kupunguza gharama zetu na kufanya kila kitu kuhakikisha kuwa tunafanikiwa na tunazalisha iwezekanavyo. Sasa hivi tunapanga mikakati ya kudhibiti gharama ili kuhakikisha kuwa tunabaki na ile ambayo inatupa mapato zaidi huku ikitoa tajriba bora kwa wateja.

WATU WETU

Athari za ugonjwa tandavu wa COVID-19 kwenye tasnia ya mashirika ya ndege ililazimu kuwepo kwa utekelezaji wa hatua kubwa na ngumu za kupunguza matokeo yake. Hatua zilizochukuliwa zilijumuisha: kusimamisha uajiri, kupunguzwa kwa mishahara ya wafanyikazi wote, na vitendo vya kuangalia utendaji mwafaka wa wafanyikazi ili kuondoa ziada.

Kufikia Desemba 2020, Shirika la Ndege la Kenya ilikuwa na hesabu ya jumla ya wafanyikazi 3,652, punguzo la jumla la wafanyikazi 1,123 ikilinganishwa na mwaka uliotangulia, sawa na punguo la 24% kutoka Desemba 2019, na hii hasa ilitokana na vitendo vya kuangalia utendaji mwafaka wa wafanyikazi ili kuondoa ziada kwa awamu katika mwaka 2020. Hadhi ya wafanyikazi wetu ilibaki imara wakati wote wa mwaka 2020 licha ya changamoto zilizokuwepo.

Ili kuwasaidia wafanyikazi wetu kwa njia bora kupitia shida hizi ngumu, tuliimarisha usaidizi wetu wa afya na msaada wa kisaikolojia kwa wafanyikazi wetu na kushirikisha taasisi za kifedha na kampuni za bima ili kutoa kipindi cha kukawiza malipo. Pia tulikuwa na mshirika mzuri wa kijamii, shughuli zinazohusisha wafanyikazi na wadau wa nje ili kusaidia mipango ya Kampuni.

Tulifanikiwa kuwabadilisha wafanyikazi kutumia modeli mseto ya kufanya kazi kupitia mtandao na pia kuwepo hapo kazini kulingana na itifaki za ugonjwa tandavu wa COVID-19 katika mwaka huu. Hii pia inaungwa mkono na mfumo wa sera na miongozo ya kurudi salama mahali pa kazi.

Pia tulifanikiwa kuhamia kwa madarasa ya mtandaoni na mipango ya ujifunzaji wa kiidijitali, pamoja na Massive Open Online Courses (MOOCs) wakati wa COVID-19 kwa wafanyikazi na wakurufunzi wa nje.

Ubunifu

Ikizinduliwa mwaka 2020, 'Fahari Innovation Hub' iliwezesha wafanyikazi na washirika wetu kuchunguza na kutafuta majibu kwa masuala ya shirika huku wakipanua ujuzi na maarifa yao. Baadhi ya maoni ambayo yamezaliwa katika kitovu hicho ni pamoja na mradi wa Usafiri wa Anga wa Fahari na kubadilishwa kwa ajili ya matumizi tofauti kwa Dreamliners, kati ya mengine.

TUNAYOTARAJIA

Kutokana na kuanzishwa kwa chanjo za COVID-19 na hatua maalum za kila nchi za kudhibiti ugonjwa huo tunatarajia kwamba usafiri utarejeshwa kwa vipimo lakini taratibu. Ukuaji wetu wa siku zijazo utategemea si tu jinsi tunavyoimarisha shirika sasa lakini muhimu zaidi ni jinsi tunavyoitikia mahitaji na matakwa ya wateja wetu. Tumewafanya wateja kuwa sehemu kuu ya urejesho na uendelevu wetu.

Uanuwai unabaki kuwa msingi wa kuibuka tena kwetu na tutaendelea kuwa wabunifu katika biashara nzima. Tunafanya kila tuwezalo kuibuka kama shirika la ndege lenye uthabiti zaidi wa kifedha na ushindani. Ingawa siku zijazo bado hazitabiriki, lengo letu ni kulijenga upya shirika hili la ndege kuwa shirika thabiti na endelevu.

Ninataka kuipongeza familia ya KQ kwa uthabiti na kujitolea kwao kuwezesha Fahari ya Afrika kuendelea na shughuli zake za uchukuzi wa angani wakati wa msimu mgumu sana; Nimevutiwa sana na kutiwa moyo. Ninawashukuru wateja wetu, Serikali ya Kenya, na usaidizi wa washirika wetu katika kutusaidia kuvuka mwaka huu wenye changamoto nyingi.

Tunangojea kwa hamu kuwakaribisha ndani na ndege zetu na kuwahudumia kwa ukarimu wetu wa Kiafrika katika kipindi chote cha mwaka 2021.



Allan Kilavuka

Afisa Mtendaji Mkuu



Resilient Staff

Kenya Airways staff remained committed to serving our customers with passion and, diligence, and doing so with our warm and friendly African touch.



Technical Maintenance

Our technical maintenance personnel are the team on the ground that keep our wings in the sky.

Statement of Corporate Governance

The Board of Kenya Airways Plc (“the Company”) is committed to good corporate governance and understands its oversight and foresight roles in leading the Company. In this regard, the Board had 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”).

While recognising that it has overall responsibility for the governance of the Company, the Board is committed to providing strategic direction, the necessary support and advice to Management. The Board has defined the mission, vision and values of the Company and is committed to high standards of ethical behaviour characterised 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.

The Board recognises that the long-term sustainability of the Company 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 on ensuring that Management is focused on the 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 Company in accordance with generally accepted corporate practices. The Board has therefore ensured that the Company as a whole has embraced good corporate governance in its structure, policies, practices and operations.

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
Mrs Esther Koimett	- Non-Executive Director
Mr Jozef Veenstra	- Non-Executive Director
Ms Carol Musyoka	- Non-Executive Director
Dr Martin Oduor-Otieno	- 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	- Non-Executive Director
Mr. Solomon Kitungu	- Non-Executive Director
Mr. Nicholas Bodo	- (Alternate to Mr. Solomon Kitungu)

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

Statement Of Corporate Governance (Continued)

The Responsibilities of the Board

The Board is clear on its role, powers, duties and functions. The Board has ensured the development of a Board Manual which contains a Board Charter, and which, having been last reviewed in 2019, is currently undergoing further review. 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 in 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 ten 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 Company. 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 Company'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 at 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 1st 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 final Retirement
Mr. Michael Joseph	2016			2019			2022	
Mr. Jos Veenstra	2017				2020			2023
Ms. Caroline Armstrong	2014	2017			2020			2023
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				2022	
Mr. John Ngumi	2019						2022	
Mr. Solomon Kitungu	2020							2023
Dr. Haron Sirima	2019						2022	

Notes:

- One third of the number of directors (other than executive directors) 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, Ms Caroline Armstrong, Mr. Jozef Veenstra and Mr. Solomon Kitungu were re-appointed to the Board at the Annual General Meeting of the Company held on 26th June 2020. 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 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 Company 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 Company'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 Company and their role. The new director is also required to experience firsthand the key operations of the Company 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.

Statement Of Corporate Governance (Continued)

Board induction and continuous skills development (Continued)

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 however, given the impact of Covid-19, no Board development was undertaken. It is expected that Board members will undergo Board development in 2021.

Code of Business Conduct & Ethics

The Company 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 Company 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 Company's audited financial statements.

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 has commissioned a Governance Audit exercise and will, once completed consider the results, identify any gaps and discuss potential ways of closing those gaps. In addition, the Board ensures the completion of the annual self-assessment as required by the Capital Markets Authority.

Transparency and disclosure

The Company 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 Company'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 company developments, which could be considered as being price sensitive information. In this regard, the Company 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.

Statement Of Corporate Governance (Continued)

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, indicating that regular attendance at meetings is the norm.

Mr. Michael Joseph	-	9/9
Mr. Allan Kilavuka	-	7/7
Ms. Caroline Armstrong	-	8/9
Mr. Jozef Veenstra	-	9/9
Major Gen.(rtd) Michael Gichangi	-	9/9
Dr. Martin Oduor-Otieno	-	9/9
Ms. Carol Musyoka	-	9/9
Mrs. Esther Koimett	-	9/9
Mr. John Ngumi	-	8/9
Mr. Solomon Kitungu	-	6/7
Dr. Haron Sirima	-	4/5

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, 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 Company.

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.
- 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.

Internal controls

The Board through the Audit and Risk Committee ensures that the Company has defined procedures for internal controls to ensure the integrity of the assets of the Company 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 Company 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 Company 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 Company.

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.

Statement Of Corporate Governance (Continued)

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 Company'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 auditing standards.

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 is 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.

Compliance with laws and 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 amount of emoluments paid to each Director including benefits enjoyed for services rendered during the financial year 2020 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. The Shareholders approved the Board Remuneration Policy at the Annual General Meeting held on 22 June 2018.

Directors' interests

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

Directors' interests in the shares of the Company as at 31 December 2020 was as follows:

Name of Director of Shares	Number
• Mr. Nicholas Bodo	1,050
• Ms. Carol Musyoka	6,675
• Major General (rtd) Michael Gichangi	2,025

Company Secretary

The Company Secretary is Habil A. Waswani, a member of the Institute for Certified Secretaries and 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 Company's procurement requirements through the use of professional procurement practices aligned with the Company'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.

Statement Of Corporate Governance (Continued)

Stakeholder Management

The reputation of the Company 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 Company'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 Company 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, development of new, and alignment of existing digital communication solutions and processes, enabling greater control of Kenya Airways' reputation.

Reports of the Committees of the Board

Report of the Audit and Risk Committee

Membership

The Audit Committee consists of six non-executive directors and reports to the Board after every committee meeting. The current membership of the committee is as below:

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

Audit & Risk Committee Meetings in FY 2020

During the year, six meetings were held. Table below shows the attendance by the members during the year:

Dr. Martin Oduor-Otieno	-	6/6
Dr. Haron Sirima	-	2/4
Mr. John Ngumi	-	6/6
Ms. Caroline Armstrong	-	5/6
Mr. Jozef Veenstra	-	5/6
Major Gen (rtd) Michael Gichangi	-	5/6

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.

- **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 Company.

Key activities in FY 2020

During FY 2020 there was a shift in the significant risks for the Group occasioned by the global Covid-19 pandemic. The focus of the Audit and Risk committee was to support the Group in managing these risks effectively. In addition, the committee continued to oversee the actions and initiatives that management were undertaking to address the prevailing capital adequacy, liquidity, profitability and going concern challenges in the business.

Looking forward

In FY 2021 the committee will continue to oversee the implementation of actions and initiatives that will ensure that the business remains a going concern. At the same time, there will be continued focus on risk management and strengthening of the overall internal control environment.

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

Statement Of Corporate Governance (Continued)

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 Company's Corporate Governance policies, practices and guidelines and to establish trans//parent policies and processes for the identification of suitable candidates for nomination and election or re-election as Directors of the Company.

Corporate Governance and Nominations Committee Meetings in FY 2020

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

Mr. Michael Joseph	-	5/5
Mrs. Esther Koimett	-	5/5
Major General (rtd) Michael Gichangi	-	5/5
Ms. Carol Musyoka	-	5/5
Mr. Allan Kilavuka	-	4/4

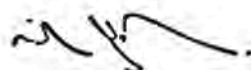
The following achievements were realised, among others:

- Managed the recruitment and on-boarding of the Group Managing Director;
- Developed the KPIs for the Group Managing Director
- Subjected the Board and its committees to an annual Board Evaluation;
- Reviewed and made recommendations for the composition of Board Committees and subsidiary Boards based on skills;

- Assessed and recommended to the shareholders the 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;
- 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 to the current 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 Company.



Mr. Michael Joseph
Chairman - Corporate Governance and Nominations Committee

Statement Of Corporate Governance (Continued)

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
Dr. Haron Sirima	-	Member

The Group Managing Director and Chief Executive Officer, the Chief Finance Officer and the Chief Commercial and Customer Officer are permanent invitees to the Strategy and Business Development Committee.

All the Committee members are Non-Executive Directors, with two of them being Independent Non-Executive Directors. At least two of the members possess extensive professional knowledge and experience in strategy and business development.

Attendance of meetings for FY 2020

Maj. Gen. (rtd) Michael Gichangi	-	8/8
Mr. Nicholas Bodo	-	8/8
Mr. John Ngumi	-	8/8
Ms. Caroline Armstrong-Ogwapit	-	8/8
Dr. Haron Sirima	-	1/6

Mandate

The mandate of the Strategy and Business Development Committee is to:

- Advise the Board on the main strategic priorities of the Company;
- Review the execution of the commercial and operational strategy;
- Review the plan and budget and recommend its approval to the Board;
- Review and give opinions on major investments, divestments and external growth; acquisition and disposal of assets; and
- Carry out any other business directed by the Board relevant the mandate of the Committee.

The Committee had held eight (8) meetings this Financial Year.

Achievements During the Year Under Review:

- Strengthened the strategic planning process by offering guidance and reviews of objectives, performance indicators, initiatives and actions that improve operational results;

- Reviewed, improved and approved the Emergency Response and Network Plan that helped the business stay afloat during the ban on air travel within, to and from Kenya due to the ongoing Covid-19 pandemic;
- Providing support to the Management as a bridge to the Government of Kenya through member lobbying to ensure that the reopening of Kenya's skies did not adversely affect the airline through unfair competition and capacity dumping by rival airlines;
- Guided the termination of the joint venture agreement between Kenya Airways and Air France and KLM and approved a path to better airline performance from the European market;
- Reviewed and provided guidance on the updating of the Kenya Airways 5 - Year Strategic Plan Session Paper whose highlight is sustainable growth, diversification and profitability in a business landscape changed by the Covid-19 Pandemic;
- Guiding the commercial organisation in two key defining projects on Customer Excellence and Digital Retail which shall drive the optimisation of sales resources, expand the contact centre and a new digital distribution solution;
- Guiding the KQ Global Cargo Strategy in the review an implementation of the plan to grow that part of the business which included a World Airline first of converting a Boeing 787-8 from passenger to cargo use;
- Ensured that the first steps have been taken in the implementation of the KQ Unmanned Aircraft System Project, the airline has now added a future revenue stream with a technology that will define the airline of the future and will be a profitable unit of the business for years to come; and
- Reviewed and gave guidance on the ongoing Fleet Restructuring which included the approval for Kenya Airways to enter into a 3-month moratorium agreement with Lessors on repayment schedules.

Statement Of Corporate Governance (Continued)

Report of the Strategy and Business Development Committee (Continued)

Looking Forward

The committee will continue to ensure that the airline is focused on delivering its 2021 strategy and work plans. This will be done through ensuring a close eye is kept on the delivery of Key Performance Indicators and that course correction is timely. In the next financial year, the Committee will drive the business to thrive in a harsh and unforgiving business environment changed by the Covid-19 Pandemic.

Specially it will drive accountability and ownership while providing guidance on how best to achieve the FY2020/24 Five-Year Plan and deliver on a return to profitability for the airline.

Maj. Gen. (rtd) Michael Gichangi
Chairman - Strategy and Business Development Committee

Report of the Human Resources Committee

Current Membership

Ms. Caroline Armstrong	-	Chairperson
Ms. Carol Musyoka	-	Member
Mr. Nicholas Bodo	-	Member
Mr. Martin Oduor-Otieno	-	Member
Mr. Solomon Kitungu	-	Member
Mr. Allan Kilavuka	-	Member

Mandate

The Human Resources Committee assists the Board in fulfilling its mandate with regards to management of the human capital and 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 its strategic aspirations.

The Committee is empowered to:

- Ensure the Company has in place, and implements, Human Resources strategic objectives;
- Continually review Human Resources management policies of the Company;
- Identify and recommend implementation of best practices concerning staff development and retention;
- Recruit all senior executives reporting to the Group Managing Director, and oversee their management;
- Review and propose an optimal organization structure, including staffing levels.

Attendance of meetings for FY 2020

During the year under review, the Committee held five (5) meetings with attendance as shown below:

Ms Caroline Armstrong	-	6/6
Dr. Martin Oduor-Otieno	-	4/6
Ms Carol Musyoka	-	6/6
Mr. Solomon Kitungu	-	3/6
Mr. Allan Kilavuka	-	6/6

Achievements during the year under review

2020 was a year that started with the promise to transform the Company. The rapid onset of the Covid-19 pandemic from February 2020 and its devastating effects was utterly unprecedented.

This had an immediate adverse impact on the business and the People agenda. The People function was required to respond, recover and stabilize the workforce and the Company. The Covid-19 pandemic also unfortunately necessitated that the planned initiatives and People agenda projects be shelved due to the significant change in the operational and business context.

In order to help the Company survive and stabilize, there were substantial and difficult measures taken to address the impact of the Covid-19 pandemic under the Human Resource (HR) agenda, some of which are highlighted below:

- There was a net headcount reduction of 1,123 at the end of December 2020 from the end of December 2019 headcount levels. In February 2020, all recruitments were frozen due to cost-cutting measures and later due to the impact of the Covid-19 pandemic. The total attrition rate was 32.8% for 2020, with 16% accounting for resignations and voluntary early retirement and the rest accounting for involuntary attrition.
- We had a talent retention rate of 68%, down from 94% in 2019. However, this is due to the deliberate staff rationalization actions undertaken in 2020. The Company talent profile remained stable, with an average age of 39 years and average service tenure of 11 years, the same as in 2019. Fifty-five percent (55%) of the staff are below 40 years of age, compared to 56% in 2019.
- Staff rationalization actions began in June 2020 and continued all of 2020 through involuntary and voluntary staff actions. Although these were targeted to impact approximately 1,835 staff (40% of the total headcount), this number was reduced to approximately 1,300 staff (28% of the total headcount) to ensure that business needs and new opportunities were catered for.

Statement Of Corporate Governance (Continued)

Report of the Human Resources Committee (Continued)

Achievements during the year under review (Continued)

- We had 914 employees who separated from the business due to staff rationalization actions as follows; 138 contracts were not renewed, 520 terminations of probationary contracts, 55 redundancies, 34 employees due to 7 station closures, 93 trainees' contracts terminated, and finally, 74 voluntary retirements. The total release cost for the above staff resource actions was USD 5.35M. The total payroll savings for the above staff exits in 2020 was USD 2.5M.
- In March 2020, at the rapid onset of the Covid-19 pandemic, the Company temporarily halted all passenger operations and grounded the entire fleet except for Cargo operations. The leadership immediately made bold decisions on employees, including reduced pay for all employees, first responder support on health and wellness, and also an immediate shift to remote working. All of these decisions were focused on preserving cash within the business so as to enable the Company to survive despite a grounded fleet.
- The Company took definitive steps to address Covid-19 impact, namely focusing on employee wellness and wellbeing; social partner engagement; staff engagement on consent for reduced pay out, cessation of pension dues, supporting staff furloughed just to name a few of the interventions. In addition, the Company cushioned the staff against financial pressures by taking actions such as engaging financial institutions, SACCOs, and insurance companies to give the employees payment moratoriums.
- We also managed to negotiate ongoing agreements with social partners, key government stakeholders, and labour offices in different jurisdictions to ensure that we had consent on terms of payment for the deferred salary payout throughout 2020.
- In July 2020, we announced redundancy staff actions aimed at achieving 590 staff exits across the business, including pilots across different fleets, unionisable staff, and managerial staff. This exercise was, however, suspended in Kenya on 7th September 2020. In September and October 2020, we launched two successful Voluntary Early Retirement (VER) initiatives, and 74 staff chose to leave the Company.
- During 2020, as a result of the Covid-19 pandemic, we had in total over 100 engagement meetings with staff, unions, labour offices and external legal counsel to engage on ongoing matters related to Covid-19 impact on the business. These meetings continue.
- In the year, we started the 'Fahari Innovation Hub' that provided an opportunity for staff to be in cross-functional teams tackling corporate issues while expanding their skills and knowledge. This initiative has brought to light new talent within the Company and has provided opportunities for the personal development of our staff.
- In 2020 we saw a decline in the proportion of women leaders in the company, from 60% at the top leadership level in 2019 to 25% in 2020. However, we aim to ensure that we take advantage of the opportunity to have more women leaders rise to top leadership roles in the coming years. We continue to participate in activities like International Women's Day, Women in Aviation and promoting the relevant UN SDGs. The gender balance within the Company was 40% women in 2020 and has remained steady at this level from 2019.
- During the year we enhanced the medical clinic offerings and achieved a milestone with the certification of the KQ Medical Lab as Class E with the ability to do more tests and investigations, including cancer markers. Also, over 3,000 staff trained on Covid-19 with 1,000 plus staff receiving counselling support in 2020 and 1,000 more participating in wellbeing webinars on psychosocial support and financial wellness.
- Also, and as part of giving back to society, we had a medical outreach program to improve maternal health indicators in Embakasi area in line with SDG-3. This was well-received by the community and something that we will continue to do in 2021.
- We were awarded the IATA 2020 Regional Top Performer Approved Training Centre. This recognition identified our Pride Centre as a centre of excellence in training. In addition, the centre had a successful transition to virtual classes during Covid-19 for the Pride Stars, and produced the best-performing students in Kenya for the IATA September 2020 examinations for Travel & Tourism course. A great feat during a difficult year.
- Digital learning during 2020 had the team curate new digital learning courses due to Covid-19 restrictions on in-person learning. We used the Massive Open Online Courses (MOOCs). A total of 13 courses were curated and over 1,200 staff enrolled in 2020.

Statement Of Corporate Governance (Continued)

Report of the Human Resources Committee (Continued)

Achievements during the year under review (Continued)

- In 2020, employee wellness and wellbeing took centre stage due to the Covid-19 pandemic, and we further enhanced the Covid-19 coverage for the staff medical scheme and continued to take care of our staff. The Medical team was awarded the Customer Experience Award 2020, and the Head of KQ Health was also awarded Simba Excellence Awards - Safety Hero award.
- It was a relatively busy year for industrial relations with the unions, numerous engagement meetings, and at least 15 agreements on salary and operations during the Covid-19 pandemic in 2020.
- We successfully transitioned staff to a remote working model and on-site working in line with Covid-19 pandemic protocols and then developed a Return-to-Work Policy framework and guidelines for the safe return to the workplace.
- The above was achieved in a year with extreme challenges. The HR team's resilience and the entire workforce in managing this unprecedented context to respond, recover, and stabilise in 2020 was commendable and is not taken for granted.

Looking forward

For the success of the Group, the Management and the Board will continue to focus on the Company's recovery journey, with this Committee assisting by continuing to drive the People agenda. We will continue to focus on staff wellbeing as we all recover from the global Covid-19 pandemic.

