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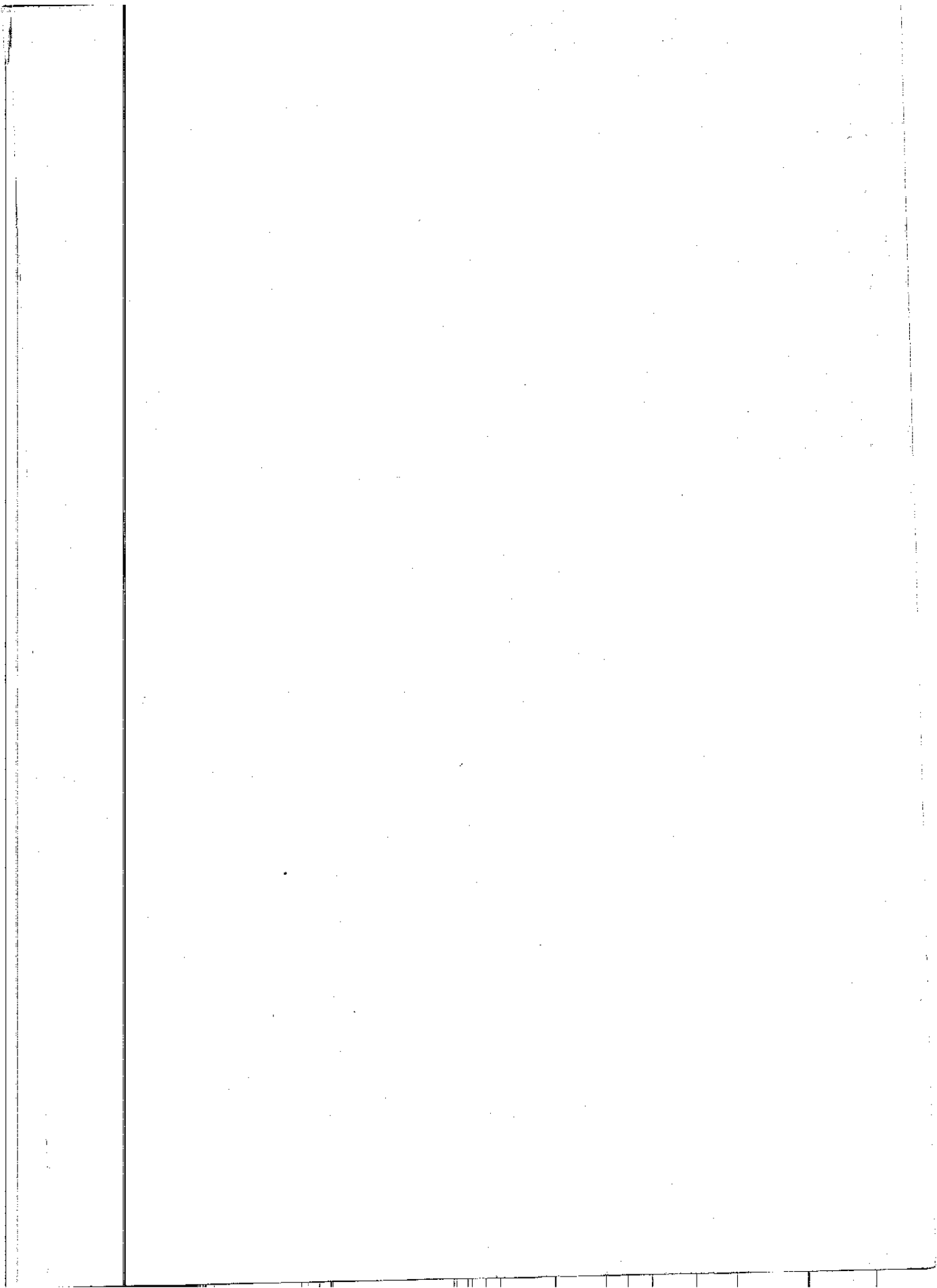
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 Kenya Airways

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KENYA AIRWAYS LIMITED AND SUBSIDIARIES
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1997

