



# ANNEX VI

VOLUME II

## Written Submissions received by the Committee

Approved,  
B... SNA  
18/6/19

PARLIAMENT  
OF KENYA  
LIBRARY

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 18 JUN 2019	DAY: TUESDAY
TABLED BY:	Hon. DAVID PKOSING CHAIRPERSON, TRANSPORT PWETA COMMITTEE
CLERK-AT THE-TABLE:	

REPORT ON THE INQUIRY INTO THE PROPOSED KENYA AIRWAYS' PRIVATELY INITIATED  
INVESTMENT PROPOSAL TO KENYA AIRPORTS AUTHORITY



MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING  
URBAN DEVELOPMENT AND PUBLIC WORKS

**Inquiry into the Aviation Industry**

**Mr. Chairman,** I wish to respond to the issues raised by the Committee with regards to the aviation industry in Kenya as follows:-

**A. Policy Issues:**

- The Cabinet at its meeting held on 29<sup>th</sup> May, 2018 considered a Memorandum submitted jointly by the Cabinet Secretary/National Treasury and Planning and the undersigned aimed at consolidating Kenya's aviation assets, and:-
  1. **Granted policy approval** for Kenya Airways and Kenya Airports Authority to enter into negotiations with a view to agreeing on a framework to restore Nairobi as the civil aviation hub of choice in Africa, thereby contributing to Kenya's economic competitiveness, with aviation being a factor for development and technology transfer;
  2. Noted that a substantive Memorandum shall be submitted for consideration and approval once the framework is agreed; and
  3. Directed the Cabinet Secretaries for National Treasury and Planning; Transport, Infrastructure, Housing, Urban Development and Public Works and the Attorney General to take appropriate action.
- Both the Cabinet Memo and the White Paper were developed with the primary objective of restoring Nairobi as the civil aviation hub of choice in Africa, thereby enhancing to Kenya's economic competitive edge with aviation being a factor for development and technology transfer.
- Kenya has long been the Aviation Powerhouse in East, Central and Southern Africa with a resilient national airline and strategic hub.

However, the aviation landscape globally has undergone a rapid evolution in the past decade and Kenya has not adapted to these changes in an agile manner. Consequently, the Kenyan aviation sector is facing challenges, characterised by the turbulence experienced by the national carrier as well as loss of business by Jomo Kenyatta International Airport (JKIA) to other competing hubs.

- Therefore, the market situation has created a need for a Comprehensive restructuring covering not only Kenya Airways but the whole aviation sector.
- The Kenyan aviation has been losing market-share over the last couple of years to its competitors. Ethiopian Airlines (ET), which was half the size of Kenya Airways (KQ) in 2010, has steadily grown in recent years. It has outpaced KQ three times since then. Kenya Airways, the national carrier of Kenya has over time been pushed out of the market by competitive airlines which are very strongly protected by their own Governments.
- The current Aviation operation model in Kenya, does not facilitate the growth of both KQ and our airports especially JKIA. There is therefore an urgent need to find a solution that will change the mandate and prospects of KQ and allow the company to become one of the biggest African carrier and JKIA a leading international aviation hub in East Africa. In this context, both KQ and JKIA should be treated as national assets of the people and Government of Kenya and the proposed restructuring should be viewed as a geopolitical solution and not a financial one. It is based on successfully implemented aviation strategies.
- In view of the advantage of executing the Project rapidly and efficiently, parties opted to engage in a Concession Agreement framework under the PPP Act 2013 with KQ as the Private Party and KAA as the Contracting Authority.

## **B. Legal Compliance Issues**

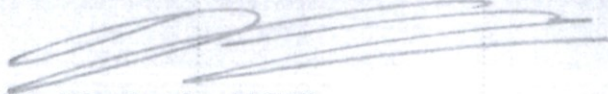
- Following the Cabinet's policy decision, a legal framework for achieving the intended restructuring had to be found. In this context the Public Private Partnership Act, 2013 was identified as the suitable legal framework. Kenya Airways therefore, submitted to Kenya Airports Authority a PIIP as provided for in the PPP Act. This proposal is has been submitted to the PPP Unit in line with the provisions of the Act.

- However, following the concerns that have been raised by the Public we are now exploring other opinions of delivering the objectives of the Government to consolidate our aviation assets. Once an agreed option has been identified we will submit the same to the Cabinet for approval as directed by Cabinet.

### **C. Issues of Concern to the People**

- The issues that have been raised are based on the PIIP which is a just that, a proposal, it has not gone through the rigorous process provided for in the law including a review and consideration by the PPP Committee and discussions between the parties to review and iron out any issues of concern.
- As Members will be aware, in this type of transactions, there are always issues that parties have to sit down and negotiate if the overall project is to achieve optimal results for mutual benefit of the parties. In other words, the negotiations must achieve a WIN – WIN situation for both parties and arrive at a mutually agreed framework.
- The negotiations between the two entities in the context of a PPP transaction would include, staff matters, concession fee, investments over the concession period, service standards, transaction structure, roles and responsibilities of each party, competition with other airlines, amongst others. The running of the other airports and airstrips would be a critical part of the negotiations.
- The important thing to note is that if Kenya has to achieve its objective of being an aviation hub in the region, it has to begin to look at its aviation assets more strategically as key contributors to the GDP – and this starts with having a world class airline and world class airports, starting with JKIA as the main gateway to the country.
- The main aim is to create operational synergies between Kenya's main hub and the National Carrier, thereby facilitating the airport and airline to become economic growth drivers. This model is similar to what is being utilized by Kenya's main competitors in the global aviation industry.

**Mr. Chairman**, as stated above, this Transaction is an opportunity for the growth of both Kenya Airports Authority and Kenya Airways in a way that enhances the synergies of the Country's strategic assets in the Aviation sector to support our hub aspirations.



James W. Macharia, EGH  
**CABINET SECRETARY**

# KENYA ASSOCIATION OF AIR OPERATORS

CHAIRMAN:  
MR. MBUVI NGUNZE

EXECUTIVE SECRETARY:  
COL. (Rtd) E K WAITHAKA



P.O. BOX 27592 - 00506  
NAIROBI  
KENYA

KAAO-11

4<sup>th</sup> APRIL 2019

CONFIDENTIAL

The Clerk of the National Assembly  
P.O. BOX 41842-00100  
NAIROBI

① D/ants  
8/4/19

Dear Sir,

**SUBMISSION OF MEMORANDUM ON PUBLIC PRIVATE PARTNERSHIP {PPP} BETWEEN KENYA AIRWAYS AND KENYA AIRPORTS AUTHORITY.**

Reference: Your invitation for submission of Memoranda in the Daily Nation Newspaper dated 29<sup>th</sup> March 2019.

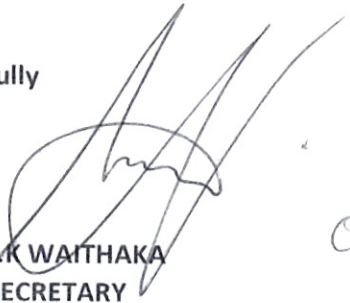
We wish to submit our attached memorandum on the proposed **Public Private Partnership {PPP} agreement between Kenya Airways & Kenya Airports Authority**, as was requested by the National Assembly vide the announcement in the Daily Nation Newspaper Of 29<sup>th</sup> March at reference.

We, the Kenya Association of Air Operators {KAAO} are a registered National Umbrella body whose role is to promote, foster, enhance, and protect the interests of those engaged in the National Civil Aviation Industry. The attached memorandum is therefore forwarded to the National Assembly to express the concerns that our membership foresee in the proposed PPP.

We would be ready and willing to give more details of these key concerns, should you wish to call us for that purpose.

Kindly acknowledge receipt.

Yours Faithfully

  
COL. (RTD) E.K. WAITHAKA  
EXECUTIVE SECRETARY

② TUNGO  
pls deal  
FA  
09/4/19

③ EMWGP  
pls note  
FA  
09/4/19

RECEIVED  
04 APR 2019  
CLERK'S OFFICE

CONFIDENTIAL

**MEMORANDUM  
BY  
THE KENYA ASSOCIATION OF AIR OPERATORS [KAAO]**

**1. PREAMBLE**

KAAO (the Association) is a National umbrella body whose role is to promote, foster, enhance, and protect the interests of those engaged in Aviation Industry and allied businesses in Kenya.

The Association encourages adherence and maintenance of high civil aviation safety standards and practices, through strict compliance with our Members' Code of Ethics.

This memorandum is therefore in response to the invitation by the NATIONAL ASSEMBLY for the public to submit views and concerns that our Members have.

**2. QUALIFICATION**

The invitation to submit memoranda presupposes access to critical information. **We are unable to submit a detailed memorandum discussing any aspect as proposed in the Privately Initiated Investment Proposal except for the questions raised in section 4 below.**

From the information available to us in the public domain we believe that there is a desire to forge a joint venture partnership between Kenya Airways [KQ] and Kenya Airports Authority [KAA] to run the Jomo Kenyatta International Airport [JKIA].

When KAA had previously called for a stakeholder public meeting, we requested for the PIIP document but were not successful. This meeting was later cancelled and as such we have inadequate factual information; All the same, our members have a special interest in this matter.

**3. OUR INTEREST**

Our interest is encompassed in our vision which is to create a safe, efficient, and economically viable National Civil Aviation Industry, through promotion and enhancement of safe and sustainable operations, and the provision of aviation services.

The Kenya Air Operators Association is not fundamentally opposed to any reasonable strategic initiative that ensures the National Carrier (Kenya Airways) re-establishes itself as a leading carrier on the African continent. We believe this can only be achieved

through the appropriate restructuring of KQ, both financially and operationally, using the best available resources both nationally and internationally

Without detailed access and time to review the PIIP, the Association is unable to comment on the importance or relevance of the Proposal, which needs to also address the legitimate concerns of the rest of the aviation industry

The Association has perused the *Progress Report on the Inquiry into the Proposed Takeover of Jomo Kenyatta International Airport by Kenya Airways* by the Public Investments Committee dated 26<sup>th</sup> February 2019 and shares a number of the concerns and questions raised in that report

#### **4. QUESTIONS TO BE ANSWERED**

1. In this JV contemplated, what is the shareholding and structure, considering that KAA is a government institution?
2. How will other airports under KAA be managed – operationally and financially, considering that most of them do not have the traffic sufficient to fund their operations, while it is not a secret that hitherto they have been supported from the funds accruing from the JKIA?
3. What assurance do we have from KAA that these other airports, some being international, will retain the requisite standards as prescribed by ICAO without an additional cost to the already over-burdened operators?
4. What is the current revenue per airport for KAA and expenditure per airport? The Parliamentary Committee report indicates that there will be a net shortfall of approximately Kshs 3.7 billion in KAA's operating budget post takeover. The Association is extremely concerned about the implications this has for the management, maintenance and development of the other national airports.
5. What areas does the JV envisage? Ground services, security, duty free shops, cargo, other concessions?
6. How would Capex plan and funding be approached during the duration of the JV? The PIIP needs to address the development /and/or redevelopment of JKIA if they want to successfully compete with the redeveloped Ethiopian (Bole International) and new Rwanda airports?
7. What will be the relationship between SPV and existing Kenyan operators at JKIA during the tenure of the JV?

- 8 How would this JV run in line with current Government policies governing aviation industry as well as the existing competition laws?
- 9 Have other options of reviving / strengthening KQ been considered, and how critical is this to KQ's business plan going forward?
- 10 Are there any examples of PIIPs in other jurisdictions and how successful have they been?
11. As we approach this effort to secure Kenya Airways against the emerging commercial competition, have we considered the regional/global competitive context in the light of the treaties that Kenya has signed in the past? We have in mind some within the African Union.
12. Kenya is a contracting State of the International Civil Aviation Organization [ICAO] which is a UN Agency. One of its principles is to encourage fair and healthy competition in international commercial Air Operations. Would running of JKIA by KQ which also runs International commercial flight operations, not pose a large measure of conflict of interest in provision of Airport services to its competitors in International flight operations?

## **5. CONCLUSION**

As the umbrella body for Air Operators in Kenya, we wish Kenya Airways all the best in their regional quest to re-establish its dominance, however this must be done without jeopardizing the rest of the industry that is vibrant and plays a pivotal role in tourism, cargo as well as international humanitarian aviation operations, and also employs many Kenyans

# KENYA AIRLINE PILOTS ASSOCIATION



## KALPA POSITION ON PROPOSED JKIA TAKEOVER BY KENYA AIRWAYS

Kenya Airways (KQ) began as a fully owned Government entity with the objective of being Kenya's main flag carrier, thus giving visibility to the country. This was a significant step in enhancing and promoting tourism, a key sector in the economy.

When KQ was privatized, the Government's intention was to improve efficiency in the National carrier and get value for money. In retaining substantial shareholding, it was evident that Government's intention was to maintain a significant role in the airline. It is for this reason that when KQ has had financial challenges, the Government has repeatedly stepped in to rescue the organization. In view of this, it is clear that the National Carrier remains an important pillar in the development of tourism and aviation not only in Kenya, but also in the East African region. The company offers various quality jobs that have significant impact in other areas of the economy and as such, these jobs need to be protected.

The aviation industry contributes 5% to our GDP, directly and indirectly. It is estimated that 620,000 jobs in the country are supported by this sector. The industry can contribute more if both KQ and Kenya Airports Authority (KAA) experience growth. KAA growth is not assured if KQ were to collapse. Similarly, KQ's growth cannot be assured without an improvement in its cash flow, which would require significant financial injection from investors and shareholders. Following the last cash injection, the Government became the largest shareholder and guarantor to the consortium of Banks that were persuaded to turn debt into equity. With this in mind, the Kenyan taxpayer would be the greatest loser should KQ collapse.

KALPA is yet to be furnished with specific details of the proposed takeover document. That said, an innocent outlook of the idea/proposal from a birds eye-view appears to suggest an avenue of improving KQ's cash position without additional financial injection. This should offer a holistic approach to develop the aviation industry where focus should be in growing JKIA as a regional hub while in the meantime, improving the cash flow situation at KQ. The ripple effect of this will be to spur growth, and in effect, increased traffic into JKIA, thus improved revenue for KAA. In addition, with this being a home grown solution, it locks out foreign strategic partnership as their financial support would not be required. This will give KQ more flexibility in making commercial decisions that are beneficial to KQ, KAA, and Kenya as a whole.

However, as the old saying goes – ‘*the devil is in the details*’ Specific details of the proposed agreement need to be clear and transparent to all stakeholders – KALPA included, to eliminate suspicion and provide confidence for this Proposal

What is key however, is to ensure that exhaustive and thorough due diligence is carried out on this proposal, and the agreement well crafted to avoid possible pitfalls that have occurred in the past. Case in point of few examples of these pitfalls/mistakes that continue to haunt the airline are as follows

1. *Relatively high airline ticket prices.*
2. *Airline policies eg. Reduction of check in baggage allowance from two to one.*
3. *Inappropriate choice of aircraft equipment, more-so to African destinations where customers’ baggage are left behind*
4. *The role of KLM in KQ. Biased partnership illustrated by KLM’s route network in Africa. In terms of Board procedure and practice, currently one KLM Director can veto the entire KQ board’s decision.*
5. *Poorly motivated work force, most of whom are in the front line interacting with customers. It is important to note that some of these workers are outsourced and on unfavorable short term contracts, thereby affecting service delivery.*

*Similarly, the Government needs to urgently review Policy on traffic rights granted to foreign airlines into our major hubs, i.e Nairobi and Mombasa. In addition, given KQ’s status as an important pillar for development and national pride, the Government should consider giving some concessions to KQ, e.g tax, navigation and landing fees.*

**Summary:**

Whilst KALPA does not oppose the idea in question, specifics/details of the proposal need to be shared with the Association and other stakeholders prior to its endorsement and rollout. **KALPA will only offer full support to an avenue that will genuinely help change KQ’s fortunes, while also exclusively protecting jobs and benefits of all employees involved.**

For and on behalf of KALPA



Capt Murithi Nyagah

**GENERAL SECRETARY & CEO**

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BY  
THE KENYA ASSOCIATION OF AIR OPERATORS [KAAO]**

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Date 11<sup>th</sup> April 2019

Col (Rtd) E. K. WAITITARA  
EXECUTIVE SECRETARY

KAAO

**DEPARTMENTAL COMMITTEE ON TRANSPORT, PUBLIC WORKS AND  
HOUSING MEETING WITH KENYA CIVIL AVIATION AUTHORITY ON 10<sup>TH</sup>  
APRIL 2019**

**1. Kenya Airways' Privately Initiated Investment Proposal (PIIP) to Kenya Airports Authority.**

The Departmental Committee on Transport, Public Works and Housing is conducting an inquiry into the policy, human resource, legal compliance and issues of concern to the people as contemplated under Article 95 of the Constitution, and in relation to the Kenya Airways' Privately Initiated Investment Proposal (PIIP) to Kenya Airports Authority.

KCAA does not have any input in the PIIP as it has not officially received the document. What KCAA knows is hearsay in the press and that is not reliable for the Authority to give a KCAA official opinion. As a regulator, KCAA should have been consulted from the beginning but regrettably that has not been the case.

KCAA as the regulator and service provider provides oversight and air navigation services to Kenya Airways respectively. The amount outstanding from Kenya Airways is as follows:

**Outstanding Payments due from Kenya Airways to KCAA**

<b>OUTSTANDING</b>	<b>CURRENT</b>	<b>30DAYS ABOVE</b>	<b>60DAYS AND ABOVE</b>	<b>90 DAYS ABOVE</b>
516,195,794	75,903,527	86,643,287	86,948,194	266,700,786

Kenya Airways revenue accounts to between 21%-23% of KCAA's total revenue which is a decline from about 30% in 2012.

KCAA however wishes to present its view on the Aviation business and its future outlook given the current trends. KCAA also presents a wish list of how it visualizes some critical issues in the future.

## 2. Industry Performance

### (a) Aircraft Movements

Movement	2014	2015	2016	2017	2018	5 Yr Growth (%)
Domestic	176,690	179,483	204,803	207,644	223,479	26.5
International	93,495	86,750	93,029	93,531	96,101	2.8
<b>Total</b>	<b>270,185</b>	<b>266,233</b>	<b>297,832</b>	<b>301,175</b>	<b>319,580</b>	<b>18.3</b>

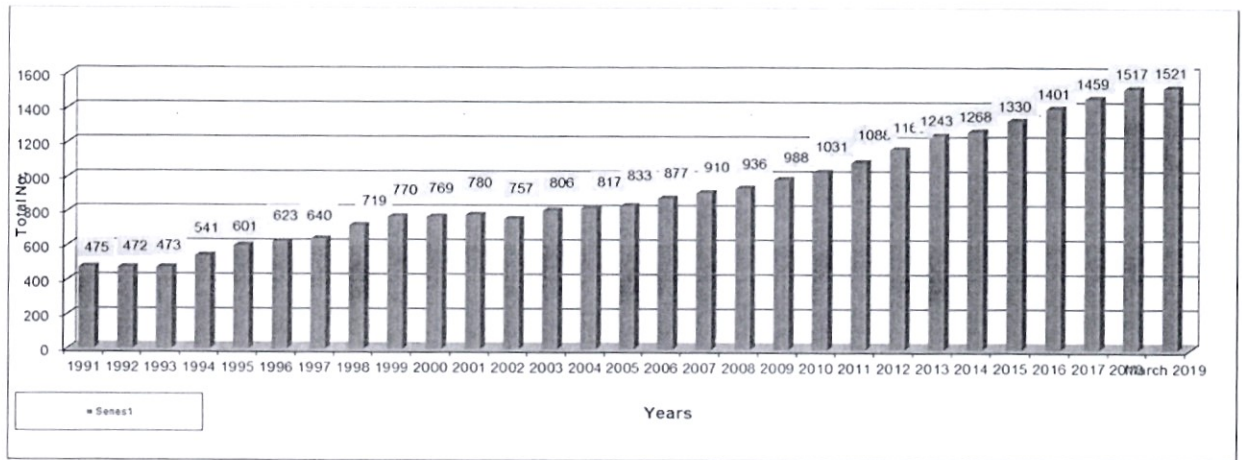
### (b) Passenger Numbers

Passenger	2014	2015	2016	2017	2018	5 Yr Growth (%)
Domestic	3,139,031	3,420,767	4,019,648	4,006,486	4,772,582	52.1
<b>International</b>	<b>4,437,916</b>	<b>4,176,663</b>	<b>4,554,429</b>	<b>4,869,744</b>	<b>5,476,669</b>	<b>23.4</b>
<b>Transit</b>	<b>1,305,123</b>	<b>1,395,767</b>	<b>1,469,176</b>	<b>1,480,834</b>	<b>1,639,167</b>	<b>25.6</b>
<b>Total</b>	<b>8,882,070</b>	<b>8,993,197</b>	<b>10,043,253</b>	<b>10,357,064</b>	<b>11,888,418</b>	<b>33.8</b>

### (c) Freight Traffic (000)

Freight	2014	2015	2016	2017	2018	5 Yr Growth (%)
<b>Freight</b>	<b>279,380</b>	<b>263,041</b>	<b>249,489</b>	<b>290,772</b>	<b>358,749</b>	<b>28.4</b>
<b>Mail</b>	<b>525</b>	<b>607</b>	<b>543</b>	<b>616</b>	<b>837</b>	<b>59.4</b>
<b>Total Freight</b>	<b>279,906</b>	<b>263,648</b>	<b>250,033</b>	<b>291,388</b>	<b>359,587</b>	<b>28.5</b>

## (d) Aircraft Register



The five year growth of aircraft registered is 14.4% or an average of 2.9% per annum

### 3. Recent Achievement

- (a) Federal Aviation Administration (FAA) International Civil Aviation Assessment (IASA) CAT 1 – Kenya was granted IASA Cat I on 27<sup>th</sup> February 2017 and this allowed for start of direct flights to USA in October 2018. Kenya is the 7<sup>th</sup> African country allowed to fly non-stop to the USA.
- (b) International Civil Aviation Organisation (ICAO) conducted the Universal Safety Oversight Aviation Programme (USOAP) in July 2018 and the level compliance was 78.02%. Kenya ranked among the top 5 in Africa and top 50 globally out of 192 states.
- (c) The FAA and East African School of Aviation (EASA) have an agreement for Government Safety Inspectors from around Africa to be trained in Kenya rather than the USA. This will result to increased number of skilled safety and security inspectors in Kenya and Africa and contribute to improved aviation safety and security levels.
- (d) The East African School of Aviation (EASA) has agreements with United Arab Emirates (UAE) Civil Aviation Authority (CAA) which has the highest level of compliance with safety and is globally ranked No.1 and Singapore Civil Aviation Authority which is global ranked no. 2. The East African School of Aviation (EASA) also has collaboration with Incheon Academy in South Korea. These collaborations are for the purpose of conducting training programs in all areas of aviation both in Kenya and also those States with the objective of increasing the number of aviation professionals.

- (e) Kenya has been elected to the ICAO Council twice and is currently serving on the second term. KCAA intends to set up a permanent office at ICAO after our term expires in October at the ICAO General Assembly.

#### **4. Proposed Recommendation on Aviation Related Issues**

As the Civil Aviation Industry expands in Kenya, KCAA wishes to propose the following:

- (a) Establishment of the Kenya Search and Rescue (KSAR) Organization as a multi-agency approach with participants from both public and private sector. This will improve the coordination and implementation of Search and Rescue activities thereby improving the efficiency and the capacity to save lives when accidents or disasters occur.
- (b) Air Accident Investigation Department (AAID) to be made autonomous from the Ministry of Transport and established as a State Corporation, Air Accident Investigation Authority (AAIA). This will improve the ability of the AAID to act fast and efficiently thereby being able to undertake objective investigations and advice on the corrective actions required to reduce accidents and incidents.
- (c) KCAA proposes a sustainable funding mechanism for the East African Community Civil Aviation Safety and Security Oversight Agency (CASSOA) instead of relying on contributions from Partner States Civil Aviation Authorities.
- (d) The Meteorological Department (MET) provides weather information which is a safety critical input for use by air operators. It is proposed that the Department be made autonomous from the Ministry of the Environment for increased investment in equipment and efficiency in provision of information to air operators.
- (e) The Air Passenger Service Charge (APSC) Act 475 provides for collection of the proceeds by KRA. It is proposed that the Air Passenger Service Charge (APSC) Act 475 and the KRA Act be amended to allow KCAA collect its revenue directly instead of through KAA.
- (f) It is proposed that the KRA Act be amended to allow KCAA collect all its revenue directly.
- (g) It is proposed that a portion of APSC be shared with AAID, Met Departments and EAC CASSOA in order to develop their capacity to undertake their mandate more effectively.
- (h) The Civil Aviation Act 2013 and the Civil Aviation Amendment Act 2016 should be consolidated and promulgated as the Civil Aviation Act, 2019 incorporating all amendments as appropriate.

- (i) The Public Finance and Management Act (PFMA) sec 219(2) should be amended to exempt KCAA from payment of 90% of surplus funds to the National Treasury so that the Authority is able to invest in required aviation infrastructure.



Office of the Director General  
Kenya Civil Aviation Authority  
P.O. Box 30163-00100  
**Nairobi**



# Kenya Aviation Workers Union

All correspondents should be addressed to the Secretary General

Airport Complex Ltd.  
JKIA Cargo Village,  
P.O. Box 19157-00501  
Nairobi, Kenya.  
Tel: 0729 039 242

② ZUNCO  
pls deal

FA  
09/4/19

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5/4/19

The Clerk of the National Assembly,  
P.O. Box 41842-00100,  
**NAIROBI.**

4<sup>th</sup> April 2019

Dear Sir,

**RE: MEMORANDUM ON THE PROPOSED PUBLIC PRIVATE PARTNERSHIP  
BETWEEN KENYA AIRWAYS AND KENYA AIRPORTS AUTHORITY.**

Following your request for submission of memoranda pursuant to the provisions of Articles 95 and 201 (a) of the Constitution in the matter of the proposed Public Private Partnership between Kenya Airways PLC and Kenya Airports Authority, attached herewith please find our memorandum for consideration.

We further request that we be allocated a time slot to appear before the Departmental Committee on Transport, Public Works and Housing to present and prosecute our memorandum.

We look forward to your consideration.

Yours faithfully,

**Moss Ndiema**  
**Secretary General**

③ Emerson

pls note

FA  
09/4/19

THE NATIONAL ASSEMBLY  
RECEIVED

09 APR 2019

DIRECTOR COMMITTEE SERVICES

Time: .....

RECEIVED  
04 APR 2019  
CLERK'S OFFICE

4<sup>th</sup> April 2019

The Clerk of the National Assembly,  
P.O. Box 41842-00100,  
Nairobi.

Dear Sir,

**RE: MEMORANDUM ON THE PROPOSED PUBLIC PRIVATE PARTNERSHIP BETWEEN KENYA AIRWAYS AND KENYA AIRPORTS AUTHORITY.**

**1. INTRODUCTION**

**a) Who is Kenya Aviation Workers Union**

- Kenya Aviation Workers Union (KAWU) is a trade union legally registered by the Registrar of Trade Unions in accordance with the provisions of Section 19 of the Labour Relations Act, 2007. It is the trade union that represents unionisable employees in the entire aviation sector in the country.
- KAWU has valid Recognition Agreements with employers in the aviation sector including Kenya Airways PLC (KQ), Kenya Airports Authority (KAA), Kenya Civil Aviation Authority (KCAA) and Trade Winds Limited among others.
- By virtue of the Recognition Agreements entered with the said employers in accordance with the provisions of Section 54 of the Labour Relations Act 2007, as well as subsequent Collective Bargaining Agreements (CBA) with the said employers, KAWU is therefore a key stakeholder in all matters directly or indirectly affecting employees in the aviation sector, being the sole representative of the employees.
- We are therefore presenting this memorandum to this honourable Committee on behalf of all the unionisable employees in the aviation sector whose interests are threatened by the proposed take-over of the operations of Jomo Kenyatta International Airport (JKIA) by KQ.

**b) Need for KQ to be Assisted to Turn Around**

- As a key stakeholder in the aviation sector, and particularly in the KQ's airline business, we are concerned at the manner in which KQ's business performance has been on the decline over the last 7 years plunging the airline into heavy losses in the tune of billions of shillings.
- This scenario spells doom not only to the country which relies on the airline as one of its drivers of the economy, but also to the employees whose jobs have constantly been at risk. It is therefore in our interest, as it is every Kenyan's interest, to see KQ regain its status in the airline business in the region and in the continent as the "Pride of Africa".
- There have been several attempts made in the past to save the airline from its perennial financial challenges. While most of the initiatives made in the past seem to have yielded

no fruit, we are convinced that a lot more needs to be done by all stakeholders to support the recovery of the airline. The recent debt restructuring done in 2017 is one attempt that has marginally stabilised KQ's cash-flows with most debts converted into equity. However, this alone will not save the airline.

- KQ's turn-round will only be achieved by deep diving into the root causes of the airlines financial troubles and establishing how not to fall into those pitfalls again. The root causes may range from deliberate mismanagement brought about by inept and poor leadership at the top levels, hostile operating environment due to the proliferation of external airlines eating into the domestic and regional market with government support, unfavourable tax regime, irregular procurement procedures and volatile fuel prices.
- We are convinced that taking over the operations and running of JKIA does not constitute one of the much needed interventions and assistance that KQ needs for its turn round. If KQ cannot make a profit from running its core business of flying aircrafts, then auxiliary revenues from non-core activities like running the airport will not surely save it from collapse.

## **2. REASONS WHY KAWU IS OPPOSED TO THE PIIP**

As an important contributor to the national economy, KQ needs to be rescued from collapse. But the rescue mission must uphold and comply with the applicable laws, which the take-over proposal is not doing. Below are some of the reasons why KAWU is opposed to the proposed take-over of JKIA by KQ:

### **a) The PIIP Model Not Suitable in KQ'S Case**

- Kenya Airways is a private company operating as the nation's flag carrier. On the other hand, KAA is wholly owned by the government and its prime profitable business unit is JKIA
- KQ controls about 50% of the business at JKIA. Since 2012, KQ has been experiencing operational and financial performance challenges epitomizing an entity shrouded by imprudent business strategy leading to cash flow pressure occasioned by high fixed charges.
- As a result, the airline's ticket charges have been relatively uncompetitive thereby eroding the cabin factor in favor of the competitors with attendant perennial financial losses and default in meeting its debt obligations
- In May 2018, KQ obtained Cabinet approval to initiate the process of running JKIA under Public Private Partnership arrangement premised on the need to upscale JKIA expansion to enable the growth of the airline.
- The proposed PIIP model has no inbuilt risk sharing element and hence is more inclined to a "take-over" rather than a Public Private Partnership (PPP).
- The PIIP proposal also creates a possibility of a viability gap funding for the other network airports which is illegal within the frameworks of both the PPP Act, 2013 and Kenya Airports Authority (KAA) Act, 1991.

Below, we look at other comparable African airlines and aviation authorities and how they are run which reveals that the KQ's PIIP is an untested model which is doomed to fail:

### **Egypt**

- In Egypt, the government wholly owns the Egyptian Holding Company for Airports and Air Navigation (EHCAAN) with its subsidiaries being:
  - Egyptian Airports Company which manages 19 regional airports with a volume of 22 million passengers annually which is equivalent to 60% of the total traffic
  - Cairo Airport Company which manages Cairo International Airport
  - National Air Navigational Services Company which serves as the industry regulator
  - Aviation Information Technology
- EHCAAN is an independent entity which operates on commercial terms and its mandate included development and expansion of aviation facilities and infrastructure to support economic activities.
- Egypt Air, the national carrier, is 100% Government owned and is now the largest airline operator in the continent by traffic numbers.

### **Morocco**

- The Moroccan Airports Authority is 100% Government owned.
- It operates airport infrastructure as well as Air Navigational Services.
- Royal Air Morac is the Moroccan national carrier and is 100% Government owned

### **Ethiopia**

- In Ethiopia, the Ethiopian Aviation Holding Group is 100% Government owned with the following subsidiaries.
  - Ethiopian Airlines Group which is the national carrier for both passengers and cargo business
  - Ethiopian Airports Enterprises which runs the national airports
  - Logistics Company
  - Aviation Academy
  - Inflight Catering Services,
  - Maintenance, Repairs and Overhaul Services; and
  - Ethiopian Hotel and Tourism Services.
- Therefore the airline and the airports management are all wholly owned by the government

## Rwanda

- In Rwanda, the Rwanda Aviation, Travel and Logistics Limited is 100% Government owned with the following subsidiaries:
  - RwandAir which is the national carrier
  - Rwanda Airports Management Limited which manages the national airports
  - National Logistics Company Limited
  - Hospitality and Travel Management Limited; and
  - Akagera Aviation Academy
- The Gulf carriers of Emirates, Qatar and Etihad, which are some of the best in the world, are all government owned with the state also running the airports and other aviation infrastructure.
- From the above examples, it is clear that their models are generally anchored on streamlining and making the civil aviation sector more vibrant, cost efficient and competitive through focused planning and co-ordination.
- In the case of the KQ's PIIP, the model is dead on arrival. It assumes that KQ is wholly owned by the government, which is not the case, and that the other aviation entities will all coalesce into one fold after the take-over.

### b) Shortcomings of the PIIP

- The intended take-over of JKIA by KQ does not conform to the requirements of Public Private Partnership (PPP) framework. The Public Private Partnership Act envisages a situation where both parties to the partnership benefit. How then does it benefit KAA to cede its premier cash cow to KQ in exchange for a concession fee less than one third of its current earnings?
- KQ is a private enterprise as opposed to KAA which is a public organization created to be the public custodian of the country's aerodromes and fully funded by tax-payer. KQ's core mandate as a listed company is to run the airline business. Since its inception, KQ's mandate has not involved running of airports which has been the preserve of KAA and its predecessor, the Aerodromes Department.
- By its business nature, KQ has neither the expertise nor the experience of running and managing airports. On the other hand, KAA has not only the expertise but a rich experience in running and managing airports. We are concerned that an entity that is not conversant with running an important facility like JKIA is being handed such an important responsibility on a silver platter.
- At the moment, JKIA generates over 90% of KAA's revenues. By ceding the business unit that brings the largest share of their revenue to KQ, KAA will remain a shell of its original

self. We feel that this is not only against the public interest but also a poor and misinformed business decision with a view to profit a private enterprise from public coffers.

- Further, with 90% of its revenue stream gone, KAA will not be able to execute its mandate of expanding and expanding and growing more aerodromes and airports in Kenya due to lack of funding. Expansion of airports across the country is of public interest as it resonates with the country's social-economic development agenda. Without JKIA, KAA will not be able to deliver on this key expectation of the Kenyan
- One of the government's key objectives is to open up the country by developing infrastructure that creates rapid connectivity domestically and regionally through growth of airports and airstrips across the country. This dream will be unattainable once JKIA gets into the private hands of KQ.

**c) Findings of Consulting Firm KPMG not in Favour of KQ's PIIP**

- The audit and consultancy firm of KPMG was recently contracted by KAA as their Transaction Adviser on the take-over deal. After reviewing the PIIP presented by KQ, KPMG established certain findings which make the deal untenable.
- KPMG observed that it had not received the detailed financial information required to confirm that KQ is today is able to fund the PIIP. They observed that KQ has withheld such crucial information from them terming it confidential. We are wondering why KQ is unwilling to give full disclosure of its financial capability to run the airport which is a public asset yet it expects to be handed the facility without questioning.
- KPMG further observed that KQ's five year plan for 2018-2022 does not cover the concessionary period it proposes to run JKIA noting that certain financial amortisations have been rescheduled post the 5 year plan. They observed that such rescheduling could detrimentally impact KQ's cash flow and thereby impacting their ability to fund the PIIP.
- KPMG also observed that KQ was in breach of certain financial covenants as at June 2018 for which they received waivers from lenders covering the period up to 31<sup>st</sup> December 2018.
- The audit firm further noted that despite KQ having restructured their debt in November 2017, it has continued facing difficulties in servicing its debts. They observed that KQ faced serious liquidity challenges at this time and questioned KQ's ability to be the operator of JKIA under the PIIP.
- In addition, KPMG noted that KQ's non-equity participating lenders had not been apprised of the PIIP, meaning that without their consent and approval, the PIIP stood the risk of adversely affecting KQ's existing loan arrangements with the said lenders.

- On the structure of the proposed Special Purpose Vehicle (SPV), KPMG observed that KQ has not provided the detailed SPV organization structure which is essential for determining the fate of majority of KAA employees, the selection criteria as well as clarity on which policies and procedures will apply in the SPV
- To make it worse, the auditors established that KQ presently does not have the credentials to develop or operate an airport. This fact has been repeated by many observers and commentators alike. We share in this opinion that indeed, KQ lacks not only the credentials but the competence to run an airport like JKIA
- The auditors also observed that without JKIA, KAA will require funding since other aerodromes and airports volumes and revenues are not sufficient to cover its operating expenses. To further compound KAA's problems after ceding JKIA, its liabilities such as environmental remediation, pension deficit funding and other contingent liabilities will remain under KAA hence requiring further funding which will not be covered by the concession fees to be paid by KQ. We therefore wonder in whose interest it is to plunge KAA into financial mess and burdening the taxpayer more by funding KAA which is financially stable today
- We are unable to understand why, even after receiving these findings by a competent authority like KPMG, the PIIIP by KQ is still being pushed in spite of its obvious shortcomings and disadvantages to KAA. In whose interest is this project being propelled?

#### **d) JKIA Take-over Not the Only Option to Turn-around KQ**

The Kenyan public is being fed with the inaccurate and false impression that Kenya Airways has suddenly found itself in a financial dementia whose only prescription for resuscitation is by taking over the operations of JKIA from KAA. The proponents of this deal want Kenyans to believe that this is the sole miraculous and "God-sent idea" that can save KQ from its financial doldrums. This is far from the truth. Below, we highlight other viable options which have been recommended for KQ's revival but the airline has chosen to ignore them.

- In February 2017, an international consultancy firm, Seabury Group, was contracted by KQ to advise the airline on a viable turnaround strategy and they made very plausible recommendations.
- Key among them was the conversion of debts owed to local banks and the government to equity which was implemented in 2017 which resulted in spurring the airlines liquidity and cash-flows.
- Another recommendation was to engage the Unions more robustly to negotiate productivity driven CBAs. Regrettably, KQ has failed to embrace this recommendation. The Union has been knocking on KQ's doors to commence CBA negotiations since June 2016 to no avail, despite the fact that the Union led the way by agreeing to drop

- guaranteed flying crew allowances in favour of allowances based on block hours actively flown which resonates very well with the productivity model recommended by Seabury
- Seabury also recommended that KQ engages the government to waive taxes on imported aircraft parts and other materials used for aircraft maintenance.
  - They also recommended the enactment of a law to ensure all government employees and contractors utilise KQ for their travel
  - In addition, it was recommended that KQ proactively engages the government to waive taxes on jet fuel which would save the airline over KES 7 Billion annually which is more than what KQ would generate from running JKIA. It is ironical that KQ pays Railway Maintenance Levy for its jet fuel yet this levy goes to support a sector seen as a competitor.
  - Take-over of JKIA was not one of the recommendations by Seabury. Why doesn't KQ implement these recommendations and forget the JKIA take-over? After all, there are more benefits to reap from implementing these recommendations which would make the airline more stable and sustainable in the long run
  - We are convinced that this deal is driven by other motives in lieu of sound recommendations made by Seabury. Why would KAA be made to relinquish its most profitable business unit to save KQ, when there are more plausible options to achieve even better results?

**e) Non-Engagement of KAWU by KQ and KAA**

- The managements of both KQ and KAA have chosen to keep its employees in the dark on the discussions concerning the proposed take-over deal. Employees have been hearing from the grapevine about the deal with no official communication from the employers. Being such a sensitive issue with a great potential to affect the jobs of the employees, it is inconceivable why KQ and KAA decided to treat employees with such disdain as to ignore them in this manner.
- Similarly, KAWU has also been kept in the dark. Our efforts to seek information on the deal from both KQ and KAA have been futile. Our attempts to seek dialogue with the two employers over the matter have similarly been ignored. Yet, as the representative of the employees, we have a legal and constitutional right to be provided with information of the matter, or at the very least, be accorded an opportunity to dialogue with the said employers.
- To date, KAWU has not been provided with a copy of the Privately Initiated Investment Proposal (PIIP) by KQ which carries the details of how the proposed take-over will be implemented. Had we been provided with the PIIP, we could perhaps have understood the rationale behind the deal and constructively engage the two employers with the objective of protecting the interests of the employees
- We have information from a recently concluded study by KPMG audit firm that if the take-over deal works as proposed, there will definitely be redundancies mainly affecting KAA staff currently working at JKIA and at the Head Office.

- Representing over 4000 employees in KQ and KAA, KAWU is a major stakeholder in the aviation sector. To alienate an important stakeholder like a union on matters that have the direct and potential implication of causing job losses is absurd and an act of pure negligence by managements of both KAA and KQ. We have a mandate to execute on behalf of our members. Our demand to be engaged in the deliberations is not a request but a requirement as per the Collective Bargaining Agreement (CBA) and the law.

f) **Previous Failed Restructuring Initiatives Carried out by KQ**

- We are apprehensive and convinced that like many other previous attempts made at resuscitating KQ since its fortunes started nose-diving in 2012, this one will also fail unless the root causes of KQ's perennial problems are identified and addressed.
- In 2012, a major restructuring of the company was carried out with the resultant retrenchment of over six hundred (600) employees in one swoop. The rationale behind the retrenchment was that the company's wage bill was so big due to what management alleged was an inordinate high staff population relative to the business requirements.
- Soon after the said redundancy was carried out, a bigger number of employees than those retrenched were engaged through an out-sourced firm, ostensibly to do the same jobs that the retrenched staff were doing. One doesn't need to be a rocket scientist to conclude with logical inference that there was no need to retrench in the first instance.
- The Union has been in the forefront questioning the rationale behind out-sourcing of the said jobs. We have not tired to ask who the real beneficiary of the out-sourcing concept is and whether it indeed serves the interests of the airline.
- We have also queried the element of discrimination amongst employees doing similar jobs. How can you justify deploying two employees with similar qualifications to do the same type of job in the same work environment where one of them earns less than half of the salary of the other? This is an unfair labour practice and exploitation of labour contrary to the constitution.
- The 2012 redundancy and the whole restructuring effort did not help the company to turn profitable. The company's fortunes have remained in the doldrums ever since. Indeed, in 2014 KAWU was forced to sign a CBA with a 0% salary increase, much to the chagrin and disappointment of our members. The reason we did so was because we decided to take a sacrifice in order to save the airline from financial collapse. We further agreed to forego some crucial allowances for our flying crew with a promise that we would review the CBA in July 2015, which was never done.
- Instead, in came another restructuring exercise spearheaded by McKinsey Consultants in 2016 in which over one hundred (100) employees were retrenched yet again with the company citing excess manpower. Again, in a show of sacrifice by the Union to save the airline from collapse, we agreed to forego annual increments for our members for one full year without claiming back-pay translating into tens of millions of shillings. Ironically, in less than six months, the company started feeling the heat of operating with less than

required manpower and they resulted, yet again, in engaging more than one hundred staff through the out-sourced firms.

- We are now experiencing yet another restructuring albeit with a slight difference, but with the same implications of job losses. We are convinced that no amount of restructuring initiatives will save KQ from its losses without first identifying the root cause of its problems and address them. We are opposed to have the employees' jobs always being sacrificed in the name of saving the loss-making airline.

#### g) Extreme Management Failure at KQ

- Over the last seven years, KQ has continued to sink in losses (the net loss improved from Kes 5.6 billion in 2017 to Kes 4 billion in 2018), even after engaging a foreign chief executive who was said to be a turnaround expert and more than a dozen other foreign so-called "airline experts "
- This team, led by KQ CEO Sebastian Mikosz, has failed the airline and it is time they exit if KQ is to recover KQ has a rich reservoir of great talent of well-skilled men and women able to run the airline but the majority, who are dejected, have found solace with Gulf carriers due to poor management of the local airline.
- Over 500 KQ employees have in the last five years left for Middle Eastern airlines, which offer better terms, yet KQ continues to engage foreigners with questionable credentials, who think running JKIA is the only medicine left to resuscitate KQ
- Recently, the KQ CEO was quoted in the media (The East African, March 17, 2019) stating that nothing short of take-over of the running of JKIA will save KQ from total collapse. He went further to state that **"there is actually no way KQ can be profitable in its current state. I don't know how to do that"**. He even went further to say that if the take-over deal does not go through, he won't consider renewing his contract We are left wondering what Sebastian is still doing holding the CEO's position yet he is clueless on how to run KQ.

### 3. LOSS OF CONFIDENCE IN KQ'S CEO

KAWU, and a great majority of all cadres of employees of KQ, has lost confidence in the stewardship of the KQ CEO Sebastian Mikosz under whose tenure KQ has sunk deeper into losses. We have also lost faith in his capability to turn around the airline despite engaging a huge number of foreign employees in the name of "airline experts". We are convinced that Sebastian, having admitted that he is unable to turn KQ into profitability as quoted above, is only interested in lining his pockets and those of his fellow native Polish he has brought into KQ. No wonder that he is now the chief proponent of the PIIP, a project that he strangely believes will provide KQ with a singular dose for revival.

Below, we highlight some of the reasons why KAWU, and a large majority of KQ employees including managers, have lost confidence in him and why we are calling upon him to throw in the towel and exit honourably.

a) Integrity of the Group Managing Director & CEO, Sebastian Mikosz

- The Union has lost faith and confidence in KQ's CEO Sebastian Mikosz for various reasons.
- We went public recently with the information that Sebastian is earning an astronomically high salary of KES 8 Million per month while superintending over the affairs of an airline that is making billions of shillings in losses every year. We questioned the rationale behind paying him such a huge salary when his predecessors were earning less than a half of this amount. He went ahead to refute this by stating that his salary was KES 2.7 Million per month.
- We wish to reiterate that our position is that Sebastian earns close to KES 8 Million per month and that his denial is a plain lie. We have evidence from KQ's published half year results for the period ending 31<sup>st</sup> December 2017 that in a period of 6 months, Sebastian's total remuneration was **KES 46,694,000 Million**. This translates to KES 7.8 Million per month contrary to what he declared in public. (**Attached is a copy of an extract from the said results**). This clearly demonstrates that Sebastian has credibility issues and his integrity is questionable.

b) Engagement of 7 Polish Consultants and their Unreasonable Payments

- We have an issue in the manner KQ has engaged 7 people from Poland under the guise of consultants with "airline turnaround expertise". We shall be covering the issue of their questionable credentials in details below, but what beats logic is the unreasonably high perks paid to them.
- Sebastian has chosen to keep silent over this issue even in his recent statement only confirming the existence of the Polish consultants but not refuting their huge pay. We have evidence of the handsome perks Sebastian pays his fellow nationals. And the
- For example, he paid one Monika Kieltyka-Michna who is designated as "Interim Management" a total of USD 108,000 (KES 11 Million) for services rendered in February 2018 vide Invoice No. 02/2018 dated 1<sup>st</sup> March 2018 approved and signed by Sebastian and acknowledged by the said Monika. The money was paid on 10<sup>th</sup> March 2019 through a bank transfer to Monika's bank account in Poland with account number PL 85103000190108400471058.

- Another Polish “consultant” by the name Michal Smierclak was paid a total of USD 82,000 (KES 8.3 Million) for services rendered in February 2018 vide Invoice No. 02/2018 dated 1<sup>st</sup> March 2018 approved by Sebastian and acknowledged by the said Michal. The money was paid on 10<sup>th</sup> March 2018 through a bank transfer to Michal’s bank account in Poland with account number PL 20114020040000311201967694. **(Attached are copies of the two invoices).**
- There are 5 other Polish “consultants” employed by Sebastian whom we have reason to believe, going by the above evidence, that they are paid similar terms bringing the average total cost of employment for the 7 people to about KES 66.5 Million every month.
- We believe that Sebastian has a direct interest in these payments being the person who solely appointed these people to KQ.

c) Questionable Qualifications/Credentials of the Polish “Consultants”

- A quick look at the credentials of the six foreigners from Poland hired by KQ CEO Sebastian Mikosz demonstrates that they bring no special skills that are not available in Kenya.
- One of them by the name Monika Kieltyka-Michna is said to be a Procurement and Operations expert and is said to hold a Masters in Business Administration (MBA) in Management and Marketing. How many such qualifications do we have in Kenya?
- Another one by the name Magdalena Serwach is said to have worked as a Legal Counsel in Poland and she holds a Masters in Law. What special talent does she bring? One wonders whether our locally trained, resourceful and experienced lawyers can’t do the work she was appointed by Sebastian to do.
- A third one by the name Piotr Piwarczyk is said to be a business analyst and sales manager with no disclosure of his qualifications.
- One Michal Smierclak is said to be specialising in strategy and procurement yet we have enough procurement professionals in Kenya registered and recognised by the Kenya Institute of Supplies Management (KISM).
- Having no special skills that are lacking in neither KQ nor Kenya as a whole, the appointment of these 6 “consultants” by Sebastian speaks volume about the personal interest he has in having them around and also depicts his sheer disdain for local talent. Again, this calls his integrity to question.
- The Union is at loss to understand why all these 7 so-called consultants have to originate from one country – Poland. If at all KQ had the need to source for external consultants, did they all have to be from Sebastian’s nationality? Must all of them come from a consulting firm (Air Biz Support) associated with Sebastian? We read some mischief here and again we call to question Sebastian’s integrity.

#### d) Recruitment of a High Number of Expatriates

- KQ is one of the companies in Kenya that employs a high number of expatriates yet we have sufficient local talent to perform the same roles that they are appointed to do. With 18 expatriates currently employed, one wonders what special skills they bring, yet the airline has been on the decline.
- For the airline to employ such a large number of expatriates at astronomically high salaries with no commensurate deliverables is unthinkable. The Union has been demanding better pay for local employees for the last 5 years to no avail yet KQ continues to pay these consultants. The salaries they take home in a month is sufficient to award at least a 5% salary increase to all KQ 4,000 employees which would highly boost the morale and motivation of the down-trodden employees.
- Sebastian has openly lied to the public that out of the 18 expatriates, 5 are seconded by KLM and that KLM pays their salaries. All the 5 expatriates seconded by KLM are paid by KQ from KQ's own finances.
- We are aware that KLM has the habit of dumping some of their "obsolete" or excess managers to KQ to clean up their payroll as they wait to re-absorb them back to their payroll when the need for their services arise. Needless to say, they are known to send managers to KQ who specialise in taking care of KLM's interests at the expense of KQ's business. It is no wonder that KQ's fortunes continue to dwindle while KLM's business continues to grow even in routes where ideally KQ should be the only operator under the joint venture agreement.

#### e) Governance issues with KQ CEO

- It has been a practice in KQ since the appointment of Sebastian Mikosz as the CEO to recruit and appoint managers without any regard to the established KQ's recruitment policy which advocates for transparency and openness. The same practice has been applied in promotions that do not follow the due process.
- A large number of managers have recently been appointed without the roles being advertised internally or without subjecting the appointees to an interview process. We view this as discrimination and an attempt by Sebastian to reward his friends and close associates.
- To make matters worse, some of the managers appointed in this manner have had their salaries drastically increased well beyond the levels of other managers in similar grades. Some have no relevant qualifications to justify their appointments.
- One good example is the appointment of one Angela Nderu to the role of Head of Strategy without either an interview or without advertising the role for competition among other managers. Angela's qualification is a Diploma in catering and hotel management and she previously held the role of Manager in charge of cabin crew. How she suddenly acquired qualifications to warrant her appointment to the new role beats logic. Her salary was also raised from about 300,000/= per month to 950,000/=per month, a raise that has raised eyebrows all over KQ. This is just but one example.

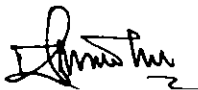
**f) Irregular Payments for Personal Security**

- We have evidence that Sebastian has engaged the services of a private security firm to provide him with 2 personal security/bodyguards. Whilst the necessity for personal security and personal bodyguards is in itself questionable given that no previous KQ CEO has been provided with such a service, what attracts the attention of the Union is the huge amount of money paid for this service
- On 28<sup>th</sup> May 2018, Sebastian paid a security firm by the name Salama Fikira an amount of USD 10,979.05 (almost KES 11 Million) for security services provided in the month of May 2018 vide an invoice No. SPGL/2018/1643 **(A copy of the said invoice is hereby attached).**
- We wonder what calibre of security was provided to warrant payment of such an amount of money for one month Even a whole battalion of Recce Squad cannot attract a payment of this amount. This again calls the integrity of Sebastian to question.

**4. CONCLUSION**

From the foregoing, KAWU is convinced that the take-over of JKIA is NOT the only option that can save KQ from its financial mess. There are more and better options. We are equally convinced that KAA should not be deprived of its profit making unit in a bid to save KQ. This is tantamount to robbing the Kenya tax-payer of their viable investment. We are similarly convinced that the take-over deal is ill-conceived and is not in the best public interest. We are further convinced that the current CEOs of KQ and KAA have failed in their duties by ignoring plausible findings and recommendations advising against the deal. Sebastian's push for this deal as a matter of life and death insinuates that he is incapable of turning around KQ's core business as an airline. His management has failed and he should exit honourably.

Consequently, KAWU urges the National Assembly to vote against the take-over deal and recommend for the immediate exit of Sebastian Mikosz as the KQ CEO and Johny Andersen as the KAA CEO.



**Moss Ndiema**  
**Secretary General**



# Kenya Aviation Workers Union

All correspondents should be addressed to the Secretary General

Airport Complex Ltd.  
JKIA Cargo Village,  
P.O. Box 19157-00501  
Nairobi, Kenya.  
Tel: 0729 039 242

*① D/Smith  
8/4/19*

The Clerk of the National Assembly,  
P.O. Box 41842-00100,  
NAIROBI.

4<sup>th</sup> April 2019

Dear Sir,

**RE: MEMORANDUM ON THE PROPOSED PUBLIC PRIVATE PARTNERSHIP  
BETWEEN KENYA AIRWAYS AND KENYA AIRPORTS AUTHORITY.**

Following your request for submission of memoranda pursuant to the provisions of Articles 95 and 201 (a) of the Constitution in the matter of the proposed Public Private Partnership between Kenya Airways PLC and Kenya Airports Authority, attached herewith please find our memorandum for consideration.

We further request that we be allocated a time slot to appear before the Departmental Committee on Transport, Public Works and Housing to present and prosecute our memorandum.

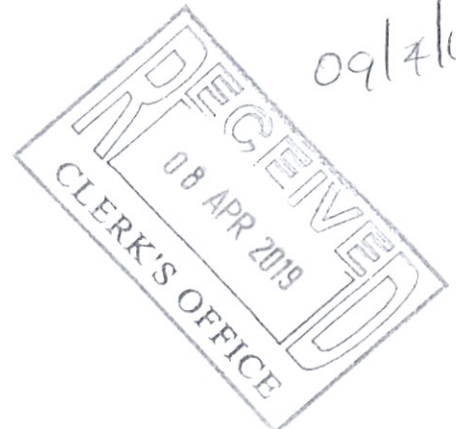
We look forward to your consideration.

Yours faithfully,

**Moss Ndiema**  
**Secretary General**

*② TUNGO  
pls deal  
FA  
09/4/19*

*③ ENGIEN  
pls note  
FA  
09/4/19*



4<sup>th</sup> April 2019

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**1. INTRODUCTION**

**a) Who is Kenya Aviation Workers Union**

- Kenya Aviation Workers Union (KAWU) is a trade union legally registered by the Registrar of Trade Unions in accordance with the provisions of Section 19 of the Labour Relations Act, 2007. It is the trade union that represents unionisable employees in the entire aviation sector in the country.
- KAWU has valid Recognition Agreements with employers in the aviation sector including Kenya Airways PLC (KQ), Kenya Airports Authority (KAA), Kenya Civil Aviation Authority (KCAA) and Trade Winds Limited among others.
- By virtue of the Recognition Agreements entered with the said employers in accordance with the provisions of Section 54 of the Labour Relations Act 2007, as well as subsequent Collective Bargaining Agreements (CBA) with the said employers, KAWU is therefore a key stakeholder in all matters directly or indirectly affecting employees in the aviation sector, being the sole representative of the employees.
- We are therefore presenting this memorandum to this honourable Committee on behalf of all the unionisable employees in the aviation sector whose interests are threatened by the proposed take-over of the operations of Jomo Kenyatta International Airport (JKIA) by KQ.

**b) Need for KQ to be Assisted to Turn Around**

- As a key stakeholder in the aviation sector, and particularly in the KQ's airline business, we are concerned at the manner in which KQ's business performance has been on the decline over the last 7 years plunging the airline into heavy losses in the tune of billions of shillings.
- This scenario spells doom not only to the country which relies on the airline as one of its drivers of the economy, but also to the employees whose jobs have constantly been at risk. It is therefore in our interest, as it is every Kenyan's interest, to see KQ regain its status in the airline business in the region and in the continent as the "Pride of Africa".
- There have been several attempts made in the past to save the airline from its perennial financial challenges. While most of the initiatives made in the past seem to have yielded

no fruit, we are convinced that a lot more needs to be done by all stakeholders to support the recovery of the airline. The recent debt restructuring done in 2017 is one attempt that has marginally stabilised KQ's cash-flows with most debts converted into equity. However, this alone will not save the airline.

- KQ's turn-round will only be achieved by deep diving into the root causes of the airlines financial troubles and establishing how not to fall into those pitfalls again. The root causes may range from deliberate mismanagement brought about by inept and poor leadership at the top levels, hostile operating environment due to the proliferation of external airlines eating into the domestic and regional market with government support, unfavourable tax regime, irregular procurement procedures and volatile fuel prices.
- We are convinced that taking over the operations and running of JKIA does not constitute one of the much needed interventions and assistance that KQ needs for its turn round. If KQ cannot make a profit from running its core business of flying aircrafts, then auxiliary revenues from non-core activities like running the airport will not surely save it from collapse.

## **2. REASONS WHY KAWU IS OPPOSED TO THE PIIP**

As an important contributor to the national economy, KQ needs to be rescued from collapse. But the rescue mission must uphold and comply with the applicable laws, which the take-over proposal is not doing. Below are some of the reasons why KAWU is opposed to the proposed take-over of JKIA by KQ:

### **a) The PIIP Model Not Suitable in KQ'S Case**

- Kenya Airways is a private company operating as the nation's flag carrier. On the other hand, KAA is wholly owned by the government and its prime profitable business unit is JKIA.
- KQ controls about 50% of the business at JKIA. Since 2012, KQ has been experiencing operational and financial performance challenges epitomizing an entity shrouded by imprudent business strategy leading to cash flow pressure occasioned by high fixed charges.
- As a result, the airline's ticket charges have been relatively uncompetitive thereby eroding the cabin factor in favor of the competitors with attendant perennial financial losses and default in meeting its debt obligations.
- In May 2018, KQ obtained Cabinet approval to initiate the process of running JKIA under Public Private Partnership arrangement premised on the need to upscale JKIA expansion to enable the growth of the airline.
- The proposed PIIP model has no inbuilt risk sharing element and hence is more inclined to a "take-over" rather than a Public Private Partnership (PPP).
- The PIIP proposal also creates a possibility of a viability gap funding for the other network airports which is illegal within the frameworks of both the PPP Act, 2013 and Kenya Airports Authority (KAA) Act, 1991.

Below, we look at other comparable African airlines and aviation authorities and how they are run which reveals that the KQ's PIIP is an untested model which is doomed to fail:

#### **Egypt**

- In Egypt, the government wholly owns the Egyptian Holding Company for Airports and Air Navigation (EHCAAN) with its subsidiaries being:
  - Egyptian Airports Company which manages 19 regional airports with a volume of 22 million passengers annually which is equivalent to 60% of the total traffic
  - Cairo Airport Company which manages Cairo International Airport
  - National Air Navigational Services Company which serves as the industry regulator
  - Aviation Information Technology
- EHCAAN is an independent entity which operates on commercial terms and its mandate included development and expansion of aviation facilities and infrastructure to support economic activities.
- Egypt Air, the national carrier, is 100% Government owned and is now the largest airline operator in the continent by traffic numbers.

#### **Morocco**

- The Moroccan Airports Authority is 100% Government owned.
- It operates airport infrastructure as well as Air Navigational Services.
- Royal Air Morac is the Moroccan national carrier and is 100% Government owned

#### **Ethiopia**

- In Ethiopia, the Ethiopian Aviation Holding Group is 100% Government owned with the following subsidiaries:
  - Ethiopian Airlines Group which is the national carrier for both passengers and cargo business
  - Ethiopian Airports Enterprises which runs the national airports
  - Logistics Company
  - Aviation Academy
  - Inflight Catering Services;
  - Maintenance, Repairs and Overhaul Services; and
  - Ethiopian Hotel and Tourism Services.
- Therefore the airline and the airports management are all wholly owned by the government

## Rwanda

- In Rwanda, the Rwanda Aviation, Travel and Logistics Limited is 100% Government owned with the following subsidiaries:
  - RwandAir which is the national carrier
  - Rwanda Airports Management Limited which manages the national airports
  - National Logistics Company Limited
  - Hospitality and Travel Management Limited; and
  - Akagera Aviation Academy
- The Gulf carriers of Emirates, Qatar and Etihad, which are some of the best in the world, are all government owned with the state also running the airports and other aviation infrastructure.
- From the above examples, it is clear that their models are generally anchored on streamlining and making the civil aviation sector more vibrant, cost efficient and competitive through focused planning and co-ordination.
- In the case of the KQ's PIIP, the model is dead on arrival. It assumes that KQ is wholly owned by the government, which is not the case, and that the other aviation entities will all coalesce into one fold after the take-over.

### b) Shortcomings of the PIIP

- The intended take-over of JKIA by KQ does not conform to the requirements of Public Private Partnership (PPP) framework. The Public Private Partnership Act envisages a situation where both parties to the partnership benefit. How then does it benefit KAA to cede its premier cash cow to KQ in exchange for a concession fee less than one third of its current earnings?
- KQ is a private enterprise as opposed to KAA which is a public organization created to be the public custodian of the country's aerodromes and fully funded by tax-payer. KQ's core mandate as a listed company is to run the airline business. Since its inception, KQ's mandate has not involved running of airports which has been the preserve of KAA and its predecessor, the Aerodromes Department.
- By its business nature, KQ has neither the expertise nor the experience of running and managing airports. On the other hand, KAA has not only the expertise but a rich experience in running and managing airports. We are concerned that an entity that is not conversant with running an important facility like JKIA is being handed such an important responsibility on a silver platter.
- At the moment, JKIA generates over 90% of KAA's revenues. By ceding the business unit that brings the largest share of their revenue to KQ, KAA will remain a shell of its original

self. We feel that this is not only against the public interest but also a poor and misinformed business decision with a view to profit a private enterprise from public coffers.

- Further, with 90% of its revenue stream gone, KAA will not be able to execute its mandate of expanding and expanding and growing more aerodromes and airports in Kenya due to lack of funding. Expansion of airports across the country is of public interest as it resonates with the country's social-economic development agenda. Without JKIA, KAA will not be able to deliver on this key expectation of the Kenyan
- One of the government's key objectives is to open up the country by developing infrastructure that creates rapid connectivity domestically and regionally through growth of airports and airstrips across the country. This dream will be unattainable once JKIA gets into the private hands of KQ.

c) Findings of Consulting Firm KPMG not in Favour of KQ's PIIP

- The audit and consultancy firm of KPMG was recently contracted by KAA as their Transaction Adviser on the take-over deal. After reviewing the PIIP presented by KQ, KPMG established certain findings which make the deal untenable.
- KPMG observed that it had not received the detailed financial information required to confirm that KQ is today is able to fund the PIIP. They observed that KQ has withheld such crucial information from them terming it confidential. We are wondering why KQ is unwilling to give full disclosure of its financial capability to run the airport which is a public asset yet it expects to be handed the facility without questioning.
- KPMG further observed that KQ's five year plan for 2018-2022 does not cover the concessionary period it proposes to run JKIA noting that certain financial amortisations have been rescheduled post the 5 year plan. They observed that such rescheduling could detrimentally impact KQ's cash flow and thereby impacting their ability to fund the PIIP.
- KPMG also observed that KQ was in breach of certain financial covenants as at June 2018 for which they received waivers from lenders covering the period up to 31<sup>st</sup> December 2018.
- The audit firm further noted that despite KQ having restructured their debt in November 2017, it has continued facing difficulties in servicing its debts. They observed that KQ faced serious liquidity challenges at this time and questioned KQ's ability to be the operator of JKIA under the PIIP.
- In addition, KPMG noted that KQ's non-equity participating lenders had not been apprised of the PIIP, meaning that without their consent and approval, the PIIP stood the risk of adversely affecting KQ's existing loan arrangements with the said lenders.

- On the structure of the proposed Special Purpose Vehicle (SPV), KPMG observed that KQ has not provided the detailed SPV organization structure which is essential for determining the fate of majority of KAA employees, the selection criteria as well as clarity on which policies and procedures will apply in the SPV.
- To make it worse, the auditors established that KQ presently does not have the credentials to develop or operate an airport. This fact has been repeated by many observers and commentators alike. We share in this opinion that indeed, KQ lacks not only the credentials but the competence to run an airport like JKIA.
- The auditors also observed that without JKIA, KAA will require funding since other aerodromes and airports volumes and revenues are not sufficient to cover its operating expenses. To further compound KAA's problems after ceding JKIA, its liabilities such as environmental remediation, pension deficit funding and other contingent liabilities will remain under KAA hence requiring further funding which will not be covered by the concession fees to be paid by KQ. We therefore wonder in whose interest it is to plunge KAA into financial mess and burdening the taxpayer more by funding KAA which is financially stable today.
- We are unable to understand why, even after receiving these findings by a competent authority like KPMG, the PIIP by KQ is still being pushed in spite of its obvious shortcomings and disadvantages to KAA. In whose interest is this project being propelled?

**d) JKIA Take-over Not the Only Option to Turn-around KQ**

The Kenyan public is being fed with the inaccurate and false impression that Kenya Airways has suddenly found itself in a financial dementia whose only prescription for resuscitation is by taking over the operations of JKIA from KAA. The proponents of this deal want Kenyans to believe that this is the sole miraculous and "God-sent idea" that can save KQ from its financial doldrums. This is far from the truth. Below, we highlight other viable options which have been recommended for KQ's revival but the airline has chosen to ignore them.

- In February 2017, an international consultancy firm, Seabury Group, was contracted by KQ to advise the airline on a viable turnaround strategy and they made very plausible recommendations.
- Key among them was the conversion of debts owed to local banks and the government to equity which was implemented in 2017 which resulted in spurring the airlines liquidity and cash-flows.
- Another recommendation was to engage the Unions more robustly to negotiate productivity driven CBAs. Regrettably, KQ has failed to embrace this recommendation. The Union has been knocking on KQ's doors to commence CBA negotiations since June 2016 to no avail, despite the fact that the Union led the way by agreeing to drop

guaranteed flying crew allowances in favour of allowances based on block hours actively flown which resonates very well with the productivity model recommended by Seabury.

- Seabury also recommended that KQ engages the government to waive taxes on imported aircraft parts and other materials used for aircraft maintenance.
- They also recommended the enactment of a law to ensure all government employees and contractors utilise KQ for their travel.
- In addition, it was recommended that KQ proactively engages the government to waive taxes on jet fuel which would save the airline over KES 7 Billion annually which is more than what KQ would generate from running JKIA. It is ironical that KQ pays Railway Maintenance Levy for its jet fuel yet this levy goes to support a sector seen as a competitor.
- Take-over of JKIA was not one of the recommendations by Seabury. Why doesn't KQ implement these recommendations and forget the JKIA take-over? After all, there are more benefits to reap from implementing these recommendations which would make the airline more stable and sustainable in the long run.
- We are convinced that this deal is driven by other motives in lieu of sound recommendations made by Seabury. Why would KAA be made to relinquish its most profitable business unit to save KQ, when there are more plausible options to achieve even better results?

e) Non-Engagement of KAWU by KQ and KAA

- The managements of both KQ and KAA have chosen to keep its employees in the dark on the discussions concerning the proposed take-over deal. Employees have been hearing from the grapevine about the deal with no official communication from the employers. Being such a sensitive issue with a great potential to affect the jobs of the employees, it is inconceivable why KQ and KAA decided to treat employees with such disdain as to ignore them in this manner.
- Similarly, KAWU has also been kept in the dark. Our efforts to seek information on the deal from both KQ and KAA have been futile. Our attempts to seek dialogue with the two employers over the matter have similarly been ignored. Yet, as the representative of the employees, we have a legal and constitutional right to be provided with information of the matter, or at the very least, be accorded an opportunity to dialogue with the said employers.
- To date, KAWU has not been provided with a copy of the Privately Initiated Investment Proposal (PIIP) by KQ which carries the details of how the proposed take-over will be implemented. Had we been provided with the PIIP, we could perhaps have understood the rationale behind the deal and constructively engage the two employers with the objective of protecting the interests of the employees.
- We have information from a recently concluded study by KPMG audit firm that if the take-over deal works as proposed, there will definitely be redundancies mainly affecting KAA staff currently working at JKIA and at the Head Office.

- Representing over 4000 employees in KQ and KAA, KAWU is a major stakeholder in the aviation sector. To alienate an important stakeholder like a union on matters that have the direct and potential implication of causing job losses is absurd and an act of pure negligence by managements of both KAA and KQ. We have a mandate to execute on behalf of our members. Our demand to be engaged in the deliberations is not a request but a requirement as per the Collective Bargaining Agreement (CBA) and the law.

f) Previous Failed Restructuring Initiatives Carried out by KQ

- We are apprehensive and convinced that like many other previous attempts made at resuscitating KQ since its fortunes started nose-diving in 2012, this one will also fail unless the root causes of KQ's perennial problems are identified and addressed.
- In 2012, a major restructuring of the company was carried out with the resultant retrenchment of over six hundred (600) employees in one swoop. The rationale behind the retrenchment was that the company's wage bill was so big due to what management alleged was an inordinate high staff population relative to the business requirements.
- Soon after the said redundancy was carried out, a bigger number of employees than those retrenched were engaged through an out-sourced firm, ostensibly to do the same jobs that the retrenched staff were doing. One doesn't need to be a rocket scientist to conclude with logical inference that there was no need to retrench in the first instance.
- The Union has been in the forefront questioning the rationale behind out-sourcing of the said jobs. We have not tired to ask who the real beneficiary of the out-sourcing concept is and whether it indeed serves the interests of the airline.
- We have also queried the element of discrimination amongst employees doing similar jobs. How can you justify deploying two employees with similar qualifications to do the same type of job in the same work environment where one of them earns less than half of the salary of the other? This is an unfair labour practice and exploitation of labour contrary to the constitution.
- The 2012 redundancy and the whole restructuring effort did not help the company to turn profitable. The company's fortunes have remained in the doldrums ever since. Indeed, in 2014 KAWU was forced to sign a CBA with a 0% salary increase, much to the chagrin and disappointment of our members. The reason we did so was because we decided to take a sacrifice in order to save the airline from financial collapse. We further agreed to forego some crucial allowances for our flying crew with a promise that we would review the CBA in July 2015, which was never done.
- Instead, in came another restructuring exercise spearheaded by McKinsey Consultants in 2016 in which over one hundred (100) employees were retrenched yet again with the company citing excess manpower. Again, in a show of sacrifice by the Union to save the airline from collapse, we agreed to forego annual increments for our members for one full year without claiming back-pay translating into tens of millions of shillings. Ironically, in less than six months, the company started feeling the heat of operating with less than

required manpower and they resulted, yet again, in engaging more than one hundred staff through the out-sourced firms.

- We are now experiencing yet another restructuring albeit with a slight difference, but with the same implications of job losses. We are convinced that no amount of restructuring initiatives will save KQ from its losses without first identifying the root cause of its problems and address them. We are opposed to have the employees' jobs always being sacrificed in the name of saving the loss-making airline.

g) Extreme Management Failure at KQ

- Over the last seven years, KQ has continued to sink in losses (the net loss improved from Kes 5.6 billion in 2017 to Kes 4 billion in 2018), even after engaging a foreign chief executive who was said to be a turnaround expert and more than a dozen other foreign so-called "airline experts."
- This team, led by KQ CEO Sebastian Mikosz, has failed the airline and it is time they exit if KQ is to recover. KQ has a rich reservoir of great talent of well-skilled men and women able to run the airline but the majority, who are dejected, have found solace with Gulf carriers due to poor management of the local airline.
- Over 500 KQ employees have in the last five years left for Middle Eastern airlines, which offer better terms, yet KQ continues to engage foreigners with questionable credentials, who think running JKIA is the only medicine left to resuscitate KQ.
- Recently, the KQ CEO was quoted in the media (The East African, March 17, 2019) stating that nothing short of take-over of the running of JKIA will save KQ from total collapse. He went further to state that *"there is actually no way KQ can be profitable in its current state. I don't know how to do that"*. He even went further to say that if the take-over deal does not go through, he won't consider renewing his contract. We are left wondering what Sebastian is still doing holding the CEO's position yet he is clueless on how to run KQ.

3. LOSS OF CONFIDENCE IN KQ'S CEO

KAWU, and a great majority of all cadres of employees of KQ, has lost confidence in the stewardship of the KQ CEO Sebastian Mikosz under whose tenure KQ has sunk deeper into losses. We have also lost faith in his capability to turn around the airline despite engaging a huge number of foreign employees in the name of "airline experts". We are convinced that Sebastian, having admitted that he is unable to turn KQ into profitability as quoted above, is only interested in lining his pockets and those of his fellow native Polish he has brought into KQ. No wonder that he is now the chief proponent of the PIIP, a project that he strangely believes will provide KQ with a singular dose for revival.

Below, we highlight some of the reasons why KAWU, and a large majority of KQ employees including managers, have lost confidence in him and why we are calling upon him to throw in the towel and exit honourably.

a) Integrity of the Group Managing Director & CEO, Sebastian Mikosz

- The Union has lost faith and confidence in KQ's CEO Sebastian Mikosz for various reasons.
- We went public recently with the information that Sebastian is earning an astronomically high salary of KES 8 Million per month while superintending over the affairs of an airline that is making billions of shillings in losses every year. We questioned the rationale behind paying him such a huge salary when his predecessors were earning less than a half of this amount. He went ahead to refute this by stating that his salary was KES 2.7 Million per month.
- We wish to reiterate that our position is that Sebastian earns close to KES 8 Million per month and that his denial is a plain lie. We have evidence from KQ's published half year results for the period ending 31<sup>st</sup> December 2017 that in a period of 6 months, Sebastian's total remuneration was **KES 46,694,000 Million**. This translates to KES 7.8 Million per month contrary to what he declared in public. (**Attached is a copy of an extract from the said results**). This clearly demonstrates that Sebastian has credibility issues and his integrity is questionable.

b) Engagement of 7 Polish Consultants and their Unreasonable Payments

- We have an issue in the manner KQ has engaged 7 people from Poland under the guise of consultants with "airline turnaround expertise". We shall be covering the issue of their questionable credentials in details below, but what beats logic is the unreasonably high perks paid to them.
- Sebastian has chosen to keep silent over this issue even in his recent statement only confirming the existence of the Polish consultants but not refuting their huge pay. We have evidence of the handsome perks Sebastian pays his fellow nationals. And the
- For example, he paid one Monika Kieltyka-Michna who is designated as "Interim Management" a total of USD 108,000 (KES 11 Million) for services rendered in February 2018 vide Invoice No. 02/2018 dated 1<sup>st</sup> March 2018 approved and signed by Sebastian and acknowledged by the said Monika. The money was paid on 10<sup>th</sup> March 2019 through a bank transfer to Monika's bank account in Poland with account number PL 85103000190108400471058.

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- Another Polish “consultant” by the name Michal Smierclak was paid a total of USD 82,000 (KES 8.3 Million) for services rendered in February 2018 vide Invoice No. 02/2018 dated 1<sup>st</sup> March 2018 approved by Sebastian and acknowledged by the said Michal. The money was paid on 10<sup>th</sup> March 2018 through a bank transfer to Michal’s bank account in Poland with account number PL 20114020040000311201967694. **(Attached are copies of the two invoices).**
- There are 5 other Polish “consultants” employed by Sebastian whom we have reason to believe, going by the above evidence, that they are paid similar terms bringing the average total cost of employment for the 7 people to about KES 66.5 Million every month.
- We believe that Sebastian has a direct interest in these payments being the person who solely appointed these people to KQ.

c) Questionable Qualifications/Credentials of the Polish “Consultants”

- A quick look at the credentials of the six foreigners from Poland hired by KQ CEO Sebastian Mikosz demonstrates that they bring no special skills that are not available in Kenya.
- One of them by the name Monika Kieltyka-Michna is said to be a Procurement and Operations expert and is said to hold a Masters in Business Administration (MBA) in Management and Marketing. How many such qualifications do we have in Kenya?
- Another one by the name Magdalena Serwach is said to have worked as a Legal Counsel in Poland and she holds a Masters in Law. What special talent does she bring? One wonders whether our locally trained, resourceful and experienced lawyers can’t do the work she was appointed by Sebastian to do.
- A third one by the name Piotr Piwarczyk is said to be a business analyst and sales manager with no disclosure of his qualifications.
- One Michal Smierclak is said to be specialising in strategy and procurement yet we have enough procurement professionals in Kenya registered and recognised by the Kenya Institute of Supplies Management (KISM).
- Having no special skills that are lacking in neither KQ nor Kenya as a whole, the appointment of these 6 “consultants” by Sebastian speaks volume about the personal interest he has in having them around and also depicts his sheer disdain for local talent. Again, this calls his integrity to question.
- The Union is at loss to understand why all these 7 so-called consultants have to originate from one country – Poland. If at all KQ had the need to source for external consultants, did they all have to be from Sebastian’s nationality? Must all of them come from a consulting firm (Air Biz Support) associated with Sebastian? We read some mischief here and again we call to question Sebastian’s integrity.

#### d) Recruitment of a High Number of Expatriates

- KQ is one of the companies in Kenya that employs a high number of expatriates yet we have sufficient local talent to perform the same roles that they are appointed to do. With 18 expatriates currently employed, one wonders what special skills they bring, yet the airline has been on the decline.
- For the airline to employ such a large number of expatriates at astronomically high salaries with no commensurate deliverables is unthinkable. The Union has been demanding better pay for local employees for the last 5 years to no avail yet KQ continues to pay these consultants. The salaries they take home in a month is sufficient to award at least a 5% salary increase to all KQ 4,000 employees which would highly boost the morale and motivation of the down-trodden employees.
- Sebastian has openly lied to the public that out of the 18 expatriates, 5 are seconded by KLM and that KLM pays their salaries. All the 5 expatriates seconded by KLM are paid by KQ from KQ's own finances.
- We are aware that KLM has the habit of dumping some of their "obsolete" or excess managers to KQ to clean up their payroll as they wait to re-absorb them back to their payroll when the need for their services arise. Needless to say, they are known to send managers to KQ who specialise in taking care of KLM's interests at the expense of KQ's business. It is no wonder that KQ's fortunes continue to dwindle while KLM's business continues to grow even in routes where ideally KQ should be the only operator under the joint venture agreement.

#### e) Governance issues with KQ CEO

- It has been a practice in KQ since the appointment of Sebastian Mikosz as the CEO to recruit and appoint managers without any regard to the established KQ's recruitment policy which advocates for transparency and openness. The same practice has been applied in promotions that do not follow the due process.
- A large number of managers have recently been appointed without the roles being advertised internally or without subjecting the appointees to an interview process. We view this as discrimination and an attempt by Sebastian to reward his friends and close associates.
- To make matters worse, some of the managers appointed in this manner have had their salaries drastically increased well beyond the levels of other managers in similar grades. Some have no relevant qualifications to justify their appointments.
- One good example is the appointment of one Angela Nderu to the role of Head of Strategy without either an interview or without advertising the role for competition among other managers. Angela's qualification is a Diploma in catering and hotel management and she previously held the role of Manager in charge of cabin crew. How she suddenly acquired qualifications to warrant her appointment to the new role beats logic. Her salary was also raised from about 300,000/= per month to 950,000/=per month, a raise that has raised eyebrows all over KQ. This is just but one example.

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- A large number of managers have recently been appointed without the roles being advertised internally or without subjecting the appointees to an interview process. We view this as discrimination and an attempt by Sebastian to reward his friends and close associates.
- To make matters worse, some of the managers appointed in this manner have had their salaries drastically increased well beyond the levels of other managers in similar grades. Some have no relevant qualifications to justify their appointments.
- One good example is the appointment of one Angela Nderu to the role of Head of Strategy without either an interview or without advertising the role for competition among other managers. Angela's qualification is a Diploma in catering and hotel management and she previously held the role of Manager in charge of cabin crew. How she suddenly acquired qualifications to warrant her appointment to the new role beats logic. Her salary was also raised from about 300,000/= per month to 950,000/=per month, a raise that has raised eyebrows all over KQ. This is just but one example.

f) Irregular Payments for Personal Security

- We have evidence that Sebastian has engaged the services of a private security firm to provide him with 2 personal security/bodyguards. Whilst the necessity for personal security and personal bodyguards is in itself questionable given that no previous KQ CEO has been provided with such a service, what attracts the attention of the Union is the huge amount of money paid for this service.
- On 28<sup>th</sup> May 2018, Sebastian paid a security firm by the name Salama Fikira an amount of USD 10,979.05 (almost KES 11 Million) for security services provided in the month of May 2018 vide an invoice No. SPGL/2018/1643. **(A copy of the said invoice is hereby attached).**
- We wonder what calibre of security was provided to warrant payment of such an amount of money for one month. Even a whole battalion of Recce Squad cannot attract a payment of this amount. This again calls the integrity of Sebastian to question.

4. CONCLUSION

From the foregoing, KAWU is convinced that the take-over of JKIA is NOT the only option that can save KQ from its financial mess. There are more and better options. We are equally convinced that KAA should not be deprived of its profit making unit in a bid to save KQ. This is tantamount to robbing the Kenya tax-payer of their viable investment. We are similarly convinced that the take-over deal is ill-conceived and is not in the best public interest. We are further convinced that the current CEOs of KQ and KAA have failed in their duties by ignoring plausible findings and recommendations advising against the deal. Sebastian's push for this deal as a matter of life and death insinuates that he has is incapable of turning around KQ's core business as an airline. His management has failed and he should exit honourably.

Consequently, KAWU urges the National Assembly to vote against the take-over deal and recommend for the immediate exit of Sebastian Mikosz as the KQ CEO and Johny Andersen as the KAA CEO.



Moss Ndiema  
Secretary General

Zimbra

clerk@parliament.go.ke

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**Hon. Justin Muturi - Berlin Wall 30 - The 30th Anniversary for the Fall of the Wall (Berlin; November 6th - 10th, 2019)**

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**From :** Mark C. Donfried  
<conference@culturaldiplomacy.org>

Fri, Apr 05, 2019 12:05 AM

**Subject :** Hon. Justin Muturi - Berlin Wall 30 - The 30th Anniversary for the Fall of the Wall (Berlin; November 6th - 10th, 2019)

**To :** clerk@parliament.go.ke

**Cc :** donfried@culturaldiplomacy.org

Keynote Speaker Invitation

**Berlin Wall 30*****From the Divided to the City of Freedom: The 30th Anniversary for the Fall of the Wall***

Berlin; November 6th - 10th, 2019

[www.berlinwall30.de](http://www.berlinwall30.de)

**Dear Hon. Justin Muturi,**

On behalf of the Academy for Cultural Diplomacy, we are honored to extend to you an invitation to deliver a keynote speech at our forthcoming major event: Berlin Wall 30 (Berlin; November 6th - 10th, 2019). We would suggest a speech on the day of your choice from November 8<sup>th</sup>-10th, 2019. The high level attendance for the Berlin Wall 30 will be particularly high and will consist of a significantly high number of dignitaries including senior politicians, heads of global governance organizations, celebrated artists and representatives from leading corporations. Should you be able to attend, the ICD Academy will arrange for your accommodation in Berlin and cover the cost of your flights to Berlin.

**Berlin Wall 30*****From the Divided to the City of Freedom: The 30th Anniversary for the Fall of the Wall***

Berlin; November 6th - 10th, 2019

[www.berlinwall30.de](http://www.berlinwall30.de)

The Fall of the Berlin Wall on November 9th, 1989 was an epic event that led to major historical changes in the world's political, economic and cultural landscape. In the tumultuous aftermath, the world has witnessed the emergence of dozens of new States in Eastern Europe and significant transformations in other continents that paved the foundation

and laid the new order of the world we live in today. On November 9th, 2019 the world will celebrate the 30th Anniversary of the Fall of the Berlin Wall and all eyes will fall again on the German capital. On this historical event the Inter Parliamentary Alliance for Human Rights and Global Peace (IPAHP), the Academy for Cultural Diplomacy and other leading institutions will organize a major international summit that will take place from November 6th-10th, 2019. The Summit will be highlighted by a peace concert that will take place on the evening of November 9th, performed by world-renowned celebrated singers and bands.

The summit will include participation of senior politicians representing 150 states, leading political theorists, religious leaders, executives of major corporations, chief diplomats, and celebrated artists travelling to Berlin from all corners of the world. The large-scale events that will take place in the framework of the Summit celebrations of the 30th anniversary of the fall of the wall will be dedicated to the fields of international relations and economics, peace building, human rights, arts and culture. The large-scale conferences & events that will take place in the framework of the Summit celebrations of the 30th anniversary of the fall of the wall will be dedicated to the fields of international relations and economics, peace building, human rights, arts and culture. The Following Conferences will take place during the summit:

Berlin NATO Conference » Berlin; November 6th-8th, 2019

Berlin Economic Forum » Berlin; November 8th-10th, 2019

Berlin Wall 30 » Berlin; November 6th-10th, 2019

**We look forward to your feedback and to welcome you to Berlin in November.**

With warm regards and gratitude,

Mark C. Donfried

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**Mark C. Donfried**

**Director General, Academy for Cultural Diplomacy**

***“Promoting Global Peace by Strengthening Intercultural Relations”***

Address: ICD House of Arts & Culture  
Soltauer Str. 18-22, 13509 Berlin, Germany  
Phone: 00.49.(0)30.2360-7680  
Fax: 00.49.(0)30.2360-76811

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[info@culturaldiplomacy.org](mailto:info@culturaldiplomacy.org)

[www.culturaldiplomacy.org](http://www.culturaldiplomacy.org)

[www.berlinglobal.org](http://www.berlinglobal.org);

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URGENT

MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING,  
URBAN DEVELOPMENT AND PUBLIC WORKS  
STATE DEPARTMENT FOR TRANSPORT  
OFFICE OF THE CABINET SECRETARY

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P.O. Box 52692 - 00200  
NAIROBI

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8<sup>th</sup> April, 2019

Mr. Michael Sialai, EBS  
Clerk to the National Assembly  
Parliament Buildings  
NAIROBI

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FA 10/4/19

Dear Mr. Sialai,

RE: INQUIRY INTO THE AVIATION INDUSTRY IN KENYA BY THE  
DEPARTMENTAL COMMITTEE ON TRANSPORT, PUBLIC WORKS AND  
HOUSING

Reference is made to your letter Ref. No. DSC/TPWH/CORR/2019/029 dated 1st  
April, 2019 on the above subject.

Forwarded herewith please find the response by the Cabinet Secretary, Ministry  
of Transport, Infrastructure, Housing, Urban Development and Public Works for  
further necessary action.

Yours

Sincerely

Esther Koimett, CBS  
PRINCIPAL SECRETARY

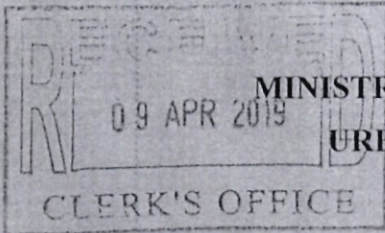
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MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING  
URBAN DEVELOPMENT AND PUBLIC WORKS



**Inquiry into the Aviation Industry**

**Mr. Chairman,** I wish to respond to the issues raised by the Committee with regards to the aviation industry in Kenya as follows:-

**A. Policy Issues:**

- The Cabinet at its meeting held on 29<sup>th</sup> May, 2018 considered a Memorandum submitted jointly by the Cabinet Secretary/National Treasury and Planning and the undersigned aimed at consolidating Kenya's aviation assets, and:-
  1. **Granted policy approval** for Kenya Airways and Kenya Airports Authority to enter into negotiations with a view to agreeing on a framework to restore Nairobi as the civil aviation hub of choice in Africa, thereby contributing to Kenya's economic competitiveness, with aviation being a factor for development and technology transfer;
  2. Noted that a substantive Memorandum shall be submitted for consideration and approval once the framework is agreed; and
  3. Directed the Cabinet Secretaries for National Treasury and Planning; Transport, Infrastructure, Housing, Urban Development and Public Works and the Attorney General to take appropriate action.
- Both the Cabinet Memo and the White Paper were developed with the primary objective of restoring Nairobi as the civil aviation hub of choice in Africa, thereby enhancing to Kenya's economic competitive edge with aviation being a factor for development and technology transfer.
- Kenya has long been the Aviation Powerhouse in East, Central and Southern Africa with a resilient national airline and strategic hub.

However, the aviation landscape globally has undergone a rapid evolution in the past decade and Kenya has not adapted to these changes in an agile manner. Consequently, the Kenyan aviation sector is facing challenges, characterised by the turbulence experienced by the national carrier as well as loss of business by Jomo Kenyatta International Airport (JKIA) to other competing hubs.

- Therefore, the market situation has created a need for a Comprehensive restructuring covering not only Kenya Airways but the whole aviation sector.
- The Kenyan aviation has been losing market-share over the last couple of years to its competitors. Ethiopian Airlines (ET), which was half the size of Kenya Airways (KQ) in 2010, has steadily grown in recent years. It has outpaced KQ three times since then. Kenya Airways, the national carrier of Kenya has over time been pushed out of the market by competitive airlines which are very strongly protected by their own Governments.
- The current Aviation operation model in Kenya, does not facilitate the growth of both KQ and our airports especially JKIA. There is therefore an urgent need to find a solution that will change the mandate and prospects of KQ and allow the company to become one of the biggest African carrier and JKIA a leading international aviation hub in East Africa. In this context, both KQ and JKIA should be treated as national assets of the people and Government of Kenya and the proposed restructuring should be viewed as a geopolitical solution and not a financial one. It is based on successfully implemented aviation strategies.
- In view of the advantage of executing the Project rapidly and efficiently, parties opted to engage in a Concession Agreement framework under the PPP Act 2013 with KQ as the Private Party and KAA as the Contracting Authority.

## **B. Legal Compliance Issues**

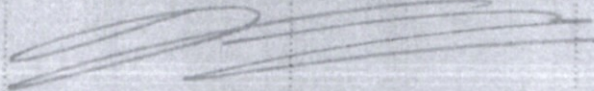
- Following the Cabinet's policy decision, a legal framework for achieving the intended restructuring had to be found. In this context the Public Private Partnership Act, 2013 was identified as the suitable legal framework. Kenya Airways therefore, submitted to Kenya Airports Authority a PIIP as provided for in the PPP Act. This proposal is has been submitted to the PPP Unit in line with the provisions of the Act.

- However, following the concerns that have been raised by the Public we are now exploring other opinions of delivering the objectives of the Government to consolidate our aviation assets. Once an agreed option has been identified we will submit the same to the Cabinet for approval as directed by Cabinet.

### **C. Issues of Concern to the People**


- The issues that have been raised are based on the PIIP which is a just that, a proposal, it has not gone through the rigorous process provided for in the law including a review and consideration by the PPP Committee and discussions between the parties to review and iron out any issues of concern.
- As Members will be aware, in this type of transactions, there are always issues that parties have to sit down and negotiate if the overall project is to achieve optimal results for mutual benefit of the parties. In other words, the negotiations must achieve a WIN – WIN situation for both parties and arrive at a mutually agreed framework.
- The negotiations between the two entities in the context of a PPP transaction would include, staff matters, concession fee, investments over the concession period, service standards, transaction structure, roles and responsibilities of each party, competition with other airlines, amongst others. The running of the other airports and airstrips would be a critical part of the negotiations.
- The important thing to note is that if Kenya has to achieve its objective of being an aviation hub in the region, it has to begin to look at its aviation assets more strategically as key contributors to the GDP – and this starts with having a world class airline and world class airports, starting with JKIA as the main gateway to the country.
- The main aim is to create operational synergies between Kenya's main hub and the National Carrier, thereby facilitating the airport and airline to become economic growth drivers. This model is similar to what is being utilized by Kenya's main competitors in the global aviation industry.

**Mr. Chairman**, as stated above, this Transaction is an opportunity for the growth of both Kenya Airports Authority and Kenya Airways in a way that enhances the synergies of the Country's strategic assets in the Aviation sector to support our hub aspirations.



James W. Macharia, EGH  
**CABINET SECRETARY**

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15/4/19



Director  
11/04/19

**MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING,  
URBAN DEVELOPMENT AND PUBLIC WORKS**

**STATE DEPARTMENT FOR TRANSPORT  
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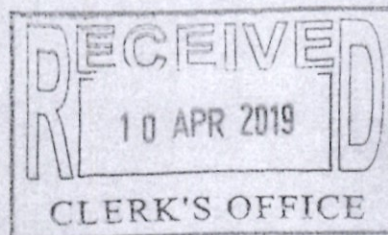
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8<sup>th</sup> April, 2019

**Mr. Michael Sialai, EBS**  
Clerk to the National Assembly  
Parliament Buildings  
NAIROBI



Dear *Mw Sialai*

**REQUEST FOR A CABINET MEMORANDUM APPROVING RESTRUCTURING  
OF THE AVIATION INDUSTRY IN KENYA**

Reference is made to your letter ref. no. DSC/TPWH/CORR/2019/030 dated 1st April, 2019 on the above subject.

Cabinet Memoranda though prepared by various Ministries are the property of the Cabinet Office, Executive Office of the President, I am not therefore able to submit the Cabinet Memorandum as requested. However, by virtue of my office, I can confirm that in May, 2018 the Cabinet Secretary, National Treasury and the undersigned submitted to Cabinet a joint memorandum whose purpose was to brief Cabinet on developments in Kenya's Civil Aviation Sector, and seek policy approval on actions Kenya should take to restore Kenya's aviation competitiveness, and to reclaim the County's position as an anchor economy in Africa, with Nairobi as the African civil aviation hub.

The Cabinet at its meeting held on 29<sup>th</sup> May, 2018 considered the Memorandum and:-

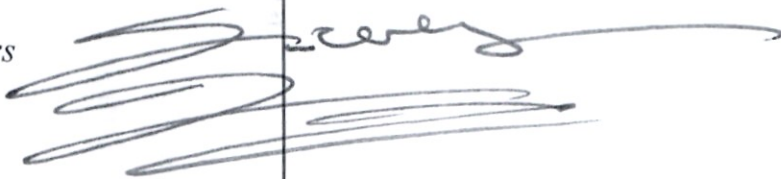
- i. **Granted policy approval** for Kenya Airways and Kenya Airports Authority to enter into negotiations with a view to agreeing on a framework

to restore Nairobi as the civil aviation hub of choice in Africa, thereby contributing to Kenya's economic competitiveness, with aviation being a corridor for development and technology transfer;

- ii. Noted that a substantive Memorandum shall be submitted for consideration and approval once the framework is agreed; and
- iii. Directed the Cabinet Secretaries for National Treasury and Planning; Transport, Infrastructure, Housing, Urban Development and Public Works and the Attorney General to take appropriate action.

I hope this confirmation will facilitate the work of the Departmental Committee in its work.

*Yours*



**James W. Macharia, EGH**  
**CABINET SECRETARY**

Copy to: **Dr. Joseph K. Kinyua, EGH**  
Head of Public Service  
Executive Office of the President  
State House  
**NAIROBI**

**Esther Koimett, CBS**  
Principal Secretary  
State Department for Transport  
**NAIROBI**



**Kenya Airports Authority**

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Fax: + 254 - 020 - 822078, 827304  
Email: info@kaa.go.ke  
www.kaa.go.ke

**KAA/MD/GC/ VOL. 3 (5)**

**9th April, 2019**

① Dlcoms  
Please deal.  
15/04/19

**The Clerk of the National Assembly**  
Clerk's Chamber's National Assembly  
Parliament Buildings  
P.O. Box 41842 – 00100  
**NAIROBI.**

**Attn: Ms Serah M. Kioko**

**RE: INQUIRY INTO THE AVIATION INDUSTRY IN KENYA BY THE  
DEPARTMENTAL COMMITTEE ON TRANSPORT, PUBLIC  
WORKS AND HOUSING**

We refer to your letter Ref. NA/DCS/TPWH/CORR/2019/029 dated 1<sup>st</sup> April, 2019 on the above captioned subject.

Please find enclosed 25 copies of our report which contain responses to the specific matters highlighted in your letter.

We trust that our report will be useful to the Departmental Committee on Transport, Public Works and Housing in undertaking this important inquiry.

  
**JONNY ANDERSEN**  
**MANAGING DIRECTOR/CEO**

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FA 15/4/19

NATIONAL ASSEMBLY  
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10 APR 2019  
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LEGISLATIVE & PROCEDURAL SERVICES  
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**INQUIRY INTO THE AVIATION INDUSTRY IN KENYA BY THE  
DEPARTMENTAL COMMITTEE ON TRANSPORT, PUBLIC  
WORKS AND HOUSING**

**RESPONSES BY KENYA AIRPORTS AUTHORITY**

**10<sup>TH</sup> APRIL, 2019**

## **BACKGROUND**

In a letter referenced NA/DCS/TPWH/CORR/2019/029 dated 1<sup>st</sup> April, 2019, the National Assembly's Committee on Transport, Public Works and Housing requested for a comprehensive report from, amongst others, the Kenya Airports Authority on issues relating to Kenya's aviation sector.

This reports contains responses on the specific issues addressed to the Authority as well as additional information which may help the Committee in its consideration of this matter of great national importance.

### **(A) HUMAN RESOURCE ISSUES**

#### **(1) What is the implication of the PIIP to the staff should it go as proposed?**

While the PIIP envisages transfer of JKIA staff to a Special Purpose Vehicle, the Authority's position is that the process will not lead to any job redundancies or adverse changes to the existing terms and conditions for KAA staff. This position has also been clarified by the Cabinet Secretary, Ministry of Transport, Infrastructure, Housing & Urban Development in a press release dated 5<sup>th</sup> February, 2019.

#### **(2) What is the current staffing formation structure for KAA?**

An analysis of KAA's staffing levels as at 31<sup>st</sup> March, 2019 is provided in the following table.

	<b>HQs</b>	<b>JKIA</b>	<b>MIA</b>	<b>WAP</b>	<b>EIA</b>	<b>KIA</b>	<b>MLD</b>	<b>Others</b>	<b>Total</b>
Management	176	318	92	48	27	36	12	44	753
Non/Management	40	675	157	84	58	59	24	95	1,192
<b>Total</b>	216	993	249	132	85	95	36	139	1,945

All staff in grades 5 to 9 are management staff. Grades 1-4 are non-management staff.

**(3) What is the remuneration thereof for KAA staff?**

An analysis of KAA's annual remuneration structure is shown below.

<b>Category</b>	<b>Amount (Kshs' Millions)</b>
Management	2,316
Non-Management	1,920
<b>Total</b>	<b>4,236</b>

**(4) What is the status of the Case which is before the Industrial Court?**

In response to a Strike Notice by Kenya Aviation Workers Union dated 29<sup>th</sup> January, 2019, the Authority filed a case (ELRC Case Number 68 of 2019) seeking to restrain the union from calling for the strike. This case is currently pending before the Court. Temporary orders were issued on 5<sup>th</sup> February, 2019 suspending the Strike Notice.

The Court directed the matter be referred to conciliation. Presently, conciliation proceedings before the appointed Conciliation Committee are on-going.

A Contempt Application filed by the Authority under the above case reference has been withdrawn following advice from the Director of Public Prosecutions.

Separately, the Kenya Aviation Workers Union filed a Constitutional Petition (Number 57 of 2019) before the High Court contending the proposed takeover of Jomo Kenyatta International Airport by Kenya Airways. The matter is pending in Court and is scheduled for directions on 4<sup>th</sup> June, 2019.

**(B) ISSUES CONCERN TO THE PEOPLE**

**(i) Did KAA undertake due diligence on the Kenya Airway's Privately Initiated Investment Proposal?**

In December, 2018, the Authority engaged a consortium of transaction advisors comprising MMC Africa Law, KPMG and Saracen to provide a broad range of transaction advisory services in relation to the Kenya Airway's Privately Initiated Investment Proposal. The scope of the engagement includes due diligence and transaction support covering the following key activities:

- Reviewing Kenya Airway's investment proposal as presented in the PIIP, Heads of Terms and Financial Model;
- Advising on the legal and regulatory matters pertaining to the proposed transaction including approvals to be secured by KAA and assessing the potential legal and operational risks to be managed;
- Assessing the financial deliverability of the transaction including KQ's legal, financial and operational capacity to enter into the proposed transaction;
- Undertaking due diligence on the proposed operating and maintenance plans as well as the investment plan to assess their adequacy in relation to the traffic growth assumptions made by the proponent;
- Reviewing the terms and structure of the proposed transaction and conduct a scenario analysis of the different possible transaction structures, evaluate and determine the deal structure that is most beneficial to the Authority;
- Undertaking a Fiscal Commitments and Contingent Liability analysis of the proposed transaction under various transaction structure options;
- Reviewing and stress-testing the Public Sector Comparator, Value for Money and affordability components of the financial model submitted by the prospective concessionaire to assess the robustness of the proposition.

- Reviewing the structure and adequacy of the consideration offered by Kenya Airways, investigate and structure contingent payouts that enhance value for money to the Authority;
- Advising on tax structuring of the transaction itself and the subsequent tax impact on the Authority;
- Assessing and advising on matters related to possible staff redundancy, severance and pension liabilities arising out of the proposed transaction;
- Carrying out environmental, social and economic analyses of the project; and
- Providing negotiation support throughout the deal execution phase.

Apart from a review of certain key KQ agreements, the due diligence phase of the transaction advisory engagement has largely been completed. The Authority has submitted a draft negotiation criteria to the PPP Unit and awaits approval to proceed to the negotiation phase. The Authority is also awaiting Treasury's approval of the PIIP as envisaged under section 61(1) of the Public Private Partnerships Act, No 15 of 2013 (the PPP Act).

In the draft Negotiation Criteria, the Authority has, based on the due diligence review, identified the following significant gaps which need to be addressed as part of the negotiation process:

- KQ's capacity to undertake the PIIP;
- Whether the PIIP as presented provides value for money for KAA;
- Whether the PIIP adequately complies with the viability gap funding requirements set out in the PPP Act; and
- Closure of the financing gap left in KAA after concessioning out JKIA's assets.

**(ii) Did KAA respond to KQ's PIIP?**

KAA has not formally responded to KQ on the PIIP as this process will be informed by the outcome of the due diligence and negotiation processes detailed above.

**(iii) Are the JKIA facilities operating within the required international standards?**

JKIA facilities are being operated within the required International Standards. This is evidenced by;

- Provision of an aerodrome certificate by Kenya Civil Aviation Authority, the industry regulator who ensures that the airport meets the design, operations and safety management systems of an international Airport; and
- Certification by the US Department of Transport of JKIA as a Last Point of Departure enabling direct flights from Nairobi to USA.

**(2) What is the financial health status of KAA, in terms of (i) balance sheet (ii) Debts held (iii) Cash Flows (iv) Assets and Equities?**

The audited financial position of KAA is summarized in the following table.

	30 <sup>th</sup> June 2018 Kshs' Millions	30 <sup>th</sup> June 2017 Kshs' Millions
Fixed Assets	50,845	51,643
Current Assets	31,935	23,030
<b>Total Assets</b>	<b>82,780</b>	<b>74,674</b>
Capital & Reserves	62,978	54,982
Airstrip Fund	2,301	1,367
Long Term Loans	8,997	9,824
Current Liabilities	8,504	8,501
<b>Total Equity and Liabilities</b>	<b>82,780</b>	<b>74,674</b>

The value of fixed assets shown above is based on a 2004 valuation which therefore grossly understates the values of the underlying assets. The Authority

is in the process of updating the valuation using Valuers from the Ministry of Lands. Based on prevailing comparative values especially for its prime land, the Authority expects the revaluation exercise to provide values well in excess of Shs 1,000 billion for KAA's portfolio of land and buildings.

The long term loans balance comprises a World Bank loan (Shs 2.2 billion) and AFD's loan (Shs 7.9 billion) whose proceeds were used to finance JKIA's aviation infrastructure including financing the construction of Terminal IA.

Included under current assets are Cash and Bank balances of Shs 14.1 billion which are held as investment reserves awaiting the financing of various priority projects e.g runway upgrades, B-C-D remodeling, second runway and new terminal building.

- (3) What has been the total annual revenue generated by KAA for the last three (3) years? What is the total annual revenue projection for the next three (3) years? What are the sources of the above revenues?**

An analysis of KAA's revenues both actual and projected is provided in the following table.

**Kenya Airports Authority Revenues (Kshs in Millions)**

Revenue Item	Actual 2015/2016	Actual 2016/2017	Actual 2017/2018	Projected 2018/2019	Projected 2019/2020	Projected 2020/2021
APSC	6,719	9,567	10,147	9,063	9,063	9,422
Landing and Parking	3,032	3,274	3,396	3,567	3,567	3,650
Airbridge Charges	148	189	252	253	253	257
Fuel Uplift	299	312	319	649	335	668
Sub-Total	10,197	13,342	14,115	13,532	13,218	13,997
Rentals	722	759	851	1,114	1,114	1,123
Concessions	1,488	1,701	1,880	1,539	1,434	1,737
Others	322	1,398	778	1,244	1,124	1,474
Sub-Total	2,532	3,858	3,510	3,897	3,671	4,334
<b>Total Revenues</b>	<b>12,729</b>	<b>17,200</b>	<b>17,624</b>	<b>17,429</b>	<b>16,889</b>	<b>18,332</b>

**(4) What is the respective contribution of KAA to the economy in terms of GDP?**

According to IATA, KAA's contribution to GDP for the 2017/2018 financial year is quantified as follows:

Income – Shs 18 billion	Spending Shs - 13 billion
Corporation Tax – Shs 352 million	Dividend to GOK Shs - 128 million
Capital expenditure – Shs2.7 billion	# of Direct Employment - 1,946
	# of Indirect Employment - 9,730
Proportional earnings from tourism (964,000/1,449,000)* Shs 120 billion	Shs 79.8 billion

KAA's contribution to GDP is estimated at 1.02% based on proportional earnings from Tourism.

## **BACKGROUND TO THE PIIP**

On 29<sup>th</sup> May, 2018, the Cabinet, through a Cabinet Memorandum **CAB (18/28)** granted an in principle approval to Kenya Airways (KQ) and Kenya Airports Authority (KAA) to develop and subsequently engage in a framework that will lead to the optimization of operations of Jomo Kenyatta International Airport (JKIA). In a letter dated 19<sup>th</sup> June, 2018, the Principal Secretary, Department of Transport, Ministry of Transport, Infrastructure and Urban Development issued instructions to KAA and KQ to proceed with the implementation of the Cabinet's directive.

