

**KENYA AIRWAYS PLC**

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2021**

# KENYA AIRWAYS PLC

## ANNUAL REPORT AND CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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# KENYA AIRWAYS PLC

## CORPORATE INFORMATION

EXECUTIVE DIRECTORS	Mr. Allan Kilavuka	- Managing Director & CEO
NON-EXECUTIVE DIRECTORS	Mr. Michael Joseph Dr. Haron Sirima Major Gen (rtd) Michael Gichangi Ms. Caroline Armstrong Ms. Esther Koimett Mr. John Ngumi	- Chairman - (Alternate to C.S. The National Treasury)
	Mr. John Wilson *	- (Elected on 25 <sup>th</sup> June 2021)
	Mr. Philip Wambugu	- (Elected on 25 <sup>th</sup> June 2021)
	Dr. Eng. Joseph Njoroge,	- (P.S. Transport, appointed on 26 <sup>th</sup> November 2021)
	Mr. Nicholas Bodo	- (Alternate to P.S. Transport)
	Dr. Martin Oduor-Otieno	- (Retired on 25 <sup>th</sup> June 2021)
	Ms. Carol Musyoka	- (Retired on 25 <sup>th</sup> June 2021)
	Mr. Solomon Kitungu	- (Resigned in 29 <sup>th</sup> September 2021)
	Mr. Jozef Veenstra **	- (Resigned on 25 <sup>th</sup> June 2021)
	* Swedish	
	** Dutch	
COMPANY SECRETARY	Mr. 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 TRANSFER OFFICE	Custody & Registrars Services Limited 6th Floor, Bruce House Standard Street P.O. Box 8484 - 00100 Nairobi	

# KENYA AIRWAYS PLC

## CORPORATE INFORMATION (Continued)

### PRINCIPAL BANKERS

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

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

NCBA Bank Kenya Plc  
NCBA Centre  
Mara Road, Upper-Hill  
P.O. Box 44599 – 00100  
Nairobi

KCB Bank Kenya Limited  
Kencom House, Moi Avenue  
P.O. Box 48400 – 00100  
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](http://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 for the sustainable benefit of all its stakeholders. In this regard, the Board had adopted corporate governance practices that are in line with the principles and standards set out under the Capital Markets 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. Through the Company’s defined mission, vision and values the Board 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 its effective stewardship. In this regard, the Board has taken time to formulate appropriate strategies and policies for the delivery of the Company’s strategy. At the same time, the Board is keen on ensuring that Management is focused on the achievement of targets while fostering a culture that values ethical behaviour, integrity and respect and the need to conduct the business and operations of the Company in accordance with generally accepted corporate practices. The Board has therefore ensured that the Company as a whole has embraced good corporate governance in its structure, policies, practices and operations.

### **Board of Directors**

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

Mr. Michael Joseph	-	Independent Non-Executive Director (Chairman)
Mr. Allan Kilavuka	-	Group Managing Director
Mrs Esther Koimett	-	Non-Executive Director
Dr. Eng. Joseph Njoroge	-	Non-Executive Director (P.S. Transport)
Mr. Nicholas Bodo	-	(Alternate to Dr. Eng. Joseph Njoroge, P.S. Transport)
Ms Caroline Armstrong	-	Independent Non-Executive Director
Major Gen (Rtd) Michael Gichangi	-	Independent Non-Executive Director
Mr. John Ngumi	-	Independent Non-Executive Director
Mr. John Wilson	-	Non-Executive Director
Mr. Phillip Wambugu	-	Non-Executive Director
Dr. Haron Sirima	-	Non-Executive Director (Alt. to C.S. the National Treasury)
Mr. Habil Waswani	-	Company Secretary

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.

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### Board of Directors (Continued)

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

#### **Michael Joseph (76) – Chairman and Independent Non-Executive Director**



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

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

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

#### **Allan Kilavuka (49) – Group Managing Director & Chief Executive Officer**



Allan has been at the helm of Kenya Airways since April 2020 as the airline's Group Managing Director and Chief Executive Officer. He was previously the Chief Executive Officer and Managing Director of Jambojet Limited, a fully owned subsidiary of Kenya Airways Plc.

Allan took over this role right at the beginning of a very difficult time for Kenya Airways and the aviation industry in general. He has managed to navigate the airline through these turbulent times and keep the planes flying through a string of measures and initiatives. With over 23 years' experience in leadership and management, and extensive knowledge and experience in the Africa business environment, Allan has proven success in new organization set ups, change management, financial planning, integrations, process improvement and company compliance and responsible strategic leadership. He was also integral to the turnaround of two GE Africa businesses: GE Power Services Africa and GE Industrial Solutions, both based in South Africa.

Allan started his career at Deloitte East Africa in Nairobi, where he specialized in Audit, Accounting, Outsourcing and Custodianship. He later joined GE as the Africa shared service leader and held various senior leadership roles in GE businesses and in GE Corporate both in Kenya and South Africa before joining Jambojet Limited.

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

STATEMENT OF CORPORATE GOVERNANCE (Continued)

**Board of Directors (Continued)**

**Caroline Armstrong (47) – Independent Non-Executive Director**



Caroline is the Chair of the Human Resources Committee. She has over 25 years' career experience, the majority having been in financial services in Kenya, the continent and internationally. She started her career as a management trainee and worked hard to rise through the ranks to become a key C-suite executive, before choosing to leave the industry to take on a new career path.

She is now in consulting focusing on strategy formulation, implementation and change management, customizing solutions that enable the achievement of the set goals. In addition to serving on the board of Kenya Airways, where she is honoured to chair the Human Resources Committee, she serves on the board of the National Housing Corporation, a key player in the delivery of the country's Affordable Housing Programme, a Big 4 agenda. There she chairs the board's Finance, Strategy & Business Development Committee and is a member of the Technical Committee. She serves on the board of JamboJet as the KQ representative, and is the first female Chairperson of AIB Axys Africa Limited. Her broad and successful career and her various board roles, translate into a unique ability to not only provide strategic guidance but to provide tactical support where required. Her in depth knowledge of KQ, its context and its recent history have proved to be invaluable and continue to do so.

**Major General (Rtd) Michael Gichangi (63) – Independent Non-Executive Director**



Major General Gichangi is the Chair of the Strategy and Business Development Committee. He 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 Master's 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.

**Esther Koimett (65) – 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.

## KENYA AIRWAYS PLC

### STATEMENT OF CORPORATE GOVERNANCE (Continued)

#### Board of Directors (Continued)

##### John Ngumi (66) Independent Non-Executive Director



John is the Chair of the Audit and Risk Committee. He is a first-rate banker, with over 40 years' experience providing corporate & investment banking, and investment management services, to state & private corporates and governments across East Africa. He is currently in private practice as Chairman of Eagle Africa Capital Partners, an advisory firm he co-founded with two colleagues upon his retirement from Standard Bank Group. He is also active as a non-executive Chairman/director of various public and private enterprises, including the Industrial & Commercial Development Corporation, Carepay Kenya limited, Wananchi Group Holdings, and Base Titanium Limited. He is active in the public discourse space on matters economic and serves as an Advisor to the Kenya Private Sector Alliance - KEPSA.

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

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

##### Dr. Haron Sirima, OGW (59) – Non-Executive Director (Alternate to the C.S., the National Treasury)



Dr. Sirima is currently the Director-General, Public Debt Management Office at the National Treasury and Chairman, Kenya Mortgages Refinance Company Ltd. He is a career central banker, having joined the Central Bank of Kenya in 1986 as a graduate trainee and rose through the ranks to the position of Deputy Governor and Vice Chairman, Monetary Policy Committee. He has previously served as Deputy Director Management Department, Ministry of Finance and also Adjunct Professor at Jomo Kenyatta University of Agriculture and Technology.

Dr Sirima has been involved in the design and implementation of public debt management reforms including the preparation of the Kenya's Debt & Borrowing and legal framework for public finance management at the National Treasury. He holds B.A Economics and B.Phil. Economics degrees from University of Nairobi, a Master's degree in Economics from University of Manchester, UK and a PhD in Entrepreneurship from Kenyatta University.

##### John Wilson (61) – Non-Executive Director



John joined the Company's Board in June 2021. John is the immediate former Group Chief Risk & Compliance Officer of Equity Group Holdings Limited, where he retired in March 2021. His vast experienced employment life spans over 40 years having worked with in the following organisations in various capacities :- UNICEF, the Royal Swedish Army, McKinsey & Co., the World Bank Group (IBRD & IFC), Swedbank, Kaupthing Bank (Stockholm), and lastly at Equity Group Holdings, where he also was at some point the Group COO.

He has extensive knowledge on the transport, heavy manufacturing industry, large scale privatizations and post privatization advisory, project and structured finance, global trade, global banking and risk specialization and compliance etc. He has immense experience in corporate strategy, restructuring, risk and other operational issues affecting corporations.



## KENYA AIRWAYS PLC

### STATEMENT OF CORPORATE GOVERNANCE (Continued)

#### Board of Directors (Continued)

##### **John Wilson (61) – Non-Executive Director (continued)**

John holds a Master of Arts degree in Economics with dual concentration in Political Science from Uppsala University, Sweden and Masters in Public Affairs specializing in International Relations from Princeton University, New Jersey, United States.

##### **Philip Wambugu (62) – Non-Executive Director**



Philip joined the Company's Board in June 2021. Philip has over 36 years working experience most of which have been in the infrastructure and services related fields. He has previously worked with Kenya Airways Plc, Air East Africa Ltd (consultant), APEC Engineering (consultant), the Center for Transportation and Environmental Studies (Nairobi) as a Director, recently retired from the East African Community Secretariat after 19 years of distinguished service. He is a Director at KQ Lenders Ltd since 2017 and was Senior Consultant for Africa for Google Loon responsible for overflight rights across Africa between 2018 to March 2021. He has extensive knowledge on the regional and continental dynamics of infrastructure planning and development and understands fully the issues affecting airlines, including the liberalization on air transport and aviation operations.

Philip holds a Bachelor of Arts Degree specializing in Economics from the Nairobi University and a Master of Science in Transportation from the Massachusetts Institute of Technology (MIT) in Cambridge USA.

##### **Dr. Eng. Joseph K. Njoroge, (63) Non-Executive Director (P.S., State Department for Transport)**



Dr. Eng. Njoroge, CBS is the Principal Secretary for the State Department for Transport in the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works. Prior to his appointment, he had worked with Kenya Power since 1980 and climbed through the ranks to become the Managing Director from June 2007 until June 2013 when he was appointed the Principal Secretary, Ministry of Energy and Petroleum. He was later transferred in the same capacity to the State Department for Energy in December 2015.

Dr. Eng. Njoroge holds a First-Class honors degree in Electrical Engineering, Master of Business Administration with a major in Strategic Management and a Doctor of Philosophy (PhD) in Strategic Management, all from the University of Nairobi. He is a Chartered Electrical Engineer; a member of the Institution of Engineering and Technology, UK; a Registered Consulting Engineer; a Fellow of the Institution of Engineers of Kenya; and a member of Institute of Directors, Kenya. He is also a trainer in Corporate Governance.

Dr. Eng. Njoroge has a wide experience in Leadership and Management at policy, business and operational levels gained while working at Energy and Petroleum public service delivery initiatives. As a result of demonstrated record of Public Service and effective role in National Development, Dr. Eng. Njoroge has earned the Presidential Honor awards of Moran of the Order of the Burning Spear (MBS) in 2009 and Chief of the Order of the Burning Spear (CBS) in 2015.

## KENYA AIRWAYS PLC

### STATEMENT OF CORPORATE GOVERNANCE (Continued)

#### Board of Directors (Continued)

##### Nicholas Bodo - (Alternate to Dr. Eng. Joseph Njoroge, P.S. Transport )



Nicholas holds a Bachelor of Arts degree from Osmania University, India. He is a Certified Public Secretary (K) and holds a Graduate Diploma in Aviation Management from the National University of Singapore and the Singapore Aviation Academy and a Certificate in Air Law from the Egyptian Aviation Academy. He is currently pursuing a Master of Business Administration from Laikipia University

He started his career as an Administrator as an Assistant Secretary III and rose through the ranks to Senior Assistant Secretary before changing profession to become Chief Air Transport Officer. He is a Deputy Director, Air Transport in the Ministry of Transport, Infrastructure, Housing and Urban Development. Nicholas has also been Acting Director General, Kenya Civil Aviation Authority from December, 2008 to July, 2009 and Acting Managing Director, Kenya Airports Authority from July 2016 to November 2016 . He currently Heads the Air Transport Division in the Ministry of Transport, Infrastructure, Housing and Urban Development.

##### Habil Waswani (45) - Company Secretary



Habil joined Kenya Airways Plc in March 2021. He has over 20 years Corporate and Commercial law experience having worked in similar senior levels at National Bank of Kenya Limited, Kenya Reinsurance Corporation Limited, and Diamond Trust Bank Kenya Limited (DTB), all publicly listed institutions.

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

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

#### 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 robust Board Charter, as 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.

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

**The Responsibilities of the Board (Continued)**

The full Board plans quarterly meetings in order to conduct its affairs. However, when need arises, the Board also holds special meetings to fulfil 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, nine out of the ten 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 and competence matrix that guides it in recommending directors for appointment. The Board's skills and competence 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 and competence matrix is used in conjunction with the Board Appointment Procedures and Board Diversity Policy which are published on the Company's website. Nominations to the Board are handled by the Corporate Governance and Nominations Committee, which vets all potential directors before recommending them to the Board for appointment. The Board then makes recommendations to the Shareholders at the Annual General Meeting.

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

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

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

**Board Rotation schedule**

<b>DIRECTOR</b>	<b>Year of 1<sup>st</sup> Appointment</b>	<b>Year of re-election</b>	<b>Year of re-election</b>	<b>Year of re-election</b>	<b>Year of re-election</b>	<b>Year of re-election</b>	<b>Year of re-election</b>
Mr. Michael Joseph	2016			2019			2022
Ms. Caroline Armstrong	2014	2017			2020		2023
Major Gen (Rtd). Michael Gichangi	2017		2018			2021	2024
Mr. Philip Wambugu	2021						2024
Mr. John Wilson	2021						2024
Mrs Esther Koimett	2017		2018				2022
Mr. John Ngumi	2019						2022
Dr. Eng. Joseph Njoroge (PS Transport)	2020						2023
Dr. Harun Sirima	2019						2022

**Board appointment, composition and succession planning (Continued)**

*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, Major Gen (Rtd). Michael Gichangi, Mr. John Wilson and Mr. Philip Wambugu were elected to the Board at the Annual General Meeting of the Company held on 25<sup>th</sup> June 2021, whereas Mr. Jozef Veenstra resigned on the same date. The three directors were vetted by the Corporate Governance and Nominations Committee and in line with Charter pursuant to the skills and competence assessments done, were recommended by the Board to the shareholders, who duly elected them as directors unanimously.

The Board has approved a succession plan for senior management. The Human Resources 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.

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 first-hand 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**

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 the Covid-19 pandemic, no Board development was undertaken. It is expected that Board members will undergo Board development programmes in the year 2022.

**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.

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### Board evaluation

The Board undertook an evaluation exercise in 2021 which recommended *inter alia* that Board enhances its focus on strategic inputs that effectively support management and continued operation of the Company (despite the very difficult operating environment for all global airlines), enhance its focus on customer centricity and service level issues placing the customer at the core, as well as look to on boarding of a director with expertise on commercial airline matters.

### Governance audit

During the year under review, the Board undertook a Governance Audit exercise of its operations through Envision Strategy Solutions Limited consultants who gave the Company an unqualified opinion on the state of Corporate Governance practices being undertaken at the Company as dictated by the Code and the Companies Act as well as other ancillary Regulations. Further, the Board received and adopted the recommendations of the annual assessment report by the Capital Markets Authority. The Board remains committed in ensuring that all identified areas of improvement are tracked and implemented by the Company. The Company will undertake progressive internal legal and compliance reviews to assess the state of its compliance with the expansive regulatory environment in the current year.

### 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	-	7/7
Mr. Allan Kilavuka	-	7/7
Ms. Caroline Armstrong	-	7/7
Mr. Jozef Veenstra	-	3/5
Dr. Martin Oduor-Otieno	-	5/5
Ms. Carol Musyoka	-	4/5
Major Gen.(rtd) Michael Gichangi	-	7/7
Mr. Philip Wambugu	-	2/2
Mr. John Wilson	-	2/2
Mrs. Esther Koimett	-	4/7
Mr. John Ngumi	-	5/7
Dr. Haron Sirima	-	6/7
Mr. Solomon Kitungu	-	4/6
Dr. Eng. Joseph Njoroge	-	1/1

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### **Relationship between the Board and Management**

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

### **Committees of the Board**

The Board has four standing committees namely:

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

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

### **Internal controls**

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

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

### **Risk Management governance**

The Board has put in place a robust 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. The Company is establishing a Risk and Compliance function (away from internal audit) that will independently review and coordinate all enterprise-wide risk and compliance issues with the aim of improving and progressively embedding a robust risk awareness and management culture within the Company.

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### Internal audit

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

### External auditor relationship

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

### Strategic planning process

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

### Compliance with laws and regulations and standards

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

### Directors' emoluments and loans

The Board has put in place a Board Remuneration Policy and the emoluments paid to each Director including benefits enjoyed for services rendered during the financial year 2021 are disclosed in the notes to the financial statements, and more particularly set out in the Director's Remuneration Report contained in this Annual Report. The Shareholders approved the Board Remuneration at the Annual General Meeting held on 25<sup>th</sup> June 2021.

### Directors' interests

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

Directors' interests in the shares of the Company as at 31<sup>st</sup> December 2021 was as follows:

<b>Name of Director</b>	<b>Number of Shares</b>
• Mr. Nicholas Bodo	1,050
• Major General (Rtd.) Michael Gichangi	2,025

### Company Secretary

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

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

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

An engagement strategy targeting key stakeholders including media and internal staff to improve the public's appreciation and to increase confidence in the Company 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 the Company's reputation.

### Reports of the Committees of the Board

#### Report of the Audit and Risk Committee

##### Current Membership

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

Mr. John Ngumi	-	Chairman
Dr. Haron Sirima	-	Member
Mr. John Wilson	-	Member
Ms. Caroline Armstrong	-	Member
Major Gen (Rtd) Michael Gichangi	-	Member
Mrs. Mary Githiaka Ngige	-	Ex-officio 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.



# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### Audit & Risk Committee Meetings in FY 2021

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

Dr. Martin Oduor-Otieno <sup>1</sup>	-	2/2
Mr. Jos Veenstra <sup>1</sup>	-	2/2
Mr. John Ngumi	-	3/4
Dr. Haron Sirima	-	3/4
Mr. John Wilson <sup>2</sup>	-	2/2
Ms. Caroline Armstrong	-	4/4
Major Gen (Rtd) Michael Gichangi	-	4/4
Mrs. Mary Githiaka Ngige <sup>3</sup>	-	1/1

<sup>1</sup> Retired from the Board w.e.f. 25<sup>th</sup> June 2021

<sup>2</sup> Appointed to the Committee w.e.f. 25<sup>th</sup> June 2021

<sup>3</sup> Appointed to the Committee w.e.f. 12<sup>th</sup> August 2021

### Mandate and role of the Audit and Risk Committee

The mandate of the Audit and Risk Committee of the Board is set out in the Board Charter.

The Committee is established to assist the Board in the effective discharge of its oversight responsibilities over:

- Financial reporting and related internal controls

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

- Risk management

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

- Internal audit

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

- Independent auditor

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

- Ethics and Compliance

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

### Key activities in FY 2021

Owing to the uncertainty occasioned by the Covid-19 pandemic, the focus of the Audit and Risk Committee was to oversight the Group's pandemic response managing through the immediate crisis as well as addressing the vulnerabilities exposed by the outbreak. Key focus areas included financial risks and scenario planning, understanding of key operational risks and assessing the financial reporting and disclosure impacts.