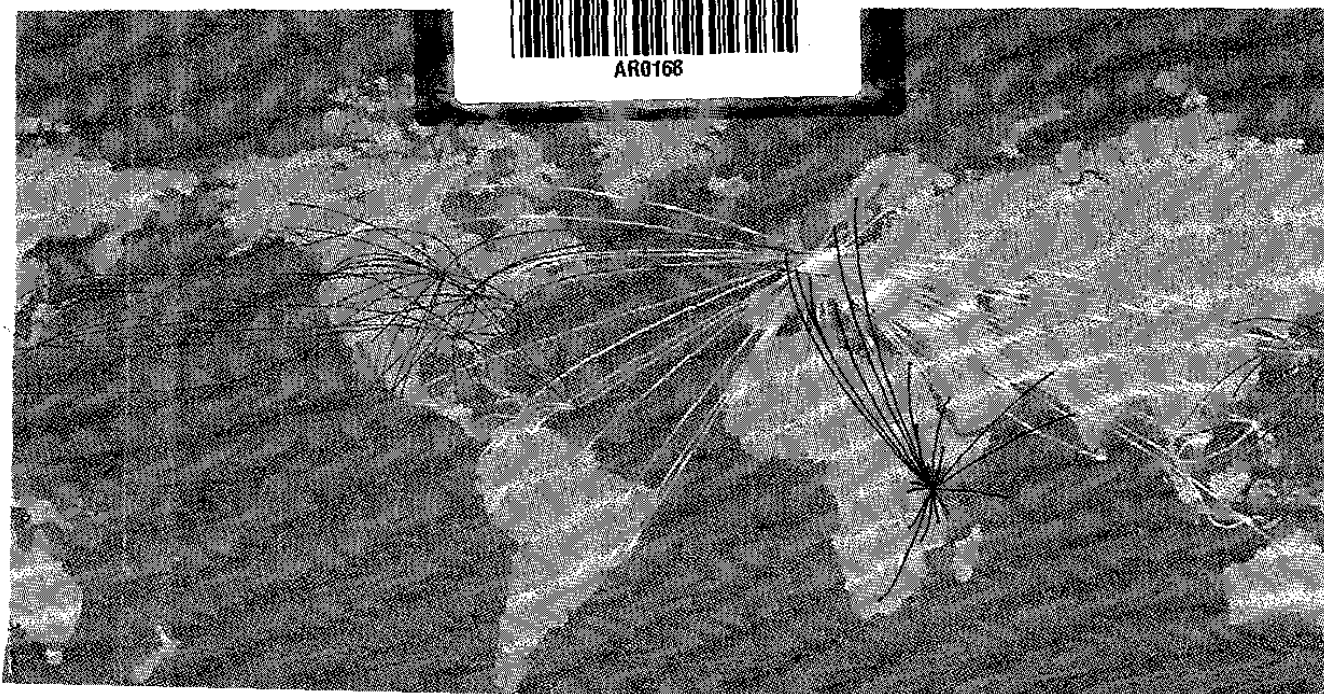
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1997



I.O. Okero
Chairman



B. Davies
Managing Director



M. Naylor
Finance Director



C. W. Obura
Director

2007/0163



S. Murage
Director



D. Kapila
Director



S. L. Lesrima
Director



R. J. N. Abrahamsen
Director



M. Somen
Director



H. K. Kiplagat
Director



A. B. van Luyk
Director



I.O. Okero
CHAIRMAN

This was our first financial year as a publicly quoted company. Trading of shares commenced in June 1996 with 113,000 members on our Register, making Kenya Airways the company with the largest number of shareholders in a publicly quoted company in East Africa.

This year has produced many contrasts in the challenges and opportunities we face in running an efficient, international airline capable of meeting the high expectations of our shareholders.

THE BUSINESS SECTOR

Demand for Air Transport continues to grow worldwide and we carried 788,272 passengers during the year, an increase of 6% over the previous year. The acquisition of new Boeing 737-300 aircraft amply demonstrates our confidence in the growth prospects for this industry and also underlines our commitment to developing air services within Sub-Saharan Africa.

Revenue growth was encouraging with income from passenger sales increasing 10% over last year and total income at Kshs 10.7 billion, 6.6% higher than 1995/96. This increase, although commendable, was insufficient to compensate for rising costs, which grew 10.1% over the year and resulted in a fall of 11.8% in operating profits (profit before foreign exchange losses and taxation). In general terms, the decrease in operating profits shows a similar trend to other international airlines, following the impact of high worldwide oil prices, which resulted in additional aviation fuel costs of Kshs 250 million during the year.

Pre-tax profits, are down 31% to Kshs 1.0 billion. This result is heavily influenced by foreign exchange losses brought about by the strength of the Kenya Shilling.

Despite the above, Kenya Airways continues to perform at levels significantly above that achieved by the majority of international airlines worldwide.

LABOUR

Labour costs increased 27% during the year, a level which is clearly unsustainable against revenue growth rates of between 6 and 7%. Our senior management team has a clear directive from the Board to ensure that future pay awards are matched by commensurate growth in Company productivity.

ALLIANCE WITH KLM

Encouraging progress was achieved during the year in developing our alliance with KLM Royal Dutch Airlines. We have combined flights between Nairobi and Amsterdam and now operate jointly six weekly flights. We have also beginning summer '97 taken over some KLM services from Nairobi to Lilongwe, Dar-es-Salaam and Lusaka. This is the first step in our strategy of developing Nairobi as a major international aviation hub. Other synergies include a joint purchasing programme which will produce tangible benefits during the coming year and provide a further boost to profitability.

Ripoti ya Mwenyekiti

Huu ulikuwa mwaka wa kwanza wa kifedha tukiwa kampuni inayomilikiwa na wenyehisa. Hisa za kampuni zilianza kuuzwa Juni 1996 na tukiwa na wenyehisa 113,000 katika Rejista, Kenya Airways ndiyo kampuni yenye idadi kubwa zaidi ya wenyehisa kati ya kampuni zinazomilikiwa na umma Afrika Mashariki.

Mwaka huu umekuwa wa matatizo mapya na mafanikio tunapojitahidi kuimarisha zaidi Kenya Airways ili liwe shirika la ndege la kimataifa linalofikia shabaha na kutiiza ndoto za wenyehisa wetu.

SHUGHULI ZA KIBIASHARA

Mahitaji ya usafiri wa ndege yanazidi kuongezeka kote ulimwenguni na mwaka huu wa fedha, tulibeba abiria 786,272. Hili lilikuwa ongezeko la asilimia 6 kuliko mwaka uliotangulia. Imani yetu kwamba shirika litastawi zaidi inathibitishwa na ununuzi wa ndege mpya aina ya Boeing 737-300.

