KENYA AIRWAYS PLC

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2020

KENYA AIRWAYS PLC

ANNUAL REPORT AND CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS PAGE

CORPORATE INFORMATION

EXECUTIVE DIRECTORS	Allan Kilavuka	- (Appointed w.e.f 1 st January 2020)
NON-EXECUTIVE DIRECTORS	Mr. Michael Joseph	- Chairman

Mr. Jozef Veenstra *

Ms. Caroline Armstrong

Major Gen (rtd) Michael Gichangi

Mrs. Esther Koimett

Dr. Martin Oduor-Otieno

Ms. Carol Musyoka

Mr. John Ngumi

Mr. Solomon Kitungu (Appointed w.e.f23 rd April 2020)

Dr. Haron Sirima (Alternate to the Cabinet Secretary, The National Treasury)

Mr. Nicholas Bodo (Altemate to Mr. Solomon Kitungu)

* Dutch

COMPANY SECRETARY Habil A. Waswani

Certified Secretary (Kenya)

Kenya Airways Headquarters and Base

Airport North Road, Embakasi

P.O. Box 19002 - 00501

Nairobi

AUDITORS PricewaterhouseCoopers LLP

PwC Tower, Waiyaki Way/Chiromo Road, Westlands

P.O Box 43963-00100 Nairobi, Kenya

REGISTERED OFFICE Kenya Airways Headquarters and Base

Airport North Road, Embakasi

P.O. Box 19002 - 00501

Nairobi

REGISTRARS AND Custody & Registrars Services Limited

TRANSFER OFFICE 6th Floor, Bruce House

Standard Street

P.O. Box 8484 - 00100

Nairobi

CORPORATE INFORMATION (Continued)

PRINCIPAL BANKERS	Citibank N.A. Citibank House, Upper Hill Road P.O. Box 30711 - 00100 Nairobi
	Standard Chartered Bank Limited 48 Chiromo, Level 5 Westlands Road P.O. Box 30003 - 00100 Nairobi
	Absa Bank Kenya Plc The West End Building, 4th Floor Waiyaki Way, Head Office P.O. Box 30120 - 00100 Nairobi
	National Bank of Kenya Limited 13th Floor, National Bank Building Harambee Avenue P.O. Box 72866 - 00200 Nairobi
	Equity Bank Limited 7th Floor, Equity Centre Upper Hill P.O. Box 75104 - 00200 Nairobi
PRINCIPAL LEGAL ADVISORS	Coulson Harney LLP 5th Floor, West Wing, ICEA Lion Centre Riverside Park, Chiromo Road, Nairobi P.O. Box 10643-00100, Nairobi, Kenya www.bowmanslaw.com Tripleoklaw Advocates 5th Floor, Block C, ACK Garden House 1st Ngong' Avenue, off Bishops Road P.O. Box 43170 - 00100 Nairobi

KENYA AIRWAYS PLC

STATEMENT OF CORPORATE GOVERNANCE

The Board of Kenya Airways Plc ("the Company") is committed to good corporate governance and understands its oversight and foresight roles in leading the Company. In this regard, the Board had adopted corporate governance practices that are in line with the principles and standards set out under the Code of Corporate Governance for Issuers of Securities in Kenya ("the Code").

While recognising that it has overall responsibility for the governance of the Company, the Board is committed to providing strategic direction, the necessary support and advice to Management. The Board has defined the mission, vision and values of the Company and is committed to high standards of ethical behaviour characterised by effective and responsible leadership, accountability, fairness, probity and integrity, transparency, efficiency and effectiveness. The Board is further committed to recognising the legitimate interests of various stakeholders including shareholders, staff, customers, the Government and the public.

The Board recognises that the long-term sustainability of the Company heavily depends on it. In this regard, the Board has taken time to formulate appropriate strategies and policies for the delivery of the strategy. At the same time, the Board is keen on ensuring that Management is focused on the achievement oftargets while fostering a culture that values ethical behaviour, integrity and respect and the need to conduct the business and operations of the Company in accordance with generally accepted corporate practices. The Board has therefore ensured that the Company as a whole has embraced good corporate governance in its structure, policies, practices and operations.

Board of Directors

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

Mr. Michael Joseph	-	Independent Non-Executive Director (Chairman)
Mr. Allan Kilavuka	-	Group Managing Director
Mrs Esther Koimett	-	Non-Executive Director
Mr Jozef Veenstra	-	Non-Executive Director
Ms Carol Musyoka	-	Non-Executive Director
Dr Martin Oduor-Otieno	-	Non-Executive Director
Ms Caroline Armstrong	-	Independent Non-Executive Director
Major Gen (rtd) Michael Gichangi	-	Independent Non-Executive Director
Mr. John Ngumi	-	Independent Non-Executive Director
Mr. Solomon Kitungu	-	Non-Executive Director
Dr Haron Sirima	-	Alternate to the Principal Secretary for the National Treasury)
Mr. Nicholas Bodo	-	(Alternate to Mr. Solomon Kitungu)

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

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

Michael Joseph (75) — Chairman and Independent Non-Executive Director

Michael Joseph was appointed Chairman of Kenya Airways in October 2016. He is also the Chairman of Safaricom Plc board of directors. He was previously the CEO of Safaricom Plc from July 2000 to November 2010, as Founder CEO and then again as acting CEO from July 2019 to March 2020. He remains a non-executive Director on the Board of Safaricom Plc, Chairman of the M-Pesa Foundation and Chairman of the M-Pesa Academy.

Until recently (October 2017), he was the Director of Mobile Money and was responsible for leading the strategic growth and development of successful M-Pesa proposition across the Vodafone footprint. Michael was the founding CEO of Safaricom Plc, steering the company from a subscriber base of less than 18,000 in 2000 to over 1 7 million subscribers at his retirement in November 2010 making it the most successful company in East Africa. This phenomenal growth straddling nearly a decade was notable for the launch of many innovative products and

Board of Directors (Continued)

services. He was behind the launch of the highly successful launch and phenomenal growth of M-Pesa and its related services.

Michael has been the recipient of many awards, including CEO of the year awarded by the Kenya Institute of Management, the Elder of the Order of the Burning Spear (awards given by the President of Kenya to those who have made a positive impact in Kenya).

He has extensive international experience in company start-ups, the implementation and operation of large wireless and wire-line networks. He is also a keen conservationist and serves as Chairman of Lewa Wildlife Conservancy, a leading conservancy in Northern Kenya.

Allan Kilavuka (48) — Group Managing Director & Chief Executive Officer

Allan was appointed the Group Managing Director and Chief Executive Officer of Kenya Airways in April 2020. He is also a non-executive board member of two Kenya Airways subsidiaries; the regional operator Jambojet Limited and the Tanzanian operator Precision Air Services Limited. He is the former Managing Director at Jambojet Limited.

With over 23 years' experience in leadership and management, and extensive knowledge and experience in the Africa business environment, Allan has proven success in new organisation set ups, change management, financial planning, integrations, process improvement and company compliance and responsible strategic leadership.

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

Allan has a Bachelor of Commerce Degree from the University of Nairobi and holds a Postgraduate Certificate in Psychology from the University of Liverpool. He has trained at GE's world class Crotonville Leadership Institute in New York, USA in Executive Leadership, Advanced Management and Financial Planning.

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

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

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Board of Directors (Continued)

Caroline Armstrong (46) — Independent Non-Executive Director

Caroline has over 25 years' career experience, most of which has been in financial services both within Kenya and internationally. She started her career as a management trainee and rose through the ranks to become a key C-suite executive within the industry before choosing to leave the industry and forge a new path. She is now a consultant focusing on strategy formulation, project implementation and change management customising solutions for her clients to enable them to achieve success. In addition to the KQ Board she serves on the boards of the National Housing Corporation and JamboJet Limited, and is the Chairperson of AIB Axys Africa Limited. Her broad and successful career and her board roles, translate into a unique ability to not only provide guidance strategically but to provide support tactically where required. Her in depth knowledge ofKQ and its recent history have proved to be invaluable.

Major General (rtd) Michael Gichangi (62) — Independent Non-Executive Director Major General Gichangi joined the Kenya Air Force as a pilot in 1975 and rose through the ranks serving in all its flying operations hierarchy command positions. He retired from the military in 2006 as the Chief of Strategic Plans and Policy at the Defence Headquarters, on being appointed the Director General of The National Intelligence Service. He served in this position until 2014.

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

Carol Musyoka (48) — Non-Executive Director

Carol Musyoka has several years of financial leadership experience, working in Kenya and the United States She has extensive experience in deal origination, negotiation, structuring and execution, having been involved in several landmark corporate finance transactions in Kenya. Her executive management and Board experience include her role as the Corporate Director of ABSA Bank Kenya Plc as well as the Executive Director and Chief Operating Officer of K-Rep Bank, Kenya's first micro finance institution.

She currently sits as a non-executive director on the boards of East Africa Breweries Limited, Kenya Breweries Limited and British American Tobacco Plc. She chairs the board of the Business Registration Services, a government agency charged with registering business entities in Kenya and is also a non-executive director on the Board of ICDC, a government investment corporation. Carol is a holder of a Bachelor of Law degree from the University of Nairobi and a Master of Law degree from Cornell University, USA. Carol, is a recipient of the 2010 Eisenhower Fellowship for International Leadership, lives in Nairobi, Kenya.

Dr. Martin Oduor-Otieno (64) — Non-Executive Director

Martin is an independent Business Advisor and Accredited Executive Coach. He runs the consulting firm, The Leadership Group Limited. Prior to this, he worked with Deloitte East Africa as a Partner, Financial Services Industry from 2013 to 2016 and was CEO of KCB Bank Group Plc, between 2007 and 2012. He has also held senior positions in ABSA Bank Kenya Plc both in Kenya and in South Africa as well as in the Public Sector as Permanent Secretary Ministry of Finance/Treasury in the Government of Kenya between 1999 and 2001.

Martin holds an Executive MBA degree from ESAMI/Maastricht Business Schools and a Bachelor of Commerce degree from the University of Nairobi. He is also an alumnus ofthe Harvard Business School's Advanced Management Program.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Board of Directors (Continued)

He is a Fellow of the Kenya Institute of Bankers, the Institute of Certified Public Accountants of Kenya, the Institute of Certified Secretaries of Kenya and the Institute of Directors of Kenya. He is also an Accredited Governance Auditor.

Martin is a non-executive director in Standard Bank Group, East African Breweries Limited, British American Tobacco Kenya Plc, GA Life Assurance Limited and is a member of the International Senate of SOS KDI.

Esther Koimett (64) — Non-Executive Director

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

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

John Ngumi (65) Independent Non-Executive Director

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

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

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

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

STATEMENT OF CORPORATE GOVERNANCE (Continued)

Board of Directors (Continued)

Solomon Kitungu, (59) Non-Executive Director

Mr. Solomon Kitungu C.B.S. is the Principal Secretary' for the State Department for Transport. He has previously served as an officer in various positions at the National Treasury including the position of Investment Director from 2003 — 2009 and from October 2017 to January 2020. He has also previously served as the Executive Director and CEO of the Privatization Commission.

Mr. Kitungu holds a Bachelor of Arts degree in Economics (1987) from the University of Nairobi and a Master of Arts degree in Economics (1990) from the University of Manchester, United Kingdom. Mr. Kitungu has also attended the Advanced Management Programme, and many other trainings in public sector management and refoms, investment management and reforms, privatizations, negotiations, infrastructure, investment analysis and Public Private Partnerships, among others. Mr. Kitungu previously served as alternate director (and currently as director) in many boards of State Corporations.

Dr. Haron Sirima, OGW (58) — Alternate to Principal Secretary for the National Treasury Dr Haron Sirima, OGW is currently the Director-General, Public Debt Management Office at the National Treasury and Chairman, Kenya Mortgages Refinance Company Ltd. A career central banker, he joined the Central Bank of Kenya in 1986 as a graduate trainee and rose through the ranks to the position of Deputy Governor, Central Bank of Kenya and Vice Chairman, Monetary Policy Committee. He has previously served as Deputy Director Management Department, Ministry of Finance and also Adjunct Professor at Jomo Kenyatta University of Agriculture and Technology. Dr Sirima has extensive experience in sovereign debt management and has been involved in the design and implementation of public debt management reforms including the preparation of the Kenya's External Resource Policy, Debt & Borrowing Policy and Public Finance Management Act, 2012. He holds a B.A Economics and B.Phil Economics degrees from University of Nairobi, Master's degree in Economics from University of Manchester, UK and PhD in Entrepreneurship from Kenyatta University.

The Responsibilities of the Board

The Board is clear on its role, powers, duties and functions. The Board has ensured the development of a Board Manual which contains a Board Charter, and which, having been last reviewed in 2019, is currently undergoing further review. The Board Charter has been disclosed on the Company's website as required by the Code. The Board is also guided by a number of policies including a Code of Business Conduct, a Directors' Code of Conduct, a Conflict of Interest and Gifts Policy, Insider Trading Policy, Board Induction and Development Policy, Dispute Resolution Policy, Board Diversity Policy, Board Appointment Procedures as well as a Stakeholder Management Policy, which are all contained in the Board Manual.

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

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

Board appointment, composition and succession planning

As a result of the current shareholding structure, ten out of the eleven members of the Board are non-executive directors. Four out of those ten directors are independent, including the Chairman of the Board.

The Board considers that collectively, the directors have the range of skills, knowledge and experience necessary to direct the Company. In this regard, the Board has developed a detailed skills matrix that guides it in recommending directors for appointment. The Board's skills matrix is aligned to the Company's strategy and provides guidance for diversity in knowledge and experience, governance and industry skills, personal attributes as well as non-skills considerations such as gender and age. The skills matrix is used in conjunction with the Board Appointment Procedures and Board Diversity Policy which are published on the Company's website. Nominations to the Board are handled by the Corporate Governance and Nominations Committee, which vets all potential directors before recommending them to the Board for appointment. The Board then makes recommendations to the Shareholders at the Annual General Meeting.

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

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

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

Board appointment, composition and succession planning (Continued)

Board Rotation schedule

DIRECTOR	Year of 1 st A ointment	Year of reelection	Year of reelection	Year of reelection	Year of reelection	Year of reelection	Year of reelection	Year of final Retirement
Mr. Michael Joseph	2016			2019			2022	
Mr. Jos Veenstra	2017				2020			2023
Ms. Caroline Armstrong	2014	2017			2020			2023
Major Gen (rtd). Michael Gichangi	2017		2018			2021		
Ms. Carol Musyoka	2017		2018			2021		
Dr. Martin OduorOtieno	2017		2018			2021		
Mrs Esther Koimett	2017		2018			2021		
Mr. John Ngumi	2019						2022	
Mr. Solomon Kitungu	2020							2023
Dr. Harun Sirima	2020					2021		

Notes:

1. One third of the number of directors (other than executive directors) are required to retire by rotation in each year.
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, Ms Caroline Armstrong, Mr. JozefVeenstra and Mr. Solomon Kitungu were re-appointed to the Board at the Annual General Meeting of the Company held on 26 th June 2020. The three directors were vetted by the Corporate Governance and Nominations Committee and in line with the Board Appointment Procedures, the Board Diversity Policy and the Skills Matrix, were recommended by the Board to the shareholders and were duly elected to the Board unanimously.

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

Board induction and continuous skills development

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

Board induction and continuous skills development (Continued)

The Corporate Governance and Nominations Committee considers and recommends Board development programmes to ensure that the Board is kept up-skilled. During the year under review however, given the impact of Covid- 1 9, no Board development was undertaken. It is expected that Board members will undergo Board development in 2021.

Code of Business Conduct & Ethics

The Company is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. A formal Code of Business Conduct and Ethics has been approved by the Board and is fully implemented to guide the Board, Management, employees and stakeholders on acceptable behaviour in conducting business. All Board members and employees of the Airline are expected to avoid activities and financial interests that could undermine their responsibilities to the airline. The Board has approved a Conflict of Interest and Gifts Policy as well as a Code of Conduct specific to the Board. Directors are required to declare any conflict of interests upon appointment. In addition, a Director with an actual or potential conflict of interest in relation to a matter before the Board is required to disclose such interest and to recuse himself or herself from the discussions relating to the matter in question. In this regard, declaration of conflict of interest is a standing agenda item during Board and Committee meetings. In addition, Board members are required on an annual basis to make a declaration of any conflict of interest.

The Company has a strict insider trading policy to which the Directors and Senior Management must adhere. The Board is not aware of any insider dealings during the period under review. All related party transactions have been considered by the Audit and Risk Committee and have been disclosed in the Company's audited financial statements.

Board evaluation

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

Governance audit

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

Transparency and disclosure

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

Periodically there are press releases announcing other major company developments, which could be considered as being price sensitive information. In this regard, the Company also complies with the continuing listing obligations of the Capital Markets Authorities and Securities Exchanges applicable in Kenya, Uganda and Tanzania. The Annual Report is published each year on the Company's website together with the notice of the Annual General Meeting.

There is regular communication with the staff as guided by the Human Resource Policies. In addition, the Board holds frequent meetings with key stakeholders.

External consultants

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

Attendance at Board meetings

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

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

Relationship between the Board and Management

There is a clear separation of roles between the Board and Management, and this separation has been clearly stipulated in the Board Charter. The role of the Chairman of the Board is separate from that of the Group Managing Director and Chief Executive Officer, and in line with good governance practice, the Board has delegated authority for the conduct of day-to-day business to the Group Managing Director and Chief Executive Officer. This delegation has been clearly defined in the Board Charter and in the Delegation of Authority matrix approved by the Board during the year under review. The Board nonetheless remains accountable for the overall management and long-tenn success of the Company.

