COMMENTARY

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

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

This therefore means that the 2018 results are not directly comparable with the 2017 results as it is a representation of 12 months against the 9 months in 2017. Were the 2017 results to be annualised there would be have been improvement in the results for the year.

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

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

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

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

Growth in Revenue

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

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

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

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

Operating costs

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

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

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

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

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

Outlook

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

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

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

Michael Joseph
Chairman
29th April 2019