Mpango huu unaonyesha kuwa tuna shabaha ya kuimarisha zaidi huduma za safari za ndege katika nchi za kusini mwa jangwa la Sahara.

Mapato kutoka uuzaji wa tiketi za ndege yalitia moyo kwa sababu yaliongezeka kwa asilimia 10 kuliko mwaka uliotangulia na jumla ya mapato ilifikia Sh 10.7 bilioni au ongezeko la asilimia 6.6 kuliko mapato ya 1995/96.

Hata ingawa ongezeko hili la mapato lilitia moyo, halikutosha kugharamia ongezeko la gharama lililopanda kwa asilimia 10.1 mwaka huo na kusababisha upungufu wa asilimia 11.8 wa faida ya kufanyia kazi (au faida kabla ya kugharamia hasara kutokana na mabadiliko ya thamani ya fedha za kigeni na kodji). Kwa ujumla, upungufu huu wa faida ya kufanyia kazi umeonekana katika mashirika mengine ya ndege ya kimataifa ulimwenguni kufuatia ongezeko la bei ya mafuta. Ongezeko hili lilisababisha shirika litumie Sh 250,000,000 zaidi katika gharama ya mafuta.

Faida kabla ya kodi ilipungua kwa asilimia 31 hadi Sh 1.0 bilioni. Upungufu huu ulitokana zaidi na hasara kutokana na mabadiliko ya thamani ya pesa za kigeni baada ya thamani ya Shilingi ya Kenya kupanda.

Licha ya hali iliyotajwa hapo juu, Kenya Airways inaendelea kufanya vyema kuliko mashirika mengi ya ndege ya kimataifa ulimwenguni.

GHARAMA YA KAZI

Gharama ya kazi iliongezeka kwa asilimia 27 mnamo mwaka wa kibiashara. Hiki ni kiwango kisichokubalika kwa sababu shirika lilistawi kwa baina ya asilimia 6 na 7. Kutokana na jambo hili, Halmashauri ya Wakurugenzi imeagiza wakuu wa shirika wahakikishe kuwa nyongeza zozote za mishara siku zijazo zitaambatana na ustawi wa Kampuni.

MUUNGANO NA SHIRIKA LA NDEGE LA KLM

Maendeleo ya kutia moyo kuhusu muungano wetu na KLM au Royal Dutch Airlines yalipatikana katika mwaka tunaazungumzia. Tumeunganisha safari zetu za ndege baina ya Nairobi na Amsterdam ambapo tunafanya safari sita pamoja kwa wiki. Kuanzia masika ya kiangazi ya mwaka huu wa 1997, tumechukua baadhi ya safari za shirika la KLM baina ya Nairobi na Lilongwe, Dar-es-Salaam na Lusaka. Hili ni sehemu moja ya mpango wetu wa kustawisha Nairobi kuwa kituo muhimu cha safari za ndege za kimataifa ulimwenguni. Mipango mingine ya ushirikiano inahusu shughuli za ununuzi wa pamoja ambazo manufaa yake yataonekana mwaka ujao na kutuwezesha tupate faida zaidi.

CMA-LIBRARY



Isaac Omolo Okero and Garry Scott, Vice President of Boeing celebrate the acquisition of the first KQ Boeing 737-300.

Chairman's Statement cont...

DIVIDEND

The Board is recommending a final dividend for the year of Kshs 0.50 for each Kshs 5.00 ordinary share and brings to Kshs 0.75 per share the total dividend paid for the year. In view of the inconvenience experienced by the majority of our shareholders in encashing relatively small interim dividend cheques and the high administrative costs to the Company involved, the Board has decided not to declare an interim dividend in the coming year.

SUBSIDIARY

Turning to our subsidiary company KABL the recent liberalisation of the air cargo handling business by the Government has made it necessary for us to introduce measures to restructure and revitalise KABL. We are certain that the measures being taken will prepare KABL to face an increasingly competitive environment with confidence.

BOARD

During the year, we had two changes in the Board with the election of Dr. Chris Obura, a well known business personality and the appointment by the Board of Mr. Simeon Lesima, the Permanent Secretary, to the Treasury to fill a vacancy on the Board created by the retirement of his predecessor at the Treasury, Mr. Benjamin Kipkulei.

PROSPECTS

The outlook for Kenya Airways remains a positive one. Anticipated growth in traffic, enhanced productivity from our workforce, additional benefits accruing from the strategic partnership with KLM, and stabilising fuel prices are factors which will contribute to a bright future for the "PRIDE OF AFRICA".

I.E. OMOLO OKERO

CHAIRMAN

Ripoti ya Mwenyekiti Inaendelea

MGAWO

Halmashauri inapendekeza mgawo wa mwisho kuhusu mwaka wa KSh 0.50 kwa kila hisa ya kawaida ya KSh 5 na unajumlisha mgawo wa mwisho uliolipwa kuhusu mwaka kuwa KSh 0.75 kwa kila hisa. Kutokana na shida inayokabili idadi kubwa ya wenyehisa wetu wanapotaka kubadili cheki zao ndogo za migawo ya muda pamoja na Kampuni kupata gharama kubwa ikizitayarisha, Halmashauri imeamua kutotangaza mgawo wa muda katika mwaka ujao wa biashara.

TAWI

Tukigeukia kampuni yetu ya Kenya Airfreight Handling Limited (KAHL), mpango wa majuzi wa Serikali wa kulegeza masharti ya biashara - ya ushughulikiaji mizigo una maana kwamba lazima tufanye mabadiliko na kuimarisha zaidi huduma za KAHL. Tuna uhakika kwamba hatua hizi zinazotekelezwa zitawezesha KAHL ikabiliane na ushindani kutoka mashirika mengine.