## KENYA AIRWAYS PLC

### STATEMENT OF CORPORATE GOVERNANCE (Continued)

#### Report of the Audit and Risk Committee (continued)

##### Looking forward

The Audit and Risk Committee will continue to support the efforts to manage through the uncertainty occasioned by the pandemic while overseeing the implementation of the strategic initiatives for recovery and sustainability. In addition, the Committee will focus on ensuring that an effective risk management process and a strong internal control system are maintained.

**Mr. John Ngumi**

**Chair – Audit and Risk Committee**

#### Report of the Corporate Governance and Nominations Committee

##### Current Membership

Mr. Michael Joseph	-	Chair
Mr. Allan Kilavuka	-	Group Managing Director/CEO
Major General (Rtd) Michael Gichangi	-	Member
Mrs. Esther Koimett	-	Member
Mr. Philip Wambugu	-	Member

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

##### Mandate

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

##### Corporate Governance and Nominations Committee Meetings in FY 2021

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

Mr. Michael Joseph	-	6/6
Mr. Allan Kilavuka	-	6/6
Major General (Rtd.) Michael Gichangi	-	6/6
Mrs. Esther Koimett	-	3/6
Mr. Philip Wambugu	-	2/2*
Ms. Carol Musyoka	-	3/3**

\* Mr. Wambugu was elected to the Board at the Company's Annual General meeting held on 25<sup>th</sup> June 2021 hence the fewer meetings attended.

\*\* Ms. Musyoka retired from the Board at the Company's Annual General meeting held on 25<sup>th</sup> June 2021.

##### The following achievements were realised, among others:

- Facilitated the conduct of an independent Governance Audit of the Company's operations and assessed the Company's corporate governance practices against the Capital Markets Authority's Code of Corporate Governance Practices for Issuers of Securities;
- Facilitated the independent conduct of the annual performance evaluation of the Board and its committees and will track areas identified for improvement;
- Assessed and facilitated review by the Board of the composition of Board Committees and subsidiary Boards based on director's skills and competencies;
- Facilitated co-option by the Board of a director of the Company's subsidiary (Jambojet Limited – Ms. Mary Ngige) who had requisite qualifications in audit and accounting, to sit in the Company's Audit & Risk Committee to comply with the stipulations Capital Markets Authority's Code of Corporate Governance Practices for Issuers of Securities, pending substantive appointment of a qualifying director;
- Assessed and recommended to the Board and shareholders the election of three directors at the Annual General Meeting;
- Ensured the assessment of independence for the Independent Non-Executive Board members;

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### Report of the Corporate Governance and Nominations Committee (continued)

- Ensured the annual declaration of conflict of interest for Board members;
- Developed and facilitated approval of the annual Board meetings calendar and Work Plan.

#### Looking forward

The Committee is committed to continue driving the Corporate Governance agenda of the Company, and in this regard, it shall continue to evaluate and benchmark the Company's operations against best practice with a view to adopting best standards that will further the business objectives of the Company and ensure stakeholder value is delivered.

  
**Mr. Michael Joseph**  
Chairman – Corporate Governance and Nominations Committee

### Report of the Strategy and Business Development Committee

#### Current Membership:

1. Major General (Rtd) Michael Gichangi	-	Chairman
2. Mr. John Ngumi	-	Member
3. Ms. Caroline Armstrong-Ogwapit	-	Member
4. Mr. Philip Wambugu	-	Member
5. Dr. Eng. Joseph Njoroge	-	Member
6. Dr. Haron Sirima	-	Member

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

All the Committee members are Non-Executive Directors, with two of them being Independent Non-Executive Directors. There is extensive professional knowledge and experience in strategy and business development amongst the members of the committee.

#### Attendance of meetings for FY 2021

Major General (Rtd) Michael Gichangi	-	8/8
Ms. Caroline Armstrong-Ogwapit	-	8/8
Dr. Haron Sirima	-	7/8
Mr. John Ngumi	-	6/8
Mr. Philip Wambugu <sup>1</sup>	-	5/5
Mr. Solomon Kitungu <sup>2</sup>	-	6/7
Dr. Eng. Joseph Njoroge <sup>3</sup>	-	1/1

<sup>1</sup> Appointed to the Committee w.e.f. 25<sup>th</sup> June 2021

<sup>2</sup> Retired from the Board w.e.f. November 2021

<sup>3</sup> Appointed to the Committee w.e.f. November 2021

\* Dr. Eng. Njoroge replaced Mr. Solomon Kitungu on the Board in November 2021, hence the fewer meetings attended.

#### Mandate

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

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

## KENYA AIRWAYS PLC

### STATEMENT OF CORPORATE GOVERNANCE (Continued)

#### Report of the Strategy and Business Development Committee (continued)

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

#### Achievements during the Year under Review:

- i) Reviewed and provided guidance on the updating of the Kenya Airways 5-year Strategic Plan that is aimed at positioning KQ to become profitable, and to be the airline of choice to our customers as well as the employer of choice;
- ii) Strengthened the strategic planning process by offering guidance and reviews of objectives, performance indicators, initiatives and actions that improve operational results through an interactive business development Dashboard;
- iii) Reviewed and guided the organisation in implementing both a Culture Transformation and Customer Excellence initiatives that are aimed at providing a compelling value proposition for both customers and employees;
- iv) Reviewed, improved and guided the KQ Global Cargo Strategy and 5-year plan that is aimed at expanding the KQ air freight operations, reach and revenues. This also included the conversion of two B787-8 to freighters for cargo operations and the acquisition process for two B737-800F freighters on lease terms;
- v) Guided the re-negotiations of unfavourable aircraft leases with lessors under difficult circumstances, that achieved more favourable arrangements that include Power by the Hour lease agreements, lease payment re-structures, deferral agreements and novation;
- vi) Provided support to Management as a bridge to the Government of Kenya and other agencies through member lobbying. This was to secure financing and influence favourable joint Government strategies and policies that are geared towards improving the aviation industry. This in turn will ensure that KQ as the national carrier remains a sustainable business in the long-term, with minimized unfair competition and reduced capacity dumping by rival airlines;
- vii) Guided the establishment of the KQ Fahari Aviation as a new business and revenue line, employing the Unmanned Aircraft Systems (UAS) technology and is now positioned as a market leader. The Fahari Aviation is also in the forefront of exploring the use of cutting edge UAS technology in Africa that is expected to define the airlines of the future.

Guided the establishment of the Fahari Innovation Hub which is poised to become a one-of-a-kind centre of aviation innovation excellence. The Hub should facilitate and create collaborative ways of providing the much-needed solutions to our aviation industry business problems.

#### Report of the Strategy and Business Development Committee (Continued)

##### Looking Forward

The committee will continue to ensure that the Airline is focused on delivering on its strategies and work plans. This will be accomplished through keen evaluation of the delivery of key performance outcomes and implementing the necessary controls. In the next financial year, the Committee intends to focus on the post Covid-19 pandemic business recovery drive that will chart a sustainable and secure future for the business.

It intends to specifically drive accountability and ownership while providing guidance on how best to achieve the FY2021/26 Five-Year Plan objectives and with a focus on the envisaged restructuring of the business. This should deliver on a return to profitability for the airline, while building a brand that is and remains loved by both customers and employees.

**Maj. Gen. (Rtd) Michael Gichangi**  
**Chair – Strategy and Business Development Committee**

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (continued)

### Report of the Human Resources Committee

#### Current Membership

Ms. Caroline Armstrong	-	Chairperson
Mr. Allan Kilavuka	-	Member
Ms. Esther Koimett	-	Member
Mr. John Wilson	-	Member
Dr. Eng. Joseph Njoroge	-	Member

#### Mandate

The Human Resources Committee is the committee of the Board mandated to enable and oversee the management of the human capital and talent agenda for the Group. The overarching responsibility is to ensure that the Group provides an enabling environment for both the employees and the Company to thrive through a positive employee experience; transparent and enabling processes and policies; inspiring leadership; and a high-performance, meritocratic culture so as to deliver on the Group's strategic aspirations.

The Committee is empowered to:

- Ensure the Company has in place, and implements, strategic Human Resources objectives;
- Continually review Human Resources management policies of the Company in order to ensure they are supportive of the strategy, up-to-date and appropriate;
- Identify and recommend the 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 2021

During the year under review, the Committee held four (4) meetings with attendance as shown below:

Ms. Caroline Armstrong	-	4/4
Mr. Allan Kilavuka	-	4/4
Ms. Esther Koimett	-	0/4
Dr. Martin Oduor-Otieno	-	2/2
Ms. Carol Musyoka	-	2/2
Mr. John Wilson	-	2/2
Mr. Solomon Kitungu	-	2/3
Dr. Eng. Joseph Njoroge *	-	1/1

\* Dr. Eng. Njoroge replaced Mr. Solomon Kitungu on the Board in November 2021, hence the fewer meetings attended.

#### The People@KQ

The COVID-19 pandemic continued to have a devastating global impact, and a resultant disruptive business environment. Thus, 2021 was another year of struggle and setbacks. However, it was also a year of re-invention, innovation and sustained resilience for the airline. The KQ family forged ahead with a mindset shift towards a recovery path and stabilization.

This resilience, grit and dedication of our workforce remains remarkable and something we are immensely proud of. It is this deep foundation of unwavering strength that defines who we are and keeps us moving forward and our tail flying high, against all odds. For this we celebrate the Pride!

Despite the difficult context, the HR team remained focused on keeping our people safe and motivated; supporting their, and their families' wellbeing; providing them with the flexibility they need to manage the often-competing demands of professional and personal lives; offering them opportunities to develop new skills; supporting an innovative and collaborative environment; and continuing to build a strong workforce.

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### Report of the Human Resources Committee (continued)

#### Key achievements in 2021 included: -

##### **New Normal: Mitigating COVID -19 Risk at the Workplace**

While remote working was the mainstay in 2020, we recognised the importance of connectedness and building collaborative relationships and therefore in 2021 supported a hybrid working model for our staff. This was mutually beneficial by improving wellbeing and enabling productivity.

Vaccination drives hit a commendable 80% vaccination rate across the organization and over 90% for crew and other high- risk groups. The Medical team continued to support impacted staff across the continuum of care. Our medical laboratory expanded its product portfolio to include the provision of Rapid Antigen testing facilities for patients and passengers.

Our Crisis Monitoring Team (CMT) continues to play a monitoring and advisory role on all COVID-19 matters both internally and externally.

##### **Talent Management**

Our headcount as at 31 December 2021 was 3,544, a 3% reduction from December 2020. The Company's people profile has remained stable over the last 3 years with an average age of 39 years and average service tenure of 11 years.

The total attrition rate in 2021 was 11%, with 85% of 365 exits being voluntary exits (VEP and Resignations). Critical and anticipatory resourcing to support business needs drove recruitment numbers with 149 new hires and 222 re-hires .

##### **Staff enablement**

As part of the Company's commitment to provide a safe work environment free from any form of sexual harassment, and to ensure strict compliance with State legislations, the Company carried out a system-wide sexual harassment awareness programme for all staff including the outstations. The campaign is continuous, and more learning is available on KQ I-learn - our virtual learning platform.

To ensure operational excellence and reduced workplace conflicts to drive enhanced performance, managers were taken through staff conduct management and grievance handling procedures.

##### **Culture Transformation Journey**

We conducted a Culture and Values survey and following the feedback, we embarked on a journey to transform our organizational culture aimed at galvanizing staff towards a purpose and a larger mission to achieve our aspiration to be the preferred airline in Africa, the employer of choice, and to return to profitability by 2024. The bedrock of these aspirations is our People and hence the implementation of an enabling culture that was defined in a 'bottom up' approach.

A 'Naming the Name and Tagline' competition for the culture transformation journey was conducted across the Company, and through a rigorous cross-functional selection process Reignite and Reclaiming the Pride were declared the winning name and tagline. The Cultural Transformation Journey, therefore, is dubbed 'Reignite' and 'Reclaiming the Pride' is our rallying call.

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### Report of the Human Resources Committee (continued)

#### **Stakeholder engagement**

The substantial disruption to our business and operating environment necessitated constant negotiation with all our social partners to consent to variable deferred pay and other necessary changes. The bulk of our social partners remain immensely supportive of the Company and the strategy. We continue to engage with all our social partners to ensure that all efforts and negotiations are focused on the betterment of the Company's performance, both operationally and financially.

While delayed consents in some cases delayed our ability to make timely staff payments, December was a celebrative month for all staff when the Company performed well and therefore fulfilled its promise and paid 100% salaries. As the business performance improves we remain committed to our staff and to fulfilling our promises.

We are grateful for the strong support from our shareholders and other stakeholders as we continue to manage the employee proposition and experience and play our role in the country's national agenda.

#### **Accelerating learning culture and deepening learning capabilities**

- The COVID-19 pandemic has brought about a new way and a change in not only how we learn, but also ever-evolving skillsets required in the future workplace. In the year 2021 the learning focus was on the implementation of a new mobile first Learning Management System with phased implementation from 15th May 2021 to the end of the year. This included a KQ I-Learn mobile learning app available both on the Google Playstore and the iOS (Apple) App Store. A total of 3,698 staff accessed the learning platform in the year, with 17% of logins being on mobile devices.
- A targeted communication strategy was also implemented to drive a culture of self-learning within the organization using the new Learning Management Systems. A total of 570 staff have completed a self-enrolled course during the period.
- New learning methodologies were implemented during the year including virtual learning and blended learning to support both our local and outstation teams.
- Our Leadership Development Journey was launched in September 2021 on a blended format: 20 leaders are undergoing the sessions including our outstation staff from Dakar, Johannesburg & London.
- Our commitment to support the next generation of aviation professionals was further cemented by the KQ Academy producing the best 2 candidates in Kenya in the IATA (International Air Transport Association) Travel & Tourism program examinations in October 2022.
- Our training proposition across the board remains strong and designed to enable high performance in the workplace be that cockpit, cabin, ground or other areas.

#### **Supporting and Celebrating the Pride**

Personalized mental health offerings were enhanced with the provision of a counsellor on site and organizational support for rehabilitation where needed. The support was not only for staff but for their families as well thus making it more holistic. The 'Buddy Pass' program re-launch was received well and celebrated by all staff.

The 2021 Kipepeo Recognition Awards was an opportunity to recognize individuals and teams who embodied four KQ values; Customer Centricity, Passion, Integrity and Safety. The awards were given to winning teams and individuals and were classified as: Ubuntu Customer-Centric Star Award (Customer Centricity and Passion), Ace of Integrity Award (Integrity) and Usalaama Ambassador Award (Safety).

We are proud to have been Nominated finalists in the LinkedIn Talent Awards 2021 in the following two categories:-

- Best Employer Brand on LinkedIn - Sub-Saharan Africa
- Best Talent Acquisition Team - Sub-Saharan Africa

# KENYA AIRWAYS PLC

## STATEMENT OF CORPORATE GOVERNANCE (Continued)

### Report of the Human Resources Committee (continued)

#### 2022+

The Management and the Board remain wholly focussed on the Company's recovery journey, and the People agenda plays a large part in this. This Committee will support this by continuing to drive the People agenda within the organisation and remaining dynamic as we navigate these unprecedented times. We will continue to focus on staff wellbeing, motivation and development as we all recover from the global Covid-19 pandemic.

One of the strategic pillars will be focused on developing a compelling People agenda that will support a superior employee experience through a compelling customer value proposition. We will continue to deliver on the talent proposition aligned with the anticipated 2022 Business transformation. There will be continued focus on the management of key stakeholders, including social partners (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 2022 and beyond.

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

**Ms. Caroline Armstrong**  
**Chair – Human Resources Committee**



# KENYA AIRWAYS PLC

## REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated and company financial statements of Kenya Airways Plc (“Kenya Airways” or the “Company”) and its subsidiaries (together, the “Group”) for the year ended 31 December 2021, 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 2021, 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 2021 is KShs 15,878 million (2020: 36,219 million) and KShs 14,284 million (KShs 33,084 million) respectively. The Group’s and Company’s results for the year ended 31 December 2021 are set out on pages 42-43 and 44 respectively.

### DIVIDENDS

The Directors do not recommend payment of dividends in respect of the current financial year (2020: 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.

# KENYA AIRWAYS PLC

## REPORT OF THE DIRECTORS (Continued)

### BUSINESS OVERVIEW (Continued)

#### Summary

Following the worst year on record for the aviation industry, the recovery in capacity and traffic has been slow in 2021 mainly due to international travel restrictions. The recovery has been progressive as Kenya Airways continued to be flexible to offer the right product to its customers. Immense restructuring and transformation efforts made during the 2020 lock down, paved way for recovery mostly seen during the second half of the financial year 2021.

The Board of Kenya Airways PLC is announcing the 2021 financial results which show the following:

- An operating loss margin of 9.7% for the financial year ended 2021 compared to 51.3% in the previous year ended 2020.
- A net loss margin of 22.6% from 68.6% prior year

#### Capacity and traffic

The year was marked by an increase in capacity deployed in the market. The Group's capacity measured in terms of Available Seat Kilometres (ASK) increased by 11.5% closing at 5,900 million compared to 5,292 million in the previous year.

The uptake of this capacity measured in terms of Revenue Passenger Kilometres (RPK) closed at 3,589 million compared to 3,457 million representing an increase of 3.8%.

#### Turnover

The Group's and Company's turnover closed at KShs 70,221 million and KShs 64,191 million respectively against KShs 52,805 million for the Group and KShs 49,090 million for the Company for the year ended 31 December 2020. The revenue gain was largely due to post Covid 19 resumption of operations in the year 2021.

#### Cargo Operations

Cargo tonnage on both passenger belly and freighter aircraft increased by 29% closing at 63,726 tonnes against prior year which closed at 49,419 tonnes. The use of converted passenger aircrafts (Freighters) has been a boost mainly for wide body operations. The cargo business continues to focus on boosting the cargo product across the network.

#### Operating Costs

The total direct operating costs amounted to KShs 41,155 million for year ended 31 December 2021 at Group level and KShs 37,928 million at Company level as compared to KShs 30,962 million at Group level and KShs. 29,078 million at Company level for the year ended 31 December 2020.

Global fuel prices were on an upward trend throughout the year while other direct operating costs increased in-line with the increase in operations.

Fleet ownership costs at Group level amounted to KShs 16,637 million and KShs 15,054 million for the Company for the year ended 31 December 2021 as compared to KShs 28,571 million at Group level and KShs. 26,923 million at Company level for the year ended 31 December 2020.

#### Other Operating Costs (Overheads)

The Group's and Company's overheads amounted to KShs 19,232 million and KShs 16,618 million respectively for the year ended 31 December 2021 as compared to KShs 20,283 million at Group level and KShs 17,386 million at Company level for the year ended 31 December 2020.