One of the strategic pillars will be focused on developing a compelling People agenda that will support a superior customer experience through a compelling customer value proposition.

There will be continued focus on the management of key stakeholders, including unions, state labour offices, and regulatory bodies, and a deliberate shift to conciliation and Alternative Dispute Resolution (ADR) for industrial relations. The above will be underpinned by a cultural transformation driven by the Company's values and behaviours to deliver on the strategic mandate for 2021 and beyond. Our focus in 2021 will be ensuring that the Talent agenda gets attention as core capabilities to deliver on the mandate become critical for the Company.

The Committee remains focused on ensuring that the Group attracts and retains high performing, committed and motivated staff who show integrity and with whom we can collectively deliver the Group's success and growth. We look forward to a year of collaboration with all our staff and stakeholders as we work to collectively navigate the Covid-19 impacts, and to deliver success for the Company and each other.

Ms. Caroline Armstrong

Chairperson - Human Resources Committee



Customer Excellence

We renewed focus on customer excellence throughout the customer journey including revamping the Customer Contact Centre to the Customer Excellence Centre.



Repatriation

We reunited families and reconnected loved ones during the pandemic by repatriating people stuck in various parts of the world after flights were grounded.

Performance Highlights

Group results

Turnover (KShs Million)

Dec-20

52,805

128,317

Dec-19

Operating Loss (KShs Million)

Dec-20

(27,122)

(1,739)

Dec-19

Loss before Tax (KShs Million)

Dec-20

(36,573)

(12,975)

Dec-19

Net Loss (KShs Million)

Dec-20

(36,219)

(12,985)

Dec-19

Capital & Reserves (KShs Million)

Dec-20

(64,165)

(17,896)

Dec-19

Loss per Share (KShs Million)

Dec-20

(6.22)

(2.23)

Dec-19

Key Financial Statistics

Debt to Equity

Dec-20

(1.4)

(4.3)

Dec-19

Operating Margin (%)

Dec-20

(51.4)

(1.4)

Dec-19

Interest Cover

Dec-20

2.99

0.18

Dec-19

EBITDAR Margin (%)

Dec-20

4.9

19.1

Dec-19

Operating Statistics

Passengers Carried

Dec-20

1,771,151

5,160,896

Dec-19

Available Seats KM (Millions)

Dec-20

5,292

16,731

Dec-19

Cabin Factor (%)

Dec-20

65.3

77.0

Dec-19

Cargo Uplifted (Tonnes)

Dec-20

49,418

68,264

Dec-19

Revenue Passengers KM (Millions)

Dec-20

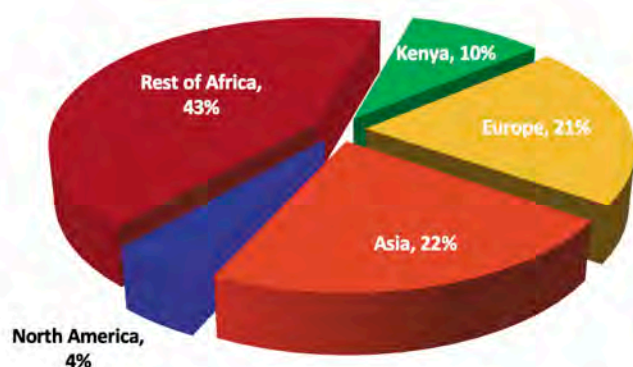
3,458

12,881

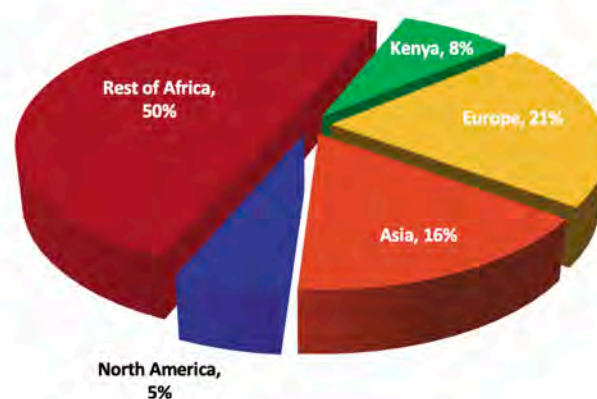
Dec-19

Turnover by Region

2020



2019



Three Year Summary of Financial Highlights

Financial Highlights

The Group	Dec-20		Dec-19		Dec-18	
	KShs. Millions	US\$ Millions	KShs. Millions	US\$ Millions	KShs. Millions	US\$ Millions
Turnover						
Passenger	33,705	317.9	103,631	1,013.8	95,187	939.4
Freight & Mail	9,012	85.0	8,681	84.9	8,468	83.6
Handling	1,527	14.4	2,390	23.4	2,193	21.6
Other	8,562	80.8	13,614	133.2	8,337	82.3
Total	52,805	498.1	128,317	1,255.3	114,185	1,126.9
Direct Expenditure	(30,962)	(292.0)	(80,977)	(792.2)	(75,030)	(740.4)
Fleet Ownership Costs	(28,571)	(269.5)	(25,343)	(247.9)	(18,929)	(186.8)
Overheads	(20,394)	(192.4)	(23,736)	(232.2)	(20,909)	(206.3)
		-		0.0		0.0
Operating Profit (Loss)	(27,122)	(255.8)	(1,739)	(17.0)	(683)	(6.7)
Operating Margin%	(51.4%)		(1.4%)		(0.6%)	
Net Finance Costs	(9,178)	(86.6)	(10,992)	(107.5)	(5,017)	(49.5)
Other Costs	(273)	(2.6)	(244)	(2.4)	(1,888)	(18.6)
Loss before tax	(36,573)	(345.0)	(12,975)	(126.9)	(7,588)	(74.9)
Income tax credit / (expense)	354	3.3	(10)	(0.1)	30	0.3
		-		0.0		0.0
Loss for the year	(36,219)	(341.6)	(12,985)	(127.0)	(7,558)	(74.6)
Loss after Tax margin%	(68.6%)		(10.1%)		(6.6%)	

Operating Statistics

	Dec-20	Dec-19	Dec-18
Passengers	1,771,151	5,160,896	4,839,023
RPK's (Millions)	3,458	12,881	11,287
ASK's (Millions)	5,292	16,731	14,551
Passenger Load Factor (%)	65.3	77.0	77.6
Cargo Tonnes	49,418	68,264	64,238
Exchange Rate	106.01	102.22	101.33

Employees

Airline	3,652	4,775	3,736
Group	3,821	4,941	4,763

Aircraft in Service at Year End

Boeing 787-8	9	9	8
Boeing 737-800	8	8	8
Boeing 737-700	2	2	2
Embraer 190	15	15	15
B737-300 Freighter	2	2	2
Bombardier Dash 8-400	6	6	5
Total	42	42	40

Dormant

B737-300	1	1	1
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Leased/Sub-leased

Boeing 777-300	3	3	3
Boeing 787-8	0	0	1

Total	46	46	45
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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 2020, 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 2020, the Group operated 42 aircraft, either owned or on lease. 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 2020 is KShs 36,219 million (2019: 12,985 million) and KShs 33,084 million (KShs 13,017 million) respectively. The Group's and Company's results for the year ended 31 December 2020 are set out on s 72-73 and 74 respectively.

Dividends

The Directors do not recommend payment of dividends in respect of the current financial year (2019: nil).

Directors

The Directors who held office during the year and to the date of this report are as shown on page 6.

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.

Report of the Directors (Continued)

Business Overview (Continued)

Summary

2020 marked the worst year in the history of aviation. The Covid-19 pandemic reduced airline passenger traffic to levels last seen in 1999. This means that 21 years of airline passenger traffic growth was wiped out in 2020.

Kenya Airways was not spared and also shut down its scheduled network operations from April to July 2020. This was substituted by demand for charter repatriation flights and demand for cargo flights across the existing network as well as new destinations.

The Board of Kenya Airways Plc is announcing the 2020 financial results which show the following:

- An operating loss margin of 51% for the financial year ended 2020 compared to 1.3% in the previous year ended 2019.
- A net loss margin of 68.4% from 10.1% prior year

Capacity and traffic

The year was marked with significantly reduced capacity deployed in the market.

The Group's capacity measured in terms of Available Seat Kilometres (ASK) reduced by 68.4% closing at 5,292 million compared to 16,731 million in the previous year.

The uptake of this capacity measured in terms of Revenue Passenger Kilometres (RPK) closed at 3,457 million compared to 12,881 million representing a decline of 73.2%.

Turnover

The Group's and Company's turnover closed at KShs 52,805 million and KShs 49,090 million respectively against KShs 128,317 million for the Group and KShs 121,640 million for the Company for the year ended 31 Dec 2019. The revenue was negatively impacted by a steep decline of passenger numbers.

Cargo Operations

Cargo tonnage on both passenger belly and freighter aircraft declined by 27.6% closing at 49,418 tonnes against prior year which closed at 68,264 tonnes. The cargo business continued operations during the Covid pandemic shutdown.

The use of converted passenger aircraft (Freighters) was a new concept in the industry which was a boost mainly for wide body operations. The cargo business continues to focus on boosting the cargo product across the network with key focus on feeding into the African market.

Operating Costs

The total direct operating costs amounted to KShs 30,962 million for year ended 31 December 2020 at Group level and KShs 29,078 million at Company level as compared to KShs 80,977 million at Group level and KShs. 78,602 million at Company level for the year ended 31 December 2019.

Global fuel prices were favourable throughout the year while other direct operating costs increased in-line with network expansion.

Fleet ownership costs at Group level amounted to KShs 28,571 million and KShs 26,923 million for the Company for the year ended 31 December 2020 as compared to KShs 25,343 million at Group level and KShs. 23,919 million at Company level for the year ended 31 December 2019.

Other operating costs (overheads)

The Group's and Company's other operating costs amounted to KShs 20,394 million and KShs 17,397 million respectively for the year ended 31 December 2020 as compared to KShs 23,736 million at Group level and KShs 21,427 million at Company level for the year ended 31 December 2019.

Report of the Directors (Continued)

Employee statistics

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

i) Categorisation by employment contract

	2020	2019
Permanent	3,652	3,734
Contracted - Outsourced	-	1,041
Total	3,652	4,775

ii) Categorisation by gender

	2020		2019	
	Male	Female	Male	Female
Senior leadership	75%	25%	60%	40%
Head of Departments	67%	33%	60%	40%
Senior managers	68%	32%	68%	32%
Others	60%	40%	60%	40%
Overall	60%	40%	60%	40%

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.

Report of the Directors (Continued)

Significant risks and mitigating actions (Continued)

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

	Risk	Description	Mitigating actions
1	Liquidity risk	Inability to service financial obligations as and when they fall due. The Covid-19 pandemic has led to decline in revenues and cash generation.	<ul style="list-style-type: none"> Engagement with key suppliers and financiers for moratoria Renegotiation of aircraft lease contracts with the lessors Engagement with the principal shareholders for financial support Freeze on discretionary / non-critical spend and implementation of temporary salary cuts for staff Continuous identification of opportunities to boost cashflows – opportunities within Cargo business, charter services etc.
2	Going concern	Material uncertainty as to whether the business will continue to exist into the foreseeable future due to accumulation of losses and the net current liability position.	<ul style="list-style-type: none"> Engagement with key suppliers and financiers for moratoria Renegotiation of aircraft lease contracts with the lessors Engagement with the principal shareholders for financial support Freeze on discretionary / non-critical spend and implementation of temporary salary cuts for staff Continuous identification of opportunities to boost cashflows – opportunities within Cargo business, charter services etc.
3	Safety risk	Possible contracting of Covid-19 by passengers and staff within KQ facilities and aircraft	<ul style="list-style-type: none"> Strict adherence to guidelines and protocols issued by KCAA/ Ministries, Ministry of Transport & Infrastructure/ Ministry of Health Enhanced health and safety protocols at all sites - provision of PPE, installation of sanitizing points, enforcement of social distancing at the workplace Remote working arrangements for most staff Medical and psychological support to staff, pre-screening of patients at the clinic, set up of isolation facilities
4	Competition	Potential for actions of other players in the market to negatively impact the business – erosion of market share, revenues etc.	<ul style="list-style-type: none"> Continuous improvement of KQ's products / service offering to consistently meet customer needs Leveraging on strategic partnerships with other industry players
5	IT and cyber security risk	Failure of IT infrastructure and external attacks to the IT environment. Unauthorised access to KQ databases and applications.	<ul style="list-style-type: none"> Establishment of disaster recovery plans (DRPs) and business continuity plans (BCPs) Implementation of effective measures and processes to safeguard against IT infrastructure threats

Report of the Directors (Continued)

Significant risks and mitigating actions (Continued)

	Risk	Description	Mitigating actions
6	Staff attrition	Loss of critical staff	<ul style="list-style-type: none"> • Development of talent pipeline for the key roles • Stratification of the employee value proposition based on the age bracket - aimed at attracting and retaining talent • Management of knowledge resources through retention and transfer
7	Impairment of assets	Possible impairment of aircraft and related equipment	<ul style="list-style-type: none"> • Focus on improving profitability and sustainable cash flow generation
8	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 • Established mechanisms to ensure compliance and continuous monitoring of compliance
9	Geopolitical risks	<p>Possible negative impact on the operations occasioned political changes or instability affecting our markets</p> <p>Inability to resume regional and international flights to closure of the air space</p>	<ul style="list-style-type: none"> • Continuous monitoring of political activities across different markets • Close collaboration and engagement with relevant stakeholders and governments
10	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 • Continuous consultation with both the internal and external legal counsels on matters likely to result into litigation
11	Currency exposure and forex risk	<p>Inability to repatriate funds trapped in some of the markets that we operate in</p> <p>Unfavourable changes in the foreign exchange rates</p>	<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 • Use of natural forex hedge
12	Fraud	Misappropriation or misuse of assets belonging to the Group by staff and external parties	<ul style="list-style-type: none"> • Strict enforcement of the Code of Business Conduct and KQ values • Investigation of cases reported through the whistleblowing platforms • Fraud awareness programs focusing of preventive measures
13	Disruption in supply of essential goods and services	Possible disruption in the supply of essential goods and services - including spare parts	<ul style="list-style-type: none"> • Use of multiple vendors for essential supplies of goods and services • Rigorous vetting process for vendors • Engagement with relevant authorities - Kenya Bureau of Standards (KEBS) and Kenya Revenue Authority (KRA)

Report of the Directors (Continued)

Significant risks and mitigating actions (Continued)

	Risk	Description	Mitigating actions
14	Volatility in fuel prices	Fluctuations in the fuel prices driven by global crude oil prices	<ul style="list-style-type: none"> Competitive sourcing of fuel suppliers Continuous monitoring of trends in global fuel prices Fuel hedging arrangements
15	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 Development of staff through training programmes
16	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 Continuous monitoring of debtor performance and follow up
17	Security risk	Theft and pilferage of parts for aircraft Theft of other assets	<ul style="list-style-type: none"> Enhanced security at all sites

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.

TERMS OF APPOINTMENT OF THE AUDITOR

PricewaterhouseCoopers LLP, having expressed their willingness, will be in office in accordance with the 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



Habil A. Waswani
Secretary

22 March 2021

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.

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	2023	N/A
Ms. Caroline Armstrong	2017	2023	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
Mr. Solomon Kitungu	2020	2023	N/A
Dr. Haron Sirima	2020	2021	N/A

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' 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	15	75,225	0.001%
For	75	5,518,414,319	99.999%
Abstain	4	3,900	0.000%
	94	5,518,493,444	100.000%

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 2020

Director	Salary KShs 000	Allowances KShs 000	Fees KShs 000	Compensation for loss of office KShs 000	Value of non-cash benefits KShs 000	Total KShs 000
Mr. Michael Joseph	-	-	9,000	-	-	9,000
Mr. Allan Kilavuka	40,502	-	-	-	1,052	41,554
Mr. Jozef Veenstra*	-	44	263	-	-	307
Ms. Caroline Armstrong	-	306	353	-	-	659
Principal Secretary-National Treasury	-	-	263	-	-	263
Principal Secretary-Transport	-	-	527	-	-	527
Ms. Carol Musyoka	-	262	263	-	-	525
Mrs. Esther Koimett	-	87	-	-	-	87
Dr. Martin Odour-Otieno	-	131	354	-	-	485
Mr. Nicholas Bodo	-	175	-	-	-	175
Mr. Ngumi John	-	131	263	-	-	394
Dr. Haron Sirima	-	44	-	-	-	44
Major Gen (Rtd) Michael Gichangi	-	262	353	-	-	615
Total	40,502	1,442	11,639	-	1,052	54,635

Directors' Remuneration Report (Continued)

Information Subject To Audit (Continued)

31 December 2019

Director	Salary KShs 000	Allowances KShs 000	Fees KShs 000	Compensation for loss of office 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
Mr. Jason Kap-Kirwok	-	605	443	-	-	1,048
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. Festus King'ori	-	524	-	-	-	524
Major Gen (Rtd) Michael Gichangi	-	1,441	728	-	-	2,169
Mr. Ngumi John	-	568	294	-	-	862
Dr. Haron Sirima	-	44	-	-	-	44
Total	40,062	38,277	23,607	11,116	10,984	124,046

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



Habil A. Waswani
Company Secretary

Nairobi

22 March 2021

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 have assessed the Group and Company's ability to continue as a going concern and disclosed in Note 2(e) of the financial statements matters relating to the use of going concern basis of preparation.

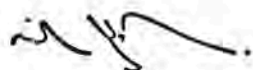
The Directors are aware of the material uncertainty caused by the negative working capital position, the recurring losses and the uncertainty associated with the Global Covid-19 pandemic as disclosed in the note.

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) of the financial statements.

On the basis of the strategic plans set out in Note 2(e) of the financial statements and the letter of financial support from the Government of Kenya, the Directors believe 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.

Approved by the Board of Directors on 22 March 2021 and signed on its behalf by:



Michael Joseph
Chairman



Allan Kilavuka
Managing Director



Independent auditor's report to the Shareholders of Kenya Airways Plc

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Kenya Airways Plc (the Company) and its subsidiaries (together, the Group) set out on pages 70 to 173, which comprise the consolidated statement of financial position at 31 December 2020 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2020, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Kenya Airways Plc give a true and fair view of the financial position of the Group and the Company at 31 December 2020 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the 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 financial statements section of our report.

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 financial statements, which discloses the directors' assessment of the Group's and Company's ability to continue as a going concern and the matters relating to the going concern basis of preparation.

As stated in Note 2(e), these events or conditions, along with other matters as set forth in the note indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.



Independent auditor's report to the Shareholders of Kenya Airways Plc (Continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>As disclosed on Note 7(a), the Group and Company recognised passenger revenue of KShs 52,805 million and KShs 49,090 million respectively for the year ended 31 December 2020.</p> <p>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. As disclosed in Note 30, the Group's and Company's value of unused tickets in relation to passenger revenue at 31 December 2020 was KShs 13,908 million and KShs 13,789 million respectively.</p> <p>The determination of the amount of revenue to be recognised for each flight requires complex information technology (IT) systems and involves the exchange of information with third party aviation industry systems and other airlines for a high volume of transactions.</p> <p>The timing of revenue recognition for expired unused tickets/documents requires judgement due to the timeframe over which revenue documents can be utilised. Management determines the value of unused tickets revenue using a combination of the terms and conditions of the underlying documents and the historical expiry trends. In the current year, management have exercised significant judgments in relation to recognition of revenue on unused tickets in view of extensions in ticket expiries and refund options offered to passengers as a result of the Covid-19 pandemic disruption to the aviation sector.</p> <p>The accounting for passenger revenue is susceptible to management override of controls through the recording of manual journals in the accounting records, the override of IT systems to accelerate revenue recognition, or the manipulation of inputs used to calculate revenue recorded in respect of unused revenue documents.</p>	<p>We performed detailed end-to-end walkthroughs of the finance and operational processes surrounding the revenue systems to assess the design effectiveness of the related key internal controls. We tested the operating effectiveness of these key controls to obtain sufficient, appropriate evidence that they operated throughout the year as intended. We also tested the key IT systems, including interfaces that impact the recognition of revenue from passengers along with the IT change control procedures and related application controls.</p> <p>We tested the matching of the flown tickets in the lift files to the passenger flight manifests and re-performed a reconciliation of 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).</p> <p>We tested the age profile of the deferred revenue on ticket sales to confirm compliance with the revenue recognition policy and related judgements.</p> <p>We inspected the manual journals posted to the revenue account for validity.</p> <p>We assessed the adequacy and consistency of the related disclosures in the financial statements in accordance with the requirements of International Financial Reporting Standards.</p>



Independent auditor's report to the Shareholders of Kenya Airways Plc (Continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Assessment of impairment of aircrafts and right-of-use assets</p> <p>As required by IAS 36: Impairment of assets, the Group performs an annual impairment test to assess the recoverability of the carrying value of its aircraft and an impairment assessment of aircraft and related equipment and the right-of-use (ROU) assets relating to aircraft and related equipment.</p> <p>As disclosed in Note 3x(ii) of the financial statements, the Group uses the higher of fair value less costs to sale and value-in-use calculations to determine the recoverable amount of the cash generating unit.</p> <p>The determination of the recoverable amount requires management judgement in both identifying and then valuing the relevant cash generating units (CGUs) as disclosed in Note 17.</p> <p>Recoverable amounts are based on management's estimate of variables and market conditions such as future ticket prices, exchange rates, growth rates, the timing of future operating expenditure, and the most appropriate discount rate.</p> <p>Variations in management estimates and judgements could result in material differences in the outcomes of the assessment.</p>	<p>We evaluated and challenged the composition and reasonableness of management cash flow forecasts and the underlying assumptions based on the historical performance of the CGUs, industry-specific reports and the macro economic outlook for the aviation sector.</p> <p>We tested the appropriateness of the impairment models and the reasonableness of the assumptions by benchmarking the key market-related assumptions in the models, such as discount rates, long term growth rates and foreign exchange rates, against external data.</p> <p>We tested the mathematical accuracy and performed sensitivity analyses of the models.</p> <p>Where an independent valuer was used, we reviewed the valuation reports and assessed the reasonableness and consistent application of assumptions in determining the fair values. We also assessed the competence, capabilities and objectivity of the independent valuers.</p> <p>We assessed the adequacy and appropriateness of the related disclosures in Note 17 of the financial statements</p>