## **PRIVATELY INITIATED INVESTMENT PROPOSAL (PIIP)**

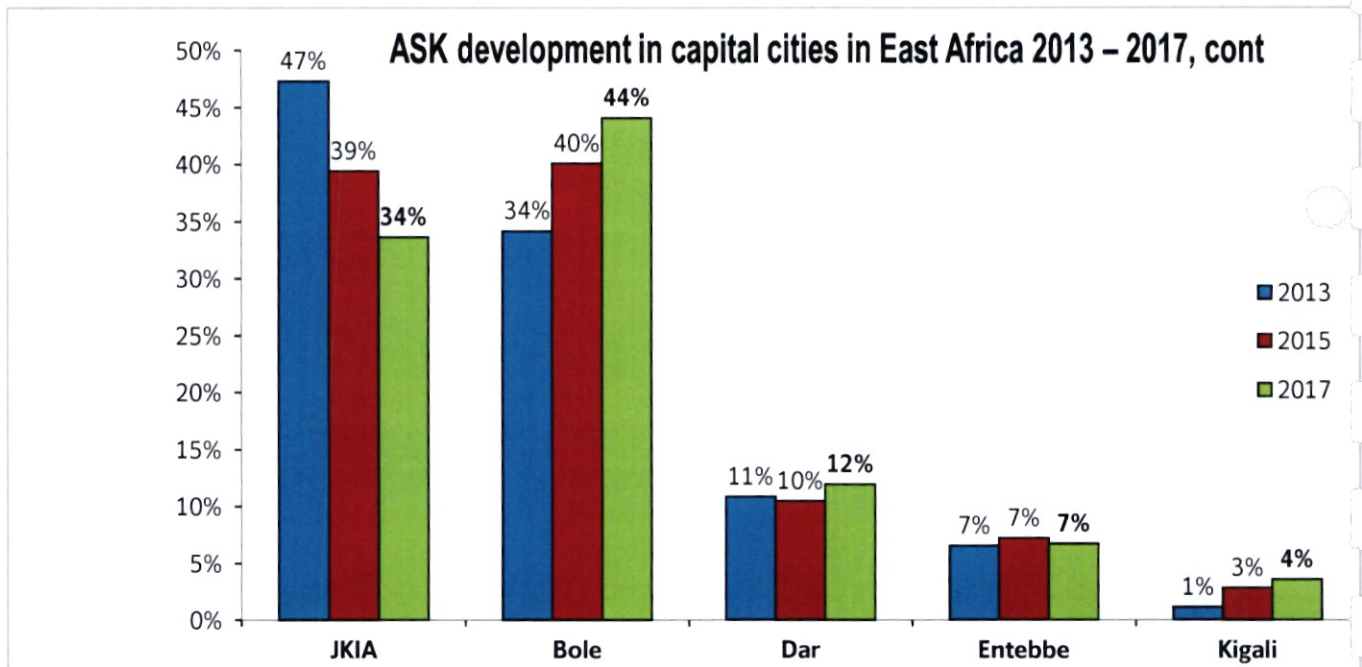
On 5<sup>th</sup> October, 2018 the Authority received a Privately Initiated Investment Proposal from KQ. The PIIP has been anchored on the Private Public Partnership (PPP) Act 2013 and broadly envisages the following transaction structure:

- a 30 year concession framework under which KQ will seek, through a special purpose vehicle (the Concessionaire), to manage and develop JKIA at a fee (concession fee) leaving KAA to manage all other Kenyan airports and airstrips;
- Inclusion of JKIA's aviation infrastructure in the concession as will be enumerated in the Project Agreement upon conclusion of due diligence;
- Engagement by the Concessionaire of an external Airport Advisor to implement world class solutions and airport management best practices;
- and KQ committing to meet minimum investment requirements as shall be negotiated with KAA.

## **STRATEGIC RATIONALE**

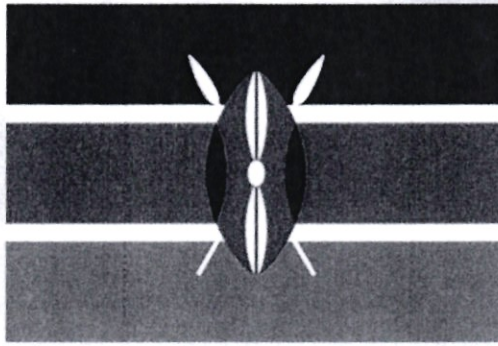
The rationale for the proposed transaction is the to implement Government Policy which seeks consolidation of key aviation assets to realize significant operational efficiencies and synergies, restoration of the aviation sector's regional and international competitiveness, protection of JKIA's regional hub status, improved diversification and utilization of JKIA resources and support for KQ's turnaround programme. KQ is a key partner for JKIA and therefore its success is aligned to KAA successes.

The need for restructuring the country's aviation sector is underscored by the fact that despite East Africa's national airports registering capacity growth measured by Available Seat Kilometers (ASK) of nearly 41% between 2013 and 2017, JKIA's market share has been declining steadily from a high of 47% to 34% as shown in the following chart.

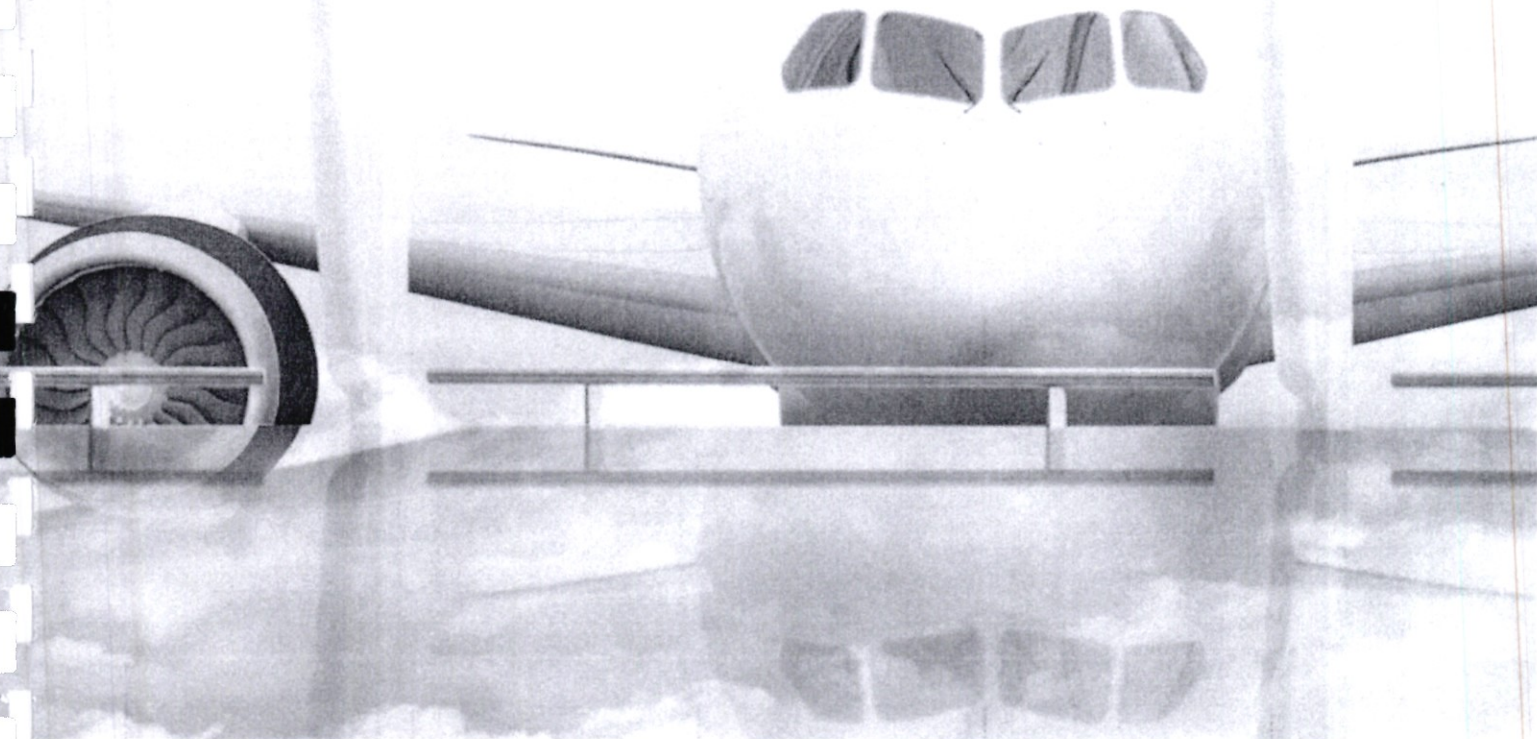


In addition, KQ accounts for over 40% of KAA's business and revenues. As at 31 March, 2019, KQ owed KAA in excess of Shs 5.54 billion in relation to unpaid Air Passenger Service Charge, landing fees, rent and other charges. The level of business and indebtedness demonstrates the extent of KQ and KAA's symbiotic relationship which could be enhanced for the benefit of Kenya's Aviation sector through closer collaboration and partnership.

Cognizant therefore of the strategic contribution of the aviation sector to the country's economic development, the need to protect JKIA's regional competitive position and KAA's commercial interests, the Authority supports an engagement with KQ that will result in the optimization of the country's aviation assets.



**K** *Kenya Airways*  
*The Pride of Africa*



**RESPONSE TO THE INQUIRY BY TRANSPORT, PUBLIC  
WORKS & HOUSING COMMITTEE ON THE PROPOSED  
PUBLIC-PRIVATE PARTNERSHIP BETWEEN KENYA  
AIRPORTS AUTHORITY AND KENYA AIRWAYS**

**9<sup>th</sup> April 2019**

**CHAPTER I. BACKGROUND.**

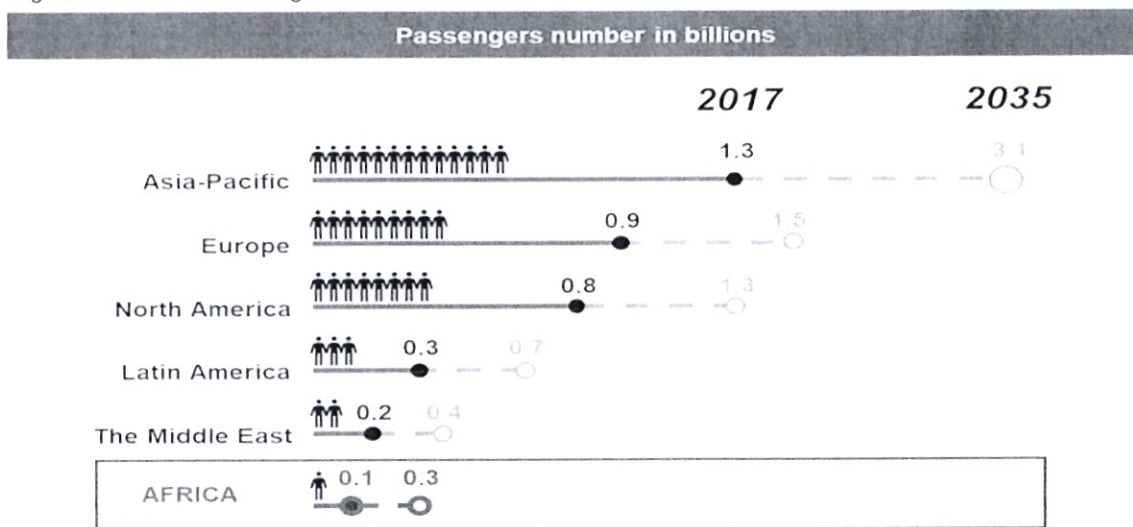


**WHAT ARE THE PERSPECTIVES OF AFRICAN AND KENYAN AVIATION MARKETS?**

**AFRICA IS THE SMALLEST, HOWEVER FASTEST GROWING AVIATION MARKET IN THE WORLD.**

- According to International Air Transport Association (IATA) Africa accounts today for **just 100 million passengers per year**. This means that our market is characterised by low load factor on average flight (% of seats taken) and consequently high ticket prices.
- Prognoses show, however, that **Africa will be the fastest growing market** reaching **300 million passengers in 2035 (200% growth)**.

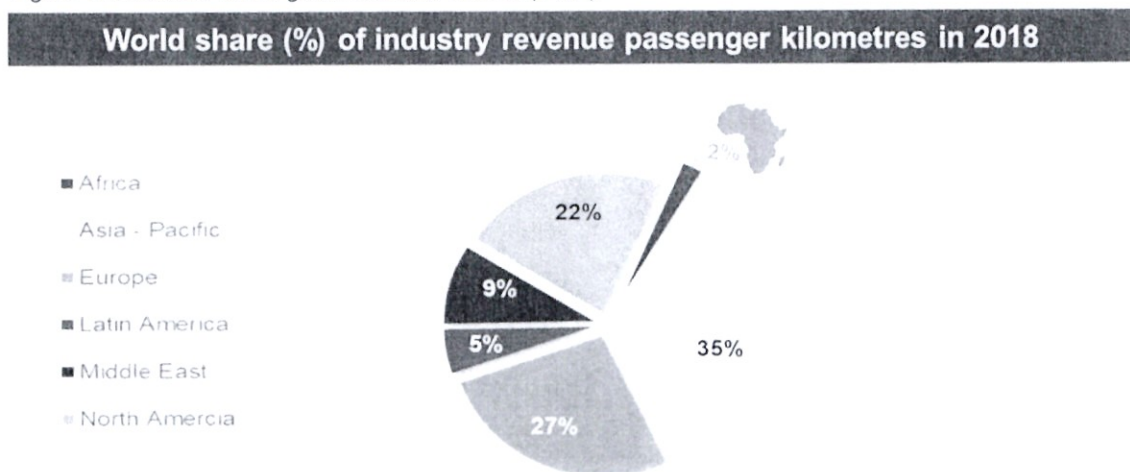
Figure 1. Africa within the global aviation market.



Source: IATA

- In terms of revenue it means only **2% share in global aviation market** as shown below.

Figure 2. Overview of the global aviation market (IATA)



Source: IATA

Figure 3. Worldwide aviation market growth estimates.



Source: Kenya Airways based on IATA data

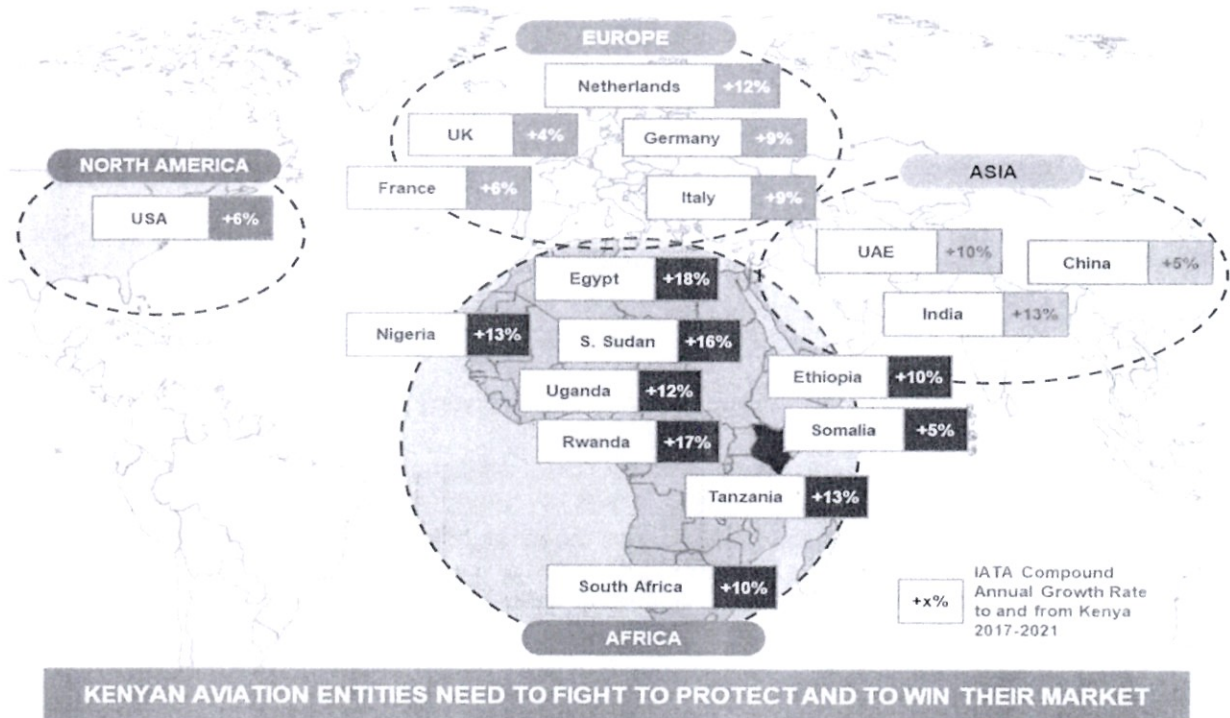
- However, in terms of the future prospects for Africa the **annual growth rate will reach 5.1 %** (highest in the world).
- Fierce competition for this developing market began a few years ago.
- Decisions and actions undertaken today will have imminent impact on the outcome of this rivalry.
- The next few years will determine which airlines dominate the African skies and which ones are going to become regional carriers feeding passengers to the main hubs.

**KENYAN MARKET IS AMONG THE MOST INTERESTING IN AFRICA OWING TO:**

- 1) A significant number of business travellers due to many companies in Kenya.
- 2) Liberalised market & no currency issues making it easy to start a business.
- 3) A market with a large number of premium leisure tourists.

The graph below presents IATA traffic forecast projecting **growth of passengers flow to and from Kenya** from various location all over the world in the perspective between 2017 and 2021.





Figure 4. Compound Annual Growth Rate to and from Kenya 2017-2021.



Source: Kenya Airways based on IATA / Oxford Economics data

- **At the same time, however, the conditions surrounding Kenya Airways (KQ) and JKIA are alarming.** Kenyan aviation as a whole is continuing to lose market share over last couple of years to its competitors. **Ethiopian Airlines (ET)**, which was half the size of KQ in 2010, has grown exponentially in recent years. It has outpaced KQ three times since then. **From 2015 to 2018 all competing carriers in the region increased their market share: ET by 20%, Qatar by 12%, and RwandAir by 22%, all while KQ lost 4%.**
- It is best illustrated by the **number of flights of African and other international airlines across the continent** as presented below.

Figure 5. Comparison of KQ and competing airlines (number of routes).

Airline	 Kenya Airways <i>The Pride of Africa</i>	 Ethiopian Airlines	 TURKISH AIRLINES	 QATAR Airways
Total routes	53 routes	131 routes	302 routes	150+ routes
Routes in Africa	45 routes	77 routes	44 routes	23 routes
Flights to Kenya	-	4 daily	1 daily	4 daily (NBO, MBA)

Source: Kenya Airways

**CONTRARY TO POPULAR BELIEF IN KENYA  
KENYA AIRWAYS IS NOT THE LARGEST AIRLINE IN AFRICA.  
KQ IS 5<sup>TH</sup> IN MOST RANKINGS AND ITS POSITION IS GRADUALLY  
DETERIORATING, MAINLY DUE TO EXPANSION OF RIVAL AIRLINES**

- The above mentioned situation can be illustrated by few simple facts:
  - **Ethiopia expanded terminal of the Bole International Airport** and triple the airport's size and can now accommodate up to 22 million passengers annually.
    - Kenya's main hub JKIA is more and more congested and reaching its maximum capacity of approx. 7.4 million passengers.
  - **Ethiopian Airlines has approx. 100 aircraft and 59 on order.**
    - Kenya Airways has 40 aircraft and currently no aircraft on order
  - **Rwanda is building new airport under the PPP framework with the capacity of twice their current traffic.**
    - Currently no major investments in expanding capacity of JKIA
  - **Uganda has just ordered two aircraft indicating their interest in expanding their market presence.**
  - **With the help of their government Ethiopian Airlines is acquiring shares and / or building strategic partnerships with other African Airlines:**
    - **Rwanda** – Ethiopian Airlines initially founded the airline; currently airlines signed an agreement with RwandAir to operate in each other airspace becoming strategic partners;
    - **Ghana, Uganda, Zambia, Zimbabwe** – Ethiopian Airlines is in talks with governments to assist them establish new national carriers;
    - **South Sudan** – Ethiopian Airlines signed a Memorandum of Understanding with the government to set up national carrier;
    - **Nigeria** – Ethiopian Airlines has been shortlisted by the Nigerian government as a possible strategic partner for a national flag carrier;
    - **Togo** – ASKY hub, Carrier is 40 % owned by Ethiopian Airlines
    - **DR Congo** – ongoing discussions of Ethiopian Airlines with Congo Airways to expand cooperation further;
    - **Malawi** – main base of Malawian Airlines with 49 % of Ethiopian Airlines stake.

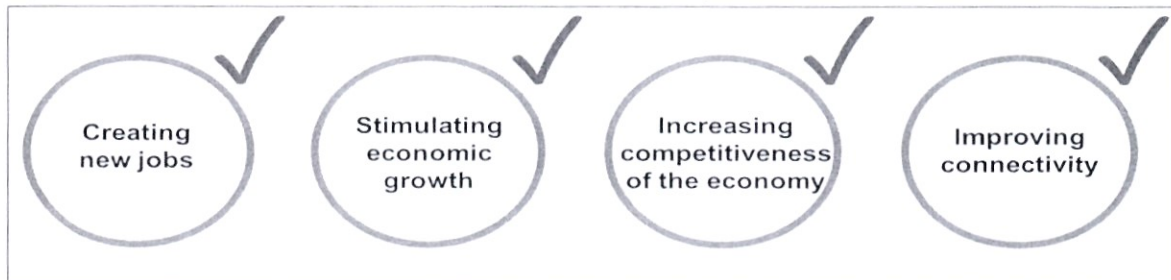


## WHY IS AVIATION SO IMPORTANT FOR GROWTH OF THE COUNTRY?

**KENYA IS LOSING MARKET SHARE TO ITS COMPETITORS.  
IN CASE OF NO POSITIVE CHANGES, THE WHOLE MARKET GROWTH  
WILL BE CONSUMED BY FOREIGN AIRLINES.**

- Given the important contribution of airlines to the GDP of a country, majority of African and Middle Eastern carriers have opted to use their airlines and airports as an instrument of economic development and geopolitical presence, rather than as an instrument to maximize the benefits and dividends for airline shareholders.
- KQ competes with airlines who's mandate is to grow the economy rather than focus on the profit. These airlines are strongly protected by their governments, and as such **they run national hubs with the same goal.**

Figure 6. Major benefits of growing aviation market for the Country.



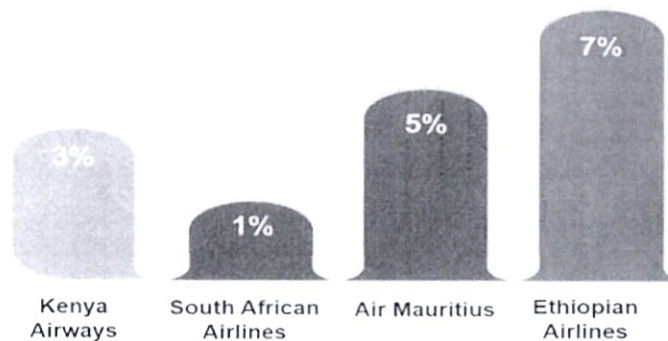
- **Aviation has a huge impact on global economies** as illustrated by following figures:

Figure 7. Major benefits of growing aviation market – worldwide view.



- Simple comparison of impact of the national airline, **it is clear that some of the countries have benefited more than Kenya** from their aviation assets as shown in the diagram below.

Figure 8. Comparison of GDP impact of KQ and selected airlines.



## WHY IS KENYA LOSING AGAINST RIVAL COUNTRIES?

- The Kenyan aviation sector is facing a steady decline, characterised by the turbulence experienced by the national carrier as well as loss of business at Jomo Kenyatta International Airport (JKIA) to other competing hubs.
- Key reasons for this situation have been presented on the graph below:

Figure 9. Key reasons for Kenya losing its position in aviation.







- KQ's main competitors (Ethiopian, RwandAir, and the 3 Gulf carriers) are all 100% state-owned. All have engaged in aggressive growth strategies focused on volume and market share.

**ALL COMPETITORS OPERATE IN AN INTEGRATED MODEL WITH THE AIRPORT HUB.  
KQ IS THE ONLY AIRLINE INTERESTED IN DEVELOPMENT OF JKIA.**

- The Ethiopian Airlines Group merged with the Ethiopian Airports Enterprise (EAE) forming the Aviation Holding Group with a regulation approved by the Council of Ministers (CoM) on July 14, 2017.
- In early 2007, Egypt Air Holding Company partnered with the Egyptian Ministry of Civil Aviation and Egyptian Holding Company for Airports & Air Navigation to form a new corporate entity, the Smart Aviation Company.

Figure 10. Examples of integrated airport – airlines model.

Airline Group	ET Group	The Emirates Group (Emirates and Qnata)	Egypt Air Holding Company
		 	
Skytrax Rating	★ ★ ★ ★	★ ★ ★ ★	★ ★ ★
Hubs	Addis Ababa Lomé Togo	Dubai	Cairo
Human Capital	16,002	103,363	5000+
Business Units	Ethiopian Airlines	Emirates Holidays	Passenger
	Ethiopian Aviation Academy	Emirates Skywards	Cargo
	Ethiopian Inflight Catering Services	Emirates Sky Cargo	Catering
	Ethiopian Maintenance Repair and Overhaul (MRO)	Emirates Group Security	Tourism
	Ethiopian Cargo	Emirates Flight Training Academy	Duty Free
	Ethiopian Catering	Emirates Engineering	Medical Services
	Ethiopian Airports Enterprise	Emirates Flight Catering	Inflight Services
		Emirates Exclusive	Other Industries (Plastic Products)
		Engineering businesses	

- In particular it means that:
  - Those airlines have much lower overheads (e.g. landing fees, fuel costs);
  - Countries support airlines in financing fleet growth;
  - The productivity of their staff is much higher;
  - They do not have a risk of strike or any other form of industrial action. This aspect has a double consequence from financial and operational perspective for the passengers – lower ticket prices and no strike disruptions which are very costly.
- Operating in the integrated airline – airport model has a huge impact on the performance.** From practical perspective It means that every time KQ plane lands in one of the foreign airports all KQ charges are helping to lower the costs of competing carriers. Through fuel distribution costs, handling services, maintenance and many other services that KQ buys in other airports its costs are higher than the cost of competition. **On the other end, when competitor planes land in Nairobi very limited stream of income goes to KQ as KAA and all the airport suppliers are not linked to KQ through any equity or exclusivity contracts.**

Figure 11. Scheme of cross-subsidising in airport – airline model.



**AS A CONSEQUENCE, ALL COMPETING AIRLINES HAVE A PREFERENTIAL TREATMENT IN THEIR OWN HUBS WHICH LOWERS THEIR TICKET PRICES**

- KQ gets no preferential treatment in its own hub of operation, even though it is responsible for around 50 – 60% of overall traffic at JKIA. Considering this, KQ will never be as competitive as other airlines and will continue to lose market share and generate losses.

Figure 12. Share of KQ's flights in overall traffic at JKIA.

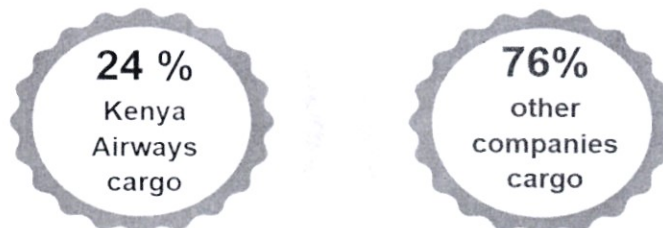
KQ's operations account for:

**50 – 60 %  
of traffic at JKIA**

- National airline should be granted incentives to grow its network and feet.
- Airport hub should have the same set of goals as the national airline and not opposite (as today).
- BOTH NATIONAL AIRLINE AND AIRPORT HUB SHOULD WORK FOR THE BENEFIT OF THE COUNTRY.**

- A good example of the current, unfavourable situation in Kenyan aviation is the declining share of KQ cargo against other competitors. It has been presented on the graph below:

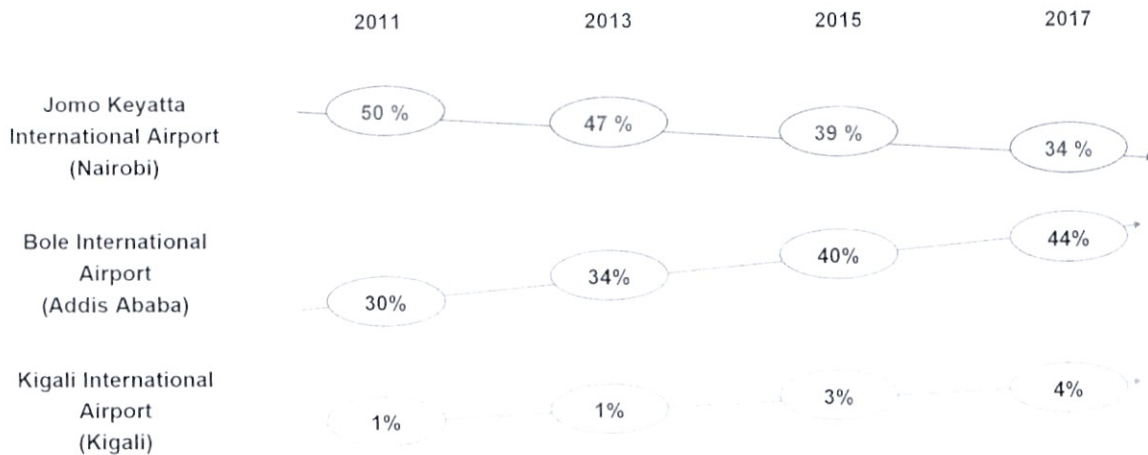
Figure 13. Share of cargo at JKIA (2017).



**KQ AND JKIA MUST EXIST IN SYNERGY.  
SHOULD KQ COLLAPSE OR LIMIT ITS OPERATIONS  
JKIA WILL BE DOWNGRADED TO REGIONAL STATUS**

- Even today, Jomo Kenyatta International Airport itself is losing its regional importance. As it is illustrated on the graph below, since 6 years the position of JKIA is decreasing and Addis Ababa and Kigali airports are growing their traffic very fast.

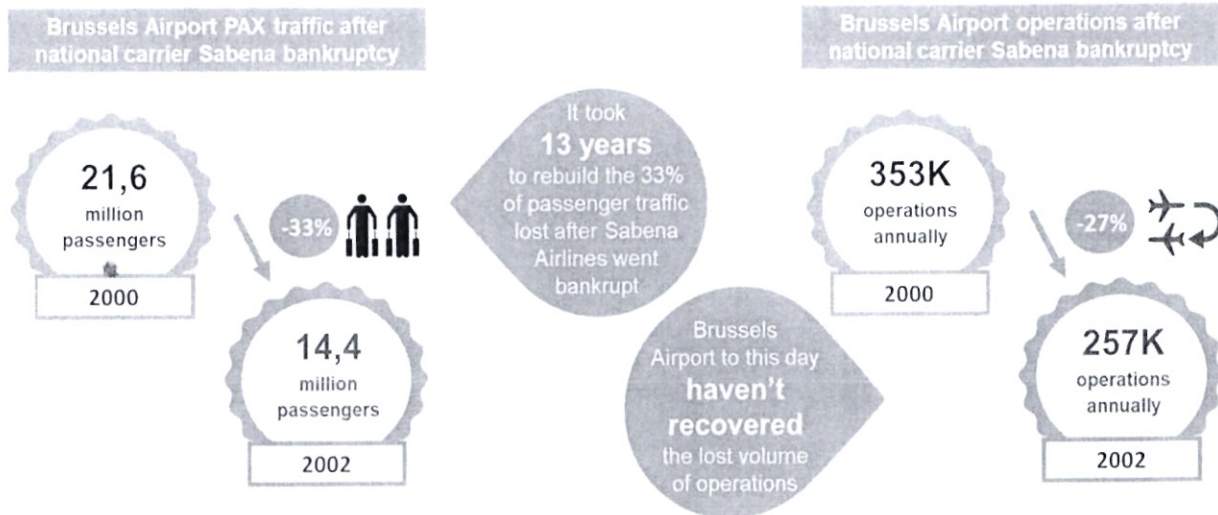
Figure 14. Share of selected airports in the East Africa market.



Source: Kenya Airways based on Kenya Airports Authority data

- To fully understand the impact of the national airline on the airport hub, it is worth analysing the historic examples of airlines that collapsed.

Figure 15. Impact of a national airline on the airport's (hub) operations – Belgian Sabena Airlines example.



Source: Kenya Airways (based on wikipedia data)

- Africa does not have a functioning competition regime to ensure a level playing field for KQ and JKIA. Kenyan aviation players, therefore, face imminent danger of being pushed out of the market by competitors, who benefit from market protection or government subsidies, without an avenue for recourse

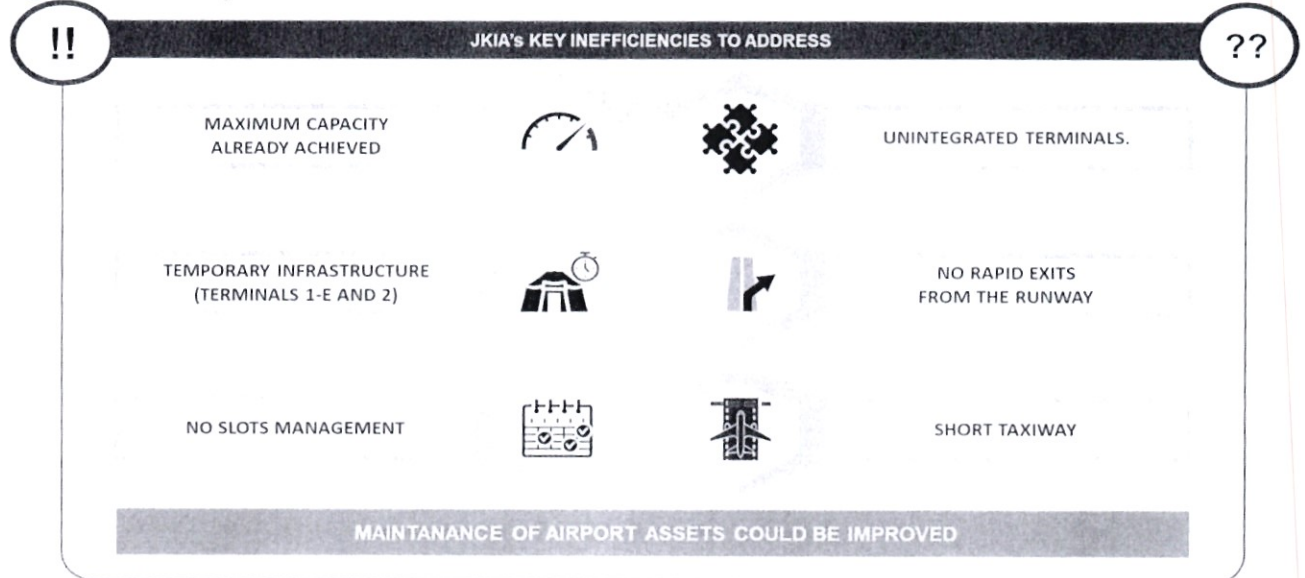
**LAST BUT NOT LEAST, KENYA OPENED ITS AIRSPACE  
TO THE OTHER AFRICAN STATES  
THROUGH THE SINGLE AFRICAN AIR TRANSPORT MARKET (2015).**



## WHAT CAN BE DONE AT JKIA TO INCREASE ITS COMPETITIVENESS?

- KQ as JKIA's the biggest customer has made numerous observations and has come up with ideas which can impact the airport's operations and customer experience in a very positive way.

Figure 16. JKIA's key issues to be solved in the future.



- **Insufficient investments in JKIA Assets.** The current state of JKIA infrastructure is defective and insufficiently maintained. These technical defects are visible to airport passengers, limiting their satisfaction, and reducing potential revenues from transiting passengers. Poor maintenance causes capacity shortages due to the low reliability of operational assets. It is estimated that a minimum budget of USD 20 M – 25 M is needed to rehabilitate the infrastructure.
- **Temporary Infrastructure.** Some of the critical infrastructure elements are temporary and have a lifetime up to 2024. These temporary facilities do not have internationally acceptable level of service quality and ambience standards. Investments at the airport are therefore badly needed as without it JKIA capacity will reduce to 5M from the current 7.2 M, representing a 30% drop. It relates mainly to the temporary terminals, such as 1E.
- **Disconnect Between Terminals and Concessionaires.** In practice, JKIA operates as six independent airports – terminal buildings are not integrated and use different IT and airport technology systems. Only Terminal 1A is partially automated, while the remaining terminals rely on manual processes (e.g. lack of automated baggage handling systems in Terminals 1B, 1C, 1D and 1E). Moreover, no IT system monitors the sales of concessionaires in the different terminals other than 1A.

### KQ AND KAA SHOULD JOINTLY WORK TO RESOLVE THE ABOVE ISSUES WHICH WILL SIGNIFICANTLY IMPROVE OPERATIONS AT JKIA AND INCREASE THE COMPETITIVENESS OF KENYAN AVIATION

- **Faulty Revenue Structure.** Well-managed international airports have a revenue split of 60:40 between traditional aeronautical sources (landing fees, Airport Pax Service Charge) and non-aeronautical revenues (duty-free shops, concessions paid by the airport operators, ground handlers, and fuel providers, among others). JKIA currently has an approximate 81:19 split. It has been presented on the graph below.

Figure 17. Current structure of revenues at JKIA.

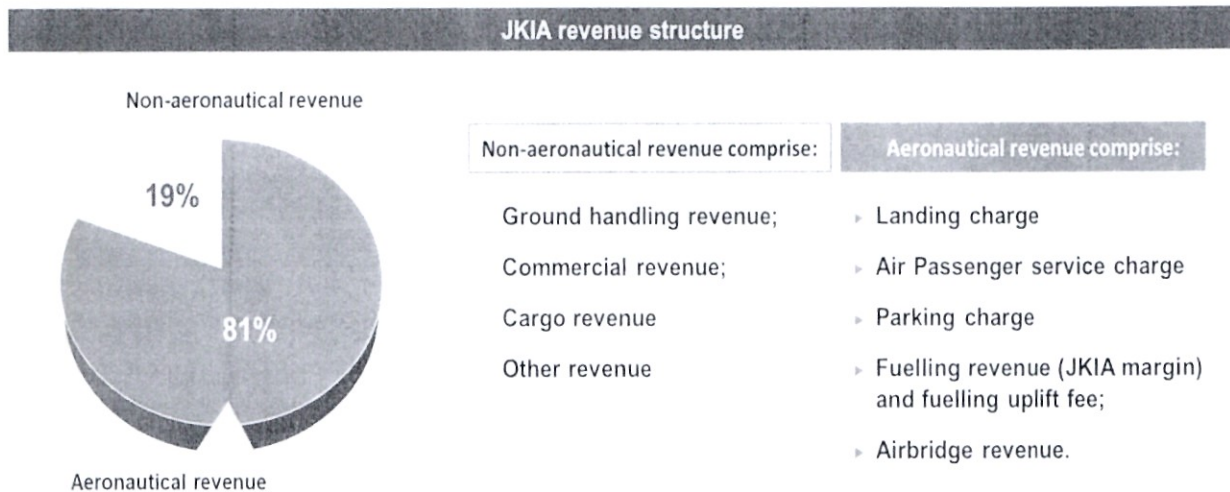
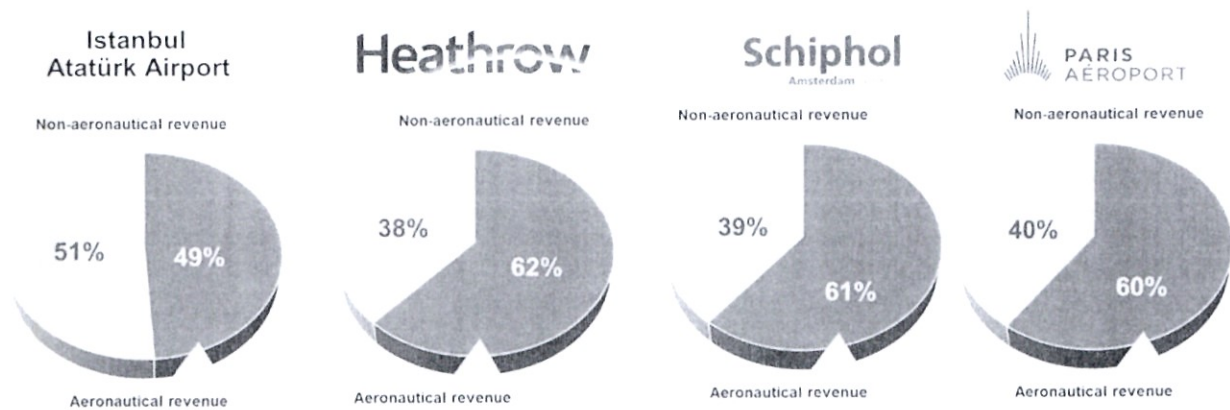


Figure 18. Revenues structure of successful international airports (2015).



Source: International Journal of Academic Research in Business and Social Sciences 2017, Vol. 7, No. 7 ISSN: 2222-6990 287

**IT IS CRUCIAL TO GROW NON-AERONAUTICAL REVENUE  
IN ORDER TO BE ABLE TO BALANCE THE REVENUE STREAMS AND DECREASE  
RATES FOR CORE AERONAUTICAL SERVICES, MAKING THE AIRPORT MORE  
COMPETITIVE IN THE REGION, HENCE ATTRACT MORE TRAFFIC**

**CHAPTER II. QUESTIONS AND ANSWERS.**



**WHAT IS IMPLICATION OF THE PROJECT TO THE JKIA STAFF?**

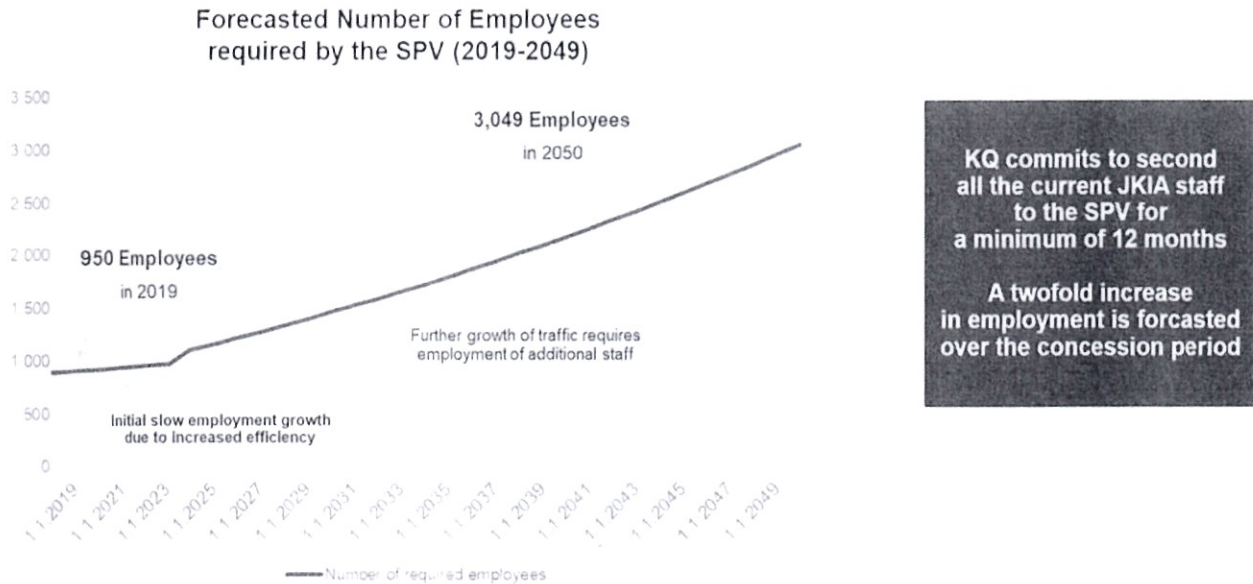
**THE PROJECT WILL RESULT IN INCREASED EMPLOYMENT  
IN AVIATION-RELATED AND OTHER INDUSTRIES.**

**THROUGH CREATION OF BETWEEN 25,000 – 30,000 JOBS FOR KENYANS**

**THERE WILL BE NO JOB LOSSES TO THE CURRENT JKIA EMPLOYEES**

- KQ, will need the current JKIA staff to operate the Airport. As traffic grows, more will be required. We envisage the creation of between 25,000 – 30,000 jobs through establishing a Special Economic zone around JKIA. (See graph below)
- In the PIIP, **KQ has proposed the following high-level solution** towards staff-related matters:
  - KQ commits to second all the current JKIA staff to the SPV on the equal terms as currently at KAA for a period of 12 months;
  - After the secondment period, **KQ will transfer employees to SPV;**

Figure 19. Projection of employment at JKIA within the Project timeline.



Source: Kenya Airways

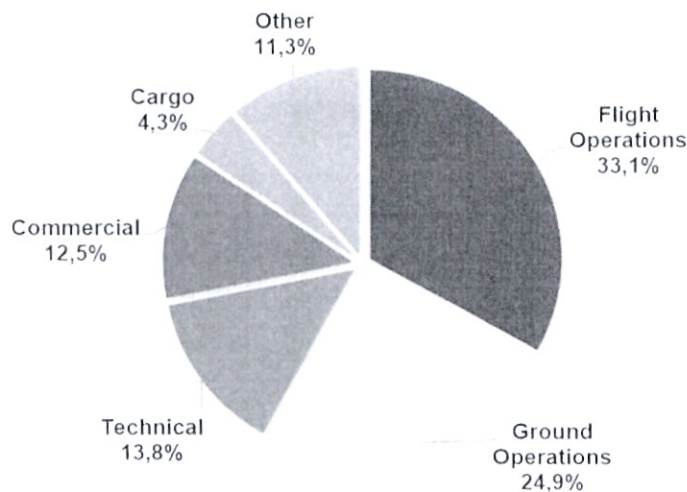


## WHAT IS CURRENT STAFFING FORMATION STRUCTURE FOR KQ?

LOOKING AT THE EMPLOYMENT STRUCTURE AT KQ, WE MUST REMEMBER THAT KQ IS A GLOBAL COMPANY OPERATING ON A COMPLEX AIRLINE MARKET WHERE WORLDWIDE STANDARDS MUST BE FULFILLED.

- KQ employs as of today around 3,700 employees.
- The following graph presents structure of KQ employment as per organisation structure:

Figure 20. KQ employment structure per function.



Source: Kenya Airways

- As a Kenyan company operating in a global aviation market that is complex and highly competitive, KQ requires global perspectives and experience to be relevant and competitive. It is therefore important to infuse local and international talent.
- Overall, currently KQ employs **14 expatriates**, including secondments, out of the total number of 3700 employees. This is less than **0.4%** of the entire KQ staff.
- Of the 14 expat employees, **2 are KLM managers seconded to KQ**. They are occupying senior positions: The Chief Operations Officer and the Head of Global Sales. Although they work for KQ, they remain KLM employees.
- Of the **Top 50 managers 5 are expatriates**, representing just **10% of the leadership team**. This means our company is run by a strong contingent of Kenyans who represents **90% of the highest positions in the company**.
- The graph below summarises the share of expatriates in overall KQ employment.

Figure 21. Number of foreigners employed by KQ.





## WHAT IS THE REMUNERATION OF KQ STAFF?

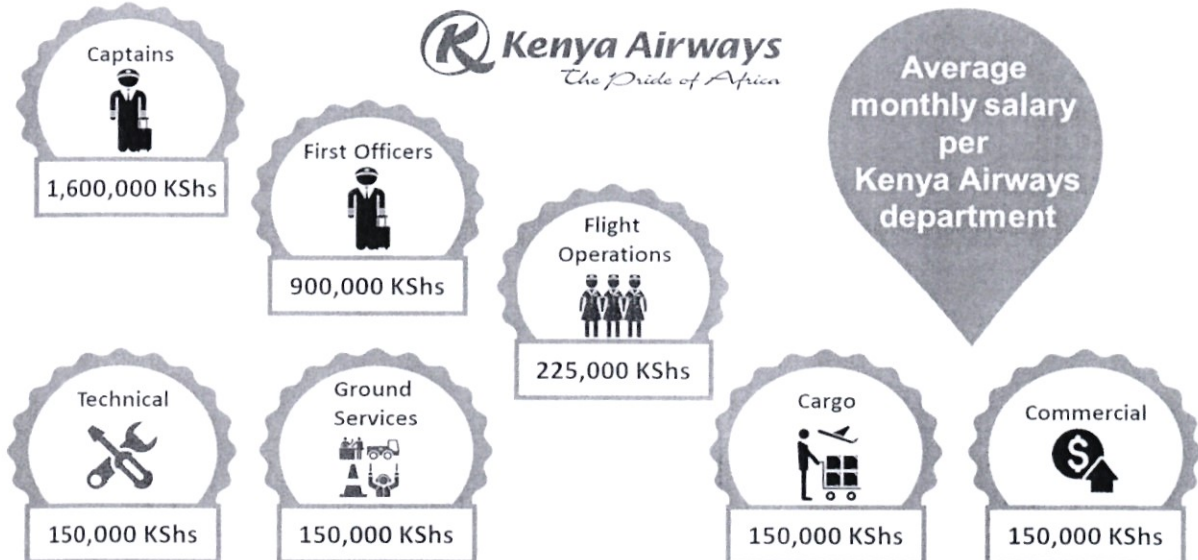
- The airline business is highly **dependent on various cost categories** which impact the overall profitability of the company.
- In particular the airline's performance depends on key factors:
  - **Volatility of fuel prices** in the global markets,
  - Impact of **Direct Operating Costs** including categories such as technical maintenance of the fleet, landing and navigation costs, distribution costs etc.
  - **Costs of staff** in particular cockpit and cabin crew,
  - **Costs of fleet ownership** (leases).
  - **Finance costs** which in KQ's case represent obligations to lenders.
- The graph below present the average costs structure based on KQ data:

Figure 22. Cost structure of an airline (% of total costs).



- As indicated in the graph above, the remuneration of the airline's staff constitutes a significant cost of operations accounting for **19% of total costs**.
- Average remuneration levels in KQ shall be considered per key function in the airline due to the differences in salaries. Please find below the average monthly salary per each key group of employees.

Figure 23. Kenya Airways average monthly salaries.



- While significant salaries of the pilots are not unusual in the airline industry due to very influential trade unions and political pressure on national careers (the situation is completely different in privately owned and low-cost airlines), **remuneration of the Kenya Airways' pilots is substantial even in comparison to their counterparts from wealthy, developed economies** (see below).

Figure 24. Average monthly salary of KQ wide body captain compared to other airlines (peer group comparison)

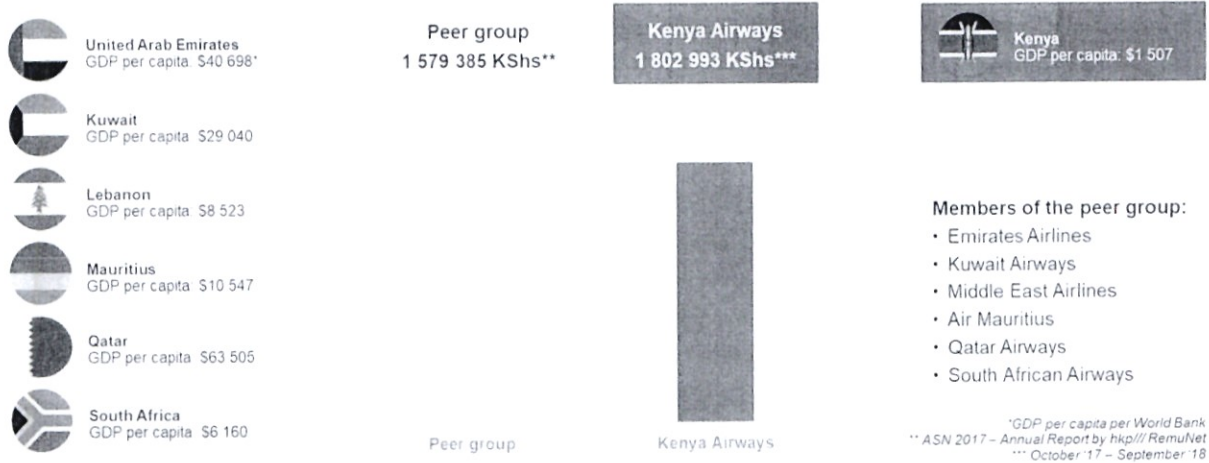
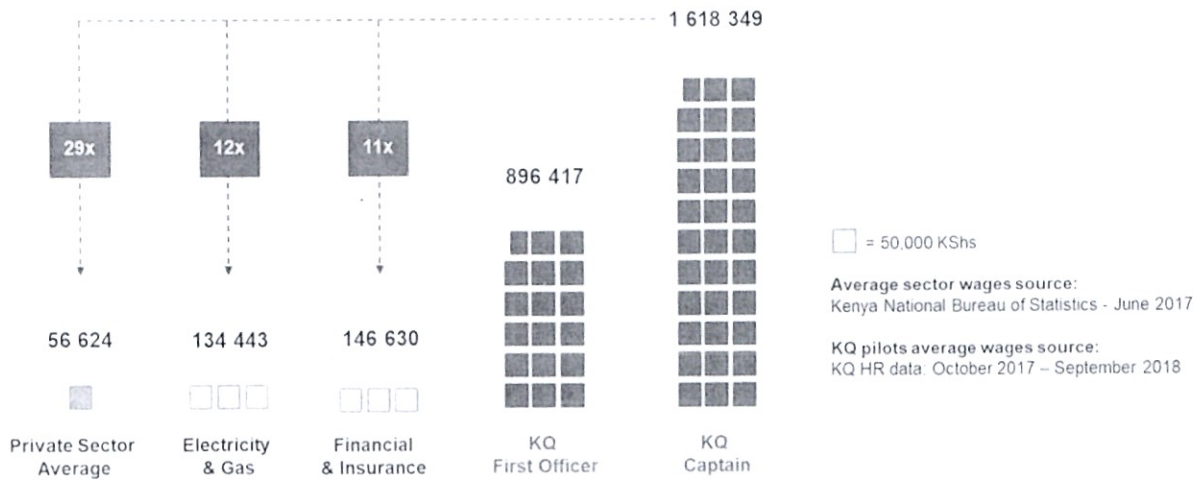
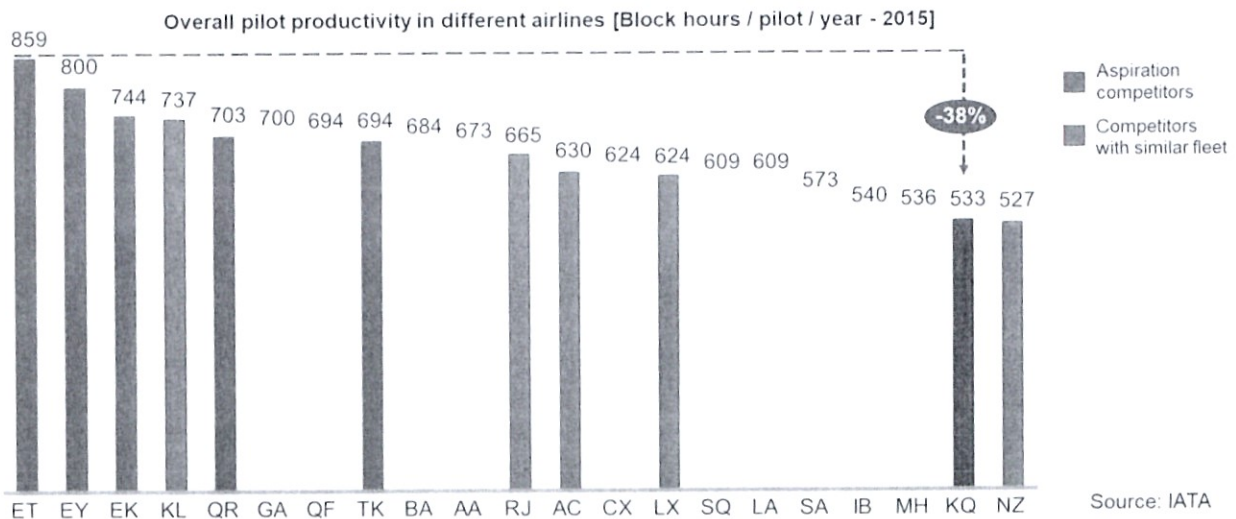


Figure 25. KQ pilots average total monthly salary vs. other sectors in Kenya



- KQ Captain earns on average 11x more than average employee in other high salary sectors & 29x more than the private sector average
- Unfortunately, the pilots' remuneration is not in line with their productivity as shown below.

Figure 26. Comparison of pilot productivity among different airline



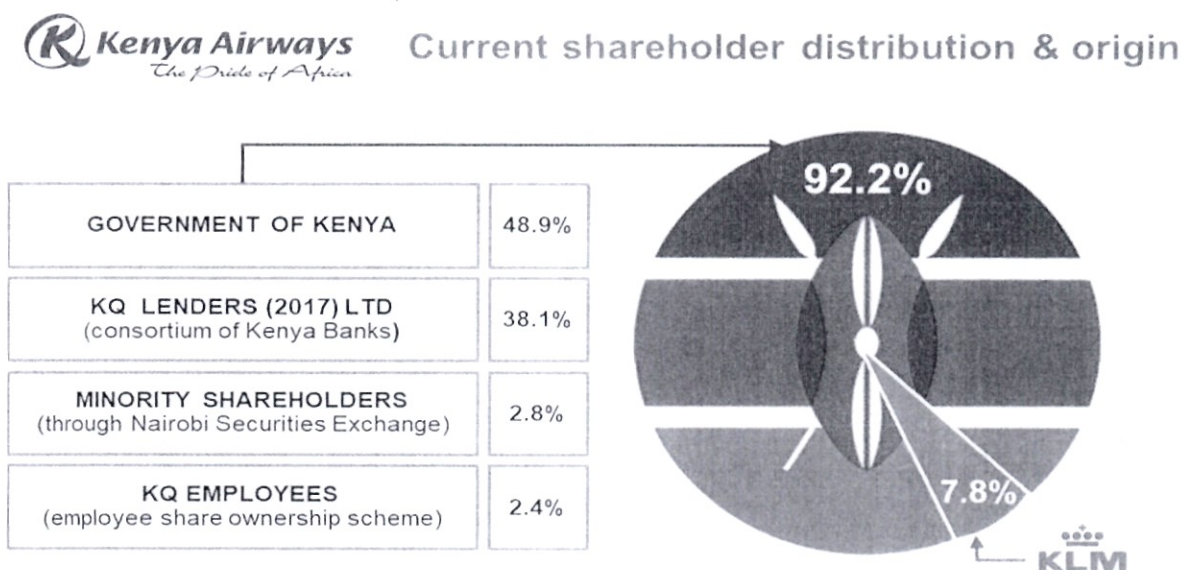


## IS KQ A PUBLIC OR PRIVATE COMPANY AND WHO ARE THE SHAREHOLDERS?

**KENYA AIRWAYS PLC IS A PUBLICLY LISTED COMPANY WITH GOVERNMENT OF KENYA (GOK) OWNING THE MAJORITY OF SHARES**

- The current KQ shareholding structure is the result of the process of financial restructuring which was completed in November 2017
- The actual shareholding structure of KQ is presented on the graph below:

Figure 27. KQ shareholding structure.



### A GREAT MAJORITY OF SHAREHOLDERS REPRESENT KENYAN CAPITAL

- **KQ Lenders (2017) Ltd.** is a company established by a **consortium of Kenyan Banks**.
- The consortium includes in total 10 banks as mentioned in the table below:

Table 1. Banks in the KQ Lenders (2017) Ltd. consortium.

No.	Financial institution	No.	Financial institution
1.	Kenya Commercial Bank Term	6.	Chase
2.	Equity Bank	7.	Cooperative Bank
3.	Ecobank	8.	I&M
4.	CBA	9.	National Bank
5.	NIC Bank	10.	Diamond Trust

**THE GOVERNMENT OF KENYA (GOK) SHARE OF INCREASED SIGNIFICANTLY AS A RESULT OF THE FINANCIAL RESTRUCTURING (2017)**

- Current and previous KQ shareholding structure has been presented in table below:

Table 2. KQ shareholders structure currently and prior to financial restructuring.

No.	Shareholder	Current Structure	Old Structure
1	Government of Kenya	48.9%	29.8%
2	KQ Lenders 2017 Ltd	38.1%	-
3	KLM	7.8%	26.7%
4	Minority Shareholders*	2.8%	43.4%
5	ESOP (Employee Share Ownership Plan)	2.4%	0.1%
-	<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

\* The 2.8% minority shareholders consist of approximately 75,000 individuals who obtained their shares via Nairobi Securities Exchange.



**WHAT IS THE IMPACT OF FUEL HEDGING ON KQ PERFORMANCE?**

**FUEL HEDGING – CONTRACTUAL TOOL USED BY AIRLINES AS AN INDUSTRY STANDARD TO REDUCE EXPOSURE TO VOLATILE FUEL PRICES**

- Jet Fuel prices are volatile. Uncertainty can create significant cash flow challenges as seen in figure below. Since jet fuel costs constitute up to 40% of direct operating costs of the Airline there is therefore a compelling reason to manage the jet fuel price fluctuation risk through hedging.

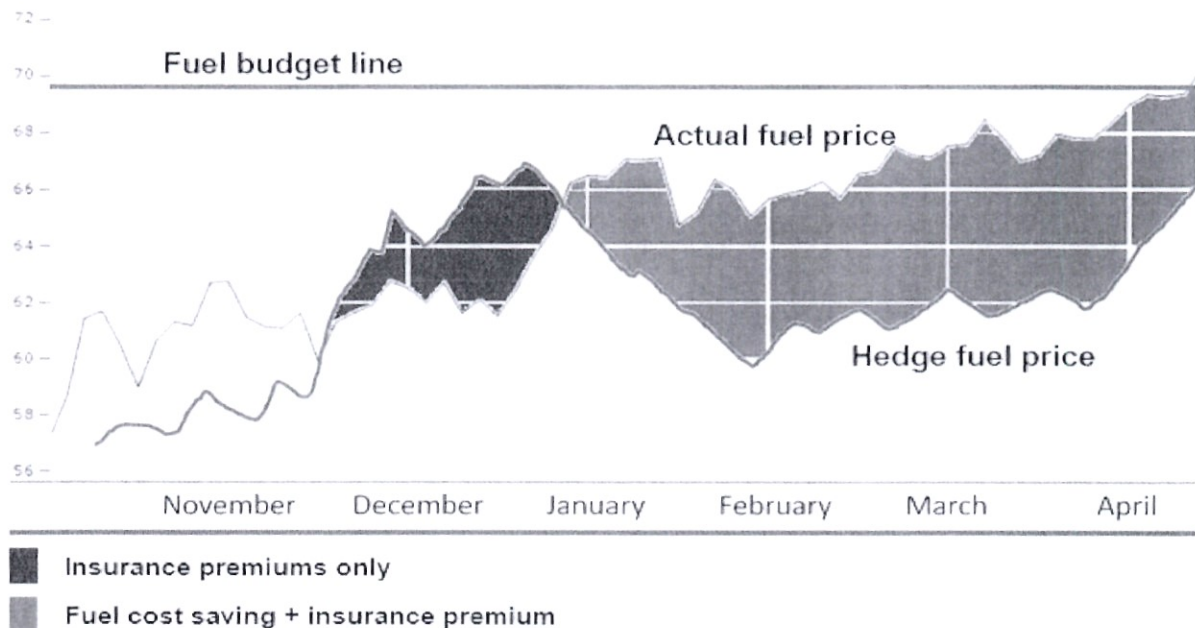
Figure 28. World Oil/fuel price changes 2018/2019



- The current KQ fuel hedge was arrived at following **exhaustive negotiations lasting over 6 months and a careful market analysis**. This also involved requisite board approvals.
- The fuel hedge in place at the moment is 'Plain Vanilla', the most basic/standard of fuel hedging. It is simply an insurance product that guarantees KQs purchase of fuel at a set price while protecting it against rises above a certain price.

**KQ's FUEL HEDGING POLICY IS NOT GAMBLING ON FUEL PRICES. IT RESEMBLES CAR INSURANCE – KQ PAYS PREMIUMS TO INSURE AGAINST FUEL PRICES BEYOND A SPECIFIED RATE. IN THE EVENT OF A RISK EVENTUALITY THE AIRLINE IS CUSHIONED AGAINST LOSS.**

Figure 29. Fuel hedging model explained



- In the current fuel hedging model the term is 12 months as compared to the older hedge that was 24 months. The initial hedged volumes stood at 41% of the total volumes with a maximum of 65%, the current hedged volumes stand at 55%.

**KENYA AIRWAYS IS BENEFITING FROM FUEL HEDGING AS THE CURRENT FUEL PRICES ARE ABOVE \$70 AND 55% OF OUR VOLUMES ARE HEDGED AT RATES LOWER THAN \$68**

- The Airline is expected to reap benefits in the month of April going forward as the fuel curve projections point to an increase in prices. Therefore KQ is not haemorrhaging cash through fuel hedging.



## WHAT IS THE IMPACT OF AIRCRAFT LEASES ON KQ PERFORMANCE?

### AIRCRAFT LEASING IS THE MOST COMMON PRACTICE TO ACQUIRE FLEET IN AIRLINES ALL OVER THE WORLD

- Much as outright purchase is an option in acquiring an aircraft, it is not a wise and financially sound option. The core competence of an airline is flying and not owning assets and tying up money in the form of aircraft.
- To put the above into perspective, figure 30 here below details the average costs of aircraft in the Kenya Airways fleet.

Figure 30. Average costs of aircraft in the Kenya Airways Fleet



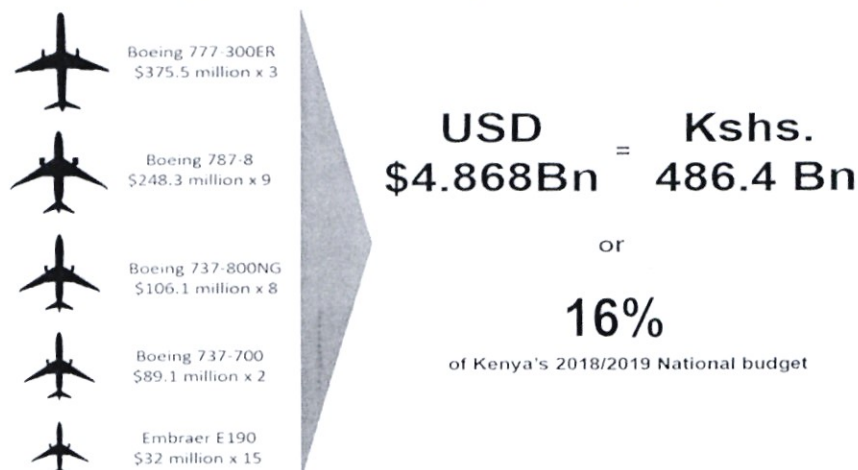
Source

<https://www.boeing.com/company/about/usa>  
<https://www.aircraftcompare.com/manufacture/aircraft/embraer/e190>

- Much as the average life span of an aircraft is 30 years which from an uninformed perspective would make outright purchase of an aircraft an attractive option, there are several factors that inform otherwise. One is the huge capital outlay, the other is that the older an aircraft is, the less efficient it is, this is both fuel and maintenance wise. In addition, passengers prefer to fly on newer aircraft.

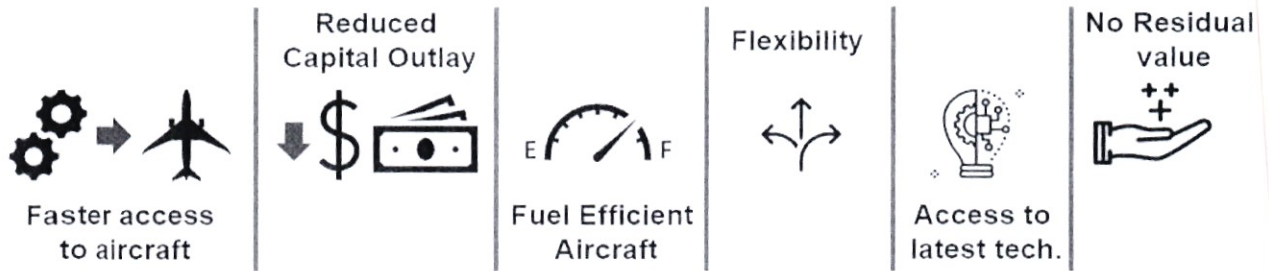
### OUTRIGHT PURCHASE OF AN AIRCRAFT IS AKIN TO SPENDING MILLIONS TO PURCHASE A HOUSE THAT YOU WILL EXIT IN 10 YEARS OR LESSER WHILE YOU COULD PAY RENT ON A MONTHLY BASIS

Figure 31. Estimated cost of purchasing 37 new aircraft resembling current Kenya Airways fleet (excl. 3 freighters)



- It is for the above reasons that airlines prefer leasing as opposed to outright purchase. The figure below better illustrates the benefits of leasing as opposed to outright purchase.

Figure 32. Benefits of leasing an aircraft versus outright purchase



Source: Kenya Airways PLC

- It is worth noting that leasing is not a case unique to Kenya Airways, but it is the trend world over and more so in airlines that are a lot larger than Kenya Airways both in terms of fleet, revenue, as well as passenger numbers as evidenced by figure below.

Figure 33. Major airlines leased aircraft as a percentage of total aircraft



Source

[https://www.airfranceklm.com/sites/default/files/publications/afklm\\_va\\_29u42216\\_-\\_version\\_finale.pdf](https://www.airfranceklm.com/sites/default/files/publications/afklm_va_29u42216_-_version_finale.pdf)  
<https://www.delta.com/us/en/about-delta/corporate-information>  
<http://www.capitalaviation.net/Aviation-Services>

**IN TERMS OF ACTUAL NUMBERS KENYA AIRWAYS PLC HAS A FLEET OF 40 AIRCRAFT:  
20 AIRCRAFT ARE OWNED BY KQ, 20 ARE UNDER OPERATING LEASE**

Table 3. Kenya Airways fleet breakdown

AIRCRAFT TYPE	Owned	Leased	TOTAL
Boeing 777-300 ER	1	2	3
Boeing 787-8	6	3	9
Boeing 737-800	-	8	8
Boeing 737-700	-	2	2
Boeing 737-300	1	-	1
Boeing 737-300F	2	-	2
Embraer 190	10	5	15
<b>TOTAL</b>	<b>20</b>	<b>20</b>	<b>40</b>




- The lessors in the case of Kenya Airways PLC operating leases are **renowned international companies, that manage a fleet of hundreds of aircraft.** Their breakdown is shown in Table 4 below.

Table 4. List of lessors of 20 aircraft under operating lease.

Lessor Name	Lessor Headquarters	Lessors Total Fleet	No. Leased to KQ	Aircraft Type
Aviation Capital Group	California, USA	297	3	Boeing 737-800
GE Capital Aviation Services (GECAS)	Dublin Ireland & Connecticut, USA	931	1	Boeing 737-800
			1	Boeing 787-8
China Development Bank (CDB) Leasing	Beijing, China	151	1	Boeing 737-800
MACQUIRIE AirFinance	Sydney, Australia	202	1	Boeing 737-800
Goshawk Aviation	Dublin Ireland	223	2	Boeing 737-800
AERCAP	Dublin, Ireland	1,153	1	Boeing 787-8
Dubai Aerospace Enterprise (DAE)	Dubai, UAE	350	1	Boeing 787-8
Bank of China (BOC) Aviation	Singapore	285	1	Boeing 777-300 ER
Cross Ocean Partners	London, UK	N/A	2	Boeing 737-700
China Development Bank (CDB) Leasing	Beijing, China	151	1	Boeing 777-300 ER
Nordic Aviation Capital	Billund, Denmark	468	5	Embraer 190

- The 20 aircraft owned by Kenya Airways are either fully paid for or under loan structures financed by renowned financial institutions

Table 5. List of aircraft owned by Kenya Airways and their financing

Fleet	Number of Airplanes	Owner	Financing
Boeing 787-8	6	 Kenya Airways <i>The Pulse of Africa</i>	<b>Tsavo Ltd Loan structure</b> financed by: <ul style="list-style-type: none"> <li>City Bank NA</li> <li>JP Morgan Chase bank</li> <li>Afrexim Bank</li> </ul>
Boeing 777-300	1		
Embraer 190	10	 Kenya Airways <i>The Pulse of Africa</i>	<b>Samburu Ltd Loan structure</b> financed by: <ul style="list-style-type: none"> <li>Standard Chartered Bank Intl</li> <li>Afrexim Bank</li> </ul>
Boeing 737-300	3	 Kenya Airways <i>The Pulse of Africa</i>	Fully paid for

- It is worth mentioning that due to current network structure, specific commercial needs and cost-efficiency analysis, Kenya Airways decided to sublease three of the 777-300ER to Turkish airlines and one 787-8 Dreamliner to Oman Air to avoid the burden of costs of aircraft that can't be utilised efficiently at the moment.

**ARE THERE ANY OTHER AIRLINES THAT LEASE AIRCRAFT DIRECTLY FROM MANUFACTURERS?**

- No, there are not. Manufacturers are not involved in leasing as it is not their core activity. Leasing of aircraft is solely the work of leasing companies and banks.

## WHAT WERE THE PROCUREMENT PROCEDURES FOLLOWED IN THE PROCESS OF ACQUIRING AIRCRAFT?

Acquisition of an aircraft is pegged on several determinants, financing options, current fleet mix, maintenance and repair costs, changes in technology, network plan etc

- **Currently there are only 2 manufacturers of wide body aircraft; Boeing and Airbus**  
Therefore, if an airline wants a wide body fleet then the options are narrowed down to just the two. In the case of KQ, Airbus is less preferred option since we do not have an existing Airbus fleet. The costs of acquiring and establishing training maintenance conversions etc. would far outweigh any benefits in acquisition costs if any. In the case of Narrow body fleet, the only other fleet model outside Boeing is the Embraer
- The nature of the industry is such that the market is oligopolistic and there are very few choices to choose from
- Regardless, the fleet **acquisition process in KQ is well-structured and takes at least two years on average**. Careful research and planning are the key for such an important business decision. The process includes the following frame steps
  - Determination of the need to acquire aircraft (network growth, new destinations, maintenance and repair, business strategy)
  - Determination of the fleet financing strategy
  - Floating an RFP to lessors in the market with the KQ specific aircraft requirements
  - Consideration of proposals received to RFP in line with KQ requirements. Ranking and selection of the proposals
  - Engagement in another round of proposals with a select number of lessor who meet the criteria set in the RFP. This second round ensures that specific requirements in the RFP are met
  - KQ proceeds with face to face discussions with all pre-qualified, shortlisted lessors
  - KQ selects the number of lessors that adequately meet all the criteria set and tables a detailed memorandum to the KQ Board for approval to commence lease negotiation
  - KQ proceeds to enter a Letter of Intent (LoI) with the first lessor in order of ranking
  - Upon mutual agreement of the lease terms KQ and the lessor agree and sign a lease
  - After the lease signing KQ proceeds with aircraft configuration activities awaiting delivery
  - Following completion of all aircraft configuration activities, KQ undertakes delivery acceptance that involves inspection by a multi-disciplinary team that involves even the regulators, KCAA



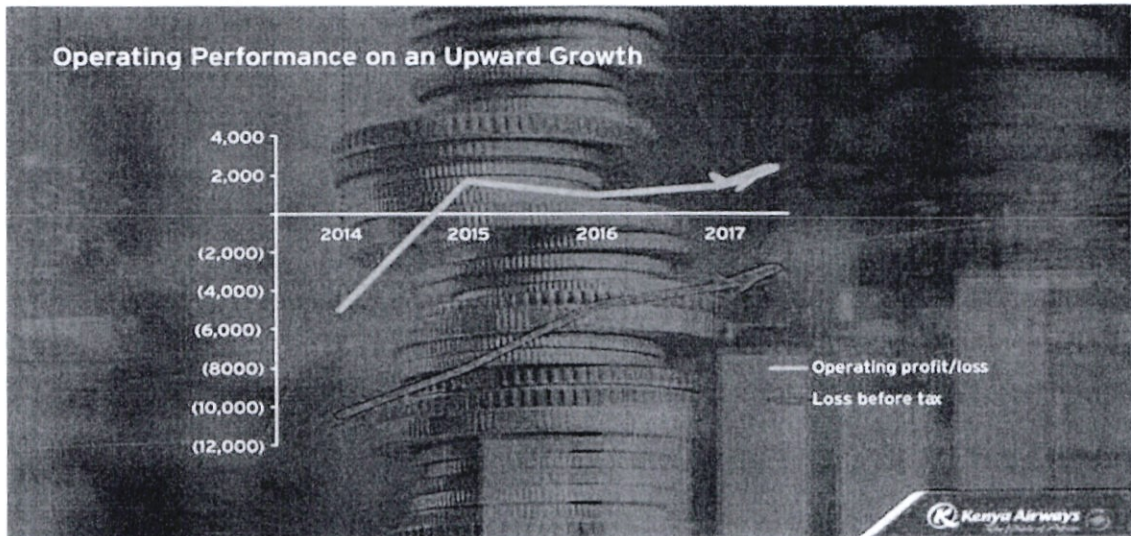
## WHAT IS THE FINANCIAL HEALTH STATUS OF KQ?

### DESPITE THE LACK OF STRUCTURAL SUPPORT TO KQ, THE AIRLINE CONTINUES ITS TURNAROUND EFFORTS AND IMPROVES FINANCIAL RESULTS

- In recent years, Kenya Airways PLC has experienced financial distress that culminated in a series of poor financial results that topped a record KES 26.2bn (US\$258m) for 2015-16 financial period
- However, diagnosis of the root causes laid fundamentals to the turnaround plan, currently being implemented in KQ. The prime goal of this program is to achieve operational profitability and in the long run, ability to generate profit before tax and dividends for its shareholders. Current restructuring activities are carried out in three major areas
  - Boosting revenues,
  - Cost reduction,
  - Efficient governance

- Over the last two years KQ significantly improved its financial results which can be best illustrated by the measure of operational profitability as it was presented on the graph below.

Figure 34. Operating profit / loss and profit before tax (2014 – 2017).



Source: Kenya Airways

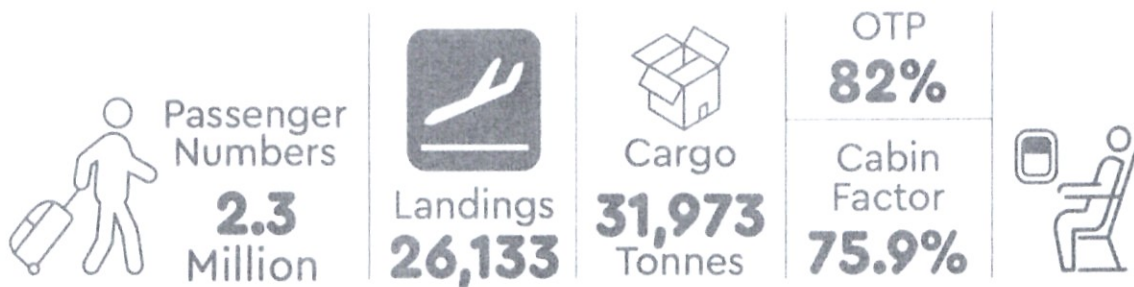
- KQ financial results are subject to Capital Markets Authority (CMA) regulations and therefore full 2018 results will be published only by the end of April 2019. However, January – June 2018 results showed that the Company improved its financials even further.
- Figures below illustrate improvement in most of the financial measures as well as operating statistics.

Figure 35. Kenya Airways Half Year 2018 Results – Financial Performance (29 August 2018).



Source: Kenya Airways

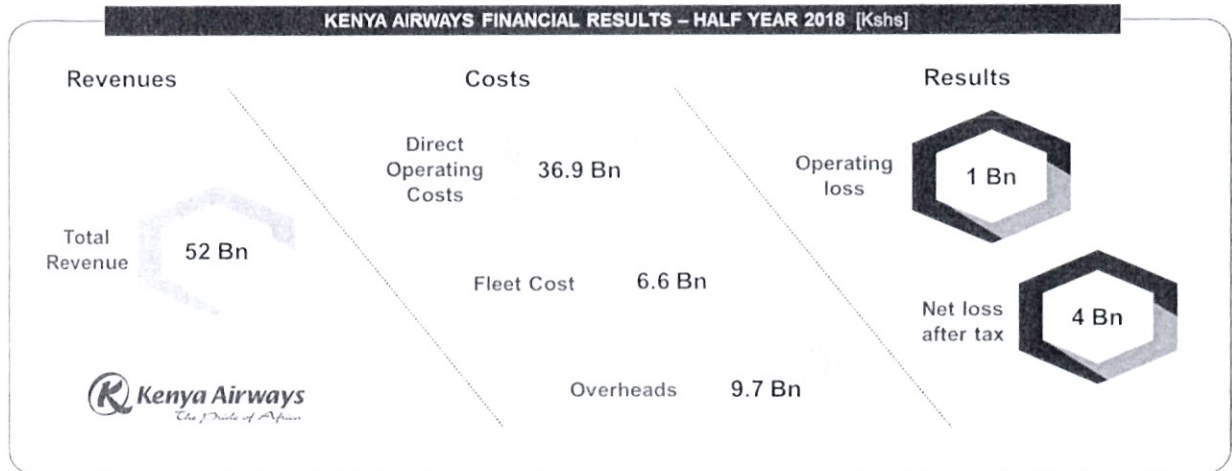
Figure 36. Kenya Airways Half Year 2018 Results - Achievements (29 August 2018).



Source: Kenya Airways

- Despite unfavourable external and internal conditions, in the first half of 2018 Kenya Airways generated revenue of 52 billion KShs. At the same time, our cost base has been significantly impacted by the rising fuel prices in the global markets – the key costs driver for all airlines. However, thanks to hardworking KQ managers and employees the Company has managed to amortise this growth through reduction of costs including Direct Operating Costs and Overheads. As a result, KQ has ended up first half of 2018 with 1 billion KShs of operating loss and 4 billion KShs of profit before tax. All these figures have been presented on graph below.

Figure 37. Kenya Airways Half Year 2018 Results – Key financial figures (29 August 2018).



- It is worth mentioning that KQ is subject to numerous fees and levies paid both to KAA and the Government of Kenya (GoK).
- KQ payments to KAA for various types of services stand for a significant portion of the KAA's profit & loss statement. At the moment, KAA charges KQ annual fees of up to ca. **USD 22 M annually**. That amount is a sum of the following costs:
  - Landing fees: **USD 16 M**;
  - Buildings rent and utilities: **USD 4 M**;
  - Concession: **USD 2 M**.
- Furthermore, KQ pays KAA the Airport Pax Service Charge (APSC) that is dependent on the number of passengers departing from Kenya with the airline. In KQ's case that fee amounts to **USD 43 M** annually, accounting for approximately 50% of JKIA's total revenue from APSC per year.
- In addition, KQ is charged various taxes and levies by Kenya Revenue Authority (KRA). Import Declaration Fees and Railway Development Levy (RDL) are just an example. Annual contribution of KQ in terms of taxes has been presented on the graph below.

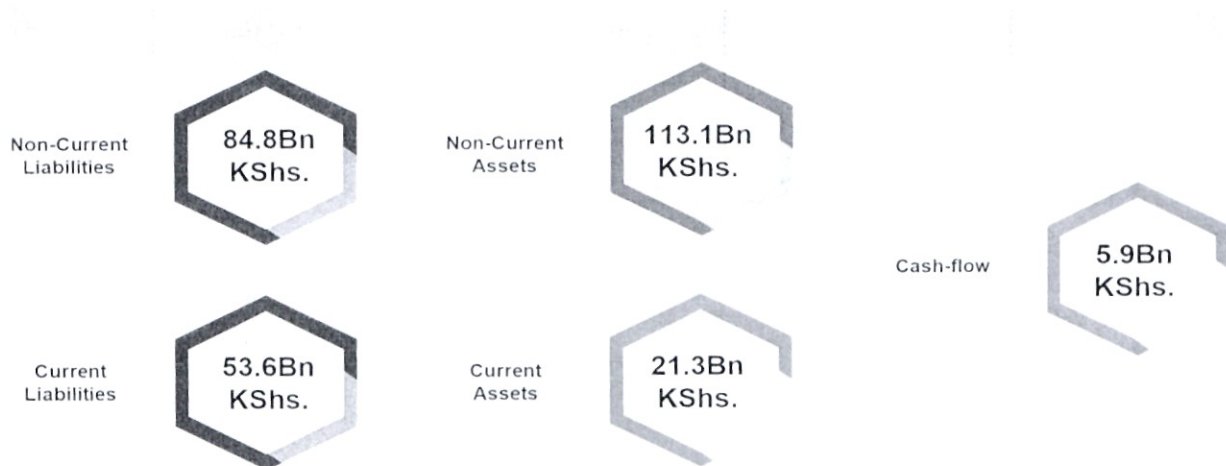
Figure 38. Taxes paid by Kenya Airways



Source: Kenya Airways.

- The graph below illustrates other requested financial data for a period of January – June 2018:






Figure 39. KQ's liabilities, cash flows and assets.



Source: Kenya Airways.

- Finally, the securities breakdown for the EXIM bank and Local banks loans is illustrated in the next figure. The local banks securities breakdown is as follows: \$175mn in the form of working capital and \$50mn as a mandatory convertible note.

Figure 40. KQ's aircraft on Operating Lease and Finance Lease term.

EXIM Bank Securities		Local banks Securities	
 GoK Sovereign Guarantee \$525Mn	 06 Boeing 787-8 aircraft	 GoK Sovereign Guarantee \$225Mn	
 01 Boeing 777-300 aircraft	 01 GEnx Engine		

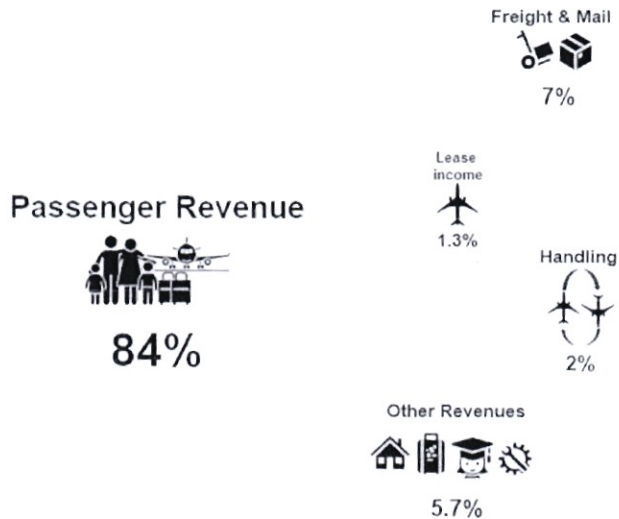
Source: Kenya Airways.



## WHAT IS THE CURRENT AND PROJECTED LEVEL OF KQ REVENUES?

- The total revenue of every airline consists of various sources: passengers revenue, cargo and other services offered to customers.
- Passenger revenue accounts for the lion's share of KQ's revenues. The second biggest category is naturally cargo both the freighter and cargo belly. These two categories are supplemented by a limited scope of services provided mostly at JKIA – ground handling and maintenance.
- The graph below illustrates the structure of revenues based on KQ data:

Figure 41. Structure of KQ revenue.



Source: Kenya Airways.

- The graph below illustrates the actual revenue figures along financial years 2015 – 2017 and H1 2018.

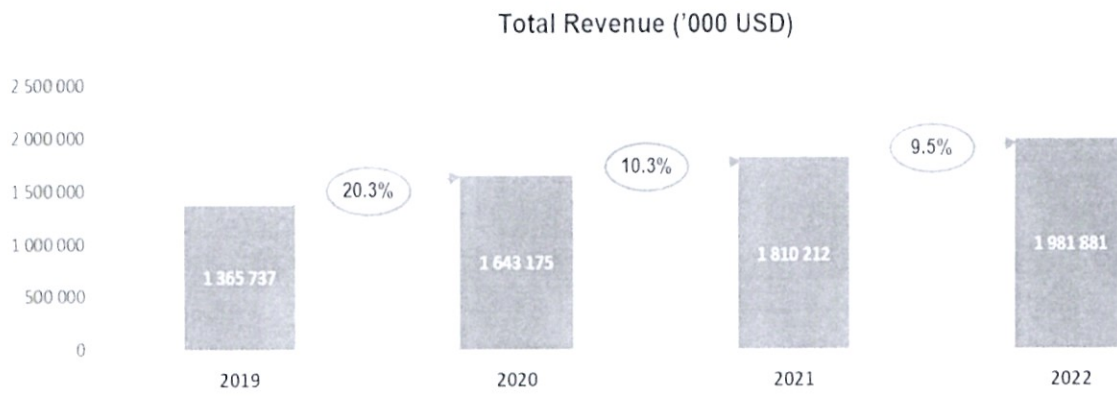
Figure 42. KQ revenue in financial years 2015 – H1 2018.



Source: Kenya Airways.

- Based on strategic goals and drivers identified as crucial for efficient turnaround process, KQ developed a 5-year plan built on realistic assumptions towards revenue increase and costs reduction.
- The key element of the 5-year plan is the new fleet plan and network approach based on airline data and algorithms. The key assumption of this bottom-up analysis is maximisation of revenues and profitability through:
  - Efficient network planning including closure of unprofitable routes, launch of new prospective connections as well as upgrade or downgrade of equipment used to operate flights;
  - Increased network connectivity resulting in growth of number of passengers carried on Kenya Airways flights;
  - Increase of average yield including introduction of new high-coupon value destinations.
- As a result of these actions KQ plans to significantly increase its passenger numbers and consequently revenue levels. The graphs below illustrate this prognosis.

Figure 43. Projected growth of KQ revenue.



Source: Kenya Airways.

Group Managing Director & CEO  
**Sebastian Mikosz**

11<sup>th</sup> April 2019

Your Ref: NA/DCS/TPWH/CORR/2019/029

**Mr. Michael Sialai, EBS**  
Clerk of the National Assembly  
Clerks Chambers, Parliament Building  
**NAIROBI**

Attn: **Serah M. Kioko**

Dear Sir,

**RE: FURTHER RESPONSES TO THE DEPARTMENTAL COMMITTEE ON  
TRANSPORT, PUBLIC WORKS AND HOUSING.**

Following our appearance before the house Departmental Committee on Transport, Public Works and Housing on the 09<sup>th</sup> April 2019 at 1400hrs, Kenya Airways PLC was requested by the committee to furnish them detailed responses on the following areas;

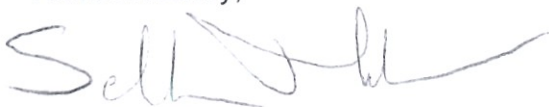
1. The Organizational Structure of Kenya Airways PLC.
2. The detailed Kenya Airways PLC remuneration structure.
3. The annual aircraft leasing costs.
4. Ownership/directorship details of Tsavo and Samburu Limited.

In response to the above, please find attached the same information in the form of a detailed report. The information provided includes;

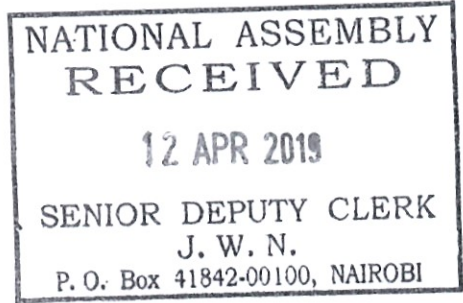
1. Organizational structure of Kenya Airways PLC top management detailing both expatriates and Kenyan staff.
2. Detailed remuneration structure of all Kenya Airways PLC staff and the proportion of the each in respect to the total payroll.
3. The annual aircraft leasing costs.
4. A detailed of the shareholding and directorship (where applicable) of Samburu and Tsavo Limited.

We remain available to respond to any further queries the Departmental Committee may have on any of the above issues.

Yours sincerely,



*Handwritten notes:*  
① Olcan... 8 12107  
② T... Pls deal FA 15/4/19  
③ E... Pls note FA 15/4/19



CNA

225

① Director  
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17/4



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pls deaf

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24/4/19

③ Emerson  
pls note

FA  
24/4/19

**THE COUNTY GOVERNMENT OF UASIN-GISHU**

**MEMORANDUM SUBMITTED TO THE NATIONAL  
ASSEMBLY**

DATED THE.....16<sup>TH</sup>..... DAY OF.....APRIL.....2019.



Dated the.....16<sup>TH</sup>.....day of.....April.....2019 at ELDORET

TO: The Clerk Kenya National Assembly  
Parliament Buildings  
P.O Box 41842 - 00100,  
Tel: (254-2) 2221291 or 2848000  
Fax: (254-2) 2243694  
NAIROBI, KENYA

✓ Hon. Abdullswamad Sharrif Nassir, MP  
Chairperson Public Investments Committee  
The Clerk Kenya National Assembly  
Parliament Buildings  
P.O Box 41842 - 00100,  
Tel: (254-2) 2221291 or 2848000  
Fax: (254-2) 2243694  
NAIROBI, KENYA

RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON  
THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS  
AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)

BY

THE COUNTY GOVERNMENT OF UASIN GISHU

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

*The Constitution of Kenya, 2010* creates a decentralized system of government wherein two of the three arms of government; namely the Legislature and the Executive are devolved to the 47 Political and Administrative Counties as provided for under *Article 6* and specified in the *First Schedule*.

The objects of devolved governments as per *Article 174 of the Constitution* are; to promote democratic and accountable exercise of power; to foster national unity by recognising diversity; to give powers of self-governance to the people and enhance the participation of the people in the exercise of the powers of the State and in making decisions affecting them; to recognise the right of communities to manage their own affairs and to further their development; to protect and promote the interests and rights of minorities and marginalised communities; to promote social and economic development and the provision of proximate, easily accessible services throughout Kenya; to ensure equitable sharing of national and local resources throughout Kenya; to facilitate the decentralization of State organs, their functions and services, from the capital of Kenya; and to enhance checks and balances and the separation of powers.

In exercise of the powers so mentioned and in promoting the objects of devolution; and in response to the call for submission of memoranda on the referenced subject, **The County Government of Uasin Gishu** is greatly inclined to submit. **ELDOR ET INTERNATIONAL AIRPORT** being one of the major airports in Kenya is situated in Uasin Gishu County. Any form of

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

KQ and KAA merger in respect of Jomo Kenyatta International Airport shall surely cascade to this airport within Uasin Gishu County.

WE HEREBY SUBMIT as follows;

1. **THE KENYA AIRWAYS (KQ)** was established in February 1977 following the breakup of the East African Community and the subsequent disbanding of the jointly owned East African Airways. The company was then, owned by the Government of Kenya. It was in 1986 when the government of Kenya made the first of many steps towards privatizing the company and by 1991 the majority of shareholders were private entities.
  
2. **KENYA AIRPORTS AUTHORITY (KAA)** established in 1991 under *KAA Act, Cap 395* of the laws of Kenya, provides facilitative infrastructure for aviation services between Kenya and the outside world. Its main functions are:
  - a) Administer, control and manage aerodromes;
  - b) Provide and maintain facilities necessary for efficient operations of aircrafts;
  - c) Provide rescue and firefighting equipment and services;
  - d) Construct, operate and maintain aerodromes and other related activities;
  - e) Construct or maintain aerodromes on an agency basis on the request of any Government Department;

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

- f) Provide such other amenities or facilities for passengers and other persons making use of the services or facilities provided by the Authority as may appear to the Board necessary or desirable;
- g) Approve the establishment of private airstrips and control of operations thereof.

**3. The County Government wishes to highlight the following issues;**

- 3.1. Sometimes in the year KQ sold off its prime landing slots at London's Heathrow Airport at an estimated sum of \$100 million. The slots were reportedly sold to Oman Air and Emirates. Credible media also reported that the company only pocketed about half the proceeds creating a mystery of how the money was shared amongst its partners. The circumstances of the deal are not clear, however, reliable sources suggest that the change of travel schedule to arrival at Heathrow in the evening due to lack of morning slots. This shall then turn away business travellers who prefer to arrive in the morning;
- 3.2. Reliable sources suggest that KQ has been wet leasing its planes. Oman Air apparently closed a deal for two Boeing 787-8s Planes. The viability of this option is clouded in mystery;
- 3.3. Sources also indicate that KQ leases planes from agents rather than the manufacturers of which the latter would definitely be cost effective;

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

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- 3.4. It also confirmed that the Cargo handling division of KQ, which has won several awards, was sold as part of its 'recovery plan'. This sale was linked to Hon. Raila Odinga and others. Was this sale part of the 'handcheque' deal? Cargo handling and transport is a very lucrative part of any airline;
- 3.5. KQ has suffered irreparably by creating a fuel hedging contractual policy shrouded in mystery. KQ is having contracts with middlemen in the fuel industry instead of buying from renowned dealers who can offer them discounts. Apparently, the move meant to have fuel at constant price is not determined by market forces thereby creating losses when fuel prices go beyond the contractual amount. The international fuel prices keep fluctuating most of the time. KQ fail to benefit when prices drop;
- 3.6. KQ prides itself as one of the airlines that stands out in the African continent even to refer itself as "the Pride of Africa". The company, as stated in its website, has been recognized for its achievement in service delivery by receiving several awards including, Africa's Leading Airline-Business Class in the World Travel Awards 2015, Best Airline in Africa in the World Travel Awards 2016 among others;
- 3.7. The aviation industry in Kenya comprises of several airlines, which are based either locally or internationally. The locally based players are Kenya Airways Limited, Fly540, and East African Airways. Other Kenyan based private airlines operate from

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

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Wilson airport. The internationally based airlines that make the Kenyan aviation industry are British Airways, KLM, Air India, South Africa Airways, Air Arabia, Virgin Atlantic, Qatar Airways, Etihad and Emirates. The rest are mostly private operators. KQ has over the years enjoyed a monopoly in Kenya. Its sustenance by Government shall surely drive other airlines out of the industry, in what they might call Government favoritism;

- 3.8. It is common knowledge that KQ has over the years suffered environmental turbulence, turning it from a profitable giant to a loss-making company. The several causes have been; Travel advisories; political instability; local currency depreciation; competition; staff turnover; epidemic; and technological changes;
- 3.9. The environmental turbulence is not synonymous to KQ as other players are in the industry. The poor managerial decisions employed by the management to curb the challenges have contributed heavily to the airline's downfall;
- 3.10. KQ for some strange reasons entered into a collective bargaining agreement with the pilots allowing them to work about 500 hours flight a year instead of the international standard of about 900 hours flight. With a pilot earning about Ksh.1,600,000 a month, it means KQ shall be losing money worth 400 work hours on each pilot. Its not a wonder that the Pilots Association is encouraging the deal while KAA employees are facing a redundancy sack. KQ does not get full value for the pay they give the pilots;

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

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- 3.11. KQ has posted huge losses consistently over the years. This has resulted in several bailouts by the Government. The 77.3 Billion Bank guarantee by Government in the year 2017 raised the country's commercial debts. Already talks are rife of a new bailout plan over what KQ terms as necessary to clear a debt accrued over 'increased operational costs';
- 3.12. KAA maintains four international airports, five domestic airports and nine airstrips. KAA is able to balance the provision of airport services to all airlines as there is no conflict of interest. If KQ is allowed to manage, things would be different as their intent would be geared towards their profits. The move shall surely drive other airlines out of business. An example of an unfair practice would be to raise landing charges on various airports to the detriment of competing airlines;
- 3.13. KAA is an ISO certified institution. It has also ensured that Kenyan Airports garner prestigious awards, latest being the Jomo Kenyatta International Airport being declared African Airport of the year by STAT Media in the 2019 ACA conference. The timing for a takeover at such a great year for KAA is an insult to each and every civil servant who has worked tirelessly to lift JKIA to its status;
- 3.14. KAA is a profit-making institution, with excess of over 2 Billion each year profit before tax. It would not make economic sense to

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

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have a loss-making company take over a profit-making institution.

The management of the Airports would surely plummet;

3.15. Kenya's commercial debt is already up the roof. The country has faced its economic challenges.

3.16. The Emirates airline runs the Dubai International Airport. It is a documented success which has seen increased traffic, profits and a highlight of the United Arab Emirates as a tourist destination. In as much as this has proven a success, the Emirates which is owned by Government is run to boost Dubai as a tourist destination and not merely to realize profits. Their style suggests that regardless of distance between two points, a stop over at Dubai International airport is part of travel. Further, with her rich oil reserves, UAE can afford to fuel their planes thereby access to many destinations. Kenya and KQ are at a disadvantage on all fronts;

3.17. In as much as Government is a shareholder with most shares in KQ, majority of the shares are shared among private entities. KAA on the other hand is a fully public owned institution. A move to have KAA take over would be a move to enrich private individuals. Public policy must always subsist in all Government decisions and deals;

3.18. Whilst environmental causes and membership to Skyteam might be a cause to the high prices, these challenges are not synonymous to KQ. Their prices are extremely high;

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

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- 3.19. It is common knowledge that the current KAA Chairman is the Group Managing Director of CBA bank. This bank intends to merge with NIC bank putting the total debt owing to the banks by KQ at over Five Billion Shillings. This is a clear conflict of interest. It suggests that the merger plan hell-bent on settling the loan other than the interests of the public.;
- 3.20. Further the Cabinet Secretary for Transport is the immediate former Group Managing Director for NIC bank. Things takes the conflict of interest to a very high level. There cannot be impartiality whatsoever when the leadership in this takeover are one and the same 'person' in the eyes of the law;
- 3.21. The allegations by KQ that tourism shall suffer if the takeover is not ratified is false, unfounded and misguided. The high cost of travel fares to all destinations by KQ is one of the major causes of tourism downfall in Kenya. Tourists prefer other cost-effective airlines;
- 3.22. JKIA accounts for over 80% of the total revenue for KAA. A takeover of this facility shall collapse the operations of KAA in all other airports and facilities. A gain of one airport and a collapse of the rest shall be a big let down to the people of Kenya;
- 3.23. The proposed concession is allegedly for a 20-year period with no exit upon failure of the projected plan. The concession fee is not known and in no way shall it match the 80% revenue collected. KAA was doing an exceptional job. Facilities have improved and

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

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several runway and terminal projects are ongoing. If there is no problem, why fix it?

**4. In consideration of the above, The County Government of Uasin Gishu RECOMMENDS;**

- 4.1. KAA should acquire KQ on its state and thereafter KAA to sell shares to the public for capital injection;
- 4.2. KQ should harness its resources so as to control the environmental turbulence. The key resources are the brand; Kenya as a tourist destination; geographical location; pride centre training facility and advanced technology and planes;
- 4.3. KQ should change strategy. One of the ways is by reviewing their pricing. It is a reality that most Kenyans prefer the Star Alliance team of airlines rather than SkyTeam to which KQ is a member. The latter being prestigious but at a competitive disadvantage. Ethiopian Airlines is a testament to this. The membership to SkyTeam has greatly hindered the reaction of KQ to the marketplace as it always has to consult partners, a problem Emirates cured by not joining any alliance;
- 4.4. KQ should discharge its foreign ownership, especially KLM. They have competing routes and they influence the pricing of KQ to its disadvantage;
- 4.5. KQ should lease or buy aircrafts directly from manufacturers instead of agents of no known reputation;

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

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- 4.6. KQ should look for reputable firms in the leasing business and negotiate the best deals;
- 4.7. The fuel hedging system currently practiced by KQ puts it at the mercy of their contractors. A framework contract over international prevailing prices shall surely settle the fuel issue. A solution can be to buy fuel from reputable international firms, especially those who mine oil, instead of retailers;
- 4.8. As a key stakeholder, public participation on the issue should be carried out with full involvement of all Counties, starting with the submitter herein;
- 4.9. With the current poor managerial decisions from KQ, JKIA shall surely run down on its watch;
- 4.10. The concession deal should be made public as it directly involves the investments of the citizens of Kenya. The current 2.9 Billion concession fee cannot enable KAA run the remaining airports. It is below what KAA gets from JKIAIt would defeat a merger;
- 4.11. The biggest question the National Assembly should as is 'Why?'. Currently one entity is on the verge of collapse. We might have two by the time a concession starts. The risks are insurmountable, perhaps more than the capital injection and bail out the Government has already done;
- 4.12. KQ step to initiate the take over is suspect. The shadowy figures behind the leasing of the aircrafts want to destroy JKIA;

**RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)**

4.13. KQ should employ competent people who can adapt to the challenges and make KQ profitable again.

**5. HEREOFRE the County Government of Uasin Gishu submits that the National Assembly should;**

- a) Immediately halt any acquisition, takeover, merger or airport management of any nature by the said Kenya Airways;
- b) Invoke *Article 226 of the Constitution* and conduct or order a forensic audit on the state and affairs of Kenya Airways in respect of grants and bailouts extended by the Government;
- c) Conduct an audit on the management and leadership of Kenya Airways in an effort to ascertain their suitability for their positions at Kenya Airways;
- d) Carry out an assessment of all airports in Kenya to determine any need for change of its overall management;
- e) Establish the genesis of the takeover and legal framework leading to the intended merger;
- f) Invoke the provisions of *Article 35 of the Constitution* and publish all the authorizations, agreements and information culminating in the arbitrary decision for takeover of KAA by Kenya Airways;
- g) Ensure public participation is carried out in conformity with *The Constitution*, with involvement of all counties;
- h) Duly and diligently respond to the matters raised in this memorandum;

RE: SUBMISSION OF MEMORANDUM TO THE NATIONAL ASSEMBLY ON THE TAKEOVER OF AIRPORT MANAGEMENT FROM KENYA AIRPORTS AUTHORITY (KAA) BY KENYA AIRWAYS(KQ)

- i) Investigate, make inquiries and examine the issues raised herein;
- j) Exercise National Assembly's authority to give directions to produce evidence, both oral and written and to answer, act and co-operate with such investigation to such persons and entities as the House shall think fit;
- k) Establish committees and/or tribunals and engage such professionals to conduct forensic and other investigations as the House shall think fit ;
- l) Undertake a countrywide process of seeking views from the public with regard to the subject matters;
- m) Liaise with national agencies in order to accomplish a full and detailed inquiry into these matters; and
- n) To do all and anything necessary permitted under the law and Constitution of the Republic of Kenya to establish and enforce the law with regard to the takeover.

Submission Dated this .....<sup>16<sup>th</sup></sup>.....day of April.....2019 at ELDORET

For and on Behalf of the People of Uasin Gishu County and the County Government of Uasin Gishu;

His Excellency The Deputy Governor Daniel Kiplagat Kiprotich

I.D. No. ....4911481.....

P.O Box 40-30100,

Eldoret, KENYA

Signature: .....



**Kenya Airports Authority**

Head Office, Airport North Road  
P.O. Box 19001 - 00501 Nairobi, Kenya  
Tel: +254 - 020 - 822111 / 6611000 / 6612000  
Fax: +254 - 020 - 822078, 827304  
Email: info@kaa.go.ke  
www.kaa.go.ke

**KAA/MD/GC/ VOL. 3. (31)**

**25<sup>th</sup> April, 2019**

**Hon. Pkosing David Losiakou**

Chairperson

Department Committee on Transport, Public Works and Housing

Parliament Building

P.O. Box 41842 - 00100

**NAIROBI**

Dear

*Hon. Losiakou,*

**RE: CONCEPTUAL FRAMEWORK FOR RESTRUCTURING AND  
REPOSITIONING KENYA'S AVIATION SECTOR**

On 10<sup>th</sup> April, 2019 Kenya Airports Authority appeared before the Parliamentary Department Committee on Transport, Public Works and Housing. One of the outcomes was a directive to present a conceptual framework for restructuring and repositioning Kenya's aviation sector.

We submit herewith our proposal as directed. We have shared the proposal with the Cabinet Secretary, Ministry of Transport, Infrastructure, Housing and Urban Development.

Yours

*Sincerely,  
Jonny Andersen*

**JONNY ANDERSEN  
MANAGING DIRECTOR/CEO**

(Encl)

Cc: **Mr. James Macharia, EGH**

Cabinet Secretary

Ministry of Transport, Infrastructure, Housing and Urban Development

P.O. Box 52692-00200

**NAIROBI**

**Ms. Esther Koimett, CBS**

Principal Secretary

State Department of Transport

Ministry of Transport, Infrastructure, Housing and Urban Development

P.O. Box 52692-00200

**NAIROBI**

Mr. Isaac Awuondo

Chairman, Board of Directors

**Kenya Airports Authority**

*Delgort  
25/04/2019*

**CONCEPTUAL FRAMEWORK FOR RESTRUCTURING AND REPOSITIONING  
KENYA'S AVIATION SECTOR**

**APRIL, 2019**

## 1.0 BACKGROUND

Despite registering reasonable year on year growth for the past decade, the aviation sector in Kenya has witnessed a steady decline in its regional and international competitiveness. This decline is evidenced by the rapid loss of JKIA's market share and declining operational performance by the national carrier Kenya Airways contributing to lower connectivity and efficiency levels.