Committees of the Board

The Board has four standing committees namely:

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

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

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

the

Internal controls

The Board through the Audit and Risk Committee ensures that Company has defined procedures for internal controls to ensure the integrity of the assets of the Company and the reporting of complete and accurate financial information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the Company remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal control, the Board takes into account the results of all the work carried out by the Internal Audit team. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators. Weekly meetings are held by Executive Management to monitor performance and to agree on measures for improvement.

Management is constantly updating and activating any changes in legislation or regulations pertinent to the Company and liaises with the Kenya Civil Aviation Authority on such changes. They panicipate 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 Management and is not involved from an operational perspective in the activities it reviews. Intemal Audit provides assurance that the design and operation of the Company's risk management and internal control system is effective. A risk-based audit approach is used to ensure that the annual audit Work Plan targets the higher risk activities in each business unit or function. All audits are conducted in a manner that conforms to international auditing standards.

External auditor relationship

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

Strategic planning process

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

Compliance with laws and regulations and standards

The airline industry is highly regulated and the accountable manager is charged with the responsibility of ensuring compliance with applicable laws, regulations, standards and protocols. The Board seeks to ensure compliance with

the

applicable laws and regulations and receives regular reports on legal matters. The Board is not aware of any material departures from required compliance.

Directors emoluments and loans

The Board has put in place a Board Remuneration Policy and amount of emoluments paid to each Director including benefits enjoyed for services rendered during the financial year 2020 are disclosed in the notes to the financial statements, and more particularly set out in the Director's Remuneration Repon contained in this annual report. The Shareholders approved the Board Remuneration Policy at the Annual General Meeting held on 22 June 2018.

Directors' interests

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

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

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

Company Secretary

The Company Secretary is Habil A. Waswani, a member of the Institute for Certified Secretaries and in good standing.

Information Technology (IT)

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

Procurement

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

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

Stakeholder Management

The reputation of the Company is a key focus for the Board. Communications & Public Affairs Depattment plays a key role in how the public (shareholders, customers, suppliers, investors and the general public), as well as staff, perceive Kenya Airways. The Department manages the Company's reputation and ensures that the demands of the ever-changing

the

business and regulatory environments are taken into consideration in decision-making. The Board is responsible for guiding the strategic direction for communication strategies across the Company and the department is responsible for implementing these.

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

Reports of the Committees of the Board

Report of the Audit and Risk Committee

Mem bership

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

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

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

Audit & Risk Committee Meetings in FY 2020

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

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

Report of the

Audit and Risk Committee (Continued)

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 ofthese to the International Financial Reporting Standards (IFRS).
- Risk management

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

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

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

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

Key activities in FY 2020

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

Looking forward

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

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

Corporate Governance and Nominations Committee

Current Membership

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

In compliance with the Code, the Chaiman of the Committee is an independent non-executive board member. One other member of the Committee is an independent non-executive director, while the rest of the members other than the Chief Executive Officer are non-executive board members.

Report of the

Mandate

The Committee's mandate is to oversee and monitor the Company's Corporate Govemance policies, practices .and guidelines and to establish trans//parent policies and processes for the identification of suitable candidates for nomination and election or re-election as Directors of the Company.

Corporate Governance and Nominations Committee Meetings in FY 2020

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

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

The following achievements were realised, among others:

- Managed the recruitment and on-boarding of the Group Managing Director;
- Developed the KPIs for the Group Managing Director Subjected the Board and its committees to an annual Board Evaluation;
- Reviewed and made recommendations for the composition of Board Committees and subsidiary Boards based on
- Assessed and recommended to the shareholders the appointment of three Directors;
- Ensured Board training;
- Assessed the Company's corporate governance practices against the Capital Markets Authority's Code of Corporate Governance Practices for Issuers of Securities;
- Ensured the assessment of independence for the Independent Non-Executive Board members;
- Ensured the annual declaration of conflict of interest for Board members;
- Managed the transition to the current Group Managing Director; and
- Developed and recommended to the Board a Board Work Plan.

Looking forward

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

Mr. Michael Joseph Chairman — Corporate Governance and Nominations Committee

Strategy and Business Development Committee

Current Membership:

Maj. Gen. (rtd) Michael Gichangi	-	Chairman
Mr. Nicholas Bodo	-	Member
Mr. John Ngumi	-	Member
Ms. Caroline Armstrong-Ogwapit	-	Member
Dr. Harun Sirima	-	Member

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

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

Attendance of meetings for FY 2020

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

Report of the

Mandate

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

i) Advise the Board on the main strategic priorities of the Company; ii) Review the execution of the commercial and operational strategy; iii) Review the plan and budget and recommend its approval to the Board; iv) Review and give opinions on major investments, divestments and extemal growth; acquisition and disposal of assets; and

v) Carry out any other business directed by the Board relevant the mandate of the Committee.

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

Achievements During the Year Under Review:

i) Strengthened the strategic planning process by offering guidance and reviews of objectives, performance indicators, initiatives and actions that improve operational results; ii) Reviewed, improved and approved the Emergency Response and Network Plan that helped the business stay afloat during the ban on air travel within, to and from Kenya due to the ongoing Covid-19 pandemic; iii) Providing support to the Management as a bridge to the Government of Kenya through member lobbying to ensure that the reopening of Kenya's skies did not adversely affect the airline through unfair competition and capacity dumping by rival airlines; iv) Guided the termination of the joint venture agreement between Kenya Airways and Air France and KLM and approved a path to better airline performance from the European market;

v) Reviewed and provided guidance on the updating of the Kenya Airways 5 — Year Strategic Plan Session Paper whose highlight is sustainable growth, diversification and profitability in a business landscape changed by the Covid-19 Pandemic; vi) Guiding the commercial organisation in two key defining projects on Customer Excellence and Digital Retail which shall drive the optimisation of sales resources, expand the contact centre and a new digital distribution solution; vii) Guiding the KQ Global Cargo Strategy in the review an implementation of the plan to grow that part of the business which included a World Airline first of converting a Boeing 787-8 from passenger to cargo use; viii) Ensured that the first steps have been taken in the implementation ofthe KQ Unmanned Aircraft System Project, the airline has now added a future revenue stream with a technology that will define the airline of the future and will be a profitable unit ofthe business for years to come; and ix) Reviewed and gave guidance on the ongoing Fleet Restructuring which included the approval for Kenya Airways to enter into a 3-month moratorium agreement with Lessors on repayment schedules.

Strategy and Business Development Committee (Continued)

Looking Forward

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

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

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

Report of the Human Resources Committee

Current Mem bership

Ms. Caroline Armstrong - Chairperson

Ms. Carol Musyoka - Member

Mr. Nicholas Bodo-Member

Mr. Martin Oduor-Otieno - Member Mr. Solomon Kitungu - Member Mr. Allan Kilavuka - Member

Report of the

Mandate

The Human Resources Committee .assists the Board in fulfilling its mandate with regards to management of the human capital and talent agenda for the Group. The overall scope is to ensure that the Group provides an enabling environment for the employees and the Company to thrive through distinctive employee experience, inspiring leadership, and a highperformance culture to deliver its strategic aspirations.

The Committee is empowered to:

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

Attendance of meetings for FY 2020

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

Ms Caroline Armstrong - 6/6

Dr. Martin Oduor-Otieno - 4/6

Ms Carol Musyoka - 6/6 Mr. Solomon Kitungu - 3/6

Mr. Allan Kilavuka - 6/6

Achievements during the year under review

2020 was a year that started with the promise to transform the Company. The rapid onset of the Covid- 19 pandemic from February 2020 and its devastating effects was utterly unprecedented. This had an immediate adverse impact on the business and the People agenda. The People function was required to respond, recover and stabilize the workforce and the Company. The Covid-19 pandemic also unfortunately necessitated that the planned initiatives and People agenda projects be shelved due to the significant change in the operational and business context.

Human Resources Committee (Continued)

Achievements during the year under review (Continued)

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

- There was a net headcount reduction of I , 123 at the end of December 2020 from the end ofDecember 2019 headcount levels. In February 2020, all recruitments were frozen due to cost-cutting measures and later due to the impact of the Covid-19 pandemic. The total attrition rate was 32.8% for 2020, with 16% accounting for resignations and voluntary early retirement and the rest accounting for involuntary attrition.
- We had a talent retention rate of 68%, down from 94% in 2019. However, this is due to the deliberate staff rationalization actions undertaken in 2020. The Company talent profile remained stable, with an average age of 39 years and average service tenure of I I years, the same as in 2019. Fifty-five percent (55%) of the staff are below 40 years of age, compared to 56% in 2019.
- Staff rationalization actions began in June 2020 and continued all of 2020 through involuntary and voluntary staff actions. Although these were targeted to impact approximately I ,835 staff (40% of the total headcount), this number was reduced to approximately 1,300 staff (28% of the total headcount) to ensure that business needs and new opportunities were catered for.
- We had 914 employees who separated from the business due to staff rationalization actions as follows; 138 contracts were not renewed, 520 terminations of probationary contracts, 55 redundancies, 34 employees due to 7 station closures, 93 trainees' contracts terminated, and finally, 74 voluntary retirements. The total release cost for the above staff resource actions was USD 5.35M. The total payroll savings for the above staff exits in 2020 was USD 2.5M.

Report of the

- In March 2020, at the rapid onset of the Covid- 19 pandemic, the Company temporarily halted all passenger operations and grounded the entire fleet except for Cargo operations. The leadership immediately made bold decisions on employees, including reduced pay for all employees, first responder support on health and wellness, and also an immediate shift to remote working. All of these decisions were focused on preserving cash within the business so as to enable the Company to survive despite a grounded fleet.
- The Company took definitive steps to address Covid-19 impact, namely focusing on employee wellness and wellbeing; social partner engagement; staff engagement on consent for reduced pay out, cessation of pension dues, supporting staff furloughed just to name a few of the interventions. In addition, the Company cushioned the staff against financial pressures by taking actions such as engaging financial institutions, SACCOs, and insurance companies to give the employees payment moratoriums.
- We also managed to negotiate ongoing agreements with social partners, key government stakeholders, and labour offices in different jurisdictions to ensure that we had consent on terms of payment for the deferred salary payout throughout 2020.
- In July 2020, we announced redundancy staff actions aimed at achieving 590 staff exits across the business, including pilots across different fleets, unionisable staff, and managerial staff. This exercise was, however, suspended in Kenya on 7 th September 2020. In September and October 2020, we launched two successful Voluntary Early Retirement (VER) initiatives, and 74 staff chose to leave the Company.
- During 2020, as a result of the Covid-19 pandemic, we had in total over 100 engagement meetings with staff, unions, labour offices and external legal counsel to engage on ongoing matters related to Covid-19 impact on the business. These meetings continue.
- In the year, we started the 'Fahari Innovation Hub' that provided an opportunity for staff to be in cross-functional teams tackling corporate issues while expanding their skills and knowledge. This initiative has brought to light new talent within the Company and has provided opportunities for the personal development of our staff.
- In 2020 we saw a decline in the proportion of women leaders in the company, from 60% at the top leadership level in 2019 to 25% in 2020. However, we aim to ensure that we take advantage of the opportunity to have more women leaders rise to top leadership roles in the coming years. We continue to participate in activities like International Women's Day, Women in Aviation and promoting the relevant UN SDGs. The gender balance within the Company was 40% women in 2020 and has remained steady at this level from 2019.
- During the year we enhanced the medical clinic offerings and achieved a milestone with the certification of the KQ Medical Lab as Class E with the ability to do more tests and investigations, including cancer markers. Also, over 3,000 staff trained on Covid-19 with 1,000 plus staff receiving counselling support in 2020 and 1,000 more participating in wellbeing webinars on psychosocial support and financial wellness.
- Also, and as part of giving back to society, we had a medical outreach program to improve maternal health indicators in Embakasi area in line with SDG-3. This was well-received by the community and something that we will continue to do in 2021.

Human Resources Committee (Continued)

Achievements during the year under review (Continued)

- We were awarded the IATA 2020 Regional Top Perfonner Approved Training Centre. This recognition identified our Pride Centre as a centre of excellence in training. In addition, the centre had a successful transition to virtual classes during Covid-19 for the Pride Stars, and produced the best-performing students in Kenya for the IATA September 2020 examinations for Travel & Tourism course. A great feat during a difficult year.
- Digital learning during 2020 had the team curate new digital learning courses due to Covid-19 restrictions on inperson leaming. We used the Massive Open Online Courses (MOOCs). A total of 13 courses were curated and over I ,200 staff enrolled in 2020.
- In 2020, employee wellness and wellbeing took centre stage due to the Covid-19 pandemic, and we further enhanced the Covid-19 coverage for the staff medical scheme and continued to take care of our staff. The Medical team was awarded the Customer Experience Award 2020, and the Head of KQ Health was also awarded Simba Excellence Awards — Safety Hero award.
- It was a relatively busy year for industrial relations with the unions, numerous engagement meetings, and at least 1 5 agreements on salary and operations during the Covid- 19 pandemic in 2020.

Report of the

- We successfully transitioned staff to a remote working model and on-site working in line with Covid-19 pandemic protocols and then developed a Return-to-Work Policy framework and guidelines for the safe return to the workplace.
- The above was achieved in a year with extreme challenges. The HR team's resilience and the entire workforce in managing this unprecedented context to respond, recover, and stabilise in 2020 was commendable and is not taken for granted.

Looking forward

For the success of the Group, the Management and the Board will continue to focus on the Company's recovery journey, with this Committee assisting by continuing to drive the People agenda. We will continue to focus on staff wellbeing as we all recover from the global Covid-19 pandemic. One ofthe strategic pillars will be focused on developing a compelling People agenda that will support a superior customer experience through a compelling customer value proposition. There will be continued focus on the management of key stakeholders, including unions, state labour offices, and regulatory bodies, and a deliberate shift to conciliation and Alternative Dispute Resolution (ADR) for industrial relations. The above will be underpinned by a cultural transformation driven by the Company's values and behaviours to deliver on the strategic mandate for 2021 and beyond. Our focus in 2021 will be ensuring that the Talent agenda gets attention as core capabilities to deliver on the mandate become critical for the Company.

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

Ms. Caroline Armstrong Chairperson — Human Resources Committee

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 3 1 December 2020, in accordance with Section 653(1) of the Kenyan Companies Act, 2015, which discloses the state of their financial affairs.

PRINCIPAL ACTIVITIES

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

As at 31 December 2020, the Group operated 42 aircraft, either owned or on lease. These comprised nine Boeing 787 wide body jets, ten Boeing 737 narrow body jets, fifteen Embraer regional jets, two Boeing 737 freighters and six Bombardier Dash 8-400.

RESULTS

The Group's and Company's loss for the year ended 31 December 2020 is KShs 36,219 million (2019: 12,985 million) and KShs 33,084 million (KShs 13,017 million) respectively. The Group's and Company's results for the year ended 31 December 2020 are set out on pages 39-40 and 41 respectively.

DIVIDENDS

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

DIRECTORS

The Directors who held office during the year and to the date of this report are as shown on page 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;
- Maximizing employee satisfaction; and
- whilst being committed to corporate and social responsibility.

Strategic Objective

Contributing to the sustainable development of Africa.

BUSINESS OVERVIEW (Continued)

Summary

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

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

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

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

Capacity and traffic

The year was marked with significantly reduced capacity deployed in the market. The Group's capacity measured in terms of Available Seat Kilometres (ASK) reduced by 68.4% closing at 5,292 million compared to 16,731 million in the previous year. The uptake of this capacity measured in terms of Revenue Passenger Kilometres (RPK) closed at 3,457 million compared to 12,881 million representing a decline of 73.2%.

Turnover

The Group's and Company's turnover closed at KShs 52,805 million and KShs 49,090 million respectively against Kshs 128,3 1 7 million for the Group and Kshs 121 ,640 million for the Company for the year ended 31 Dec 2019. The revenue was negatively impacted by a steep decline of passenger numbers.

Cargo Operations

Cargo tonnage on both passenger belly and freighter aircraft declined by 27.6% closing at 49,418 tonnes against prior year which closed at 68,264 tonnes. The cargo business continued operations during the Covid pandemic shutdown. The use of converted passenger aircraft (Preighters) was a new concept in the industry which was a boost mainly for wide body operations. The cargo business continues to focus on boosting the cargo product across the network with key focus on feeding into the African market.

Operating Costs

The total direct operating costs amounted to KShs 30,962 million for year ended 3 1 December 2020 at Group level and KShs 29,078 million at Company level as compared to KShs 80,977 million at Group level and KShs. 78,602 million at Company level for the year ended 3 1 December 2019. Global fuel prices were favourable throughout the year while other direct operating costs increased in-line with network expansion.

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

Other operating costs (overheads)

The Group's and Company's other operating costs amounted to KShs 20,394 million and KShs 17,397 million respectively for the year ended 31 December 2020 as compared to KShs 23,736 million at Group level and KShs 2 1 ,427 million at Company level for the year ended 31 December 2019.