# KENYA AIRWAYS PLC

## REPORT OF THE DIRECTORS (Continued)

### Employee statistics

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

#### i) Categorisation by employment contract

	<b>2021</b>	<b>2020</b>
Permanent	3,544	3,652
Contracted – Outsourced	-	-
<b>Total</b>	<b>3,544</b>	<b>3,652</b>

#### ii) Categorisation by gender

	<b>2021</b>		<b>2020</b>	
	Male	Female	Male	Female
Senior leadership	82%	18%	75%	25%
Head of Departments	68%	32%	67%	33%
Senior managers	65%	35%	68%	32%
Others	60%	40%	60%	40%
Overall	60%	40%	60%	40%

### Significant risks and mitigating actions

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

# KENYA AIRWAYS PLC

## REPORT OF THE DIRECTORS (Continued)

### Significant risks and mitigating actions (Continued)

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

	Risk	Description	Mitigating actions
1	Liquidity risk	Inability to service financial obligations as and when they fall due to decline in demand occasioned by Covid-19 pandemic that has negatively impacted both revenues and cash flows.	<ul style="list-style-type: none"> <li>a) Engagement with key suppliers and financiers for moratoria.</li> <li>b) Renegotiation of aircraft lease contracts with the lessors.</li> <li>c) Engagement with the principal shareholders for financial support.</li> <li>d) Freeze on discretionary / non-critical spend and implementation of temporary salary cuts for staff.</li> <li>e) Continuous identification of opportunities to boost cash flows.</li> </ul>
2	Going concern	Material uncertainty as to whether the business will continue to exist into the foreseeable future due to accumulation of losses and the net current liability position.	<ul style="list-style-type: none"> <li>a) Engagement with key suppliers and financiers for moratoria.</li> <li>b) Renegotiation of aircraft lease contracts with the lessors.</li> <li>c) Engagement with the principal shareholders for financial support.</li> <li>d) Freeze on discretionary / non-critical spend and implementation of temporary salary cuts for staff.</li> <li>e) Continuous identification of opportunities to boost cash flows.</li> </ul>
3	Competition	Potential for actions of other players in the market to negatively impact the business – erosion of market share, revenues etc.	<ul style="list-style-type: none"> <li>a) Continuous improvement of KQ's products / service offering to consistently meet customer needs.</li> <li>b) Renewed focus on improving customer experience at all touch points.</li> <li>c) Leveraging on strategic partnerships with other industry players.</li> </ul>
4	Impairment of assets	Possible impairment of aircraft and related equipment.	<ul style="list-style-type: none"> <li>a) Focus on improving profitability and cash flow generation.</li> </ul>
5	Litigation risk	Legal action arising from normal cause of business with third parties or employees.	<ul style="list-style-type: none"> <li>a) Strict adherence to contractual terms.</li> <li>b) Continuous consultation with both the internal and external legal counsels on matters likely to result into litigation.</li> </ul>
6	COVID-19 risk	Staff getting infected with COVID-19 and the consequence of this to business operations.	<ul style="list-style-type: none"> <li>a) Vaccination of staff.</li> <li>b) Enhanced health and safety protocols at all sites - provision of PPE, installation of sanitizing points, enforcement of social distancing at the workplace.</li> <li>c) Medical and web-based psychological support to staff - pre-screening of patients at the clinic, set up of isolation room at the clinic, support for quarantine crew.</li> <li>d) Development and implementation of operational guidelines covering preventive measures and the</li> </ul>

	Risk	Description	Mitigating actions
			<p>quarantine process etc. This follows the Ministry of Transport/ Ministry of Health guidelines.</p> <p>e) Strict adherence to guidelines and protocols issued by KCAA/ Ministry of Transport/ Ministry of Health.</p> <p>f) Regular inspection for compliance with COVID-19 guidelines across all areas of business.</p>
7	Disruption in supply of essential goods and services	Possible disruption in the supply of essential goods and services - including spare parts.	<p>a) Engagement with critical vendors / suppliers and agreeing on payment plans where the balances payable outstanding are overdue.</p> <p>b) Use of multiple vendors for essential supplies of goods and services.</p> <p>c) Rigorous vetting process for vendors.</p> <p>d) Engagement with relevant authorities - Kenya Bureau of Standards (KEBS) and Kenya Revenue Authority (KRA) for smooth clearance of essential goods.</p>
8	IT and cyber security risk	<p>Increase in targeted and advanced cyber security threats and attacks globally.</p> <p>Vulnerable legacy IT infrastructure, systems, and devices.</p>	<p>a) Establishment of disaster recovery plans (DRPs) and business continuity plans (BCPs).</p> <p>b) Implementation of effective measures and processes to safeguard against IT infrastructure threats.</p>
9	Regulatory risk	Failure to comply with various regulatory requirements thereby resulting into fines and penalties.	<p>a) Continuous monitoring of the legal and regulatory landscape.</p> <p>b) Established mechanisms to ensure compliance and continuous monitoring of compliance.</p>
10	Volatility in fuel prices	Fluctuations in the fuel prices driven by global crude oil price.	<p>a) Competitive sourcing of fuel suppliers.</p> <p>b) Continuous monitoring of trends in global fuel prices.</p> <p>c) Fuel hedging arrangements.</p>
11	Currency exposure and forex risk	<p>Inability to repatriate funds trapped in some of the markets that we operate in.</p> <p>Unfavourable changes in the foreign exchange rates.</p>	<p>a) Continuous monitoring of economic performance of our markets.</p> <p>b) Ticket sales in hard currencies in risky markets.</p> <p>c) Continuous engagement with relevant government authorities in those markets.</p> <p>d) Use of blocked funds to meet operating costs in the respective markets where possible.</p> <p>e) Use of natural forex hedge.</p>
12	Fraud	Misappropriation or misuse of assets belonging to the Group by staff and external parties.	<p>a) Strict enforcement of the Code of Business Conduct and KQ values.</p> <p>b) A whistle blowing process is in place for reporting violations.</p> <p>c) Fraud awareness programs focusing of preventive measures.</p>
13	Staff attrition	Loss of critical staff	a) Development of talent pipeline for the key roles.

	Risk	Description	Mitigating actions
			<ul style="list-style-type: none"> <li>b) Stratification of the employee value proposition based on the age bracket – aimed at attracting and retaining talent.</li> <li>c) Management of knowledge resources through retention and transfer.</li> </ul>
14	Geopolitical risks	<p>Possible negative impact on the operations occasioned political changes or instability affecting our markets</p> <p>Inability to resume regional and international flights to closure of the air space.</p>	<ul style="list-style-type: none"> <li>a) Continuous monitoring of political activities across different markets.</li> <li>b) Close collaboration and engagement with relevant stakeholders and governments.</li> </ul>
15	Airline safety risk	Occurrence of incidents and accidents because of violations to safety guidelines and protocols.	<ul style="list-style-type: none"> <li>a) There is a formal safety risk management process in place. The process is led by the Head of Safety.</li> <li>b) Strict compliance with various safety regulations - ICAO, KCAA. Internal policies and procedures are developed based on these regulations.</li> <li>c) Strict adherence to Standard Operating Procedures and consequence management to non-compliance.</li> <li>d) Implementation of the “just culture” policy framework thought sensitization and training of departmental heads/ managers.</li> <li>e) SMS training and awareness conduct regular retraining sessions to keep employees up to date on safety policies and procedures.</li> <li>f) Complete Galiot SMS system implementation that will consolidate Safety reporting to a central platform.</li> </ul>
16	Accounting and financial reporting risks	<p>Failure to meet various accounting and reporting requirements under IFRS</p> <ul style="list-style-type: none"> <li>- IFRS 16 Leases</li> <li>- IFRS 9 Financial Instruments</li> <li>- IFRS 15 Revenue from contracts with customers</li> <li>- IAS 1 Presentation of financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>a) Continuously seeking professional advice on technical matters.</li> <li>b) Development of staff through training programmes.</li> <li>c) Having a financial reporting team dedicated on accounting standards compliance.</li> </ul>
17	Credit risk	Inability to recover debts from our customers in full.	<ul style="list-style-type: none"> <li>a) Periodic review of the credit policy and strict enforcement of credit terms.</li> <li>b) Continuous monitoring of debtor performance and follow up.</li> </ul>
18	Security risk	Theft and pilferage of assets.	<ul style="list-style-type: none"> <li>a) Enhanced security at all locations.</li> </ul>

# KENYA AIRWAYS PLC

## REPORT OF THE DIRECTORS (Continued)

### 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.

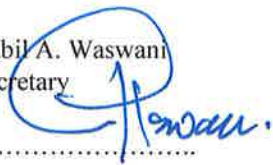
### TERMS OF APPOINTMENT OF THE AUDITOR

PricewaterhouseCoopers LLP, having expressed their willingness, will be in office in accordance with the provisions of section 721 (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

29 March 2022

Habil A. Waswani  
Secretary



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# KENYA AIRWAYS PLC

## DIRECTORS' REMUNERATION REPORT

### INFORMATION NOT SUBJECT TO AUDIT

#### Chairman's statement

The Directors remuneration policy sets out the guidelines that the Group 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	Date of Appointment	Retirement through rotation date	Notice Period
Mr. Michael Joseph	2016	2022	N/A
Ms. Caroline Armstrong	2014	2023	N/A
Mrs. Esther Koimett	2017	2022	N/A
Major Gen (Rtd) Michael Gichangi	2017	2024	N/A
Mr. John Ngumi	2019	2022	N/A
Dr. Eng. Joseph Njoroge	2021	2023	N/A
Dr. Haron Sirima	2019	2022	N/A
Mr. Philip Wambugu	2021	2024	N/A
Mr. John Wilson	2021	2024	N/A



# KENYA AIRWAYS PLC

## DIRECTORS' REMUNERATION REPORT (Continued)

### INFORMATION SUBJECT TO AUDIT

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

The results of the election were as follows:

Vote	Number of ballots	Total shares	Percentage of total votes cast
Against	52	222,925	0.01%
For	216	5,535,698,979	99.99%
Abstain	34	200,152	0.00%
	302	5,536,122,056	100.00%

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 2021

	Salary and benefits KShs 000	Allowances KShs 000	Fees KShs 000	Value of non-cash benefits KShs 000	Total KShs 000
Mr. Michael Joseph	-	-	18,000	-	18,000
Mr. Allan Kilavuka **	54,000	-	-	-	54,000
Mr. Jozef Veenstra *	-	-	263	-	263
Ms. Caroline Armstrong	-	-	527	-	527
Principal Secretary-National Treasury	-	-	527	-	527
Principal Secretary-Transport	-	-	1,053	-	1,053
Ms. Carol Musyoka	-	-	263	-	263
John Wilson	-	-	263	-	263
Mrs. Esther Koimett	-	-	-	-	-
Dr. Martin Odour-Otieno	-	-	263	-	263
Mr. Nicholas Bodo	-	-	-	-	-
Mr. Ngumi John	-	-	527	-	527
Philip Wambugu	-	-	263	-	263
Dr. Haron Sirima	-	-	-	-	-
Major Gen (Rtd) Michael Gichangi	-	-	526	-	526
<b>Total</b>	<b>54,000</b>		<b>22,475</b>	<b>-</b>	<b>76,475</b>

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

\*\* The amount is inclusive of an amount not yet paid but held by the company due to deferred pay arrangement.

KENYA AIRWAYS PLC

DIRECTORS' REMUNERATION REPORT (Continued)

INFORMATION SUBJECT TO AUDIT (Continued)

31 December 2020

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

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

\*\* The amount is inclusive of an amount not yet paid but held by the company due to deferred pay arrangement.

Habil A. Waswani  
Company Secretary

Nairobi

29-13-2022

# KENYA AIRWAYS PLC

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

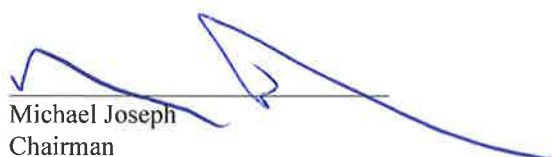
- (i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (ii) selecting suitable accounting policies and applying them consistently; and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

The directors 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 note 2(e). The Directors acknowledge that the continued existence of the Group and the Company as going concern depends on the measures that the Directors will put in place to return the Group and Company to profitable operations as disclosed in Note 2(e) of the financial statements. On the basis of the strategic plans set out in Note 2(e) of the financial statements and the letter of financial support from the Government of Kenya, the Directors believe that the Group and Company will remain a going concern for at least the next twelve months from the date of this report.

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

Approved by the Board of Directors on 29 March 2022 and signed on its behalf by:

  
Michael Joseph  
Chairman

  
Allan Kilavuka  
Managing Director



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

### **Report on the audit of the financial statements**

#### *Our opinion*

We have audited the accompanying financial statements of Kenya Airways Plc (the Company) and its subsidiaries (together, the Group) set out on pages 42 to 137, which comprise the consolidated statement of financial position at 31 December 2021 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 2021, 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 give a true and fair view of the financial position of the Group and the Company at 31 December 2021 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.

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

*Key audit matters*

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition</b></p> <p>As explained in Note 3 (c) of the financial statements, the Group’s streams of revenue are subject to different recognition considerations depending on the nature of the underlying contractual arrangements.</p> <p>Passenger tickets sales, net of discounts and taxes are initially recorded as current liabilities in the “Sales in Advance of Carriage” account and recognised as revenue when the ticket is flown or expires.</p> <p>The timing of revenue recognition for expired unused tickets/documents requires judgement due to the timeframe over which revenue documents can be utilised. Management determines the value of unused tickets revenue using a combination of the terms and conditions of the underlying documents and the historical expiry trends. As explained under note 4b(iii) of the financial statements, management continue to exercise significant judgement in relation to recognition of revenue from unused tickets in view of the persisting Covid-19 disruptions to the airline’s operations.</p> <p>Furthermore, 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 industry systems and other airlines for a high volume of transactions. The accounting for passenger and cargo revenue is, therefore, susceptible to management override of controls through the processing of inappropriate journals in the accounting records, the override of information technology (IT) systems to accelerate revenue recognition, or manipulation of inputs used to calculate revenue recorded in respect of unused revenue documents.</p>	<p>We performed detailed end-to-end walkthroughs of the finance and operational processes surrounding the revenue systems to assess the design effectiveness of the related key internal controls. We tested the operating effectiveness of these key controls to confirm that they operated throughout the year as intended. We also tested the key IT systems, including interfaces that impact the recognition of revenue from passengers along with the IT change control procedures and related application controls.</p> <p>We tested the matching of the flown tickets in the lift files to the passenger flight manifests and re- performed a reconciliation of the total tickets sold, the total revenue recognised (i.e. the total uplifts in the year) including uplifts done by other carriers, the expired tickets recognised in revenue and the sales in advance of carriage (i.e. the unutilised tickets).</p> <p>We tested the age profile of the deferred revenue on ticket sales to confirm compliance with the revenue recognition policy and related judgements.</p> <p>We inspected the manual journals posted to the revenue account for validity and appropriateness.</p> <p>We assessed the adequacy and consistency of the related disclosures in the financial statements in accordance with the requirements of International Financial Reporting Standards.</p>



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

*Key audit matters (continued)*

Key audit matter	How our audit addressed the key audit matter
<p><b>Assessment of impairment of aircrafts and right-of-use assets</b></p> <p>As required by IAS 36: <i>Impairment of assets</i>, the Group performs an annual impairment test to assess the recoverability of the carrying value of its aircraft and an impairment assessment of aircraft and related equipment and the right-of-use (ROU) assets relating to aircraft and related equipment.</p> <p>As disclosed in Note 3w(ii) of the financial statements, the Group uses the higher of fair value less costs to sale and value-in-use calculations to determine the recoverable amount of the cash generating unit.</p> <p>The determination of the recoverable amount requires management judgement in both identifying and then valuing the relevant cash generating units (CGUs) as disclosed in Note 16. Recoverable amounts are based on management’s estimate of variables and market conditions such as future ticket prices, exchange rates, growth rates, the timing of future operating expenditure, and the most appropriate discount rate.</p> <p>This is an area of focus because changes in management estimates and judgements could result in material variations in the outcomes of the assessment.</p>	<p>We evaluated and challenged the composition of management cash flow forecasts and the underlying assumptions based on the historical performance of the CGUs, industry-specific reports and the macro economic outlook for the aviation sector.</p> <p>We tested the appropriateness of the impairment models and the reasonableness of the assumptions by benchmarking the key market-related assumptions in the models, such as discount rates, long term growth rates and foreign exchange rates, against external data.</p> <p>We tested the mathematical accuracy and performed sensitivity analyses of the models.</p> <p>Where an independent valuer was used, we reviewed the valuation reports and assessed the reasonableness and consistent application of assumptions in determining the fair values. We also assessed the competence, capabilities and objectivity of the independent valuers.</p> <p>We assessed the adequacy and appropriateness of the related disclosures in Notes 14 and 16 of the financial statements.</p>



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

*Key audit matters (continued)*

Key audit matter	How our audit addressed the key audit matter
<p><b>Adequacy of return condition provision and aircraft maintenance reserves for leased aircrafts</b></p> <p>Under the terms of the lease arrangements with the lessors, the Group and Company are contractually committed to either return the aircraft and/or engines in a certain condition or to compensate the lessor based on the actual condition of the aircraft and/or engines at the date of return.</p> <p>The Group and Company have recognised a return condition provision amounting to KShs 7,316 million and KShs 3,937 million respectively at 31 December 2021 as disclosed in Note 28 of the financial statements.</p> <p>The provision is calculated using a model which incorporates several assumptions, requiring significant judgement, such as:</p> <ul style="list-style-type: none"> <li>• past and expected future utilisation and maintenance patterns of the aircraft and engines;</li> <li>• expected cost of maintenance at the time it is estimated to occur; and</li> <li>• discount rate applied to calculate the present value of the future liability.</li> </ul> <p>In addition, as disclosed in note 21, the lease agreements also require the Group and Company to make payments towards the maintenance of aircrafts with the lessors being contractually obligated to reimburse the Group for the qualifying maintenance expenditure incurred. This gives rise to a prepaid maintenance reserves asset that requires an annual impairment assessment.</p> <p>The determination of the return condition provision, and the impairment assessment of the prepaid maintenance reserves involves significant judgement by management due to the complex and subjective elements around these variable factors and assumptions.</p>	<p>We reviewed the aircraft’s lease agreements to gain an understanding of the significant terms which influence the economics of, and hence accounting for, the lease obligations.</p> <p>We tested the completeness of the provisions by ensuring that all significant return condition obligations included in aircraft lease agreements were included in the provisions model. We tested the expected future costs of maintenance by corroborating the estimates of the costs to third party price lists and quotes, or to historic costs.</p> <p>We tested the mathematical accuracy and performed sensitivity analysis of the models.</p> <p>We verified that the discount rate applied by management to the future liability was within an acceptable range with reference to the time value of money applicable to Group and Company and the risks specific to the liability.</p> <p>We obtained confirmations from lessors for the prepaid maintenance reserves balances held at 31 December 2021 and assessed the recoverability of the balance by considering the expected future maintenance cost against which the Group could claim from the lessor.</p> <p>We assessed the adequacy and appropriateness of the related disclosures in Notes 21 and 28 of the financial statements.</p>



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

*Key audit matters (continued)*

Key audit matter	How our audit addressed the key audit matter
<p><b>Accounting for the foreign currency hedge</b></p> <p>As explained in Note 23 of the financial statements, the Company hedges its foreign currency risk in relation to its borrowings and lease liabilities against forecasted US dollar-denominated future revenue streams. The cash flow hedge is accounted at fair value and gains/losses arising from fair value changes deferred in equity if the hedge is considered effective, and recognised in the statement of profit or loss when hedges are considered ineffective.</p> <p>This is an area of focus because the determination of the effectiveness of the hedge involves estimation of future USD revenue forecasts based on significant management assumptions such as ratio used to allocate "highly probable" USD sales out of the total budgeted sales, future currency exchange rates and revenue growth rates.</p> <p>Variations in these assumptions could result in significant changes in the accounting for the fair value gains/losses on foreign currency hedges.</p>	<p>We reviewed the processes, procedures and controls in respect of treasury and other management functions which directly impact the relevant account balances and transactions.</p> <p>We assessed compliance with the requirements for the accounting for the hedging relationships and checked that it meets the requirements of IFRS 9.</p> <p>We recomputed the year-end valuation of the cash flow hedge reserve and checked the reasonableness of exchange rates used.</p> <p>We checked that the forecasts used by the Company for the assessment of future hedge effectiveness were consistent with board approved forecasts used for other judgements such as impairment assessments.</p> <p>We evaluated the appropriateness of the highly probable criteria as used to determine future USD revenue forecasts by assessing the financial and operational ability of the Company to generate the forecasted sales.</p> <p>We reviewed the computations to test the accuracy and completeness of the inputs into the cash flow hedge computation.</p> <p>We tested key assumptions used in the model including performing a sensitivity analysis.</p> <p>We assessed the adequacy of disclosures in the financial statements.</p>

*Other information*

The other information comprises the Corporate information, 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 2021 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 except to the extent otherwise explicitly stated in this report, we do not and will not express any form of assurance conclusion thereon.

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





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

### *Other information (continued)*

When we read the rest of the other information in the 2021 Annual Report and Financial Statements and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### *Responsibilities of the directors for the financial statements*

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

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

### *Auditor's responsibilities for the audit of the financial statements*

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

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

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



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

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

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

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

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

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

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

*Report of the directors*

In our opinion the information given in the report of the directors on pages 24 to 30 is consistent with the financial statements.

