

PO 10708615/20

In accordance with
Regulation 32 of the
Overseas Companies
Regulations 2009.

OS AA01

Statement of details of parent law and other
information for an overseas company



Companies House

☒ **What this form is for**
You may use this form to
accompany your accounts
disclosed under parent law.

☒ **What this form is NOT for**
You cannot use this form for
an alteration of manner of
with accounting requirements.

FRIDAY



A09 *A89ZYID7* 19/07/2019 #88
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ① KENYA AIRWAYS PLC

UK establishment number B R 0 1 1 9 5 3

→ Filling in this form

Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

① This is the name of the company in its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited.

Legislation ② KENYA COMPANIES ACT / IFRS

② This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

A2 Accounting principles

Accounts Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3.**

☒ **Yes.** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3.**

Name of organisation or body ③ INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)+

③ Please insert the name of the appropriate accounting organisation or body.

A3 Accounts

Accounts Have the accounts been audited? Please tick the appropriate box.

☐ **No.** Go to **Section A5.**

☒ **Yes.** Go to **Section A4.**

OS AA01

Statement of details of parent law and other information for an overseas company

A4

Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box.

☐ No. Go to **Part 3 'Signature'**.

☒ Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.

1 Please insert the name of the appropriate accounting organisation or body.

Name of organisation or body **1**

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

A5

Unaudited accounts

Unaudited accounts

Is the company required to have its accounts audited?

Please tick the appropriate box.

☐ No.

☐ Yes.

Part 3

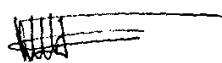
Signature

Signature

I am signing this form on behalf of the overseas company.

Signature

X



X

This form may be signed by:

Director, Secretary, Permanent representative.

OS AA01

Statement of details of parent law and other information for an overseas company



Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name

Company name KENYA AIRWAYS PLC

Address WORLD BUSINESS CENTRE 1,

NEWALL ROAD, HEATHROW AIRPORT

HOUNSLOW

Post town MIDDLESEX

County/Region LONDON

Postcode

T W 6 2 R E

Country

DX

Telephone 0044 (0) 208 283 1822



Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.



Important information

Please note that all this information will appear on the public record.



Where to send

You may return this form to any Companies House address:

England and Wales:

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

Scotland:

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post).

Northern Ireland:

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG.
DX 481 N.R. Belfast 1.



Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

KENYA AIRWAYS PLC

**ANNUAL REPORT
AND
CONSOLIDATED AND COMPANY
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2018**

KENYA AIRWAYS PLC

CORPORATE INFORMATION

EXECUTIVE DIRECTORS	S. Mikosz	- Managing Director
NON-EXECUTIVE DIRECTORS	M. Joseph K. Thugge P. Maringa J. Veenstra * C. Armstrong J. Kap-Kirwok M. Gichangi E. Koimett M. Oduor C. Musyoka F. Kingori N. Bodo	- Chairman - Principal Secretary, National Treasury - Principal Secretary, Transport - Alternate Director to Principal Secretary, National Treasury - Alternate Director to Principal Secretary, Transport
	* Dutch	
COMPANY SECRETARY	Catherine Musakali Certified Public Secretary (Kenya) Dorion Associates Thompson Estate, off Ole Dume Road P.O. Box 29737 - 00202 Nairobi	
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari, P.O. Box 40092 - 00100 Nairobi	
REGISTERED OFFICE	Kenya Airways Headquarters and Base Airport North Road, Embakasi P.O. Box 19002 - 00501 Nairobi	
REGISTRARS AND TRANSFER OFFICE	Custody & Registrars Services Limited 6th Floor, Bruce House Standard Street P.O. Box 8484 - 00100 Nairobi	

KENYA AIRWAYS PLC

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

Barclays Bank of Kenya Limited
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

Kaplan & Stratton Advocates
9th Floor, Williamson House
4th Ngong Avenue, Upper Hill
P.O. Box 40111 - 00100
Nairobi

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

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Board appointment, composition and Succession planning (Continued)

Board Rotation schedule

Director	Year of first appointment	Year of re-election	Year of re-election	Year of re-election	Year of re-election	Year of re-election	Year of re-election
Dr. Kamau Thugge	2013	2016			2019		
Ms. Caroline Armstrong	2014		2017			2020	
Mr. Jason Kap-Kirwok	2015			X	2019		
Mr. Michael Joseph	2016				2019		
Mr. Jos Veenstra	2017					2020	
Prof. Paul Maringa	2017					2020	
Major General Michael Gichangi	2017					X	2021
Ms. Carol Musyoka	2017			2018			2021
Dr. Martin Otieno-Oduor	2017			2018			2021
Mrs Esther Koimett	2017			2018			2021

Notes:

1. Key: X – Should retire during the year but retirement moved to the following year to meet the one third rule in the Articles
2. 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, Mrs Esther Koimett, Dr Martin Oduor Otieno and Ms Carol Musyoka were appointed to the Board at the Annual General Meeting of the Company held on 22nd June 2018. The three Directors, who were initially nominated by the majority shareholders, 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.

Board induction and continuous skills development

Upon appointment, Directors undergo a detailed, rigorous and formal induction programme in line with the Board Charter and the Company's Board Induction and Development Policy. The aim of the induction program 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. The Board induction programme conducted during the year lasted three full days.

The Corporate Governance and Nominations Committee considers and recommends Board development programmes to ensure that the Board is kept up-skilled. During the year under review and in line with the Board development plan, the Board attended Board training for a minimum of 12 hours each. In particular, Board members attended workshops in industry matters to build their capacity in aviation matters, which is an area which had been identified as an area for development during the year.

Code of business conduct & ethics

The Airline 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.

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Code of business conduct & ethics (Continued)

In addition, the Board applies a Conflict of Interest 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, 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 have an annual declaration of 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.

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

- Mr. Michael Joseph;
- Ms. Caroline Armstrong;
- Major General Michael Gichangi; and
- Mr. Jason Kap-Kirwok.

Board evaluation

During the year under review, the Board undertook a Board evaluation exercise. The Board has since considered the Board evaluation results and has allocated responsibility to specific organs and individuals to implement recommendations related to the responsibilities of such organs and individuals.

Governance audit

The Board subjected the Company to a Governance Audit and is committed to implementing recommendations meant to improve Board performance and effectiveness.

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 release of notices in the press and on the Company's website of its half yearly and annual results, and quarterly disclosures of operating statistics to the stock markets and capital markets authorities. There is also a minimum of two investor briefings per annum for institutional investors.

Periodically there are press releases announcing other major company developments, which could be considered 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

External consultants

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

Committees of the Board

The Board has four standing committees, which meet regularly under formal Terms of Reference (TORs) set and approved by the Board. The Committees' TORs were revised by the Board in November 2018. This exercise was spearheaded by the Corporate Governance and Nominations Committee, which made its recommendations to the Board. The Committees' meet before scheduled Board meetings and prepare and present their reports to the Board.

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Report of the Audit and Risk Committee

This report highlights the composition, attendance of meetings, role and key activities of the Audit and Risk Committee during the year. The report further outlines some of the focus areas for FY 2019.

Current Membership

- Dr. Martin Oduor-Otieno - Chairman
- Dr. Kamau Thugge/Alternate - Member
- Mr. Jozef Veenstra - Member
- Mr. Jason Kap-Kirwok - Member
- Ms. Carol Musyoka - Member

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

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

Attendance of meetings for FY 2018

- Dr. Martin Oduor-Otieno - 9/9
- Mr. Festus King'ori - 7/9
- Mr. Jozef Veenstra - 9/9
- Mr. Jason Kap-Kirwok - 9/9
- Ms. Carol Musyoka - 9/9

Mr. Dennis Wasike was appointed as Head of Internal Audit and Secretary to the Audit and Risk Committee on 19 November 2018. Prior to that Mr. John Masika was the acting Head of Internal Audit and Secretary to the Audit and Risk Committee.

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.

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Report of the Audit and Risk Committee (Continued)

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

- *Independent auditor*

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

- *Ethics and Compliance*

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

Key activities in FY 2018

During the year under review, the key activities of the Committee included:

- Implementation of an online and enhanced whistle blowing platform;
- Enhancing the effectiveness of the internal audit function by facilitating the acquisition of the ACL GRC tool. This tool has enabled automation of audit, risk and compliance programs thereby enhancing effectiveness and governance. The tool will also be used to perform data analytics, both during routine audit reviews and for continuous auditing; and
- The Committee continued to ensure that the internal audit function was adequately resourced. In addition, the Committee continued to play its oversight role over the operations of the Group; with focus on significant risk areas including: fuel hedge management, credit risk, utilization of assets (aircrafts) among others.

Looking forward

The focus of the Committee in 2019 will continue to be the strengthening of the internal control and governance processes across the Group. This will include enhancement of the framework for evaluating the internal control environment on a quarterly basis and also full optimization of the ACL GRC tool – specifically in Enterprise Risk Management (ERM) and data analytics for continuous auditing.

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

29 April 2019

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Report of the Corporate Governance and Nominations Committee

Current Membership

- | | | |
|----------------------------------------|---|----------|
| • Mr. Michael Joseph | - | Chairman |
| • Dr. Kamau Thugge/Alternate | - | Member |
| • Major General (Rtd) Michael Gichangi | - | Member |
| • Mr. Sebastian Mikozi | - | Member |
| • Ms. Carol Musyoka | - | Member |

In compliance with the Code, the Chairman of the Committee is an Independent Non-Executive Board member. The other committee members with the exception of the Group Managing Director 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 transparent policies and processes for the identification of suitable candidates for nomination and election or re-election as Directors of the Company.

Achievements during the year under review

During the year under review, the Committee held four meetings with 100% attendance per member as shown below:

- | | | |
|--------------------------------------|---|-----|
| Mr. Michael Joseph | - | 4/4 |
| Mr. Festus King'ori | - | 4/4 |
| Major General (Rtd) Michael Gichangi | - | 4/4 |
| Mr. Sebastian Mikozi | - | 4/4 |
| Ms. Carol Musyoka | - | 4/4 |

The following achievements were realized, among others:

- Subjected the Company to a Governance Audit;
- Subjected the Board to an annual Board Evaluation;
- Assessed and recommended to the shareholders the appointment of three Directors;
- Ensured Board training in industry matters;
- Assessed the Company's corporate governance practices against the Capital Markets Authority's Code of Corporate Governance Practices for Issuers of Securities;
- Revised and recommended to the Board a revised Board Charter, Committee Terms of Reference as well as related Board policies; 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. In particular, the Committee will consider and draw up a road map for the implementation of accepted recommendations arising from the Governance Audit.


Mr Michael Joseph
Chairman – Corporate Governance and Nominations Committee

29 April 2019

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Report of the Strategy and Business Development Committee

Current Membership

• Mr. Jason Kap-Kirwok	-	Chairman
• Dr. Kamau Thugge/Alternate	-	Member
• Mr. Jozef Veenstra	-	Member
• Ms. Caroline Armstrong	-	Member
• Prof. Paul Maringa/Alternate	-	Member
• Major General (Rtd) Michael Gichangi	-	Member

The Group Managing Director and Chief Financial Officer are invitees to the Committee's meetings.

Mandate

The purpose of the Strategy and Business Development Committee is to assist the Board in considering the various strategic options available to the Company and make recommendations to the Board regarding the development and implementation of the Company's strategic plans and appropriate commercial and operational activities in line with the Company's long-term strategy.

Summary of achievements during the year under review

During the period under review, the Committee held six meetings. The focus of its work was giving advice and guidance on the development and execution of the commercial strategy, including network and fleet development as well as new business development, operational efficiency and effectiveness. Some of these highlights are listed below:

- Provided guidance on system wide network review process, incorporating Jambojet and Precision Air operations, with a view to optimizing operations and profitable growth of market share;
- Reviewed and provided guidance on Kenya Airways' Digital Transformation Strategy to improve product offering and increase the Company's competitive edge;
- Reviewed and provided guidance on the updated 5-Year plan;
- Provided guidance on Corporate Key Performance indicators;
- Reviewed and provided guidance on new network destinations, including New York; and
- Reviewed and provided guidance on Kenya Airways' Cargo Strategy.

Looking forward

Globally, the airline industry in aggregate is expected to deliver strong growth in 2019, capping a decade of profitability. Whilst capital restructuring and a robust business turnaround strategy has provided Kenya Airways some 'breathing space', the journey to profitability will continue to be slow but steady.

Going forward, the Committee's work will focus on keeping the recovery on course through a range of strategic initiatives, including business diversification. Digital transformation and consolidation of cargo performance will be key, as well as ensuring the success of Project Simba. Operationally, the Committee will provide guidance on operational discipline in the execution of Commercial Strategy.

Mr. Jason Kap-Kirwok

Chairman – Strategy and Business Development Committee

29 April 2019

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Report of the Human Resources Committee

Current Membership

• Ms. Caroline Armstrong	-	Chairlady
• Ms. Esther Koimett	-	Member
• Mr. Jason Kap-Kirwok	-	Member
• Mr. Martin Oduor-Otieno	-	Member
• Mr. Sebastian Mikosz	-	Member

Mandate

The Human Resources Committee assists the Board in fulfilling its mandate with regard to the human capital and talent development of the Group. The overall scope is to ensure that the Group attracts and retains individuals who are qualified and productive by job related standards of education, training, experience and personal attitude.

The Committee is empowered to:

- Ensure the Company has in place and implements Human Resources strategic objectives;
- Continually review and formulate Human Resources management policies of the Company;
- Identify and implement best practices with regard to staff development and retention; and
- Review and propose an optimal organisational structure including staffing levels.

Achievements during the year under review

The year 2018 was a significant year for Kenya Airways Plc and there were substantial achievements under the Human Resource (HR) agenda, some of which are highlighted below:

- The Company has been focusing on putting the right people in the right jobs and increasing productivity. To this end 93% of the workforce underwent training and the workforce expanded by 61 staff across the Group, a formidable achievement;
- We filled 74% of the required senior management roles including 4 Leadership team roles. Over 50% of the roles were filled by existing Kenya Airways employees in line with the Company's aim to promote from within as far as possible. The recruitments brought in more aviation sector experience to bolster existing capacity;
- 60% of the top 50 management team are women, a statistic never achieved before and rarely seen in the Kenyan context;
- Four new routes were opened in the year, one of them being New York. This saw Kenya Airways use two crews on a flight for the first time and the operations went smoothly;
- Various agreements were entered into with the unions, KALPA and KAWU, that enabled increased use of existing pilots, the crewing of New York and contract staffing;
- The Company won its appeal against the law suit filed by engineers who had gone on strike with the Court ruling against the engineers;
- A new ERP was implemented which will enable HR to automate more processes and thus drive efficiency; and
- All the achievements and the expansion of the workforce were achieved while staying within budget.

Looking forward

For the success of the Group, the Management and the Board will continue to focus on generating more efficiencies, especially regarding productivity. The aim is to grow the business while offering better opportunities to our staff and improving the financial performance of the Group through the improved productivity of our people. The extent of our performance and success will be contributed to by our people and we look forward to positive engagements with our unions so that all parties work towards a common success. We will continue to manage our talent and develop them, while also recruiting the best people that we can when required.

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

Ms. Caroline Armstrong
Chairlady – Human Resources Committee

29 April 2019

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Internal controls

The Board through the Audit and Risk Committee ensures that the Group has defined procedures for internal controls to ensure the integrity of the assets of the Airline and the reporting of complete and accurate financial information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organisation remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal control, the Board takes into account the results of all the work carried out by the Internal Audit team and reviews the activities of the Group. 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.

Internal audit

The Internal Audit function reports to the Board through the Audit and Risk Committee. Internal Audit is independent of both business management and of the activities it reviews. Internal Audit provides assurance that the design and operation of the Group's risk management and internal control system is effective. A risk-based audit approach is used to ensure that the annual audit Work Plan targets the higher risk activities in each business unit or function. All audits are conducted in a manner that conforms to international 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.

Strategic planning process

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

Succession planning

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 organisational structure.

Compliance with laws and regulations and standards

The Board seeks to ensure compliance with applicable laws and regulations and receives regular reports on legal matters. The airline industry is highly regulated and the accountable manager is charged with the responsibility of ensuring with applicable laws, regulations, standards and protocols. While an external legal and compliance audit for the year under review was not carried out, to the best of its knowledge, the Board is not aware of any material departures from required compliance.

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Directors emoluments and loans

The Board has put in place a Board Remuneration Policy and the aggregate amount of emoluments paid to Directors including benefits enjoyed for services rendered during the financial year 2018 are disclosed in the notes to the financial statements, and more particularly set out in the Director's Remuneration Report contained in this annual report on pages 25 – 27. The Shareholders approved the Board Remuneration Policy and Board remuneration at the Annual General Meeting held on 22 June 2018.

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 2018 was as follows:-

Directors' interests

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

Company Secretary

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

Information Technology (IT)

The Information Technology Strategy aims to bring excellence in technology to Kenya Airways by leveraging the power of modern digital & innovative solutions to drive new business paradigms.

A 'cloud-first' approach will ensure that all Technology Assets are adaptable and scalable. There is a renewed focus on Cybersecurity to establish resilience. There is also a focus on improved integration to deliver flexibility and performance.

We aim to work with our service partners who will complement our capabilities and extend our capacity to deliver best-in-class IT services. Growing these partnerships will contribute to the local economy and promote the development of technology skills in Kenya.

Our Digital Transformation Program will create an experience that will delight our customers, enable operational excellence and drive value for our people, our business partners and our shareholders.

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.

KENYA AIRWAYS PLC

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 organisation's reputation and ensures that the demands of the ever-changing business and regulatory environments are taken into consideration in decision-making. The Board is responsible for guiding the strategic direction for communication strategies across the 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.

KENYA AIRWAYS PLC

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 2018, 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 53 destinations in Africa, Middle East, Asia, Europe and North America.

As at 31 December 2018, the Group operated 40 aircraft, either owned or on operating leases. These comprised seven Boeing 787 wide body jets, eleven Boeing 737 narrow body jets, fifteen Embraer regional jets, two Boeing 737 freighters; formerly passenger aircraft and five Bombardier Dash 8-400.

RESTATEMENT OF PRIOR YEAR RESULTS

The Group's and Company's financial statements include a restatement of the statement of financial position as at 1 April 2017, statement of profit or loss and other comprehensive income and statement of financial position for the 9 month period ended 31 December 2017 to correct prior period errors on fleet accounting and loan reclassification, these are covered in note 40 of the financial statements.

RESULTS

The Group's and Company's net loss for the year ended 31 December 2018 is KShs 7,559 million and KShs 7,812 million (for the 9 month period ended 31 December 2017: KShs 6,418 million and KShs 6,639 million) respectively. These have been deducted from the respective accumulated loss. The Group's and Company's results for the year ended 31 December 2018 are set out on pages 35 and 36 respectively.

DIVIDENDS

The Directors do not recommend payment of dividends in respect of the current financial year (2017: nil).

DIRECTORS

The current Board of Directors who held office during the year and to the date of this report are as shown on page 2.

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; and
- Maximizing employee satisfaction.
- whilst being committed to corporate and social responsibility

KENYA AIRWAYS PLC

REPORT OF THE DIRECTORS (Continued)

BUSINESS OVERVIEW (Continued)

Strategic Objective

Contributing to the sustainable development of Africa.

Summary

Kenya Airways (KQ) has continued its focus on the turnaround programme. The capital optimisation program is complete. Substantial management changes have been made with the objective of ensuring financial and operating sustainability. The Company has undertaken many actions including the following:

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

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

- A change in operating profit margin from a restated 1.1% in the 9-month period ended 31 December 2017 to a loss of 0.6% for the year ended 31st December 2018; and
- An improvement in the group net loss margin from a restated loss of 8.0% in the 9-month period ended 31 December 2017 to a loss of 6.6% in the year ended 31 December 2018.

The Group will continue to focus on improving operations and growing an efficient network. The capital restructuring provides a stable base for the long-term growth of our network, creating more city pairs in Africa and in the world as well as focusing on improved service quality and service delivery.

Turnaround program

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

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

As a result, the Group and Company has been able to see the benefits of the turnaround strategy in the two areas targeted for improvement.