Employee statistics

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

i) Categorisation by employment contract

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

ii) Categorisation by gender

	2020		2019	
	Male	Female	Male	Female
Senior leadership	75%		60%	
Head of Departments400/0 Senior managers32%	67%		60%	
Others40%	68%		68%	
Overall400/0	60%		60%	
	60%		60%	

Significant risks and mitigating actions

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

Significant risks and mitigating actions (Continued)

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

	Risk	Description	Mitigating actions

I	Liquidity risk	Inability to service financial obligations as and when they fall due. The Covid-19 pandemic has led to decline in revenues and cash generation.	Engagement with key suppliers and financiers for moratoria Renegotiation of aircraft lease contracts with the lessors Engagement with the principal shareholders for financial support Freeze on discretionary / non-critical spend and implementation of temporary salary cuts for staff Continuous identification of opportunities to boost cashflows — opportunities within Cargo business, charter services etc.
2	Going concern	Material uncertainty as to whether the business will continue to exist into the foreseeable future due to accumulation of losses and the net current liability position.	Engagement with key suppliers and financiers for moratoria Renegotiation of aircraft lease contracts with the lessors Engagement with the principal shareholders for financial support Freeze on discretionary / non-critical spend and implementation of temporary salary cuts for staff Continuous identification of opportunities to boost cashflows — opportunities within Cargo business, charter services etc.
3	Safety risk	Possible contracting of Covid-19 by passengers and staff within KQ facilities and aircraft	Strict adherence to guidelines and protocols issued by KCAA/ Ministries. Ministry of Transport & Infrastructure/ Ministry of Health Enhanced health and safety protocols at all sites provision of PPE, installation of sanitizing points, enforcement of social distancing at the workplace e Remote working arrangements for most staff Medical and psychological support to staff, prescreening of patients at the clinic, set up of isolation facilities
4		Potential for actions of other players in the market to negatively impact the business — erosion of market share, revenues etc.	Continuous improvement of KQ's products / service offering to consistently meet customer needs Leveraging on strategic partnerships with other industry players
5	IT	Failure of IT infrastructure and external attacks to the IT environment. Unauthorised access to KQ databases and applications.	Establishment of disaster recovery plans (DRPs) and business continuity plans (BCPs) Implementation of effective measures and processes to safeguard against IT infrastructure threats
6	Staff attrition	Loss of critical staff	Development of talent pipeline for the key roles

ɔmpetition

and cyber
curity risk

	Risk	Description	Mitigating actions
			Stratification of the employee value proposition based on the age bracket aimed at attracting and retaining talent Management of knowledge resources through retention and transfer
7	Impairment of assets	Possible impairment of aircraft and related equipment	Focus on improving profitability and sustainable cash flow generation Competiti Continuous pr I
8	Regulatory risk	Failure to comply with various regulatory requirements thereby resulting into fines and penalties	Continuous monitoring of changes in laws and regulations Established mechanisms to ensure compliance and continuous monitoring of compliance Continuously tecl Developm
9	Geopolitical risks	Possible negative impact on the operations occasioned political changes or instability affecting our markets Inability to resume regional and international flights to closure of the air space	Continuous monitoring of political activities across different markets Close collaboration and engagement with relevant stakeholders and governments
10	Litigation risk	Legal action arising from normal cause of business with third parties or employees	e Strict adherence to contractual terms Continuous consultation with both the internal and external legal counsels on matters likely to result into litigation
I l	Currency exposure and forex risk	Inability to repatriate funds trapped in some of the markets that we operate in Unfavourable changes in the foreign exchange rates	Continuous monitoring of economic performance of our markets Ticket sales in hard currencies in risky markets Continuous engagement with relevant government authorities in those markets Use of natural forex hedge
12	Fraud	Misappropriation or misuse of assets belonging to the Group by staff and external parties	Strict enforcement of the Code of Business Conduct and KQ values Investigation of cases reported through the whistleblowing platforms Fraud awareness programs focusing of preventive measures
13	Disruption in supply of essential goods and services	Possible disruption in the supply of essential goods and services - including spare parts	Use of multiple vendors for essential supplies of goods and services Rigorous vetting process for vendors Engagement with relevant authorities - Kenya Bureau of Standards (KEBS) and Kenya Revenue Authority (KRA)
14	Volatility in fuel prices	Fluctuations in the fuel prices driven bysourcing of fuel suppliers pricesglobal crude oil	monitoring of trends in global fuel hedging arrangements

15 Accounting and Failure to meet various accounting andseeking professional advice financial reporting requirements under [FRSmatters reporting risks - IFRS 16 Leases of staff through training programmes

- IFRS 9 Financial Instruments - IFRS 15 Revenue from contracts with customers

on

	Risk	Description	Mitigating actions
		- IAS 1 Presentation of financial statements	
16	Credit risk	Inability to recover debts from our customers in full	• Periodic review of the credit policy and strict enforcement of credit terms • Continuous monitoring of debtor performance and follow up
17	Security risk	Theft and pilferage of parts for aircraft Theft of other assets	• Enhanced security at all sites

DIRECTORS' STATEMENT AS TO INFORMATION GIVEN TO AUDITORS

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

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

TERMS OF APPOINTMENT OF THE AUDITOR

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

BY ORDER OF THE BOARD

Habil A. Waswani Habil A. aswani
Secretary

22 March 2021

INFORMATION NOT SUBJECT TO AUDIT

Chairman's statement

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

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

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

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

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

Executive Directors

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

Non-Executive Directors

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

Travel and related expenses

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

Implementation report

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

Directors' Contract of Service

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

Director	Start of Contract	End of Contract	Notice Period
Mr. Michael Joseph	2016	2022	N/A
Mr. JozefVeenstra	2017	2023	N/A
Ms. Caroline Armstrong	2017	2023	N/A
Ms. Carol Musyoka	2017	2021	N/A
Mrs. Esther Koimmet	2017	2021	N/A
Dr. Martin Odour-Otieno	2017	2021	N/A
Major Gen (Rtd) Michael Gichangi	2017	2021	N/A
Mr. John Ngumi	2019	2022	N/A
Mr. Solomon Kitungu	2020	2023	N/A
Dr. Haron Sirima	2020	2021	N/A

DIRECTORS' REMUNERATION REPORT
(Continued)

INFORMATION SUBJECT TO AUDIT

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

The results of the election were as follows

Vote	Num ber of ballots	Total shares	Percentage of total votes cast
Against	15	75,225	0.001%
For	75	5,518,414,319	99.999%
Abstain	4	3,900	0.000%
	94	,518,493,444	100.000%

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

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

31 December 2020

	Salary	Allowances	Fees	Compensation for loss of office KShs 000	value of non-cash benefits	Total
Director	KShs 000	KShs 000	KShs 000		KShs 000	KShs 000
Mr. Michael Joseph		-	9,000			9,000
Mr. Allan Kilavuka	40,502				1,052	41,554
Mr. Jozef Veenstra*		44	263			307
Ms. Caroline Armstrong		306	353			659
Principal Secretary-National Treasury			263			263
Principal Secretary-Transport			527			527
Ms. Carol Musyoka		262	263			525
Mrs. Esther Koimett		87				87
Dr. Martin Odour-Otieno		131	354			485
Mr. Nicholas Bodo		175				175

	Salary	Allowances	Fees	Compensation for loss of office	Value of non-cash benefits	Total
Mr. Ngumi John		131	263			394
Dr. Haron Sirima		44				44
Major Gen (Rtd) Michael Gichangi		262	353			615
Total	40,502		11,639		1,052	54,635

(Continued)

INFORMATION SUBJECT TO AUDIT (Continued)

31 December 2019

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

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

DIRECTORS' REMUNERATION REPORT

Habil A. Waswani
Company Secretary

Nairobi

22 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

The Directors are aware of the material uncertainty caused by the negative working capital position, the recurring losses and the uncertainty associated with the Global Covid-19 pandemic as disclosed in the note. The Directors acknowledge that the continued existence of the Group and the Company as going concern depends on the measures that the Directors will put in place to return the Group and Company to profitable operations as disclosed in Note 2(e) of the financial statements. On the basis of the strategic plans set out in Note 2(e) of the financial statements and the letter of financial support from the Government of Kenya, the Directors believe that the Group and Company will remain a going concern for at least the next twelve months from the date of this report.

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

KENYA AIRWAYS PLC

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

Michael Joseph
Chairman

Allan Kilavuka
Managing Director

All Kilavuka

pwc

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

Report on the audit of the financial statements

Our opinion

We have audited the accompanying financial statements of Kenya Airways Plc (the Company) and its subsidiaries (together, the Group) set out on pages 39 to 139, which comprise the consolidated statement of financial position at 31 December 2020 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the Company statement of financial position at 31 December 2020, and the Company statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements of Kenya Airways Plc give a true and fair view of the financial position of the Group and the Company at 31 December 2020 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw your attention to Note 2(e) in the financial statements, which discloses the directors' assessment of the Group's and Company's ability to continue as a going concern and the matters relating to the going concern basis of preparation. As stated in Note 2(e), these events or conditions, along with other matters as set forth in the note indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

pwc

Key audit matters

T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

Partners: E Kerich B Kimacia M Mugasa A Murage F Muliu P Ngahu R Njorogc S O Norbert's B Okundi K Saili

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

Key audit matter	How our audit addressed the key audit matter

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

Key audit matters (continued)

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

Key audit matter	How our audit addressed the key audit matter

pwc

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

Key audit matters

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

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Adequacy of return condition provision and aircraft maintenance reserves for leased aircrafts Under the terms of the lease arrangements with the lessors, the Group and Company are contractually committed to either return the aircraft and/or engines in a certain condition or to compensate the lessor based on the actual condition of the aircraft and/or engines at the date of return. The Group and Company have recognised a return condition provision amounting to KShs 5,381 million and KShs 3,546 million respectively at 31 December 2020 as disclosed in Note 29 of the financial statements. The provision is calculated using a model which incorporates several assumptions, requiring significant judgement, such as: past and expected future utilisation and maintenance patterns of the aircraft and engines; expected cost of maintenance at the time it is estimated to occur; and discount rate applied to calculate the present value of the future liability. The lease agreements also require the Group and Company to make payments towards the maintenance of the aircraft. The lessors are contractually obligated to reimburse the Group for the qualifying maintenance expenditure incurred. At 31 December 2020, the Group and Company had a prepaid maintenance asset of KShs 6,105 million and KShs 4,892 million respectively, as disclosed in Note 22. The determination of the return condition provision, and the impairment assessment of the prepaid maintenance reserves involves significant level of judgement exercised by management due to the complex and subjective elements around these variable factors and assumptions.	We reviewed the aircraft's lease agreements to gain an understanding of the significant terms which influence the economics of, and hence accounting for, the lease obligations. We tested the completeness of the provisions by ensuring that all significant return condition obligations included in aircraft lease agreements were included in the provisions model. We tested the expected future costs of maintenance by corroborating the estimates of the costs to third party price lists and quotes, or to historic costs. We tested the mathematical accuracy and performed sensitivity analysis of the models. We verified that the discount rate applied by management to the future liability was within an acceptable range with reference to the time value of money applicable to Group and Company and the risks specific to the liability. For the prepaid maintenance reserves, we obtained confirmations from the lessors on the balances held at 31 December 2020 and assessed the recoverability of the balance by considering the expected future maintenance cost against which the Group could claim from the lessor. We assessed the adequacy and appropriateness of the related disclosures in Notes 29 and 22 of the financial statements.

pwc

(continued)

Key audit matter	How our audit addressed the key audit matter
Accounting for the foreiB1 currency hedge As disclosed in Note 24, the Company hedges its foreign currency risk in relation to its borrowings and lease liabilities against forecasted US dollardenominated future revenue streams. The cash flow hedge is accounted at fair value and gains/losses arising from fair value changes are deferred in equity if the hedge is considered effective, and recognised in the statement of profit or loss when hedges are considered ineffective. Determination of the effectiveness of the hedge and the evaluation the highly probable criterion of the future USD revenue forecasts involves significant management assumptions used such as future currency exchange rates, future ticket prices and revenue growth rates. Variations in these assumptions could result in significant changes in the accounting for the fair value gains/losses on foreign currency hedges.	We evaluated the processes, procedures and controls in respect of treasury and other management functions which directly impact the relevant account balances and transactions. We assessed compliance with the requirements for the accounting for the hedging relationships using the designation documents prepared by the management and the internal risk management guidelines. We checked that the revised forecasts used by the Company for the assessment of future hedge effectiveness were -consistent with board approved forecasts used for other judgements such as impairment assessments. We evaluated the appropriateness of the highly probable criteria as used to determine future USD revenue forecasts from the sale of passenger tickets, and reperformed the hedge effectiveness testing to ascertain that it meets the provisions of IFRS 9.• Financial Instruments. We recomputed the year-end valuation of the cash flow hedge reserve and checked the reasonableness of exchange rates used. We assessed the adequacy of disclosures in the financial statements.

Other information

The other information comprises the Corporate information statement, the Report of Directors, Statement of Corporate Governance, Directors' remuneration report and Statement of Directors' Responsibilities, which we obtained prior to the date of this auditor's report, and the rest of the other information in the 2020 Annual Report and Financial Statements which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information we have received prior to the date of this vc

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

Key audit matters (continued)

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.

Other information

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a

(continued)

material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

pwc

Auditor's responsibilitiesfor the audit of thefinancial statements (Continued)

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Group's financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. Report on other matters prescribed by the Companies Act, 2015

Report of the directors

In our opinion the information given in the report of the directors on pages 22 to 27 is consistent with the financial statements.

Directors' remuneration report

In our opinion the auditable part of the directors' remuneration report on pages 28 to 30 has been properly prepared in accordance with the Companies Act, 2015.

Certified Public Accountants

Nairobi 22 March 2021

FCPA Michael Mugasa, Practising certificate No. 1478

Independent auditor's report to the Shareholders of Kenya Airways Plc (continued)
Signing partner responsible for the independent audit

OF PROFIT OR LOSS AND OTHER COMPREHENSIVE

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT

INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs millions	2019 KShs millions
Revenue	7	52,805	127.678
Other income	7		639
Total income		52,805	128,317
Direct costs	8	(30,962)	(80,977)
Fleet ownership costs	8	(28,571)	(25,343)
Other operating costs	8,32	(20,394)	(23,736)
Operating loss		(27,122)	(1,739)
Finance costs	9,32	(9,513)	(11,266)
Interest income	9	62	30
Loss before tax	10	(36,573)	(12,975)
Income tax credit/ (expense)	11	354	
Loss for the year		(36,219)	(12,985)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain on property revaluation	15		2,468
Deferred income tax on revaluation	28		(740)
Items that may be reclassified subsequently to profit or loss			
Changes in fair value in relation to fuel hedges	24		435
(Loss)/ gain on hedged exchange differences - borrowings	26	(5, 168)	
(Loss)/ gain on hedged exchange differences - lease liabilities	27	(4,882)	676
		(10,050)	2,400
Other comprehensive (loss)/ income for the year, net of tax		(10,050)	

OF PROFIT OR LOSS AND OTHER COMPREHE

Total comprehensive loss for the year		(46,269)

CONSOLIDATED STATEMENT
INCOME FOR THE YEAR ENDED 31 DECEMBER 2020
(Continued)

	Notes	2020 KShs millions	KS
Loss for the year is attributable to:			
Owners of the Company		(36,227)	
Non-controlling interest	25	8	
Loss for the year		(36,219)	
Total comprehensive loss for the year is attributable to:			
Owners of the Company		(46,277)	
Non-controlling interest	25	8	
Total comprehensive loss for the year		(46,269)	
Earnings per share:			
Basic and diluted loss per share (KShs)	12	(6.22)	

KENYA AIRWAYS PLC

COMPANY STATEMENT
INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs KShs millions	2019 millions
Revenue	7	49,090	121,001
Other income	7		639
Total income		49,090	121,640
Direct costs	8	(29,078)	(78,602)
Fleet ownership costs	8	(26,923)	(23,919)
Other operating costs	8,32	(17,397)	(21 ,427)
Operating loss		(24,308)	(2,308)
Finance costs	9,32	(8,816)	(10,706)
Interest income	9	66	34
Loss before tax	10	(33,058)	(12,980)
Income tax expense	1 1	(26)	(37)
Loss for the year		(33,084)	(13,017)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain on property revaluation	15		2,366
Deferred income tax on revaluation surplus	27		(710)
			1,656
Items that may be reclassified subsequently to profit or loss			
Changes in fair value in relation to fuel hedges	23		
(Loss)/ gain on hedged exchange differences - borrowings	25	(5, 168)	I ,289
(Loss)/ gain on hedged exchange differences - lease liabilities	26	(4,882)	676
		(10,050)	2,400
Other comprehensive (loss)/ income for the year, net of tax		(10,050)	4,056

Total comprehensive loss for the year	(43, 134)	(8,961)

KENYA AIRWAYS PLC

OF
CONSOLIDATED STATEMENT FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes
ASSETS	
Non-current assets	
Property, aircraft and equipment	15
Intangible assets	16
Right-of-use-assets	17,32
Aircraft deposits	19
Deferred income tax	28
Current assets	
Inventories	20
Trade and other receivables	21
Prepaid maintenance asset	22
Current income tax	11
Cash and bank balances	33
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Capital and reserves	
Share capital	23
Share premium	23
Mandatory convertible note	23
Treasury shares	23
Other reserves	24
Accumulated losses	
Deficit attributable to owners of the Company	
Non-controlling interests	25

Total deficit

2020 KShs millions	2019 KShs millions
83,597	89,357
2,857	2,874
53,532	74,248
3,703	3,327
600	207
144,289	170,013
2,173	
9,887	13,647
6,105	5,533
1,280	
7,728	3,095
27,173	25,660
171,462	195,673
5,824	5,824
49,223	49,223
9,630	9,630
(142)	(142)
(12,307)	(2,257)
(116,451)	(80,224)
(64,223)	(17,946)
58	50
(64,165)	(17,896)

OF
CONSOLIDATED STATEMENT FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2020

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

The financial statements on pages 39 to 139 were approved and authorised for issue by the Board of Directors on 22 March 2021 and signed on its behalf by:

Michael Joseph
Chairman

Allan Kilavuka
Managing Director

-i

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

2020	2019

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

COMPANY STATEMENT OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2020

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

The financial statements on pages 39 to 139 were approved and authorised for issue by the Board of Directors on 22 March 2021 and signed on its behalf by:

Michael Joseph
Chairman

Allan Kilavuka
Managing Director

ɔlling
terest

At 1 January 2019			
Loss for the year	-	1	(12,985)
Other comprehensive the year	4.1		
At 1 January 2020			
Loss for the year			
Other comprehensive loss for the year	-	-	

Mandatory
rt e re

asury er

8 2 869) 8 7 7)

5,824 4 852 11,916)
13,017)

eh 4,

4,

4 ,2)

r the ye

S m

hs -ions

KShs

st-ISN

KShs

Total

DEIdSR I RN

FR AR

Man

KENYA AIRWAYS PLC

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

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

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs millions	2019 KShs millions
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	8,572	19,461
Interest received		66	34
Interest paid		(3,647)	(4,891)

Income tax paid	11
Net cash generated from operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, aircraft and equipment	15
Proceeds of disposal of property, aircraft and equipment	
Proceeds from sale and leaseback	14
Purchase of intangible assets	16
Payments of deposits for aircraft purchases	19
Proceeds from refunds of aircraft deposits	19
Net cash generated from investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings	26
Repayments of borrowings	26
Payment of deferred borrowing costs	26
Repayment of principal portion of lease liabilities	27
Net cash used in financing activities	
INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS AT START OF YEAR	
CASH AND CASH EQUIVALENTS AT END OF YEAR	
REPRESENTED BY	
Cash and bank balances	33

1 REPORTING ENTITY

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

The Group is primarily involved in international, regional and domestic caitiage of passengers and cargo by air, the provision of ground handling services to other airlines and the handling of import and export cargo. The address of its registered office is as shown on page 2. The Company's shares are listed on the Nairobi Securities Exchange, Dar es Salaam Stock Exchange and the Uganda Securities Exchange.