Independent auditor's report to the Shareholders of Kenya Airways Plc (Continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Adequacy of return condition provision and aircraft maintenance reserves for leased aircrafts</p> <p>Under the terms of the lease arrangements with the lessors, the Group and Company are contractually committed to either return the aircraft and/or engines in a certain condition or to compensate the lessor based on the actual condition of the aircraft and/or engines at the date of return.</p> <p>The Group and Company have recognised a return condition provision amounting to KShs 5,381 million and KShs 3,546 million respectively at 31 December 2020 as disclosed in Note 29 of the financial statements.</p> <p>The provision is calculated using a model which incorporates several assumptions, requiring significant judgement, such as:</p> <ul style="list-style-type: none"> • past and expected future utilisation and maintenance patterns of the aircraft and engines; • expected cost of maintenance at the time it is estimated to occur; and • discount rate applied to calculate the present value of the future liability. <p>The lease agreements also require the Group and Company to make payments towards the maintenance of the aircraft. The lessors are contractually obligated to reimburse the Group for the qualifying maintenance expenditure incurred. At 31 December 2020, the Group and Company had a prepaid maintenance asset of KShs 6,105 million and KShs 4,892 million respectively, as disclosed in Note 22.</p> <p>The determination of the return condition provision, and the impairment assessment of the prepaid maintenance reserves involves significant level of judgement exercised by management due to the complex and subjective elements around these variable factors and assumptions.</p>	<p>We reviewed the aircraft's lease agreements to gain an understanding of the significant terms which influence the economics of, and hence accounting for, the lease obligations.</p> <p>We tested the completeness of the provisions by ensuring that all significant return condition obligations included in aircraft lease agreements were included in the provisions model. We tested the expected future costs of maintenance by corroborating the estimates of the costs to third party price lists and quotes, or to historic costs.</p> <p>We tested the mathematical accuracy and performed sensitivity analysis of the models.</p> <p>We verified that the discount rate applied by management to the future liability was within an acceptable range with reference to the time value of money applicable to Group and Company and the risks specific to the liability.</p> <p>For the prepaid maintenance reserves, we obtained confirmations from the lessors on the balances held at 31 December 2020 and assessed the recoverability of the balance by considering the expected future maintenance cost against which the Group could claim from the lessor.</p> <p>We assessed the adequacy and appropriateness of the related disclosures in Notes 29 and 22 of the financial statements.</p>



Independent auditor's report to the Shareholders of Kenya Airways Plc (Continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Accounting for the foreign currency hedge</p> <p>As disclosed in Note 24, the Company hedges its foreign currency risk in relation to its borrowings and lease liabilities against forecasted US dollar-denominated future revenue streams.</p> <p>The cash flow hedge is accounted at fair value and gains/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>Determination of the effectiveness of the hedge and the evaluation the highly probable criterion of the future USD revenue forecasts involves significant management assumptions used such as future currency exchange rates, future ticket prices and revenue growth rates.</p> <p>Variations in these assumptions could result in significant changes in the accounting for the fair value gains/losses on foreign currency hedges.</p>	<p>We evaluated the processes, procedures and controls in respect of treasury and other management functions which directly impact the relevant account balances and transactions.</p> <p>We assessed compliance with the requirements for the accounting for the hedging relationships using the designation documents prepared by the management and the internal risk management guidelines.</p> <p>We checked that the revised forecasts used by the Company for the assessment of future hedge effectiveness were consistent with board approved forecasts used for other judgements such as impairment assessments.</p> <p>We evaluated the appropriateness of the highly probable criteria as used to determine future USD revenue forecasts from the sale of passenger tickets, and reperformed the hedge effectiveness testing to ascertain that it meets the provisions of IFRS 9: Financial Instruments.</p> <p>We recomputed the year-end valuation of the cash flow hedge reserve and checked the reasonableness of exchange rates used.</p> <p>We assessed the adequacy of disclosures in the financial statements.</p>

Other information

The other information comprises the Corporate information statement, the Report of Directors, Statement of Corporate Governance, Directors' remuneration report and Statement of Directors' Responsibilities, which we obtained prior to the date of this auditor's report, and the rest of the other information in the 2020 Annual Report and Financial Statements which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon.

The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the 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 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 we have received 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 auditor's report to the Shareholders of Kenya Airways Plc (Continued)

Other information (continued)

When we read the rest of the other information in the 2020 Annual Report and Financial Statements and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 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 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 to cease to continue as a going concern.



Independent auditor's report to the Shareholders of Kenya Airways Plc (Continued)

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's 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 directors 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.

We also provide the directors 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 directors, we determine those matters that were of most significance in the audit of the Group's financial statements of the current period and are therefore the 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 Companies Act, 2015

Report of the directors

In our opinion the information given in the report of the directors on pages 53 to 58 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 59 to 61 has been properly prepared in accordance with the Companies Act, 2015.

Certified Public Accountants
Nairobi

22 March 2021

FCPA Michael Mugasa, Practising certificate No. 1478
Signing partner responsible for the independent audit

Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December 2020

	Notes	2020 KShs Millions	2019 KShs Millions
Revenue	7	52,805	127,678
Other income	7	-	639
Total income		52,805	128,317
Direct costs	8	(30,962)	(80,977)
Fleet ownership costs	8	(28,571)	(25,343)
Other operating costs	8,32	(20,394)	(23,736)
Operating loss		(27,122)	(1,739)
Finance costs	9,32	(9,513)	(11,266)
Interest income	9	62	30
Loss before tax	10	(36,573)	(12,975)
Income tax credit/ (expense)	11	354	(10)
Loss for the year		(36,219)	(12,985)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on property revaluation	15	-	2,468
Deferred income tax on revaluation	28	-	(740)
		-	1,728
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in fair value in relation to fuel hedges	24	-	435
(Loss)/ gain on hedged exchange differences - borrowings	26	(5,168)	1,289
(Loss)/ gain on hedged exchange differences - lease liabilities	27	(4,882)	676
		(10,050)	2,400
Other comprehensive (loss)/ income for the year, net of tax		(10,050)	4,128
Total comprehensive loss for the year		(46,269)	(8,857)

Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December 2020 (Continued)

	Notes	2020 KShs Millions	2019 KShs Millions
Loss for the year is attributable to:			
Owners of the Company		(36,227)	(12,986)
Non-controlling interest	25	<u>8</u>	<u>1</u>
Loss for the year		<u>(36,219)</u>	<u>(2,985)</u>
Total comprehensive loss for the year is attributable to:			
Owners of the Company		(46,277)	(8,858)
Non-controlling interest	25	<u>8</u>	<u>1</u>
Total comprehensive loss for the year		<u>(46,269)</u>	<u>(8,857)</u>
Earnings per share:			
Basic and diluted loss per share (KShs)	12	<u>(6.22)</u>	<u>(2.23)</u>

Company Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2020

	Notes	2020 KShs Millions	2019 KShs Millions
Revenue	7	49,090	121,001
Other income	7	-	639
Total income		49,090	121,640
Direct costs	8	(29,078)	(78,602)
Fleet ownership costs	8	(26,923)	(23,919)
Other operating costs	8,32	(17,397)	(21,427)
Operating loss		(24,308)	(2,308)
Finance costs	9,32	(8,816)	(10,706)
Interest income	9	66	34
Loss before tax	10	(33,058)	(2,980)
Income tax expense	11	(26)	(37)
Loss for the year		(33,084)	(13,017)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on property revaluation	15	-	2,366
Deferred income tax on revaluation surplus	27	-	(710)
		-	1,656
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in fair value in relation to fuel hedges	23	-	435
(Loss)/ gain on hedged exchange differences - borrowings	25	(5,168)	1,289
(Loss)/ gain on hedged exchange differences - lease liabilities	26	(4,882)	676
		(10,050)	2,400
Other comprehensive (loss)/ income for the year, net of tax		(10,050)	4,056
Total comprehensive loss for the year		(43,134)	(8,961)

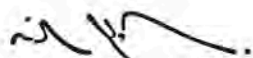
Consolidated Statement of Financial Position as at 31 December 2020

	Notes	2020 KShs Millions	2019 KShs Millions
ASSETS			
Non-current assets			
Property, aircraft and equipment	15	83,597	89,357
Intangible assets	16	2,857	2,874
Right-of-use-assets	17,32	53,532	74,248
Aircraft deposits	19	3,703	3,327
Deferred income tax	28	600	207
		<hr/>	<hr/>
		144,289	170,013
		<hr/>	<hr/>
Current assets			
Inventories	20	2,173	2,115
Trade and other receivables	21	9,887	13,647
Prepaid maintenance asset	22	6,105	5,533
Current income tax	11	1,280	1,270
Cash and bank balances	33	7,728	3,095
		<hr/>	<hr/>
		27,173	25,660
		<hr/>	<hr/>
TOTAL ASSETS		<hr/> <hr/> 171,462	<hr/> <hr/> 195,673
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	5,824	5,824
Share premium	23	49,223	49,223
Mandatory convertible note	23	9,630	9,630
Treasury shares	23	(142)	(142)
Other reserves	24	(12,307)	(2,257)
Accumulated losses		(116,451)	(80,224)
		<hr/>	<hr/>
Deficit attributable to owners of the Company		(64,223)	(17,946)
Non-controlling interests	25	58	50
		<hr/>	<hr/>
Total deficit		<hr/> <hr/> (64,165)	<hr/> <hr/> (17,896)

Consolidated Statement of Financial Position as at 31 December 2020 (Continued)

	Notes	2020 KShs Millions	2019 KShs Millions
Liabilities			
Non-current liabilities			
Borrowings	26	81,901	69,468
Lease liabilities	27	62,851	68,533
Deferred income tax	28	2,723	2,723
Provisions for liabilities	29,32	2,822	5,030
		<hr/>	<hr/>
		150,297	145,754
Current liabilities			
Borrowings	26	10,638	6,658
Lease liabilities	27	19,040	11,497
Provisions for liabilities	29,32	4,201	4,149
Sales in advance of carriage	30	13,908	14,859
Trade and other payables	31	37,543	30,652
		<hr/>	<hr/>
		85,330	67,815
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		171,462	195,673
		<hr/>	<hr/>

The financial statements on pages 70 to 173 were approved and authorised for issue by the Board of Directors on 22 March 2021 and signed on its behalf by:



Michael Joseph
Chairman



Allan Kilavuka
Managing Director

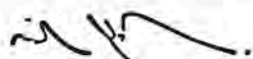
Company Statement of Financial Position as at 31 December 2020

	Notes	2020 KShs Millions	2019 KShs Millions
ASSETS			
Non-current assets			
Property, aircraft and equipment	15	82,808	88,516
Intangible assets	16	2,849	2,862
Right-of-use-assets	17,32	44,267	63,294
Investment in subsidiaries	18	435	435
Aircraft deposits	19	3,703	3,327
		<u>134,062</u>	<u>158,434</u>
Current assets			
Inventories	20	2,173	2,115
Trade and other receivables	21	29,045	30,776
Prepaid maintenance asset	22	4,892	4,696
Current income tax	11	1,263	1,256
Cash and bank balances	33	7,536	2,900
		<u>44,909</u>	<u>41,743</u>
TOTAL ASSETS		<u>178,971</u>	<u>200,177</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	5,824	5,824
Share premium	23	49,223	49,223
Mandatory convertible note	23	9,630	9,630
Treasury shares	23	(142)	(142)
Other reserves	24	(12,593)	(2,543)
Accumulated losses		(115,953)	(82,869)
Total deficit		<u>(64,011)</u>	<u>(20,877)</u>
Liabilities			
Non-current liabilities			
Borrowings	26	81,901	69,468
Lease liabilities	27	54,072	59,527
Deferred income tax	28	2,723	2,723
Provisions for liabilities	29,32	2,555	3,349
		<u>141,251</u>	<u>135,067</u>

Company Statement of Financial Position as at 31 December 2020 (Continued)

	Notes	2020 KShs Millions	2019 KShs Millions
Liabilities			
Current liabilities			
Borrowings	26	10,638	6,658
Lease liabilities	27	17,477	10,057
Sales in advance of carriage	30	13,789	14,666
Trade and other payables	31	57,291	50,730
Provisions for liabilities	29,32	2,536	3,876
		<hr/>	<hr/>
		101,731	85,987
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		178,971	200,177
		<hr/> <hr/>	<hr/> <hr/>

The financial statements on pages 70 to 173 were approved and authorised for issue by the Board of Directors on 22 March 2021 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 2020

	Share capital	Share premium	Mandatory convertible note	Treasury shares	Other reserves	Accumulated loss	Total	Non-controlling interest	Total equity
	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions	KShs Millions
At 1 January 2019	5,824	49,223	9,630	(142)	(6,385)	(67,238)	(9,088)	49	(9,039)
Loss for the year	-	-	-	-	-	(12,986)	(12,986)	1	(12,985)
Other comprehensive income for the year	-	-	-	-	4,128	-	4,128	-	4,128
At 31 December 2019	5,824	49,223	9,630	(142)	(2,257)	(80,224)	(17,946)	50	(17,896)
At 1 January 2020	5,824	49,223	9,630	(142)	(2,257)	(80,224)	(17,946)	50	(17,896)
Loss for the year	-	-	-	-	-	(36,227)	(36,227)	8	(36,219)
Other comprehensive loss for the year	-	-	-	-	(10,050)	-	(10,050)	-	(10,050)
At 31 December 2020	5,824	49,223	9,630	(142)	(12,307)	(116,451)	(64,223)	58	(64,165)

Company Statement of changes in Equity for the year Ended 31 December 2020

	Share capital KShs Millions	Share premium KShs Millions	Mandatory convertible note KShs Millions	Treasury shares KShs Millions	Other reserves KShs Millions	Accumulated loss KShs Millions	Total KShs Millions
At 1 January 2019	5,824	49,223	9,630	(142)	(6,599)	(69,852)	(11,916)
Loss for the year	-	-	-	-	-	(13,017)	(13,017)
Other comprehensive income for the year	-	-	-	-	4,056	-	4,056
At 31 December 2019	5,824	49,223	9,630	(142)	(2,543)	(82,869)	(20,877)
At 1 January 2020	5,824	49,223	9,630	(142)	(2,543)	(82,869)	(20,877)
Loss for the year	-	-	-	-	-	(33,084)	(33,084)
Other comprehensive income for the year	-	-	-	-	(10,050)	-	(10,050)
At 31 December 2020	5,824	49,223	9,630	(142)	(12,593)	(115,953)	(64,011)

Consolidated Statement of Cash Flows for the Year Ended 31 December 2020

		2020	2019
	Notes	KShs Millions	KShs Millions
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	10,120	20,868
Interest received		62	30
Interest paid		(3,659)	(4,892)
Income tax paid	11	(42)	(61)
		<hr/>	<hr/>
Net cash flows from operating activities		6,481	15,945
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, aircraft and equipment	15	(918)	(1,284)
Proceeds of disposal of property, aircraft and equipment		15	15
Proceeds from sale and leaseback of equipment		-	2,945
Purchase of intangible assets	16	(74)	(24)
Payment of deposits for aircraft purchases	19	(680)	(528)
Proceeds from refunds of aircraft deposits	19	693	324
		<hr/>	<hr/>
Net cash flows from investing activities		(964)	1,448
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	26	11,000	-
Repayments of borrowings	26	(3,078)	(6,863)
Payment of deferred borrowing costs	26	(55)	(61)
Repayment of principal portion of lease liabilities	27	(8,751)	(13,805)
		<hr/>	<hr/>
Net cash flows from financing activities		(884)	(20,729)
		<hr/>	<hr/>
INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		4,633	(3,336)
CASH AND CASH EQUIVALENTS AT START OF YEAR		3,095	6,431
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		7,728	3,095
		<hr/>	<hr/>
REPRESENTED BY			
Cash and bank balances	33	7,728	3,095
		<hr/>	<hr/>

Company Statement of Cash Flows for the Year Ended 31 December 2020

	Notes	2020 KShs Millions	2019 KShs Millions
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	8,572	19,461
Interest received		66	34
Interest paid		(3,647)	(4,891)
Income tax paid	11	(33)	(41)
		<hr/>	<hr/>
Net cash generated from operating activities		4,958	14,563
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, aircraft and equipment	15	(905)	(1,219)
Proceeds of disposal of property, aircraft and equipment		15	15
Proceeds from sale and leaseback	14	-	2,945
Purchase of intangible assets	16	(73)	(19)
Payments of deposits for aircraft purchases	19	(680)	(528)
Proceeds from refunds of aircraft deposits	19	693	324
		<hr/>	<hr/>
Net cash generated from investing activities		(950)	1,518
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	26	11,000	-
Repayments of borrowings	26	(3,078)	(6,863)
Payment of deferred borrowing costs	26	(55)	(61)
Repayment of principal portion of lease liabilities	27	(7,239)	(12,500)
		<hr/>	<hr/>
Net cash used in financing activities		628	(19,424)
		<hr/>	<hr/>
INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		4,636	(3,343)
CASH AND CASH EQUIVALENTS AT START OF YEAR		2,900	6,243
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		7,536	2,900
		<hr/>	<hr/>
REPRESENTED BY			
Cash and bank balances	33	7,536	2,900
		<hr/>	<hr/>



Sim X

We offered flight simulator opportunities replicating the state-of-the-art deck of a modern commercial aircraft with all the visual and sound effects to offer the experience of flying without leaving the ground.



Community Support

We have been supporting our communities to stay safe through innovation & sustainability programmes that saw 9,000+ masks produced for staff & communities using obsolete materials. 7,000+ litres of Sanitizer have also been distributed by staff to various communities.

Notes to the Financial Statements for the Year Ended 31 December 2020

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 2. 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 Group and Company financial statements have been prepared on the historical cost basis of accounting except for certain assets and liabilities including land and buildings 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 Company's functional currency. The financial statements are rounded to the nearest million shilling (KShs Millions), unless otherwise stated.

(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.

Notes to the Financial Statements (Continued)

2 BASIS OF PREPARATION (Continued)

(e) *Going concern*

The Group and Company incurred a loss for the year of KShs 36,219 million (2019: KShs 12,985 million) and KShs 33,084 million (2019: KShs 13,017 million) respectively during the year ended 31 December 2020 and, as of that date, the Group's and Company's current liabilities exceeded current assets by KShs 58,157 million (2019: KShs 42,155 million) and KShs 56,822 million (2019: KShs 44,244 million) respectively. In addition, as at 31 December 2020, the Group's and Company's total liabilities exceeded total assets by KShs 64,165 million (2019: KShs 17,896 million) and KShs 64,011 million (2019: KShs 20,877 million) respectively. These conditions were compounded by the effects of Covid-19 which was declared a global health pandemic by the World Health Organisation (WHO) and 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 realise 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.

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 as countries ease travel restrictions;
- c) Operational excellence aimed at cost efficiency and improved service delivery;
- d) Digital transformation to improve efficiency and operational costs;
- e) Improved customer experience with a view to grow market share;
- f) De-risking the business through diversification; and
- g) The proposed nationalisation of the airline.

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 2020.

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 National Aviation Management bill 2020 is in parliament awaiting enactment.

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.

Notes to the Financial Statements (Continued)

2 BASIS OF PREPARATION (Continued)

(e) *Going concern (Continued)*

As a result of Covid-19 crisis, the Group has suspended its passenger transport business on some routes and reduced frequency on others.

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 lessors for restructuring of aircraft lease terms.
- 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, implementing voluntary leave options and staff redundancies.
- The Group has increased focus on cargo business and has already converted 1 passenger aircraft to a cargo 'freighter' to increase cargo capacity, a second one is currently undergoing conversion.
- The arrival of vaccines in the African markets is also expected to raise confidence among passengers and therefore likely to fast-track the recovery period.
- The Group has also developed a pharma facility at the airport which improves the required infrastructure for the airline to participate in Covid-19 vaccine distribution and also to pursue other opportunities in the health sector value chain.

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 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 of Kenya.

Notes to the Financial Statements (Continued)

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) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the company operates), which is the Kenya Shilling. 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 taken to other income/ losses 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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

(c) Revenue from contracts with customers

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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Revenue from contracts with customers (continued)

The Group recognises revenue from contracts with customers 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.
- providing engineering and training services

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 it transfers control of a service to a customer. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent and has concluded that it is acting as a principal in all its revenue arrangements except for passenger interline and sale of holiday packages where the Group acts as an agent. The Group considers whether it is an agent or a principal in relation to transportation and accommodation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. Where Kenya Airways acts as an agent between the service provider and the end customer, the net commission is recognised as revenue on satisfaction of the performance obligation (which typically is the date of sale).

The specific recognition criteria described below must also be met before revenue is recognised.

- Passenger, freight and mail

Passenger (including excess baggage), freight and mail are recognised as revenue when each performance obligation for the transportation service is fulfilled, that is at the point when flight documents are used and is presented net of discounts and taxes. The transaction price is allocated to each performance obligation based on the relative stand-alone selling price related to each performance obligation. Revenue documents (e.g. tickets or airway bills) sold but unused are held in the Group and Company statement of financial position under current liabilities as passenger and cargo sales in advance within 'Sales in Advance in Carriage'. This item is reduced either when Kenya Airways or another airline completes the transportation or when the passenger requests for a refund, which is paid in full. Unutilised tickets are recognised as revenue on expiry based on the Group's policy of 13 months from the ticket's date of issue.

- Handling services

Sale of handling and ramp services is recognised when the performance obligation is fulfilled, that is at the point when control transfers which is typically when the cargo has been handed over to the courier, or from courier to the customer.

- Engineering services

The Group recognises engineering revenue over time by determining 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. Estimation is based on cost plus margin. Maintenance revenue is recognised as the related performance obligations are satisfied (over time), being where the control of the goods or services are transferred to the customer. 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 is recognised over time as the customer simultaneously receive and consume the benefits of these services over the training period. The level of completion of course work is measured on a straight-line basis over training period. The training period varies based on the type of course. Advance payments are recognised as contract liabilities and recognised as revenue as coursework is completed. There were no outstanding contract liabilities at 31 December 2020 (2019: Nil).

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) *Rental income*

The Group earns rental income from its operating lease and sublease agreements. Rental income is accounted for on a straight-line basis over the lease term by reference to the right-of-use assets.

(e) *Interest income*

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

(f) *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.

(g) *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 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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, aircraft and equipment (continued)

(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:

Aircraft and related equipment:	%
Boeing 787, 777, 737-300 & 737-700	5.56 - 20.00
Embraer E190	5.56 - 20.00
Simulator	5.00
Other property and equipment:	%
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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) *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.

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.

(i) *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.

(j) *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, which is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group's weighted average incremental borrowing rate is 6% (2019: 6%).

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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leases (Continued) Group as a lessee (continued)

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 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 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.