The Group's and Company's operating loss for the year ended 31 December 2018 was KShs 683 million and KShs 906 million respectively. The Group's and Company's restated operating profit for the 9-month period ended 31 December 2017 stood at KShs 1,008 million and KShs 677 million.

The industry remains highly competitive as airlines continue to be weighed down by continuous pressure on yield, major currency fluctuations, volatile fuel prices and a changing commodity price environment.

Capacity and traffic

The year was marked with expansion into 4 new destinations namely, New York City, Mauritius, Libreville and Mogadishu as well as increased frequencies to some destinations. The Group's capacity measured in terms of Available Seat Kilometres (ASK) stood at 14,551 million (12 months) in 2018 and 10,596 million (9 months) in 2017. The uptake of this capacity measured in terms of Revenue Passenger Kilometres (RPK) closed at 11,287 million (12 months) in 2018 compared to 8,079 million (9 months) in 2017.

Turnover

The Group's and Company's turnover closed at KShs 114,185 million and KShs 107,820 million respectively for the year ended 31 December 2018 and KShs 80,799 million for the Group and KShs 77,264 million for the Company for the 9-month period ended 31 December 2017. The revenue was impacted positively by improved passenger numbers as well as improved yield.

KENYA AIRWAYS PLC

REPORT OF THE DIRECTORS (Continued)

BUSINESS OVERVIEW (Continued)

Cargo and freighter

Cargo tonnage on both passenger belly and freighter aircraft stood at 64,238 tonnes for the year ended 31 December 2018 and 47,908 tonnes for the 9-month period ended 31 December 2017. The cargo business has been focusing on boosting the cargo product across the network and revenue maximization has improved the cargo performance for the year.

Direct operating and fleet costs

The total direct operating costs amounted to KShs 75,030 million for year ended 31 December 2018 at Group level and KShs 72,318 million at Company level. The 9-month period ended 31 December 2017 closed the Group level at KShs 51,719 million and the Company level at KShs. 49,913 million. Global fuel prices have been volatile throughout the year reaching a three year high in September 2018.

Fleet ownership costs at Group level amounted to KShs 18,929 million and KShs 17,616 million for the Company for the year ended 31 December 2018. The 9-month period ended 31 December 2017 amounted to KShs 12,535 million at Group level and KShs 12,150 million at Company level.

Overheads

The Group's and Company's overheads amounted to KShs 20,909 million and KShs 18,792 million respectively for the year ended 31 December 2018. The 9-month period ended 31 December 2017 amounted to KShs 15,537 million for the Group and KShs 14,524 million for the Company.

Employee statistics

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

i) Categorisation by employment contract

	2018	2017
Permanent	3,905	3,548
Contracted	858	1,028
	<hr/>	<hr/>
Total	4,763	4,576
	<hr/>	<hr/>

ii) Categorisation by gender

	2018		2017	
	Male	Female	Male	Female
Senior leadership	75%	25%	67%	33%
Head of Departments	64%	36%	68%	32%
Senior managers	82%	18%	81%	19%
Overall	80%	20%	62%	38%
	<hr/>	<hr/>	<hr/>	<hr/>

Key Corporate risks and mitigating factors

The Group is exposed to risks in its business environment which affects the achievement of the objectives. To lessen the impact on the business, mitigating factors have been put in place. The Group has an Enterprise Risk Management (ERM) process for identifying, evaluating and managing risks. The process also entails monitoring and reporting of risks to the Audit and Risk Management Committee.

KENYA AIRWAYS PLC

REPORT OF THE DIRECTORS (Continued)

BUSINESS OVERVIEW (Continued)

Key Corporate risks and mitigating factors (Continued)

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

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

KENYA AIRWAYS PLC

REPORT OF THE DIRECTORS (Continued)

BUSINESS OVERVIEW (Continued)

Key Corporate risks and mitigating factors (Continued)

	Risk	Description	Mitigating actions
9	IT and cyber security	Failure of IT infrastructure and external attacks to the IT environment	<ul style="list-style-type: none"> Establishment of disaster recovery plans (DRPs) and business continuity plans (BCPs); and Robust processes to safeguard against IT infrastructure threats.
10	Credit risk	Inability to recover debts from our customers in full	<ul style="list-style-type: none"> Periodic review of the credit policy and strict enforcement of credit terms; and Continuous monitoring of debtor performance and follow up. Loss allowance provision in line with IFRS 9
11	Disruption in supply of essential goods and services	Possible disruption in the supply of essential goods and services	<ul style="list-style-type: none"> Use of multiple vendors for essential supplies of goods and services; and Rigorous vetting process for vendors.
12	Fraud	Misappropriation or misuse of assets belong to the Group by staff and external stakeholders	<ul style="list-style-type: none"> Strict enforcement of the Code of Business Conduct; Fraud awareness programs focusing of preventive measures; and Whistle blowing mechanisms.

DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS

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

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

AUDITORS

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

BY ORDER OF THE BOARD

Catherine Musakali
Secretary

29 April 2019

KENYA AIRWAYS PLC

DIRECTORS' REMUNERATION REPORT

INFORMATION NOT SUBJECT TO AUDIT

Chairman's statement

The Directors remuneration policy sets out the guidelines that the Group and Company 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 and Company's Corporate Governance and Nominations committee ("the committee") of the Board is responsible for overseeing and monitoring the Group's and Company'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 Company.

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

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

Executive Directors

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

Non-Executive Directors

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

Travel and related expenses

The Company 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 and Company was a party where Directors acquired benefits by means of transactions in the Group's and Company'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.

KENYA AIRWAYS PLC

DIRECTORS' REMUNERATION REPORT (Continued)

INFORMATION NOT SUBJECT TO AUDIT (Continued)

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
Michael Joseph	2016	2019	N/A
Sebastian Mikosz	2017	2020	6 months
Jozef Veenstra	2017	2020	N/A
Jason Kap-Kirwok	2015	2019	N/A
Caroline Armstrong	2017	2020	N/A
Dr. Kamau Thugge	2013	2019	N/A
Prof. Paul Maringa	2017	2020	N/A
Carol Musyoka	2017	2021	N/A
Esther Koimmet	2017	2021	N/A
Martin Odour-Otieno	2017	2021	N/A
Major General Michael Gichangi	2017	2020	N/A
Nicholas Bodo	2017	2020	N/A
Festus King'ori	2014	2019	N/A

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

INFORMATION SUBJECT TO AUDIT

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

31 December 2018 (12 months)

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

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

KENYA AIRWAYS PLC

DIRECTORS' REMUNERATION REPORT (Continued)

INFORMATION SUBJECT TO AUDIT (Continued)

31 December 2017 (9 months)

Director	Salary KShs 000	Allowances KShs 000	Fees KShs 000	Compensation for loss KShs 000	Value of non cash benefits KShs 000	Total KShs 000
Michael Joseph	-	-	13,500	-	-	13,500
Sebastian Mikosz	24,630	18,631	-	-	3,433	46,694
Mbuvi Ngunze*	6,701	538	-	58,848	737	66,824
Jozef Veenstra	-	568	395	-	-	963
Jason Kap-Kirwok	-	742	665	-	-	1,407
Caroline Armstrong	-	568	665	-	-	1,233
Permanent Secretary Treasury	-	-	395	-	-	395
Permanent Secretary Transport	-	-	351	-	-	351
Carol Musyoka	-	44	64	-	-	108
Esther Koimett	-	-	-	-	-	-
Martin Odour-Otieno	-	44	64	-	-	108
Nicholas Bodo	-	699	-	-	-	699
Festus Kingori	-	786	-	-	-	786
Wanjiku Mugane	-	655	623	-	-	1,278
Ron Schipper	-	742	395	-	-	1,137
Major General M. Gichangi	-	131	132	-	-	263
Total	31,331	24,148	17,249	58,848	4,170	135,746

*After his resignation as a Director on 1 June 2017, the Board retained Mbuvi Ngunze as a consultant on the capital restructuring program that was ongoing. The remuneration in the 9 month period ended 31 December 2017 in his capacity as a consultant was KShs 23,119,000.

Catherine Musakali
Company Secretary

Nairobi

29 April 2019

KENYA AIRWAYS PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

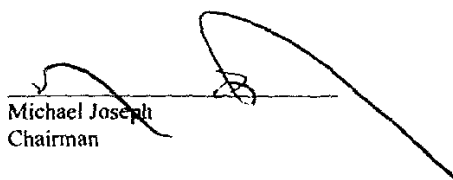
The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of Company as at the end of the financial year and of their profit or loss for that year. It also requires the Directors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

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


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

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

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



Michael Joseph
Chairman



Sebastian Mikosz
Managing Director

29 April 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENYA AIRWAYS PLC

Opinion

Report on the audit of the consolidated and company financial statements

We have audited the consolidated and company financial statements of Kenya Airways Plc, ("the Company") and its subsidiaries (together "the Group"), set out on pages 35 to 124, which comprise the consolidated and company statements of financial position as at 31 December 2018, and the consolidated and company statements of profit or loss and other comprehensive income, consolidated and company statements of changes in equity and consolidated and company statements of cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the consolidated and company financial statements give a true and fair view of the consolidated and company financial position of Kenya Airways Plc as at 31 December 2018, and its consolidated and company financial performance and consolidated and company cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

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

Material uncertainty related to going concern

We draw your attention to note 2(e) in the financial statements, which indicates that the Group and Company incurred a loss of KShs 7,558 million for the year (for the 9 month period ended 31 December 2017: KShs 6,418 million) and KShs 7,812 (31 December 2017: KShs 6,639 million) respectively during the year ended 31 December 2018 and, as of that date, the Group's and Company's current liabilities exceeded current assets by KShs 101,536 million (2017: KShs 106,422 million) and KShs 104,803 million (2017: KShs 109,066 million) respectively. As stated in note 2(e), these events or conditions, along with other matters as set forth therein, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as going concerns.

Our opinion is not modified in respect of this matter.

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

Key audit matters

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

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Revenue recognition</p> <p>The Group's and Company's passenger revenue amounted to KShs 95,187 million and KShs 90,924 million for the year period ended 31 December 2018 as disclosed in note 7(a) to the financial statements. Passenger tickets sales net of discounts and taxes are initially recorded as current liabilities in the "Sales in Advance of Carriage" account and recognised as revenue when the ticket is flown or expires. The Group's and Company's value of unflown tickets in relation to passenger revenue as at 31 December 2018 amounted to KShs 17,382 million and KShs 17,243 million respectively as disclosed in note 31 to the financial statements.</p> <p>Revenue determination and recording relies on complex IT systems in determination of the point of service delivery for flown tickets and the fair value of the services. Additionally, the assessment of the value of expired unutilised tickets to be written back to revenue uses estimates regarding the timing of recognition based on terms and conditions of the ticket and historical trends.</p> <p>Due to the complexity of the IT systems involved in the revenue determination and recognition and the judgement required for the estimation of the unutilised and expired tickets, revenue recognition is considered a key audit matter.</p> <p>For the revenue accounting policy, refer to note 3(c) and for the process used to estimate the write back to revenue refer to note 4(a)(iv).</p>	<p>Our audit procedures to address the risk of material misstatement relating to revenue recognition included:</p> <ul style="list-style-type: none"> Assessing the Group's revenue recognition policy against the relevant International Financial Reporting Standards and the impact of the newly adopted standard, IFRS 15: <i>Revenue from Contracts with Customers</i>; Testing the design, implementation and operating effectiveness of controls over the ticketing and revenue accounting systems; We matched all the flown tickets to the lift files; Re-computing a sample of the total passenger revenue and total sales in advance of carriage; Performing a reconciliation between the total tickets sold, the total revenue recognised i.e. the total uplifts in the year, the expired tickets recognised in revenue and the sales in advance of carriage i.e. the unutilised tickets; Evaluating the reasonability of management's policy for recognising the expired tickets against the terms and conditions of the tickets sold; Re-computing the write back of expired tickets in the year based on management's policy; and Inspecting manual journals posted to the revenue account for validity. <p>Based on procedures performed, we concluded that the revenue recognition criteria of the Group were in line with the applicable International Financial Reporting Standards. In addition, the disclosures pertaining to revenue were found to be appropriate in the financial statements.</p>
<p>Valuation of foreign currency hedging reserve</p> <p>The Group and Company has hedged its foreign currency risk in relation to its forecasted US dollar denominated future revenue streams. The cash flow hedge is accounted for at fair value and gains and losses arising from fair value changes are deferred in equity if the hedge is considered effective and recognised in the statement of profit or loss when hedges are considered ineffective.</p> <p>As at 31 December 2018, the cash flow hedge reserve balance for the Group and Company amounted to KShs 10,861 million as reflected in the statements of changes in equity on pages 40 and 41.</p> <p>The valuation of the cash flow hedge reserve has been identified as a key audit matter due to the significant management assumptions underlying the determination of the effectiveness of the hedge.</p> <p>Refer to note 3(j) for the accounting policy on cash flow hedges.</p>	<p>We evaluated the methodology and key assumptions adopted by the Directors in testing the hedge effectiveness and determining the fair value of the cash flow hedge by:</p> <ul style="list-style-type: none"> Testing the design and implementation of controls around the management reviews of the cash flow hedge effectiveness assessment; Reviewing the computations to test the accuracy and completeness of the inputs into the cash flow hedge computation; Re-computing the period end valuation of the cash flow hedge reserve and checking the reasonableness of exchange rates used; Evaluating the reasonability of the future USD revenue forecasts from sale of passenger tickets; Engaging our in-house IFRS expert in reviewing the hedge instrument and verifying whether it meets the criteria for hedge accounting as per provisions of IFRS 9: <i>Financial Instruments</i>; and Re-performing the hedge effectiveness testing and verifying whether it meets the provisions IFRS 9: <i>Financial Instruments</i>. <p>Based on audit procedures completed, we concluded that the cash flow hedge and hedge effectiveness assessments meet the requirements of IFRS 9: <i>Financial Instruments</i>. The period end valuation of the hedge and accompanying disclosures were also found to be appropriate.</p>

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

Key Audit Matters (continued)

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Impairment of aircraft and related equipment</p> <p>As disclosed in note 15 of the consolidated and company financial statements as at 31 December 2018, the Group's and Company's aircraft and related equipment amounted to KShs 90,044 million and KShs 89,965 million as at 31 December 2018 respectively; constitutes 66% and 60% of the total assets of the Group and the Company respectively.</p> <p>As required by IAS 36: <i>Impairment of assets</i>, the Directors conduct annual impairment tests to assess the recoverability of the carrying value of its aircraft and related equipment. This is performed using discounted cash flow models.</p> <p>The determination of impairment is based on the Directors' assumptions and significant judgement and thus may be subject to bias. The key assumptions include passenger revenue and cost growth, fuel recovery and the discount rate. Accordingly, impairment of aircraft and related equipment is considered as a key audit matter.</p> <p>Further details on the process used to assess the indicators of impairment in aircraft and related equipment are set out in note 4(a)(i).</p>	<p>Our procedures to address the risk relating to impairment of aircrafts and related equipment included:</p> <ul style="list-style-type: none"> • Evaluating the design and implementation of controls over the assessment of aircraft impairment, in particular around the review of assumptions and outputs; • Assessing whether there are any indicators of impairment of the aircrafts as per the requirements of IAS 36: <i>Impairment of assets</i>; • Engaging our in-house fair value specialist in reviewing and re-computing the discount rate used in the model; • Assessing and challenging the impairment model used including the identification of the cash-generating units; • Analysing and challenging the Directors' key assumptions used in the model specifically the passenger revenue and cost growth, fuel recovery and the discount rate; • Analysing the projected cash flows by assessing the key assumptions against historical performance to test the reasonableness of the Directors' assumption; • Subjecting the key assumptions to sensitivity analysis; and • Testing the integrity and mathematical accuracy of the impairment model and agreeing relevant input data to externally derived data (where applicable) as well as forming our own assessment. <p>Based on procedures completed, we concluded that the assumptions used by the Directors in assessment of impairment were appropriate and had been applied. In addition, the disclosures pertaining to the impairment of aircraft and related equipment were found to be appropriate in the financial statements.</p>
<p>Loan classification</p> <p>The Group and Company has facilities with African Export-Import Bank, 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.</p> <p>The Group and Company had an outstanding balance of KShs 77,776 million as at 31 December 2018. The Group and Company did not comply with the unrestricted cash to revenue ratio as at that date.</p> <p>The determination as to whether the Group's and Company's non-compliance with the loan covenants constituted a breach as per the provisions of IAS 1: <i>Presentation of Financial Statements</i>. Loan classification is considered a key audit matter due to the extensive discussions with management and those charged with governance at various stages throughout the audit about its impact on the going concern and the related liquidity ratios on the financial statements.</p>	<p>Our procedures to address the risk relating of loan classification included:</p> <ul style="list-style-type: none"> • Reviewing the loan agreements so as to gain an understanding of the financial covenants; • Reviewing the computations of the ratios to test the accuracy and completeness of the inputs included in the financial ratios computation are as per the loan agreements; and • Engaging our technical team in reviewing the loan agreements and verifying whether the non-compliance meets the criteria for breach as per provisions of IAS 1: <i>Presentation of Financial Statements</i>. <p>Based on procedures completed, we concluded that the loan classification in previous periods was erroneous as the Group and Company did not have an unconditional right to defer payment for the next 12 months as per provisions of IAS 1: <i>Presentation of Financial Statements</i>. Consequently the prior year financial statements have been restated as disclosed in note 40. For the year ended 31 December 2018, the disclosures pertaining to the loan classification were appropriate in the financial statements.</p>

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

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Fleet accounting of prepaid maintenance asset and return condition provisions</p> <p>The Group and Company operated 25 and 20 aircraft respectively under operating lease arrangements as at 31 December 2018.</p> <p>Under the terms of the operating lease arrangements with the lessors, the Group and Company is contractually committed to return the aircraft and engines in a certain condition at the date of return. Accordingly, the Group and Company have recognised a return condition provision amounting to KShs 4,175 million (2017 - restated: KShs 4,650 million) and KShs 3,423 million (2017 - restated: KShs 3,898 million) respectively as at 31 December 2018 as disclosed under note 30.</p> <p>In addition, the lease agreements require the Group and Company to make payments towards the maintenance of the aircraft. The lessors are contractually obligated to reimburse the Group and Company for the qualifying maintenance expenditure incurred on the aircraft if the Group and Company has a maintenance reserve credit. As at 31 December 2018, the Group and Company had a prepaid maintenance asset of KShs 3,398 million (2017 - restated: KShs 4,125 million) and KShs 3,018 million (2017 - restated: KShs 4,043 million) respectively as disclosed under note 20.</p> <p>The return condition provision requires the Directors to determine whether there is an unavoidable contractual obligation at the end of each reporting period and this is calculated taking into account the number of hours or cycles operated, the expected future cost of future maintenance and the discount rate to use. It is based on the Group's and Company's historical experience and contractual obligations in determining the present value of the estimated future costs of major airframe inspections and engine overhauls required under the lease conditions. There were extensive discussions with management and those charged with governance at various stages throughout the audit on the accounting treatment of the prepaid maintenance asset and return condition provision. Accordingly, fleet accounting of prepaid maintenance asset and return condition provision is considered as a key audit matter.</p> <p>Further details on the process used to estimate the return condition provision are set out in note 4(a)(viii).</p>	<p>Our procedures to address the risk relating to fleet accounting of prepaid maintenance asset and return condition provisions included:</p> <ul style="list-style-type: none"> • Reviewing the lease agreements so as to gain an understanding of the significant terms which influence the economics of, and hence accounting for, the Group's and Company's obligations; • Testing the completeness of the provision by ensuring that all significant return condition obligations included in aircraft operating lease contracts were included in the calculation; • We assessed Directors' assumptions as to the expected future cost of maintenance by corroborating the estimate of the cost of maintenance work to third party price lists and quotes, or to historic invoices; • For the maintenance reserve, we obtained confirmations from the lessors of the maintenance reserve payments held at the end of the reporting period; and • We assessed recoverability of the balance from the lessors by considering the expected future maintenance cost against which the Group and Company could claim. <p>Based on procedures completed, we concluded that the Group and Company had erroneously accounted for its prepaid maintenance asset as an expense in prior years and had previously not assessed the return condition provision for the aircrafts under operating lease arrangements. Consequently, the financial statements for the 9 month period ended 31 December 2017 have been restated as disclosed in note 40. As at 31 December 2018, the assumptions used by the Directors in assessment of the return condition provision and recoverability of the prepaid maintenance asset were appropriate and had been accurately applied. In addition, the disclosures pertaining to the return condition provision and the prepaid maintenance asset found to be appropriate in the financial statements.</p>

Other information

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

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

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

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

Responsibilities of the Directors for the consolidated and company financial statements

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

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

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

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

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

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

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

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

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

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

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

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

Report of the Directors

In our opinion the information given in the Report of the Directors on pages 20 to 24 is consistent with the financial statements.