2 BASIS OF PREPARATION

(a) Basis of Accounting

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

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

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

(b) Basis of measurement

The Group and Company financial statements have been prepared on the historical cost basis of accounting except for certain assets and liabilities including land and buildings and derivative financial instruments which are measured at fair value.

(c) Functional and presentation currency

These consolidated and Company financial statements are presented in Kenya shillings (KShs), which is also the Company's functional currency. The financial statements are rounded to the nearest million shilling (KShs millions), unless otherwise stated.

(d) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised ifthe 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.

2 BASIS OF PREPARATION

(e) Going concern

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

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

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

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

a) Network optimisation through growth and increased partnerships;
b) Opening new routes with focus on high yield routes as countries ease travel restrictions;
c) Operational excellence aimed at cost efficiency and improved service delivery;
d) Digital transformation to improve efficiency and operational costs;
e) Improved customer experience with a view to grow market share;
f) De-risking the business through diversification; and
g) The proposed nationalisation of the airline.

The Directors believe the plans will, in the medium to long term, improve the Group's and Company's performance, cash flows and liquidity position. The execution of some of the plans have however been negatively affected by the uncertainty regarding the outbreak of Covid- 19 pandemic.

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

The Government of Kenya has committed, through a letter of support, to continue providing the required financial support to the Group and Company to enable it to implement its turnaround program and meet its financial obligations as and when they fall due, for at least the next 12 months from the date of approval of the annual financial statements for the year ended 3 1 December 2020.

The Government has also initiated an Aviation sector refonn program that will, among other things, see the consolidation of Aviation sector assets in Kenya. This program is, in part, aimed at nationalisation of the airline into a state corporation that will belong to a group structure that sees the merger of the airport and the airline assets thus significantly strengthening the consolidated aviation balance sheet. The National Aviation Management bill 2020 is in parliament awaiting enactment.

The Directors recognise that there can be no assurance that the Group and Company will be successful with its strategic initiatives and balance sheet restructuring plans. Actual results could differ materially due to numerous factors including the material disruption of our strategic operating plan as a result of Covid- 1 9, and our ability to execute our strategic operating plans in the long term; risks of doing business globally, including demand for travel and the impact that global economic and political conditions have on customer travel patterns; competitive pressures on pricing and on demand; changes in aircraft fuel prices and disruptions in supply.

2 BASIS OF PREPARATION (Continued)

(e) Going concern (Continued)

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

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

- Constructive negotiations are ongoing with lessors for restructuring of aircraft lease terms.
- The Group has also taken austerity measures to reduce costs. These measures include but not limited to director and staff pay cuts, reducing and deferring capital expenditure, freezing recruitment, discretionary spending, implementing voluntary leave options and staff redundancies.
- The Group has increased focus on cargo business and has already converted I passenger aircraft to a cargo 'preighter' to increase cargo capacity, a second one is currently undergoing conversion.
- The arrival of vaccines in the African markets is also expected to raise confidence among passengers and therefore likely to fast-track the recovery period.
- The Group has also developed a phanna facility at the airport which improves the required infrastructure for the airline to participate in Covid-19 vaccine distribution and also to pursue other opportunities in the health sector value chain.

Although the Directors believe the initiatives will be successful and have prepared the financial statements on a going concern basis, the events, conditions and assumptions described above inherently include material uncertainties that may cast significant doubt on going concern as a result of the current Covid-19 situation. However, the Directors have assessed the current trading and cash flow projections, and, after carefully considering the progress of the initiatives above and expectation of cash injection from the Government in the near term, have a reasonable expectation that the Group and Company will continue in operational existence for the foreseeable future. Accordingly, the Directors have prepared the consolidated and company financial statements on a going concern basis based on the plans described above and letter of financial support from the Government of Kenya.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Non-controlling interests (NCI)

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

(iii) Loss of control

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

(iv) Transactions eliminated on consolidation

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

(b) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the company operates), which is the Kenya Shilling. Transactions in foreign currencies during the year are converted into the respective functional currencies of Group companies at rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rates ruling at the reporting date. The resulting differences from conversion are taken to other income/ losses in profit or loss in the year in which they arise.

Non-monetary assets and liabilities denominated in foreign currencies that are measured based on historical cost are translated at the exchange rate ruling at the transaction date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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

(c) Revenue from contracts with customers

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Revenue from contracts with customers (continued)

The Group recognises revenue from contracts with customers from the following major sources:

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

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

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

- Passenger, freight and mail

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

- Handling services

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

Engineering services

The Group recognises engineering revenue over time by determining the appropriate amount of revenue and cost relating to third-party maintenance contracts to be recognised in the statement of profit or loss in each period, when the outcome can be estimated reliably. Estimation is based on cost plus margin. Maintenance revenue is recognised as the related performance obligations are satisfied (over time), being where the control ofthe goods or services are transferred to the customer. When the outcome of a maintenance contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract cost incurred that are likely to be recoverable.

- Training services

Revenue from training services is recognised over time as the customer simultaneously receive and consume the benefits of these services over the training period. The level of completion of course work is measured on a straight-line basis over training period. The training period varies based on the type of course. Advance payments are recognised as contract liabilities and recognised as revenue as coursework is completed. There were no outstanding contract liabilities at 31 December 2020 (2019: Nil).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3

(d) Rental income

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

(e) Interest income

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

(f) Frequent flyer programmes

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

(g) Property, aircraft and equipment

(i) Recognition, measurement and subsequent expenditure

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

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

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

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

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

(g) Property, aircraft and equipment (continued)

(ii) Depreciation

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

Aircraft and related equipment:

Boeing 787, 777, 737-300 & 737-700	5.56 - 20.00

Embraer El 90 5.56 - 20.00 Simulator 5.00 Other property and equipment:

Ground service equipment	25.00
Motor vehicles	25.00
Communication assets 12.50 Other assets 20.00 - 30.00	
Buildings	2.50
Leasehold land	Over the period of the lease
Freehold land	Not depreciated

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

(iii) Revaluation

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

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

Revaluation surpluses are not distributable.

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

(iv) Non-depreciable assets

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

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

4

(h) Intangible assets - capitalised software

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Intangible assets — landing slot

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

G) Leases

Group 's lease por(folio

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

Group as a lessee

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate, which is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of -use asset in a similar economic environment. fie Group's weighted average incremental borrowing rate is 6% (2019: 6%).

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

(j) Leases (Continued)

Group as a lessee (continued)

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

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leases (Continued)

The Group as a lessor

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

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

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

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

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

(k) Prepaid maintenance asset

Prepaid maintenance asset are payments made in advance to lessors for aircraft maintenance as required by the lease contracts. The lessors are contractually obligated to reimburse the lessees for the qualifying maintenance expenditure incurred on the aircraft if the lessee has a maintenance reserve credit.

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

(l) Derivative financial instruments and hedge accounting

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

The Group designates:

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Hedge ineffectiveness can arise from:

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

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

If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. Any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or excised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss. Accumulated losses in the cash flow hedging reserves are assessed for recoverability at every reporting period date. If a portion of such losses is not expected to be recovered in one or more future periods, the amount is immediately reclassified to profit or loss.

(n) Aircraft purchase

(i) Aircraft subsidy

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

(ii) Deferred income

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

(o) Deferred expenditure

The Group amortises cost of obtaining aircraft financing over the loan repayment period. The deferred expenditure is capitalised to the related borrowing (see Note 26(d)).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Aircraft deposits

Aircraft deposits relate to advance payments for purchase or lease of aircrafts. Deposits paid towards the acquisition of aircraft represent amounts paid to the lessor for the option to purchase or lease aircrafts in the future. Deposits for leased aircraft acts as security for future lease payments in the case of default. Deposits are fully refundable and are accounted for as financial assets. Initially, the financial asset is measured at fair value. The difference between fair value and the deposit amount at initial recognition is deferred and amonised to profit or loss over period of deposit only to the extent that it arises from a change in a factor (including time) that market participants would consider when pricing the asset. The deposit is subsequently measured at amortised cost using the effective interest rate method less loss allowance.

(q) Employee benefits

(i) Short term employee benefits

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

(ii) Termination benefits

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

(iii) Accrued leave

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

(iv) Employee Share Ownership Scheme (ESOP)

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

(v) Defined contribution plan

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

(q) Employee benefits (Continued)

(vi) Staffgratuity

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

(r) Income tax expense

Income tax expense represents the sum of the tax currently payable and defen•ed tax.

(i) Current income tax

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

(ii) Deferred income tax

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

(s) Inventories

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

(t) Cash and cash equivalents

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

(u) Share capital

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Compound instruments

The component parts of compound instruments (convertible notes) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

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

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

(w) Financial instruments

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

Financial assets

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

(i) Classification offinancial assets

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

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

instruments

- 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 terns 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.

(w) Financial (Continued)

Financial assets (Continued)

(i) Classification offinancial assets (Continued)

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

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

(ii) De-recognition

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

On derecognition of a financial asset measured at amonised 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 offinancial assets and liabilities

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

Financial liabilities

(i) Initial recognition and measurement

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

instruments

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

(ii) Subsequent measurement

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

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

(w) Financial (Continued)

Financial liabilities (continued)

(ii) Subsequent measurement (Continued)

Financial liabilities atfair value through profit or loss

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

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

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

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

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

instruments

and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(x) Impairment

(i) Financial assets

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Impairment (Continued)

(i) Financial assets (continued)

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

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical loss rates, which are derived from settlement of invoices over an average period of 5 years and adjusted with macroeconomic factor overlay calculations to incorporate current and forward-looking information. Macroeconomic factors incorporated for global debtors were world economic expectations and crude oil price percentage changes, while for local debtors were deposits, savings, lending, GDP and housing price index.

Other assets include cash and bank balances and deposits which the Group uses counter party external rating equivalent both to determine whether the financial asset has significantly increased in credit risk and to estimate ECLs. The Group applies a simplified approach in calculating ECLs. The assessed amounts in the year were not material.

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

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Indicators that there is no reasonable expectation of recovery include, the debtor being in severe financial difficulty and has failed to engage in repayment plan with the Group.

(ii) Non-financial assets

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

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

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

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

(y) Sovereign guarantee from the Government of Kenya

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

(z) Earnings per share

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

(aa) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, there being assets that take substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Other borrowing costs are recognised as an expense as per Note 9.

(bb)Provision for liabilities

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

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

Provisions for employee restructuring are recognised when the Group has approved a detailed formal restructuring plan, and the restructuring has either commenced or has been announced publicly.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be insignificant.

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

(cc) Related parties

The Group is controlled by Kenya Airways Plc incorporated in Kenya being the ultimate parent. There are other companies that are related to Kenya Airways Plc through common shareholdings or common Directorships. The Group discloses the nature and amounts outstanding at the end of each financial year from transactions with related parties, which include transactions with the Directors, executive officers and related companies.

(dd)Segment reporting

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ee) Dividends

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

(ff) Comparatives

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

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

(i) Relevant new standards and amendments to published standards effectivefor the year ended 31 December 2020

Amendments to IFRS 3 Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements ofthe Group but may impact future periods should the Group enter into any business combinations.

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

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

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if om itting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

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

(i) Relevant new standards and amendments to published standards effectivefor the year ended 31 December 2020 (continued)

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

The amendment applies to annual reporting periods beginning on or after I June 2020. Earlier application is permitted. The Group and Company have applied the practical expedient under COVID19 Related Rent Concessions — Amendment to IFRS 16 Leases to account for all rent concessions agreed with lessors as a result of COVID- 19. Concessions took the form of delayed payments for leased aircraft. The impact of deferring rental payments on the interest expense charged to profit or loss was not material. The lease liabilities were remeasured based on the modified cash flow over the remaining lease term, using the original discount rate.

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

Amendments to IFRS 16 Covid-19 Related Rent Concessions

Reference to the Conceptual Framework — Amendments to IFRS 3

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

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

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

The amendments are effective for annual reporting periods beginning on or after I January 2022 and apply prospectively. The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

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

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS I First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph DI 6(a) of IFRS I to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS l .

The amendment is effective for annual reporting periods beginning on or after I January 2022 with earlier adoption permitted. The Directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

IFRS 9 Financial Instruments — Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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

(Continued)

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

IAS 41 Agriculture — Taxation in fair value measurements

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

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after I January 2022 with earlier adoption permitted. The Directors of the Group do not anticipate that the application of the standard in the future will have an impact on the consolidated and company financial statements.

IFRS 17 Insurance Contracts

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

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general mode], supplemented by:
• A specific adaptation for contracts with direct participation features (the variable fee approach); and o A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after I January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Directors of the Group do not anticipate that the application of the standard in the future will have an impact on the consolidated and company financial statements.

(iii) Early adoption ofstandards

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

In applying the Group's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

a) Impairment ofnon-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Landing slots which have an indefinite useful life are tested for impairment annually or when such indicators exist. The recoverable amounts of cash generating units have been determined based on the value-in-use calculations. These calculations require the use of significant estimates and assumptions. Other non-financial assets are tested for

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

impairment when there are indicators that the carrying amounts may not be recoverable. Changes to the estimates around the value in use may result in adjustments to the impairment charge in future periods.

b) Property, aircrafts and equipment and intangible assets

Useful life of assets

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

c) Impairment offinancial 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (Continued)

d) Return condition provisions

Under the terms of the lease arrangements with the lessors, the Group and Company as lessee are contractually committed to either return the aircraft and/or engines in a certain condition or to compensate the lessor based on the actual condition of the aircraft and/or engines at the date of return. The Group is required to fulfil certain obligations which may include the completion of certain overhauls to the airframe, auxiliary power unit, engines and the refurbishment of seats at the date of return of the aircraft. The provision for return conditions is determined based on the best estimate of the future costs that will be incurred to fulfil the return conditions. The measurement of the provision includes assumptions relating to expected costs, escalation rates, discount rates commensurate with the expected obligation maturity and long-term maintenance schedules. Changes in the assumptions may result to adjustments in the measurement of the provision in future periods.

e) Determination of discount rate

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

f) Asset restoration obligations

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

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

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

a) Impairment of non-financial assets

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

The recoverable amount of the network airline operations has been measured based on the value-in-use, using a discounted cash flow model. Cash flow projections are based on the business plan covering a

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

seven-year period. Cash flows for the seven-year period have been projected to increase in line with the long-term growth rate of the main economies in which the Group operates.

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

a) Impairment ofnon-financial assets (continued)

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

b) Recoverability of deferred income tax assets

The timing and the duration ofthe recovery from Covid- 19 has resulted in the Group exercising judgment in the determination of cash flows during this recovery and subsequent periods. The Company has therefore not recognised deferred tax assets in the financial statements in view of the uncertainty regarding the ability of the Company to generate sufficient taxable profits in the foreseeable future to facilitate utilisation of the benefits from the deductions.

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

As at 31 December 2020, the Group and Company had derecognised deferred tax assets of KShs 43,655 million and KShs 42,882 million respectively relating to tax losses they do not reasonably expect to utilise.

c) Unused ticket revenue

Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on terms and conditions of the ticket and historical trends. Historically, the Group estimated the timing of recognition of unused tickets as 13 months.

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

Significant transactions as a result of Covid-19 pandemic

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

a) Restructuring costs

As a result of the structural changes to the airline sector, the Group has taken austerity measures to reduce costs. These measures include but not limited to director and staff pay cuts, reducing and deferring capital

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

expenditure, freezing recruitment, discretionary spending, implementing voluntary leave options and staff redundancies.