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.

In respect of aircraft and engines under leases, the Group has the responsibility to fulfil certain return conditions under the relevant leases. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls for aircraft and engines under these leases are capitalised as a return conditions asset which forms part of the right-of-use assets. The return condition asset comprises the initial measurement of the corresponding return condition provision. It is subsequently measured at cost less amortisation to profit or loss, within fleet costs over the estimated period between overhauls using the estimated flying hours/cycles. Differences between the estimated costs and the actual costs of overhauls are included in the profit or loss in the period of overhaul.

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

The Group's lease payments are deductible upon payment for tax purposes. In accounting for the deferred tax relating to the lease, the Group considers both the lease asset and liability separately. The Group separately accounts for the deferred taxation on the taxable temporary difference and the deductible temporary difference, which upon initial recognition are equal and offset to zero. Deferred tax is recognised on subsequent changes to the taxable and temporary differences.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leases (Continued)

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. When the head lease is a short-term lease, the sublease is classified as an operating lease. Otherwise, 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.

Finance income from finance leases is recognised over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

(k) Prepaid maintenance asset

Prepaid maintenance asset are payments made in advance to lessors for aircraft maintenance as required by the lease contracts. 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.

The maintenance payments are effectively supplemental lease payments which are carried as a lease incentive asset until the amount is forfeited. Since the amount of the refund is unknown and varies with the future maintenance costs to be incurred, it is treated as a variable lease payment that does not depend on an index or a rate and recognised in the profit or loss, within fleet costs, in the period in which the event or condition that triggers those payments occurs, i.e. when the amount of the supplemental rental is forfeited. The prepaid maintenance asset is assessed for impairment on annual basis.

(l) 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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) *Derivative financial instruments and hedge accounting (continued)*

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.

Hedge ineffectiveness can arise from:

- The extent to which the hedging instrument is not correlated to the hedged item
- Differences in the timing of the cashflows of the hedged items and the hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cashflows of hedged items and hedging instruments

Variances arising from discounting the hedged item are determined when measuring hedge ineffectiveness and are not considered material.

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.

Accumulated losses in the cash flow hedging reserves are assessed for recoverability at every reporting period date. If a portion of such losses is not expected to be recovered in one or more future periods, the amount is immediately reclassified to profit or loss.

(n) *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.

(o) *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 26(d)).

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Aircraft deposits

Aircraft deposits relate to advance payments for purchase or lease of aircrafts. Deposits paid towards the acquisition of aircraft represent amounts paid to the lessor for the option to purchase or lease aircrafts in the future. Deposits for leased aircraft acts as security for future lease payments in the case of default. Deposits are fully refundable and are accounted for as financial assets. Initially, the financial asset is measured at fair value.

The difference between fair value and the deposit amount at initial recognition is deferred and amortised to profit or loss over period of deposit only to the extent that it arises from a change in a factor (including time) that market participants would consider when pricing the asset. The deposit is subsequently measured at amortised cost using the effective interest rate method less loss allowance.

(q) 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.

(iii) Accrued leave

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.

(iv) 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.

(v) 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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) *Employee benefits (Continued)*

(vi) 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.

(r) *Income tax expense*

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

(i) Current income tax

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.

(ii) Deferred income tax

Deferred income 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 income tax liabilities are generally recognised for all taxable temporary differences. Deferred income 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.

(s) *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.

(t) *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.

(u) *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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) *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.

(w) *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:

- 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.

The Group's financial assets at amortised cost include trade receivables, aircraft deposits and cash and bank balances.

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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Financial instruments (Continued)

Financial assets (Continued)

(i) Classification of financial assets (Continued)

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.

Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including loans and mandatory convertible note.

(ii) Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) *Financial instruments (Continued)*

Financial liabilities (continued)

(ii) *Subsequent measurement (Continued)*

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Floating rate financial liabilities are initially recognised at an amount equal to the principal. Re-estimating the future interest payments does not significantly affect the carrying amount of the liability.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Accounts payables and accruals are recognized for amounts to be paid in the future for goods or services received, whether or not billed by the supplier.

(iii) *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(x) *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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Impairment (Continued)

(i) Financial assets (continued)

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 loss rates, which are derived from settlement of invoices over an average period of 5 years and adjusted with macroeconomic factor overlay calculations to incorporate current and forward-looking information. Macroeconomic factors incorporated for global debtors were world economic expectations and crude oil price percentage changes, while for local debtors were deposits, savings, lending, GDP and housing price index.

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 applies a simplified approach in calculating ECLs. The assessed amounts in the year were not material.

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 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. Indicators that there is no reasonable expectation of recovery include, the debtor being in severe financial difficulty and has failed to engage in repayment plan with the Group.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories and deferred income 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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Sovereign guarantee from the Government of Kenya

The Government of Kenya issued guarantees in relation to certain obligations of the Group to Exim Bank and a consortium of Kenyan Banks as part of balance sheet restructuring. The financial guarantee was initially measured at fair value. After initial recognition, the financial guarantee is measured at amortised cost over the term of the guaranteed loans.

(z) 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.

(aa) 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.

(bb) 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.

Return condition provision 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.

(cc) 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.

(dd) 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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Dividends

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

(ff) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. Presentation changes made to the financial statements have been disclosed in Note 33.

(gg) 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 2020*

Amendments to IFRS 3 Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated 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 output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(gg) 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 2020 (continued)

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. The Group and Company have applied the practical expedient under COVID-19 Related Rent Concessions - Amendment to IFRS 16 Leases to account for all rent concessions agreed with lessors as a result of COVID-19. Concessions took the form of delayed payments for leased aircraft. The impact of deferring rental payments on the interest expense charged to profit or loss was not material. The lease liabilities were remeasured based on the modified cash flow over the remaining lease term, using the original discount rate.

(ii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2020

Amendments to IFRS 16 Covid-19 Related Rent Concessions

Reference to the Conceptual Framework - Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. 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.

Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. 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.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2020 (Continued).

Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendments are not expected to have a material impact on the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. 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 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Notes to the Financial Statements (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2020 (Continued).

IAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. 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.

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.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. 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.

(iii) Early adoption of standards

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

Notes to the Financial Statements (Continued)

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 non- financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Landing slots which have an indefinite useful life are tested for impairment annually or when such indicators exist. The recoverable amounts of cash generating units have been determined based on the value-in-use calculations. These calculations require the use of significant estimates and assumptions. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Changes to the estimates around the value in use may result in adjustments to the impairment charge in future periods.

b) Property, aircrafts and equipment and intangible assets

Useful life of assets

The Group's management estimates the economic useful life of its assets for calculating depreciation. This estimate is determined after considering the expected usage of the assets from the latest fleet plans and other business plan information or physical wear and tear. Management reviews the estimated residual value and estimated economic useful lives annually and future depreciation charges would be adjusted where management believes the estimated economic useful life differ from previous estimates.

c) 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.

Notes to the Financial Statements (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (Continued)

d) Return condition provisions

Under the terms of the lease arrangements with the lessors, the Group and Company as lessee are contractually committed to either return the aircraft and/or engines in a certain condition or to compensate the lessor based on the actual condition of the aircraft and/or engines at the date of return. 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. Changes in the assumptions may result to adjustments in the measurement of the provision in future periods.

e) Determination of discount rate

The Group cannot readily determine the interest rate implicit in the lease, therefore it uses a discount rate to measure lease liabilities. The discount rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The discount rate therefore reflects what the Group would have to pay which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The discount rate for each lease 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. Changes to the inputs used to estimate the discount rate may result to adjustment of the discount rate and ultimately the lease liability measurement in future periods.

f) Asset restoration obligations

The Group has identified certain contractual obligations associated with the restoration of leased properties at the end of the lease term. An estimate of the present value of restoration costs are recognised as part of the right-of-use asset and depreciated over the lease term. Measurement of this provision requires assumptions and estimates to be made in relation to discount rates, the expected restoration costs and the expected timing of these costs. Changes in this provision are recognised as an adjustment to the right of use asset.

Critical accounting estimates, assumptions and judgements in the determination of the impact of Covid-19

The Covid-19 pandemic significantly reduced airline passenger flights with the Group having to shut down its scheduled network operations from April to July 2020. Consequently, the Group has applied critical estimation and judgement in the evaluation of the impact of Covid-19 regarding the recognition and measurement of assets and liabilities within the consolidated financial statements. The Group applied the following critical accounting estimates, assumptions and judgments that impacted the consolidated financial statements:

a) Impairment of non-financial assets

The Group performed an impairment test on its owned aircrafts and right of use assets for leased aircrafts. The impairment review was carried out at the 'cash-generating unit' level, defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the cash flows from other assets or group of assets. The impairment review was performed on the network airline operations CGU, including passenger, freighter and charter operations, as well as all related ancillary operations.

The recoverable amount of the network airline operations has been measured based on the value-in-use, using a discounted cash flow model. Cash flow projections are based on the business plan covering a seven-year period. Cash flows for the seven-year period have been projected to increase in line with the long-term growth rate of the main economies in which the Group operates.

Notes to the Financial Statements (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Critical accounting estimates, assumptions and judgements in the determination of the impact of Covid-19 (Continued)

a) Impairment of non-financial assets (continued)

A pre-tax discount rate of 7.4 per cent per annum has been used in discounting the projected cash flows for the CGUs, reflecting an adjusted market estimate of the weighted average cost of capital of the Group. As a result, an impairment charge of KShs 7,037 million and KShs 7,013 million for Group and Company respectively has arisen as a result of the review performed on the network airline operations reflecting the write-down of right-of-use assets for leased aircraft and leased buildings to recoverable amounts.

b) Recoverability of deferred income tax assets

The timing and the duration of the recovery from Covid-19 has resulted in the Group exercising judgment in the determination of cash flows during this recovery and subsequent periods. The Company has therefore 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.

The deferred tax assets include an amount of KShs 600 million (2019: KShs 207 million) which relates to carried-forward tax losses of African Cargo Handling Limited. The subsidiary has incurred the losses over the last two financial years from its operations. The Group has concluded that the deferred income tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiary. These business plans and budgets have taken into consideration the likely impact of Covid-19 pandemic. The subsidiary is expected to generate taxable income from 2022 onwards. The losses can be carried forward for 10 years.

As at 31 December 2020, the Group and Company had derecognised deferred tax assets of KShs 43,620 million and KShs 42,776 million respectively relating to tax losses they do not reasonably expect to utilise.

c) 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. Historically, the Group estimated the timing of recognition of unused tickets as 13 months.

Due to the Covid-19 pandemic, the Group suspended its passenger transport business in some routes and reduced frequency in others. There was also a significant increase in flight cancellations hence unutilised tickets with uplift dates between March and December 2020 remained unexpired to allow the passengers more time to travel as travel restrictions eases. The Group shall continue to monitor closes the Covid patterns across the Globe so as to determine how long such tickets can be maintained as open.

Significant transactions as a result of Covid-19 pandemic

The Group has recorded the following additional significant transactions as a result of management actions in response to effects of Covid-19 pandemic:

a) Restructuring costs

As a result of the structural changes to the airline sector, the Group has 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, implementing voluntary leave options and staff redundancies.

As at 31 December 2020, the Group had 914 employees who separated from the business due to staff rationalisation actions. The total release costs in the year amounted to KShs 582 million.

Notes to the Financial Statements (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Significant transactions as a result of Covid-19 pandemic (Continued)

a) Loans and borrowings

In the year 2020, the Government of Kenya advanced two loans to the company totalling KShs 11 billion. The first loan of KShs 5 billion was meant and utilised for E190 aircraft fleet engine overhauls that were due in 2020. The second loan disbursement of KShs 6 billion was part of KShs 10 billion commitment from the Government of Kenya to support the resumption of operations following the impact of Covid-19 pandemic

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.

a) 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 exercise either the renewal or termination 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.

b) 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 (2019: 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.

c) Deferred income 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. As disclosed in Note 4(b), the Group has not recognised the full deferred income tax assets on the basis that the only the recognised portion is recoverable.

Notes to the Financial Statements (Continued)

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 to reflect changes in the market conditions and Group'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.

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

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

a) Market risk (Continued)

(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:

Company	2020		2019	
	Effective interest rate	Nominal amount KShs Millions	Effective interest rate	KShs Millions
Fixed rate instruments				
Local currency facility	2.99%	11,337	2%	183
Mandatory convertible note - liability component	12.03%	4,501	12.03%	3,724
		15,838		3,907
Variable rate instruments				
Local bank revolving facility	6.49%	5,255	7.96%	4,327
African Export-Import Bank facility	5.75%	15,428	7.21%	16,040
Citi/ JP Morgan facility	1.79%	58,282	3.43%	54,621
		78,965		74,988
Total exposure		94,803		78,895

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.

Variable rate instruments	Profit or loss/equity	
	2020 KShs million	2019 KShs million
1% increase	(790)	(750)
1% decrease	790	750

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

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) Foreign currency risk

The Group and Company are exposed to foreign 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 2020 and 31 December 2019 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) Foreign currency risk (Continued)

Group

31 December 2020

	GBP KShs Millions	USD KShs Millions	Euro KShs Millions	Total KShs Millions
<i>Financial assets and lease receivables</i>				
Prepaid maintenance asset	-	6,099	-	6,099
Aircraft deposits	-	3,703	-	3,703
Trade and other receivables	684	4,235	1,306	6,225
Cash and cash equivalents	46	2,583	146	2,775
	730	16,620	1,452	18,802
<i>Financial liabilities and provisions</i>				
Trade and other payables	(306)	(21,147)	(893)	(22,346)
Mandatory convertible note	-	(4,501)	-	(4,501)
Lease liabilities	-	(10,807)	-	(10,807)
Return condition provision	-	(5,260)	-	(5,260)
Net exposure	424	(25,210)	559	(24,227)
<i>Financial liabilities</i>				
Loans and borrowings	-	(79,302)	-	(79,302)
Lease liabilities	-	(68,960)	-	(68,960)
Net exposure	-	(148,262)	-	(148,262)
31 December 2019				
<i>Financial assets and lease receivables</i>				
Prepaid maintenance asset	-	5,533	-	5,533
Aircraft deposits	-	3,327	-	3,327
Trade and other receivables	371	8,460	1,054	9,885
Cash and cash equivalents	44	1,645	129	1,818
	415	18,965	1,183	20,563
<i>Financial liabilities and provisions</i>				
Trade and other payables	(260)	(15,436)	(1,137)	(16,833)
Mandatory convertible note	-	(3,724)	-	(3,724)
Lease liabilities	-	(13,168)	-	(13,168)
Return condition provision	-	(7,591)	-	(7,591)
Net exposure	155	(20,954)	46	(20,753)
<i>Financial liabilities</i>				
Loans and borrowings	-	(75,171)	-	(75,171)
Lease liabilities	-	(66,862)	-	(66,862)
Net exposure	-	(142,033)	-	(142,033)

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

a) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Company:

31 December 2020	GBP KShs Millions	USD KShs Millions	Euro KShs Millions	Total KShs Millions
<i>Financial assets and lease receivables</i>				
Prepaid maintenance asset	-	4,892	-	4,892
Aircraft deposits	-	3,703	-	3,703
Trade and other receivables	684	3,309	1,306	5,299
Cash and cash equivalents	46	2,558	146	2,750
	730	14,462	1,452	16,644
<i>Financial liabilities and provisions</i>				
Return condition provision	-	(3,546)	-	(3,546)
Trade and other payables	(306)	(19,404)	(878)	(20,588)
Mandatory convertible note	-	(4,501)	-	(4,501)
Lease liabilities	-	(1,287)	-	(1,287)
Net exposure	424	(14,276)	574	(13,278)
<i>Financial liabilities</i>				
Loans and borrowings	-	(79,302)	-	(79,302)
Lease liabilities	-	(68,960)	-	(68,960)
Net exposure	-	(148,262)	-	(148,262)
31 December 2019				
<i>Financial assets and lease receivables</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
	415	17,339	1,183	18,937
<i>Financial liabilities and provisions</i>				
Return condition provision	-	(5,733)	-	(5,733)
Trade and other payables	(260)	(15,034)	(1,137)	(16,431)
Mandatory convertible note	-	(3,724)	-	(3,724)
Lease Liabilities	-	(2,722)	-	(2,722)
Net exposure	155	(9,874)	46	(9,673)
<i>Liabilities</i>				
Loans and borrowings	-	(75,171)	-	(75,171)
Lease Liabilities	-	(66,862)	-	(66,862)
Net exposure	-	(142,033)	-	(142,033)

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

a) Market risk (Continued)

(iii) Foreign 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.

Profit or loss	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
GBP	42	16	42	16
USD	(2,521)	(2,095)	(1,428)	(987)
EURO	56	5	57	5
	<u>(2,423)</u>	<u>(2,074)</u>	<u>(1,329)</u>	<u>(966)</u>
<i>Other Comprehensive income</i>				
USD	<u>(14,826)</u>	<u>(14,203)</u>	<u>(14,826)</u>	<u>(14,203)</u>

The exchange rates applied during the year are as follows:

	Average rates		Closing rates	
	2020	2019	2020	2019
GBP	137.31	130.17	149.16	133.36
USD	106.16	102.23	109.24	101.38
EURO	<u>121.98</u>	<u>114.46</u>	<u>134.16</u>	<u>113.67</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 expected credit loss 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. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses are based on the historical loss rates, which are derived from settlement of invoices over an average period of 5 years and adjusted with macroeconomic factor overlay calculations to incorporate current and forward-looking information. 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 and lease incentive asset represents the maximum exposure to credit risk:

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	million	million	million	million
Trade receivables	7,983	10,720	7,566	10,261
Other receivables	1,904	92	1,352	23
Due from related parties	-	-	20,127	18,260
Aircraft deposits	3,703	3,327	3,703	3,327
Bank balances	7,728	3,063	7,536	2,868
Prepaid maintenance asset	6,105	5,533	4,892	4,696
Total	27,423	22,735	45,176	39,435

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.

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

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 >30 days 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 has failed to engage in a repayment plan with the Group.	Amount is written off

The Group and Company consider factors such as changes in the payment cycle i.e. there is reduced frequency in payment remittances from what had been agreed with the customer. For example, if a debtor defaults in the IATA clearing house, this is flagged as an indication of a significant increase in credit risk.

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.

Group

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
				KShs Millions	KShs Millions	KShs Millions
31 December 2020						
Trade receivables	N/A	Doubtful	Lifetime ECL	9,643	(1,660)	7,983
Other receivables	N/A	Doubtful	Lifetime ECL	2,379	(475)	1,904
Bank balances	A, BBB, B+, B-	Performing	12-month ECL	7,728	-	7,728
Aircraft deposits	N/A	Performing	12-month ECL	3,703	-	3,703
Due from related companies	N/A	Doubtful	Lifetime ECL	88	(88)	-
Prepaid maintenance asset	N/A	Performing	12-month ECL	6,105	-	6,105
				29,646	(2,223)	27,423
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)	-
Prepaid maintenance asset	N/A	Performing	12-month ECL	5,533	-	5,533
				24,351	(1,616)	22,735

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

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.

Company

31 December 2020

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	N/A	Doubtful	Lifetime ECL	9,163	(1,597)	7,566
Other receivables	N/A	Doubtful	Lifetime ECL	1,952	(600)	1,352
Bank balances	A, BBB, B+, B-	Performing	12-month ECL	7,536	-	7,536
Aircraft deposits	N/A	Performing	12-month ECL	3,703	-	3,703
Due from related companies	N/A	Doubtful	Lifetime ECL	20,276	(149)	20,127
Prepaid maintenance asset	N/A	Performing	12-month ECL	4,892	-	4,892
				<u>47,522</u>	<u>(2,346)</u>	<u>45,176</u>

31 December 2019

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	N/A	Doubtful	Lifetime ECL	11,420	(1,159)	10,261
Other receivables	N/A	Doubtful	Lifetime ECL	461	(438)	23
Bank balances	A, BBB, B+, B-	Performing	12-month ECL	2,868	-	2,868
Aircraft deposits	N/A	Performing	12-month ECL	3,327	-	3,327
Due from related companies	N/A	Doubtful	Lifetime ECL	18,447	(187)	18,260
Prepaid maintenance asset	N/A	Performing	12-month ECL	4,696	-	4,696
				<u>41,219</u>	<u>(1,784)</u>	<u>39,435</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 2020	<30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
Trade- Airlines							
ECL rate	7%	6.6%	0.3%	1.9%	5.8%	11.10%	9.5%
Expected gross carrying amount	117	5	2	82	121	1,332	1,659
Lifetime ECL	-	-	-	2	7	148	157
Trade- Agents							
ECL rate	0.9%	14.1%	24.5%	26.6%	20.3%	111.3%	17.6%
Expected gross carrying amount	2,806	263	117	161	1,210	453	5,010
Lifetime ECL	25	37	29	43	245	504	883
Trade- Others							
ECL rate	2.9%	3.6%	4.1%	14.4%	5.6%	45.9%	19.5%
Expected gross carrying amount	755	80	163	218	547	949	2,713
Lifetime ECL	22	3	7	32	31	436	529
Trade- Government							
ECL rate	0.7%	2.0%	10.2%	15.7%	22.3%	89.0%	35.0%
Expected gross carrying amount	51	14	17	42	59	78	261
Lifetime ECL	-	-	2	7	13	69	91
Other receivables, prepayments and related party balances							
ECL rate	2.1%	1.0%	10.7%	19.1%	18.6%	24.7%	22.8%
Expected gross carrying amount	23	90	7	163	172	2,013	2,467
Lifetime ECL	-	1	1	31	32	498	563
31 December 2019							
Trade- Airlines							
ECL rate	0.8%	4.5%	9.5%	10.1%	5.8%	15.6 %	7.1%
Expected gross carrying amount	964	22	3	41	214	736	1,981
Lifetime ECL	8	1	0	4	12	115	141
Trade- Agents							
ECL rate	3.3%	21.6%	18.9%	36.8%	14.3%	99.9 %	9.8%
Expected gross carrying amount	6,163	177	44	58	71	397	6,909
Lifetime ECL	201	38	8	21	10	396	675
Trade- Others							
ECL rate	2.5%	3.4%	3.9%	3.8%	6.4%	29 %	6.1%
Expected gross carrying amount	1,911	80	184	204	68	347	2,795
Lifetime ECL	47	3	7	8	4	101	170
Trade- Government							
ECL rate	2.0%	8.5%	7.5%	15 %	37.5%	95.7 %	16.6 %
Expected gross carrying amount	196	130	95	35	25	55	535
Lifetime ECL	4	11	7	5	9	53	89
Other receivables, prepayments and related party balances							
ECL rate	1.1 %	14.5 %	16.6 %	14.3 %	15.5 %	25.7 %	17.8 %
Expected gross carrying amount	760	26	37	231	213	1,775	3,043
Lifetime ECL	9	4	6	33	33	456	541