Directors' Remuneration Report

In our opinion the auditable part of the Director's Remuneration Report presented on pages 25 to 27 has been prepared in accordance with the Kenyan Companies Act, 2015.

Delo & Touche

**Certified Public Accountants (Kenya)
Nairobi**

21 April 2019

CPA Freda Mitambo - P/No 2174
Signing partner responsible for the independent audit

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

		2018 (12 months) KShs million	2017 (9 months) (Restated*) KShs million
	Notes		
Revenue	7(a)	114,185	80,148
Other income	7(b)	-	651
Total income		114,185	80,799
Direct costs	8(a)	(75,030)	(51,719)
Fleet ownership costs	8(b)	(18,929)	(12,535)
Overheads	8(c)	(20,909)	(15,537)
Operating(loss)/profit		(683)	1,008
Finance costs	9	(5,062)	(4,923)
Interest income	9	45	32
Other losses	10	(1,888)	(2,423)
Loss before taxation	11	(7,588)	(6,306)
Taxation credit/(charge)	12(a)	30	(112)
Loss for the year/period		(7,558)	(6,418)
Other comprehensive income			
<i>Items that may or will be reclassified subsequently to profit or loss</i>			
Gain on hedged exchange differences	27(e)	2,045	1,250
Changes in fair value in relation to fuel hedges	25(a)	(435)	-
Other comprehensive income for the year/period, net of tax		1,610	1,250
Total comprehensive loss for the year/period		(5,948)	(5,168)
Loss for the year/period is attributable to:			
Owners of the company		(7,554)	(6,422)
Non-controlling interest	26	(4)	4
Loss for the year/period		(7,558)	(6,418)
Total comprehensive loss for the year/period is attributable to:			
Owners of the company		(5,944)	(5,172)
Non-controlling interest	26	(4)	4
Total comprehensive loss for the year/period		(5,948)	(5,168)
Basic loss per share (KShs)	13	(1.30)	(1.10)
Diluted loss per share (KShs)	13	(1.01)	(0.86)

*Please refer to note 40 for the prior year adjustment.

KENYA AIRWAYS PLC

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

		2018 (12 months)	2017 (9 months) (Restated*)
	Notes	KShs million	KShs million
Revenue	7(a)	107,820	76,613
Other income	7(b)	-	651
Total income		107,820	77,264
Direct costs	8(a)	(72,318)	(49,913)
Fleet ownership costs	8(b)	(17,616)	(12,150)
Overheads	8(c)	(18,792)	(14,524)
Operating (loss)/profit		(906)	677
Finance costs	9	(5,059)	(4,921)
Interest income	9	51	38
Other losses	10	(1,866)	(2,417)
Loss before taxation	11	(7,780)	(6,623)
Taxation charge	12(a)	(32)	(16)
Loss for the year/period		(7,812)	(6,639)
Other comprehensive income			
<i>Items that may or will be reclassified subsequently to profit or loss</i>			
Gain on hedged exchange differences	27(e)	2,045	1,250
Changes in fair value in relation to fuel hedges	25(a)	(435)	-
Other comprehensive income for the year/period, net of tax		1,610	1,250
Total comprehensive loss for the year/period		(6,202)	(5,389)

*Please refer to note 40 for the prior year adjustment.

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

		31 December 2018	31 December 2017 (Restated*)	1 April 2017 (Restated*)
	Notes	KShs million	KShs million	KShs million
ASSETS				
Non-current assets				
Property, aircraft and equipment	15	99,835	109,877	113,907
Intangible assets	16	2,962	2,891	377
Return conditions asset	18	2,587	3,392	2,810
Aircraft deposits	19	3,076	5,328	4,915
Deferred taxation	28	198	118	198
		<u>108,658</u>	<u>121,606</u>	<u>122,207</u>
Current assets				
Prepaid maintenance asset	20	3,398	4,125	3,501
Inventories	21	2,098	2,033	1,829
Trade and other receivables	22	14,437	11,809	13,383
Fuel derivatives	25(a)	354	-	-
Current taxation assets	12(c)	1,258	1,249	1,243
Cash and bank balances		6,431	6,356	9,186
		<u>27,976</u>	<u>25,572</u>	<u>29,142</u>
Assets held for sale	23(b)	-	445	1,115
		<u>27,976</u>	<u>26,017</u>	<u>30,257</u>
TOTAL ASSETS		<u>136,634</u>	<u>147,623</u>	<u>152,464</u>
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	24(a)	5,824	5,824	7,482
Share premium	24(a)	49,223	49,221	8,670
Mandatory convertible note	24(b)	9,630	9,630	-
Treasury shares	24(c)	(142)	(142)	-
Foreign currency hedging reserve	25(c)	(10,861)	(12,906)	(14,156)
Fuel hedging reserve	25(a)	(435)	-	-
Revaluation surplus		4,911	4,911	4,911
Accumulated loss		(60,688)	(51,734)	(45,312)
		<u>(2,538)</u>	<u>4,804</u>	<u>(38,405)</u>
Equity attributable to owners of the company		49	53	49
Non-controlling interests	26			
Total equity		<u>(2,489)</u>	<u>4,857</u>	<u>(38,356)</u>

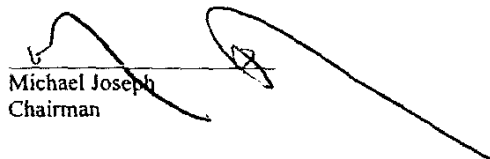
KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2018

		31 December 2018	31 December 2017 (Restated*)	1 April 2017 (Restated*)
	Notes	KShs million	KShs million	KShs million
Liabilities				
Non-current liabilities				
Borrowings	27(a)	5,186	4,328	31,464
Deferred taxation	28	2,013	2,013	2,013
Onerous lease provision	29	30	857	1,620
Return condition provision	30	2,382	3,129	2,619
		<u>9,611</u>	<u>10,327</u>	<u>37,716</u>
Current liabilities				
Current tax payable	12(c)	-	3	8
Borrowings	28(a)	77,362	86,031	108,585
Onerous lease provision	29	701	1,001	999
Return condition provision	30	1,793	1,521	191
Sales in advance of carriage	31	17,551	15,167	15,504
Trade and other payables	32	30,038	27,049	24,479
Fuel derivatives	25(a)	789	-	-
Provisions	33	1,278	1,667	3,338
		<u>129,512</u>	<u>132,439</u>	<u>153,104</u>
TOTAL EQUITY AND LIABILITIES		<u><u>136,634</u></u>	<u><u>147,623</u></u>	<u><u>152,464</u></u>

*Please refer to note 40 for the prior year adjustment.

The financial statements on pages 35 to 124 were approved and authorised for issue by the Board of Directors on 29 April 2019 and signed on its behalf by:


Michael Joseph
Chairman

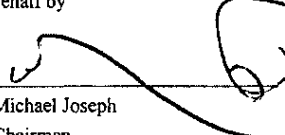

Sebastian Mikosz
Managing Director

KENYA AIRWAYS PLC
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

		31 December 2018	31 December 2017 (Restated*)	1 April 2017 (Restated*)
		KShs million	KShs million	KShs million
ASSETS	Notes			
Non-current assets				
Property, aircraft and equipment	15	99,099	109,187	113,229
Intangible assets	16	2,943	2,841	312
Return conditions asset	18	2,141	2,639	2,810
Investment in subsidiaries	17(a)	601	435	435
Aircraft deposits	19	3,076	5,328	4,915
		<u>107,860</u>	<u>120,430</u>	<u>121,701</u>
Current assets				
Prepaid maintenance asset	20	3,018	4,043	3,501
Inventories	21	2,098	2,033	1,829
Trade and other receivables	22	29,952	21,856	22,250
Fuel Derivatives	25(a)	354	-	-
Current taxation assets	12(c)	1,252	1,249	1,240
Cash and bank balances		6,243	6,163	8,972
		<u>42,917</u>	<u>35,344</u>	<u>37,792</u>
Assets held for sale	23(b)	-	445	1,115
		<u>42,917</u>	<u>35,789</u>	<u>38,907</u>
TOTAL ASSETS		<u>150,777</u>	<u>156,219</u>	<u>160,608</u>
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	24(a)	5,824	5,824	7,482
Share premium	24(a)	49,223	49,221	8,670
Mandatory convertible note	24(b)	9,630	9,630	-
Treasury Shares	24(c)	(142)	(142)	-
Foreign currency hedging reserve	25(c)	(10,861)	(12,906)	(14,156)
Fuel hedging reserve	25(a)	(435)	-	-
Revaluation surplus		4,697	4,697	4,697
Accumulated loss		(63,738)	(54,535)	(47,896)
Total equity		<u>(5,802)</u>	<u>1,789</u>	<u>(41,203)</u>
Liabilities				
Non-current liabilities				
Borrowings	27(a)	5,186	4,328	31,464
Deferred taxation	28	2,013	2,013	2,013
Onerous lease provision	29	30	857	1,620
Return condition provision	30	1,630	2,377	2,619
		<u>8,859</u>	<u>9,575</u>	<u>37,716</u>
Current liabilities				
Borrowings	27(a)	77,362	86,031	108,585
Onerous lease provision	29	701	1,001	999
Return condition provision	30	1,793	1,521	191
Sales in advance of carriage	31	17,412	15,068	15,356
Trade and other payables	32	48,423	39,629	36,346
Fuel derivative	25(a)	789	-	-
Provisions	33	1,240	1,605	2,618
		<u>147,720</u>	<u>144,855</u>	<u>164,095</u>
TOTAL EQUITY AND LIABILITIES		<u>150,777</u>	<u>156,219</u>	<u>160,608</u>

*Please refer to note 40 for the prior year adjustment.

The financial statements on pages 35 to 124 were approved and authorised for issue by the Board of Directors on 29 April 2019 and signed on its behalf by:


Michael Joseph
Chairman


Sebastian Mikosz
Managing Director

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Share capital KShs million	Share premium KShs million	Mandatory convertible note KShs million	Treasury shares KShs million	Foreign currency hedging reserve KShs million	Fuel hedging reserve KShs million	Revaluation reserve KShs million	Accumulated loss KShs million	Total KShs million	Non-controlling interest KShs million	Total equity KShs million
At 1 April 2017 - as previously reported	40	7,482	8,670	-	-	(14,156)	-	4,911	(51,871)	(44,964)	49	(44,915)
Prior year adjustment		-	-	-	-	-	-	-	6,559	6,559	-	6,559
At 1 April 2017 - restated		7,482	8,670	-	-	(14,156)	-	4,911	(45,312)	(38,405)	49	38,356
Change in par value	24(a)	(7,107)	7,107	-	-	-	-	-	-	-	-	-
Issue of ordinary shares through conversion of debt	24(a)	5,307	35,987	-	-	-	-	-	-	41,294	-	41,294
Issue of mandatory convertible note - restated	24(b)	-	-	9,630	-	-	-	-	-	9,630	-	9,630
Expenses directly attributable to the restructuring	24(a)	-	(2,543)	-	-	-	-	-	-	(2,543)	-	(2,543)
Issue of shares to employees share ownership scheme	24(c)	142	-	-	(142)	-	-	-	-	-	-	-
Total comprehensive loss for the period		-	-	-	-	1,250	-	-	(6,422)	(5,172)	4	(5,168)
At 31 December 2017 - restated		5,824	49,221	9,630	(142)	(12,906)	-	4,911	(51,734)	4,804	53	4,857
At 1 January 2018 - restated	40	5,824	49,221	9,630	(142)	(12,906)	-	4,911	(51,734)	4,804	53	4,857
Effect of change of accounting policy for IFRS 9		-	-	-	-	-	-	-	(1,400)	(1,400)	-	(1,400)
At 1 January 2018 - restated		5,824	49,221	9,630	(142)	(12,906)	-	4,911	(53,134)	3,404	53	3,457
Issue of ordinary shares through conversion of mandatory convertible note	24(a)	-	2	-	-	2,045	(435)	-	-	2	-	2
Total comprehensive loss for the year		-	-	-	-	-	-	-	(7,558)	(5,944)	(4)	(5,948)
At 31 December 2018		5,824	49,223	9,630	(142)	(10,861)	(435)	4,911	(60,692)	(2,538)	49	(2,489)

KENYA AIRWAYS PLC

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Share capital KShs million	Share premium KShs million	Mandatory convertible note KShs million	Treasury shares KShs million	Foreign currency hedging reserve KShs million	Fuel hedging reserve KShs million	Revaluation reserve KShs million	Accumulated loss KShs million	Total KShs million
At 1 April 2017 - as previously reported		7,482	8,670	-	-	(14,156)	-	4,697	(54,455)	(47,762)
Prior year adjustment (note 40)	40	-	-	-	-	-	-	-	6,559	6,559
At 1 April 2017 - restated		7,482	8,670	-	-	(14,156)	-	4,697	(47,896)	(41,203)
Change in par value		(7,107)	7,107	-	-	-	-	-	-	-
Issue of ordinary shares through conversion of debt	24(a)	5,307	35,987	-	-	-	-	-	-	41,294
Issue of mandatory convertible note - restated	24(b)	-	-	9,630	-	-	-	-	-	9,630
Expenses directly attributable to the restructuring	24(a)	-	(2,543)	-	-	-	-	-	-	(2,543)
Issue of shares to employees share ownership scheme	24(c)	142	-	-	(142)	-	-	-	-	-
Total comprehensive loss for the period		-	-	-	-	1,250	-	-	(6,639)	(5,389)
At 31 December 2017 - restated		5,824	49,221	9,630	(142)	(12,906)	-	4,697	(54,535)	1,789
At 1 January 2018 - restated		5,824	49,221	9,630	(142)	(12,906)	-	4,697	(54,535)	1,789
Effect of change of accounting policy for IFRS 9	40	-	-	-	-	-	-	-	(1,391)	(1,391)
At 1 January 2018 - restated		5,824	49,221	9,630	(142)	(12,906)	-	4,697	(55,926)	398
Issue of ordinary shares through conversion of mandatory convertible note	24(a)	-	2	-	-	-	-	-	-	2
Total comprehensive loss for the year		-	-	-	-	2,045	(435)	-	(7,812)	(6,202)
At 31 December 2018		5,824	49,223	9,630	(142)	(10,861)	(435)	4,697	(63,738)	(5,802)

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

		2018 (12 months) KShs million	2017 (9 months) KShs million
	Notes		
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35(a)	11,238	11,595
Interest received		45	32
Interest paid		(4,838)	(4,923)
Income tax paid	12(c)	(62)	(43)
		<hr/>	<hr/>
Net cash generated from operating activities		6,383	6,661
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	15	(732)	(662)
Proceeds of disposal of property and equipment and assets held for sale		673	18
Purchase of intangible assets	16(b)	(75)	(1)
Commitment and commission fees paid during the year	27(a)	(25)	(358)
Deposits paid for aircraft purchases	19	(311)	(439)
Aircraft deposit refunds received	19	2,486	-
Onerous lease payments	29	(1,023)	(755)
		<hr/>	<hr/>
Net cash generated from/(used in) investing activities		993	(2,197)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for share issue costs	24(a)	-	(2,543)
Borrowings received	27(e)	-	4,358
Repayments of borrowings	27(e)	(7,301)	(9,109)
		<hr/>	<hr/>
Net cash used in financing activities		(7,301)	(7,294)
		<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents		75	(2,830)
Cash and cash equivalents at beginning of year/period		6,356	9,186
		<hr/>	<hr/>
Cash and cash equivalents at end of year/period	35(b)	6,431	6,356
		<hr/>	<hr/>

KENYA AIRWAYS PLC

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 (12 months) KShs million	2017 (9 months) KShs million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35(a)	11,095	11,526
Interest received		51	38
Interest paid		(4,835)	(4,921)
Income tax paid	12(c)	(35)	(25)
		<hr/>	<hr/>
Net cash generated from operating activities		6,276	6,618
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	15	(621)	(598)
Proceeds of disposal of property and equipment and assets held for sale		673	18
Purchase of intangible assets	16(b)	(74)	(1)
Commitment and commission fees paid during the year	27(h)	(25)	(358)
Deposits paid for aircraft purchases	19	(311)	(439)
Aircraft deposit refunds received	19	2,486	-
Onerous lease payments	29	(1,023)	(755)
		<hr/>	<hr/>
Net cash generated from/(used in) investing activities		1,105	(2,133)
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for share issue costs	24(a)	-	(2,543)
Borrowings received	27(e)	-	4,358
Repayments of borrowings	27(e)	(7,301)	(9,109)
		<hr/>	<hr/>
Net cash used in financing activities		(7,301)	(7,294)
		<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents		80	(2,809)
Cash and cash equivalents at beginning of year/period		6,163	8,972
		<hr/>	<hr/>
Cash and cash equivalents at end of year/period	36(b)	<u>6,243</u>	<u>6,163</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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").

In the year 2017, the Directors resolved to change the Company's year-end to align with the IATA reporting calendar and majority of its Sky Team partners. The amounts presented in the consolidated and company statements of profit or loss and other comprehensive income and consolidated and company statement of cash flows for the year 2018 covered twelve (12) months whilst 2017 covered nine (9) months and therefore not entirely comparable.

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 consolidated and company financial statements have been prepared on the historical cost basis of accounting except for Land and buildings which are measured at revalued amounts, derivative financial instruments which are measured at fair value and non-current assets held for sale that are measured at the lower of carrying amount and fair value less costs to sell.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgements (Continued)

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

(e) Going concern

The Group and Company incurred a net loss after tax of KShs 7,558 million and KShs 7,812 million respectively during the year ended 31 December 2018 (for the nine month period ended 31 December 2017: KShs 6,418 million and KShs 6,639 million respectively) and, as of that date, the Group's and Company's current liabilities exceeded their current assets by KShs 101,536 million and KShs 104,803 million respectively (31 December 2017: KShs 106,422 million and KShs 109,066 million respectively). In addition, as at 31 December 2018, the Group's and Company's total liabilities exceeded its total assets by KShs 2,489 million and 5,802 million respectively (31 December 2017: the Group's and Company's total assets exceeded their total liabilities by KShs 4,857 million and KShs 1,789 million respectively). This indicates the existence of a material uncertainty which may cast significant doubt on the Group and Company's ability to continue as a going concern, and therefore may be unable to realize its assets and discharge its liabilities in the normal course of business.

As reported last year, the Group and Company have continued with the turnaround plan after the restructuring process. The Group and Company have strategic initiatives in place with focus on:

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

The actions under these initiatives are already bearing fruit with a slight improvement in the performance of the Group.

The Directors believe the plans enumerated above will improve the Group and Company's performance, cash flows and liquidity position. 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.

As part of the balance sheet restructuring, the Government of Kenya (GoK) issued guarantees in the aggregate amount of USD 750 million in favour of Exim Bank and a consortium of Kenyan banks in relation to certain obligations of the Group and Company to Exim Bank and the consortium of Kenyan Banks. In addition, in 2017, the consortium of Kenya banks advanced the Company a facility of USD 100 million. As at 31 December 2018, the Company had only utilised USD 42 million as disclosed on note 27(b).

The GoK further committed through a letter of support to continue providing the required support to the Company to enable it to implement its turnaround program and meet its financial obligations as and when they fall due, at least for the next 12 months from the approval of the financial statements for the year ended 31 December 2018.

The Directors have also reviewed the current trading and cash flow projections as part of their assessment, and after making enquiries and carefully considering the initiatives above, have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors have prepared the consolidated and company financial statements on a going concern basis since they are confident that the plans described above provide a reasonable expectation that the Group and Company will be able to meet their liabilities as and when they fall due.