HALMASHAURI YA WAKURUGENZI

Kulikuwa na mabadiliko ya uanachama wa Halmashauri katika mwaka tunaozungumzia. Dkt Chris Obura, ambaye ni mfanya biashara maarufu nchini na Katibu Mkuu wa Wizara ya Fedha, Bw Simeon Lesrima, walijiunga na Halmashauri ya Wakurugenzi.

MATARAJIO

Kenya Airways ina matumaini mema ya kiustawi siku zijazo. Inatarajia ongezeko la abiria, wafanya kazi kuongeza bidii na manufaa zaidi kupatikana kutokana na mpango wa kuungana na shirika la KLM na wakati bei ya mafuta itakapopungua na kuwa thabiti, "FAHARI YA AFRIKA" itaweza kustawi zaidi siku zijazo.

I.E. OMOLO OKERO
MWENYEKITI



KQ Boeing 737-300 with the new corporate look

Chief Executive's Statement

This year, Kenya Airways celebrates 20 years since inception. The year in review has been a remarkable period of change for the airline, as many of the key projects planned during the process of the airline's privatisation have been implemented successfully.

NETWORK DEVELOPMENT

Significant changes have been made to our route network in order to benefit from our partnership with KLM. Kenya Airways' first joint flight with KLM to Amsterdam was inaugurated in November 1996, producing impressive results during the first six months of operation. In April 1997 operations to Amsterdam were further expanded to six joint flights per week. Three flights are operated using KLM aircraft and three flights by Kenya Airways aircraft.

During the same period, loss making services to Zurich and Frankfurt were suspended, enabling additional capacity to be made available on non stop London flights. First quarter results on this new European route structure show impressive performance with passenger traffic growth of 20% compared to the same period last year.

Kenya Airways has taken over a number of services previously operated by KLM from Nairobi to Lusaka, Dar-es-Salaam and Lilongwe. This is the first phase of our strategy to develop Nairobi as a major aviation hub for Africa.

AIRPORT DEVELOPMENT

Kenya Airways is working closely with Kenya Airports Authority to improve facilities at Nairobi's Jomo Kenyatta International Airport. Towards this end, Kenya Airways and KLM recently inaugurated an ultra modern transit lounge located in the terminal building to cater for their regional passengers transiting through Nairobi, and also for Kenya Airways Premier and KLM World Business Class passengers using the airport. The lounge will accommodate 120 economy class passengers and 70 Premier class passengers and is tastefully designed to international standards with modern and comfortable seating, refreshments, washrooms, telephones and cable television network.

FLEET DEVELOPMENT

During the year, the airline embarked on a fleet modernisation programme with the purchase of two new Boeing 737-300 aircraft which are now in service. These aircraft enable the airline to provide a much improved level of service and reliability at significantly lower operating costs than the ageing B737-200 series previously used on our regional routes. A third B737-300 will be delivered in May 1998. The airline has an option to purchase a fourth aircraft for delivery in early 1999, to cater for the continuing expansion of our regional operations.



One of the new KQ Boeing 737-300 under service before take off.

PRODUCT AND SERVICE IMPROVEMENT

To satisfy increased demand for our Premier Class product we have increased the capacity of the Premier cabin in the Airbus A310-300 aircraft from 12 seats to 18 seats and in the B737 from 12 to 16 seats. Our long haul Premier Class service in our Airbus fleet is being further upgraded with the installation of new 57 inch pitch seats and Personal Multi-video monitors giving individual choice of up to six movies.

28 new cabin crew attendants were recently recruited to join our inflight service team who have undergone continuous refresher and upgrade training. A series of "Quality Challenge" workshops have been run to review all aspects of our service delivery. Our goal is to achieve the same level and consistency of service quality maintained by our partner, KLM, without losing the traditional Kenyan style of informal and individual attention to our customers.

Check in facilities are being upgraded at all major destinations, using common computerised check in systems. This enables passengers travelling throughout the partnership's network to receive a "seamless" service and be issued with their boarding cards and seat allocations for the entire journey.

Our operations at London Heathrow airport have moved to Terminal 4, offering our passengers a much improved level of service. In conjunction with our partner KLM. This has further improved our competitive position as the only airline offering non stop services between London Heathrow and Nairobi.

FREQUENT FLYER PROGRAMME

Kenya Airways domestic frequent flier programme "Msafiri" merged with KLM's "Flying Dutchman" international programme earlier in the year, giving our customers the opportunity to enjoy the full benefits of one of the best frequent flyer schemes in the world. Since the merger, membership of the Flying Dutchman in Kenya has increased by more than 60%.

Membership to this global loyalty programme enables all Kenya Airways frequent fliers to accumulate mileage through the Kenya Airways and KLM network which also includes flights on our domestic service. Some of the direct benefits to our members include express service at airports, membership to airport lounges, upgrades and special travel packages, all based on the level of individual membership.

PRODUCT DISTRIBUTION

Kenya Airways has become the national distribution company for the "Galileo" automated travel agent booking system. Galileo will replace the existing GETS system presently used by over 130 travel agents in Kenya. It is one of the most advanced systems in the industry and will provide improved visibility of Kenya Airways network of services throughout the world.



Chief Executive's Statement cont.