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

Significant transactions as a result of Covid-19 pandemic

a) Loans and borrowings

In the year 2020, the Government of Kenya advanced two loans to the company totalling KShs I I billion. The first loan of KShs 5 billion was meant and utilised for El 90 aircraft fleet engine overhauls that were due in 2020. The second loan disbursement of KShs 6 billion was part of KShs 10 billion commitment from the Govemment of Kenya to support the resumption of operations following the impact of Covid- 19 pandemic

Critical judgements in applying the Group's accounting policies

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

a) Determining the lease term ofcontracts with renewal and termination options

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

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

b) Classification ofrentalproperty as property, plant and equipment or investment property

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

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

Included in land and buildings is a property valued at KShs 2,978 million (2019: KShs 2,978 million) that is currently partly leased out to third parties and occupied by the Group. The Group has treated the property as land and buildings as opposed to investment property since the intention for the use of the property has not changed. The Directors have maintained that they hold the property solely for its own use and not to earn rentals or for capital appreciation or both.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

c) Deferred income tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As disclosed in Note 4(b), the Group has not recognised the full deferred income tax assets on the basis that the only the recognised portion is recoverable.

5 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

The Group's and Company's risk management framework

The Group's and Company's risk management policies are established to identify and analyse the risks faced by the Group and Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and Group's activities. The Group and Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

(a) Market risk

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

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

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

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

(a) Market risk (Continued)

Interest rate risk

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

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

Exposure to interest rate risk

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

Group and Company

	Nominal amount			
	2020		2019	
	Effective interest rate	KShs millions	Effective interest rate	KShs millions
Fixed rate instruments				
Local currency facility	2.99%	11,337	2%	183
Mandatory convertible note — liability component	12.03%	4,501	12.03%	3,724
		15,838		3,907

Variable rate instruments				
Local bank revolving facility	6.49%	5,255	7.96%	4,327
African Export-Import Bank facility	5.75%	15,428	7.21%	16,040
Citi/ JP Morgan facility	1.79%	58,282	3.43%	54,621
		78,965		74,988
Total exposure		94,803		78,895

Sensitivity Analysis

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

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

(ii) Jetfuel price risk

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

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

The Group and Company measures and assesses the hedge effectiveness monthly. The Group's and Company's policy is to hedge a maximum of41 % of the current year's projected fuel requirements. The Group and Company did not enter into any fuel hedge contracts in the current year.

(iii) Foreign currency risk

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

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

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

The various currencies to which the Group and Company were exposed at 31 December 2020 and 31 December 2019 are summarised in the table below (all amounts expressed in Kenya Shillings million). The exposure is only in relation to the major non-Kenya shilling denominated balances:

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Group

31 December 2020

	GBP KShs millions	USD KShs millions	Euro KShs millions	Total KShs millions
Financial assets and lease receivables				
Prepaid maintenance asset		6,099		6,099
Aircraft deposits		3,703		3,703
Trade and other receivables	684	4,235	1,306	6,225
Cash and cash equivalents		2,583	146	
	730	16,620	1,452	18,802
Financial liabilities and provisions				
Trade and other payables	(306)	(21,147)	(893)	(22,346)
Mandatory convertible note		(4,501)		(4,501)
Lease liabilities		(10,807)		(10,807)
Return condition provision		(5,260)		(5,260)
Net exposure	424	(25,210)	559	(24,227)
Financial liabilities				
Loans and borrowings		(79,302)		(79,302)
Lease liabilities		(68,960)		(68,960)
Net exposure		(148,262)		(148,262)

31 December 2019

	GBP	USD	Euro	Total
Financial assets and lease receivables				
Prepaid maintenance asset		5,533		
Aircraft deposits		3,327		3,327
Trade and other receivables	371	8,460	I ,054	9,885
Cash and cash equivalents	44	1,645	129	
	415	8,965	1,183	20,563
Financial liabilities andprovisions				
Trade and other payables	(260)	(15,436)	(1,137)	(16,833)
Mandatory convertible note		(3,724)		(3,724)
Lease liabilities		(13,168)		
Return condition provision		(7,591)		
Net exposure				
Financial liabilities				
Loans and borrowings				
Lease liabilities				

NANCIAL RISK MANAGEMENT (Continued)

Market risk (Continued)

(iii) Foreign currency risk (Continued)

	GBP	USD	Euro	Total
Net exposure	155	(20,954)		(20,753)

70

Company:

	GBP	USD	Euro	Total
		(75,171)		
		(66,862)		(66,862)
		(142,033)		(142,033)

31 December 2020	GBP KShs millions	USD KShs millions	Euro KShs millions	Total KShs mil lions
Financial assets and lease receivables				
Prepaid maintenance asset		4,892		4,892
Aircraft deposits		3,703	-	3,703
Trade and other receivables	684	3,309	1,306	5,299
Cash and cash equivalents	46	2,558	146	2,750
	730	14,462	1,452	16,644
Financial liabilities andprovisions				
Return condition provision		(3,546)		(3,546)
Trade and other payables	(306)	(19,404)	(878)	(20,588)
Mandatory convertible note		(4,501)		(4,501)
Lease liabilities	-	(1,287)		(1,287)

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(iii) Foreign currency risk (Continued)

Net exposure	424	(14,276)	574	(13,278)
Financial liabilities				
Loans and borrowings		(79,302)		(79,302)
Lease liabilities		(68,960)		(68,960)
Net exposure		(148,262)		(148,262)
31 December 2019				
Financial assets and lease receivables				
Prepaid maintenance asset		4,696		4,696
Aircraft deposits		3,327		3,327
Trade and other receivables	371	7,742	1,054	9,167
Cash and cash equivalents	44	1,574	129	1,747
	415	17,339	1,183	18,937
Financial liabilities andprovisions				
Return condition provision		(5,733)		(5,733)
Trade and other payables	(260)	(15,034)	(1,137)	(16,431)
Mandatory convertible note		(3,724)		(3,724)
Lease Liabilities		(2,722)		(2,722)
Net exposure		155	(9,874)	(9,673)
Liabilities				
Loans and borrowings		(75,171)		(75,171)
Lease Liabilities		(66,862)		(66,862)
Net exposure			(142,033)	(142,033)

Sensitivity analysis

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

Profit or loss	Group	Company

Market risk (Continued)

(iii) Foreign currency risk (Continued)

(2,423)	(2,074)
(14,826)	(14,203)

	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	millions	millions	millions	millions
GBP	42	16		16
USD	(2,521)	(2,095)	(1 ,428)	(987)
EURO	56	5	57	5
			(1,329)	(966)

Other Comprehensive income

USD	(14,826)	(14,203)

The exchange rates applied during the year are as follows:

	Average rates 2020		Closing rates 2020	2019
GBP				133.36
USD	106.16	102.23	109.24	
EURO	121.98	1	134.16	

5 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(iii) Foreign currency risk (Continued)

(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 tem in duration. The credit risk associated with these receivables is minimal and the expected credit loss that the Group and Company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

RI

FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses are based on the historical loss rates, which are derived from settlement of invoices over an average period of 5 years and adjusted with macroeconomic factor overlay calculations to incorporate current and forward-looking information. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

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

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

The carrying amount of financial assets and lease incentive asset represents the maximum exposure to credit risk:

	Group		Company	
	2020	2019	2020	2019
	KShs million	KShs million	KShs million	KShs million
Trade receivables	7,983	10,720	7,566	10,261
Other receivables	1 ,904	92	1,352	23
Due from related parties			20,127	1 8,260
Aircraft deposits	3,703	3,327	3,703	3,327
Bank balances	7,728	3,063	7,536	2,868
Prepaid maintenance asset	6,105	5,533	4,892	4,696
Total	27,423	22,735	45,176	39,435

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

To

FINANCIAL

(b) Credit

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 an ast-due amounts.	Lifetime ECL

risk (Continued)

Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial reco nition.	Lifetime ECL — not credit impaired
In default	Amount is >360 days past due or there is evidence indicating the asset is credit impaired.	Lifetime ECL credit impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and has failed to engage in a repayment Dlan with the Grouo.	Amount is written off

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

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

Group

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
31 December 2020				KShs millions	KShs millions	KShs millions
Trade receivables	N/A	Doubtful	Lifetime ECL	9,643	(1,660)	7,983
Other receivables	N/A	Doubtful	Lifetime ECL	2,379	(475)	1 ,904
Bank balances	A, BBB,	Performing	12-month ECL	7,728		7,728
Aircraft deposits	N/A	Performing	12-month ECL	3,703		3,703
Due from related companies	N/A	Doubtful	Lifetime ECL	88	(88)	
Prepaid maintenance asset	N/A	Performing	12-month ECL	6,105		6,105
				29,646	(2,223)	27,423
31 December 2019						
Trade receivables	N/A	Doubtful	Lifetime ECL	11,891	(1,171)	10,720
Other receivables	N/A	Doubtful	Lifetime ECL	411	(319)	92
Bank balances	A, BBB,	Performing	12-month ECL	3,063		3,063
Aircraft deposits	N/A	Performing	12-month ECL	3,327		3,327
Due from related companies	N/A	Doubtful	Lifetime ECL	126	(126)	
Prepaid maintenance asset	N/A	Performing	12-month ECL	5,533		5,533
				24,351	(1,616)	22,735

RISK

FINANCIAL MANAGEMENT (Continued)

(c) Credit risk (Continued)

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

Company

31 December 2020

31 December 2019

	External credit rating	Internal credit rating	12 or EC
Trade receivables	N/A	Doubtful	Li EC
Other receivables		Doubtfill	Li EC
Bank balances	A, BBB,	Performing	12 EC
Aircraft deposits	N/A	Performing	12 EC
Due from related companies	N/A	Doubtful	Lif EC
Prepaid maintenance asset	N/A	Performing	mo EC

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Trade receivables	N/A	Doubtful	Lifetime ECL			
Other receivables	N/A	Doubtful	Lifetime ECL		(600)	
Bank balances	A, BBB,	Perform ing	12-month ECL			
Aircraft deposits	N/A	Performing	12-month ECL	3,703		3,703
Due from related companies	N/A	Doubtful	Lifetime ECL	20,276		20,127
Prepaid maintenance asset	N/A	Performing	12-month ECL	4,892		4,892
				47,522	(2,346)	45,176

5 RISK MANAGEMENT (Continued)

risk (Continued)

41,219 (1,784) 39,435

TO

FINANCIAL

(b) Credit

Credit risk profile based on provision matrix Group

31 December 2020

Trade- Airlines
ECL rate
Expected gross carrying amount
Lifetime ECL

Trade- Agents
ECL rate
Expected gross carrying amount
Lifetime ECL

Trade- Others
ECL rate
Expected gross carrying amount
Lifetime ECL

Trade- Government
ECL rate
Expected gross carrying amount
Lifetime ECL

Other receivables, prepayments and related party balances ECL rate
Expected gross carrying amount
Lifetime ECL

31 December 2019

Trade- Airlines
ECL rate
Expected gross carrying amount
Lifetime ECL

Trade- Agents
ECL rate
Expected gross carrying amount
Lifetime ECL

Trade- Others
ECL rate
Expected gross carrying amount
Lifetime ECL

Trade- Government
ECL rate
Expected gross carrying amount Lifetime ECL

Other receivables, prepayments and related party balances ECL rate
Expected gross carrying amount
Lifetime ECL

<30 days	31-60	61-90	91-180	181-360	Over 361	Total
117	5	2	82	121	1,332	1,65
			2	7	148	157
0.9%	14.10/0	24.5%	26.6%	20.3%	I l l	17.6%
2,806	263	117	161		453	
25	37	29	43	245	504	883
		4.1%	14.4%		45.9%	19.5%
755	80	163	218	547	949	
22	3	7	32	3 1	436	529
		10.2%	15.7%	22.3%	89.0%	35.0%
		17	42	59	78	261
51		2	7	13	69	91
		10.7%	19.1%		24.7%	22.8%
		7	163	172		2,467
23	90	I	31	32	498	563
		9.5%	10.1%			
964	22	3	41	214	736	
8	1	0	4	12	1 15	141
		18.9%	36.8%		99.9%	
	177	44	58	71	397	6,909
201	38	8	21	10	396	675

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL MANAGEMENT (Continued)

(c) Credit (Continued)

					29.0%	
	80	1 84	204	68	347	2,795
47	3	7	8	4	101	170
		7.5%	15.0%	37.5%	95.7%	16.6%
196	130	95	35	25	55	535
4	1 1	7	5	9	53	89
		16.6%	14.3%		25.7%	17.8%
760	26	37	231	213		3,043
9	4	6	33	33	456	541

Credit risk profile based on provision matrix

Company

Other receivables, prepayments and related party balances ECL rate
Expected gross carrying amount
Lifetime ECL

31 December 2020

	<30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
Trade- Airlines							
ECL rate	0.1%	6.0%	0.0%	6.3%	5.7%	10.40/0	9.6
Expected gross carrying amount	53		6 .25		123	1,433	1,64
Lifetime ECL				2	7	148	157
Trade- Agents							
ECL rate	0.9%	14.3%	24.9%	26.8%	21.40/o	99.9%	17.7%
Expected gross carrying amount	2,744	258	115	158	1,131	491	4,897
Lifetime ECL	25	37	29	42	243	491	866
Trade- Others							
ECL rate	3.2%	3.7%	4.2%	14.8%	5.7%	47.2%	20.4%
Expected gross carrying amount	624	71	145	194	487	844	2,365
Lifetime ECL	20	3	6	29	28	398	484
Trade- Government							
ECL rate	0.7%	2.0%	10.2%	15.7%	22.3%	89.0%	35.0%
Expected gross carrying amount	51	14	17	42	59	78	261
Lifetime ECL	-		2	7	13	69	91
Other receivables, prepayments and related party balances							
ECL rate	0.3%	0.1%		2.8%	2.7%		
Expected gross carrying amount	209	808	62	1 ,467	1,546	18,136	22,228
Lifetime ECL	1	1	1	41	43	662	748

31 December 2019

	<30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
Trade- Airlines							
ECL rate	0.9%	8.4%	9.40/0	9.9%	5.7%	1	
Expected gross carrying amount	853	11	3	42	218		7351.86
Lifetime ECL	8	1		4	12	116	141
Trade- Agents							
ECL rate	1.9%	24.1%	24.3%	42.6%	14.2%	121.3%	
Expected gross carrying amount	5,998	154	33	49	68	383	6,685
Lifetime ECL	114	37	8	19	11	465	654
Trade- Others							
ECL rate	2.6%	3.5%	4.0%	3.8%	6.5%	29.5%	
Expected gross carrying amount	1,800	79	181	200	67	341	2,668
Lifetime ECL	47	3	7	8	4	101	170
Trade- Government							
ECL rate							
Expected gross carrying amount							
Lifetime ECL							

FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

2.0%	8.5%	7.5%	15.0%	37.5%	95.7%	16.6%
196	130	95	35	25	55	535
4	11	7	5	9	53	89

0.03%	0.41%	0.47%	0.41%	0.44%	0.73%	0.50%
5,198	180	256	1,576	1,459	12,141	20,810
2	1	1	6	6	89	105

5 RISK MANAGEMENT (Continued)

risk (Continued)

At 31 December 2019

ɴCIAL

edit

310 2
58
370

A reconciliation of the impairment loss accounts:

Group

	Trade and other receivables KShs millions	Bank balances KShs million	Aircraft deposits KShs million	Due from related party KShs millions	Total KShs millions
31 December 2020					
At I January 2020	(1,490)		-	(126)	(1,61
Increase in expected credit losses	(645)			-	(645)
Unused amounts reversed				38	38
At 31 December 2020	(2,135)		-	(88)	(2,223)

Group

	Trade and other receivables KShs millions	Bank balances KShs million	Aircraft deposits KShs million	Due from related party KShs millions	Total KShs millions
31 December 2019					
At I January	(1,721)	(2)	-	(206)	(1,929)
Unused amounts	231	2	-	80	313
At 31 December 2019	(1,490)			(126)	

	Trade and other receivables KShs millions	Bank balances KShs million	Aircraft deposits KShs million	Due from related party KShs millions	Total KShs millions
Company					
31 Decem ber 2020					
At 1 January 2020	(1,597)		-		(1,784)
Increase in expected credit losses	(600)				(600)
Unused amounts reversed	-		-	38	38
At 31 December 2020	(2,197)			(149)	(2,346)
31 December 2019					
At 1 January 2019	(1,907)	(2)	-	(801)	(2,710)
Receivables written off during the year				556	556
Unused amounts reversed					
	(1,597)			(187)	

FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Group formulates three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario.

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

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

The economic scenarios used as at 31 December 2020 include the following range of indicators

Macro-Economic variable		2021	
	Base	Upside	Downside
Weighting		5%	50/0
World economic expectation	-17.5%	-1.4%	-33.6%
Crude oil price percentage change	0.2%	12.3%	-1 1.9%
Deposits	6.9%	7.4%	6.4%
Savings	3.5%	5.1%	1.8%
Lending	11.0%	12.8%	9.2%
GDP	0.8%	1.7%	-0.1%
Housing Price Index	0.1%	2.2%	-2.0%

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

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

Sensitivity Analysis

5 RISK MANAGEMENT (Continued)

risk (Continued)

A 5% increase/decrease in the macroeconomic variables at the reporting date would have increased/ decreased profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular, probabilities of default and loss given defaults, remain constant.

	Profit or loss/equity	
	2020	2019
	KShs	KShs
Macroeconomic variables	million	million
5% increase	(154)	(104)
5% decrease	154	1 04

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

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

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

Management performs cash flow forecasting and monitor rolling forecasts of the Group's and Company's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn borrowing facilities at all times so that the Group and Company do not breach borrowing limits or covenants on any of its borrowing facilities. Management have sought waivers before year-end from lenders when they have not been compliant with the covenants. Note 2(e) summarises the procedures the Directors' are putting in place to address the solvency challenges facing the Company.