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Credit risk profile based on provision matrix

Company

31 December 2020	<30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
Trade- Airlines							
ECL rate	0.1%	6.0%	0.0%	6.3%	5.7%	10.4%	9.6%
Expected gross carrying amount	53	6	-	25	123	1,433	1,640
Lifetime ECL	-	-	-	2	7	148	157
Trade- Agents							
ECL rate	0.9%	14.3%	24.9%	26.8%	21.4%	99.9%	17.7%
Expected gross carrying amount	2,744	258	115	158	1,131	491	4,897
Lifetime ECL	25	37	29	42	243	491	866
Trade- Others							
ECL rate	3.2%	3.7%	4.2%	14.8%	5.7%	47.2%	20.4%
Expected gross carrying amount	624	71	145	194	487	844	2,365
Lifetime ECL	20	3	6	29	28	398	484
Trade- Government							
ECL rate	0.7%	2.0%	10.2%	15.7%	22.3%	89.0%	35.0%
Expected gross carrying amount	51	14	17	42	59	78	261
Lifetime ECL	-	-	2	7	13	69	91
Other receivables, prepayments and related party balances							
ECL rate	0.3%	0.1%	1.6%	2.8%	2.7%	3.7%	3.4%
Expected gross carrying amount	209	808	62	1,467	1,546	18,136	22,228
Lifetime ECL	1	1	1	41	43	662	748
31 December 2019							
Trade- Airlines							
ECL rate	0.9%	8.4%	9.4%	9.9%	5.7%	15.6%	7.5%
Expected gross carrying amount	853	11	3	42	218	735	1,862
Lifetime ECL	8	1	0	4	12	116	141
Trade- Agents							
ECL rate	1.9%	24.1%	24.3%	42.6%	14.2%	121.3%	9.8%
Expected gross carrying amount	5,998	154	33	49	68	383	6,685
Lifetime ECL	114	37	8	19	11	465	654
Trade- Others							
ECL rate	2.6%	3.5%	4.0%	3.8%	6.5%	29.5%	6.4%
Expected gross carrying amount	1,800	79	181	200	67	341	2,668
Lifetime ECL	47	3	7	8	4	101	170
Trade- Government							
ECL rate	2.0%	8.5%	7.5%	15.0%	37.5%	95.7%	16.6%
Expected gross carrying amount	196	130	95	35	25	55	535
Lifetime ECL	4	11	7	5	9	53	89
Other receivables, prepayments and related party balances							
ECL rate	0.03%	0.41%	0.47%	0.41%	0.44%	0.73%	0.5%
Expected gross carrying amount	5,198	180	256	1,576	1,459	12,141	20,810
Lifetime ECL	2	1	1	6	6	89	105

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	Bank	Aircraft deposits	Due from related party	Total
	KShs Millions	balances KShs million	KShs million	KShs Millions	KShs Millions
31 December 2020					
At 1 January 2020	(1,490)	-	-	(126)	(1,616)
Increase in expected credit losses	(645)	-	-	-	(645)
Unused amounts reversed	-	-	-	38	38
At 31 December 2020	(2,135)	-	-	(88)	(2,223)

Group

31 December 2019

At 1 January 2019	(1,721)	(2)	-	(206)	(1,929)
Unused amounts reversed	231	2	-	80	313
At 31 December 2019	(1,490)	-	-	(126)	(1,616)

Company

31 December 2020

At 1 January 2020	(1,597)	-	-	(187)	(1,784)
Increase in expected credit losses	(600)	-	-	-	(600)
Unused amounts reversed	-	-	-	38	38
At 31 December 2020	(2,197)	-	-	(149)	(2,346)

31 December 2019

At 1 January 2019	(1,907)	(2)	-	(801)	(2,710)
Receivables written off during the year	-	-	-	556	556
Unused amounts reversed	310	2	-	58	370
At 31 December 2019	(1,597)	-	-	(187)	(1,784)

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

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 2020 include the following range of indicators

Macro-Economic variable	Weighting	2021		
		Base 90%	Upside 5%	Downside 5%
World economic expectation		-17.5%	-1.4%	-33.6%
Crude oil price percentage change		0.2%	12.3%	-11.9%
Deposits		6.9%	7.4%	6.4%
Savings		3.5%	5.1%	1.8%
Lending		11.0%	12.8%	9.2%
GDP		0.8%	1.7%	-0.1%
Housing Price Index		0.1%	2.2%	-2.0%

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.

The impact of Covid-19 pandemic on the historical loss rates has been incorporated in the macroeconomic overlay calculations, thus factoring in the current and forward-looking aspects. The Group's trade receivables portfolio is also largely made up of balances which relate to IATA and Billing Settlement Plan (BSP) clearing houses. The clearing houses strictly regulate the settlement cycles therefore these balances were not significantly impacted by Covid-19.

Sensitivity Analysis

A 5% increase/decrease in the macroeconomic variables 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, probabilities of default and loss given defaults, remain constant.

	Profit or loss/equity	
	2020	2019
Macroeconomic variables	KShs	KShs
million		
million		
5% increase	(154)	(104)
5% decrease	154	104

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(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.

Management performs 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. Note 2(e) summarises the procedures the Directors' are putting in place to address the solvency challenges facing the Company.

The table below analyses financial liabilities and provisions 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.

	Less than 1 year KShs million	2-May years KShs Millions	Over 5 years KShs Millions	Total KShs Millions
31 December 2020				
Borrowings	11,102	69,121	10,079	90,302
Trade and other payables	37,543	-	-	37,543
Lease liabilities	24,605	52,166	21,044	97,815
Return condition provisions	2,573	1,817	1,051	5,381
	75,823	123,104	32,174	231,041
31 December 2019				
Borrowings	7,113	47,839	20,219	75,171
Trade and other payables	30,652	-	-	30,652
Lease liabilities	15,843	54,332	29,464	99,639
Return condition provisions	2,397	2,210	2,984	7,591
	56,040	104,381	52,667	213,053

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Company

	Less than 1 year KShs Millions	2 - 5 years KShs Millions	Over 5 years KShs Millions	Total KShs Millions
31 December 2020				
Borrowings	11,102	69,121	10,079	90,302
Trade and other payables	57,291	-	-	57,291
Lease liabilities	22,590	46,964	15,195	84,749
Return condition provisions	1,003	1,869	674	3,546
	<u>91,986</u>	<u>117,954</u>	<u>25,948</u>	<u>235,888</u>
31 December 2019				
Borrowings	7,113	47,839	20,219	75,171
Trade and other payables	50,730	-	-	50,730
Lease liabilities	14,161	47,836	23,967	85,964
Return condition provisions	2,397	2,210	1,126	5,733
	<u>74,401</u>	<u>97,885</u>	<u>45,312</u>	<u>217,598</u>

(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.

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

Group	2020 KShs million	2019 KShs million
Total equity*	<u>(64,165)</u>	<u>(17,896)</u>
Borrowings	92,539	76,126
Less: Cash and bank balances	<u>(7,728)</u>	<u>(3,095)</u>
Net borrowings	<u>84,811</u>	<u>73,031</u>
Net debt to equity ratio	<u>>100%</u>	<u>>100%</u>

Notes to the Financial Statements (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

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

Company	2020 KShs Millions	2019 KShs Millions
Total equity*	(64,011)	(20,877)
Borrowings	92,539	76,126
Less: Cash and bank balances	(7,536)	(2,900)
Net borrowings	85,003	73,226
Net debt to equity ratio	>100%	>100%

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

(e) Fair value measurement of financial instruments

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) other than those with carrying amounts that are reasonable approximations of fair values.

Financial liabilities	Fair values as at		Fair value hierarchy	Valuation techniques and key inputs
	31/12/2020 KShs' Millions	31/12/2019 KShs' Millions		
Sovereign guarantee from the Government of Kenya	778	981	Level 3	No observable market inputs

Valuation techniques and inputs have been disclosed in Note 26 (b).

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

6 OPERATING SEGMENTS

Executive directors have determined the operating segments based on the nature of services. The operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer that are used to make strategic decisions.

The operating segments are the business segments as disclosed in the financial statements. The rest of the world refers to routes operated outside Kenya and they include regions specified in the geographical segment disclosure.

Segment profit/loss represents the operating profit and loss earned by each segment without allocation of share of profits/losses of associates, 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 16.2% of total income.

Notes to the Financial Statements (Continued)

6 SEGMENT INFORMATION (Continued)

Analysis of turnover according to business segments:

	Passenger KShs Millions	Freight and mail KShs Millions	Handling KShs Millions	Lease rental income KShs Millions	Sub-lease income KShs Millions	Other revenue KShs Millions	Total KShs Millions
31 December 2020							
Kenya	3,002	106	389	146	298	523	4,464
Rest of the world	30,703	8,905	1,137	1,144	2,344	4,108	48,341
	<u>33,705</u>	<u>9,011</u>	<u>1,526</u>	<u>1,290</u>	<u>2,642</u>	<u>4,631</u>	<u>52,805</u>
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
	<u>103,631</u>	<u>8,681</u>	<u>2,390</u>	<u>1,606</u>	<u>3,380</u>	<u>7,990</u>	<u>127,678</u>

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

Analysis of costs according to business segments:

	passenger KShs Millions	Freight and mail KShs Millions	Handling KShs Millions	Lease rental income KShs Millions	Sub-lease income KShs Millions	Other revenue KShs Millions	Total KShs Millions
31 December 2020							
Depreciation	4,890	1,307	222	187	-	-	6,606
Interest expense	2,857	764	129	109	-	-	3,859
31 December 2019							
Depreciation	5,779	484	121	102	-	-	6,486
Interest expense	4,395	368	101	69	-	-	4,933

Notes to the Financial Statements (Continued)

6 SEGMENT INFORMATION (Continued)

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	Millions	Millions	Millions	Millions
Passengers	(17,321)	(1,492)	(15,515)	(2,005)
Freight, mail and others	(7,746)	(134)	(6,847)	(193)
Handling	(575)	(38)	-	-
Lease rental income	(485)	(53)	(638)	(36)
Sub-lease income	(995)	(22)	(1,308)	(74)
	<u>(27,122)</u>	<u>(1,739)</u>	<u>(24,308)</u>	<u>(2,308)</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

	2020	2019
	KShs	KShs
	Millions	Millions
Africa	27,706	72,327
Europe	10,948	27,682
Middle East	4,544	5,919
China	4,888	9,343
India	2,368	5,529
North America	2,351	6,878
	<u>52,805</u>	<u>127,678</u>

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

Notes to the Financial Statements (Continued)

7 REVENUE

	Group 2020 KShs Millions	2019 KShs Millions	Company 2020 KShs Millions	2019 KShs Millions
(a) (i) Revenue from contracts with customers:				
Recognised at a point in time:				
Passengers	33,705	103,631	31,330	99,384
Freight and mail	9,012	8,681	9,012	8,681
Handling	1,526	2,390	-	-
	<u>44,243</u>	<u>114,702</u>	<u>40,342</u>	<u>108,065</u>
Recognised over time:				
Engineering services	185	301	185	301
Training services	35	122	35	122
	<u>220</u>	<u>423</u>	<u>220</u>	<u>423</u>
(ii) Other revenue				
Lease rental income	1,290	1,606	1,290	1,606
Sub-lease income	2,642	3,380	2,642	3,380
Interest income	62	30	66	34
Sundry income	4,348	7,537	4,530	7,493
	<u>8,342</u>	<u>12,553</u>	<u>8,528</u>	<u>12,513</u>
Total	<u>52,805</u>	<u>127,678</u>	<u>49,090</u>	<u>121,001</u>
(b) Other income				
Gain on sale and leaseback of engine	-	639	-	639

8 EXPENSES BY NATURE

(a) Direct costs				
Aircraft fuel and oil	10,604	33,201	10,027	32,193
Aircraft landing, handling and navigation	5,852	15,349	5,599	14,926
Aircraft maintenance	5,226	10,641	5,079	10,693
Passenger services	1,846	6,105	1,833	6,084
Commissions on sales	1,046	3,797	1,033	3,767
Aircraft, passenger and cargo insurance	656	755	595	694
Crew route expenses	2,049	2,714	2,048	2,713
Central reservation system and frequent flyer programme	2,242	6,388	1,863	6,004
Other direct costs	736	1,185	296	686
Option premium paid	705	842	705	842
	<u>30,962</u>	<u>80,977</u>	<u>29,078</u>	<u>78,602</u>

Notes to the Financial Statements (Continued)

8 EXPENSES BY NATURE (Continued)

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
(a) Fleet ownership costs				
Short-term lease expense	325	180	220	12
Depreciation on aircraft and related equipment (Note 15)	5,748	5,756	5,744	5,751
Impairment of aircraft and related equipment (Note 15)	-	4,414	-	4,414
Loss on write off of aircraft and related equipment (Note 15)	-	2,145	-	2,145
Amortisation of ROU asset- aircraft and related equipment (Note 17)	10,859	10,618	9,673	9,769
Impairment of ROU asset- aircraft and related equipment (Note 17)	7,013	-	7,013	-
Amortisation of return condition asset (Note 17)	3,348	1,683	2,995	1,281
Variable lease expense - prepaid maintenance asset (Note 22)	1,278	1,118	1,278	1,118
Return conditions provision reversal (Note 29)	-	(571)	-	(571)
	28,571	25,343	26,923	23,919
(b) Other operating costs				
(i) Administration expenses				
Employee costs (Note 8(d))	13,619	17,052	11,987	15,139
Legal and professional fees	416	915	405	903
Directors' remuneration (Note 34(c))	55	124	55	124
Auditor's remuneration	14	15	11	10
Expected credit losses on bank balances (Note 5(b))	-	(2)	-	(2)
General expenses	1,298	3,018	1,075	2,763
Impairment of investment in subsidiary (Note 18(a))	-	-	-	166
	15,402	21,122	13,533	19,103
(ii) Establishment				
General maintenance and supplies	460	332	400	255
Depreciation on property and equipment (Note 15)	858	730	796	673
Amortisation of intangible assets - computer software (Note 16(b))	145	143	140	131
Amortisation of leased buildings (Note 17)	431	461	305	332
Impairment of leased buildings (Note 17)	24	-	-	-
Low value asset expense	-	208	-	208
	1,918	1,874	1,641	1,599

Notes to the Financial Statements (Continued)

8 EXPENSES BY NATURE (Continued)

(c) Other operating costs (Continued)

(i) Selling

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
Advertising and publicity	51	165	42	185
Provision for ECL relating to trade and other receivables (Note 21)	607	(311)	562	(368)
	658	(146)	604	(183)
Bank charges	79	130	76	125
Currency translation losses	2,337	756	1,543	783
Total other operating costs	20,394	23,736	17,397	21,427
(c) Employee costs				
Wages and salaries	11,630	13,535	10,174	11,938
Contributions to retirement benefits	278	847	256	762
National Social Security Fund (NSSF)	137	30	129	28
(decrease)/ increase in leave pay accrual	(122)	277	(116)	282
Redundancy costs (Note 29)	129	412	128	358
Other staff costs	1,567	1,951	1,416	1,771
	13,619	17,052	11,987	15,139

9 NET FINANCE COSTS

Interest expense:				
- borrowings	4,132	5,177	4,128	5,175
- lease liabilities (Note 27)	4,882	4,997	4,200	4,471
- return condition provisions (Note 29)	100	101	89	69
	9,114	10,275	8,417	9,715
Currency translation losses on borrowings	399	991	399	991
Interest income:				
Interest income on bank deposits	(62)	(30)	(66)	(34)
Net finance costs	9,451	11,236	8,750	10,672

Notes to the Financial Statements (Continued)

10 LOSS BEFORE TAXATION

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	Millions	Millions	Millions	Millions
The loss before tax is arrived at after charging/(crediting):				
Lease rental income (Note 7(a)(ii))	(1,290)	(1,606)	(1,290)	(1,606)
Employee costs (Note 8(d))	13,619	17,052	11,987	15,139
Net foreign exchange losses	2,736	1,747	1,942	1,774
Depreciation of property, aircraft and equipment (Note 15)	6,606	6,486	6,540	6,424
Provision for rotables (Note 15)	5	-	5	-
Impairment of aircraft and related equipment (Note 15)	-	4,414	-	4,414
Loss on write off aircraft and related equipment (Note 15)	-	2,145	-	2,145
Amortisation of computer software (Note 16(b))	145	143	140	131
Amortisation of right-of-use asset (Note 17)	11,290	11,079	9,978	10,101
Impairment of right-of-use asset (Note 17)	7,037	-	7,013	-
Amortisation of return conditions asset (Note 17)	3,348	1,683	2,995	1,281
Variable lease payment (Note 21)	1,278	1,118	1,278	1,118
Provision for expected credit losses on trade receivables (Note 21)	607	(311)	562	(368)
Provision for expected credit losses on bank balances (Note 5(b))	-	(2)	-	(2)
Auditor's remuneration	14	15	11	10
Directors' remuneration (Note 34(c))	55	124	55	124
Loss on disposal of property, aircraft and equipment	-	62	-	62
Gain on sale and leaseback of engine (Note 14)	-	(639)	-	(639)
Provision for obsolete inventories (Note 20)	(113)	(22)	(113)	(22)
Impairment of investment in subsidiary (Note 18(a))	-	-	-	166

11 INCOME TAX

(a) Group

(i) Income tax (credit)/charge

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

	2020	2019
	KShs	KShs
	Millions	Millions
Current income tax at 25% (2019:30%)	39	49
Deferred income tax (Note 28)	(393)	(39)
	(354)	10

Notes to the Financial Statements (Continued)

11 INCOME TAX (Continued)

(a) Group (Continued)

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

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:

	KShs Millions (36,573)	KShs Millions (12,975)
Loss before tax		
Current tax at 25% (2019:30%)	(9,143)	(3,893)
Tax effect of expenses not subject for tax purposes	3,799	3,256
Effect of change in tax rates	1,270	-
Under provision of deferred income tax in prior years	8,910	-
Unrecognised deferred tax asset (Note 28)	(5,190)	647
Tax (credit)/ charge	(354)	10
(b) Company		
(i) Income tax expense		
Income tax charge recognised in profit or loss		
Current tax at 25% (2019:30%)	26	37
Deferred income tax	-	-
Income tax expense	26	37
(ii) Reconciliation of tax based on accounting loss to tax charge		
Loss before tax	(33,058)	(12,980)
Current tax at 25% (2019:30%)	(8,265)	(3,894)
Tax effect of expenses not subject for tax purposes	2,460	3,195
Effect of change in tax rates	1,449	-
Under provision of deferred income tax in prior years	8,696	-
Unrecognised deferred tax asset (Note 28)	(4,314)	736
Tax charge	26	37

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
(c) Current income tax balance				
At start of year	1,270	1,258	1,256	1,252
Charge for the year	(39)	(49)	(26)	(37)
Prior year under provision	7	-	-	-
Paid during the year	42	61	33	41
At end of year	1,280	1,270	1,263	1,256

Notes to the Financial Statements (Continued)

12 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.

	2020 KShs Millions	2019 KShs Millions
Weighted average number		
Loss attributable to owners of the Company	(36,227)	(12,986)
Basic loss per share		
Weighted average number of ordinary shares (million)	5,824	5,824
Basic loss per share (KShs)	(6.22)	(2.23)
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

13 DIVIDENDS - GROUP AND COMPANY

The Directors do not recommend payment of dividend for the year ended 31 December 2020 (2019: nil). This proposal will be presented for formal approval by the shareholders at the forthcoming Annual General Meeting.