*Directors’ remuneration report*

In our opinion the auditable part of the directors’ remuneration report on pages 31 to 33 has been properly prepared in accordance with the Companies Act, 2015.

**FCPA Michael Mugasa, Practicing Certificate Number 1478  
Engagement partner responsible for the audit**

**For and on behalf of PricewaterhouseCoopers LLP  
Certified Public Accountants**

Nairobi  
*29<sup>th</sup> March*  
.....2022



KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs millions	2020 KShs millions
Revenue	7	70,221	52,805
Direct costs	8	(41,155)	(30,962)
Fleet ownership costs	8	(16,637)	(28,571)
Other operating costs	8	(19,232)	(20,383)
<b>Operating loss</b>		<b>(6,803)</b>	<b>(27,111)</b>
Finance costs	9	(9,387)	(9,524)
Interest income	9	162	62
<b>Loss before tax</b>	10	<b>(16,028)</b>	<b>(36,573)</b>
Income tax credit	11	150	354
<b>Loss for the year</b>		<b>(15,878)</b>	<b>(36,219)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Loss on hedged exchange differences – borrowings	25	(2,187)	(5,168)
Loss on hedged exchange differences - lease liabilities	26	(1,107)	(4,882)
		(3,294)	(10,050)
Other comprehensive loss for the year, net of tax		(3,294)	(10,050)
<b>Total comprehensive loss for the year</b>		<b>(19,172)</b>	<b>(46,269)</b>

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021 (Continued)

	Notes	2021 KShs millions	2020 KShs millions
<b>Loss for the year is attributable to:</b>			
Owners of the Company		(15,882)	(36,227)
Non-controlling interest	24	4	8
		<hr/>	<hr/>
Loss for the year		(15,878)	(36,219)
		<hr/>	<hr/>
<b>Total comprehensive loss for the year is attributable to:</b>			
Owners of the Company		(19,176)	(46,277)
Non-controlling interest	24	4	8
		<hr/>	<hr/>
Total comprehensive loss for the year		(19,172)	(46,269)
		<hr/>	<hr/>
<b>Earnings per share:</b>			
Basic loss per share (KShs)	12	(2.73)	(6.22)
		<hr/>	<hr/>
Diluted loss per share (KShs)	12	(9.58)	(21.84)
		<hr/>	<hr/>

KENYA AIRWAYS PLC

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs Millions	2020 KShs Millions
Revenue	7	64,191	49,090
Direct costs	8	(37,928)	(29,078)
Fleet ownership costs	8	(15,054)	(26,923)
Other operating costs	8	(16,618)	(17,386)
<b>Operating loss</b>		<b>(5,409)</b>	<b>(24,297)</b>
Finance costs	9	(9,004)	(8,827)
Interest income	9	167	66
<b>Loss before tax</b>	10	<b>(14,246)</b>	<b>(33,058)</b>
Income tax expense	11	(38)	(26)
<b>Loss for the year</b>		<b>(14,284)</b>	<b>(33,084)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Loss on hedged exchange differences - borrowings	25	(2,187)	(5,168)
Loss on hedged exchange differences - lease liabilities	26	(1,107)	(4,882)
Other comprehensive loss for the year, net of tax		(3,294)	(10,050)
<b>Total comprehensive loss for the year</b>		<b>(17,578)</b>	<b>(43,134)</b>

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2021

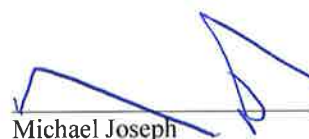
	Notes	2021 KShs millions	2020 KShs millions
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, aircraft and equipment	14	79,231	83,597
Intangible assets	15	2,896	2,857
Right-of-use-assets	16	43,873	53,532
Aircraft deposits	18	3,057	3,703
Deferred income tax	27	813	600
		129,870	144,289
<b>Current assets</b>			
Inventories	19	2,152	2,173
Trade and other receivables	20	9,333	9,887
Prepaid maintenance asset	21	6,823	6,105
Current income tax	11	1,282	1,280
Cash and bank balances	31	6,095	7,728
		25,685	27,173
<b>TOTAL ASSETS</b>		155,555	171,462
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	22	5,824	5,824
Share premium	22	49,223	49,223
Mandatory convertible note	22	9,630	9,630
Treasury shares	22	(142)	(142)
Other reserves	23	(15,601)	(12,307)
Accumulated losses		(132,333)	(116,451)
		(83,399)	(64,223)
Deficit attributable to owners of the Company			
Non-controlling interests	24	62	58
		(83,337)	(64,165)
<b>Total shareholders' deficit</b>		(83,337)	(64,165)

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)  
AS AT 31 DECEMBER 2021

	Notes	2021 KShs millions	2020 KShs millions
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	25	93,079	81,901
Lease liabilities	26	55,984	62,851
Deferred income tax	27	2,723	2,723
Provisions for liabilities	28	6,141	2,822
		157,927	150,297
<b>Current liabilities</b>			
Borrowings	25	14,012	10,638
Lease liabilities	26	15,085	19,040
Provisions for liabilities	28	2,813	4,201
Sales in advance of carriage	29	10,892	13,908
Trade and other payables	30	38,163	37,543
		80,965	85,330
<b>TOTAL EQUITY AND LIABILITIES</b>		155,555	171,462

The financial statements on pages 42 to 137 were approved and authorised for issue by the Board of Directors on 29 March 2022 and signed on its behalf by:

  
Michael Joseph  
Chairman

  
Allan Kilavuka  
Managing Director



KENYA AIRWAYS PLC

COMPANY STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2021

ASSETS	Notes	2021 KShs millions	2020 KShs millions
<b>Non-current assets</b>			
Property, aircraft and equipment	14	78,473	82,808
Intangible assets	15	2,892	2,849
Right-of-use-assets	16	34,408	44,267
Investment in subsidiaries	17	435	435
Aircraft deposits	18	3,057	3,703
		119,265	134,062
<b>Current assets</b>			
Inventories	19	2,152	2,173
Trade and other receivables	20	31,182	29,045
Prepaid maintenance asset	21	5,149	4,892
Current income tax	11	1,269	1,263
Cash and bank balances	31	5,807	7,536
		45,559	44,909
<b>TOTAL ASSETS</b>		164,824	178,971
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	22	5,824	5,824
Share premium	22	49,223	49,223
Mandatory convertible note	22	9,630	9,630
Treasury shares	22	(142)	(142)
Other reserves	23	(15,887)	(12,593)
Accumulated losses		(130,237)	(115,953)
<b>Total shareholders' deficit</b>		(81,589)	(64,011)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	25	93,079	81,901
Lease liabilities	26	49,190	54,072
Deferred income tax	27	2,723	2,723
Provisions for liabilities	28	3,624	2,555
		148,616	141,251

KENYA AIRWAYS PLC

COMPANY STATEMENT OF FINANCIAL POSITION (Continued)  
AS AT 31 DECEMBER 2021

	Notes	2021 KShs millions	2020 KShs millions
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	25	14,012	10,638
Lease liabilities	26	12,330	17,477
Sales in advance of carriage	29	10,674	13,789
Trade and other payables	30	58,937	57,291
Provisions for liabilities	28	1,844	2,536
		97,797	101,731
<b>TOTAL EQUITY AND LIABILITIES</b>		164,824	178,971

The financial statements on pages 42 to 137 were approved and authorised for issue by the Board of Directors on 29 March 22 and signed on its behalf by:

Michael Joseph  
Chairman

Allan Kilavuka  
Managing Director

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital KShs Millions	Share premium KShs Millions	Mandatory convertible note KShs Millions	Treasury shares KShs Millions	Other reserves KShs Millions	Accumulated Loss KShs Millions	Total KShs Millions	Non-controlling interest KShs Millions	Total equity KShs Millions
At 1 January 2020	5,824	49,223	9,630	(142)	(2,257)	(80,224)	(17,946)	50	(17,896)
Loss for the year	-	-	-	-	-	(36,227)	(36,227)	8	(36,219)
Other comprehensive income	-	-	-	-	(10,050)	-	(10,050)	-	(10,050)
At 31 December 2020	5,824	49,223	9,630	(142)	(12,307)	(116,451)	(64,223)	58	(64,165)
At 1 January 2021	5,824	49,223	9,630	(142)	(12,307)	(116,451)	(64,223)	58	(64,165)
Loss for the year	-	-	-	-	-	(15,882)	(15,882)	4	(15,878)
Other comprehensive income	-	-	-	-	(3,294)	-	(3,294)	-	(3,294)
At 31 December 2021	5,824	49,223	9,630	(142)	(15,601)	(132,333)	(83,399)	62	(83,337)

KENYA AIRWAYS PLC

COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital KShs Millions	Share premium KShs Millions	Mandatory convertible note KShs Millions	Treasury shares KShs Millions	Other reserves KShs Millions	Accumulated loss KShs Millions	Total KShs Millions
At 1 January 2020	5,824	49,223	9,630	(142)	(2,543)	(82,869)	(20,877)
Loss for the year	-	-	-	-	-	(33,084)	(33,084)
Other comprehensive income	-	-	-	-	(10,050)	-	(10,050)
At 31 December 2020	5,824	49,223	9,630	(142)	(12,593)	(115,953)	(64,011)
At 1 January 2021	5,824	49,223	9,630	(142)	(12,593)	(115,953)	(64,011)
Loss for the year	-	-	-	-	-	(14,284)	(14,284)
Other comprehensive income	-	-	-	-	(3,294)	-	(3,294)
At 31 December 2021	5,824	49,223	9,630	(142)	(15,887)	(130,237)	(81,589)

KENYA AIRWAYS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs millions	2020 KShs millions
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	31	8,029	10,120
Interest received		162	62
Interest paid		(3,217)	(3,659)
Income tax paid	11	(65)	(42)
		<hr/>	<hr/>
Net cash flows from operating activities		4,909	6,481
		<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, aircraft and equipment	14	(2,363)	(918)
Proceeds of disposal of property, aircraft and equipment		18	15
Purchase of intangible assets	15	-	(74)
Payment of deposits for aircraft purchases	18	(295)	(680)
Proceeds from refunds of aircraft deposits	18	1,057	693
		<hr/>	<hr/>
Net cash flows from investing activities		(1,583)	(964)
		<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	25	14,000	11,000
Repayments of borrowings	25	(4,072)	(3,078)
Payment of deferred borrowing costs	25	(73)	(55)
Repayment of principal portion of lease liabilities	26	(14,814)	(8,751)
		<hr/>	<hr/>
Net cash flows from financing activities		(4,959)	(884)
		<hr/>	<hr/>
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(1,633)	4,633
CASH AND CASH EQUIVALENTS AT START OF YEAR		7,728	3,095
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		6,095	7,728
		<hr/>	<hr/>
<b>REPRESENTED BY</b>			
Cash and bank balances	31	6,095	7,728
		<hr/>	<hr/>

KENYA AIRWAYS PLC

COMPANY STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs millions	2020 KShs millions
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	31	6,499	8,572
Interest received		167	66
Interest paid		(3,187)	(3,647)
Income tax paid	11	(44)	(33)
		<hr/>	<hr/>
Net cash flows from operating activities		3,435	4,958
		<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, aircraft and equipment	14	(2,327)	(905)
Proceeds of disposal of property, aircraft and equipment		18	15
Purchase of intangible assets	15	-	(73)
Payments of deposits for aircraft purchases	18	(295)	(680)
Proceeds from refunds of aircraft deposits	18	1,057	693
		<hr/>	<hr/>
Net cash flows from investing activities		(1,547)	(950)
		<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	25	14,000	11,000
Repayments of borrowings	25	(4,072)	(3,078)
Payment of deferred borrowing costs	25	(73)	(55)
Repayment of principal portion of lease liabilities	26	(13,472)	(7,239)
		<hr/>	<hr/>
Net cash flows from financing activities		(3,617)	628
		<hr/>	<hr/>
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,729)	4,636
CASH AND CASH EQUIVALENTS AT START OF YEAR		7,536	2,900
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR		5,807	7,536
		<hr/>	<hr/>
REPRESENTED BY			
Cash and bank balances	31	5,807	7,536
		<hr/>	<hr/>



# KENYA AIRWAYS PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

### **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 Fahari Aviation Limited (together referred to as the “Group” and individually as “Group Companies”).

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

### **2 BASIS OF PREPARATION**

#### **(a) Basis of Accounting**

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

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

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

#### **(b) Basis of measurement**

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

#### **(c) Functional and presentation currency**

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

#### **(d) Use of estimates and judgements**

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

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**2 BASIS OF PREPARATION**

**(e) Going concern**

The Group and Company incurred a loss for the year of KShs 15,878 million (2020: KShs 36,219 million) and KShs 14,284 million (2020: KShs 33,084 million) respectively during the year ended 31 December 2021 and, as of that date, the Group's and Company's current liabilities exceeded current assets by KShs 55,789 million (2020: KShs 58,157 million) and KShs 52,512 million (2020: KShs 56,822 million) respectively. In addition, as at 31 December 2021, the Group's and Company's total liabilities exceeded total assets by KShs 83,337 million (2020: KShs 64,165 million) and KSh 81,589 million (2020: KShs 64,011 million) respectively. These conditions were compounded by the continuing 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 effects of Covid- 19 improved compared to 2020 but it was still a concern in 2021 airline business growth.

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

The Group and Company have continued with the recovery plan having focus on the following strategic initiatives:

- 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 with increased focus on cargo business, maintenance and repair operations among others;
- g) Rationalization of Fleet size and type; and
- h) The proposed bail out from the Government of Kenya

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 and make the business sustainable.

The key shareholders have been and continue to be appraised of and involved in the process of the required long-term support and recovery 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 recovery program and meet its financial obligations as and when they fall due, for at least the next 12 months from the date of approval of the annual financial statements for the year ended 31 December 2021.

The Government has also initiated a bailout program that will, among other things, inject some cash for budgetary support and undertake novation of some of the long term loans. This program is, in part, aimed at improving the cash flows in the short run and also support a restructuring programme with a view to make the business profitable and sustainable in the long term.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**2 BASIS OF PREPARATION (Continued)**

**(e) Going concern (Continued)**

As a result of Covid-19 crisis, the Group has suspended its passenger transport business on some routes and reduced frequency on others. The situation improved in 2021 with easing Covid-19 restrictions as operations in more routes were opened.

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 with lessors for restructuring of aircraft lease terms.
- Negotiated favourable repayment plans with key suppliers, lessors and lenders.
- The Group has also taken austerity measures to reduce costs. These measures include but not limited to director and staff deferred pay, reducing and deferring capital expenditure as well as reducing discretionary spending.
- The Group has increased focus on cargo business and has already converted two passenger aircraft to a cargo 'freighter' to increase cargo capacity.
- 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 as more people take up the vaccines.
- The Group has also developed a pharma facility at the airport which improves the required infrastructure for the airline to participate in Covid-19 vaccine distribution and also to pursue other opportunities in the health sector value chain.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these consolidated and company financial statements have been applied consistently to all periods presented in these financial statements.

**(a) Basis of consolidation**

**(i) Subsidiaries**

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

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

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

**(iii) Loss of control**

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

**(iv) Transactions eliminated on consolidation**

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

**(b) Foreign currency translation**

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shilling (KShs), which is Kenya Airways Plc's functional and presentation currency.

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.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(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.

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;
- providing handling services to other airlines and the handling of import and export cargo; and
- 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 income 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 following the lapse of estimated period where the company believes there will be no material claim from passengers. The current estimated period is 13 months.

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

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(c) Revenue from contracts with customers (continued)****▪ 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 2021 (2020: Nil).

**(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 fair value on the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

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

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

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

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

The cost of replacing part of an item of property or aircraft or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property, aircraft and equipment are recognised in profit or loss. Gains and losses on disposal of property, aircraft and equipment are determined by comparing the proceeds of disposal with the carrying amount of the item of property, aircrafts and equipment and are recognised in profit or loss in the year in which they arise.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (g) Property, aircraft and equipment (continued)

## (ii) Depreciation

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

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

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

## (iii) Revaluation

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

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

Revaluation surpluses are not distributable.

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

## (iv) Non-depreciable assets

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(h) Intangible assets - capitalised software**

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

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

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

**(i) Intangible assets – landing slot**

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

**(j) Leases**

*Group's lease portfolio*

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

*Group as a lessee*

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate, which is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group's weighted average incremental borrowing rate is 6% (2020: 6%).

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) Leases (Continued)**

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

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

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

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

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

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

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

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) Leases (Continued)**

*The Group as a lessor*

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

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

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

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

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

**(k) Prepaid maintenance asset**

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

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

**(l) Derivative financial instruments and hedge accounting**

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

The Group designates:

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

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

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

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(l) Derivative financial instruments and hedge accounting (Continued)**

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 cash flows 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 cash flows 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.

**(m) 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.

**(n) 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 25(d)).

**(o) Aircraft deposits**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(p) 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 (2020: 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.

*(vi) Staff gratuity*

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

**(q) Income tax expense**

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

*(i) Current income tax*

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(q) Income tax expense**

*(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.

**(r) 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.

**(s) 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.

**(t) 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.

**(u) Compound instruments**

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(v) Financial instruments**

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

***Financial assets***

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

**(i) Classification of financial assets**

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

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

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

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

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

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

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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## (v) Financial instruments (continued)

*Financial assets (continued)**(ii) De-recognition (continued)*

On derecognition of a financial asset measured at amortised cost, the difference between the assets carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

*(iii) Offsetting of financial assets and liabilities*

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

*Financial liabilities**(i) Initial recognition and measurement*

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

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

*(ii) Subsequent measurement*

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

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

*Financial liabilities at fair value through profit or loss*

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(v) Financial instruments (continued)***Financial liabilities (continued)***(ii) Subsequent measurement (Continued)***Financial liabilities at amortised cost (loans and borrowings)*

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. Accounts payables and accruals are recognized for amounts to be paid in the future for goods or services received, whether or not billed by the supplier.

**(iii) Derecognition**

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

**(w) Impairment****(i) Financial assets**

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

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

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(w) Impairment (continued)****(i) Financial assets (continued)**

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.

**(x) Sovereign guarantee from the Government of Kenya**

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

**(y) Earnings per share**

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

**(z) 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.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(aa) Provision for liabilities**

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

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

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

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

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

**(bb) 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.

**(cc) 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.

**(dd) Dividends**

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

**(ee) Adoption of new and revised International Financial Reporting Standards**

*(i) New and amended standards and interpretations adopted by the Group and Company*

**IFRS 9 ‘Financial Instruments’, IAS 39 ‘Financial Instruments: Recognition and Measurement’, IFRS 7 ‘Financial Instruments: Disclosures’, IFRS 4 ‘Insurance Contracts’ and IFRS 16 ‘Leases’ – interest rate benchmark (IBOR) reform (Phase 2)**

This amendment was published in August 2020 and was effective for annual periods beginning on or after 1 January 2021. The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.

The transition from LIBOR to Secured Overnight Finance Rate (SOFR) commenced on 31 December 2021 but the USD LIBOR rates will continue to be published until 30th June 2023. Kenya Airways’ facilities with lenders are pegged on LIBOR and in readiness for the above transition by 2023, Kenya Airways PLC has commenced discussions with the lenders on the transition to a new benchmark.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**(i) New and amended standards and interpretations adopted by the Group and Company (continued)**

**IFRS 16, 'Leases' COVID-19 - Related Rent Concessions Amendment**

This amendment was published in June 2020 and was effective for annual periods beginning on or after 1 June 2020.

The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

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

**(ii) New standards and interpretations not yet adopted by the Group and Company**

**Amendment to IFRS 3, 'Business combinations' Asset or liability in a business combination clarity**

This amendment was published in May 2020 and was effective for annual periods beginning on or after 1 January 2022.

The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

Directors do not plan on early adopting the standard until it becomes effective. It is not expected to have any material effect on the Group or Company.

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

This amendment was published in May 2020 and was effective for annual periods beginning on or after 1 January 2022.

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.

Directors do not plan on early adopting the standard until it becomes effective. It is not expected to have any material effect on the Group or Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

*(ii) New standards and interpretations not yet adopted by the Group and Company (continued)*

**Amendments to IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’ on Onerous Contracts—Cost of Fulfilling a Contract**

This amendment was published in May 2020 and was effective for annual periods beginning on or after 1 January 2022.