KENYA AIRWAYS PLC

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 9 and 15 that have been adopted in the current year.

(a) **Basis of consolidation**

(i) **Subsidiaries**

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

(ii) **Non-controlling interests (NCI)**

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

(iii) **Loss of control**

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

(iv) **Transactions eliminated on consolidation**

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

(b) **Transactions in foreign currencies**

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

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

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

(c) **Revenue recognition**

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

The Group recognises revenue from the following major sources:

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Revenue recognition (Continued)

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. The Group has concluded that it is acting as a principal in all its revenue arrangements except for passenger interline, sales on board and sale of holiday packages where the Group acts as an agent. The specific recognition criteria described below must also be met before revenue is recognised.

▪ *Passenger, freight and mail*

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

▪ *Handling services*

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

▪ *Lease rental income*

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

▪ *Other Revenue*

Engineering services

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

Training services

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

Interest income

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

(d) Frequent flyer programmes

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, aircrafts 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, aircrafts 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 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, aircrafts and equipment are determined by comparing the proceeds of disposal with the carrying amount of the item of property, aircrafts and equipment and are recognised in profit or loss in the year in which they arise.

(ii) *Depreciation*

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

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

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

(iii) *Revaluation*

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, aircrafts and equipment (Continued)

(iii) *Revaluation (Continued)*

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 items*

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

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

(f) Assets held for sale

Non-current assets or disposal groups comprising assets and liabilities are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets which continue to be measured in accordance with the Group's and Company's other accounting policies. Impairment losses on re-measurement are recognised in profit or loss.

Once classified as held for sale, intangible assets, property and equipment are no longer depreciated and any equity accounted investee is no longer equity accounted.

(g) 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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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.

(i) Leased assets

(i) Finance lease

Leases of property, aircrafts and equipment, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at cost. Each lease payment is allocated between the liability and finance charges. The interest element is charged to profit or loss over the lease period and is included under finance costs. Such property, aircrafts and equipment is depreciated over its useful life.

(ii) Operating lease

Leases of assets under which a significant portion of the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on the straight-line basis over the period of the lease.

(iii) Onerous lease

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

(iv) Return conditions provision

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

(v) Prepaid maintenance asset

Prepaid maintenance asset are payments made in advance to lessors in terms of the aircraft lease contract for maintenance of the aircraft. The lessors are contractually obligated to reimburse the lessees for the qualifying maintenance expenditure incurred on the aircraft if the lessee has a maintenance reserve credit. At the beginning of the lease period, the Group and Company needs to determine how much of the maintenance reserve payments is recoverable and how much relates to supplemental rent. The supplemental rent will then be expensed as part of the normal lease payments as per the provision of IAS 17: *Leases*. The prepaid maintenance asset is assessed annually for recoverability against the Group's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve prepayments are treated as supplemental rent and expensed accordingly.

(j) Derivative financial instruments and hedge accounting

The Group and Company 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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) **Derivative financial instruments and hedge accounting (Continued)**

The Group designates:

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

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

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

Cash flow hedges

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.

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.

(k) **Aircraft purchase**

(i) Aircraft subsidy

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

(ii) Deferred income

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

(iii) Deferred expenditure

The Group amortises cost of obtaining aircraft financing over the loan repayment period. The deferred expenditure is capitalised to the related borrowing (see note 27(h)).

(iv) Aircraft deposits

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) 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 has 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) Leave accrual

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

(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 (2017: 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.

(v) Staff gratuity

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

(m) Taxation

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

(i) Current taxation

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Taxation (Continued)

(ii) *Deferred taxation*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(ii) *De-recognition*

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

Financial assets (Continued)

(ii) De-recognition (Continued)

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.

(s) Impairment

(i) Financial assets

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

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

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

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

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment (Continued)

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

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

(t) 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 Company 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.

(u) 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.

(v) 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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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 and Company disclose 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.

(x) 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 (see note 6).

(y) Dividends

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

(z) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, the comparative information has been restated as a result of prior year errors as disclosed in note 40.

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2018*

The following revised IFRSs were effective in the current period and the nature and the impact of the relevant amendments are described below.

Impact of initial application of IFRS 15 *Revenue from Contracts with Customers*

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers which is effective for an annual period that begins on or after 1 January 2018. The standard establishes a five step model that applies to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects a consideration to which the entity expects to be entitled in exchange for goods and services at the point at when performance obligations associated with these goods and services have been satisfied.

The Group has identified the following changes to revenue recognition on the adoption of the standard:

- Passenger revenue – revenue associated with ancillary services that was previously recognised when paid, such as re-issue charges, is deferred to align with the recognition of revenue associated with the related travel; and
- Other revenue – revenue associated with holiday revenue with performance obligations that are fulfilled over time, is deferred (with the related costs) and recognised over the performance obligation period.

The Group has applied the standard on a modified retrospective basis of IFRS 15, and the application of the standard did not have significant impact except for the additional disclosures on the consolidated and company financial statements. Consequently, the day 1 adjustment was considered immaterial for any of the financial statement line items as a result of application of IFRS 15.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2018 (Continued)*

Impact of initial application of IFRS 9 *Financial Instrument*

The Group has adopted IFRS 9 '*Financial Instruments*' from 1 January 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets. It also introduces a new hedge accounting model to more closely align hedge accounting with risk management strategies and objectives.

The transition provision of IFRS 9 allow an entity not to restate comparatives consequently, the Group has elected not to restate comparatives. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in the Statement of Changes in Equity.

a) *Classification and measurement of financial assets*

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost;
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets FVPL.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

The Group's balance sheet only contains the following financial assets:

- Aircraft deposits;
- Trade receivables; and
- Cash and bank balances.

There has been no change in the measurement criteria for any of the Group's financial assets on adoption of IFRS 9 after the consideration of the business model and cash flow characteristics. Specifically, the trade receivables typically held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost and are subject to impairment.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2018 (Continued)*

Impact of initial application of IFRS 9 *Financial Instrument*

b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- Trade receivables;
- Aircraft deposits; and
- Bank balances.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables.

Items existing as at 1 January 2018 that are subject to impairment provision of IFRS 9	Credit risk attributes at 1 January 2018	Cumulative additional allowance recognized on 1 January 2018	Cumulative additional allowance recognized on 1 January 2018
		Group KShs'million	Company KShs'million
Trade receivables	For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.	1,393	1,384

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2018 (Continued)*

Impact of initial application of IFRS 9 *Financial Instrument*

b) *Impairment of financial assets (Continued)*

Items existing as at 1 January 2018 that are subject to impairment provision of IFRS 9	Credit risk attributes at 1 January 2018	Cumulative additional allowance recognized on 1 January 2018	Cumulative additional allowance recognized on 1 January 2018
		Group KShs'million	Company KShs'million
Aircraft deposits	All aircraft deposit balances are assessed to have low credit risk at each reporting date as they are held with reputable international institutions.	-	-
Bank balances	There has been no significant increase in the credit risk of bank balances. The Group has recognized 12-months expected credit losses for these balances.	7	7
Total		1,400	1,391

The additional credit loss allowance of KShs 1,400 million and KShs 1,391 million as at 1 January 2018 for Group and Company respectively has been recognised against retained earnings. The additional loss allowance is charged against the respective assets.

The reconciliation between the ending provision for impairment in accordance with IAS 39 to the opening loss allowance determined in accordance with IFRS 9 for the above financial instruments on 1 January 2018 has been disclosed in note 5(b).

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability. (e.g. a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transactions is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The application of the amendments did not have an impact on the consolidated and company financial statements as the Group and Company already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New and amended standards in issue but not yet effective in the year ended 31 December 2018

<i>New standards and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
IFRS 9 Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2019
Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2018

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right of use asset and a corresponding liability be recognised for all lessees (i.e. on balance sheet) except for short term leases and leases of low value assets.

The right of use is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16, the lease payments will be split into principal and interest portions which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward lessor accounting treatment in IAS 17 and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Directors of the Group anticipate that the application of this standard will have a significant impact on the consolidated and company financial statements as at 1 January 2019.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2018 (Continued).*

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements to IFRS Standards 2015-2017 cycle makes amendments to the following standards:

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

The 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.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

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

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2018 (Continued).*

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

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

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

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

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

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

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

The 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.

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

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28). The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

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

(iv) *Early adoption of standards*

The Group did not early adopt new or amended standards in the period ended 31 December 2018.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group and Company makes assumptions of the effects of uncertain future events on those assets and liabilities at the reporting date. The Group's and Company's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgments in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty are set out in the notes below:

a) Critical accounting estimates

(i) *Impairment of aircraft and related equipment*

A decline in the value of aircraft could have a significant effect on the amounts recognised in the financial statements. Directors assess the impairment of aircraft whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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

The Group and Company have conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount of its aircraft. The key assumptions relate to growth rates applicable to the cash generating units (CGUs) estimation of the future cash flows expected to be generated by the CGUs and the discount rates applied to the projected future cash flows to arrive at the present value.

(ii) *Property, aircrafts and equipment and intangible assets*

Useful life of assets

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

(iii) *Revaluation of land and buildings*

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

(iv) *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.

(v) *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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Critical accounting estimates (Continued)

(v) *Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount. Non-financial assets that are not subject to amortisation are tested annually for impairment. These calculations require the use of estimates and assumptions such as future expected cash flows and pre-tax discount rate. In the Directors' judgement, the carrying value of Jambojet investment has been impaired as per note 17(a)

(vi) *Classification of leases of land as finance or operating leases*

At the inception of each lease of land, the Group and Company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

(vii) *Deferred tax asset*

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

(viii) *Provision for lease return costs*

The Group is required to fulfil certain lease return conditions which may include the completion of certain overhauls to the airframe, auxiliary power unit, engines and the refurbishment of seats within the aircraft. The provision for return costs 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.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's and Company's accounting policies, the Directors have made judgements in determining:

- the classification of finance and operating leases;
- whether financial and non-financial assets are impaired;
- assessment of going concern assumptions;
- amortisation of intangible assets;
- provision for inventory;
- provision for trade and other receivables;
- foreign currency hedge effectiveness assessment;
- depreciation of property and equipment; and
- provision for lease return costs.

KENYA AIRWAYS PLC

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

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

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

(a) Market risk

Market risk is the risk that changes in market prices, such as changes in interest rates, jet fuel prices or foreign exchange rates will affect the Group's and Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising returns.

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

(i) Interest rate risk

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk (Continued)

(i) Interest rate risk (Continued)

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

Exposure to interest rate risk

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

Group and Company

	Nominal amount			
	2018		2017	(Restated)
	Effective interest rate	KShs million	Effective interest rate	KShs million
Fixed rate instruments				
Short term borrowings	2.00%	60	14.10%	1,049
Long term borrowings	2.00%	184	7.44%	248
Mandatory convertible loan	12.03%	3,456	12.03%	3,277
		<u>3,700</u>		<u>4,574</u>
Variable rate instruments				
Short term borrowings	4.08%	6,139	3.00%	6,366
Long term borrowings	4.26%	75,947	3.22%	83,175
		<u>82,086</u>		<u>89,541</u>
Total exposure		<u><u>85,786</u></u>		<u><u>94,115</u></u>

Sensitivity Analysis

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

	Profit or loss/equity	
	2018	2017
	KShs million	KShs million
Variable rate instruments		
1% increase	(821)	(895)
1% decrease	<u>821</u>	<u>895</u>

KENYA AIRWAYS PLC

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. Kenya Airways Plc 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.

Sensitivity analysis

An increase/decrease of one percentage point in the fuel price at the reporting date would have increased/decreased profit or loss and equity by KShs 331 million.

(ii) Currency risk

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

To mitigate the foreign currency risk exposure, management hedges highly probable forecast USD sales against USD Loans to ensure that the foreign currency obtained from their sales is used to settle any foreign denominated liability. The main liability is the repayment of borrowings for the short term and long term debt. Generally, borrowings 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 is denominated in the currency of the borrowing.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(iii) Currency risk (Continued)

The various currencies to which the Group and Company were exposed at 31 December 2018 and 31 December 2017 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:

Group**31 December 2018**

	GBP KShs millions	USD KShs millions	Euro KShs millions	Total KShs millions
Financial assets				
Prepaid maintenance asset	-	3,398	-	3,398
Aircraft deposits	-	3,076	-	3,076
Trade and other receivables	641	8,485	781	9,907
Cash and cash equivalents	21	3,507	136	3,664
	<u>662</u>	<u>18,466</u>	<u>917</u>	<u>20,045</u>
Financial liabilities				
Return condition provision	-	(4,175)	-	(4,175)
Trade and other payables	(300)	(20,983)	(781)	(22,064)
Mandatory convertible note	-	(3,456)	-	(3,456)
	<u>-</u>	<u>(24,514)</u>	<u>(781)</u>	<u>(25,295)</u>
Net exposure	<u>362</u>	<u>(10,148)</u>	<u>136</u>	<u>(9,650)</u>
Financial liabilities				
Loans and borrowings	-	(82,330)	-	(82,330)
	<u>-</u>	<u>(82,330)</u>	<u>-</u>	<u>(82,330)</u>
Net exposure	<u>-</u>	<u>(82,330)</u>	<u>-</u>	<u>(82,330)</u>

31 December 2017 (Restated)

Financial assets				
Prepaid maintenance asset	-	4,125	-	4,125
Aircraft deposits	-	5,328	-	5,328
Trade and other receivables	1,366	8,027	1,194	10,587
Cash and cash equivalents	54	1,408	50	1,512
	<u>1,420</u>	<u>18,888</u>	<u>1,244</u>	<u>21,552</u>
Financial liabilities				
Return condition provision	-	(4,650)	-	(4,650)
Trade and other payables	(281)	(22,983)	(649)	(23,913)
Mandatory convertible note	-	(3,277)	-	(3,277)
	<u>-</u>	<u>(26,810)</u>	<u>(649)</u>	<u>(27,459)</u>
Net exposure	<u>1,139</u>	<u>(12,022)</u>	<u>595</u>	<u>(10,288)</u>
Financial liabilities				
Loans and borrowings	-	(89,849)	-	(89,849)
	<u>-</u>	<u>(89,849)</u>	<u>-</u>	<u>(89,849)</u>
Net exposure	<u>-</u>	<u>(89,849)</u>	<u>-</u>	<u>(89,849)</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(a) Currency risk (Continued)

Company:

31 December 2018

	GBP KShs millions	USD KShs millions	Euro KShs millions	Total KShs millions
Financial assets				
Prepaid maintenance asset	-	3,018	-	3,018
Aircraft deposits	-	3,076	-	3,076
Trade and other receivables	641	7,992	781	9,414
Cash and cash equivalents	21	3,420	136	3,577
	<u>662</u>	<u>17,506</u>	<u>917</u>	<u>19,085</u>

Financial liabilities				
Return condition provision	-	(3,423)	-	(3,423)
Trade and other payables	(300)	(20,584)	(781)	(21,665)
Mandatory convertible note	-	(3,456)	-	(3,456)
	<u>-</u>	<u>(24,463)</u>	<u>(781)</u>	<u>(25,949)</u>

Net exposure	<u>362</u>	<u>(9,957)</u>	<u>136</u>	<u>(9,459)</u>
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Financial liabilities				
Loans and borrowings	-	(82,330)	-	(82,330)
	<u>-</u>	<u>(82,330)</u>	<u>-</u>	<u>(82,330)</u>
Net exposure	<u>-</u>	<u>(82,330)</u>	<u>-</u>	<u>(82,330)</u>

31 December 2017 (Restated)

Financial assets				
Prepaid maintenance asset	-	4,043	-	4,043
Aircraft deposits	-	5,328	-	5,328
Trade and other receivables	1,366	7,603	1,194	10,163
Cash and cash equivalents	54	1,331	50	1,435
	<u>1,420</u>	<u>18,305</u>	<u>1,244</u>	<u>20,969</u>

Financial liabilities				
Return condition provision	-	(3,898)	-	(3,898)
Trade and other payables	(281)	(22,932)	(636)	(23,849)
Mandatory convertible note	-	(3,277)	-	(3,277)
	<u>-</u>	<u>(26,827)</u>	<u>(636)</u>	<u>(27,490)</u>

Net exposure	<u>1,139</u>	<u>(11,802)</u>	<u>608</u>	<u>(10,055)</u>
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Financial liabilities				
Loans and borrowings	-	(89,849)	-	(89,849)
	<u>-</u>	<u>(89,849)</u>	<u>-</u>	<u>(89,849)</u>
Net exposure	<u>-</u>	<u>(89,849)</u>	<u>-</u>	<u>(89,849)</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(iii) Currency risk (Continued)

Sensitivity analysis

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

<i>Profit or loss</i>	Group		Company	
	2018	2017 (restated)	2018	2017 (restated)
	KShs millions	KShs millions	KShs millions	KShs millions
GBP	36	114	36	114
USD	(1,015)	(1,202)	(996)	(1,180)
EURO	14	60	14	61
	<u>(965)</u>	<u>(1,028)</u>	<u>(946)</u>	<u>(1,005)</u>
<i>Other Comprehensive income</i>				
USD	<u>(8,233)</u>	<u>(8,985)</u>	<u>(8,233)</u>	<u>(8,985)</u>

The exchange rates applied during the year are as follows:

	Average rates		Closing rates	
	2018	2017	2018	2017
GBP	135.45	134.50	129.12	139.65
USD	101.20	102.99	101.83	103.18
EURO	<u>119.81</u>	<u>118.20</u>	<u>116.60</u>	<u>123.93</u>

(b) Credit risk

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

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

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

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

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

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

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

	Group		Company	
	2018	2017	2018	2017
	KShs	KShs	KShs	KShs
	million	million	million	million
Trade receivables	10,775	8,477	10,399	8,192
Other receivables	3,662	1,173	3,072	1,171
Prepaid maintenance asset	3,398	4,125	3,018	4,023
Amounts due from related companies	-	32	16,481	10,808
Aircraft deposits	3,076	5,328	3,076	5,328
Bank balances	6,431	6,344	6,243	6,151
Total	27,342	25,479	42,289	35,673

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

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

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12 month ECL
Doubtful	Amount is past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit impaired
In default	Amount is >360 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

KENYA AIRWAYS PLC

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.

Group

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount KShs million	Loss allowance KShs million	Net carrying amount KShs million
Trade receivables	N/A	Doubtful	Lifetime ECL	12,702	(1,927)	10,775
Cash and bank balances	A, BBB, B+, B-	Performing	12 month ECL	6,433	(2)	6,431
Aircraft deposits	N/A	Performing	12 month ECL	3,076	-	3,076
				<u>22,211</u>	<u>(1,929)</u>	<u>20,282</u>

Company

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount KShs million	Loss allowance KShs million	Net carrying amount KShs million
Trade receivables	N/A	Doubtful	Lifetime ECL	13,107	(2,708)	10,399
Cash and bank balances	A, BBB, B+, B-	Performing	12 month ECL	6,245	(2)	6,243
Aircraft deposits	N/A	Performing	12 month ECL	3,076	-	3,076
				<u>2,428</u>	<u>(2,710)</u>	<u>19,718</u>

Credit risk profile based on provision matrix

Group

31 December 2018	< 30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
ECL rate	35.80%	35.71%	40.35%	47.24%	76.24%	100.00%	55.89%
Expected Gross Carrying Amount	7,704	514	233	756	557	452	10,216
Lifetime ECL	<u>327</u>	<u>192</u>	<u>129</u>	<u>214</u>	<u>176</u>	<u>445</u>	<u>1,484</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Company

31 December 2018	< 30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
ECL rate	34.38%	33.19%	34.35%	36.93%	50.24%	100.00%	48.18%
Expected Gross Carrying Amount	7,576	496	223	750	552	441	10,039
Lifetime ECL	327	192	129	214	175	436	1,472

A reconciliation of the impairment loss accounts:

Group

	Trade receivables KShs million	Cash and bank balances KShs million	Aircraft deposits KShs million	Total KShs million
31 December 2017				-
At 1 January 2017	(2,471)	-	-	(2,471)
Increase in loss allowance arising from financial assets recognized in the year	(785)	-	-	(785)
At 31 December 2017	(3,256)	-	-	(3,256)
31 December 2018				
At 1 January 2018 - as previously reported	(3,256)	-	-	(3,256)
Effect of change of accounting policy for IFRS 9	(1,393)	(7)	-	(1,400)
At 1 January 2018 – restated	(4,649)	(7)	-	(4,656)
(Increase)/decrease in loss allowance arising from new financial assets (recognised)/derecognised in the year	2,720	5	-	2,725
At 31 December 2018 under IFRS 9	(1,929)	(2)	-	(1,933)

Company

31 December 2017				-
At 1 January 2017	(3,416)	-	-	(3,416)
Increase in loss allowance arising from financial assets recognized in the year	(802)	-	-	(802)
At 31 December 2017 under IAS 39	(4,218)	-	-	(4,218)

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

A reconciliation of the impairment loss accounts (continued):

Company

	Trade receivables KShs million	Cash and bank balances KShs million	Aircraft deposits KShs million	Total KShs million
31 December 2018				
At 1 January 2018 – as previously reported	(4,218)	-	-	(4,218)
Adjustment upon application of IFRS 9	(1,384)	(7)	-	(1,391)
At 1 January 2018 – restated	(5,602)	(7)	-	(5,609)
(Increase)/decrease in loss allowance arising from new financial assets (recognised)/derecognised in the year	2,892	5	-	2,897
At 31 December 2018 under IFRS 9	<u>(2,710)</u>	<u>(2)</u>	<u>-</u>	<u>(2,712)</u>

The Directors believe that the unimpaired amounts that are past due (more than 30 days in arrears) are still collectible in full based on historical payment behaviour and extensive analysis of customer credit risk.