The unclaimed dividends account is as follows:

	2020 KShs Millions	2019 KShs Millions
At start and end of year (Note 31)	78	88

Notes to the Financial Statements (Continued)

14 SALE AND LEASE-BACK ARRANGEMENTS - GROUP AND COMPANY

In 2019, 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 Group applied the requirements of IFRS 15 to determine whether the transfer of the asset should be accounted for as a sale, and generally considered as such, since the control of the aircraft was transferred to the buyer, being when the aircraft was delivered to the buyer. The Group derecognised the underlying asset and recognised 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 Millions
Right-of-use asset recognised	133
Lease liabilities recognised	(1,362)
Gain on disposal recognised	(639)
	<hr/>

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

Proceeds from sale and lease back	2,945
Gain on disposal	(639)
	<hr/>

Notes to the Financial Statements (Continued)

15 PROPERTY, AIRCRAFT AND EQUIPMENT

Group

	Land and buildings KShs Millions	Aircraft and related equipment KShs Millions	Other property and equipment KShs Millions	Incomplete projects KShs Millions	Total KShs Millions
As at 1 January 2019					
Cost or valuation	9,622	126,010	11,557	33	147,222
Accumulated depreciation	(1,056)	(35,966)	(10,365)	-	(47,387)
At 1 January 2019	8,566	90,044	1,192	33	99,835
Year ended 31 December 2019					
Opening net book amount	8,566	90,044	1,192	33	99,835
Revaluation surplus	1,086	-	-	-	1,086
Additions	-	392	390	502	1,284
Impairment	-	(4,414)	-	-	(4,414)
Transfer in/(out)	-	120	29	(149)	-
Transfer to intangible assets (Note 16(b))	-	-	-	(31)	(31)
Disposals	-	(1,582)	(30)	-	(1,612)
Write off	-	(3,055)	-	-	(3,055)
Depreciation charge	(326)	(5,756)	(404)	-	(6,486)
Depreciation eliminated on disposal	-	428	30	-	458
Depreciation eliminated on write off	-	910	-	-	910
Depreciation eliminated on revaluation	1,382	-	-	-	1,382
Net book amount	10,708	77,087	1,207	355	89,357
At 31 December 2019					
Cost or valuation:	10,708	117,471	11,946	355	140,480
Accumulated depreciation	-	(40,384)	(10,739)	-	(51,123)
At 31 December 2019	10,708	77,087	1,207	355	89,357
Year ended 31 December 2020					
Opening net book amount	10,708	77,087	1,207	355	89,357
Additions	-	292	183	443	918
Provision	-	-	(5)	-	(5)
Transfer from incomplete projects	-	604	4	(608)	-
Transfer to intangible assets (Note 16(b))	-	-	-	(54)	(54)
Disposals	-	(63)	(68)	-	(131)
Depreciation charge	(476)	(5,748)	(382)	-	(6,606)
Depreciation eliminated on disposal	-	50	68	-	118
At 31 December 2019	10,232	72,222	1,007	136	83,597
As at 31 December 2020					
Cost or valuation	10,708	118,304	12,060	136	141,208
Accumulated depreciation	(476)	(46,082)	(11,053)	-	(57,611)
At 31 December 2020	10,232	72,222	1,007	136	83,597

Notes to the Financial Statements (Continued)

15 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)

Company

	Land and buildings KShs Millions	Aircraft and related equipment KShs Millions	Other property and equipment KShs Millions	Incomplete projects KShs Millions	Total KShs Millions
At 1 January 2019					
Cost or valuation	9,045	125,928	10,921	7	145,901
Accumulated depreciation	(996)	(35,963)	(9,843)	0	(46,802)
At 1 January 2019	8,049	89,965	1,078	7	99,099
Year ended 31 December 2019					
Opening net amount	8,049	89,965	1,078	7	99,099
Additions	-	386	357	476	1,219
Transfer in/(out)	-	120	-	(120)	-
Transfer to intangible asset (Note 16(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
Depreciation charge	(303)	(5,751)	(370)	-	(6,424)
Depreciation eliminated on disposal	-	428	29	-	457
Depreciation eliminated on write off	-	910	-	-	910
Depreciation Eliminated on revaluation	1,299	-	-	-	1,299
Net book amount	10,112	77,007	1,065	332	88,516
At 31 December 2019					
Cost or valuation:	10,112	117,383	11,249	332	139,076
Accumulated depreciation	-	(40,376)	(10,184)	-	(50,560)
At 31 December 2019	10,112	77,007	1,065	332	88,516
Year ended 31 December 2020					
Opening net book amount	10,112	77,007	1,065	332	88,516
Additions	-	292	174	439	905
Provision	-	-	(5)	-	(5)
Transfer from incomplete projects	-	604	-	(658)	(54)
Disposals	-	(63)	(69)	-	(132)
Depreciation charge	(449)	(5,744)	(347)	-	(6,540)
Depreciation eliminated on disposal	-	50	68	-	118
At 31 December 2020	9,663	72,146	886	113	82,808
At 31 December 2020					
Cost or valuation	10,112	118,216	11,349	113	139,790
Accumulated depreciation	(449)	(46,070)	(10,463)	-	(56,982)
At 31 December 2020	9,663	72,146	886	113	82,808

Notes to the Financial Statements (Continued)

15 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)

Carrying amounts that would have been recognised if land and buildings were stated at cost

	Group		Company	
	KShs Millions 2020	KShs Millions 2019	KShs Millions 2020	KShs Millions 2019
Cost	4,615	4,615	4,081	4,081
Accumulated depreciation	(1,743)	(1,634)	(1,249)	(1,216)
Net book amount	2,872	2,981	2,832	2,865

The write off in Group and Company in 2019 related to an E -190 aircraft that was damaged. The Company had lodged a claim with the insurance company which was received in 2020.

Included in the 2019 eliminated on disposal balance of both Group and Company was 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 14.

Included in property, aircraft and equipment of Group and Company are assets with a cost of KShs 21,531 million (2019: KShs 21,091 million) and KShs 20,922 million (2019: KShs 20,527 million) respectively that are fully depreciated. The notional annual depreciation of these assets would have been KShs 3,728 million (2019: KShs 406 million) and KShs 3,622 million (2019: KShs 310 million) respectively.

Incomplete projects relate to aircraft, property and other equipment yet to be available for use.

Included land and buildings for Group and Company are properties with expired leases valued at KShs 1,967 million (2019: 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 (2019: 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 assessment

The Group and Company performed an impairment assessment of its aircrafts and related equipment at the end of year by comparing the recoverable amounts of the assets against their carrying value in the statement of financial position. Similar to prior years, the recoverable amount was based on fair value less costs to dispose of the aircrafts and related equipment by an independent external expert, mba Aviation (USA). The basis of valuation was market prices based on recent transactions discounted for the Covid-19 related risks, age and condition of the equipment.

The recoverable amount of the aircrafts was higher than the carrying value of the aircrafts and related equipment at the year end, hence no impairment was recorded.

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

Notes to the Financial Statements (Continued)

15 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)

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 67,373 million and 4,254 respectively (2019: KShs 72,585 million and 4,318 million respectively) at the end of the year. Details of the outstanding loan facilities are disclosed in note 26.

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

The Group's and Company's land and buildings were revalued at 31 December 2019 by an independent valuer, Quince Real Estate Limited. 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.

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 depreciated replacement cost approach. This valuation method was used because there isn't market data available on sale of airline type of property - as such transactions are not common in this market. There has been no change in the valuation technique during the year.

The Group assessed land and buildings for impairment considering the impact of Covid-19 pandemic. The Group determined that there were no changes to the assumptions about the future use of the assets, specifically the remaining useful lives and the residual values, hence no impairment was recognised.

Details of the fair value hierarchy for the Group's and Company's property carried at fair value as at 31 December 2020 and 31 December 2019 are as follows:

	Level 1 KShs Millions	Level 2 KShs Millions	Level 3 KShs Millions	Total KShs Millions
31 December 2020				
Group				
Land and buildings	-	-	10,235	10,235
Company				
Land and buildings	-	-	9,662	9,662
31 December 2019				
Group				
Land and buildings	-	-	10,708	10,708
Company				
Land and buildings	-	-	10,112	10,112

Notes to the Financial Statements (Continued)

16 INTANGIBLE ASSETS

Intangible assets consist of:

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
Landing slot	2,561	2,561	2,561	2,561
Computer systems and software	296	313	288	301
	<u>2,857</u>	<u>2,874</u>	<u>2,849</u>	<u>2,862</u>

(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

Intangible assets - software

	Group At 31 Dec		Company At 31 Dec	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
At start of year	313	401	301	382
Additions	74	24	73	19
Transfer from property, aircraft and equipment (Note 15)	54	31	54	31
Amortisation during the year	(145)	(143)	(140)	(131)
	<u>296</u>	<u>313</u>	<u>288</u>	<u>301</u>
Net book value	296	313	288	301

Management performed an impairment assessment on the Group's intangible assets that included assessing the effect of Covid-19 pandemic. No impairment charge was identified as at the reporting date.

Notes to the Financial Statements (Continued)

17 RIGHT-OF-USE-ASSETS

Group

	Aircraft and related equipment KShs Millions	Buildings KShs Millions	Total KShs Millions
Carrying amount:			
At 1 January 2019	73,503	2,222	75,725
Additions	5,607	-	5,607
Amortisation charge for the year	(10,618)	(461)	(11,079)
Terminations*	(691)	-	(691)
At 31 December 2019	67,801	1,761	69,562
At 1 January 2020	67,801	1,761	69,562
Additions	-	4	4
Amortisation charge for the year	(10,859)	(431)	(11,290)
Impairment charge for the year	(7,013)	(24)	(7,037)
At 31 December 2020	49,929	1,310	51,239
Company			
Carrying amount:			
At 1 January 2019	67,029	1,524	68,553
Additions	1,790	-	1,790
Amortisation charge for the year	(9,769)	(332)	(10,101)
Terminations	(691)	-	(691)
At 31 December 2019	58,359	1,192	59,551
At 1 January 2020	58,359	1,192	59,551
Additions	-	4	4
Amortisation charge for the year	(9,673)	(305)	(9,978)
Impairment charge for the year	(7,013)	-	(7,013)
At 31 December 2020	41,673	891	42,564

Notes to the Financial Statements (Continued)

17 RIGHT-OF-USE-ASSETS (Continued)

(a) Right of use assets (continued)

Included in the additions is KShs 133 million that relates to the sale and lease back transaction in 2019. Details of the transaction are disclosed in Note 14.

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 are 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.

Impairment assessment

The Covid-19 pandemic is a triggering event that required the Group to perform an impairment test on right-of-use assets for leased aircrafts and buildings. The impairment review was carried out at the 'cash-generating unit' (CGU) level, defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the cash flows from other assets or group of assets. The impairment review was performed on the network airline operations CGU, including passenger, freighter and charter operations, as well as all related ancillary operations.

The recoverable amount of the network airline operations has been measured based on the value-in-use, using a discounted cash flow model. Cash flow projections are based on the business plan covering a seven-year period. Cash flows for the seven-year period are projected to increase in line with the long-term growth rate of the main economies in which the Group operates. The following key assumptions were made in calculation of value-in-use:

- The passenger travel demand will take about 3- 4 years to recover and shall attain 2019 levels by the year 2024 as per the IATA projections.
- Airspace will reopen to scheduled operations and there will be removal of non- bilateral restrictions.
- Continuous growth contribution of cargo business from the current 7% to 20% in the medium term.
- The passenger revenues are forecasted to grow to about 53% of pre-Covid levels in 2021 and grow progressively to fully regain pre-Covid levels by 2024. The revenues are forecasted thereafter to grow at an average rate of 4% year on year for the next three years.
- Due to increased focus on cargo business, the 2021 growth rate is projected at 20% compared to 2019 and maintain double digit growth before stabilising after the next three years.

A pre-tax discount rate of 7.4 per cent per annum has been used in discounting the projected cash flows for the CGUs, reflecting an adjusted market estimate of the weighted average cost of capital of the Group. As a result, an impairment charge of KShs 7,037 million and KShs 7,013 million for Group and Company respectively has arisen as a result of the review performed on the network airline operations reflecting the write-down of right-of-use assets for leased aircraft and leased buildings to recoverable amounts.

Amounts recognised in the profit and loss are as follows:

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs million
Amortisation of right-of-use assets	11,290	11,079	9,978	10,101
Impairment of right-of-use assets	7,037	-	7,013	-
Interest on lease liabilities	4,882	4,997	4,200	4,471
Expenses relating to short term leases	325	180	220	12
Expenses relating to low value items	-	208	-	208
Income from sub-leasing of aircrafts	(2,642)	(3,380)	(2,642)	(3,380)

Notes to the Financial Statements (Continued)

17 RIGHT-OF-USE-ASSETS (Continued)

(a) Return condition assets

Movement in return condition assets is as follows:

	Group		Company	
	2020	2019	2020	2019
	KShs Millions	Kshs Millions	KShs Millions	Kshs Millions
At start of year	4,686	1,989	3,743	1,543
Additions	955	4,380	955	3,481
Amortisation to profit or loss	(3,348)	(1,683)	(2,995)	(1,281)
	<u>2,293</u>	<u>4,686</u>	<u>1,703</u>	<u>3,743</u>

Notes to the Financial Statements (Continued)

18 INVESTMENTS

(a) Investment in subsidiaries - Company

Details of investment	Country of incorporation	Activity	2020 % of equity interest	2019	2020 KShs Millions Carrying Amount	2019 KShs Millions Carrying Amount
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%	-	-
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%	*	*
					435	435

* 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:

	2020 KShs Millions	2019 KShs Millions
At start of year	-	166
Impairment	-	(166)
At end of year	-	-

The movement in the impairment of investment in subsidiaries is as follows:

At start of year	626	460
Impairment charge	-	166
At end of year	626	626

During the year, the Company did not recognise an impairment loss (2019: KShs 166 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)

18 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	
	2020 KShs	2019 KShs	2020 KShs	2019 KShs	2020 KShs	2019 KShs	2020 KShs	2019 KShs
	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions
Kenya Airfreight Handling Limited	772	581	155	181	758	584	79	77
	Revenues		Profit/(loss) before tax		Total comprehensive income			
	2020 KShs	2019 KShs	2020 KShs	2019 KShs	2020 KShs	2019 KShs		
	Millions	Millions	Millions	Millions	Millions	Millions		
Kenya Airfreight Handling Limited	221	249	11	3	9	2		

Notes to the Financial Statements (Continued)

18 INVESTMENTS (Continued)

(a) Investments in associates – Group and Company

(i) African Tours and Hotels Limited:

	2020 KShs Millions	2019 KShs Millions
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:

	2020 KShs Millions	2019 KShs Millions
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:

Current assets	1,169	1,136
Non-current assets	4,567	5,572
Total assets	<u>5,736</u>	<u>6,708</u>
Current liabilities	(10,878)	(9,100)
Non-current liabilities	(12,185)	(11,533)
Total liabilities	<u>(23,063)</u>	<u>(20,633)</u>
Total revenue for the year	2,534	5,488
Loss before tax for the year	(2,834)	(1,672)
Total comprehensive loss for the year	<u>(2,847)</u>	<u>(1,690)</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.

Notes to the Financial Statements (Continued)

19 AIRCRAFT DEPOSITS

	2020 KShs Millions	2019 KShs Millions
Deposits for leased aircrafts	3,428	3,035
Deposits paid towards acquisition of aircraft	275	292
	<u>3,703</u>	<u>3,327</u>

The deposits 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 deposits are carried at amortised cost.

	2020 KShs Millions	2019 KShs Millions
At start of year	3,327	3,076
Additions	680	528
Refunds in the year	(693)	(324)
Amortisation charge to profit or loss	109	62
Currency translation differences	280	(15)
	<u>3,703</u>	<u>3,327</u>
At end of year	3,703	3,327

Notes to the Financial Statements (Continued)

20 INVENTORIES - GROUP AND COMPANY

	2020 KShs Millions	2019 KShs Millions
Aircraft consumables	3,191	3,143
Other inventories	251	354
Provisions for obsolescence	(1,269)	(1,382)
	2,173	2,115

The cost of inventories recognised as an expense and included in the Group's and Company's 'Direct costs' amounted to KShs 957 million (2019: KShs 2,085 million).

The movement in provision for obsolete inventories is as follows:

	2020 KShs Millions	2019 KShs Millions
At start of year	1,382	1,404
Decrease in provision during the year	(113)	(22)
	1,269	1,382

21 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
Trade and other receivables	12,110	15,263	31,391	32,560
Less: Provision for expected credit losses	(2,223)	(1,616)	(2,346)	(1,784)
	9,887	13,647	29,045	30,776
Analysed as:				
Trade - airlines	1,659	1,981	1,640	1,862
Trade - agents	5,010	6,909	4,897	6,685
Trade - others	2,713	2,795	2,365	2,668
Trade - Government ministries and parastatals	261	535	261	535
Due from related parties (Note 34)	88	126	20,276	18,447
Prepayments and other receivables	2,379	2,917	1,952	2,363
Less: Provision for expected credit losses	(2,223)	(1,616)	(2,346)	(1,784)
	9,887	13,647	29,045	30,776

Notes to the Financial Statements (Continued)

21 TRADE AND OTHER RECEIVABLES (Continued)

The movement in the provision for expected credit losses of trade receivables and amounts due from related companies is as follows:

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
At start of year	1,616	1,927	1,784	2,708
Write-offs	-	-	-	(556)
Charge/(credit) to profit or loss	607	(311)	562	(368)
At end of year	2,223	1,616	2,346	1,784

This is analysed as below:

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
Analysed as:				
Trade - airlines	157	141	157	141
Trade - agents	883	675	865	654
Trade - others	529	170	484	170
Trade - Government ministries and parastatals	91	89	91	89
Prepayments and VAT recoverable	17	9	17	9
Other receivables	458	406	583	534
Due from related parties (Note 34)	88	126	149	187
	2,223	1,616	2,346	1,784

Notes to the Financial Statements (Continued)

22 PREPAID MAINTENANCE ASSETS

The movement in the prepaid maintenance asset is as follows:

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs. Millions	2019 KShs Millions
At start of year	5,533	3,398	4,696	3,018
Additions	2,494	4,578	2,123	4,125
Reimbursements	(783)	(1,288)	(782)	(1,288)
Charge to profit or loss in the year	(1,278)	(1,118)	(1,278)	(1,118)
Foreign exchange differences	139	(37)	133	(41)
At end of year	6,105	5,533	4,892	4,696

23 SHARE CAPITAL - GROUP AND COMPANY

(a) Share capital and share premium

	2020 KShs. Millions	2019 KShs Millions
Issued and fully paid:		
5,823,902,621 ordinary shares of KShs 1 each	5,824	5,824

The movement in the share capital and share premium is as follows:

	Issued and fully paid No. of shares Millions	Share capital KShs Millions	Share premium KShs Millions	Total KShs Millions
At 1 January 2019 and 31 December 2019	5,824	5,824	49,223	55,047
At 1 January 2020 and 31 December 2020	5,824	5,824	49,223	55,047

Notes to the Financial Statements (Continued)

23 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.

	2020 Kshs Millions	2019 Kshs Millions
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	9,630	9,630
	<hr/>	<hr/>

(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.

Notes to the Financial Statements (Continued)

24 OTHER RESERVES - GROUP AND COMPANY

Other reserves are made up the following reserves:

	Group		Company	
	2020 Kshs Millions	2019 Kshs Millions	2020 Kshs Millions	2019 Kshs Millions
Cashflow hedge reserve - foreign currency	(18,946)	(8,896)	(18,946)	(8,896)
Revaluation surplus	6,639	6,639	6,353	6,353
	(12,307)	(2,257)	(12,593)	(2,543)

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided below the table

	Group		Company	
	2020 Kshs Millions	2019 Kshs Millions	2020 Kshs Millions	2019 Kshs Millions
At start of year	(2,257)	(6,385)	(2,543)	(6,599)
Change in fair value of hedging instrument recognised in OCI - Fuel hedges	-	435	-	435
(Loss)/ gain on hedged exchange differences - borrowings	(5,567)	1,965	(5,567)	1,965
(Loss)/ gain on hedged exchange differences - lease liabilities	(4,871)	-	(4,871)	-
Reclassified from OCI to profit or loss - borrowings	399	-	399	-
Reclassified from OCI to profit or loss - leases	(11)	-	(11)	-
Revaluation surplus - gross	-	2,468	-	2,366
Deferred income tax on revaluation surplus	-	(740)	-	(710)
	(12,307)	(2,257)	(12,593)	(2,543)

Notes to the Financial Statements (Continued)

24 OTHER RESERVES (Continued)

(a) Cashflow hedge reserve - Group and Company (continued)

Derivative financial instruments and hedging activities - group and company

(i) Derivatives designated as hedging instruments

The Group and Company entered into short term derivative contracts which were fully settled during the year. The fair value losses on derivatives of Kshs 705 million Kshs (2019: 842 million) was recognised as "option premium paid" as part of direct costs as shown in Note 8.

(ii) 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. 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:

There were no assets or liabilities outstanding at 31 December 2020 (2019: KShs Nil)

b) 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	Closing Values in Hedge reserves	2020 Release Ksh Millions			2019 Release Ksh Millions		
		In less than 12 months	After 12 Months	Closing Values in Hedge reserves	In less than 12 Months	After 12 Months	
Cash-flow hedges							
Foreign Currency Hedging-Borrowings	(14,741)	(2,059)	(12,682)	(9,572)	(1,299)	(8,273)	
Foreign Currency Hedging-Lease liabilities	(4,205)	-	(4,205)	676	-	676	

Notes to the Financial Statements (Continued)

24 OTHER RESERVES - GROUP AND COMPANY (Continued)

(a) Cashflow hedge reserve - Group and Company (continued)

- a) (i) Gain/(loss) recognised in OCI and recycled (amount of gain/(loss) recognised in hedging reserve and recycled during the year 2020)

Cash-flow hedges	Reserve	Opening Balance	Net Amount Recognized in Hedge reserves	Net Amount to P&L	Total Amount Recycled	Closing balance before tax
Non-Derivative financial instruments- Borrowings	Cash flow hedge reserve	(9,572)	(5,567)	399	-	(14,740)
Non-Derivative financial instruments- Lease liabilities	Cash flow hedge reserve	676	(4,871)	(11)	-	(4,206)
		(8,896)	(10,438)	388	-	(18,946)

- (ii) 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
Non-Derivative financial instruments- Borrowings	Cash flow hedge reserve	(10,861)	298	991	-	(9,572)
Non-Derivative financial instruments- Lease liabilities	Cash flow hedge reserve	-	676	-	-	676
		(10,861)	974	991	-	(8,896)

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 under other losses.

(b) Revaluation surplus - Group and Company

The revaluation surplus arose on the revaluation of land and buildings (freehold and leasehold) and is stated net of deferred income tax. The surplus is not distributable.

Notes to the Financial Statements (Continued)

25 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.

	2020 KShs Millions	2019 KShs Millions
Stamina Group B.V.		
At start of year	50	49
Share of profit for the year	8	1
At end of year	58	50
Represented by:		
Holding in Kenya Airfreight Handling Limited	49%	49%

26 BORROWINGS - GROUP AND COMPANY

	2020 KShs Millions	2019 KShs Millions
Loans (Note 26(a))	90,302	75,171
Sovereign guarantee from the Government of Kenya (Note 26(b))	(778)	(981)
Mandatory convertible note - liability component (Note 26(c))	4,501	3,724
Deferred borrowing costs (Note 26(d))	(1,486)	(1,788)
	92,539	76,126
Made up of:		
Current:		
Payable within one year	10,638	6,658
Non-current:		
Payable after one year	81,901	69,468
	92,539	76,126

Notes to the Financial Statements (Continued)

26 BORROWINGS - GROUP AND COMPANY (Continued)

(a) Loans

The make-up of the loans is as follows:

		2020		2019	
	Maturities	Average interest rates	KShs Millions	Average interest rates	KShs Millions
Citi/JP Morgan - aircraft loans	2014-2026	1.79%	58,282	3.43%	54,621
African Export - Import Bank (Afrexim) - aircraft loans	2012-2025	5.75%	15,428	7.21%	16,040
Loans from GoK	2015-2025	2.99%	11,000	2.00%	-
Local banks revolving loan	2018-2027	6.49%	5,592	7.96%	4,510
			90,302		75,171

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 2020 and 31 December 2019, 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.

Notes to the Financial Statements (Continued)

26 BORROWINGS - GROUP AND COMPANY (Continued)

(a) Loans (Continued)

(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 2020, 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.

(ii) Maturities of amounts included in loans is as follows:

	2020 KShs Millions	2019 KShs Millions
The borrowings maturity analysis is as follows:		
Within one year	11,102	7,113
Between two and five years	69,121	47,839
Later than 5 years	10,079	20,219
	<hr/> 90,302	<hr/> 75,171

(iii) The movement in the loans is as follows:

	2020 KShs Millions	2019 KShs Millions
At start of year	75,171	82,330
Additions	11,000	-
Repaid in the year	(3,078)	(6,863)
Accrued interest	1,642	2
Currency translation differences on hedged borrowings	5,567	(298)
	<hr/> 90,302	<hr/> 75,171
At end of year		

In the year 2020, the Government of Kenya advanced two shareholder loans totalling KShs 11 billion. The first loan of KShs 5 billion was to facilitate E-190 aircraft fleet engine overhauls that were due in 2020. The loan is repayable after 5 years and attracts interest at a rate of 3% per annum. As part of Government Commitment to support the Airline's resumption of operations following the impact of Covid-19 pandemic, a second loan of KShs 6 billion was advanced in the year and its terms yet to be finalised.