KENYA AIRWAYS/ KLM PARTNERSHIP

Significant benefits are now being derived from our partnership with KLM. We have embarked on a large number of joint projects under the guidance of an Alliance Committee of senior managers from both airlines.

Considerable financial savings and improved market penetration is being experienced following the establishment of joint sales offices in New York, Johannesburg, Dar-es-Salaam, Lilongwe and Khartoum with plans to move KLMs Nairobi operations to the Kenya Airways Barclays Plaza offices later in the year. Joint purchasing with KLM has offered Kenya Airways savings of up to 40% on international purchases, often with improved credit terms. Joint ground handling by the two airlines in shared airports has enabled us to offer improved service levels at reduced cost.

Kenya Airways aircraft insurance is now placed through the KLM consortium, resulting in savings of 20% in insurance premiums in the first year. The savings are expected to increase substantially in future years.

NEW CORPORATE IMAGE

The acquisition of our new Boeing 737-300 aircraft early this year, offered the opportunity to launch our new corporate image. The change signals our successful transition from a parastatal to a thriving publicly quoted company. However, the aircraft livery retains the national colours of black, red and green, recognising our continuing role as the national airline of Kenya.

The remaining aircraft in the fleet will be painted in the new livery as part of the normal maintenance program.

TRAINING

The airline is committed to continued manpower development through provision of regular specialised and service based training to members of staff. Last year, 1,600 members of staff were involved in regular training programmes funded by the Company both internally and externally.

KENYA AIRFREIGHT HANDLING LIMITED

Kenya Airfreight Handling, our cargo handling subsidiary, has recently undergone a restructuring process to offer it more autonomy and independence to meet new service requirements in an increasingly competitive industry. A new cargo handling computer system has been installed and procedures have been streamlined to ensure faster manifesting and tracing of cargo, avoiding the immense amount of paperwork that has provided service bottlenecks in the past.

Additional security procedures have been introduced, leading to a dramatic reduction in pilferage and damage. The company is now more customer focused and well placed in the market to offer value for money and highly competitive service to its customers.

SERVICE TO THE COMMUNITY

The airline has continued to extend support to deserving community projects. During the last year 77 patients requiring urgent medical treatment not available in Kenya were assisted with air travel when it was evident that this was beyond their means.

Kenya Airways has continued to support AMREF in their various community based projects, including use of our inflight magazine as a medium to communicate and highlight some of their key messages.

The Operation Smile project that brings to Kenya a team of doctors from all over the world to operate on children with cleft lip and palate disorders, has been supported with air travel to locations outside Nairobi.



The Management team from left: Mike Flinders - General Manager KAHL, George Kivindyo - Commercial Director, Steve Clarke - Technical Director, Lewis Kamau - Legal Director & Co. Secretary, Brian Davies - Managing Director & Chief Executive, Ben Mtuweta - Director Corporate Services, Malcom Naylor - Finance Director, Capt. Joe Mutungi - Director of Flight Crew, David Namu - Director External Affairs.

THE FUTURE

The initial experience of working with our partner KLM has indicated the tremendous potential that exists to improve the performance of both businesses through co-operation. Many new projects will be started during the next year in order to maintain the momentum of improvements.

Development of Nairobi as the aviation hub of Africa will require close co-operation with various Government bodies in the upgrading of facilities and in creating an enabling environment for future growth of our national Airline. The African continent is still poorly served by air services and very few African airlines have the advantages afforded Kenya Airways in exploiting this major growth opportunity.

In responding to future opportunities the major challenge facing the airline is the containment of costs through even more efficient use of resources. Labour costs have increased sharply during the past year without commensurate growth in revenue. Whilst our cost levels still remain below industry average, it is essential that we take advantage of future growth to dramatically improve productivity without threatening employment prospects.

BRIAN DAVIES

MANAGING DIRECTOR & CHIEF EXECUTIVE

Financial Highlights

	1997		1996		1995	
	K.Shs Mill	USD Mill	K.Shs Mill	USD Mill	K.Shs Mill	USD Mill
Turnover: Passengers	8,287.5	146.2	7,531.6	135.9	6,736.9	128.2
Cargo	1,170.6	20.6	1,275.2	23.0	1,220.3	23.2
Other	1,253.8	22.1	1,240.9	22.0	1,006.3	19.1
Total	10,711.9	188.9	10,047.7	180.9	8,963.5	170.5
Direct Expenditure	(6,643.5)	(117.2)	(6,193.5)	(111.7)	(5,512.0)	(104.8)
Gross Profit	4,068.4	71.7	3,854.2	69.2	3,451.5	65.7
Overheads	(2,709.6)	(47.8)	(2,350.2)	(42.4)	(2,108.4)	(40.1)
Interest Payable	(149.1)	(2.6)	(171.1)	(3.1)	(237.8)	(4.5)
Interest Received	203.6	3.6	266.7	4.8	114.9	2.2
Gains/(Losses) on Foreign Exchange	(323.2)	(5.7)	400.2	7.2	(334.6)	(6.4)
Profit before Taxation and Exceptional Items	1,090.1	19.2	1,999.8	35.7	885.6	6.9
Exceptional Items	0.0	0.0	(411.1)	(7.4)	1,251.2	23.8
Taxation	(238.5)	(4.2)	(169.6)	(3.1)	0.0	0.0
Net Profit	851.6	15.0	1,419.1	25.2	2,136.8	40.7
Dividends	346.0	6.1	0.0	0.0	0.0	0.0