The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of ‘costs to fulfil a contract’. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.

Directors do not plan on early adopting the standard until it becomes effective. It is not expected to have any material effect on the Group or Company.

**Annual improvements cycle 2018 -2020**

This amendment was published in May 2020 and was effective for annual periods beginning on or after 1 January 2022. These amendments include minor changes to:

- **IFRS 1, ‘First time adoption of IFRS’** has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent’s transition to IFRS.
- **IFRS 9, ‘Financial Instruments’** has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of “the 10% test” for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.
- **IFRS 16, ‘Leases’**, amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.

Directors do not plan on early adopting the standard until it becomes effective. It is not expected to have any material effect on the Group or Company.

**Amendment to IAS 1 ‘Presentation of Financial Statements’ on Classification of Liabilities as Current or Non-current**

This amendment was published in January 2020 and was effective for annual periods beginning on or after 1 January 2022. The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).

Directors do not plan on early adopting the standard until it becomes effective. It is not expected to have any material effect on the Group or Company.

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

##### a) 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.

##### *i. Impairment of non-financial assets*

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

##### *ii. Property, aircrafts and equipment and intangible assets*

###### *Useful life of assets*

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

##### *iii. Impairment of financial assets*

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

- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Historical default and expected loss rates;
- The Group's criteria for assessing if there has been a significant increase in credit risk; and
- Development of ECL models, including the various formulas and the choice of inputs.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

## a) Key sources of estimation uncertainty (Continued)

*iv. 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.

*v. 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.

*vi. Asset restoration obligations*

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

**b) 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:

*i. Impairment of non-financial assets*

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

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

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

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

*i. Impairment of non-financial assets (continued)*

The Group and Company performed an impairment assessment of its owned 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 aviation 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 valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

As a result, an impairment charge of KShs 129 million for Group and Company was realised for owned aircrafts.

The recoverable amount of the network airline operations for leased aircrafts has been measured based on the value-in-use, using a discounted cash flow model for leased aircrafts. Cash flow projections are based on the business plan covering a seven-year period. Cash flows for the seven-year period have been projected to increase in line with the long-term growth rate of the main economies in which the Group operates. There was no impairment charged for the leased aircrafts.

*ii. Recoverability of deferred income tax assets*

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

The deferred tax assets include an amount of Kshs 796 million (2020: Kshs 600 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 2021, the Group and Company had derecognised deferred tax assets of KShs 50,343 million and KShs 48,795 million respectively relating to tax losses they do not reasonably expect to utilise.

*iii. Unused ticket revenue*

Due to the Covid-19 pandemic, the Group suspended its passenger transport business in some routes and reduced frequency in others. Due to the suspension of operations, the airline issued Tarriff Notices extending the ticket validity beyond the normal 13 months up to 31st December 2021 to allow passengers more time to travel as travel restrictions eases.

At the expiry of the Tarriff Notice, the group performed breakage on the tickets that remained unutilized in any form from the date of prime sale as per the 13 months estimation. The Group shall continue to monitor closely the Covid patterns across the Globe and adapt as the situation unfolds. The group recognized Kshs 10,892 million (2020: 13,908 million) as sales in advance of carriage (see Note 29).

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

**c) 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:

***i. Restructuring costs***

As a result of the structural changes to the airline sector, the Group has taken austerity measures to reduce costs. These measures include but not limited to director and staff pay cuts, reducing and deferring capital expenditure, freezing recruitment, discretionary spending, implementing voluntary leave options and staff redundancies.

***ii. Loans and borrowings***

As part of Government Commitment to support the Airline's resumption of operations following the impact of Covid-19 pandemic, the Government of Kenya advanced the second tranche of shareholder loan totalling KShs 14 billion in the year 2021. This was in addition to KShs 11 billion advanced in 2020, making the total loan amount to KShs 25 billion. The loan was to enable the airline sustain operations during the Covid-19 and post covid-19 pandemic period. The loan is repayable after 5 years and attracts interest at a rate of 3% per annum.

The In 2021, Government has also initiated a bailout program that will inject some cash for budgetary support and undertake novation of some of the long term loans. This program is, in part, aimed at improving the cash flows in the short run and also support a restructuring programme with a view to make the business profitable and sustainable in the long term.

**d) 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.

***i. Determining the lease term of contracts with renewal and termination options***

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

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

***ii. Classification of rental property as property, plant and equipment or investment property***

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

d) Critical judgements in applying the Group's accounting policies

*ii. Classification of rental property as property, plant and equipment or investment property (continued)*

Included in land and buildings is a property valued at KShs 2,978 million (2020: 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.

*iii. 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.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**5 FINANCIAL RISK MANAGEMENT (Continued)****The Group's and Company's risk management framework (Continued)**

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

**(a) Market risk**

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

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

**(i) Interest rate risk**

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

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

*Exposure to interest rate risk*

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

**Group and Company**

	Nominal amount			
	2021		2020	
	Effective interest rate	KShs Millions	Effective interest rate	KShs Millions
<b>Fixed rate instruments</b>				
Local currency facility	3.00%	25,760	2.99%	11,337
Mandatory convertible note – liability component	12.03%	4,849	12.03%	4,501
		30,609		15,838
<b>Variable rate instruments</b>				
Local bank revolving facility	5.64%	4,998	6.49%	5,255
Samburu facility	4.84%	13,580	5.75%	15,428
Tsavo facility	1.29%	59,717	1.79%	58,282
		78,295		78,965
<b>Total exposure</b>		108,904		94,803

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

## (a) Market risk (Continued)

## (i) Interest rate risk (continued)

*Sensitivity Analysis*

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

	Profit or loss/equity	
	2021 KShs Million	2020 KShs Million
Variable rate instruments		
1% increase	(782)	(790)
1% decrease	782	790

## (ii) Jet fuel price risk

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

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

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

## (iii) Foreign currency risk

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

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

The various currencies to which the Group and Company were exposed at 31 December 2021 and 31 December 2020 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 2021

	GBP KShs Millions	USD KShs Millions	Euro KShs Millions	Total KShs Millions
<b>Financial assets and lease receivables</b>				
Prepaid maintenance asset	-	6,744	-	6,744
Aircraft deposits	-	3,057	-	3,057
Trade and other receivables	1,296	3,925	1,403	6,624
Cash and cash equivalents	65	2,279	139	2,483
	1,361	16,005	1,542	18,908
<b>Financial liabilities and provisions</b>				
Trade and other payables	(481)	(19,509)	(587)	(20,577)
Mandatory convertible note	-	(4,849)	-	(4,849)
Lease liabilities	-	(1,216)	-	(1,216)
Return condition provision	-	(7,932)	-	(7,932)
<b>Net exposure</b>	<b>880</b>	<b>(17,501)</b>	<b>955</b>	<b>(15,666)</b>
<b>Financial liabilities</b>				
Loans and borrowings	-	(78,295)	-	(78,295)
Lease liabilities	-	(59,191)	-	(59,191)
<b>Net exposure</b>	<b>-</b>	<b>(137,486)</b>	<b>-</b>	<b>(137,486)</b>

## 31 December 2020

<b>Financial assets and lease receivables</b>				
Prepaid maintenance asset	-	6,099	-	6,099
Aircraft deposits	-	3,703	-	3,703
Trade and other receivables	684	4,235	1,306	6,225
Cash and cash equivalents	46	2,583	146	2,775
	730	16,620	1,452	18,802
<b>Financial liabilities and provisions</b>				
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	-	(5,375)	-	(5,375)
<b>Net exposure</b>	<b>424</b>	<b>(25,210)</b>	<b>559</b>	<b>(24,227)</b>
<b>Financial liabilities</b>				
Loans and borrowings	-	(79,302)	-	(79,302)
Lease liabilities	-	(68,960)	-	(68,960)
<b>Net exposure</b>	<b>-</b>	<b>(148,262)</b>	<b>-</b>	<b>(148,262)</b>

## KENYA AIRWAYS PLC

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

## (a) Market risk (Continued)

## (iii) Foreign currency risk (Continued)

## Company:

	GBP KShs Millions	USD KShs Millions	Euro KShs Millions	Total KShs Millions
<b>31 December 2021</b>				
<b><i>Financial assets and lease receivables</i></b>				
Prepaid maintenance asset	-	5,149	-	5,149
Aircraft deposits	-	3,057	-	3,057
Trade and other receivables	1,296	2,887	1,403	5,586
Cash and cash equivalents	65	2,095	139	2,299
	1,361	13,188	1,542	16,091
<b><i>Financial liabilities and provisions</i></b>				
Return condition provision	-	(4,237)	-	(4,237)
Trade and other payables	(481)	(18,209)	(575)	(19,265)
Mandatory convertible note	-	(4,849)	-	(4,849)
Lease liabilities	-	(1,216)	-	(1,216)
<b>Net exposure</b>	<b>880</b>	<b>(15,323)</b>	<b>967</b>	<b>(13,476)</b>
<b><i>Financial liabilities</i></b>				
Loans and borrowings	-	(78,295)	-	(78,295)
Lease liabilities	-	(59,191)	-	(59,191)
<b>Net exposure</b>	<b>-</b>	<b>(137,486)</b>	<b>-</b>	<b>(137,486)</b>
<b>31 December 2020</b>				
<b><i>Financial assets and lease receivables</i></b>				
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
<b><i>Financial liabilities and provisions</i></b>				
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)
<b>Net exposure</b>	<b>424</b>	<b>(14,276)</b>	<b>574</b>	<b>(13,278)</b>
<b><i>Liabilities</i></b>				
Loans and borrowings	-	(78,295)	-	(78,295)
Lease Liabilities	-	(68,960)	-	(68,960)
<b>Net exposure</b>	<b>-</b>	<b>(147,255)</b>	<b>-</b>	<b>(147,255)</b>

**5 FINANCIAL RISK MANAGEMENT (Continued)****(a) Market risk (Continued)****(iii) Foreign currency risk (Continued)****Sensitivity analysis**

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

<i>Profit or loss</i>	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
GBP	88	42	88	42
USD	(1,750)	(2,521)	(1,532)	(1,428)
EURO	96	56	97	57
	<u>(1,566)</u>	<u>(2,423)</u>	<u>(1,347)</u>	<u>(1,329)</u>
USD	<u>(13,749)</u>	<u>(14,826)</u>	<u>(13,749)</u>	<u>(14,826)</u>

The exchange rates applied during the year are as follows:

	Average rates		Closing rates	
	2021	2020	2021	2020
GBP	151.24	137.31	152.76	149.16
USD	109.79	106.16	113.17	109.24
EURO	129.76	121.98	127.98	134.16

**(b) Credit risk**

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

## (b) Credit risk (Continued)

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

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

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

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

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Trade receivables	6,102	7,983	5,901	7,566
Other receivables	3,231	1,904	2,614	1,352
Due from related parties	-	-	22,667	20,127
Aircraft deposits	3,057	3,703	3,057	3,703
Bank balances	6,095	7,728	5,807	7,536
Prepaid maintenance asset	6,823	6,105	5,149	4,892
<b>Total</b>	<b>25,308</b>	<b>27,423</b>	<b>45,195</b>	<b>45,176</b>

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

## (b) Credit risk (Continued)

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

Category	Description	Basis for recognizing expected credit losses
Performing (stage 1)	The counterparty has a low risk of default and does not have any past-due amounts.	Lifetime ECL
Doubtful (stage 2)	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit impaired
In default (stage 3)	Amount is >360 days past due or there is evidence indicating the asset is credit impaired.	Lifetime ECL – credit impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and has failed to engage in a repayment plan with the Group.	Amount is written off

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

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

**Group**

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
				KShs millions	KShs millions	KShs millions
<b>31 December 2021</b>						
Trade receivables	N/A	Doubtful	Lifetime ECL	8,545	(2,443)	6,102
Other receivables	N/A	Doubtful	Lifetime ECL	3,455	(224)	3,231
Bank balances	A, BBB, B+, B-	Performing	12-month ECL	6,095	-	6,095
Aircraft deposits	N/A	Performing	12-month ECL	3,057	-	3,057
Due from related companies	N/A	Doubtful	Lifetime ECL	86	(86)	-
Prepaid maintenance asset	N/A	Performing	12-month ECL	6,823	-	6,823
				<b>28,061</b>	<b>(2,753)</b>	<b>25,308</b>
<b>31 December 2020</b>						
Trade receivables	N/A	Doubtful	Lifetime ECL	9,643	(1,660)	7,983
Other receivables	N/A	Doubtful	Lifetime ECL	2,379	(475)	1,904
Bank balances	A, BBB, B+, B-	Performing	12-month ECL	7,728	-	7,728
Aircraft deposits	N/A	Performing	12-month ECL	3,703	-	3,703
Due from related companies	N/A	Doubtful	Lifetime ECL	88	(88)	-
Prepaid maintenance asset	N/A	Performing	12-month ECL	6,105	-	6,105
				<b>29,646</b>	<b>(2,223)</b>	<b>27,423</b>

## KENYA AIRWAYS PLC

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK 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 2021**

	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	8,263	(2,362)	5,901
Other receivables	N/A	Doubtful	Lifetime ECL	2,837	(223)	2,614
Bank balances	A, BBB, B+, B-	Performing	12-month ECL	5,807	-	5,807
Aircraft deposits	N/A	Performing	12-month ECL	3,057	-	3,057
Due from related companies	N/A	Doubtful	Lifetime ECL	22,960	(147)	22,813
Prepaid maintenance asset	N/A	Performing	12-month ECL	5,149	-	5,149
				48,073	(2,732)	45,341

**31 December 2020**

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



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

## (b) Credit risk (Continued)

Group	Credit risk profile based on provision matrix						Total
	<30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	
<b>31 December 2021</b>							
<b>Trade- Airlines</b>							
ECL rate	1.8%	15.6%	17.9%	36.2%	34.2%	70.7%	25.8%
Expected gross carrying amount	458	3	1	2	1	246	71
Lifetime ECL	8	-	-	1	-	174	18
<b>Trade- Agents</b>							
ECL rate	1.1%	9.1%	14.9%	31.6%	28.7%	148.9%	18.0%
Expected gross carrying amount	4,844	139	42	36	54	627	5,74
Lifetime ECL	55	13	6	11	15	934	1,03
<b>Trade- Others</b>							
ECL rate	9.6%	28.6%	32.2%	34.3%	38.2%	144.3%	78.5%
Expected gross carrying amount	192	73	75	194	295	620	1,44
Lifetime ECL	18	21	24	67	113	895	1,13
<b>Trade- Government</b>							
ECL rate	1.6%	4.1%	5.6%	12.2%	18.6%	93.3%	17.2%
Expected gross carrying amount	194	123	25	50	44	67	50
Lifetime ECL	3	5	1	6	8	63	8
<b>Other receivables, prepayments and related party balances</b>							
ECL rate	0.9%	0.4%	4.9%	8.8%	8.5%	11.4%	10.5%
Expected gross carrying amount	33	129	10	234	246	2,889	3,54
Lifetime ECL	-	1	-	21	21	328	37
<b>31 December 2020</b>							
<b>Trade- Airlines</b>							
ECL rate	7%	6.6%	0.3%	1.9%	5.8%	11.1%	9.5%
Expected gross carrying amount	117	5	2	82	121	1,332	1,65
Lifetime ECL	-	-	-	2	7	148	15
<b>Trade- Agents</b>							
ECL rate	0.9%	14.1%	24.5%	26.6%	20.3%	111.3%	17.6%
Expected gross carrying amount	2,806	263	117	161	1,210	453	5,01
Lifetime ECL	25	37	29	43	245	504	88
<b>Trade- Others</b>							
ECL rate	2.9%	3.6%	4.1%	14.4%	5.6%	45.9%	19.5%
Expected gross carrying amount	755	80	163	218	547	949	2,71
Lifetime ECL	22	3	7	32	31	436	53
<b>Trade- Government</b>							
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	26
Lifetime ECL	-	-	2	7	13	69	9
<b>Other receivables, prepayments and related party balances</b>							
ECL rate	2.1%	1.0%	10.7%	19.1%	18.6%	24.7%	22.8%
Expected gross carrying amount	23	90	7	163	172	2,013	2,46
Lifetime ECL	-	1	1	31	32	498	56

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

## (b) Credit risk (Continued)

## Credit risk profile based on provision matrix

Company	<30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
<b>31 December 2021</b>							
<b>Trade- Airlines</b>							
ECL rate	1.8%	16.1%	18.4%	37.3%	35.2%	72.7%	26.6%
Expected gross carrying amount	445	3	1	2	1	239	691
Lifetime ECL	8	-	-	1	-	174	183
<b>Trade- Agents</b>							
ECL rate	1.1%	8.8%	14.6%	30.8%	28.0%	145.3%	17.6%
Expected gross carrying amount	4,577	131	40	34	51	542	5,425
Lifetime ECL	50	12	6	10	14	861	953
<b>Trade- Others</b>							
ECL rate	16.5%	27.0%	30.4%	32.4%	36.1%	136.3%	78.8%
Expected gross carrying amount	112	77	80	205	312	657	1,443
Lifetime ECL	18	21	24	67	113	895	1,138
<b>Trade- Government</b>							
ECL rate	1.6%	4.1%	5.6%	12.2%	18.6%	93.3%	17.2%
Expected gross carrying amount	194	123	25	50	44	67	503
Lifetime ECL	3	5	1	6	8	63	86
<b>Other receivables, prepayments and related party balances</b>							
ECL rate	0.1%	0.1%	0.7%	1.2%	1.2%	1.6%	1.4%
Expected gross carrying amount	241	931	71	1,691	1,782	20,904	25,620
Lifetime ECL	-	1	-	20	21	327	369
<b>31 December 2020</b>							
<b>Trade- Airlines</b>							
ECL rate	0.1%	6.0%	0.0%	6.3%	5.7%	10.4%	9.6%
Expected gross carrying amount	53	6	-	25	123	1,433	1,640
Lifetime ECL	-	-	-	2	7	148	157
<b>Trade- Agents</b>							
ECL rate	0.9%	14.3%	24.9%	26.8%	21.4%	99.9%	17.7%
Expected gross carrying amount	2,744	258	115	158	1,131	491	4,897
Lifetime ECL	25	37	29	42	243	491	866
<b>Trade- Others</b>							
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
<b>Trade- Government</b>							
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
<b>Other receivables, prepayments and related party balances</b>							
ECL rate	0.3%	0.1%	1.6%	2.8%	2.7%	3.7%	3.4%
Expected gross carrying amount	209	808	62	1,467	1,546	18,136	22,228
Lifetime ECL	1	1	1	41	43	662	748

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

## (b) Credit risk (Continued)

## A reconciliation of the impairment loss accounts:

## Group

	Trade and other receivables KShs Millions	Due from related party KShs Millions	Total KShs Millions
<b>31 December 2021</b>			
At 1 January 2021	(2,135)	(88)	(2,223)
Increase in expected credit losses	(532)	-	(532)
Unused amounts reversed	-	2	2
			<hr/>
At 31 December 2021	(2,667)	(86)	(2,753)
			<hr/>

## Group

## 31 December 2020

At 1 January 2020	(1,490)	(126)	(1,616)
Increase in expected credit losses	(645)	-	(645)
Unused amounts reversed	-	38	38
			<hr/>
At 31 December 2020	(2,135)	(88)	(2,223)
			<hr/>

## Company

## 31 December 2021

At 1 January 2021	(2,197)	(149)	(2,346)
Increase in expected credit losses	(388)	-	(388)
Unused amounts reversed	-	2	2
			<hr/>
At 31 December 2021	(2,585)	(147)	(2,732)
			<hr/>

## 31 December 2020

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

## (b) Credit risk (Continued)

**Incorporation of forward-looking information**

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

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

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

The economic scenarios used as at 31 December 2021 include the following range of indicators

Macro-Economic variable	Weighting	2021		
		Base	Upside	Downside
		<b>90%</b>	<b>5%</b>	<b>5%</b>
Inflation Rate		5.4%	6.5%	4.3%
Crude Oil Prices		0.3%	1.4%	-0.8%
Percentage Change				
Deposits		6.9%	8.0%	5.8%
Savings		3.7%	4.8%	2.6%
Housing Price Index		0.1%	0.1%	-1.1%
World Economic				
Expectations		-17.3%	-1,5%	-33.0%
Global LIBOR Rates		0.3%	1.0%	-0.7%

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 analyzing historical data over the past five years.