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

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

Group:

	Less than 1 year KShs million	2 - 5 years KShs million	Over 5 years KShs million	Total KShs million
31 December 2018				
Borrowings	77,846	184	4,300	82,330
Trade and other payables	30,038	-	-	30,038
	<u>107,884</u>	<u>184</u>	<u>4,300</u>	<u>112,368</u>

31 December 2017 - restated

Borrowings	86,232	248	4,358	90,838
Trade and other payables	27,049	-	-	27,049
	<u>113,281</u>	<u>248</u>	<u>4,358</u>	<u>117,887</u>

Company

31 December 2018

Borrowings	77,846	184	4,300	82,330
Trade and other payables	48,423	-	-	48,423
	<u>126,269</u>	<u>184</u>	<u>4,300</u>	<u>130,753</u>

31 December 2017 - restated

Borrowings	86,232	248	4,358	90,838
Trade and other payables	39,629	-	-	39,629
	<u>125,861</u>	<u>248</u>	<u>4,358</u>	<u>130,467</u>

(d) Capital management

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

The Group and Company'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 and Company 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.

Kenya Airways 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. As at 31 December 2018, the gearing ratio of the Group and Company was >100% (31 December 2017: >100%). Note 2(e) summarises the procedures the Directors' are putting in place to address the solvency challenges facing the company.

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

	2018	2017 (Restated)
	KShs million	KShs million
Group		
Total equity*	<u>(2,578)</u>	<u>4,775</u>
Loans and borrowings	82,330	90,838
Mandatory convertible loan	3,456	3,277
Less: Cash and bank balances	<u>(6,431)</u>	<u>(6,356)</u>
Net borrowings	<u>79,355</u>	<u>87,759</u>
Net debt to equity ratio	<u>>100%</u>	<u>>100%</u>

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

Company		
Total equity*	<u>(5,802)</u>	<u>1,789</u>
Loans and borrowings	82,330	90,838
Mandatory convertible loan	3,456	3,277
Less: Cash and bank balances	<u>(6,243)</u>	<u>(6,163)</u>
Net borrowings	<u>79,543</u>	<u>87,952</u>
Net debt to equity ratio	<u>>100%</u>	<u>>100%</u>

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

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

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

Group:

31 December 2018	Amortised Cost KShs millions	Fair value – Hedging instruments KShs millions	Other liabilities KShs millions	Total KShs millions
<i>Financial assets</i>				
Trade receivables	10,775	-	-	10,775
Other receivables	3,662	-	-	3,662
Aircraft deposits	3,076	-	-	3,076
Fuel derivatives	-	354	-	354
Cash and bank balances	6,431	-	-	6,433
Total financial assets	23,944	354	-	24,298
<i>Financial liabilities</i>				
Loans and borrowings	-	-	82,330	82,330
Mandatory convertible note	-	-	3,456	3,456
Trade and other payables	-	-	30,038	30,038
Provisions	-	-	1,278	1,278
Total financial liabilities	-	-	117,102	117,102
31 December 2017 - restated				
<i>Financial assets</i>				
Trade receivables	8,477	-	-	8,477
Other receivables	1,173	-	-	1,173
Due from related companies	32	-	-	32
Aircraft deposits	5,328	-	-	5,328
Cash and bank balances	6,356	-	-	6,356
Total financial assets	21,366	-	-	21,366
<i>Financial liabilities</i>				
Loans and borrowings	-	-	90,838	90,838
Mandatory convertible loan	-	-	3,277	3,277
Trade and other payables	-	-	27,049	27,049
Provisions	-	-	1,667	1,667
Total financial liabilities	-	-	122,831	122,831

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

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

Company	Armortised cost KShs millions	Fair value – Hedging instruments KShs millions	Other liabilities KShs millions	Total KShs millions
31 December 2018				
<i>Financial assets</i>				
Trade receivables	10,402	-	-	10,402
Other receivables	3,069	-	-	3,069
Due from related companies	16,481	-	-	16,481
Aircraft deposits	3,076	-	-	3,076
Fuel derivatives	-	354	-	354
Cash and bank balances	6,243	-	-	6,243
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	39,271	354	-	39,625
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Financial liabilities</i>				
Loans and borrowings	-	-	82,330	82,330
Mandatory convertible note	-	-	3,456	3,456
Trade and other payables	-	-	48,423	48,423
Provisions	-	-	1,240	1,240
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	-	-	135,449	135,449
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2017 - restated				
<i>Financial assets</i>				
Trade receivables	8,192	-	-	8,192
Other receivables	1,171	-	-	1,171
Due from related companies	10,808	-	-	10,808
Aircraft deposits	5,328	-	-	5,328
Cash and bank balances	6,163	-	-	6,163
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	31,662	-	-	31,662
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Financial liabilities</i>				
Loans and borrowings	-	-	90,838	90,838
Mandatory convertible note	-	-	3,277	3,277
Trade and other payables	-	-	39,629	39,629
Provisions	-	-	1,605	1,605
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	-	-	135,349	135,349
	<hr/>	<hr/>	<hr/>	<hr/>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

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

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

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

Financial liabilities	Fair values as at		Fair value hierarchy	Valuation techniques and key inputs
	31/12/2018 KShs'million	31/12/2017 KShs'million		
Sovereign guarantee from the Government of Kenya	1,188	1,405	Level 3	No observable market inputs

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

6 SEGMENT INFORMATION

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

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

The major part of the business of the Group and Company falls under category of aviation transport with income from other categories comprising less than 7.5% of total income.

Analysis of turnover according to business segments:

	Passenger KShs million	Freight and mail KShs million	Handling KShs million	Lease rental income KShs Million	Other Income KShs million	Total KShs million
31 December 2018 (12 Months):						
Kenya	6,946	1,061	291	-	607	8,905
Rest of the world	88,241	7,407	1,902	1,461	6,269	105,280
	<u>95,187</u>	<u>8,468</u>	<u>2,193</u>	<u>1,461</u>	<u>6,876</u>	<u>114,185</u>
31 December 2017 (9 Months):						
Kenya	4,246	676	36	-	383	5,341
Rest of the world	63,367	4,868	1,510	1,101	4,612	75,458
	<u>67,613</u>	<u>5,544</u>	<u>1,546</u>	<u>1,101</u>	<u>4,995</u>	<u>80,799</u>

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 SEGMENT INFORMATION (Continued)

Analysis of costs according to business segments:

31 December 2018 (12 Months):	Passenger	Freight and mail	Handling	Other	Total
	KShs	KShs	KShs	KShs	KShs
	million	million	million	million	million
Depreciation and amortisation	4,567	407	105	-	5,079
Interest expense	4,552	405	105	-	5,062
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

31 December 2017 (9 Months):

Depreciation and amortisation	4,590	376	105	-	5,071
Interest expense	4,456	365	102	-	4,923
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Analysis of operating (loss)/profit per business segments:

	Group		Company	
	2018	2017	2018	2017
	(12 months)	(9 months)	(12 months)	(9 months)
	KShs	KShs	KShs	KShs
	million	million	million	million
Passengers	(757)	713	(982)	512
Freight, mail and others	74	213	76	165
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>(683)</u>	<u>926</u>	<u>(906)</u>	<u>677</u>

Profit by business segment is only analysed between “Passengers” and “Freight, mail and others”.

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 Company’s route network, providing information on non-current assets by geographical and business segments is not considered meaningful.

Geographical Segments

	2018	2017
	KShs	KShs
	million	million
Europe	27,034	19,200
Middle East	5,314	3,651
China	8,515	7,991
India	5,373	3,570
North America	947	-
Africa	67,002	46,387
	<u> </u>	<u> </u>
	<u>114,185</u>	<u>80,799</u>

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2018 (12 months) KShs million	2017 (9 months) KShs million	2018 (12 months) KShs million	2017 (9 months) KShs million
7 INCOME				
(a) Revenue				
Passengers	95,187	67,613	90,924	65,234
Freight and mail	8,468	5,544	8,468	5,544
Handling	2,193	1,546	-	-
Lease rental income	1,461	1,101	1,461	1,101
Others revenue	6,876	4,344	6,967	4,734
	<u>114,185</u>	<u>80,148</u>	<u>107,820</u>	<u>76,613</u>
(b) Other income				
Sale of engine	-	651	-	651
	<u>-</u>	<u>651</u>	<u>-</u>	<u>651</u>
	Group		Company	
	2018 (12 months) KShs million	2017 (9 months) (Restated) KShs million	2018 (12 months) KShs million	2017 (9 months) (Restated) KShs million
8 EXPENSES BY NATURE				
(a) Direct costs				
Aircraft fuel and oil	33,056	19,037	32,064	18,533
Aircraft landing, handling and navigation	14,126	11,077	13,763	10,899
Aircraft maintenance	8,997	7,262	8,589	6,871
Passenger services	5,764	3,958	5,747	3,942
Commissions on sales	2,968	2,306	2,944	2,292
Aircraft, passenger and cargo insurance	330	220	323	220
Crew route expenses	2,497	1,917	2,496	1,915
Central reservation system and frequent flyer programme	6,072	4,670	5,689	4,341
Other direct costs	1,154	1,272	637	900
Option premium paid	66	-	66	-
	<u>75,030</u>	<u>51,719</u>	<u>72,318</u>	<u>49,913</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2018 (12 months)	2017 (9 months) (Restated)	2018 (12 months)	2017 (9 months) (Restated)
	KShs million	KShs million	KShs million	KShs million
8 EXPENSES BY NATURE (Continued)				
(b) Fleet ownership costs				
Hire of aircraft and engines	7,605	6,448	6,603	6,064
Depreciation on aircraft, engines and rotables (note 15)	6,902	4,323	6,898	4,322
Depreciation of return condition assets (note 18)	1,832	1,404	1,525	1,404
Impairment of assets held for sale (note 23(a)(i))	-	360	-	360
Impairment of aircraft (note 15)	2,590	-	2,590	-
	<u>18,929</u>	<u>12,535</u>	<u>17,616</u>	<u>12,150</u>
	Group 2018 (12 months)	2017 (9 months)	Company 2018 (12 months)	2017 (9 months)
	KShs million	KShs million	KShs million	KShs million
(c) Overheads				
(i) Administration expenses				
Employee costs (note 8(d))	16,066	9,480	14,401	8,886
Legal and professional fees	(70)	852	(93)	837
Directors' remuneration (note 36(c))	93	136	93	136
Auditor's remuneration	15	14	10	9
Impairment provision relating to bank balances (note 35(b))	(5)	-	(5)	-
General expenses	2,442	2,063	2,175	1,894
Impairment of investment in subsidiary (note 17(a))	-	-	440	-
	<u>18,541</u>	<u>12,545</u>	<u>17,021</u>	<u>11,762</u>
(ii) Establishment				
General maintenance and supplies	1,233	989	1,457	860
Depreciation on buildings, vehicles and other equipment (note 15)	794	652	733	607
Amortisation expense – software (note 16(b))	180	229	148	208
	<u>2,207</u>	<u>1,870</u>	<u>2,338</u>	<u>1,675</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group 2018 (12 months) KShs million	2017 (9 months) (Restated) KShs million	Company 2018 (12 months) KShs million	2017 (9 months) (Restated) KShs million
8 EXPENSES BY NATURE (Continued)				
(c) Overheads (Continued)				
(iii) Selling				
Advertising and publicity	595	337	39	285
Impairment provision relating to trade receivables (note 22)	(434)	785	(606)	802
	<u>161</u>	<u>1,122</u>	<u>(567)</u>	<u>1,087</u>
Total overheads	<u>20,909</u>	<u>15,537</u>	<u>18,792</u>	<u>14,524</u>

(d) Employee costs

Information on the average number of persons employed in the Group during the year and the costs for the year is provided below:

	Group 2018 (12 months) KShs million	2017 (9 months) KShs million	Company 2018 (12 months) KShs million	2017 (9 months) KShs million
Wages and salaries	13,054	9,039	11,652	8,046
Contributions to retirement benefits	827	618	756	571
National Social Security Fund (NSSF)	55	35	48	10
Leave pay accrual (note 34)	311	128	286	112
Increase/(decrease) in redundancy provisions (note 33)	101	(2,627)	102	(1,969)
Other staff costs	1,718	2,287	1,557	2,116
Total	<u>16,066</u>	<u>9,480</u>	<u>14,401</u>	<u>8,886</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2018 (12 months) KShs million	2017 (9 months) KShs million	2018 (12 months) KShs million	2017 (9 months) KShs Million
9	NET FINANCE COSTS			
	Finance costs:			
	Interest expense:			
	- on long term borrowings	3,758	2,130	3,758
	- on short term facilities	1,304	2,793	1,301
		<u>5,062</u>	<u>4,923</u>	<u>5,059</u>
				<u>4,921</u>
	Interest income:			
	Interest income on short term bank deposits	(45)	(32)	(51)
		<u>(45)</u>	<u>(32)</u>	<u>(51)</u>
	Net finance costs	<u>5,017</u>	<u>4,891</u>	<u>5,008</u>
		<u>=====</u>	<u>=====</u>	<u>=====</u>
	Group		Company	
	2018 (12 months) KShs million	2017 (9 months) (Restated) KShs million	2018 (12 months) KShs million	2017 (9 months) (Restated) KShs million
10	OTHER LOSSES			
	Foreign currency exchange losses	1,467	2,087	1,448
	Other costs	421	336	418
		<u>1,888</u>	<u>2,423</u>	<u>1,866</u>
		<u>=====</u>	<u>=====</u>	<u>=====</u>
11	LOSS BEFORE TAXATION			
	The loss before taxation is arrived at after charging/(crediting):			
	Lease rental income (note 7(a))	(1,461)	(1,101)	(1,461)
	Employee costs (note 8(d))	16,066	9,480	14,401
	Hire of aircraft and engines (note 8(b))	7,605	6,448	6,603
	Net foreign exchange losses (note 10)	1,467	2,087	1,448
	Depreciation of property, aircraft and equipment (note 15)	6,902	4,323	6,898
	Depreciation of return conditions asset (note 18)	1,832	1,404	1,525
	Amortisation of computer software (note 16(b))	180	229	148
	Impairment of assets held for sale (note 23(a)(i))	-	360	-
	Impairment of aircraft (note 15)	2,590	-	2,590
	Impairment provision relating to trade receivables (note 22)	(434)	785	(606)
	Impairment provision relating to bank balances (note 35(b))	(5)	-	(5)
	Auditor's remuneration	15	14	10
	Directors' remuneration (note 36(c))	93	136	93
	Loss on disposal of assets held sale, and Property, aircraft & equipment	84	4	84
	Provision for obsolete inventories (note 21)	(43)	47	(43)
	Impairment of investment in subsidiary (note 17(a))	-	-	440
		<u>=====</u>	<u>=====</u>	<u>=====</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2018 (12 months) KShs million	2017 (9 months) KShs million
12	INCOME TAX		
	(a) Group		
	(i) Taxation (credit)/charge		
	<i>Income tax charge recognised in profit or loss</i>		
	Current income tax at 30%	50	32
	Deferred income tax (credit)/charge (note 28)	(80)	80
		<u>(30)</u>	<u>112</u>
	(ii) Reconciliation of tax based on accounting loss to tax charge		
	The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:		
		2018 (12 months) KShs million	2017 (9 months) KShs million
	Loss before taxation	<u>(7,588)</u>	<u>(6,306)</u>
	Current tax at 30%	(2,276)	(1,892)
	Tax effect of expenses not subject for tax purposes	196	328
	Unrecognised deferred tax asset (note 28)	2,050	1,676
		<u>(30)</u>	<u>112</u>
	(b) Company		
	(i) Taxation charge		
	<i>Income tax charge recognised in profit or loss</i>		
	Current tax at 30%	32	16
		<u>32</u>	<u>16</u>
	(ii) Reconciliation of tax based on accounting loss to tax charge		
	Loss before income tax	<u>(7,780)</u>	<u>(6,623)</u>
	Current tax at 30%	(2,334)	(1,987)
	Tax effect of expenses not subject for tax purposes	229	356
	Unrecognised deferred tax asset (note 28)	2,137	1,647
		<u>32</u>	<u>16</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Group		Company	
	2018 (12 months) KShs million	2017 (9 months) KShs million	2018 (12 months) KShs million	2017 (9 months) KShs million
12 INCOME TAX (Continued)				
(c) Current tax recoverable/(payable)				
At beginning of year/period	1,246	1,235	1,249	1,240
Charge for the year/period	(50)	(32)	(32)	(16)
Paid during the year/period	62	43	35	25
	<u>1,258</u>	<u>1,246</u>	<u>1,252</u>	<u>1,249</u>
At end of year/period	<u>1,258</u>	<u>1,246</u>	<u>1,252</u>	<u>1,249</u>
Presented in the statement of financial position as follows:				
Current tax recoverable	1,258	1,249	1,252	1,249
Current tax payable	-	(3)	-	-
	<u>1,258</u>	<u>1,246</u>	<u>1,252</u>	<u>1,249</u>
Net current tax asset	<u>1,258</u>	<u>1,246</u>	<u>1,252</u>	<u>1,249</u>

13 LOSS 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.

	2018 KShs' million	2017 (Restated) KShs million
Loss attributable to equity holders of the Company	<u>(7,554)</u>	<u>(6,422)</u>
Basic loss per share		
Weighted average number of ordinary shares (million)	<u>5,824</u>	<u>5,824</u>
Basic loss per share (KShs)	<u>(1.30)</u>	<u>(1.10)</u>
Diluted loss per share		
Weighted average number of ordinary shares used in calculation of basic loss per share (million)	5,824	5,824
Weighted average number of ordinary shares deemed to be issued in respect of mandatory convertible note (million)	1,659	1,659
	<u>7,483</u>	<u>7,483</u>
Diluted loss per share (KShs)	<u>(1.01)</u>	<u>(0.86)</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 DIVIDENDS – GROUP AND COMPANY

The Directors do not recommend payment of dividend for the twelve months period ended 31 December 2018 (2017: nil). This proposal will be presented for formal approval by shareholders' at the forthcoming Annual General Meeting.