Operating Statistics

	1997	1996	1995
Passengers	788,272	748,623	753,544
RPK's (Mill) (1)	1,843	1,757	1,737
ASK's (Mill) (2)	2,741	2,632	2,521
Passenger Load Factor % (3)	67.2	66.8	68.9
Cargo Tonnes	11,303	11,614	12,339
Pax Yield per RPK (US CENT) (4)	7.9	7.7	7.4
Employees: Airline Group	2,359 2,708	2,339 2,660	2,365 2,727
Aircraft in Service at Year End:			
Airbus A310-300	3	3	3
Boeing 737-200	1	2	2
Boeing 737-300	1	0	0
Fokker 50	3	3	3

Notes: (1) R.P.K (Revenue Passenger Kilometres)

The number of passengers carried multiplied by the distance (Kilometres) flown

(2) A.S.K (Available Seat Kilometres)

The number of seats available for sale multiplied by the distance (Kilometres) flown

(3) Passenger Load Factor

RPK's expressed as a percentage of ASK's

(4) Pax yield per RPK

Passenger income divided by passenger kilometres travelled expressed in US cents

The directors submit their report and the audited accounts for the year ended 31 March 1997.

1. PRINCIPAL ACTIVITY

The principal activities of the Group are carriage of passengers and cargo by air, and provision of ground handling services.

2. RESULTS

The results of the Group for the year are shown on page 16.

3. DIVIDEND

The directors recommend the payment of a final dividend of 50 cents per share to bring the total dividend for the year to 75 cents per share (1996 - Nil).

4. DIRECTORS

Directors who served during the year were:-

Mr. I. O. Okero	-	Chairman
Mr. B. Davies	-	Managing Director
Mr. M. Naylor	-	Finance Director
Mr. D.L. Makhanu	-	Ceased 23 April 1996
Mr. S. Murage	-	Appointed 23 April 1996
Mr. B. Kipkulei	-	Ceased 16 January 1997
Mr. S.L. Lesirma	-	Appointed 16 January 1997
Mr. S.A. Wako	-	Retired 15 November 1996
Mr. R.J.N. Abrahamsen		
Mr. A.B. Van Luyk		
Mr. D. Kapila		
Mr. M. Somen		
Mr. H. K. Kiplagat		
Dr. C.W. Obura	-	Appointed 16 January 1997
Mr. J.B. Okara	-	Alternate to Mr. S. Murage
Mr. G.M. Mitine	-	Alternate to Mr. S. Lesirma
Mr. P. Slobbe	-	Alternate to Mr. R.J.N. Abrahamsen
Mr. J. Pfeifer	-	Alternate to Mr. A.B. Van Luyk

Mr I.O Okero and Mr H.K. Kiplagat are due to retire as directors of the company by rotation but being eligible offer themselves for re-election. Mr. S.L. Lesirma having been appointed by the board on 16 January 1997 to fill a casual vacancy following the resignation of Mr. B. Kipkulei retires at the annual general meeting and being eligible offers himself for re-election.

5. AUDITORS

Bellhouse Mwangi Ernst & Young have indicated their willingness to continue in office and do so under the terms of section 159(2) of the Companies Act.

By order of the board

L G KAMAU

COMPANY SECRETARY

Report of the Auditors

to the members of
KENYA AIRWAYS LIMITED

We have audited the accounts set out on pages 15 to 28 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and on the basis of the accounting policies set out on page 20. We obtained all the information and explanations which we considered necessary for our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the accounts. Our responsibility is to express an opinion on the accounts based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with generally accepted auditing standards. We planned and performed our audit so as to obtain a reasonable assurance that the accounts are free from material misstatement. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of significant estimates and judgements made by the directors in the preparation of the accounts, and whether the accounting policies are appropriate in the group's circumstances, consistently applied and adequately disclosed.

OPINION

In our opinion, proper books of account have been kept and the accounts, which are in agreement therewith, give a true and fair view of the state of the financial affairs and the profit of the Group and the Company at 31 March 1997 and the cash flow of the Group for the year then ended and comply with the Companies Act.

As indicated in Note 2, aircraft which are financed in whole or in part in foreign currency borrowings are regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The resulting net exchange differences are taken to reserves since the directors are of the opinion that these borrowings provide a hedge against the exchange risk associated with the investments. This is not in accordance with Kenyan Accounting Standard Number 9 which provides that the cost of such assets be fixed in Kenya Shillings at the rate ruling at the date of the original acquisition and the exchange gain or loss on the related borrowing be reflected in income. We concur with this treatment.

 **BELLHOUSE MWANGI ERNST & YOUNG**

NAIROBI

11 July 1997

		31 March 1997	31 March 1996
	Note	K.Shs 000's	K.Shs 000's
FIXED ASSETS	2	5,691,680	4,530,095
INVESTMENTS	3	2,030	2,030
DEFERRED ASSETS	5	27,361	7,853
DEPOSITS	6	944,229	138,901
		6,665,300	4,676,879
CURRENT ASSETS			
Stocks	7	626,268	477,427
Debtors	8	1,736,613	1,350,800
Bank and cash balances		2,163,301	3,607,951
		4,526,182	5,436,178
CURRENT LIABILITIES			
Sales in advance of carriage		567,712	557,939
Creditors and accruals	9	2,243,597	2,244,360
Bank overdrafts (unsecured)		75,847	102,318
Loans payable within one year	10	300,012	763,668
Tax		64,453	154,520
Proposed dividend	17	230,808	-
		3,482,429	3,822,805
NET CURRENT ASSETS		1,043,753	1,613,373
LONG TERM LOANS	10	1,787,800	681,079
		5,921,253	5,609,173
SHAREHOLDERS' INTEREST			
Share capital	11	2,308,077	2,308,077
Capital reserve	12	95,152	202,872
Retained profit	13	3,518,024	3,098,224
		5,921,253	5,609,173