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

*Sensitivity Analysis*

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

	Profit or loss/equity	
	2021	2020
	KShs	KShs
Macroeconomic variables	Millions	Millions
5% increase	(162)	(154)
5% decrease	162	154

## 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 1 year KShs Millions	2 - 5 years KShs Millions	Over 5 years KShs Millions	Total KShs Millions
<b>31 December 2021</b>				
Borrowings	19,941	93,705	6,510	120,156
Trade and other payables	38,163	-	-	38,163
Lease liabilities	18,583	48,328	18,452	85,363
Return condition provisions	1,190	3,197	2,929	7,316
	<b>77,877</b>	<b>145,230</b>	<b>27,891</b>	<b>250,998</b>
<b>31 December 2020</b>				
Borrowings	14,029	77,325	18,599	109,953
Trade and other payables	37,543	-	-	37,543
Lease liabilities	24,605	52,166	21,044	97,815
Return condition provisions	2,573	1,817	991	5,381
	<b>78,750</b>	<b>131,308</b>	<b>40,634</b>	<b>250,692</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5 FINANCIAL RISK MANAGEMENT (Continued)

## (c) Liquidity risk (Continued)

Company	Less than 1 year KShs Millions	2 - 5 Years KShs Millions	Over 5 years KShs Millions	Total KShs Millions
<b>31 December 2021</b>				
Borrowings	19,941	93,705	6,510	120,156
Trade and other payables	58,937	-	-	58,937
Lease liabilities	15,540	40,569	15,872	71,981
Return condition provisions	325	2,856	756	3,937
	94,743	137,130	23,138	255,011
<b>31 December 2020</b>				
Borrowings	14,029	77,325	18,599	109,953
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
	94,913	126,158	34,468	255,539

## (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	2021 KShs Millions	2020 KShs Millions
Total equity*	(83,337)	(64,165)
Borrowings	107,091	92,539
Less: Cash and bank balances	(6,095)	(7,728)
Net borrowings	100,996	84,811
Net debt to equity ratio	>100%	>100%

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**5 FINANCIAL RISK MANAGEMENT (Continued)**

**(d) Capital management (Continued)**

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

<b>Company</b>	2021 KShs Millions	2020 KShs Millions
Total equity*	(81,589)	(64,011)
Borrowings	107,091	92,539
Less: Cash and bank balances	(5,807)	(7,536)
Net borrowings	101,284	85,003
Net debt to equity ratio	>100%	>100%

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

**(e) Fair value measurement of financial instruments**

The group hold financial assets not at fairvalue. The directors have assessed the carrying value of these assets to be equivalent to their fair value due to their short term tenure.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**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 9.5% of total income.

**Analysis of turnover according to business segments:**

	Passenger KShs Millions	Freight and mail KShs Millions	Handling KShs Millions	Lease rental income KShs Millions	Sub-lease Income KShs Millions	Other revenue KShs Millions	Total KShs Millions
<b>31 December 2021</b>							
Kenya	4,798	121	1,721	-	-	343	6,983
Rest of the world	41,740	13,312	-	1,311	2,622	4,253	63,238
	46,538	13,433	1,721	1,311	2,622	4,596	70,221
<b>31 December 2020</b>							
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	4,631	52,805

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**Analysis of costs according to business segments:**

**31 December 2021**

	Passenger KShs Millions	Freight and mail KShs Millions	Handling KShs Millions	Lease rental income KShs Millions	Sub-lease income KShs Millions	Other revenue KShs Millions	Total KShs Millions
Depreciation	4,197	1,211	155	118	236	414	6,332
Interest expense	5,268	1,521	195	148	297	520	7,948



KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 OPERATING SEGMENTS (Continued)

Analysis of costs according to business segments: (continued)

31 December 2020

	Passenger KShs Millions	Freight and mail KShs Millions	Handling KShs Millions	Lease rental income KShs Millions	Sub-lease income KShs Millions	Other revenue KShs Millions	Total KShs Millions
Depreciation	4,890	1,307	222	187	-	-	6,606
Interest expense	2,857	764	129	109	-	-	3,859

Analysis of operating loss per business segments:

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Passengers	(4,509)	(17,314)	(3,552)	(15,515)
Freight, mail and others	(1,747)	(7,742)	(1,524)	(6,847)
Handling	(166)	(575)	-	-
Lease rental income	(127)	(485)	(110)	(638)
Sub-lease income	(254)	(995)	(221)	(1,308)
	(6,803)	(27,111)	(5,407)	(24,308)

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

	2021 KShs Millions	2020 KShs Millions
Africa	38,230	27,706
Europe	11,395	10,948
Middle East	7,723	4,544
China	6,507	4,888
India	1,786	2,368
North America	4,580	2,351
	70,221	52,805

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 REVENUE

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

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Recognised at a point in time:				
Passengers	46,538	33,705	42,166	31,330
Freight and mail	13,433	9,012	13,433	9,012
Handling	1,721	1,526	-	-
	<u>61,692</u>	<u>44,243</u>	<u>55,599</u>	<u>40,342</u>
Recognised over time:				
Engineering services	526	185	526	185
Training services	79	35	79	35
	<u>605</u>	<u>220</u>	<u>605</u>	<u>220</u>
(ii) Other revenue				
Lease rental income	1,311	1,290	1,311	1,290
Sub-lease income	3,059	2,642	3,059	2,642
Sundry income	3,554	4,410	3,617	4,596
	<u>7,924</u>	<u>8,342</u>	<u>7,987</u>	<u>8,528</u>
Total	70,221	52,805	64,191	49,090
(iii) Interest Income	162	62	167	66

8 EXPENSES BY NATURE

(a) Direct costs				
Aircraft fuel and oil	16,349	10,604	15,156	10,027
Aircraft landing, handling and navigation	7,988	5,852	7,619	5,599
Aircraft maintenance	5,071	5,226	4,335	5,079
Passenger services	1,960	1,846	1,934	1,833
Commissions on sales	1,242	1,046	1,225	1,033
Aircraft, passenger and cargo insurance	1,276	656	1,140	595
Crew route expenses	2,174	2,049	2,169	2,048
Central reservation system and frequent flyer programme	3,122	2,242	2,681	1,863
Other direct costs	1,973	736	1,669	296
Option premium paid	-	705	-	705
	<u>41,155</u>	<u>30,962</u>	<u>37,928</u>	<u>29,078</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**8 EXPENSES BY NATURE (Continued)**

(b) Fleet ownership costs

	Group 2021 KShs Millions	2020 KShs Millions	Company 2021 KShs Millions	2020 KShs Millions
Short-term lease expense	437	325	399	220
Depreciation on aircraft and related equipment (Note 14)	5,542	5,748	5,537	5,744
Impairment of aircraft and related equipment (Note 14)	129	-	129	-
Amortisation of ROU asset- aircraft and related equipment (Note 16a)	7,925	10,859	6,707	9,673
Impairment of ROU asset- aircraft and related equipment (Note 16a)	-	7,013	-	7,013
Amortisation of return condition asset (Note 16b)	1,409	3,348	1,087	2,995
Variable lease expense - prepaid maintenance asset (Note 21)	1,195	1,278	1,195	1,278
	<u>16,637</u>	<u>28,571</u>	<u>15,054</u>	<u>26,923</u>

(c) Other operating costs

(i) Administration expenses

Employee costs (Note 8(d))	12,710	13,619	10,831	11,987
Legal and professional fees	378	416	360	405
Directors' remuneration (Note 32(c))	76	55	76	55
Auditor's remuneration	15	14	11	11
General expenses	2,230	1,298	1,844	1,075
	<u>15,409</u>	<u>15,402</u>	<u>13,122</u>	<u>13,533</u>

(ii) Establishment

General maintenance and supplies	536	460	476	400
Depreciation on property and equipment (Note 14)	846	858	786	796
Amortisation of intangible assets – computer software (Note 15(b))	147	145	143	140
Amortisation of leased buildings (Note 16)	414	431	283	305
Impairment of leased buildings (Note 16)	-	24	-	-
	<u>1,943</u>	<u>1,918</u>	<u>1,688</u>	<u>1,641</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 EXPENSES BY NATURE (Continued)

(c) Other operating costs (Continued)

(iii) Selling

	Group		Company	
	2021	2020	2021	2020
	KShs	KShs	KShs	KShs
	Millions	Millions	Millions	Millions
Advertising and publicity	106	51	105	42
Provision for ECL on trade and other receivables (Note 20)	530	607	386	562
	<u>636</u>	<u>658</u>	<u>491</u>	<u>604</u>
Bank charges	86	79	82	76
Currency translation losses	1,158	2,326	1,235	1,532
	<u>1,244</u>	<u>2,405</u>	<u>1,317</u>	<u>1,608</u>
<b>Total other operating costs</b>	<u><u>19,232</u></u>	<u><u>20,383</u></u>	<u><u>16,618</u></u>	<u><u>17,386</u></u>

(d) Employee costs

Wages and salaries	10,468	11,630	8,927	10,174
Retirements benefits costs	85	278	56	256
National Social Security Fund (NSSF)	8	137	6	129
Accrued leave pay	744	(122)	658	(116)
Redundancy costs (Note 28)	32	129	36	128
Other staff costs	1,373	1,567	1,148	1,416
	<u>12,710</u>	<u>13,619</u>	<u>10,831</u>	<u>11,987</u>

(e) Number of employees

	Group		Company	
	2021	2020	2021	2020
Flight operations	1,172	1,205	1,118	1,195
Ground services	1,016	1,045	969	1,022
Management and administration	987	1,015	941	947
Technical	541	556	516	488
	<u>3,716</u>	<u>3,821</u>	<u>3,544</u>	<u>3,652</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 NET FINANCE COSTS

Interest expense:

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
- borrowings	4,076	4,132	4,072	4,128
- lease liabilities (Note 26)	4,141	4,882	3,507	4,200
-return condition provisions (Note 28)	(295)	100	(40)	89
	<u>7,922</u>	<u>9,114</u>	<u>7,539</u>	<u>8,417</u>
Currency translation losses on borrowings	523	399	523	399
Currency translation losses on leases	942	11	942	11
	<u>9,387</u>	<u>9,524</u>	<u>9,004</u>	<u>8,827</u>
<b>Interest income:</b>				
Interest income on bank deposits	(162)	(62)	(167)	(66)
	<u>9,225</u>	<u>9,462</u>	<u>8,837</u>	<u>8,761</u>

10 LOSS BEFORE TAXATION

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

Lease rental income (Note 7(a)(ii))	(1,311)	(1,290)	(1,311)	(1,290)
Employee costs (Note 8(d))	12,710	13,619	10,832	11,987
Net foreign exchange losses	2,623	2,736	2,700	1,942
Depreciation of property, aircraft and equipment (Note 14)	6,388	6,606	6,323	6,540
Provision for rotables (Note 14)	-	5	-	5
Amortisation of computer software (Note 15(b))	147	145	143	140
Amortisation of right-of-use asset (Note 16)	8,339	11,290	6,990	9,978
Impairment of right-of-use asset (Note 16)	-	7,037	-	7,013
Amortisation of return conditions asset (Note 16)	1,409	3,348	1,087	2,995
Variable lease payment (Note 21)	1,195	1,278	1,195	1,278
Provision for expected credit losses on trade receivables (Note 20)	530	607	386	562
Auditor's remuneration	15	14	9	11
Directors' remuneration (Note 32(c))	76	55	76	55
Provision for obsolete inventories (Note 19)	(1)	(113)	(1)	(113)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 11 INCOME TAX

## (a) Group

## (i) Income tax (credit)/charge

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

	2021 KShs Millions	2020 KShs Millions
Current income tax at 30% (2020:25%)	63	39
Deferred income tax (Note 27)	(213)	(393)
	<u>(150)</u>	<u>(354)</u>

## (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:

	2021 KShs Millions	2020 KShs Millions
Loss before tax	(16,028)	(36,573)
Current tax at 30% (2020:25%)	(4,808)	(9,143)
Tax effect of expenses not subject for tax purposes	(493)	3,799
Effect of change in tax rates	0	1,270
Under provision of deferred income tax in prior years	0	8,910
Unrecognised deferred income tax asset (Note 27)	5,151	(5,190)
	<u>(150)</u>	<u>(354)</u>

## (a) Company

## (i) Income tax expense

*Income tax charge recognised in profit or loss*

Current tax at 30% (2020:25%)	38	26
Deferred income tax	-	-
Income tax expense	<u>38</u>	<u>26</u>

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

Loss before tax	<u>(14,246)</u>	<u>(33,058)</u>
Current tax at 30% (2020:25%)	(4,274)	(8,265)
Tax effect of expenses not subject for tax purposes	(41)	2,460
Effect of change in tax rates	-	1,449
Under provision of deferred income tax in prior years	-	8,696
Unrecognised deferred income tax asset (Note 27)	4,353	(4,314)
	<u>38</u>	<u>26</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 INCOME TAX (continued)

(b) Current income tax balance

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
At start of year	1,280	1,270	1,263	1,256
Charge for the year	(63)	(39)	(38)	(26)
Under-provision in prior years	-	7	-	-
Paid during the year	65	42	44	33
At end of year	1,282	1,280	1,269	1,263

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.

	2021 KShs Millions	2020 KShs Millions
Loss attributable to owners of the Company	(15,895)	(36,227)
<b>Basic loss per share</b>		
Weighted average number of ordinary shares (million)	5,824	5,824
Basic loss per share (KShs)	(2.73)	(6.22)
<b>Instruments with dilutive impact in the year:</b>		
Weighted average number of ordinary shares deemed to be issued in respect of mandatory convertible note (million)	1,659	1,659
Diluted loss per share (KShs)	(9.58)	(21.84)

13 DIVIDENDS – GROUP AND COMPANY

The Directors do not recommend payment of dividend for the year ended 31 December 2021 (2020: 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:

	2021 KShs Millions	2020 KShs Millions
At start and end of year (Note 30)	78	78

## KENYA AIRWAYS PLC

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 14 PROPERTY, AIRCRAFT AND EQUIPMENT

## Group

	Land and buildings KShs Millions	Aircraft and related equipment KShs Millions	Other property and equipment KShs Millions	Incomplete projects KShs Millions	Total KShs Millions
<b>As at 1 January 2020</b>					
Cost or valuation	10,708	117,471	11,946	355	140,480
Accumulated depreciation	-	(40,384)	(10,739)	-	(51,123)
<b>At 1 January 2020</b>	10,708	77,087	1,207	355	89,357
<b>Year ended 31 December 2020</b>					
Opening net book amount	10,708	77,087	1,207	355	89,357
Additions	-	292	183	443	918
Provision	-	-	(5)	-	(5)
Transfer from incomplete projects	-	604	4	(608)	-
Transfer to intangible assets (Note 15(b))	-	-	-	(54)	(54)
Disposals	-	(63)	(68)	-	(131)
Depreciation charge	(476)	(5,748)	(382)	-	(6,606)
Depreciation eliminated on disposal	-	50	68	-	118
<b>Net book amount</b>	10,232	72,222	1,007	136	83,597
<b>At 31 December 2020</b>					
Cost or valuation:	10,708	118,304	12,060	136	141,208
Accumulated depreciation	(476)	(46,082)	(11,053)	-	(57,611)
<b>At 31 December 2020</b>	10,232	72,222	1,007	136	83,597
<b>Year ended 31 December 2021</b>					
Opening net book amount	10,232	72,222	1,007	136	83,597
Additions	-	434	158	1,771	2,363
Transfer from incomplete projects	-	698	33	(924)	(193)
Disposals	-	(138)	(61)	-	(199)
Depreciation charge	(476)	(5,542)	(370)	-	(6,388)
Impairment	-	(129)	-	-	(129)
Depreciation eliminated on disposal	-	121	59	-	180
<b>At 31 December 2021</b>	9,756	67,666	826	983	79,231
<b>As at 31 December 2021</b>					
Cost or valuation	10,712	129,356	12,219	983	153,270
Accumulated depreciation	(956)	(61,690)	(11,393)	-	(74,039)
<b>At 31 December 2021</b>	9,756	67,666	826	983	79,231



KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)

Company

	Land and buildings KShs Millions	Aircraft and related equipment KShs Millions	Other property and equipment KShs Millions	Incomplete projects KShs Millions	Total KShs Millions
<b>At 1 January 2020</b>					
Cost or valuation:	10,112	117,383	11,249	332	139,076
Accumulated depreciation	-	(40,376)	(10,184)	-	(50,560)
At 1 January 2020	10,112	77,007	1,065	332	88,516
<b>Year ended 31 December 2020</b>					
Opening net book amount	10,112	77,007	1,065	332	88,516
Additions	-	292	174	439	905
Provision	-	-	(5)	-	(5)
Transfer from incomplete projects	-	604	-	(658)	(54)
Disposals	-	(63)	(69)	-	(132)
Depreciation charge	(449)	(5,744)	(347)	-	(6,540)
Depreciation eliminated on disposal	-	50	68	-	118
Net book amount	9,663	72,146	886	113	82,808
<b>At 31 December 2020</b>					
Cost or valuation:	10,112	118,216	11,349	113	139,790
Accumulated depreciation	(449)	(46,070)	(10,463)	-	(56,982)
At 31 December 2020	9,663	72,146	886	113	82,808
<b>Year ended 31 December 2021</b>					
Opening net book amount	9,663	72,146	886	113	82,808
Additions	-	431	129	1,767	2,327
Transfer from incomplete projects	-	698	33	(924)	(193)
Disposals	-	(136)	(60)	-	(196)
Depreciation charge	(450)	(5,537)	(336)	-	(6,323)
Impairment	-	(129)	-	-	(129)
Depreciation eliminated on disposal	-	121	58	-	179
At 31 December 2021	9,213	67,594	710	956	78,473
<b>At 31 December 2021</b>					
Cost or valuation	10,112	129,267	11,454	956	151,789
Accumulated depreciation	(899)	(61,673)	(10,744)	-	(73,316)
At 31 December 2021	9,213	67,594	710	956	78,473

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**14 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)**

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

	Group		Company	
	KShs Millions 2021	KShs Millions 2020	KShs Millions 2021	KShs Millions 2020
Cost	4,615	4,615	4,081	4,081
Accumulated depreciation	(1,852)	(1,743)	(1,282)	(1,249)
Net book amount	2,763	2,872	2,799	2,832

Included in property, aircraft and equipment of Group and Company are assets with a cost of KShs 28,441 million (2020: KShs 21,531 million) and KShs 27,740 million (2020: KShs 20,922 million) respectively that are fully depreciated. The notional annual depreciation of these assets would have been KShs 4,388 million (2020: KShs 3,728 million) and KShs 4,277 million (2020: KShs 3,622 million) respectively.

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

Also included in land and buildings for Group and Company are properties that are the subject of court disputes valued at KShs 248 million (2020: KShs 256 million). The Group and Company are the defendants in several legal suits in which the claimants are claiming ownership of the lands. Based on the legal advice and information currently available, the Directors do not expect any significant amounts to crystallize from the assessments. The Directors have disclosed the general nature of the dispute as they do not want to prejudice the position of the Group and Company over these matters that are currently in court.

**Impairment assessment**

The Group and Company performed an impairment assessment of its owned 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 lower than the carrying value of the aircrafts and related equipment at the year end and an impairment of Ksh 129 million 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.

**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 63,146 million and 4,189 million respectively (2020: KShs 67,373 million and 4,254 million respectively) at the end of the year. Details of the outstanding loan facilities are disclosed in note 25.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**14 PROPERTY, AIRCRAFT AND EQUIPMENT (Continued)****Fair value measurement of the Group's and Company's land and buildings**

The Group's and Company's land and buildings were revalued at 31 December 2019 by an independent valuer, Quince Real Estate Limited. Quince Real Estate Limited are members of the Institute of Valuers of Kenya and they have appropriate qualifications and recent experience in the fair value measurements of properties in the relevant locations. The valuation conforms to International Valuation Standards (IVS), Institution of Surveyors of Kenya (ISK) guidelines and was based on open market value on arm's length terms.