The unclaimed dividends account is as follows:

	2018 KShs million	2017 KShs million
At the beginning and end of the year/period (note 32)	<u>90</u>	<u>90</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 PROPERTY, AIRCRAFT AND EQUIPMENT

Group

	Land and buildings KShs million	Aircraft, engines and rotables KShs million	Other property and equipment KShs million	Incomplete projects KShs million	Total KShs million
Cost or valuation:					
At 1 April 2017	9,371	130,161	11,452	5	150,989
Additions	-	382	143	137	662
Transfer from assets held for sale (note 23(a)(ii))	310	-	-	-	310
Transfer to intangible assets (note 16(b))	-	-	-	(6)	(6)
Disposals	-	(223)	(4)	-	(227)
At 31 December 2017	9,681	130,320	11,591	136	151,728
At 1 January 2018	9,681	130,320	11,591	136	151,728
Additions	-	536	108	88	732
Transfer to intangible assets (note 16(b))	-	-	-	(176)	(176)
Transfer in/(out)	-	-	15	(15)	-
Impairment*	-	(2,590)	-	-	(2,590)
Disposals	-	(2,256)	(216)	-	(2,472)
At 31 December 2018	9,681	126,010	11,498	33	147,222
Depreciation:					
At 1 April 2017	503	26,890	9,689	-	37,082
Charge for the period	265	4,323	387	-	4,975
Disposals	-	(202)	(4)	-	(206)
At 31 December 2017	768	31,011	10,072	-	41,851
At 1 January 2018	768	31,011	10,072	-	41,851
Charge for the year	330	6,902	464	-	7,696
Disposals	-	(1,947)	(213)	-	(2,160)
At 31 December 2018	1,098	35,966	10,323	-	47,387
Net book value					
At 31 December 2018	8,583	90,044	1,175	33	99,835
At 31 December 2017	8,913	99,309	1,519	136	109,877
Net book value (cost basis)					
At 31 December 2018	3,090	90,044	1,175	33	94,342
At 31 December 2017	3,199	99,309	1,519	136	104,163

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)

Company

	Land and buildings KShs million	Aircraft, engines and rotables KShs million	Other property and equipment KShs million	In-complete projects KShs million	Total KShs million
Cost or valuation:					
At 1 April 2017	8,759	130,157	10,916	-	149,832
Additions	-	339	123	136	598
Transfer from assets held for sale (note 23 (a)(ii))	310	-	-	-	310
Disposals	-	(223)	(4)	-	(227)
At 31 December 2017	9,069	130,273	11,035	136	150,513
At 1 January 2018	9,069	130,273	11,035	136	150,513
Additions	-	496	78	47	621
Transfer to intangible assets (note 16)	-	-	-	(176)	(176)
Impairment*	-	(2,590)	-	-	(2,590)
Disposals	-	(2,251)	(216)	-	(2,467)
At 31 December 2018	9,069	125,928	10,897	7	145,901
Depreciation:					
At 1 April 2017	472	26,887	9,244	-	36,603
Charge for the period	245	4,322	362	-	4,929
Disposals	-	(202)	(4)	-	(206)
At 31 December 2017	717	31,007	9,602	-	41,326
At 1 January 2018	717	31,007	9,602	-	41,326
Charge for the year	303	6,898	430	-	7,631
Disposals	-	(1,942)	(213)	-	(2,155)
At 31 December 2018	1,020	35,963	9,819	-	46,802
Net book value					
At 31 December 2018	8,049	89,965	1,078	7	99,099
At 31 December 2017	8,352	99,266	1,433	136	109,187
Net book value (cost basis)					
At 31 December 2018	2,898	89,965	1,078	7	93,948
At 31 December 2017	2,931	99,266	1,433	136	103,766

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)

* During the year, the Group and Company recognised an impairment loss of KShs 2,590 million of a B777-300ER in the statement of profit or loss and other comprehensive income. This asset has been subleased to Turkish Airlines and is used in the Group's and Company's lease rental income segment.

The net book value of aircrafts charged as security for loan facilities obtained to finance their purchase is KShs 86,953 million (2017: KShs 93,042) at the end of the period. Details of the outstanding loan facilities are disclosed in note 27.

The Group's and Company's land and buildings were last revalued on 31 March 2016 by an independent valuer, on the basis of open market value. The valuers 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.

There was no valuation carried out during the year.

Details of the fair value hierarchy for the Group's and Company's property carried at fair value as at 31 December 2018 and 31 December 2017 are as follows:

	Level 1 KShs million	Level 2 KShs million	Level 3 KShs million	Total KShs million
31 December 2018				
Group				
Land and buildings	-	-	8,142	8,142
	=====	=====	=====	=====
Company				
Land and buildings	-	-	7,878	7,878
	=====	=====	=====	=====
31 December 2017				
Group				
Land and buildings	-	-	8,742	8,742
	=====	=====	=====	=====
Company				
Land and buildings	-	-	8,181	8,181
	=====	=====	=====	=====

The land and buildings are in level 3 hierarchy of measurement. There were no transfers between the levels during the year. The valuers used depreciated replacement cost to estimate the fair value of the buildings and market comparison approach to determine the fair value of land. The significant inputs in the valuation included the market prices of similar transactions for the land; estimated construction costs and other ancillary expenditures, and appropriate depreciation factors for the buildings. The estimated fair value of the land would increase if property prices near the location of the property was higher and vice versa. A slight increase in the depreciation factor would result in a significant decrease in the fair value of the assets, and a slight increase in the estimated construction and purchase costs would result in significant increase in the fair value of the assets, and vice versa.

Included in property, aircraft and equipment are assets with a cost of KShs 19,815 million (2017: KShs 20,986 million) that are fully depreciated. The notional annual depreciation of these assets would have been KShs 2,628 million (2017: KShs 2,783 million).

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 INTANGIBLE ASSETS

Intangible assets consist of:

	Group		Company	
	2018	2017	2018	2017
	KShs	KShs	KShs	KShs
	million	million	million	million
Landing slot	2,561	2,561	2,561	2,561
Computer systems and software	401	330	382	280
	<u>2,962</u>	<u>2,891</u>	<u>2,943</u>	<u>2,841</u>

(a) Intangible assets – landing slot

Kenya Airways Plc 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 as disclosed in note 24.

(b) Intangible assets – computer software

	Group		Company	
	2018	2017	2018	2017
	KShs	KShs	KShs	KShs
	million	million	million	million
Cost:				
At beginning of year/period	4,649	4,467	4,476	4,300
Additions from KLM Royal Dutch Airlines*	-	175	-	175
Additions	75	1	74	1
Transfer from property, aircraft and equipment (note 15)	176	6	176	-
	<u>4,900</u>	<u>4,649</u>	<u>4,726</u>	<u>4,476</u>
At end of year/period	4,900	4,649	4,726	4,476
Amortisation:				
At beginning of year/period	4,319	4,090	4,196	3,988
Charge for the year/period	180	229	148	208
	<u>4,499</u>	<u>4,319</u>	<u>4,344</u>	<u>4,196</u>
At end of year/period	4,499	4,319	4,344	4,196
Net book value:				
At end of year/period	401	330	382	280

*The IT systems received from KLM Royal Dutch Airlines were obtained as an in-kind contribution in exchange for ordinary shares in the company.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 INVESTMENTS

(a) Investment in subsidiaries - Company

Details of investment	Country of incorporation	Activity	2018 % of equity interest	2017	2018 KShs million	2017 KShs million
Kenya Airfreight Handling Limited (2,550,000 shares of KShs 20 each)	Kenya	Cargo handling for perishable products	51%	51%	51	51
JamboJet Limited (2018:1,000,000 shares of KShs.606 each, 2017:5,000 shares of KShs 20 each)	Kenya	Local passenger air transport	100%	100%	166	*
Kencargo Airlines International Limited (1,000,000 shares of KShs 20 each)	Kenya	Dormant	100%	100%	**	**
African Cargo Handling Limited (5,753,822 shares of KShs 100 each)	Kenya	Cargo handling	100%	100%	***384	***384
Pride Oil Limited (5,000 shares of KShs 20 each)	Kenya	Dormant	100%	100%	*	*
					<hr/> 601 <hr/>	<hr/> 435 <hr/>

The movement in the investment in JamboJet Limited is as follows:

At the beginning of the year/period	*	*
Receivable balance converted to equity during the year	606	-
Impairment	(440)	-
At the end of the year/period	<hr/> 166 <hr/>	<hr/> * <hr/>

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

At the beginning of the year/period	20	20
Impairment for the year/period	440	-
At the end of the year/period	<hr/> 460 <hr/>	<hr/> 20 <hr/>

During the year, the Group and Company recognised an impairment loss of KShs 440 million of Jambojet Limited, which has been recognised in profit or loss statement. This is a subsidiary of Kenya Airways Plc.

- * 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. 20,000,000.
- *** The purchase of African Cargo Handling Limited was below the net identifiable assets resulting in a bargain purchase.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(a) Investment in subsidiaries (continued)

The summarised financial information of the subsidiaries is as shown below:

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KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 INVESTMENTS (Continued)

(b) Investments in associates – Group and Company

(i) African Tours and Hotels Limited:

	2018 KShs million	2017 KShs million
African Tours and Hotels Limited: (100,398 ordinary shares of KShs 20 each)	2	2
Less: Impairment on investment in associate	(2)	(2)
	<u>-</u>	<u>-</u>

The shareholding in African Tours and Hotels Limited represents 20.1% of the issued ordinary share capital of the company. The company was placed under receivership several years back and, therefore, the Directors do not expect the value of the investment to be recovered. Consequently, the investment has been fully impaired.

(ii) Precision Air Services Limited:

	2018 KShs million	2017 KShs million
66,157,350 ordinary shares of KShs 3.48 (TShs 20) each	230	230
Less: Impairment of investment in associate	(230)	(230)
	<u>-</u>	<u>-</u>

The summarised financial information of the associate is set out below:

Total assets	7,869	8,458
Total liabilities	(20,613)	(17,563)
	<u>(12,744)</u>	<u>(9,105)</u>
Net liabilities		
Total revenue for the year/period	4,322	4,354
Loss for the year/period	(1,228)	(360)

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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 RETURN CONDITIONS ASSET

	2018	Group 2017 (Restated)	Company 2018	2017 (Restated)
	KShs million	KShs million	KShs million	KShs million
At beginning of year/period - as previously reported	-	-	-	-
Prior year adjustment (note 40)	3,392	2,810	2,639	2,810
At beginning of year/period	3,392	2,810	2,639	2,810
Additions	1,027	1,986	1,027	1,233
Depreciation charge for the period	(1,832)	(1,404)	(1,525)	(1,404)
At end of year/period	<u>2,587</u>	<u>3,392</u>	<u>2,141</u>	<u>2,639</u>

19 AIRCRAFT DEPOSITS – GROUP AND COMPANY

	2018 KShs million	2017 KShs million
Deposits for aircraft leases under long-term operating leases	2,510	4,337
Deposits paid towards acquisition of aircraft	566	991
	<u>3,076</u>	<u>5,328</u>

The deposits under long-term operating leases relate to lease of aircraft and engines of Boeing 737's, 787's, and Embraer E190's. The deposits paid towards acquisition of aircraft represent amounts paid to Boeing Corporation towards acquisition of optional aircraft in future. The latter deposits do not earn any interest and are carried at amortised cost.

	2018 KShs million	2017 KShs million
At start of year/period	5,328	4,915
Additions	311	439
Refunds**	(2,486)	-
Amortisation*	4	(34)
Foreign exchange differences	(81)	8
At end of year/period	<u>3,076</u>	<u>5,328</u>

* Amortisation of the aircraft deposits relates to the discount arising from the difference between the maturity value of the deposits and their fair value based on amortised cost.

** The refunds during the year relate to reimbursements received by Kenya Airways Plc from various lessors for aircraft deposits that had been previously held as cash. These reimbursements were in exchange for letters of credit drawn up in favour of the lessors.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 PREPAID MAINTENANCE ASSET

	2018	Group 2017 (Restated)	Company 2018	2017 (Restated)
	KShs million	KShs million	KShs million	KShs million
At beginning of year/period - as previously reported	-	-	-	-
Prior year adjustment (note 40)	4,125	3,501	4,043	3,501
At beginning of year/period	4,125	3,501	4,043	3,501
Additions	1,768	1,297	1,470	1,215
Reimbursements	(2,442)	(680)	(2,442)	(680)
Foreign exchange differences	(53)	7	(53)	7
At end of year/period	<u>3,398</u>	<u>4,125</u>	<u>3,018</u>	<u>4,043</u>

	2018 KShs million	2017 KShs million
21 INVENTORIES – GROUP AND COMPANY		
Aircraft consumables	3,075	2,949
Other inventories	427	531
Provisions for obsolete inventories	(1,404)	(1,447)
	<u>2,098</u>	<u>2,033</u>

The cost of inventories recognised as an expense and included in the Group's and Company's 'Direct costs' amounted to KShs 2,106 million (2017: KShs 1,637 million).

The movement in provision for obsolete inventories is as follows:

	2018 KShs million	2017 KShs million
At beginning of the year/period	1,447	1,400
(Decrease)/increase in provision during the year	(43)	47
At end of year/period	<u>1,404</u>	<u>1,447</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
Trade and other receivables	16,364	15,065	32,660	26,074
Less: Provision for loss allowance	(1,927)	(3,256)	(2,708)	(4,218)
	<u>14,437</u>	<u>11,809</u>	<u>29,952</u>	<u>21,856</u>
Analysed as :				
Trade - airlines	953	484	803	455
Trade - agents	7,812	6,968	7,660	6,848
Trade - others	1,876	1,023	1,802	887
Trade - Government ministries and parastatals	134	2	134	2
Prepayments and VAT recoverable	3,408	2,127	2,875	1,685
Other receivables	254	1,173	197	1,171
Due from related parties (note 36 (b)(i))	-	32	16,481	10,808
	<u>14,437</u>	<u>11,809</u>	<u>29,952</u>	<u>21,856</u>

Movements on the provision for loss allowance of trade receivables is as follows:

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
At beginning of year/period – as previously reported	3,256	2,471	4,218	3,416
Effect of adoption of IFRS 9 impairment policy	1,393	-	1,384	-
At beginning of year/period - restated	4,649	2,471	5,602	3,416
Write off during the year/period (Reversal)/provision in the year/period	(2,288)	-	(2,288)	-
	<u>(434)</u>	<u>785</u>	<u>(606)</u>	<u>802</u>
At end of year/period	<u>1,927</u>	<u>3,256</u>	<u>2,708</u>	<u>4,218</u>

The debtors written off during the year had previously been fully provided for. The write off was approved by the Board of Directors during the year.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 ASSETS HELD FOR SALE – GROUP AND COMPANY

In August 2014, the Directors approved a plan to sell 7 aircrafts and 2 parcels of land. The Company has since sold all the 7 aircrafts. In 2017, the Directors reversed the decision to sell off the parcel of land and transferred the land back to property, aircraft and equipment.

	2018 KShs million	2017 KShs million
(a) Impairment loss relating to assets held for sale		
<i>(i) Aircraft</i>		
At beginning of year/period	445	805
Disposals	(445)	-
Impairment loss during the period (note 8(b))	-	(360)
	<u>-</u>	<u>-</u>
At end of year/period	<u>-</u>	<u>445</u>
<i>(ii) Land</i>		
At beginning of year/period	-	310
Transfer to property and equipment (note 15)	-	(310)
	<u>-</u>	<u>-</u>
At end of year/period	<u>-</u>	<u>-</u>
(b) Assets held for sale		
Assets held for sale are as at stated at the lower of fair value less costs to sell and the carrying amount.		
	2018 KShs million	2017 KShs million
Aircraft (note 23(a)(i))	<u>-</u>	<u>445</u>

24 SHARE CAPITAL – GROUP AND COMPANY

Kenya Airways Plc completed a significant portion of its financial restructuring following the signing of a lock up and restructuring agreement on 14 November 2017 with the Government of Kenya, KLM Royal Dutch Airlines, KQ Lenders Company 2017 Limited and certain Kenyan Banks. The restructuring was approved by shareholders at an extra-ordinary general meeting held on 7 August 2017 through a special resolution.

The restructuring involved the following transactions:

- Conversion of the existing debt and accrued interest due to the Government of Kenya into equity shares in exchange for 2,552,043,603 new ordinary shares at KShs 7.78 per share; USD 75 million of further indebtedness being convertible in future pursuant to a zero coupon mandatorily convertible loan agreement;

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 SHARE CAPITAL – GROUP AND COMPANY (Continued)

The restructuring involved the following transactions: (Continued)

- The issue by the Government of Kenya of a sovereign guarantee of USD 525 million to Export-Import Bank of the United States in support of the restructuring of the Company's indebtedness to the financiers of the Company's fleet of wide-bodied aircraft and USD 225 million in favour of certain local banks in support of new loan facilities in exchange for 184,321,068 new ordinary shares at KShs 7.78 per share. The guarantee was independently valued as disclosed under note 27(a);
- Certain Kenyan banks agreed to convert their loans to the Company in exchange for 2,219,285,317 new ordinary shares at KShs 7.78 per share through a new equity holding company, KQ Lenders Company 2017 Limited, with USD 50 million of further indebtedness being convertible in the future pursuant to an interest earning mandatory convertible note as disclosed in note 25 (b). In addition, the Kenyan banks will provide USD 175 million of new loan facilities to Kenya Airways Plc. This facility is backed by the aforementioned USD 225 million Government guarantee. The banks had disbursed USD 42 million or KShs 4,300 million as at year end as disclosed under note 27(b) (2017: USD 42 million of KShs 4,358 million);
- The issue of 351,656,464 new shares at KShs 7.78 per share to KLM Royal Dutch Airlines in consideration of in-kind capital contributions to the Company consisting of a landing slot at the London Heathrow International Airport as well as a package of IT Systems and technical support. The landing slot and IT systems and technical support package was independently valued as disclosed under note 16;
- Securing cash relief from restructuring the timing and form of payments from operating and finance lessors for the airline's fleet of aircraft;
- The set up and registration of a Group employee share ownership scheme with 142,164,558 shares; and
- A rights issue was approved to be offered to the diluted existing shareholders. Plans for the issue are currently ongoing.

These transactions were approved through a special resolution at the Company's extra-ordinary general meeting held on 7 August 2017. The shareholders also resolved to sub divide each share held into 1 ordinary share of KShs 0.25 each and 28,433 million deferred shares of KShs 0.25 each. The deferred shares were subsequently cancelled, and the ordinary shares consolidated into 1 ordinary share of KShs 1.00 each.

The new ordinary shares issued rank *pari passu* in all respects with the existing ordinary shares of the company.

(a) Share capital and share premium

	2018 KShs million	2017 KShs million
Issued and fully paid:		
5,823,588,269 ordinary shares of KShs 1 each (31 December 2017:		
5,823,902,621 ordinary shares of KShs 1 each)	5,824	5,824
	<u>=====</u>	<u>=====</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 SHARE CAPITAL – GROUP AND COMPANY (Continued)

(a) Share capital and share premium (Continued)

	Issued and fully paid No. of shares million	Share capital KShs million	Share premium KShs million	Total KShs million
1 April 2017	1,496	7,482	8,670	16,152
Cancellation of deferred shares*	-	(7,107)	7,107	-
Share consolidation**	(1,121)	-	-	-
Additional shares issued during the year:				
- Government of Kenya in respect of the debt converted to equity	2,166	2,166	14,685	16,851
- Government of Kenya in respect of accrued interest converted to equity	386	386	2,620	3,006
- Government of Kenya in respect of the guarantee provided	184	184	1,250	1,434
- KQ Lenders 2017 Limited in respect of the debt converted to equity	2,219	2,219	15,048	17,267
- KLM Royal Dutch Airlines in respect of the Heathrow landing slot and IT systems support	352	352	2,384	2,736
- Employee Share Ownership Scheme	142	142	-	142
Expenses directly attributable to the restructuring	-	-	(2,543)	(2,543)
31 December 2017	<u>5,824</u>	<u>5,824</u>	<u>49,221</u>	<u>55,045</u>
At 1 January 2018	5,824	5,824	49,221	55,045
Issue of ordinary shares through conversion of the mandatory convertible note	****	****	2	2
31 December 2018	<u>5,824</u>	<u>5,824</u>	<u>49,223</u>	<u>55,047</u>

* The sub-division of each share held into 1 ordinary share of KShs. 0.25 each and 28,433 million deferred shares of KShs. 0.25 each and subsequent cancellation of the deferred shares resulted in the reduction of Kenya Airways Plc share capital from KShs 7,482 million to KShs 374 million.