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

Group:

	Less than I year KShs million	2 - 5 years KShs millions	Over 5 years KShs millions	Total KShs millions
31 December 2020				
Borrowings	102	69,121	10,079	90,302
Trade and other payables	37,543			37,543
Lease liabilities	24,605	52, 166	21 ,044	97
Return condition provisions	2,573	1,		

	75,823	123,104	32,174	231,041

5 FINANCIAL RISK MANAGEMENT (Continued)

31 December 2019

Borrowings
Trade and other payables
Lease liabilities
Retum condition provisions

(c) Liquidity risk (Continued)

Company

			20,219	
	30,652	47,839		
	1 5,843		29,464	30,652
	2,397	54,332	2,984	99,639
	56,040	104,381	52,667	213,053

	91,986	17,954	25,948	235,888
	13	47,839	20,219	75,171
	50,730			50,730
	14,161	47,836	23,967	85,964
	2,397	2,210	1,126	5,733
	74,401	97,885	45,312	217,598

	Less than I year KShs million	2 - 5 years KShs millions	Over 5 years KShs millions	Total KShs millions
31 December 2020				
Borrowings	11,102	69,121	10,079	90,302
Trade and other payables	57,291			57,291
Lease liabilities	22,590	46,964	15,195	84,749
Return condition provisions	1,003	1,869	674	3,546

31 December 2019

Borrowings
Trade and other payables
Lease liabilities
Return condition provisions

5 FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management

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

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

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

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

The Group also monitors capital on the basis of a gearing ratio which is calculated as the ratio of borrowings net of bank and cash balances to shareholder's equity.

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

Group	2020 KShs million	2019 KShs million
Total equity*	(64, 165)	(17,896)
Borrowings	92,539	76,126
Less: Cash and bank balances	(7,728)	(3,095)
Net borrowings	84,811	73,03 1
Net debt to equity ratio	> 100⁰/0	> 100%

(d) Capital management (Continued)

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

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

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

5 FINANCIAL RISK MANAGEMENT (Continued)

(e) Fair value measurement of financial instruments

Fair value ofthe Group 's and Company 'sfinancial assets andfinancial liabilities that are measured at fair value on a recurring basis.

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

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

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

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

6 OPERATING SEGMENTS

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

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

Segment profit/loss represents the operating profit and loss earned by each segment without allocation of share of profits/losses of associates, finance costs and income tax expense.

The major part of the business of the Group and Company falls under category of aviation transport with income from other categories comprising less than 16.2% of total income.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 SEGMENT INFORMATION (Continued)

Analysis of turnover according to business segments:

	Passenger KShs million	Freight and mail KShs million	Handling KShs million	Lease rental income KShs million	Sub-lease income KShs million	Other revenue KShs Million	Total KShs Million
31 December 2020							
Kenya	3,002	106	389	146	298	523	4,464
Rest of the world	30,703	8,905	1,137	1, 144	2.344	4,108	48,341
	33,705	9,011	1,526	1,290	2,642	4,63 1	52,805
31 December 2019							
Kenya	6,115	I ,020	398	132		623	8,288
Rest of the world	97,516	7,661	1 ,992	1,474	3,380	7,367	119,390
	103,631	8,681	2,390	1,606	3,380	7,990	127,678

The Nairobi — Amsterdam and Nairobi — London routes contribute of the total turnover.

Analysis of costs according to business segments:

31 December 2020

	Passenger KShs million	Freight and mail KShs million	Handling KShs million	Lease rental income KShs million	Sub-lease income KShs million	Other revenue KShs million	Total KShs million

Depreciation 4,890 1,307 222 187 6,606 Interest expense 2,857 764 129 109 3,859

31 December 2019

Depreciation 5,779 484 121 102 6,486 Interest expense 368 101 69 4,933

6 SEGMENT INFORMATION (Continued)

Analysis of operating loss per business segments:

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

Segment assets and liabilities

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

Geographical Segments

	2020 KShs million	2019 KShs million
Africa 27,706 72,327 Europe 10,948 27,682		
Middle East	4,544	
China 4,888 9,343 India 2,368 5,529		
North America	2,351	
	52,805	127,678

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

Group

2020 2019

KShs KShs million million 7 REVENUE

(a) (i) Revenue from contracts with customers:

	Compan y 2020 KShs million	2019 KShs million

Recognised at a point in time: 44,243 114,702 185 12
Passengers
Freight and mail
Handling
185 301 220 423
35 122

220 423 1,290 I ,606
2,642 3,380
Recognised over time: 66 34
Engineering services 4,530 7,493
Training services
1,290 1,606
2,642 3,380
62 30 8,528 12,513
4,348 7,537

49,090 121,001
(ii) Other revenue
8,342 12,553
Lease rental income 35 2
Sub-lease income 52,805 127,678
Interest income
Sundry income

639

Total

(b) Other income

32,19
3

Gain on sale and leaseback of engine

14,92
6
10,69
3

8 EXPENSES BY NATURE

6,08
4

(a) Direct costs 639

Aircraft fuel and oil 10,604 33,201 10,027
Aircraft landing, handling and navigation 5,599 3,76
7
Aircraft maintenance 5,852 15,349
Passenger services 5,226 10,641 5,079
Commissions on sales 1,846 6,105 1,833 69
4
Aircraft, passenger and cargo insurance 1,046 3,797 1,033
595 2,71
3
Crew route expenses 656 755
Central reservation system and frequent flyer programme 2,049 2,714 2,048
1,863 6,00
4
Other direct costs 2,242 6,388
Option premium paid 736 1,185 296 68
6
705 842 705

33,705 103,631 3 99,384 84
1,330 8,681 2
9,012 8,681 9,012 - -
1,526 2,390

301 40,342 108,065

30,962 80,977 29,078 78,602

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	million	million	million	million
inued)				
	325	180	220	12
l related	5,748	5,756	5,744	5,751
and related	-	4,414		4,414
and related	-	2,145		2,145
- aircraft ote 17)	10,859	10,618	9,673	9,769
ircraft e 17)	7,013		7,013	
ition asset	3,348	1,683	2,995	1,281
epaid 22)	1,278	1,118	1,278	1,118
sion reversal	-	(571)		(571)
	28,571	25,343	26,923	23,919

ses				
8(d))	13,619	17,052	11,987	15,139
l fees	416	915	405	903
n (Note	55	124	55	124
n	14	15	11	10
ses on bank		(2)		(2)
	1,298	3,018	1,075	2,763
vestment in a))				166

nd	460	332	400	255
rty and	858	730	796	673
gible assets (Note	145		140	131
buildings				

15,402 21,122 13,533 19,103

431 461 305 332

buildings

24

208 208

1,918 1,874 1,641 1,599

8 EXPENSES BY NATURE (Continued)

(c) Other operating costs (Continued)

(iii) Selling

	Group 2020 KShs million		165	2020 KShs million
				(146)
Advertising and publicity	51		130	42
Provision for ECL relating to trade and other receivables (Note 21)	607		756	562
			23,736	
	658			604
Bank charges	79		13,535	76
Currency translation losses	2,337		847	1,543
			30	
Total other operating costs	20,394			17,397

9,513 Interest income:

277
412
1,951

(d) Employee costs

Wages and salaries	11,630	17,052	10,174
Contributions to retirement benefits	278		256
National Social Security Fund (NSSF)	137		129
(decrease)/ increase in leave pay accrual	(122)		(116)
Redundancy costs (Note 29)	129		128
Other staff costs	1,567		1,416
	13,619		11,987

Interest income on bank deposits (62)

5,177
4,997
101

10,275

991

11,266

(30)

11,236

Net finance costs 9,451

2019 KShs million

Company

9 NET FINANCE COSTS

Interest expense:

- borrowings	4,132	4,128
- lease liabilities (Note 27)	4,882	4,200
- return condition provisions (Note 29)	100	89
	9,114	8,417
Currency translation losses on borrowings	399	399

8,816 125 282 69
783
(66) 358
1,771 9,715
21,42
8,750 7
2019 KShs million 991
15,139
185
10,706
(368) 11,93
8 (34)
5,175
(183) 762 4,471 10,672
28

96

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	million	million	million	Million

10 LOSS BEFORE TAXATION

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

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

Provision for obsolete inventories (Note 20)	(113)	(22)	(113)	(22)
Impairment of investment in subsidiary (Note 8(a))				166

11 INCOME TAX

(a) Group

(i)Income tax (credit)/charge

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

	2020 KShs million	2019 KShs million
Current income tax at 25% (2019:30%)	39	49
Defe1Ted income tax (Note 28)	(393)	(39)
	(354)	10

11 INCOME TAX (Continued)

(a) Group (Continued)

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

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

	2020 KShs million	2019 KShs million
Loss before tax	(36,573)	(12,975)
Current tax at 25% (2019:30%)	(9,143)	(3,893)
Tax effect of expenses not subject for tax purposes	3,799	3,256
Effect of change in tax rates	1,270	
Under provision of deferred income tax in prior years	8,910	
Unrecognised deferred tax asset (Note 28)	(5,190)	647

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Tax (credit)/ charge	(354)	10

(b) Company

(i) Income tax expense

Income tax charge recognised in profit or loss		
Current tax at 25% 2019-30	26	37
Deferred income tax		
Income tax expense	26	37

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

Loss before tax	(33,058)	(12,980)
Current tax at 25% (2019:30%)	(8,265)	(3,894)
Tax effect of expenses not subject for tax purposes Effect of change in tax rates	2,460	3,195
Under provision of deferred income tax in prior years	8,696	
Unrecognised deferred tax asset (Note 28)	(4,3 14)	736
Tax charge	26	37

	Group		Company	
	2020	2019	2020	2019
	KShs million	KShs million	KShs Million	KShs million
(c) Current income tax balance				
At start of year	1,270	1,258	1256	I ,252
Charge for the year		(49)	(26)	
Prior year under provision	7			
Paid during the year		61	33	41
At end of year	1,280		1,263	1,256

12 EARNINGS PER SHARE - GROUP

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

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

Basic loss per share (KShs)	(6.22)	(2.23)

Instruments with an anti-dilutive impact in the period:

Weighted average number of ordinary shares deemed to be issued in respect of mandatory convertible note (million)	1,659	1,659

13 DIVIDENDS - GROUP AND COMPANY

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

The unclaimed dividends account is as follows:

	2020	2019
	KShs	KShs
	million	million
At start and end ofyear (Note 31)	78	88

14 SALE AND LEASE-BACK ARRANGEMENTS - GROUP AND COMPANY

In 2019, the Group entered into a sale and leaseback for one of the aircraft engines with Engine Lease Finance Corporation to increase the free cash flows of the Group. The lease term for the engine is 10 years with an option of extension. The Group applied the requirements of IFRS 15 to determine whether the transfer of the asset should be accounted for as a sale, and generally considered as such, since the control of the aircraft was transferred to the buyer, being when the aircraft was delivered to the buyer. The Group derecognised the underlying asset and recognised a right-of-use asset.

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

The impact of the transaction was as follows:

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

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

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

15 PROPERTY, AIRCRAFT AND EQUIPMENT

Group

As at 31 December 2020 Cost or valuation
Accumulated depreciation

At 31 December 2020

As at 1 January 2019

Cost or valuation
Accumulated depreciation

	Land and buildings KShs million	Aircraft and related equipment KShs million	Other property and equipment KShs million	Incomplete projects KShs million	Total KShs million
At I January2019					
	9,622	126,010		33	147,222
	(1,056)	(35,966)	(10,365)	-	(47,387)
Year ended 31 December 2019					
Opening net book amount					
Revaluation surplus	8,566	90,044	1,192	33	99,835
Additions					
Impairment					
Transfer in/(out)					
Transfer to intangible assets (Note 16(b))	8,566	90,044		33	99,835
	1,086				1,086
Disposals	-	392	390	502	I ,284
Write off	-	(4,414)			(4,414)
Depreciation charge	-	120	29		
Depreciation eliminated on disposal			-		(31)
Depreciation eliminated on write off	-	(1,582)(1,612)	(30)		
Depreciation eliminated on revaluation		(3,055)(3,055)	- (404)		
	(326)	(5,756)(6,486)			
		428	30		458
Net book amount		910			910
	1,382				1,382
At 31 December 2019	10,708	77,087	1,207	355	89,357
Cost or valuation:					
Accumulated depreciation					
At 3 1 December 2019	10,708			355	140,480
		117,471	11,946		
		(40,384)	(10,739)		
Year ended 31 December 2020					
Opening net book amount					
Additions	10,708	77,087	1,207	355	89,357
Provision					
Transfer from incomplete projects					
Transfer to intangible assets (Note 16(b))	10,708	77,087	1,207	355	89,357
		292	183	443	918
Disposals			(5)		(5)
Depreciation charge		604	4	(608)	
Depreciation eliminated on disposal	-				
		(63)	(68)		
At 31 December 2019	(476)	(5,748)	(382)		(6,606)
		50	68		1 18

(Continued)

			Transfer from incomplete projects
10,232	72,222	1,007	Disposals 136 83,597
			Depreciation charge
			Depreciation eliminated on disposal
		12,060	At 31 December 2020 136 141,208
	1 18,304		
(476)	(46,082)		
			At 31 December 2020
			Cost or valuation
10,232	72,222	1,007	Accumulated depreciation 136 83,597

PERTY, AIRCRAFT AND EQUIPMENT

Company

At 3 1 December 2()2()

	Land and buildings KShs millions	Aircraft and related equipment KShs millions	Other property and equipment KShs millions	Incomplete projects KShs millions	Total KShs millions
At I January 2019					
Cost or valuation	9,045	125,928	10,921	7	145,901
Accumulated depreciation	(996)	(35,963)	(9,843)	0	(46,802)
At I January 2019	8,049	89,965	1,078	7	99,099
Year ended 31 December 2019					
Opening net amount					
Additions	8,049	89,965	1,078	7	99,099
Transfer in/(out)	-	386	357	476	1,219
Transfer to intangible asset (Note 16(b))	-	120		(120)	
Impairment	-			(31)	(31)
Disposals Write		(4,414)			(4,414)
off		(1,582)	(29)		(1,61 1)
Revaluation increase	-	(3,055)			(3,055)
Depreciation charge	1,067				1,067
Depreciation eliminated on disposal	(303)	(5,751)	(370)		(6,424)
Depreciation eliminated on write off		428	29		457
Depreciation Eliminated on revaluation		910			910
	1,299				,299
Net book amount	10,1 12	77,007	1,065	332	88,516
At 31 December 2019 Cost or valuation:					
Accumulated depreciation	10,1 12	1 17,383	1 1,249	332	139,076
		(40,376)	(10,184)		(50,560)
At 31 December 2019	10,1 12	77,007	1,065	332	88,516
Year ended 31 December 2020					
Opening net book amount					
Additions	10,1 12	77,007	1,065	332	88,516
Provision		292	174	439	905

(Continued)

		(5)					
(5)			9,663	72,146	886	1 13	82,808
	604						
	(658)	(54)					
-	(63)	(69)					
(132)						1 13	
(449)	(5,744)	(347)	10,112	1 18,216	1 1,349		139,790
(6,540)			(449)	(46,070)	(10,463)		(56,982)
-	50	68					
1 18							
			9,663	72,146	886	1 13	82,808

15 PROPERTY, AIRCRAFT AND EQUIPMENT

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

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

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

Included in the 2019 eliminated on disposal balance of both Group and Company was an engine with a net book value ofKShs 1,077 million that was sold and leased back. Details of the sale and lease back are disclosed in Note 14.

Included in property, aircraft and equipment of Group and Company are assets with a cost of KShs 21,531 million (2019: KShs 21,091 million) and KShs 2(),922 million (2019: Kshs 20,527 million) respectively that are fully depreciated. The notional annual depreciation of these assets would have been KShs 3,728 million (2019: KShs 406 million) and KShs 3,622 million (2019: KShs 310 million) respectively.

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

Included land and buildings for Group and Company are properties with expired leases valued at KShs 1,967 million (2019: Kshs 1,967). The Group and Company are currently in the process of renewing the leases. Where leases have expired in the past, they have been renewed without any encumbrances and no renewal complications are expected in the foreseeable future.

Also included in land and buildings for Group and Company are properties that are the subject of court disputes valued at KShs 256 million (2019: KShs 256 million). The Group and Company are the defendants

(Continued)

in several legal suits in which the claimants are claiming ownership of the lands. Based on the legal advice and information currently available, the Directors do not expect any significant amounts to crystallize from the assessments. The Directors have disclosed the general nature of the dispute as they do not want to prejudice the position of the Group and Company over these matters that are currently in court.

Impairment assessment

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

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

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

15 PROPERTY, AIRCRAFT AND EQUIPMENT

Assets pledged as security

The net book value of aircraft and land and buildings charged as security for loan facilities obtained to finance their purchase is KShs 67,373 million and 4,254 respectively (2019: KShs 72,585 million and 4,318 million respectively) at the end of the year. Details of the outstanding loan facilities are disclosed in note 26.

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

The Group's and Company's land and buildings were revalued at 3 1 December 2019 by an independent valuer, Quice Real Estate Limited. Quince Real Estate Limited are members of the Institute of Valuers of Kenya and they have appropriate qualifications and recent experience in the fair value measurements of properties in the relevant locations. The valuation conforms to International Valuation Standards (IVS), Institution of Surveyors of Kenya (ISK) guidelines and was based on open market value on am's length terms.

The fair value of the land was determined based on the sales comparison/market approach that reflects recent transaction prices for similar properties.

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

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

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

	Level I	Level 2	Level 3	Total
	KShs KShs KShs KShs millions millions millions millions			
31 December 2020				

(Continued)

Group		
Land and buildings	10,235	10,235
	10,708	10,708
	10,1 12	10,1 12
Company		
Land and buildings	9,662	9,662
31 December 2019		
Group		
Land and buildings		
Company		
Land and buildings		

There were no transfers between the levels during the current or prior year.