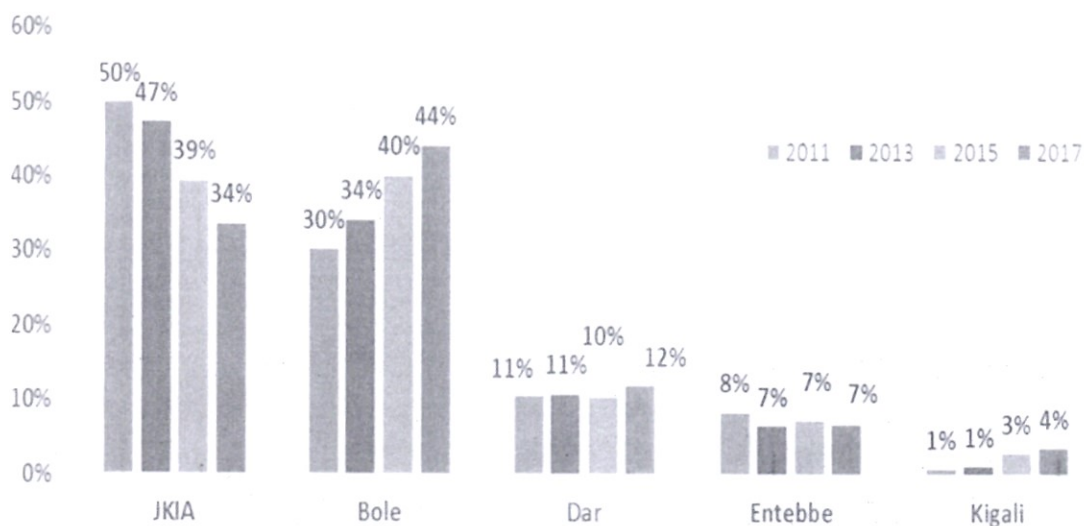
With a view to repositioning the aviation sector and enhancing its overall contribution to the national economy, the State Department of Transport under the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works has prepared this Conceptual Framework for restructuring of the sector for consideration by the National Assembly's Departmental Committee on Transport Public Works and Housing as part of its inquiry into the aviation industry.

## 2.0 STRATEGIC RATIONALE FOR RESTRUCTURING

The strategic rationale for restructuring of the aviation sector is to consolidate and optimize on the performance of the country's key aviation assets in order to realize significant operational efficiencies and synergies, to restore the aviation sector's regional and international competitiveness and ultimately to protect JKIA's regional hub status.

The urgency for restructuring the country's aviation sector is underscored by the fact that despite East Africa's national airports registering capacity growth measured by Available Seat Kilometers (ASK) of nearly 41% between 2013 and 2017, JKIA's market share has been declining steadily from a high of 47% to 34% as shown in the following chart.

Figure 1: Aircraft Seat Kilometers development East African Market 2011 - 2017 (Shares %)



### 3.0 AVIATION SECTOR OVERVIEW

The State Department of Transport under the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works is responsible for providing policy direction for all aviation sector activities in the country. In discharging this mandate, the Department is assisted by Kenya Civil Aviation Authority, the industry regulator and provider of air navigation services and Kenya Airports Authority, the entity mandated to develop and manage all public airport and airstrip facilities. On the commercial side, the sector is represented by Kenya Airways, the national carrier, various local and international airlines, ground handling companies and other private owned aviation business.

The Government has a 49% shareholding in Kenya Airways. While this shareholding level legally means that Kenya Airways is a private company, the absolute public exposure extends beyond the legal shareholding to include the US\$ 750 million (Shs 75 billion) of sovereign guarantees extended to Kenya Airways Lenders as part of the recent financial restructuring. In substance, therefore, Kenya Airways is more public than private.

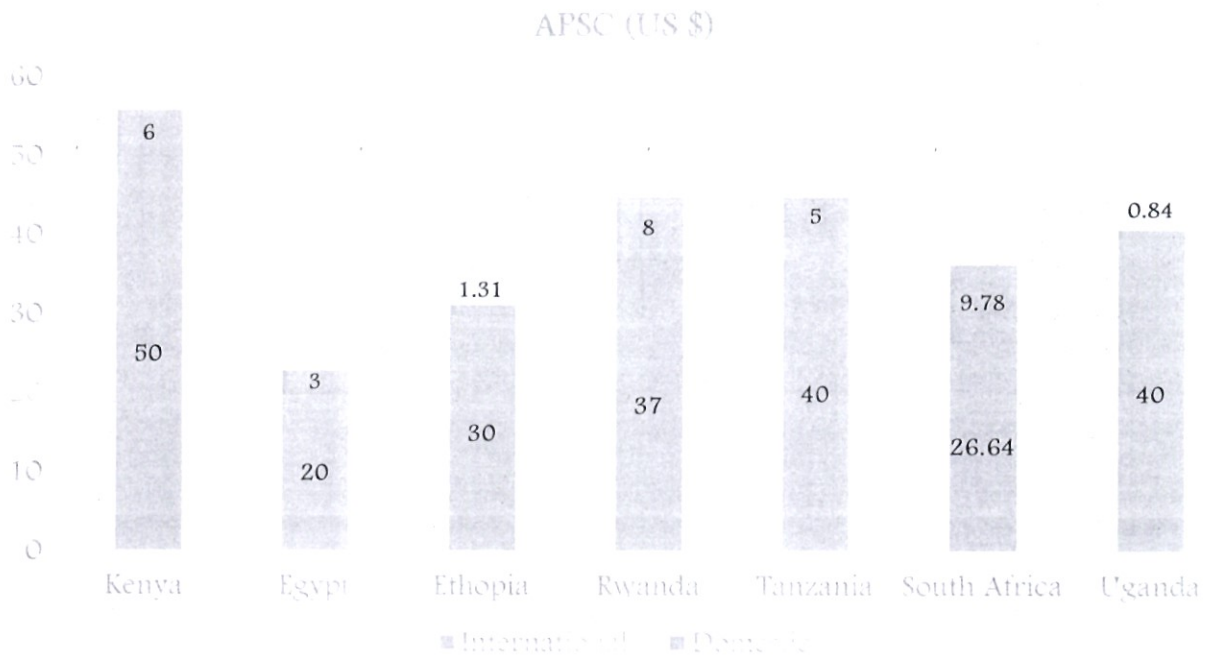
Kenya Airways accounts for over 40% of KAA's business and revenues thereby ranking as the largest customer. As at 31<sup>st</sup> March, 2019, Kenya Airways owed KAA in excess of Shs 5.54 billion in relation to unpaid Air Passenger Service Charge, landing fees, rent and other charges. The debt level notwithstanding, the significant business transacted between Kenya Airways and KAA underscores the strong symbiotic relationship existing and the significant prospects for value generation between the two institutions through closer collaboration and alignment of business objectives.

Currently, the aviation sector contributes to between 2-3% of the country's GDP. By comparison, this contribution is well below the 6-7% that the aviation sector in Ethiopia is currently contributing to the country's GDP. While the comparatively low contribution can be attributed to Kenya Airways' operational and financial decline over the past decade or so, a number of other factors have contributed to the sub-optimal performance of the sector. In particular, the inability by KAA to diversify and grow its non-aeronautical revenue base due to delays in updating the 1996 Concession Order and inefficiencies in the public procurement processes are impediments that have compromised growth and efficiency in the aviation sector.

¶ Under the existing arrangements, Air Passenger Service Charge (APSC) which accounts for 80% of aeronautical revenues is administratively collected by the Kenya Revenue Authority and then shared out 60% to KAA, 20% to Kenya Civil Aviation Authority and 20% to the Tourism Promotion Fund. APSC for international passengers is charged at US\$ 50 per every departing passenger making Kenya relatively expensive from an aviation charges perspective as shown in the following chart (Figure 2: Aeronautical Passenger Charges on the African market).

The revenue collection arrangements involving multiple non-aviation beneficiaries have not only contributed to the aviation sector's decline in regional competitiveness but, importantly, deprive the sector of the resources needed to invest in infrastructure and service improvements.

Figure 2: Aeronautical Passenger Charges on the African market - Air Passenger Service Charge (APSC)

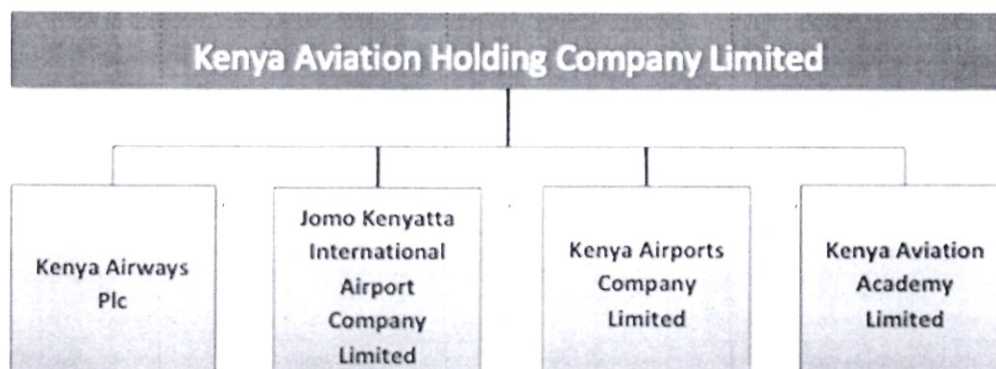


The proposed restructuring of the aviation sector will aim to address these and other structural challenges.

#### 4.0 HOLDING COMPANY STRUCTURE

Based on strategic and efficiency considerations, the State Department of Transport proposes the Holding Company Structure under which the main aviation assets will be brought under one roof to allow for better coordination and control. Under this structure, separate entities for the main businesses will operate as subsidiaries. This structure, which is graphically represented below (Figure 3: Indicative Organization Structure) is informed mainly by the need for consolidation of the country's aviation sector assets in order to leverage on the balance sheet value of the assets and to optimize on their performance.

Figure 3. Indicative Organization Structure



The above structure best aligns with Government's ultimate objective of consolidation in the aviation sector and with the strategies of Kenya's competitors (Ethiopia, Rwanda, Turkey and the Emirates). Under this structure, KAA, KQ and JKIA assets are held under a new holding company – Kenya Aviation Holding Company Limited (KAHCL) which is fully owned by the Government. KAHCL will initially have four (4) separate operating entities Kenya Airways, Jomo Kenyatta International Airport Company, Kenya Airports Company (for the rest of the airports) and Kenya Aviation Academy Limited. The structure provides flexibility for the Government to consider inviting different investors into the different entities to provide either additional capital or technical capacity.

In addition to benefits arising from coordinated planning for optimization of aviation sector assets, the above structure is expected to lead to the creation of an aviation company with an asset base close to Shs 1.5 trillion which will provide significant leveraging opportunities to support the financing of investments both in terms of fleet expansion and infrastructure development. The structure will also allow KAA to focus on improving the financial and operational performance of the facilities under its mandate without being subsidized by JKIA as is currently the case.

#### **Kenya Aviation Holding Company Limited**

The Holding Company will provide the desired overall strategic direction for all the aviation assets, leveraging their synergies, allocating resources including, human resources and cash flows so as to stabilise the operating entities and drive productivity and efficiencies across the group. The Holding Company will also consider establishing other aviation subsidiaries in the future e.g. a Maintenance Repairs and Operations (MRO) Centre for Africa.

#### **Kenya Airports Company Limited**

KACL will be responsible for development and management of all airports and airstrips excluding JKIA. By being part of the KAHCL, KACL will not cannibalised and not left without resources for the other aerodromes as the holding company will be under obligation to fund all entities.

A restructuring of KACL operations will be necessary in order to drive operational efficiencies and improve diversification of revenues.

### **Kenya Airways (KQ)**

KQ will focus on operating the national airline and Jambojet, the low cost carrier and will have access to JKIA cash flows through KAHCL as well as government funding at concessional rates. The KAHCL Board will provide the joint management oversight on all airports in Kenya and Kenya Airways to ensure that the two businesses are aligned.

KQ's role will be to grow the aviation network and expand the domestic, regional and long haul network out of JKIA. In particular, Jambojet, Kenya Airway's low cost carrier will be encouraged to provide traffic to support the growth and utilization of KAA's airport facilities especially those which are currently under-utilised.

In order to fully secure the intended benefits, it will be necessary to restructure KQ's balance sheet, its commercial relationships, fleet and its cost base as well as expansion of its network.

### **Jomo Kenyatta International Airport Company Limited**

A new management and governance structure for JKIA will be required. This may entail transfer of existing JKIA staff to the new entity, transfer of certain KAA's Head Office staff along with appointment of Independent Directors.

A restructuring of JKIA's operations will be necessary in order to drive business expansion, secure operational efficiencies and improve diversification of non-aeronautical revenues.

### **Kenya Aviation Academy Limited**

This entity is to be formed by bringing together the existing training schools and academies operated by Kenya Airways (Pride Centre), KCAA (East African School of Aviation) and KAA (Training Academy) into a separate subsidiary – Kenya Aviation Academy with the objective of harnessing economies and scale and ultimately creating a regional center of excellence in aviation training.

## **5.0 IMPLEMENTATION ROAD MAP**

The Holding Company structure is relatively easier to execute as it is not constrained by the very rigid framework of the Public Private Partnerships Act. Also, as part of the evaluation process for KQ's privately initiated investment proposal, considerable detailed due diligence has already been conducted on KAA and KQ making it possible to proceed to the execution phase.

Based on these considerations, the following high-level road map for implementing this structuring option is possible:

**Step 1** – hive out the JKIA assets as detailed above and place them into a 100% owned subsidiary of KAA.

**Step 2:** valuation of JKIA subsidiary based on projected future cash flows and assets position;

**Step 3** – create Kenya Aviation Holding Company Limited – 100% owned by GoK and also create the Kenya Aviation Academy Limited to be wholly owned by KAHCL.

**Step 4** – transfer shares in KAA (the sole owner of the JKIA assets) to the Holdco in return for KAA shares in the Holdco.

**Step 5** – GoK buys out Banks, KLM and the Public in KQ, delists KQ and transfers KQ to the Holdco in return for KQ shares in the Holdco.

## 6.0 CRITICAL SUCCESS FACTORS

Successful implementation of the above structure and the overall restructuring plan for the aviation sector is predicated on a number of critical success factors foremost of which are:

- (i) Delisting of Kenya Airways from the three East African stock exchanges where it is currently listed;
- (ii) Acquisition by GOK of the shares in Kenya Airways currently held by private entities (KLM, KQ Lenders and minority shareholders) thereby effectively nationalizing the airline;
- (iii) Enactment of various statutes in order to create the new aviation entities proposed under the holding company structure and amendment of the existing statutes, in particular, the KAA Act and the State Corporations Act in order to align with the restructuring objectives;
- (iv) Determination of the funding implications to GOK of implementing the structure and provision of requisite budget allocations;
- (v) Review and amendment of the Concession Order 1996 to provide for a basis for charging of market based prices for services offered by JKIA and KAA. The amendment should also provide for a mechanism for automatic reviews at shorter intervals of between 3 and 5 years;
- (vi) Review of the APSC Act to allocate the APSC revenues to the Holding Company and reconsideration of KRA's role in collecting the charge;
- (vii) Exemption of Kenya Airways from paying Railway Development Levy and Import Declaration Fees on aircraft and aircraft parts; and
- (viii) Exemption from paying capital gains tax, stamp duty and other taxes that may arise in the course of implementing the restructuring proposal; and
- (ix) Proactive management of the key stakeholders including public participation in line with constitutional requirements.

## 7.0 RECOMMENDATION

The Ministry of Transport, Infrastructure, Housing, Urban Development & Public Works, State Department of Transport recommends to the Departmental Committee on Transport, Public Works and Housing to consider and support the above conceptual framework for restructuring of the aviation sector.

The State Department of Transport will work closely with the National Treasury, State Law Office, State Corporations Advisory Committee and other relevant parties in to implement the proposed restructuring as guided by Parliament and other relevant stakeholders.

③ Emerson  
pls note  
FA 24/4/19

② Tunca  
pls deal  
FA 24/4/19

① Dlant  
24/4/19

The part-privatization of the Kenya Airports Authority.

As the GOK continues with our work of parastatals reforms, we would, as the local sections' professionals of the chartered Institute of Logistics and Transport [CILT-K], we would like you to pay some special attention to the above mentioned subject and act accordingly with speed.

The government in its 2016/2017 National Budget said that it is carrying out various changes and its also downsizing. The planners see Airports in particular relying more on their own ability to raise money, instead of interfering with the already contained National Budget. Therefore the privatization commission is advised to establish an advisory committee to examine the pros and cons of the issue. Simply selling the airports to the highest bidder and hopping for the best is not a viable proposal; the committee's focus should be narrowed to Management privatization- the last bastion of state control. This will improve efficiency across the board. Retaining public ownership but introducing management expertise.

Time and money could be saved if professionals and private objectors combined resources, that heavily technical advice be left to professionals to fight over and which would be best hammered out around the table with the inspector adjudication and that some may be found to reduce the need for costly barrister (counsel) representation.

The Government will continue to re-organize (restructure) the department of Transport under the Ministry of Transport and Infrastructure which now is also responsible for Housing and Urban Development and Maritime and International Trade Affairs! NTSA Act should be reviewed in order to enable NTSA manage the broad transport related policy issues efficiently and effectively.

The transport sector should continue forming part of the current wider government macro-economic strategy.

To avoid a financial bondage KAA has to be partly privatized in order to attract the much needed funds. Policy markers involved should be made aware and fully understand the usefulness of the private sector's participation since, anyway, donor community funds are increasingly becoming scarce and we will have to rely on Direct Foreign Investors Funds in such a way that Kenyan interests will be protected to make ends meet.

The New Aviation Policy in the NIPT 2012 paper allows for the review of KAA Act and is in accordance with the aims and objectives of ICAO, contained in Article 44 of the convention as concerns matters of Airport planning and pre-development in Kenya. The proposal to privatize KAA should be sent to the Budget and Appropriation committee of the Parliament by February 2017.

The implementation of the new Aviation policy requires the acquisition of Aviation laws and regulations. The reviewed KAA's Act and those remaining bits of the Kenya Civil Aviation Act

THE NATIONAL ASSEMBLY  
RECEIVED  
20 APR 2019  
DIRECTOR COMMITTEE SERVICES  
Time:.....

RECEIVED  
3 APR 2019  
CLERK'S OFFICE

cap 394 should state categorically that “there should be no general justification for subsidizing airports and air services” so as to create truly autonomous corporations which will operate strictly on commercial principles and publish their performance records with conventional annual accounts. They will undertake their own fund- raising and use the surpluses earned from profitable Airports for amortization of major buildings and concrete areas over their useful lives and subsidize losses at the smaller centers and Airstrips. KAA will also be free to diversify to non-aeronautical (commercial services) areas such as cargo handling, developing hotels , shops, catering, buying of shares in airports in the Comesa region and in property development companies . KAA should invest in solar and wind energy to light up its operations and cut on the huge electricity cost. This will be in conformity with ICAO’s policy guidelines and trends in Airport management internationally. For the matter of training, KAA will have to ask for a Technical Assistance Support programme from ICAO so as to start BSC and MSC in Airport planning and Management degree courses in a collaborative arrangement with the local university and the Chartered institute of Logistics and Transport (CILT) Kenya

Kenya should call upon the ICAO’S council, where we have our representatives serving, to act as an arbiter, on its behalf, to take the appropriate steps to maintain regularity In the development of airports in Kenya. There is need to strengthen ICAO’S Nairobi Regional Office for East and Southern Africa so that member countries , who pay a lot of money in terms of membership fees annually can enjoy more equitable flights as pertains to matters of traffic rights as expressed recently by the Head of ICAO in the region. An Association of Airports’ Authority in the region should also be formed quickly. This has the advantage of negotiating traffic rights, just as Kenya is about to enter into an ‘open skies’ policy (agreement) with the USA and is reforming its Aviation sector before full liberalization.

Kenya should however take care and prevent “Gulliver from escaping from Lilliput” because it is a fact that the U.S have really never opened their market. The Open Skies policy only applies to flights between the U.S itself and not other countries. Foreign countries do not have access to the domestic American market. It seems that while the U.S is keen for the EU and other counties and regions to open their international air routes to all countries, it is less willing to reciprocate. While the USA has control mechanisms in place to ensure competition (among American carriers) in its domestic market- it is hesitant about incorporating the same elements into international aviation agreements Direct flight connection is very important to Kenya but each flight ought to make one stop at one of our major airports but not two or three landings; otherwise Kenya Airways has to be allowed to do the same. Commercial freedom is desirable but airlines should not be able to use that freedom to eliminate competition and make Laissez Faire to be unfair

KCAA will have to cater for regulatory roles being carried out by the Civil Aviation Board properly. With the demise of the Warsaw Convention, the carriage by Air Act should be reviewed to reflect modern realities

KAA'S Directors should call a special Annual meeting to discuss issues of the Parastatal's part-privatization with the Chairman of Aeroports de Paris (ADP), the French giant in Airports consultancy and on the Chairman of the British Airports Authority (B A.A) and representatives from the privatization commission.

The consultants will then start their work by comparing how the Authority's management structure, safety, Human Resource Management, Planning, Productivity, Maintenance, Financial Management, Marketing, Airport Information System (AIS), and security companies with other airports in the world

A credit-rating agency will be then called to prepare K A A's shares to be quoted on the National Stock Exchange (NSE). The fundamental arguments are reasonably attractive, and there is a tremendous scarcity of Airports equity- that in itself makes any airport which comes to the market attractive. Airports offer low risk access to a high growth industry, which in turn equates to stability of earnings. Because of the diversification of the revenue stream and the number of airlines operating internationally, airports have seen very consistent passenger growth and revenue lines over time-especially when compared to the highly more volatile airlines industry. Also, the transition from public to private sector offers a considerable opportunity to reduce the cost base and improve efficiency and productivity

The world bank through the International Finance corporation, its lending arm, and the European Investment Bank can also be relied on as far as funding matters are concerned since they presently greatly support airports privatizations globally and we may as well contact them now (that is right from the outset and onset of the project) 7

Act on this matter urgently and please let me know your response in your feed-backs sooner rather than later.

Yours sincerely,

HM. Mlamba, for CILT Kenya. September 2016

[www.cilt-international.com](http://www.cilt-international.com)

Aviation Policy Pressure Group

E-mail:- mlambaharrison@yahoo.com

- Logistics and Transport Activism
- Analytic and commentator

Main Parliament Buildings, 1st Floor  
P.O. Box 41842 - 00100  
NAIROBI  
Tel: 254- 020-2848300

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**From:** "Tony Kajiita" <anthony.kajiita@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 10:52:07 AM  
**Subject:** Kq/KAA takeover

KQ cannot manage JKIA instead they will fail the entire aviation ad Kenya will be at difficult moment. My view is that they shld be nationalised to b fully owned by government and the deal between KLM shld b analyzed ad if possible stopped coz that a foreign entity which shld not b around to manage our airline. The PPP will not work since Kq is owned by several parties that point of conflict from different parties which will eventually affect the management of this process that affecting the employees ad the entire aviation. We are 100% sure there is party behind this move ad if this goes through Kenya will have great difficulties in aviation that affecting tourisms ad economy of the entire nation due to individual interest. The government should help Kq but not by killing the profit generating company ad affecting the employees in aviation sector.



Office of the Clerk of the National Assembly  
Main Parliament Buildings, 1st Floor  
P.O. Box 41842 - 00100  
NAIROBI  
Tel: 254- 020-2848300

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**From:** "joyce kebati" <biyangajoyce@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 11:54:55 AM  
**Subject:** KENYA AIRWAYS (kq) Kenya airports authority proposal

Hi sir,

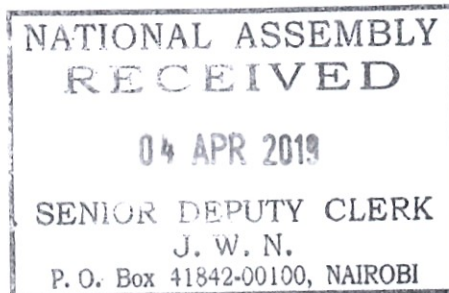
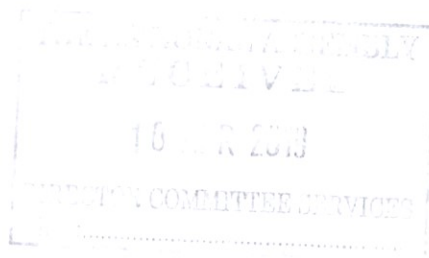
The proposal of Kenya airways (KQ) privately initiated investment (PIIP) proposal to Kenya airports authority (KAA) is not making sense at all.it sounds more of SCAM ,We can.t sit down and watch people continue looting our country.This is a conflict of interest from a group of individuals.

How can a profit making public company get managed by a loss making private company?This is like a tenant managing landlord properties.

Who exactly owns this aircraft's of kq?

How is kq going to make to pay all its billion of debts to the banks and the billions of money not paid to KAA and still manage and develop KAA.

Are this selfish individuals care about people loosing jobs.Our country needs revival,We are perishing on the hands of few individuals.



Office of the Clerk of the National Assembly  
Main Parliament Buildings, 1st Floor  
P.O. Box 41842 - 00100  
NAIROBI  
Tel: 254- 020-2848300

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**From:** "Edward Gitonga" <edwardgitonga88@yahoo.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 3:08:08 PM  
**Subject:** Submission on Kq piip to kaa

This deal has no public for value for money or government to gain any upwards return on the whole transaction.

The public, stakeholders and even kq other shareholders have not given an input on it since the document piip proposal is not accessible.

Kaa is a public entity and open door policy should be embraced especially where terms and conditions of service are to be affected but nothing have been done as astep forward on this front. This deal may lead to to jobs losses which is against government policy on job creation so should be resisted.

Sent from Yahoo Mail on Android

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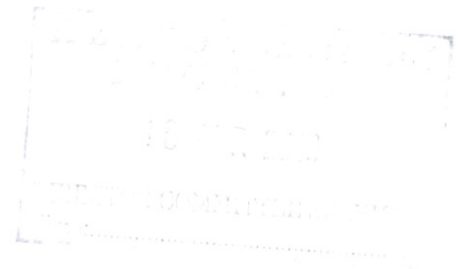
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**From:** "everlyne khayega" <mwanjeve0000@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 2:03:33 PM  
**Subject:** Public participation

say a big NO NO NO FOR THE MERGER.  
Everlyne



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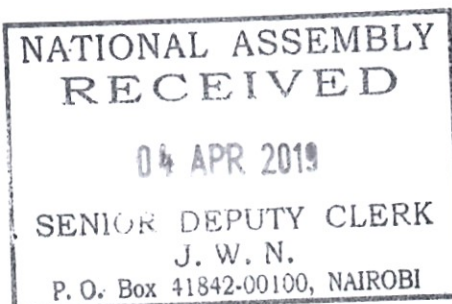
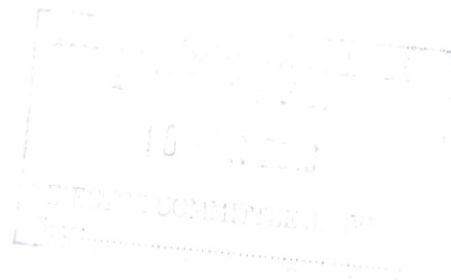
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**From:** "Debrah Kemunto" <debrahk2000@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 2:01:36 PM

say a big NO NO NO FOR THE MERGER.

Let the government make kq a state company then they merge.  
Debrah



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**From:** "Jared Mosota" <jaredmosota1982@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 1:56:59 PM  
**Subject:** PUBLIC PARTICIPATION.

The point I raise is fairly simple.....why should KQ which is a private company takeover a public company for ZERO consideration?

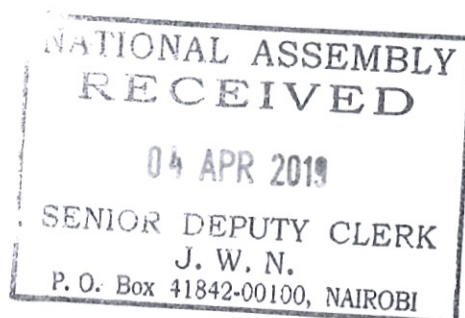
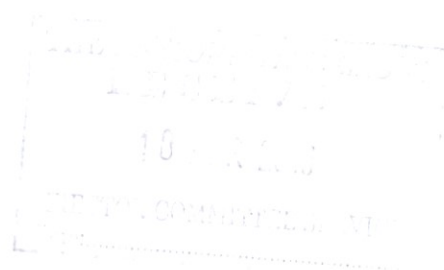
A tenant writing a proposal to the landlord to take the whole estate after defaulting to pay rent for some month...!!!

How can loss making company take over a profit making company.

I say a big NO NO NO FOR THE MERGER.

Let the government make kq a state company then they merge.

Jared Mosota



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**From:** "Walter Mocha" <waltermocha@yahoo.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 8:36:53 PM  
**Subject:** OPPOSING MEMORANDA KQ JKIA TAKE OVER FROM KAA

Why as a Departmental Committee On Transport, Public Works And Housing you're in receipt of the proposal from KQ yet you don't want to make it public so as interested parties can scrutinize it before sending any memoranda.

The shall be massive job losses not only to KAA Employees but other operators who have invested heavily at JKIA if the deal goes through based on the Kenya Airports Authority Concession Order, 1996. Whereby in the proposal KQ wants to consolidate all the businesses at JKIA through SPV.

KQ, Which is in Sh230 billion red, has pegged its survival on operating JKIA for 30 yr's under the Privately Initiated Investment Proposal {PIIP}. KPMG, KAA's transaction adviser in the deal, pointed out gaps in KQ's proposal. At the current levels KQ will be unable to fund the PIIP. Take note of that report seriously.

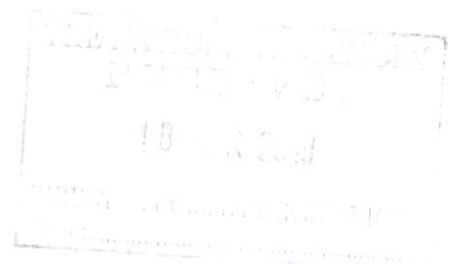
The Auditor General has raised queries of the take over. Take note seriously of the recommendations and actions

KQ is a private company that seeks to benefit from a public asset. Why should a public asset benefit private individuals through SPV?

Seabury recommended the renegotiation or nullification of the Joint Venture Agreement between KQ and KLM/Air France. What happened?

By putting the one-bag policy in all African Route Network has decimated KQ's Market Share, and benefitted Ethiopian and other Airlines serving the same African Airports. KQ is aware of this, but are doing nothing about it. Why

The ultimate shot in the foot, came from Michael Joseph who has insisted on pursuing the order for the Boeing 737-8 MAX, in spite of the two fatal crashes affecting the aircraft. Why



KQ is afflicted with managerial problems that ought to be solved first.

This imported Polish "Consultants" are being paid double what other KQ employees are paid, for doing absolutely nothing. And there are 18 expatriates in total, all holding managerial posts. Why yet we have able Kenyans?

Before any engagement the Leasing of the aircrafts shall be disclosed and reviewed so as as Kenyans we can understand if it's valuable to KQ compared to international rates.

The cost of fuel shall be zero rated

The airlines KQ is bench marking with are all owned by the state.

The ownership of the SPV shall be revealed to the public

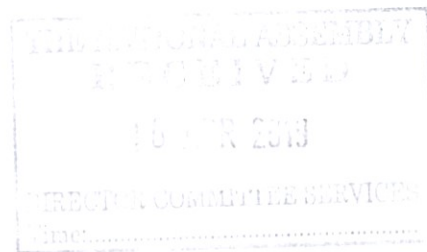
By, WALTER MOCHA ONGERI

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**From:** "raymond muthomi" <raymondmuthomi@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 8:02:25 PM  
**Subject:** Kaa kq merger

It has been years and years of kq loss making and the government decided to cover and erase the foot prints of thieves who rooted kq to it's knees . this is the same thing happening now , a bailout that can never work. There is no where in the world where a loss making private entity can take over a profit making government entity owned by the public and claim to develop it .  
I categorically oppose the move.



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**From:** "Edwin Mengo" <litiemaeddy28@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 9:39:01 PM  
**Subject:** KQ/KAA MERGER

Its with resounding No to such idea.KQ has been making losses even after the Government gave them some billions to come back to profitability BUT they never registered a single profit.KQ doesn't pay any levies to KAA for the passed 4 years yet they still make losses.KQ is privately owned and KAA is a public property why give to individuals with personal gains..HOW does WANJIKU benefit from it.?KLM owns shares in KQ And it has VITO POWER over every decision in KQ so why would we allow them to get profits from a Kenyan owned property like KAA? We have many countries that do Not have flag carriers and they are doing well in aviation industry we should Not allow people whose minds are set on stealing from Kenyans in the name of Flag carriers and economy theories ..No To KQ/KAA MERGER.



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O/Cmtt  
8  
9/14

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**From:** "Desmond Kiprotich" <kiprotichdesmond@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Monday, April 1, 2019 2:40:11 PM  
**Subject:** KAA-KQ merger

Hello,  
Regarding to the proposed PIIP my opinion is that KQ is not capable in managing JKIA as the they can't manage themselves unless KAA manages them.  
If you want to kill aviation industry in Kenya try that move.  
Let KQ be managed by KAA. No way the sick attends the healthy ones.

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*Director*  
*S*  
*9/4*

**From:** "Roy Kinyanjui" <royaskin@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 11:38:59 AM  
**Subject:** RE: Views on proposal to introduce a P.P.P. for the Operations, Management and Development of J.K.I.A

Dear sirs,  
Following your advertisement for views on the above matter, I Roy Kinyanjui Id. 14543030 state that as one of the very few if not the only performing parastatal, the Kenya Airports Authority should be allowed to continue running the operations, management and development of J.K.I.A. as they have always successfully done.  
The proposed P.P.P. should thus be abandoned forthwith as it does not have the interest and farewell of K.A.A. employees at heart.  
Yours Faithfully,  
Roy Kinyanjui.

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**From:** "Jane Gichia" <Jane.Gichia@kaa.go.ke>  
**To:** Clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 8:17:15 AM  
**Subject:** PROPOSED PARTNERSHIP BETWEEN KQ AND KAA

I totally disagree with this how can a loss making company take over a profit making company. Let KQ first solve their problems.



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**From:** "Ebu Loter" <lottanteri99@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 8:50:38 AM  
**Subject:** OBJECTION ON THE PROPOSED JKIA TAKEOVER

I Ebu a resident of Turkana County do here oppose and object the JKIA takeover by a loss making KQ

- 1.KQ is a private entity thats comprising of 47% Govt share,the government just sits in any of kq meetings like any other shareholder
- 2.KQ revival cant be just manipulated to look like its tied to jkia takeover,kq must seek otherways to untie its selve from 230B it owes the debtors
- 3.We as poor kenyans bailed out kq a private business in the name of Flag carrier with Ksh75B which subjected even the poor to heavy taxation,when in Turkana how is this investor related to me?
- 4.Kaa was enacted by act of parliament and its roles are clearly indicated,so there is no way you give out its roles into private hands
- 5.jkia is one of the biggest profitable public installation how we give it to foreign investors,like in bailing out of kq at 75B did KLM contributed anything to bail itself out?
- 6.The ability of kQ to operate jomo is not feasible why because its insolvent,thats why its turning loans into equity
- 7.There is a facts sheet that was given to KAA employees siting how thwy will lose their jobs,how do just two foreigners stage manage the lose of jobs by Kenyans while they have been there for over ten years and above?,infact they signed a permanent and pensionable job,remember this Country is ours afew sent foreigners cant come to claim jobs for them to take our hard earned money to their countries
- 8.The government sited that they are going to privatize loss making companies like sugar companies,now where does jkia come in here?,its simple like this let the government buy kq fully and pay debtors then we find our own to turn around its services,tujiamini bana

Uhuru tunayo since 1963,60yrs later tunaanza kurudi nyuma

Looya Lokwarukan.



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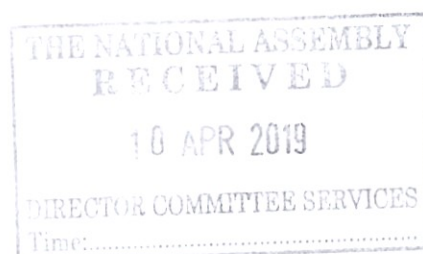
**From:** "John Matu" <johnmatu37@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 10:15:50 AM  
**Subject:** I SAY NO TO PIIP- THE PROPOSED PIIP BY KENYA AIRWAYS TO KENYA AIRPORTS AUTHORITY FOR KENYA AIRWAYS TO RUN JKIA

Am the above born Kenyan I say no to the proposed PIIP proposal by Kenya airways to Kenya airports authority to run jomo Kenyatta intl airport for a concession of thirty years. To my take Kenya airways should restructure it own self and avoid and cut cost on operations and their workforce.

For the year's Kenya airways has been making loses and what will it be that' will happen to be :rocket science that they can turn their tables again.

I hereby opt if Kenya airways could be fully owned by the government the government to bail it out and have it owned by the government 100% and pay it currents bank loans. To this it will have accountability and the government can follow up.

Thank u parliament hope this matter will be deeply looked into and save our country resources as JkIA is the gateway of our beautiful land Kenya.  
Am a patriotic Kenyan #SaveJKIA



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----- Forwarded Message -----

From: "Samuel Odunga" <samuelodunga56@gmail.com>

To: clerk@parliament.go.ke

Sent: Sunday, March 31, 2019 10:24:46 AM

Subject: Please the whole process of kq and KAA merger is clouded by corruption,since consultancy company has Said that kq lacks capacity to manage JKIA,please i also support the merger rejection and condem it,let Government make kq parastatal ,and leave public entities alone

Sent from my iPhone



from: "paul wamai" <wamai.paul@gmail.com>

To: clerk@parliament.go.ke

Sent: Friday, March 29, 2019 1:39:37 PM

Subject: PPP AGREEMENT BETWEEN KAA AND KENYA AIRWAYS MEMORANDA

*Di comm fr  
8/9/4*

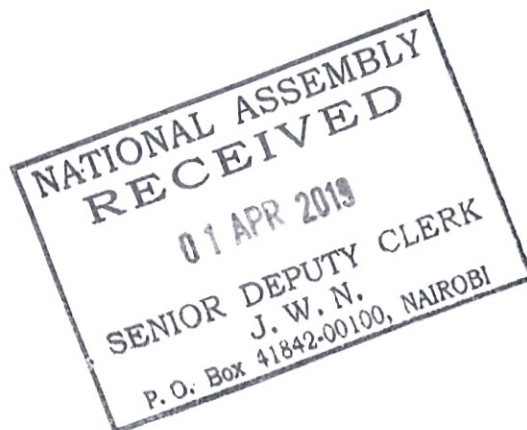
Attn Clerk of National Assembly

The proposed involvement of with KAA matters will seriously affect other players in the airport legally some of them with heavy investments with LEGAL agreements with KAA. It is not clear how such costs will be settled since such parties have not been included in the discussions. The committee should consider to include all players in the in the agreement. The lease agreements with other investors within the airport should be reviewed and agreed upon by all parties. THE NEW MANAGEMENT SHOULD ABSORB ALL LIABILITIES BEFORE TRANSFER OF BUSINESS TO THE PPP.

Thank you

Paul Wamai

SWIFT ENGINEERING COMPANY LTD



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① ② / committee  
8/9/4

**From:** "john waweru" <johnwaweru92@gmail.com>  
**To:** Clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 12:34:29 PM  
**Subject:** kq\_Kaa merger

As royal Kenyan Citizen who pays tax I highly oppose

- 1) KQ is not a public company\_ Kq got private shareholders including their economic harassing partner KLM. This means them to will got a say and powers in run of Jkia
  - 2) Kq cargo Terminal & Terminal 1A passenger s Terminal ~Kq management "sold out" their revenue generating Cargo terminal to unknown foreigners. Kq enjoys the Monopoly in New and modern Passenger Terminal at JKIA similar to Emirates and Ethiopian s which got their separate terminal s in their hubs .
  - 3) Fleet size ~ Kq ONLY got 3 types of aircrafts namely B787, B737 \$E190 unlike their "competitors" which got varieties. Kq depends 60% on E190 in it's flight being their largest number in their fleets. Imagine in case where E190 is involved in major accidents the manufacturer will call back all aircrafts, our Kq will be left with less than 14 aircrafts and at that time you have denied other airlines to Operate in Jkia. That will be fall of Kenya aviation industry.
  - 4) Kq have been operating on debt\_ KAA have been sending alot of money as revenue ,and being Kq has been operating on debts which means the money has been coming from other airlines .
- You can't cut down the tree which has been bearing fruits just because you been given a seedlings and promised they bear fruits.

② 70000  
pls deal

FA  
10/4/19

③ 600000  
pls note  
FA  
10/4/19

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P. O. Box 41842-00100, NAIROBI

1<sup>st</sup> April 2019

To the Clerk of the National Assembly,  
P. O Box 41842- 00100,  
Nairobi, Kenya.

Dear Sir,

**RE: OUR CONTRIBUTIONS ON KQ/K.A.A TAKE-OVER**

First I salute you and your entire committee for having been appointed by the speaker of the National Assembly to come up with an elaborate road map towards a logical execution of the above subject. I should trust that you're up to the task to come up with a product that will satisfy the expectations of the general public, but more so for the K.A.A staffs welfare.

Sir, it must be reckoned that, the K.A.A staff in this initiative is the most interested party with very high stakes. As staff, we shouldn't want to be seen as opposing the government's development agendas, but when things seem not to be favouring us, is when we pose negative reactions i.e causing industrial unrest. It's the K.A.A staff who have grown K.A.A to where it is now. So critical attention should be placed on the staff welfare, because if the merger takes-off, it'll need the boundless of the staff's expertise to nourish it, otherwise the merger is bound to collapse immediately after take-off.

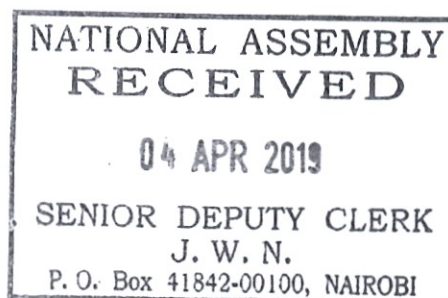
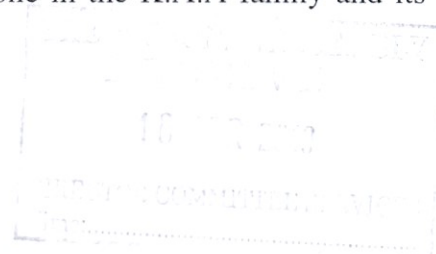
Let's now talk about the success factor in this project. For this project to take –off well and sustain itself, the staff are much concerned about the exit-package. Sir, can you inquire about what K.A.A staff is accustomed to when it comes to the issue of lay-offs?

The K.A.A staff is used for being paid 3 months gross –earnings without taxation. But this is only when it's retrenchment targeted at cutting costs, but for this K.A.A –KQ merger, it's not cost cutting measures.

This means that K.A.A is more stable with high level liquidity flow that warrants and or makes KQ attracted to it (K.A.A) due to its great potentials generated by the staff. So this means that the exit package for K.A.A staff should be a bit more than it has always been for retrenchment of cost cutting. This is the expectations of everyone in the K.A.A family and its union and the entire public.

Yours Faithfully,

K.A.A STAFF  
(Jomo Kenyatta International Airport)



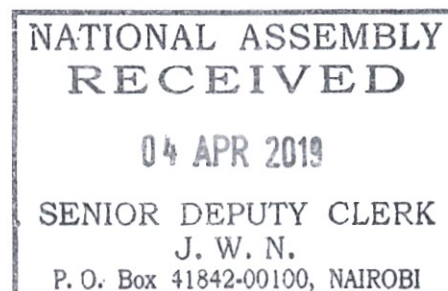
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**From:** "Boniface Mugambi" <gambinyari@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Wednesday, April 3, 2019 1:27:06 AM  
**Subject:** VIEWS CONCERNING KENYA AIRWAYS(K.Q)PRIVATELY INITIATED PROPOSAL(PIIP) TO THE KENYA AIRPORTS AUTHORITY(K.A.A)

Allow me to air out my concerns about the management of Kenya Airways(K.Q). Some of the reasons causing K.Q to have financial constraints are purely man made. Here are some facts to prove my case. K.Q have hired shuttles to offer transport to their crew members. They have different vans picking their crew in all the parts of the Country. Most of the time you will find an entire van carrying only one person. This ends up to increased operational costs instead of having one common pick up point where many of the staff are picked using fewer buses. When I compare K.Q'S air tickets with their competitors at the Airport,they are the most expensive and K.Q'S flights are ever full. Just visit J.K.I.A every day between 0430hrs-0800hrs,the number of passengers passing through Terminal 1A Central screening will shock you. Don't forget every transit passenger pays a whooping 40 U.S dollar service charge besides the normal air ticket. Where does all this revenue go? Come to Terminal 1D,the flights are overbooked until some of the passengers are offloaded for lack of space. Where does all this revenue go? Even for Domestic flights K.Q is the most expensive as compared to 540 and other competitors. Where does all the revenue go? We have not considered all their other flights checking in through Treminal 1C and Terminal 1A Level O. Kenya Airports Authority(K.A.A) is a government entity whose main responsibility is to manage all the Airports and Aerodromes while Kenya Airways(K.Q) is a private Company whose main objective is to offer air transport. What does the two entities have in common that supports their merger? K.Q has been reporting loses for the last few years while they have so many managers earning huge salaries. K.A.A on the other hand has been performing their duties diligently and I've never heard them report any loses. Who should be taking over the other now? Common sense tells you that the profit making Company should take over the loss making Company and vise versa. I therefore DO NOT SUPPORT THE PIIP based on the facts I have given above.

Concerned Kenyan.



4/4/2019, 11:19 AM

SUBMISSION OF MEMORANDA

CLERK OF THE NATIONAL ASSEMBLY,  
P. O. BOX 41842-00100  
NAIROBI.

(clerk@parliament.go.ke)

31<sup>st</sup> March 2019.

RE : MATTER OF CONSIDERATION BY NATIONAL ASSEMBLY:-  
PROPOSED PPP AGREEMENT BETWEEN KQ AND KAA

Reference is made to the above captioned as advertised in mainstream media.

I implore the departmental committee concerned to reject the PIIP proposal because of the following:

1. KQ management has failed in terms of business strategy and innovation to turn around the airline's fortunes, a business they supposedly understand and are experts in. They will not be able to manage an airport, let alone JKIA, a totally different kind of business.
2. The overall governance structure of KQ has failed to rein in poor performance by mandated management, considering the year on year decline in bottom line. Most notably, the individuals or teams responsible for the huge losses have not been held to account. It would be naïve to think that the same governance structure will be able to successfully oversee JKIA operation.
3. The overall objective seems to be to save KQ, in the national interest, owing to its strategic importance to the Kenyan economy. This is a wrong premise for the consideration of a PPP, which ideally should be used for innovative development and management of a public asset on concession basis. This objective may be better addressed by critical analysis of root cause, and making bold decisions to change KQ's management and governance structures, to ensure application of an appropriate business model that guarantees gradual decline in losses and eventual positive bottom line.
4. I personally wish KQ could be revived to be the "pride of Africa" and to propel, jointly with the airport authority and other agencies, JKIA to be the preferred hub for East, Central and Southern Africa. But if it be that KQ is technically insolvent (and it is important to be honest about this) then it may well be prudent to "let it die", and start/develop another airline to take its place (which will not carry the debts and obligations of KQ). Jambojet is a probable candidate. This view is informed by the reported successive injection of funds by government to the airline without success.
5. KAA continues to record progressive positive bottom lines, over 70% due to JKIA. It would be a case of classic recklessness and gross irresponsibility for government to facilitate or allow this very important public asset to be taken away from successful management by KAA (even if not optimal) and to be used in an "experiment" which appears rather exploratory and without solid business case and proof of capacity.

6. The operations of JKIA as a border control point incorporate complex interactions between several state institutions, some warranting close cooperation for national security and safety. These include the depts of immigration, customs, national police service, port health, plant health, civil aviation authority, among others. A private entity cannot ensure these interactions, which are imperative for critical state functions at the port. The PIIP portends a chaotic atmosphere where these institutions and agencies will not be able to effectively interact in the manner that promotes the collective success in this regard.
7. The airport is also highly regulated and must comply with international civil aviation statutes and regulations. By necessity, government must be in charge and in control. The PIIP seems not to take cognizance of this and it will most likely fail the required compliance test.
8. Ideally and practically, government cannot merge with private enterprise, but they can cooperate for common objectives. In the case of KQ, KAA and GoK, deliberations should be on how to use synergies for mutual success.

Yours faithfully,



ALLOYS SIAYA  
**ICT MANAGER, SERVICE MANAGEMENT,**  
**KENYA AIRPORTS AUTHORITY**

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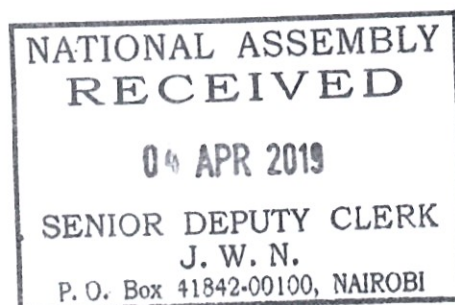
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**From:** "Gad Kamau" <gadkamau@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Monday, April 1, 2019 3:17:04 PM  
**Subject:** THE PROPOSED PPP AGREEMENT BETWEEN KQ AND KAA

Dear Sir,

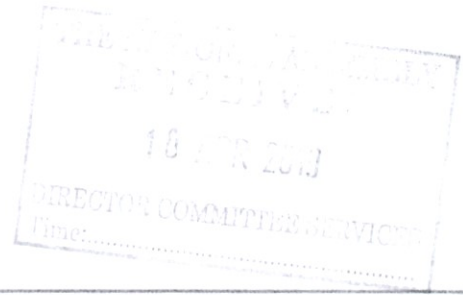
1. The agreement will deny other airports revenue. Only Wilson airport and Moi airport Mombasa can sustain themselves through their revenue. All the other KAA airports depend on revenue accrued from JKIA operations.
2. KAA HQ has a few hundred strong personnel. The merger will call for layoffs since most positions will be scrapped. Furthermore, a merger tends to make sure that positions and posts are not duplicated.
3. KQ and JKIA are not joined on the hip. JKIA can easily survive without KQ. KQ's demise will not interfere with KAA revenue because new players will step in and fill the void. KQ owes KAA money in the upwards of Kshs 3B.
4. What ails KQ is the internal procurement procedures that need to be addressed. The leasing of aircraft through brokers and middlemen has bled the airline over time. That should be addressed before any bailout of KQ is considered.
5. KQ has no history of running airports. Infact, it has failed in its core business! How then will it succeed in this new venture? KQ is an aircraft operator and has approvals and licences to engage in that business. To then crossover to Aerodrome operations where it has absolutely no experience is suicidal.
6. The amount JKIA makes every year is close to what KQ loses every year. KQ intention of taking over JKIA will protect looting that has continued unchallenged in KQ over the years. Absolutely no other reason for this PPP.
7. This PPP will kill aviation as we know it. KAA airports will be open to safety and security challenges due to lack of revenue while development of new airports will cease. Parliament has an opportunity now to right this wrong.

Capt. Gad Kamau



4/4/2019, 11:10 AM

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Tel: 254-020-2848300



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**From:** "Ronald Odhiambo" <rodhiambo2015@gmail.com>  
**To:** CLERK@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 7:54:55 PM  
**Subject:** THE PROPOSED KQ/KAA MERGER UNDER THE PIIP

Dear Sir,

I hope this finds you well.

I would love to write in regards to the continued, ill timed, badly informed and reckless idea and proposal, that KEYA AIRWAYS, the infamous kenyan national carrier, be granted a 30 year right/concession, to manage and operate Africa's fourth busiest and one of the emerging world's successful airports, taking this fundamental responsibility from KENYA AIRPORTS AUTHORITY.

This idea, in its abstract formation, as it would in reality, stands to be one of the worst and stupid business decisions, as kenyan, we can ever make or allow to be made, by individuals, in regards to our aviation industry. Away from the largely and open glaring frailties that kenya airways has constantly presented to the public, I personally hold my reservations towards this idea because;

1. KAA-the body that was formed by an act of parliament and legally mandated to run all the kenyan civil aviation airports and airstrips, has not in any small way, shown, demonstrated or indicated neither incapability nor inability to run, manage, develop and maintain, not only JKIA, which is kenya's largest and most successful airport and hub to and from the rest of the world, but also, all other airports and airstrips under its mandate. If anything, KAA has put in a lot of work into the management of these airstrips and airports, and seen tremendous growth achieved.
2. KAA, as an authority, is a 100 percent government owned. It is a public entity, that has continually made profits and thus participated in the overall growth and development of Kenya as a country. KAA in its mandate for JKIA, contributes a quarter of our country's annual GDP.
3. JKIA is a strategic asset of the country. What sense does it make to handover the management and running of such a facility to a privately owned, loss making, poorly run and financially crippled entity?

While it is factual that KENYA AIRWAYS faces the certainty of collapse and dwindling prospects, it is also paramount, that people who have been continually involved in

making the decisions that have seen KQ be where it is now, be made to account for these decisions. Why does the Kenyan people eventually be made to bear the brunt and heavy weight of decisions made by people who were solely concerned about their individual success and enrichment, than the interest of the economy and success of the country's premier airline?

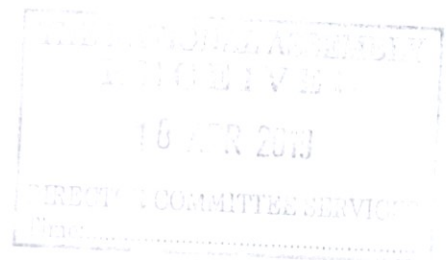
It is also important, that the people who are currently involved in the decision making of running the airline, are open about their end game, for it is clear, that it is not about saving the airline, but rather some sort of individual glorism.

In its proposal, KQ intends to 'takeover' all the KAA employees, under terms that are different from what they are employed on now. Should this proposal go through, then all KAA employees who are lucky enough to be absorbed, will be absorbed, but on contract terms, having had to reapply for their jobs. The rest of the employees who would have not been absorbed stand declared redundant. So KQ, which is an ailing company seeks to takeover a successful company, brings with it, its own conditions and sets the terms for the takeover, as though they are the successful company.

In short, it is a bad idea, the whole proposal is masked in secrecy, which further makes it more wrong and not in any way out of good will.

--

The Last Knight.



## KQ/ KAA PARTNERSHIP

The partnership as is proposed does not meet the threshold since KQ is owned by unknown individuals. In addition, KLM which is a foreign airline owns a substantial amount of shares in KQ whereas KAA is a fully government owned parastatal. By implementing the merger, the masterminds are telling the public to take government money and pass it over to private individuals. To me, the merger is uncalled for not until KQ is fully owned by the government

Kind regard,

Julius Kinyua.

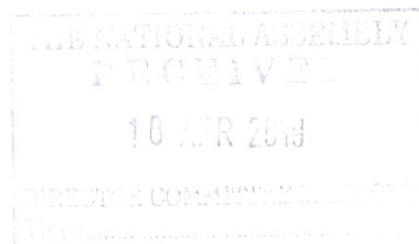
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**From:** "Maria Mbugua" <mariambugua47@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 3:41:23 PM  
**Subject:** KAA-KQ MERGER

The proposal as is is a very very bad idea. How about they they it the othere's way round ? If indeed the government wants to salvage the national carrier they could consider running the airline through KAA which as at now has not recorded any losses!!

Maria Mbugua  
concerned Kenyan citizen

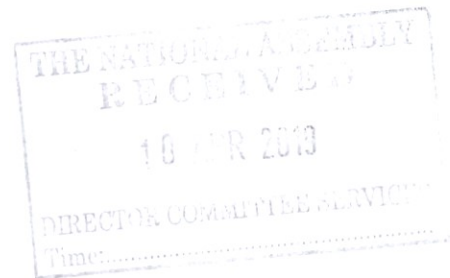


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**From:** "richard lumett" <rlumett@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 3:12:22 PM  
**Subject:** PIIP/kq/kaa

In view of the above mentioned subject I tender my preservation as a Kenyan citizen taxpayer that the issue of kq taking over kaa a public asset owned by the government of Kenya is unfair because a loss making private entity cannot take over a profitable public entity.



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**From:** "john waweru" <wawekaris@yahoo.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 2:38:34 PM  
**Subject:** PROPOSED PIIP KQ/KAA MERGER

Am trying to think as a bussiness man,i heard that KQ owes KAA more than 3.8 billion in debts..In the last quarters kq is trying to shield the public from their financial status..how are they performing..the merger i believe will destablize KAA as an entity.KQ management have failed to turn around the company to profitability now they are finding a scape goat to escape the reality..A private owned entity making loss vs a profit making public entity...Who owns KQ?To tbe other owners of KQ what are they doing as share holders to nake sure kq doesnt fall on its knees??eg KLM what are they contributing to make sure kq where they are share holders are back to profit making??my take is NO NO NO to the proposal..guard the public utility...

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**From:** "Pius Victor" <pvsalasya@gmail.com>  
**To:** Clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 1:23:26 PM  
**Subject:** PIIP

The Kenyan government should not allow this to happen KQ-KAA merger. You can't allow Private individual to take over Kenyan properties through mismanagement of the business. KQ is not the problem, management is the problem. Overhaul is needed in managerial of KQ.

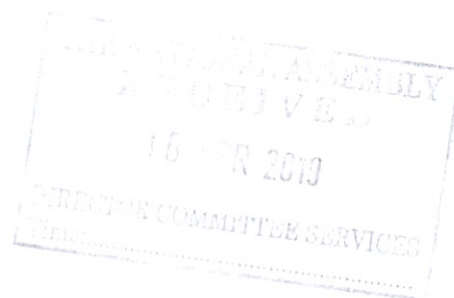
KQ has 3flights, who is this the owner of the remaining fleet, who want to syphon government/Kenyans/poor mans properties.

Kindly let's not allow this daylight corruption to Happen. Do they want to kill aviation industry?

Do those behind it want to control Kenya as a corrupt state? is JKIA individual property or Kenyans? who is this government proposing this! And which interest is behind merger? Questions are alot.

We are united Kenyans fighting this animal called corruption.

Regards



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**From:** "Stephen Mwangi" <paps.stephen@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 12:42:05 PM  
**Subject:** KQ-JKIA TAKEOVER.

Over the last two months or so there has been alot being debated on this.  
First Kenyans have said a very BIG NO to the deal,We can't just sit down and watch our  
Airport our Kenyan Heritage being looted by greedy cartels.

J.K.I.A is a public facility owned by Kenyans and that's why we can't let it go to private  
hands.

Out of the deals the Country at large is not going to benefit in any way. K.A.A runs and  
manages airports on behalf of Kenyans,the income is then used for development.

KQ is owned and runned by cartels who now are eyeing K.A.A income,that's being the  
reason why they brought in "WHITES" to run aviation in Kenya, Don't we have expertise  
in Kenya?

KQ problems starts with the management which is runned by Friends and relatives, Let  
those "WHITES" parting with hefty perks be sucked. Let KQ be liquidated, and Let the  
Government own KQ 100% fully.

Otherwise if this deal is bulldozed to go through, that will be the starting point of Aviation  
Downfall In Kenya.

It's high time "Michael Joseph" parks and leave Kenya to Kenyans and for God's sake  
he isn't a god.When things go bad these "WAZUNGUS"park and fly back to their  
countries calling us "STUPID BLACK MONKEYS"

Kenyans stand up and say no to modern colonization, we can think for ourselves.



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**From:** "Lydia Mu" <munenelydia4540@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 11:31:48 AM

The idea of KQ taking over the operations at JKIA and KAA operations is fishy and if not careful the country will regret later, let the government think of taking over the KQ and make it a government institution instead....I oppose the KQ-kAA takeover idea.



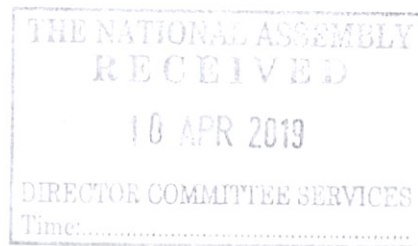
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**From:** "Juliet Wawira" <julietlavanda4@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 10:59:36 AM  
**Subject:** KQ PIIP TO KAA

I totally oppose the proposal. KQ should sort it's issues first which are as a result of poor management otherwise if left to run JKIA we won't have an airport in the next five years but just a grazing field. ONCE AGAIN I TOTALLY OPPOSE.

Thanks in advance



Zimbra

sdcndombi@parliament.go.ke

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**Fwd: MY TAKE ON KENYA AIRWAYS PRIVATELY INITIATED INVESTMENT PROPOSAL TO KENYA AIRPORTS AUTHORITY.**

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**From :** Clerk of the National Assembly  
<clerk@parliament.go.ke>

Tue, Apr 02, 2019 04:51 PM

**Subject :** Fwd: MY TAKE ON KENYA AIRWAYS PRIVATELY INITIATED INVESTMENT PROPOSAL TO KENYA AIRPORTS AUTHORITY.

**To :** sdcndombi@parliament.go.ke

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Main Parliament Buildings, 1st Floor  
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NAIROBI  
Tel: 254- 020-2848300

----- Forwarded Message -----

From: "antone haukwa" <antone.haukwa@yahoo.com>

To: clerk@parliament.go.ke

Sent: Tuesday, April 2, 2019 4:15:26 PM

Subject: MY TAKE ON KENYA AIRWAYS PRIVATELY INITIATED INVESTMENT PROPOSAL TO KENYA AIRPORTS AUTHORITY.

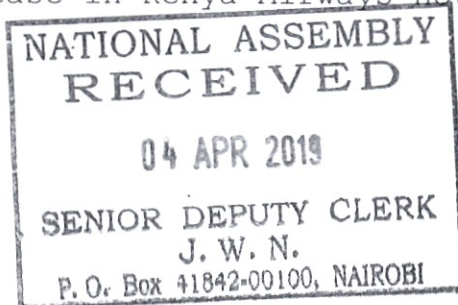
Kenya Airways is our national carrier and the success of Kenya Airways (The Pride of Africa) will indeed boost our economy. Kenya Airways like any other airline has faced a number of challenges. But the question is why is Kenya Airways problems endless? Which disease is eating Kenya Airways?

Is it poor financial management where top managers loot the airline dry or lack of viable plans/ideas to manage the airline? or private individuals taking everything that KQ has made? For example the adoption of Project Mawingu which failed terribly because it was not well thought. Similar to Project Simba now that is equally is going to fail.

Kenya Airways Privately Initiated Investment Proposal to Kenya Airports Authority is not viable for now.

We must clearly identify the exact problems that this airline is facing.

We must treat the disease in Kenya Airways not the symptoms.



4/4/2019, 11:18 AM

For Kenya Airways to operate like Ethiopian Airlines, Qatar Airways and Emirates few things have to be done:

1. Let Kenya Airways be fully owned by the government. The government only own 45% of shares, who is the owner of the remaining 55% .

Ethiopian, Qatar and Emirates airline are owned 100% by the government and that might be the reason for their exemplary performance.

2. How many aircraft do KQ have? You can not compete in aviation industry if you have no aircrafts.

3. Management problems in Kenya Airways must clearly be sorted out. KQ has had management problems each year. This must stop.

-Trusting Kenya Airways to manage JKIA with its current problems is not only ridiculous but also surprising. KQ with all these loses can not be trusted to run JKIA.

-The current management of KQ led by Joseph and Sebastian must not rush into taking billions from KAA which at the end of the day will be misused or will go to the hands of private individuals. Let the two (CEO and Chairman) reorganized KQ before this proposal is initiated.

As a Kenyan am OPPOSED to KQ managing JKIA. If we do this mistake KQ will sink with JKIA which is the hub of Africa. This must not be allowed. Let KAA run KQ if they can't manage themselves.

Sebastian (CEO) and Chairman KQ must first tell Kenyans what happened with the billions the government gave out to Kenya Airways as ball out to help in its operations. Someone must be held accountable before we allow KQ to handle these billions from Kenya Airports Authority.

Bonafide Kenyan.  
Antone Haukwa

Sent from my iPhone

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----- Forwarded Message -----

From: "Ken Lumet" <kenlumet93@gmail.com>  
To: clerk@parliament.go.ke  
Sent: Tuesday, April 2, 2019 5:08:53 PM  
Subject: Vote agaist KQ taking over KAA

MY name is Kenedy Lumet Chumba from Baringo County Mogotio Constituency, ID NO. 28062903, i am against KQ which is a loss making private entity taking over KQ which is a profit making public institution. As a Kenyan citizen i say no to that. Thank you

Sent from my Huawei Mobile

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**From:** "Lucy Kagambo" <lucykagambo@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Tuesday, April 2, 2019 1:34:22 PM  
**Subject:** KQ-KAA MERGER(PIIP

If the government want to help Kenya Airways to recover from its debt, Kenya Airways should be made a government parastatal then merge the two. But currently as it is this is awarding private company public property at the expense of tax payers. Kenya Airways should look for other options to turnaround the loss making entity.

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**From:** "jeepers crippers" <jeeperscrippers@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 3:56:19 PM

From my understanding this is unacceptable KQ is a private entity owned by few individual,while Kaa is a public entity owned by all Kenyans,handing over jkia will benefit only a few,owing to the fact jkia is 85% of KAA we are going to loose KAA in coming day as the other airports and air stripes can not sustain on their own,let the Gok be advised to use the right approach and buy all KQ shares and make it a public entity/parastatal and then they can be combined with kaa to run all airports in Kenya

18 APR 2019

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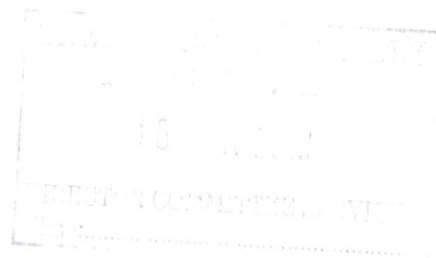
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**From:** "kalinga charles" <kalingacharles@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 3:45:02 PM  
**Subject:** KAA-KQ MERGER

I'm writing this mail in regards to the kaa-kq deal, I really do not support this idea of merging the two companies because kaa is a public property whereas kq is private company, so if you merge them, where will the proceeds of our profit making kenya airports authority be going to ? This is a mega scandal which parliament needs to oppose any of the plan which is set to benefit a few individuals. Let our honourable parliament save this public property (KAA) from the few greedy individuals who want to destroy it by taking over it's operations, remember we have generations to come who will be depending on this institution.

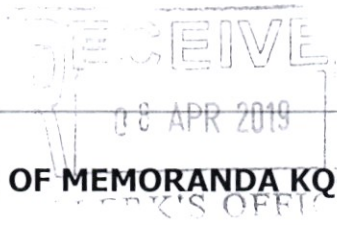
Regards,  
Charles



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Zimbra

clerk@parliament.go.ke



**SUBMISSION OF MEMORANDA KQ-KAA PPP.**

① Dant 8/4/19

**From :** Sidy Jepkirui <siddyjepkirui@yahoo.com>

Thu, Apr 04, 2019 04:23 PM

**Subject :** SUBMISSION OF MEMORANDA KQ-KAA PPP.

**To :** clerk@parliament.go.ke

② TUNGO pls deal

It's the business of the government to provide amenities that facilitate economic growth I.e roads, water and so on. With reference to the proposal, the aviation industry should not be viewed as profit making one but rather, as a facilitator of economic growth. The aviation industry should therefore be taken over by the government 100%.

FA 09/4/19

**Unsynchronized goals:** The current CS for defense, Hon. Dr.

Fred Matiang'i launched a service charter at JKIA that sought to address service delivery gaps at JKIA. It is focused on all state departments of JKIA with a long term vision of being effected across all workers of JKIA hence aligning/harmonizing service delivery at JKIA.

③ ANEJO pls note FA 09/4/19

**KQ home advantage:** KQ has been given the privilege of operating its flights using the new ,very efficient and spacious Terminal 1-A for free. The parking bays at Terminal 1-A are reserved for KQ flights.

**External advisors.** KQ is obsessed with contractual appointments of expatriates rather than building capacity of locals. Even currently, there are too many foreigners working with KQ and this results in;;

- Increasing costs for the airline. They charge exorbitant professional fees.
- Unfavorable working conditions because of culture parities and unmatched expectations .
- Demoralization of local staff due to imbalance in treatment. I.e favoritisms of expatriates .
- Under-development of local experts because they are not given a chance to play roles.

**Financial capability of KQ.** KQ is struggling with its finances and is barely able to run it's operations as an airline. It is delusional for it to purport that it will develop JKIA without needing financial support from the government. External sourcing of finances will lead the country in to more debt as the government will probably be

the guarantor.

**KAA mandate over the non-aeronautical facilities.** Will KAA be in a position to develop the airport land unconditionally?

**PIIP benefits to the mwananchi.** Apart from creating employment of up-to 30,000 employees ;which we cannot determine whether the terms would be favorable until we are aware of the contractual terms, what else for the nation? The profits will be taken away by the money hungry shareholders.

However, the PIIP has quite good projections for JKIA and the Kenyan aviation industry at large. Since KAA has the financial muscle, it can execute the positive side of the proposed PPP and give KQ a small incentive for the partially good thought.

**P/S** KAA has an expansion plan for JKIA. I.e Terminal restructuring of T1-B, C and D.

Please accept and consider my submission.  
Concerned citizen.

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**From:** "Jeremiah Suter" <jsuterlod@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 3:52:29 PM  
**Subject:** KQ/KAA MERGER

I here dismiss the proposed merger between KAA and KQ. It should not be given a second thought..

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16:00:00

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**From:** "Susan Njenga" <susannjenga240@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 11:59:52 AM  
**Subject:** Kq/kaa merger

No

10 APR 2019  
DIRECTOR GENERAL  
Inc.

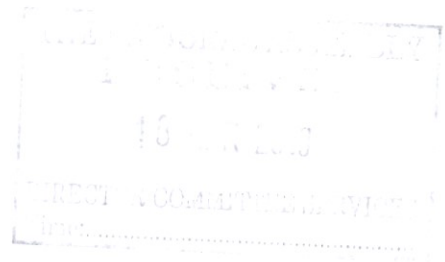
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**From:** "frank lekaldale" <franklekaldale@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Sunday, March 31, 2019 6:26:15 PM

This issue is shows how cartels wants to bring all public assets to its knees.in united states and United kingdom there's no airline that manages the airports. This loot is only inteded for a few.therefore i reject this proposal

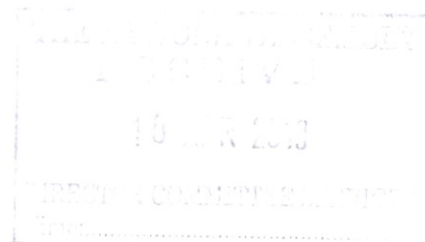


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**From:** "HELLEN NYAMAI" <nzisanyamai90@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Monday, April 1, 2019 12:13:37 AM  
**Subject:** KQ KAA MERGER

Mine is a big NO. How can a lose making company take a parastatal which has been making profit ? How can a public asset be taken to a private company ?



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**From:** "Jacinta" <jecintanjeri35@yahoo.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Monday, April 1, 2019 9:33:05 AM  
**Subject:** Merger

1. Why do we have participation online?
2. How many Kenyans can participate online?

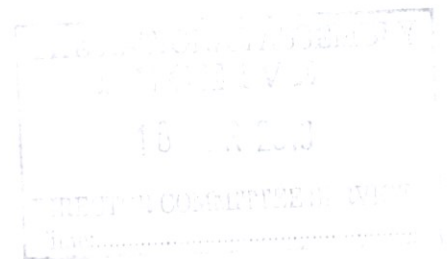
Our government can do whatever they want because its a government of rich. Am sure our feedback do not matter but am totally against the merger..

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**From:** "Plonyangatudo@gmail.com Emathe" <plonyangatudo039@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Monday, April 1, 2019 12:54:34 AM  
**Subject:** Kenya airways (KQ) PIIP to Kenya Airports Authority (KAA)

The proposed merger between Kenya airways and Kenya Airports Authority can not be allowed to happen since Kenya airways has shares from private agencies while Kenya airports authority is a public entity and therefore it is not advisable for the proposed merger to go through and more enough Kenya airways only owns three planes and to add salt to the injury this may lead to job loses if allowed to go through, and therefore am not for this proposal.

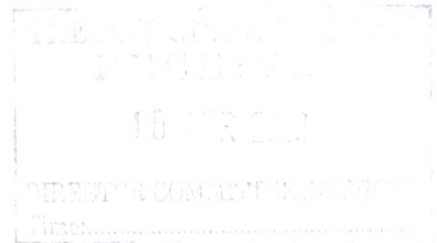


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P.O. Box 41842 - 00100  
NAIROBI  
Tel: 254-020-2848300

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**From:** "peter mbalanya" <mbalanyapeter@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Monday, April 1, 2019 7:25:18 AM  
**Subject:** Merge

This is corruption of the highest order, it's going to lead to unemployment because more kenians will be retrenched and how can a sick person lead a healthy person



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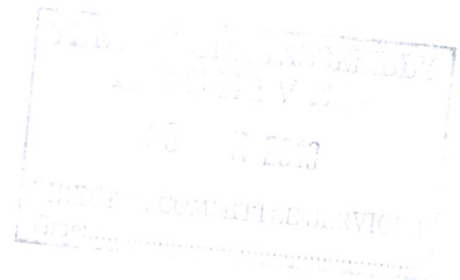
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**From:** "dorcasmakena" <dorcasmakena@yahoo.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Monday, April 1, 2019 10:24:12 AM  
**Subject:** PPP AGREEMENT BETWEEN KQ AND KAA

As a patriotic Kenyan, I strongly oppose Kenya Airways running JKIA. This is because KQ is a failed company that is seeking solace in KAA. The CEO Mr. Sabastian Mikozsi can not run JKIA. He has no capacity and given that he came to KQ promising to turn the company from a loss making company to a profit making company, he ended up importing consultants from Porland and paying them hefty salaries yet they are making losses and adding no value to the company.

In my opinion, KQ should be sold to the government and be run by KAA. KAA has capable managers who can run the airline successfully without engaging foreigners. If KQ is really making losses, why is the CEO paying himself a salary that is not reasonable? Let KQ stop dragging KAA in their mess. Let them sort their issues. They have been funded several times by the government but ended up misusing funds and can not explain how they the taxpayers money. The Airport is a public property and can not be given out to a private company. JKIA is KAA's only income generating asset and that income is used to maintain other airports and airstrips.

Regards,  
Kenyan Patriot.



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**From:** "Peter Mbatha" <petermbatha59@gmail.com>

**To:** clerk@parliament.go.ke

**Sent:** Sunday, March 31, 2019 10:33:48 PM

1. By giving Kq to run jkia is risk if they cannot run airline will they be able to run jkia?
2. Jkia is the mother of other airports and airstrip in the country. So by giving this major airport will be killing other airport.
3. We will also be risking to lose other airlines which use jkia since there will be no fare competing ground. And finally Jkia is fully owned by government Kq is a private company will it be a good idea to give government assent to some individuals? Please say NO to this proposal

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**From:** "omache violet" <omacheviolet@gmail.com>

**To:** clerk@parliament.go.ke

**Sent:** Sunday, March 31, 2019 10:23:12 PM

**Subject:** Privatization of the airport is the worst mistake,we can do,our able leader's in Parliament don't allow this fraudulent process of Kenya Airway's to take over management of the airport, we trust in you

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**From:** "Wilfred Momanyi" <wilfredmomanyi01@gmail.com>

**To:** clerk@parliament.go.ke

**Sent:** Sunday, March 31, 2019 10:11:19 PM

**Subject:** how can a private loss making company manage a public profit making company that is total fraud, Kenya airways doe's not have the capacity to run the airport ,the best way to salvage the struggling airline is to make it a state entity, to be owned 100% by the government, compared to other Arline's like emirates, Ethiopian.. which are fully owned by the government

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**From:** "Denis Oseko" <osekodennis25@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Thursday, April 4, 2019 10:31:52 AM  
**Subject:** Proposed Public Private Partnership (PPP) agreement between Kenya Airways and the Kenya Airports Authority

Greetings,

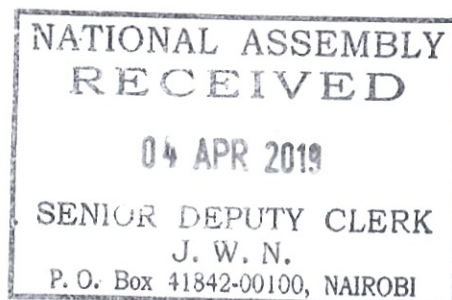
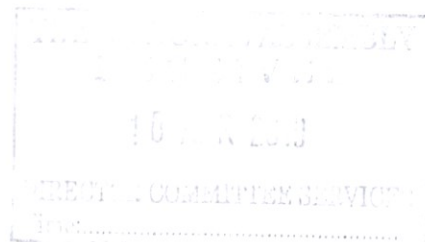
On the matter in the subject above, as a citizen of this country, I think it will not be viable for Kenya Airways to take over Kenya Airports Authority.

For years the latter has been running the airport successfully and maintained its profitability. On the contrary, Kenya Airways has been making losses year after year and for them being given the airport to run would not be financially viable.

Let it be the other way around, the government to take over the airline and pump in finances to sustain it through the Airport Authority.

*Thanks and Regards....?*

**Denis Oseko.**  
**+254724446310, +254780602770**



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Main Parliament Buildings, 1st Floor  
P.O. Box 41842 - 00100  
NAIROBI  
Tel: 254- 020-2848300

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**From:** "Festus Kalu" <festuskalu@yahoo.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Tuesday, April 2, 2019 9:39:59 AM  
**Subject:** piip

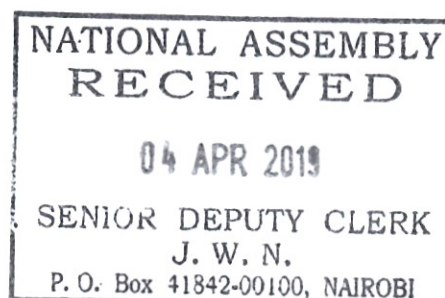
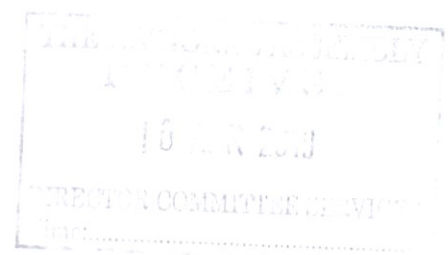
It has come to my attention about piip for real I disagree on this on the following reason

1. how can a government property be taken n be a private property (when it will be a private property the government itself it won't have any say on it and further more they will be mismanagement of the property)
2. lets think outside the box, how can someone making more profit be controlled by someone making losses to me it could KAA taking over KQ
3. it could be so easy if the government could buy the KQ shares n make Kq to be fully owned by government n i can assure Kenya could grow its GDP
4. the parliament should think when they pass the bill of piip, who will own the specific purpose vehicle n who will be auditing it, because the auditor general will not have any powers to audit the private entity hence leading our country to have bad economy

Those are my reasons why I don't agree on piip, let KAA be KAA and KQ be KQ thanks in advance and I hope my views will be considered

Sent from Yahoo Mail on Android

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**From:** jkwaweruv@gmail.com  
**To:** clerk@parliament.go.ke  
**Sent:** Monday, April 1, 2019 7:49:45 PM  
**Subject:** KAA/KQ PARTENERSHIP

Make KQ a State entity to secure airport deal ,this should be the first step if the goverment want to secure the deal.meanwhile Kq at its current state is a private entity,secondly it is running at a loss so we can trust them with a public profit making organisation.Public participation should be the first option before they kick start but the goverment started with cabinet approvals thus public sensing a bad will or personal interest.....why should be KAA chairman continue serving as CEO CBA bank..one of the banks who changed the loans to equity this becoming share holders of KQ.conflict of interest again comes in black and white again.NO to the merger

Sent from Yahoo Mail on Android

18 APR 2019  
18:00:00  
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P.O. BOX 41842, NAIROBI

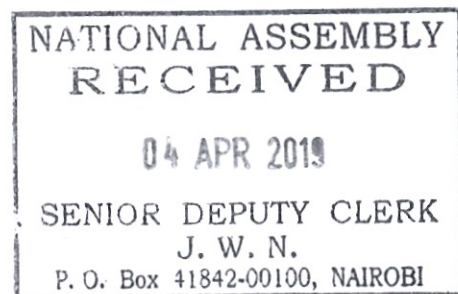
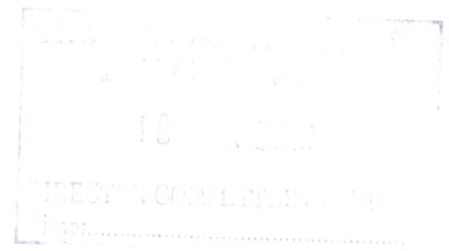
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04 APR 2019  
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Tel: 254- 020-2848300

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**From:** "Dennis Mutua" <dennismutua066@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Monday, April 1, 2019 7:53:05 PM  
**Subject:** My view on the proposed PPP between KQ and KAA

Never have I heard or seen any lose making organization take over a profit making organization. Again KQ is a private organization and KAA on the other side is a public entity, thus this is like turning KAA to be a private entity. In my view, the deal is NOT viable.



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**From:** "michael kevin" <kevinmichael334@gmail.com>  
**To:** clerk@parliament.go.ke  
**Sent:** Tuesday, April 2, 2019 1:53:48 AM  
**Subject:** MERGER

..I don't think if the issue of merging a loss making company KQ with KAA is ok...the employees wellness should be considered at all cost!

*[Faint, illegible stamp]*

NATIONAL ASSEMBLY  
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04 APR 2019  
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NAIROBI  
Tel 254- 020-2848300

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**From:** "Evans Mwangi" <egichuhi50 em@gmail.com>

**To:** clerk@parliament.go.ke

**Sent:** Wednesday, April 3, 2019 12:53:11 PM

**Subject:** KQ-KAA MERGER

In regard to the merger, I would like to forward my opinions

1 No staff should lose job either KQ or KAA

2 It should serve the interests of the country, the concession should be minimum 13 billion remitted to government through KAA.

3. KQ be made public company before merger

4 Seek other options to keep KQ afloat, merger should be the last result

5 KAA should be the one to take over KQ not the other way round.

6 All concerns raised by PIC be taken into account

I hope my concerns will be addressed among other citizens.

PARTNERSHIP BETWEEN KENYA AIRWAYS & KENYA AIRPORTS AUTHORITY

**Importance:** High

Dear Sir,

We wish to submit our attached memorandum on the proposed **Public Private Partnership {PPP} agreement between Kenya Airways & Kenya Airports Authority**, as was requested by the National Assembly via the announcement in the Daily Nation Newspaper Of 29<sup>th</sup> March at reference.

We, the Kenya Association of Air Operators {KAAO} are a registered National Umbrella body whose role is to promote, foster, enhance, and protect the interests of those engaged in the National Civil Aviation Industry. The attached memorandum is therefore forwarded to the National Assembly to express the concerns that our membership foresee in the proposed PPP.

We would be ready and willing to give more details on these key concerns should you wish to call us for that purpose.

Kindly acknowledge receipt.

Regards,

Col. (Rtd) E K Waithaka  
Kenya Association of Air Operators  
P O Box 27592 00506  
NAIROBI

Tel: 020 6001165  
Cell: 0711983441

Email: [kaaoeo@aviationkenya.org](mailto:kaaoeo@aviationkenya.org)  
Website: [www.aviationkenya.org](http://www.aviationkenya.org)



① D/Comptroller  
11/04

② TUNAO  
pls read  
FA  
15/4/19

**KAAO Memorandum to the National Assembly on proposed PIIP April**

**2019 v3-converted.pdf**  
73 KB

③ Tunao  
pls note  
FA  
15/4/19

**MEMORANDUM  
BY  
THE KENYA ASSOCIATION OF AIR OPERATORS [KAAO]**

**1. PREAMBLE**

KAAO (the Association) is a National umbrella body whose role is to promote, foster, enhance, and protect the interests of those engaged in Aviation Industry and allied businesses in Kenya

The Association encourages adherence and maintenance of high civil aviation safety standards and practices, through strict compliance with our Members' Code of Ethics

This memorandum is therefore in response to the invitation by the NATIONAL ASSEMBLY for the public to submit views and concerns that our Members have

**2. QUALIFICATION**

The invitation to submit memoranda presupposes access to critical information **We are unable to submit a detailed memorandum discussing any aspect as proposed in the Privately Initiated Investment Proposal except for the questions raised in section 4 below.**

From the information available to us in the public domain we believe that there is a desire to forge a joint venture partnership between Kenya Airways [KQ] and Kenya Airports Authority [KAA] to run the Jomo Kenyatta International Airport [JKIA]

When KAA had previously called for a stakeholder public meeting, we requested for the PIIP document but were not successful This meeting was later cancelled and as such we have inadequate factual information, All the same, our members have a special interest in this matter

**3. OUR INTEREST**

Our interest is encompassed in our vision which is to create a safe, efficient, and economically viable National Civil Aviation Industry, through promotion and enhancement of safe and sustainable operations, and the provision of aviation services.

The Kenya Air Operators Association is not fundamentally opposed to any reasonable strategic initiative that ensures the National Carrier (Kenya Airways) re-establishes itself as a leading carrier on the African continent. We believe this can only be achieved

through the appropriate restructuring of KQ, both financially and operationally, using the best available resources both nationally and internationally.

Without detailed access and time to review the PIIP, the Association is unable to comment on the importance or relevance of the Proposal, which needs to also address the legitimate concerns of the rest of the aviation industry.

The Association has perused the *Progress Report on the Inquiry into the Proposed Takeover of Jomo Kenyatta International Airport by Kenya Airways* by the Public Investments Committee dated 26<sup>th</sup> February 2019 and shares a number of the concerns and questions raised in that report.

#### **4. QUESTIONS TO BE ANSWERED**

1. In this JV contemplated, what is the shareholding and structure, considering that KAA is a government institution?
2. How will other airports under KAA be managed – operationally and financially, considering that most of them do not have the traffic sufficient to fund their operations, while it is not a secret that hitherto they have been supported from the funds accruing from the JKIA?
3. What assurance do we have from KAA that these other airports, some being international, will retain the requisite standards as prescribed by ICAO without an additional cost to the already over-burdened operators?
4. What is the current revenue per airport for KAA and expenditure per airport? The Parliamentary Committee report indicates that there will be a net shortfall of approximately Kshs 3.7 billion in KAA's operating budget post takeover. The Association is extremely concerned about the implications this has for the management, maintenance and development of the other national airports.
5. What areas does the JV envisage? Ground services, security, duty free shops, cargo, other concessions?
6. How would Capex plan and funding be approached during the duration of the JV? The PIIP needs to address the development /and/or redevelopment of JKIA if they want to successfully compete with the redeveloped Ethiopian (Bole International) and new Rwanda airports?
7. What will be the relationship between SPV and existing Kenyan operators at JKIA during the tenure of the JV?

8. How would this JV run in line with current Government policies governing aviation industry as well as the existing competition laws?
9. Have other options of reviving / strengthening KQ been considered, and how critical is this to KQ's business plan going forward?
10. Are there any examples of PIIPs in other jurisdictions and how successful have they been?
11. As we approach this effort to secure Kenya Airways against the emerging commercial competition, have we considered the regional/global competitive context in the light of the treaties that Kenya has signed in the past? We have in mind some within the African Union.
12. Kenya is a contracting State of the International Civil Aviation Organization [ICAO] which is a UN Agency. One of its principles is to encourage fair and healthy competition in international commercial Air Operations. Would running of JKIA by KQ which also runs International commercial flight operations, not pose a large measure of conflict of interest in provision of Airport services to its competitors in International flight operations?

## **5. CONCLUSION**

As the umbrella body for Air Operators in Kenya, we wish Kenya Airways all the best in their regional quest to re-establish its dominance, however this must be done without jeopardizing the rest of the industry that is vibrant and plays a pivotal role in tourism, cargo as well as international humanitarian aviation operations, and also employs many Kenyans.

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BY  
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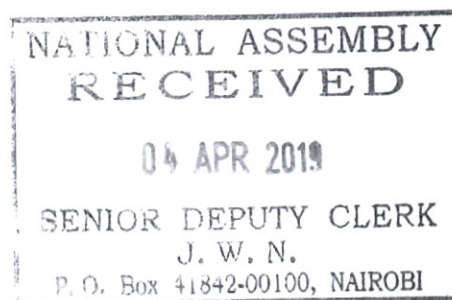
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Zimbra

clerk@parliament.go.ke

**INQUIRY INTO THE AVIATION INDUSTRY IN KENYA BY THE DEPARTMENTAL COMMITTEE ON TRANSPORT, PUBLIC WORKS AND HOUSING**

**From :** Kalpa Kenya <kalpa.kenya@gmail.com>  
**Subject :** INQUIRY INTO THE AVIATION INDUSTRY IN KENYA BY THE DEPARTMENTAL COMMITTEE ON TRANSPORT, PUBLIC WORKS AND HOUSING

Wed, Apr 10, 2019 03:32 PM

1 attachment

**To :** clerk@parliament.go.ke

① D/Con...  
8  
11/04

Good Afternoon,

The above mentioned subject matter refers.

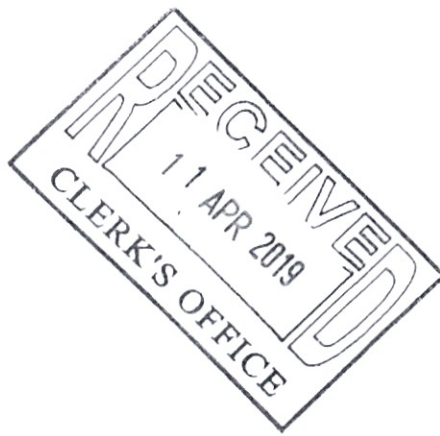
As requested, kindly find attached a copy of our submissions in relation to tomorrow's proceedings before the Departmental Committee on Transport, Public Works and Housing.

Kind regards,  
Capt Murithi Nyagah  
GENERAL SECRETARY & CEO  
**KENYA AIRLINE PILOTS ASSOCIATION (KALPA)**

② ZUNGO  
pls doof  
FA  
15/4/19

**KALPA Position - JKIA Takeover.pdf**  
111 KB

③ EMEJEN  
pls note  
FA  
15/4/19



# KENYA AIRLINE PILOTS ASSOCIATION



KALPA  
Member of the International Federation of Airline Pilots Association  
IFALPA

## **KALPA POSITION ON PROPOSED JKIA TAKEOVER BY KENYA AIRWAYS**

Kenya Airways (KQ) began as a fully owned Government entity with the objective of being Kenya's main flag carrier, thus giving visibility to the country. This was a significant step in enhancing and promoting tourism, a key sector in the economy.

When KQ was privatized, the Government's intention was to improve efficiency in the National carrier and get value for money. In retaining substantial shareholding, it was evident that Government's intention was to maintain a significant role in the airline. It is for this reason that when KQ has had financial challenges, the Government has repeatedly stepped in to rescue the organization. In view of this, it is clear that the National Carrier remains an important pillar in the development of tourism and aviation not only in Kenya, but also in the East African region. The company offers various quality jobs that have significant impact in other areas of the economy and as such, these jobs need to be protected.

The aviation industry contributes 5% to our GDP, directly and indirectly. It is estimated that 620,000 jobs in the country are supported by this sector. The industry can contribute more if both KQ and Kenya Airports Authority (KAA) experience growth. KAA growth is not assured if KQ were to collapse. Similarly, KQ's growth cannot be assured without an improvement in its cash flow, which would require significant financial injection from investors and shareholders. Following the last cash injection, the Government became the largest shareholder and guarantor to the consortium of Banks that were persuaded to turn debt into equity. With this in mind, the Kenyan taxpayer would be the greatest loser should KQ collapse.

KALPA is yet to be furnished with specific details of the proposed takeover document. That said, an innocent outlook of the idea/proposal from a birds eye-view appears to suggest an avenue of improving KQ's cash position without additional financial injection. This should offer a holistic approach to develop the aviation industry where focus should be in growing JKIA as a regional hub while in the meantime, improving the cash flow situation at KQ. The ripple effect of this will be to spur growth, and in effect, increased traffic into JKIA, thus improved revenue for KAA. In addition, with this being a home grown solution, it locks out foreign strategic partnership as their financial support would not be required. This will give KQ more flexibility in making commercial decisions that are beneficial to KQ, KAA, and Kenya as a whole.

However, as the old saying goes – ‘*the devil is in the details*’. Specific details of the proposed agreement need to be clear and transparent to all stakeholders – KALPA included, to eliminate suspicion and provide confidence for this Proposal.

What is key however, is to ensure that exhaustive and thorough due diligence is carried out on this proposal, and the agreement well crafted to avoid possible pitfalls that have occurred in the past. Case in point of few examples of these pitfalls/mistakes that continue to haunt the airline are as follows:

1. *Relatively high airline ticket prices.*
2. *Airline policies eg. Reduction of check in baggage allowance from two to one.*
3. *Inappropriate choice of aircraft equipment, more-so to African destinations where customers’ baggage are left behind.*
4. *The role of KLM in KQ. Biased partnership illustrated by KLM’s route network in Africa. In terms of Board procedure and practice, currently one KLM Director can veto the entire KQ board’s decision.*
5. *Poorly motivated work force, most of whom are in the front line interacting with customers. It is important to note that some of these workers are outsourced and on unfavorable short term contracts, thereby affecting service delivery.*

*Similarly, the Government needs to urgently review Policy on traffic rights granted to foreign airlines into our major hubs, i.e Nairobi and Mombasa. In addition, given KQ’s status as an important pillar for development and national pride, the Government should consider giving some concessions to KQ, e.g tax, navigation and landing fees.*

**Summary:**

Whilst KALPA does not oppose the idea in question, specifics/details of the proposal need to be shared with the Association and other stakeholders prior to its endorsement and rollout. **KALPA will only offer full support to an avenue that will genuinely help change KQ’s fortunes, while also exclusively protecting jobs and benefits of all employees involved.**

For and on behalf of KALPA

Capt. Murithi Nyagah  
**GENERAL SECRETARY & CEO**

**SUBMISSION FROM THE KENYA  
AVIATION WORKERS UNION (KAWU)**

**ON**

**THE KENYA AIRWAYS' PRIVATELY INITIATED  
INVESTMENT PROPOSAL TO KENYA AIRPORTS  
AUTHORITY**

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4<sup>th</sup> April 2019

The Clerk of the National Assembly,  
P.O. Box 41842-00100,  
Nairobi.

Dear Sir,

**RE: SUPPLEMENTARY MEMORANDUM ON THE PROPOSED PUBLIC PRIVATE PARTNERSHIP BETWEEN KENYA AIRWAYS AND KENYA AIRPORTS AUTHORITY AND THE WAY FORWARD.**

**1. INTRODUCTION**

- As we had stated in our main memorandum, Kenya Aviation Workers Union (KAWU) is a trade union that represents unionsable employees in the entire aviation sector in the country. Hence our genuine stake in this matter.
- We must from the on-set state that KAWU fully supports initiatives aimed at turning around KQ.
- There have been several attempts made in the past to save the airline from its perennial financial challenges.
- KQ's turn-round will only be achieved by deep diving into the root causes of the airlines financial troubles and establishing how not to fall into those pitfalls again.
- In our opinion, the root cause for KQ's woes can be summed into "lack or prudent management."
- We are convinced that taking over the operations and running of JKIA does not constitute one of the much needed interventions and assistance that KQ needs for its turn round.

**REASONS WHY KAWU IS OPPOSED TO THE PIIP ( PROJECT SIMBA)**

- Kenya Airways is a private company operating as the nation's flag carrier. On the other hand, KAA is wholly owned by the government and its prime profitable business unit is JKIA.
- The proposed PIIP model has no inbuilt risk sharing element and hence is more inclined to a "take-over" rather than a Public Private Partnership (PPP).
- The PIIP proposal also creates a possibility of a viability gap funding for the other network airports which is illegal within the frameworks of both the PPP Act, 2013 and Kenya Airports Authority (KAA) Act, 1991.
- We have shared in our main memorandum other comparable African airlines and aviation authorities and how they are run which reveals that the KQ's PIIP is an untested model which is doomed to fail:

The said Airlines are Egypt Air, AirMoroc, Ethiopia Airlines and Rwandair. ALL are state owned.

- The Gulf carriers of Emirates, Qatar and Etihad, which are some of the best in the world, are all government owned with the state also running the airports and other aviation infrastructure.
- Form the above examples, it is clear that their models are generally anchored on streamlining and making the civil aviation sector more vibrant, cost efficient and competitive through focused planning and co-ordination.
- In the case of the KQ's PIIP, the model is dead on arrival. It assumes that KQ is wholly owned by the government, which is not the case, and that the other aviation entities will all coalesce into one fold after the take-over.

#### Further shortcomings of the PIIP

- The intended take-over of JKIA by KQ does not conform to the requirements of Public Private Partnership (PPP) framework.
- By its business nature, KQ has neither the expertise nor the experience of running and managing airports.
- At the moment, JKIA generates over 90% of KAA's revenues.
- One of the government's key objectives is to open up the country by developing infrastructure that creates rapid connectivity domestically and regionally through growth of airports and airstrips across the country. This dream will be unattainable once JKIA gets into the private hands of KQ.

#### Highlights of the Findings of Consulting Firm KPMG on KQ's PIIP

- The audit and consultancy firm of KPMG concluded in their findings that the deal was untenable.
- KPMG was unable to confirm that KQ is able to even fund the PIIP as they withheld crucial information under the guise of confidentiality.
- KPMG further observed that KQ's five year plan for 2018-2022 does not include the PIIP.
- They observed that such rescheduling could detrimentally impact KQ's cash flow and thereby impacting their ability to fund the PIIP.

- KPMG also observed that KQ is facing challenges servicing their debts despite of received waivers from lenders covering the period up to 31<sup>st</sup> December 2018. They questioned KQ's ability to be the operator of JKIA under the PIIP.
- On the structure of the proposed Special Purpose Vehicle (SPV), KPMG observed that KQ has not provided the detailed SPV organization structure which is essential for determining the fate of majority of KAA employees, the selection criteria as well as clarity on which policies and procedures will apply in the SPV.
- To make it worse, the auditors established that KQ presently does not have the credentials to develop or operate an airport. This fact has been repeated by many observers and commentators alike. We share in this opinion that indeed, KQ lacks not only the credentials but the competence to run an airport like JKIA.
- The auditors also observed that without JKIA, KAA will require funding since the concession fees to be paid by KQ were not sufficient. We therefore wonder in whose interest it is to plunge KAA into financial mess and burdening the taxpayer more by funding KAA which is financially stable today.
- We are unable to understand why, even after receiving these findings by a competent authority like KPMG, the PIIP by KQ is still being pushed in spite of its obvious shortcomings and disadvantages to KAA. We ask again, in whose interest is this project being propelled?

#### Seabury recommendations for KQ Turn-around

Kenya Airways has not suddenly found itself in the woods financially as some proponents of the PIIP would like us believe. The trouble started with the ambitious fleet modernization and Network expansion programme dubbed Project Mawingu. Below, we highlight other viable options which have been recommended for KQ's revival but the airline has chosen to ignore them.

- In February 2017, a reputable international airline consultancy firm, Seabury Group, was contracted by KQ to advise the airline on a viable turnaround strategy and they made very plausible recommendations.
- Key among them was the conversion of debts owed to local banks and the government to equity which was implemented in 2017 which resulted in spurring the airlines liquidity and cash-flows.
- Another recommendation was to engage the Unions more robustly to negotiate productivity driven CBAs.
- Seabury also recommended that KQ engages the government to waive taxes on imported aircraft parts and other materials used for aircraft maintenance.
- They also recommended the enactment of a law to ensure all government employees and contractors utilise KQ for their travel.

- In addition, it was recommended that KQ proactively engages the government to waive taxes on jet fuel which would save the airline over KES 7 Billion annually which is more than what KQ would generate from running JKIA. It is ironical that KQ pays Railway Maintenance Levy for its jet fuel yet this levy goes to support a sector seen as a competitor.
- Take-over of JKIA was not one of the recommendations by Seabury. Why doesn't KQ implement these recommendations and forget the JKIA take-over? After all, there are more benefits to reap from implementing these recommendations which would make the airline more stable and sustainable in the long run.
- We are convinced that this deal is driven by other motives in lieu of sound recommendations made by Seabury. Why would KAA be made to relinquish its most profitable business unit to save KQ, when there are more plausible options to achieve even better results?

#### Non-Engagement of KAWU by KQ and KAA

- The managements of both KQ and KAA have chosen to keep its employees and particularly the union, in the dark on the discussions concerning the proposed take-over deal.
- To date, KAWU has not been provided with a copy of the Privately Initiated Investment Proposal (PIIP) by KQ which carries the details of how the proposed take-over will be implemented.
- We have information from a recently concluded study by KPMG audit firm that if the take-over deal works as proposed, there will definitely be redundancies mainly affecting KAA staff currently working at JKIA and at the Head Office.
- It is therefore absurd to ignore the union in such crucial matters.

#### Previous Failed Restructuring Initiatives Carried out by KQ

- KQ has carried out 3 retrenchments since 2012 that failed to save the airline.
- Outsourcing was then introduced, where staff were, and continue to be engaged on inferior terms.
- We have protested the element of discrimination amongst employees doing similar jobs.
- We are now experiencing yet another restructuring intention albeit with a slight difference, but with the same implications of job losses. We are convinced that no amount of restructuring initiatives will save KQ from its losses without first identifying the root cause of its problems and address them. We are opposed to have the employees' jobs always being sacrificed in the name of saving the loss-making airline.

#### UNDERSTANDING SEBASTIAN MEKOSZ

Discuss the KQ CEO and MD under the following

a) Extreme Management Failure at KQ

Notes: (Refer to main document)

b) Loss of confidence in KQ's CEO

- KAWU, and a great majority of all cadres of employees of KQ, has lost confidence in the stewardship of the KQ CEO Sebastian Mikosz under whose tenure KQ has sunk deeper into losses.
- We have also lost faith in his capability to turn around the airline despite engaging a huge number of foreign employees in the name of "airline experts". We are convinced that Sebastian, having admitted that he is unable to turn KQ into profitability as quoted above, is only interested in lining his pockets and those of his fellow native Polish he has brought into KQ. No wonder that he is now the chief proponent of the PIIP, a project that he strangely believes will provide KQ with a singular dose for revival.

Below, we highlight some of the reasons why KAWU, and a large majority of KQ employees including managers, have lost confidence in him and why we are calling upon him to throw in the towel and exit honourably.

c) Integrity of the Group Managing Director & CEO,

- The Union has lost faith and confidence in KQ's CEO Sebastian Mikosz for various reasons.
- He has continued to lie over his salary and the PIIP
- We wish to reiterate that our position is that Sebastian earns close to KES 8 Million per month and that his denial is a plain lie. We have evidence from KQ's published half year results for the period ending 31<sup>st</sup> December 2017 that in a period of 6 months, Sebastian's total remuneration was **KES 46,694,000 Million**. This translates to KES 7.8 Million per month contrary to what he declared in public. **(Attached is a copy of an extract from the said results)**. This clearly demonstrates that Sebastian has credibility issues and his integrity is questionable.
- Engagement of 7 Polish Consultants and their unreasonable Payments
- We have an issue in the manner KQ has engaged 7 people from Poland under the guise of consultants with "airline turnaround expertise". We have covering the issue of their questionable credentials in details in the main memorandum, but what beat logic are the unreasonably high perks paid to them.

- For example, he paid one Monika Kieltyka-Michna who is designated as "Interim Management" a total of USD 108,000 (KES 11 Million) for services rendered in February 2018 vide Invoice No. 02/2018 dated 1<sup>st</sup> March 2018 approved and signed by Sebastian and acknowledged by the said Monika. The money was paid on 10<sup>th</sup> March 2019 through a bank transfer to Monika's bank account in Poland with account number PL 85103000190108400471058.
- Another Polish "consultant" by the name Michal Smierclak was paid a total of USD 82,000 (KES 8.3 Million) for services rendered in February 2018 vide Invoice No. 02/2018 dated 1<sup>st</sup> March 2018 approved by Sebastian and acknowledged by the said Michal. The money was paid on 10<sup>th</sup> March 2018 through a bank transfer to Michal's bank account in Poland with account number PL 20114020040000311201967694. **(Attached are copies of the two invoices).**
- There are 5 other Polish "consultants" employed by Sebastian whom we have reason to believe, going by the above evidence, that they are paid similar terms bringing the average total cost of employment for the 7 people to about KES 66.5 Million every month.
- We believe that Sebastian has a direct interest in these payments being the person who solely appointed these people to KQ.

#### d) Questionable Qualifications/Credentials of the Polish "Consultants"

A quick look at the credentials of the six foreigners from Poland hired by KQ CEO Sebastian Mikosz demonstrates that they bring no special skills that are not available in Kenya.

#### **Notes: (Refer to main document)**

- The Union is at loss to understand why all these 7 so-called consultants have to originate from one country – Poland. If at all KQ had the need to source for external consultants, did they all have to be from Sebastian's nationality? Must all of them come from a consulting firm (Air Biz Support) associated with Sebastian? We read some mischief here and again we call to question Sebastian's integrity.
- We are also very concerned at the recruitment of a High Number of "Expatriates" (18 to be precise) yet we have sufficient local talent to perform the same roles that they are appointed to do.
- Violation of KQ's recruitment policy which advocates for transparency and openness has been rampant since the arrival of Sebastian. A large number of managers have recently

been appointed without the roles being advertised internally or without subjecting the appointees to an interview process.

- One good example is the appointment of one Angela Nderu to the role of Head of Strategy without either an interview or without advertising the role for competition among other managers. Angela's qualification is a Diploma in catering and hotel management and she previously held the role of Manager in charge of cabin crew. How she suddenly acquired qualifications to warrant her appointment to the new role beats logic. Her salary was also raised from about 300,000/= per month to 950,000/=per month, a raise that has raised eyebrows all over KQ. This is just but one example.

#### e)Irregular Payments for Personal Security

- We have evidence that Sebastian has engaged the services of a private security firm to provide him with 2 personal security/bodyguards. Whilst the necessity for personal security and personal bodyguards is in itself questionable given that no previous KQ CEO has been provided with such a service, what attracts the attention of the Union is the huge amount of money paid for this service.
- On 28<sup>th</sup> May 2018, Sebastian paid a security firm by the name Salama Fikira an amount of USD 10,979.05 (almost KES 11 Million) for security services provided in the month of May 2018 vide an invoice No. SPGL/2018/1643. **(A copy of the said invoice is hereby attached).**
- We wonder what calibre of security was provided to warrant payment of such an amount of money for one month. Even a whole battalion of Recce Squad cannot attract a payment of this amount. This again calls the integrity of Sebastian to question.

#### 2. CONCLUSION AND RECOMMENDATIONS

From the foregoing, KAWU is convinced that the take-over of JKIA is NOT the only option that can save KQ from its financial mess. There are more and better options as recommended by Seabury.

Other initiatives could entail

- Sale-Lease-Back of aircrafts. Out of the 23 aircrafts owned by KQ, 20 of them are on Lease-Buy arrangement. KQ has already acquired 70% of these aircrafts. This allows KQ to realize between 50-70 billion if they sale this aircrafts and lease them back. This money can be utilized to buy off loans and fund other expansion plans. There is a ready market for this proposal.

- Worthy to note is the fact that the ideas contained in the PIIP proposal can still be implemented under the current KAA structures. In fact, the PIIP borrows heavily from the KAA's 5 year Strategic Plan.
- Formation of Kenya Aviation Holding Group (KAHG) to replicate the earlier cited Airlines' operating models. This is after delisting KQ and making it fully owned by the government of Kenya. KAHG will incorporate KQ, KAA, KCAA, CATERING, GROUND HANDLING, CARGO and other AIR OPERATORS that would facilitate robust inter-concessions.
- We are convinced that KAA should not be deprived of its profit making unit in a bid to save KQ. Nonetheless, KQ is currently enjoying numerous concessions by KAA. For instance, Terminal 1A and Bays 19-28 exclusive use by KQ.
- We also urge this committee to reveal the real owners of KQ's leased aircrafts and the leasing contacts which are shrouded in mystery.

**Refer to main document**

Consequently, KAWU urges the National Assembly to vote against the take-over deal and recommend for the immediate exit of Sebastian Mikosz as the KQ CEO and Johny Andersen as the KAA CEO.