** The Board of Directors through a special board resolution on 20 November 2017 resolved to consolidate the shares of Kenya Airways Plc in the ratio of 4:1. This resulted in the reduction of Kenya Airways Plc number of issued shares from 1,496,469,035 shares to 374,117,259 shares.

**** During the year, KQ Lenders Company 2017 Limited issued conversion notices for 314,352 shares at KShs 7.78 per share resulting in a share premium of KShs 6.78 per share totalling to a share premium of KShs 2,131,307. The shares of 314,352 which when rounded to the nearest million gives a value of less than a million and the share capital of KShs 314,352 which also when rounded to the nearest million gives a value of less than a million.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 SHARE CAPITAL – GROUP AND COMPANY (Continued)

(b) Mandatory convertible notes

On 14 November 2017, as part of its balance sheet restructuring, Kenya Airways Plc 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 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.

	2018	2017 (Restated)
	Kshs million	Kshs million
KQ Lenders Company 2017 Limited equity component	1,886	1,886
Government of Kenya mandatorily convertible loan	7,744	7,744
	<hr/>	<hr/>
Equity component	9,630	9,630
	<hr/>	<hr/>

The movement of the equity component of the mandatory convertible note is as follows:

At beginning of year/period – as previously reported	11,465	-
Prior year adjustment (note 40)	(1,835)	-
	<hr/>	<hr/>
At beginning of year/period – restated	9,630	-
Issue of mandatory convertible note	-	9,630
	<hr/>	<hr/>
At end of year/period	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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES – GROUP AND COMPANY

Derivatives designated as hedging instruments

The Group purchases jet fuel on an ongoing basis as its operating activities require a continuous supply of fuel.

The Risk management objective is to hedge the risk of variation in jet fuel prices of highly probable forecast purchases of Jet fuel. The hedged risk is the benchmark Index price arising from highly probable forecasted purchase of Jet fuel and movement in spot rate of benchmark index price. The hedged item is highly probable forecasted purchases of Jet fuel. There is an economic relationship between the hedged item and the hedging instrument as the terms of the expected highly probable forecast purchases match the terms of the jet fuel option contracts. The Group has established a hedge ratio of 1:1 for the hedging relationship by performing a correlation between jet fuel purchases and benchmark index price.

The hedge ineffectiveness can arise from:

- The extent to which hedging instrument is not correlated to the hedged item; and
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items.

Non-derivative financial liabilities to hedge foreign currency risk in a cash flow hedge relationship.

The risk management objective of Kenya Airways is to hedge foreign currency risk which is derived from fluctuation in exchange rates, associated with highly probable forecasted sales denominated in foreign currency. The Group has a significant portion of its revenue in foreign currency (other than KES). This exposure in foreign exchange risk affects the profitability and financial position of the Group due to variation in the foreign exchange rates. The Group's policy is to designate the monthly USD sales as a highly probable forecasted transaction in a hedging relationship based on the risk management strategy of the Group.

The hedged risk is the USD/KES foreign exchange risk in the KES conversion of foreign currency denominated forecasted sales and movement in spot rates and the hedged item is the highly probable foreign currency forecasted sales denominated in USD and the hedging instrument is foreign currency borrowings in the form of long term loans from banks.

Since the critical terms of the hedge relationship are perfectly matching, the Group assess the ineffectiveness of the hedge relationship monthly.

- a) The Asset and Liability position of various outstanding derivative financial instruments is given below:

Current	2018			2017		
	Liabilities	Assets	Net fair value*	Liabilities	Assets	Net fair value
<u>Cash-flow hedges</u>						
Commodity hedges	789	354	(435)	-	-	-
* the fair value is net off premium payable						

- b) Outstanding position and fair value of various derivative financial instruments:

As at 31 December 2018				
Derivative financial instruments	Type of risk	Notional Value (BBL)	Fair Value (Loss)	Line item in the balance sheet where the hedging instrument is located
<u>Cash Flow hedges</u>				
Buy	Jet Fuel Risk	1,300,000	(435)	Liability
As at 31 December 2017				
Derivative financial instruments	Type of risk	Notional Value (BBL)	Fair Value (Loss)	Line item in the balance sheet where the hedging instrument is located
<u>Cash Flow hedges</u>				

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES – GROUP AND COMPANY (Continued)

- c) Details of amount held in OCI and the period during which these are going to be released and affecting the Statement of Profit & Loss:

Cash flow hedging reserve

		2018 Release		2017 Release		
Cash-flow hedges	Closing Values in Hedge reserves	In less than 12 months	After 12 Months	Closing Values in Hedge reserves	In less than 12 Months	After 12 Months
Commodity Hedging	(8)	(8)		-	-	-
Foreign Currency Hedging	(10,861)	(1,110)	(9,751)	(12,906)	(2,045)	(10,861)
Cost of hedging reserve	-	-	-	-	-	-

		2018 Release			2017 Release		
Cash-flow hedges ⁴	Closing Values in Hedge reserves	In less than 12 months	After 12 Months	Closing Values in Hedge reserves	In less than 12 Months	After 12 Months	
Commodity Hedging	(427)	(427)	-	-	-	-	
Foreign Currency Hedging	-	-	-	-	-	-	

- d) Gain/(Loss) recognised in OCI and recycled (Amount of gain/(loss) recognised in Hedging Reserve and recycled during the year 2018)

Cash-flow hedges	Reserve	Opening Balance	Net Amount Recognized in Hedge reserve	Net Amount to P&L	Total Amount Recycled	Closing balance before tax
Commodity	Cash flow hedge reserve	-	(8)	-	-	(8)
	Cost of hedge reserve	-	(427)	-	-	(427)
		-	435	-	-	435
Non-Derivative financial instruments	Cash flow hedge reserve	(12,906)	1,206	838	-	(10,862)

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. For fuel hedges the ineffectiveness is immaterial

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 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.

	2018 KShs million	2017 KShs million
Stamina Group B.V		
At beginning of year/period	53	49
Share of (loss)/profit for the year/period	(4)	4
	<hr/>	<hr/>
At end of year/period	49	53
	<hr/>	<hr/>
Represented by:		
Holding in Kenya Airfreight Handling Limited	49%	49%
	<hr/>	<hr/>

27 BORROWINGS – GROUP AND COMPANY

(a) Analysis of borrowings

	2018 KShs million	2017 (Restated) KShs million
Loans and borrowings	82,330	90,838
Deferred expenditure (note 27(h))	(2,050)	(2,351)
Mandatory convertible note(note 27(g))	3,456	3,277
Sovereign guarantee from the Government of Kenya*	(1,188)	(1,405)
	<hr/>	<hr/>
	82,548	90,359
	<hr/>	<hr/>
Made up of:		
Current:		
Payable within one year	77,362	86,031
Non-current:		
Payable after one year	5,186	4,328
	<hr/>	<hr/>
	82,548	90,359
	<hr/>	<hr/>

* 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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 BORROWINGS – GROUP AND COMPANY (Continued)

(a) Analysis of borrowings (Continued)

The fair value was determined by independent valuers who have 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:

	2018 KShs million	2017 KShs million
Sovereign guarantee from the Government of Kenya	1,434	1,434
Accumulated amortisation	(246)	(29)
	<u>1,188</u>	<u>1,405</u>

The movement in amortisation of the sovereign guarantee from the Government of Kenya is as follows:

At beginning of year/period	29	-
Charge for the year/period	217	29
	<u>246</u>	<u>29</u>

(b) Analysis of interest bearing loans and borrowings:

		2018		2017	
	Maturities	Avg Int Rates	KShs million	Avg Int Rates	KShs million
Citi/JP Morgan-Aircraft Loans	2014-2026	3.30%	60,331	2.30%	66,090
African Export – Import Bank (Afrexim) – Aircraft Loans	2012-2025	6.45%	17,455	5.19%	19,093
Local bank facility	2015-2027	2.00%	244	7.88%	1,297
Local banks revolving loan	2017-2027	7.89%	4,300	7.20%	4,358
			<u>82,330</u>		<u>90,838</u>

The aircraft loans were obtained for the purpose of funding aircrafts 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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 BORROWINGS – GROUP AND COMPANY (Continued)

(b) Analysis of interest bearing loans and borrowings: (Continued)

The local bank facilities, amounting to USD 100 million were obtained from the consortium of Kenyan banks after the restructuring in November 2017. They were drawn from Equity Bank Limited, KCB Bank Kenya Limited, Commercial Bank of Africa Limited, I&M Bank Limited, National Bank of Kenya Limited, Cooperative Bank of Kenya, Diamond Trust Bank (Kenya) Limited, NIC Bank Limited and Ecobank Limited for financing of working capital requirements. As at 31 December 2018, the Group and Company had only utilized facilities amounting to USD 42 million (2017: USD 42 million).

Jamii Bora Bank Limited opted to retain their outstanding loan to Kenya Airways Plc after the restructuring in 2017. This loan was acquired by NIC Bank Limited in January 2018. The loan repayment term is a tenure of five years.

(c) 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 2018, the Group and Company did not comply with the unrestricted cash to revenue ratio and is in the process of obtaining waivers from the financiers. The facilities have been reclassified to current liabilities as at 31 December 2018 as the Group and Company did not have unconditional rights to defer payment for at least 12 months at the end of the reporting period.

As at 31 December 2017, the Group and the Company did not comply with the cumulative debt service coverage ratio as a result, the facilities have been reclassified to current liabilities as at that date as disclosed in the prior year adjustment in note 40.

(d) Maturities of amounts included in borrowings is as follows:

	2018 KShs million	2017 KShs million
The borrowings maturity analysis is as follows:		
Within one year	77,846	86,232
Between two and five years	184	248
Later than 5 years	4,300	4,358
	<u>82,330</u>	<u>90,838</u>

Had the covenants been complied with as at year/ period end, the borrowings would have been payable as follows:

	2018 KShs million	2017 KShs million
Within one year	6,199	7,415
Between two and five years	41,560	32,047
Later than 5 years	34,571	51,376
	<u>82,330</u>	<u>90,838</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2018 KShs million	2017 KShs million
27 BORROWINGS - GROUP AND COMPANY (Continued)		
(e) The movement in the borrowings is as follows:		
At start of year/period	90,838	142,340
Additions	-	4,358
Repaid in the year/period	(7,301)	(9,109)
Exchange difference on hedged borrowings	(1,207)	274
Debt converted to equity on restructuring:		
- Government of Kenya Loan (note 24 (a))	-	(16,851)
- KQ Lenders 2017 Limited (note 24 (a))	-	(17,267)
Debt converted to mandatory convertible note:		
- Government of Kenya Loan (note 24 (b))	-	(7,744)
- KQ Lenders 2017 Limited (note 24 (b))	-	(5,163)
At end of period	<u>82,330</u>	<u>90,838</u>

Movement in exchange differences on hedged borrowings have been dealt with as follows:

	2018 KShs million	2017 KShs million
Total exchange differences on borrowings	1,207	(274)
Realised on settlement of loans	838	1,524
Net hedge effect	<u>2,045</u>	<u>1,250</u>

The Group and Company has multi-currency credit line facilities with a total value of KShs 18,398 million (2017: KShs 18,555 million) with various local banks for tenures of one year and renewable. At 31 December 2018, the Group and Company had utilised letters of credit (LCs) amounting to KShs 13,788 million (2017: KShs 8,637 million) and draw down facilities of KShs 4,610 million (2017: KShs 4,671 million). The Group and Company has unutilized draw down facilities of KShs 5,690 million as at 31 December 2018. A corporate guarantee of KShs 1,000 million is in place for the Kenya Airways & Co-operative Bank *Ab Initio* Programme.

(f) Analysis of loans by currency:

	2018 KShs million	2017 KShs million
Borrowings in US Dollars	82,330	89,849
Borrowings in Kenya Shillings	-	989
Total borrowings	<u>82,330</u>	<u>90,838</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 BORROWINGS - GROUP AND COMPANY (Continued)

(g) Mandatory convertible loan liability component:

	2018	2017 (Restated)
	KShs million	KShs million
At beginning of the year/period – as previously reported	1,442	-
Prior year adjustment (note 40)	1,835	-
	<hr/>	<hr/>
At beginning of the year/period - restated	3,277	-
Issue of mandatory convertible note – liability component	-	3,277
Conversion of mandatory convertible note to ordinary shares (note 24(a))	(2)	-
Interest charged	389	-
Interest paid	(165)	-
Foreign currency differences	(43)	-
	<hr/>	<hr/>
	<u>3,456</u>	<u>3,277</u>

(h) Deferred expenditure:

	2018	2017
	KShs million	KShs million
At start of the year/period	2,351	2,291
Additions	25	358
Charge for the year/period	(326)	(298)
	<hr/>	<hr/>
At end of the year/period	<u>2,050</u>	<u>2,351</u>

The deferred expenditure is presented in the statement of financial position as:

Current portion	484	301
Non-current portion	1,566	2,050
	<hr/>	<hr/>
	<u>2,050</u>	<u>2,351</u>

Deferred expenditure relates to costs incurred to obtain financing for the purchase of the Boeing 787-8 and B777-300ER aircrafts, as well as fees paid to banks upon successful restructuring of the short term loans to longer repayment periods in November 2017. The costs include commitment, arrangement, consultants, underwriters and guarantee fees. These costs are amortised over the repayment periods of the various loans.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 DEFERRED TAXATION

Deferred income tax is calculated using the enacted income tax rate of 30% (2017 - 30%). The deferred income tax liability/(asset) is made up as follows:

	Group		Company	
	2018	2017	2018	2017
	KShs	Restated	KShs	(Restated)
	millions	millions	millions	millions
Leave pay accrual	(656)	(563)	(638)	(552)
Other provisions	(1,763)	(749)	(1,690)	(695)
Tax losses	(24,466)	(24,272)	(24,112)	(23,878)
Unrealised exchange gains/(losses)	(251)	41	(250)	42
Hedge losses	(4,842)	(5,531)	(4,842)	(5,531)
Accelerated capital allowances	7,470	8,696	7,530	8,749
Revaluation surplus	2,105	2,105	2,013	2,013
	<u>(22,403)</u>	<u>(20,273)</u>	<u>(21,989)</u>	<u>(19,852)</u>
Net deferred tax asset				
Deferred tax assets derecognised	24,218	22,168	24,002	21,865
	<u>1,815</u>	<u>1,895</u>	<u>2,013</u>	<u>2,013</u>
Presented in the statement of financial position as follows:				
Deferred tax asset	(198)	(118)	-	-
Deferred tax liability	2,013	2,013	2,013	2,013
	<u>1,815</u>	<u>1,895</u>	<u>2,013</u>	<u>2,013</u>
The movement on the deferred tax account is as follows:				
At start of year/period	1,895	1,815	2,013	2,013
(Charge)/credit to profit or loss (note 12(a))	(80)	80	-	-
	<u>1,815</u>	<u>1,895</u>	<u>2,013</u>	<u>2,013</u>
At end of year/period				

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. At 31 December 2018, Kenya Airways Plc and JamboJet Limited estimated/assessed tax losses amounted to at KShs 80,373 million and KShs 433 million respectively (2017: KShs 78,747 million and KShs 799 million respectively). Kenyan Income Tax laws allow for carry forward of tax losses for a maximum period of 10 years. The accumulated tax losses will be utilised to offset future taxable profits.

The Group and Company have not recognised deferred tax assets in the financial statements in view of the uncertainty regarding the ability of the company to generate sufficient taxable profits in the foreseeable future to facilitate utilisation of the benefits from the deductions.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 ONEROUS LEASE PROVISION – GROUP AND COMPANY

The airline has sub-leased certain aircraft that are held on operating lease at lease rentals that are lower than that charged by the primary lessors resulting into onerous lease provision as shown below:

Aircraft type	Lessee	Remaining lease period	2018 KShs million	2017 KShs million
B787-800	Oman Air	4 months	49	327
B777	Turkish Airline	16 months	682	1,531
			<u>731</u>	<u>1,858</u>

Onerous lease provision is presented in the statements of financial position as follows:

	2018 KShs million	2017 KShs million
To be realised within one year	701	1,001
To be realised after one year	30	857
	<u>731</u>	<u>1,858</u>

The movement in the onerous lease provision is as follows:

At start of year/period	1,858	2,619
Payments made in the year/period	(1,023)	(755)
Reversal on termination of sub-lease*	(71)	-
Foreign exchange differences	(33)	(6)
	<u>731</u>	<u>1,858</u>

* During the year, the Group and Company terminated one of its sublease agreements with Oman Air. This led to the reversal of all outstanding onerous lease provisions as at the termination date.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 RETURN CONDITION PROVISION

Return condition provision relates to a provision for an unavoidable contractual obligation to perform certain activities and regulatory maintenance liability on major aircraft components, on return of aircraft engine and aircraft components as required by the lessors to fulfil the lease return conditions.

	Group 2018 KShs million	2017 (Restated) KShs million	Company 2018 KShs million	2017 (Restated) KShs million
At beginning of year/period – as previously reported	-	-	-	-
Prior year adjustment (note 40)	4,650	2,810	3,898	2,810
At beginning of year/period - restated	4,650	2,810	3,898	2,810
(Decrease)/increase in provision during the year	(494)	1,795	(494)	1,042
Interest charged	68	40	68	40
Foreign exchange (gain)/loss	(49)	5	(49)	6
At end of year/period	<u>4,175</u>	<u>4,650</u>	<u>3,423</u>	<u>3,898</u>
The return condition provision is presented in the statement of financial position as follows:				
Current	1,793	1,521	1,793	1,521
Non-current	2,382	3,129	1,630	2,377
	<u>4,175</u>	<u>4,650</u>	<u>3,423</u>	<u>3,898</u>

31 SALES IN ADVANCE OF CARRIAGE

The value of the tickets sold and still valid but not used by the end of the reporting period is reported as unearned transportation revenue in the Sales in Advance of Carriage account. The carrying amount of the balance is as presented below:

	Group 2018 KShs million	2017 KShs million	Company 2018 KShs million	2017 KShs million
Passengers	17,382	14,960	17,243	14,861
Freight	169	207	169	207
	<u>17,551</u>	<u>15,167</u>	<u>17,412</u>	<u>15,068</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 SALES IN ADVANCE OF CARRIAGE (Continued)

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
Reconciliation of the sales in advance of carriage is as follows				
At beginning of the year/period	15,167	15,450	15,068	15,356
Total tickets sold	95,517	65,652	91,712	63,523
Total revenue recognised	(88,714)	(63,841)	(85,056)	(61,927)
Expired tickets recognised in revenue	(4,419)	(2,094)	(4,312)	(1,884)
	<u>17,551</u>	<u>15,167</u>	<u>17,412</u>	<u>15,068</u>

The above represents the Group's and Company's obligations to provide services to customers for amounts received in advance as per the Group's policy under note 3(c). In addition, the Group and Company expects to fulfil the related performance obligations arising from sales in advance of carriage within one year.

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
32 TRADE AND OTHER PAYABLES				
Trade payables	23,409	20,418	23,156	19,756
Other payables and accruals	2,051	2,424	827	2,126
Leave pay accruals (note 34)	2,187	1,876	2,125	1,839
Due to related parties (note 36 (b)(ii))	2,301	2,241	22,225	15,818
Unclaimed dividends (note 14)	90	90	90	90
	<u>30,038</u>	<u>27,049</u>	<u>48,423</u>	<u>39,629</u>

33 PROVISIONS

	2018			2017		
Group:	Redundancy provision KShs million	Other provisions KShs million	Total KShs million	Redundancy provision KShs Million	Other provisions KShs million	Total KShs million
At start of year/period	197	1,470	1,667	2,866	472	3,338
Paid during the year/period	(153)	(348)	(501)	(42)	(12)	(54)
Net movement (charged to)/credited to profit or loss	101	11	112	(2,627)	1,010	(1,617)
	<u>145</u>	<u>1,133</u>	<u>1,278</u>	<u>197</u>	<u>1,470</u>	<u>1,667</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 PROVISIONS (Continued)

	2018			2017		
	Redundancy provision KShs million	Other provisions KShs million	Total KShs million	Redundancy provision KShs Million	Other provisions KShs million	Total KShs million
Company:						
At start of year/period	135	1,470	1,605	2,146	472	2,618
Paid during the year/period	(133)	(345)	(478)	(42)	(12)	(54)
Net movement (charged to)/credited to profit or loss	102	11	113	(1,969)	1,010	(959)
At end of year/period	<u>104</u>	<u>1,136</u>	<u>1,240</u>	<u>135</u>	<u>1,470</u>	<u>1,605</u>

Redundancy provision

The Company implemented a staff restructuring program in the year 2012 aimed at improving operational efficiency. The program affected 599 employees and as at 31 December 2018 a provision of KShs 145 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 Company appealed against the decision and on 11 July 2014, the Court of Appeal ruled that the Company 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; which upheld the decision of the Court of Appeal.