These accounts were approved by the Board on 10th July 1997

B .DAVIES DIRECTOR
I.O OKERO DIRECTOR

	Note	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's
TURNOVER	1(c)		
Passengers		8,287,473	7,531,568
Freight and mail		1,170,609	1,275,173
Others		1,253,860	1,240,875
		10,711,942	10,047,616
Direct expenditure		(6,643,394)	(6,193,501)
Gross profit		4,068,548	3,854,115
Overheads		(2,644,146)	(2,197,059)
Operating profit		1,424,402	1,657,056
Net financial (expenses)/income		(334,302)	342,670
Profit before taxation and exceptional item	14	1,090,100	1,999,726
Exceptional item	15	-	(411,065)
Taxation	16	(238,532)	(169,570)
		851,568	1,419,091
Dividend	17	(346,204)	-
Transfer from capital reserves	12	107,720	107,720
		613,084	1,526,811
<hr/>			
Earnings per share before taxation and exceptional items (KShs)	22	2.36	4.33
<hr/>			
Earnings per share after taxation and exceptional items (KShs)	22	1.84	3.07
<hr/>			
Dividend per share (KShs)	17	0.75	-

	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's
Cash Flows From Operating Activities		
Net profit before taxation and exceptional items	1,090,100	1,999,726
Adjustments for:		
Exceptional item	-	(411,065)
Depreciation	362,553	355,940
Foreign exchange loss/(gain)	323,250	(400,178)
Interest income	(203,650)	(266,669)
Interest expense	149,055	171,509
Gain on disposal of fixed assets	(2,954)	(378)
Operating profit before working		
Capital changes	1,718,354	1,448,885
Deposits	-	(30,907)
Debtors	(385,813)	(148,630)
Stocks	(148,841)	(65,705)
Sales in advance of carriage	9,773	171,227
Creditors and accruals	(763)	434,775
Deferred asset	(19,508)	(3,947)
Cash generated from operations	1,173,202	1,805,698
Income taxes paid	(328,599)	(15,050)
Net cash from operating activities	844,603	1,790,648
Return on investments and servicing of finance		
Interest received	203,650	266,669
Interest paid	(93,318)	(221,600)
Dividend paid	(115,404)	-
Net cash flow from investments and servicing of finance	(5,072)	46,069
Cashflows from investing activities		
Purchase of equipment	(355,175)	(99,005)
Proceeds from sale of equipment	3,313	77
Deposit for acquisition of aircraft	(815,957)	-
Net cash from investing activities	(1,167,819)	(98,928)
Cashflows from financing activities		
Repayment of loans	(766,641)	(842,317)
Net cash from financing activities	(766,641)	(842,317)
Net (decrease)/increase in cash and cash equivalents	(1,094,929)	894,472
Cash and cash equivalents at beginning of year	3,505,633	2,153,016
Effect of exchange rate changes	(323,250)	458,145
Cash and cash equivalents at end of year	2,087,454	3,505,633

CMA-LIBRARY

		31 March 1997	31 March 1996
	Note	K.Shs 000's	K.Shs 000's
FIXED ASSETS	2	5,658,499	4,530,095
INVESTMENTS	3	2,070	2,070
AMOUNT DUE FROM SUBSIDIARIES	4	140,284	440,336
DEFERRED ASSETS	5	27,361	7,853
DEPOSITS	6	944,229	136,901
		6,772,443	5,117,155
CURRENT ASSETS			
Stocks	7	624,860	477,427
Debtors	8	1,691,822	1,345,369
Bank and cash balances		2,138,081	3,577,338
		4,454,763	5,400,132
CURRENT LIABILITIES			
Sales in advance of carriage		567,712	557,939
Creditors and accruals	9	2,184,108	2,206,876
Bank overdrafts (unsecured)		71,082	99,140
Loans payable within one year	10	300,012	763,868
Tax		64,453	154,520
Proposed dividend	17	230,808	-
		3,418,175	3,782,143
NET CURRENT ASSETS		1,036,588	1,617,989
LONG TERM LOANS	10	1,787,800	681,079
		6,021,231	6,054,065
SHAREHOLDERS' INTEREST			
Share capital	11	2,308,077	2,308,077
Capital reserve	12	95,152	202,872
Retained profit	13	3,618,002	3,543,116
		6,021,231	6,054,065

These accounts were approved by the Board on 10th July 1997

B .DAVIES DIRECTOR
I.O OKERO DIRECTOR

	Note	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's
TURNOVER	1(c)		
Passengers		8,287,473	7,531,568
Freight and mail		768,342	1,275,173
Others		1,209,462	1,280,980
		10,265,277	10,067,721
Direct expenditure		(6,643,394)	(6,228,501)
Gross profit		3,621,883	3,839,220
Overheads		(2,542,395)	(2,095,364)
Operating profit		1,079,488	1,743,856
Net financial (expenses)/income		(334,302)	342,670
Profit before taxation and exceptional item	14	745,186	2,086,526
Exceptional item	15	-	(411,065)
Taxation	16	(238,532)	(169,570)
		506,654	1,505,891
Dividend	17	(346,204)	-
Transfer from capital reserves	12	107,720	107,720
		268,170	1,613,611
<hr/>			
Earnings per share before taxation and exceptional item (KShs)	22	1.61	4.52
<hr/>			
Earnings per share after taxation and exceptional item (KShs)	22	1.10	3.26
<hr/>			
Dividend per share (KShs)	17	0.75	-
<hr/>			