**Moss Ndiema**  
**Secretary General**



# Kenya Aviation Workers Union

All correspondents should be addressed to the Secretary General

Airport Complex Ltd.  
JKIA Cargo Village,  
P.O. Box 19157-00501  
Nairobi, Kenya.  
Tel: 0729 039 242

The Clerk of the National Assembly,  
P.O. Box 41842-00100,  
NAIROBI.

4<sup>th</sup> April 2019

Dear Sir,

**RE: MEMORANDUM ON THE PROPOSED PUBLIC PRIVATE PARTNERSHIP  
BETWEEN KENYA AIRWAYS AND KENYA AIRPORTS AUTHORITY.**

Following your request for submission of memoranda pursuant to the provisions of Articles 95 and 201 (a) of the Constitution in the matter of the proposed Public Private Partnership between Kenya Airways PLC and Kenya Airports Authority, attached herewith please find our memorandum for consideration.

We further request that we be allocated a time slot to appear before the Departmental Committee on Transport, Public Works and Housing to present and prosecute our memorandum.

We look forward to your consideration.

Yours faithfully,

**Moss Ndiema**  
**Secretary General**

4<sup>th</sup> April 2019

**The Clerk of the National Assembly,  
P.O. Box 41842-00100,  
Nairobi.**

Dear Sir,

**RE: MEMORANDUM ON THE PROPOSED PUBLIC PRIVATE PARTNERSHIP BETWEEN KENYA AIRWAYS AND KENYA AIRPORTS AUTHORITY.**

**1. INTRODUCTION**

**a) Who is Kenya Aviation Workers Union**

- Kenya Aviation Workers Union (KAWU) is a trade union legally registered by the Registrar of Trade Unions in accordance with the provisions of Section 19 of the Labour Relations Act, 2007. It is the trade union that represents unionisable employees in the entire aviation sector in the country.
- KAWU has valid Recognition Agreements with employers in the aviation sector including Kenya Airways PLC (KQ), Kenya Airports Authority (KAA), Kenya Civil Aviation Authority (KCAA) and Trade Winds Limited among others.
- By virtue of the Recognition Agreements entered with the said employers in accordance with the provisions of Section 54 of the Labour Relations Act 2007, as well as subsequent Collective Bargaining Agreements (CBA) with the said employers, KAWU is therefore a key stakeholder in all matters directly or indirectly affecting employees in the aviation sector, being the sole representative of the employees.
- We are therefore presenting this memorandum to this honourable Committee on behalf of all the unionisable employees in the aviation sector whose interests are threatened by the proposed take-over of the operations of Jomo Kenyatta International Airport (JKIA) by KQ.

**b) Need for KQ to be Assisted to Turn Around**

- As a key stakeholder in the aviation sector, and particularly in the KQ's airline business, we are concerned at the manner in which KQ's business performance has been on the decline over the last 7 years plunging the airline into heavy losses in the tune of billions of shillings.
- This scenario spells doom not only to the country which relies on the airline as one of its drivers of the economy, but also to the employees whose jobs have constantly been at risk. It is therefore in our interest, as it is every Kenyan's interest, to see KQ regain its status in the airline business in the region and in the continent as the "Pride of Africa".
- There have been several attempts made in the past to save the airline from its perennial financial challenges. While most of the initiatives made in the past seem to have yielded

no fruit, we are convinced that a lot more needs to be done by all stakeholders to support the recovery of the airline. The recent debt restructuring done in 2017 is one attempt that has marginally stabilised KQ's cash-flows with most debts converted into equity. However, this alone will not save the airline.

- KQ's turn-round will only be achieved by deep diving into the root causes of the airlines financial troubles and establishing how not to fall into those pitfalls again. The root causes may range from deliberate mismanagement brought about by inept and poor leadership at the top levels, hostile operating environment due to the proliferation of external airlines eating into the domestic and regional market with government support, unfavourable tax regime, irregular procurement procedures and volatile fuel prices.
- We are convinced that taking over the operations and running of JKIA does not constitute one of the much needed interventions and assistance that KQ needs for its turn round. If KQ cannot make a profit from running its core business of flying aircrafts, then auxiliary revenues from non-core activities like running the airport will not surely save it from collapse.

## **2. REASONS WHY KAWU IS OPPOSED TO THE PIIP**

As an important contributor to the national economy, KQ needs to be rescued from collapse. But the rescue mission must uphold and comply with the applicable laws, which the take-over proposal is not doing. Below are some of the reasons why KAWU is opposed to the proposed take-over of JKIA by KQ:

### **a) The PIIP Model Not Suitable in KQ'S Case**

- Kenya Airways is a private company operating as the nation's flag carrier. On the other hand, KAA is wholly owned by the government and its prime profitable business unit is JKIA.
- KQ controls about 50% of the business at JKIA. Since 2012, KQ has been experiencing operational and financial performance challenges epitomizing an entity shrouded by imprudent business strategy leading to cash flow pressure occasioned by high fixed charges.
- As a result, the airline's ticket charges have been relatively uncompetitive thereby eroding the cabin factor in favor of the competitors with attendant perennial financial losses and default in meeting its debt obligations.
- In May 2018, KQ obtained Cabinet approval to initiate the process of running JKIA under Public Private Partnership arrangement premised on the need to upscale JKIA expansion to enable the growth of the airline.
- The proposed PIIP model has no inbuilt risk sharing element and hence is more inclined to a "take-over" rather than a Public Private Partnership (PPP).
- The PIIP proposal also creates a possibility of a viability gap funding for the other network airports which is illegal within the frameworks of both the PPP Act, 2013 and Kenya Airports Authority (KAA) Act, 1991.

Below, we look at other comparable African airlines and aviation authorities and how they are run which reveals that the KQ's PIIP is an untested model which is doomed to fail:

### **Egypt**

- In Egypt, the government wholly owns the Egyptian Holding Company for Airports and Air Navigation (EHCAAN) with its subsidiaries being:
  - Egyptian Airports Company which manages 19 regional airports with a volume of 22 million passengers annually which is equivalent to 60% of the total traffic
  - Cairo Airport Company which manages Cairo International Airport
  - National Air Navigational Services Company which serves as the industry regulator
  - Aviation Information Technology
- EHCAAN is an independent entity which operates on commercial terms and its mandate included development and expansion of aviation facilities and infrastructure to support economic activities.
- Egypt Air, the national carrier, is 100% Government owned and is now the largest airline operator in the continent by traffic numbers.

### **Morocco**

- The Moroccan Airports Authority is 100% Government owned.
- It operates airport infrastructure as well as Air Navigational Services.
- Royal Air Morac is the Moroccan national carrier and is 100% Government owned

### **Ethiopia**

- In Ethiopia, the Ethiopian Aviation Holding Group is 100% Government owned with the following subsidiaries:
  - Ethiopian Airlines Group which is the national carrier for both passengers and cargo business
  - Ethiopian Airports Enterprises which runs the national airports
  - Logistics Company
  - Aviation Academy
  - Inflight Catering Services;
  - Maintenance, Repairs and Overhaul Services; and
  - Ethiopian Hotel and Tourism Services.
- Therefore the airline and the airports management are all wholly owned by the government

## Rwanda

- In Rwanda, the Rwanda Aviation, Travel and Logistics Limited is 100% Government owned with the following subsidiaries:
  - RwandAir which is the national carrier
  - Rwanda Airports Management Limited which manages the national airports
  - National Logistics Company Limited
  - Hospitality and Travel Management Limited; and
  - Akagera Aviation Academy
- The Gulf carriers of Emirates, Qatar and Etihad, which are some of the best in the world, are all government owned with the state also running the airports and other aviation infrastructure.
- From the above examples, it is clear that their models are generally anchored on streamlining and making the civil aviation sector more vibrant, cost efficient and competitive through focused planning and co-ordination.
- In the case of the KQ's PIIP, the model is dead on arrival. It assumes that KQ is wholly owned by the government, which is not the case, and that the other aviation entities will all coalesce into one fold after the take-over.

### b) Shortcomings of the PIIP

- The intended take-over of JKIA by KQ does not conform to the requirements of Public Private Partnership (PPP) framework. The Public Private Partnership Act envisages a situation where both parties to the partnership benefit. How then does it benefit KAA to cede its premier cash cow to KQ in exchange for a concession fee less than one third of its current earnings?
- KQ is a private enterprise as opposed to KAA which is a public organization created to be the public custodian of the country's aerodromes and fully funded by tax-payer. KQ's core mandate as a listed company is to run the airline business. Since its inception, KQ's mandate has not involved running of airports which has been the preserve of KAA and its predecessor, the Aerodromes Department.
- By its business nature, KQ has neither the expertise nor the experience of running and managing airports. On the other hand, KAA has not only the expertise but a rich experience in running and managing airports. We are concerned that an entity that is not conversant with running an important facility like JKIA is being handed such an important responsibility on a silver platter.
- At the moment, JKIA generates over 90% of KAA's revenues. By ceding the business unit that brings the largest share of their revenue to KQ, KAA will remain a shell of its original

self. We feel that this is not only against the public interest but also a poor and misinformed business decision with a view to profit a private enterprise from public coffers.

- Further, with 90% of its revenue stream gone, KAA will not be able to execute its mandate of expanding and expanding and growing more aerodromes and airports in Kenya due to lack of funding. Expansion of airports across the country is of public interest as it resonates with the country's social-economic development agenda. Without JKIA, KAA will not be able to deliver on this key expectation of the Kenyan
- One of the government's key objectives is to open up the country by developing infrastructure that creates rapid connectivity domestically and regionally through growth of airports and airstrips across the country. This dream will be unattainable once JKIA gets into the private hands of KQ.

**c) Findings of Consulting Firm KPMG not in Favour of KQ's PIIP**

- The audit and consultancy firm of KPMG was recently contracted by KAA as their Transaction Adviser on the take-over deal. After reviewing the PIIP presented by KQ, KPMG established certain findings which make the deal untenable.
- KPMG observed that it had not received the detailed financial information required to confirm that KQ is today is able to fund the PIIP. They observed that KQ has withheld such crucial information from them terming it confidential. We are wondering why KQ is unwilling to give full disclosure of its financial capability to run the airport which is a public asset yet it expects to be handed the facility without questioning.
- KPMG further observed that KQ's five year plan for 2018-2022 does not cover the concessionary period it proposes to run JKIA noting that certain financial amortisations have been rescheduled post the 5 year plan. They observed that such rescheduling could detrimentally impact KQ's cash flow and thereby impacting their ability to fund the PIIP.
- KPMG also observed that KQ was in breach of certain financial covenants as at June 2018 for which they received waivers from lenders covering the period up to 31<sup>st</sup> December 2018.
- The audit firm further noted that despite KQ having restructured their debt in November 2017, it has continued facing difficulties in servicing its debts. They observed that KQ faced serious liquidity challenges at this time and questioned KQ's ability to be the operator of JKIA under the PIIP.
- In addition, KPMG noted that KQ's non-equity participating lenders had not been apprised of the PIIP, meaning that without their consent and approval, the PIIP stood the risk of adversely affecting KQ's existing loan arrangements with the said lenders.

- On the structure of the proposed Special Purpose Vehicle (SPV), KPMG observed that KQ has not provided the detailed SPV organization structure which is essential for determining the fate of majority of KAA employees, the selection criteria as well as clarity on which policies and procedures will apply in the SPV.
- To make it worse, the auditors established that KQ presently does not have the credentials to develop or operate an airport. This fact has been repeated by many observers and commentators alike. We share in this opinion that indeed, KQ lacks not only the credentials but the competence to run an airport like JKIA.
- The auditors also observed that without JKIA, KAA will require funding since other aerodromes and airports volumes and revenues are not sufficient to cover its operating expenses. To further compound KAA's problems after ceding JKIA, its liabilities such as environmental remediation, pension deficit funding and other contingent liabilities will remain under KAA hence requiring further funding which will not be covered by the concession fees to be paid by KQ. We therefore wonder in whose interest it is to plunge KAA into financial mess and burdening the taxpayer more by funding KAA which is financially stable today.
- We are unable to understand why, even after receiving these findings by a competent authority like KPMG, the PIIP by KQ is still being pushed in spite of its obvious shortcomings and disadvantages to KAA. In whose interest is this project being propelled?

**d) JKIA Take-over Not the Only Option to Turn-around KQ**

The Kenyan public is being fed with the inaccurate and false impression that Kenya Airways has suddenly found itself in a financial dementia whose only prescription for resuscitation is by taking over the operations of JKIA from KAA. The proponents of this deal want Kenyans to believe that this is the sole miraculous and "God-sent idea" that can save KQ from its financial doldrums. This is far from the truth. Below, we highlight other viable options which have been recommended for KQ's revival but the airline has chosen to ignore them.

- In February 2017, an international consultancy firm, Seabury Group, was contracted by KQ to advise the airline on a viable turnaround strategy and they made very plausible recommendations.
- Key among them was the conversion of debts owed to local banks and the government to equity which was implemented in 2017 which resulted in spurring the airlines liquidity and cash-flows.
- Another recommendation was to engage the Unions more robustly to negotiate productivity driven CBAs. Regrettably, KQ has failed to embrace this recommendation. The Union has been knocking on KQ's doors to commence CBA negotiations since June 2016 to no avail, despite the fact that the Union led the way by agreeing to drop

- guaranteed flying crew allowances in favour of allowances based on block hours actively flown which resonates very well with the productivity model recommended by Seabury.
- Seabury also recommended that KQ engages the government to waive taxes on imported aircraft parts and other materials used for aircraft maintenance.
  - They also recommended the enactment of a law to ensure all government employees and contractors utilise KQ for their travel.
  - In addition, it was recommended that KQ proactively engages the government to waive taxes on jet fuel which would save the airline over KES 7 Billion annually which is more than what KQ would generate from running JKIA. It is ironical that KQ pays Railway Maintenance Levy for its jet fuel yet this levy goes to support a sector seen as a competitor.
  - Take-over of JKIA was not one of the recommendations by Seabury. Why doesn't KQ implement these recommendations and forget the JKIA take-over? After all, there are more benefits to reap from implementing these recommendations which would make the airline more stable and sustainable in the long run.
  - We are convinced that this deal is driven by other motives in lieu of sound recommendations made by Seabury. Why would KAA be made to relinquish its most profitable business unit to save KQ, when there are more plausible options to achieve even better results?

e) **Non-Engagement of KAWU by KQ and KAA**

- The managements of both KQ and KAA have chosen to keep its employees in the dark on the discussions concerning the proposed take-over deal. Employees have been hearing from the grapevine about the deal with no official communication from the employers. Being such a sensitive issue with a great potential to affect the jobs of the employees, it is inconceivable why KQ and KAA decided to treat employees with such disdain as to ignore them in this manner.
- Similarly, KAWU has also been kept in the dark. Our efforts to seek information on the deal from both KQ and KAA have been futile. Our attempts to seek dialogue with the two employers over the matter have similarly been ignored. Yet, as the representative of the employees, we have a legal and constitutional right to be provided with information of the matter, or at the very least, be accorded an opportunity to dialogue with the said employers.
- To date, KAWU has not been provided with a copy of the Privately Initiated Investment Proposal (PIIP) by KQ which carries the details of how the proposed take-over will be implemented. Had we been provided with the PIIP, we could perhaps have understood the rationale behind the deal and constructively engage the two employers with the objective of protecting the interests of the employees.
- We have information from a recently concluded study by KPMG audit firm that if the take-over deal works as proposed, there will definitely be redundancies mainly affecting KAA staff currently working at JKIA and at the Head Office.

- Representing over 4000 employees in KQ and KAA, KAWU is a major stakeholder in the aviation sector. To alienate an important stakeholder like a union on matters that have the direct and potential implication of causing job losses is absurd and an act of pure negligence by managements of both KAA and KQ. We have a mandate to execute on behalf of our members. Our demand to be engaged in the deliberations is not a request but a requirement as per the Collective Bargaining Agreement (CBA) and the law.

f) **Previous Failed Restructuring Initiatives Carried out by KQ**

- We are apprehensive and convinced that like many other previous attempts made at resuscitating KQ since its fortunes started dose-diving in 2012, this one will also fail unless the root causes of KQ's perennial problems are identified and addressed.
- In 2012, a major restructuring of the company was carried out with the resultant retrenchment of over six hundred (600) employees in one swoop. The rationale behind the retrenchment was that the company's wage bill was so big due to what management alleged was an inordinate high staff population relative to the business requirements.
- Soon after the said redundancy was carried out, a bigger number of employees than those retrenched were engaged through an out-sourced firm, ostensibly to do the same jobs that the retrenched staff were doing. One doesn't need to be a rocket scientist to conclude with logical inference that there was no need to retrench in the first instance.
- The Union has been in the forefront questioning the rationale behind out-sourcing of the said jobs. We have not tired to ask who the real beneficiary of the out-sourcing concept is and whether it indeed serves the interests of the airline.
- We have also queried the element of discrimination amongst employees doing similar jobs. How can you justify deploying two employees with similar qualifications to do the same type of job in the same work environment where one of them earns less than half of the salary of the other? This is an unfair labour practice and exploitation of labour contrary to the constitution.
- The 2012 redundancy and the whole restructuring effort did not help the company to turn profitable. The company's fortunes have remained in the doldrums ever since. Indeed, in 2014 KAWU was forced to sign a CBA with a 0% salary increase, much to the chagrin and disappointment of our members. The reason we did so was because we decided to take a sacrifice in order to save the airline from financial collapse. We further agreed to forego some crucial allowances for our flying crew with a promise that we would review the CBA in July 2015, which was never done.
- Instead, in came another restructuring exercise spearheaded by McKinsey Consultants in 2016 in which over one hundred (100) employees were retrenched yet again with the company citing excess manpower. Again, in a show of sacrifice by the Union to save the airline from collapse, we agreed to forego annual increments for our members for one full year without claiming back-pay translating into tens of millions of shillings. Ironically, in less than six months, the company started feeling the heat of operating with less than

required manpower and they resulted, yet again, in engaging more than one hundred staff through the out-sourced firms.

- We are now experiencing yet another restructuring albeit with a slight difference, but with the same implications of job losses. We are convinced that no amount of restructuring initiatives will save KQ from its losses without first identifying the root cause of its problems and address them. We are opposed to have the employees' jobs always being sacrificed in the name of saving the loss-making airline.

#### **g) Extreme Management Failure at KQ**

- Over the last seven years, KQ has continued to sink in losses (the net loss improved from Kes 5.6 billion in 2017 to Kes 4 billion in 2018), even after engaging a foreign chief executive who was said to be a turnaround expert and more than a dozen other foreign so-called "airline experts."
- This team, led by KQ CEO Sebastian Mikosz, has failed the airline and it is time they exit if KQ is to recover. KQ has a rich reservoir of great talent of well-skilled men and women able to run the airline but the majority, who are dejected, have found solace with Gulf carriers due to poor management of the local airline.
- Over 500 KQ employees have in the last five years left for Middle Eastern airlines, which offer better terms, yet KQ continues to engage foreigners with questionable credentials, who think running JKIA is the only medicine left to resuscitate KQ.
- Recently, the KQ CEO was quoted in the media (The East African, March 17, 2019) stating that nothing short of take-over of the running of JKIA will save KQ from total collapse. He went further to state that "***there is actually no way KQ can be profitable in its current state. I don't know how to do that***". He even went further to say that if the take-over deal does not go through, he won't consider renewing his contract. We are left wondering what Sebastian is still doing holding the CEO's position yet he is clueless on how to run KQ.

### **3. LOSS OF CONFIDENCE IN KQ'S CEO**

KAWU, and a great majority of all cadres of employees of KQ, has lost confidence in the stewardship of the KQ CEO Sebastian Mikosz under whose tenure KQ has sunk deeper into losses. We have also lost faith in his capability to turn around the airline despite engaging a huge number of foreign employees in the name of "airline experts". We are convinced that Sebastian, having admitted that he is unable to turn KQ into profitability as quoted above, is only interested in lining his pockets and those of his fellow native Polish he has brought into KQ. No wonder that he is now the chief proponent of the PIIP, a project that he strangely believes will provide KQ with a singular dose for revival.

Below, we highlight some of the reasons why KAWU, and a large majority of KQ employees including managers, have lost confidence in him and why we are calling upon him to throw in the towel and exit honourably.

a) **Integrity of the Group Managing Director & CEO, Sebastian Mikosz**

- The Union has lost faith and confidence in KQ's CEO Sebastian Mikosz for various reasons.
- We went public recently with the information that Sebastian is earning an astronomically high salary of KES 8 Million per month while superintending over the affairs of an airline that is making billions of shillings in losses every year. We questioned the rationale behind paying him such a huge salary when his predecessors were earning less than a half of this amount. He went ahead to refute this by stating that his salary was KES 2.7 Million per month.
- We wish to reiterate that our position is that Sebastian earns close to KES 8 Million per month and that his denial is a plain lie. We have evidence from KQ's published half year results for the period ending 31<sup>st</sup> December 2017 that in a period of 6 months, Sebastian's total remuneration was **KES 46,694,000 Million**. This translates to KES 7.8 Million per month contrary to what he declared in public. **(Attached is a copy of an extract from the said results)**. This clearly demonstrates that Sebastian has credibility issues and his integrity is questionable.

b) **Engagement of 7 Polish Consultants and their Unreasonable Payments**

- We have an issue in the manner KQ has engaged 7 people from Poland under the guise of consultants with "airline turnaround expertise". We shall be covering the issue of their questionable credentials in details below, but what beats logic is the unreasonably high perks paid to them.
- Sebastian has chosen to keep silent over this issue even in his recent statement only confirming the existence of the Polish consultants but not refuting their huge pay. We have evidence of the handsome perks Sebastian pays his fellow nationals. And the
- For example, he paid one Monika Kieltyka-Michna who is designated as "Interim Management" a total of USD 108,000 (KES 11 Million) for services rendered in February 2018 vide Invoice No. 02/2018 dated 1<sup>st</sup> March 2018 approved and signed by Sebastian and acknowledged by the said Monika. The money was paid on 10<sup>th</sup> March 2019 through a bank transfer to Monika's bank account in Poland with account number PL 85103000190108400471058.

- Another Polish “consultant” by the name Michal Smierclak was paid a total of USD 82,000 (KES 8.3 Million) for services rendered in February 2018 vide Invoice No. 02/2018 dated 1<sup>st</sup> March 2018 approved by Sebastian and acknowledged by the said Michal. The money was paid on 10<sup>th</sup> March 2018 through a bank transfer to Michal’s bank account in Poland with account number PL 20114020040000311201967694. **(Attached are copies of the two invoices).**
- There are 5 other Polish “consultants” employed by Sebastian whom we have reason to believe, going by the above evidence, that they are paid similar terms bringing the average total cost of employment for the 7 people to about KES 66.5 Million every month.
- We believe that Sebastian has a direct interest in these payments being the person who solely appointed these people to KQ.

**c) Questionable Qualifications/Credentials of the Polish “Consultants”**

- A quick look at the credentials of the six foreigners from Poland hired by KQ CEO Sebastian Mikosz demonstrates that they bring no special skills that are not available in Kenya.
- One of them by the name Monika Kieltyka-Michna is said to be a Procurement and Operations expert and is said to hold a Masters in Business Administration (MBA) in Management and Marketing. How many such qualifications do we have in Kenya?
- Another one by the name Magdalena Serwach is said to have worked as a Legal Counsel in Poland and she holds a Masters in Law. What special talent does she bring? One wonders whether our locally trained, resourceful and experienced lawyers can’t do the work she was appointed by Sebastian to do.
- A third one by the name Piotr Piwarczyk is said to be a business analyst and sales manager with no disclosure of his qualifications.
- One Michal Smierclak is said to be specialising in strategy and procurement yet we have enough procurement professionals in Kenya registered and recognised by the Kenya Institute of Supplies Management (KISM).
- Having no special skills that are lacking in neither KQ nor Kenya as a whole, the appointment of these 6 “consultants” by Sebastian speaks volume about the personal interest he has in having them around and also depicts his sheer disdain for local talent. Again, this calls his integrity to question.
- The Union is at loss to understand why all these 7 so-called consultants have to originate from one country – Poland. If at all KQ had the need to source for external consultants, did they all have to be from Sebastian’s nationality? Must all of them come from a consulting firm (Air Biz Support) associated with Sebastian? We read some mischief here and again we call to question Sebastian’s integrity.

#### **d) Recruitment of a High Number of Expatriates**

- KQ is one of the companies in Kenya that employs a high number of expatriates yet we have sufficient local talent to perform the same roles that they are appointed to do. With 18 expatriates currently employed, one wonders what special skills they bring, yet the airline has been on the decline.
- For the airline to employ such a large number of expatriates at astronomically high salaries with no commensurate deliverables is unthinkable. The Union has been demanding better pay for local employees for the last 5 years to no avail yet KQ continues to pay these consultants. The salaries they take home in a month is sufficient to award at least a 5% salary increase to all KQ 4,000 employees which would highly boost the morale and motivation of the down-trodden employees.
- Sebastian has openly lied to the public that out of the 18 expatriates, 5 are seconded by KLM and that KLM pays their salaries. All the 5 expatriates seconded by KLM are paid by KQ from KQ's own finances.
- We are aware that KLM has the habit of dumping some of their "obsolete" or excess managers to KQ to clean up their payroll as they wait to re-absorb them back to their payroll when the need for their services arise. Needless to say, they are known to send managers to KQ who specialise in taking care of KLM's interests at the expense of KQ's business. It is no wonder that KQ's fortunes continue to dwindle while KLM's business continues to grow even in routes where ideally KQ should be the only operator under the joint venture agreement.

#### **e) Governance issues with KQ CEO**

- It has been a practice in KQ since the appointment of Sebastian Mikosz as the CEO to recruit and appoint managers without any regard to the established KQ's recruitment policy which advocates for transparency and openness. The same practice has been applied in promotions that do not follow the due process.
- A large number of managers have recently been appointed without the roles being advertised internally or without subjecting the appointees to an interview process. We view this as discrimination and an attempt by Sebastian to reward his friends and close associates.
- To make matters worse, some of the managers appointed in this manner have had their salaries drastically increased well beyond the levels of other managers in similar grades. Some have no relevant qualifications to justify their appointments.
- One good example is the appointment of one Angela Nderu to the role of Head of Strategy without either an interview or without advertising the role for competition among other managers. Angela's qualification is a Diploma in catering and hotel management and she previously held the role of Manager in charge of cabin crew. How she suddenly acquired qualifications to warrant her appointment to the new role beats logic. Her salary was also raised from about 300,000/= per month to 950,000/=per month, a raise that has raised eyebrows all over KQ. This is just but one example.

**f) Irregular Payments for Personal Security**

- We have evidence that Sebastian has engaged the services of a private security firm to provide him with 2 personal security/bodyguards. Whilst the necessity for personal security and personal bodyguards is in itself questionable given that no previous KQ CEO has been provided with such a service, what attracts the attention of the Union is the huge amount of money paid for this service.
- On 28<sup>th</sup> May 2018, Sebastian paid a security firm by the name Salama Fikira an amount of USD 10,979.05 (almost KES 11 Million) for security services provided in the month of May 2018 vide an invoice No. SPGL/2018/1643. **(A copy of the said invoice is hereby attached).**
- We wonder what calibre of security was provided to warrant payment of such an amount of money for one month. Even a whole battalion of Recce Squad cannot attract a payment of this amount. This again calls the integrity of Sebastian to question.

**4. CONCLUSION**

From the foregoing, KAWU is convinced that the take-over of JKIA is NOT the only option that can save KQ from its financial mess. There are more and better options. We are equally convinced that KAA should not be deprived of its profit making unit in a bid to save KQ. This is tantamount to robbing the Kenya tax-payer of their viable investment. We are similarly convinced that the take-over deal is ill-conceived and is not in the best public interest. We are further convinced that the current CEOs of KQ and KAA have failed in their duties by ignoring plausible findings and recommendations advising against the deal. Sebastian's push for this deal as a matter of life and death insinuates that he has is incapable of turning around KQ's core business as an airline. His management has failed and he should exit honourably.

Consequently, KAWU urges the National Assembly to vote against the take-over deal and recommend for the immediate exit of Sebastian Mikosz as the KQ CEO and Johny Andersen as the KAA CEO.



**Moss Ndiema**  
**Secretary General**



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**MOT&I/C/RAIL/ 007/3/VOL.XXVIII/13**

19<sup>th</sup> June, 2108

**Sebastian Miskoz**  
The Managing Director  
Kenya Airways  
NAIROBI

**Mr. Johnny Anderson**  
Managing Director  
Kenya Airports Authority  
NAIROBI.

**Mr. Nicholas Bodo**  
The Director Air Transport  
State Department of Transport  
NAIROBI.

**RESTRUCTURING THE KENYA CIVIL AVIATION SECTOR**

Reference is made to a letter ref. CAB/GEN/3/1/1/VOL.XIV/(261) dated 29<sup>th</sup> May, 2018 from the Head of Public Service.

In the special cabinet meeting held on 29<sup>th</sup> May, 2018, the Cabinet Secretary for Transport, Infrastructure, Public Works, Housing and Urban Development presented a joint Cabinet Memorandum CAB (18)28 together with the Cabinet Secretary for National Treasury and Planning briefing the cabinet on developments in Kenya Civil Aviation Sector seeking policy approval on actions Kenya should take to restore Kenya's Aviation Competitiveness, and reclaim the country's position as an anchor economy in Africa, with Nairobi as the African Civil Aviation hub the following was considered:

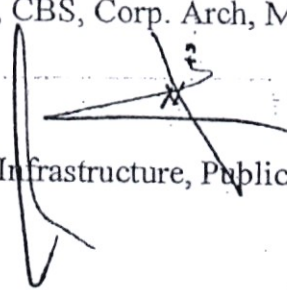
Kenya Airways and Kenya Airports Authority were granted approval to enter into negotiations with a view to agreeing on a framework to restore Nairobi as the Civil Aviation Hub of choice in Africa thereby contributing to

Kenya's economic competitiveness, with aviation being a corridor for development and technology transfer;

A substantive memorandum should be submitted for consideration and approval once the framework is agreed upon.

Prof. Arch. Paul M. Maringa (PhD), CBS, Corp. Arch, Maak, Mkip  
**PRINCIPAL SECRETARY**

Copy to: The Cabinet Secretary  
Ministry of Transport, Infrastructure, Public Works & Urban Devt.





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MOT&I/S/ADM/086 VOL.XVIII/(89)

5<sup>th</sup> October, 2018

Mr. Jonny Andersen  
Managing Director/CEO  
Kenya Airports Authority  
NAIROBI

Mr. Sebastian Mikosz  
Managing Director/CEO  
Kenya Airways PLC  
NAIROBI

Dear Mr. Andersen

RESTRUCTURING OF THE KENYA CIVIL AVIATION SECTOR -  
KENYA AIRWAYS (KQ) PRIVATELY INITIATED INVESTMENT  
PROPOSAL (PIIP)

We have reviewed our records on the above matter and note that the Kenya Airports Authority and Kenya Airways were granted approval to enter into negotiations vide letter ref: MOTI/C/RAIL/007/3/VOL.XXVIII/13 dated 19<sup>th</sup> June, 2018.

Accordingly, you are requested to take necessary action.

Yours Sincerely

  
ESTHER KOIMETT, CBS  
PRINCIPAL SECRETARY

Group Managing Director & CEO  
Sebastian Mikosz



DD/065/K5 - 2018

5<sup>th</sup> October 2018

Mr. Jonny Anderson  
Managing Director  
Kenya Airports Authority  
JKIA  
**NAIROBI.**

Dear Sir,

**RE: SUBMISSION OF THE PRIVATELY INITIATED INVESTMENT PROPOSAL (PIIP)**

Kenya Airways PLC (KQ) and Kenya Airports Authority (KAA) have been granted 'in principle' approvals by the Government of Kenya to develop and subsequently engage in a framework that will lead to the optimisation of the Jomo Kenyatta International Airport, Nairobi, Kenya (JKIA) operations.

It has been proposed that KQ and KAA enter into an arrangement that will result in KQ operating, maintaining, developing, constructing, upgrading, modernising, financing and managing JKIA (the Transaction) based on the Public Private Partnership (PPP) model.

In order to successfully execute the proposed Transaction, Kenya Airways PLC has developed the Privately Initiated Investment Proposal (PIIP) together with all appendices. The prime goal of this set of documents is to articulate the project need, define key transaction principles and present detailed vision of Kenya Airways PLC running every-day operations of JKIA.

This Privately Initiated Investment Proposal (PIIP) consists of the following documents:

1. Main document (Privately Initiated Investment Proposal).
2. Heads of Terms (HoTs).
3. Financial Model.

The above documents have been formally approved by Kenya Airways PLC Board on 4<sup>th</sup> of October 2018.

**Kenya Airways**  
The Pride of Africa



Through submission of this PIIP we kindly request Kenya Airports Authority Board to acknowledge receipt of this Transaction Proposal as well as grant KQ the approval for initiation of formal Due Diligence and Proposal Negotiations process.

Looking forward to your positive response to this request.

Kind regards

A handwritten signature in black ink, appearing to be "S. M. M." or similar, written in a cursive style.

CC

**Mr. Isaac Awuondo**  
Chairman  
Kenya Airports Authority  
JKIA  
NAIROBI.

**Michael Joseph**  
Chairman  
Kenya Airways PLC Board  
NAIROBI

## 1.1 Introduction

Kenya's aviation sector contribution to the economy in 2014.


Aviation sector is critical to development of Kenyan economy. According to estimations it contributed USD 3.2 billion and supported 520,000 jobs in 2014 alone<sup>1</sup>. Infrastructure industry is a focus area for the Government, hence is a vital part of the Vision 2030. It presents framework for the investments which is in line with Kenya's long term socio-economic improvement plan.

Despite its strategic importance, the sector faced numerous challenges in the past. They limited industry's potential to compete internationally for the business customers and tourist traffic; Internal challenges were coupled with growing competition in the region that was driven by liberation of the airspace – Kenya is a signatory for both the Yamoussoukro Agreement and SAATM.

In order to deliver Vision 2030 objectives, the Government of Kenya is keen on consolidation of the aviation sector as a first step towards its radical modernisation.

To support the reforms, Kenya Airways proposes a takeover of the Jomo Kenyatta International Airport operations and management, through a 30-year concession agreement. The objective is to ensure efficiency of both JKIA and Kenya Airways operations by central management that leverages on possible synergies. Moreover, efficient operations will support JKIA's desire for becoming a regional hub, as well as positively impact sector's contribution to the economy.

The PPP is expected to result in a number of financial and economic benefits:

- 
- Growth of the Country gross domestic product;
  - Development in different segments of the economy;
  - Job creation within airline-related industries;
  - Increased support for export of goods and services, and
  - Transfer of CAPEX and OPEX risks from the public sector to the PPP partner.

This Proposal is also in line with practices of other countries who used aviation sector – and in particular national airlines and flagship airports – as a catalyst for economic growth.

<sup>1</sup> Source: Oxford Economics (2016): The importance of the air transport to Kenya's growth.

## 1.2 Project Need Definition

The main impetus for the proposed Project is related to the JKIA's current position in East Africa. Its regional significance has been challenged as a regional hub by multiple international competitors and the Proponent – Kenya Airways PLC – diagnosed internal inefficiencies. Their improvement can lead to strengthening of the airport's stance – they are discussed in this Privately Initiated Investment Proposal (PIIP). The Proponent believes that implementation of the Project shall result in benefits to JKIA and address its all inefficiencies related to current operations as well as future challenges.

Below graph outlines key identified inefficiencies.

Figure 1: Summary of the Project Need Definition.

### KEY CHALLENGES AND RESOLVING INEFFICIENCIES OF JKIA TO REMAIN A REGIONAL HUB

- |    |  |  |
|----|--|--|
| 1. | <b>LOSING POSITION IN THE MARKET</b>     | <ul style="list-style-type: none"> <li>JKIA failing to compete and losing its role as the international hub for Kenya</li> </ul>                               |
| 2. | <b>CONDITION OF INFRASTRUCTURE</b>       | <ul style="list-style-type: none"> <li>Poor quality of the current airport infrastructure</li> </ul>   |
| 3. | <b>LIMITED CAPACITY GROWTH POTENTIAL</b> | <ul style="list-style-type: none"> <li>Capacity constraints to ensure growth</li> </ul>  |
| 4. | <b>REQUIRED CAPEX</b>                    | <ul style="list-style-type: none"> <li>Necessity of funds consolidation to invest in growth of the hub that will increase traffic of local airports</li> </ul> |
| 5. | <b>REVENUE STRUCTURE</b>                 | <ul style="list-style-type: none"> <li>Improper balance of revenue sources</li> </ul>  |
| 6. | <b>INTERNAL INEFFICIENCIES</b>           | <ul style="list-style-type: none"> <li>Potential to increase the efficiency of JKIA operations through introduction of world-class standards</li> </ul>        |

JKIA failing to compete and losing its role as the international hub for Kenya. The Nairobi airport is operating in competitive environment dominated by increasing role of neighbouring Addis Ababa as well as Gulf airports. Over the last few years, particularly Doha and Dubai became world-class airports with best-in-class infrastructure to serve millions of passengers per year. The following figures describe the difference in annual passengers traffic:

Table 1: Benchmarks of JKIA in terms of passenger traffic.

Year	Passenger Traffic (PAX)
2010	7.2 mil. PAX
2011	8.9 mil. PAX
2012	37.3 mil. PAX

	88.0 mil. PAX

In order to achieve the above results, the respective countries have massively invested in the airports assets both in terms of the airport capacity as well as quality of infrastructure to serve passengers. One of the key reasons for that, which is strongly emphasised by the Proponent, is the perception of aviation sector as the enabler of GDP growth and jobs creation mechanism. The presented benchmarks clearly indicate that investment in the airport-hub is a key prerequisite for dynamic development of related industries such as manufacturing, logistics and warehousing, or world-wide financial services.

JKIA is losing its status to competition and it may soon become a hub for East Africa region only, if no significant changes are made. Its role might be then taken over by Addis Ababa, followed by the new airport, to be constructed in Ethiopia, which will mainly serve its national carrier – Ethiopian Airlines.

Poor quality of the current airport infrastructure. Another reason for the Proponent to enter into this Project Agreement is a poor state of current JKIA infrastructure. Kenya Airways which is currently serving more than 4 million passengers per year through its hub in JKIA can provide examples of second-rate quality of the airport's assets. The Proponent states therefore that JKIA has been underinvested over the years and requires significant capital expenditures to improve quality of the services provided both to passengers (end-users) and airlines which operate to and from Nairobi. The assets requiring upgrade include in particular:

- Runway, aircraft parking and aprons;
- Terminals (check-in areas, immigration, gates etc.);
- Commercial areas (duty-free, restaurants & cafes, lounges, car parks etc.);

For this reason the Proponent assumes in this PIP additional Capex investments for deferred maintenance to upgrade state of existing infrastructure. It is also worth mentioning that the investment will have immediate pay-back due to increased revenues from PAX-related sources.

Capacity constraints to ensure growth. Besides the insufficient state of existing infrastructure at JKIA, the Proponent clearly states that the airport requires further Capex investments to retain and grow its capacity in the future. As a result of the fire that broke out at JKIA in 2013, significant part of the airport has been reconstructed on a temporary, 10-years basis (life time up to 2024). It means that lack of investments within the next 5 years will result in a drastic reduction of JKIA capacity from current 7.2 to approximately 5 million passengers per year (30% drop in traffic). Furthermore, current state of the infrastructure at JKIA prevents growth of airport's capacity due to bottlenecks and constraints related to the runway and most of all terminals.

JKIA is losing its status to competition and it may soon become a hub for East Africa region only, if no significant changes are made. Its role might be then taken over by Addis Ababa, followed by the new airport, to be constructed in Ethiopia, which will mainly serve its national carrier – Ethiopian Airlines.



However, the Proponent believes that introduction of this Project Agreement and realisation of most of planned Capex investments will enable release of the potential for further traffic growth (up to 11 mil. passengers in 2022, 16 mil. in 2030 and 34 mil. in 2050).

Due to necessity of serious investments there is no "do nothing scenario" as this approach would further weaken JKIA importance in international passengers and cargo traffic in East Africa.

Necessity of funds consolidation to invest in growth of the hub that will increase traffic of local airports. Significant upgrade of JKIA infrastructure and need for growth of the capacity require investments accounting for even USD 1.3 bn within the concession period.

JKIA generates significant profit to Kenya Airports Authority (KAA), it is, however, consumed, and eroded, through losses generated every year by local airports and airstrips. JKIA's profitability is 45% compared to KAA's 24%. The gap is a consequence of losses incurred by 17 financially unviable airports and airstrips.

Current setup does not allow efficient accumulation of funds sufficient for development of the hub in Nairobi and making it a prime aviation asset in Kenya. It may also become the biggest barrier for successful realisation of necessary Capex program in years to come. Moreover, the slower growth or decline of passengers at JKIA will negatively impact size of revenues and profits of local domestic airlines and airports.

Therefore the proposed Project Agreement aims at strengthening focus on JKIA as a hub and consolidation of funds necessary to afford planned Capex investments. Although it would mean temporary problems with financing local airports in the short run, it will definitely support their financial sustainability in the long-term perspective.

Improper balance of revenue sources. Modern, world-class airports earn their profits mainly from passenger-related sources. Duty free, commercial areas and lounges are the perfect stream of funds provided that a regular customer spends numerous hours waiting for the departing flight or transfer to another location. For this reason some of the international airports do not charge traditional landing fees in order to attract as many customers as possible.

Analysis of JKIA P&L clearly shows that the Nairobi airport is still highly-dependant on aeronautical revenues which constitute around 80% of its total revenues. The key sources of its funds are: Airport Pax Service Charge (APSC), landing fees, airbridge and fuel concessions. At the same time JKIA is not utilising its potential to generate revenue from commercial areas (underinvested duty free, lounges etc.) as well as other non-aeronautical fees charged from companies operating at the airport. JKIA's current business model in regards to those areas is based on simple concessions awarded to catering, PAX & cargo ground handling operators. However, according to best-practices it should build its own profit centres acquiring margin from serving end-customers.

The Proponent clearly states that utilization of the non-aeronautical revenues shall bring additional income which can significantly support financing the Capex investments required to grow the airport's capacity and improvement of its service quality. Kenya's attractiveness and perception as a "must go" location is further increasing this potential to generate profits from passengers transferring at the airport.

Capex

should be  
reinvested  
in growth of  
the hub instead  
of simple  
subsidising  
unprofitable,  
local airports  
and airstrips

Is essential to introduce and sustain world-class standards and increase efficiency of the airport's operations

Potential to increase the efficiency of JKIA operations through introduction of world-class standards. One of the root causes of current performance of JKIA is the limited adaptation of external, best-in-class solutions used worldwide. JKIA staff is able to perform all the operational duties to ensure uninterrupted operations of the airport, but it is struggling to implement long-term solutions to structurally change the way JKIA is managed. At the same time there is a number of benchmarks available globally which can be adopted by JKIA.

For this reason, the Proponent puts emphasis on building internal capabilities supported by transferring external knowledge to operate JKIA in much more efficient way in accordance with international standards. This includes appointment of the Airport Advisor with vast experience built by running most productive airports in the world.

### 1.3 Proposed Transaction Structure

#### 1.3.1 Key principles of the transaction

There is a number of options that were considered to address inefficiencies defined in the above Project Need Definition. The concession of JKIA to Kenya Airways, accompanied by sectoral reforms appears to be best suited as it will allow Kenya's aviation to shift from a defensive strategy to a strategy focused on gaining market share. It will be also the most efficient way of using national assets to work for the long-term benefit of the Country.

To implement the proposed concession, Kenya Airways has considered a number of contracting options. The evaluation of the PPP options considered, among other factors, the overriding objectives to ensure that Kenya Airways has control over the operations of JKIA and is able to make unhindered investments in the airport.

Under this Proposal, Kenya Airways will form a Special Purpose Vehicle (SPV) specifically dedicated to operating, managing and developing JKIA for a period of 30 years (the Concession). Kenya Airways and SPV will be managed under one management structure while other Kenyan airports will continue operations in KAA structure.

The scope of the concession is primarily comprised of rights and duties of the SPV (the Concessionaire) under a concession agreement and is proposed to include the following points:

- a) operate, maintain and develop JKIA;
- b) operate and control JKIA assets, revenue sources (both aeronautical and non-aeronautical) and operating costs;
- c) ensure compliance with local, regional and international standards and norms;
- d) collect charges for the use of JKIA by various users.

The proposed transaction is a Privately Initiated Investment Proposal. The methodology applied is the non-compete / unsolicited bid process. Given the novelty and strategic national importance of this transaction, it is suggested that the transaction will be considered under Section 61(1)(d) of the PPP Act 2013.

Section 61(1) provides for circumstances when a contracting authority may consider a PIIP for a project and procure the construction or development of a project or the performance of a service by negotiation without subjecting the proposal to a competitive procurement process.

Subsection 61(1)(d) states that where "there exists any of the circumstance as the Cabinet Secretary may prescribe".

The Contracting Authority will therefore, seek the necessary approvals from the Cabinet Secretary in accordance with Regulation 51 of the PPP Regulations 2014 on Preliminary assessment of private proposals.

Subsection 51(1) of the Regulation states that "a contracting authority may consider a privately initiated investment proposal, if it is not a proposal specified in section 61 (1) (a), (b) or (c) of the Act".

### 1.3.2 Highlight of key transaction elements

The PPP is intended to be a Concession where the Contracting Authority will concede usufructuary and development rights to the Private Party. The Private Party will operate, maintain, rehabilitate and upgrade existing infrastructure and facilities and charge user fees while paying concession fees to the Contracting Authority.

The SPV is set up to undertake the contracted airport functions in line with the contractual relationship between the SPV and the Government. There are however, other contractual relationships that are critical and interdependent, in particular loan agreements / direct agreements.

The debt and equity injections into the SPV will fund the development obligations and initial working capital requirements. The SPV will typically receive all revenues and pay all costs related to airport operations and pay a concession fee to the Kenya Airports Authority.

The proposed contractual structure is in line with the key legal and regulatory framework for PPPs in Kenya. The PPP Act defines contracting authorities as those including "a state department, agency, state corporation or county government that intends to have a function performed undertaken by it performed by a private party". The contracting arrangements envisaged can be therefore done by KAA established as the authority responsible for management of aerodromes in Kenya.

The Proponent presents in the table below highlights of key transaction elements. They have been described in details in next chapters of this Privately Initiated Investment Proposal.

Table 2: Highlight of key transaction elements.

	<p>Proponent offers to establish a Special Purpose Vehicle (SPV) to become the Concessionaire under the proposed concession agreement with Kenya Airports Authority (KAA).</p>
	<p>Assets included in the proposed Concession will be limited to aviation infrastructure only (i.e. runway, terminals, parking and aprons, car parks etc.); the detailed list of the assets and property included in the</p>

	<p>concession will be enumerated in the Project Agreement (i.e. after finalisation of the legal and financial Due Diligence);          Other, non-aviation assets and property will remain in KAA;          Assets included in the concession will be disposed to the SPV and secured through long-term lease to ensure bankability of the concession agreement.</p>
	<p>Current JKIA-related liabilities will remain in Kenya Airports Authority (KAA), however the concession fee adequacy will ensure that KAA is able to repay existing loans and interests.</p>
	<p>Proponent commits to second all the current JKIA staff to the SPV on the same terms for a period of 12 months;          After the secondment period, Proponent will transfer employees to SPV with the right to choose employees who receive the transfer proposal;          Employees not transferred to the SPV after secondment period will be reallocated by KAA to other airports and airstrips;          Responsibility for costs of potential redundancies of employees not willing to be seconded or transferred to the SPV will be defined by parties in the process of negotiations.</p>
	<p>SPV will be registered as the limited liability company (LLC) as requested by the PPP Act.</p>
	<p>SPV will be 100% owned by the Proponent (Kenya Airways PLC) subject to minor changes in the future (external investor);          The Proponent commits, however, not to lose control over the SPV during the whole concession duration.</p>
	<p>The Proponent will rely on various sources of competences including current JKIA management and staff;          The Proponent, however, commits to contract an external Airport Advisor to implement world-class solutions and best practices in running the airport;          Profiles and capabilities of the preselected Airport Advisors have been presented in this PIIP.</p>
	<p>The Proponent commits to pay KAA a regular concession fee for disposing the defined assets;          Concession fee will consist both of a fixed component (to cover KAA liabilities) and a variable one based on the revenue generated by JKIA in the last, audited financial year (revenue-sharing mechanism).</p>
	<p>The proposed project is self-financing and does not require additional Viability Gap Funding (VGF);          VGF might be, however, necessary to support KAA with financial deficit of local airports &amp; airstrips remaining in KAA (in case it is not covered by the variable part of the concession fee).</p>

	<p>Proponent commits to minimum Capex investments in runway, parking, aprons and terminals;  Minimum investment requirements will be subject to negotiations with KAA and will be defined in the Project Agreement;  Additionally, the Proponent commits to prepare and present to KAA annual investment plans in order to acquire assets' owner approval for the planned upgrades of the airport infrastructure.</p>
	<p>Capital structure for the project has been assumed as 80 : 20 ratio of debt to equity.</p>
	<p>Financial model has been created as the inherent part of this PIIP in order to estimate expected profitability of the Project as well as to calculate the value of concession fee paid to KAA on annual basis.</p>
	<p>This PIIP defines regulatory amendments necessary to execute the Project as well as other changes and tax exemptions which will significantly support achievement of Project objectives.</p>

#### 1.4 Impact of The Transaction

Projected financial figures of the Project as well as assumed Capex investments in airport infrastructure are based on the assumption of the traffic growth. Base case scenario assumes that passenger number and air traffic will increase by 5% for the next ten years and by 4% for the remaining twenty years of the proposed concession. Therefore, JKIA will require a significant investment program to meet the expected increase in traffic.

The most recent detailed infrastructure review and investment plan was performed in 2011. Therefore, an updated review of the infrastructure and investment must be undertaken before signing the Project Agreement. The Proponent assumes appointment of the preselected Airport Advisor prior to the Due Diligence phase in order to rationalize investment needs defined by KAA.

Proposed investment program has been divided under two major priorities. Realisation of Priority One Capex expenditures will enable the airport to reach up to 10.5 million passengers per year. Priority Two investments will aim at further increasing of JKIA capacity which will however require validation in course of the concession.

Key investment requirements are listed below:

Rehabilitation of Taxiway and Parking Apron – This investment will reduce the time an aircraft remains on the runway and as a consequence increase the capacity of the airport. It will cost around USD 110 million to construct.

## BACKGROUND

In May, 2018, the Cabinet, through a Cabinet Memorandum CAB (18/28) granted an in principle approval to Kenya Airways (KQ) and Kenya Airports Authority (KAA) to develop and subsequently engage in a framework that will lead to the optimization of operations of Jomo Kenyatta International Airport (JKIA). In a letter dated 19<sup>th</sup> June, 2018, the Principal Secretary, Department of Transport, Ministry of Transport, Infrastructure and Urban Development issued instructions to KAA and KQ to proceed with the implementation of the Cabinet's directive.

## PRIVATELY INITIATED INVESTMENT PROPOSAL (PIIP)

On 5<sup>th</sup> October, 2018, the Authority received a Privately Initiated Investment Proposal from KQ. This document whose Executive Summary is attached to this memorandum incorporates Heads of Terms and a Financial Model for the proposed transaction. The PIIP has been anchored on the Private Public Partnership (PPP) Act 2013 and broadly envisages the following transaction structure:

- a 30 year concession framework under which KQ will seek, through a special purpose vehicle (the Concessionaire), to manage and develop JKIA leaving KAA to manage all other Kenyan airports and airstrips at a fee (concession fee);
- Inclusion of JKIA's aviation infrastructure in the concession as will be enumerated in the Project Agreement upon conclusion of due diligence;
- Retention of JKIA related liabilities (both actual and contingent) by KAA
- Initial secondment and transfer thereafter, at the discretion of the Concessionaire, of JKIA staff;
- Engagement by the Concessionaire of an external Airport Advisor to implement world class solutions and airport management best practices; and
- KQ committing to meet minimum investment requirements as shall be negotiated with KAA.

## STRATEGIC RATIONALE

The main arguments in support of the proposed transaction is the consolidation of key aviation assets to realize significant operational efficiencies and synergies, restoration of the aviation sector's regional and international competitiveness, protection of JKIA's regional hub status, improved diversification and utilisation of JKIA resources and support for KQ's turnaround programme. The Authority appreciates the strategic context of the proposed transaction and fully supports an engagement with KQ on the expectation that the final result will be mutually beneficial and translate into strengthening of all institutions.

## PRELIMINARY EVALUATION

While a comprehensive risk assessment of the proposed transaction will be conducted as part of the detailed due diligence, the Board should take note of the following potential risks to be addressed:

- (i) Currently, JKIA accounts for nearly 83% of KAA's revenues and 51% of the recurrent expenditure. If JKIA is concessioned out, the arrangement will deprive KAA of significant resources given that the concession fee will not sufficiently cover the operational and CAPEX costs of the remaining airports, airstrips and Head Office. In KQ's financial model, annual concession fees have been set at an initial US\$ 28 million (equivalent to Shs 2.9 billion) in 2019 rising gradually to US\$ 35 million (Kshs 3.6 billion) in 2028 and only peaks at US\$ 60 million (Shs 6.1 billion) in 2033 ie 15 years into the concession term. In comparison, 2018/19 KAA's non-JKIA operations are budgeted to cost Shs 6.6 billion in recurrent expenditure, a Shs 3.7 billion shortfall from the proposed concession fees of Shs 2.9 billion. The proposed concession fee is therefore inadequate to cover the cost of running KAA's other facilities.
- (ii) KQ's proposal assumes that KAA will retain all the contingent liabilities including those arising from JKIA's operations. Even though the actual amounts to be paid out after resolution of the Shs 32 billion contingent liabilities and disputed claims will be significantly lower, the non-inclusion of these liabilities in the proposed transaction will certainly leave KAA worse off financially.
- (iii) KQ has not proposed a definite capital investment programme over the life of the concession and has instead proposed that the minimum investment levels be negotiated for inclusion in the Project Agreement. KQ has, however, recognized the importance of investments aggregating to US\$ 1.3 billion to be undertaken within the first five years. These include remodeling of terminals B-C-D, rehabilitation of taxiways and aprons, runway upgrade, new terminal building and parking extension. Considering the extended term of the proposed concession, there is need to firm up the minimum investment levels as this is a critical element without which the economic and financial viability of the proposed transaction is difficult to assess.
- (iv) The capacity of KQ to execute the transaction through an SPV will require careful assessment as part of the due diligence. KQ has proposed to engage an Airport Advisor in order to augment its airport management capacity. This notwithstanding, the proposed arrangement which brings KQ, JKIA and the Airport Advisors employees together needs to be carefully examined especially from labour management and governance perspectives.

#### PROFORMA FINANCIAL PERFORMANCE

The following table illustrates a high level financial impact of the proposed concession arrangement. As required, detailed projections will be prepared during the due diligence phase with support from the Transaction Advisor.

KAA's Proforma 2018/2019 Financial Performance

	No Concession Shs Millions	With Concession Shs Millions	Comments
Aeronautical Revenues	13,531	5,234	With concession, KAA loses Shs 11.2 billion of JKIA revenues and gains Shs 2.9 billion in concession fee

Non-Aeronautical Revenues	3,543	388	With concession, KAA loses Shs 3.0 billion of JKIA revenue
Other Income	353	198	With concession, KAA loses 155 million of JKIA revenue
Total Income	17,429	4,643	
Operating Expenses	13,625	6,677	KAA saves Shs 6.9 billion of JKIA expenditure
Profit Before Tax	3,804	(3,605)	

Approaches to addressing the above operational deficit will form an integral part of the negotiations with KQ.

#### PROPOSED TRANSACTION TIMETABLE

The Authority has been informed of an expected closing date of mid December, 2018. In our view, this deadline is quite ambitious given the complexity of the transaction and the need to execute the following tasks falling within the project's critical path. We consider a 6 month period to be more realistic.

- (i) Approval by KAA's Board of KQ's request to conduct due diligence on KAA/JKIA;
- (ii) Engaging the PPP Unit on the proposed transaction;
- (iii) Conduct of Due Diligence by KQ on KAA/JKIA;
- (iv) Recruitment of a Transaction Advisor by KAA;
- (v) Review of PIIIP by KAA and conduct of due diligence on KQ by KAA;
- (vi) Negotiation of Heads of Terms and Project Agreement; and
- (vii) Final approvals for Heads of Terms and Project Agreement

#### NEED FOR A TRANSACTION ADVISOR

The complexity and urgency of the proposed transaction requires the Authority to consider engaging the services of a transaction advisor with demonstrable skills and experience in airport concessions set up and management, transaction and technical support and familiarity with the applicable legal and regulatory framework. This engagement will equip the Authority with the requisite technical and specialist skills to enable the Board and Management provide the appropriate advice to the Government of Kenya to compete this transaction.

The scope of work for the advisory engagement will include:

- Assessment of KQ's financial and operational capacity to enter into the proposed transaction
- Assess the financial deliverability of the transaction as proposed by the proponent
- Review of project documents submitted by KQ - PIIIP, Heads of Terms and Financial Model

- Review and advise on the legal and regulatory matters pertaining to the proposed transaction including approvals to be secured by KAA
- Conducting a legal, financial and technical due diligence on the proposed transaction
- Assessment of the potential legal and operational risks
- Review and advise on the proposed operating, investment and maintenance plans including adequacy of proposed CAPEX investments based on growth forecasts
- Review the structure and adequacy of the proposed concession fee
- Advise on tax structuring of the transaction...
- Carry out environmental, social and economic analysis of the project; and
- Provide negotiation support throughout the deal execution phase.

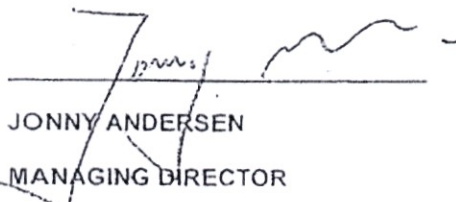
Due to the tight timelines, Management proposes to fast track the appointment of the Transaction Advisor by engaging one of the firms on the Authority's panel of prequalified law firms.

In the interim, the Authority will apply, through the State Department of Transport, for Treasury's support in covering the costs of the transaction support engagement.

#### RECOMMENDATIONS

To enable the Authority move this transaction to the next level in terms of due diligence and negotiation of the key transaction terms, the Board is hereby invited to consider and approve:

- The initiation of formal due diligence and engagement with KQ on the basis of the PIIP already received;
- The Authority's engagement with the PPP Unit for support and guidance as envisaged under the Public Private Partnership Act 2013; and
- To approve the engagement of a Transaction Advisor from amongst the Authority's prequalified panel of law firms taking into account availability, cost and the need to comply with applicable procurement and other laws.

  
 \_\_\_\_\_  
 JONNY ANDERSEN  
 MANAGING DIRECTOR

DATE 17. OCT. 2018.



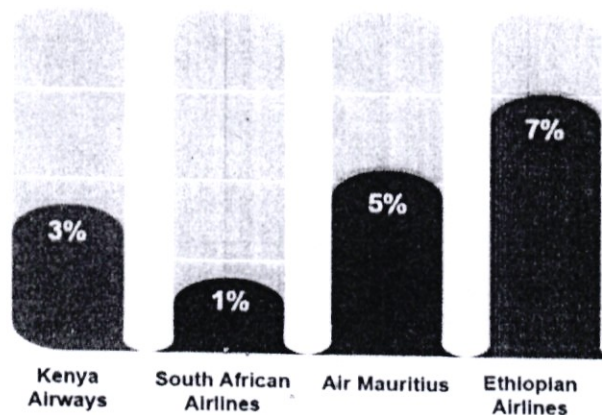
THE PROPOSED PUBLIC-PRIVATE PARTNERSHIP  
BETWEEN KENYA AIRPORTS AUTHORITY AND KENYA  
AIRWAYS PLC

26<sup>th</sup> February 2019

## 1. EXECUTIVE SUMMARY

- The Kenyan aviation sector is facing a steady decline, characterized by the turbulence experienced by the national carrier as well as loss of business at Jomo Kenyatta International Airport (JKIA) to other competing hubs.
- The market conditions are forcing a new type of strategic restructuring for the whole of Kenyan Civil Aviation. The Privately Initiated Investments Proposal (PIIP) is the answer to this need, which treats at the challenges facing the industry holistically, rather than piece by piece.
- The conditions facing Kenya Airways (KQ) and JKIA are alarming. Kenyan aviation as a whole was losing market share over last couple of years to its competitors. Ethiopian Airlines (ET), which was half the size of Kenya Airways (KQ) in 2010, has grown exponentially in recent years. It has outpaced KQ three times since then. From 2015 to 2018 all competing carriers in the region increased their market share: ET by 20%, Qatar by 12%, and RwandAir by 22%, all while KQ lost 4%.
- Kenya instantly opened up its airspace to the other African states through the Single African Air Transport Market initiative in 2015. However, Africa does not have a functioning competition regime to ensure a level playing field for KQ and JKIA. Kenyan aviation players, therefore, face imminent danger of being pushed out of the market by competitors, who benefit from market protection or government subsidies, without an avenue for recourse.
- Given the significant contribution of airlines to the GDP of a country, many African and Middle Eastern carriers have opted to use their airlines and airports as an instrument of economic development and geopolitical presence, rather than as an instrument to maximize the benefits and dividends for airline shareholders.
- A Public-Private Partnership (PPP) between KAA and KQ is essentially a reflection of what KQ's strongest competitors in the region, such as ET, Emirates or Qatar Airways, have done with a strong support and protection from their respective governments.
- It is critical to stop looking at the aviation industry as only for profit, and instead regard it as a driver of economic growth and new jobs for Kenyans. KQ competes with airlines who's mandate is to grow the economy rather than focus on the profit. These airlines are strongly protected by their governments, and as such they run national hubs with the same goal.

Figure 1 Overall impact of selected airlines on the GDP.



- KQ has no preferential treatment in its own hub of operation, even though it is responsible for around 50 – 60% of overall traffic at JKIA. Considering this, KQ will never be as competitive as other airlines and will continue to lose market share and generate losses.
- KQ and JKIA must exist in synergy. One of the rationales for the PPP is the fact that KQ is the only airline interested in development of JKIA. Should KQ collapse or limit its operations, JKIA will be downgraded to the status of a regional airport.

- To achieve this, KQ has developed the Privately Initiated Investment Proposal (PIIP), which assumes creation of a **Public Private Partnership (PPP)** between KAA and KQ to realize crucial operational and strategic synergies. Ultimately, the project aims to establish a **Special Economic Zone** to boost manufacturing, warehousing, and logistics industries in Nairobi. **Thousands of new jobs for Kenyans would be created as a result.**
- Proposed KAA & KQ PPP (Project Simba) is the first step in the review and modernisation of the GoK's Aviation Policy and Strategy in tandem with Kenya Vision 2030.

## 2. REASONS WHY JKIA & KQ NEED TO ACT TOGETHER

The project aims to evolve the aviation industry in Kenya to the next level of expertise through significant strengthening of the mandate given to the national assets.






### WHAT IS THE CURRENT AIRLINE INDUSTRY SITUATION IN AFRICA?

- Kenya has long been the aviation powerhouse in East, Central and Southern Africa, with a resilient national airline and strategic hub. However, **the aviation landscape globally has undergone rapid changes** in the past decade and Kenya has not adapted in an agile manner. Consequently, the Kenyan aviation sector is facing a steady decline.

In the current setup, both KQ and JKIA are unable to compete with rival international players. Addis Ababa, Doha and Dubai have been defined as appropriate benchmarks

- Other players have adjusted faster to the changes due to their governments decision to change the mandate of their aviation sector to become a strategic instrument for economic growth in order to grow tourism and draw in foreign investments.

Figure 2 Comparison of KQ and its airline competitors.

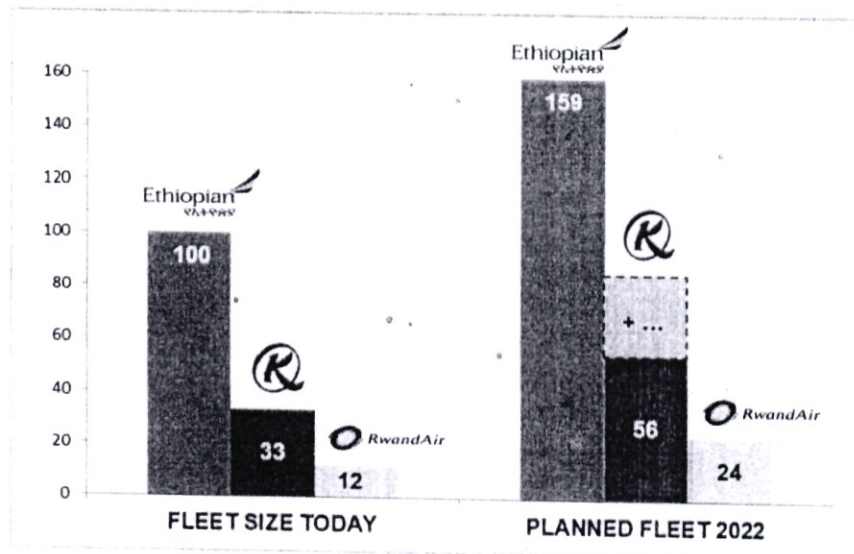
Category	 Ethiopian Airlines	 QATAR AIRWAYS	 Emirates	 RwandAir	 Kenya Airways
Ownership	100 % government	100 % government	100 % government	100 % government	Public-listed company
Aircraft number	100 (59 on order)	203 (100 on order)	200+ (100 on order)	12 (12-15 on order)	33 (no orders yet)
Destinations number	131 (77 in Africa)	150+ (23 in Africa)	140 (20 in Africa)	21 (17 in Africa)	53 (45 in Africa)
Integrated airline & airport	✓	✓	✓	✓	✗
Subsidies - Direct and indirect (no taxes)	✓	✓	✓	✓	✗
Regulations preventing employees from strikes	✓	✓	✓	✓	✗
Preference in booking by local travel agents	✓	✓	✓	✓	✗
Competitors' flights to Kenya	4 dally (3 x NBO, 1 x MBA)	4 dally (3 x NBO, 1 x MBA)	2 dally (2 x NBO)	3 dally (2 x NBO, 1 x MBA)	Not applicable
KQ Flights to the respective hubs	2 dally	0 dally	2 dally	2 dally	Not applicable

Source: Kenya Airways (2018)

\* Cargo aircrafts not included in the table

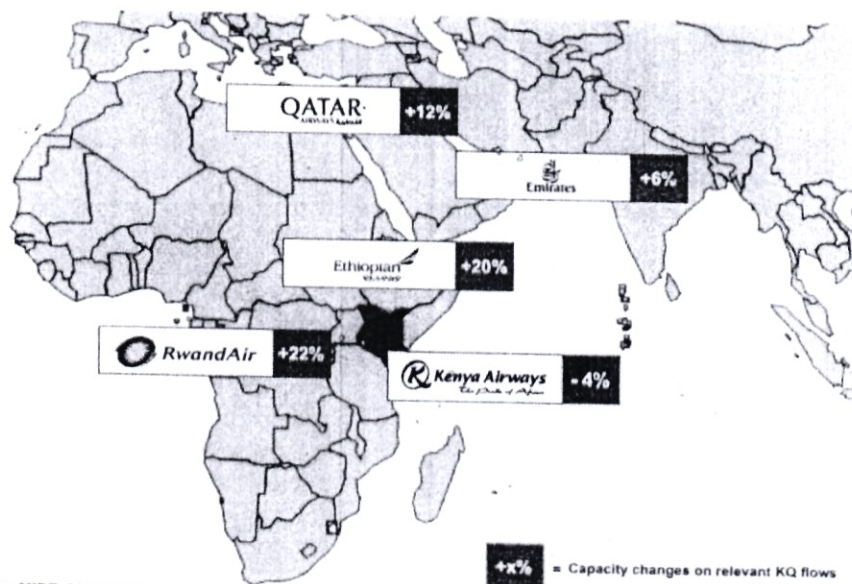
- The current aviation operation model in Kenya does not facilitate the growth of both KQ and JKIA. Unlike an integrated airline and airport model, KAA and KQ simply have different, **unsynchronized goals**, which should be realigned to focus primarily on cooperation for the sake of Kenya.
- KQ used to be a leader in the East African region with significant number of modern aircrafts. Currently, Ethiopian Airlines (ET) operates a three times bigger fleet (100 aircrafts) with the next 59 on order. To make matter worse, the new airlines are being established and challenge the positions of existing market champions. A very good example is RwandAir having a massive support from its home government.

Figure 3 Comparison of current and forecasted fleet sizes.



- Airline market data leaves no doubt that the Kenyan Aviation market share is shrinking continuously.

Figure 4 Comparison of market share changes in the region.



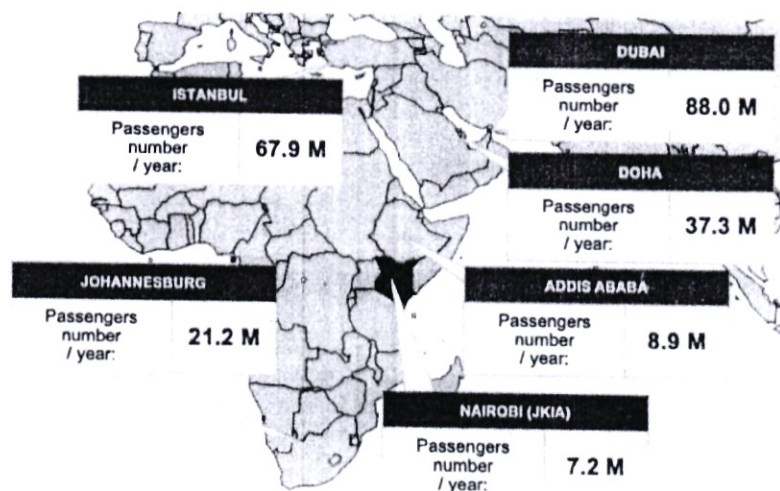
Source: MIDT 2015-2017

### WHAT IS THE CURRENT AIRPORTS SITUATION IN THE REGION?

- KQ's main competitors (Ethiopian, RwandAir, and the 3 Gulf carriers) are all 100% state owned.
- All have engaged in aggressive growth strategies focused on volume and market share.
- When Ethiopian embarked on its Vision 2025 plan in 2011, it was behind KQ, SAA, and Egyptair in terms of capacity. Today, after an average 20 to 25% yearly capacity growth, ET is the largest, with roughly 4 times the Available Seat Kilometer (ASK) capacity, a measure of the capacity of an airline, of KQ. It is significantly impacting the traffic in the hub.

Ethiopian Airlines plans to build a new airport with annual capacity of 80 million passengers in Bishoftu, about 48km southeast of the capital Addis Ababa

Figure 5 Comparison of traffic at JKIA and competing airports.



- Most of KQ's immediate rivals built aviation holdings which strengthened their market position. That is due to consolidation of the national aviation assets and consequently alignment of their goals.

Figure 6 Comparison of competing HUBs business models

Airline Group	ET Group	The Emirates Group (Emirates and Qata)	Egypt Air Holding Company
	Ethiopian Airlines	Emirates dnata	EGYPTAIR
Skytrax Rating	★ ★ ★ ★	★ ★ ★ ★	★ ★ ★
Hubs	Addis Ababa	Dubai	Cairo
	LODIA		
	Togo		
Human Capital	16,002	103,363	5000+
Business Units	Ethiopian Airlines	Emirates Holidays	Passenger
	Ethiopian Aviation Academy	Emirates Skywards	Cargo
	Ethiopian Inflight Catering Services	Emirates Sky Cargo	Catering
	Ethiopian Maintenance Repair and Overhaul (MRO)	Emirates Group Security	Tourism
	Ethiopian Cargo	Emirates Flight Training Academy	Duty Free
	Ethiopian Catering	Emirates Engineering	Medical Services
	Ethiopian Airports Enterprise	Emirates Flight Catering	Inflight Services
		Emirates Exclusive	Other Industries (Plastic Products)
		Engineering businesses	

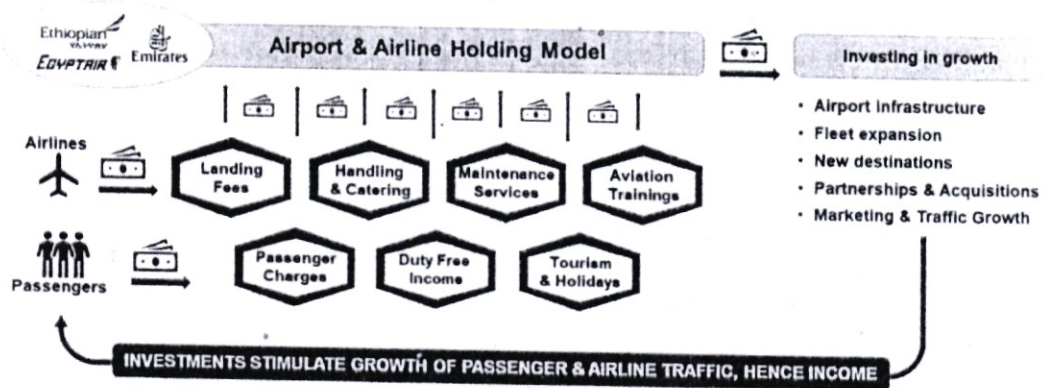
- For example, Egypt Air Holding Company partnered in early 2007 with the Egyptian Ministry of Civil Aviation and Egyptian Holding Company for Airports & Air Navigation to form a new corporate entity, the Smart Aviation Company.
- To achieve growth, all airlines are looking for a possibility of expansion into markets with many potential customers. **Kenyan market is among the most interesting ones** in Africa for two reasons:
  - A significant number of business travellers due to many companies present in Kenya; and
  - A market with a large number of premium leisure tourists.
- **The main reasons of this situation are highlighted below:**
  - Kenya is not protecting its home carrier from unfair competition coming from abroad; and
  - Most of airlines flying from Nairobi are carrying passengers from the Kenyan market into their own hubs with the primary objective to transport them to other destinations.

Figure 6 Frequency of operations of KQ and competitors airports.

Airline	Freq. (NBO)	Freq. (MBA)	Aircraft type	KQ freq.	Impact on Kenya Airways
Ethiopian Ethiopian Airlines	3 daily	1 daily (+1)	Boeing 737 Boeing 787	2 daily	Estimated NUMBER OF PAX carried by the respective airlines PER YEAR <b>0.5+ million</b>
QATAR Qatar Airways	3 daily	0 daily (+1)	Airbus 320 Boeing 787	0 daily	
Emirates	2 daily	0 daily	Boeing 777	2 daily	
RwandAir	2 daily	1 daily	Boeing 737	1 daily	Estimated LOSS OF REVENUE BY KENYA AIRWAYS (USD 203 per PAX) <b>\$100+ million</b>
TURKISH AIRLINES	1 daily	1 daily	Boeing 737	0 daily	Charges PAID TO KAA (LANDING FEES AND OTHER) <b>\$ 7+ million</b>
الخطوط ETIHAD	1 daily	0 daily	Airbus 320	0 daily	

- KQ is the only carrier interested in the growth of Nairobi to retain the money within local economy. The image below illustrates how investments circulate among various stakeholders in the aviation industry.

Figure 7 Cash flow among aviation industry stakeholders.

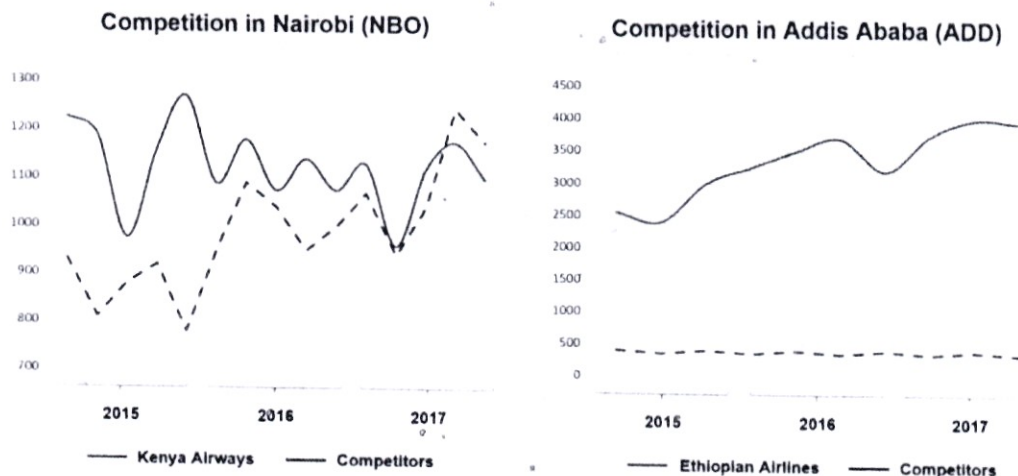


#### HOW DID ETHIOPIAN AIRLINES ATTAIN SUCH GROWTH?

- About 15 years ago, the Ethiopian state decided to turn ET into a strategic asset with the mandate of becoming a pan-African airline, competing not only with KQ but with all major regional carriers. To achieve this, the Ethiopian government implemented several initiatives driving the impressive growth of Ethiopian Airlines.

- The graphs below present the very different approach towards competition at JKIA and Addis Ababa where **government simply blocks other airlines entry or increase their costs significantly to eliminate them from the market.** On the contrary, KQ is continuously pushed out of the market by international players including ET which plans to dominate this market too.
- **Generally, more than 50% of flights realized from JKIA are from competition airlines.** KQ's share in its hub has significantly lowered over last 3 years. Meanwhile, ET is protected in its own airport as competition is consistently blocked from increasing operations.

Figure 8 Comparison of competition models between KQ and ET (ASK).  
ASK number: available seats per kilometre = "production" in the airport).



- The main reason for ET's success in achieving a better Revenue Available Seat Kilometre (RASK)<sup>1</sup> compared to KQ is by being the dominant carrier in the huge Addis Ababa market versus the competition. **From the graph, the ET ASK deployment is eight times that of the combined competition in their hub.**
- ET also enjoys a lower Cost per Available Seat Kilometre (CASK)<sup>2</sup> than KQ due to **lower cost structure in their hub** because of, for example, no interest on aircraft loans, no charges for infra-structure, controlled salary increases, monopolies of airport services, such as handling. **The model of operations for ET, as stated above, lowers the level of CASK and makes difficult for other competitors including KQ to survive in their market.** It is therefore not a surprise that the level of competition in Addis Ababa is minimal.

#### WHICH OPTIONS FOR THE FUTURE WERE CONSIDERED?

- The selection of the best option required not only the review of different objectives and interests to be balanced, but also took into account the needs and economics of the KAA and KQ. Answers to several questions were crucial during the decision-making process:
  - Does the option satisfy national objectives?
  - Does the option meet the needs of the aviation sector and the entities involved (i.e. KQ and JKIA)?
  - Will it be possible to implement the option and manage the arrangement going forward without undue difficulty?
  - Will the option enhance the financial viability of the businesses and is the option bankable?

<sup>1</sup> Revenue Available Seat Kilometre (RASK) – a measure of revenue performance; unit revenue in the airline industry.

<sup>2</sup> Cost Available Seat Kilometre (CASK) – a measure of cost performance; unit cost in the airline industry.

Several alternative structures of the transaction, such as an aviation holding company, were analyzed. The PPP framework best fits the goals – benefiting both parties through clearly defined provisions under a Concession Agreement.

Figure 9 Scenarios considered in the project.

1.	<b>Downsizing the airline</b>	Downsize the airline to a level where it once more becomes profitable	X
2.	<b>Selling / merging KQ with another airline</b>	Option resulting in lost control over the Kenyan national carrier (key aviation asset)	X
3.	<b>Recapitalising Kenya Airways</b>	Annual capital injections necessary to support the national carrier (significant liability for the Government of Kenya)	X
4.	<b>Building the Kenya Aviation Holding</b>	Option preferred and discussed in details, however more difficult in implementation (sale of assets, changes in shareholding structures)	✓
4a.	<b>Awarding JKIA concession to KQ (PPP framework)</b>	<b>PPP was selected as the most favorable option for the benefit of aviation and Kenya (control, synergy of assets)</b>	✓

- While an initial assumption was to create a Kenyan Aviation Holding Company, the idea quickly evolved to a Public-Private Partnership between KQ and JKIA. The central principle of this scenario is that all airlines assets are controlled by the Kenyan State would be housed in one legal entity to foster synergies.

### 3. PUBLIC-PRIVATE PARTNERSHIP – THE MOST SUITABLE SETUP FOR THE PROJECT

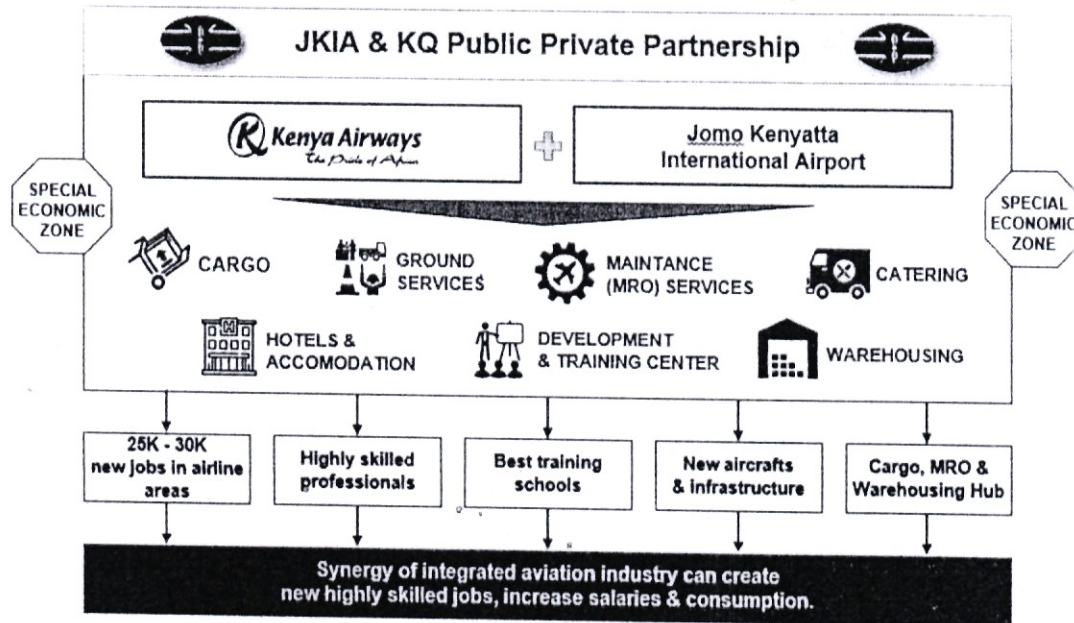
#### WHAT ARE THE BENEFITS OF PPP TO JKIA, KQ, & THE KENYAN ECONOMY?

- The PPP is the preferred framework chosen around the world to manage and develop airport infrastructure.
- Key reasons for the PPP are:
  - Proposed business model where the national aviation hub is run under the same group structure with the national airline has been proven successful in other countries such as Ethiopia and United Arab Emirates (Dubai);
  - PPP framework is very transparent and enables control from various parties;
  - Allow Kenya's aviation sector to shift from a defensive strategy to a strategy of competing for the market shares again;
  - Recommended solution is the most efficient way of using national assets to work for the Country;
  - The proposed setup can bring benefits to the economy as well as the aviation sector as it is able to bring huge economic benefits to the Country;
  - Strong aviation structure will much better resist any systemic shock like Ebola virus or a terrorist attack; and

This solution can be easily completed by the establishment of a Special Economic Zone which will be massive support for the manufacturing strategy of Kenya.

- A significant number of airlines have moved into a structure where they have many subsidiaries in a bid to better manage costs and increase revenues. This kind of arrangement provides greater autonomy, which enables the company to be more profitable. Introduction of the above structure is one of the reasons for success in hubs like Addis Ababa.

Figure 10. Overview of JKIA & KQ Public-Private Partnership structure.



- It is critical that the arrangement ensures improvements in the functioning of JKIA and KQ, such as actions aimed at immediate increase of revenue generated from airline-related and other revenue sources as well as limitation of KQ costs to ensure profitability of flights and efficient competitive position in the market. These benefits are achieved through the PPP.
- As a result of the project, KQ will be able to invest in fleet expansion and also secure funding necessary for development of JKIA at the same time **establishing new profit centers** such as cargo and ground services facilities, a Maintenance Repair and Overhaul Centre for Africa, catering, fuel distribution or training & development centre.
- Consequently, **JKIA will significantly benefit from introducing the transaction** by upgrading the current infrastructure to accommodate expected growth in traffic, e.g.:
  - Upgrade of runway, taxiways and aprons;
  - Remodeling existing terminals;
  - Constructing a new terminal; and
  - Increasing revenues from all sources.
- Fundamentally, the **joint assets will result in synergies, boosting airline-related revenues, increasing exports of goods and creating 25,000 – 30,000 jobs in the future.** A key phase of the aviation modernization process is the establishment of the **Special Economic Zone** around JKIA to stimulate investments and growth of various industries such as logistics, warehousing, and distribution centers.

#### WHAT DOES THE PPP METHODOLOGY MEAN FOR JKIA & KQ?

- In view of the advantage of executing the project rapidly and efficiently, KQ and KAA would negotiate to engage in a **30-years Concession Agreement framework under a PPP Act** with KQ as the private party and KAA as the contracting authority; in line with the PPP Act.
- The concession would be specific to JKIA as the project **asset and the concession will be held by a Special Purpose Vehicle (SPV)**, owned by KQ. The SPV **will take on all JKIA staff and operational expenditures** from the date of the concession, while being responsible for a **comprehensive investment program in airport infrastructure**.
- The prime rationale for selecting the PPP formula as the recommended framework for this transaction is that there is **no necessity of transferring or selling the JKIA assets**. Instead, **aviation assets would be delegated** to the SPV.
- Upgraded & developed JKIA **assets will return under KAA management** after the proposed Concession Period.
- Within the PPP setup, KQ and KAA shall agree on a fair **concession fee model, including fixed and variable components**. The fixed component would address KAA's current liabilities and costs, while the variable component will allow KAA to **participate in the future growth of traffic, revenues, and profits of JKIA**.
- The recommended setup of a long-term Concession Agreement **would also ensure bankability of the concession by enabling the new entity to raise external financing** required to support the broad investment program.
- Another advantage of the proposed concession is the possibility to **negotiate various performance-based clauses** ensuring **KQ fulfils all agreed targets and commitments** for all parties, including other airlines. Various exit clauses would safeguard the efficient realization of project goals.
- The recommended PPP, unlike other structures, **would cover only JKIA aviation-related assets** (runway, terminals, aprons and taxiways, car parks etc.) **while the remaining land will be fully administered by KAA**.

#### 4. KQ'S CURRENT SITUATION

##### HOW DID FINANCIAL RESTRUCTURING IMPACT KQ OPERATIONS?

- Kenya Airways PLC has in recent years experienced financial distress that culminated in a series of poor financial results that topped a record KES 26.2bn (US\$258m) for 2015-16 financial period.
- The recent closure of the financial restructuring **has created an impression that KQ returned to profitability**. In the public perception, the company has been rescued, obtained the support of the government through the sovereign guarantees, and has started growing by launching the Nairobi – New York non-stop flight.
- According to KQ's management and Board, **the situation is very different:**
  - The market **situation of KQ is alarming**. The national carrier of Kenya has been pushed **out of the market by other airlines**, which are very strongly protected by their governments.
  - Although the financial restructuring helped KQ in the recent turbulent times, **in order to maintain long-term liquidity, and eventually profitability, the airline will have to be subject to a more thorough and fundamental turnaround process**, especially in the areas of reducing costs, well thought capital expenditures as well as changing the organisational & work culture.
  - Regardless of the internal Kenya Airways turnaround process there is a need for a different, more holistic, restructuring. **Not only for KQ but for Kenyan Civil Aviation in general**. A required solution will change the mandate of Kenyan Aviation and position the airline to become the most prominent African carrier.
- Provided the current financial situation of KQ and the competition, KQ management analysed various scenarios of possible improvement of KQ situation.

- **KQ's approach to the restructuring was put down in a document called a "White Paper".** It stipulated strategic assessment of the aviation industry in Kenya, its position in the region and scenarios for future developments. **It also contained an analysis-backed proposal for changes at every level – government, market, and regulations – to ensure the dominance of Kenyan aviation.**
- **Eventually, it became an answer to many problems financial restructuring could not solve.** As such, it became a strategic government document that became a foundation for Project Simba. It was reviewed by various government bodies, including ministries, and ended up with a Cabinet approval.

## 5. JKIA'S CURRENT SITUATION

### WHAT IS THE RELATIONSHIP BETWEEN JKIA & KQ?

- JKIA is the only hub in Kenya and by far the largest airport in the country. As such it practically enjoys a monopoly and despite some setbacks, **JKIA is the only profitable airport managed by KAA.**
- **KQ is the largest customer of JKIA in every possible term** and the airport would lose its importance or even cease to exist should KQ go bankrupt. Both organisms co-exist in a symbiosis, and success of each is dependent on another. The synergy of operation is of an utmost importance should JKIA and KQ want to grow and improve its position in the region.
- As was gathered during the due diligence exercise, which is part of the PPP process, the airport is facing challenges that have to be addressed. Lack of necessary actions on the other hand would result in a significant decrease in capacity which will further diminish importance of the JKIA, size of the aviation sector and related jobs, as well as monetary inflows to Kenyan economy.

### WHAT ARE THE ACTIONS THAT KQ WOULD UNDERTAKE AS AN AIRPORT OPERATOR?

- **Improvement of the JKIA Assets Condition**  
KQ will address technical defects visible to the airport passengers to increase their satisfaction while transiting in order to enhance the revenues and overall passengers experience. That will also result in less capacity shortages and interruptions caused by low reliability of operational assets. KQ estimates that a **minimum budget of \$20M-\$25M** is needed to rehabilitate the infrastructure such as mechanical, electrical, and civil engineering systems.
- **Investment in Permanent Infrastructure**  
Some of the critical infrastructure elements are only temporary constructions with a lifetime up to 2024. KQ recognizes a need to **invest in permanent solutions**. Lack of such will result in a dramatic slump of JKIA capacity back to 5M passengers per year from the current 7.4 M. **The 30% drop is primarily a result of temporary terminals** (such as 1E) going out of use.
- **Significant Potential for Short-Term Improvements**  
There are **less capital-intensive investments** possible to quickly increase the current capacity without constructing a new terminal or building a second runway. These actions relate mainly to the **efficient flow of passengers in terminal buildings**, such as increasing the processor numbers (for example security scanners and check-in counters) and **minor investments in the runway**, such as rapid exits and extension of the existing taxiway. The latter one would result in an increase of capacity in terms of **aircraft movements by roughly 60%**. In order to handle the increased aircraft movements, aircraft parking capacity, which will eventually become a bottleneck, would be improved alongside with operational improvement actions such as **scheduling optimization / regulation (i.e. slot coordination or schedule coordination)**.
- **Setup of an Efficient Coordination of Airport Stakeholders with a Common Growth Strategy**  
KQ would put in place a **structured and coordinated communication between the airport stakeholders** such as Air Traffic Control (ATC), terminal and ground operator, ground handling

operators, KQ and other airlines. KQ would implement the right growth strategy along with a consistent capacity improvement program in coordination with the airport stakeholders.

- **Improvement of Collaboration Between Terminals and Concessionaires**

JKIA should operate as one, cohesive ecosystem rather than six independent airports. To make that happen, KQ would optimize usage of aligned IT and airport technology systems. KQ would replace manual processes with automated ones (e.g. baggage handling systems in Terminals 1B, 1C, 1D and 1E). KQ would introduce a system that would allow monitoring of the concessionaires sales in all terminals. The latter would enable JKIA to have a visibility over revenues generated by duty-free shops at the airport in order to maximize non-aeronautical revenues in that field. The same applies to parking services provider at the airport. KQ would collaborate with concessionaires to modernize the retail outlets around one, cohesive strategy, to offer passengers the right products at an optimal pricing. All these activities will positively impact revenues of JKIA, as there is a significant potential for growth and positive impact of operations transparency.

- **Optimization of the Revenue Structure**

Well-managed international airports have a revenue split of 50:50 between traditional aeronautical sources (landing fees, Airport Pax Service Charge) and non-aeronautical revenues (duty-free shops, concessions paid by the airport operators, ground handlers, and fuel providers, among others). KQ would optimize revenue structure of JKIA to bring it up to an industry level from the current 80:20 split. One of the ways to make that happen is an alignment of the fee structures for many non-aeronautical revenue sources that remained unchanged since 1996. As a result, the concession fees paid by companies operating at the airport would become similar to international benchmarks.

- **Review of Existing Contracts and Leases at JKIA**

KQ would ensure compliance with the existing contracts terms and their validity. Any improper allocations and excisions of JKIA's property to third parties would be ceased while unfavorable agreements and arrangements limiting JKIA revenue and creating inefficiencies would need to be renegotiated. The latter applies to any long-term arrangements with concessionaires and leases/licenses at JKIA, which are one-sided and unduly onerous on KAA.

## 6. CHARACTERISTIC OF THE PRIVATELY INITIATED INVESTMENT PROPOSAL (PIIP)

### WHAT ARE THE MAJOR ASSUMPTIONS DEFINED IN THE PIIP?

- The project described in the PIIP concerns improvement and upgrade of JKIA operations through introduction of the PPP between KAA and KQ.
- Proposed PPP is based on the following 8 (eight) key assumptions:

Figure 11. Summary of key assumptions described in the PIIP.

Subject	Solution proposed in PIIP
Intention of Parties	Kenya, Airports Authority (Public Partner) and KQ (Private Partner) will intend to enter into the Public Private Partnership in relation to JKIA.
Concession Agreement	The Concession Agreement to be signed between both Parties will constitute the basis of the cooperation within this Public Private Partnership.
Concession Period	The Concession Agreement will be valid for a period of 30 years with defined conditions for its early termination and extension.
Concessionaire	The legal entity to accommodate Public Private Partnership will be a SPV owned by KQ (subject to negotiations).

<b>JKIA Assets</b>	The key rationale for selecting the PPP formula as the recommended framework for this transaction is that there is no necessity of transferring or selling the JKIA assets. Instead, aviation assets will be delegated to the SPV. Upgraded & developed JKIA assets will return under KAA management after the proposed Concession Period.
<b>Concession Fee</b>	SPV will pay KAA negotiated, annual Concession Fee. KQ and KAA shall agree on a fair concession fee model, including fixed and variable components. The fixed component will address KAA's current liabilities and costs, while the variable component will allow KAA to participate in the future growth of traffic, revenues, and profits of JKIA.
<b>JKIA Revenues</b>	SPV will acquire revenue and cash-flow from everyday operations of JKIA both in aeronautical and non-aeronautical areas.
<b>PPP Requirements</b>	The PIIP will ensure the viable business case of the Public Private Partnership for KAA in particular proving project's: Value for money, Affordability and Risk allocation.

## 7. ANSWERS TO KEY QUESTIONS

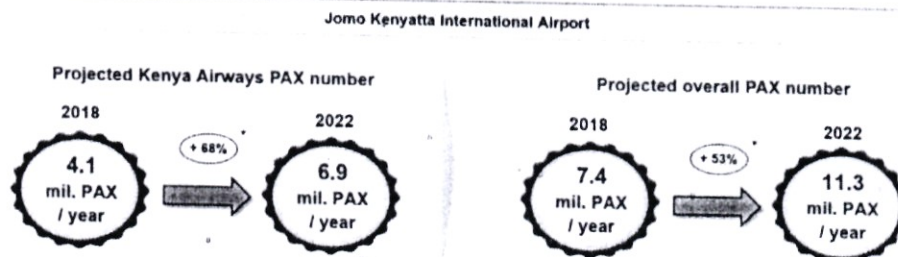
### WHICH ASSETS WILL BE INCLUDED IN THE CONCESSION?

- Scope of this project includes JKIA only, while the rest of airports and airstrips in Kenya would remain under sole management of KAA.
- Assets included in the proposed concession will be limited to aviation infrastructure only (i.e. runway, terminals, parking and aprons, car parks etc.); the detailed list of the assets and property included in the concession will be enumerated in the Concession Agreement (i.e. after finalization of the legal and financial due diligence).
- Other, non-aviation assets and property, land will remain in KAA (not included in concession);
- Assets included in the concession will be disposed to the SPV and secured through long-term lease to ensure bankability of the concession agreement.

### WHAT WILL BE THE IMPACT OF THE PROJECT ON THE PASSENGERS TRAFFIC?

- As a direct result of implementing the project, JKIA traffic is expected to grow from 7.2 million passengers in 2017 to 11.3 by 2022.
- The base case scenario for KQ growth assumes at least 23 aircraft and more than 20 new international destinations over the next 5 years.
- Impact of the Project on growth of passengers per year (PAX) carried by KQ and overall at JKIA has been presented on the graph below. Further growth has been projected for the following years to match the expected demand in the market.

Figure 12. Projected growth of passengers (KQ and JKIA).



**Consolidating aviation assets under Project Simba will result in revamping JKIA infrastructure and increasing traffic of passengers to 30 million by 2049.**

**WHAT IS THE INVESTMENT PROGRAM AT JKIA PLANNED BY KQ?**

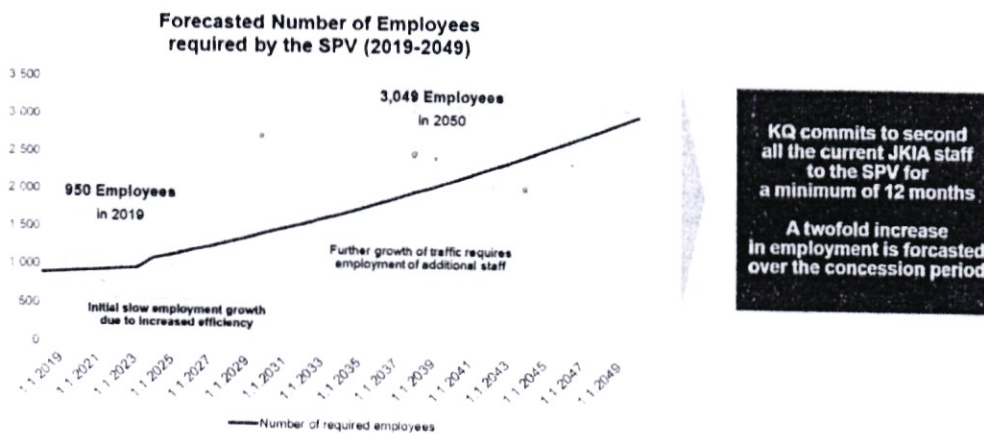
- JKIA requires significant capital investments to accommodate projected growth in traffic and passenger numbers as well as increase the quality of service provided to its customers.
- In the Concession Agreement, KQ is willing to commit to minimum capital investments in runway, parking, aprons and terminals.
- Minimum investment requirements will be subject to negotiations with KAA and will be defined in the Concession Agreement;
- Additionally, KQ commits to prepare and present to KAA annual investment plans in order to acquire assets' owner approval for the planned upgrades of the airport infrastructure.
- Key elements of the investment program are divided in two phases as indicated below.
  - **Priority One investments:**
    - **Rehabilitation of Taxiway and Parking Apron** – This investment will reduce the time an aircraft remains on the runway and as a consequence increase the capacity of the airport.
    - **Remodeling of Terminal 1B, C, D** – This remodeling will increase the capacity of the terminal by 3 million passengers, annually. This is a key investment need as the terminals and not the runway are the biggest bottleneck and capacity constraint at JKIA.
    - **Upgrading of Category 1 runway to Category 2** – Upgrading the runway to Category 2 will increase the capacity of the airport in long-run.
  - **Priority Two investments:**
    - **Terminal 2 – Phase I** – The 1st phase of Terminal 2 construction is expected to result in a capacity of approximately 10 million passengers annually when completed.
    - **Terminal 2 – Phase II** – The 2nd phase of Terminal 2 construction is expected to result in a capacity of around 20 million per annum once completed. Construction is expected to commence in the year 2029.
    - **Vehicle Parking** - The JKIA airport has a capacity of around 2,300 parking spaces hence there is a shortage of parking space.
- KQ considers additionally investing in **private jets and VIP terminals** to satisfy the market needs and enlarge the functionalities of JKIA.

**WHAT IS PROPOSED IN THE PIIP IN RELATION TO JKIA STAFF MATTERS?**

**KQ does not assume redundancy of ANY of the current JKIA employees.**

- KQ, in order to grow traffic at JKIA, **will rely on current JKIA staff.**
- Moreover, the outcomes of project's financial model clearly show that **SPV will need to significantly increase the staff number in line with the traffic growth.** The graph below presents results of the Financial Model in relation to the staff number at JKIA over concession period.
- In the PIIP, **KQ proposed the following high-level solution** towards staff-related matters:
  - KQ commits to second all the current JKIA staff to the SPV **on the equal terms** as currently at KAA for a period of 12 months;
  - After the secondment period, **KQ will transfer employees to SPV;**
  - Employees not transferred to the SPV after secondment period will be reallocated by KAA to other airports and airstrips.

Figure 13. Projection of employment at JKIA within the Concession period.



#### WHAT WILL BE THE SPV LEGAL FORM AND SHAREHOLDING STRUCTURE?

- SPV will be registered as the limited liability company (LLC) as requested by the PPP Act.
- KQ proposed to own **100% of shares in the SPV** subject to minor changes in the future (external investor); **final share structure, however, is subject to negotiations with KAA;**
- KQ commits also **not to lose control over the SPV** during the whole concession duration.

#### WILL THE PROJECT REQUIRE VIABILITY GAP FUNDING?

- **Financial model has been created as the inherent part of this PIIP** in order to estimate expected profitability of the Project as well as to calculate the value of concession fee paid to KAA on annual basis;
- **The proposed project is self-financing** and does not require additional Viability Gap Funding (VGF);
- VGF might be, however, necessary to support KAA with financial deficit of local airports & airstrips remaining in KAA (in case it is not covered by the variable part of the concession fee in first period of the concession).

Consolidated KQ and SPV will be a USD 1.5 billion Company in 2019  
growing to USD 2.2 billion in 2022.

#### WHAT WILL HAPPEN TO OTHER AIRPORTS AND AIRSTRIPS IN KENYA?

- Project Need Definition clearly states that the proposed transaction shall significantly impact JKIA position in the market, its operational efficiency and as a result traffic growth. As a consequence, one of the important assumptions of the proposed Project is also a positive impact of strengthening the national hub in Nairobi on all aviation assets in Kenya. **Increased traffic in JKIA will definitely affect performance of all other airports and airstrip remaining in KAA.**
- It is expected that KAA will continue to manage and operate the remaining airports and airstrips. The airstrips and airports on a standalone basis had operating deficits of USD 54.1 M for the financial year 2017.

- This will require the SPV to pay a portion of annual costs related to other airports and airstrips which are loss making in form of the annual concession fee. The current situation arises because JKIA, which generates around 90% of KAA's revenue and accounts for just over 50% of costs, will not be in a position to support fully the other airports and airstrips following the concession.

**Airports and airstrips remaining in KAA will be supported by development of hub in Nairobi, however they would need to go through parallel restructuring process in order to limit costs and become profitable assets in the future**

#### DOES KQ HAVE CAPABILITIES TO RUN OPERATIONS OF JKIA?

- KQ applies in this Privately Initiated Investment Proposal (PIIP) to run operations of JKIA which represents the business strongly related to operating an airline, however possessing its own specificity and characteristic. For that reason, the Concessioner has developed the **Capabilities Growth Plan** of building and utilising internal competences basing on parallel sources of intellectual capital.
- KQ will rely on **various sources of competences** including current JKIA management and staff.
- KQ, however, commits to **contract an external Airport Advisor** to implement world-class solutions and best practices in running the airport.
- KQ include in this Proposal the following assumptions related to each of the groups:
  - **KAA Managers.** Due to the fact that JKIA represents the biggest and most complex airport in the Country, KQ assumes building the SPV based on Managers involved in current operations of JKIA.
  - **JKIA Employees.** The assumption towards KAA Managers will apply also to medium-management JKIA staff as well as employees involved in everyday operations of the airport. Their broad experience and involvement in running this airport will become the critical success factor of this venture.
  - **Airport Advisor.** KQ in the process of preparing this PIIP has started the selection process of Airport Advisor which will assist internal SPV resources in day-by-day operational activities bringing in significant international experience from other airports in the world. The initial long-list of Airport Advisors described in PIIP includes: TAV Airports, Schiphol, Paris Aeroport, Egis, Changi Airport (Singapore) and Flemingo Group (duty free).
  - **Airport Professionals.** Involvement of external, high-qualified and skillful staff in SPV will become the key success factor of the project. Airport Professionals with vast experience from international airports will be recruited as the interim-managers to support current staff.
  - **KQ Managers.** Possibility of operating both hub and the national airline create a unique chance to utilise knowledge from both sides. However, most of KQ staff is focused on turning around the airline, some of the Managers can be also involved in improving JKIA efficiency.

#### WAS THE FORMAL PROCESS FOLLOWED?

**Project is being carried out in full compliance with requirements of the PPP Act 2013.**

- **Project was initiated by KQ in March 2018** when KQ developed and submitted to the GoK a document called a White Paper. It explained in detail a difficult competitive situation of Kenyan Aviation (both KQ and JKIA) and described the root causes for it. **The document did not focus on one scenario of consolidating aviation assets but provided a number of possible options for GoK consideration.**
- Following the submission of a White Paper, GoK initiated a series of consultative meetings to discuss conclusions and determine the next steps in the project. The following parties participated in above meetings: GoK representatives, KQ management, KAA management. The ultimate result of this stage of the project was selection of the PPP framework as the most suitable for accomplishing the project goals.

- The project concept of introducing the PPP between KAA and KQ have been finally **approved by the Cabinet on 29<sup>th</sup> May 2018** and announced in the public domain.
- Following the Cabinet's approval, **KQ initiated its efforts to develop the PIIP** as a formal prerequisite defined in the PPP Act 2013. Work on the PIIP lasted from July till end of September 2018. KAA management was consulted on assumptions of the project on various stages of development of the PIIP
- **KQ developed the PIIP documentation fully in line with guidelines of the PPP process.** Major argumentation of these documents was focused to address the three conditions necessary from the process perspective i.e. **Value for money, Affordability and Risk allocation.** The documents also included an extensive legal analysis of the proposed transaction.
- The PIIP documentation (i.e. the Proposal, Heads of Terms and Financial Model) were approved **first by the KQ Board on 4<sup>th</sup> October 2018 and submitted to the KAA the next day on 5<sup>th</sup> October 2018.**
- KQ also proposed the draft of a Non-disclosure Agreement to secure the flow of data between both parties. **This document was signed on 4<sup>th</sup> October 2018 by both KAA and KQ management.** In parallel, KQ also defined the list of the requested documents to be disclosed for the sake of a formal Due Diligence. KQ was aware that preparation of the requested documents required effort and time on KAA side, therefore applied for them in advance.
- Based on the PIIP documentation submitted by KQ, **KAA approved initiation of the formal process on 18<sup>th</sup> October 2018.** On 22<sup>nd</sup> October 2018, KQ received an official letter from KAA Managing Director stating that: "The Board of Directors has approved initiation of formal due diligence and engagement with KQ on the basis of the Cabinet and the PIIP".