The Government loans are subject to Public Finance Management (PFM) Act of 2015 of Kenya.

Notes to the Financial Statements (Continued)

26 BORROWINGS - GROUP AND COMPANY (Continued)

(a) Loans (Continued)

The movement in currency translation differences on hedged borrowings has been dealt with as follows:

	2020 KShs Millions	2019 KShs Millions
Total currency translation differences on borrowings	(5,567)	298
Realised on settlement of loans	399	991
	<hr/>	<hr/>
Net hedge effect	(5,168)	1,289
	<hr/>	<hr/>

(iv) Analysis of loans by currency:

Borrowings in US Dollars	79,302	75,171
Borrowings in KES	11,000	-
	<hr/>	<hr/>

(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 valuer 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:

	2020 KShs Millions	2019 KShs Millions
Sovereign guarantee from the Government of Kenya - at cost	1,434	1,434
Accumulated amortisation	(656)	(453)
	<hr/>	<hr/>
	778	981
	<hr/>	<hr/>

Notes to the Financial Statements (Continued)

26 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:

	2020 KShs Millions	2019 KShs Millions
At start of year	453	246
Charge to profit or loss	203	207
At end of year	656	453

(c) Mandatory convertible note - liability component

At start of year	3,724	3,456
Accrued interest	482	460
Interest paid	-	(175)
Currency translation differences	295	(17)
	4,501	3,724

(d) Deferred borrowing costs

At start of year	1,788	2,050
Paid in the year	55	61
Charge for the year	(357)	(323)
At end of year	1,486	1,788
The deferred borrowing costs are presented in the statement of financial position as:		
Current portion	278	296
Non-current portion	1,208	1,492
	1,486	1,788

Deferred borrowing costs relate to expenses 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 in November 2017 of the short-term loans to longer repayment periods. The costs include commitment, arrangement, consultants, underwriters and guarantee fees. These costs are being amortised over the repayment periods of the various loans.

Notes to the Financial Statements (Continued)

27 LEASE LIABILITIES

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2019 KShs Millions	2019 KShs Millions
At start of year	80,030	83,059	69,584	75,568
Additions	4	6,777	4	3,018
Terminations	-	(689)	-	(689)
Interest expense on lease liabilities	4,882	4,997	4,200	4,471
Lease payments	(8,751)	(13,805)	(7,239)	(12,500)
Unhedged foreign exchange differences	855	367	129	392
Hedged currency translation differences (Note 24(a))	4,871	(676)	4,871	(676)
At end of year	81,891	80,030	71,549	69,584

Movement in exchange differences on hedged leases have been dealt with as follows;

	2020 KShs Millions	2019 KShs Millions
Total exchange differences on leases	(4,871)	676
Realised on settlement of leases	(11)	-
	(4,882)	676

Maturity analysis

	2020		2019	
	Group KShs Millions	Group KShs Millions	Company KShs Millions	Company KShs Millions
Year 1	24,605	15,843	22,590	14,161
Year 2	15,126	15,728	13,354	14,048
Year 3	13,494	14,061	11,774	12,406
Year 4	12,897	12,566	11,222	10,963
Year 5	10,649	11,977	10,614	10,419
Year 6 and onwards	21,044	29,464	15,195	23,967
Undiscounted lease payments at end of the year	97,815	99,639	84,749	85,964
Less; unearned interest	(15,924)	(19,609)	(13,200)	(16,380)
	81,891	80,030	71,549	69,584

Notes to the Financial Statements (Continued)

27 LEASE LIABILITIES (Continued)

Analysed as:

	Group		Company	
	2020	2019	2020	Company
	KShs	KShs	KShs	KShs
	Millions	Millions	Millions	Millions
Current	19,040	11,497	17,477	10,057
Non-current	62,851	68,533	54,072	59,527
	81,891	80,030	71,549	69,584

28 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2019 - 30%). The deferred income tax liability/(asset) is made up as follows:

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	Millions	Millions	Millions	Millions
Other payables	(703)	(739)	(687)	(722)
Provisions for liabilities	(1,558)	(1,291)	(1,280)	(1,227)
Tax losses	(30,020)	(24,599)	(29,016)	(24,334)
Unrealised exchange losses	(329)	(51)	(330)	(55)
Foreign currency hedge losses	(8,120)	(3,813)	(8,120)	(3,813)
Property, aircraft and equipment - historical cost	5,297	6,012	5,354	6,065
Plant, aircraft and equipment - revaluation surplus	2,846	2,845	2,723	2,723
Leases	(8,910)	-	(8,697)	-
Net deferred income tax asset	(41,497)	(21,636)	(40,053)	(21,363)
Deferred income tax assets derecognised	43,620	24,152	42,776	24,086
	2,123	2,516	2,723	2,723
Presented in the statement of financial position as follows:				
Deferred income tax asset	(600)	(207)	-	-
Deferred income tax liability	2,723	2,723	2,723	2,723
	2,123	2,516	2,723	2,723

Notes to the Financial Statements (Continued)

28 DEFERRED INCOME TAX (Continued)

The movement on the deferred tax account is as follows:

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
At start of year	2,516	1,815	2,723	2,013
Credit to profit or loss (Note 12(a))	(393)	(39)	-	-
Deferred income tax on revaluation surplus	-	740	-	710
At end of year	2,123	2,516	2,723	2,723

A deferred income 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 2020, the Group has recognised deferred income tax asset of KShs 600 million (2019: KShs 207 million) arising from its subsidiary, African Cargo Handling Limited. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiary.

The subsidiary is expected to generate taxable income from 2021 onwards. At 31 December 2020 Kenya Airways Plc and JamboJet Limited estimated/assessed tax losses amounted to KShs 96,928 million and KShs 1,700 million respectively (2019: KShs 81,113 million and KShs 143 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 have not recognised a portion of tax losses as deferred tax assets in the financial statements to the value of KShs 29,588 million (2019: KShs 24,376) and the Company has not recognised any tax losses as deferred tax assets in view of the uncertainty regarding the ability of the Group and Company to generate sufficient taxable profits in the foreseeable future to facilitate utilisation of the benefits from the deductions. Value of tax losses for which no deferred tax assets has been recognised by the Company is KShs 29,078 (2019: KShs 24,334).

29 PROVISION FOR LIABILITIES

(a) Group

Year ended 31 December 2020	Return condition provision KShs Millions	Redundancy provision KShs Millions	Asset retirement obligation KShs Millions	Other provisions KShs Millions	Total provisions KShs Millions
At start of year	7,591	447	14	1,127	9,179
Charged to profit or loss	955	129	-	69	1,153
Utilised in the year	(3,671)	(133)	-	(11)	(3,815)
Unwinding of discount	100	-	-	-	100
Effect of currency translation	406	-	-	-	406
At end of year	5,381	443	14	1,185	7,023
Split as follows:					
Current	2,573	443	-	1,185	4,201
Non-current	2,808	-	14	-	2,822
At 31 December 2020	5,381	443	14	1,185	7,023

Notes to the Financial Statements (Continued)

29 PROVISION FOR LIABILITIES (Continued)

(a) Group (Continued)

Year ended 31 December 2019

	Return condition provision Kshs Millions	Redundancy provision Kshs Millions	Asset retirement obligation Kshs Millions	Other provisions Kshs Millions	Total provisions Kshs Millions
At start of year	4,663	145	13	1,133	5,954
Charged to profit or loss	4,439	412	1	88	4,940
Utilised in the year	(998)	(110)	-	(94)	(1,202)
Reversals	(571)	-	-	-	(571)
Unwinding of discount	101	-	-	-	101
Effect of currency translation	(43)	-	-	-	(43)
At end of year	7,591	447	14	1,127	9,179

Split as follows:

Current	2,575	447	-	1,127	4,149
Non-current	5,016	-	14	-	5,030
At 31 December 2019	7,591	447	14	1,127	9,179

(b) Company

Year ended 31 December 2020

	Return condition provision Kshs Millions	Redundancy provision Kshs Millions	Asset retirement obligation Kshs Millions	Other provisions Kshs Millions	Total provisions Kshs Millions
At start of year	5,733	352	12	1,127	7,224
Charged to profit or loss	955	128	-	69	1,152
Utilised in the year	(3,556)	(132)	-	(11)	(3,699)
Unwinding of discount	89	-	-	-	89
Exchange differences adjustments	325	-	-	-	325
At end of year	3,546	348	12	1,185	5,091

Notes to the Financial Statements (Continued)

29 PROVISION FOR LIABILITIES (Continued)

(b) Company (continued)

Split as follows:

	Return condition provision Kshs Millions	Redundancy provision Kshs Millions	Asset retirement obligation Kshs Millions	Other provisions Kshs Millions	Total provisions Kshs Millions
Current	1,003	348	-	1,185	2,536
Non-current	2,543	-	12	-	2,555
At 31 December 2020	3,546	348	12	1,185	5,091

Year ended 31 December 2019

	Return condi- tion provision Kshs Millions	Redundancy provision Kshs Millions	Asset retirement obligation Kshs Millions	Other provi- sions Kshs Millions	Total provisions Kshs Millions
At start of year	3,795	104	12	1,136	5,047
Charged to profit or loss	3,482	358	1	32	3,873
Utilised	(998)	(110)	-	(41)	(1,149)
Reversals	(571)	-	-	-	(571)
Unwinding of discount	69	-	-	-	69
Exchange adjustments	(45)	-	-	-	(45)
At end of year	5,733	352	13	1,127	7,224

Split as follows:

Current	2,397	352	-	1,127	3,876
Non-current	3,336	-	12	-	3,348
At 31 December 2019	5,733	352	12	1,127	7,224

(i) Asset retirement obligations

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.

Notes to the Financial Statements (Continued)

29 PROVISION FOR LIABILITIES (Continued)

(ii) Other provisions

Other provisions relate to various legal cases brought against the Group and Company which are pending determination by the courts. Provisions are recognised when the Group has determined that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Management has made appropriate provisions in respect of certain cases.

(iii) Return condition provisions

Return condition provision relates to a provision for an unavoidable contractual obligation to return the aircraft in certain conditions at the date of return. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls for aircraft and engines under leases are accrued and charged to the profit or loss over the estimated period between overhauls using the ratios of actual flying hours/cycles and estimated flying hours/cycles between overhauls. Differences between the estimated costs and the actual costs of overhauls are included in the profit or loss in the period of overhaul. The return condition provision is calculated using a model which incorporates several assumption which include the past and expected future utilisation and maintenance patterns of the aircraft and engines, expected cost of maintenance at the time it is estimated to occur and discount rate applied to calculate the present value of the future liability.

(iv) Redundancy provisions

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 2020 a provision of KShs 443 million (2019: 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.

Notes to the Financial Statements (Continued)

30 SALES IN ADVANCE OF CARRIAGE

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
Passengers	13,815	14,759	13,696	14,566
Freight	93	100	93	100
	<u>13,908</u>	<u>14,859</u>	<u>13,789</u>	<u>14,666</u>

The reconciliation of the sales in advance of carriage is as follows

At start of year	14,859	17,551	14,666	17,412
Total tickets sold	31,979	99,054	29,942	95,230
Revenue recognised in income statement from tickets sold in the year	(18,071)	(84,195)	(16,153)	(80,564)
Revenue recognised that was included in balance at beginning of year	(10,857)	(10,553)	(10,673)	(10,502)
Expired tickets recognised in revenue	(4,002)	(6,998)	(3,993)	(6,910)
	<u>13,908</u>	<u>14,859</u>	<u>13,789</u>	<u>14,666</u>
At end of year	13,908	14,859	13,789	14,666

31 TRADE AND OTHER PAYABLES

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	2020 KShs Millions	2019 KShs Millions
Trade payables	31,552	23,899	28,426	22,714
Other payables and accrued expenses	1,421	2,144	1,269	1,675
Accrued leave (Note 32)	2,342	2,464	2,291	2,407
Due to related parties (Note 33)	2,150	2,057	25,227	23,846
Unclaimed dividends (Note 13)	78	88	78	88
	<u>37,543</u>	<u>30,652</u>	<u>57,291</u>	<u>50,730</u>

Notes to the Financial Statements (Continued)

32 COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to changes in the current year to achieve a more reliable and relevant presentation. The adjustments were limited to reclassification of balances, with no changes to their measurements, as follows:

Statement of profit or loss

(i) Other losses in the prior financial statements have been reclassified as follows:

2019 financial statements item:	KShs' Millions	Change in presentation
Other losses - Group		
Bank charges and foreign exchanges from operations	886	Reclassified to other operating costs (Note 8)
Foreign exchanges losses on borrowings	1,235	Reclassified to finance costs (Note 9)
	2,121	
Other losses - Company		
Bank charges and foreign currency losses from operations	908	Reclassified to other operating costs (Note 8)
Foreign exchanges losses on borrowings	1,235	Reclassified to finance costs (Note 9)
	2,143	

(ii) Overheads in prior financial statements have been renamed as "other operating costs"

Statement of financial position

2019 financial statements item:	Group KShs' Millions	Company KShs' Millions	Change in presentation
Return condition asset	4,686	3,743	Reclassified as part of right-of-use asset (Note 17)
Asset retirement obligation	14	13	Reclassified to provisions for liabilities (Note 29)
Return condition provisions			
- Current	2,575	3,336	Reclassified to provisions for liabilities Note 29)
- Non-current	5,016	2,397	

Notes to the Financial Statements (Continued)

33 (a) CASH GENERATED FROM OPERATIONS

	Group		Company	
	2020	2019	2020	2019
	KShs Millions	KShs Millions	KShs Millions	KShs Millions
Loss before tax	(36,573)	(12,975)	(33,058)	(12,980)
Adjustments for:				
Depreciation of property and equipment (Note 15)	6,606	6,486	6,540	6,424
Impairment of investment in subsidiary (Note 18(a))	-	-	-	166
Impairment of assets (Note 15)	-	4,414	-	4,414
Write-off of assets (Note 15)	-	2,145	-	2,145
Amortisation of intangible assets (Note 16)	145	143	140	131
Amortisation of return condition asset (Note 17)	3,348	1,683	2,995	1,281
Loss on disposal of property, aircraft and equipment	-	62	-	62
Provision for rotables (Note 15)	5	-	5	-
Gain on sale and leaseback (Note 14)	-	(639)	-	(639)
Amortisation of right-of-use assets (Note 17)	11,290	11,079	9,978	10,101
Impairment of right-of-use assets (Note 17)	7,037	-	7,013	-
Loss on lease termination	-	2	-	2
Accrued interest on loans (Note 26)	1,642	2	1,642	2
Amortisation of deferred expenditure (Note 26(d))	357	323	357	323
Amortisation of sovereign guarantee (Note 26 (b))	203	207	203	207
Amortisation of aircraft deposits (Note 19)	(109)	(62)	(109)	(62)
Unrealised exchange gain on aircraft deposits (Note 19)	(280)	15	(280)	15
Unrealised exchange gain on lease liabilities (Note 27)	855	367	129	392
Unrealised exchange gain on mandatory convertible debt (Note 26(c))	295	(17)	295	(17)
Realised exchange loss on borrowings (Note 26)	399	991	399	991
Realised exchange loss on leases (Note 27)	(11)	-	(11)	-
Interest expense on borrowings (Note 9)	4,132	5,177	4,128	5,175
Interest expense on lease liabilities (Note 9)	4,882	4,997	4,200	4,471
Interest income (Note 9)	(62)	(30)	(66)	(34)
Working capital changes				
Inventories	(58)	(17)	(58)	(17)
Trade and other receivables	3,188	(1,345)	1,535	(2,502)
Sales in advance of carriage	(951)	(2,692)	(877)	(2,746)
Trade and other payables	6,891	1,206	6,561	3,075
Return condition assets	(955)	(4,380)	(955)	(3,481)
Provisions for liabilities	(2,156)	3,726	(2,134)	2,562
Cash generated from operations	10,120	20,868	8,572	19,461

Notes to the Financial Statements (Continued)

33 (b) CASH AND BANK BALANCES

For purposes of statement of cashflows, cash and cash equivalents as at 31 December comprise the following:

	Group		Company	
	2020	2019	2020	2019
	KShs Millions	Kshs Millions	KShs Millions	Kshs Millions
Cash at bank and in hand	4,076	3,080	3,884	2,885
Short -term bank deposits	3,652	15	3,652	15
At December	7,728	3,095	7,536	2,900

34 RELATED PARTY TRANSACTIONS

(a) Nature of related party transactions and balances

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% (2019:7.8%) 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.

Notes to the Financial Statements (Continued)

34 RELATED PARTY TRANSACTIONS (Continued)

(a) Nature of related party transactions (continued)

Precision Air Services Limited

Kenya Airways Plc holds 41.23% (2019: 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.

Management fee income	2020 KShs Millions	2019 KShs Millions
African Cargo Handling Limited	748	719
Jambojet Limited	42	42
(i) Company		
Handling expenses	2020 KShs Millions	2019 KShs Millions
African Cargo Handling Limited	77	127
Direct Costs		
Jambojet Limited	410	760

(b) Related companies' balances

Balances outstanding at the year-end on account of transactions with related parties were as follows:

(i) Due from related companies

	Group		Company	
	2020 KShs Millions	2019 KShs Millions	KShs Millions	KShs Millions
Precision Air Services Limited	88	126	88	126
Kenya Airfreight Handling Limited	-	-	166	160
African Cargo Handling Limited	-	-	19,472	17,796
Jambojet Limited	-	-	489	304
Kencargo International Airlines Limited	-	-	61	61
	88	126	20,276	18,447
Provision for expected credit losses	(88)	(126)	(149)	(187)
	-	-	20,127	18,260

Notes to the Financial Statements (Continued)

34 RELATED PARTY TRANSACTIONS (continued)

(b) Related companies' balances (continued)

(ii) Due from related companies (Continued)

The movement in the provision for expected credit losses is as follows:

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	Millions	Millions	Millions	Millions
At start of year	126	206	187	801
Write off during the year	-	-	-	(556)
Decrease during the year	(38)	(80)	(38)	(58)
At end of year	88	126	149	187
(iii) KLM, Royal Dutch Airlines	2,150	2,057	2,148	2,026
African Cargo Handling Limited	-	-	23,029	21,770
Kenya Airfreight Handling Limited	-	-	50	50
	2,150	2,057	25,227	23,846

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.

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.

The amounts due from Precision Air relate to payroll and insurance costs due to Kenya Airways. These costs are paid by Kenya Airways then recharged. The related party balances are interest free and have no fixed repayment terms.

Notes to the Financial Statements (Continued)

34 RELATED PARTY TRANSACTIONS (continued)

(a) Related companies' balances (continued)

(a) 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	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	Millions	Millions	Millions	Millions
Short term employment benefits:				
Salaries and other benefits	262	361	253	330
Non-monetary benefits	1	13	1	13
Termination benefits	40	11	33	11
	<u>303</u>	<u>385</u>	<u>287</u>	<u>354</u>

The Group's Directors' remuneration included in key management compensation above comprise:

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	Millions	Millions	Millions	Millions
As executives	41	80	41	80
As non-executives	13	33	13	33
	<u>54</u>	<u>113</u>	<u>54</u>	<u>113</u>
Non - monetary benefits	1	11	1	11
	<u>55</u>	<u>124</u>	<u>55</u>	<u>124</u>

Notes to the Financial Statements (Continued)

35 COMMITMENTS

As at 31 December 2020 and as at 31 December 2019, the Group and Company had purchase commitments for aircraft parts and other equipment incidental to the ordinary course of business as follows:

	2020 KShs Millions	2019 KShs Millions
Authorised but not contracted for	5,920	7,174

36 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

	2020 KShs Millions	2019 KShs Millions
Year 1	3,954	3,952
Year 2	3,845	3,671
Year 3	776	3,569
Year 4	1	721
Year 5	-	1
At end of the year	8,576	11,914

During the year, the Group and Company recognised aircraft lease income of KShs 1,290 million (2019: KShs 1,418 million) and property lease income of KShs 102 million (2019: KShs 188 million) and aircraft sub-lease income of KShs 2,642 million (2019: KShs 3,380 million) in profit or loss in respect of operating leases income.

Notes to the Financial Statements (Continued)

37 CONTINGENT LIABILITIES - GROUP AND COMPANY

(a) Contingent liabilities

	2020 KShs Millions	2019 KShs Millions
Guarantees	14,187	13,767
Litigation	1,187	1,306
	<hr/>	<hr/>
	15,374	15,073
	<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.

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

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. 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.