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

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

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

Details of the fair value hierarchy for the Group's and Company's property carried at fair value as at 31 December 2021 and 31 December 2020 are as follows:

	Level 1 KShs Millions	Level 2 KShs Millions	Level 3 KShs Millions	Total KShs Millions
<b>31 December 2021</b>				
<b>Group</b>				
Land and buildings	-	-	9,759	9,759
<hr/>				
<b>Company</b>				
Land and buildings	-	-	9,212	9,212
<hr/>				
<b>31 December 2020</b>				
<b>Group</b>				
Land and buildings	-	-	10,235	10,235
<hr/>				
<b>Company</b>				
Land and buildings	-	-	9,662	9,662
<hr/>				

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**15 INTANGIBLE ASSETS**

Intangible assets consist of:

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Landing slot	2,561	2,561	2,561	2,561
Computer systems and software	335	296	331	288
	<u>2,896</u>	<u>2,857</u>	<u>2,892</u>	<u>2,849</u>

**(a) Intangible assets – landing slot**

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

**(b) Intangible assets – computer systems and software****Intangible assets - software**

	Group At 31 Dec		Company At 31 Dec	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
At start of year	296	313	288	301
Additions	-	74	-	73
Disposal	(7)	-	(7)	-
Transfer from property, aircraft and equipment (Note 14)	193	54	193	54
Amortisation during the year	(147)	(145)	(143)	(140)
<b>Net book value</b>	<u>335</u>	<u>296</u>	<u>331</u>	<u>288</u>

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
<b>Cost</b>	5,267	5,083	5,090	4,903
<b>Amortisation</b>	(4,932)	(4,787)	(4,759)	(4,615)
<b>Net book value At 31 December</b>	<u>335</u>	<u>296</u>	<u>331</u>	<u>288</u>

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 RIGHT-OF-USE-ASSETS

(a) Right-of-use assets

Group

	Aircraft and related equipment KShs Millions	Buildings KShs Millions	Total KShs Millions
<b>Carrying amount:</b>			
At 1 January 2020	67,801	1,761	69,562
Additions	-	4	4
Amortisation charge for the year	(10,859)	(431)	(11,290)
Impairment charge for the year	(7,013)	(24)	(7,037)
At 31 December 2020	49,929	1,310	51,239
At 1 January 2021	49,929	1,310	51,239
Modifications in the year	(2,223)	-	(2,223)
Termination	(276)	-	(276)
Amortisation charge for the year	(7,925)	(414)	(8,339)
At 31 December 2021	39,505	896	40,401
<b>Company</b>			
<b>Carrying amount:</b>			
At 1 January 2020	58,359	1,192	59,551
Additions	-	4	4
Amortisation charge for the year	(9,673)	(305)	(9,978)
Impairment charge for the year	(7,013)	-	(7,013)
At 31 December 2020	41,673	891	42,564
At 1 January 2021	41,673	891	42,564
Modifications in the year	(2,223)	-	(2,223)
Termination	(277)	-	(277)
Amortisation charge for the year	(6,707)	(283)	(6,990)
At 31 December 2021	32,466	608	33,074

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 16 RIGHT-OF-USE-ASSETS (Continued)

## (a) Right of use assets (continued)

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

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

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

**Impairment assessment**

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

The recoverable amount of the network airline operations has been measured based on the value-in-use, using a discounted cash flow model. Cash flow projections are based on the business plan covering the life of individual aircrafts. Cash flows for the impairment assessment 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:

- Weighted Average Cost of Capital (WACC) discount rate of 7.19%.
- Passenger travel demand is projected to be 22% lower than IATA projections, with the aviation industry expected to take about 3- 4 years to recover and attain 2019 levels by the year 2024.
- Airspace will reopen to scheduled operations and there will be removal of non - bilateral restrictions in 2022. The COVID situation is projected to improve because of increased vaccinations.
- Continuous growth in the contribution of the belly cargo revenues from the current 7% to 20% in the medium term.
- Passenger revenues are forecasted to grow to about 59% of pre-Covid levels in 2022 and thereafter grow at an average rate of 6% per annum to fully regain pre-Covid levels by 2030.

Amounts recognised in the profit and loss are as follows:

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Million
Amortisation of right-of-use assets	8,339	11,290	6,990	9,978
Impairment of right-of-use assets	-	7,037	-	7,013
Interest on lease liabilities	4,141	4,882	3,507	4,200
Expenses relating to short term leases	437	325	399	220
Income from sub-leasing of aircrafts	(3,059)	(2,642)	(3,059)	(2,642)

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**16 RIGHT-OF-USE-ASSETS**

**(b) Return condition assets**

Movement in return condition assets is as follows:

	Group		Company	
	2021 KShs Millions	2020 Kshs Millions	2021 KShs Millions	2020 Kshs Millions
At start of year	2,293	4,686	1,703	3,743
Additions	2,588	955	718	955
Amortisation to profit or loss	(1,409)	(3,348)	(1,087)	(2,995)
	<hr/>	<hr/>	<hr/>	<hr/>
	3,472	2,293	1,334	1,703
	<hr/>	<hr/>	<hr/>	<hr/>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 INVESTMENTS

(a) Investment in subsidiaries - Company

Details of investment	Country of incorporation	Activity	2021 % of equity interest	2020	2021 KShs million Carrying Amount	2020 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	51
JamboJet Limited (1,000,000 shares of KShs 606 each)	Kenya	Local passenger air transport	100%	100%	-	-
Kencargo Airlines International Limited (1,000,000 shares of KShs 20 each)	Kenya	Dormant	100%	100%	**	**
African Cargo Handling Limited (5,753,822 shares of KShs 100 each)	Kenya	Cargo handling	100%	100%	384	384
Fahari Aviation (5,000 shares of KShs each)	Kenya	Drone operations and training	100%	100%	-	-
					435	435

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

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

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

	2021 KShs Millions	2020 KShs Millions
At start of year	626	626
Impairment charge	-	-
At end of year	626	626

During the year, the Company did not recognise an impairment charge on any of the subsidiaries (2020: nil).



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 17 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	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Kenya Airfreight Handling Limited	730	772	139	155	673	758	56	79

	Revenues		Profit/(loss) before tax		Total comprehensive income	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Kenya Airfreight Handling Limited	269	221	49	11	33	9

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 17 INVESTMENTS (Continued)

## (b) Investments in associates – Group and Company

## (i) African Tours and Hotels Limited:

	2021 KShs Millions	2020 KShs Millions
African Tours and Hotels Limited: (100,398 ordinary shares of KShs 20 each)	2	2
Less: Impairment on investment in associate	(2)	(2)
	<u>          </u>	<u>          </u>
	-	-
	<u>          </u>	<u>          </u>

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

## (ii) Precision Air Services Limited:

	2021 KShs Millions	2020 KShs Millions
66,157,350 ordinary shares of KShs 3.48 (TShs 20) each	230	230
Less: Impairment of investment in associate	(230)	(230)
	<u>          </u>	<u>          </u>
	-	-
	<u>          </u>	<u>          </u>

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

Current assets	3,969	1,169
Non- current assets	3,013	4,567
Total assets	<u>6,982</u>	<u>5,736</u>
Current liabilities	(13,041)	(10,878)
Non-current liabilities	(12,656)	(12,185)
Total liabilities	<u>(25,697)</u>	<u>(23,063)</u>
Total revenue for the year	3,325	2,534
Loss before tax for the year	(2,413)	(2,834)
Total comprehensive loss for the year	<u>(2,430)</u>	<u>(2,847)</u>

Kenya Airways Plc owns 41.23% equity interest in Precision Air Services Limited. The investment was fully impaired in 2013 as the Directors do not expect the value of the investment to be recovered.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**18 AIRCRAFT DEPOSITS - Group and Company**

	2021 KShs Millions	2020 KShs Millions
Deposits for leased aircrafts	2,777	3,428
Deposits paid towards acquisition of aircraft	280	275
	<u>3,057</u>	<u>3,703</u>

The deposits relate to lease of aircraft and engines of Boeing 737's, 787's and Embraer E190's. The deposits paid towards acquisition of aircraft represent amounts paid to Boeing Corporation for the option to purchase or lease aircrafts in the future. The deposits are carried at amortised cost.

	2021 KShs Millions	2020 KShs Millions
At start of year	3,703	3,327
Additions	295	680
Refunds in the year	(1,057)	(693)
Amortisation charge to profit or loss	(3)	109
Currency translation differences	119	280
	<u>3,057</u>	<u>3,703</u>

**19 INVENTORIES – GROUP AND COMPANY**

	2021 KShs Millions	2020 KShs Millions
Aircraft consumables	3,188	3,191
Other inventories	232	251
Provisions for obsolescence	(1,268)	(1,269)
	<u>2,152</u>	<u>2,173</u>

The cost of inventories recognised as an expense and included in the Group's and Company's 'Direct costs' amounted to KShs1,021 million (2020: KShs 957 million).

The movement in provision for obsolete inventories is as follows:

	2021 KShs Millions	2020 KShs Millions
At start of year	1,269	1,382
Decrease in provision during the year	(1)	(113)
	<u>1,268</u>	<u>1,269</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Trade receivables	8,545	9,643	8,263	9,163
<i>Less: Provision for expected credit losses</i>	<i>(2,753)</i>	<i>(2,223)</i>	<i>(2,732)</i>	<i>(2,346)</i>
	<u>5,792</u>	<u>7,420</u>	<u>5,531</u>	<u>6,817</u>
Due from related parties (Note 32)	86	88	22,813	20,276
Prepayments and other receivables	3,455	2,379	2,838	1,952
	<u>9,333</u>	<u>9,887</u>	<u>31,182</u>	<u>29,045</u>

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

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
At start of year	2,223	1,616	2,346	1,784
Charge to profit or loss	530	607	386	562
	<u>2,753</u>	<u>2,223</u>	<u>2,732</u>	<u>2,346</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**21 PREPAID MAINTENANCE ASSETS**

The movement in the prepaid maintenance asset is as follows:

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs. Millions	2020 KShs. Millions
At start of year	6,105	5,533	4,892	4,696
Additions	2,528	2,494	2,447	2,123
Reimbursements	(1,065)	(783)	(1,065)	(782)
Charge to profit or loss in the year	(1,195)	(1,278)	(1,195)	(1,278)
Foreign exchange differences	450	139	70	133
At end of year	6,823	6,105	5,149	4,892

**22 SHARE CAPITAL – GROUP AND COMPANY**

**(a) Share capital and share premium**

	2021 KShs Millions	2020 KShs Millions
<b><i>Issued and fully paid:</i></b>		
5,823,902,621 ordinary shares of KShs 1 each	5,824	5,824

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

	Issued and fully paid No. of shares million	Share capital KShs millions	Share premium KShs Million	Total KShs millions
At 1 January 2020 and 31 December 2020	5,824	5,824	49,223	55,047
At 1 January 2021 and 31 December 2021	5,824	5,824	49,223	55,047

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**22 SHARE CAPITAL – GROUP AND COMPANY (Continued)****(b) Mandatory convertible notes**

On 14 November 2017, as part of its balance sheet restructuring, the Group and Company issued the Government of Kenya and KQ Lenders Company 2017 Limited mandatory convertible notes of KShs 7,744 million (USD 75 million) and KShs 5,163 million (USD 50 million) respectively. The Government of Kenya note was issued at zero interest rate while the KQ Lenders Company 2017 Limited mandatory convertible note will earn an interest of 5.11% in year 1 to year 5, 15.34% in year 6 to year 7 and 25.56% in year 8 to year 10.

The notes are mandatorily convertible to equity shares in year 10 but can be converted to equity anytime within the 10 years. On conversion to equity, the Government of Kenya will be issued with 995,254,143 ordinary shares at KShs 7.78 per share while the KQ Lenders Company 2017 Limited will be issued with 663,502,762 ordinary shares at KShs 7.78 per share.

The convertible note issued to the Government of Kenya is considered an equity instrument while the note issued to KQ Lenders Company 2017 Limited is considered a compound instrument that contains, a liability element and an equity element. The equity element is presented in equity under the shareholders' funds while the liability element has been presented in non-current liabilities under borrowings.

	2021 Kshs Millions	2020 Kshs Millions
KQ Lenders Company 2017 Limited equity component	1,886	1,886
Government of Kenya mandatorily convertible loan	7,744	7,744
	<hr/>	<hr/>
Equity component	9,630	9,630
	<hr/> <hr/>	<hr/> <hr/>

**(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 Extraordinary General Meeting of the Company held on 7 August 2017. Accordingly, the Directors allotted 142,164,558 shares to the scheme for zero cash consideration. The shares are carried at a par value of KShs 1 each.

Under the scheme, eligible employees may be granted the shares at the discretion of the Directors for no cash consideration upon the satisfaction of various conditions as determined by the Directors from time to time. The vesting conditions are yet to be determined by the Board of Directors and as such the shares have been shown as treasury shares until the vesting conditions have been determined.

## KENYA AIRWAYS PLC

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 23 OTHER RESERVES – GROUP AND COMPANY

Other reserves are made up the following reserves:

	Group		Company	
	2021 Kshs Millions	2020 Kshs Millions	2021 Kshs Millions	2020 Kshs Millions
Cash flow hedge reserve - foreign currency	(22,240)	(18,946)	(22,240)	(18,946)
Revaluation surplus	6,639	6,639	6,353	6,353
	<u>(15,601)</u>	<u>(12,307)</u>	<u>(15,887)</u>	<u>(12,593)</u>

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

	Group		Company	
	2021 Kshs Millions	2020 Kshs Millions	2021 Kshs Millions	2020 Kshs Millions
At start of year	(12,307)	(2,257)	(12,593)	(2,543)
Change in fair value of hedging instrument recognised in OCI – Fuel hedges	-	-	-	-
Loss on hedged exchange differences – borrowings	(2,710)	(5,567)	(2,710)	(5,567)
Loss gain on hedged exchange differences - lease liabilities	(2,049)	(4,871)	(2,049)	(4,871)
Reclassified from OCI to profit or loss – borrowings	523	399	523	399
Reclassified from OCI to profit or loss – leases	942	(11)	942	(11)
	<u>(15,601)</u>	<u>(12,307)</u>	<u>(15,887)</u>	<u>(12,593)</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 23 OTHER RESERVES (Continued)

## (a) Cash flow 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 short term derivative contracts which were fully settled during the year. There were no fair value losses on derivatives in 2021 since there were no hedges placed due to fuel consumption uncertainties owing to the impact of Covid-19. In 2020, Kshs 705 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 instruments are the foreign currency borrowings in the form of long-term loans from banks and the aircraft lease payments.

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

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

There were no assets or liabilities outstanding at 31 December 2021 (2020: 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 &amp; loss:

Cash flow hedging reserve	2021			2020		
	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	(16,927)	(3,112)	(13,815)	(14,740)	(2,058)	(12,682)
Foreign Currency Hedging-Lease liabilities	(5,313)	-	(5,313)	(4,206)	-	(4,206)



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**23 OTHER RESERVES – GROUP AND COMPANY (Continued)****(a) Cash flow 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 2021)

Cash-flow hedges	Reserve	Opening Balance	Net Amount Recognized in Hedge reserves	Net Amount to P&L	Total Amount Recycled	Closing balance before tax
Non-Derivative financial instruments- Borrowings	Cash flow hedge reserve	(14,740)	(2,710)	523	-	(16,927)
Non-Derivative financial instruments- Lease liabilities	Cash flow hedge reserve	(4,206)	(2,049)	942	-	(5,313)
		(18,946)	(4,759)	1,465	-	(22,240)

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

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

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 last revaluation was done in 2019, the surplus is not distributable.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**24 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.

	2021 KShs Millions	2020 KShs Millions
<b>Stamina Group B.V</b>		
At start of year	58	50
Share of profit for the year	4	8
	<hr/>	<hr/>
At end of year	62	58
	<hr/>	<hr/>
<b>Represented by:</b>		
Holding in Kenya Airfreight Handling Limited	49%	49%
	<hr/>	<hr/>

**25 BORROWINGS – GROUP AND COMPANY**

	2021 KShs Millions	2020 KShs Millions
Loans (Note 25(a))	104,055	90,302
Sovereign guarantee from the Government of Kenya (Note 25(b))	(580)	(778)
Mandatory convertible note – liability component (Note 25(c))	4,849	4,501
Deferred borrowing costs (Note 25(d))	(1,233)	(1,486)
	<hr/>	<hr/>
	107,091	92,539
	<hr/>	<hr/>
Made up of:		
<b>Current:</b>		
Payable within one year	14,012	10,638
<b>Non-current:</b>		
Payable after one year	93,079	81,901
	<hr/>	<hr/>
	107,091	92,539
	<hr/>	<hr/>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 **BORROWINGS – GROUP AND COMPANY (Continued)**

(a) **Loans**

The make-up of the loans is as follows:

	Maturities	2021		2020	
		Average interest rates	KShs Millions	Average interest rates	KShs Millions
Tsavo Facility - aircraft loans (USD)	2014-2026	1.29%	59,717	1.79%	58,282
Samburu Facility - aircraft loans (USD)	2012-2025	4.84%	13,580	5.75%	15,428
Loans from GoK (KShs)	2015-2025	3.00%	25,760	2.99%	11,000
Local banks revolving loan (USD)	2018-2027	5.64%	4,998	6.49%	5,592
			104,055		90,302

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

Entity	Bank	Guarantee	Original Tenure of the loan
Tsavo Financing LLC	Private Export Funding Corporation (PEFCO)-loan novated in July 2021 by Citibank N.A. (London) and JP Morgan N.A.2021 to PEFCO	Export-Import Bank of the United States of America (Eximbank)	12 years
Samburu Limited	African Export and Import Bank in syndication with Standard Chartered Bank	None	12 years

The local bank facility is a multipurpose revolving loan and letter of credit facility with a total value of USD 175 million which was obtained from the consortium of Kenyan banks after the restructuring in November 2017. They were drawn from Equity Bank Limited, KCB Bank Kenya Limited, NCBA Bank Kenya Limited (formerly Commercial Bank of Africa Limited and NIC Bank Limited), I&M Bank Limited, National Bank of Kenya Limited, Cooperative Bank of Kenya, Diamond Trust Bank (Kenya) Limited and Ecobank Limited for financing of working capital requirements. As at 31 December 2021 and 31 December 2020, the Group and Company had fully utilized the facilities in the form of loans (USD 42 million) and letters of credit (USD 133 million).

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 25 BORROWINGS – GROUP AND COMPANY (Continued)

## (a) Loans (Continued)

## (i) Covenants

The Group and Company has a number of facilities with African Export-Import Bank (Afrexim), Citibank N.A and JP Morgan N.A (novated to Private Export Funding Corporation) and the Government of Kenya for the purchase of aircraft and funding of pre-delivery deposits for aircraft. The facilities contain some financial covenants, which are monitored against the annual audited financial statements. As at 31 December 2021, the Group and Company did not comply with the financial covenants from the Banks being, the unrestricted cash to revenue ratio and the debt service cover ratio. The Group and Company however obtained waivers from the financiers prior to year-end and as such the Group and Company had a contractual right to defer payment for at least 12 months at the end of the reporting period. Consequently, the balances have not been classified as current liabilities.

As of 31 December 2021, the Group and Company had not made payments of interest on the Government of Kenya loan as set out in the loan agreements. The loan agreements require payment of interest by the 20th day of June every year. The Group sought and was granted waiver and deferral on the unpaid interest on the shareholder loan from the Government of Kenya.