**At no stage of this process KQ enforced any solution on KAA. The PIIP documentation was from the very beginning a KQ Proposal, though, consulted with KAA.**

- **Due diligence on KAA started in October 2018 and lasted up till 10<sup>th</sup> February 2018.** Due to the public procurement process needed for selection of KAA Transaction Advisors, the obligatory due diligence on KQ started on 20<sup>th</sup> December 2018 and lasted till 10<sup>th</sup> February 2018 as well.
- **In the course of a due diligence both sides exchanged documents which were crucial for assessment of viability of the transaction.** KQ itself provided KAA Transaction Advisors with over 165 electronic files and hard copies of numerous documents disclosed at KQ Headquarters.
- **Finally, on 21<sup>st</sup> February 2019 KQ received a formal letter from the KAA Transaction Advisor (MMC Africa) confirming submission of Negotiations Criteria by KAA regarding the PIIP by KQ relating to the operation of JKIA to the PPP Committee.**

## **8. PROJECT STATUS & PROPOSED NEXT STEPS**

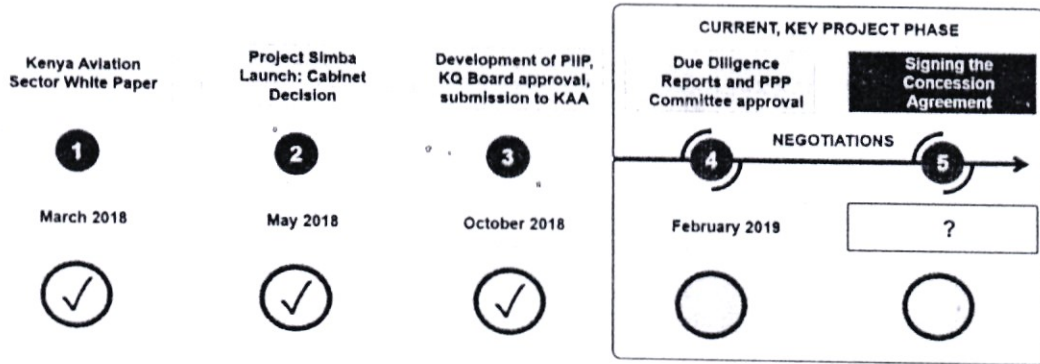
The project is still in the early stages. A period of 9 months was required for the Cabinet decision necessary to reach the point of submission of the Proposal to the PPP Committee.

Therefore, proposals described in the PIIP have never been negotiated nor decided by KAA and KQ yet.

- **KQ and KAA carefully follow the mode of engagement outlined by the PPP Act 2013.** Both sides have just finalised the due diligence process to assess initial assumptions made in the PIIP.
- **Despite the progress, none of the transaction sides have initiated the negotiations process.**

- **KAA and KQ are yet to engage public in the participation process.** It is essential for the public to understand importance of the project not only to KQ, JKIA or the aviation sector, but well-being of the employees themselves and positive impact of the transaction on the country's economy.

Figure 14. Summary of key assumptions described in the PIIP.



# JKIA MARKET SHARE PER AIRLINE FREQUENCY & PASSENGER FLOW

## KQ Market Share Analysis

Figure 2 Comparison of KQ and its airline competitors.

Category	Kenya Airways	QATAR	Emirates	Rwandair	Kenya Airways
Ownership	100 % government	100 % government	100 % government	100 % government	Public-listed company
Aircraft number	100 (59 on order)	203 (100 on order)	200+ (160 on order)	12 (12+5 on order)	32 (no orders yet)
Destinations number	131 (77 in Africa)	150+ (79 in Africa)	140 (79 in Africa)	21 (17 in Africa)	53 (45 in Africa)
Integrated airline & airport	✓	✓	✓	✓	✗
Subsidies - Direct and indirect (no taxes)	✓	✓	✓	✓	✗
Regulations preventing employees from strikes	✓	✓	✓	✓	✗
Preference in booking for local travel agents	✓	✓	✓	✓	✗
Competitors' flights to Kenya	4 daily (3 x NEC 1 x MEA)	4 daily (3 x NEO 1 x MEA)	2 daily (2 x NEO)	3 daily (2 x NEO 1 x MEA)	Not applicable
KQ Flights to the respective hubs	2 daily	0 daily	2 daily	2 daily	Not applicable

Source: Kenya Airways (2017)

\*Cargo operations not included in table

Figure 6 Frequency of operations of KQ and competitors airports.

Airline	Freq. (NBO)	Freq. (MBA)	Aircraft type	KQ freq.	Impact on Kenya Airways
Ethiopian Airlines	3 daily	1 daily (+1)	Boeing 737 Boeing 787	2 daily	Estimated NUMBER OF PAX carried by the respective airlines PER YEAR: <b>0.5+ million</b>
QATAR	3 daily	0 daily (+1)	Airbus 320 Boeing 787	0 daily	Estimated LOSS OF REVENUE BY KENYA AIRWAYS (USD 200 per PAX): <b>\$100+ million</b>
Emirates	2 daily	0 daily	Boeing 777	2 daily	
Rwandair	2 daily	1 daily	Boeing 737	1 daily	Charges PAID TO KAA (LANDING FEES AND OTHER): <b>\$7+ million</b>
TURKISH AIRLINES	1 daily	1 daily	Boeing 737	0 daily	
Kenya Airways	1 daily	0 daily	Airbus 320	0 daily	

Page 5 of KQ PIIP dated 26<sup>th</sup> Feb 2019

## JKIA MARKET SHARE PER AIRLINE FREQUENCY & PASSENGER FLOW

### JKIA Market Share Facts

- Looking at 2019 weekly global statistics on JKIA, KQ has the **highest** market share in terms of Aircraft Movement and Passenger throughput. This is further enhanced by Jambo-Jet one of its subsidiary.
- The frequency of other airlines into JKIA and MIA is of low significant to impact on KQs revenue and profit structures and strategy.
- The cost overruns of KQ are the one eroding the carrier market strategy management

Weekly Aircraft Frequency JKIA 2019 – **KQ controls 47% & Jambo 13%** Qatar 2.9%, Ethiopian airline 2.8%, Rwanda air 2.8% and Emirate airline 2%.

Request Date Export			
Airline	Total	Frequency	% of Total
1 Kenya Airways	477	477	47.00%
2 Jambojet	130	130	13.00%
3 Fly540	20	20	2.00%
4 Freedom Air	20	20	2.00%
5 Dana Airways	10	10	1.00%
6 Ethiopian Airlines	10	10	1.00%
7 Rwanda Air	10	10	1.00%
8 Emirates	10	10	1.00%
9 Coastal Aviation	10	10	1.00%
10 Asial Aviation	10	10	1.00%
11 Safar Air	10	10	1.00%
12 Bebele	10	10	1.00%
13 South African Airways	10	10	1.00%
14 Lufthansa	8	8	0.80%
15 African Express Airways	8	8	0.80%
16 Airwade	7	7	0.70%
17 British Airways	7	7	0.70%
18 Etihad Airways	7	7	0.70%
19 KLM Royal Dutch Airlines	7	7	0.70%
20 Oman Air	7	7	0.70%
21 Air France	6	6	0.60%
22 Egypt Air	6	6	0.60%
23 Turkish Airlines	6	6	0.60%
24 Cargo UK	6	6	0.60%
25 Freedom Airline Express	6	6	0.60%
26 Malhar	6	6	0.60%
27 Swiss	6	6	0.60%
28 Air Austral	4	4	0.40%
29 Maldivian Airlines	4	4	0.40%
30 East African	3	3	0.30%
31 Jubba Airways (Kenya)	3	3	0.30%
32 Air Mauritius	2	2	0.20%
33 China Southern Airlines	2	2	0.20%
34 Lufthansa Adress de Moqemoque	2	2	0.20%
35 Belfer Express Cargo	1	1	0.10%
36 Singapore Airlines	1	1	0.10%

## JKIA MARKET SHARE PER AIRLINE FREQUENCY & PASSENGER FLOW

Weekly Passenger handling by airline at JKIA 2019 – **KQ controls 52.4% & Jambo 9.3%**  
 Ethiopian Airline 4.6%, Emirate 4.8%. Qatar Airways 3.6%, and Rwanda air 2.2%

Request Data Export				
Airline	Total	Request Data Export	100.00%	% of Total
1 Kenya Airways	52400	52400	100.00%	52.40%
2 Jambojet	9300	9300	100.00%	9.30%
3 Ethiopian Airlines	4600	4600	100.00%	4.60%
4 Emirates	4800	4800	100.00%	4.80%
5 Qatar Airways	3600	3600	100.00%	3.60%
6 Rwandair	2200	2200	100.00%	2.20%
7 KLM Royal Dutch Airlines	2000	2000	100.00%	2.00%
8 British Airways	1900	1900	100.00%	1.90%
9 British Airways	1900	1900	100.00%	1.90%
10 British Airways	1900	1900	100.00%	1.90%
11 Air France	1000	1000	100.00%	1.00%
12 Lufthansa	1000	1000	100.00%	1.00%
13 South African Airways	1000	1000	100.00%	1.00%
14 Etihad	1000	1000	100.00%	1.00%
15 Air Asia	1000	1000	100.00%	1.00%
16 Oman Air	1000	1000	100.00%	1.00%
17 Air Austral	1000	1000	100.00%	1.00%
18 British Airways	800	800	100.00%	0.80%
19 British Airways	800	800	100.00%	0.80%
20 British Airways	800	800	100.00%	0.80%
21 British Airways	800	800	100.00%	0.80%
22 Turkish Airlines	800	800	100.00%	0.80%
23 Maldivian Airlines	400	400	100.00%	0.40%
24 Saudia	400	400	100.00%	0.40%
25 China Southern Airlines	400	400	100.00%	0.40%
26 Air Mauritius	400	400	100.00%	0.40%
27 Air Mauritius-Aerlines de Madagascar	400	400	100.00%	0.40%
28 Freedom Airline Express	200	200	100.00%	0.20%
29 Coastal Aviation	100	100	100.00%	0.10%
30 Best Aviation	100	100	100.00%	0.10%
31 Asia Aviation	0	0	0.00%	0.00%
32 Garuda	0	0	0.00%	0.00%
33 Nanyang	0	0	0.00%	0.00%
34 Bester Express Cargo	0	0	0.00%	0.00%
35 Safair	0	0	0.00%	0.00%
36 Singapore Airlines	0	0	0.00%	0.00%

Request Data Export

Reference: <https://www.ch-aviation.com/portal/mychaviation/subscription>

# JKIA MARKET SHARE PER AIRLINE FREQUENCY & PASSENGER FLOW

## KQ Market Share Analysis

Figure 2 Comparison of KQ and its airline competitors.

Category	Ethiopian Airlines	QATAR AIRWAYS	Emirates	Rwandair	Kenya Airways
Ownership	100% government	100% government	100% government	100% government	Public-listed company
Aircraft number	100 (36 on order)	203 (100 on order)	200+ (160 on order)	12 (12+15 on order)	33 (no orders yet)
Destinations number	131 (77 in Africa)	150+ (75 in Africa)	140 (71 in Africa)	21 (17 in Africa)	53 (45 in Africa)
Integrated airline & airport	✓	✓	✓	✓	✗
Subsidies - Direct and indirect (no taxes)	✓	✓	✓	✓	✗
Regulations preventing employees from strikes	✓	✓	✓	✓	✗
Preference in booking for local travel agents	✓	✓	✓	✓	✗
Competitors' flights to Kenya	4 daily (3 x NBO, 1 x MBA)	4 daily (3 x NBO, 1 x MBA)	2 daily (2 x NBO)	3 daily (2 x NBO, 1 x MBA)	Not applicable
KQ Flights to the respective hubs	2 daily	0 daily	2 daily	2 daily	Not applicable

Source: Kenya Airways (2018)

\* Cargo operations included in the table

Figure 6 Frequency of operations of KQ and competitors airports.

Airline	Freq. (NBO)	Freq. (MBA)	Aircraft type	KQ freq.	Impact on Kenya Airways
Ethiopian Airlines	3 daily	1 daily (+1)	Boeing 737 Boeing 787	2 daily	Estimated NUMBER OF PAX carried by the respective airlines PER YEAR: <b>0.5+ million</b>
QATAR AIRWAYS	3 daily	0 daily (+1)	Airbus 320 Boeing 787	0 daily	
Emirates	2 daily	0 daily	Boeing 777	2 daily	Estimated LOSS OF REVENUE BY KENYA AIRWAYS (USD 205 per PAX): <b>\$100+ million</b>
Rwandair	2 daily	1 daily	Boeing 737	1 daily	
TURKISH AIRLINES	1 daily	1 daily	Boeing 737	0 daily	
Kenya Airways	1 daily	0 daily	Airbus 320	0 daily	Charges PAID TO KAA (LANDING FEES AND OTHER): <b>\$7+ million</b>

Page 5 of KQ PIIP dated 26<sup>th</sup> Feb 2019

## JKIA MARKET SHARE PER AIRLINE FREQUENCY & PASSENGER FLOW

### JKIA Market Share Facts

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Weekly Aircraft Frequency JKIA 2019 – **KQ controls 47% & Jambo 13%** Qatar 2.9%, Ethiopian airline 2.8%, Rwanda air 2.8% and Emirate airline 2%.

Request Date Export			
Airline	Total	Frequency	% of Total
1 Kenya Airways	100000	471	47.04%
2 Jambojet	100000	130	13.04%
3 KQ	100000	29	2.91%
4 Precision Air	100000	28	2.81%
5 Qatar Airways	100000	28	2.81%
6 Ethiopian Airlines	100000	28	2.81%
7 Rwanda Air	100000	28	2.81%
8 Emirates	100000	20	2.00%
9 Classic Aviation	100000	14	1.40%
10 Asya Aviation	100000	11	1.10%
11 Safa Air	100000	10	1.00%
12 Baudair	100000	10	1.00%
13 South African Airways	100000	10	1.00%
14 Lufthansa	100000	8	0.80%
15 African Express Airways	100000	1	0.10%
16 Air Arabia	100000	1	0.10%
17 British Airways	100000	1	0.10%
18 Etihad Airways	100000	1	0.10%
19 KLM Royal Dutch Airlines	100000	1	0.10%
20 Oman Air	100000	1	0.10%
21 Air France	100000	1	0.10%
22 EgyptAir	100000	1	0.10%
23 Turkish Airlines	100000	1	0.10%
24 Cargo UK	100000	1	0.10%
25 Freedom Airline Express	100000	1	0.10%
26 Uralmair	100000	1	0.10%
27 Swiss	100000	1	0.10%
28 Air Austral	100000	1	0.10%
29 Malawian Airlines	100000	1	0.10%
30 EastAfrica	100000	1	0.10%
31 Uganda Airways (Kenya)	100000	1	0.10%
32 Air Mauritius	100000	1	0.10%
33 China Southern Airlines	100000	1	0.10%
34 UTA Airlines Adress de Madagascar	100000	1	0.10%
35 Belfair Express Cargo	100000	1	0.10%
36 Singapore Airlines	100000	1	0.10%

## JKIA MARKET SHARE PER AIRLINE FREQUENCY & PASSENGER FLOW

Weekly Passenger handling by airline at JKIA 2019 – KQ controls 52.4% & Jambo 9.3%  
Ethiopian Airline 4.6%, Emirate 4.8%, Qatar Airways 3.6%, and Rwanda air 2.2%

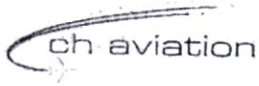
Request Data Export			
Airline	Total	Passenger	% of Total
1 Kenya Airways	52400	27015	51.7%
2 Jambojet	9300	8600	9.3%
3 Ethiopian Airlines	4600	4000	4.6%
4 Emirates	4800	4300	4.8%
5 Qatar Airways	3600	3300	3.6%
6 Rwanda	2200	2000	2.2%
7 KLM Royal Dutch Airlines	1800	1600	1.8%
8 Rwandair	1800	1600	1.8%
9 British Airways	1300	1200	1.3%
10 Precision Air	1000	900	1.0%
11 Air France	1000	900	1.0%
12 Lufthansa	1000	900	1.0%
13 South African Airways	1000	900	1.0%
14 Swiss	1000	900	1.0%
15 Air Austral	1000	900	1.0%
16 Oman Air	1000	900	1.0%
17 Air Austral	1000	900	1.0%
18 British Airways	800	700	0.8%
19 Qatar Airways	800	700	0.8%
20 African Express Airways	800	700	0.8%
21 Uganda Airlines	800	700	0.8%
22 Turkish Airlines	800	700	0.8%
23 Malawi Airlines	800	700	0.8%
24 Seair	800	700	0.8%
25 China Southern Airlines	800	700	0.8%
26 Air Mauritius	800	700	0.8%
27 U.N. Airlines	800	700	0.8%
28 Freedom Airline Express	800	700	0.8%
29 Coastal Aviation	800	700	0.8%
30 East African	800	700	0.8%
31 Asia Aviation	800	700	0.8%
32 Capital	800	700	0.8%
33 Northern	800	700	0.8%
34 Batef Express Cargo	800	700	0.8%
35 Batef Air	800	700	0.8%
36 Singapore Airlines	800	700	0.8%

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Reference: <https://www.ch-aviation.com/portal/mychaviation/subscription>

Capacity Million	Classification	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
		Domestic	892,167	908,774	963,598	1,195,610	1,132,319	1,010,735	1,313,097	1,403,009	1,372,294	1,403,037
International	3,858,992	4,169,194	4,522,173	5,095,582	5,139,603	4,936,242	5,073,359	5,077,416	5,739,207	5,867,766	6,141,079	
Civilian	Total	4,751,159	5,077,968	5,485,771	6,291,192	6,271,922	5,946,967	6,386,456	6,480,425	7,111,501	7,270,803	7,609,466

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Week starting: 08APR2019

Weekly Capacity      108.730  
 Weekly Frequency      997  
 Weekly ASK      281.027.101  
 Weekly ASM      174.622.145

**Top 10 Airlines by weekly capacity**  
[Show All](#)

Airline	Total	Capacity	% of Total
1 Kenya Airways		108.730	100,00%
2 Jambojet		57.015	52,44%
3 Ethiopian Airlines		10.140	9,33%
4 Emirates		5.026	4,62%
5 Qatar Airways		4.982	4,58%
6 Fly540		3.926	3,61%
7 KLM Royal Dutch Airlines		3.735	3,44%
8 RwandAir		2.856	2,63%
9 British Airways		2.415	2,22%
10 Precision Air		2.359	2,17%
		1.680	1,55%

**Top 10 Airlines by weekly frequency**  
[Show All](#)

Airline	Total	Frequency	% of Total
1 Kenya Airways		997	100,00%
2 Jambojet		471	47,24%
3 Fly540		130	13,04%
4 Precision Air		89	8,93%
5 Qatar Airways		35	3,51%
6 Ethiopian Airlines		29	2,91%
7 RwandAir		28	2,81%
8 Emirates		28	2,81%
9 Coastal Aviation		20	2,01%
10 Astral Aviation		14	1,40%
		11	1,10%

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**Top 10 Routes by weekly capacity**  
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To	Capacity	% of Total
<b>Total</b>	<b>108.730</b>	<b>100,00%</b>
1 Mombasa (MBA), KE	11.539	10,61%
2 Dubai Int'l (DXB), AE	7.991	7,35%
3 Entebbe/Kampala (EBB), UG	7.429	6,83%
4 Addis Ababa (ADD), ET	6.486	5,97%
5 Johannesburg O.R. Tambo (JNB), ZA	5.319	4,89%
6 Kisumu (KIS), KE	4.901	4,51%
7 Dar es Salaam (DAR), TZ	4.856	4,47%
8 Amsterdam Schiphol (AMS), NL	4.494	4,13%
9 Paris CDG (CDG), FR	4.066	3,74%
10 London Heathrow (LHR), GB	3.997	3,68%

**Top 10 Routes by weekly frequency**  
Show All

To	Frequency	% of Total
<b>Total</b>	<b>997</b>	<b>100,00%</b>
1 Mombasa (MBA), KE	142	14,24%
2 Entebbe/Kampala (EBB), UG	85	8,53%
3 Kisumu (KIS), KE	66	6,62%
4 Addis Ababa (ADD), ET	44	4,41%
5 Dar es Salaam (DAR), TZ	40	4,01%
6 Eldoret (EDL), KE	40	4,01%
7 Johannesburg O.R. Tambo (JNB), ZA	32	3,21%
8 Kilimanjaro (JRO), TZ	32	3,21%
9 Zanzibar (ZNZ), TZ	29	2,91%
10 Dubai Int'l (DXB), AE	28	2,81%

**Top 10 Routes by weekly ASK**  
Show All

To	ASK	% of Total
<b>Total</b>	<b>281.027.101</b>	<b>100,00%</b>
1 Amsterdam Schiphol (AMS), NL	29.985.497	10,67%
2 Dubai Int'l (DXB), AE	28.421.192	10,11%
3 London Heathrow (LHR), GB	27.319.031	9,72%
4 Paris CDG (CDG), FR	26.390.309	9,39%
5 Johannesburg O.R. Tambo (JNB), ZA	15.476.662	5,51%
6 New York JFK (JFK), US	13.839.554	4,92%
7 Doha Hamad Int'l (DOH), QA	13.148.350	4,68%
8 Bangkok Suvarnabhumi (BKK), TH	11.825.569	4,21%
9 Mumbai Int'l (BOM), IN	9.196.516	3,27%
10 Frankfurt Int'l (FRA), DE	8.045.553	2,86%

**Top 10 Routes by weekly ASM**  
Show All

To	ASM	% of Total
<b>Total</b>	<b>174.622.145</b>	<b>100,00%</b>
1 Amsterdam Schiphol (AMS), NL	18.632.124	10,67%
2 Dubai Int'l (DXB), AE	17.660.110	10,11%
3 London Heathrow (LHR), GB	16.975.259	9,72%
4 Paris CDG (CDG), FR	16.398.178	9,39%
5 Johannesburg O.R. Tambo (JNB), ZA	9.616.752	5,51%
6 New York JFK (JFK), US	8.599.500	4,92%
7 Doha Hamad Int'l (DOH), QA	8.170.006	4,68%
8 Bangkok Suvarnabhumi (BKK), TH	7.348.068	4,21%
9 Mumbai Int'l (BOM), IN	5.714.450	3,27%
10 Frankfurt Int'l (FRA), DE	4.999.275	2,86%

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To	Total	ASK	% of Total
1 Amsterdam Schiphol (AMS), NL		281.027.101	100,00%
2 Dubai Int'l (DXB), AE		29.985.497	10,67%
3 London Heathrow (LHR), GB		28.421.192	10,11%
4 Paris CDG (CDG), FR		27.319.031	9,72%
5 Johannesburg O.R. Tambo (JNB), ZA		26.390.309	9,39%
6 New York JFK (JFK), US		15.478.662	5,51%
7 Doha Hamad Int'l (DOH), QA		13.839.554	4,92%
8 Bangkok Suvarnabhumi (BKK), TH		13.148.350	4,68%
9 Mumbai Int'l (BOM), IN		11.825.569	4,21%
10 Frankfurt Int'l (FRA), DE		9.196.516	3,27%
11 Addis Ababa (ADD), ET		8.045.553	2,86%
12 Lagos (LOS), NG		7.525.946	2,68%
13 Mombasa (MBA), KE		5.440.482	1,94%
14 Accra (ACC), GH		4.846.828	1,72%
15 Sharjah (SHJ), AE		4.248.692	1,51%
16 Muscat (MCT), OM		4.201.547	1,50%
17 Entebbe/Kampala (EBB), UG		4.084.341	1,45%
18 Guangzhou (CAN), CN		3.861.729	1,37%
19 Abu Dhabi Int'l (AUH), AE		3.781.321	1,35%
20 Dar es Salaam (DAR), TZ		3.274.088	1,17%
21 Cairo Int'l (CAI), EG		3.235.399	1,15%
22 Cape Town (CPT), ZA		3.059.041	1,09%
23 Mauritius (MRU), MU		2.969.441	1,06%
24 Istanbul Atatürk (IST), TR		2.898.210	1,03%
		2.881.138	1,03%

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To	ASK	% of Total
25 Abidjan (ABJ), CI	2.662.112	0,95%
26 Lusaka (LUN), ZM	2.646.969	0,94%
27 Harare Int'l (HRE), ZW	2.646.862	0,94%
28 Antananarivo (TNR), MG	2.430.557	0,86%
29 Kinshasa N'Djili (FIH), CD	2.304.053	0,82%
30 Lilongwe (LLW), MW	2.044.163	0,73%
31 Bamako (BKO), ML	1.803.367	0,64%
32 Mogadishu (MGQ), SO	1.655.674	0,59%
33 Kigali (KGL), RW	1.630.024	0,58%
34 Mahé (SEZ), SC	1.455.301	0,52%
35 Kisumu (KIS), KE	1.372.407	0,49%
36 Maputo (MPM), MZ	1.330.992	0,47%
37 Zanzibar (ZNZ), TZ	1.210.175	0,43%
38 Jeddah (JED), SA	1.190.297	0,42%
39 Brazzaville (BZV), CG	1.164.908	0,41%
40 Moroni Int'l (HAH), KM	1.052.704	0,37%
41 Livingstone (LVI), ZM	951.195	0,34%
42 Khartoum (KRT), SD	930.072	0,33%
43 Juba (JUB), SS	924.349	0,33%
44 Douala (DLA), CM	886.195	0,32%
45 Yaoundé Nsimalen (NSI), CM	827.332	0,29%
46 Bangui (BGF), CF	821.306	0,29%
47 Lubumbashi (FBM), CD	742.349	0,26%
48 Ndola (NLA), ZM	688.864	0,25%
49 Victoria Falls (VFA), ZW	639.618	0,23%
50 Eldoret (EDL), KE	631.812	0,22%
51 Dzaoudzi (DZA), YT	606.919	0,22%
52 Libreville (LBV), GA	588.325	0,21%
53 Malindi (MYD), KE	522.417	0,19%
54 Ukunda (UKA), KE	481.529	0,17%
55 Biantyre (BLZ), MW	463.028	0,16%
56 Pemba (POL), MZ	357.738	0,13%
57 Kilimanjaro (JRO), TZ	346.065	0,12%
58 Luanda (LAD), AO	264.190	0,09%
59 Bujumbura (BJM), BI	251.212	0,09%
60 Djibouti (JIB), DJ	152.180	0,05%
61 Lamu (LAU), KE	117.543	0,04%
62 Selyun (GXF), YE	115.953	0,04%
63 Garowe (GGR), SO	84.249	0,03%
64 Galcaio (GLK), SO	44.176	0,02%
65 Musoma (MUZ), TZ	31.487	0,01%
66 Dubai World Central (DWC), AE	0	0,00%
67 Liège (LGG), BE	0	0,00%
68 London Stansted (STN), GB	0	0,00%
69 Maastricht (MST), NL	0	0,00%
70 Mwanza (MWZ), TZ	0	0,00%
71 Sana (SAH), YE	0	0,00%

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- Economy Plus/Comfort vs. Premium Economy: ch-aviation only considers cabins to be Premium Economy if the maximum number of seats per row (Max Abreast) is at least 2 seats less than the maximum number of seats that could physically be fitted in Economy Class for the aircraft type (i.e. 10 for a B777) no matter what the actual maximum abreast configuration on that aircraft is.
- Business vs. First: ch-aviation only considers narrowbody cabins to be First Class if the maximum number of seats per row (Max Abreast) is 2 and widebody cabins to be First Class if the maximum number of seats across per row is 4 (unless there is a Business and First Class cabin installed on the aircraft and the First Class cabin has more than 4 seats across per row in these exceptional cases).

Route and Schedule data provided by OAG Aviation Worldwide Limited. Aircraft configurations based on ch-aviation fleet data.



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**Nairobi**  
City

**Jomo Kenyatta International**  
Airport Name

**NBO**  
IATA

**HKJK**  
ICAO

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<b>Flight Information</b>	Timetable Departures/Arrivals
<b>Airport Type</b>	Civil Airport
<b>Metro Group</b>	Nairobi
<b>Country</b>	Kenya Africa
<b>Local Time</b>	08APR2019 10:22 GMT/UTC Offset +3:00
<b>Coordinates</b>	1° 19' 0" S 36° 55' 39" E
<b>Elevation</b>	1,625 m / 5,331 ft
<b>Longest Runway</b>	4,117 m / 13,507 ft

**Maps**  
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### Airports nearby

City / Airport Name	IATA	ICAO	FAA / Other Code	Subdivision	Country	Distance
Nairobi Wilson	WIL	HKNW			Kenya	13 km / 8 mi
Naivasha		HKNV			Kenya	81 km / 50 mi
Nanyuki	NYK	HKNY			Kenya	140 km / 87 mi
Nakuru	NUU	HKNK			Kenya	142 km / 88 mi
Amboseli	ASV	HKAM			Kenya	152 km / 94 mi
Maasai Mara Ol Seki	OSJ				Kenya	172 km / 107 mi
Maasai Mara Keekorok	KEU	HKKE			Kenya	188 km / 117 mi
Maasai Mara Olare	OLG				Kenya	187 km / 116 mi
Isiolo		HKIS			Kenya	199 km / 123 mi

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Poland's Enter Air wet-leases B737 from Go2Sky PRO

Germania liquidators open formal bankruptcy proceedings PRO

Canada's Jetlines axes AerCap lease, defers launch to 4Q19

Indonesia's Travira Air acquires maiden ATR72-600

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**Statistics**

Airlines based	18
Aircraft stored	30
Aircraft terminated	12
Departures today	139
Carriers operating	37
Aircraft types operating	42
Countries served	57
Destinations served	91

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City

**Jomo Kenyatta International**  
Airport Name

**NBO**  
IATA

**HKJK**  
ICAO

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### Terminal Information

Terminal 1A	African Express Airways (XU) Air Austral (UU) Air France (AF) Air Mauritius (MK) EgyptAir (MS) Jambojet (JM) Kenya Airways (KQ) KLM Royal Dutch Airlines (KL) Precision Air (PW) RwandAir (WB) Saudia (SV) South African Airways (SA)
Terminal 1B	Air Arabia (G9) British Airways (BA) Brussels Airlines (SN) Emirates (EK) South African Airways (SA)
Terminal 1C	EgyptAir (MS) Ethiopian Airlines (ET) Etihad Airways (EY) LAM - Linhas Aereas de Moçambique (TM) Lufthansa (LH) Malawian Airlines (3W) Qatar Airways (QR) RwandAir (WB) Swiss (LX) Turkish Airlines (TK)
Terminal 1D	EastAfrican (B5) Fly540 (5H) Jambojet (JM) Kenya Airways (KQ)
Terminal 1E	British Airways (BA) Emirates (EK) Lufthansa (LH) Qatar Airways (QR) South African Airways (SA) Swiss (LX)
Terminal 2	Coastal Aviation (CQ) Freedom Airline Express (4F) Jubba Airways (Kenya) (3J) Kenya Airways (KQ)

### Most Popular

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## Search Results

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Airline	Total	Capacity	% of Total
1 Kenya Airways		108,730	100,00%
2 Jambojet		57,015	52,44%
3 Ethiopian Airlines		10,140	9,33%
4 Emirates		5,026	4,62%
5 Qatar Airways		4,982	4,58%
6 Fly540		3,926	3,61%
7 KLM Royal Dutch Airlines		3,735	3,44%
8 RwandAir		2,856	2,63%
9 British Airways		2,415	2,22%
10 Precision Air		2,359	2,17%
11 Air France		1,680	1,55%
12 Lufthansa		1,380	1,27%
13 South African Airways		1,275	1,17%
14 Swiss		1,206	1,11%
15 Air Arabia		1,180	1,09%
16 Oman Air		1,176	1,08%
17 Air Austral		1,134	1,04%
18 Etihad Airways		1,048	0,96%
19 EgyptAir		952	0,88%
20 African Express Airways		864	0,79%
21 Jubba Airways (Kenya)		694	0,64%
22 Turkish Airlines		660	0,61%
23 Malawian Airlines		604	0,56%
24 Saudia		472	0,43%
		464	0,43%

### Most Popular

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Germania liquidators open formal bankruptcy proceedings PRO

Poland's Enter Air wet-leases B737 from Go2Sky PRO

Indonesia's Travira Air acquires maiden ATR72-600

Canada's Jetlines axes AerCap lease, defers launch to 4Q19

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Airline	Capacity	% of Total
25 China Southern Airlines	436	0,40%
26 Air Mauritius	264	0,24%
27 LAM - Linhas Aéreas de Moçambique	264	0,24%
28 Freedom Airline Express	230	0,21%
29 Coastal Aviation	182	0,17%
30 EastAfrican	111	0,10%
31 Astral Aviation	0	0,00%
32 Cargolux	0	0,00%
33 Martinair	0	0,00%
34 Safari Express Cargo	0	0,00%
35 Safe Air	0	0,00%
36 Singapore Airlines	0	0,00%

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ch-aviation applies the following methodology for aircraft seat configurations/capacity calculations to ensure comparability across all carriers worldwide:

- Economy Plus/Comfort vs. Premium Economy: ch-aviation only considers cabins to be Premium Economy if the maximum number of seats per row (Max Abreast) is at least 2 seats less than the maximum number of seats that could physically be fitted in Economy Class for the aircraft type (i.e. 10 for a B777) no matter what the actual maximum abreast configuration on that aircraft is.
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#### Service Type

#### Flight Type

#### Display

#### Cabin

#### Results by

#### From Date

#### To Date

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## Search Results

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Airline	Total	Frequency	% of Total
1 Kenya Airways	997	997	100,00%
2 Jambojet	471	471	47,24%
3 Fly540	130	130	13,04%
4 Precision Air	89	89	8,93%
5 Qatar Airways	35	35	3,51%
6 Ethiopian Airlines	29	29	2,91%
7 RwandAir	28	28	2,81%
8 Emirates	28	28	2,81%
9 Coastal Aviation	20	20	2,01%
10 Astral Aviation	14	14	1,40%
11 Safe Air	11	11	1,10%
12 Saudia	10	10	1,00%
13 South African Airways	10	10	1,00%
14 Lufthansa	10	10	1,00%
15 African Express Airways	9	9	0,90%
16 Air Arabia	8	8	0,80%
17 British Airways	7	7	0,70%
18 Etihad Airways	7	7	0,70%
19 KLM Royal Dutch Airlines	7	7	0,70%
20 Oman Air	7	7	0,70%
21 Air France	7	7	0,70%
22 EgyptAir	6	6	0,60%
23 Turkish Airlines	6	6	0,60%
24 Cargolux	6	6	0,60%
	5	5	0,50%

### Most Popular

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Canada's Jetlines axes AerCap lease, defers launch to 4Q19

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Airline	Frequency	% of Total
25 Freedom Airline Express	5	0,50%
26 Martinair	5	0,50%
27 Swiss	5	0,50%
28 Air Austral	4	0,40%
29 Malawian Airlines	4	0,40%
30 EastAfrican	3	0,30%
31 Jubba Airways (Kenya)	3	0,30%
32 Air Mauritius	2	0,20%
33 China Southern Airlines	2	0,20%
34 LAM - Linhas Aereas de Moçambique	2	0,20%
35 Safari Express Cargo	1	0,10%
36 Singapore Airlines	1	0,10%

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ch-aviation applies the following methodology for aircraft seat configurations/capacity calculations to ensure comparability across all carriers worldwide:

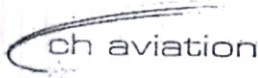
- Economy Plus/Comfort vs. Premium Economy: ch-aviation only considers cabins to be Premium Economy if the maximum number of seats per row (Max Abreast) is at least 2 seats less than the maximum number of seats that could physically be fitted in Economy Class for the aircraft type (i.e. 10 for a B777) no matter what the actual maximum abreast configuration on that aircraft is.
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##### Manufacturer

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##### Aircraft Family

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##### Service Type

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##### Flight Type

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Capacity

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##### Results by

Destination

##### From Date

2019-04-08

##### To Date

2019-04-14

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### Search Results

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To	Total	Route	Capacity	% of Total
1 Mombasa (MBA), KE	108.730		108.730	100,00%
2 Dubai Int'l (DXB), AE	11.539		11.539	10,61%
3 Entebbe/Kampala (EBB), UG	7.991		7.991	7,35%
4 Addis Ababa (ADD), ET	7.429		7.429	6,83%
5 Johannesburg O.R. Tambo (JNB), ZA	6.486		6.486	5,97%
6 Kisumu (KIS), KE	5.319		5.319	4,89%
7 Dar es Salaam (DAR), TZ	4.901		4.901	4,51%
8 Amsterdam Schiphol (AMS), NL	4.856		4.856	4,47%
9 Paris CDG (CDG), FR	4.494		4.494	4,13%
10 London Heathrow (LHR), GB	4.066		4.066	3,74%
11 Doha Hamad Int'l (DOH), QA	3.997		3.997	3,68%
12 Eldoret (EDL), KE	3.926		3.926	3,61%
13 Kigali (KGL), RW	2.365		2.365	2,18%
14 Mumbai Int'l (BOM), IN	2.155		2.155	1,98%
15 Zanzibar (ZNZ), TZ	2.030		2.030	1,87%
16 Mogadishu (MGQ), SO	2.016		2.016	1,85%
17 Bangkok Suvarnabhumi (BKK), TH	1.654		1.654	1,52%
18 Kilimanjaro (JRO), TZ	1.638		1.638	1,51%
19 Lusaka (LUN), ZM	1.483		1.483	1,36%
20 Lilongwe (LLW), MW	1.462		1.462	1,34%
21 Lagos (LOS), NG	1.432		1.432	1,32%
22 Harare Int'l (HRE), ZW	1.421		1.421	1,31%
23 Frankfurt Int'l (FRA), DE	1.357		1.357	1,25%
24 Malindi (MYD), KE	1.275		1.275	1,17%
			1.273	1,17%

#### Most Popular

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Indonesia's Travira Air acquires maiden ATR72-600

Canada's Jetlines axes AerCap lease, defers launch to 4Q19

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To	Capacity	% of Total
25 Sharjah (SHJ), AE	1.176	1,08%
26 New York JFK (JFK), US	1.170	1,08%
27 Muscat (MCT), OM	1.134	1,04%
28 Ukunda (UKA), KE	1.092	1,00%
29 Antananarivo (TNR), MG	1.078	0,99%
30 Juba (JUB), SS	1.022	0,94%
31 Accra (ACC), GH	1.015	0,93%
32 Kinshasa N'Djili (FIH), CD	957	0,88%
33 Abu Dhabi Int'l (AUH), AE	952	0,88%
34 Mauritius (MRU), MU	936	0,86%
35 Cairo Int'l (CAI), EG	864	0,79%
36 Moroni Int'l (HAH), KM	790	0,73%
37 Cape Town (CPT), ZA	725	0,67%
38 Mahé (SEZ), SC	694	0,64%
39 Istanbul Atatürk (IST), TR	604	0,56%
40 Abidjan (ABJ), CI	580	0,53%
41 Lubumbashi (FBM), CD	482	0,44%
42 Brazzaville (BZV), CG	480	0,44%
43 Khartoum (KRT), SD	480	0,44%
44 Maputo (MPM), MZ	480	0,44%
45 Jeddah (JED), SA	464	0,43%
46 Guangzhou (CAN), CN	436	0,40%
47 Ndola (NLA), ZM	435	0,40%
48 Livingstone (LVI), ZM	433	0,40%
49 Dzaoudzi (DZA), YT	386	0,36%
50 Bangui (BGF), CF	384	0,35%
51 Bamako (BKO), ML	348	0,32%
52 Blantyre (BLZ), MW	268	0,26%
53 Bujumbura (BJM), BI	288	0,26%
54 Douala (DLA), CM	288	0,26%
55 Victoria Falls (VFA), ZW	288	0,26%
56 Yaoundé Nsimafen (NSI), CM	288	0,26%
57 Pemba (POL), MZ	264	0,24%
58 Lamu (LAU), KE	259	0,24%
59 Libreville (LBV), GA	192	0,18%
60 Djibouti (JIB), DJ	96	0,09%
61 Luanda (LAD), AO	96	0,09%
62 Musoma (MUZ), TZ	91	0,08%
63 Garowe (GGR), SO	50	0,05%
64 Seiyun (GXF), YE	50	0,05%
65 Galcaio (GLK), SO	30	0,03%
66 Dubai World Central (DWC), AE	0	0,00%
67 Liège (LGG), BE	0	0,00%
68 London Stansted (STN), GB	0	0,00%
69 Maastricht (MST), NL	0	0,00%
70 Mwanza (MWZ), TZ	0	0,00%
71 Sana (SAH), YE	0	0,00%

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Route and Schedule data provided by OAG Aviation Worldwide Limited. Aircraft configurations based on ch-aviation fleet data.

Kenya Airports Authority

# **Strategic Plan**

**2013 - 2017**

SEPTEMBER 2013



**Kenya Airports Authority**

*"Setting our sights high"*

## Foreword

Our mandate is to provide aviation facilities, infrastructure and services to support national economic growth and social progress, including cultural development and global accessibility. This Five Year Strategic Plan, covering the period 2013-2017 is meant to enable us realize this mandate.

The Plan has been developed through a consultative process with key stakeholders and also aligned to the provisions of the Kenya Vision 2030, the economic blueprint that aspires to transform Kenya into "a newly industrialized, middle income country providing a high quality of life to all its citizens in a clean and secure environment".

The aviation industry continues to be highly dynamic with its future premised on facility adequacy, cost consciousness and enhanced service orientation in a sustainable environment. The Board of Directors and the Management therefore reviewed the Strategic Model to achieve this alignment. Thus our Vision is "*Globally Competitive Airport Facilities and Services*". Our Mission is "*To provide efficient and effective airport facilities and services in a sustainable environment*". *Customer focus, Team Spirit, Integrity, Professionalism, Good Governance and Innovation are our underlying values in service delivery.*

To achieve our objective, we will focus on transformational leadership, succession planning programs, investing on training and human capital development activities. The Authority will re-engineer its values and implement a Culture Change management program that will be aligned to this Plan. Employee productivity and a robust compensation system will be put in place after job evaluation and reorganization of the structure.

Prudent talent management is critical in the realization of the aspirations of this Plan. To this end, we will undertake job evaluation and the attendant reorganization of the structure, backed with the desired culture orientation to support the implementation of the Plan. The structure will reinforce research and development activities in the Authority. We will deploy appropriate policies, systems and processes including information and communication technology to support quality service for superior operational and financial performance. In this respect, our strategy on business process automation will be reviewed to provide the necessary leverage including possibilities of integration with other service chain players. Our future business focus will explore possibilities of offshore investments.

We are also happy with the committee established by our parent ministry to oversee the rehabilitation, maintenance and management of public airstrips.

The Board of Directors will provide the requisite policy direction and oversight based on feedback from periodic monitoring and evaluation reports to ensure success of this Strategic Plan. We thus wish to reach out to our stakeholders to embrace this Plan and work with us towards successful implementation.

I wish to thank all those who participated in the formulation of this Strategic Plan for a job well done.

.....  
Prof. Mutuma Mugambi  
Board Chairman



Kenya Airports Authority  
*"Setting our sights high"*

## Preface

This Plan outlines the requisite service portfolio to meet the projected demand growth in air travel market. Besides the industry outlook, the Plan has also taken into account mitigation measures to address our risk exposure as well as our obligations to stakeholders.

This Plan is premised on superior service quality and therefore addresses facility and infrastructure facelift for JKIA and other airports and public airstrips, general improvement of auxiliary infrastructure within the airports, convenience and comfort facilities and facilitation of intermodal link with railway system to augment service delivery.

Service with integrity will be our driving force intent on handling customer concerns within the provisions of our Service Charter. Our quality management system will thus be gradually progressed to AS9100 which is aviation specific. Systems and processes will be put in place within the airports to ensure the comfort, safety and security of our customers. Research and development initiatives will be pursued to inform the future direction of the business. Forward planning will also be observed, in particular by way of securing land for future development. We will also improve procurement cycle time as well as project implementation to enhance business performance. A mechanism will be put in place to co-ordinate service chain players to cultivate the necessary synergy. Sustainable development will also be ensured through sound stewardship of the physical environment in all areas of our operations.

The Plan has incorporated deliberate provisions to support commercial revenue generation to improve revenue security and avail resources for facility modernization. Improved financial performance is also expected to be achieved through elaborate sustainable business initiatives stipulated in this Plan.

Employee skills, competencies and productivity will be enhanced and a business supportive culture put in place and nurtured to support implementation of the Plan. Monitoring and evaluation will be done at all levels of operation through an all-inclusive performance management system. Senior management will periodically review progress on the implementation of the Plan while my office will submit feedback reports to the Board of Directors on agreed timelines.

I hope and believe that this corporate road map will deepen partnerships with all Airlines led by our base carrier, Kenya Airways, service chain players, international and domestic partners and also enable us forge closer collaboration with the regulator, KCAA and our parent Ministry of Transport and Infrastructure .

I wish to take this opportunity to sincerely thank the Board of Directors, Management and Staff for their collective and individual participation in the development of this Strategic Plan. I also wish acknowledge the input of the Consulting Firm, Alpex Consulting Africa Limited, through their facilitative role and expert guidance in the preparation of this Plan.

It is my conviction that good teamwork in the implementation of this Plan will shorten our journey to the desired future of achieving "Globally Competitive Airport Facilities and Services".

.....  
Ms. Lucy Mbugua  
Ag. Managing Director



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## Acronyms

AODB	Airport Operations Database
BSC	Balanced Scorecard
CBD	Central Business District
CCTV	Closed Circuit Television
EIA	Eldoret International Airport/Environmental Impact Assessment
ERP	Enterprise Resource Planning
FIDs	Flight Information Display System
FBO	Fixed Base Operator
GoK	Government of Kenya
HQ	Head Quarters
ICAO	International Civil Aviation Organization
ICT	Information and Communication Technology
JKIA	Jomo Kenyatta International Airport
KAA	Kenya Airports Authority
KCAA	Kenya Civil Aviation Authority
KES	Kenya Shilling
KIA	Kisumu International Airport
KQ	Kenya Airways
KPLC	Kenya Power and Lighting Company
LAN/WAN	Local Area Network/Wide Area Network
MIA	Moi International Airport
MTP	Medium Term Plan
NEMA	National Environment Management Authority
P-PESTEL	Policy, Political, Economic, Social, Technological, Environmental, Legal
R&D	Research and Development
RRI	Rapid Results Initiative
SLAs	Service Level Agreements
SWOT	Strengths, Weaknesses, Opportunities and Threats
WAP	Wilson Airport



## Definition of Terms

**Aircraft Movements:** An aircraft take-off or landing at an airport

**Passengers:** Enplaning (embarking) and deplaning (disembarking) passengers at an airport, including passengers who are continuing their journey to a final destination.

**Cargo:** Freight (inclusive of mail) loaded or unloaded at the airport.

**Aeronautical Revenue:** Revenue derived from aeronautical sources. These include charges such as aircraft landing and takeoff fees, aircraft parking charges, passenger service fees, fuel throughput fees and security charges, where applicable.

**Non-Aeronautical Revenue:** Revenue derived from non-aeronautical sources. These include charges such as revenues from land rental and non-terminal facilities, concessions for food & beverage, retail and advertising, rental cars, public and employee parking, hotel and ground transportation.

**Recurrent Expenditure:** These are regular expenses such as salaries, wages, administrative expenses, normal repairs and maintenance and other general expenses. These are generally operating expenditures, but exclude non-operating costs such as debt servicing and depreciation.

**Capital Expenditure (CAPEX):** Funds used to acquire or upgrade physical assets such as terminal buildings, pavements or equipment. This may also include funds used to make major repairs such as on roofs.

**Customer Delight:** Feeling a customer experiences after receiving a good or service that significantly surpasses expectations. It is measured in terms of a customer perception index.

**Passenger handling capacity:** The number of passengers that can be processed by the terminal facility annually. This is based on the design capacity of the terminal facilities.

**Cargo handling capacity:** The amount of cargo, in tons, that can be accommodated by the cargo terminal facility annually. This is based on the design capacity of the cargo terminal facilities.

**Runway and taxiway availability:** Runway is a defined rectangular area on a land aerodrome prepared for the landing and take-off of aircraft whereas taxiway is defined rectangular area on a land aerodrome prepared for aircraft maneuvering. Availability measures percentage of time the facility is in operational readiness, net of scheduled maintenance.

**Key equipment availability:** The key equipment considered here includes conveyor belts, runway lights, stand-by generator sets and security equipment. Availability measures the percentage of time the key equipment is in operational readiness, net of scheduled maintenance.

**Aircraft Parking Stands:** These are the aircraft parking slots available for use at the airport. They are either contact stands or remote stands.

**Aircraft Maintenance Hangars:** These are designated areas or structures for holding aircraft either for maintenance, repair, manufacture, assembly and storage.

**Utilities:** These are support services for facilitating operations and include electricity and water supply.

**Car parking capacity:** These are the car parking slots available for use at the airport.

**Access Roads:** These refer to roads providing a means of entry into an area within the airport.

**Convenience Facilities:** These refer to facilities provided at the airport for the convenience of users, particularly the travelling public. These include holding lounges, toilet facilities, automated check-in kiosks and parking facilities, among others.

**Comfort Facilities:** These refer to facilities provided at the airport for the comfort of users, particularly the travelling public. These include duty free shops, airport hotels, eateries and children play rooms, among others.

**Commercial Facilities:** These refer to facilities provided commercial use. These include car parking garage, cargo and passenger terminals, airport hotels, fuelling stations, among others.

**Inter-modal connectivity:** This refers to interlinking of air, ground and rail transportation systems to provide seamless transport services.

**Stakeholder Relations:** It is the process of engaging stakeholders in the process of conducting the airport business. It involves seeking and accommodating the views of the stakeholders while conducting the business.

**Preventive Maintenance:** This refers to shutting down of equipment and systems for scheduled preventive maintenance purposes.

**Project Management:** This is the process of planning, organization and executing a project to completion. It has a defined project beginning and end period.



**Project Cycle Time:** This is the defined project initiation and completion time.

**Management Information:** These refer to the various media for communicating information to the management and include various reports and briefings, among others.

**Outsourced Services:** These refer to the various services delegated to third parties for delivery. These include environmental management and car park management.

**Conducive Work Environment:** This refers to the provision of comfortable working environment to promote optimal productivity. This may be in the form of appropriate working tools, safe, sufficient and clean working space, and provision of utilities such as drinking water, among others.

**Skills and Competency:** This refers to enhancement of capacity to perform of the staff through training and exposure to business dynamics.

**Employee Welfare:** This involves putting in place systems and processes to ensure that the employees are taken care of wholesomely. This includes appropriate benefits scheme, career progression scheme, among others.



## Executive Summary

This Plan aligns our business strategy to the Kenya Vision 2030 Medium Term Plan 2013-2017 and also addresses our initiative to boost service delivery to customers within the framework of aviation industry outlook. Kenya Vision 2030 is an economic blueprint which aims to transform Kenya into *"a newly –industrialized, middle-income country providing a high quality of life to all its citizens in a clean and secure environment"*. Aviation industry outlook points to a future defined by facility and infrastructure adequacy, cost consciousness and service orientation in a safe and secure sustainable environment.

The Plan was developed through a participatory and consultative process involving the Board of Directors, Management, Staff and key stakeholders to ensure ownership and simplify implementation.

Our Strategic Model was also reviewed, as detailed below, to conform to the industry outlook:

**Vision:** *"Globally competitive airport facilities and services"*

**Mission:** *"To provide efficient and effective airports facilities and services in a sustainable environment"*.

**Core Values:** (i) *Customer Focus*; (ii) *Team Spirit*; (iii) *Integrity*; (iv) *Professionalism*; (v) *Good Governance*; and (vi) *Innovation*.

The pillars of excellence in the Plan are:

- 1) Airport facilities
- 2) Airport Services
- 3) Sustainable Business
- 4) People and Culture
- 5) Technology
- 6) Innovation
- 7) Security and Safety;
- 8) Stakeholder Management.

The corresponding strategic objectives are to:

- (i) *provide adequate modern airport facilities;*
- (ii) *improve customer experience;*
- (iii) *increase revenue, optimize cost and ensure corporate governance and environmental sustainability;*
- (iv) *develop human capital;*
- (v) *enhance utilization of information and communication technology in business processes;*
- (vi) *undertake research and development to support business growth;*
- (vii) *improve safety and security; and*
- (viii) *Improve stakeholder engagement.*

Implementation of the Plan will be done through Performance Management System. Monitoring and evaluation will be done to ensure timely implementation.

The Plan is organized into Seven Sections:

- Section 1 gives the introduction and background information including role of our airports in National development, performance and challenges of the 2010-2014 Plan, key success factors and justification for the current Plan;
- Section 2 presents Situation, SWOT, PESTEL, Risk and Stakeholder analyses including review of the market outlook;
- Section 3 outlines the strategic model, pillars of excellence and their expected outputs and the corporate scorecard.
- Section 4 deals with implementation of the Plan;
- Section 5 deals with financial resources and Section 6 the Monitoring and Evaluation Framework.



# 1: Introduction

## 1.1 Background

The Kenya Airports Authority (KAA) is a body corporate established in 1991 by an Act of Parliament, the KAA Act, Chapter 395 of the Laws of Kenya to provide and manage aviation infrastructure, facilities and services.

KAA is currently responsible for the management of Jomo Kenyatta International Airport (JKIA), Moi International Airport (MIA), Eldoret International Airport (EIA), Kisumu International Airport (KIA), Wilson Airport (WAP), Malindi Airport, Lokichogio Airport, Wajir Airport and Ukunda, Kitale, Lodwar, Garissa, Kakamega, Manda and other public Airstrips.

## 1.2 Mandate

Its specific functions are to:

- a) administer, control and manage aerodromes;
- b) provide and maintain facilities necessary for efficient operations of aircrafts;
- c) provide rescue and firefighting equipment and services;
- d) construct, operate and maintain aerodromes and other related activities;
- e) construct or maintain aerodromes on an agency basis on the request of any government department;
- f) provide such other amenities or facilities for passengers and other persons making use of the services or facilities provided by the authority as may appear necessary or desirable; and
- g) approve the establishment of private airstrips and control of operations thereof.

Kenya Civil Aviation Authority, another public sector player in the aviation industry, provides air traffic control services and regulatory functions while the Ministry of Transport and Infrastructure is responsible for policy direction and approval of aviation tariffs.

## 1.3 Role of Our Airports in National Development

Our airports facilitate trade in fresh produce, general merchandise and dry cargo, tourism and business passengers, humanitarian and security operations, employment, sports and global accessibility and hence critical to the economic development of the Country. The sector contribution to the economy is derived from airport operations, airlines and ground services, sector supply chain and expenditure of the sector employees. Employment includes direct, indirect and induced placements.

Our flagship airport, JKIA has a large catchment area that enables global accessibility and improves the competitiveness of local businesses in terms of sales, logistics and inventory management, production and customer support. Airports like Lokichogio and Wajir facilitate humanitarian and security operations in their respective catchment areas.

Kenya Vision 2030 is an economic blueprint that targets a globally competitive and prosperous Nation with a high quality of life by 2030. The Blueprint is organized into economic, social and political pillars. Economic pillar targets sustained economic growth rate of 10% per annum. Social pillar aspires a just and cohesive society enjoying equitable social development in a clean and secure environment while political pillar targets issues based, people centered, result oriented and accountable democratic political system. The Blueprint is phased in a 5-year rolling Medium Term Plan (MTP).

The airport system is a key enabler of the country's Blueprint in the areas of infrastructure development and associated services.

The first MTP concluded in 2012 with JKIA aircraft parking stands increased from 12 to 37, construction of 2 additional taxiways and fuel hydrants system and development of Unit 4 and the Multi-storey car park which are 55% complete. At MIA, remedial works on pavement rehabilitation were in progress awaiting reconstruction while in KIA a new terminal building and aircraft apron were constructed and the runway extended to 3.3 km and widened to 45m. Terminal buildings were completed at Malindi, Wajir and Manda and pavement rehabilitated at Isiolo. At least 50 public airstrips were rehabilitated to support humanitarian, administrative, business, security, and tourism and logistical activities.

Phase II MTP covers 2013-2017 with KAA expected to rehabilitate and maintain airports and public airstrips. The airports projects of focus include Green Field Terminal and associated facilities and second runway at JKIA, pavement reconstruction at MIA, construction of cargo apron and runway strengthening at KIA, extension of the runway and upgrade of the apron at EIA, construction of terminal building at Isiolo, development of an international airport in Lamu and rehabilitation of Lokichogio Airport. In the same period, Kenya Railways Corporation is expected to build light railway linking the CBD and JKIA while the Integrated National Transport Sector Policy targets recovery of aerodrome land illegally acquired by third parties, construction of light rail transport system to connect MIA to its CBD and enhancement of safety and security of aviation installations.

## 1.4 Plan and Performance 2010-2014

### 1.4.1 Plan

The Plan focused on the realization of the following eight objectives:-

1. **Revenue Enhancement and Cost Management:** To mobilize financial resources and develop mechanisms for efficient and effective utilization of resources to enhance the financial viability and sustainability of the Authority.
2. **Infrastructure and Facilities:** To enhance the capacity of infrastructure and facilities through prudent planning and implementation with a view to meeting traffic demand, addressing capacity constraints, ensuring business growth and meeting stakeholder' expectations.
3. **Security:** To enhance security and capacity in all Airports to meet ICAO and National Aviation Security Program requirements and create awareness on security threats.
4. **Safety:** To enhance safety in all airports to meet the National Aerodrome safety requirements as stipulated by KCAA and other relevant aerodrome safety requirements.
5. **Automation:** To strengthen business process automation and use of ICT to facilitate operational efficiency and enable the tapping of emerging revenue-generating opportunities with a view to enhancing profitability, financial viability and sustainability.
6. **Employee:** To enhance staff capacity and welfare levels; automate the human resource processes; develop an appropriate corporate culture; facilitate effective communication; and develop succession, employee recognition and gender mainstreaming plans.
7. **Environment:** To implement green initiatives to ensure compliance with international and local environmental requirements.
8. **Customer Service:** To strengthen customer service delivery mechanisms and enhance the corporate image of the Authority.

### 1.4.2 Performance

The following are the achievements during the previous plan period: -

**Revenue Enhancement and Cost Management:** Air passenger service charge was reviewed, new airlines commenced operations while existing ones enhanced their frequencies, staff transport services at JKIA and MIA were outsourced, quality management system was improved and risk management framework was put in place.

**Infrastructure and Facilities:** the master plans and land use plans were developed, construction of JKIA Unit 4 terminal and associated facilities was in progress alongside preparatory activities for the airport infrastructure upgrade. At MIA power supply was regularized and FIDS improved. At KIA new terminal building was built, runway extended to 3.3 km and also widened to 45m alongside development of associated facilities. Construction of fire station was in progress at Wilson Airport. New terminal buildings were put up at Malindi and Manda, pavement at Isiolo was improved and public airstrips were rehabilitated.

**Security:** reviews were done on airports security programs and procedures and deficiencies for Loki and EIA rectified, scheduled and ad hoc security quality control were done in all airports. Airports with deficiencies were developed and corrective action plan implemented. Staff were recruited, trained and deployed and X-ray machines, walk through metal detectors and explosive detection machines put into use. CCTV media is under upgrade at EIA, MIA and KIA and total overhaul at JKIA. Emergency contingency plans were updated across the entire airport system.

**Safety:** Safety guidance manuals were developed for JKIA and MIA and emergency plans reviewed and implemented. JKIA and MIA received lighting equipment. MIA, Wilson, EIA and Wajir received one ambulance each. Wajir, Kisumu and EIA received 1 fire tender each, MIA 3 and JKIA 2 foam tenders. JKIA and Malindi acquired 1 command car each with JKIA also receiving 1 rescue car. A static tank was put up in Kisumu, JKIA and MIA were re-certificated and also carried out full scale emergency exercise alongside Kisumu International Airport. Safety seminars were conducted and functional bird and wildlife hazard management framework put in place in all airports. All airports also received binoculars for surveillance of birds.

**Automation:** ERP system was implemented covering financial management, procurement and logistics and human resources management with other components planned for implementation in phase II. AODB also implemented at MIA and JKIA. WAN was put in place alongside corporate intranet. LAN was outstanding and business continuity management system was partially accomplished. Staff were recruited and trained.

**Employee:** training needs analysis was done which informed subsequent training program, leadership development plan was implemented, change management was in progress as well as the performance management system and gender and disability mainstreaming policy was developed and implemented.

**Environment:** energy audit was done with implementation expected to address reduction in consumption. Waste management audit was done and implementation under plan. Trees were planted at EIA and JKIA. All projects undergo impact assessment and annual environmental audits done at mainstream airports. 2 environmental management experts were recruited.

**Customer Service:** product improvement was implemented in various airports and culminated in improved customer perception on service delivery, staff beef up done.

### 1.5 Challenges

The following challenges were encountered in the implementation of the Plan:

- 1) Airport infrastructure constraints in terms of age and size- JKIA
- 2) Subsidizing airports which operate as costs centres;
- 3) Encroachment of land earmarked for facilities development
- 4) Land use incompatibility by neighboring communities
- 5) Funding facility expansion
- 6) Dynamism in customer demands and expectations and security threat trends
- 7) Implications of duty free contracts signed in 1989;
- 8) Delays in the implementation of projects; and
- 9) Effects of pilferage and vandalism.

### 1.6 Key Success Factors

Our future success, as informed by aviation industry outlook, requires the following:

- 1) enhanced delivery of service to customers
- 2) upgrading and maintenance of facilities to support service delivery;
- 3) raising the contribution of non-aeronautical revenue to enhance financial viability;
- 4) complying with National Standards in the provision of safety and security of the airports and their users;
- 5) ensuring sound environmental stewardship in the areas of noise, pollution, local air quality, climate change and land use;
- 6) use of information and communication technology to enhance business performance;
- 7) structured engagement of stakeholders;
- 8) securing land for future expansion;
- 9) improving staff productivity;
- 10) effective management of outsourced service providers;
- 11) quality enhancement; and
- 12) effective monitoring and evaluation framework of the Strategic Plan.

### 1.7 Rationale for the Strategic Plan 2013-2017

The review of the Plan is informed by the need to align the strategy with the Kenya Vision 2030 Medium Term Plan 2013-2017 and also to respond to the industry demands and outlook.

## 2: Situation Analysis

### 2.1 Global Operations Environment

#### Capacity Constraints on Demand

In 2007 Airport Council International conducted a survey on constraints airports in different regions face in meeting future demand and factors that influence aviation traffic. On constraints, noise was a concern in Europe and North America, airside infrastructure in other regions except North America and runway in the case of Europe. Capacity of terminal buildings was a concern in all regions. Apron was a concern in all regions except Europe and North America.

#### Factors Impacting on Aviation Traffic

On factors that promote aviation traffic, all regions ranked economy as the most important, except Africa which ranked tourism first perhaps because of the dominance of international traffic. Other regions, apart from the Middle East, also ranked tourism favorably. Low costs expansion ranked favorably in other regions except the Middle East and Africa. Negligible penetration of low cost business model could be due to high level of regulation in the two regions and skewed benefit to passengers only. Apart from economy, the Middle East ranked hubbing activity, open sky and expansion of base carrier favorably perhaps on account of its long haul operation. Africa's full preference in the order of importance was tourism, open sky, economy, trade, hubbing activity, low costs and expansion of base carrier.

On factors that dampen aviation traffic, high fuel costs ranked first in North America, Asia and the Middle East. This could be due to the expansive domestic aviation market in North America and long haul operations in the case of Asia and the Middle East. North America also ranked bankruptcies and external shocks among the main concerns. Europe had fuel, airport competition and infrastructure. Airport competition arises from low cost operators who set their operating bases in small secondary airports leading to overlapping catchment areas and hence competition among airports. Infrastructure limitations also ranked high in all regions except Latin America and North America. Euro-control estimates 10% of the demand, equivalent to 260 million passengers, will not be served by 2030 due to capacity constraints. Africa's concern in the order of magnitude was airside infrastructure, fuel costs, infrastructure, surface, environmental restrictions, bankruptcies, external shocks, bilateral arrangements and airport competition. Environmental restrictions include penalties on carbon dioxide emissions introduced by the European Union in 2012.

### Revenue Structure

Non aeronautical revenue is important in cushioning operating income and enhancing financial viability. Its growth also reduces operating costs for aircrafts as its profits are re-invested in airport infrastructure thereby avoiding costly borrowing for facility expansion and upgrade and also leads to better credit rating of the airports and attractive assets for private sector investments. Globally, non-aeronautical revenues account for 46% of the overall revenue. Out of this, retail accounts for 28%, car parking 18%, property income 19% and others including car rental, advertising and food and beverage, 35%. Latin America and Asia Pacific get at least 40% of their non-aeronautical revenue from retail and 31% for the case of Africa and Europe. The strength of Asia on retail is due to extensive duty free options with strong international brands, brand awareness and high proportion of long haul passengers with good purchasing power. North America gets 39% from car parking due to strong domestic traffic and car rental 19%. Asia Pacific makes 26% from property rent and Africa 23% and Europe 21%.

#### 2.1.1 Market Outlook

Air travel is positively related to economic growth. The aviation market is projected to remain buoyant for the next 20 years with the global passenger traffic and air cargo each projected to grow by 5.0% per annum. Boeing projects that 35,280 new airplanes, valued at US\$ 4.8 trillion, will be acquired to replace older and less efficient ones to meet fleet growth.

Africa's economy is projected to expand by 4.4% per annum over the same period driven by commodity markets, manufacturing and services. Air travel, on the other hand, is projected to grow by 5.7% per annum attributable to inter-regional connectivity mainly with Europe and development of intra-regional hubs in response to economic growth, demographic boom, increased urbanization and emergence of the middle class. South Africa and Egypt are the main regional hubs while Casablanca, Algiers, Tunis, Dakar, Addis Ababa, Nairobi and Accra are major gateways.

Air cargo and airplane fleet are projected to expand by 6.6% and 4.0% per annum respectively. Africa will require 1,070 new planes costing US\$ 130 billion to meet demand growth. Single aisle airplanes will dominate the new fleet with wide body airplanes making 50% of the deliveries.

Libya, Khartoum/Sudan, Rwanda, Senegal, Cairo and Tanzania have planned new airport facilities with aggregate expenditure of US\$ 5,443 million to serve the projected growth. Libya is developing a facility in Tripoli at US\$ 1,390 million to serve 20 million passengers per annum and a US\$ 632 million new passenger terminal and associated facilities at Benghazi. Sudan's new airport is estimated to cost US\$ 750 million same as Rwanda US\$700 million and Senegal US\$ 690 million. Cairo targets an additional terminal 3 and 3<sup>rd</sup> runway at US\$554 million while Tanzania will spend US\$ 527 million to rehabilitate Kilimanjaro International Airport.

Locally, the economy improved by 4.6% in 2012 and is projected to expand by 5.7% in 2013 and 6% in 2014 en-route to 10% envisaged by Kenya Vision 2030. Agriculture, trade and services are the main drivers of the growth. On the aviation front, passenger traffic is projected to grow by 5%, cargo 8% and fleet movement 3% per annum. Kenya Airways, the national carrier, in its 10 year investment program dubbed *project Mwingu* is implementing fleet modernization and expansion, route development and expansion which require upgrade and expansion of airport facilities and infrastructure. Ethiopia is emerging as a strong aviation gateway in Africa due to better facilities and infrastructure and elaborate state support in infrastructure upgrade and expansion, fleet modernization and upgrade and route development and expansion.

### 2.1.2 PESTEL Analysis

PESTEL Analysis looks at the factors within the operating environment that are political, economic, social, technological, environmental and legal in nature and their implications to the operations of KAA summarized in Table 1 below:

Table 1: PESTEL Analysis

Observations	Implications
<b>Political Environment</b>	
Perceived insecurity due to politics or otherwise leads to travel advisories	Decline in traffic throughput and associated revenue
Encroachment of aerodrome land	Land use incompatibility and reduced amount of land for facility development
<b>Economic Environment</b>	
Global economic recession	Decline in business performance
High interest rates for investments	Costly facility development
High inflation rate	Increase in operations cost
Competition for hub traffic	Decline in transit traffic
<b>Social Environment</b>	
Pilferage and vandalism	Customer dissatisfaction
Demands for higher wages by trade unions	Increase in wage bill
Hostility by neighbouring communities	Undermines safety and security of our airports
<b>Technological Environment</b>	
Rapid technological change	Systems upgrade to keep pace
Growth of social media	Adoption of proactive management style
<b>Ecological Environment</b>	
Climate change, noise, local air quality and pollution	Effective mitigation
<b>Legal and Regulatory Environment</b>	
The Constitution, local statutes and relevant international laws	Compliance

## 2.2 SWOT Analysis

The SWOT analysis, summarized in Tables 2 and 3, informed Strategy formulation by identifying the strengths, weaknesses, threats and opportunities for consideration in the delivery of our Mandate.

Table 2: Strengths and Weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Home to KQ, one of the main airlines in East and Central Africa region</li> <li>• Strategic location</li> <li>• Skilled and motivated staff</li> <li>• Strong leadership base</li> <li>• Business automation</li> <li>• Strong asset base</li> <li>• ISO 9001-2008 certification</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate business diversification strategy</li> <li>• Inadequate management of outsourced services</li> <li>• Ageing and inadequate infrastructure</li> <li>• Inadequate land for future expansion</li> <li>• Inadequate stakeholder engagement</li> <li>• Absence of regulations to support operations</li> <li>• Inadequate monitoring and evaluation system</li> <li>• Pilferage, trafficking and vandalism.</li> </ul>

Table 3: Opportunities and Threats

Opportunities	Threats
<ul style="list-style-type: none"> <li>• Strong home carrier(KQ)</li> <li>• Public-Private Partnerships legal framework in the development of projects</li> <li>• Extension of the railway network into JKIA</li> <li>• Projected growth in the aviation market</li> <li>• Ongoing expansion of airport facilities; and</li> <li>• Go support.</li> </ul>	<ul style="list-style-type: none"> <li>• Global economic recession</li> <li>• Competition from regional airports</li> <li>• Terrorism and other organized crime</li> <li>• Political instability in the region</li> <li>• Incompatible land use around the airports</li> <li>• Effects of climate change and natural disasters</li> <li>• Disputed pre-existing contracts</li> <li>• Hostility from neighboring communities; and</li> <li>• Bird and wildlife hazards.</li> </ul>

## 2.3 Stakeholder Analysis

Our stakeholders play a major role in the delivery of our Mandate and hence their expectations are considered in the formulation of this Strategic Plan Table 4 lists the key stakeholders, their respective responsibility, and our corresponding obligations.

**Table 4: Stakeholder Analysis**

Stakeholders	Responsibility	Expectation
Airlines	Air transportation	Adequate facilities and services for safe and secure operations
Airline passengers	Consumers of airlines and airport services.	Pleasant airport experience.
Concessionaires	Retail & other services to airport users	Conducive business environment
Business, Commerce, Tourism, Arts, Sports & Education Organizations	Use the airports to interface their respective local & international activities	Pleasant airport experience.
Kenya Civil Aviation Authority	Air Traffic Control & Regulatory Services	Compliance with regulations
GoK and its Agencies	GoK ensures availability of aviation facilities and services Immigration, Customs, County Governments and other agencies use these facilities to deliver services within their respective mandates	Avail aviation facilities and services and collaborate with the agencies to deliver their respective mandates
World Bank and other Development Partners	Financial and technical support	Repayment of the loans
Suppliers	Supply goods and services	Timely payment
Employees	Human resource	Rewarding career
Neighboring community	Sustainable development	Sustainable development



## 2.4 Risk Analysis

The Authority is exposed to risks in terms of threats to service provision and potential of lost opportunities. The risks which are likely to affect our business have been identified, as summarized in Table 5 below, and their attendant mitigation measures considered in the formulation of this Strategic Plan.

Table 5: Risk Analysis

Risk Area	Risk Factors	Mitigation Measures
Revenue	Dominance of aeronautical revenue	Enhanced diversification to grow commercial revenue base
Competition	Competition for hub business by other airports within the region.	Facility upgrade, enhanced service orientation and cost consciousness
Safety	Consequences of Fire outbreak, power failure, unauthorized access to ICT systems, bird strikes, wild life menace and activities of hostile squatters	Adequate fire cover, power backups, policy against unauthorized access, technological intervention, management of birds and wildlife, perimeter fencing, removal of squatters, enforcement of land use compatibility and erecting buffer zones, installation of CCTV media and general safety awareness by airport users
Governance	Non-alignment of KAA Act and Procedures to the Constitution and applicable statutes and regulations	Compliance with relevant laws and regulations.
Capacity	Congestion due to inadequate airside and terminal capacity. Inadequate land and other resources for planned capital expansions such as water supply, power supply, drainage systems and inadequate resources in existing facilities	Facility upgrade, land for facility development and stakeholder buy in. Involvement of stakeholders such as Nairobi Water Company Limited, KPLC, NEMA to ensure resources is well planned.
Security	Incidences of terrorism, vandalism and pilferage	Installation of CCTV and access control media, controlled issuance of access passes and periodic risk and vulnerability assessment and implementation of corrective action on deficiencies identified and enforcement of SLAs
Litigation	Disputes on contractual agreements	Due diligence to be done on all new contracts being drawn to ensure that the contract are in compliance with all applicable laws and regulations.
Industrial disharmony	Disruption of operations by staff	Structured dialogue
Succession	Ageing personnel in areas such as fire management	Recruitment and training
Reputation	Erosion of Corporate Image	<ul style="list-style-type: none"> <li>Enforcement of the Code of Conduct and Ethics and other Governance instruments and implementation of aviation specific quality management system- AS9100</li> <li>Brand promotion</li> </ul>

### 3: Strategic Model

The Strategic Model addresses areas of focus in pursuit of competitive edge over the Plan period, taking into account challenges in the implementation of the 2010-2014 Plan, requirements for future success, results of the situation analysis, stakeholders' expectations and the requisite mitigation measures on the identified risks.

#### 3.1 The Vision

"Globally competitive airport facilities and services"

#### 3.2 The Mission

To provide efficient and effective airports facilities and services in a sustainable environment".

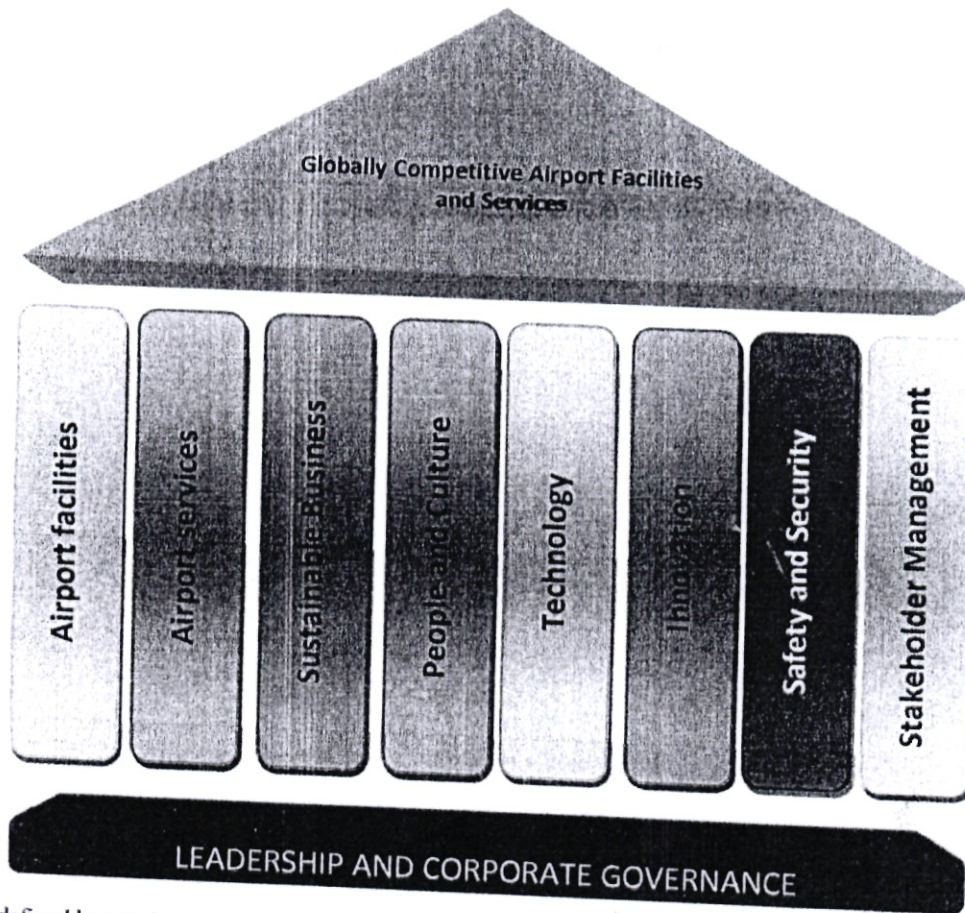
#### 3.3 Core Values

- Customer focus:** we will at all times make the needs of our customers the primary focus in establishing and sustaining productive relationships;
- Team spirit:** we will embrace teamwork in dealing with customers and other stakeholders
- Integrity:** we will uphold honesty, trust, respect and reliability at all times in our operations
- Professionalism**
- Good governance and**
- Innovation.**

#### 3.4 Pillars of Excellence

The following pillars of excellence will be pursued in the Plan period:-

- 1) Airport facilities
- 2) Airport Services
- 3) Sustainable Business
- 4) People and Culture
- 5) Technology
- 6) Innovation
- 7) Security and Safety and
- 8) Stakeholder Management.



The pillars are defined hereunder:

**Airport facilities:** Our pursuit of competitive edge requires adequacy of the requisite facilities such as passenger terminals, airside pavements, car parks, hangars, commercial buildings, utilities, warehouses, fire stations, access roads, recreational facilities, cargo facilities and air traffic control infrastructure and Navigation aids.

**Airport services:** Airport services include inter alia passenger, ramp, cargo and baggage handling, in-flight catering, security, food and beverage, retail, ground transportation and lounge and airline services.

**Sustainable Business:** As a going concern, KAA must remain sustainable as a business. This includes reducing cost and increasing revenue while adhering to sound environmental management practices.

**People and Culture:** We will focus on transformational leadership, succession planning programs, investing on training and human capital development activities. The Authority will re-engineer its values and implement a Culture Change management program that will be aligned to this plan. Employee productivity and a robust compensation system will be put in place after a Job Evaluation and structure Reorganization.

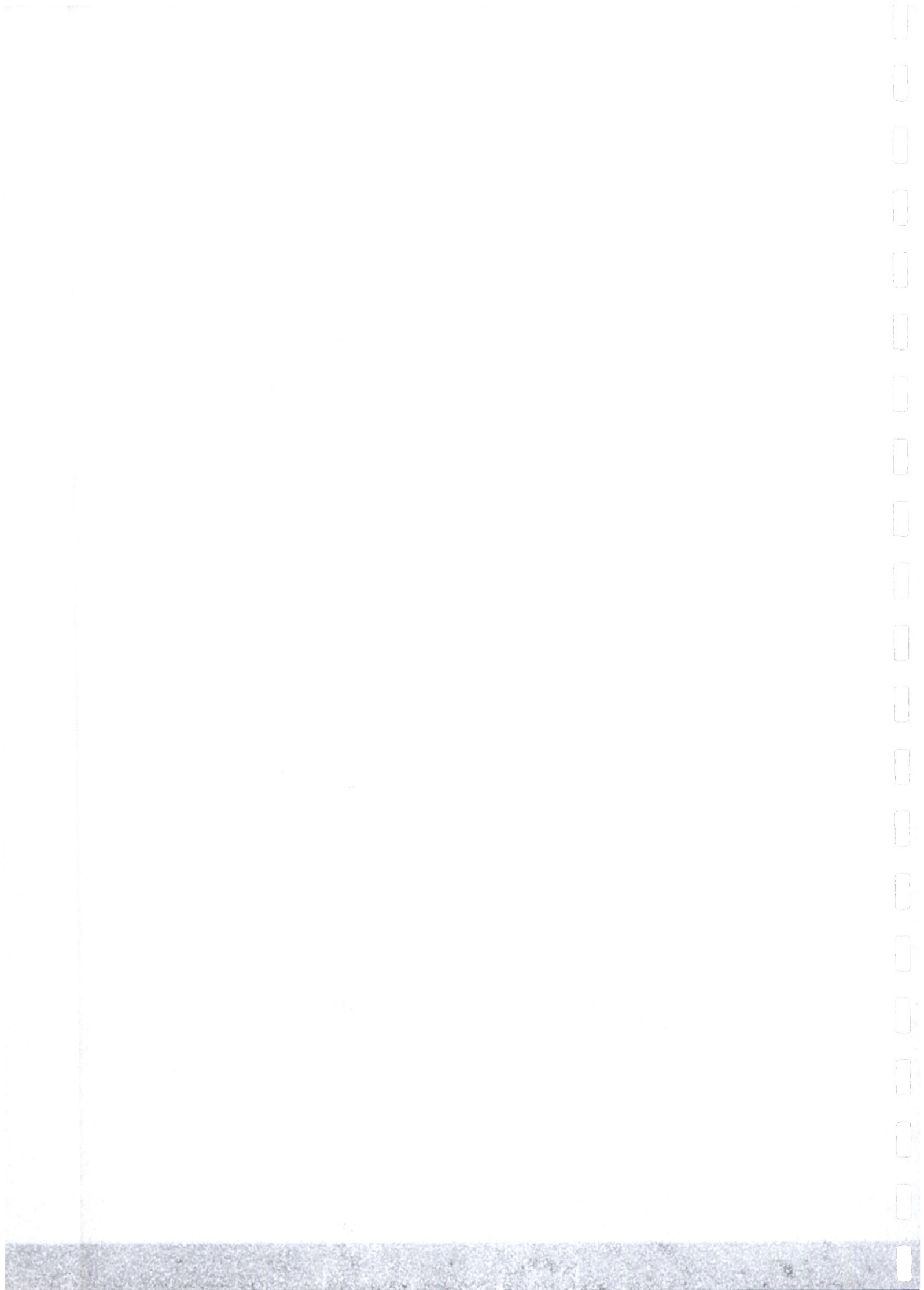
**Technology:** The Authority will leverage on the application of ICT as a strategic enabler in revenue growth, cost management and service delivery to enhance business performance.

**Innovation:** Continuous R & D to establish and enhance competitive edge.

**Safety and Security:** We will continue to strengthen our security and safety infrastructure to deter acts of unlawful interference, threats to safety and any possible criminal acts against the persons or property within our jurisdiction.

**Stakeholder Management:** We will establish a framework for structured engagement with KCAA, Kenya Airways and other airlines, GoK, County Government, and non-aviation partners in major decisions to improve business performance.

Summary of expected processes and systems and outputs from the pillars of excellence is detailed below.



Perspective	3.4.1 Expected Outputs							
	Airport Facilities	Airport Services	Sustainable Business	People and Culture	Technology	Innovation	Safety and Security	Stakeholder Management
Financial	Funding facility development.  Revenue from airport facilities	Funding airport services.  Revenue from airport services	Funding sustainability of the business  Revenue from commercial facilities, revised aeronautical tariffs and additional operators.  Costs savings from paperless operations, utilities and outsourced services	Funding human resources management  Savings from shared facilities with open office plan	Funding business automation  Revenue from automated system  Cost savings from process automation	Funding R & D	Funding safety and security requirements  Revenue earned from consultancy services on fire and rescue and security	Funding stakeholder engagement activities
Customer	Passenger and cargo terminals, airside pavement, aircraft stands, hangars, utilities fuel & office space	Car parks, access roads, airport hotel, convenience facilities, comfort facilities, intermodal connectivity	Commercial facilities  Operational special economic zones at JKIA	Efficient service delivery	Efficient service delivery	Efficient service delivery	Safe and secure airports	Efficient service delivery
Systems and Processes	Stakeholder buy-in for facility upgrade  Well maintained facilities  Land for facilities development  Efficiency in project management  Technological support in project management  Data and information for project planning  Efficient and effective procurement process	Efficient delivery of outsourced services  Efficient management of customer complaints  Culture of service with integrity  Efficient and effective procurement process	Environmental management system  Quality Management System Risk Management Framework  Commercial orientation  Compliance with all relevant laws and regulations  Efficient and effective procurement process	Performance accountability  Business supportive attitude	Robust and reliable system  Automated business processes	Creativity culture	Certificated/ licensed airports	Synergy  Public Private Partnership
Learning and Growth	Competency in project management  Adequate human capital	Competency in customer service  Adequate human capital	Competency in requisite skills	Talent management	Competency in requisite skills	Recognition and reward framework	Competency in requisite skills	Engagement

3.4.2 Corporate Scorecard

Balanced Scorecard Perspective	Performance Indicators	Measure	Unit	Actual	Target				
				Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	
Financial	Traffic throughput	Aircraft Movements-000	No.	257.93	277.77	286.10	294.68	303.52	
		Passengers- 000	No.	8,406.54	9,418.07	9,981.03	10,581.73	11,240.72	
		Cargo -000	Tons	275.85	336.94	363.92	393.07	474.55	
	Revenue(R)	Aeronautical:	Ksh.M	9,260.26	11,187.46	11,780.24	12,548.39	13,368.87	
		Non-Aeronautical:		1,958.83	2,109.94	2,451.10	2,685.78	2,942.38	
	Cost (C)	Recurrent :	Ksh.M	6,196.29	8,177.35	9,523.81	12,042.80	12,785.96	
		Capital:		5,025.35	18,831.25	36,737.13	32,701.21	10,244.82	
		Customer perception index	%	72.77	74.64	76.28	76.97	78.08	
	Customer	Customer delight	Customer perception index	%	72.77	74.64	76.28	76.97	78.08
		Service level	Arrival processing time	Minutes	XX	45	45	45	45
Passenger handling		Annual capacity	No.	5,330,000	8,220,000	8,220,000	8,220,000	26,470,000	
		Cargo handling	Annual capacity	Tons	1,458,000	1,458,800	1,539,810	1,542,300	1,544,180
Runway and taxiway		Availability	%	100	100	100	100	100	
Key equipment		Availability	%	99	99	100	100	100	
2nd RW at JKIA		Completion	%	0	0	100	0	0	
Aircraft Parking Stands		Slots	No.	77	98	112	115	172	
Aircraft Maintenance Hangar		Hangars	No.	41	44	49	52	57	
Utilities		Availability	%	100	100	100	100	100	
Car parking capacity		Slots	No.	1,557	3,077	3,182	3,216	4,716	
Access Roads- New		Completion	Km	4	11	15	1	1	
Upgrade		Availability		-	20	-	-	-	
Airport Hotels		Hotel	No.	-	-	-	-	-	
Convenience facilities		Facilities	No.	-	6	-	4	-	
Comfort facilities		Facilities	No.	-	-	-	-	-	
Intermodal connectivity- JKIA, MIA and KIA		Space	Hectares	-	51.1	-	3	-	

3.4.2 Corporate Scorecard

Balanced Scorecard Perspective	Performance Indicators	Measure	Unit	Actual	Target				
				Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	
Commercial facilities	Facilities	No.	-	27	-	-	-	-	
		Variety	-	9	-	-	-	-	
Stakeholder relation	Stakeholder approval rating	%	100	100	100	100	100		
Preventive maintenance	Forced down time	%	-	-	-	-	-		
Land for future development	Acreage	Hectares	-	211.0	169.4	-	-		
Project management	Timeliness	%	100	100	100	100	100		
Procurement Cycle Time	Timeliness	%	100	100	100	100	100		
Management information	Reports	No.	4	4	4	4	4		
Outsourced services	Performance	Rating	81.5	81.5	81.5	81.5	81.5		
Cust. Complaints handling	Timeliness	%	100	100	100	100	100		
Service with integrity	Compliance	%	XX	50	70	100	100		
Environmental protection	Certification 14001	Certificate					1		
Quality (aviation)	Certification AS9100	Certificate							
Risk exposure	Impact	Rating	High	High	Moderate	Moderate	Moderate		
Brand Positioning	Brand Vibrancy	Rating	Average	High	High	High	Very High		
Responsible corporate citizen	Compliance level	%	100	100	100	100	100		
Performance accountability	Perfor. Mgt System	Grading	Very Good	Very Good	Very Good	Very Good	Very Good		
Process Automation	Rating		61	73	84	90	95		
	Performance	%	98.5	98.5	98.5	98.5	98.5		
Research & Development	Innovation	No.	0	0	1	0	1		
Safety	Implementation of SMS	%	30	70	75	80	85		
Security	Compliance with standard	%	100	100	100	100	100		
Conducive work environment	Employee perception index	%	67.3	68.2	68.9	69.6	70.3		
Leads and Client	Skilled and competent staff	Competency index	73.6	74.5	75.4	76.4	77.3		
	Employee welfare	Employee satisfaction index	68.0	68.8	69.5	70.1	70.8		

#### 4.0 Implementation of the Plan

The Authority has available skills in Engineering, Architect, Law, Audit and Risk Management, Finance, Information Communication Technology, Human Resources Management, Environmental Management, Safety and Security Management, Customer Service, Procurement, Marketing, Planning and General Management.

Implementation of the Plan will be done through performance management system. The Board of Directors will provide overall guidance in the implementation of the Plan. The Managing Director will be in-charge of day-to-day implementation of the Plan supported by other members of the management

Corporate targets will be developed in each financial year with requisite financial and human resources and logistical support. Each functional area will cascade the corporate targets based on its mandate and deepen the implementation to lower levels. Innovation will take precedence in the implementation. Enabling policies, procedures and processes will be developed as necessary to aid the implementation. The organization structure will also be reviewed to support the implementation of the Plan.

#### 4.2 Quick wins

In each implementation cycle, activities that guarantee quick wins will be identified and implemented through rapid results initiatives (RRI). The quick wins approach will also give impetus to the implementing functional units to roll out other strategic programs.

## 5:0 Financing the Strategic Plan

### 5.1 Cash flow projections

Description	Actual 2012/13 (Kshs'000)	Revised Budget 2013/14 (Kshs'000)	Forecast 2014/15 (Kshs'000)	Forecast 2015/16 (Kshs'000)	Forecast 2016/17 (Kshs'000)
<b>Internal Sources</b>					
Opening Cash Balance					
Cash	2,775	4,448	11,219	7,344	3,028
debtors	470	1,330	1,423	1,523	1,631
APSC	4,228	4,023	4,304	4,608	4,936
Investment income	6,360	7,835	8,383	8,970	9,598
Sub Total Internal Sources	161	110	121	133	146
<b>External Sources</b>	<b>11,219</b>	<b>13,297</b>	<b>14,231</b>	<b>15,234</b>	<b>16,311</b>
GOK (Airstrip, Wajir and Kisumu runway)	606	631	1,675	1,965	1,125
GOK (Land-MIA,KIA,UKU,MND & WAP)	-	2,554	2,000	-	-
GOK-(2nd Runway, Temporary Terminal)		7,070	3,870	3,870	3,870
WB( Including Design works)	185	794	5,629	95	-
AFD Loan 1	1,236	3,386	1,742	405	-
AFD Loan 2-MIA	-	-	559	1,957	1,398
EIB	-	-	3,600	2,442	750
Greenfield Borrowing	-	5,559	15,000	18,800	15,950
Sub Total External sources	2,026	19,994	34,074	29,534	23,093
<b>Total Inflows</b>	<b>16,021</b>	<b>37,739</b>	<b>59,525</b>	<b>52,112</b>	<b>42,432</b>
<b>Outflows</b>					
Salaries and wages	2,683	3,062	3,338	3,638	3,966
Administration costs	1,380	1,975	1,574	1,978	2,086
Purchases of stores	97	136	143	150	157
Repair and maintenance	575	652	684	718	754
Finance charges	148	166	175	183	193
Staff Housing Scheme	50	50	50	50	-
Staff Computer Scheme	-	-	10	10	-
Dividend	-	-	100	100	100
Taxes	1,115	1,227	1,423	1,667	1,874
Sub total	6,048	7,268	7,496	8,494	9,130
<b>Loan Repayment</b>					
WB Loan repayment	53	150	175	175	175

Description	Actual 2012/13 (Kshs'000)	Revised Budget 2013/14 (Kshs'000)	Forecast 2014/15 (Kshs'000)	Forecast 2015/16 (Kshs'000)	Forecast 2016/17 (Kshs'000)
AFD Loan repayment	-	-	-	-	558
Interest on WB Loan	73	139	144	157	167
Interest on AFD Loan 1	75	316	425	473	474
Commitment fee -on AFD Loan	-	8	-	-	-
Interest on AFD Loan 2	-	17	91	191	191
Greenfield Interest on borrowing	-	250	667	1,334	2,224
Interest on EIB Loan	-	80	250	444	-
Sub total	201	959	1,752	2,773	-
Capital projects					3,788
KAA component of Co-funded projects					
World Bank Projects	-	794	5,629	95	-
AFD JKIA Projects	-	3,386	1,742	405	-
AFD MIA Projects	-	-	559	1,957	1,398
EIB Projects	-	-	3,600	2,442	750
Greenfield Project -JKIA	-	5,559	15,000	18,800	15,950
GOK-JKIA (2nd Runway/Temp T/Building)	814	-	7,070	3,870	3,870
HQ	542	640	553	145	20
JKIA	1,843	3,137	3,397	3,106	2,355
MIA	729	2,317	2,577	2,977	-
EIA	35	328	576	520	-
WAP	134	616	200	1,000	415
MLD	42	200	-	500	500
KIA	348	309	105	35	500
LOKI	53	50	-	-	344
UKU	-	225	250	-	-
MANDA	391	400	-	-	-
WAJIR- GOK Funding	26	206	412	618	950
AIRSTRIPS-GOK Funding	366	125	1,263	1,347	175
Sub total	5,324	18,293	42,932	37,817	27,227
Total Outflows	11,573	26,520	52,180	49,084	40,145
Surplus/(Deficit)	4,448	11,219	7,344	3,028	2,287

## 6.0 Monitoring and Evaluation

Monitoring and Evaluation will be done to ensure timely implementation of the Plan in pursuit of broad indicators of the Corporate Scorecard.

Monitoring and Evaluation will be done through periodic review meetings to consider progress made. Departments and airports will monitor programs and projects administered within their respective jurisdictions. They will submit monthly status reports indicating progress made, any deviations, their causes and corrective measures taken which Corporate Planning and Strategy Department will consolidate and present to the Senior Management.

The Managing Director will then submit the attendant reports to the Board of Directors on quarterly basis.

The Plan will inform the annual budget and be reviewed annually to guide business activities of the Authority for the subsequent year.