16 INTANGIBLE ASSETS

Intangible assets consist of:

	Group		Company	
	2020	2019	2020	2019
	KShs millions	KShs millions	KShs millions	KShs millions
Landing slot	2,561	2,561	2,561	
Computer systems and software	296	313	288	301
	2,857	2,874	2,849	2,862

(a) Intangible assets — landing slot

The Group has rights to a landing slot at the London Heathrow International Airport to enable daily afternoon landings and departures on the Nairobi — London route. The rights obtained to the use of the slot are for an indefinite period as per the nature of the asset and the operationalising agreements. The slot was obtained in 2017 as an in-kind contribution from KLM Royal Dutch Airlines in exchange for ordinary shares in the Company.

(b) Intangible assets — computer systems and software

Intangible assets - software

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

Group		Company	
2020	2019	2020	2019
KShs millions	KShs millions	KShs millions	KShs millions

RIGHT-OF-USE-ASSETS

Cost	5,083	4,955	4,903	4,776
Amortisation	(4,787)		(4,615)	(4,475)
Net book value				
At 31 December	296	313	288	301

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

17

(a) Right-of-use assets

Group

	Aircraft and related equipment	Buildings	Total
	KShs millions	KShs millions	KShs millions
Carrying amount:			
At I January 2019	73,503	2,222	75,725
Additions	5,607		5,607
Amortisation charge for the year	(10,618)	(461)	(11,079)
Terminations*	(691)		(691)
At 31 December 2019			
At 1 January 2020			
Additions			
Amortisation charge for the year			
Impairment charge for the year			
At 31 December 2020			

Company

Carrying amount:			
At I January 2019			
Additions			
Amortisation charge for the year			
Terminations			
At 31 December 2019			
At 1 January 2020			

RIGHT-OF-USE-ASSETS

Additions	67,801	1,761	69,562
Amortisation charge for the year			
Impairment charge for the year			
	67,801	1,761	69,562
At 31 December 2020		4	4
	(10,859)	(431)	(11,290)
	(7,013)	(24)	(7,037)
	49,929	1,310	51,239
	67,029		68,553
	1,790	1,524	1,790
	(9,769)		(10,101)
	(691)	(332)	(691)
	58,359	1,192	59,551
		1,192	
	58,359	4	59,551
		(305)	4
	(9,673)		(9,978)
	(7,013)		(7,013)
	41,673	891	42 564

17 (Continued)

(a) Right of use assets (continued)

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

The Group and Company leases several assets including buildings and aircraft and related equipment. The average lease term for aircraft is 10 to 12 years, engines is 7 years and buildings are 5 to 13 years.

The various lease agreements do not provide for purchase options on expiry of the lease terms.

No restrictions have been imposed by the lessors on the Group and Company in respect to dividend pay outs, borrowings or further leasing.

Impairm ent assessment

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

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

- The passenger travel demand will take about 3-4 years to recover and shall attain 2019 levels by the year 2024 as per the IATA projections.
- Airspace will reopen to scheduled operations and there will be removal of non- bilateral restrictions.
- Continuous growth contribution of cargo business from the current 7% to 20% in the medium term.

RIGHT-OF-USE-ASSETS

- The passenger revenues are forecasted to grow to about 53% of pre-Covid levels in 2021 and grow progressively to fully regain pre-Covid levels by 2024. The revenues are forecasted thereafter to grow at an average rate of 4% year on year for the next three years.
- Due to increased focus on cargo business, the 2021 growth rate is projected at 20% compared to 2019 and maintain double digit growth before stabilising after the next three years.

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

Amounts recognised in the profit and loss are as follows:

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

17

(b) Return condition assets

Movement in return condition assets is as follows:

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

18 INVESTMENTS

(a)

Details of investment	Country of incorporation	Activity	% of equity interest 2019		2020 KShs million Carrying Amount	2019 KShs million Carrying Amount
Kenya Airfreight Handling Limited (2,550,000 shares of KShs 20 each)	Kenya	Cargo handling for perishable products	51		51	51
JamboJet Limited (1,000,000 shares of KShs 606 each)	Kenya	Local passenger air transport	100%	100%		
Kencargo Airlines International Limited (1,000,000 shares of KShs 20 each)	Kenya	Dormant	100%	100%		
African Cargo Handling Limited 5 7 5 3 8shares ofKShs 100 each)	Kenya	Cargo handling	100%	100%	384	384
Pride Oil Limited (5,000 shares ofKShs 20 each)	Kenya	Dormant	100%	100%		
Investment in subsidiaries - Company					435	435

* The cost of the investment is KShs 100,000 which when rounded to the nearest million gives a value of less than a million.

** The investment in Kencargo Airlines International Limited is fully impaired since the Company has been inactive thus casting doubt on the recoverability and valuation of the investment. The investment was impaired by KShs 20 million.

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

	2020 KShs million	2019 KShs million
At start of year		166
Impairment		(166)
At end ofyear		

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

	2020	2019
At start of year	626	460
Impairment charge		166

At end of year	626	626

During the year, the Company did not recognise an impairment loss (2019: KShs 166 million) of Jambojet Limited, which has been recognised in profit or loss statement. This is a subsidiary of Kenya Airways Plc.

0

18 INVESTMENTS (Continued)

(a) Investment in subsidiaries – Company (continued)

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

	Current assets		Non-current assets		Current liabilities		Non-current liabilities	
	2020	2019	2020	2019	2020	2019	2020	2019
	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million
Kenya Airfreight Handling Limited	772	581	155	181	758	584	79	77

Revenues		Profit/(loss) before tax		Total comprehensive income		
2020	2019	2020	2019	2020	2019	
KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	KShs Million	Airfreight Handling Limited

18 INVESTMENTS (Continued)

(a) Investments in associates — Group and Company

(i) African Tours and Hotels Limited:

	2020	
	KShs	KShs
	million	million
African Tours and Hotels Limited: (100,398 ordinary shares of KShs 2() each)	2	2
Less: Impairment on investment in associate	(2)	(2)

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

(ii) Precision Air Services Limited:

	2020	
	KShs	KShs
	million	million
66, 157,350 ordinaw shares ofKShs 3.48 (TShs 20) each	230	230
Less: Impairment of investment in associate	(230)	(230)

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

Current assets		
Non- current assets	4,567	5,572
Total assets		6,708
Current liabilities	(10,878)	(9, 100)
Non-current liabilities		
Total liabilities	(23,063)	(20,633)
Total revenue for the year	2,534	5,488
Loss before tax for the year	(2,834)	(1,672)
Total comprehensive loss for the year	(2,847)	(1,690)

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 ofthe investment to be recovered.

III

19 AIRCRAFT DEPOSITS

	2020	2019
	KShs	KShs
	million	Million
Deposits for leased aircrafts	3,428	3,035
Deposits paid towards acquisition of aircraft	275	292
	3,703	3,327

The deposits relate to lease ofaircraft and engines of Boeing 737's, 787's and Embraer E 190's. The deposits paid towards acquisition of aircraft represent amounts paid to Boeing Corporation for the option to purchase

	2020	2019
	KShs	KShs
	Million	million
At start of year	3,327	3,076
Additions	680	528
Refunds in the year	(693)	(324)
Amortisation charge to profit or loss	109	62

or lease aircrafts in the future. The deposits are carried at amortised cost.

Currency translation differences	280	(15)
At end of year	3,703	3,327

20 INVENTORIES - GROUP AND COMPANY

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

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

The movement in provision for obsolete inventories is as follows:

	2020 KShs million	2019 KShs million
At start of year	At end of year	
Decrease in provision during the year		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 TRADE AND OTHER RECEIVABLES

KShs millionss KShs Millions KShs millionss Kshs Millions

Trade and other receivables 15,263 31,391 32,560
Less: Provision for expected credit losses (2,223) (1,616) (2,346) (1

Analysed as:
Trade - airlines
Trade — agents
Trade — others
Trade - Government ministries and parastatals
Due from related parties (Note 34)
Prepayments and other receivables
Less: Provision for expected credit losses

9,887 13,647
29,045 30,776

1,659 1,981
5,010 6,909 1,862
2,713 2,795 6,685
1,382 I ,404 I ,640
(113) (22) 4,897 2,668
261 535
2,365
88 126 535
2,379 2,917 18,447
1,382 261
1,269 (2,223) (1,616) 2,363
20,276
1,952
(2,346)
9,887 13,647

Group Company
2020 2019 2020 2019

29,045 30,776

21 TRADE AND OTHER RECEIVABLES (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At end of 2,346 year
2,223 1,616

This is analysed as below:

Group
2020 2019
KShs KShs million
million Analysed as:
Trade - airlines 157 141 Trade — agents 883 675 Trade
others 529 170
Trade - Government ministries and parastatals 91 89
Prepayments and VAT recoverable 17 9
Other receivables 406
Due from related parties
(Note 34) 88 126

2,223 1,616

Company
2020 2019
KShs million KShs million

157 141
865 654
484 170
91 89
17 9
583 534
149 187

2,346

22 PREPAID MAINTENANCE ASSETS

The movement in the prepaid maintenance asset is as follows:

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

At end of year	6,105	5,533	4,892	4,696

23 SHARE CAPITAL - GROUP AND COMPANY

(a) Share capital and share premium

	2020 KShs million	2019 KShs million
Issued andfully paid:		
5,823,902,621 ordinary shares of KShs I each	5,824	5,824

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

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

23 SHARE CAPITAL - GROUP AND COMPANY (Continued)

(b) Mandatory convertible notes

On 14 November 201 7, as part of its balance sheet restructuring, the Group and Company issued the Government of Kenya and KQ Lenders Company 201 7 Limited mandatory convertible notes of KShs 7,744 million (USD 75 million) and KShs 5,163 million (USD 50 million) respectively. The Government of Kenya note was issued at zero interest rate while the KQ Lenders Company 2017 Limited mandatory convertible note will earn an interest of 5.11% in year I 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 I O but can be convened 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 201 7 Limited is considered a compound instrument that contains, a liability element and an equity element. The equity element is presented in equity under the shareholders' funds while the liability element has been presented in non-current liabilities under borrowings.

	2020	2019
	Kshs	Kshs
	million	million
KQ Lenders Company 2017 Limited equity component	1,886	1,886
Government of Kenya mandatorily convertible loan	7,744	7,744
Equity component	9,630	9,630

(b) 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 Extraordinajy 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 ofKShs I 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.

24 OTHER RESERVES - GROUP AND COMPANY

Other reserves are made up the following reserves:

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

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

	Group 2020 Kshs millions	Group 2019 Kshs millions	Company 2020 Kshs millions	Company 2019 Kshs millions
At start of year	(2,257)	(6,385)	(2,543)	(6,599)
Change in fair value of hedging instrument recognised in OCI — Fuel hedges		435		435
(Loss)/ gain on hedged exchange differences — borrowings	(5,567)	1,965	(5,567)	
(Loss)/ gain on hedged exchange differences - lease liabilities	(4,871)		(4,871)	
Reclassified from OCI to profit or loss — borrowings	399		399	

OTHER RESERVES

Reclassified from OCI to profit or loss — leases	(11)		(11)	
Revaluation surplus — gross		2,468		2,366
Deferred income tax on revaluation surplus		(740)		
	(12,307)	(2,257)	(12,593)	(2,543)

24 (Continued)

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

Derivative financial instruments and hedging activities — group and company

(i) Derivatives designated as hedging instruments

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

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

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

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

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

a) The asset and liability position of various outstanding derivative financial instruments is given below:

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

b) Details of amount held in other comprehensive income (OCI) and the period during which these are going to be released and affecting the statement of profit & loss:

	2020	
Cash flow hedging reserve	Release	Release

OTHER RESERVES

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
Foreign Currency						
Hedging-Borrowings		(2,059)	(12,682)	(9,572)	(1 ,299)	(8,273)
Foreign Currency Hedging-Lease liabilities	(4,205)	-	(4,205)	676	-	676

24 - GROUP AND COMPANY (Continued)

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

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

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

(ii) Gain/(loss) recognised in OCI and recycled (amount of gain/(loss) recognised in hedging eserve and recycled during the year 2019)

Recognized	Amount to	Opening Amount	Net Amount Closing balance before tax in Hedge reserve	Net Cash-flow hedges Recycled	Total Reserve	Balance
Non-Derivative financial instruments-	Cash flow hedge reserve					

OTHER RESERVES

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

The Company's hedging policy only allows for effective hedge relationships to be established. The effective portion of the hedge is taken to OCI while ineffective portion of hedge is recognised immediately to the statement of profit or loss under other losses.

(b) Revaluation surplus - Group and Company

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

25 NON-CONTROLLING INTERESTS

The non-controlling interests relate to the portion of equity ownership in Kenya Airfreight Handling Limited attributable to Stamina Group B.V.

	2020	2019
	KShs million	KShs million
Stamina Group B.V		
At start of year	50	49
Share of profit for the year	8	1
At end of year	58	50
Represented by:		
Holding in Kenya Airfreight Handling Limited	490/0	49%

26 BORROWINGS - GROUP AND COMPANY

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

26 BORROWINGS - GROUP AND COMPANY (Continued)

Loans

Payable after one year	81,901	69,468
	92,539	76,126

(a) The make-up ofthe loans is as follows:

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

The aircraft loans were obtained for the purpose of funding aircraft acquisition, aircraft spare engines and pre-delivery payments for ordered aircrafts. For the purpose of holding collateral for the financiers, the aircrafts were registered in the name of special entities whose equity are held by the security trustees on behalf of the respective financers. The legal title is to be transferred to Kenya Airways Plc once the loans are fully repaid. The special entities are as listed below:

Entity	Bank	Guarantee	Original Tenure of the loan
Tsavo Financing LLC	Citibank N.A. (London) and JP Morgan N.A.	Export-Import Bank of the United States of America (Eximbank)	12 years
Samburu Limited	African Export and Import Bank in syndication with Standard Chartered Bank	None	12 years

The local bank facility is a multipurpose revolving loan and letter of credit facility with a total value of USD 175 million which was obtained from the consortium of Kenyan banks after the restructuring in November 2017. They were drawn from Equity Bank Limited, KCB Bank Kenya Limited, NCBA Bank

BORROWINGS - GROUP AND COMPANY (Continued)

Loans

Kenya Limited (formerly Commercial Bank of Africa Limited and NIC Bank Limited), I&M Bank Limited, National Bank of Kenya Limited, Cooperative Bank of Kenya, Diamond Trust Bank (Kenya) Limited and Ecobank Limited for financing of working capital requirements. As at 31 December 2020 and 31 December 2019, the Group and Company had fully utilized the facilities in the form of loans (USD 42 million) and letters of credit (USD 133 million).

A corporate guarantee of KShs 1,000 million is in place for the Kenya Airways & Co-operative Bank Ab Initio Programme.

26

(a) (Continued)

(i) Covenants

The Group and Company has a number of facilities with African Export-Import Bank (Afrexim), Citibank N.A and JP Morgan N.A for the purchase of aircraft and funding of predelivery deposits for aircraft. The facilities contain some financial covenants, which are monitored against the annual audited financial statements. As at 31 December 2020, the Group did not comply with one of the financial covenants being, the unrestricted cash to revenue ratio. The Group and Company however obtained waivers from the financiers prior to year-end and as such the Group and Company had a contractual right to defer payment for at least 12 months at the end of the reporting period. Consequently, the balances have not been classified as current liabilities.

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

	2020 KShs millions	2019 KShs millions
The borrowings maturity analysis is as follows:		
Within one year	11,102	7,1 13
Between two and five years	69,121	47,839
Later than 5 years	10,079	20,219
	90,302	75,171

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

	2020 KShs millions	2019 KShs millions
At start of year	75,171	82,330
Additions	11,000	

BORROWINGS - GROUP AND COMPANY (Continued)

Loans

Repaid in the year	(3,078)	(6,863)
Accrued interest	1,642	2
Currency translation differences on hedged borrowings	5,567	(298)
At end of year	90,302	75,171

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

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

26

(b) (Continued)

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

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

(iv) Analysis of loans by currency:

Borrowings in US Dollars	79,302
Borrowings in KES	

(c) Sovereign guarantee from the Government of Kenya

On 14 November 2017, as part of the balance sheet restructuring, the Government of Kenya (GOK) issued guarantees in the aggregate amount of USD 750,000,000 in favour of Exim Bank and a consortium of Kenyan banks in relation to certain obligations of the Group and Company to Exim Bank and the consortium of Kenyan Banks. The fair value of the guarantee was determined on 14 November 2017 by an independent valuer at USD 13,898,096 (KShs 1,434 million).

In return, Kenya Airways Plc issued the GOK 184,321,067 shares at KShs. 7.78 per share. The financial guarantee is measured at amortised cost over the term of the guaranteed loans.