Principal Shareholders and Share Distribution for the year ended 31 December 2020

Principal shareholders

The ten largest shareholdings in the Company and the respective number of shares held at 31 December 2020 are as follows:

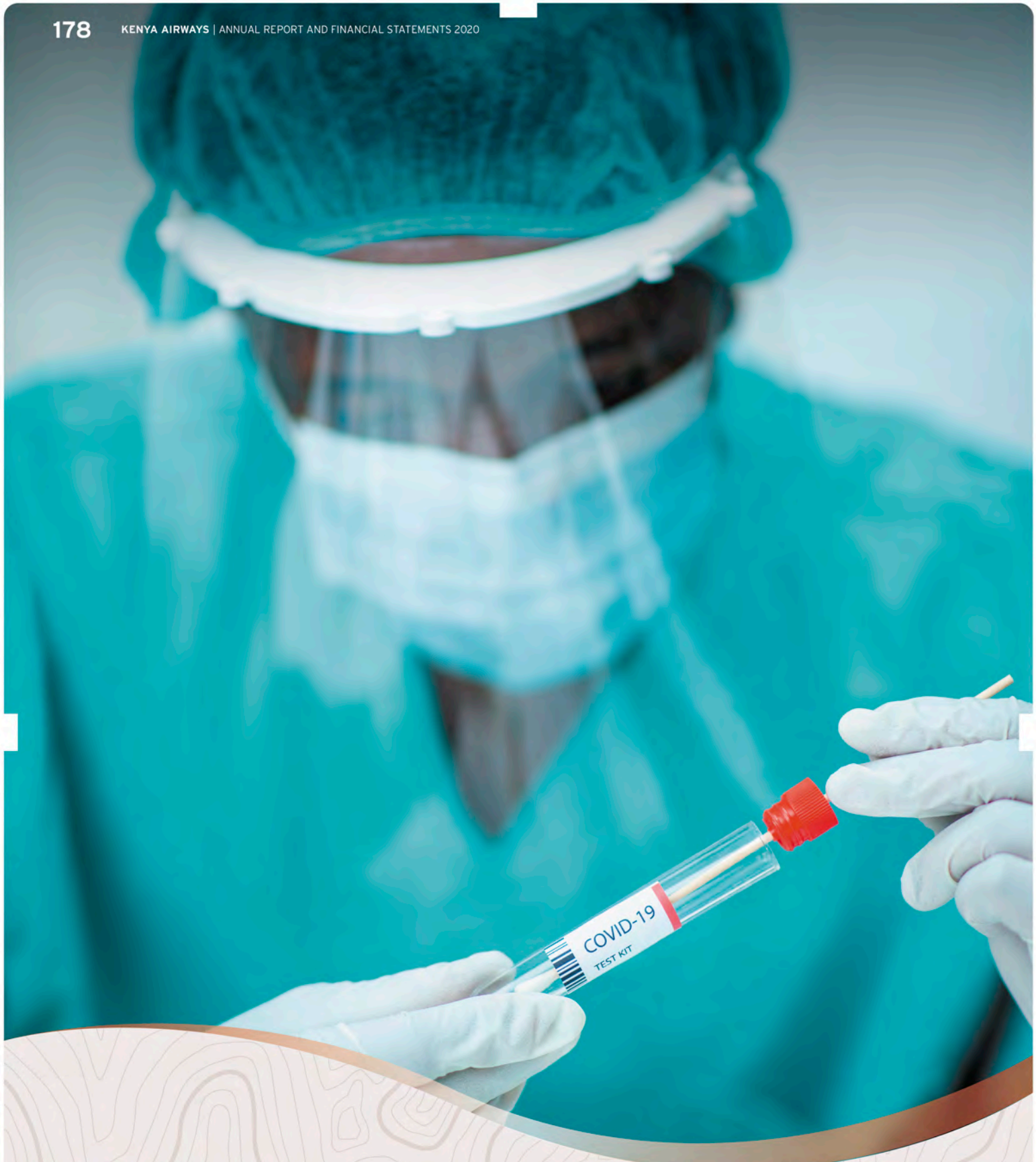
Name of shareholder	Number of shares	% Shareholding
1. Cabinet Secretary To The National Treasury	2,847,844,811	48.90
2. KQ Lenders Company 2017 Limited	2,218,310,169	38.09
3. KLM - Koninklijke Luchtvaart Maatschappij (KLM) Royal Dutch Airlines	451,661,470	7.76
4. The Trustees of the Kenya Airways Employee Share Ownership Scheme 2018	142,164,558	2.44
5. Standard Chartered Nominees Ltd Non-Resident A/c KE11752	29,237,300	0.50
6. Kamau Mike Maina	16,099,735	0.27
7. Shah Tanna, Karishma Vijay Shah-Tanna	3,435,900	0.06
8. Galot International Limited	2,652,370	0.05
9. Benard, Peter Wainaina	1,195,800	0.02
10. Muhika, Peter Njenga	1,102,400	0.02
11. Other Shareholders	110,198,108	1.89
Total	5,823,902,621	100.00

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
Less than 500 shares	61,698	10,755,678	0.18
501 - 5,000 shares	16,278	21,887,466	0.38
5,001 - 10,000 shares	1,146	8,157,339	0.14
10,001 - 100,000 shares	1,339	35,669,515	0.61
100,001 - 1,000,000 shares	135	31,626,235	0.55
Over 1,000,000 shares	12	5,715,806,388	98.14
Total	80,608	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	549	5,888,935	0.10
Local Institutions	3,013	5,223,382,422	89.69
Local Individuals	77,037	112,669,735	1.93
Total	80,608	5,823,902,621	100.00



KQ Medical

We have been providing services to our staff and community including drafting and implementing a wide range of safety measures and Covid-19 Protocols.



Digital Retail Platform

We enhanced customer experience by rolling out e-payment solutions to secure payments. We also upgraded the KQ Cargo mobile app which provides convenient channel through which our customers can access real-time updates and get information on the go.

SUSTAINABILITY REPORT SUMMARY 2020

The purpose of this report

The purpose of our annual sustainable business report is to disclose the progress we have made towards our goal of building a more sustainable future. In 2020, Kenya Airways (KQ) reviewed its Corporate social responsibility (CSR) policy and advanced it into a Sustainability policy in line with the Sustainable Development Goals (SDGs) framework.

While we have been addressing some of the SDGs in our operations previously, the organisation is driving at ensuring the SDGs are a key pillar of our business to clearly articulate our purpose of contributing to the Sustainable Development of Africa.



The theme of the report

Our theme is centred towards, innovation, diversification and resilience with a focus on investing in our people and having our customers at the heart of everything we do which reflects the strong foundations of our business.

Our theme also reflects our belief that embracing the ideals of sustainable business, shared value thinking, and the SDGs is essential to cultivating the resilience necessary to combat large-scale crises like the COVID-19 pandemic which was a significant disruption in the aviation industry.

This report is also an explicit responsibility of our continued membership of the UN Global Compact (UNGC) and the Global Compact Network Kenya (GCNK) in the areas of Human Rights, Labour, Environment and Anti-Corruption. It is also an expression of our belief in the principles enshrined in the Code of Ethics for Business in Kenya.

Our Progress

We have included references to the goals to which we have aligned our efforts in this year below.



SDG 5: Gender Equality,

this was showcased by an initiative to promote our diversity during International Women's Day where we acknowledged the staff diversity split at KQ in 2020 that stood at 43.25 female vs 56.72 Male Staff. We also did this by hosting different sessions that ensured the well being of our employees during the COVID-19 period by offering over 200 interventions that included training, counselling, psychosocial & financial webinars etc.



SDG 8: Decent Work & Economic Growth,

is exemplified by our contribution to the Kenyan & African economy by providing decent work. We did this by having over 31 Humanitarian charted flights carrying over 5000 Passengers, supporting small holder farmers in Kenya by airlifting +1200 tonnes of flowers to Europe and +2600 tonnes of foodstuff to Europe & Middle East.



SDG 9: Industry Innovations & Infrastructure,

is highlighted by the preighter conversion where KQ staff converted a dreamliner into a cargo plane. This was the first ever conversion of a dreamliner into a cargo plane in the world marking a first for Kenya & KQ in aviation. This increased the cargo capacity from 30,000kgs to 128,000kgs. We also ventured into mask production where the upholstery department in the technical department repurposed over 600kgs of headrest covers that would otherwise have been disposed into over 9000 masks for use within KQ communities during the pandemic and developed an E-Innovation Hub where over 700 innovative ideas generated of which 80 were implemented.



SDG 12: Responsible Consumption & Production,

we supported the circular economy and repurposed over 900 tonnes of waste into beads & masks, enabled supply chain re-alignment of suppliers to support in eco-friendly product solutions, supported local sourcing through the initiative Buy Kenya Build Kenya, reduced 5% plastic of the amount of plastic we use in our network i.e., Mumbai, Rwanda & Dubai routes and ensured that over 3000 of our suppliers signed our business code of ethics.



SDG 13: Climate Change,

with an aim of ensuring net zero carbon emissions, we had 337 Metric tonnes of Cos offset by passengers compared. The equivalent of Ksh300,000 donated to Kasigau REDD project, participated in community conservation by supporting the Great Masai Mara photography a competition that raised \$30,0000 that went towards conservation in the Mara and supported the government of Kenya in distribution of over 7000Litres of sanitizers in Embakasi communities during the COVID pandemic, as a last mile partner and repurposed over 9000 masks for use within KQ communities.



SDG 17: Partnerships & Goals,

we worked closely with Kenya Airports Authority (KAA), Kenya Civil Aviation Authority (KCAA), County Governments & Kenya Tourism Board (KTB) Kenya during the reopening of the Sky's in July and August an initiative aimed at strategically position Magical Kenya, we worked with media partners and generated 50% positive coverage of Kenya Airways in the news, became a UN global Compact Signatory. This is the world's largest corporate sustainability initiative that supports advancement of sustainability and KQ is the only African Airline member and became a signatory to the International Air Transport Association (IATA) 25 BY 2025 Initiative that aims to drive improve diversity in the industry.

Conclusion

It is important for us to document our sustainability journey because we believe in holding ourselves accountable by sharing our successes, our challenges, and our constraints in a public, transparent and open manner.

KENYA AIRWAYS PLC

NOTICE OF THE 45TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that, in accordance with provisions of Article 39.3 and 51B of the Company's Articles of Association, and provisions of the Companies Act 2015 (as amended by The Business Laws (Amendment) (No.2) Act, 2021), the 45th Annual General Meeting of the Company will be held via electronic communication on **Friday, 25th June 2021 at 9.00 a.m.** 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 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

- To table the proxies and note the presence of a quorum.
- To read the notice convening the meeting.
- To receive, consider and if approved, adopt the Company's audited Financial Statements for the period ended 31st December 2020 together with the Directors' and Auditors' Reports thereon.

Proposed Resolution:

"THAT the audited Financial Statements including the Balance Sheet for the year ended 31st December 2020, together with the Directors' and Auditors' Reports thereon be and are hereby approved and adopted".

- To approve the Directors' Remuneration Report for the period ended 31st December 2020. (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 31st December 2020 as contained in the Annual Report and Financial Statements be and is hereby approved".

To elect Directors:

- Major Gen. (Rtd.) Michael Gichangi retires in accordance with Article 69 of the Company's Articles of Association, and being eligible, offers himself for re-election.
- Dr. Martin Oduor-Otieno retires in accordance with Article 69 of the Company's Articles of Association and does not offer himself for re-election.
- Ms. Carol Musyoka retires in accordance with Article 69 of the Company's Articles of Association and does not offer 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 page <https://corporate.kenya-airways.com/investors-and-shareholders/annual-reports/en/> and/or the Share Registrar's website at <https://digital.candgroup.co.ke>, following the steps set out herein after).

To elect members of the Audit and Risk Committee:

The current members are Dr. Martin Oduor-Otieno (who will be retiring), Major Gen. (Rtd.) Michael Gichangi (up for re-election), Mr. Jozef Veenstra, Mr. John Ngumi, and Ms. Caroline Armstrong.

Proposed Resolution:

THAT Major Gen. (Rtd.) Michael Gichangi (up for re-election), Mr. Jozef Veenstra, Mr. John Ngumi, and Ms. Caroline Armstrong be re-elected as members of the Audit and Risk Committee, and that the Board be authorized to reconstitute the committee subject to election of Directors under Agenda No.5 above.

- To appoint M/s. PricewaterhouseCoopers as Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and authorise the Directors to fix their remuneration.

Proposed Resolution:

"THAT M/s. PricewaterhouseCoopers be appointed as Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and that the Directors be authorised to fix their remuneration".

- To transact any other business of the Annual General Meeting in respect of which due notice has been received.

BY ORDER OF THE BOARD



Habil A. Waswani
Company Secretary
Date: 3rd June 2021

Notes:

- In view of the ongoing 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 for the Company to hold a physical AGM.
- Therefore, pursuant to the provisions of the Companies Act 2015 (as amended by The Business Laws (Amendment) (No.2) Act, 2021) provisions of Article 39.3 and 51B of the Company's Articles of Association, the Company shall hold the AGM using electronic means.
- Any member may by notice duly signed by him or her and delivered to the Company Secretary's Office, Kenya Airways PLC, Headquarters, Airport North Road, Embakasi, P.O. Box 19002, 00501, Nairobi, or emailed to AGM.KQ@kenya-airways.com 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.
- In accordance with Section 298(1) of the Companies Act, 2015, 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@candgroup.co.ke or delivered to Custody and Registrars Services Ltd, the Company's Share Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue, so as to be received not later than **Wednesday, 23rd June 2021 at 9.00 a.m.** When nominating a proxy the ID/ Passport No, details for email and/or mobile number of the proxy must be submitted to facilitate registration.
- A copy of this notice, proxy form and the entire Annual Report and audited financial statements 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 & Registrars Services Limited upon request.

- 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.candgroup.co.ke> or via USSD using short code number *384*052# 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 **Wednesday, 16th June 2021 at 8.00 a.m.** and will close on **Thursday, 24th June 2021 at 09:00 am**. Shareholders will not be able to register after **Thursday, 24th June 2021 at 09:00 am**.

(c) For assistance, shareholders should dial the following helpline numbers: **+ 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 info@candgroup.co.ke.

(d) Shareholders can access the Virtual AGM by clicking on the link that will be sent by email or text on the AGM day. This will allow shareholders to access the Virtual AGM broadcast.

(e) Alternatively shareholders can access the AGM using their log in credentials via <https://digital.candgroup.co.ke>; Select Attend Event; Select Kenya Airways PLC AGM; to view the livestream and vote and submit questions.

(f) Shareholders without internet access can access the Virtual AGM to vote and submit questions via USSD *384*052#

(g) 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 the AGM:

- Shareholders accessing Virtual AGM via <https://digital.candgroup.co.ke> platform; Select Attend Event; Select Kenya Airways PLC AGM; Select Q&A option tab and submit questions in text box provided; or
- Shareholder accessing Virtual AGM via USSD platform *384*052#: Use the menu prompts to Select option for Q&A and submit their questions (within 160 character limit for SMS text)
- Prior to the AGM: Once registered for the AGM, Shareholders can ask questions prior to the AGM by accessing <https://digital.candgroup.co.ke> or USSD code *384*052# and following the instructions set out in g(1) and g(2) above.
- Sending their written questions by email to info@candgroup.co.ke; or
- 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 Share Registrars, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue.

Note: Shareholders sending questions by email or delivering to Custody and Registrars Services Ltd, the Company's Share Registrars, 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 written questions and clarifications through email or delivery must reach the Company's Share Registrars on or before **Wednesday, 23rd June 2021 at 9.00 a.m.**

- Shareholders wishing to vote during the AGM may do so when prompted by:

- Shareholders accessing Virtual AGM via <https://digital.candgroup.co.ke> platform; Select Voting option tab on the live broadcast page and vote on each resolution;
- Shareholder accessing Virtual AGM via USSD platform *384*052#: Use the menu prompts to Select option for Voting and follow the various prompts regarding the voting process.

(i) Shareholders wishing to vote prior to the AGM may do so during the registration open period by following the steps set out in (h)(1) or (h)(2) above:

(j) The AGM will be streamed live via a link which shall be provided to all shareholders who will have registered to participate in the general meeting.

(k) Duly registered shareholders and proxies will receive a short message service SMS/ and/or an email prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder of the AGM. A second SMS and/or an email prompt shall be sent one hour ahead of the AGM, reminding duly registered shareholders and proxies that the AGM will begin in an hours' time and providing a link to the live stream.

(l) Results of the AGM shall be published within 48 hours following conclusion of the AGM.

(m) The preferred method of paying dividends which are below Kshs 140,000.00 is through M-PESA. Shareholders who wish to receive their dividend through M-PESA and who have not registered for this mode of payment can opt to receive future dividends by dialing *483*038# or contacting the Share Registrar, Custody & Registrars Services Limited.

(n) All present and former shareholders of the Company are hereby notified that pursuant to the provisions of the Unclaimed Financial Assets Act No 40 of 2011 Parts II and III, dividends and shares which have not been claimed for a period of three (3) years or more will require to be delivered to the Unclaimed Financial Assets Authority (the Authority) as abandoned assets on the appointed date.

(o) Therefore, all present and former shareholders with unpaid dividends are requested to urgently contact the Share Registrar, Custody & Registrars Services Limited at the address indicated below to claim any unpaid dividends to avert the risk of the dividends being forwarded to the Authority.

Custody & Registrars Services Ltd
IKM Place Tower B, 1st Floor, 5th Ngong Avenue, Nairobi
Tel: Mobile: +254 20 7608216, Email: info@candgroup.co.ke

SHAREHOLDER RESOLUTIONS INTENDED TO BE PASSED AT THE MEETING

- THAT the audited Financial Statements including the Balance Sheet for the year ended 31st December 2020, together with the Directors' and Auditors' Reports thereon be and are hereby approved and adopted.
- THAT the Directors' Remuneration for the year ended 31st December 2020 as contained in the Annual Report and Financial Statements be and is hereby approved.
- THAT Major Gen. (Rtd.) Michael Gichangi (up for re-election), Mr. Jozef Veenstra, Mr. John Ngumi, and Ms. Caroline Armstrong be re-elected as members of the Audit and Risk Committee, and that the Board be authorized to reconstitute the committee subject to election of Directors under Agenda No.5 above.
- THAT M/s. PricewaterhouseCoopers be appointed as Auditors of the Company to hold office until the conclusion of the next Annual General Meeting and that the Directors be authorised to fix their remuneration.

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.

Proxy Form

The Company Secretary,
Kenya Airways Plc
P.O. Box 19002-00501
Nairobi, Kenya

I/We.....of.....

Being a Member/Members of the above-named Company hereby appointof

or failing him/her the Chairman of the Meeting in respect of my (No. of shares) as my/our proxy

to attend, represent and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held electronically on Friday,

25th June 2021 at 9.00 a.m. and at any adjournment thereof.

Signed at this.....day of..... 2021.

Signature(s)

Notes:

1. If a member is unable to attend personally, this Proxy Form should be completed and returned to the Company Secretary, P.O. Box 19002-00501, Nairobi or physically to the registered office of the Company at Airport North Road, Embakasi, Nairobi, and on email address or to the Company's Share Registrars, M/s. Custody and Registrars Services Limited, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue Nairobi, Kenya or through their email address proxy@candrgroup.co.ke to arrive not later than Wednesday, 23rd June 2021 at 9.00 a.m. i.e. 48 hours before the meeting or any adjournment thereof.
2. In case of a member being a corporate body, the Proxy Form must be under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.
3. As a shareholder you are entitled to appoint one or more proxies to exercise all or any of your shareholder rights to attend and to speak and vote on your behalf at the meeting. The appointment of the Chairman of the meeting as proxy has been included for convenience. To appoint as a proxy any other person, delete the words "the Chairman of the Meeting" and insert the full name of your proxy in the space provided. A proxy need not to be a shareholder of the Company.
4. Completion and submission of the form of proxy will not prevent you from attending the meeting and voting at the meeting in person, in which case any votes cast by your proxy will be excluded.
5. To be valid, a proxy form, which is available from the Company's head office or the Share Registrar's offices, must be completed and signed by the shareholder or the duly authorised attorney of the shareholder and must be either emailed to proxy@candrgroup.co.ke or lodged at the offices of the Company's Share Registrars, M/s. Custody and Registrars Services Limited, at IKM Place, Tower B, 1st Floor, 5th Ngong Avenue Nairobi, Kenya so as to arrive not later than Wednesday, 23rd June 2021 at 9.00 a.m.

Fomu Ya Uwakilishi

Katibu wa Kampuni,
Kampuni ya Kenya Airways Plc
S.L.P 19002-00501,
Nairobi,
Kenya

Mimi/Sisi.....wa

..... Kwa kuwa mwenye/wenye hisa katika Kampuni iliyotajwa hapo juu,

ninamteua.....wa.....au aispokuwepo mahali pake, Mwenyekiti wa Mkutano, kuhusiana

na..... (Idadi ya hisa zangu) kuwa mshirika wangu/wetu kuhudhuria, kuwakilisha na kupiga kura

kwa ajili yangu/yetu kwa niaba yangu katika Mkutano Mkuu wa Kila Mwaka wa Kampuni utakaofanyika kwa njia ya kielektroniki siku ya Jumatano, tarehe 25 Juni 2021 saa tatu asubuhi na uhairisho wowote utakaofuata.

Imetiwa saina hapa.....siku hii ya.....ya.....2021.

Saini

VIDOKEZO:

1. Ikiwa mwanachama hawezi kuhudhuria yeye mwenyewe, Fomu hii ya Mshirika inapaswa kukamilishwa na kurejeshwa sio baada ya Jumatano, Juni 23 2021 saa tatu asubuhi kwa Katibu wa Kampuni S.L.P 19002-00501, Nairobi au mwenyewe katika ofisi zilizosajiliwa za Kampuni katika Barabara ya Airport North Road, Embakasi, Nairobi, au kwa shirika la Rejistra wa Hisa wa Kampuni, Custody and Registrars Services Limited katika Jumba la IKM Place, orofa ya I, Tower B, Barabara ya 5th Ngong Avenue, Nairobi, Kenya. Vinginevyo, fomu za mshirika zilizotiwa sahihi ifaavyo pia zinaweza kutumwa kwa proxy@candrgroup.co.ke katika umbizo la PDF.
2. Ikiwa mwanachama ni shirika, Fomu ya Mshirika lazima ipigwe muhuri ya kawaida ya shirika hilo au kutiwa sahihi na afisa au wakili aliyeidhinishwa halali wa shirika kama hilo.
3. Kama mwenye hisa, una haki ya kuteua shirika moja au zaidi kutekeleza haki zako zote au haki yoyote ile ya kuhudhuria na kuzungumza na kupiga kura kwa niaba yako katika mkutano. Uteuzi wa mwenyekiti wa mkutano kama mshirika umejumuishwa kwa ajili ya kurahisisha mambo. Ili kuteua mtu yeyote kuwa mshirika, futa maneno "Mwenyekiti wa Mkutano au" na uweke jina kamili la mshirika wako katika nafasi iliyoachwa wazi. Si lazima mshirika awe mwenye hisa katika Kampuni.
4. Kukamilisha na kuwasilisha fomu ya mshirika hakutakuzuia kuhudhuria mkutano na kupiga kura mwenyewe katika mkutano, hii ikitokea kura zozote zilizopigwa na mshirika wako hazitajumuishwa.
5. Ili iwe halali, fomu ya mwakilishi, ambayo inapatikana katika ofisi kuu ya Kampuni au katika ofisi za Rejistra wa Hisa, lazima ijazwe na kutiwa saini na mwenye hisa na lazima ama itumwe kupitia barua pepe kwa proxy@candrgroup.co.ke au kuwasilishwa katika ofisi Rejistra wa Hisa wa Kampuni, Image Registrars, IKM Place, orofa ya I, Tower B, Barabara ya 5th Ngong Avenue, Nairobi, Kenya, ili ifike sio baada ya Jumatano, tarehe 23 Juni 2021 saa tatu asubuhi.



Expanded Operations in Southern Africa

Our presence in Southern Africa was strengthened after launching new operations that saw us fly cargo directly from Johannesburg to other countries in the region. Going forward, all cargo from Southern Africa will be delivered directly, resulting in shorter connecting times and speed to market.