**Annex: Implementation Matrix**

**Airport Facilities**

Objective: Provide adequate modern airport facilities

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KSHS MILLIONS)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Expand capacities of runways, taxiways and aprons	2nd Runway	JKIA	PES						Runway		3,870	3,870	3,870	3,870
	Remote stands	JKIA	PES						Parking slots	1,150	1,000			
	Taxiways and new apron	JKIA	PES						Taxiways and apron			500	500	
	Aircraft pavement rehabilitation	JKIA	PES						Pavement		900	1800	1800	900
	Cargo apron and stands	JKIA	PES						Apron and stands	500	750	500		
	RW & power distribution	MIA	PES						Runway	627	2,317	2,317	2,317	
	Cargo apron	MIA	PES						C/apron				400	
	Taxiways and cargo apron works	KIA	PES						C/pavement	1,026				
	Cargo pavement	EIA	PES						C/pavement		305			
	Runway	EIA	PES						Runway			500	500	
	Airside pavement	WAP	PES						Pavement		316	200		
	Airside pavement	Malindi	PES						Pavement	150	200		500	500
	Airside pavements & lighting	Wajir	PES						Pavement & Lighting		206	412	618	
	Pavement	Lokichoggio	PES						Pavement	200	50			
	Pavement	Manda	PES						Pavement	450	400			
	Pavement	Ukunda	PES						Pavement		150	175		
	Aircraft pavement	Garissa	PES						Pavement			250	250	
	Aircraft pavement	Moyale	PES						Pavement				275	
	Aircraft pavement	Embu	PES						Pavement			250		
	Aircraft pavement	Wanguru	PES						Pavement	72				
	Aircraft pavement	Murang'a	PES						Pavement					150
	Aircraft pavement	Homa Bay	PES						Pavement					
	Aircraft pavement	Kitale	PES						Pavement	200	100			
	Aircraft pavement	Kabarnet	PES						Pavement		150			
	Aircraft pavement	Olentare	PES						Pavement			300		
	Runway	Kiunga	PES						Runway		175	150	200	
	Aircraft pavement	Mandera	PES						Pavement					125
	Aircraft pavement	Wamba	PES						Pavement					175
Runway	Migori	PES						Runway					135	
Hangars and	Hangar & (FBO)	JKIA	M&BD					Space -2014			200			

Objective: Provide adequate modern airport facilities

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KSHS MILLIONS)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Fixed Base Operators														
Capacity restoration	Facilities and Equipment-WB/GoK	JKIA	PES						Facilities and equipment		5220			
Terminal Buildings	Terminal 4	JKIA	PES						Terminal	4,180	2,150	500		
	T4 arrivals building	JKIA	PES						Building	1,402	490			
	Units 1,2 &3 re-organization	JKIA	PES						Additional space		3,600	2,442	750	
	Green Field	JKIA	PES						Terminal	5,559	15000	18800	15950	
	Temporary terminal- GoK	JKIA	PES						Terminal			3200		
	Modernization of T1 and T2	MIA	PES						Additional space			260	260	
	Offices and false roof	EIA	PES						Additional space	15				
	Terminal building	KIA	PES						Additional space					500
	Terminal facility	WAP	PES						Terminal				1,000	415
	Terminal facility	Wajir	PES						Terminal					950
	Terminal facility	Lodwar	PES						Terminal					
	Terminal facility	Lokichogio	PES						Terminal	35				
	Terminal facility	Ukunda	PES						Terminal					344
	Terminal facility	Kitale	PES						Terminal		75	75		
	Terminal facility	Kakamega	PES						Terminal					77
Terminal facility	Moyale	PES						Terminal			35			
Terminal facility	Garissa	PES						Terminal			78			
Infrastructure and utilities improvement	2nd freight area	JKIA	PES						Terminal					135
	Water supply	EIA	PES						Infrastructure		125	125		
	Freight Area	EIA	PES						Water		23			
	Fuel depot	EIA	M&BD						Water and power			76	20	
	Fuel depot	KIA	M&BD						Space					
	Boreholes	KIA	PES						Space					
	Freight area	KIA	PES						Boreholes		8.9	4		
	Water supply	Manda	PES						Infrastructure			51	35	
Office Building	Office block on parking garage	JKIA	PES						Water supply	10.32				
	New Office park	KIA	PES						Office Space	75	100			
Commercial	Commercial Centre	JKIA	M&BD						Office block			50		
Land acquisition	Land	Ukunda	Legal						45 Hectares					
													500	

Objective: Provide adequate modern airport facilities

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KSHS MILLIONS)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
	Land	Moi	Legal						74 Hectares		1,000			
	Land	WAP	Legal						47 Hectares		500			
	Land	Malindi	Legal						164.4 Hectares		254	2000		
	Land	KIA	Legal						50 Hectares		300			

Airport Services

Objective: Improve customer experience														
INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KSHS MILLIONS)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Commercial facilities	Airport Hotel	JKIA	M & BD						Space					
	Airport Hotel	KIA	M & BD						Space	100	100	100	100	100
	Shopping facilities	JKIA	M & BD						Space	25	25	25	25	
	Restaurants	JKIA							Space					
	Banks and Forex	JKIA							Space					
	Business center	JKIA							Space					
	Airline lounges	JKIA	M & BD						Space					
	Spa	JKIA							Lounges					
Lounges in the aerotropolis	Hotspot	JKIA							Spa					
	Hotspot								Hotspot	10				
Intermodal Connectivity	Infrastructure		PES						Infrastructure					
Provide car parks	Space								Space					
	Car parks at cargo	JKIA	PES						Parking space					
	Car park	MIA	PES						Car park	300	100	100	100	
	Car park	WAP	PES						Car park	20	20	20	20	20
Provide access roads	Car park	Ukunda	PES						Car park	4	5	5	5	5
	Access road, & vehicle inspection shelter, & secure access control	JKIA	PES						Access road and inspection shelter	50	25	25	25	25
	Connecting road to dongo-kundu	MIA	PES						Access road					
	Access road	WAP	PES						Access road					
Management of outsourced services and customer complaints	Enforcement of service level agreements and implementation of service charter	Airports	AMs						Improved serviced delivery					

Sustainable Business

Objectives: Increase revenue, optimize cost and ensure corporate governance and environmental sustainability

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KES '000,000)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Consultancy services in fire and rescue and security		HQ	SS						Consultancy Income					
Review charges and fees	2016	HQ	M & BD						New aeronautical tariffs					
Implement the POS system	2014	HQ	ICT						Operational POS					
Facilities for special economic zone at JKIA	2016	HQ	M & BD						Facilities					
Outsource non-core services		HQ	HODs / AM						Cost savings from outsourced services					
Managing cost of utilities		HQ	HODs / AM						Cost savings on utilities					
Risk Management		HQ	HODs/AM						Decline in likelihood of occurrence					
Implement waste management in all airports		HQ	PES						Waste Management initiatives					
Compliance with Regulations		HQ	PES						Percentage of compliance					
Implement Green Initiatives		HQ	PES						Carbon credit earnings					

**People and Culture**

**Objective: Develop Human Capacity**

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET					INDICATOR	COST ESTIMATE (KES '000,000)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Review Organization Structure		HQ	HRD						New structure					
Adopt open office plan		HQ	HRD						Additional office space					
Implement PMS		HQ	HRD						Performance Accountability					
Develop Human Capital		ALL	HRD						Competency level					
Initiate Culture Change		ALL	HRD						Productivity					
Staff Welfare initiatives		ALL	HRD						Level of staff motivation					
Skill upgrade		ALL	HRD						Competency levels					
Establish Aviation Academy			PES						Aviation Academy					

**Technology**

**Objective: Enhance utilization of Information and Communication Technology in business processes**

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KES '000,000)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Develop and Implement ICT Strategy		HQ	ICT						ICT supported business systems and processes					

**Innovation**

**Objective: Undertake Research and Development to support business growth**

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KES '000,000)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Develop and implement R & D framework		HQ	MD						R&D framework					

Safety and Security

Objective: Improve Safety and Security

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KES '000,000)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Fencing of airports		ALL	PES						Perimeter fence	106	100	100	100	100
Acquire land title deeds		HQ	Legal						Title deeds	0				
Installation of Integrated Security Management System		ALL	SS						ISMS	100	100	100	100	100
Automate security processes	15 Intrusion systems	JKIA/MIA	SS						Intrusion systems	200	200	200	200	200
	5 gate vehicle scanners	JKIA	SS						Vehicle scanners	200	100	100	100	100
	5 cargo pallet scanners	JKIA	SS						Cargo scanners	100	50	50	50	50
	3 Scan vans	JKIA	SS						Scan vans	50	10	10	10	10
	7 body scanners	JKIA	SS						Body scanners	150	25	25	25	25
	60 screening equipment	ALL	SS						Screening equipment					
	30 NVGs, 2 intrusion systems (JKIA & MIA)	ALL	SS						NVGs and intrusion systems					
	40 patrol vehicles	ALL	SS						Patrol vehicles	100	25	25	25	25
	Fire Tenders		SS											
	Access control system in 10 sites		SS						Access control system	10	5	5	5	5
Automate security processes	Automated pass system	ALL	SS						Automated security processes	40	15	15	15	15
			SS							0				
Develop Regulations			Legal						Regulations	6				

**Objective: Improve Safety and Security**

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KES '000,000)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Develop and implement counterterrorism plans			SS						Counter terrorism plans	54	50	25	25	
Develop and implement airport emergency plans			SS						Emergency plans	1	1	1	1	1
Acquisition of specialised rescue equipment		ALL	SS						Rescue equipment	100	50	50	50	50
Awareness creation on emergency response		ALL	SS						Emergency awareness	10	2.5	2.5	2.5	2.5
Promote safety within the airports		ALL	SS						Safe airports	15	5	5	5	5
Certification of workplace equipment and facilities		ALL	SS						Certified equipments & facilities	15	5	5	5	5
Control of wildlife hazards in airports		ALL	SS						Wild life management program	11	2.5	2.5	2.5	2.5
Establishment of Airport Emergency Operations Centres (EOC)			SS							0	200	200	200	200
Review the Airport Crash Site Identification Maps			SS						Maps	0	0	25	0	0
Develop/review Safety Management System Manuals			SS						Manuals	0	0	0.5	0	0
Develop safety database			SS						Database	0	0	50	0	0
Certification/Licensing of airports			SS						Certificates/ Licenses	12	12	12	12	12

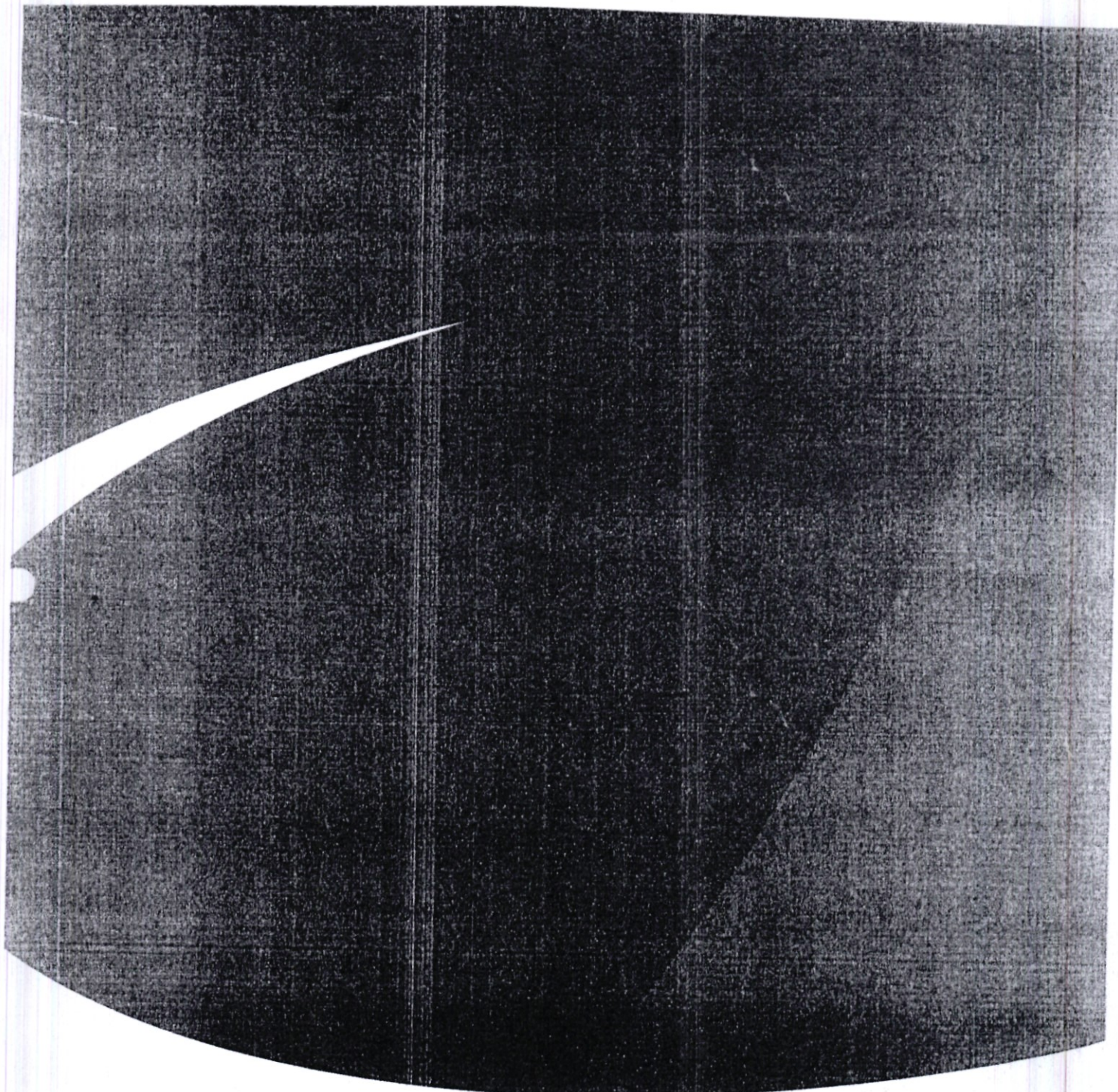
**Objective: Improve Safety and Security**

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KES '000,000)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Procure Safety Equipment	10 Fire Tenders		SS						Fire vehicles		150	150	150	150
	1 Fire fighting Simulator		SS						simulator			400		
	Wildlife Management Equipment		SS						Equipment			4		
	1 Rubber Removal Equipment		SS						Machine			50		
	3 mechanical sweepers		SS						Sweeper			110		
	3 Safety vehicles		SS						Vehicles			18		
	Modernization of GFS Tower		SS						Tower			400	400	
	3 Follow me vehicles		SS						Vehicles			10		
	Rehabilitation of fire Hydrant System		SS						Hydrants			300	400	450
	Installation of Fire detecting and fighting Systems in Terminal buildings at all airports		SS									150	180	
Develop and implement Business Continuity Plan(BCP)			HODs/AMs						BCP			3		

Folder Management

Objective: Improve stakeholder engagement

INITIATIVES	PROJECTS	LOCATION	KEY RESPONSIBILITY	TARGET (FY 2013-2017)					INDICATOR	COST ESTIMATE (KES '000,000)				
				Y1	Y2	Y3	Y4	Y5		Y1	Y2	Y3	Y4	Y5
Develop and implement a stakeholder management framework, including CSR and communication strategy		HQ	M& BD						Operational stakeholder management framework					



**Kenya Airports Authority**

*"Setting our sights high"*



# 1 Executive summary

Table 1: Summary of key findings

Topic	Description	Key consideration																												
KQ standalone	<p><b>Financials</b></p> <ul style="list-style-type: none"> <li>— KPMG has not received the detailed financial information that is required to confirm KQ is today able to fund the PIIP. We are advised that the documents (e.g. lenders offer letters and terms of the November 2017 Restructuring) are confidential and cannot be released without lender consent that will not be forthcoming within the timescales set down by this DD. Financial outturn for 31 December 2018 has also been withheld.</li> <li>— Furthermore, the KQ 5 year plan (FY18-FY22) has not been updated to cover the concessionary period. From discussions with Management we are aware that certain financial amortisations have, under the November 2017 Restructuring, been rescheduled to years post the 5-year plan. Such rescheduling could detrimentally impact the cash flow at KQ and thus their ability to fund the PIIP.</li> <li>— Based on discussions with Management, we understand that KQ was in breach of certain financial covenants as at June 2018 and received waivers from lenders to that effect covering the period through to 31 December 2018. Management however could not confirm whether KQ remained in breach after the financial year end.</li> <li>— KPMG understands that despite KQ having restructured their debt in November 2017, KQ has continued to face difficulties in servicing its debt. Management advise that they intend to initiate discussions with lenders on the possibility of further rescheduling/reducing principal repayments to lenders. KPMG considers that lenders are likely to find this further restructuring as unwelcome. However, it does indicate that there are serious liquidity challenges faced by the KQ management team at this time, which therefore questions the ability of KQ, under the existing terms of support from lenders, to be the operator of JKIA and/or the key stakeholder of the SPV proposed under the PIIP. If a second restructuring can be negotiated, then the full terms/impact of this should be released so that KQ's ability to fund the PIIP (including concessionary fee and capex) can be fully evaluated.</li> </ul> <p><b>Approvals</b></p> <ul style="list-style-type: none"> <li>— We understand that KQ's non-equity participating lenders have not been apprised of the PIIP. This could delay receiving the necessary consents, and without these there is a risk that the PIIP may constitute a Material Adverse Change under the existing loan documentation.</li> </ul>	<p>— A detailed separation framework and roadmap to be embarked on immediately the proposed transaction structure is agreed in principle. This may result in further liabilities to be shared between KAA</p>																												
	<p><b>Separation matters</b></p>	<table border="1"> <thead> <tr> <th colspan="2">KAA Key financial highlights</th> <th colspan="2">30 June 2018</th> </tr> <tr> <th></th> <th>KAA before separation framework</th> <th>KAA</th> <th>JKIA</th> </tr> </thead> <tbody> <tr> <td><b>KES'000</b></td> <td></td> <td></td> <td><b>Total</b></td> </tr> <tr> <td>Revenue</td> <td>3,094,905</td> <td>3,094,905</td> <td>16,936,043</td> </tr> <tr> <td>EBITDA</td> <td>(703,077)</td> <td>416,679</td> <td>9,802,540</td> </tr> <tr> <td>Profit Before Tax</td> <td>(1,462,025)</td> <td>(1,305,313)</td> <td>5,771,065</td> </tr> <tr> <td>Non-current assets</td> <td></td> <td>20,120,032</td> <td>51,078,972</td> </tr> </tbody> </table>	KAA Key financial highlights		30 June 2018			KAA before separation framework	KAA	JKIA	<b>KES'000</b>			<b>Total</b>	Revenue	3,094,905	3,094,905	16,936,043	EBITDA	(703,077)	416,679	9,802,540	Profit Before Tax	(1,462,025)	(1,305,313)	5,771,065	Non-current assets		20,120,032	51,078,972
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	KAA before separation framework	KAA	JKIA																											
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Profit Before Tax	(1,462,025)	(1,305,313)	5,771,065																											
Non-current assets		20,120,032	51,078,972																											



Topic	Description				Key consideration
	Net working capital	4,124,459	5,809,893	9,934,351	standalone and JKIA standalone, which do need to be reflected in the opening balances of the final transaction model.
	Net debt	11,791,943	(7,494,140)	4,297,803	
	Net assets	34,646,586	28,336,901	62,983,488	
	<b>KPIs</b>				
	EBITDA margin	13.5%	67.8%	57.9%	
	<ul style="list-style-type: none"> <li>— The table above presents the split of revenue, costs, assets and liabilities based on application of a separation framework.</li> <li>— Air Passenger Service Charge (APSC) accounts for 60% of the revenue realised for the financial year ended 30 June 2018.</li> <li>— It should be noted that effective October 2018, the APSC Act was amended such that KAA would retain 60% of the APSC from international flights, whilst 20% is allocated for KCAA and the remaining 20% to the Tourism Promotion Fund (TPF) and 50% of the APSC from domestic flights with 30% being allocated to KCAA and the remaining 20% to TPF. Previously, KAA retained 80% of the APSC revenue collected. Revenues and profits post 30 June 2018 are therefore likely to be lower.</li> <li>— The separated FS does not take into account for separation one-off and recurring costs that may arise as a result of the transaction.</li> <li>— In the time available an accurate separation exercise was not possible, for example, the allocation of shared administrative costs to KAA standalone and JKIA standalone, we noted instances where HQ expenses were fully allocated to KAA standalone. It is therefore likely that KAA's standalone EBITDA may be understated while JKIA standalone EBITDA may be overstated.</li> <li>— Additionally, KAA should undertake a detailed exercise to quantify all the separation costs (both one-off and recurring) that may arise from the separation as this is likely to impact on KAA standalone's profitability and cash flows post-separation.</li> <li>— However, given the complexity of KAA and JKIA, we envisage a 12 month period will be required for a full separation to take place.</li> <li>— Some of the separation challenges to consider include:               <ul style="list-style-type: none"> <li>— Location of KAA standalone head office staff</li> <li>— Use of ERP and other systems.</li> <li>— Novation of contracts</li> <li>— Some JKIA employees are highly (specialised) trained and conduct trainings for the other aerodromes. If the JKIA staff are transferred to the SPV, KAA will need to fill the skill gap</li> <li>— How will transfer of pension be managed?</li> <li>— Location of the SPV has to be provided to transferring staff, this may mean a change in commute for seconded staff and may have an impact on their choice.</li> <li>— Treatment of certain benefits (e.g. staff housing and benefits) needs to be clear – for example, will housing benefits continue to be provided to staff, and if so, at what level?</li> <li>— Will the housing assets in question will be transferred to the SPV?</li> <li>— Settlement of any legal or contractual matters that lay claim on assets that are transferable to the SPV</li> <li>— Airport is a national security point. What would be the impact of JKIA being run by private company?</li> </ul> </li> </ul>				
JKIA standalone	Financials				— The operator of JKIA should be given KPIs to increase share of non-aeronautical



Topic	Description										Key consideration
	<b>JKIA summary income statement (FY16 – FY24, FY47)</b>										revenues. KPIs should also include minimum capex spend p.a.  — The higher traffic projections should be used in the final transaction model. If such is adopted then a concession fee structure of fixed + a variable fee as a % of Revenue could work. JKIA needs to devise strategies to maximize revenues by optimizing passenger numbers on each flight  — The higher development cost should be considered in the final transaction model as this will impact on transaction returns. — More importantly, given the traffic
	KES mn	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-20	30-Jun-21	30-Jun-22	30-Jun-23	30-Jun-24	30-Jun-47	
	Revenue	11,636	13,082	13,841	-	-	-	-	-	-	
	Aeronautic revenue	9,700	11,009	11,480	9,781	10,335	10,928	11,541	12,204	45,491	
	Non- aeronautic revenue	1,936	2,072	2,361	2,602	2,920	3,296	3,744	4,285	1,312,052	
	Concession fees	-	-	-	(821)	(865)	(913)	(966)	(1,027)	(68,079)	
	Employment expenses	(2,363)	(2,631)	(2,558)	(2,100)	(2,272)	(2,459)	(2,660)	(2,879)	(17,636)	
	Administrative expenses	(1,673)	(1,509)	(1,548)	(1,230)	(1,291)	(1,356)	(1,424)	(1,495)	(4,591)	
	Establishment costs	(757)	(327)	(484)	(587)	(620)	(656)	(692)	(732)	(2,729)	
	Reported EBITDA	6,957	8,748	9,386	17,309	18,504	19,820	21,255	22,864	1,458,035	
	— JKIA standalone is a profitable business, albeit, based on our benchmarking exercise, the portion of non-aeronautical revenue share to aeronautical revenues is low. We also noted the aeronautical charges are low compared to other airports.										
	<b>Traffic</b>										
	<b>Passenger traffic (000)</b>	<b>2019 – 2022</b>	<b>2023 – 2027</b>	<b>2028 – 2033</b>	<b>2034 – 2037</b>	<b>2038 – 2042</b>	<b>2043 – 2047</b>				
	KQ	41,802	65,649	82,800	101,864	123,332	147,046				
	KA	37,456	64,064	91,480	132,090	193,086	285,886				



Topic	Description							Key consideration	
	TA	35,703	59,485	85,399	124,141	178,607	249,868	growth projections, we recommend Phase I and Phase II development commence simultaneously and immediately.	
	<b>Flight traffic (000)</b>	<b>2019 – 2022</b>	<b>2023 – 2027</b>	<b>2028 – 2033</b>	<b>2034 – 2037</b>	<b>2038 – 2042</b>	<b>2043 – 2047</b>		
	KQ	629,886	983,680	1,235,226	1,514,932	1,830,159	2,178,653		
	KAA	511,568	786,892	990,036	1,245,612	1,567,170	1,645,728		
	TA	511,568	786,892	990,036	1,245,612	1,567,170	1,971,736		
	<p>— We have looked at projected traffic at JKIA per the PIIP versus our projections of potential traffic footfall. The latter is based on GDP regression and shows a higher traffic forecast. KAA Management's forecast projection is based on their estimate of traffic growth, which is on the lower side compared to PIIP. As Transaction Advisors, we have reviewed the detailed master plan and provided our suggested traffic and capital expenditure plan.</p> <p>— It should be noted that JKIA currently achieves air traffic movement (ATM) of 130,000 planes per annum but only achieves a capacity of 60 passengers per flight. This indicates that JKIA currently accommodates smaller planes resulting in lower than expected landing and parking fees and APSC despite the relatively higher ATM.</p> <p><b>Development cost</b></p> <p>— Based on our technical due diligence JKIA requires immediate development to accommodate the current traffic of 7.7million. We noted, there have been delays in planned projects at JKIA which is causing a strain on passenger flows, aircraft flows and service levels. Therefore, we recommend the phased plan shown in the table below.</p> <p>— The cost shown in the table (TA estimate) is higher than the PIIP and the KAA Management projections as we have taken into account the 2018 key material prices in Kenya and the requirements in the development plan.</p> <p>— KQ's proposed investment plan is based on KAA's 2010 investment plan and does not take into account the current passenger volumes.</p>								
	<b>Entity</b>	<b>Timelines</b>	<b>Description</b>			<b>Cost (USD, 000)</b>	<b>Passenger Traffic (,000)</b>	— TA recommended development plan (scenario 1) maybe considered and evaluated by KQ and KAA. The TA had requested a full breakdown of input costs and these are required for this evaluation.	
	<b>KQ</b>								
	Phase 1	2019 – 2023	Terminal expansion to cater for additional 5 million passengers (Terminal B, C, D) Enhance current runway			390,000	11,876		
	Phase 2	2019 – 2023	Parking, apron and civil works			510,000			



Topic		Description		Key consideration	
			Terminal 3 (traffic based)		
<b>KAA</b>					
Phase 1	2019 – 2022	Remodel Terminal B, C and D Build 10 remote apron stands Enhance the current runway capacity Develop terminal 3 Enhance current utilities (e.g. water, power, drainage etc.)		1,059,000	9,989
Phase 2	2024 – 2026	Develop solar farm Construct airport city Relocate state pavilion Construct Commercial Important Person (CIP) Terminal (through Public Private Partnership) Infrastructure for light industrial area Specialized Freight area		348,250	12,298
Phase 3	2030 – 2032	Enhance existing infrastructure		150,000	Not available
<ul style="list-style-type: none"> <li>— KQ's proposed investment plan is based on KAA's 2010 investment plan and does not take into account the current passenger volumes.</li> <li>— KAA's expenditure for Phase IV and Phase V are not accounted in this plan as they will need investment towards the end of concession. If required, Concession Agreement have to be extended for another 30 years to generate return from this investment.</li> </ul>					
Phase		Timelines		Description	
TA				Passenger Traffic (,000)	
Phase 1	2019 – 2020	Terminal expansion to cater for an additional 5 million passengers (Terminal B, C, D) Enhance current runway Enhance cargo facilities		76,692	8,636
				Cost (USD, 000)	



Topic	Description				Key consideration																																																		
	Phase 1	2019 – 2023	Construct greenfield terminal building Enhance cargo facilities	1,071,418	10,377																																																		
	Phase 2	2030 – 2035	Construct new parallel runway Enhance taxi ways Enhance greenfield terminal Enhance cargo facilities	232,748	24,708																																																		
	Phase 3	2030 – 2035	Construct new domestic terminal Enhance cargo facilities	92,522																																																			
	<ul style="list-style-type: none"> <li>As TA we have considered two scenarios for the development of the second new parallel runway.</li> <li>The first scenario could be the immediate development of the second runway without enhancements to the taxiways and the current runway.</li> <li>Scenario two would be to enhance the capacity of the current runway by building parallel taxiways and rapid exits. This will increase the capacity of the current run way to 170,000 ATMs, coupled with a plan to build the second runway in phase 2 which will become operational in 2035. Passenger traffic will exceed 25 million at that point.</li> <li>Once the combined capacity of both runways have been exceeded, enhancement to the taxiways of both runways shall be carried out in the second phase. Due to the current challenge of low passenger occupancy per flight, scenario 1 is preferred because it enables JKIA to operate a higher number of ATMs, thereby assuring that the passenger traffic growth that is forecast, will be achieved.</li> </ul>																																																						
PIIP model review	<ul style="list-style-type: none"> <li>We have reviewed the KQ PIIP model and we believe, until the KCAA Concession Order of July 1996 is amended to reflect KQ's inflated aeronautical charges, the rates shown in the projections and resultant cash flows and returns are overstated as shown below:</li> </ul> <table border="1"> <thead> <tr> <th>(USD'000)</th> <th>2019 - 2023</th> <th>2024 - 2028</th> <th>2029 - 2033</th> <th>2034 - 2038</th> <th>2039 - 2043</th> <th>2044 - 2048</th> </tr> </thead> <tbody> <tr> <td>Revenues</td> <td>1,009,315</td> <td>1,388,318</td> <td>1,812,421</td> <td>2,327,514</td> <td>2,937,740</td> <td>3,677,596</td> </tr> <tr> <td>Opex</td> <td>(291,894)</td> <td>(331,018)</td> <td>(434,402)</td> <td>(635,312)</td> <td>(797,102)</td> <td>(997,596)</td> </tr> <tr> <td>EBITDA</td> <td>414,132</td> <td>665,807</td> <td>890,224</td> <td>1,090,549</td> <td>1,406,586</td> <td>1,784,465</td> </tr> <tr> <td>Dividends</td> <td>(141,428)</td> <td>(734,801)</td> <td>(1,073,074)</td> <td>(1,605,420)</td> <td>(1,867,091)</td> <td>(529,836)</td> </tr> <tr> <td>Equity Return</td> <td>22.7%</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Project Return</td> <td>20.0%</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Other findings include: <ul style="list-style-type: none"> <li>The forecast period used in the model is from 2019 – 2050, i.e. 32 years while the expected PIIP concession is for 30 years, albeit it could be renewed for a further period.</li> </ul> </li> </ul>						(USD'000)	2019 - 2023	2024 - 2028	2029 - 2033	2034 - 2038	2039 - 2043	2044 - 2048	Revenues	1,009,315	1,388,318	1,812,421	2,327,514	2,937,740	3,677,596	Opex	(291,894)	(331,018)	(434,402)	(635,312)	(797,102)	(997,596)	EBITDA	414,132	665,807	890,224	1,090,549	1,406,586	1,784,465	Dividends	(141,428)	(734,801)	(1,073,074)	(1,605,420)	(1,867,091)	(529,836)	Equity Return	22.7%						Project Return	20.0%					
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	<ul style="list-style-type: none"> <li>KAA should ensure a revised Concession Order is sanctioned, reflecting the proposed KQ aeronautical charges/rates before the KQ PIIP model is accepted.</li> <li>KAA should ensure the undeveloped land of 11,000 acres as well as the old Embakasi airport are excluded from the proposed PIIP, or</li> </ul>																																																						

Topic	Description	Key consideration
—	The discount rate used in the KQ PIP model is 10.6%, which is lower than the transaction advisor's rate of 12.2%.	revenues from these
—	The model does not reflect the opening position for JKIA. So, the existing opening assets and liabilities are not accurate. This will have an impact on free cash flows going forward. KQ management advise that they will update the opening position as the PIP transaction progresses.	sources should be evaluated prior to transfer to the SPV.
—	The KQ PIP model does not account for any income to be generated from development of landside undeveloped land held by KAA which is about 11,000 acres or their own proposed land side development as per the proposed capital expenditure. This has not been evaluated by KAA Management.	Based on our model review, we suggest the following may be incorporated in the revised KQ PIP model:
—	The KQ PIP model also does not clearly account for income to be generated from non-aeronautical development. The model does not account for any Head Office cost associated with JKIA. KAA are proposing 55% of KAA Head Office staff are transferred to the SPV reflecting that these staff spend their time on JKIA matters.	— Calculate the forecast revenue on current existing regulated charges and rates as prescribed in the KCAA Concession Order of July 1996. This will have a downward impact on IRR and it will show KQ will continue to require funding.
—	The capital expenditure plans proposed in the KQ model are restricted to various classification such as heavy earth moving machinery. However, individual components within these classes have not been provided for accurate cash flow forecasting. The current version of the KQ PIP model does not maintain a major maintenance reserve account which is typical in infrastructure projects of such a nature.	Change the discount rate to 12.2% reflecting the sector D/E ratio.
—	The debt service reserve account is negative over 3 years from 2028 to 2031. The minimum DSCR in the investment proposal is shown at (0.22). As such, at current debt levels (and amortisations) KQ will be unable to fund the PIP. We are aware from KQ Management that they are considering a second restructuring and therefore KQ could, post that restructuring have a greater cash flow available. KAA should not accept a project with negative DSCR as this may also result in breach of KQ lenders' covenants.	— Include JKIA head office costs in the projections.
—	The KQ PIP model could be altered so that KQ maintains a debt service reserve account which may be used for future timely debt service, thereby reducing the risk of covenant breaches.	— Start the model with the opening standalone balance sheet of JKIA.
—	The PIP does not include a detailed master plan. It is therefore difficult to ascertain the achievability of KQ's proposed investment plans.	— Elaborate on the JKIA



Topic	Description	Key consideration
		investment/capital expenditure plan by phase/stage. — Account for debt service reserve and major maintenance account. — Update debt calculations using GoK financing parameters. — Develop detailed master plan as part of the negotiation
Area	PIIP	KAA
Aeronautical revenues	— Assumes changes in the Concession Order, 1996. — Assumes an immediate uplift in the price to compensate for the period post 1996 and a further escalation of c2% pa. — Landing charges are assumed to be increased by 30% in the first forecast year to USD 490 / aircraft	— Assumes current rates as stated in the Concession Order, 1996 — Weighted average Landing charge is USD 348 / aircraft
Non aeronautical	— No projections have been made on the land side development for the new capital expenditure proposed.	— No projections has been made on the land side development for the new capital expenditure proposed.
Traffic forecast	— Based on GDP regression and shows a higher traffic forecast	— Based on KAA management projection and estimates of future traffic growth — Domestic – 11% — International – 6%
APSC	— Assumes collecting APSC and increasing the charge	— Assumes only collection of KAA share of collection
Capital expenditure	— Phase I – 2019 – 2023 USD 390mn — Phase II – 2019 – 2023 USD 510mn	— Phase I – 2019 – 2022 USD 1.1bn — Phase II – 2024 – 2026 USD 348mn — Phase III – 2030 – 2032 USD 150mn
DSCR	— The debt service reserve account is negative over 3 years from 2028 to 2031. The minimum DSCR in the investment proposal is shown at (0.22). — While there is, at that time, a forecast cash balance in the SPV of USD 295 mn.	— Maintains a 6 monthly debt service reserve account
Dividends	— PIIP assumes 100% dividend payout from the year 2031 onwards. Hence there is no cash balance left in the SPV.	— Assumes only 80% payout.



Topic	Description							Key consideration	
Key Outputs	<b>Concession Fees (USD'000)</b>	<b>2019 - 2022</b>	<b>2023 - 2027</b>	<b>2028 - 2033</b>	<b>2034 - 2037</b>	<b>2038 - 2042</b>	<b>2043 - 2047</b>		
	KQ	118,904	165,579	185,905	321,927	380,613	451,761		
	KAA	34,359	56,544	87,267	178,660	549,476	2,327,331		
	TA	34,359	56,544	87,267	178,660	549,476	2,327,331		
	<b>Internal rate of return</b>								
		<b>KQ</b>		<b>KAA</b>		<b>TA</b>			
	Project	20.0%		20.8%		23.1%			
	Equity	22.7%		20.2%		22.4%			
KAA standalone	<ul style="list-style-type: none"> <li>— KAA standalone (without JKIA) will require funding since other regional airports and aerodromes volumes and revenues are not sufficient to cover operating expenses.</li> <li>— Moreover, one off liabilities such as environmental remediation, pension deficit funding and contingent liabilities are deemed to remain with KAA which require funding.</li> <li>— Concession fee proposed by KQ reduces the KAA funding requirements but not entirely. Therefore, we have presented 2 other concession fee options which reduces the KAA funding requirements but not entirely.</li> </ul>								
	<b>KAA funding requirements under different scenarios</b>								
		<b>KES million</b>	<b>5 years</b>	<b>5 years</b>	<b>5 years</b>	<b>5 years</b>	<b>5 years</b>	<b>5 years</b>	<b>Maximum funding requirement</b>
			<b>FY19-FY23</b>	<b>FY24-FY28</b>	<b>FY29-FY33</b>	<b>FY34-FY38</b>	<b>FY39-FY43</b>	<b>FY44-FY48</b>	
		Net cashflows generated by KAA standalone	(20,039)	(22,087)	(27,716)	(39,847)	(63,420)	(103,026)	(276,134)
	Scenario 1: Net CF including concession fees from PIIP model	(4,842)	(4,976)	(6,432)	(6,239)	(23,648)	(55,783)	(101,919)	
	Scenario 2: Net CF including concession fees from shadow bid model (KAA case)	(16,083)	(16,171)	(18,397)	(20,034)	(27)	230,114	(77,272)	
		<ul style="list-style-type: none"> <li>— KAA standalone to consider increasing revenues through increase in non-aeronautical revenues and aeronautical charges.</li> <li>— They may also need to look at synergistic ways of operating other airports to reduce costs, with early retirement being an option for some staff.</li> </ul>							



Topic	Description	Key consideration
	Scenario 3: Net CF including concession fees from (15,854) (16,082) (18,446) (20,283) (781) 228,061 (77,615) shadow bid model (TA case)	
Environmental	<ul style="list-style-type: none"> <li>— As the transaction advisors we were not provided with all the required E&amp;S documentation by the Kenya Airports Authority (KAA) and Kenya Airways (KQ) in particular, it has been assumed that some aspects of E&amp;S management are deemed not to be in place, or not adequately managed. The absence of the requisite documentation, or proof that the E&amp;S aspects and risks identified are being adequately managed on the JKIA site, implies that several significant red flag items require attention in the short term to ensure compliance of the facility with Kenyan laws as a minimum, and to the requirements of the IFCs Performance Standards.</li> <li>— Some of these red flags require immediate attention and have been flagged as such in the Environmental and Social Action Plan (ESAP) presented in our detailed report. In summary, there is a major gap in the lack of identification, quantification and mitigation of potential site impacts. For example, and likely one of the site's largest potential environmental liabilities, is a significant quantity of hydrocarbon seen on the ground at workshops and in the storm water drains flowing onto the road, as well as a lack of pipeline integrity tests for underground fuel pipelines, both of which points to poor hydrocarbon management, with the risk of soil, surface and groundwater contamination. Until a Phase 2 assessment of soil and groundwater ascertains the residual contamination levels, this remains one of the highest environmental liability risks facing the site as a whole. This is one example of a non-functioning Environmental and Social Management System (ESMS) implemented for the site.</li> <li>— Assuming that all these tasks are subcontracted to third parties, we estimate the financial quantum of rectifying these shortcomings to be in the order of USD 400,000 to USD 500,000, but would depend on the extent of in particular, any groundwater contamination identified as a result of observed hydrocarbon spillages and/or the results of underground pipeline integrity testing, which may increase this amount.</li> </ul>	<ul style="list-style-type: none"> <li>— It is the transaction advisors opinion that the high risk actions as listed in the ESAP are necessary to reduce E&amp;S risks to a scale that can be considered satisfactory. It is estimated that ESAP action items can be rectified within a period of 12 months, but will require management effort and commitment to complete. The cost of this remediation is included in the projected KAA standalone forecast.</li> <li>— However, it is important that these environmental remediation is undertaken prior to the transaction completion so that the new owner/operator of JKIA is given forward looking environmental KPIs.</li> </ul>



Topic	Description	Key consideration
		<ul style="list-style-type: none"> <li>— Such remediation, if not undertaken, may impact on the SPV's bankability and hinder its ability to secure financing.</li> <li>— We recommend a full EIA report is conducted as part of the CPs to this transaction.</li> </ul>
Structuring options	<ul style="list-style-type: none"> <li>— The transaction advisor is proposing alternate transaction structures for consideration:               <ul style="list-style-type: none"> <li>— Option 1 – As per PIIP. Under this option, KAA would earn a fixed concession fee of USD 20 million per annum, a variable concession fee of 5% of revenue up to 2032 and 10% from 2033 onwards. The total consideration under this option is USD 1,724.9 million</li> <li>— Option 2 – Operations contract, whereby KAA retains control over JKIA but gets an international operator to operate, manage and develop JKIA for variable periods over a 30 year period. KAA remains 100% shareholder of JKIA. All the revenues generated from JKIA remains with KAA. Under the KAA case, KAA would earn total revenues USD 85.2 billion while under the TA Case, KAA would earn total revenues USD 84.7 billion.</li> <li>— Option 3A – PPP, whereby KAA forms a SPV for operating, managing and developing JKIA for a concession period of 30 years. Hand back of the JKIA assets to KAA at the end of the 30 year concession. KAA gets a private sector consortium to operate, manage and develop JKIA for a concession of 30 years. KAA retains the minority shareholding in the SPV. Private sector consortium has the majority shareholding in the SPV. KAA retains 25% shareholding in the SPV and will be entitled to dividends. KAA would earn a fixed concession fee of USD 60 million, variable concession fee of USD 4,263 million while dividends of USD 12,523 million would be paid out. Under the TA case, KAA would earn a fixed concession fee of USD 60 million, variable concession fee of USD 4,235 million while dividends would be USD 12,559 million.</li> <li>— Option 3B – PPP as per Option 3A, but where KAA and KQ own a majority in the SPV. KAA forms a SPV for operating, managing and developing JKIA. KQ gets a stake in the SPV, such that, KAA and KQ have a majority shareholding in the SPV. KAA and KQ gets a private sector consortium to operate, manage and develop JKIA and pays a management fee for this service. Private sector consortium has the minority shareholding in the SPV, thus may also request a share in dividends. Both KAA and KQ are expected to have majority stake. We have assumed 75% as their total stake, i.e. 37.5% for each. Under both the KAA and TA case, KAA and KQ would earn USD 39.9 billion (USD 19.9 billion each)</li> <li>— Option 4 – Merger, whereby KAA, KQ and JKIA assets are held under a new holding company (Holdco) which is fully owned by Ministry of Transport (MoT) on behalf of the Government of Kenya (GoK). The Holdco could have separate operating entities for KQ, JKIA and KAA (for the rest of the airports). GoK delists KQ and ultimately nationalises it. JKIA is hived off as a separate entity fully owned by Holdco. The MoT/GoK could invite different investors into the different entities to provide either additional capital or technical capacity. E.g. the JKIA could be operated, managed and developed through a SPV under the operations contract or PPP options set above in this report. No concession fee is paid out. The merged entity will enjoy 100% dividends from all the three subsidiaries. Dividends from JKIA would therefore be USD 53 billion under both the KAA and TA case.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>— Our recommendation is that JKIA is operated by a private sector operator to maximize revenues and profits. Allowing the national airline to operate an airport may be seen as anti-competitive by other national carriers and their respective governments.</li> <li>— Given the above, the most flexible structure for MoT/GoK is option 4.</li> </ul>



Topic	Description	Key consideration
Operating analysis	<ul style="list-style-type: none"> <li>— Option 5 – Divestment, KAA divests all the assets of JKIA through one off private sale for an upfront consideration.</li> <li>— As per the PIIP, KQ proposes to engage an external advisor to assist in day-to-day operational activities at JKIA, should the PIIP be sanctioned. The PIIP recommends five operators, all seem to have international experience in both developed and emerging markets of operating airports, other than Flemingo International, who only operate duty-free stores. As such Flemingo International should not be considered for airport operations. The airport operator determines the best way to manage retail space.</li> <li>— With respect to the five recommended operators, as at the date of this report, KQ has only availed marketing materials, financial statements and letters of intent with respect to one of the pre-qualified airport advisors, TAV. Not only do we not have any detail on the other potential operators but KQ Management have recently indicated that they now intend to operate JKIA themselves, using an operator only as a consultant or under an interim management agreement. This is a substantial move from the PIIP and there must be a risk that the operational expertise may not be delivered, especially as KQ is going through a substantial turnaround exercise/ second restructuring.</li> <li>— Government procurement rules suggests an open tendering process to identify the best fit operator. To that extent we have added the following operators to consider during the tending process:               <ul style="list-style-type: none"> <li>— Aena SME, S.A., a Spanish state owned company that operates, maintains, manages, and administers airports in internationally.</li> <li>— Fraport AG, a listed German company that offers airside and terminal management, airport security management and ground handling services.</li> <li>— Malaysia Airport Holdings Berhard, a listed Malaysia company that engages in the development, management, operation, and maintenance of airports.</li> <li>— VINCI Airport SAS, a leading global airport concession holder and operator that recently acquired Gatwick Airport, London.</li> <li>— GVK Consortium comprising of Mauritius Bid Services Division, GVK and ACSA Global of South Africa, the current operators of the Mumbai International Airport.</li> <li>— Sovereign airport authorities have regularly entered into concession agreements (via a SPV) with private sector consortium (consortium comprises operators and funders), in a bid to make the airport operationally efficient and profitable. These concession agreements are between the airport authority and a private sector consortium. With each holding an equity stake in the SPV. The private sector consortium injects equity into the SPV so that there is 'skin in the game'. Typically, there has been initial consideration to the airport authority for the contribution of the assets to the SPV.</li> </ul> </li> <li>— It is proposed, KQ operate JKIA. The reason for airlines not operating airports is to avoid anticompetitive behaviour on all matters, including slot availability, space, service, charges, etc. However, there are varying operating arrangements seen where an airline is indirectly involved in operations of an airport by virtue of joint ownership by the respective Governments. Examples of this have been at Addis Ababa Bole International and Hamad International Airport. There are examples of airlines operating a terminal within an airport such as Silverjet Airline in the UK, however, this is not a typical operating model for an airport.</li> </ul>	<ul style="list-style-type: none"> <li>— The decision to appoint an airport operator needs to be made at the Board level and a public procurement process should be undertaken for such procurement contracting.</li> <li>— There appears to be uncertainty as to whether KQ is to employ an operator to run the day to day activities at JKIA or to engage an operator as a consultant. This should be clarified upfront to ensure there is sufficient expertise to run JKIA (a national asset) in a fair and transparent manner as well as efficiently.</li> <li>— Airlines do not, typically, operate airports or hold a stake in these SPVs. The reason for airlines not operating airports is to avoid anticompetitive behaviour on all matters, including slot availability, space, service, charges, etc.</li> </ul>



Topic	Description	Key consideration
HR	<p>PIIP clarifications are essential in the following areas:</p> <ul style="list-style-type: none"> <li>— Placement of JKIA Head Office staff in the proposed SPV organisation structure.</li> <li>— The detailed SPV organization structure has not been provided, which is essential for determining which staff will/ are required to transfer.</li> <li>— Criteria for selection and retention of seconded staff needs to be known upfront.</li> <li>— Clarity on the policies and procedures (e.g. disciplinary, code of conduct, etc.) to be applied during secondment should also be provided.</li> </ul> <p>JKIA standalone staff profile</p> <ul style="list-style-type: none"> <li>— The majority of staff in both KAA and JKIA have served for more than 10 years. The redundancy costs are likely to be high, and it is likely to be challenging for the SPV to create an entirely new working culture.</li> <li>— We have calculated some 1,093 KAA staff will be subject to the proposed PIIP, being 958 at JKIA and 135 HO staff (50% of Head office staff). If staff with less than 3 years are excluded from this PIIP, this amounts to 38, therefore not material.</li> </ul> <p>Potential redundancy costs</p> <ul style="list-style-type: none"> <li>— Indicative redundancy costs in KES (assuming some % of staff will be returned):               <ul style="list-style-type: none"> <li>— If 25% are returned - KES 1,514,897,061</li> <li>— If 50% are returned - KES 3,029,794,122</li> <li>— 75% - KES 4,544,691,183</li> </ul> </li> </ul> <p>— There is a risk that a critical mass of JKIA opt out of the tripartite agreement. This will impact business continuity for JKIA.</p> <p>Redundancy option</p> <ul style="list-style-type: none"> <li>— This approach is not likely to succeed, and is also dismissed in the PIIP. We agree with this assessment.</li> </ul>	<p>However, there are examples of joint ownership of an airline and airport by Government.</p> <p>Secondment option</p> <ul style="list-style-type: none"> <li>— The negotiated approach should use the secondment period as a "test" or "condition" for a concession, as opposed to a part of the concession period.</li> <li>— KAA should negotiate for all staff to be retained after the secondment, since the SPVs growth projections are premised on traffic increase and not on reducing operating costs.</li> <li>— The entity that receives the revenues, should also cater for all employee expenses – including pension, housing benefit, along with other benefits.</li> <li>— Exclusion of staff aged above 50 years and those with less than 3 years' experience could be</li> </ul>



Topic	Description	Key consideration
		<p>deemed discriminatory</p> <p>Tripartite option</p> <ul style="list-style-type: none"> <li>— All staff should be transferred without any changes to their pension or other benefits.</li> <li>— The SPV must be required to demonstrate a "minimum critical mass of staff acceptance", as a condition for the concession. If they fail to garner that level of acceptance, the concession should be immediately renegotiated.</li> </ul>
Tax	<p>Tax implications of the proposed PIIP</p> <p>Income tax:</p> <ul style="list-style-type: none"> <li>— KAA will account for corporation tax at the rate of 30% on the concession fee. The assets will remain in KAA's books allowing the entity to continue receiving capital allowances.</li> <li>— The SPV will deduct withholding tax at the rate of 10% on the concession fee. This could result in overpayments especially if the consolidated tax position of KAA results in reduced profitability.</li> </ul> <p>Value Added Tax:</p> <ul style="list-style-type: none"> <li>— Since the ownership of the assets does not change, there are not additional tax implications on the arrangement. However, KAA will charge VAT when invoicing for the concession fee.</li> </ul> <p>Stamp Duty:</p> <ul style="list-style-type: none"> <li>— The concession arrangement will take the form of a long term lease of assets which will attract stamp duty at the rate of 4% for the immovable assets.</li> </ul> <p>Secondment of staff:</p> <p>The tax implications will depend on the agreement signed between KAA and the SPV with respect to the staff. However, if the arrangement is for KAA to provide services to the SPV, then it will be deemed to be professional services which is subject to VAT at the rate of 16% and withholding tax at the rate of 5%.</p>	<ul style="list-style-type: none"> <li>— The SPV is liable for payment of the stamp duty but can apply to the Cabinet Secretary for National Treasury through the Cabinet Secretary for Lands for exemption if it can prove that the transaction is in the public interest.</li> </ul>



Topic	Description	Key consideration
Value for Money (VfM)	— KQ presently does not have the credentials to develop or operate an airport. It is therefore difficult to verify the efficiency matrix presented in the PIIP.	— The evaluation of the proposed VfM KPIs may be deferred to a later stage when, the investment plans, costs and phasing of the investment are finalised.



Topic	Description	Key consideration
KQ standalone	<p>Financials</p> <ul style="list-style-type: none"> <li>— KPMG has not received the detailed financial information that is required to confirm KQ is today able to fund the PIIP. We are advised that the documents (e.g. lenders offer letters and terms of the November 2017 Restructuring) are confidential and cannot be released without lender consent that will not be forthcoming within the timescales set down by this DD. Financial outturn for 31 December 2018 has also been withheld.</li> <li>— Furthermore, the KQ 5 year plan (FY18-FY22) has not been updated to cover the concessionary period. From discussions with Management we are aware that certain financial amortisations have, under the November 2017 Restructuring, been rescheduled to years post the 5year plan. Such rescheduling could detrimentally impact the cash flow at KQ and thus their ability to fund the PIIP.</li> <li>— Based on discussions with Management, we understand that KQ was in breach of certain financial covenants as at June 2018 and received waivers from lenders to that effect covering the period through to 31 December 2018. Management however could not confirm whether KQ remained in breach after the financial year end.</li> <li>— KPMG understands that despite KQ having restructured their debt in November 2017, KQ has continued to face difficulties in servicing its debt. Management advise that they intend to initiate discussions with lenders on the possibility of further rescheduling/reducing principal repayments to lenders. KPMG considers that lenders are likely to find this further restructuring as unwelcome. However, it does indicate that there are serious liquidity challenges faced by the KQ management team at this time, which therefore questions the ability of KQ, under the existing terms of support from lenders, to be the operator of JKIA and/or the key stakeholder of the SPV proposed under the PIIP. If a second restructuring can be negotiated, then the full terms/impact of this should be released so that KQ's ability to fund the PIIP (including concessionary fee and capex) can be fully evaluated.</li> </ul> <p>Approvals</p> <ul style="list-style-type: none"> <li>— We understand that KQ's non-equity participating lenders have not been apprised of the PIIP. This could delay receiving the necessary consents, and without these there is a risk that the PIIP may constitute a Material Adverse Change under the existing loan documentation.</li> </ul>	<p>—</p> <ul style="list-style-type: none"> <li>— KPMG recommends that a review of credit documentation and KQ's financial ability to comply with the PIIP, be set as a Condition Precedent prior to closing the deal as it will be necessary to adequately assess KQ's ability to meet its obligations in respect of funding the proposed investment.</li> <li>— KPMG has been unable to confirm KQ's ability to finance the PIIP due to the lack of certain financial information being made available. If a second restructuring occurs at KQ this may result in greater liquidity to finance the PIIP.</li> </ul>
Separation matters	<p>—</p>	<p>—</p>
Separation matters	<ul style="list-style-type: none"> <li>— In the time available an accurate separation exercise was not possible, for example, the allocation of shared administrative costs to KAA standalone and JKIA standalone, we noted instances where HQ expenses were fully allocated to KAA standalone. It is therefore likely that KAA's standalone EBITDA may be understated while JKIA standalone EBITDA may be overstated.</li> <li>— Additionally, KAA should undertake a detailed exercise to quantify all the separation costs (both one-off and recurring) that may arise from the separation as this is likely to impact on KAA standalone's profitability and cash flows post-separation.</li> <li>— However, given the complexity of KAA and JKIA, we envisage a 12 month period will be required for a full separation to take place.</li> </ul>	<p>—</p>



- Some of the separation challenges to consider include:
  - Location of KAA standalone head office staff
  - Use of ERP and other systems.
  - Novation of contracts
  - Some JKIA employees are highly (specialised) trained and conduct trainings for the other aerodromes. If the JKIA staff are transferred to the SPV, KAA will need to fill the skill gap
  - How will transfer of pension be managed?
  - Location of the SPV has to be provided to transferring staff, this may mean a change in commute for seconded staff and may have an impact on their choice.
  - Treatment of certain benefits (e.g. staff housing and benefits) needs to be clear – for example, will housing benefits continue to be provided to staff, and if so, at what level?
  - Will the housing assets in question will be transferred to the SPV?
  - Settlement of any legal or contractual matters that lay claim on assets that are transferable to the SPV
  - Airport is a national security point. What would be the impact of JKIA being run by private company?

**Financials**

**JKIA summary income statement (FY16 - FY24, FY47)**

KES mn	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-20	30-Jun-21	30-Jun-22	30-Jun-23	30-Jun-24
Revenue	11,636	13,082	13,841	-	-	-	-	-
Aeronautic revenue	9,700	11,009	11,480	9,781	10,335	10,928	11,541	
Non- aeronautic revenue	1,936	2,072	2,361	2,602	2,920	3,296	3,744	
Concession fees	-	-	-	(821)	(865)	(913)	(966)	
Employment expenses	(2,363)	(2,631)	(2,558)	(2,100)	(2,272)	(2,459)	(2,660)	
Administrative expenses	(1,673)	(1,509)	(1,548)	(1,230)	(1,291)	(1,356)	(1,424)	
Establishment costs	(757)	(327)	(484)	(587)	(620)	(656)	(692)	
Reported EBITDA	6,957	8,748	9,386	17,309	18,504	19,820	21,255	

JKIA standalone

— The operator of JKIA should be given KPIs to increase share of non-aeronautical revenues. KPIs should also



— JKIA standalone is a profitable business, albeit, based on our benchmarking exercise, the portion of non-aeronautical revenue share to aeronautical revenues is low. We also noted the aeronautical charges are low compared to other airports.

**Traffic**

Passenger traffic (000)	2019 - 2022	2023 - 2027	2028 - 2033	2034 - 2037	2038 - 2041
KQ	41,802	65,649	82,800	101,864	123,333
KAA	37,456	64,064	91,480	132,090	193,080
TA	35,703	59,485	85,399	124,141	178,600

Flight traffic (000)	2019 - 2022	2023 - 2027	2028 - 2033	2034 - 2037	2038 - 2041
KQ	629,886	983,680	1,235,226	1,514,932	1,830,150
KAA	511,568	786,892	990,036	1,245,612	1,567,170
TA	511,568	786,892	990,036	1,245,612	1,567,170

— We have looked at projected traffic at JKIA per the PIIP versus our projections of potential traffic footfall. The latter is based on GDP regression and shows a higher traffic forecast. KAA Management's forecast projection is based on their estimate of traffic growth, which is on the lower side compared to PIIP. As Transaction Advisors, we have reviewed the detailed master plan and provided our suggested traffic and capital expenditure plan.

— It should be noted that JKIA currently achieves air traffic movement (ATM) of 130,000 planes per annum but only achieves a capacity of 60 passengers per flight. This indicates that JKIA currently accommodates smaller planes resulting in lower than expected landing and parking fees and APSC despite the relatively higher ATM.

**Development cost**

— Based on our technical due diligence JKIA requires immediate development to accommodate the current traffic of 7.7million. We noted, there have been delays in planned projects at JKIA which is causing a strain on passenger flows, aircraft flows and service levels. Therefore, we recommend the phased plan shown in the table below.

— The cost shown in the table (TA estimate) is higher than the PIIP and the KAA Management projections as we have taken into account the 2018 key material prices in Kenya and the requirements in the development plan.

— KQ's proposed investment plan is based on KAA's 2010 investment plan and does not take into account the current passenger volumes.

include minimum capex spend p.a.

— The higher traffic projections should be used in the final transaction model. If such is adopted then a concession fee structure of fixed + a variable fee as a % of Revenue could work.

— JKIA needs to devise strategies to maximize revenues by optimizing passenger numbers on each flight

— The higher development cost should be considered in the final transaction model as this will impact on transaction returns.

— More importantly, given the traffic growth projections, we recommend Phase I and Phase II development commence simultaneously and immediately.



Entity	Timelines	Description	Cost (USD, 000)
Phase 1	2019 – 2023	Terminal expansion to cater for additional 5 million passengers (Terminal B, C, D) Enhance current runway	390,000
Phase 2	2019 – 2023	Parking, apron and civil works Terminal 3 (traffic based)	510,000
Phase 1	2019 – 2022	Remodel Terminal B, C and D Build 10 remote apron stands Enhance the current runway capacity Develop terminal 3 Enhance current utilities (e.g. water, power, drainage etc.)	1,059,000
Phase 2	2024 – 2026	Develop solar farm Construct airport city Relocate state pavilion Construct Commercial Important Person (CIP) Terminal (through Public Private Partnership) Infrastructure for light industrial area Specialized Freight area	348,250
Phase 3	2030 – 2032	Enhance existing infrastructure	150,000

— TA recommended development plan (scenario 1) maybe considered and evaluated by KQ and KAA. The TA had requested a full breakdown of input costs and these are required for this evaluation.

— KQ's proposed investment plan is based on KAA's 2010 investment plan and does not take into account the current passenger volumes.  
— KAA's expenditure for Phase IV and Phase V are not accounted in this plan as they will need investment towards the end of concession. If required, Concession Agreement have to be extended for another 30 years to generate return from this investment.

Entity	Timelines	Description	Cost (USD, 000)
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Phase 1	2019 – 2020	Terminal expansion to cater for an additional 5 million passengers (Terminal B, C, D) Enhance current runway Enhance cargo facilities	76,692
Phase 1	2019 – 2023	Construct greenfield terminal building Enhance cargo facilities	1,071,418
Phase 2	2030 – 2035	Construct new parallel runway Enhance taxi ways Enhance greenfield terminal Enhance cargo facilities	232,748
Phase 3	2030 – 2035	Construct new domestic terminal Enhance cargo facilities	92,522

- As TA we have considered two scenarios for the development of the second new parallel runway.
- The first scenario could be the immediate development of the second runway without enhancements to the taxiways and the current runway.
- Scenario two would be to enhance the capacity of the current runway by building parallel taxiways and rapid exits. This will increase the capacity of the current run way to 170,000 ATMs, coupled with a plan to build the second runway in phase 2 which will become operational in 2035. Passenger traffic will exceed 25 million at that point.
- Once the combined capacity of both runways have been exceeded, enhancement to the taxiways of both runways shall be carried out in the second phase. Due to the current challenge of low passenger occupancy per flight, scenario 1 is preferred because it enables JKIA to operate a higher number of ATMs, thereby assuring that the passenger traffic growth that is forecast, will be achieved.

— We have reviewed the KQ PIP model and we believe, until the KCAA Concession Order of July 1996 is amended to reflect KQ's inflated aeronautical charges, the rates shown in the projections and resultant cash flows and returns are overstated as shown below:

(USD'000)	2019 - 2023	2024 - 2028	2029 - 2033	2034 - 2038	2039 - 2043	2044 - 2048
Revenues	1,009,315	1,388,318	1,812,421	2,327,514	2,937,740	3,677,596
Opex	(291,894)	(331,018)	(434,402)	(635,312)	(797,102)	(997,596)
EBITDA	414,132	665,807	890,224	1,090,549	1,406,586	1,784,465
Dividends	(141,428)	(734,801)	(1,073,074)	(1,605,420)	(1,867,091)	(529,836)
Equity Return	22.7%					
Project Return	20.0%					

— Other findings include:

- The forecast period used in the model is from 2019 – 2050, i.e. 32 years while the expected PIP concession is for 30 years, albeit it could be renewed for a further period.
- The discount rate used in the KQ PIP model is 10.6%, which is lower than the transaction advisor's rate of 12.2%.
- The model does not reflect the opening position for JKIA. So, the existing opening assets and liabilities are not accurate. This will have an impact on free cash flows going forward. KQ management advise that they will update the opening position as the PIP transaction progresses.
- The KQ PIP model does not account for any income to be generated from development of landside undeveloped land held by KAA which is about 11,000 acres or their own proposed land side development as per the proposed capital expenditure. This has not been evaluated by KAA Management.
- The KQ PIP model also does not clearly account for income to be generated from non-aeronautical development. The staff are transferred to the SPV reflecting that these staff spend their time on JKIA matters. KAA are proposing 55% of KAA Head Office The capital expenditure plans proposed in the KQ model are restricted to various classification such as heavy earth moving machinery. However, individual components within these classes have not been provided for accurate cash flow forecasting.
- The current version of the KQ PIP model does not maintain a major maintenance reserve account which is typical in infrastructure projects of such a nature.
- The debt service reserve account is negative over 3 years from 2028 to 2031. The minimum DSCR in the investment proposal is shown at (0.22). As such, at current debt levels (and amortisations) KQ will be unable to fund the PIP. We are aware from KQ Management that they are considering a second restructuring and therefore KQ could, post that restructuring have a greater cash flow available. KAA should not accept a project with negative DSCR as this may also result in breach of KQ lenders' covenants.

**PIP model review**

- KAA should ensure a revised Concession Order is sanctioned, reflecting the proposed KQ aeronautical charges/rates before the KQ PIP model is accepted.
- KAA should ensure the undeveloped land of 11,000 acres as well as the old Embakasi airport are excluded from the proposed PIP, or revenues from these sources should be evaluated prior to transfer to the SPV.
- Based on our model review, we suggest the following may be incorporated in the revised KQ PIP model:
  - Calculate the forecast revenue on current existing regulated charges and rates as prescribed in the KCAA Concession Order of July 1996. This will have a downward impact on IRR and it will show KQ will continue to require funding.
  - Change the discount rate to 12.2% reflecting the sector D/E ratio.
  - Include JKIA head office costs in the projections.
  - Start the model with the opening standalone balance sheet of JKIA.
  - Elaborate on the JKIA investment/capital expenditure plan by phase/stage.
  - Account for debt service reserve and major maintenance account.
  - Update debt calculations using GoK financing parameters.
  - Develop detailed master plan as part of the negotiation



	<ul style="list-style-type: none"> <li>— The KQ PIIP model could be altered so that KQ maintains a debt service reserve account which may be used for future timely debt service, thereby reducing the risk of covenant breaches.</li> <li>— The PIIP does not include a detailed master plan. It is therefore difficult to ascertain the achievability of KQ's proposed investment plans.</li> </ul>	
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Area	PIIP	KAA
Aeronautical revenues	<ul style="list-style-type: none"> <li>— Assumes changes in the Concession Order, 1996.</li> <li>— Assumes an immediate uplift in the price to compensate for the period post 1996 and a further escalation of c2% pa.</li> <li>— Landing charges are assumed to be increased by 30% in the first forecast year to USD 490 / aircraft</li> </ul>	<ul style="list-style-type: none"> <li>— Assumes current rates as stated in the Concession Order, 1996</li> <li>— Weighted average Landing charge is USD 348 / aircraft</li> </ul>
Non aeronautical	<ul style="list-style-type: none"> <li>— No projections have been made on the land side development for the new capital expenditure proposed.</li> </ul>	<ul style="list-style-type: none"> <li>— No projections has been made on the land side development for the new capital expenditure proposed.</li> </ul>
Traffic forecast	<ul style="list-style-type: none"> <li>— Based on GDP regression and shows a higher traffic forecast</li> </ul>	<ul style="list-style-type: none"> <li>— Based on KAA management projection and estimates of future traffic growth</li> <li>— Domestic – 11%</li> <li>— International – 6%</li> </ul>
APSC	<ul style="list-style-type: none"> <li>— Assumes collecting APSC and increasing the charge</li> </ul>	<ul style="list-style-type: none"> <li>— Assumes only collection of KAA share of collection</li> </ul>
Capital expenditure	<ul style="list-style-type: none"> <li>— Phase I – 2019 – 2023 USD 390mn</li> <li>— Phase II – 2019 – 2023 USD 510mn</li> </ul>	<ul style="list-style-type: none"> <li>— Phase I – 2019 – 2022 USD 1.1bn</li> <li>— Phase II – 2024 – 2026 USD 348mn</li> <li>— Phase III – 2030 – 2032 USD 150mn</li> </ul>



DSCR	<ul style="list-style-type: none"> <li>— The debt service reserve account is negative over 3 years from 2028 to 2031. The minimum DSCR in the investment proposal is shown at (0.22).</li> <li>— While there is, at that time, a forecast cash balance in the SPV of USD 295 mn.</li> </ul>	— Maintains a 6 monthly debt service reserve account
Dividends	— PIIP assumes 100% dividend payout from the year 2031 onwards. Hence there is no cash balance left in the SPV.	— Assumes only 80% payout.

Topic	Description	Key consideration					
Key outputs	<b>Concession Fees (USD'000)</b>						
		<b>2019 - 2022</b>	<b>2023 - 2027</b>	<b>2028 - 2033</b>	<b>2034 - 2037</b>	<b>2038 - 2042</b>	<b>2043 - 2047</b>
	KQ	118,904	165,579	185,905	321,927	380,613	451,761
	KAA	34,359	56,544	87,267	178,660	549,476	2,327,331
	TA	34,359	56,544	87,267	178,660	549,476	2,327,331
	<b>Internal rate of return</b>						
			<b>KQ</b>	<b>KAA</b>			<b>TA</b>
	Project		20.0%	20.8%			23.1%
	Equity		22.7%	20.2%			22.4%
	KAA standalone	<ul style="list-style-type: none"> <li>— KAA standalone (without JKIA) will require funding since other regional airports and aerodromes volumes and revenues are not sufficient to cover operating expenses.</li> <li>— Moreover, one off liabilities such as environmental remediation, pension deficit funding and contingent liabilities are deemed to remain with KAA which require funding.</li> </ul>	— KAA standalone to consider increasing revenues through increase in non-aeronautical revenues and aeronautical charges.				



— Concession fee proposed by KQ reduces the KAA funding requirements but not entirely. Therefore, we have presented 2 other concession fee options which reduces the KAA funding requirements but not entirely.

**KAA funding requirements under different scenarios**

KES million	5 years FY19-FY23	5 years FY24-FY28	5 years FY29-FY33	5 years FY34-FY38	5 years FY39-FY43	5 years FY44-FY48	Maximum funding requirement
Net cash flows generated by KAA standalone	(20,039)	(22,087)	(27,716)	(39,847)	(63,420)	(103,026)	(276,134)
Scenario 1: Net CF including concession fees from PIIP model	(4,842)	(4,976)	(6,432)	(6,239)	(23,648)	(55,783)	(101,919)
Scenario 2: Net CF including concession fees from shadow bid model (KAA case)	(16,083)	(16,171)	(18,397)	(20,034)	(27)	230,114	(77,272)
Scenario 3: Net CF including concession fees from shadow bid model (TA case)	(15,854)	(16,082)	(18,446)	(20,283)	(781)	228,061	(77,615)

— They may also need to look at synergistic ways of operating other airports to reduce costs, with early retirement being an option for some staff.

Environmental

— As the transaction advisors we were not provided with all the required E&S documentation by the Kenya Airports Authority (KAA) and Kenya Airways (KQ) in particular, it has been assumed that some aspects of E&S management are deemed not to be in place, or not adequately managed. The absence of the requisite documentation, or proof that the E&S aspects and risks identified are being adequately managed on the JKIA site, implies that several significant red flag items require attention in the short term to ensure compliance of the facility with Kenyan laws as a minimum, and to the requirements of the IFCs Performance Standards.

— Some of these red flags require immediate attention and have been flagged as such in the Environmental and Social Action Plan (ESAP) presented in our detailed report. In summary, there is a major gap in the lack of identification, quantification and mitigation of potential site impacts. For example, and likely one of the site's largest potential environmental liabilities, is a significant quantity of hydrocarbon seen on the ground at workshops and in the storm water drains flowing onto the road, as well as a lack of pipeline integrity tests for underground fuel pipelines, both of which points to poor hydrocarbon management, with the risk of soil, surface and groundwater contamination. Until a Phase 2 assessment of soil and groundwater ascertains the residual contamination levels, this remains one of the highest environmental liability risks facing the site as a whole. This is one example of a non-functioning Environmental and Social Management System (ESMS) implemented for the site.

— It is the transaction advisors opinion that the high risk actions as listed in the ESAP are necessary to reduce E&S risks to a scale that can be considered satisfactory. It is estimated that ESAP action items can be rectified within a period of 12 months, but will require management effort and commitment to complete. The cost of this remediation is included in the projected KAA standalone forecast. However, it is important that these environmental remediation is undertaken prior to the transaction

	<p>Assuming that all these tasks are subcontracted to third parties, we estimate the financial quantum of rectifying these shortcomings to be in the order of USD 400,000 to USD 500,000, but would depend on the extent of in particular, any groundwater contamination identified as a result of observed hydrocarbon spillages and/or the results of underground pipeline integrity testing, which may increase this amount.</p>	<p>completion so that the new owner/operator of JKIA is given forward looking environmental KPIs. Such remediation, if not undertaken, may impact on the SPV's bankability and hinder its ability to secure financing. We recommend a full EIA report is conducted as part of the CPs to this transaction.</p>
	<p>The transaction advisor is proposing alternate transaction structures for consideration:</p> <p>Option 1 – As per P1PP. Under this option, KAA would earn a fixed concession fee of USD 20 million per annum, a variable concession fee of 5% of revenue up to 2032 and 10% from 2033 onwards. The total consideration under this option is USD 1,724.9 million</p> <p>Option 2 – Operations contract, whereby KAA retains control over JKIA but gets an international operator to operate, manage and develop JKIA for variable periods over a 30 year period. KAA remains 100% shareholder of JKIA. All the revenues generated from JKIA remains with KAA. Under the KAA case, KAA would earn total revenues USD 85.2 billion while under the TA Case, KAA would earn total revenues USD 84.7 billion.</p> <p>Option 3A – PPP, whereby KAA forms a SPV for operating, managing and developing JKIA for a concession period of 30 years. Hand back of the JKIA assets to KAA at the end of the 30 year concession. KAA gets a private sector consortium to operate, manage and develop JKIA for a concession of 30 years. KAA retains the minority shareholding in the SPV. Private sector consortium has the majority shareholding in the SPV. KAA retains 25% shareholding in the SPV and will be entitled to dividends. KAA would earn a fixed concession fee of USD 60 million, variable concession fee of USD 4,263 million while dividends of USD 12,523 million would be paid out. Under the TA case, KAA would earn a fixed concession fee of USD 60 million, variable concession fee of USD 4,235 million while dividends would be USD 12,559 million.</p> <p>Option 3B – PPP as per Option 3A, but where KAA and KQ own a majority in the SPV. KAA forms a SPV for operating, managing and developing JKIA. KQ gets a stake in the SPV, such that, KAA and KQ have a majority shareholding in the SPV. KAA and KQ gets a private sector consortium to operate, manage and develop JKIA and pays a management fee for this service. Private sector consortium has the minority shareholding in the SPV, thus may also request a share in dividends. Both KAA and KQ are expected to have majority stake. We have assumed 75% as their total stake, i.e. 37.5% for each. Under both the KAA and TA case, KAA and KQ would earn USD 39.9 billion (USD 19.9 billion each)</p> <p>Option 4 – Merger, whereby KAA, KQ and JKIA assets are held under a new holding company (Holdco) which is fully owned by Ministry of Transport (MoT) on behalf of the Government of Kenya (GoK). The Holdco could have separate operating entities for KQ, JKIA and KAA (for the rest of the airports). GoK delists KQ and ultimately nationalises it. JKIA is hived off as a separate entity fully owned by Holdco. The MoT/GoK could invite different investors into the different entities to provide either additional capital or technical capacity. E.g. the JKIA could be operated, managed and developed through a SPV under the operations contract or PPP options set above in this report. No concession fee is paid out. The merged entity will enjoy 100% dividends from all the three subsidiaries. Dividends from JKIA would therefore be USD 53 billion under both the KAA and TA case.</p> <p>Option 5 – Divestment, KAA divests all the assets of JKIA through one off private sale for an upfront consideration.</p>	<p>Our recommendation is that JKIA is operated by a private sector operator to maximize revenues and profits. Allowing the national airline to operate an airport may be seen as anti-competitive by other national carriers and their respective governments. Given the above, the most flexible structure for MoT/GoK is option 4.</p>
Structuring options		



<p>Operating analysis</p>	<ul style="list-style-type: none"> <li>— As per the PIIP, KQ proposes to engage an external advisor to assist in day-to-day operational activities at JKIA, should the PIIP be sanctioned. The PIIP recommends five operators, all seem to have international experience in both developed and emerging markets of operating airports, other than Flemingo International, who only operate duty-free stores. As such Flemingo International should not be considered for airport operations. The airport operator determines the best way to manage retail space.</li> <li>— With respect to the five recommended operators, as at the date of this report, KQ has only availed marketing materials, financial statements and letters of intent with respect to one of the pre-qualified airport advisors, TAV. Not only do we not have any detail on the other potential operators but KQ Management have recently indicated that they now intend to operate JKIA themselves, using an operator only as a consultant or under an interim management agreement. This is a substantial move from the PIIP and there must be a risk that the operational expertise may not be delivered, especially as KQ is going through a substantial turnaround exercise/ second restructuring.</li> <li>— Government procurement rules suggests an open tendering process to identify the best fit operator. To that extent we have added the following operators to consider during the tending process:             <ul style="list-style-type: none"> <li>— Aena SME, S.A., a Spanish state owned company that operates, maintains, manages, and administers airports in internationally.</li> <li>— Fraport AG, a listed German company that offers airside and terminal management, airport security management and ground handling services.</li> <li>— Malaysia Airport Holdings Berhad, a listed Malaysia company that engages in the development, management, operation, and maintenance of airports.</li> <li>— VINCI Airport SAS, a leading global airport concession holder and operator that recently acquired Gatwick Airport, London.</li> <li>— GVK Consortium comprising of Mauritius Bid Services Division, GVK and ACSA Global of South Africa, the current operators of the Mumbai International Airport.</li> <li>— Sovereign airport authorities have regularly entered into concession agreements (via a SPV) with private sector consortium (consortium comprises operators and funders), in a bid to make the airport operationally efficient and profitable. These concession agreements are between the airport authority and a private sector consortium. With each holding an equity stake in the SPV. The private sector consortium injects equity into the SPV so that there is 'skin in the game'. Typically, there has been initial consideration to the airport authority for the contribution of the assets to the SPV.</li> </ul> </li> <li>— It is proposed, KQ operate JKIA. The reason for airlines not operating airports is to avoid anticompetitive behaviour on all matters, including slot availability, space, service, charges, etc. However, there are varying operating arrangements seen where an airline is indirectly involved in operations of an airport by virtue of joint ownership by the respective Governments. Examples of this have been at Addis Ababa Bole International and Hamad International Airport. There are examples of airlines operating a terminal within an airport such as Silverjet Airline in the UK, however, this is not a typical operating model for an airport.</li> </ul>	<ul style="list-style-type: none"> <li>— The decision to appoint an airport operator needs to be made at the Board level and a public procurement process should be undertaken for such procurement contracting.</li> <li>— There appears to be uncertainty as to whether KQ is to employ an operator to run the day to day activities at JKIA or to engage an operator as a consultant. This should be clarified upfront to ensure there is sufficient expertise to run JKIA (a national asset) in a fair and transparent manner as well as efficiently.</li> <li>— Airlines do not, typically, operate airports or hold a stake in these SPVs. The reason for airlines not operating airports is to avoid anticompetitive behaviour on all matters, including slot availability, space, service, charges, etc. However, there are examples of joint ownership of an airline and airport by Government.</li> </ul>
<p>HR</p>	<p>PIIP clarifications are essential in the following areas:</p> <ul style="list-style-type: none"> <li>— Placement of JKIA Head Office staff in the proposed SPV organisation structure.</li> <li>— The detailed SPV organization structure has not been provided, which is essential for determining which staff will/ are required to transfer.</li> <li>— Criteria for selection and retention of seconded staff needs to be known upfront.</li> <li>— Clarity on the policies and procedures (e.g. disciplinary, code of conduct, etc.) to be applied during secondment should also be provided.</li> </ul>	<p>Secondment option</p> <ul style="list-style-type: none"> <li>— The negotiated approach should use the secondment period as a "test" or "condition for a concession", as opposed to a part of the concession period.</li> </ul>

**DEBT ANALYSIS KENYA AIRWAYS OWES KENYA AIRPORTS AUTHORITY**  
**SINCE 1<sup>st</sup> JULY, 2005-30<sup>th</sup> JANUARY, 2019.**

What to note:-

- i. For the last ten years Kenya Airways PLC has been making loses.
- ii. Kenya Airways PLC owes Kenya Airports Authority approximately Kes: 4,853,625,353.68.
- iii. Kenya Airways PLC revenue base is approximately Kes: 120 billion annually compared to what Kenya Airports which is Kes: 16 billion annually while JKIA being part of KAA generates approximately Kes: 10 billion annually.
- iv. The balance sheet of Kenya Airways PLC is on the negative and more debts than equities.
- v. The exchange rate of the USD to KES is 102.
- vi. The monies in dollars are charged at the international rates (landing fee, airside parking fee, take off fee, aeronautical air bridge).

These are the debts:-

	YEAR	KES	US
Kenya Airways Limited PLC	1 <sup>st</sup> January, 2010 to 30 <sup>th</sup> January, 2019	455,232,648.28	23,585,908.76
Kenya Airfreight Handling Limited	1 <sup>st</sup> July, 2005 to 30 <sup>th</sup> January, 2019	247,980,600.84	-----
African Cargo Handling Limited	1 <sup>st</sup> July, 2007 to 30 <sup>th</sup> January, 2019	744,649,411.04	-----
Airport Passenger Service Charge(A.P.S.C)		1,000,000,000,000.00	
		2,447,862,660.16	23,585,908.76*102 =2,405,762,693.52
		2,447,862,660.16+2,405,762,693.52= <b>Kes: 4,853,625,353.68 Billion</b>	

C.C. 1017

LEGAL NOTICE No. 189

THE KENYA AIRPORTS AUTHORITY ACT  
(Cap. 395)  
THE KENYA AIRPORTS AUTHORITY REGULATIONS  
(Sub. Leg.)

IN EXERCISE of the powers conferred by section 11 (b) and section 39 (1) (i) of the Kenya Airports Authority Act, the Minister of State responsible for matters relating to aerodromes makes the following Order:—

THE KENYA AIRPORTS AUTHORITY CONCESSION ORDER, 1996

1. This Order may be cited as the Kenya Airports Authority Concession Order, 1996 and shall be deemed to have come into operation on 1st July, 1996.

2. In addition to the rental fees, other charges and rates levied by the Authority the following business categories shall attract a Concession Rate in every gazetted airport.

Business Category	Concession Rate—p.a. (Gross Turnover)	Guaranteed Minimum Fee (p.a.)
		KSh.
Ground Handling Cargo and Passenger	7% to 12%	1,000,000
Ground Handling (Cargo)	7% to 10%	1,000,000 //
Ground Facilitation and Co-ordination	8%	600,000
Air Charter and Brokerage	—	250,000
Aircraft Technical Service	3%	250,000
Fuel Uplift Sales	350 per m <sup>3</sup>	—
Duty Free Shops	10%	US\$700 per sq. m.
Catering Services (Inflight Catering)	3-10%	—
Bars and Restaurants	—	100,000
Business Centres	6%	100,000
Tours and Travel Desks	6%	150,000
Tax Counters	6%	100,000
Hotel Booking Booths	6%	150,000
Forex Bureaux	—	125,000
Reserved Lounges for Airlines	—	150,000
Advertising Billboards and Hoardings	50%	—
Advertising (Others)	25%	—
Car Rentals	6%	—
Clearing and Forwarding (Airfreight Services)	6%	150,000 -/
Courier Services	6%	150,000
Cargo Consolidation	6%	250,000
Banking Services	—	250,000 per unit
Lost Luggage	6%	100,000
Cargo Handling (W.A.P)	KSh. 6 per kg.	—
Self-Handling Aircraft	—	US\$2,500 per flight

N.A.S

Made on the 5th July, 1996.

J. KALWEO,  
Minister of State.



# Kenya Aviation Workers Union

All correspondents should be addressed to the Secretary General

Airport Complex Ltd.  
JKIA Cargo Village,  
P.O. Box 19157-00501,  
Nairobi, Kenya  
Tel: 0729 039 242

The Managing Director & C.E.O,  
Kenya Airports Authority,  
P.O Box 19001- 00501,  
**NAIROBI.**

23<sup>rd</sup>, Nov, 2018

Dear Sir,

**RE: REPORTED TAKEOVER OF JKIA BY KENYA AIRWAYS PLC.**

It has come to our attention through local media reports and our members at KAA that Jomo Kenyatta International Airport is in the process of being leased/ taken over by Kenya Airways PLC.

As you are aware, Kenya Aviation Workers Union has a subsisting Recognition Agreement with your organization. In line with our mandate of representing and safeguarding the interests of employees, we ask to be given the following information:

- Whether or not there are such plans to Merge/lease JKIA to KQ,
- And if so, the status report of that process,
- Whether such plans will have any bearing on employees and more precisely to the Unionsable cadre.

Your response within seven (7) days of this letter will be appreciated.

Yours sincerely,

Moss Ndiema  
Secretary General

RIGHT OF REPLY

# Proposed JKIA deal in best interest of Kenya

There has been a lot of speculation about the proposed (note proposed only at this stage) Private Public Partnership (PPP) between Kenya Airways (KQ) and Kenya Airports Authority (KAA) for the operations of Jomo Kenyatta International Airport — much of it ill informed, inaccurate and, quite honestly, damaging for both parties and Kenya.

The proposal, which was initiated by KQ, and supported by the Kenyan Government through Cabinet approval, was firstly to reposition Nairobi as a major African hub for business and tourism. Businesses would find it convenient to place their headquarters in Nairobi bringing with them new jobs, more opportunities for Kenyan companies and to make connecting through Nairobi easier and simpler.

The second objective is to increase the importance of JKIA in terms of passengers and other airlines by improving airport facilities, terminals, runways and ancillary services. This would bring additional revenue not only to JKIA but also to KAA and Kenya Revenue Authority.

The third objective was to improve the financials of KQ so that it could expand both its fleet and the network, enabling it to offer more destinations to both Kenyans and visitors and compete on a level playing field with other airlines such as Ethiopian, Qatar, Turkish,

Emirates and RwandAir among others.

What seems to have escaped most of the ill-informed commentators is that the position of JKIA and Nairobi as a financial and business hub has been deteriorating over the last 10 years. Just look at what Ethiopia is doing at its revamped Bole Airport. Both passengers and cargo are moving to Addis Ababa. Why? Because their Government has decided to invest in both its airline and airport as a strategic move for the country. Rwanda is doing the same.

What is Kenya doing? Have you seen the state of our airport? Do you know that KQ's operating costs are among the highest in the world? Kenya allows everyone to fly here but we, as KQ, are not afforded similar rights in our neighbouring airports. Do you know that we carry less than 3 per cent of the cargo leaving JKIA? Do you know that foreign airlines are allowed to carry cargo from Nairobi to anywhere in the world but we are restricted? Do you know that all revenue from aviation in our competitors' aviation hubs stays within the hubs and goes to improving both the airline and airport? The essence is to create a system where all the assets are supporting each other. Is it going to help KQ? Yes, of course.

Yes, we have made mistakes over the years — we have never admitted that this is a unique industry requiring special skills and financial investments. We have not invested



MICHAEL JOSEPH

Most of these comments are ill-informed because most people are not aware of the challenges facing our airline and do not understand the process of a Privately Initiated Public Proposal.”

in our staff with the result that now we have to employ more expatriates than we would like.

We made some bad financial decisions in the past which we are now trying to rectify. The fact is that if we do not grow our network, our fleet, our systems, our airport and our staff, we will be relegated over the next years to becoming smaller and smaller and perhaps even cease to exist.

I came on board as Chairman of KQ to restore the pride in the

Pride of Africa and to grow this airline and this industry to be an important component of Kenya's Gross Domestic Product. It is disappointing to read comments from people, politicians, union leaders and business people that this is a corrupt deal that will benefit a few, that will destroy KAA and KQ and that will lead to a loss of jobs.

Most of these comments are ill-informed because most people are not aware of the challenges facing our airline and do not understand the process of a Privately Initiated Public Proposal. This is only a proposal only at this stage which needs to be reviewed, analysed and, if thought to be in the best interest of both parties, approved. We are still in the proposal phase and to ridicule it at this stage is premature.

This is a well-thought-out proposal after considering a number of other options. This is considered to be the best option for Kenya as a whole, KAA, KQ and all the various stakeholders and shareholders. This was not done to protect any bank or individual or family but a clear business decision based on the proposition that KQ should be seen as a strategic asset of Kenya (even though it is only 48 per cent owned by the Government of Kenya and hence the Kenyan taxpayer), and should be able to compete on a level playing field with airlines that are mostly 100 per cent State-owned together with their airports.

There is no intention to take over

the most important and profitable asset of KAA without ensuring that the authority receive an appropriate concession fee to allow them to continue to operate all the remaining airports and airstrips cost effectively.

This concession fee will be part of the negotiations, which are yet to begin, together with other important criteria such as job protection, service level agreements, commitments to build and/or improve the JKIA terminals and infrastructure and, most importantly, to treat all other airlines equally and correctly in exactly the same manner as KQ.

Despite the various allegations, there will be no job losses from either JKIA or KQ but indeed we estimate that there will be an increase in the number of jobs in the Kenyan aviation industry.

We are forecasting that the number of KQ aircraft will double over the next five years, the number of jobs will increase over the concession period to more than 3,000 from the 950 currently and the number of passengers will increase from 7 million to nearly 12 million by 2022 and to 30 million by the end of the concession.

In conclusion, I believe that the current PPP proposal is in the best interest foremost of Kenya and Kenyans, business, tourism and will increase the country's GDP.

The writer is the Chairman, Kenya Airways Board of Directors

## KQ CEO Office

**From:** KQ CEO Office  
**Sent:** 28 February 2019 12:37  
**To:** KQ Group Members  
**Subject:** CEO Staff Communication : Myth or Fact : Sharing the Facts

Dear KQ Family,

We have been going through considerable change and transformation over the last couple years as we forge ahead with the ambitious and urgent plans to turnaround our company's performance and future. We have had challenges, but also immense opportunities and to date, we continue to see marked improvements with the expectation that we still need to do more. Each one of us must do much more. Each one of us must find meaning in what we do here at KQ and reclaim the pride of a great brand and sense of belonging to our company. We must endeavor to see that the success of KQ is our success; individually, as teams and as one KQ family. We must find ways create a sense of urgency in ensuring the survival and eventual thriving of our company. But we cannot do this without your commitment – to our mission, our values and our aspirations as a company and individuals.

As management, we have not always provided you with sufficient communication about the going-ons in the company. I however commit to provide regular updates and communication to ensure you always have the facts, and the reassurance that is required during times of change and that this is a transformation journey that we must make to change the tide and soar to greater heights as the Pride of Africa.

As such I want to start by dispelling rumours, misleading information and falsehoods being shared amongst staff including on various social media forums and the general public. Unfortunately, these are being peddled by persons with very little or no knowledge of facts of the matters at hand. I am therefore persuaded that it is critically important to share with you the facts and additional information on several issues.

Below are some of the queries that we have received from you and their corresponding responses giving the accurate position. Should you have any additional queries/questions or would like further clarifications in any area, I encourage you to channel these to [EQ@kenya-airways.com](mailto:EQ@kenya-airways.com). EQ is the acronym for Employee Questions and our communications team are at hand to respond to you within 36 hours. With this avenue being open to you, all staff shall have equal and first-hand access to accurate information directly from KQ. This will ensure that you have the full information and facts on key issues, and not information that is distorted, shared in bad faith, misleading and designed to create unnecessary tensions within our company. We now must focus on the important things we need to do and find better ways to engage and resolve issues whilst creating a happier, motivated and productive workplace, considering that we all spend a large amount of our time here every day.

Here are my responses to some of your key questions and concerns that I have become aware

### What is a Special Purpose Vehicle?

This is a term may have seen in the media as well as social forums. Its meaning and implication has been largely misunderstood. Simply put, the SPV is a subsidiary company or legal entity with the purpose of facilitating the parent company's financial arrangements including investments whilst not compromising the whole KQ group. This ensures that the KQ group and staff are not in any way compromised and are hence protected or shielded from any possible adverse impact or risks.

### What is the role of the SPV in our current context?

In our current context, if the terms of concession in the proposed Privately Initiated Investment Proposal (PIIP) are agreed upon between KQ and KAA, the SPV will be created. Its sole aim will be to manage JKIA's assets and operations. As the concessionaire, that is, the entity charged with running the operations, the

SPV will be responsible for all JKIA operations, save for those of the Kenya Civil Aviation Authority or any other agencies.

As this is a separate entity, I want to assure you all that this will not have any impact on KQ staff as you are not part of the SPV arrangement. In fact, the SPV is designed to make our operations as KQ more efficient, offer distinctive customer experience and even create more opportunities for Kenyans.

**Will the salaries of JKIA employees be reduced after the transaction? Won't they lose the pension scheme benefits that are to be granted to them as public servants?**

Not at all. The salaries of JKIA employees will not be reduced after the transaction and the Public Private Partnerships Act (PPP Act) provides that the seconded employees are deemed to be employees of the SPV and their terms not be lower than their current terms and conditions and further these will be mutually agreed upon.

**Are there any plans to declare KQ employees redundant?**

Let me dispel this rumour once and for all. The Privately Initiated Investment Proposal (PIIP) does NOT propose for any KQ staff to be seconded to the SPV. One of the underlying principles of the PIIP is to increase jobs and provide more employment opportunities for Kenyans.

We have no plans to declare any KQ Staff redundant on account of this transaction. In fact, we are in the process of finalising the recruitment of 100 more flight attendants and have advertised for an additional 87 Assistant Flight Purser. This is informed by the continued expansion of our network and our ambitious business aspirations.

**How many aircraft does KQ really own? There is a rumour that we only own 3.**

This is preposterous! KQ has a fleet of 40 aircraft out of which we own 20 aircraft, 3 aircraft have been fully paid for and the remaining 17 aircraft are still under financing arrangement. Within the aviation industry today, it is very uncommon and even considered less business savvy for an airline to actually own its own planes. The current trend is for airlines to sign leases for periods of upto 12 years during which the planes are held as collateral/ Guarantees as the airline pays for the same in installments. This allows us to optimally use our limited financial resources for other investments such as network expansion as opposed to buying the aircraft, which would mean significant cash outlay. This may not be tenable for us as a company.

Remember, opening a new route may sometimes mean that an airline may make losses on the route for some months or even more than a year, as it establishes itself and gains market share and confidence and most importantly have a return on investment. As KQ, we have had to go through this as well.

The leasing concept is similar to a house mortgage where you sign a contract and are allowed to live/use the house as you slowly make payments towards the house and once the payments are fully made, you fully own the house with no further conditions.

Coming back to KQ planes, I want to confirm that we have since fully paid for 3 aircraft and the other 17 are currently being financed.

**Is it true that we have reduced the New York Frequency of flights down to 3 flights per week?**

This is absolutely not true! We as a business, opted to adopt a seasonal cycle that would either have 5 flights per week during the low season or 7 flights per week during the high season. This business cycle better enables us to optimise our investment in the route. It is true that the New York route being a new route for us is yet to be profitable. This is expected and with the seasonal cycle we are seeing improvement in our revenues as passenger numbers and prices increase. We anticipate this trend to continue for at least another 12 months before we are able to break even. New York is a good route and is very strategic to KQ and as such we remain committed to it and we shall most definitely keep fighting for its success. We are very optimistic that this will continue to be a strategic route for us with promising business results as well as provide great connectivity experience for our customers for the long term.

I am a member of KAWU and I understand that management does not want to end outsourcing. Initially we were made to understand that outsourced employees would be absorbed into KQ mainstream and converted to permanent and pensionable terms.

It is true that I am not in favour of insourcing staff and this has been a topic of discussion and a point of disagreement with the Union. Awarding staff the same rates as KQ mainstream not only rapidly increases our employee costs by over 300% but also hinders our plans as KQ to create more employment opportunities for more Kenyans as less number of jobs will be available as a result of the increased costs. One of the commitments we as management made to the Government when they agreed to grant us their sovereign warranty was that we will create more job opportunities for Kenyans. It is therefore not prudent for us to increase salaries by 300% as a business whilst at the same time denying many Kenyans the opportunity to work with KQ and further benefit from the numerous outsourcing opportunities that we provide under this arrangement.

I am so far the first and only CEO to have converted the most outsourced staff into KQ mainstream employees. We have to date as a result of the signed Memorandum of Agreement (MoA), absorbed over 372 former CDL and Insight Management staff into KQ on two year contracts. I have seen the resulting increase in employee costs and I think this will not enable us to create more job opportunities. My view is that by simply revising the current CBAs we would be in a better position to facilitate these additional opportunities.

The above notwithstanding, the MoA clearly stipulates that during the 2-year contract period (due to end after March 2020), parties will agree on the terms of service that will apply after the expiry of the initial contract period. We are yet to complete this time period and the contracts are not even a year old.

At no point was it ever discussed that there shall be no outsourced staff or that all outsourced staff shall be converted to permanent terms. I understand that this response may not necessarily be what you would wish to hear at this point in time, but I promised you that I would always be open and honest with you on all matters and I intend to keep this promise and not sugarcoat the facts and accurate position on the ground.

**Is it true that the negotiations have stalled?**

This is not true. Management held discussions with the Union last year and informed them that we were conducting additional data analysis to enable both parties use factual information during the negotiations. The Union were kept abreast at all times and it was agreed in December, that a relaunch session together with the CEO shall be held after the festive period was over.

As agreed, Management invited KAWU for a meeting with the CEO on 19<sup>th</sup> February 2019 to relaunch the CBA negotiations but KAWU opted not to attend. I would like to reiterate that my management team and I remain committed to discussing and resolving any arising issues amicably and in the best interest of all parties. We are therefore ready to reschedule the meeting should KAWU be willing to resume negotiations.

I will continue to keep you updated with further developments and on any key matters regularly.

Yours sincerely,

**Sebastian Mikosz**  
**Group Managing Director & CEO**

## Directors' Remuneration Report (Continued)

INFORMATION NOT SUBJECT TO AUDIT (Continued)

### Directors' Contract of Service

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

Director	Start of Contract	End of Contract	Notice Period
Mr. Michael Joseph	2016	2019	N/A
Mr. Sebastian Mikosz	2017	2020	-
Mr. Josef Veenstra	2017	2020	N/A
Mr. Jason Kap-kirwok	2015	2019	N/A
Ms. Caroline Armstrong	2017	2020	N/A
Dr. Kamau Thugge	2013	2019	N/A
Prof. Paul Mwangi Maringa	2017	2020	N/A
Ms. Caroline Musyoka	2017	2018	N/A
Mrs. Esther Koimett	2017	2018	N/A
Mr. Martin Odour Otieno	2017	2018	N/A
Mr. Nicholas Bodo	2017	2020	N/A
Mr. Festus King'ori	2014	2019	N/A
(Rtd.) Major General M. Gichangi	2017	2020	N/A

At the previous annual general meeting (AGM) shareholders voted for the adoption of the Directors' remuneration through proposal and secondment on the floor of the AGM.

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

### INFORMATION SUBJECT TO AUDIT

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

**31 December 2017**

Director	Salary KShs. 000	Allowances KShs. 000	Fees KShs. 000	Compensation for Loss KShs. 000	Value of Non-Cash Benefits KShs. 000	Total KShs. 000
Mr. Michael Joseph	-	-	13,500	-	-	13,500
Mr. Sebastian Mikosz	24,630	18,631	-	-	3,433	46,694
Mr. Mbuvi Ngunze*	6,701	538	-	58,848	737	66,824
Mr. Josef Veenstra	-	568	395	-	-	963
Mr. Jason Kap-kirwok	-	742	665	-	-	1,407
Ms. Caroline Armstrong	-	568	665	-	-	1,233
Dr. Kamau Thugge	-	-	395	-	-	395
Prof. Paul Mwangi Maringa	-	-	351	-	-	351
Ms. Carol Musyoka	-	44	64	-	-	108
Mrs. Esther Koimett	-	-	-	-	-	-
Mr. Martin Odour Otieno	-	44	64	-	-	108
Mr. Nicholas Bodo	-	699	-	-	-	699
Mr. Festus King'ori	-	786	-	-	-	786
Mrs. Wanjiku Mugane	-	655	623	-	-	1,278
Mr. Ron Schipper	-	742	395	-	-	1,137
(Rtd.) Major General M. Gichangi	-	131	132	-	-	263
<b>Total</b>	<b>31,331</b>	<b>24,148</b>	<b>17,249</b>	<b>58,848</b>	<b>4,170</b>	<b>135,746</b>

FROM
Company: <u>Interim Management Monika Kiełtyka-Michna</u>
Address: ul. Welniana 29, 02-833 Warsaw, Poland
Tax Identification Number: PL 9490966877

TO
Company: Kenya Airways PLC
Address: Airport North Road, Embakasi, PO Box 19002-0501, Nairobi, Kenya

No.	Service name	Currency	Quantity	Unit price with VAT tax (USD)	Total value (USD) with VAT tax	VAT tax rate (%)	Value of VAT tax (USD)	Total value without the tax (USD)
1	Services in February 2018 as specified in the Agreement signed as of January 2, 2018  Usługi za miesiąc luty 2018 zgodnie z umową z dnia 2 stycznia 2018 r.	United States dollars (USD)	1	108,000.00	108,000.00	Not applicable Nie podlega	0.00	108,000.00

Payment method: <b>Bank transfer</b>
Date of payment: <b>March 10, 2018</b>
Bank account number: <b>PL 85103000190108400471058461</b>

including:	108,000.00 USD	Not applicable	0.00	108,000.00
<b>TOTAL:</b>	<b>108,000.00 USD</b>	<b>Not applicable</b>	<b>0.00</b>	<b>108,000.00</b>

<b>Total value: 108,000.00 USD</b>
<b>One hundred and eight thousand United States dollars</b>

Additional comments

KENYA AIRWAYS PLC
<i>Selt</i>

INTERIM MANAGEMENT MONIKA KIEŁTYKA-MICHNA
<i>monika kiełtyka-michna</i>

02/2018

Issue date:

March 1, 2018

FROM	
Company:	Michał Śmierciak
Address:	ul. Poziomkowa 12 42-256 Olsztyn, Poland
Tax Identification Number:	PL 5732501856

TO	
Company:	Kenya Airways PLC
Address:	Airport North Road, Embakasi, PO Box 19002-0501, Nairobi, Kenya

No.	Service name	Currency	Quantity	Unit price with VAT tax (USD)	Total value (USD) with VAT tax	VAT tax rate (%)	Value of VAT tax (USD)	Total value without the (USD)
1	Services in February 2018 as specified in the Agreement signed as of January 2, 2018 Usługi za miesiąc luty 2018 zgodnie z umową z dnia 2 stycznia 2018 r.	United States dollars (USD)	1	82 000,00	82 000,00	Not applicable / NP.	0,00	82 000

Payment method: Bank transfer
Date of payment: March 10, 2018
Bank account number: PL 20 1140 2004 0000 3112 0196 7694

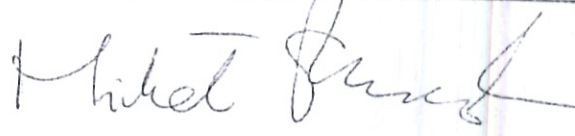
including:	82 000,00 USD	Not applicable / NP.	0,00	82 000,0
<b>TOTAL:</b>	<b>82 000,00 USD</b>	<b>Not applicable / NP.</b>	<b>0,00</b>	<b>82 000,0</b>

Total value: 82 000,00 USD

Eighty two thousand United States dollars

Additional comments

KENYA AIRWAYS PLC


MICHAŁ ŚMIERCIAK


Salama Fikira  
INVOICE

Kenya Airways LTD  
P0066095337  
P.O. Box 19002-00501  
Embakasi Nairobi Kenya

**INVOICE FOR PROJECT DANTE - MAY 2018**

**PIN: P0513984181**

Attention: Sebastian Mikosz

Date: 28<sup>th</sup> May 2018  
Invoice No. SFGL/2018/1643

PO Number:

Serial	Description	Unit	Rate	Amount
1.	Close Protection Officers	2	USD 4,477	USD 8,954.00
2.	Salama Fikira Travel Buddy Mobile App	2	USD 30.00	USD 60.00
3.	Oversight and Management Cost (5%)			USD 450.70
4.	<b>Sub Total</b>			<b>USD 9,464.70</b>
5.	VAT at 16%			USD 1,514.35
6.	<b>Total Due</b>			<b>USD 10,979.05</b>

Please transfer US Dollars Ten Thousand Nine Hundred Seventy Nine and Five Cents Only.

**WIRING INSTRUCTIONS FOR TRANSFERS IN DOLLARS**

Please provide the following instructions to your remitters with regards to transfer of funds in Kenya Shillings Amount **USD 10,979.05**

Please provide the following instructions to your remitters with regards to transfer of funds in USD:

<b>Amount</b>	USD 10,979.05
<b>Beneficiary Bank</b>	NIC Bank Ltd
<b>Bank Code</b>	041
<b>Branch</b>	Galleria, Nairobi, Kenya
<b>Branch Code</b>	115
<b>Swift Code</b>	NINCKENA
<b>Account Name</b>	Salama Fikira Group Ltd
<b>Account Number</b>	1001107778

Invoiced prepared by Michael Likhali and approved by Dishon Mahinda

Kenya Airways LTD Salama Fikira Group Ltd P.O. Box 19002-00501 Embakasi Nairobi Kenya

Top Floor, Harem Business Plaza, Kasidwe Road, Langata, Nairobi, Kenya  
Registration No. 1001107778 Email: [www.salamafikira.com](mailto:www.salamafikira.com)



## PRESS STATEMENT ON THE OWNERSHIP OF KENYA AIRWAYS' AIRCRAFT FLEET

Kenya Airways has a fleet of 40 aircraft as at the date of this Press Statement. These include 20 aeroplanes that are directly owned and operated by Kenya Airways, and 20 aeroplanes that Kenya Airways has leased from other entities.

In a bid to address overcapacity and to optimize the utilization of its assets, Kenya Airways has leased a number of its aircraft to other airlines. Of the 40 aeroplanes in its fleet, Kenya Airways has leased three Boeing 777-300ER aeroplanes to Turkish Airlines, and one Boeing 787-8 Dreamliner to Oman Air. Kenya Airways earns lease rental income from these arrangements.

### Summary of Kenya Airways Fleet Structure:

AIRCRAFT TYPE	Owned	Leased	TOTAL
Boeing 777-300 ER	1	2	3
Boeing 787-8	6	3	9
Boeing 737-800	-	8	8
Boeing 737-700	-	2	2
Boeing 737-300	1	-	1
Boeing 737-300F	2	-	2
Embraer 190	10	5	15
<b>TOTAL</b>	<b>20</b>	<b>20</b>	<b>40</b>

## OWNED AIRPLANES

Kenya Airways PLC owns 20 airplanes and 17 of them are financed as shown below:

Type	Number of Airplanes	Owner	Financing
Boeing 787-8	6		<b>Tsavo Ltd Loan structure</b> financed by:
			• City Bank NA
Boeing 777-300	1	Kenya Airways	• JP Morgan Chase bank
			• Afrexim Bank
Embraer 190	10	Kenya Airways	<b>Samburu Ltd Loan structure</b> financed by:
			• Standard Chartered Bank Int'l
			• Afrexim Bank
Boeing 737-300	3	Kenya Airways	Fully paid for

## LEASED AIRPLANES

Kenya Airways PLC has 20 airplanes that are leased from 11 different Lessors.

Lessor Name	Country of Registration	Capacity (Passenger Seats)	No. Airplanes	Aircraft Type
Aviation Capital Group	California, USA	297	3	Boeing 737-800
GE Capital Aviation Services (GECAS)	Dublin Ireland & Connecticut, USA	931	1	Boeing 737-800
			1	Boeing 787-8
China Development Bank (CDB) Leasing	Beijing, China	151	1	Boeing 737-800
MACQUIRIE AirFinance	Sydney, Australia	202	1	Boeing 737-800
Goshawk Aviation	Dublin Ireland	223	2	Boeing 737-800
AERCAP	Dublin, Ireland	1,153	1	Boeing 787-8
Dubai Aerospace Enterprise (DAE)	Dubai, UAE	350	1	Boeing 787-8

Company	Lease Headquarters	Leased Total Fleet	No. Leases to KQ	Aircraft Type
Bank of China (BOC) Aviation	Singapore	285	1	Boeing 777-300 ER
Cross Ocean Partners	London, UK	N/A	2	Boeing 737-700
China Development Bank (CDB) Leasing	Beijing, China	151	1	Boeing 777-300 ER
Nordic Aviation Capital	Billund, Denmark	468	5	Embraer 190

The Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works continues to work with Kenya Airways to further optimize the airline's fleet so as to boost revenues and reduce costs.



**JAMES MACHARIA**

**CABINET SECRETARY,  
MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT  
AND PUBLIC WORKS**

4<sup>th</sup> March 2019

Serial No.

4353



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No .....2453.....

1. Nationality and Registration Mark  5Y-FPE	2. Manufacturer and Manufacturer's Designation of Aircraft EMBRAER S.A-Empresa Brasileira de Aeronautica S.A Embraer 190-100 19W	3. Aircraft Serial Number  19000586
--	--	---

4. Name of Owner

**SAMBURU LIMITED**

Name of Lessee: KENYA AIRWAYS LIMITED

Name of Financier: AFRICAN EXPORT - IMPORT BANK

5. Address of Owner

C/O Intertrust SPV (Cayman) Ltd  
87 Mary Street  
George Town  
Grand Cayman KYI-9002  
Cayman Islands

Address of Lessee: Airport North Road, Embakasi  
P. O. BOX 19002-00501  
NAIROBI - Kenya

Address of Financier: 72(B) El Maahad El Eshteraky Street  
Heliopolis  
Cairo 11341,  
Egypt (as Security Agent for and on behalf of certain leaders)

6.

It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue .....11th December, 2012.....



by authority of the Director General.

**NOTE:**

1. This Certificate is not proof of the Aircraft Ownership.
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

Serial No. **4326**



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No **2439** .....

1. Nationality and Registration Mark <b>5Y-FFD</b>	2. Manufacturer and Manufacturer's Designation of Aircraft <b>Empresa Brasileira de Aeronautica S.A Embraer 190-100 IGW</b>	3. Aircraft Serial Number <b>19000579</b>
---	--	--

4. Name of Owner: **Samburu Limited**  
Name of Lessee: **Kenya Airways Limited**  
Name of Financier: **African Export - Import Bank**

5. Address of Owner: **C/o Intertrust SPV(Cayman) Limited  
87 Mary Street, George Town  
Grand Cayman KYI-9002  
Cayman Islands**  
Address of Lessee: **P.O. BOX 19002-00501  
Nairobi  
KENYA**  
Address of Financier: **72 (B) Elmahad El Eshteraky Street  
Heliopolis  
Cairo 11341  
Egypt**

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue **7th November, 2012**

by authority of the Director General.

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

Serial No. 4306



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No .....2433.....

1. Nationality and Registration Mark <b>5Y-FFC</b>	2. Manufacturer and Manufacturer's Designation of Aircraft <b>EMBRAER S.A-Empresa Brasileira de Aeronautica S.A Embraer 190-100 1GW</b>	3. Aircraft Serial Number <b>19000577</b>
---	--	--

4. Name of Owner **Samburu Ltd**  
Name of Lessee: Kenya Airways Limited  
Name of Financier: African Export - Import Bank

5. Address of Owner C/O Intertrust SPV (Cayman) Limited  
87 Mary Street,  
George Town,  
Grand Cayman KYI-9002  
Cayman Islands

Address of Lessee: P. O. BOX 19002-00501  
NAIROBI

Address of Financier: 72(B) Maahad El Eshteraky Street  
Heliopolis  
Cairo 11341  
Egypt

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue **5th October, 2012**



by authority of the Director General.

NOTE:

1. This Certificate is not proof of the Aircraft Ownership.
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

Serial No. 4284



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2423 .....

1. Nationality and Registration Mark  5Y-FFB/	2. Manufacturer and Manufacturer's Designation of Aircraft  EMBRAER S.A-Empresa Brasileira de Aeronautica S.A Embraer 190-100 IGW	3. Aircraft Serial Number  19000572
---	--	---

4. Name of Owner **SAMBURU LIMITED**

Name of Lessee: KENYA AIRWAYS

Name of Financier: AFRICAN EXPORT-IMPORT BANK

5. Address of Owner 87 Mary Street, George Town  
Grand Cayman KY1-9002,  
Cayman Islands

Address of Lessee: P. O. Box 19002-00501  
Embakasi, Nairobi

Address of Financier: African Export-Import Bank  
72(B) El Maahad El Eshteraky Street  
Heliopolis,  
Cairo 11341,  
Egypt

(as Security Agent for and on behalf of certain lenders)

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 10th September 2012



by authority of the Director General

NOTE.

1 This Certificate is not proof of the Aircraft Ownership.

2 No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose

Serial No. 4276



KCAA (L) 25

efficiently managing air safety

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2419 .....

1. Nationality and Registration Mark <b>5Y-PPA</b>	2. Manufacturer and Manufacturer's Designation of Aircraft <b>EMBRAER S.A Empresa Brasileira de Aeronautica S.A</b> <b>Embraer 190-1001GW</b>	3. Aircraft Serial Number <b>19000562</b>
---	---	--

4. Name of Owner  
**SAMBURU LIMITED**

Name of Lessee: Kenya Airways Limited

Name of Financier: African Export-Import Bank

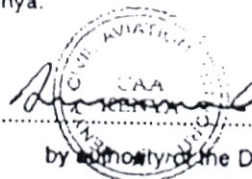
5. Address of Owner: **C/O Walkers Spv Limited, Walker House,  
87 Mary Street, George Town,  
Grand Cayman KYI-9002,  
Cayman Islands**

Address of Lessee: **P. O. Box 19002  
00501, NAIROBI  
KENYA**

Address of Financier: **72(B) El Maahad El Eshteraky Street,  
Heliopolis,  
Cairo 11341,  
Egypt**

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue ..... **24th August, 2012** .....



by authority of the Director General.

NOTE:

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2456 .....

1. Nationality and Registration Mark  <b>5Y-FFF</b>	2. Manufacturer and Manufacturer's Designation of Aircraft  <b>EMBRAER S.A Empresa Brasileira de Aeronautica S.A EMBRAER 190-100 IGW</b>	3. Aircraft Serial Number  <b>19000594</b>
---	--	--

4. Name of Owner  
**SAMBURU LIMITED**

Name of Lessee: **KENYA AIRWAYS**

Name of Financier: **African Export - Import Bank**

5. Address of Owner  
**C/O INTERTRUST SPV (Cayman) Limited  
 190 Elgin Avenue  
 George Town  
 Grand Cayman KY1-9005  
 CAYMAN ISLANDS**

Address of Lessee: **Airport North Road  
 Embakasi  
 P. O. BOX 19002-00501  
 NAIROBI, KENYA**

Address of Financier: **72 (B) EL MAHAD EL ESTERAKY STREET  
 HELIOPOLIS  
 Cairo 11341  
 EGYPT**

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations Issued thereunder applicable in Kenya.

Date of issue **15th January, 2013**

by authority of the Director General.

NOTE:

1. This Certificate is not proof of the Aircraft Ownership.
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

Serial No. 4378



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2463 .....

1. Nationality and Registration Mark  5Y-FFG	2. Manufacturer and Manufacturer's Designation of Aircraft  EMBRAER S.A.-Empresa Brasileira de Aeronautica S.A	3. Aircraft Serial Number  19000599
--	--	---

4. Name of Owner  
**Samburu Limited**

Name of Lessee: Kenya Airways Limited

Name of Financier: African Export-Import Bank

5. Address of Owner  
C/O Intertrust SPV (Cayman) Limited  
87 Mary Street, George Town,  
Grand Cayman KY1-9002  
Cayman Islands

Address of Lessee: Airport North Road,  
Embakasi,  
P. O. BOX 19002-00501,  
Nairobi-Kenya

Address of Financier: 72(B) El Maahad El Eshteraky Street  
Heliopolis, Cairo 11341,  
Egypt  
(as Security Agent for and on behalf of certain Lenders)

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue **18th February, 2013**

by authority of the Director General

NOTE

- 1. This Certificate is not proof of the Aircraft Ownership
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorized for that purpose

Serial No. 6815

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2484 .....

1. Nationality and Registration Mark  5Y-PFH	2. Manufacturer and Manufacturer's Designation of Aircraft  EMBRAER S.A	3. Aircraft Serial Number  19000619
--	---	---

4. Name of Owner : **SAMBURU LIMITED C/O WALKERS SPV LIMITED**

Name of Lessee: KENYA AIRWAYS LIMITED

Name of Financier: AFRICAN EXPORT-IMPORT BANK

5. Address of Owner : Walker House, 87 Mary Street, George Town, Grand Cayman KYI-9002, Cayman Islands.

Address of Lessee: Airport North Road, Embakasi, P. O. BOX 19002-00501, Nairobi-Kenya

Address of Financier: 72 (B) El Maahad El Eshteraky Street, Helipolis Cairo 11341 Egypt

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue : **8th May, 2013**

by authority of the Director General.

NOTE:

1. This Certificate is not proof of the Aircraft Ownership
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

[P.T.O.]



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2513 .....

1. Nationality and Registration Mark  <b>5Y-FFJ</b>	2. Manufacturer and Manufacturer's Designation of Aircraft  <b>EMBRAER S.A</b> <b>- EMBRAER190-100</b>	3. Aircraft Serial Number  <b>19000633</b>
4. Name of Owner <b>SAMBURU LIMITED</b>  Name of Lessee: <b>KENYA AIRWAYS LIMITED</b>  Name of Financier: <b>AFRICAN EXPORT-IMPORT BANK</b>		
5. Address of Owner <b>C/O Walkers SPV Limited</b> <b>Walker House</b> <b>87 Mary Street</b> <b>George Town</b> <b>Grand Cayman KYI-9002</b> <b>CAYMAN ISLANDS</b>  Address of Lessee: <b>Airport North Road</b> <b>Embakasi</b> <b>P O Box 19002-00501</b> <b>NAIROBI - KENYA</b>  Address of Financier: <b>72 (B) El Maahad EL, Eshteraky Street</b> <b>Heliopolis CAIRO 11341 EGYPT (As security agent</b> <del><b>for and on behalf of Certain lenders)</b></del>		
6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.		

Date of issue ..... **27th August, 2013** .....

by authority of the Director General.

**NOTE:**

1. This Certificate is not proof of the Aircraft Ownership.
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

Serial No. 6905

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2526 .....

1. Nationality and Registration Mark  <b>5Y-FFK</b>	2. Manufacturer and Manufacturer's Designation of Aircraft <b>EMBRAER S.A - EMPRESA BRASILEIRA DE AERONAUTICA S.A</b> <b>EMBRAER 190-100 IGW</b>	3. Aircraft Serial Number  <b>19000642</b>
4. Name of Owner <b>SAMBURI LIMITED</b>  Name of Lessee: <b>KENYA AIRWAYS LIMITED</b>  Name of Financier: <b>AFRICAN EXPORT - IMPORT BANK</b>		
5. Address of Owner <b>C/O WALKERS SPV LIMITED</b> <b>WALKER HOUSE</b> <b>87 MARY STREET</b> <b>GEORGE TOWN</b> <b>GRAND CAYMAN KY1-9002</b> <b>CAYMAN ISLANDS</b>  Address of Lessee: <b>AIRPORT NORTH ROAD</b> <b>EMBAKASI</b> <b>P. O. BOX 19002-00501</b> <b>NAIROBI - KENYA</b>  Address of Financier: <b>72(B) El Maahad</b> <b>El Eshteraky Street</b> <b>Heliopolis</b> <b>Cairo 11341,</b> <b>Egypt (as security Agent for and on behalf of</b> <b>certain lenders)</b>		
6.		

It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 8th November, 2013



by authority of the Director General.

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

[P.T.O.]

Serial No.

6979

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No .....2557.....

1. Nationality and Registration Mark  5Y-KZA	2. Manufacturer and Manufacturer's Designation of Aircraft  BOEING COMPANY BOEING 787-8	3. Aircraft Serial Number  35510
--	--	--

4. Name of Owner  
USAVO AIRCRAFT FINANCING LLC

Name of Lessee: KENYA AIRWAYS LIMITED

Name of Financier: WELLS FARGO BANK NORTHWEST NATIONAL ASSOCIATION

5 Address of Owner  
C/O WILMINGTON TRUST COMPANY  
1100 NORTH MARKET STREET  
WILMINGTON, DELAWARE 19890-1605  
UNITED STATES OF AMERICA

Address of Lessee: AIRPORT NORTH ROAD  
EMBAKASI  
P. O. BOX 19002-00501  
NAIROBI, KENYA

Address of Financier: 260N CHARLES LINDBERGH DR  
SALT LAKE CITY, UTAH 84116  
UNITED STATES OF AMERICA

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 31st March, 2014



by authority of the Director General

**NOTE**

- 1. This Certificate is not proof of the Aircraft Ownership
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorized for that purpose

[P.T.O.]

Serial No. 3405

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2572 .....

1. Nationality and Registration Mark  5Y-KZB	2. Manufacturer and Manufacturer's Designation of Aircraft  THE BOEING COMPANY BOEING 787-8	3. Aircraft Serial Number  35511
--	--	--

4. Name of Owner

~~TSAVO AIRCRAFT FINANCING LLC~~

Name of Lessee:

KENYA AIRWAYS LIMITED

Name of Financier:

WELLS FARGO BANK NORTHWEST, NATIONAL ASSOCIATION

5. Address of Owner

C/O WILMINGTON TRUST COMPANY  
1100 NORTH MARKET STREET  
WILMINGTON, DELAWARE 19890-1605  
UNITED STATES OF AMERICA

Address of Lessee:

AIRPORT NORTH ROAD  
EMBAKASI  
P. O. BOX 19002-00501  
NAIROBI-KENYA

Address of Financier:

260 N. CHARLES LINDBERGH DR.  
SALT LAKE CITY, UTAH 84116  
UNITED STATES OF AMERICA

6.

It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 19th June, 2014

A handwritten signature in dark ink, appearing to be 'Samuel', is written over a horizontal line.

by authority of the Director General

NOTE:

- 1. This Certificate is not proof of the Aircraft Ownership
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose

Serial No. 3432



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No. 2582

1. Nationality and Registration Mark <b>5Y-KZC</b>	2. Manufacturer and Manufacturer's Designation of Aircraft <b>The Boeing Company Boeing 787-8</b>	3. Aircraft Serial Number <b>36040</b>
---	--	---

4. Name of Owner: **Tsavo Aircraft Financing LLC**

Name of Lessee: Kenya Airways Limited

Financier: Wells Fargo Bank Northwest, National Association

5. Address of Owner: C/O Wilmington Trust Company  
1100 North Market Street  
Wilmington, Delaware 19890-1605  
United States of America

Address of Lessee: Airport North Road, Embakasi  
P.O.Box 19002-00501,  
NAIROBI.

Address of Financier: 260N, Charles Lindbergh Dr  
Salt Lake City, Utah 84116  
United States of America  
~~(as Security Trustee for and on behalf of Certain lenders)~~

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue **31st July, 2014**



by authority of the Director General.

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose

Serial No. 3436



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2587

1. Nationality and Registration Mark  SY-KZD <b>787</b>	2. Manufacturer and Manufacturer's Designation of Aircraft  THE BOEING COMPANY	3. Aircraft Serial Number  36041
--	--	--

4. Name of Owner **TSAVO AIRCRAFT FINANCING LLC**

Name of Lessee: KENYA AIRWAYS LIMITED

Name of Financier: WELLS FARGO BANK NORTHWEST, NATIONAL ASSOCIATION

5. Address of Owner  
C/O Wilmington Trust Company  
1100 North Market Street  
Wilmington, Delaware 19890-1605  
UNITED STATES OF AMERICA

Address of Lessee: Airport North Road  
Embakasi  
P. O. BOX 19002-00501  
NAIROBI

Address of Financier: 260 N.Charles Lindbergh Dr  
Salt Lake City, Utah 84116  
UNITED STATES OF AMERICA

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations Issued thereunder applicable in Kenya.