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

	2021 KShs Millions	2020 KShs Millions
The borrowings maturity analysis is as follows:		
Within one year	14,467	11,102
Between two and five years	84,344	69,121
Later than 5 years	5,244	10,079
	104,055	90,302

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

	2021 KShs Millions	2020 KShs Millions
At start of year	90,302	75,171
Additions	14,000	11,000
Repaid in the year	(4,072)	(3,078)
Accrued interest	1,115	1,642
Currency translation differences on hedged borrowings	2,710	5,567
	104,055	90,302

As part of Government Commitment to support the Airline's resumption of operations following the impact of Covid-19 pandemic, the Government of Kenya advanced the second tranche of shareholder loan totalling KShs 14 billion in the year 2021. This was in addition to KShs 11 billion advanced in 2020, making the total loan amount to KShs 25 billion. The loan was to enable the airline sustain operations during the Covid-19 and post covid-19 pandemic period. The loan is repayable after 5 years and attracts interest at a rate of 3% per annum, the accrued interest being payable by the 20th day of June each year.

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

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**25 BORROWINGS – GROUP AND COMPANY (Continued)**

**(a) Loans (Continued)**

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

	2021 KShs Millions	2020 KShs Millions
Total currency translation differences on borrowings	(2,710)	(5,567)
Realised on settlement of loans	523	399
	<u>(2,187)</u>	<u>(5,168)</u>

**(iv) Analysis of loans by currency:**

Borrowings in US Dollars	78,295	79,302
Borrowings in KES	25,760	11,000
	<u>78,295</u>	<u>79,302</u>

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

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

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

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

	2021 KShs Millions	2020 KShs Millions
Sovereign guarantee from the Government of Kenya – at cost	1,434	1,434
Accumulated amortisation	(854)	(656)
	<u>580</u>	<u>778</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**25 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:

	2021 KShs Millions	2020 KShs Millions
At start of year	656	453
Charge to profit or loss	198	203
	<hr/>	<hr/>
At end of year	854	656
	<hr/> <hr/>	<hr/> <hr/>

**(c) Mandatory convertible note - liability component**

At start of year	4,501	3,724
Accrued interest	362	482
Paid in the year	(181)	-
Currency translation differences	167	295
	<hr/>	<hr/>
	4,849	4,501
	<hr/> <hr/>	<hr/> <hr/>

**(d) Deferred borrowing costs**

At start of year	1,486	1,788
Additions	60	47
Fully amortised in the year	13	8
Charge for the year	(326)	(357)
	<hr/>	<hr/>
At end of year	1,233	1,486
	<hr/> <hr/>	<hr/> <hr/>

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

Current portion	278	278
Non-current portion	955	1,208
	<hr/>	<hr/>
	1,233	1,486
	<hr/> <hr/>	<hr/> <hr/>

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.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 LEASE LIABILITIES

	Group		Company	
	2021	2020	2021	2020
	KShs Millions	KShs Millions	KShs Millions	KShs Millions
At start of year	81,891	80,030	71,549	69,584
Modifications	(2,177)	4	(1,842)	4
Terminations	(311)	-	(311)	-
Interest expense on lease liabilities	4,141	4,882	3,507	4,200
Lease payments	(14,814)	(8,751)	(13,472)	(7,239)
Unhedged foreign exchange differences	362	855	40	129
Hedged currency translation differences (Note 23(a))	2,049	4,871	2,049	4,871
Short-term concessions	(72)	-	-	-
At end of year	71,069	81,891	61,520	71,549

The movement in exchange differences on hedged leases have been dealt with as follows:

	2021 KShs Millions	2020 KShs Millions
Total exchange differences on leases	(2,049)	(4,871)
Realised on settlement of leases	942	(11)
	(1,107)	(4,882)

Maturity analysis

	Group		Company	
	2021	2020	2021	2020
	KShs Millions	KShs Millions	KShs Millions	KShs Millions
Year 1	18,583	24,605	15,540	22,590
Year 2	15,338	15,126	13,228	13,354
Year 3	14,286	13,494	12,320	11,774
Year 4	11,002	12,897	9,124	11,222
Year 5	7,702	10,649	5,897	10,614
Year 6 and onwards	18,452	21,044	15,872	15,195
Undiscounted lease payments at end of year	85,363	97,815	71,981	84,749
Less: unearned interest	(14,294)	(15,924)	(10,461)	(13,200)
	71,069	81,891	61,520	71,549

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 LEASE LIABILITIES (Continued)

Analysed as:

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2020 KShs Millions	Company KShs Millions
Current	15,085	19,040	12,330	17,477
Non-current	55,984	62,851	49,190	54,072
	<u>71,069</u>	<u>81,891</u>	<u>61,520</u>	<u>71,549</u>

27 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2020 - 30%). The deferred income tax liability/ (asset) is made up as follows:

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Other payables	(714)	(703)	(696)	(687)
Provisions for liabilities	(1,377)	(1,558)	(1,263)	(1,280)
Tax losses	(34,670)	(30,020)	(33,121)	(29,016)
Unrealised exchange losses	(81)	(329)	(124)	(330)
Foreign currency hedge losses	(9,531)	(8,120)	(9,531)	(8,120)
Property, aircraft and equipment – historical cost	4,669	5,297	4,729	5,354
Property, aircraft and equipment - revaluation surplus	2,846	2,846	2,723	2,723
Leases	(9,414)	(8,910)	(8,534)	(8,697)
	<u>(48,272)</u>	<u>(41,497)</u>	<u>(45,817)</u>	<u>(40,053)</u>
Deferred income tax assets not recognised	50,182	43,620	48,540	42,776
	<u>1,910</u>	<u>2,123</u>	<u>2,723</u>	<u>2,723</u>
Presented in the statement of financial position as follows:				
Deferred income tax asset	(813)	(600)	-	-
Deferred income tax liability	2,723	2,723	2,723	2,723
	<u>1,910</u>	<u>2,123</u>	<u>2,723</u>	<u>2,723</u>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**27 DEFERRED INCOME TAX (Continued)**

The movement on the deferred tax account is as follows:

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
At start of year	2,123	2,516	2,723	2,723
Credit to profit or loss (Note 11(a))	(213)	(393)	-	-
At end of year	1,910	2,123	2,723	2,723

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 2021, Kenya Airways Plc and JamboJet Limited estimated/assessed tax losses amounted to KShs 110,404 million and KShs 2,930 million respectively (2020: KShs 96,928 million and KShs 1,700 million respectively). With effect from 1<sup>st</sup> Jul 2021, Kenyan Income Tax laws allow for carry forward of tax losses indefinitely. The accumulated tax losses will be utilised to offset future taxable profits.

The Group has recognised deferred tax assets from subsidiaries where the respective companies have the ability to generate sufficient taxable profits in the foreseeable future. The Company has 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

**28 PROVISION FOR LIABILITIES**

## (a) Group

<b>Year ended 31 December 2021</b>	Return condition provision Kshs Millions	Redundancy provision Kshs Millions	Asset retirement obligation Kshs Millions	Other provisions Kshs Millions	Total provisions Kshs Millions
At start of year	5,381	443	14	1,185	7,023
Increase in the year	2,376	-	1	-	2,377
Charged to profit or loss		32	-	3	35
Utilised in the year	(258)	(40)	-	-	(298)
Unwinding of discount	(295)	-	-	-	(295)
Effect of currency translation	112	-	-	-	112
At end of year	7,316	435	15	1,188	8,954
Split as follows:					
Current	1,190	435	-	1,188	2,813
Non-current	6,126	-	15	-	6,141
At 31 December 2021	7,316	435	15	1,188	8,954

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**28 PROVISION FOR LIABILITIES (Continued)**

(a) Group (Continued)

Year ended 31 December 2020

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

(b) Company

Year ended 31 December 2021

	Return condition provision Kshs millions	Redundancy provision Kshs millions	Asset retirement obligation Kshs millions	Other provisions Kshs millions	Total provisions Kshs millions
At start of year	3,546	348	12	1,185	5,091
Increase in the year	415	-	-	-	415
Charged to profit or loss	-	36	-	(10)	26
Utilised in the year	(112)	(40)	-	-	(152)
Unwinding of discount	(40)	-	-	-	(40)
Exchange differences	128	-	-	-	128
<b>At end of year</b>	<b>3,937</b>	<b>344</b>	<b>12</b>	<b>1,175</b>	<b>5,468</b>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**28 PROVISION FOR LIABILITIES (Continued)**

(b) Company (continued)

Split as follows:

	Return condition provision Kshs millions	Redundancy provision Kshs millions	Asset retirement obligation Kshs millions	Other provisions Kshs millions	Total provisions Kshs millions
Current	325	344	-	1,175	1,844
Non-current	3,612	-	12	-	3,624
At 31 December 2021	3,937	344	12	1,175	5,468

Year ended 31 December 2020

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

Split as follows:

Current	1,003	348	-	1,185	2,536
Non-current	2,543	-	12	-	2,555
At 31 December 2020	3,546	348	12	1,185	5,091

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**28 PROVISION FOR LIABILITIES (Continued)**

**(i) Asset retirement obligations**

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

**(ii) Other provisions**

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

**(iii) Return condition provisions**

Return condition provision relates to a provision for an unavoidable contractual obligation to return the aircraft in certain conditions at the date of return. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls for aircraft and engines under leases are accrued and charged to the profit or loss over the estimated period between overhauls using the ratios of actual flying hours/cycles and estimated flying hours/cycles between overhauls. Differences between the estimated costs and the actual costs of overhauls are included in the profit or loss in the period of overhaul. The return condition provision is calculated using a model which incorporates several assumptions 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 2021 a provision of KShs 436 million (2020: KShs 443 million) is held to cover the redundancy payments arising from the accompanying litigation. The unionisable staff had moved to the Industrial Court to block the restructuring and the Court ruled in their favour, ordering the reinstatement of affected employees. The Group appealed against the decision and on 11 July 2014, the Court of Appeal ruled that the Group was justified in declaring the redundancy but had failed to meet the statutory threshold procedural fairness. The employees challenged the decision further at the Supreme Court. At Supreme court, the 2014 decision was upheld.

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**29 SALES IN ADVANCE OF CARRIAGE**

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Passengers	10,757	13,815	10,539	13,696
Freight	135	93	135	93
	<u>10,892</u>	<u>13,908</u>	<u>10,674</u>	<u>13,789</u>

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

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
At start of year	13,908	14,859	13,789	14,666
Total tickets sold	33,131	31,979	29,336	29,942
Revenue recognised in income statement from tickets sold	(40,626)	(28,928)	(36,852)	(26,826)
Expired tickets recognised in revenue	4,479	(4,002)	4,401	(3,993)
	<u>10,892</u>	<u>13,908</u>	<u>10,674</u>	<u>13,789</u>

**30 TRADE AND OTHER PAYABLES**

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Trade payables	26,272	31,552	23,410	28,426
Other payables and accrued expenses	6,010	1,421	5,454	1,269
Accrued leave	2,364	2,342	2,320	2,291
Due to related parties (Note 32)	3,439	2,150	27,675	25,227
Unclaimed dividends (Note 13)	78	78	78	78
	<u>38,163</u>	<u>37,543</u>	<u>58,937</u>	<u>57,291</u>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 (a) CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Loss before tax	(16,028)	(36,573)	(14,246)	(33,058)
<b>Adjustments for:</b>				
Depreciation of property and equipment (Note 14)	6,388	6,606	6,323	6,540
Impairment of assets (Note 14)	129	-	129	-
Amortisation of intangible assets (Note 15)	147	145	143	140
Amortisation of return condition asset (Note 16)	1,409	3,348	1,087	2,995
Provision for rotables (Note 14)	-	5	-	5
Amortisation of right-of-use assets (Note 16)	8,339	11,290	6,990	9,978
Impairment of right-of-use assets (Note 16)	-	7,037	-	7,013
Accrued interest on loans (Note 25)	1,115	1,642	1,115	1,642
Amortisation of deferred expenditure (Note 25(d))	326	357	326	357
Amortisation of sovereign guarantee (Note 26 (b))	198	203	198	203
Amortisation of aircraft deposits (Note 18)	3	(109)	3	(109)
Unrealised exchange gain on aircraft deposits (Note 18)	(119)	(280)	(119)	(280)
Unrealised exchange gain on lease liabilities (Note 26)	362	855	40	129
Unrealised exchange gain on mandatory convertible debt (Note 25(c))	167	295	167	295
Realised exchange loss on borrowings (Note 25)	523	399	523	399
Realised exchange loss on leases (Note 26)	942	(11)	942	(11)
Interest expense on borrowings (Note 9)	4,076	4,132	4,072	4,128
Interest expense on lease liabilities (Note 9)	4,141	4,882	3,507	4,200
Interest income (Note 9)	(162)	(62)	(167)	(66)
<b>Working capital changes</b>				
Inventories	21	(58)	21	(58)
Trade and other receivables	554	3,188	(2,137)	1,535
Sales in advance of carriage	(3,016)	(951)	(3,115)	(877)
Trade and other payables	620	6,891	1,646	6,561
Return condition assets	(718)	(955)	(257)	(955)
Provisions for liabilities	(1,388)	(2,156)	(692)	(2,134)
<b>Cash generated from operations</b>	<b>8,029</b>	<b>10,120</b>	<b>6,499</b>	<b>8,572</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**31 (b) CASH AND BANK BALANCES**

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

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Cash at bank and in hand	4,819	4,076	4,531	3,884
Short -term bank deposits	1,276	3,652	1,276	3,652
	6,095	7,728	5,807	7,536

**32 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% (2020:7.8%) equity interest in Kenya Airways Plc and has a joint operations agreement which commenced in November 1997. The agreement allows the two airlines to co-operate in developing schedules and fares and to share generated revenue benefits and costs for the core routes between Nairobi and Amsterdam.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 32 RELATED PARTY TRANSACTIONS (Continued)

## (a) Nature of related party transactions (continued)

**Precision Air Services Limited**

Kenya Airways Plc holds 41.23% (2020: 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.

<b>Management fee income</b>	2021 KShs Millions	2020 KShs Millions
African Cargo Handling Limited	770	748
Jambojet Limited	48	42
<b>(i) Company</b>	2021 KShs millions	2020 KShs millions
<b>Handling expenses</b>		
African Cargo Handling Limited	110	77
<b>Direct Costs</b>		
Jambojet Limited	100	410

## (b) Related companies' balances

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

## (i) Due from related companies

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Precision Air Services Limited	86	88	86	88
Kenya Airfreight Handling Limited	-	-	173	166
African Cargo Handling Limited	-	-	21,519	19,472
Jambojet Limited	-	-	1,121	489
Kencargo International Airlines Limited	-	-	61	61
	86	88	22,960	20,276
Provision for expected credit losses	(86)	(88)	(147)	(149)
	-	-	22,813	20,127



KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 RELATED PARTY TRANSACTIONS (continued)

(b) Related companies' balances (continued)

(ii) Due from related companies (Continued)

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

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
At start of year	88	126	149	187
Write off during the year	-	-	-	-
Decrease during the year	(2)	(38)	(2)	(38)
At end of year	86	88	147	149
(iii) KLM, Royal Dutch Airlines	3,439	2,150	3,436	2,148
African Cargo Handling Limited	-	-	24,189	23,029
Kenya Airfreight Handling Limited	-	-	50	50
	3,439	2,150	27,675	25,227

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

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

The amounts due from Jambojet relate to management fees due to Kenya Airways and balances due to Kenya Airways after uplifts have been completed by Kenya Airways on behalf of Jambojet. The amounts are net of ACMI (Aircraft, Crew, Maintenance and Insurance) fees due from Kenya Airways. The related party balances are interest free and have no fixed repayment terms.

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**32 RELATED PARTY TRANSACTIONS (continued)****(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	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
Short term employment benefits:				
Salaries and other benefits	291	262	273	253
Non-monetary benefits	-	1	-	1
Termination benefits	-	40	-	33
	<hr/>	<hr/>	<hr/>	<hr/>
	291	303	273	287
	<hr/>	<hr/>	<hr/>	<hr/>

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

	Group		Company	
	2021 KShs Millions	2020 KShs Millions	2021 KShs Millions	2020 KShs Millions
As executives	54	41	54	41
As non-executives	22	13	22	13
	<hr/>	<hr/>	<hr/>	<hr/>
Non - monetary benefits	76	54	76	54
	-	1	-	1
	<hr/>	<hr/>	<hr/>	<hr/>
	76	55	76	55
	<hr/>	<hr/>	<hr/>	<hr/>

KENYA AIRWAYS PLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**33 COMMITMENTS**

As at 31 December 2021 and as at 31 December 2020, the Group and Company had purchase commitments for aircraft parts and other equipment incidental to the ordinary course of business as follows:

	2021 KShs Millions	2020 KShs Millions
Authorised but not contracted for	5,956	5,920

**34 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

	2021 KShs Millions	2020 KShs Millions
Year 1	9,100	3,954
Year 2	679	3,845
Year 3	43	776
Year 4	1	1
At end of the year	9,823	8,576

During the year, the Group and Company recognised aircraft lease income of KShs 1,311 million (2020: KShs 1,290 million) and property lease income of KShs 140 million (2020: KShs 102 million) and aircraft sub-lease income of KShs 3,059 million (2020: KShs 2,642 million) in profit or loss in respect of operating leases income.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 35 CONTINGENT LIABILITIES – GROUP AND COMPANY

## (a) Contingent liabilities

	2021 KShs Millions	2020 KShs Millions
Guarantees	15,356	14,187
Litigation	65	1,187
	<hr/>	<hr/>
	<u>15,421</u>	<u>15,374</u>

## (b) Guarantees

In the ordinary course of business, the Group's and Company's bankers have issued guarantees on behalf of the Group and Company in favour of third parties. In the opinion of the Directors, no liability is expected to crystallise in respect of these guarantees.

## (c) Litigation

*Douala crash - KQ507*

A leased aircraft, Boeing 737-800 (registration mark 5Y-KYA) operating as flight number KQ507 crashed shortly after take-off from Douala airport in Cameroon on 5 May 2007. All the 105 passengers and 9 crew members on board perished in the accident. The investigation of the accident carried out under the auspices of the Cameroon civil aviation authorities was completed. Kenya Airways Plc is fully insured for any legal obligations arising out of the accident.

A further claim relating to the Mengwetuh family has been brought before the Court in Cameroon which is being defended.

*Site clear up*

After the accident there had been concerns locally that the accident site had not been made sufficiently safe and secure. On 30 December 2008, the Cameroon Prime Minister appointed a local committee to oversee a clean-up and restoration of the site of the accident. Kenya Airways was asked to nominate a representative and did so. To the Directors knowledge, there have been no further developments since this date regarding the site clear up and it now seems unlikely there will be.

*Criminal action in Cameroon*

A Criminal investigation into the accident was opened in the Court of First Instance in Ndokoti, Douala, Cameroon in November 2009. This was separate and distinct from the investigation undertaken by the Official Accident Investigation Commission in accordance with Annex 13 Chicago Convention. There have been no further developments and it seems unlikely there will be

*Other material litigation*

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

## KENYA AIRWAYS PLC

PRINCIPAL SHAREHOLDERS AND SHARE DISTRIBUTION  
FOR THE YEAR ENDED 31 DECEMBER 2021**Principal shareholders**

The ten largest shareholdings in the Company and the respective number of shares held at 31 December 2021 are as follows:

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

**Distribution of shareholders**

	<b>Number of shareholders</b>	<b>Number of shares</b>	<b>% Shareholding</b>
Less than 500 shares	61,715	10,752,130	0.18
501 – 5,000 shares	16,279	21,880,275	0.38
5,001 – 10,000 shares	1,145	8,151,936	0.14
10,001 – 100,000 shares	1,341	35,685,657	0.61
100,001 – 1,000,000 shares	135	31,626,235	0.55
Over 1,000,000 shares	11	5,715,806,388	98.14
<b>Total</b>	<b>80,626</b>	<b>5,823,902,621</b>	<b>100.00</b>

**Distribution of shareholders by region**

	<b>Number of shareholders</b>	<b>Number of shares</b>	<b>% Shareholding</b>
Foreign Institutions	9	481,651,529	8.28
Foreign Individuals	556	5,842,275	0.10
Local Institutions	3,014	5,223,905,657	89.69
Local Individuals	77,047	112,503,160	1.93
<b>Total</b>	<b>80,626</b>	<b>5,823,902,621</b>	<b>100.00</b>