BORROWINGS - GROUP AND COMPANY (Continued)

Loans

lhe fair value was determined by an independent valuer who has appropriate qualifications and relevant experience in fair value measurements of such assets. The valuation was determined as the difference of weighted risk-free loan (taking the guarantee into consideration) and weighted risky loan (assuming no guarantee in place). The valuation falls under level 3 of the fair value hierarchy as the inputs are not based on observable market inputs. The movement for the year is presented below:

	2020	2019
	KShs	KShs
	millions	millions
Sovereign guarantee from the Government of Kenya— at cost	I ,434	I ,434
Accumulated amortisation	(656)	(453)
	778	981

26 BORROWINGS - GROUP AND COMPANY (Continued)

(b) Sovereign guarantee from the Government of Kenya (continued)

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

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

(c) Mandatory convertible note - liability component

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

(d) Deferred borrowing costs

At start of year	1,788	2,050
Paid in the year	55	61
Charge for the year	(357)	(323)
At end of year	I ,486	1,788

The deferred borrowing costs are presented in the statement of financial position as:

Current portion	278	296
Non-current portion	I ,208	1 ,492
	1,486	1,788

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

27 LEASE LIABILITIES

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

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

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

Maturity analysis

	2020		2019	
	Group	Group	Company	Company
	KShs millions	KShs millions	KShs millions	KShs millions
Year I	24,605	15,843	22,590	14,161
Year 2	15,126	15,728	13,354	14,048

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

27 LEASE LIABILITIES (Continued)

Analysed as:

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

28 DEFERRED INCOME TAX

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

Property, aircraft and equipment — historical cost
Plant, aircraft and equipment - revaluation surplus
Leases

Other payables
Provisions for liabilities
Tax losses
Unrealised exchange losses
Foreign currency hedge losses

Net deferred income tax asset

	(41,497)	(21,636)
	43,620	24,152
Deferred income tax assets derecognised	2,123	2,516
Presented in the statement of financial position as follows:		
Deferred income tax asset	(600)	(207)
Deferred income tax liability	2,723	2,723
	2,123	2,516

. 1

	Group		Company	
			(40,053)	(21,363)
			42,776	24,086
			2,723	2,723
	20	2019	2020	2019
	hs	KShs	KShs	KShs
	ons	millions	millions	Millions
	03)	(739)	(687)	(722)
	58)	(1,291)	(1,280)	(1,227)
	20)	(24,599)	(29,016)	(24,334)
	29)	(51)	(330)	(55)
	20)	(3,813)	(8,120)	(3,813)
	97	6,012	5,354	6,065
	46	2,845	2,723	2,723
	10)		(8,697)	
			2;723	2,723
			2,723	2,723

28 DEFERRED INCOME TAX (Continued)

The movement on the deferred tax account is as follows:

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

A deferred income tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. At 31 December 2020, the Group has recognised deferred income tax asset of Kshs 600 million (2019: KShs 207 million) arising from its subsidiary, African Cargo Handling Limited. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiary. The subsidiary is expected to generate taxable income from 2021 onwards. At 31 December 2020 Kenya Airways Plc and JamboJet Limited estimated/assessed tax losses amounted to KShs 96,928 million and KShs 1,700 million respectively (2019: KShs 81 , 113 million and KShs 143 million respectively). Kenyan Income Tax laws allow for carry forward of tax losses for a maximum period of 10 years. The accumulated tax losses will be utilised to offset future taxable profits. The Group have not recognised a portion of tax losses as deferred tax assets in the financial statements to the value of Kshs 29,588 million (2019:Kshs 24,376) and the Company has not recognised any tax losses as deferred tax assets in view of the uncertainty regarding the ability of the Group and Company to generate sufficient taxable profits in the foreseeable future to facilitate utilisation ofthe benefits from the deductions. Value of tax losses for which no deferred tax assets has been recognised by the Company is KShs 29,078 (2019: Kshs 24,334).

29 PROVISION FOR LIABILITIES

(a) Group

Year ended 31 Decem ber 2020	Return condition provision	Redundancy provision	Asset retirement obligation	Other provisions	Total provisions
	Kshs millions	Kshs millions	Kshs millions	Kshs millions	Kshs millions
At start of year	7,591	447	14	1,127	
Charged to profit or loss	955	129		69	
Utilised in the year	(3,671)	(133)			
Unwinding of discount	IOO				100
Effect of currency translation	406				406
At end of year					

29 PROVISION FOR LIABILITIES (Continued)

(a) Group (Continued)

Split as follows:

CulTent	5,381	443	14	1,185	7,023
Non-current					
At 31 December 2020	2,573 2,808	443	14	1,185	2,822
	5,381	443	14	1,185	7,023

Year ended 31 December 2019

	Return condition provision 1<shs millions	Redundancy provision Kshs millions	Asset retirement obligation Kshs millions	Other provisions Kshs millions	Total provisions Kshs millions
At start of year	4,663	145	13		
Charged to profit or loss	4,439	412	1	88	4,940
Utilised in the year	(998)	(		(94)	(1,202)
Reversals					
Unwinding of discount	101				101
Effect of currency translation					(43)
At end of year		447	14		
Split as follows:					
Current		447			
Non-current			14	-	5,030
At 31 December 2019		447	-1 4		

(b) Company

Year ended 3 1 December 2020

Return condition provision	Redundancy provision	Asset retirement obligation	Other provisions	Total provisions

PROVISION FOR LIABILITIES (Continued)

	Kshs millions	Kshs millions	Kshs millions	Kshs millions	Kshs millions
At start of year		352	12		7,224
Charged to profit or loss	955	128		69	
Utilised in the year	(3,556)				(3,699)
Unwinding of discount	89				89
Exchange differences adjustments	325				325
At end of year	3,546	348	12		

29

(b) Company (continued)

Split as follows:

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

Year ended 31 December 2019

	Return condition provision	Redundancy provision	Asset retirement obligation	Other provisions	Total provisions
	Kshs millions	Kshs millions	Kshs millions	Kshs millions	Kshs millions
At start of year	3,795	104	12	1,136	5,047
Charged to profit or loss	3,482	358	1	32	
Utilised	(998)	(110)		(41)	(
Reversals	(571)				
Unwinding of discount	69				69
Exchange adjustments	(45)				
At end of year					

PROVISION FOR LIABILITIES (Continued)

Split as follows:	5,733	352	13	1,127	7,224
Current					
Non-current					
At 31 December 2019					
	2,397				3,876
	3,336	352	12	1,127	3,348
(i) Asset retirement obligations		352	12		7,224

Under the terms of certain property lease arrangements, the Group and Company has a contractual obligation to restore the property in a certain condition at the end of the lease term.

29

(ii) Other provisions

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

(iii) Return condition provisions

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

(iv) Redundancy provisions

The Group implemented a staff restructuring program in the year 2012 aimed at improving operational efficiency. The program affected 599 employees and as at 31 December 2020 a provision of KShs 443 million (2019: KShs 447 million) is held to cover the redundancy payments arising from the accompanying litigation. The unionisable staff had moved to the Industrial Court to block the restructuring and the Court ruled in their favour, ordering the reinstatement of affected employees. The Group appealed against the decision and on I l July 2014, the Court of Appeal ruled that the Group was justified in declaring the redundancy but had failed to meet the statutory threshold procedural fairness. The employees challenged the decision further at the Supreme Court.

30 SALES IN ADVANCE OF CARRIAGE

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	millions	milliosn	millions	millions
Passengers	13,815	14,759	13,696	14,566
Freight	93	100	93	100
	13,908	14,859	13,789	14,666

The reconciliation ofthe sales in advance of carriage is as follows

	Group 2020	Group 2019	Company 2020	Company 2019
At start of year	14,859	17,551	14,666	17,412
Total tickets sold	31,979	99,054	29,942	95,230
Revenue recognised in income statement from tickets sold in the year	(18,071)	(84,195)	(16,153)	(80,564)
Revenue recognised that was included in balance at beginning of year	(10,857)	(10,553)	(10,673)	(10,502)
Expired tickets recognised in revenue	(4,002)	(6,998)	(3,993)	(6,910)
At end of year	13,908	14,859	13,789	14,666

31 TRADE AND OTHER PAYABLES

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	million	million	million	million
Trade payables	31,552	23,899	28,426	22,714
Other payables and accrued expenses	1,421	2, 144	1,269	
Accrued leave (Note 32)	2,342	2,464	2,291	2,407

Due to related parties (Note 33)	2,150	2,057	25,227	23,846
Unclaimed dividends (Note 13)	78	88	78	88
	37,543	30,652	57,291	50,730

32 COMPARATIVES

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

Statement of profit or loss

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

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

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

Statement of financial position

	Group	Company

2019 financial statements KShs' millions KShs' millions Change in presentation item:

Return condition asset 4,686 3,743 Reclassified as part of rightof-use asset (Note 1 7)

Asset retirement obligation 14 13 Reclassified to provisions for liabilities (Note 29)

Return condition provisions
- Current 2,575 3,336 Reclassified to provisions for
- Non-current 5,016 2,397 liabilities Note 29)

33 (a) CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	millions	millions	Million	million
Loss before tax	(36,573)	(12,975)	(33,058)	(12,980)
Adjustments for:				
Depreciation of property and equipment (Note 15)	6,606	6,486	6,540	6, 424
Impairment of investment in subsidiary (Note 18(a))				166
Impairment of assets (Note 15)		4,414		4,414
Write-off of assets (Note 15)		2,145		2,145
Amortisation of intangible assets (Note 1 6)	145	143	140	131
Amortisation of return condition asset (Note 17)	3,348	1,683	2,995	
Loss on disposal of property, aircraft and equipment		62		62
Provision for rotables (Note 15)	5		5	
Gain on sale and leaseback (Note 14)		(639)		(639)
Amortisation of right-of-use assets (Note 17)	1,290	1 1,079	9,978	
Impairment of right-of-use assets (Note 17)	7,037		7,013	
Loss on lease termination		2		2
Accrued interest on loans (Note 26)	1,642	2	1,642	2
Amortisation of deferred expenditure (Note 26(d))	357	323	357	323
Amortisation of sovereign guarantee				

(Note 26 (b))	203	207	203	207
Amortisation of aircraft deposits (Note 19)	(109)	(62)	(109)	
Unrealised exchange gain on aircraft deposits (Note 19)	(280)	15	(280)	15
Unrealised exchange gain on lease liabilities (Note 27)	855	367	129	392
Unrealised exchange gain on mandatory convertible debt (Note 26(c))	295	(17)	295	
Realised exchange loss on borrowings (Note 26)	399	991	399	991
Realised exchange loss on leases (Note 27)	(11)			
Interest expense on borrowings (Note 9)	4,132	5,177	4,128	
Interest expense on lease liabilities (Note 9)	4,882	4,997	4,200	
Interest income (Note 9)	(62)	(30)	(66)	(34)
Working capital changes				
Inventories	(58)	(17)		
Trade and other receivables	3,188	(1,345)	1,535	(2,502)
Sales in advance of carriage	(951)	(2,692)	(877)	(2,746)
Trade and other payables	6,891	1,206	6,561	3,075
Return condition assets	(955)	(4,380)	(955)	(3,481)
Provisions for liabilities	(2,156)	3,726	(2, 134)	
Cash generated from operations	10,120	20,868	8,572	19,461

33 (b) CASH AND BANK BALANCES

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

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

34 RELATED PARTY TRANSACTIONS

(a) Nature of related party transactions and balances

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

(i) Group

KLM Royal Dutch Airlines (KLM)

KLM holds 7.8% (2019:7.8%) equity interest in Kenya Airways Plc and has a joint operations agreement which commenced in November 1997. The agreement allows the two airlines to cooperate in developing schedules and fares and to share generated revenue benefits and costs for the core routes between Nairobi and Amsterdam.

34 RELATED PARTY TRANSACTIONS (Continued)

(a) Nature of related party transactions (continued)

Precision Air Services Limited

Kenya Airways Plc holds 41.23% (2019: 41.23%) equity interest in Precision Air Services Limited with code share on the route between Nairobi and Dar es Salaam.

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

Management fee income	2020 KShs millions	2019 KShs millions
African Cargo Handling Limited	748	719
Jambojet Limited	42	

(i) Company

	2020 KShs millions	2019 KShs millions
Handling expenses		
African Cargo Handling Limited	77	127
Direct Costs		
Jambojet Limited	410	760

(b) Related companies' balances

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

(i) Duefrom related companies

	Group		Company	
	2020 KShs millions	2019 KShs millions	KShs millions	KShs millions
Precision Air Services Limited	88	126	88	126
Kenya Airfreight Handling Limited			166	160
African Cargo Handling Limited			19,472	17,796
Jambojet Limited			489	304
Kencargo International Airlines Limited			61	61

34 RELATED PARTY TRANSACTIONS (Continued)

	88	126	20,276	18,447
Provision for expected credit losses	(88)	(126)	(149)	
			20,127	18,260

(b) Related companies' balances (continued)

(ii) Duefrom related companies (Continued)

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

	Group 2020 KShs millions	Group 2019 KShs millions	Company 2020 KShs millions	Company 2019 KShs millions
At start of year	126	206	187	801
Write off during the year				
Decrease during the year				
At end ofyear	88	126	149	187

(iii) KLM, Royal Dutch Airlines	,150	2,057	2,026	
African Cargo Handling Limited			23,029	2
Kenya Airfreight Handling Limited			50	50
	,150	2,057	25,227	23,846

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

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

The amounts due from Jambojet relate to management fees due to Kenya Airways and balances due to Kenya Airways after uplifts have been completed by Kenya Airways on behalf of Jambojet. The amounts are net of ACMI (Aircraft, Crew, Maintenance and Insurance) fees due from Kenya Airways. The related party balances are interest free and have no fixed repayment terms.

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

(c) Related companies' balances (continued)

(a) Remuneration for Directors and key management compensation

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

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	Millions	millions	millions	millions
Short term employment benefits•				
Salaries and other benefits	262	361	253	330
Non-monetary benefits		13		13
Termination benefits	40	1 1	33	1 1
	303	385	287	354

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

	Group		Company	
	2020	2019	2020	2019
	KShs	KShs	KShs	KShs
	millions	millions	millions	millions
As executives		80	41	80
As non-executives	13	33	13	33
Non - monetary benefits				

34 RELATED PARTY TRANSACTIONS (Continued)

54 1	1 13	54 1	1 13 I l
		55	124
55	124		

35 COMMITMENTS

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

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

36 OPERATING LEASE ARRANGEMENTS - GROUP AND COMPANY

Operating leases, in which the Group is the lessor, relate to property and owned aircraft owned by the Group with lease terms of between 2 to 5 years, with extension options. It also includes aircraft subleased to other airlines. The lessee do not have an option to purchase the property or aircraft at the expiry of the lease period.

Maturity Analysis

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

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

37 CONTINGENT LIABILITIES - GROUP AND COMPANY

(a) Contingent liabilities

	2020 KShs millions	KShs 2019 millions
Guarantees	14,187	13,767
Litigation	1,187	1,306
	15,374	15,073

(b) Guarantees

In the ordinary course of business, the Group's and Company's bankers have issued guarantees on behalf of the Group and Company in favour of third parties. In the opinion of the Directors, no liability is expected to crystallise in respect of these guarantees.

(c) Litigation

Douala crash - KQS07

A leased aircraft, Boeing 737-800 (registration mark 5Y-KYA) operating as flight number KQ507 crashed shortly after take-off from Douala airport in Cameroon on 5 May 2007. All the 105 passengers and 9 crew members on board perished in the accident. The investigation of the accident carried out under the auspices of the Cameroon civil aviation authorities was completed. Kenya Airways Plc is fully insured for any legal obligations arising out of the accident.

A further claim relating to the Mengwetuh family has been brought before the Court in Cameroon which is being defended.

Site clear up

After the accident there had been concerns locally that the accident site had not been made sufficiently safe and secure. On 30 December 2008, the Cameroon Prime Minister appointed a local committee to oversee a clean-up and restoration ofthe site ofthe accident. Kenya Airways was asked to nominate a representative and did so. To the Directors knowledge, there have been no further developments since this date regarding the site clear up and it now seems unlikely there will be.

Criminal action in Cameroon

A Criminal investigation into the accident was opened in the Court of First Instance in Ndokoti, Douala, Cameroon in November 2009. This was separate and distinct from the investigation undertaken by the Official Accident Investigation Commission in accordance with Annex 13 Chicago Convention. There have been no further developments and it seems unlikely there will be

Other material litigation

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

Appendix

PRINCIPAL SHAREHOLDERS AND SHARE DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2020

Principal shareholders

The ten largest shareholdings in the Company and the respective number of shares held at 3 1 December 2020 are as follows:

	Name of shareholder	Num ber of shares	Shareholding
I	Cabinet Secretary To The National Treasury48.90	2,847,844,811	
2.	KQ Lenders Company 2017 Limited38.09	2,218,310,169	
		451,661,470	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. KLM — Koninklijke Luchtvaart Maatscchappij (KLM) Royal Dutch Airlines 7.76

4. The Trustees of the Kenya Airways Employee Share Ownership Scheme 2018 142,164,558 2.44

5. Standard Chartered Nominees Ltd Non-Resident A/c KEI 17520.50 29,237,300

6. Kamau Mike Maina0.27 16,099,735

7.Shah Tanna, Karishma Vijay Shah-Tanna 0.06 3,435,900

2,652,370

8. Galot International Limited0.05 1,195,800

9. Benard, Peter Wainaina0.02 10. Muhika, Peter Njenga0.02 l l . Other 1,102,400 ShareholdersI .89

110,198,108

Total	**5,823,902,621**	100.00

Distribution of shareholders

	Number of shareholders	Num ber of shares	Shareholding
Less than 500 shares 61,6980.18 501 - 5,000 shares 16,2780.38		10,755,678	
5,001 — 10,000 shares	I 1460.14	21,887,466	
10,001 — 100,000 shares 1,3390.61 100,001 — 1,000,000 shares 1350.55		8,157,339	
		35,669,515	
Over 1,000,000 shares	12	31,626,235	
		5,715,806,388	
Total	80,608	**5,823,902,621**	100.00

Distribution of shareholders by region

	Number of shareholders	Number of shares	Shareholding
Foreign Institutions	98.28	481,961,529	
Foreign Individuals	5490.10	5,888,935	
Local Institutions	3,013	5,223,382,422	89.69
Local Individuals	77,037	112,669,735	1.93
Total	80,608	**5,823,902,621**	100.00