Date of Issue **25th August, 2014**

by authority of the Director General.

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

[P.T.O.]

Serial No. 3449



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No. 2594

1. Nationality and Registration Mark  5Y-KZE	2. Manufacturer and Manufacturer's Designation of Aircraft  THE BOEING COMPANY BOEING 787-8	3. Aircraft Serial Number  36042
--	--	--

4. Name of Owner: **TSAVO AIRCRAFT FINANCING LLC**

Name of Lessee: KENYA AIRWAYS LIMITED

Name of Financier: WELLS FARGO BANK NORTHWEST, NATIONAL ASSOCIATION


5. Address of Owner: C/O WILMINGTON TRUST COMPANY  
1100 NORTH MARKET STREET  
WILMINGTON, DELAWARE 19890-1605  
UNITED STATES OF AMERICA

Address of Lessee: AIRPORT NORTH ROAD  
P.O. BOX 19002-00501  
NAIROBI-KENYA

Address of Financier: 260N CHARLES LINDBERGH DR.  
SALT LAKE CITY, UTAH 84116  
UNITED STATES OF AMERICA

6. it is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 22nd September, 2014.



by authority of the Director General.

NOTE:  
 1. This Certificate is not proof of the Aircraft Ownership  
 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

Serial No. 3469



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No .....2601.....

1. Nationality and Registration Mark  5Y-KZF	2. Manufacturer and Manufacturer's Designation of Aircraft  THE BOEING COMPANY BOEING 787-8	3. Aircraft Serial Number  36043
--	--	--

4. Name of Owner **TSAVO AIRCRAFT FINANCING LLC**

Name of Lessee: KENYA AIRWAYS LIMITED

Name of Financier: WELLS FARGO BANK NORTHWEST, NATIONAL ASSOCIATION

5. Address of Owner  
C/O Wilmington Trust Company  
1100 North Market Street  
Wilmington, Delaware 19890-1605  
UNITED STATES OF AMERICA

Address of Lessee: Airport North Road  
Embakasi  
P. O. BOX 19002-00501  
NAIROBI

Address of Financier: 260N Charles Lindbergh Dr  
Salt Lake City, Utah 84116  
United States of America (as security Trustee  
for and on behalf of certain lenders

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of Issue **15th October, 2014**



by authority of the Director General.

**NOTE:**

1. This Certificate is not proof of the Aircraft Ownership.
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

[P.T.O.]

Serial No. 3417

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No 2575

1. Nationality and Registration Mark  5Y-KZX	2. Manufacturer and Manufacturer's Designation of Aircraft  Boeing Company Boeing 777-300ER	3. Aircraft Serial Number  42097
--	--	--

4. Name of Owner: **Tsavo Aircraft Financing LLC.**  
 Name of Lessee:- Kenya Airways Limited.  
 Name of Financier:- Wells Fargo Bank Northwest.  
 (as security trustee for and on behalf of certain lenders)

5. Address of Owner: C/O Wilmington Trust Company  
 1100 North Market Street  
 Wilmington, Delaware 19890-1605  
 United States of America.  
 Address of Lessee: Airport North Road Embakasi  
 P.O.Box 19002-00501  
 Nairobi, Kenya.  
 Address of Financier: National Association  
 260N Charles Lindbergh Dr  
 Salt Lake City, Utan 84116  
 United States of America.

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 1st July, 2014

by authority of the Director General.

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose



Certificate Number  
1777

State Issue: K E N Y A

### Certificate of Registration of Aircraft.

1. Nationality and Registration Mark  5Y-KQD	2. Manufacturer and Manufacturer's Designation of Aircraft  BOEING COMMERCIAL AIRPLANE COMPANY BOEING 737-300	3. Aircraft Serial Number  29750
--	--	--

4. Name of Owner  
  
**SIMBA FINANCE LIMITED**

SECURED FINANCIER: FIRST SECURITY BANK, NATIONAL ASSOCIATION

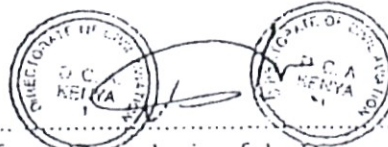
LESSEE: KENYA AIRWAYS

5. Address of Owner  
CLAMENDON HOUSE CHURCH ST. HAMILTON HMCX BERMUDA

SECURED FINANCIER: 79 SOUTH MAIN ST. SALT LAKE CITY UT 84111 USA

LESSEE: P. O. BOX 19002,  
NAIROBI

6. It is hereby certified that the above described aircraft has been duly entered on the register of the state in accordance with the Convention on International Civil Aviation dated 7th December, 1944, and with the Kenya Civil Aviation Act, 1977, and the Air Navigation Regulations issued thereunder, applicable in Kenya.



for and by authority of the Director of Civil Aviation

Date of issue 1st March 1999

- Date of Renewal.....
- Date of Renewal.....
- Date of Renewal.....
- Date of Renewal.....
- Date of Renewal.....





DCA 10123

Certificate Number  
1741

State Issue:

KENYA

### Certificate of Registration of Aircraft.

1. Nationality and Registration Mark  5Y-KQC	2. Manufacturer and Manufacturer's Designation of Aircraft  BOEING COMMERCIAL AIRPLANE COMPANY BOEING 737-348	3. Aircraft Serial Number  29088
--	--	--

4. Name of Owner **SIMBA FINANCE LIMITED**  
 SECURED FINANCIER: FIRST SECURITY BANK, NATIONAL ASSOCIATION  
 LESSEE: KENYA AIRWAYS

5. Address of Owner CLAMENDON HOUSE CHURCH ST. HAMILTON HMGX BERMUDA  
 SECURED FINANCIER: 79 SOUTH MAIN ST.  
 SALT LAKE CITY UT 84111. USA.  
 LESSEE: P.O. BOX 19002  
 NAIROBI

6. It is hereby certified that the above described aircraft has been duly entered on the register of the state in accordance with the Convention on International Civil Aviation dated 7th December, 1944, and with the Kenya Civil Aviation Act, 1977, and the Air Navigation Regulations issued thereunder, applicable in Kenya.



for and by authority of the Director of Civil Aviation

Date of issue 26th May 1998  
 Date of Renewal .....  
 Date of Renewal .....  
 Date of Renewal .....  
 Date of Renewal .....  
 Date of Renewal .....  
 Date of Renewal .....

NOTE.—No entries or endorsements may be made in the foregoing certificate except in the manner and by the persons authorized for that purpose.



Certificate Number 1689
----------------------------

State Issue:

K E N Y A

### Certificate of Registration of Aircraft.

1. Nationality and Registration Mark  5Y-KQA	2. Manufacturer and Manufacturer's Designation of Aircraft  BOEING COMMERCIAL AIRLANE GROUP BOEING 737-300	3. Aircraft Serial Number  28746
--	---	--

4. Name of Owner **SIMBA FINANCE LIMITED**

b) SECURED FINANCIER: FIRST SECURITY BANK, NATIONAL ASSOCIATION

c) KENY LESSEE: KENYA AIRWAYS

5. Address of Owner  
 ZUCKERT SCOUTT AND RASENBERGER LLP, SUITE 600  
 WASHINGTON D.C. 20006, USA

b) SECURED FINANCIER: ZUCKERT SCOUTT AND RASENBERGER LLP SUITE 600  
 WASHINGTON D.C. 20006, USA

c) LESSEE: KENYA AIRWAYS LIMITED  
 P. O. BOX 19002, NAIROBI

6. It is hereby certified that the above described aircraft has been duly entered on the register of the state in accordance with the Convention on International Civil Aviation dated 7th December, 1944, and with the Kenya Civil Aviation Act, 1977, and the Air Navigation Regulations issued hereunder, applicable thereto.

for and by authority of the Director of Civil Aviation

Date of issue ..... 18th April 1997 .....

Date of Renewal.....

Date of Renewal.....

Date of Renewal.....

Date of Renewal.....

Date of Renewal.....

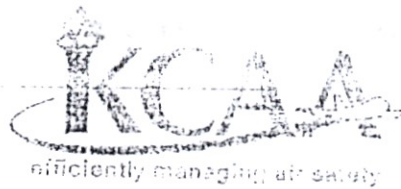
Date of Renewal.....

NOTE.—No entries or endorsements may be made in the foregoing certificate except in the manner and by the persons authorised for that purpose.

Serial No.

6995

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No .....2567.....

1. Nationality and Registration Mark  <b>5Y-KZY</b>	2. Manufacturer and Manufacturer's Designation of Aircraft  <b>BOEING COMPANY BOEING 777-300ER</b>	3. Aircraft Serial Number  <b>41819</b>
---	--	---

4. Name of Owner  
**CELESTIAL AVIATION TRADING 56 LIMITED**

Name of Lessee: **KENYA AIRWAYS LIMITED**

5. Address of Owner  
**AVIATION HOUSE, SHANNON, Co. CLARE  
IRELAND**

Address of Lessee: **AIRPORT NORTH ROAD,  
EMBAKASI  
P. O. BOX 19002-00501  
NAIROBI  
KENYA**

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue .....**30th April, 2014**.....

by authority of the Director General

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

[P.T.O.]

Serial No. 6892

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No .....2520.....

1. Nationality and Registration Mark  5Y-KZZ	2. Manufacturer and Manufacturer's Designation of Aircraft  THE BOEING COMPANY BOEING 777-300ER	3. Aircraft Serial Number  41818
--	--	--

4. Name of Owner

CELESTIAL AVIATION TRADING 53 LIMITED

Name of Lessee:

KENYA AIRWAYS LIMITED

5. Address of Owner

AVIATION HOUSE, SHANNON, CO. CLARE  
IRELAND

Address of Lessee:

AIRPORT NORTH ROAD  
EMBAKASI  
P. O. BOX 19002-00501  
NAIROBI-KENYA

6.

It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 15th October, 2013

by authority of the Director General

NOTE:

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or encroachments may be made in this certificate except in the manner and by the person authorised for that purpose.

(P.T.O.)



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No. 2155

1. Nationality and Registration Mark

5Y-KYD

2. Manufacturer and Manufacturer's Designation of Aircraft

THE BOEING COMPANY  
BOEING B737-800

3. Aircraft Serial Number

MSN 35632

4. Name of Owner

CELESTIAL AVIATION TRADING LTD

LESSEE:

KENYA AIRWAYS LTD

5. Address of Owner

AVIATION HOUSE  
SHANNON  
C O. CLARE  
IRELAND

LESSEE

P.O. BOX 19002  
00501, NAIROBI  
KENYA

6.

It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue

August 8th 2008

by authority of the Director



Serial No. 844



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No .....2184.....

1. Nationality and Registration Mark  5Y-KYF	2. Manufacturer and Manufacturer's Designation of Aircraft  THE BOEING COMPANY BOEING 737-800	3. Aircraft Serial Number  35637
--	--	--

4 Name of Owner **CELESTIAL AVIATION TRADING 12 LTD.**

Name of Lessee: **KENYA AIRWAYS LTD.**

5 Address of Owner  
  
AVIATION HOUSE  
SHANNON  
CO. CLARE  
IRELAND

Address of Lessee: **P.O. BOX 19002-00501  
NAIROBI  
KENYA**

6 It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue **11 February 2009**



by authority of the Director General

**NOTE.**

- 1. This Certificate is not proof of the Aircraft Ownership
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose

[P.T.O.]

Serial No.

3516

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No 2620 .....

1. Nationality and Registration Mark  5Y-CYC	2. Manufacturer and Manufacturer's Designation of Aircraft  Boeing Commercial Airplane Group Boeing 737-800	3. Aircraft Serial Number  43400
--	--	--

4. Name of Owner **Celestial Aviation Trading 16 Limited**

Name of Lessee: Kenya Airways Limited

5. Address of Owner  
Aviation House, Shannon, Co. Clare  
Ireland

Address of Lessee: Airport North Road  
Embakasi,  
P.O. Box 19002-00501  
Nairobi  
KENYA

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 22nd January, 2015

by authority of the Director General.

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

[P.T.O.]



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No 2638

1. Nationality and Registration Mark 5Y-CYD	2. Manufacturer and Manufacturer's Designation of Aircraft Boeing Commercial Airplane Group Boeing 737-800	3. Aircraft Serial Number 40553
--	--	------------------------------------

4. Name of Owner: **Bank of Utah (not in its individual capacity but solely as Owner Trustee)**

Name of Lessee: Kenya Airways Limited

5. Address of Owner: 200E. South Temple  
 Suite 210, Salt Lake City,  
 Utah 84111,  
 United States of America

Address of Lessee: Airport North Road,  
 Embakasi  
 P.O.Box 19002-00501  
 NAIROBI-KENYA

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 22nd April, 2015

by authority of the Director General.

NOTE:

1. This Certificate is not proof of the Aircraft Ownership.
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

Serial No. 3468



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No ..... 2600 .....

1. Nationality and Registration Mark	2. Manufacturer and Manufacturer's Designation of Aircraft	3. Aircraft Serial Number
5Y-CYA	THE BOEING COMPANY BOEING 737-800	40549

4. Name of Owner

Bank of Utah (not in its individual capacity but solely as owner trustee)

Name of Lessee: Kenya Airways Ltd

5. Address of Owner

200 E. South Temple, suite 210  
Salt Lake City, Utah 84111

Address of Lessee:

Airport North Road  
Embakasi  
P. O. BOX 19002-00501  
NAIROBI - KENYA

6.

It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 15th October, 2014.....

by authority of the Director General.

NOTE:

1. This Certificate is not proof of the Aircraft Ownership.
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

[P.T.O.]

Serial No. 3488

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No .....2608.....

1. Nationality and Registration Mark  5Y-CYB	2. Manufacturer and Manufacturer's Designation of Aircraft  BOEING COMMERCIAL AIRPLANE GROUP BOEING 737-800	3. Aircraft Serial Number  40550
--	--	--

4. Name of Owner  
**BANK OF UTAH, not in its individual capacity but solely as owner trustee**

Name of Lessee: Kenya Airways Limited

5. Address of Owner  
PCA 72  
Hanger 3-812, Building #4  
7500 E. Marginal Way S.  
Seattle, WA 98108  
USA

Address of Lessee: Airport North Road  
Embakasi  
P. O. BOX 19002-00501  
NAIROBI - KENYA

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

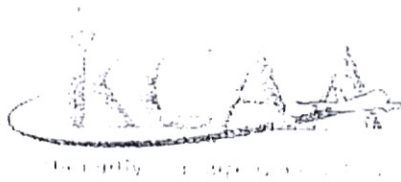
Date of issue 19th November, 2014

by authority of the Director General.

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

[P.T.O.]



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No. 2296

1. Nationality and Registration Mark	2. Manufacturer and Manufacturer's Designation of Aircraft	3. Aircraft Serial Number
5Y-KYP	EMBRAER-EMPRESA BRASILEIRA DE AERONAUTICA - S.A. EMBRAER ERJ 190-100 ICW	19000398

4. Name of Owner: **JAG XVI LLC**

Name of Lessee: KENYA AIRWAYS LIMITED

5. Address of Owner: 10 S. NEW RIVER DRIVE EAST, SUITE 200  
FORT LAUDERDALE, FLORIDA 33301  
USA

Address of Lessee: AIRPORT NORTH ROAD  
EMBAKASI, P.O. BOX 19002-00501  
NAIROBI, KENYA

It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue: 17th DECEMBER, 2010

by authority of the Director General

**NOTE**

This certificate is valid only for the aircraft described herein. Any change of aircraft description must be made in the certificate by the person authorized for that purpose.

Serial No. 3846

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No 2318

1. Nationality and Registration Mark <b>5Y-KYQ</b>	2. Manufacturer and Manufacturer's Designation of Aircraft <b>EMBRAER ERJ190-100 IGW</b>	3. Aircraft Serial Number <b>19000440</b>
---	---	--

4. Name of Owner  
*J. M. M. M.*  
**JAG XVII LLC**

Name of Lessee: **KENYA AIRWAYS LIMITED**

Name of Financier: **BANK OF UTAH (as Security Trustee)**

5. Address of Owner  
**10 S. New River Drive East, Suite 200  
Fort Lauderdale, Florida 33301  
USA**

Address of Lessee: **P. O. BOX 19002-00501  
Nairobi  
KENYA**

Address of Financier: **200 East South Temple, Suite 210  
Salt Lake City, Utah 84111  
USA**

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue **25th May, 2011**

by authority of the Director General.

NOTE:

1. This Certificate is not proof of the Aircraft Ownership.
2. No entries or endorsements may be made in this certificate.

Serial No. 3900

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No 2338 .....

1. Nationality and Registration Mark  5Y-KYR	2. Manufacturer and Manufacturer's Designation of Aircraft  Embraer - Empresa Brasileira de Aeronautica S. A. EMBRAER 190-100	3. Aircraft Serial Number  19000468
--	--	---

4. Name of Owner  
~~AIC E193-468 JJC~~

Name of Lessee: Kenya Airways Limited

5. Address of Owner  
2140 D Dupont Highway  
Camden, Delaware 19934  
U.S.A.

Address of Lessee: Airport North Road - Embakasi  
P.O. BOX 19002 - 00501  
Nairobi  
KENYA

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 9th September, 2011 .....

by authority of the Director General.

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

Serial No. 818



KCAA (L) 25

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No. 2172

1. Nationality and Registration Mark  5Y-KYE	2. Manufacturer and Manufacturer's Designation of Aircraft  THE BOEING COMPANY BOEING 737-800	3. Aircraft Serial Number  35286
--	--	--

4. Name of Owner  
**INTERNATIONAL LEASE FINANCE CORPORATION**

Name of Lessee: KENYA AIRWAYS LIMITED

5. Address of Owner  
10250 Constellation Boulevard  
3th Floor  
LOS ANGELES  
CALIFORNIA, 90067  
UNITED STATES OF AMERICA

Address of Lessee: P. O. BOX 19002 - 00501  
NAIROBI

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of Issue 13 January 2009

by authority of the Director General.

**NOTE:**

- 1. This Certificate is not proof of the Aircraft Ownership.
- 2. No entries or endorsements may be made in this certificate except in the manner and by the person authorized for that purpose.

[P.T.O.]

Serial No. 1269

KCAA (L) 25



# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

No. 2273

1. Nationality and Registration Mark  SY-KYM	2. Manufacturer and Manufacturer's Designation of Aircraft  Boeing Commercial Airplane Group B737-306	3. Aircraft Serial Number  28719
--	--	--

4. Name of Owner and Conditional Seller: Koninklijke Luchtvaart Maatschappij N.V.

Name of Operator and Conditional Purchaser: Kenya Airways Limited

5. Address of Owner and Conditional Seller: Amsterdamseweg 55, 1182 GP Amstelveen  
The Netherlands

Address of Operator and Conditional Purchaser: Airport North Road  
Embakasi, P. O. BOX 19002-00501  
Nairobi  
Kenya

6. It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 14th July 2010



by authority of the Director General.

NOTE:  
1. This Certificate is not proof of the Aircraft Ownership.  
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

[P.T.O.]

# KENYA CIVIL AVIATION AUTHORITY

## Certificate of Registration of Aircraft

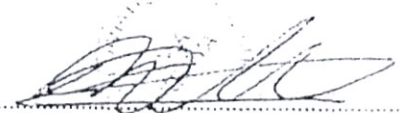
No 2239  
No .....

1. Nationality and Registration Mark  5Y-KZG	2. Manufacturer and Manufacturer's Designation of Aircraft  The Boeing Company Boeing 787-8	3. Aircraft Serial Number  36044
4. Name of Owner <b>AWAS 36044 LIMITED.</b>		
Name of Lessee: Kenya Airways Limited		
Name of Financier: Wells Fargo Northwest National Association		
5. Address of Owner 190 Elgin Avenue George Town, Grand Cayman KYI-9005 CAYMAN ISLAND		
Address of Lessee: Airport North Road Embakasi P.O. Box 19002-00501 Nairobi-Kenya		
Address of Financier: 260N.Charles Lindbergh Drive MAC:U1240-026 Salt Lake City, UT 84116 Attn: Corporate Trust Lease Group		

6.

It is hereby certified that the above described aircraft has been duly entered on the Kenya Aircraft register in accordance with the Convention on International Civil Aviation dated 7th December, 1944 and with the Kenya Civil Aviation Act, and the Air Navigation Regulations issued thereunder applicable in Kenya.

Date of issue 29th April, 2015

  
by authority of the Director General.

## NOTE:

1. This Certificate is not proof of the Aircraft Ownership.
2. No entries or endorsements may be made in this certificate except in the manner and by the person authorised for that purpose.

SEABURY

20.Feb.17

Assessment of  
Proposed Restructuring



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## Definitions

- **ASK:** available seat kilometers (flights multiplied by seats per flight multiplied by kilometers flown per flight); the basic unit of production in the airline industry
- **RPK:** revenue passenger kilometers (passengers multiplied by the distance flown); the basic unit of consumption in the airline industry (e.g., passengers purchase an ASK and become an RPK)
- **RASK:** Revenue per ASK - a measure of revenue performance; unit revenue in the airline industry
- **CASK:** Cost per ASK – a measure of cost performance; unit cost in the airline industry
- **Load Factor:** RPK divided by ASK; the percentage of available seat kilometers that were sold to revenue-paying passengers; for a specific flight, the percentage of available seats that were filled
- **Stage Length:** distance of a flight in kilometers; average stage length is the average flight distance in an airline's given route network
- **Yield:** Revenue divided by RPK; the amount that a passenger pays to travel one kilometer; important in the comparison of routes of different stage lengths
- **O&D passengers:** origin and destination passengers; O&D passengers in a hub network include both local passengers (e.g., passengers who take only one flight, like those traveling strictly between Johannesburg and Nairobi), and connecting passengers (e.g., passengers who take multiple flights to complete their journey, like those traveling from Johannesburg to Paris via Nairobi)
- **Block Hours:** the time that an aircraft is actively conducting a flight; typically measured from the time the aircraft leaves the gate at the origin until the time the aircraft parks at a gate at the destination
- **Flight Hours:** the time that an aircraft is actually flying; measured from the time the aircraft takes off at departure until the aircraft lands at its destination

## **Contents**

- I. Executive summary
- II. Value of a national airline
- III. Business plan assessment
- IV. Restructuring plan overview
- V. Risks and mitigation
- VI. Recommendations

### Appendix:

- I. Operating lease analysis
- II. Macro environment
- III. Comparison to Ethiopian Airlines

## ■ Executive summary – objectives and process

With the support of its advisors, Kenya Airways (“KQ” or the “Company”) has developed a comprehensive restructuring proposal to stabilize the Company’s capital structure

### ■ Objectives

- The Company has engaged the Seabury Group (“Seabury”) to review its latest financial performance, forecasts, and related restructuring proposal (the “Restructuring Plan”), and to provide an assessment for the Government of Kenya and other stakeholders
- The engagement letter included the following scope provisions:
  - Review and evaluate the feasibility of the KQ turnaround plan, including the progress of recovery process;
  - Review and evaluate all proposals/options on the restructuring of debt, including leasing obligations and local bank debt;
  - Review and evaluate all proposals/options on the capital structure;
  - Identify the key risks associated with the proposals/options and the KQ restructuring generally and recommend ways to manage these risks;
  - Engage with the Government of Kenya (“GoK”) to understand its long term strategy for KQ;
  - Make recommendations to GoK on the most feasible restructuring option;
  - Monitor, on behalf of the GoK, the progress of the implementation of the agreed programmes;
  - Provide on-going engagement / advisory services to the GoK technical and cabinet sub- committees;
  - Undertake any other tasks that the GoK may require in relation to the to the KQ restructuring
- To produce this assessment, Seabury analyzed:
  - The Company’s latest financial results and revised forecast for the current fiscal year
  - The status of turnaround initiatives being implemented by the Company and its advisors
  - The latest revisions of the financial forecast and the Restructuring Plan, as provided by the Company and its advisors
  - Market data related to the airline industry

### ■ Process

- During the weeks of 12 December 2016 and 16 January 2017, Seabury representatives met with the Company’s management team, its advisors, and certain representatives of the Government of Kenya in Nairobi to discuss and better understand the Company’s current performance and the latest revisions of the Business Plan and the Restructuring Plan. In addition, Seabury participated in various meetings in Washington, D.C. (Export-Import Bank of the United States), London (PJT) and Cairo (African Export-Import Bank)

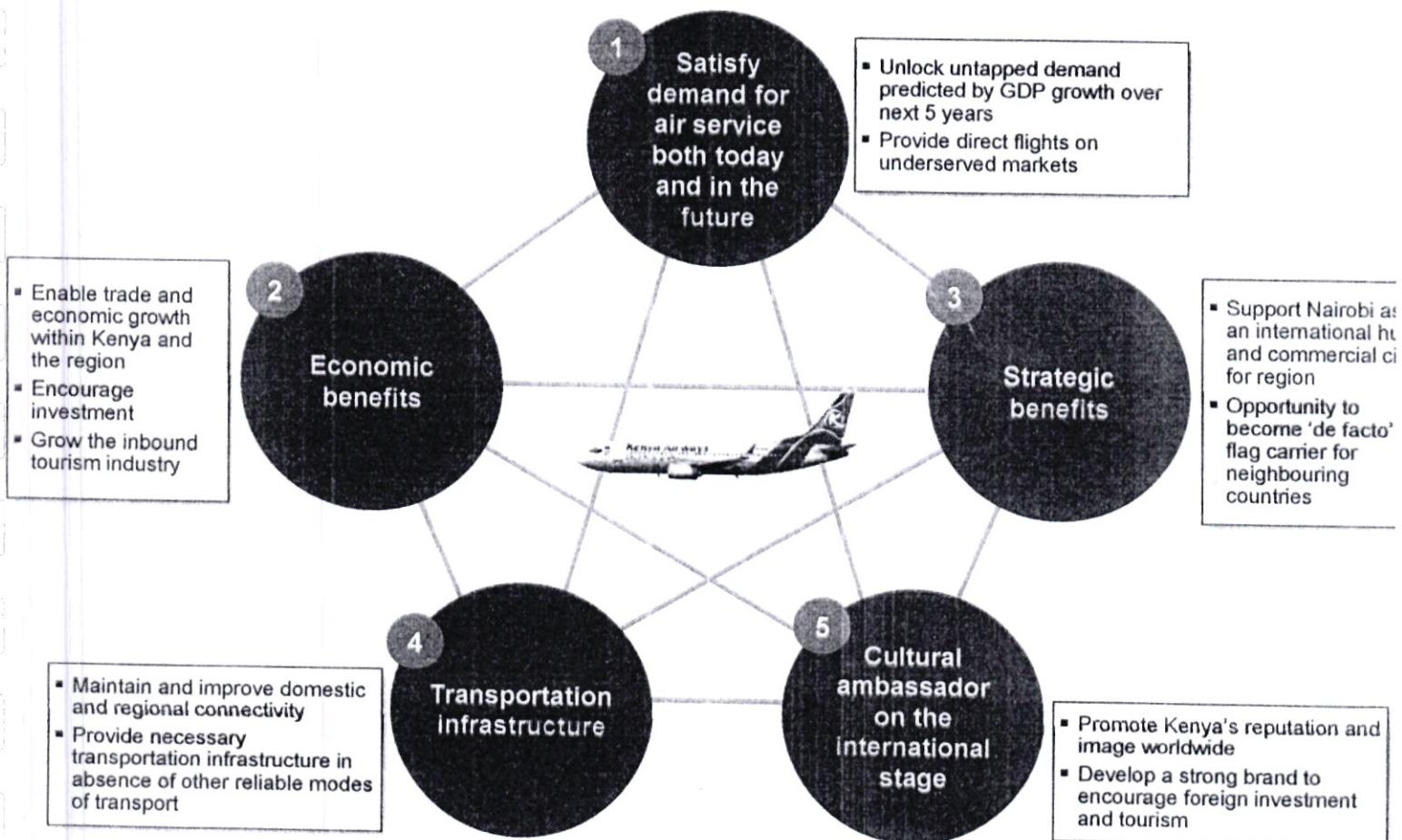
## Executive summary – summary of findings

While recent trends are not favorable, Seabury recommends that the GoK support the proposed KQ restructuring, while also seeking other means of enhancing the value of the national flag carrier

- 1 Kenya Airways provides significant value to the country, much of which would be lost if the carrier were to cease operations or substantially reduce its scale
- 2 KQ's recent performance has lagged its budget / original forecast (from April 2016), with the most significant variances coming in passenger revenues (where industry capacity growth is exceeding industry demand growth in many of KQ's markets) and fuel expense (as current fuel prices are higher than those assumed in the Original Plan)
- 3 KQ's share of capacity has been falling over the last four years, while the capacity share of key competitors has grown (e.g., Ethiopian Airlines in East Africa and Middle East carrier share to Africa from the rest of the world)
- 4 As a result of the weaker year-to-date performance than expected, the Company and Seabury have developed a revised 5-year forecast with low- and high-case sensitivities that have been used as the basis to update the Company's restructuring proposals
- 5 Seabury has worked with PJT to evaluate the impact of the weaker performance on the Restructuring Plan and to develop adjustments to some elements to improve KQ's chances of achieving a successful and lasting restructuring
- 6 Seabury believes the Restructuring Plan as defined by PJT is reasonable and necessary for the survival of KQ
- 7 Seabury recommends that the Government of Kenya fully support the Restructuring Plan (subject to the substantial agreement of all other stakeholders to requested concessions / restructuring of agreements) on an expedited basis, by providing:
  - Support for the MoU with KLM, which is critical to receiving the additional liquidity that KQ requires
  - Approximately USD 800 million of guarantees, as outlined in the Restructuring Plan, in order to achieve a consensual restructuring with all key stakeholders
- 8 Some elements of the Restructuring Plan may be difficult to achieve (e.g., concessions from certain operating lessors, where lack of commercial leverage may limit KQ's ability to improve terms)
- 9 Seabury further recommends that the GoK implement additional measures to provide value to KQ beyond supporting the balance sheet restructuring (e.g., to help KQ compete with international competitors who receive substantial support from their home governments)

## Executive summary – benefits of a national airline

A successful and well-managed KQ will deliver significant benefits across five core areas

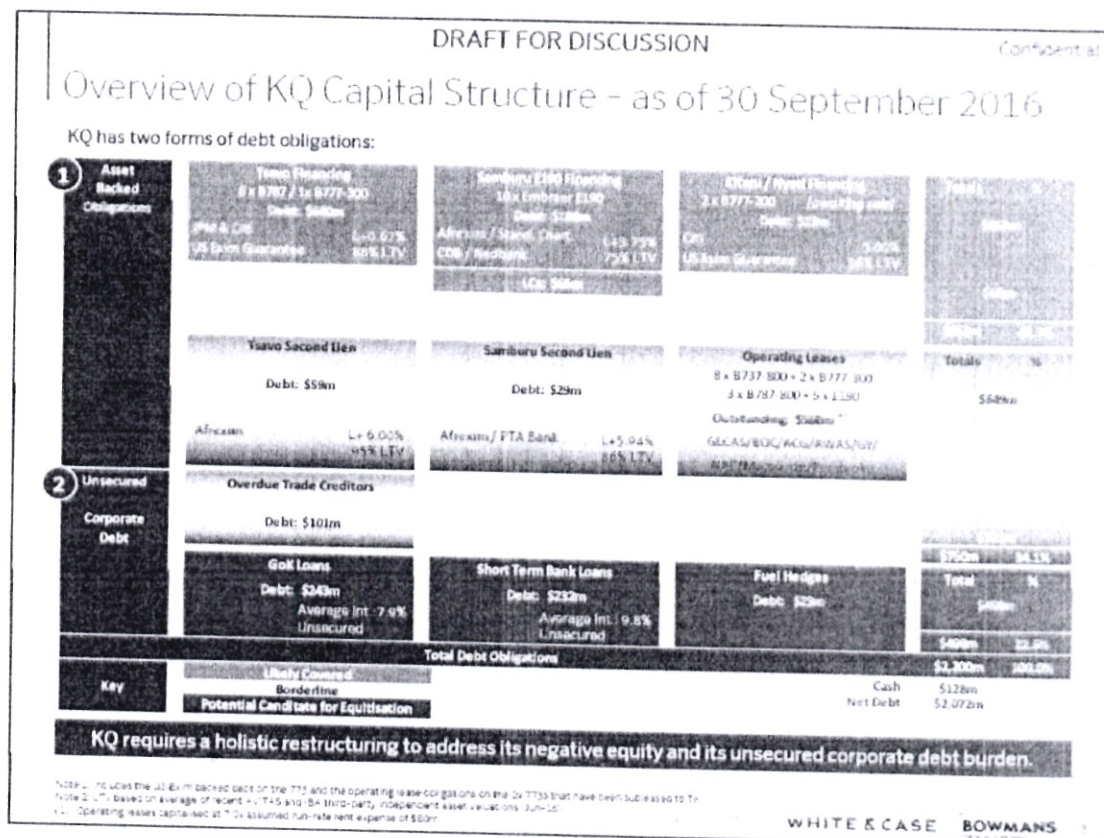


## Executive summary – need for restructuring

While KQ can bring considerable value to the country, it requires an immediate balance sheet restructuring to address its negative equity and unsustainable debt burden

### Capital structure

- As outlined by the Company's advisors in the slide at right, KQ's debt and lease obligations have grown to US 2.2 billion
- With KQ's current operating performance, free cash flows are insufficient to satisfy contractual debt service
- The Company requires an urgent and comprehensive restructuring to prevent a financial collapse and ensure a solid foundation for future growth



## Executive summary – restructuring objectives

Working with the Company, its advisors developed a restructuring plan that was guided by three key objectives, and based on the Company's financial forecast at the time (April 2016)

### Objectives

- Seabury agrees with the objectives of the restructuring as outlined by the Company's advisors in the slide at right

### Basis for restructuring

- In developing the proposed restructuring, the Company's advisors relied on KQ's 5-year financial forecast as it existed at the time – April 2016 (the "Original Plan")
- The Original Plan defined the expected profitability and free cash flow that would be available for debt service payments going forward

DRAFT FOR DISCUSSION Confidential

## Restructuring Objectives

KQ's restructuring proposal addresses each of the following objectives for KQ and its stakeholders:

<b>1</b> Sufficient Liquidity	<ul style="list-style-type: none"><li>Sufficient free cash to maintain safe continuing operations, and ensure KQ remains a "going concern", even under downside business sensitivities</li><li>No further rescue financing required from the Government of Kenya ("GovK") beyond the \$100m bridge loan already provided</li></ul>
<b>2</b> Reduced Leverage	<ul style="list-style-type: none"><li>Sufficient deleveraging to attract reinvestment from current shareholders (including \$100m from KLM) as well as providing a platform for further investment</li><li>"At the money" equity value sufficient to establish appropriate employee and management equity incentive plans</li></ul>
<b>3</b> Ease of Implementation	<ul style="list-style-type: none"><li>Minimise the risk of hold-out minority stakeholders, who do not accept the terms of the majority-supported restructuring, blocking the transaction ("holdouts"); and minimise the risk of adverse reaction</li><li>Least possible concessions required from the local Kenyan banks while allowing existing shareholders to reinvest</li></ul>

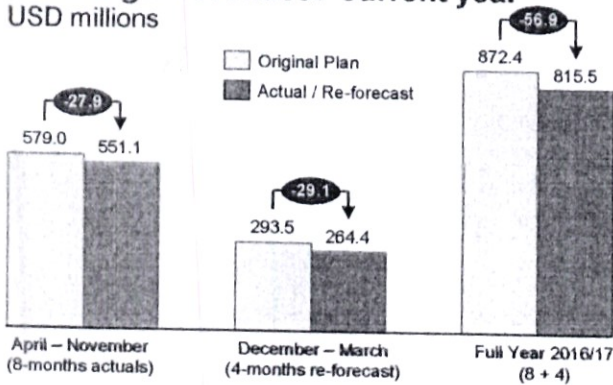
WHITE & CASE BOWMANS

## Executive summary – current fiscal year performance

The Company's latest results are falling short of the Original Plan, and the Company's latest outlook suggests that this shortfall will continue into the future

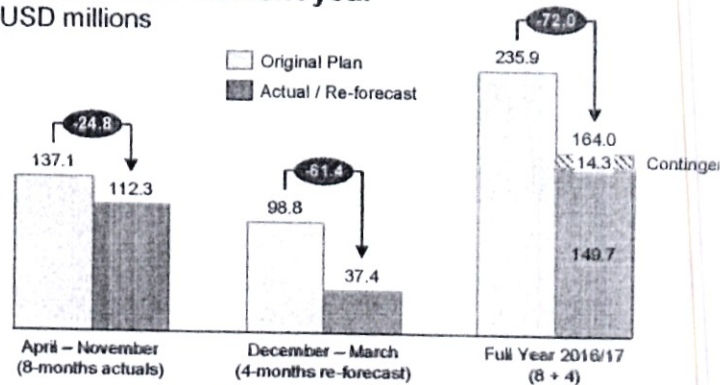
### Passenger revenues: current year

USD millions



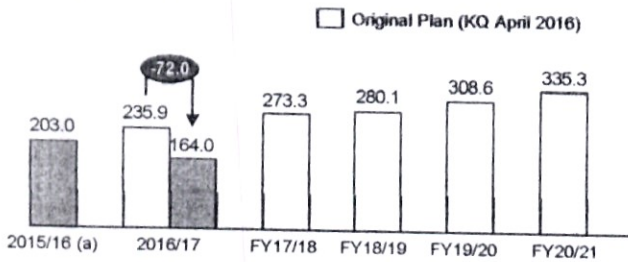
### EBITDAR: current year

USD millions



### Projected EBITDAR: Original Plan

USD millions



Source: KQ Plan; Seabury analysis

### Revised 5-year forecast

- In light of the profitability shortfall in the current fiscal year, Seabury has worked with the Company to develop a quick revision to the 5-year plan (the "Revised Plan") that could be used to revise the Restructuring Plan, as needed, to account for the reduced cash flow potential
- The Revised Plan features reduced fleet growth and capacity growth (especially in the near-term), and more conservative assumptions regarding the macro environment
- The Company and Seabury have also independently developed sensitivity cases to show potential downside and upside performance versus the baseline Revised Plan

SEABURY

## Executive summary – revised forecast

Seabury and the Company have both developed revised 5-year forecasts that incorporate the latest results for the current fiscal year and a more conservative growth plan for the future

### Low case

- Assumes weaker revenue environment (greater competition or lower demand)
- Low case assumes the same capacity as the baseline scenario
- If the Company tracks the low case, additional strategy restructuring work will be needed to redefine a sustainable fleet and network

### Baseline case

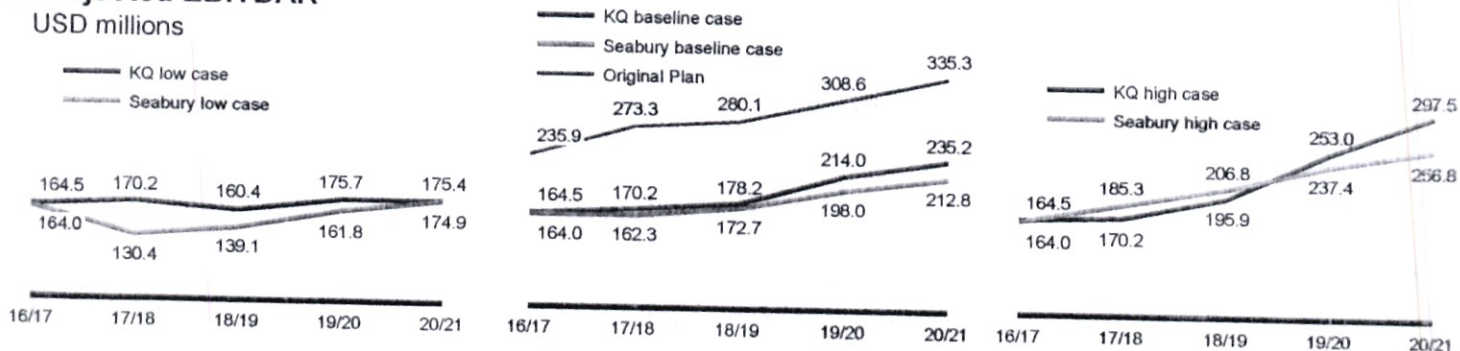
- Revised 5-year forecast incorporating latest results and expected revenue trends
- Projected EBITDAR is generally USD 70 – 120 million lower, per year, than the Original Plan
- Reduced EBITDAR is somewhat offset by lower fleet costs, as the revised forecast assumes less fleet growth

### High case

- Assumes improved revenue environment (reduction in competitive capacity and/or additional demand / yield growth), along with implementation of labor cost savings
- High case assumes the same capacity as the baseline scenario

### Projected EBITDAR

USD millions



Source: KQ Plan; Seabury analysis

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## Executive summary – business plan outlook

Despite the negative forecast revisions, Seabury believes the Company is taking reasonable steps to actively improve its performance and secure its future

### Operational transformation

- With the help of an outside advisor, the Company has implemented a wide-ranging operational transformation program to boost revenue, reduce cost, and generate cash ("Operation Pride")
- The Company has committed to a new strategic focus ("Winning in Africa") and has improved operational efficiency and connectivity
- While Operation Pride has achieved significant improvements across multiple areas, there are notable gaps in some work streams
  - Revenue performance is falling short of the Company's targets
  - Certain labor initiatives have not been achieved due to the Company's failure to reach consensual agreements with its unions

### Additional commercial initiatives

- In response to the lagging revenue performance, the Company defined two new waves of commercial initiatives
- A material shortfall in projected revenues may trigger a need for additional support from the Government of Kenya

We have a clearly defined vision for two new waves of commercial turnaround, which will support our Winning in Africa strategy

#### I Restore the commercial fundamentals

- Restore our revenue integrity
- Finalize the implementation of our Sales Force Effectiveness approach
- Restore the competitiveness of our key Economy and Premium traffic flows
- Hit and run: implement an O&D-based forward-looking tactical approach fully aligned between Sales and PRM

#### II Build sustainable profitability

- Revenue: ensure delivery on targets with improved revenue integrity and ancillary spend per passenger
- Yield: increase focus on higher yielding passengers: corporates, business class, and higher yielding distributors
- Effectiveness: improve network and partnerships, the commercial performance management, and SFE & automation
- Distribution: improve the distribution strategy to optimize the cost of sales, and improve direct channel (e-commerce)
- People: improve talent management, the incentive structure and mindset and behaviors

III Winning in Africa; Home market control, superior connectivity within Africa and simplified product

Seabury believes the initiatives identified by Operation Pride and the related transformation office structure gives the Company a reasonable chance to turnaround its financial results and build a platform for future growth

SEABURY

## Executive summary – restructuring plan overview

Seabury has worked closely with PJT to understand the key elements of the proposed restructuring plan and to provide feedback where applicable

### Key elements of the proposed restructuring plan by major obligation, as follows:

<b>Tsavo senior facility</b>	<ul style="list-style-type: none"> <li>Term to be extended by two years</li> <li>30% amortization reduction equivalent to ~USD 25 million per year for five years in liquidity relief</li> <li>Guarantee by the Government of Kenya</li> <li>777-300 to be sold to / remarketed by Boeing; proceeds to pay down senior facility</li> </ul>
<b>Tsavo junior facility</b>	<ul style="list-style-type: none"> <li>Term to be extended by three years</li> <li>Straight line amortization over the three years of extended term</li> <li><b>Any shortfall in proceeds with respect to the sale of the 777-300 to be absorbed against all other aircraft in the Tsavo junior facility whilst retaining maturity</b></li> </ul>
<b>Samburu senior facility</b>	<ul style="list-style-type: none"> <li>Term to be extended by two years</li> <li>15% amortization reduction equivalent to ~USD 6 million per year for five years in liquidity relief</li> <li>No guarantee provided by the Government of Kenya</li> </ul>
<b>Samburu junior facility</b>	<ul style="list-style-type: none"> <li>Term to be extended by three years</li> <li>Straight line amortization over the three years of extended term</li> </ul>
<b>Government of Kenya</b>	<ul style="list-style-type: none"> <li>USD 243 million of debt converted to equity</li> <li>USD 800 million of guarantees to be provided (USD 525 million for Tsavo senior debt; USD 125 million for banks; USD 100 million for letters of credit; USD 50 million for new liquidity facility)</li> </ul>
<b>Banks</b>	<ul style="list-style-type: none"> <li>USD 232 million of debt converted to debt in special purpose vehicle to hold equity in KQ ("Equity HoldCo")</li> <li>Equity HoldCo debt terms: 10-year maturity; 4.0% payment-in-kind ("PIK") interest; 1.0% cash interest</li> </ul>
<b>Operating lessors (E190)</b>	<ul style="list-style-type: none"> <li>Three year extension on five E-190s whose current lease terms expire in 2018 thru 2020</li> <li>Reduced rate effective July 2017 of USD 190 thousand per month per aircraft; from ~USD 280 thousand per month per aircraft through the extension period</li> </ul>
<b>Operating lessors (all other)</b>	<ul style="list-style-type: none"> <li>No extensions as contract termination dates are too far out in the future with leases currently expiring between 2022 and 2027</li> <li>Two years of reduced payments, followed by two years of payments at contractual rates, followed by increased payments until redelivery date such that the impact to the lessor is net present value neutral</li> </ul>
<b>KLM</b>	<ul style="list-style-type: none"> <li>Loan of USD 100 million to be provided by March 2017 and to be subsequently converted to equity at the same time and on the same terms as GoK loan</li> <li>Request for an additional \$50m to be provided in June 2017, that could be provided through an equity offer at a discount</li> </ul>
<b>Current equity holders</b>	<ul style="list-style-type: none"> <li>Rights offering up to \$100m at discounted price for new equity</li> </ul>

## Executive summary – recommendations (1 of 3)

Following a careful review of the Restructuring Plan, an assessment of other alternatives available, and in consideration of the associated risks, Seabury recommends the following

### Restructuring plan

#### Government guarantee / credit enhancement

- Seabury agrees that Government credit support, mostly likely in the form of a guarantee, in a minimum aggregate amount of ~ USD 800 million, will be required to achieve key elements of the proposed restructuring plan
  - Tsavo senior facility; Tsavo restructuring will likely not be achieved without Government of Kenya support; risk exists that assumed proceeds from sale of 777-300 will not fully repay senior debt outstanding
  - Portion of bank debt (55% or USD 125 million)
  - Guarantee of a liquidity line of credit of USD 50 million (if not a direct loan), as cash balances are short of recommended levels
  - Guarantee of USD 100 million in respect of existing and future letters of credit, which will likely not be renewed without a guarantee
- While the guarantee of the bank debt could be reduced, this may make achievement of that element of the restructuring more difficult; any such reduction in the total amount of Government guarantees may be offset by additional credit support that would be required to address any shortfall in 777-300 sales proceeds and / or to achieve a targeted cash level of 15% of trailing twelve months revenue (a Seabury recommendation)

#### Government loans

- Conversion of debt to equity is a critical element of the restructuring plan and is fully supported by Seabury; without the conversion of shareholder debt (GoK and KLM, after funding) to equity, the plan will likely fail

#### Restructuring of Tsavo and Samburu

- The proposed restructuring of the Tsavo and Samburu facilities (both the senior and junior tranches) appears reasonable
  - Tsavo senior restructuring will likely be achieved with Government of Kenya guarantee based on feedback from The Export-Import Bank of the USA ("Exim"); failure of the Government to offer a guarantee or other credit enhancement will jeopardize the success of the Tsavo senior restructuring
  - Restructuring of the Tsavo junior facility and the Samburu facilities (senior and junior) are largely dependent upon the African Export-Import Bank ("Afrexim") who may request a Government guarantee similar to the Tsavo senior facility; such a request should not be granted in light of the Exim requirement to demonstrate justification for concessions and the enhanced LTV associated with the Samburu facilities



The Government of Kenya's support for the Kenya Airways restructuring plan should be conditioned upon the substantial agreement of all other stakeholders to requested concessions / restructuring of agreements

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## Executive summary – recommendations (2 of 3)

Following a careful review of the Restructuring Plan, an assessment of other alternatives available, and in consideration of the associated risks, Seabury recommends the following

### Restructuring plan

Banks	<ul style="list-style-type: none"><li>▪ The conversion of the bank debt to debt in Equity HoldCo (off KQ balance sheet) is recommended; some form of Government credit support is likely required in order to achieve the desired restructuring of the bank debt without disruption to the Kenyan banking system</li></ul>
Operating lessors	<ul style="list-style-type: none"><li>▪ While most of the operating leases are well above market (range of 10% to 35% - see slide 50), the Company has very little leverage with the operating lessors – either threats (e.g., Chapter 11) or sweeteners (meaningful lease extensions; many of the operating leases already run through the mid-2020s)<ul style="list-style-type: none"><li>- Mark-to-market rates do not reflect on the competitiveness of the leases when initially executed; rather it reflects normal market movement over time</li></ul></li><li>▪ The offer of an extension of three years to the E190 lessors in exchange for a reduction to market rates (from ~USD 280 thousand per month per aircraft to USD 190 thousand per month per aircraft) is viewed as reasonable</li><li>▪ With respect to the remaining operating leases, given the relatively long remaining terms, the offer of an extension is not viewed to have significant value; any liquidity relief that can be provided through consensual negotiations will be beneficial to the restructuring efforts</li></ul>
KLM	<ul style="list-style-type: none"><li>▪ Conversion of new debt in the amount of USD 150 million to equity is a critical element of the restructuring plan and is fully supported by Seabury; without the conversion of shareholder debt (GoK and KLM, after funding) to equity, the plan will likely fail</li></ul>
Equity holders	<ul style="list-style-type: none"><li>▪ Dilution will likely be required to achieve the restructuring; equity holders must pay the price</li><li>▪ If necessary, force the equity dilution by achieving the necessary threshold of 75%</li></ul>



The Government of Kenya's support for the Kenya Airways restructuring plan should be conditioned upon the substantial agreement of all other stakeholders to requested concessions / restructuring of agreements

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## Executive summary – recommendations (3 of 3)

Seabury recommends that the Government of Kenya implement other means of supporting KQ, in addition to supporting the proposed restructuring

### ■ Additional Government support for Kenya Airways

#### Labour

- Support the Company's efforts to renegotiate contract terms with its two major unions by encouraging the unions to take a more productive stance when negotiating with the Company

#### Airport charges

- Explore options to reduce charges incurred by Kenya Airways, examples as follows:
  - Absolute rate reductions in favor of Kenya Airways, only; however, would create an un-level playing field with respect to other carriers operating in Kenya
  - Revenue neutral adjustments to passenger charges such that connecting passengers (favoring KQ's hub operation at JKIA) are charged at a substantially lower rate than charges applicable to origin and destination passengers (Hong Kong International waives airport taxes for stopover passengers arriving and departing on the same day)
  - Other

#### Tax-free zone

- Designate the airport as a tax free zone such that taxes are not charged on parts and other supplies and materials used by Kenya Airways in its maintenance and other operations at JKIA
- Examples include Dubai Airport Freezone (UAE), Imam Khomeini International Airport (Iran), Aqaba Special Economic Zone Authority (Jordan), Mattala Rajapaksa International Airport (Sri Lanka) and areas around various US airports

#### Bilateral agreements

- Negotiate favorable bi-lateral agreements on behalf of Kenya Airways and, where appropriate, the Government could limit the air traffic rights granted to other countries to protect routes for Kenya Airways
  - GoK recently rescinded operating authority sought by Emirates Airlines to add an additional frequency in the Dubai-Nairobi market, pending a review of the bilateral air services agreement between the UAE and Kenya

#### Fly Kenya Act

- Enforce the Fly Kenya Act to ensure all Government employees and contractors utilize Kenya Airways for travel
- Similar action has been taken in other countries such as the USA, India, Kuwait and the Emirate of Abu Dhabi

#### Work permits

- Improve the process for obtaining work permits to allow Kenya Airways to attract employees with requisite skills and to develop talent locally



In light of the importance of Kenya Airways to the country of Kenya, the Government of Kenya should support its national airline wherever reasonable

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## **Contents**

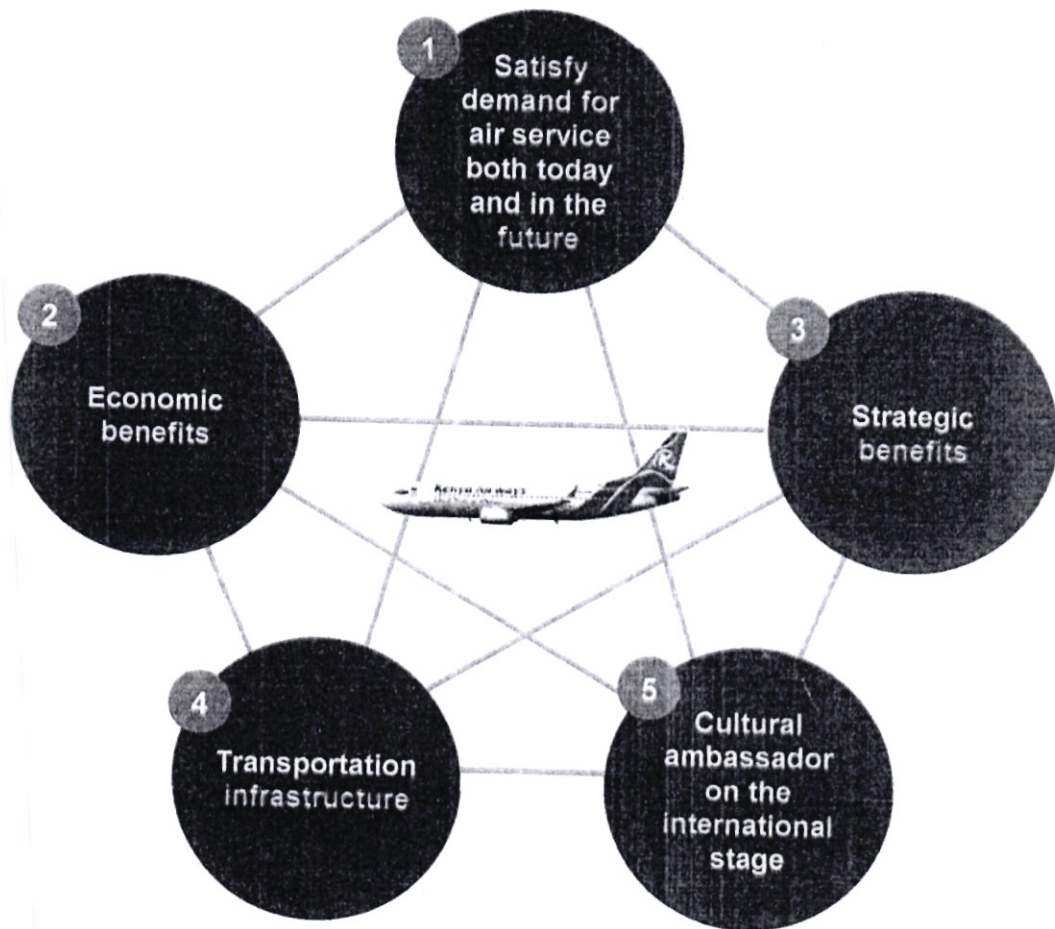
- I. Executive summary
- II. Value of a national airline
- III. Business plan assessment
- IV. Restructuring plan overview
- V. Risks and mitigation
- VI. Recommendations

### **Appendix:**

- I. Operating lease analysis
- II. Macro environment
- III. Comparison to Ethiopian Airlines

## Value of a national airline

A successful national airline can deliver significant benefits across five core areas

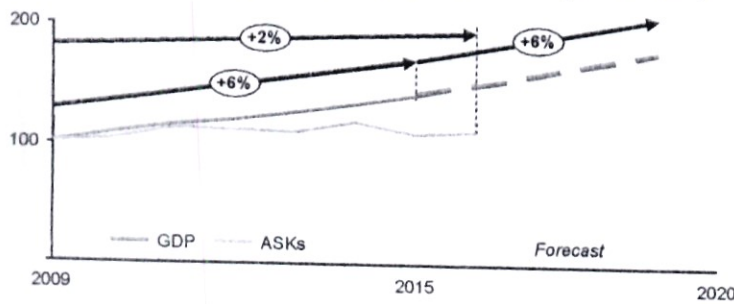


# 1 Air traffic has lagged GDP growth suggesting untapped demand

Growing wealth correlates strongly with expanded demand for air travel for business / trade, inbound tourism / VFR<sup>1</sup> and outbound leisure travel

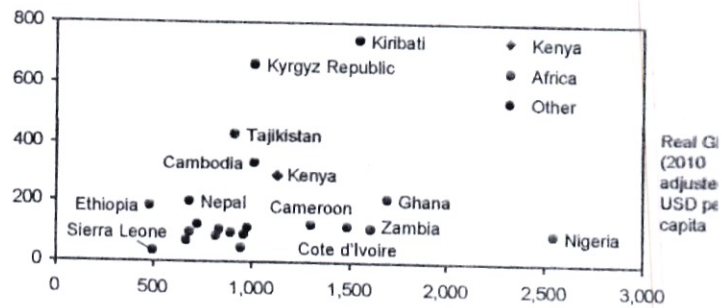
## Kenya GDP and ASKs

Real GDP (2010 adjusted) and ASKs (Indexed, 2009=100)



## 2015 GDP and ASKs per capita

ASKs per capita



### ASK growth has lagged GDP growth

- From 2009 through 2015, GDP exhibited a positive CAGR of 6%; while ASKs increased at a slower CAGR of only 2%
- Studies estimate that ASKs typically grow between 1x and 2x the GDP growth rate, depending on region and market maturity<sup>2</sup>
- From 2016 to 2020, GDP is forecast to grow at a 6% CAGR; this would normally be expected to lead to a similar or greater growth rate in ASKs
- For Kenya, ASK growth (and related traffic growth) over this period has likely been stunted by the threat of terrorism and related travel warnings that have depressed inbound tourism traffic

### Kenya has a relatively strong market for air travel

- A strong national carrier has supported development of a relatively robust air travel market which significantly benefited the Kenyan economy
- While the Ethiopian local population is ~3x less wealthy, the recent growth of Ethiopian airlines has narrowed the gap in the country's accessibility, with Ethiopia's accessibility currently only 50% lower than Kenya's

**KQ is in a prime position to capitalise on a relatively strong market for air travel where growth in ASKs has lagged behind real GDP growth**

Notes: <sup>1</sup>VFR stands for 'visiting friends and relatives' and is a common source of air travel demand for countries with a sizable population who have migrated to other countries; <sup>2</sup> Many studies by academics, economic consulting firms, governments and industry bodies

Sources: Ishutkina & Hansman; ICAO; Steer Davies Gleave; Oliver Wyman; The Boston Consulting Group; The World Bank; Innovata; Seabury analysis

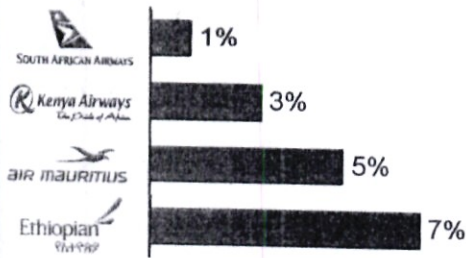
## Airlines can deliver significant positive economic impacts

A national airline can be a significant direct contributor to GDP and growing wealth through expediting trade and employing a skilled workforce



### Airlines can contribute significantly to national GDP

Airline revenue as percent of GDP 2015<sup>1</sup>



- Revenues come from both domestic and foreign points of sale generating export income for the country
- Operation of ancillary businesses (e.g., Maintenance, Repair and Overhaul facilities (MRO)) increases 'exports' and develops Kenya's skilled labour force



### Operating an airline requires a skilled workforce

- A national airline can create good well paying jobs and act as an aspirational employer for young educated people looking to work for an international company
- Even relatively low-level workers (mechanics, contact centre, sales offices, airport gate and check-in staff) **will gain technical training, IT skills, and a safety culture**
- Both IAG and Ethiopian Airlines are proposing to invest in MRO facilities in Nigeria because of the existing pool of skilled mechanics
- KQ has invested in training facilities creating a valuable educational establishment, with over 1,800 staff trained in 2015



### A strong national carrier enables trade at all levels

- Certain industries depend on the speed of air travel and flourish when local and national governments invest in aviation infrastructure and airlines
  - Kenya's horticulture and agribusinesses depend on air freighting fresh flowers and produce to Europe
  - FastJet in Tanzania offers 'fish boxes' as a checked luggage item to transport fresh fish to inland cities from Dar es Salaam
  - Express and package freight forwarders / consolidators require aircraft belly capacity
- Many small businesses and traders in East Africa need access to distributors / wholesalers in Nairobi or outside Africa and ability to import small volumes



## A well managed and successful KQ can be a major part of Kenya's economy

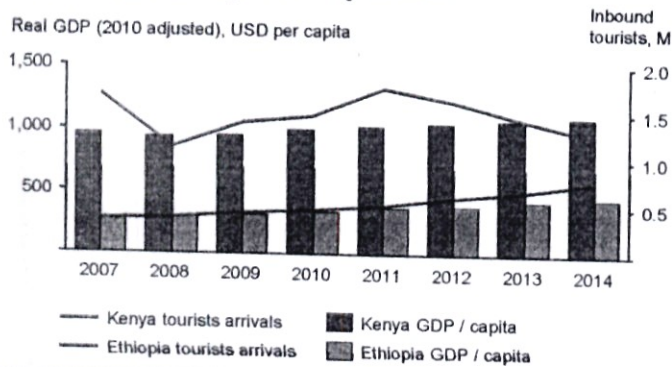
Notes: <sup>1</sup>South African Airways if for 2014 (latest available annual report)

Sources: Air Mauritius annual report 2015; Ethiopian Airlines annual report 2015; Fastjet; Kenya Airways annual report 2015; MRO Network; John Kasarda; The World Bank; South African Airlines annual report 2014; Seabury analysis

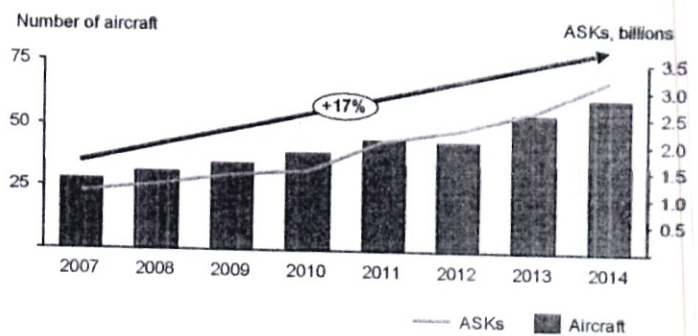
## Case study: Ethiopia's success building a national airline

Ethiopian Airlines has expanded remarkably in the last decade and the improved connectivity has stimulated trade, tourism and economic growth

### Kenya and Ethiopia comparison



### Ethiopian Airlines growth



#### Arrivals to Kenya could be 'captured' by flag carrier

- Ethiopia's tourism industry has expanded in-line with Ethiopian Airlines' growth
- Kenya inbound tourism, despite having a more developed tourism sector, has stagnated in the last decade (due largely to the travel warnings and associated depression of demand)
- If Kenya's national carrier were to cease operation, Kenya's connectivity to the world is likely to deteriorate significantly, further damaging the country's tourism sector

#### Ethiopia's national airline has enabled growth

- Ethiopian Airlines' robust growth (+17% CAGR in ASKs) is part of the government vision to make it "the leading aviation group in Africa"
- Ethiopian Airlines' Africa network is the most expansive of any African carrier
  - Supports African Union Headquarters to Addis Ababa
  - Major NGOs also find Addis Ababa an attractive base for staff (e.g. USAID)
  - Partnerships / investments in ASKY (based in Togo) and Rwandair (Rwanda) extend Ethiopia's reach into West and Southern Africa

▼

**A revitalized KQ can be a major driver contributing to the return to growth in Kenya's tourism sector**

Sources: The World Bank; Ascend, Innovata; Ethiopian Airlines

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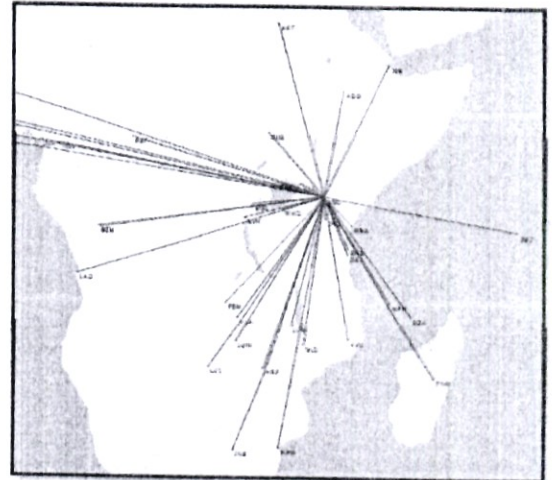
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### 3 KQ enhances Nairobi's strategic position in the region

As a hub for east African travel, trade and business, Nairobi provides Kenya with a strategic advantage for multinationals, NGOs and other investors in the region when choosing headquarters

#### ■ Hub for East African travel, trade and business ■ Connectivity detail

- Tourists and business travelers value the ability to reliably reach domestic and regional destinations
  - KQ has a market share of 70-80% on domestic routes from Nairobi to Kisumu and Mombasa
  - KQ has a market share of 90%+ on 24 out of 43 African destinations served from Nairobi
- Kenya Airways – much like the Gulf carriers – increases the visibility and stature of the country and attracts significant connecting traffic
- A modern airline and robust infrastructure sends a positive signal to foreign investors and tourists considering Kenya and supports growth of the economy through modernisation and foreign investment
  - Support Nairobi's position as a commercial capital of the local region
  - Africa's market share of global tourism has risen from 3% in the 1980s to 5% in 2010 and today stands at 6% with a plan to attain double-digit figure by 2020
- Regionally, KQ operates a major regional hub in Nairobi which competes with the hub of Ethiopian Airlines in Addis Ababa, 700 miles away
- On the world stage, Nairobi is well positioned a port of entry to East Africa for tourists and business travelers coming from Asia, Europe, Western and Southern Africa



**A hub operation in Nairobi makes the city an easier place to do business in the region through improved connectivity and a schedule suited to the local market**

Sources: Innovata; United Nations World Tourism Organization (UNWTO)

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## 4 It is not unusual for governments to support airlines

The importance of accessibility for business, economic growth, governance and provision of public services mean national governments often provide direct support to airlines

### USA: Essential Air Service (EAS)

- Government programme put into place after deregulation in 1978 to guarantee that small and rural communities maintain a minimum standard of service to larger hubs
- Subsidies totaled USD 261 million in 2015

### New Zealand: Nationalisation, restructure and sale

- In 2001, Air New Zealand was re-nationalised under a NZ\$ 885 million government rescue plan (76.5% stake)
- After an aggressive restructuring, the government sold a 20% stake for NZ\$ 365 million in 2013

### Brazil: Regional Development Programme (PDAR)

- PDAR will benefit 270 out of 689 local and regional airports, allowing them to receive commercial flights
- The type of upgrades expected at each airport varies from rehabilitation of runways to construction of new terminals

### Ethiopia: a government owned successful airline

- The Ethiopian government succeeded in creating the most profitable African airline in recent years without privatising it
- Ethiopian is implementing a 15-year plan (Vision 2025) that will increase its fleet to 120 aircraft and destinations to 90

### Indonesia: Pioneer flights

- Subsidised by the Ministry of Transportation, pioneer flights aim to better connect the island archipelago nation in order to gain public interest and then gradually remove subsidies
- USD 36.2 million has been earmarked for use in 2016

### United Kingdom: Regional Air Connectivity Fund

- The 4 year deal was announced in 2013 to maintain important regional air connections and marks the second PSO (Public Service Obligation)
- Fund size was doubled to GBP 20 million per year in 2014

### Australia: Remote Air Services Subsidy Scheme

- Subsidises a regular weekly air transport service for the carriage of passengers and goods to isolated communities
- There are currently seven air operators providing air transport services to 260 remote communities

### Morocco: government supported restructuring

- Morocco's government offered MAD 1.6 billion (USD 193 million) as part of a MAD 9.3 billion package required to restructure the carrier from 2011-2016
- MAD 520 million profit in 2016 (MAD 203 million in 2015)

Sources: U.S. Department of Transportation; Indonesian Ministry of Transport; The Sunday Morning Herald (smh.com.au); UK Home office (gov.uk); U.S. Trade and Development Agency; Australian Department of Infrastructure and Regional Development; atwonline.com; Seabury proprietary information

## 4 Value of a national airline

The Government of Kenya has three main options with respect Kenya Airways

### ■ Support KQ restructuring

- Support a "market" restructuring and recapitalization from third parties
- Government is able to leverage support from other parties (new equity from KLM; concessions from lessors and lenders)
- Balances public funding requirements with minimizing negative impact to the national economy
- Support provided as guarantees carries different risk than direct cash injections (e.g., guarantees on secured loans are much less likely to be fully called, as aircraft collateral retains value)

### ■ Re-nationalize KQ

- Maximum capital required from the government – in exchange for maximum flexible to "reset" the capital structure
- Gives the government the greatest control over the outcome (at a price)
- Allows the government to dictate what level of service cuts, if any, will be made
- Doesn't necessarily "fix" the Company and may require substantial future/ongoing capital support

### ■ Allow KQ to fail

- The "default" scenario if government fails to act in a timely manner
- Nairobi to lose airline hub status
  - Loss of regional connectivity
  - Potential loss of corporate headquarters as air travel less convenient to and from Kenya
- Impact to the country may reach beyond aviation sector (e.g., collapse of local banks)
- Capacity lost will be partially made-up by other carriers over time – but likely never fully replaced
- May not be the cheapest option for the government, when all secondary impacts are considered:
  - Labor impact
  - Backstop support to local banks and/or other creditors
  - Impact to airport, business and tourism

## 4 Value of a national airline

There are precedents in the airline industry for governments that have made each choice

### ■ Support KQ restructuring

- Case study – TAP Portugal
  - TAP Portugal is a Portuguese national carrier, founded in 1945 with a hub at Lisbon Humberto Delgado Airport (LIS)
  - Operates ~80 aircraft and serves 70+ destinations
  - The airline was *partially* privatized after losing ~€80 million in 2014 and accumulating debt of ~€1 billion
  - The Atlantic Gateway consortium acquired 45% of TAP and made capital injections worth €345 million
  - €250 million in pre-delivery payments were made for aircraft in 2016 and 2017 (as part of a fleet replacement program worth over €7 billion in new aircraft orders)
  - As part of the privatization, the airline underwent a restructuring; restructured €1 billion of debt, raised over €350 million of capital and raised €400 million of liquidity through aircraft sale & leasebacks

### ■ Re-nationalize KQ

- Case study – Malaysia Airlines
  - Malaysia Airlines is a Malaysian national carrier, founded in 1947 with a hub at Kuala Lumpur International Airport (KUL)
  - Operates ~80 aircraft and serves 50+ destinations
  - The airline was de-listed and re-nationalized in 2014 under a 'MAS Act'
  - The government injected a ~USD 1.5B along with a deep restructuring including a staff reduction of ~30%.
  - As part of the restructuring, Malaysia Airlines has significantly cut its seat capacity (by ~20% vs. 2014), and became the 2<sup>nd</sup> largest carrier at KUL behind KUL-based AirAsia with ~25% seat capacity share (vs. ~30% share in 2014)
  - The company is expected to return to profitability in 2018

### ■ Allow KQ to fail

- Case study – Air Afrique
  - Air Afrique was a pan-African airline with headquarters and largest operations at Port Bouet Airport in Abidjan (ABJ) in Côte d'Ivoire
  - The airline was founded in 1961 and ceased operations in 2002
  - The airline was owned by Air France and 11 West-African Governments
  - Before collapsing, it operated 8 aircraft and its operations were crippled by ballooning debts, appalling service and significant overemployment
  - As a result of Air Afrique's collapse, traffic at ABJ has reduced – from 1.3 million passengers in 1999 to 0.7 million passengers in 2004

## 5 KQ represents the nation on the international stage

National airlines, with their strong brands can serve as an advertisement for investment, tourism, and trade; successful KQ represents an opportunity to raise awareness about Kenya

*"High-profile global sponsorship and endorsement deals are also part of the reason why the Gulf airlines' brand valuations are soaring"*  
– The National



- Sponsorship deals since Emirates' early years in 1987
- Vital part of the marketing strategy involves sports: football, rugby, tennis, motorsports, horse racing, golf, and cricket
- Qatar Airways seeks to link its brand attributes and values with customers
- Reinforces brand position efforts and delivers credibility



*"On a good day, a national airline is an embassy with wings – transporting culture, cuisine, commerce and goodwill around the world"*  
– Monocle Magazine



- British Airways flies the Union Jack and represents the UK
- Classic, refined; invokes feelings of patriotism and security
- Cathay Pacific is the flag carrier for Hong Kong
- Safe, modern airline that offers East Asian luxury associated with Hong Kong



*"The red-crested crane on JAL's aircraft became a national motif"* – The New York Times



- Japan Airlines was viewed by the government as a national champion representing the economic resurgence and power of Japan from the 1980s onwards
- Bankruptcy in the 2000s caused a deep shock to the Japanese political and business culture
- Restoration of the red iconic crane motif symbolized the rebirth after restructuring

Although not easily measured, the branding merits of KQ are substantial and could be a net positive for Kenya

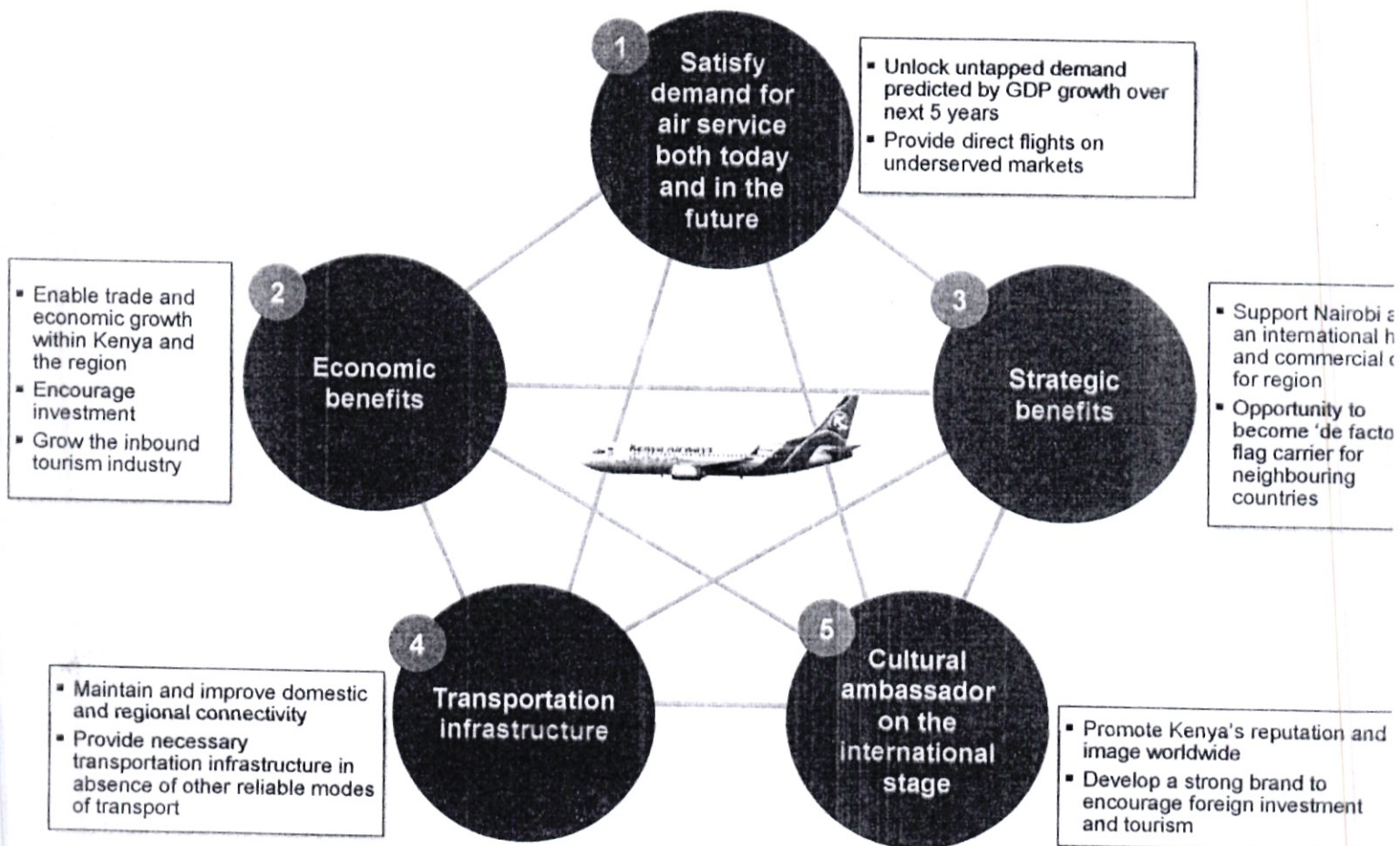
Sources: Monocle Magazine; The National; The New York Times; Seabury analysis

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## KQ delivers positive impacts in the five core areas

A successful and well-managed KQ will deliver significant benefits across five core areas



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- III. Comparison to Ethiopian Airlines

## Business plan assessment – overview

Over the last year, KQ has implemented a wide-ranging transformation plan, named "Operation Pride", designed to return the Company to profitability and financial stability

### Operation Pride – The Turnaround Project

Why?	How?	Impact
Poor Commercial Execution	Closing the Gap on Profitability	Focus on revenues, pricing & sales, direct costs, fleet, overheads, procurement, network
Flat Revenues – Markets Changes and Externalities	Change to Business Model	Focus on competitive advantage in Africa and drive partnerships
Excess Capacity and Cost	Balance Sheet Adjustment and Capital Raise	Address negative equity position, sell excess assets, recapitalise the business

#### Create a Sustainable Long-Term Business

- Driving the hub of Nairobi and securing Kenya's economic position in the region
- Return KQ to profitable growth

### Operation Pride High Level Overview

How does it work?



Operation Pride is committed to be 100% sustainable – so it is run by KQ employees



**8 Workstreams**  
- >250 Initiative owners, >500 employees driving initiatives



>500 initiatives: driving savings, generating revenue and changing mindsets and behaviors



Pride performance managed through Weekly progress updates governed by a central transformation office

### Operation Pride High Level Overview

What have we achieved so far

#### Financial Impact



Operation Pride is on track and in the first 6 months has:

- Booked 41% of annualized recurring value
- Booked 33% of one time value; e.g. sale of aircraft, retime/sale of London Heathrow slot, etc.
- Implemented 228 of total >500 initiatives

#### Sustainability Impact



We have introduced several sustainability initiatives to help improve our business, e.g.

- "Change management" work stream to build long-term capabilities and mindsets & behaviors for sustainable success of KQ
- A "Procurement Factory" has been established to ensure we get the right value from our vendor contracts

Source: KQ Plan; Company presentations

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## Transforming the Company

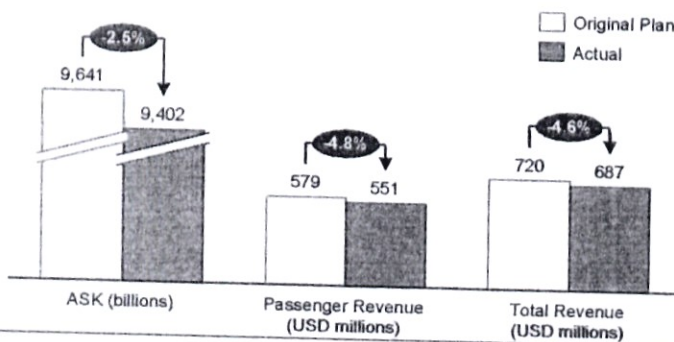
- KQ has implemented a number of key initiatives to boost revenue, reduce cost, and generate cash
  - The Company has committed to a new strategic focus ("Winning in Africa") and has improved operational efficiency and connectivity
- While Operation Pride has achieved significant improvements across multiple areas, there are notable gaps in some work streams
  - Revenue performance is falling short of the Company's targets
  - Labor cost initiatives have not been accepted by KQ's unions
- The Company recognizes the need for continuous improvement, and has shared action plans for identifying additional commercial initiatives to further boost revenue

## Business plan assessment – latest results

In the year-to-date period, KQ has been under-performing the Original Plan, with negative variances in capacity (ASK), revenues and cumulative EBITDAR

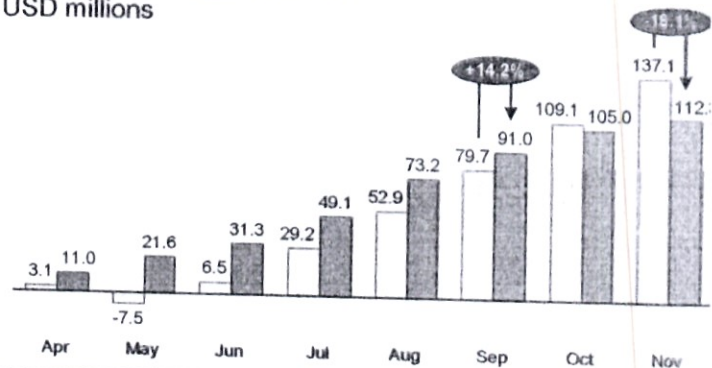
### Capacity and revenue

Year-to-date through November 2016



### Cumulative EBITDAR

USD millions



### Variance to Original Plan

- From discussions with the Company, Seabury understands that the results posted for the first 8 months of the fiscal year (through November 2016) are lagging the Original Plan, with a 4.6% shortfall in revenue leading to an 18% shortfall in EBITDAR
- Capacity has been lower in the year than planned as the Company took action to stem losses in markets with increased competition (e.g., GBE) or where political issues were creating banking difficulties (e.g., ABV)
- Passenger revenue has remained under pressure as increased competition has held yields below expected levels
  - Load factors are tracking on-plan in the year-to-date period, as the Company has shifted its commercial strategy to focus on generating passenger volumes (as a first step to increase unit revenues)
- Additional variance in EBITDAR results from gaps in:
  - Fuel expense (due to higher oil prices than planned)
  - Direct operating costs (due to a one-time charge booked for spare parts inventory adjustment)
  - Overhead costs (higher than planned consulting expenses related to the restructuring)

Source: KQ Plan; Company reports

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## Business plan assessment – current year reforecast

Considering the weakness seen in the first eight months of the year, KQ revised its forecast for the full fiscal year, resulting in a material gap to the Original Plan

(USD millions)	Current Year-to-Date (Apr-Nov 2016)			Remaining 4-Months of Fiscal Year (Dec 2016 – Mar 2017)			Full Year 2016/17 (8 mo. actual + 4 mo. forecast)		
	Original Plan	Actual	Variance	Original Plan	Revised Plan	Variance	Original Plan	Revised Plan	Variance
<b>Summary Income Statement</b>									
Passenger Revenue	579.0	551.1	- 4.8%	293.5	264.4	- 9.9%	872.4	815.5	- 6.5%
Cargo and Other Revenue	141.3	136.2	- 3.6%	66.6	64.9	- 2.6%	207.9	201.1	- 3.3%
<b>Total Revenue</b>	<b>720.3</b>	<b>687.3</b>	<b>- 4.6%</b>	<b>360.1</b>	<b>329.3</b>	<b>- 8.6%</b>	<b>1,080.4</b>	<b>1,016.6</b>	<b>- 5.9%</b>
Fuel Expense	140.7	142.9	+ 1.5%	70.3	78.6	+ 11.7%	211.1	221.4	+ 4.9%
Other DOC Expense	276.5	275.6	- 0.3%	131.5	131.9	+ 0.3%	407.9	407.5	- 0.1%
Employee Expense	111.4	96.4	- 13.4%	37.7	52.0	+ 37.9%	149.1	148.4	- 0.4%
Other Overhead Expense*	54.5	60.1	+ 10.2%	21.9	29.4	+ 34.5%	76.4	89.5	+ 17.2%
<b>Total Expense (ex-DAR)*</b>	<b>683.1</b>	<b>675.0</b>	<b>- 1.4%</b>	<b>261.3</b>	<b>291.8</b>	<b>+ 11.7%</b>	<b>844.4</b>	<b>866.9</b>	<b>+ 2.7%</b>
<b>EBITDAR</b>	<b>137.1</b>	<b>112.3</b>	<b>- 18.1%</b>	<b>98.8</b>	<b>37.4</b>	<b>- 62.1%</b>	<b>235.9</b>	<b>149.7</b>	<b>- 36.5%</b>
<b>EBITDAR Margin</b>	<b>19.0%</b>	<b>16.3%</b>	<b>- 2.7%</b>	<b>27.4%</b>	<b>11.4%</b>	<b>- 16.1%</b>	<b>21.8%</b>	<b>14.7%</b>	<b>- 7.1%</b>
<b>Statistics</b>									
ASKs (millions)	9.6	9.4	- 2.5%	4.6	4.5	- 2.3%	14.3	13.9	- 2.4%
Load Factor	71.1%	71.0%	- 0.1%	70.1%	75.1%	+ 5.0%	70.8%	72.4%	+ 1.6%
<b>Metrics</b>									
Revenue per ASK (cents)	7.5	7.3	- 2.1%	7.8	7.3	- 6.4%	7.6	7.3	- 3.6%
DOC Cost per ASK (cents)	4.3	4.5	+ 2.9%	4.4	4.6	+ 6.8%	4.3	4.5	+ 4.1%
Fuel Cost per ASK (cents)	1.5	1.5	+ 4.1%	1.5	1.7	+ 14.4%	1.5	1.6	+ 7.5%

\* Other overhead expense excludes "DAR" (depreciation, amortization and rental); results shown include approximately USD 14M of contingency provisions (non-cash accounting expense included in both the actual and revised forecast) that KQ now expects to be reversed by the end of the fiscal year

Source: KQ Plan; KQ reports

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## ■ Business plan assessment – revised 5-year forecast

In light of the shortfall expected in the current year, KQ and Seabury have worked diligently to prepare a revised 5-year outlook that incorporates a number of material updates

### ■ Capacity adjustment

- The Company's actual capacity (measured by ASKs) is tracking 2.5% below the Original Plan over the year-to-date period, as KQ has reduced capacity in some markets due to competitive or political considerations
  - Considering the current macro environment, KQ has revised its growth plans and now expects capacity to be relatively flat for the next two years – versus consistent year-over-year growth as assumed in the Original Plan

### ■ Revenue adjustments

- The Company has reduced its revenue projections for both passenger and cargo revenue to reflect the weaker yield environment that the Company is experiencing – particularly within Africa

### ■ Fuel price adjustment

- The Original Plan assumed underlying oil prices (Brent crude) of USD 44 per barrel rising to USD 52 per barrel over the forecast period, while the latest forward curve data shows Brent crude futures relatively flat at USD 56-57 per barrel
  - Passenger yields have not been adjusted in the baseline forecast to reflect the higher fuel price environment (in some cases, increased fuel prices will lead to increased market fares, as airlines pass along higher production costs to passengers)

### ■ Cost adjustments

- The Original Plan included a number of cost initiatives that have been implemented over the last nine months; in some cases these initiatives have not been achieved
  - In particular, the Company has failed to achieve approximately USD 23 million of initiative value from employee-related cost reductions – much of which requires changes to collective bargaining agreements with organized labor groups
  - Efforts remain under way within the Company to implement these initiatives; however, the timing and ultimate achievement of savings is unlikely to meet the levels assumed in the Original Plan

### ■ Other (one-time) adjustments

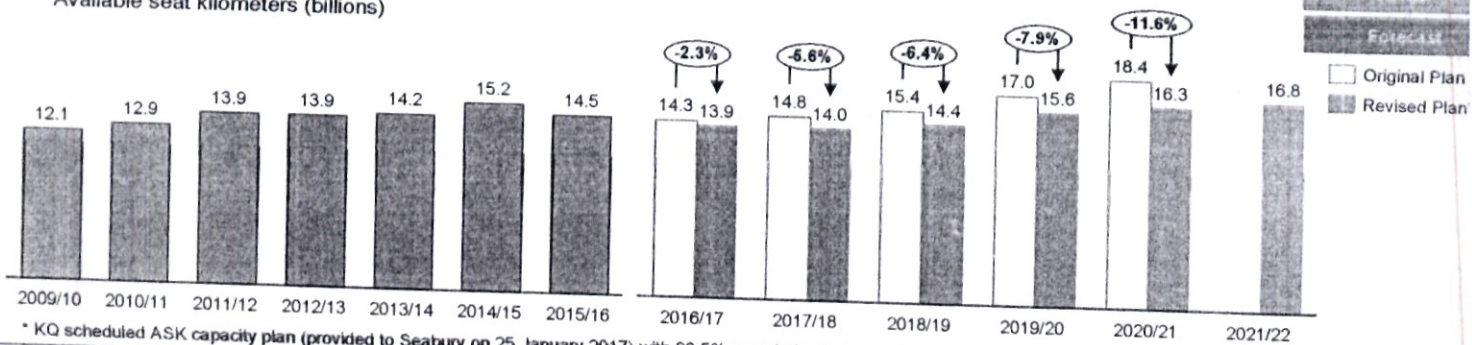
- Additional updates have been incorporated to reflect the actual results achieved in the 8-month year-to-date period

## Business plan assessment – capacity plan

In light of the challenging current environment, the Company has reduced its fleet and capacity growth expectations

### Capacity (ASK)

Available seat kilometers (billions)



### Fleet plan

- The Original Plan included growth of at least 1 incremental aircraft per year
- The Revised Plan assumes no growth in aircraft units until year 5 (2020/21)
  - The Revised Plan does assume a significant up-gauging of capacity in year 4 (2019/20), when 2 787-8 aircraft are returned to the KQ fleet (off sub-lease to Oman Air), taking the place of 2 737-700 aircraft that will be returned to lessors at that time
- Relative to the Original Plan, the Revised Plan includes less aircraft ownership expense

	Base 16/17	17/18	18/19	19/20	20/21	21/22
Previous 5 year plan	B787-8	7	7	7	9	9
	B737-800	9	10	11	11	13
	B737-700					
	E190	15	15	15	15	15
	Total	31	32	33	35	37
Current 5-year plan	B787-8	7	7	7	9	9
	B737-800	8	8	8	8	10
	B737-700	2	2	2		
	E190	15	15	15	15	15
	Total	32	32	32	32	33
Difference	B787-8	0	0	0	0	0
	B737-800	-1	-2	-3	-3	-4
	B737-700	2	2	2	0	0
	E190	0	0	0	0	0
	Total	1	0	-1	-3	-4

Source: Company reports; KQ Plan

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## Business plan assessment – capacity adjustment

The reduced capacity planned by KQ over the 5-year forecast period is expected to reduce projected EBITDAR by over USD 100 million on a cumulative basis

### Methodology

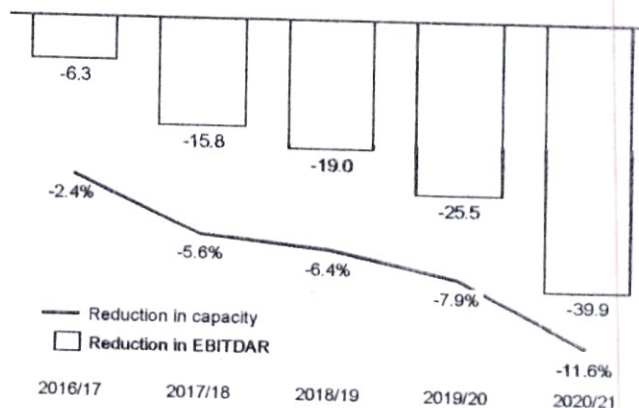
- To estimate the financial impact of the reduced capacity growth relative to the Original Plan, Seabury classified P&L items as either variable or fixed
  - Variable items include passenger and cargo revenue, excess baggage revenue, fuel expense, maintenance and other direct operating costs, and operations employee costs
- Variable items are assumed to be reduced on a proportional basis with the projected reductions in capacity
  - For example, the 5.6% reduction in ASK assumed for 2017/18 (versus the Original Plan) results in a 5.6% reduction in variable revenue items and a 5.6% reduction in variable cost items

### Impact of capacity adjustment

- The reduced capacity of the revised forecast results in lower EBITDAR each year, as incremental capacity was projected to be profitable in the Original Plan

### Change in capacity and impact on EBITDAR

USD millions



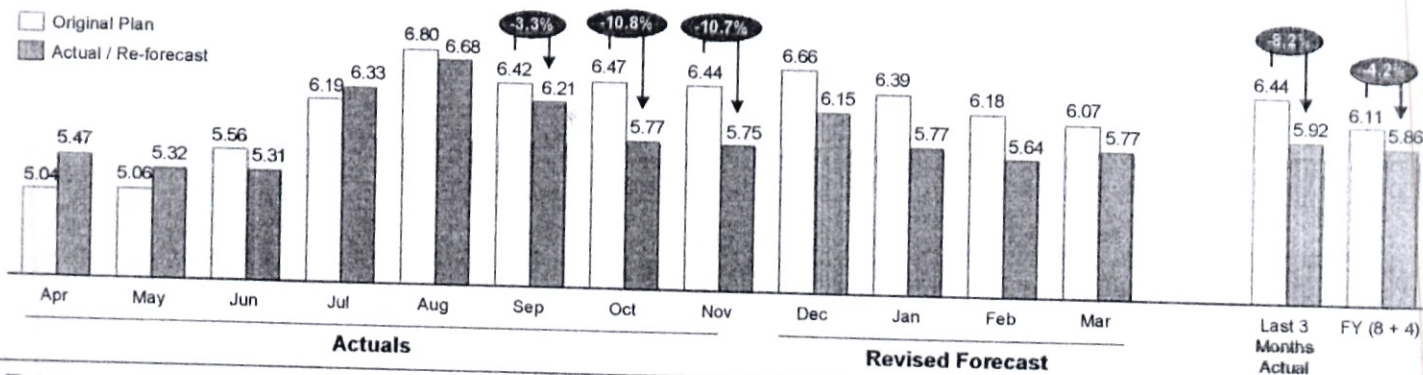
## Business plan assessment – revenue adjustment

Actual results and the KQ reforecast for the current year suggest a significantly lower unit revenue achievement in the current fiscal year compared to the Original Forecast

### Unit revenue (passenger revenue per ASK): current year (2016/17)

USD cents

Original Plan  
Actual / Re-forecast



### Revenue adjustment

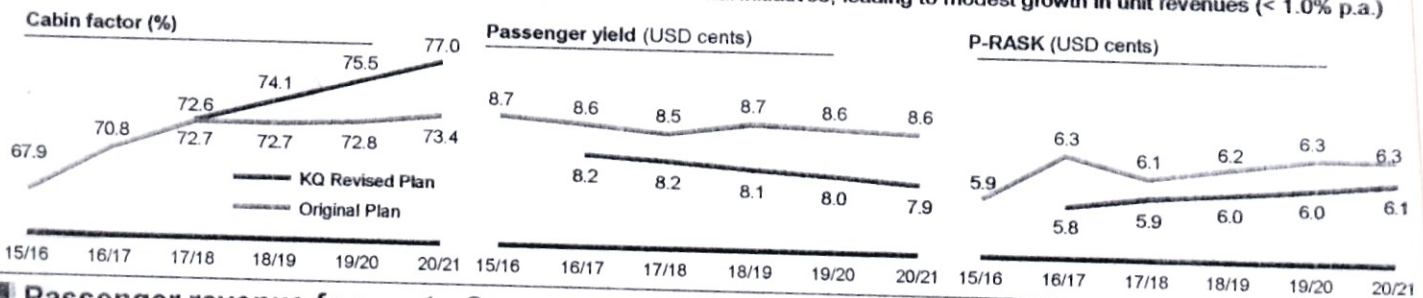
- For the revised baseline forecast, Seabury assumed the reduction in unit revenues expected for FY 2016/17 (relative to the Original Plan) would continue through the entire 5-year forecast
- While the Company is actively engaged in the implementation and identification of revenue initiatives to improve its revenue production capability, Seabury believes the macro environment will remain challenging for KQ – absent a significant capacity reduction by a major competitor (e.g., Ethiopian, Emirates, Qatar)
- Seabury used a similar methodology to adjust cargo revenue, with cargo revenue per ASK down nearly 12% for the current fiscal year (8 months actual + 4 months forecast) versus the Original Plan

## Business plan assessment – passenger revenue

KQ has produced its own revised forecast for passenger revenue which is generally in-line with Seabury's baseline forecast – although somewhat more optimistic in the latter years

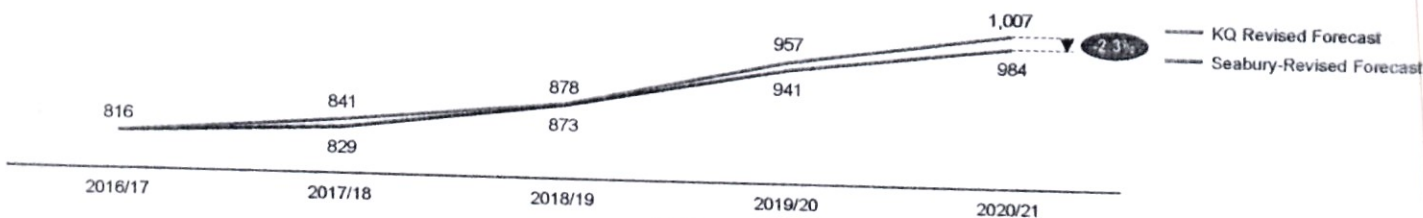
### KQ passenger revenue forecast

- Unlike the Seabury passenger revenue forecast, which was developed by applying a reduction to the Original Plan, the Company's revised passenger revenue forecast was developed as the product of yield and load factor assumptions applied to the Company's revised capacity plan
- Based on recent trends and expected continued competitive pressures, yields are expected to continue to decline at a rate of approximately 1.0% per annum, while load factors grow with continued commercial initiatives, leading to modest growth in unit revenues (< 1.0% p.a.)