Other provisions

Other provisions relate to various legal cases brought against the Company which are pending determination by the courts. Management has made appropriate provisions in respect of certain cases.

34 LEAVE PAY ACCRUAL

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
At start of year/period	1,876	1,748	1,839	1,727
Increase in accrual during the period	311	128	286	112
At end of year/period	<u>2,187</u>	<u>1,876</u>	<u>2,125</u>	<u>1,839</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Group		Company	
	2018 (12 months)	2017 (9 months) (Restated)	2018 (12 months)	2017 (9 months) (Restated)
	KShs million	KShs million	KShs Million	KShs million
Loss before taxation	(7,588)	(6,388)	(7,780)	(6,623)
Adjustments for:				
Depreciation of property and equipment (note 15)	7,696	4,975	7,631	4,929
Impairment of investment in subsidiary (note 17(a))	-	-	440	-
Impairment of assets held for sale (note 23(a)(i))	-	360	-	360
Impairment of assets (note 15)	2,590	-	2,590	-
Amortisation of intangible assets (note 16)	180	229	148	208
Loss on disposal property, aircraft and equipment and assets held for sale	84	3	84	3
Amortisation of deferred expenditure (note 27(h))	326	298	326	298
Amortisation of aircraft deposits (note 19)	(4)	34	(4)	34
Unrealised exchange gain on aircraft deposits (note 19)	81	(8)	81	(8)
Amortisation of sovereign guarantee (note 27 (a))	217	29	217	29
Unrealised exchange loss on borrowings (note 27(c))	838	1,524	838	1,524
Unrealised exchange gain on onerous lease provision (note 29)	(33)	(6)	(33)	(6)
Reversal of termination of sub-lease (note 29)	(71)	-	(71)	-
Interest expense (note 9)	5,062	4,923	5,059	4,921
Interest income (note 9)	(45)	(32)	(51)	(38)
Reversal of Return condition provision	(1,521)	(191)	(1,521)	(191)
Depreciation of return condition asset (note 18)	1,832	1,404	1,525	1,404
Interest charged on return condition (note 30)	68	40	68	40
Unrealized exchange gain on return provision (note 30)	(49)	5	(49)	6
Unrealised exchange gain on mandatory convertible debt (note 27)	(43)	-	(43)	-
Working capital changes				
Inventories	(65)	(204)	(65)	(204)
IFRS 9 transition adjustment	(1,400)	-	(1,391)	-
Trade and other receivables	(2,628)	1,574	(8,096)	394
Sales in advance of carriage	2,384	(337)	2,344	(288)
Trade and other payables (note 32)	2,989	5,576	8,794	6,289
Provisions	(385)	(1,671)	(365)	(1,013)
Prepaid maintenance asset (note 20)	727	(624)	1,025	(542)
Related party balances converted to investment in subsidiary	-	-	(606)	-
Cash generated from operations	11,242	11,595	11,095	11,526

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 CASH GENERATED FROM OPERATIONS (Continued)

(b) Cash and cash equivalents

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

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
Cash and bank balances	6,433	6,356	6,245	6,163
Less: Provision for credit losses	(2)	-	(2)	-
	<u>6,431</u>	<u>6,356</u>	<u>6,243</u>	<u>6,163</u>

The movement in the provision for credit losses is as follows;

At beginning of year- as previously reported	-	-	-	-
Effect of change in accounting policy	7	-	7	-
	<u>7</u>	<u>-</u>	<u>7</u>	<u>-</u>
At beginning of year- restated	7	-	7	-
Provision for the period	(5)	-	(5)	-
	<u>2</u>	<u>-</u>	<u>2</u>	<u>-</u>

(c) Analysis of non-cash transactions

Movement in trade and other payables	2,989	2,570	8,794	3,283
Accrued interest converted to equity	-	3,006	-	3,006
	<u>2,989</u>	<u>5,576</u>	<u>8,794</u>	<u>6,289</u>

36 RELATED PARTY TRANSACTIONS

(a) Nature of related party transactions

During the year, companies within the Group entered into transactions with related parties who are not members of the Group. Details of those transactions are presented below:

(i) Group

KLM Royal Dutch Airlines (KLM)

KLM holds 7.8% (2017:7.8%) 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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 RELATED PARTY TRANSACTIONS (Continued)

(a) Nature of related party transactions (Continued)

(i) Group (continued)

Precision Air Services Limited

Kenya Airways Plc holds 41.23% (2017: 41.23%) equity interest in Precision Air Services Limited with code share on the route between Nairobi and Dar es Salaam.

As is common throughout the airline industry, Kenya Airways Plc, KLM Royal Dutch Airlines and Precision Air Services Limited from time to time carry each other's passengers travelling on the other airline's tickets. The settlement between the two carriers is effected through IATA clearing house, of which all airlines are members.

(ii) Company

	2018 KShs million	2017 KShs million
<i>Handling expenses</i>		
African Cargo Handling Limited	124	90
Jambojet Limited	110	-
<i>Management fee income</i>		
African Cargo Handling Limited	714	545
JamboJet Limited	77	172

(b) Related companies balances

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

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
<i>(i) Due from related companies</i>				
Precision Air Services Limited	205	287	206	287
Kenya Airfreight Handling Limited	-	-	174	145
African Cargo Handling Limited	-	-	16,135	9,993
JamboJet Limited	-	-	706	1,288
Kencargo International Airlines Limited	-	-	61	61
	205	287	17,282	11,774
Provisions for doubtful related party balances	(205)	(255)	(801)	(966)
	-	32	16,481	10,808

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 RELATED PARTY TRANSACTIONS (continued)

(b) Related companies balances (Continued)

(i) Due from related companies (continued)

The movement in the provisions for doubtful related party balances is as follows;

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
At beginning of year/period	255	287	966	949
(Decrease)/increase during the year/period	(50)	(32)	(165)	17
At end of year/period	<u>205</u>	<u>255</u>	<u>801</u>	<u>966</u>

(ii) Due to related companies

KLM, Royal Dutch Airlines	2,301	2,241	2,263	2,223
Kenya Airfreight Handling Limited	-	-	59	58
African Cargo Handling Limited	-	-	19,903	13,537
	<u>2,301</u>	<u>2,241</u>	<u>22,225</u>	<u>15,818</u>

Amounts due from and due to Kenya Airfreight Handling Limited (KAHL) arise from payments of expenses by Kenya Airways on behalf of KAHL, net of costs apportioned by KAHL for services rendered to Kenya Airways Plc. It also includes a loan amount of KShs 19.6 million secured by KAHL from Kenya Airways Plc. Both the related party and loan balances are interest free and have no fixed repayment terms.

The amounts due from African Cargo Handling Limited (ACHL) relate to cargo freight collected by ACHL on behalf of Kenya Airways and the expenses paid by Kenya Airways on behalf of ACHL. The amounts due to ACHL relate to cash transfers from ACHL to Kenya Airways and the ACHL IATA billings. The related party balances are interest free and have no fixed repayment terms.

(c) Remuneration for Directors and key management compensation

The remuneration for Directors and other members of key management during the year were as follows:

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
Salaries and other benefits	255	269	221	237
Non-monetary benefits	33	6	33	6
	<u>288</u>	<u>275</u>	<u>254</u>	<u>243</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 RELATED PARTY TRANSACTIONS (continued)

(c) Remuneration for Directors and key management compensation

The Company and its subsidiaries' Directors' remuneration included in key management compensation above comprise:

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
As executives	58	110	58	110
As non-executives	31	22	31	22
	<hr/>	<hr/>	<hr/>	<hr/>
	89	132	89	132
Non - monetary benefits	4	4	4	4
	<hr/>	<hr/>	<hr/>	<hr/>
	93	136	93	136
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(d) Receivable from directors

Included in other receivables are amounts due from directors amounting to KShs 54 million (2017 – Nil).

37 COMMITMENTS

As at 31 December 2018 and as at 31 December 2017, the Group and Company had purchase commitments for aircraft parts and other equipment incidental to the ordinary course of business as follows:

	2018 KShs million	2017 KShs million
Authorised but not contracted for	5,283	2,705
	<hr/> <hr/>	<hr/> <hr/>

38 OPERATING LEASES – GROUP AND COMPANY

The future minimum lease payments and reconciliations under non-cancellable operating leases are as follows:

(a) Lease payments

	Group		Company	
	2018 KShs million	2017 KShs million	2018 KShs million	2017 KShs million
Not later than 1 year	9,957	9,420	9,169	8,550
Later than 1 year but not later than 5 years	52,312	50,489	49,159	47,295
Later than 5 years	35,815	47,602	32,854	43,802
	<hr/>	<hr/>	<hr/>	<hr/>
	98,084	107,511	91,182	99,647
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38 OPERATING LEASES – GROUP AND COMPANY (Continued)

(b) Lease receivables

	2018 KShs million	2017 KShs million
Not later than 1 year	3,061	5,183
Later than 1 year but not later than 5 years	490	3,883
	<u>3,551</u>	<u>9,066</u>

During the year, the Group and Company expensed KShs 7,605 million and KShs 6,448 million (2017: KShs 6,603 million and KShs 6,064 million) respectively in profit or loss in respect of operating leases as disclosed in note 8(b)

During the year, the Group and Company each recognised lease income of KShs 1,461 million (2017: KShs 1,101 million) in profit or loss in respect of operating leases income as disclosed in note 7(a).

The aircraft fleet leasing commitments include the balance of rental obligations under operating leases in respect of the various aircraft.

The Group leases various aircraft under non – cancellable operating leases with varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. 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 of dividend pay outs, borrowings or further leasing.

39 CONTINGENT LIABILITIES – GROUP AND COMPANY

(a) Contingent liabilities

	2018 KShs million	2017 KShs million
Guarantees	13,788	8,637
Litigation	660	578
	<u>14,448</u>	<u>9,215</u>

(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

(i) 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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 CONTINGENT LIABILITIES – GROUP AND COMPANY (Continued)

(c) Litigation (Continued)

(i) Douala crash - KQ507 (Continued)

Site clear up

After the accident there had been concerns locally that the accident site had not been made sufficiently safe and secure. On 30 December 2008, the Cameroon Prime Minister appointed a local committee to oversee a clean-up and restoration of the site of the accident. Kenya Airways was asked to nominate a representative and did so. To the Directors knowledge, there have been no further developments since this date regarding the site clear up. The Directors suspect that given the site is located in a tidal mangrove swamp, is difficult to access and the nearest habitation is some distance from the site, it will be very difficult for the local committee set up to achieve its aims in any event. Given the passage of time since the incident it can safely be assumed that there will be no follow up or future developments.

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. The purpose of the criminal process was to establish whether there has been any criminal wrongdoing.

A number of hearings took place. Notwithstanding subsequent publication of the official accident report, the Magistrate has indicated that he wishes to continue with his investigations. It is unclear when the next hearing may be and there have been no recent developments.

(ii) Abidjan crash – KQ 431

On 30 January 2000, a Kenya Airways Airbus 310 aircraft registration 5Y-BEN on flight KQ431 from Abidjan (Ivory Coast) to Nairobi crashed into the sea. A total of 169 passengers perished in the crash. Kenya Airways negotiated and reached agreement in majority of the claims. Only one claim lies dormant and the Directors have taken the pre-caution to keep the file open.

(iii) Other material litigation

Nairobi Industrial Court Cause No. 539 of 2011 (Kenya) - action against the Group by a former employee.

There are other various legal cases brought against the Group which are pending determination by the courts. It is not practicable to determine the timing and ultimate liabilities (if any) that may crystallise upon resolution of the pending cases. However, management has made appropriate provisions in respect of certain cases. Due to the nature and sensitivity of these cases, detailed disclosures have not been made for each case as these may be prejudicial to the position of the Group.

40 PRIOR YEAR ADJUSTMENTS

The prior year adjustments relate to the correction of the following errors:

- Prepaid maintenance asset

The lease agreements require the Group and Company to make payments towards maintenance of the aircraft. The lessors are contractually obligated to reimburse the Group and Company for the qualifying maintenance expenditure incurred on the aircraft if the Group and Company has a maintenance reserve credit. The Group and Company had erroneously accounted for its prepaid maintenance asset as an expense.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 PRIOR YEAR ADJUSTMENTS (Continued)

The prior year adjustments relates to the correction of the following errors: (Continued)

- Return condition provisions

The Group and Company operated 20 and 25 aircraft respectively under operating lease arrangements. Under the terms of the operating lease arrangements with the lessors, the Group and Company is contractually committed to return the aircraft and engines in a certain condition at the date of return. The Group and Company have in the past erroneously had not assessed the return condition provision for the aircrafts under operating lease arrangements.

- Mandatory convertible note

On 14 November 2017, as part of its balance sheet restructuring, Kenya Airways Plc issued the Government of Kenya and KQ Lenders Company 2017 Limited mandatory convertible notes of USD 75 million and USD 50 million respectively. The Government of Kenya note was issued at zero interest 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. At initial recognition of the compound instrument there was an error in the valuation of the split between debt and equity due to the discounting rate used.

- Borrowings

As at 31 December 2017, the Group and the Company erroneously classified KShs 78,917 million as a non-current liability yet the Group and Company did not comply with the cumulative debt service coverage ratio and as a result the Group and Company did not have unconditional right to defer payment for the next 12 months. The facilities have been reclassified to current liabilities as at that date.

a) **Restatement of audited statement of profit or loss and other comprehensive income for the period ended 31 December 2017**

	For the 9 months period ended 31 December 2017 (as previously reported) KShs million	Adjustment KShs million	For the 9 months period ended 31 December 2017 (as restated) KShs million
Group			
Direct costs	(53,400)	1,681	(51,719)
Fleet ownership costs	(10,556)	(1,979)	(12,535)
Other losses	(2,384)	(39)	(2,423)
Loss for the period	<u>(6,081)</u>	<u>(337)</u>	<u>(6,418)</u>
Basic loss per share (KShs)	<u>(1.04)</u>	<u>(0.08)</u>	<u>(1.10)</u>
Diluted loss per share (KShs)	<u>(0.81)</u>	<u>(0.06)</u>	<u>(0.86)</u>
Company			
Direct costs	(51,511)	1,598	(49,913)
Fleet ownership costs	(10,170)	(1,980)	(12,150)
Other losses	(2,379)	(38)	(2,417)
Loss for the period	<u>(6,219)</u>	<u>(420)</u>	<u>(6,639)</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 PRIOR YEAR ADJUSTMENT (Continued)

b) Restatement of audited statement of financial position as at 1 April 2017

Group	At 1 April 2017 (as previously reported) KShs million	Adjustment KShs million	At 1 April 2017 (as restated) KShs million
ASSETS			
Non-current assets			
Return conditions asset	-	2,810	2,810
Current assets			
Prepaid maintenance asset	-	3,501	3,501
EQUITY AND LIABILITIES			
Non-current liabilities			
Return condition provision	-	(2,619)	(2,619)
Borrowings	(113,067)	81,603	(31,464)
Maintenance reserve	(3,058)	3,058	-
Current liabilities			
Return condition provision	-	(191)	(191)
Borrowings	(26,982)	(81,603)	(108,585)
Capital and reserves			
Accumulated loss	<u>(51,871)</u>	<u>6,559</u>	<u>(45,312)</u>
Company			
ASSETS			
Non-current assets			
Return conditions asset	-	2,810	2,810
Current assets			
Prepaid maintenance asset	-	3,501	3,501
EQUITY AND LIABILITIES			
Non-current liabilities			
Return condition provision	-	(2,619)	(2,619)
Borrowings	(113,067)	81,603	(31,464)
Maintenance reserve	(3,058)	3,058	-
Current liabilities			
Return condition provision	-	(191)	(191)
Borrowings	(26,982)	(81,603)	(108,585)
Capital and reserves			
Accumulated loss	<u>(54,455)</u>	<u>6,559</u>	<u>(47,896)</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 PRIOR YEAR ADJUSTMENT (Continued)

c) Restatement of audited statement of financial position as at 31 December 2017

Group	At 31 December 2017 (as previously reported) KShs million	Adjustment KShs million	At 31 December 2017 (as restated) KShs million
ASSETS			
Non-current assets			
Return conditions asset	-	3,392	3,392
Current assets			
Prepaid maintenance asset	-	4,125	4,125
EQUITY AND LIABILITIES			
Non-current liabilities			
Return condition provision	-	(3,129)	(3,129)
Borrowings	(81,410)	77,082	(4,328)
Maintenance reserves	(3,355)	3,355	-
Current liabilities			
Return condition provision	-	(1,521)	(1,521)
Borrowings	(7,114)	(78,917)	(86,031)
Capital and reserves			
Mandatory convertible note	(11,465)	1,835	(9,630)
Accumulated loss	(57,956)	6,222	(51,734)
	<u> </u>	<u> </u>	<u> </u>
Company			
ASSETS			
Non-current assets			
Return conditions asset	-	2,639	2,639
Current assets			
Prepaid maintenance asset	-	4,043	4,043
EQUITY AND LIABILITIES			
Non-current liabilities			
Return condition provision	-	(2,377)	(2,377)
Borrowings	(81,410)	77,082	(4,328)
Maintenance reserves	(3,355)	3,355	-
Current liabilities			
Return condition provision	-	(1,521)	(1,521)
Borrowings	(7,114)	(78,917)	(86,031)
Capital and reserves			
Mandatory convertible note	(11,465)	1,835	(9,630)
Accumulated loss	(60,674)	6,139	(54,535)
	<u> </u>	<u> </u>	<u> </u>

41 POST REPORTING DATE EVENTS

No material events or circumstances have arisen between the reporting date and the date of this report that require disclosure.

KENYA AIRWAYS PLC

PRINCIPAL SHAREHOLDERS AND SHARE DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2018

Principal shareholders

The ten largest shareholdings in the Company and the respective number of shares held at 31 December 2018 are as follows:

Name of shareholder	Number of shares	% Shareholding
1. Cabinet Secretary To The National Treasury	2,847,844,811	48.90
2. KQ Lenders Company 2017 Limited	2,218,310,169	38.09
3. KLM -- Koninklijke Luchtvaart Maatschappij (KLM) Royal Dutch Airlines	451,661,470	7.76
4. The Trustess of the Kenya Airways Employee Share Ownership Scheme 2017	142,164,558	2.44
5. Standard Chartered Nominees Ltd Non Resident A/c KE11752	35,611,300	0.61
6. Kamau Mike Maina	16,099,735	0.28
7. Standard Chartered Nominees Ltd A/c 9187	5,385,914	0.09
8. Standard Chartered Nominees Ltd A/c 9230	3,632,693	0.06
9. Vijay Kumar Ratilal Shah	3,435,900	0.06
10. Galot International Limited	2,652,370	0.05
11. Other Shareholders	97,103,701	1.66
Total	5,823,902,621	100.00

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
Less than 500 shares	61,740	10,821,752	0.19
501 – 5,000 shares	16,272	21,682,428	0.37
5,001 – 10,000 shares	1,061	7,486,537	0.13
10,001 – 100,000 shares	1,112	27,650,497	0.47
100,001 – 1,000,000 shares	104	27,217,656	0.47
Over 1,000,000 shares	12	5,729,043,751	98.37
Total	80,301	5,823,902,621	100.00

Distribution of shareholders by region

	Number of shareholders	Number of shares	% Shareholding
Foreign Institutions	11	489,326,498	8.40
Foreign Individuals	565	2,642,581	0.05
Local Institutions	3,079	5,239,212,531	89.96
Local Individuals	76,646	92,721,011	1.59
Total	80,301	5,823,902,621	100.00