### Passenger revenue forecast: Company versus Seabury (baseline case)

USD millions



Seabury views the revised passenger revenue forecast as a reasonable baseline, given that two different methodologies (from Seabury and KQ) resulted in a similar 5-year forecast

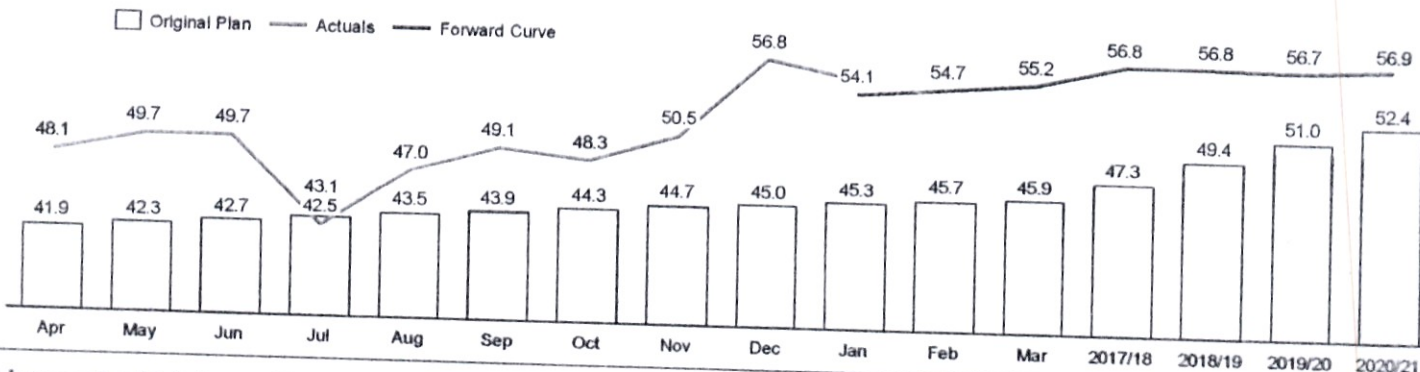
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## Business plan assessment – fuel price adjustment

Oil prices have trended up over the last few months, leading to a gap between the current oil futures curve and the assumed price of jet fuel in the Original Plan

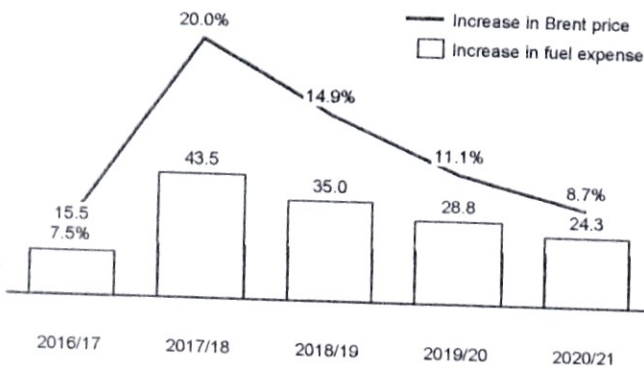
### Oil assumption (Brent crude price)

USD per barrel



### Impact of higher oil prices

USD millions



### Fuel recapture

- Seabury's revised baseline forecast assumes no incremental passenger revenue from the higher oil prices
  - In some cases, market airfares can rise with increases in oil prices, as the industry reacts to pass along increased fuel prices to the consumer
  - Given the competitive environment currently facing KQ, Seabury recommends using the conservative assumption that **KQ will be unable to pass along this price increase for purposes of the baseline forecast**
- Seabury's upside forecast does assume some "recapture" of the higher oil prices

Source: KQ Plan; Oil futures prices from cmegroup.com; Brent historical prices from investing.com

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## ■ Business plan assessment – other cost adjustments

Other costs have been adjusted to reflect the latest view on employee initiatives, removal of a non-cash provision, and other one-time alignments to match the current fiscal year outlook

### ■ Employee cost reduction initiatives

- As part of the Company's restructuring initiatives, the human resources work stream identified a target of USD 36 million of initiative value that should have been achieved by July 2016
  - According to the Company, only USD 13 million of this target has been achieved, leaving a gap of approximately USD 23 million unachieved
  - This gap is largely the result of difficult union negotiations (as much of the initiative value requires reaching agreement with unions on changes to collective bargaining agreements)
- While Seabury believes that the Company needs to continue working to achieve these initiatives (and the Government needs to support the Company's efforts), Seabury also believes it is prudent to remove the USD 23 million of initiative value from the baseline forecast
  - The difficult union negotiating posture, coupled with a growing worldwide pilot shortage, are likely to combine to prevent the Company from achieving meaningful concessions from the pilot group (and this may, in turn, lead to similar shortfalls with other labor initiatives, as non-pilot employees may not be willing to provide concessions without the largest work group)

### ■ Contingency expense and other one-time adjustments

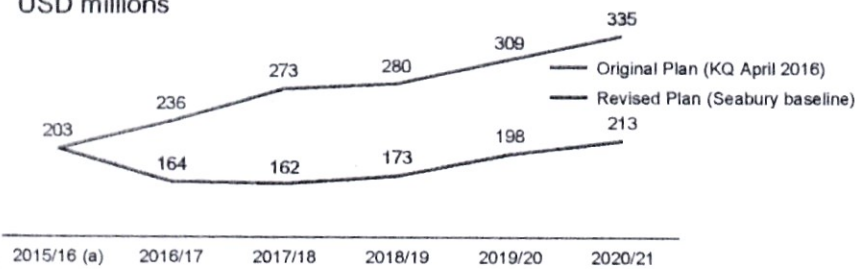
- The Original Plan included a non-cash labor contingency expense of approximately USD 14 million per annum
  - The Company has indicated that this provision will no longer be booked, as the contingency is no longer viewed as necessary from an accounting perspective
  - As a result, Seabury has removed the provision expense from the 5-year forecast
- Additional adjustments were made to the 2016/17 forecast to align the results with the Company's latest reforecast for the fiscal year (an "8 + 4 forecast" with 8-months of actual results coupled with 4-months of forecast results)

## Business plan assessment – revised 5-year forecast

Incorporating all the adjustments, the projected EBITDAR in the revised baseline forecast is approximately USD 70 – 120 million lower per annum than in the Original Plan

### Projected EBITDAR

USD millions

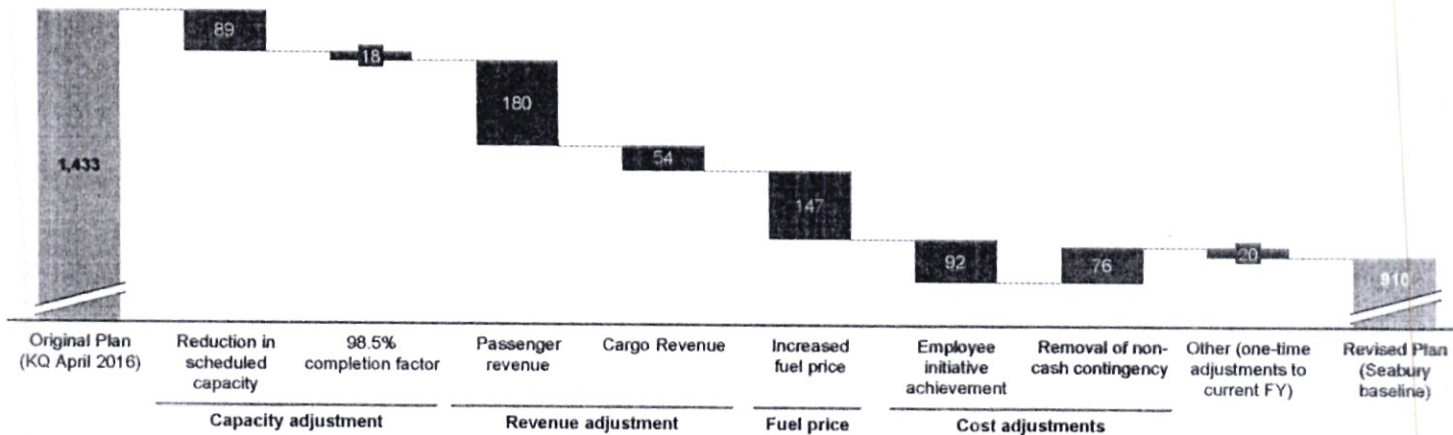


▪ The reduction in EBITDAR is driven primarily by:

- Reduced passenger revenues (caused by both a reduction in planned KQ capacity and weaker market performance)
- Increased fuel prices
- Reduced employee initiative value

### Bridge of changes in 5-year cumulative EBITDAR (April 2016 – March 2021)

USD millions



Source: Company reports; KQ Plan

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## Business plan assessment – revised 5-year forecast

While the Revised Plan is more conservative than the Original Plan, growth is still projected in both revenues and profitability

(USD millions)	Revised Plan (Seabury baseline)				
	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Summary Income Statement</b>					
Passenger Revenue	815.5	828.5	873.1	940.8	984.3
Cargo and Other Revenue	201.1	198.0	205.3	221.4	244.2
<b>Total Revenue</b>	<b>1,016.6</b>	<b>1,026.5</b>	<b>1,078.4</b>	<b>1,162.2</b>	<b>1,228.4</b>
Fuel Expense	221.4	261.0	269.4	289.7	304.2
Other DOC Expense	407.5	402.0	428.0	454.8	475.7
Employee Expense	148.4	140.5	148.3	158.6	170.4
Other Overhead Expense*	75.3	60.7	60.0	61.1	65.4
<b>Total Expense (ex-DAR)*</b>	<b>852.6</b>	<b>864.2</b>	<b>905.6</b>	<b>964.2</b>	<b>1,016.6</b>
<b>EBITDAR</b>	<b>164.0</b>	<b>162.3</b>	<b>172.7</b>	<b>198.0</b>	<b>212.8</b>
<i>EBITDAR Margin</i>	16.1%	15.8%	16.0%	17.0%	17.3%
<b>Statistics and metrics</b>					
ASKs (millions)	13,927.8	13,968.3	14,448.7	15,620.1	16,297.9
Revenue per ASK (cents)	7.3	7.3	7.5	7.4	7.5
DOC Cost per ASK (cents)	4.5	4.7	4.8	4.8	4.8
Fuel Cost per ASK (cents)	1.6	1.9	1.9	1.9	1.9

\* Other overhead expense excludes "DAR" (depreciation, amortization and rental)

Source: KQ Plan; KQ reports

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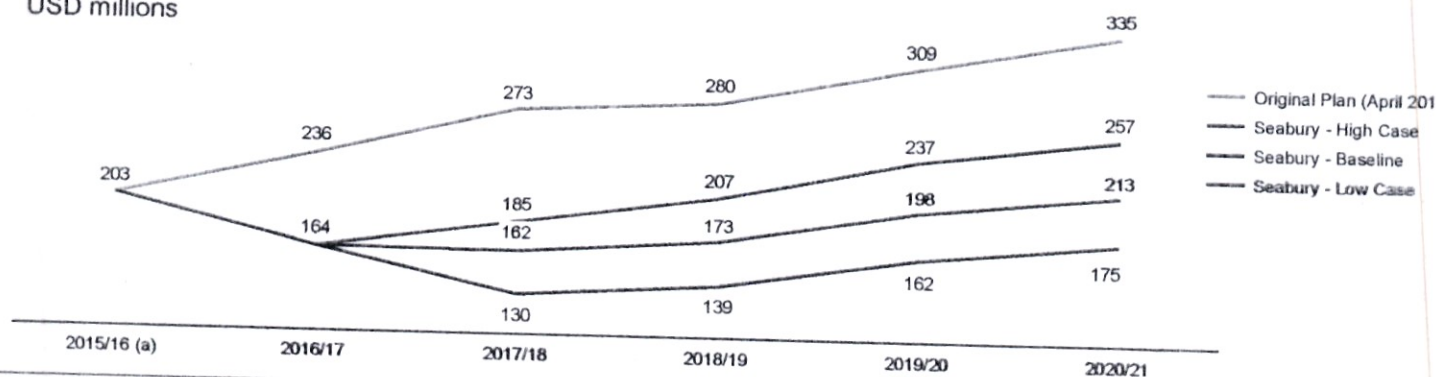
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## Business plan assessment – EBITDAR scenarios

In addition to the revised baseline forecast, Seabury has also developed high- and low-sensitivity cases

### Projected EBITDAR

USD millions



### Low case

- Seabury's low case assumes more severe passenger revenue deterioration versus the Original Plan
  - 8.2% reduction in P-RASK versus the baseline, which assumes a 4.2% reduction in P-RASK
  - 8.2% matches the P-RASK variance to Original Plan seen in the last 3 months of actual results (September – November 2016)
  - In contrast, the baseline assumption of a 4.2% reduction in P-RASK reflects the P-RASK variance assumed in the entire fiscal year reforecast (8+4) versus the Original Plan

### High case

- Seabury's high case assumes a gradual improvement in the P-RASK variance versus the Original Plan
  - High case assumes a 25% improvement each year from 2018/19 forward, reflecting improved market conditions (i.e., less competitive capacity growth in the Company's markets, and/or improved pricing power)
- The high case also includes fuel recapture of 40% (meaning 40% of the increase in fuel expense due to higher oil prices is recaptured as increased passenger revenue)
- The high case also assumes a positive impact from employee initiatives, which are assumed to be implemented at a 50% achievement (USD 11.7 million per year) from mid-2017/18 forward (versus the baseline which assumes a USD 22.5 million gap to the Original Plan)

Source: Company reports; KQ Plan

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## Business plan assessment – KQ forecast

In addition to Seabury's revised forecast, the Company has also prepared its own view of a revised 5-year forecast, along with low- and high-sensitivity cases

### Low case

- Assumes weaker revenue environment (greater competition or lower demand)
- Low case assumes the same capacity as the baseline scenario
- If the Company tracks the low case, additional strategy restructuring work will be needed to redefine a sustainable fleet and network

### Baseline case

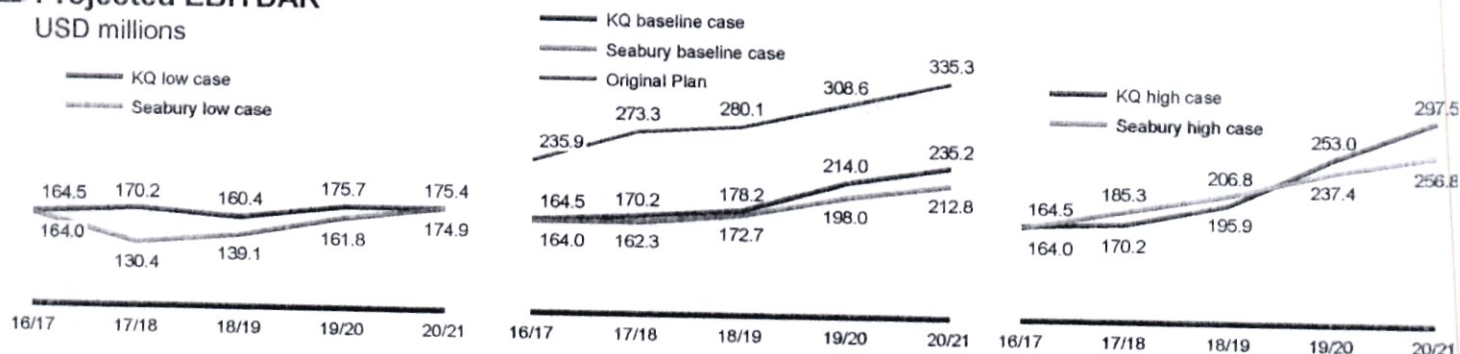
- Revised 5-year forecast incorporating latest results and expected revenue trends
- Projected EBITDAR is generally USD 70 – 120 million lower per year, than the Original Plan
- Reduced EBITDAR is somewhat offset by lower fleet costs, as the revised forecast assumes less fleet growth

### High case

- Assumes improved revenue environment (reduction in competitive capacity and/or additional demand stimulation), along with implementation of labor cost savings
- High case assumes the same capacity as the baseline scenario

### Projected EBITDAR

USD millions



Source: KQ Plan; Seabury analysis

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## Restructuring plan overview (1 of 3)

Seabury has worked closely with PJT to understand the key elements of the proposed restructuring plan and to provide feedback where applicable

### ■ Key elements of the proposed restructuring plan by major obligation, as follows:

<b>Tsavo senior facility</b>	<ul style="list-style-type: none"><li>▪ Term to be extended by two years</li><li>▪ 30% amortization reduction equivalent to ~USD 25 million per year for five years in liquidity relief</li><li>▪ Guarantee by the Government of Kenya</li><li>▪ 777-300 to be sold to / remarketed by Boeing; proceeds to pay down senior facility</li></ul>
<b>Tsavo junior facility</b>	<ul style="list-style-type: none"><li>▪ Term to be extended by three years</li><li>▪ Straight line amortization over the three years of extended term</li><li>▪ <b>Any shortfall in proceeds with respect to the sale of the 777-300 to be absorbed against all other aircraft in the Tsavo junior facility whilst retaining maturity</b></li></ul>
<b>Samburu senior facility</b>	<ul style="list-style-type: none"><li>▪ Term to be extended by two years</li><li>▪ 15% amortization reduction equivalent to ~USD 6 million per year for five years in liquidity relief</li><li>▪ No guarantee provided by the Government of Kenya</li></ul>
<b>Samburu junior facility</b>	<ul style="list-style-type: none"><li>▪ Term to be extended by three years</li><li>▪ <b>Straight line amortization over the three years of extended term</b></li></ul>
<b>Government of Kenya</b>	<ul style="list-style-type: none"><li>▪ USD 243 million of debt converted to equity</li><li>▪ USD 800 million of guarantees to be provided (USD 525 million for Tsavo senior debt; USD 125 million for banks; USD 100 million for letters of credit; USD 50 million for new liquidity facility)</li></ul>
<b>Banks</b>	<ul style="list-style-type: none"><li>▪ USD 232 million of debt converted to debt in special purpose vehicle to hold equity in KQ ("Equity HoldCo")</li><li>▪ Equity HoldCo debt terms: 10-year maturity; 4.0% payment-in-kind ("PIK") interest; 1.0% cash interest</li></ul>
<b>Operating lessors (E190)</b>	<ul style="list-style-type: none"><li>▪ <b>Three year extension on five E-190s whose current lease terms expire in 2018 thru 2020</b></li><li>▪ Reduced rate effective July 2017 of USD 190 thousand per month per aircraft; from ~USD 280 thousand per month per aircraft through the extension period</li></ul>
<b>Operating lessors (all other)</b>	<ul style="list-style-type: none"><li>▪ No extensions as contract termination dates are too far out in the future with leases currently expiring between 2022 and 2027</li><li>▪ Two years of reduced payments, followed by two years of payments at contractual rates, followed by increased payments until redelivery date such that the impact to the lessor is net present value neutral</li></ul>
<b>KLM</b>	<ul style="list-style-type: none"><li>▪ <b>Loan of USD 100 million to be provided by March 2017 and to be subsequently converted to equity at the same time and on the same terms as GoK loan</b></li><li>▪ Request for an additional \$50m to be provided in June 2017, that could be provided through an equity offer at a discount</li></ul>
<b>Current equity holders</b>	<ul style="list-style-type: none"><li>▪ Rights offering up to \$100m at discounted price for new equity</li></ul>

## Restructuring plan overview (2 of 3)

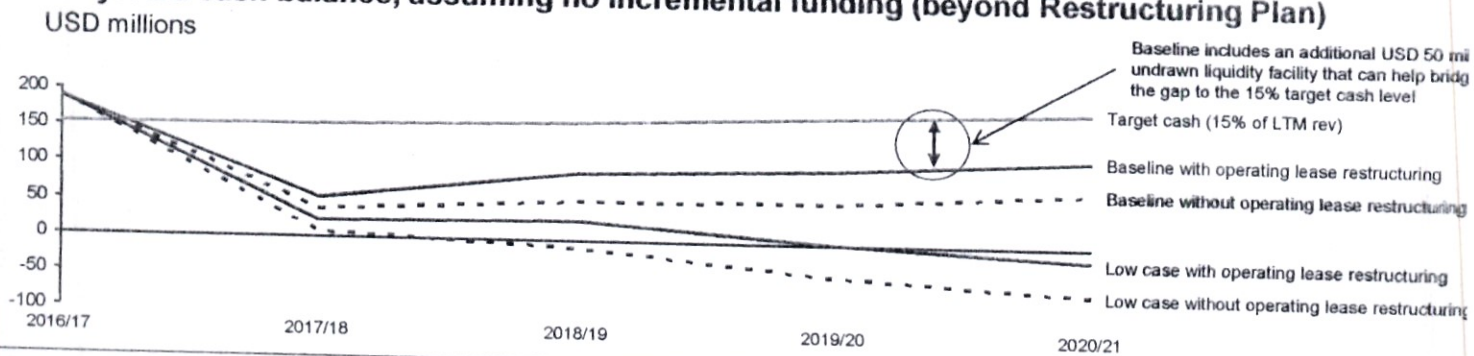
While the base case does not require additional funding, net cash remains below recommended minimum cash levels based upon a target of 15% of last twelve months revenue

USD million (unless otherwise indicated)	With restructuring of operating leases					With no restructuring of operating leases				
	2016/17	2017/18	2018/19	2019/20	2020/21	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Base case (assumes new USD 50M liquidity facility)</b>										
EBITDAR	164	162	173	198	213	164	162	173	198	213
Net debt / EBITDAR (%)	11.12x	8.00x	7.05x	5.87x	5.12x	11.12x	8.10x	7.27x	6.10x	5.33x
Net Cash (after debt service and facility draws)	188	54	92	101	120	188	38	53	56	74
Undrawn facility remaining	50	29	50	50	50	50	13	28	31	49
Additional funding requirement (beyond facility)	-	-	-	-	-	-	-	-	-	-
<b>Low case (assumes new USD 100M liquidity facility)</b>										
EBITDAR	164	130	139	162	175	164	130	139	162	175
Net debt / EBITDAR (%)	11.12x	10.20x	9.22x	7.81x	7.02x	11.12x	10.33x	9.50x	8.09x	7.28x
Net Cash (after debt service and facility draws)	188	23	26	-	(20)	188	6	(12)	(46)	(65)
Undrawn facility remaining	100	48	51	25	5	100	31	13	-	-
Additional funding requirement (beyond facility)	-	-	-	-	-	-	-	-	21	40
<b>High case (assumes new USD 50M liquidity facility)</b>										
EBITDAR	164	185	207	237	257	164	185	207	237	257
Net debt / EBITDAR (%)	11.12x	6.88x	5.61x	4.49x	3.69x	11.12x	6.97x	5.80x	4.68x	3.87x
Net Cash (after debt service and facility draws)	188	77	149	198	260	188	61	110	153	215
Undrawn facility remaining	50	50	50	50	50	50	36	50	50	50
Additional funding requirement (beyond facility)	-	-	-	-	-	-	-	-	-	-

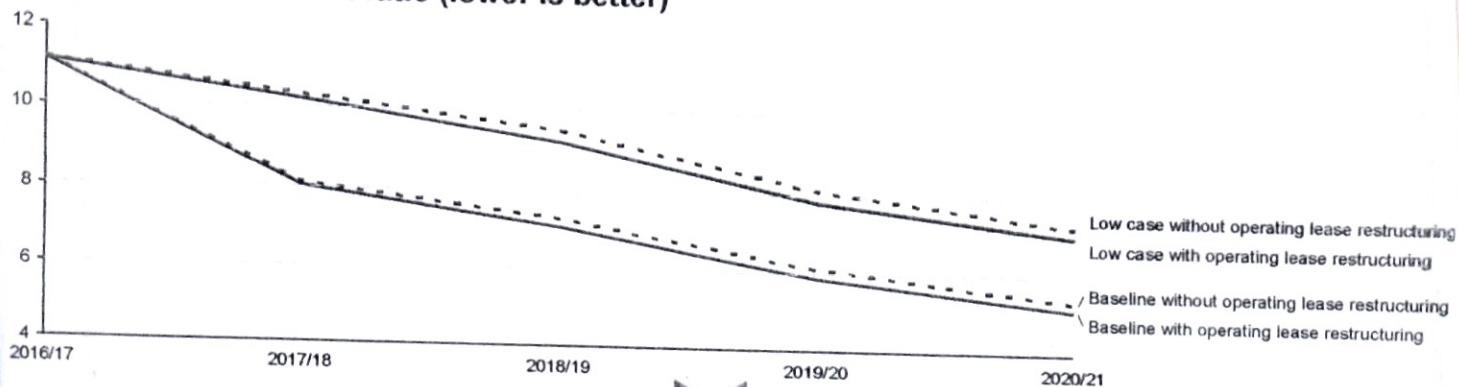
## Restructuring plan overview (3 of 3)

While the base case with restructuring does not require additional funding, net cash remains below recommended minimum cash levels (target of 15% of trailing 12-months revenue)

### Projected cash balance, assuming no incremental funding (beyond Restructuring Plan)



### Net Debt-to-EBITDAR ratio (lower is better)



If EBITDAR performance tracks the low case and/or the restructuring is not fully implemented per the plan, additional liquidity will be required

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## ■ Risks and mitigation (1 of 3)

There are two major elements of risk associated with the restructuring of Kenya Airways: business plan achievement risk and restructuring plan achievement risk

### ■ Business plan achievement risk

- Pilot supply
  - Current shortage of pilots exacerbated by hiring from the three major Middle Eastern carriers (Emirates, Etihad and Qatar)
- Fuel prices
  - Business plan has been adjusted to reflect current forward curve for Brent crude
- Competitive pressure / capacity increases
  - Middle Eastern carriers
  - Ethiopian
  - Other
- Demand shocks
  - Terrorism
  - Health scares (e.g., Ebola)
  - Upcoming elections in Kenya
  - Africa risk – political instability
- Operational disruptions
  - Strikes
  - Weather
  - Airworthiness directives / aircraft groundings

### ■ Business plan achievement risk - mitigation

- A material deterioration of the Company's earnings relative to the modified business plan would require a review of the Company's strategy and possibly a major change in direction
  - Fleet and network review and realignment
  - Additional support from the Government of Kenya
  - Sale of the Company to a strategic investor / other airline
  - Other

## ■ Risks and mitigation (2 of 3)

There are two major elements of risk associated with the restructuring of Kenya Airways: business plan achievement risk and restructuring plan achievement risk

### ■ Restructuring plan achievement risk

- Failure to achieve requested concessions from key stakeholders:
  - Tsavo
  - Samburo
  - Banks
  - Operating lessors
  - KLM
  - Existing equity holders
- Lower market / sale value for sale of 777-300 ER assumed as part of Tsavo restructuring proposal
  - Latest indication from Boeing is a sale price of USD 105 to 120 million; net proceeds likely below the outstanding senior obligation of ~USD 119 million, which is assumed to be paid down in the restructuring plan
  - Current market value estimate is ~USD 113 million; with an expected sale price of 80% to 90% of current market value, net proceeds would likely be in the range of USD 90 million to USD 100 million; **well below the outstanding senior debt on this aircraft**
- Ability to achieve restructuring plan in a timely manner
  - Government guarantee / credit enhancement may require Parliamentary approval
    - Elections to be held in August; desirable to have Government commitments / implementation completed well in advance of the elections as Parliament goes inactive 90 days in advance of elections
  - Delays in achieving stakeholder approval for restructuring terms
- Ability to repay lenders beyond the five year period of the forecast

## ■ Risks and mitigation (3 of 3)

There are two major elements of risk associated with the restructuring of Kenya Airways: business plan achievement risk and restructuring plan achievement risk

### ■ Restructuring plan achievement risk - mitigation

- Tsavo and Samburu
  - Tsavo likely to be achieved with Government of Kenya guarantee
  - Samburu may request / demand a Government of Kenya guarantee
  - Additional funding will be required if either of these facilities are not restructured
- Lower market / sale value for sale of 777-300 ER assumed as part of Tsavo restructuring proposal
  - Additional funding may be required from the GoK if the net proceeds from the sale of this aircraft fall below the senior debt outstanding
- Banks
  - Some form of credit enhancement from the Government of Kenya may be required
  - Scheme of Arrangement as fall back assuming 75% voting threshold can be achieved
- Operating Lessors
  - As requests are not significant, the base case financial plan can absorb failure to achieve these concessions
- KLM
  - Increased pressure from the Government of Kenya may be required
- Existing equity holders
  - May be necessary to force the dilution where 75% threshold can be met
- Repayment risk beyond the five year plan period (Seabury is not able validate as no projections beyond FY21 exist)
  - With lower LTVs, **ability to refinance the aircraft mitigates this risk**

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## ■ Recommendations (1 of 3)

Following a careful review of the Restructuring Plan, an assessment of other alternatives available, and in consideration of the associated risks, Seabury recommends the following

### ■ Restructuring plan

Government guarantee / credit enhancement

Government loans

Restructuring of Tsavo and Samburu

- Seabury agrees that Government credit support, mostly likely in the form of a guarantee, in a minimum aggregate amount of ~ USD 800 million, will be required to achieve key elements of the proposed restructuring plan
  - Tsavo senior facility; Tsavo restructuring will likely not be achieved without Government of Kenya support; risk exists that assumed proceeds from sale of 777-300 will not fully repay senior debt outstanding
  - Portion of bank debt (55% or USD 125 million)
  - Guarantee of a liquidity line of credit of USD 50 million (if not a direct loan), as cash balances are short of recommended levels
  - Guarantee of USD 100 million in respect of existing and future letters of credit, which will likely not be renewed without a guarantee
- While the guarantee of the bank debt could be reduced, this may make achievement of that element of the restructuring more difficult; any such reduction in the total amount of Government guarantees may be offset by additional credit support that would be required to address any shortfall in 777-300 sales proceeds and / or to achieve a targeted cash level of 15% of trailing twelve months revenue (a Seabury recommendation)
- Conversion of debt to equity is a critical element of the restructuring plan and is fully supported by Seabury; without the conversion of shareholder debt (GoK and KLM, after funding) to equity, the plan will likely fail
- The proposed restructuring of the Tsavo and Samburu facilities (both the senior and junior tranches) appears reasonable
  - Tsavo senior restructuring will likely be achieved with Government of Kenya guarantee based on feedback from The Export-Import Bank of the USA ("Exim"); failure of the Government to offer a guarantee or other credit enhancement will jeopardize the success of the Tsavo senior restructuring
  - Restructuring of the Tsavo junior facility and the Samburu facilities (senior and junior) are largely dependent upon the African Export-Import Bank ("Afrexim") who may request a Government guarantee similar to the Tsavo senior facility; such a request should not be granted in light of the Exim requirement to demonstrate justification for concessions and the enhanced LTV associated with the Samburu facilities



The Government of Kenya's support for the Kenya Airways restructuring plan should be conditioned upon the substantial agreement of all other stakeholders to requested concessions / restructuring of agreements

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## ■ Recommendations (2 of 3)

Following a careful review of the Restructuring Plan, an assessment of other alternatives available, and in consideration of the associated risks, Seabury recommends the following

### ■ Restructuring plan

Banks	<ul style="list-style-type: none"><li>▪ The conversion of the bank debt to debt in Equity HoldCo (off KQ balance sheet) is recommended; some form of Government credit support is likely required in order to achieve the desired restructuring of the bank debt without disruption to the Kenyan banking system</li></ul>
Operating lessors	<ul style="list-style-type: none"><li>▪ While most of the operating leases are well above market (range of 10% to 35% - see slide 50), the Company has very little leverage with the operating lessors – either threats (e.g., Chapter 11) or sweeteners (meaningful lease extensions; many of the operating leases already run through the mid-2020s)<ul style="list-style-type: none"><li>- Mark-to-market rates do not reflect on the competitiveness of the leases when initially executed; rather it reflects normal market movement over time</li></ul></li><li>▪ The offer of an extension of three years to the E190 lessors in exchange for a reduction to market rates (from ~USD 280 thousand per month per aircraft to USD 190 thousand per month per aircraft) is viewed as reasonable</li><li>▪ With respect to the remaining operating leases, given the relatively long remaining terms, the offer of an extension is not viewed to have significant value; any liquidity relief that can be provided through consensual negotiations will be beneficial to the restructuring efforts</li></ul>
KLM	<ul style="list-style-type: none"><li>▪ Conversion of new debt in the amount of USD 150 million to equity is a critical element of the restructuring plan and is fully supported by Seabury; without the conversion of shareholder debt (GoK and KLM, after funding) to equity, the plan will likely fail</li></ul>
Equity holders	<ul style="list-style-type: none"><li>▪ Dilution will likely be required to achieve the restructuring; equity holders must pay the price</li><li>▪ If necessary, force the equity dilution by achieving the necessary threshold of 75%</li></ul>



The Government of Kenya's support for the Kenya Airways restructuring plan should be conditioned upon the substantial agreement of all other stakeholders to requested concessions / restructuring of agreements

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## ■ Recommendations (3 of 3)

Seabury recommends that the Government of Kenya implement other means of supporting KQ, in addition to supporting the proposed restructuring

### ■ Additional Government support for Kenya Airways

Labour	<ul style="list-style-type: none"><li>▪ Support the Company's efforts to renegotiate contract terms with its two major unions by encouraging the unions to take a more productive stance when negotiating with the Company</li></ul>
Airport charges	<ul style="list-style-type: none"><li>▪ Explore options to reduce charges incurred by Kenya Airways, examples as follows:<ul style="list-style-type: none"><li>- Absolute rate reductions in favor of Kenya Airways, only; however, would create an un-level playing field with respect to other carriers operating in Kenya</li><li>- Revenue neutral adjustments to passenger charges such that connecting passengers (favoring KQ's hub operation at JKIA) are charged at a substantially lower rate than charges applicable to origin and destination passengers (Hong Kong International waives airport taxes for stopover passengers arriving and departing on the same day)</li><li>- Other</li></ul></li></ul>
Tax-free zone	<ul style="list-style-type: none"><li>▪ Designate the airport as a tax free zone such that taxes are not charged on parts and other supplies and materials used by Kenya Airways in its maintenance and other operations at JKIA</li><li>▪ Examples include Dubai Airport Freezone (UAE), Imam Khomeini International Airport (Iran), Aqaba Special Economic Zone Authority (Jordan), Mattala Rajapaksa International Airport (Sri Lanka) and areas around various US airports</li></ul>
Bilateral agreements	<ul style="list-style-type: none"><li>▪ Negotiate favorable bi-lateral agreements on behalf of Kenya Airways and, where appropriate, the Government could limit the air traffic rights granted to other countries to protect routes for Kenya Airways<ul style="list-style-type: none"><li>- GoK recently rescinded operating authority sought by Emirates Airlines to add an additional frequency in the Dubai-Nairobi market, pending a review of the bilateral air services agreement between the UAE and Kenya</li></ul></li></ul>
Fly Kenya Act	<ul style="list-style-type: none"><li>▪ Enforce the Fly Kenya Act to ensure all Government employees and contractors utilize Kenya Airways for travel</li><li>▪ Similar action has been taken in other countries such as the USA, India, Kuwait and the Emirate of Abu Dhabi</li></ul>
Work permits	<ul style="list-style-type: none"><li>▪ Improve the process for obtaining work permits to allow Kenya Airways to attract employees with requisite skills and to develop talent locally</li></ul>



In light of the importance of Kenya Airways to the country of Kenya, the Government of Kenya should support its national airline wherever reasonable

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## Existing KQ leases

Existing KQ leases are 10-35% above current market rentals, with a total rent differential of USD 225 million (NPV of USD 170 million)

### Mark-to-market analysis of existing KQ leases

USD millions

Lessor - AC type / Reg	Original lease exp	YOM	Lease term	Monthly lease rate	Market lease rate	Diff as % of current		Total diff	NPV @7%
						Diff	lease rate		
ALC - E-190 / KYR	30-Sep-19	2011	8	0.285	0.190	(0.10)	-33.3%	(3.1)	(2.9)
ALC - E-190 / KYS	30-Sep-19	2011	8	0.285	0.190	(0.10)	-33.3%	(3.1)	(2.9)
ALC - E-190 / KYT	31-May-20	2012	8	0.285	0.200	(0.09)	-29.8%	(3.5)	(3.1)
Jetscape - E-190 / KYP	31-Dec-18	2010	8	0.278	0.185	(0.09)	-33.4%	(2.2)	(2.1)
Jetscape - E-190 / KYQ	31-May-19	2011	8	0.282	0.190	(0.09)	-32.5%	(2.7)	(2.5)
ACG - B737-800 / CYA	31-Oct-26	2014	12	0.403	0.305	(0.10)	-24.3%	(11.6)	(8.5)
ACG - B737-800 / CYB	30-Nov-26	2014	12	0.403	0.305	(0.10)	-24.3%	(11.7)	(8.5)
ACG - B737-800 / CYD	30-Apr-27	2015	12	0.393	0.320	(0.07)	-18.5%	(9.0)	(6.5)
Macquarie - B737-800 / KYE	31-Jan-22	2008	14	0.262	0.235	(0.03)	-10.3%	(1.6)	(1.4)
Pembroke/SCB - B737-800 / KYD	31-Aug-22	2008	14	0.260	0.235	(0.03)	-9.6%	(1.7)	(1.4)
GECAS - B737-800 / CYC	31-Jan-27	2015	12	0.373	0.320	(0.05)	-14.2%	(6.4)	(4.7)
GECAS - B737-800 / CYE	30-Nov-27	2015	12	0.386	0.320	(0.07)	-17.2%	(8.7)	(6.2)
GECAS - B737-800 / KYF	28-Feb-23	2009	14	0.250	0.245	(0.01)	-2.0%	(0.4)	(0.3)
GECAS - B777-300 / KZY	31-May-26	2014	12	1.508	1.045	(0.46)	-30.7%	(52.3)	(38.8)
GV/CDB Leasing - B777-300 / KZZ	31-Oct-25	2013	12	1.501	0.975	(0.53)	-35.0%	(55.7)	(42.1)
AerCap - B787-8 / KZH	31-May-27	2015	12	0.995	0.835	(0.16)	-16.1%	(20.0)	(14.4)
AerCap - B787-8 / KZJ	31-May-27	2015	12	0.963	0.835	(0.13)	-13.3%	(16.0)	(11.5)
AWAS - B787-8 / KZG	30-Apr-27	2015	12	0.960	0.835	(0.12)	-13.0%	(15.5)	(11.2)
<b>Total</b>			<b>18 aircraft</b>	<b>10.07</b>	<b>7.77</b>	<b>(2.31)</b>	<b>-22.9%</b>	<b>(225.2)</b>	<b>(168.8)</b>

- Market lease rates reflect current market conditions for similar vintage aircraft with assumed half-time status; no allowance is made for specific configuration

- Market lease rates fluctuate over time; deviations from original lease rates do reflect on management's negotiation of the leases at time of execution

- Achievement of market lease rates is unlikely for aircraft with long remaining terms without a credible threat to lessors (e.g., U.S. Chapter 11)

While lease restructuring has the potential to yield significant P&L and liquidity improvements, achievement of those benefits may be difficult, particularly for those aircraft with long remaining terms

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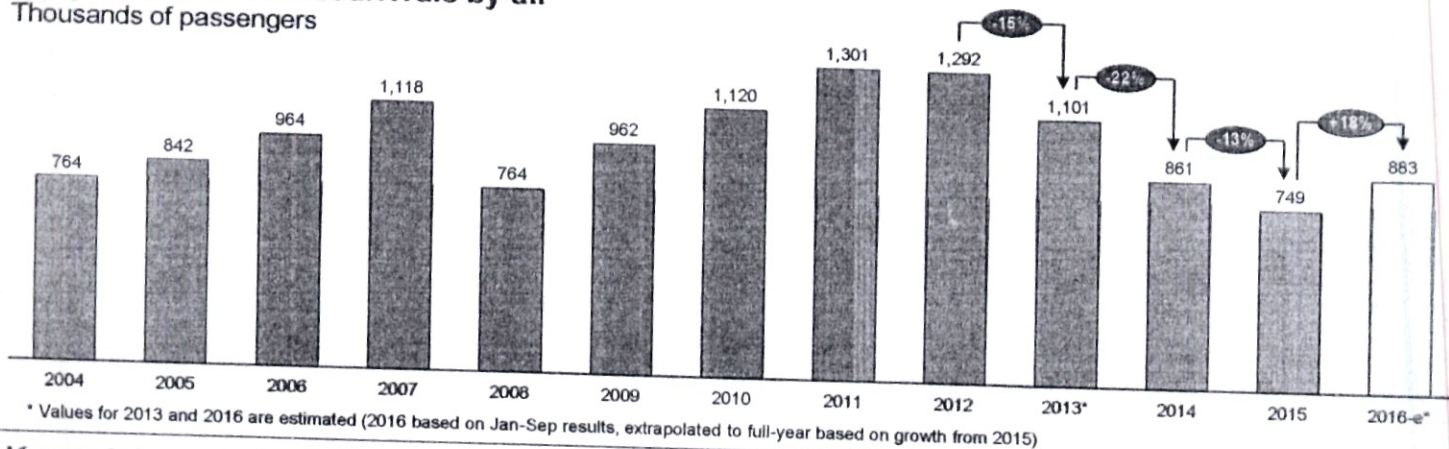
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## Macro environment – long-haul

Kenya inbound tourism appears to be recovering, but the absolute level of arrivals by air is still far below the 2011 peak; yet inbound air capacity has remained relatively flat since 2011

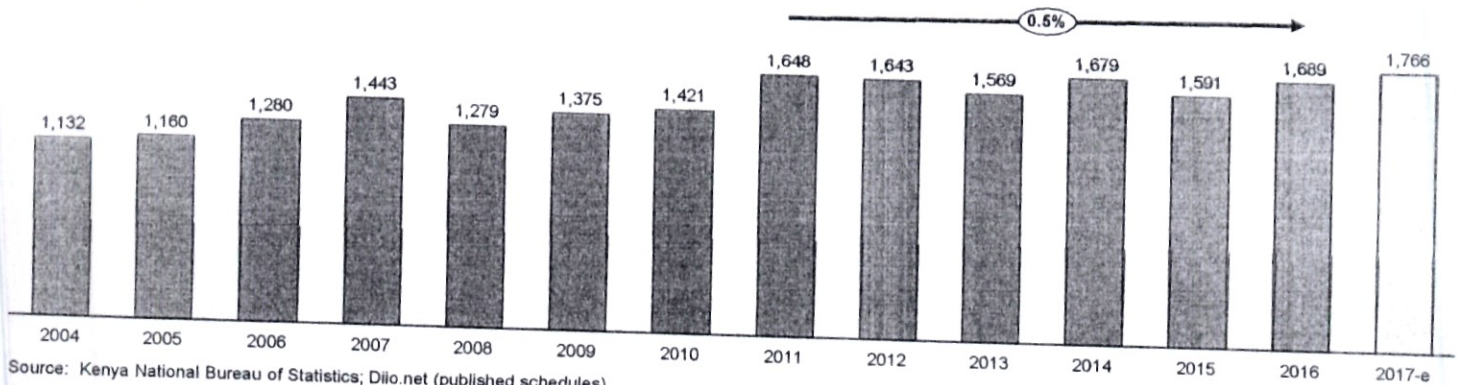
### Kenya inbound tourist arrivals by air

Thousands of passengers



### Kenya inbound air capacity from beyond Africa

Thousands of seats



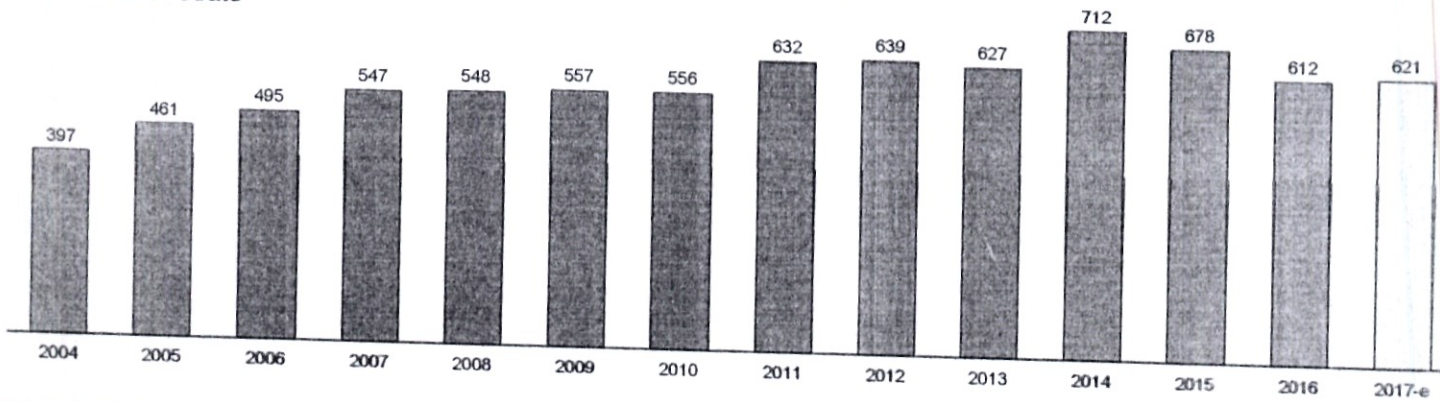
Source: Kenya National Bureau of Statistics; Dilo.net (published schedules)

## Macro environment – long-haul

While KQ capacity from beyond Africa has declined slightly from 2011, capacity from the Middle East carriers into Kenya has grown at a CAGR of more than 6%

### Kenya inbound air capacity from outside Africa – KQ only

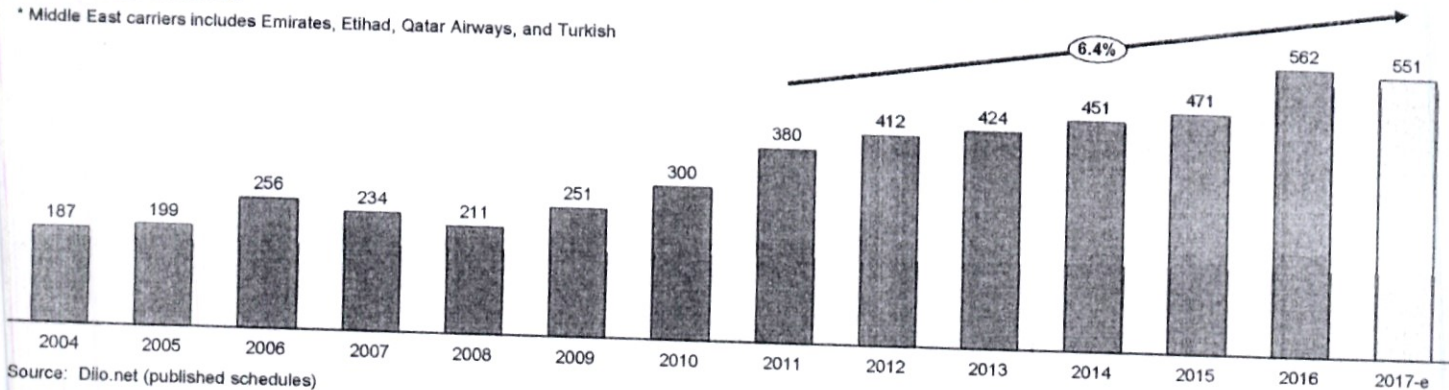
Thousands of seats



### Kenya inbound air capacity from outside Africa – Middle East carriers\*

Thousands of seats

\* Middle East carriers includes Emirates, Etihad, Qatar Airways, and Turkish



Source: Dilo.net (published schedules)

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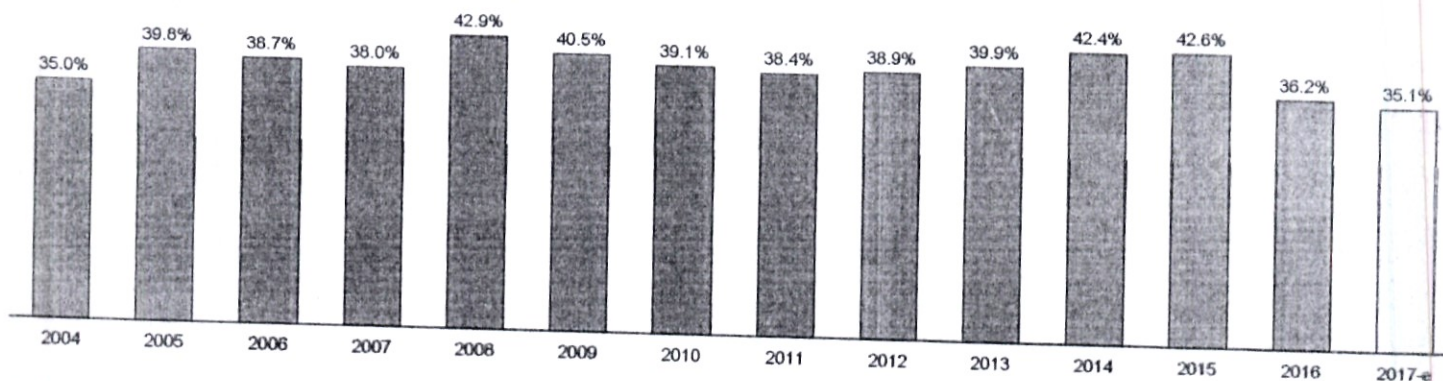
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## ■ Macro environment – long-haul

As a result of growth in competing capacity, KQ today offers about 35% of the seat capacity into Kenya from outside Africa

### KQ share of Kenya inbound air capacity from outside Africa

Percent of total market seats offered by KQ



## ■ Implications of falling capacity share

- Flights from outside Africa represent approximately 51% of KQ's capacity (measured by year-to-date ASKs through Oct-2016), generating 43% of its revenue (on an allocated/pro-rated basis)
- With increased competition and the reduction of KQ's widebody fleet (retirement of 777), KQ's long-haul market share has fallen significantly over the last year
  - While the reduction in capacity is not necessarily a bad development (removing money-losing routes is always positive to the bottom-line), it leaves KQ more vulnerable to competitive pressure
  - KQ has seen continued reductions in long-haul yields as its market position has eroded
- KQ does have a strategy in place to mitigate these losses by increasing traffic through a number of well-defined commercial initiatives

Source: Diio.net (published schedules)

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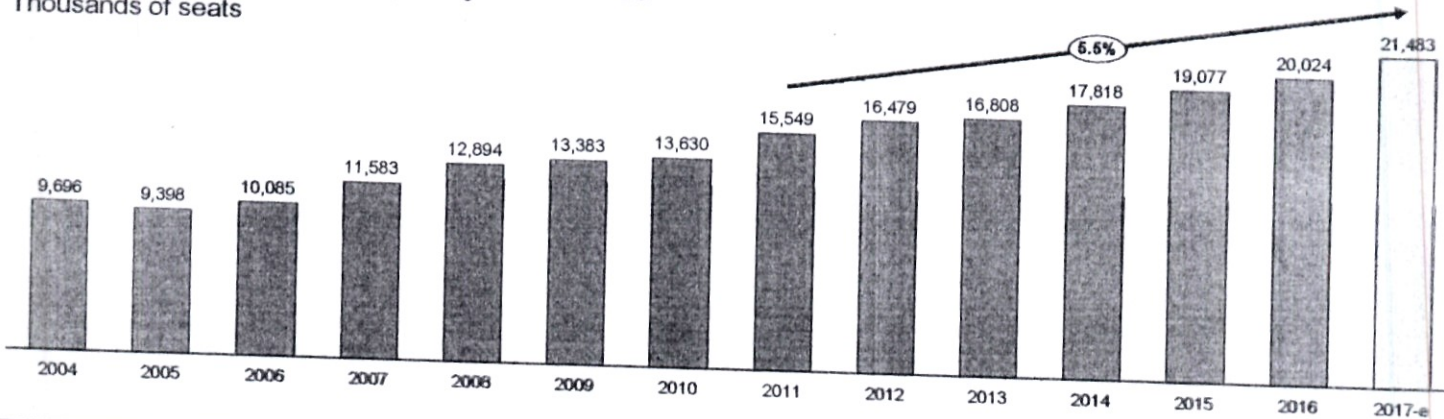
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## Macro environment – regional

Air capacity from Africa into the East Africa region has grown steadily; while KQ regional capacity has also increased, the market growth rate has outpaced KQ's capacity growth

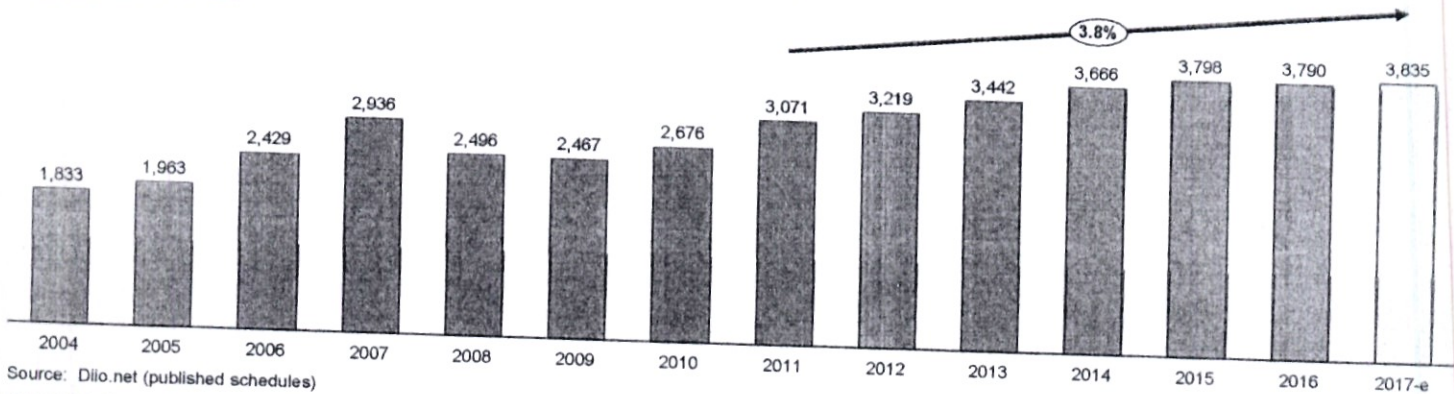
### East Africa inbound air capacity from Africa

Thousands of seats



### East Africa inbound air capacity from Africa – KQ only

Thousands of seats



Source: Dilo.net (published schedules)

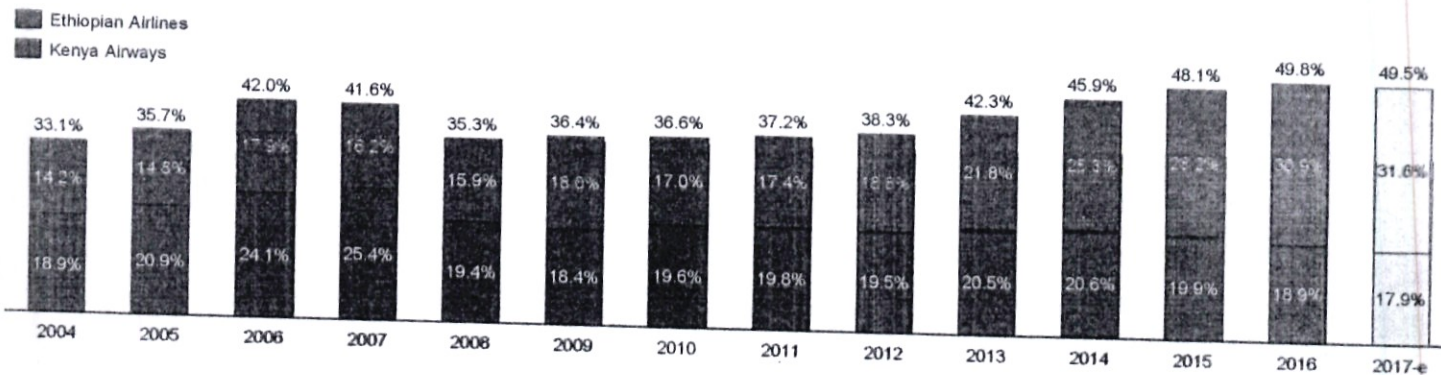
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## Macro environment – regional

KQ's seat share of capacity from Africa into East Africa has been declining over the last 4 years – while Ethiopian's share has risen sharply

Share of East Africa inbound seat capacity from Africa (including intra-East Africa)  
Percent of total market seats



## Intra-Africa market implications

- While KQ has increased its capacity within Africa, its share of seats from Africa into East Africa has gradually fallen over the last 4 years – as a result of significant capacity growth from KQ's nearest major competitor – Ethiopian Airlines
  - Capacity growth from other African carriers (e.g., RwandAir) is also taking a toll on KQ's share
- The capacity growth of competing carriers – both within Africa and from the Middle East – has outpaced the growth in demand, leading to a reduction in prices (yield), on average
- While a rationalization of competitive capacity might be the most logical commercial decision, most of the competitors that KQ faces are government-controlled carriers with significant existing fleets and/or aircraft orders
  - Seabury believes that while a competitive capacity "correction" may occur within the next 5-years (to the benefit of KQ), it is prudent to develop a restructuring plan that isn't predicated on competitive actions for success
  - Therefore, Seabury and the Company's Revised Plans have assumed no change to the current declining yield trend that results from the growing competition in the region

Source: Diio.net (published schedules)

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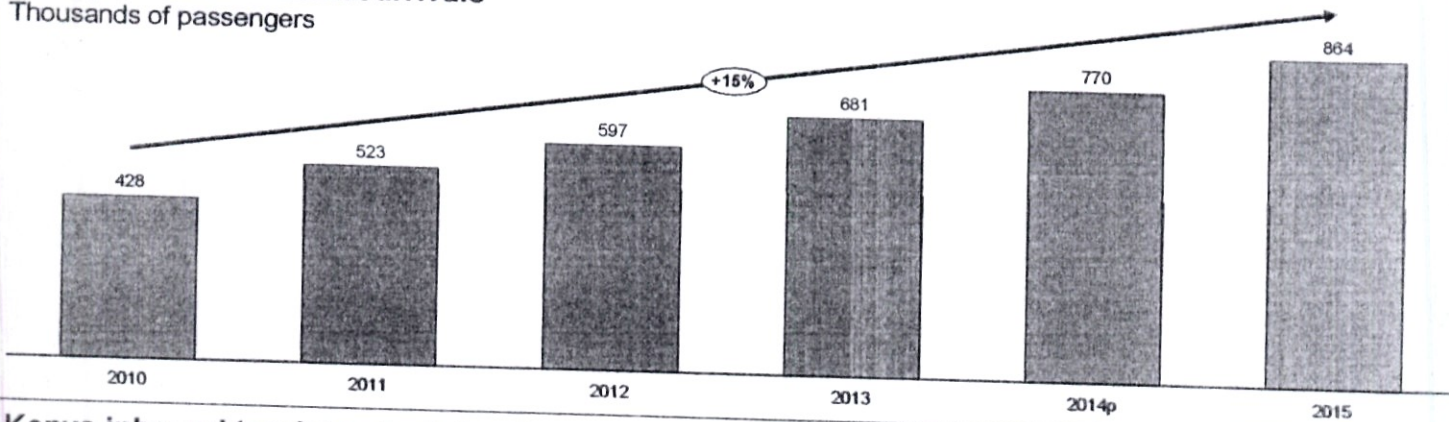
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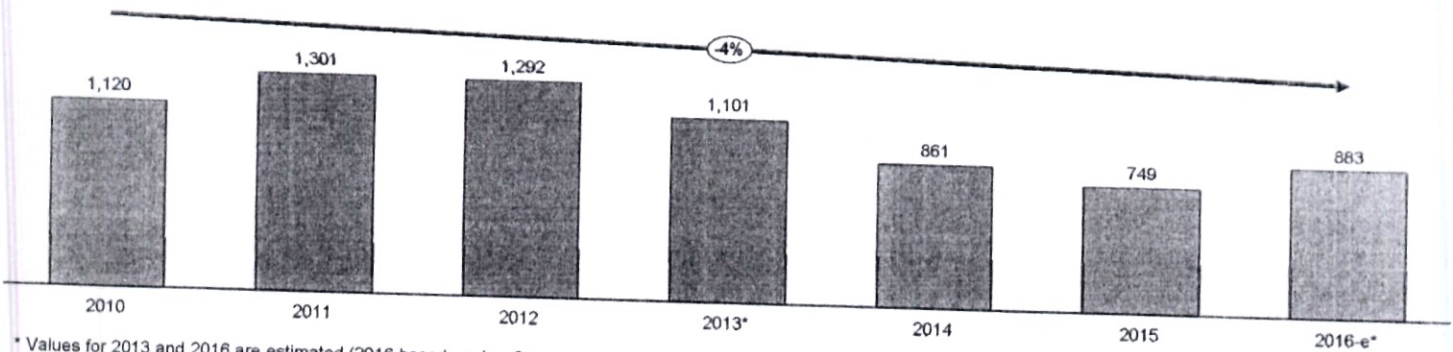
## Comparison to Ethiopian Airlines (1 of 12)

While Kenya inbound tourist arrivals have contracted since 2010, tourist arrivals in Ethiopia have grown substantially over the period

**Ethiopia inbound tourist arrivals**  
Thousands of passengers



**Kenya inbound tourist arrivals by air**  
Thousands of passengers

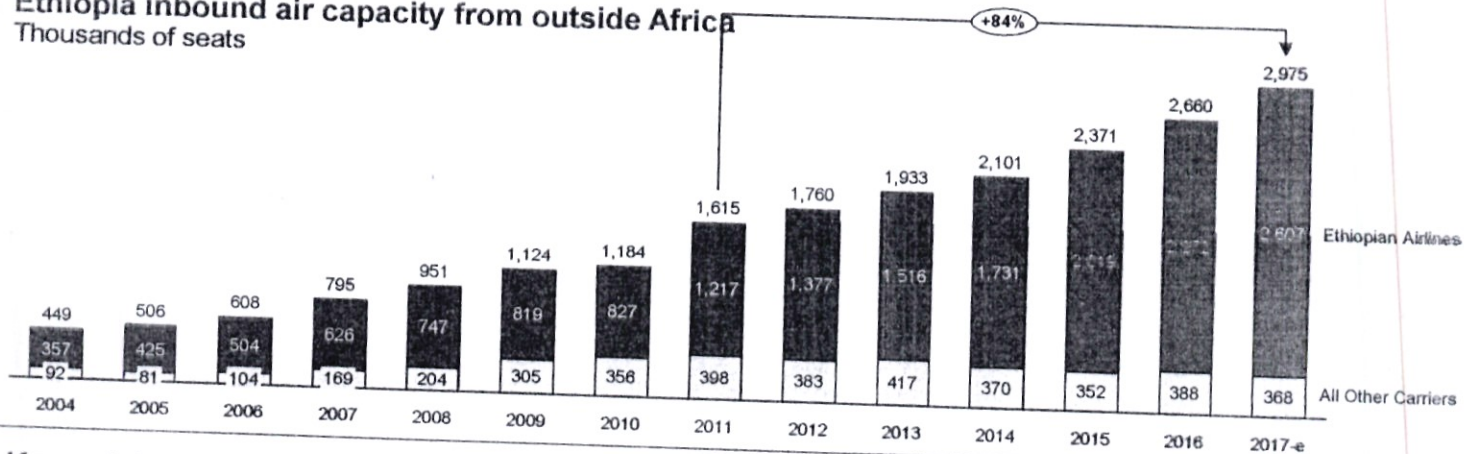


\* Values for 2013 and 2016 are estimated (2016 based on Jan-Sep results, extrapolated to full-year based on growth from 2015)  
Source: UNWTO World Tourism Organization (2016) Yearbook of Tourism Statistics dataset; Kenya National Bureau of Statistics

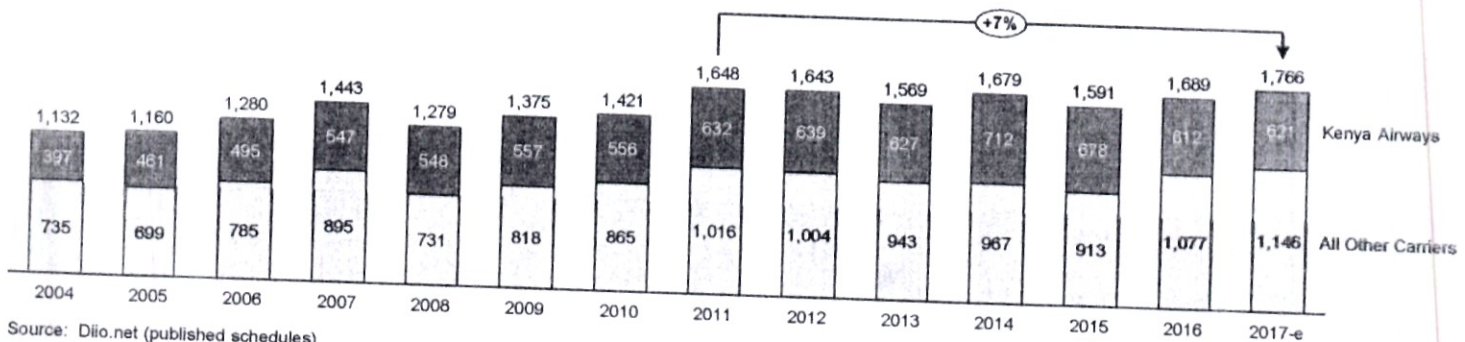
## Comparison to Ethiopian Airlines (2 of 12)

While Kenya inbound capacity has grown by only 7%, Ethiopian inbound capacity (from outside Africa) has nearly doubled

**Ethiopia inbound air capacity from outside Africa**  
Thousands of seats



**Kenya inbound air capacity from outside Africa**  
Thousands of seats



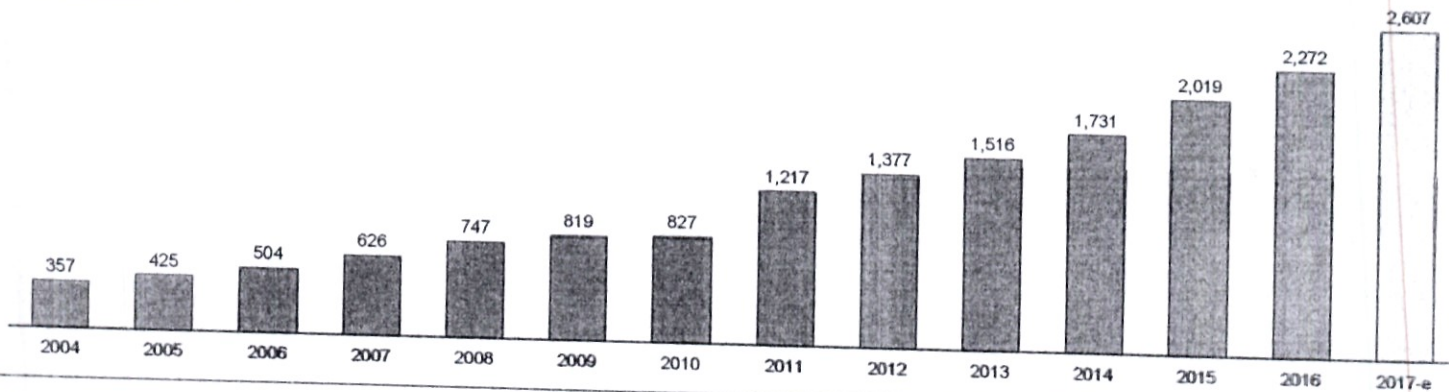
Source: Dilo.net (published schedules)

## Comparison to Ethiopian Airlines (3 of 12)

Ethiopian inbound capacity growth has been driven by ET capacity growth, while Kenya capacity growth has been driven by other carriers

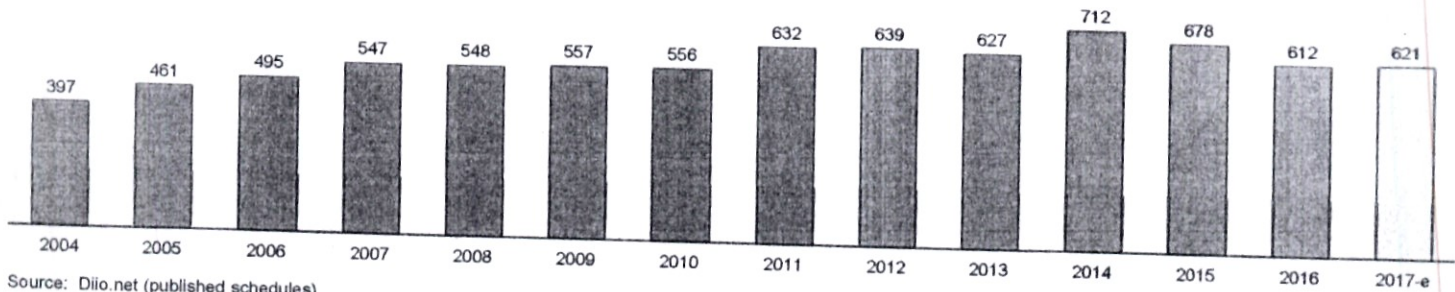
### Ethiopia inbound air capacity from outside Africa - ET only

Thousands of seats



### Kenya inbound air capacity from outside Africa - KQ only

Thousands of seats



Source: Dilo.net (published schedules)

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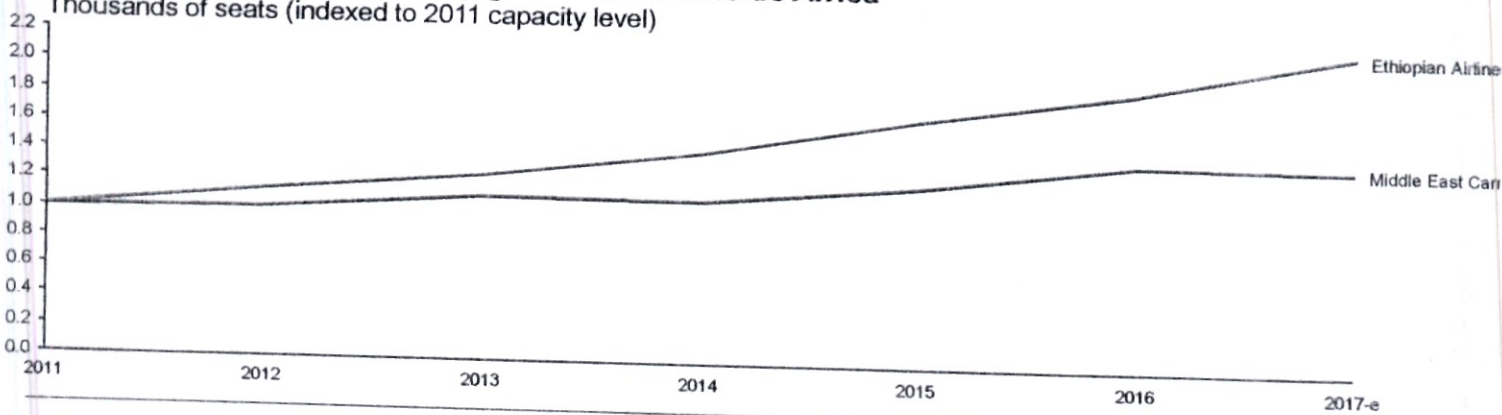
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## Comparison to Ethiopian Airlines (4 of 12)

Inbound capacity from Middle East carriers has grown much more in Kenya since 2011 than in Ethiopia

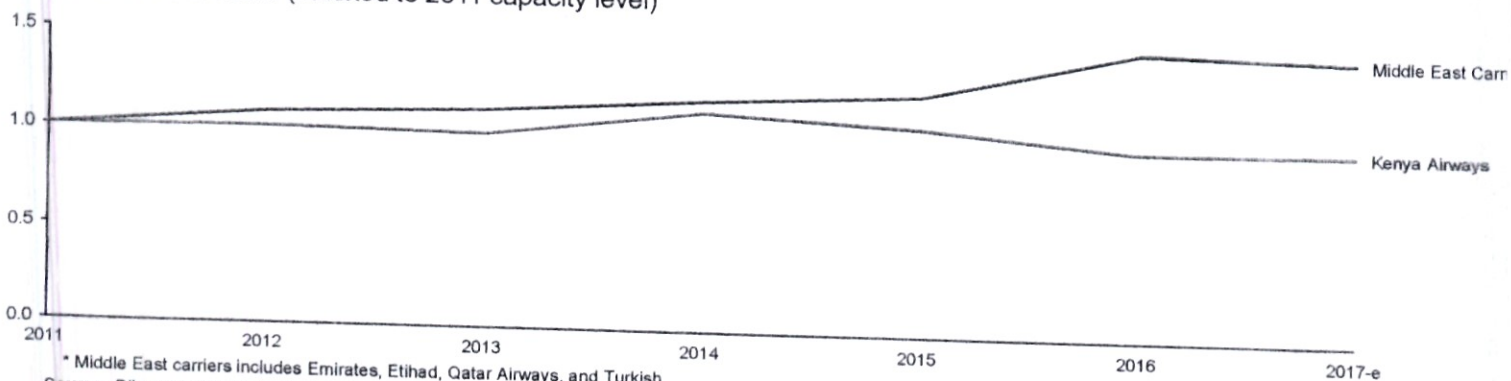
### Ethiopia inbound air capacity growth from outside Africa

Thousands of seats (indexed to 2011 capacity level)



### Kenya inbound air capacity from outside Africa

Thousands of seats (indexed to 2011 capacity level)

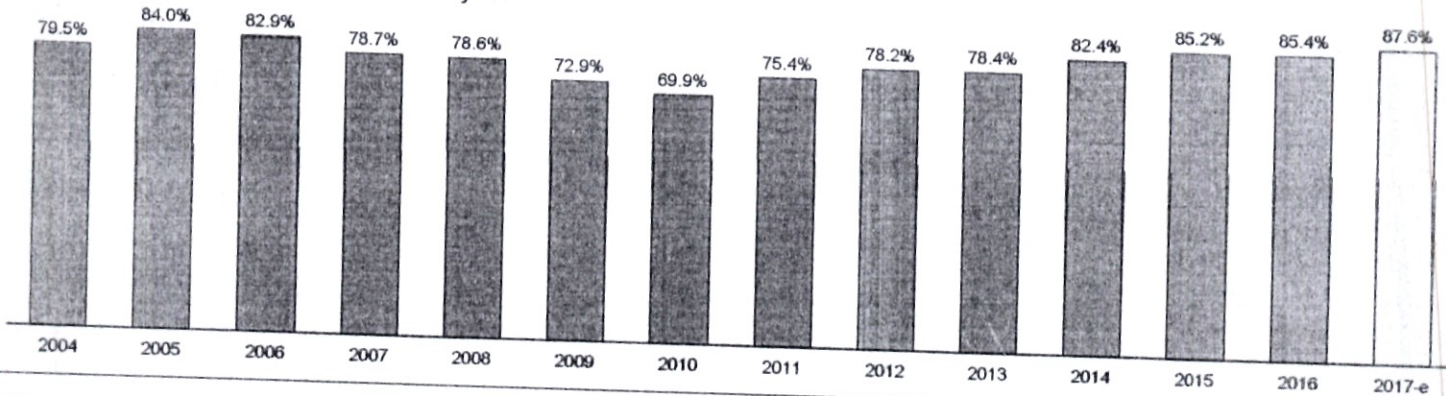


\* Middle East carriers includes Emirates, Etihad, Qatar Airways, and Turkish  
Source: Dilo.net (published schedules)

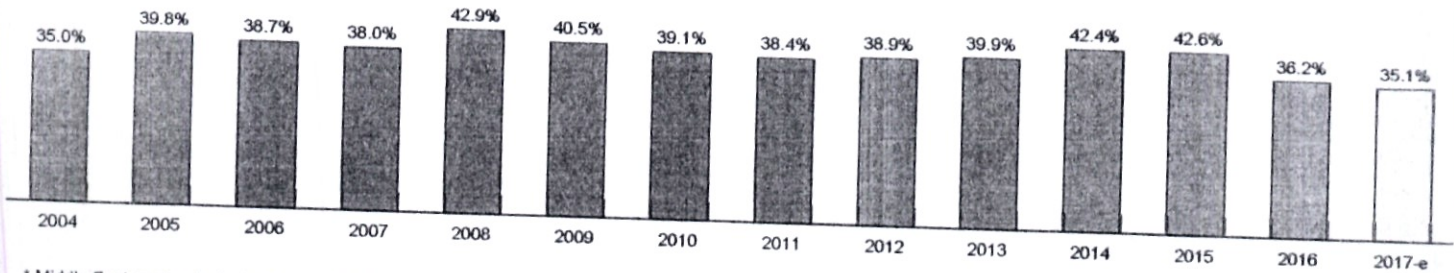
## Comparison to Ethiopian Airlines (5 of 12)

ET has been increasing its share of the Ethiopia-inbound market, while KQ has been ceding share of the Kenya-inbound market

**ET share of Ethiopian inbound air capacity from outside Africa**  
Percent of total market seats offered by ET



**KQ share of Kenya inbound air capacity from outside Africa**  
Percent of total market seats offered by KQ

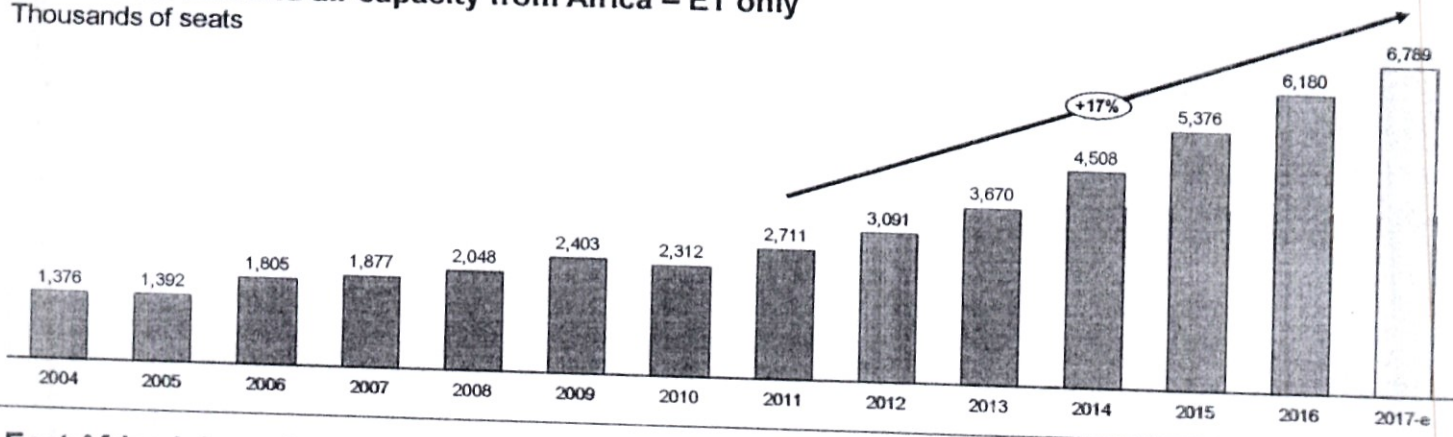


\* Middle East carriers includes Emirates, Etihad, Qatar Airways, and Turkish  
Source: Dlio.net (published schedules)

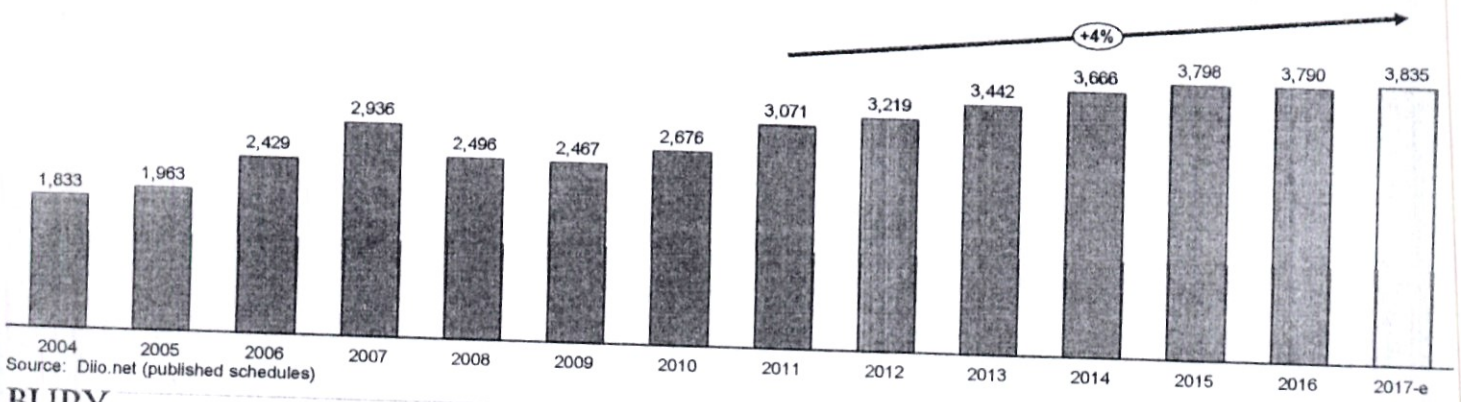
## Comparison to Ethiopian Airlines (6 of 12)

ET has grown intra-Africa capacity at a double-digit CAGR since 2011, while KQ's growth has been flat for the last 4 years

East Africa inbound air capacity from Africa – ET only  
Thousands of seats



East Africa inbound air capacity from Africa – KQ only  
Thousands of seats

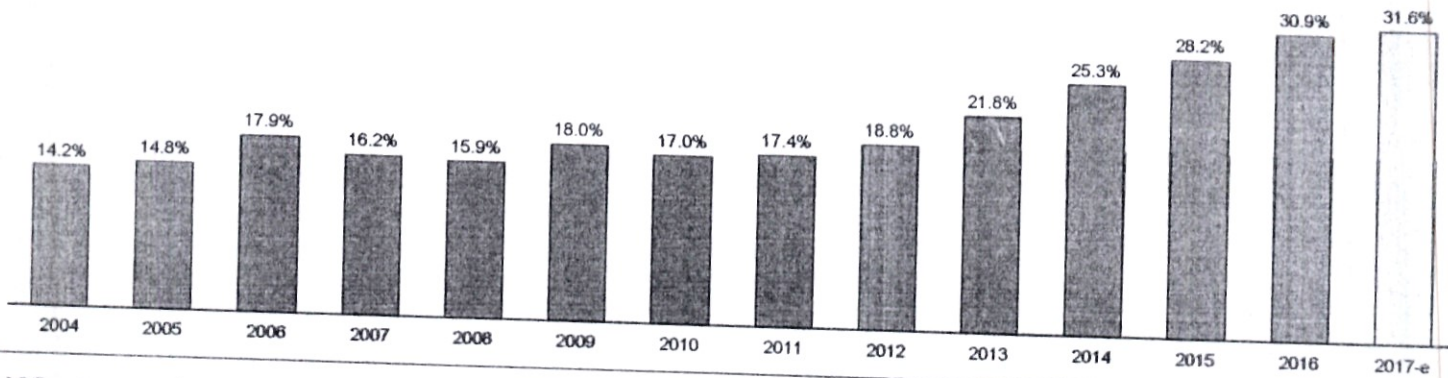


Source: Diao.net (published schedules)

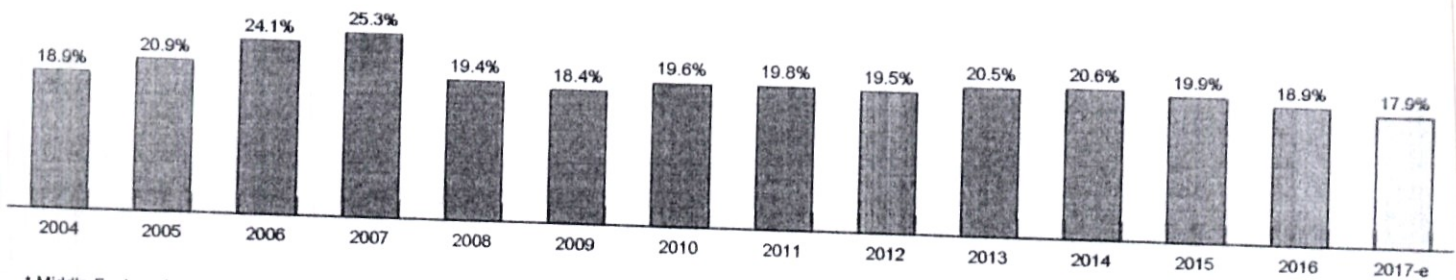
## Comparison to Ethiopian Airlines (7 of 12)

While KQ's capacity share of the Africa-East Africa market has been falling, ET's share has grown steadily over the last decade

**ET share of capacity from Africa to East Africa (including intra-East Africa)**  
Percent of total market seats offered by ET



**KQ share of capacity from Africa to East Africa (including intra-East Africa)**  
Percent of total market seats offered by KQ



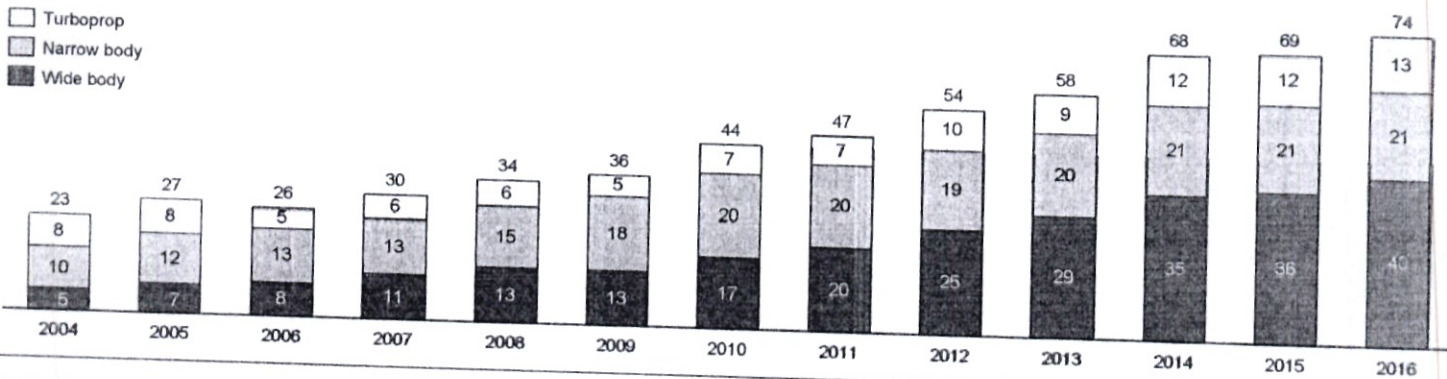
\* Middle East carriers includes Emirates, Etihad, Qatar Airways, and Turkish  
Source: Dlio.net (published schedules)

## Comparison to Ethiopian Airlines (8 of 12)

While both airlines had similar fleets in 2004, ET's current fleet is more than twice larger than KQ's fleet, including 40 wide body aircraft (vs. 7 in KQ's fleet)

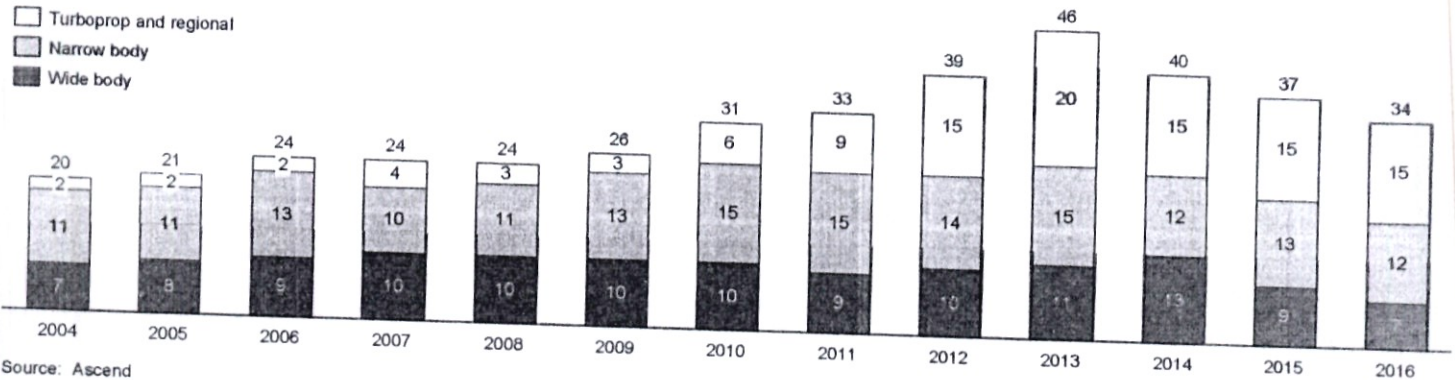
### ET fleet development

Number of aircraft at year end



### KQ fleet development

Number of aircraft at year end



Source: Ascend

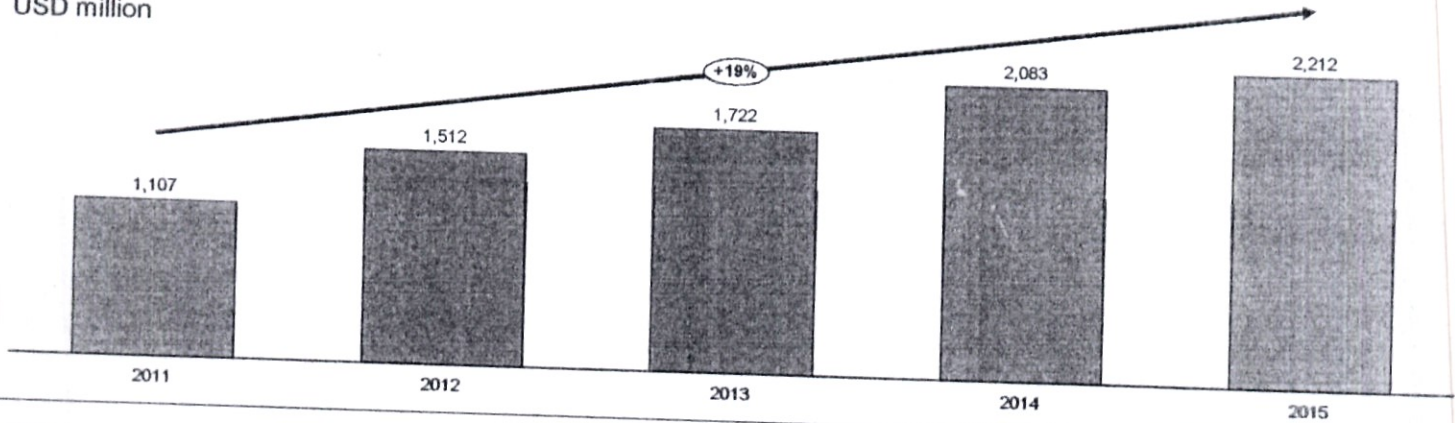
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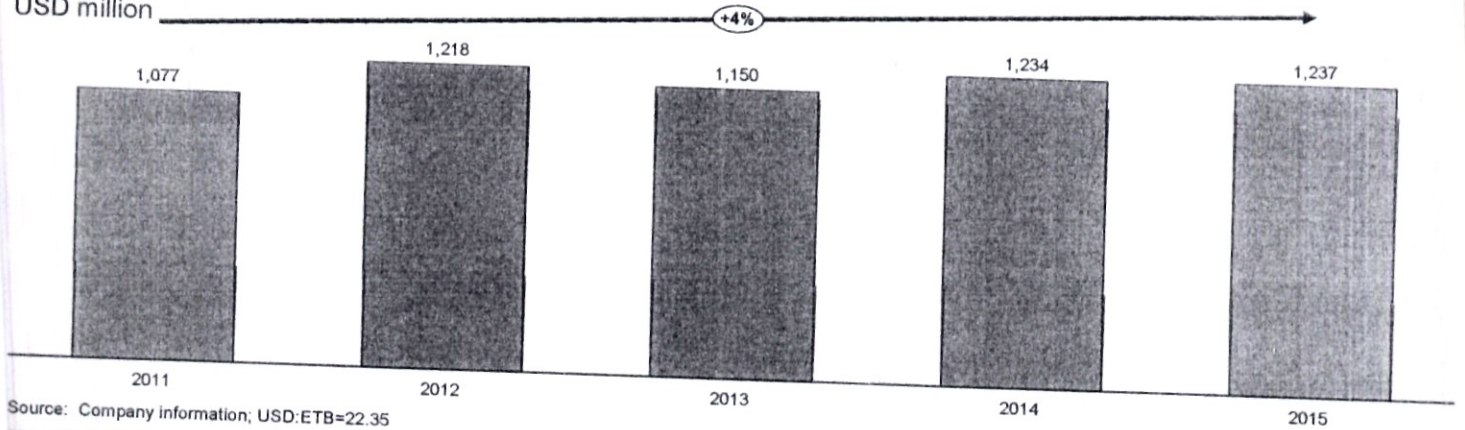
## Comparison to Ethiopian Airlines (9 of 12)

While KQ's revenue growth has stagnated, ET's revenue has doubled since 2011

ET revenue  
USD million



KQ revenue  
USD million



Source: Company information; USD:ETB=22.35

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## Comparison to Ethiopian Airlines (12 of 12)

Key observations from comparison of KQ to ET

- 1 Ethiopia inbound tourism has grown substantially in recent years, while Kenya inbound tourism has fallen dramatically (likely as a result of terrorism fears and related travel warnings)
- 2 ET has significantly increased its share of capacity to/from Ethiopia, as competitors have either been denied access to the market or have chosen to deploy capacity in other markets (e.g., markets with stronger local demand)
- 3 ET does not face the same level of competition from the Middle East carriers in Addis Ababa as KQ faces in Nairobi

4 As a result, ET has been able to significantly grow capacity and profitability simultaneously

5 In some respects, the growth of ET's hub in Addis Ababa can be compared to the growth of airline hubs in Dubai, Abu Dhabi, and Qatar:

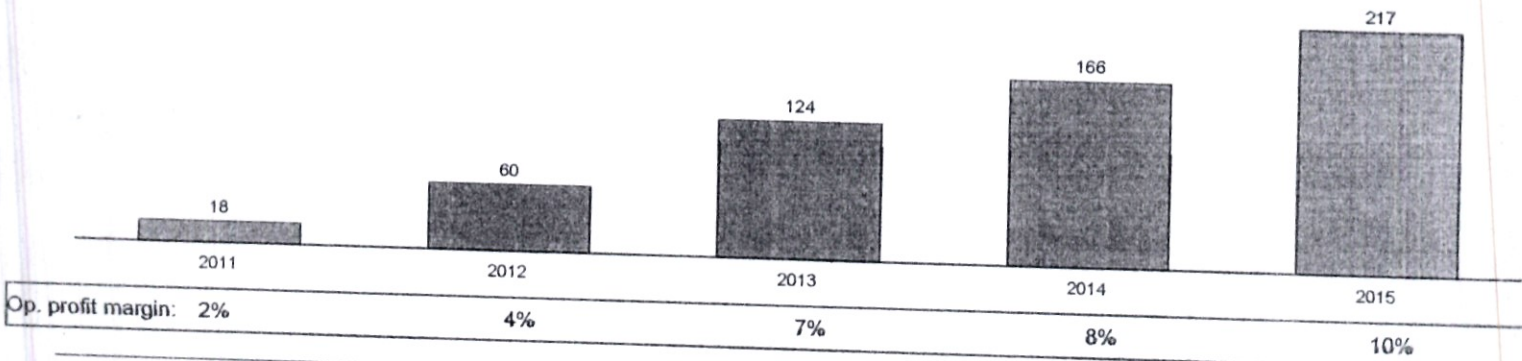
- In both cases, local demand is limited, forcing the hub carrier to develop and exploit connecting traffic opportunities
- In both cases, labor cost advantages are used to rapidly drive scale and capture an outsized share of lower-yielding connecting markets

6 To compete more effectively with ET, Kenya Airways must have the full support of the Government of Kenya – to implement the restructuring and to achieve ongoing operational benefits that only the Gok can provide

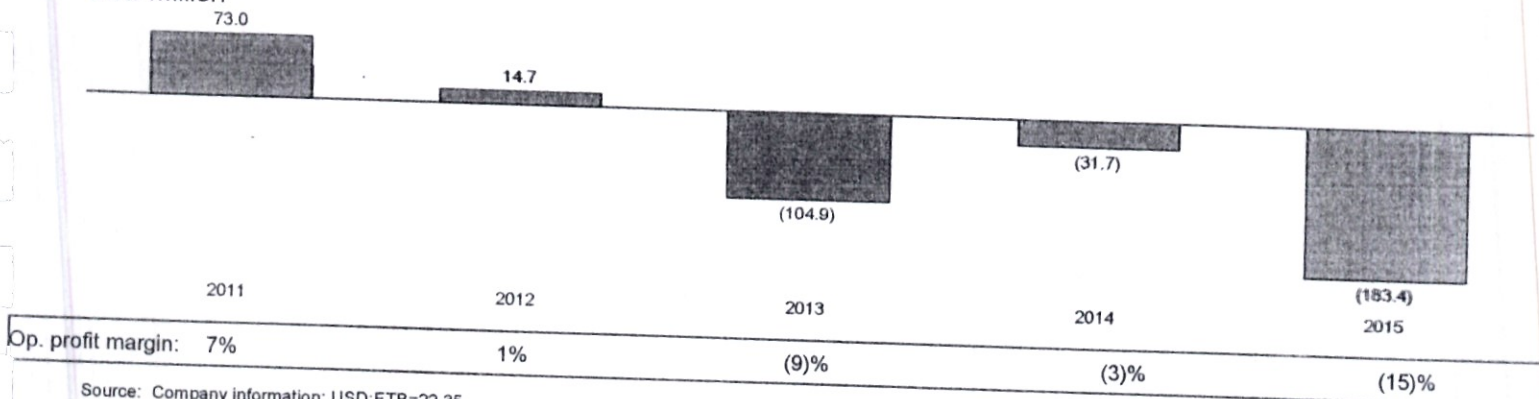
## Comparison to Ethiopian Airlines (10 of 12)

While KQ's performance has deteriorated, ET's profitability has steadily improved from 2% operating profit margin in 2011 to 10% margin in 2015

**ET operating profit**  
USD million



**KQ operating profit**  
USD million



Source: Company information; USD:ETB=22.35

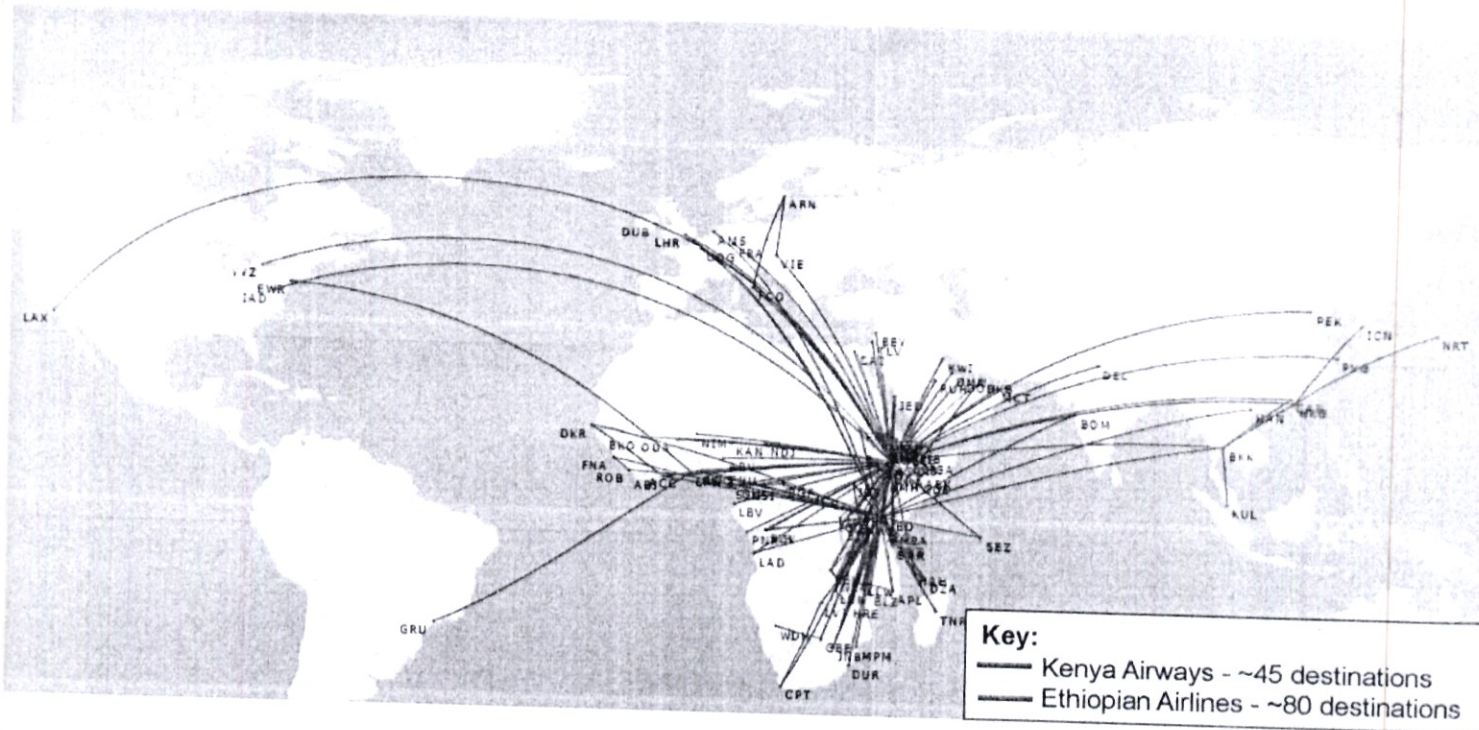
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## Comparison to Ethiopian Airlines (11 of 12)

ET serves twice as many destinations compared to KQ, including multiple destinations in North and South America and more developed networks in Europe and Asia

### Route map comparison



Source: Dlio.net (published schedules)

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# **ANNEX VII**

VOLUME II

**Joint Recommendations to the  
Committee from The Ministry of  
Transport, The Office of the  
Attorney General and Department  
of Justice and The National Treasury**

REPORT ON THE INQUIRY INTO THE PROPOSED KENYA AIRWAYS' PRIVATELY INITIATED  
INVESTMENT PROPOSAL TO KENYA AIRPORTS AUTHORITY

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MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING, URBAN DEVELOPMENT AND PUBLIC WORKS  
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NAIROBI

When replying please quote Ref

MOT/AT/30285/336 VOL. III

*D/Coms*

28<sup>th</sup> May, 2019

Mr. Michael Sialai, EGH  
Clerk of the National Assembly  
Parliament Building  
NAIROBI

*Please deal.*

*30/05/19*

*Tungo Aarua*  
*pls TNA*  
*UP W/20*  
*3/6/19*

Dear *Mr. Sialai*

**REPORT ON THE INQUIRY IN RELATION TO KENYA AIRWAYS' PRIVATELY INITIATED INVESTMENT PROPOSAL TO KENYA AIRPORTS AUTHORITY - RECOMMENDATIONS TO THE DEPARTMENTAL COMMITTEE ON TRANSPORT, PUBLIC WORKS AND HOUSING**

Attached herewith is the response from the Ministry on the proposed recommendations by the Departmental Committee on Transport, Public Works and Housing (DCTPH) as agreed during the meeting held on 7<sup>th</sup> May 2019. The recommendations are consolidated from input from the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works, and the Office of the Attorney – General and Department of Justice.

Kindly forward the response to the Transport, Public Works and Housing Committee for consideration.

Yours *Sincerely*

*[Signature]*  
Esther Koimett, CBS  
PRINCIPAL SECRETARY

Copy to: Mr. James W. Macharia, EGH  
Cabinet Secretary

Encls.

**RECEIVED**  
30 MAY 2019  
SENIOR DEPUTY CLERK  
LEGISLATIVE & PROCEDURAL SERVICES  
P.O. Box 419 - 00100, NAIROBI

**RECEIVED**  
23 MAY 2019  
CLERK'S OFFICE

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RECOMMENDATIONS TO THE DEPARTMENTAL  
COMMITTEE ON TRANSPORT, PUBLIC WORKS  
AND HOUSING

REPORT ON THE INQUIRY INTO THE POLICY, HUMAN RESOURCE,  
LEGAL COMPLIANCE AND ISSUES OF CONCERN TO THE PEOPLE AS  
CONTEMPLATED UNDER ARTICLE 95 OF THE CONSTITUTION IN  
RELATION TO KENYA AIRWAYS' PRIVATELY INITIATED INVESTMENT  
PROPOSAL TO KENYA AIRPORTS AUTHORITY

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These proposed recommendations have been issued pursuant to the directions of the Departmental Committee on Transport, Public Works and Housing (DCTPWH) during the meeting held on 7 May 2019. The recommendations are consolidated from input from the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works, the Office of the Attorney – General and Department of Justice and the National Treasury.

## **Background**

For close to forty (40) years, Kenya enjoyed dominance in the aviation sector in East and Central Africa. Kenya is endowed with a strategic location in terms of connectivity to the rest of Africa, a highly skilled human resource complement trained in aviation matters, as well as relatively well-developed aviation infrastructure systems.

Regrettably, Kenya's aviation sector has been steadily declining in the past decade. This decline has been characterized by the turbulent performance of the National Carrier Kenya Airways Plc (KQ) and the loss of business by Jomo Kenyatta International Airport (JKIA) to other competing hubs globally. The decline is partly attributable to the existing policies impacting aviation in Kenya as well as a lack of agility and operational inefficiencies within the industry.

The Ministry of Transport is taking certain critical actions aimed at the stabilization and growth of the aviation industry. The National Treasury in conjunction with the Ministry of Transport conducted a financial

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restructuring of the national carrier in the year 2017. The next critical step is the restructuring of the aviation industry commencing with the consolidation of aviation assets.

The consolidation of the national aviation assets is aimed at restoring Nairobi as the civil aviation hub of choice in Africa, thereby contributing to Kenya's economic competitiveness, with aviation being a corridor for development and technology transfer. If Kenya is to achieve its objective of being an aviation hub in the region, it must begin to look at its aviation assets more strategically as key contributors to the GDP – and this starts with having a world class airline and world class airports, starting with JKIA as the main gateway to the country.

The main aim is to create operational synergies between Kenya's main hub and the National Carrier, thereby facilitating the airport and airline operations that are economic growth drivers. This model is similar to what is being utilized by Kenya's main competitors in the global aviation industry.

KQ operates internationally and needs to compete on commercially practical terms like any other private sector organization. There are various recommendations to ensure that the place of Nairobi as the civil aviation hub of choice in Africa is restored. Kenya Airways as the national carrier plays a strategic role in this. There is therefore need for KQ to adapt to the rapidly evolving global aviation landscape.

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The current process should therefore be viewed from the lens of a restructuring of the entire aviation sector. The Ministry of Transport is currently embarking on a process of policy review and amendment. The new policy framework will inform the second phase of legislation required to develop the aviation sector post the current exercise.

## **Proposed Recommendations on the Restructuring of the Aviation Sector in Kenya**

The recommendations are structured into two key sections:

- A. Policy and legal considerations on the creation of an Aviation Holding Company; and
- B. Short term measures required to sustain the operations of the National Carrier.

These recommendations are high level and will require additional time to concretize. A minimum period of three (3) months should be granted for the concretization phase.

### **A. Policy and legal considerations on the creation of an Aviation Holding Company**

#### **• Policy Considerations**

The DCTPWH has shared in its preliminary findings on the proposal for creation of a 100% Government of Kenya (GOK) Aviation Holding Company (AHC) that will consist of the following subsidiaries: a hived off JKIA, a residual KAA, a nationalized Kenya Airways Plc and an amalgamated Aviation Academy. The industry regulator KCAA

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maintains its independent position as governed by existing international and domestic legal and practice frameworks. The proposal of the Committee is a variant of the broad policy approved by Cabinet that supported the consolidation of the aviation assets in the manner proposed and is linked to the reorganization of an already existing sector. As stated previously in this document, the Ministry of Transport is currently undertaking a policy review process with the intended outcome being a standalone revised aviation policy and implementation plan.

- **Legal Considerations**

The creation of the 100% GOK owned AHC and the consolidation of the aviation assets will require several changes in the law. These changes will centre on three main points: the establishment of the Aviation Holding Company, establishment of JKIA Corporation and the Nationalization of Kenya Airways Plc. It is important that the changes made, dovetail with the existing legal regime and be implementable.

- **Establishment of Aviation Holding Company**

The creation of the AHC can be achieved by any of the following ways below:

- a Establishment as a State Corporation as per Section 3 of the State Corporations Act;
- b Enactment of a specific statute forming the AHC; and
- c Incorporation of the company under the Companies Act, 2015.

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For greater flexibility and in order to create a sector specific legislation, option b is the most suitable. It is envisaged that the AHC will have the power to establish other companies in the pursuit of its objectives.

There are proposals to exempt the AHC from specific pieces of existing legislation, namely the State Corporations Act, the Public Finance Management Act 2012, the Public Procurement and Asset Disposal Act 2015 and the Public Service Commission Act. The justification proffered is that these exemptions are primarily for the benefit of KQ and will allow the airline to operate competitively on a global level without being fettered by the bureaucratic processes that are attendant to the afore stated statutes.

The justification given requires further canvassing as the said statutes were enacted to create systems of accountability and prudent use of public resources (both financial and human) in state corporations. Furthermore, the law as it exists does not contain provisions for the blanket exemptions sought, and other related statutes such as the Public Audit Act, 2015, may not afford sufficient safeguards.

The law as currently established, precludes public entities from exemptions from the above laws. The Office of the Attorney General has already pronounced itself on the matter where

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Kenya Reinsurance Corporation Limited sought to have its subsidiaries in West Africa and Zambia exempted from the Public Procurement and Asset Disposal Act, 2015 (PPADA, 2015).

The PPADA, 2015 defines a procuring entity as a public entity making a procurement or asset disposal. The Act under Section 2 (k) and (q) further provides that a public entity includes a company owned by a public entity or a body in which the national or county government has controlling interest. The AHC will be a public entity by the fact that the Government of Kenya will have a controlling interest in it.

The AHC will be a conduit, handler and controller of certain public funds. Public funds are defined in the Public Audit Act, No. 34 of 2015 as follows:

- (a) *“All money that comes into possession of, or is distributed by, a State organ including the national or county governments and intergovernmental entities and money raised by a private body under statutory authority...”*
- (a) *“...and any money that can generate liability for the government.”*

Moreover, the Public Finance Management Act, 2012 defines public money as:

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- (a) *“All money that comes into possession of, or is distributed by, a national government entity and money raised by a private body where it is doing so under statutory authority; and*
- (a) *Money held by national government entities in trust for third parties and any money that can generate liability for the Government.”*

A wholly State-Owned Entity is a public asset held in trust for the People of Kenya and subject to the Constitution, the Public Finance Management Act, 2012, the Public Procurement and Asset Disposal Act, 2015 and other Kenyan laws and regulations.

From the foregoing, the AHC and its subsidiaries would be subject to the application of the Constitution, State Corporations Act, PFMA, PPADA, 2015 and the Public Audit Act. The recommendation to exempt the AHC once nationalized from any of the above laws requires statutory exemption expressly provided in an Act of Parliament, with the consequential amendments to relevant Acts.

Section 5A of the State Corporations act allows the President by notice in the Gazette, to exempt a state corporation from any of the provisions of the State Corporations Act.

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In addition, Section 114 A of the PPADA, 2015 provides that a procuring entity may use a procurement procedure specially permitted by the National Treasury. The National Treasury may allow the use of specially permitted procedure where exceptional requirements make it impossible, impracticable or uneconomical to comply with the Act and the Regulations; where the market conditions or behaviour do not allow the effective application of the Act and Regulations made under the Act; for specialized or particular requirements which are regulated or governed by harmonized international standards or practices; where strategic partnership sourcing is applied; where credit financing procurement is applied; or in such other circumstances as may be prescribed. The Act also provides that the Cabinet Secretary may prescribe the procedure for carrying out specially permitted procurement under this section. To enable the operations of the AHC, Regulations for the application of Section 114 A should be enacted.

The statute establishing AHC and the JKIA subsidiary would also provide for the transfer of the relevant assets to JKIA Corporation. The vesting of assets would be preceded by valuation and determination of Assets to be transferred.

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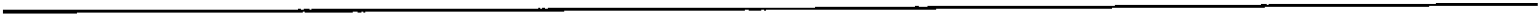
To conclude, it is reiterated that should the legal framework be amended to accommodate the exemptions, alternative measures should be taken to ensure that the proposed AHC and its subsidiaries remain transparent and accountable (to various oversight organs such as the National Treasury, Public Investment Committee and the Auditor General) without excessive bureaucracy.

- **Establishment of Jomo Kenyatta International Airport (JKIA) Corporation**

The modalities of establishing JKIA Corporation are similar to what has been stated above for the establishment of the AHC. The preferred solution is including the establishment of the corporation in the same statute that establishes the AHC. The treatment of exemptions for JKIA Corporation would be the same as what has been stated above for the AHC.

- **Nationalization of Kenya Airways Plc**

The question of nationalization of KQ, is the culmination of a journey that brings the airline back to a similar legal structure that constituted it pre-privatization in 1992. GOK divested a significant portion of its shareholding in the airline to pave way for investment by the public and a strategic partner. Presently, the existing shareholding arrangements provide protection to the other shareholders, in the event of nationalization.



The nationalization of the national carrier is a long-term solution and therefore acceptable. However, the process will require about 18 months due to cost implications and discussions that need to be undertaken with the Banks and private shareholders. There is also need for compliance with applicable laws and regulations such as the Companies' Act, Capital Markets Act, Competition Act, Capital Markets (Takeovers and Mergers) Regulations, 2002 (the "Takeover Regulations").

As part of the nationalization, it has been proposed that a delisting process for KQ be carried out, which includes suspension of trading, negotiation and buyout of shareholders. The option of a long-term bond for KQ Lenders in order to exit them from the shareholding is a critical consideration. A valuation of shares will have to be done to determine the financial implications of this step.

Below is an outline of the required processes to achieve nationalization of the carrier. The points below are based on the assumption that KQ will be delisted:

1. In order to commence the nationalization process, GOK could make an offer to the other shareholders of KQ, with the objective of acquiring majority shareholding.



The takeover of a public listed company is prescribed by the Takeover Regulations, with Capital Markets Authority, Competition Authority and the Securities Exchange approvals being some of the mandatory requirements;

- ii. Once majority shareholding is obtained by GOK, GOK can then proceed to buy out minority shareholders in accordance with the provisions of the Companies Act 2015.
- iii. With regard to the shareholding of KLM and any other foreign investor in KQ, and in addition to the existing KQ Shareholders Agreement, the Foreign Investments Protection Act as read with Article 75 (1) of the Constitution provides that no property of any description shall be compulsorily taken possession of, and no interest in or right over property of any description shall be compulsorily acquired, except where the following conditions are satisfied:
  - the taking of possession or acquisition is necessary in the interests of defence, public safety, public order, public morality, public health, town and country planning or the development or utilization of any property in such manner as to promote the public benefit; and

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- provision is made by a law applicable to that taking of possession or acquisition for the prompt payment of full compensation.

The following considerations are critical to the nationalization process:

- (i) Negotiation of equipment leasing arrangements for KQ as the nationalization option is a trigger for change control provisions which are a trigger for default; and
- (ii) Determination of the funding implication to GOK of implementing the proposed structures and provision of requisite budgetary allocations.

#### **B. Short term measures required to sustain the operations of the National Carrier**

Short term legislative and administrative actions include but are not limited to:

##### **❖ Tax Exemptions**

In line with recommendations of the Transport Committee it is proposed to specify the following tax exemptions benefiting the AHC and its subsidiaries for a specific period:

- a) Amendment of the Miscellaneous Fees and Levies Act, 2016 to exempt the AHC from paying:
  - Railway Development Levy (RDL) on aircraft, aircraft parts, Jet A-1 fuel, utilities, commercial / on-board products and related goods and equipment; and

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- Import Declaration Fees (IDF) on aircraft parts, utilities, commercial / on-board products and related goods and equipment, Jet A-1 fuel imported by the suppliers and procured by AHC and its subsidiaries.
- b) Amendment of the East African Community Customs Management Act (EACCMA) to exempt the AHC from paying Custom Duty on aircraft related parts and accessories not specifically exempted from tax under part B of the 5th Schedule to the act such as jet lubricants, grease, adhesives, aircraft specific detergents used for aircraft maintenance, aircraft seats and other related goods.
- c) Amendment of the Excise Duty Act to provide for an exemption from Excise Duty for all excisable goods including excise on Jet A-1 fuel imported by the suppliers and procured by AHC and its subsidiaries.
- d) Amendment of the Second Schedule to the Value Added Tax Act to zero-rate all supplies made or received by the AHC and its subsidiaries, including supplies of Jet A-1 fuel for both international and domestic flights.

The tax exemptions are supported. However, they may not be enough to sustain the airline and enable it to undertake the role of a strategic national asset, primarily to expand its route network and strengthen JKIA as a hub.

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### ❖ **Collection of Charges in Aviation Sector**

- It is recommended that the Air Passenger Service Charge (APSC) be collected by the AHC and provided to the subsidiaries in line with an agreed sharing arrangement. However, the holding company should have some flexibility to consider the strategic plans of the subsidiaries and provide funding as necessary;
- The proposal to allow JKIA Company to collect landing charges, parking charges, en-route charges, aerodrome and approach charges though welcome may affect Kenya Civil Aviation Authority's ability to provide Air Navigation Services in the country. It is therefore proposed that the en-route charges, aerodrome and approach charges which are an integral part of the Air Navigation Service Charges should be collected by the Kenya Civil Aviation Authority;
- The proposal to increase the Air Passenger Service Charge currently being given to the Kenya Civil Aviation Authority (KCAA) from 6% to 20% is therefore not recommended. The Annual budgets of the subsidiaries should be agreed with the holding company and funded as necessary.

### **Conclusion**

The above proposal has been designed in line with the proposed recommendations of the Transport Committee. In our view this proposal

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offers the structural and long-term reforms of the Kenyan aviation sector. It should be therefore treated as a comprehensive package of solutions (holding structure, tax exemptions, collection of charges scheme etc.) with each element significantly supporting the growth of the airline and airport business in the future. Implementation of this proposal shall ultimately lead to restoration of the national aviation's competitiveness and its market share in East Africa.

The proposal, however, require further deep-dive analyses to carefully study each aspect of the holding operations such as flow of funds between the mother company and subsidiaries, efficient management and governance structure as well as improvement initiatives (quick-wins) to generate benefits in short- and long-perspective. The responsibility to re-organize public assets is vested in the National Treasury. There is thus need for critical analysis of the financial implications of nationalization through the use of financial modelling and other tools.

The technical team considered the following measures:

- A. Review of the efficiency drivers for the Airport Operator KAA and Industry Regulator KCAA and optimization of their functions;
- B. Affirmative measures that will achieve coherence between aviation policy and broader GOK mainstream policy in a symbiotic manner.

GOK may consider formation of a dedicated team to develop long term measures to create a sustainable aviation policy and oversee its implementation.