1. PRINCIPAL ACCOUNTING POLICIES

(a) AIRCRAFT FINANCED IN WHOLE OR IN PART IN FOREIGN CURRENCY BORROWINGS

Aircraft which are financed in whole or in part in foreign currency borrowings are regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into Kenya shillings at rates ruling at the balance sheet date and the net difference arising from the translation of aircraft costs and related foreign currency loans are taken to reserves. The directors are of the opinion that these borrowings provide a hedge against the exchange risk associated with these investments.

(b) ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the computation of related depreciation.

(c) TURNOVER

Turnover represents amounts charged to third parties in respect of services provided during the year, and is stated gross of commission payable to the company's agents.

(d) DEPRECIATION

Depreciation is provided on the cost/valuation of assets on the straight line basis at rates designed to write down the assets to their estimated residual values over their estimated useful lives as follows:-

	Rate per
Aircraft	Annum
Airbus A-310	7.65%
Fokker 50	8.35%
Boeing 737-300	8.33%
Vehicles and Equipment	
Ground handling equipment	25.00%
Motor vehicles	25.00%
Other assets	12.50%
Boeing 737-300 rotatable spares	8.33%

Leasehold land and buildings are amortised over the period of the leases. As stated in Note 12, a transfer from capital reserve is made in respect of the amount of the revaluation surplus utilised each year, which corresponds with the excess depreciation charged on the revalued properties. The spare engines and the simulator are depreciated over the lives of the aircraft to which they relate.

(e) STOCKS

Stocks are valued at the lower of cost and net realisable value.

Cost is determined on a weighted average basis.

Rotable stocks for the Airbus A-310, Boeing 737-200 and Fokker 50 aircraft are amortised over the remaining lives of the aircraft on which they are used. They have no estimated residual value.

Rotable parts for the Boeing 737-300 acquired during the year have been capitalised and are depreciated over the remaining lives of the aircraft.

(f) TRANSLATION OF FOREIGN CURRENCY

Transactions during the year are converted into Kenya Shillings at exchange rates ruling at the transaction dates. Current assets and liabilities which are expressed in foreign currencies are translated into Kenya Shillings at exchange rates ruling at the balance sheet date. The resulting differences from conversion are dealt with in the profit and loss account in the year in which they arise.

(g) PROVISION FOR OVERHAUL OF ENGINES AND AIRFRAMES

Provision for overhaul costs is made on the basis of the estimated useful life cycles of engines and airframes. The overhaul costs are based on a directors' estimate.

(h) BASIS OF CONSOLIDATION

The Group accounts include the accounts of Kenya Airways Limited and its subsidiaries Kenya Airfreight Handling Limited and Kenya Flamingo Airways Limited.

(i) RETIREMENT BENEFITS

Any contribution made to the company's funded pension scheme in respect of current service are charged against income in the year of contribution.

(j) DEFERRED TAXATION

Provision for deferred tax is made when income, expenditure or depreciation fall into different periods for accounting and for tax purposes. This provision is calculated at tax rates ruling at the balance sheet date. No provision has been made in these accounts because it is considered that no tax benefit or charge is likely to arise in the foreseeable future.

2. FIXED ASSETS

(a) THE GROUP

	Leasehold Land and buildings K.Shs 000's	Aircraft Engines & simulator K.Shs 000's	Vehicles and equipment K.Shs 000's	Total K.Shs 000's
COST/VALUATION				
At 1 April 1996	242,333	10,156,205	649,713	11,048,251
Additions	872	1,632,458	166,500	1,799,830
Disposals	-	-	(117,863)	(117,863)
Exchange adjustment	-	(170,553)	-	(170,553)
At 31 March 1997	243,205	11,618,110	698,350	12,559,665
DEPRECIATION				
At 1 April 1996	47,660	6,008,776	461,720	6,518,156
Charge for year	5,307	288,252	68,994	362,553
Disposals	-	-	(75,312)	(75,312)
Exchange adjustment	-	62,588	-	62,588
At 31 March 1997	52,967	6,359,616	455,402	6,867,985
NET BOOK VALUE				
At 31 March 1997	190,238	5,258,494	242,948	5,691,680
At 31 March 1996	194,673	4,147,429	187,993	4,530,095

Aircraft which are financed in whole or in part in foreign currency borrowings are regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The amount in foreign currency are translated into Kenya Shillings at rates ruling at the balance sheet date and the net differences arising from the translation of aircraft costs and related foreign currency loans are taken to reserves. The cost of all other fixed assets are fixed in Kenya Shillings at rates ruling at the date of purchase.

(b) THE COMPANY

	Leasehold Land and buildings K.Shs 000's	Aircraft Engines & simulator K.Shs 000's	Vehicles and equipment K.Shs 000's	Total K.Shs 000's
COST/VALUATION				
At 1 April 1996	242,333	10,156,205	649,713	11,048,251
Additions	872	1,632,458	124,309	1,757,639
Disposals	-	-	(117,863)	(117,863)
Exchange adjustment	-	(170,553)	-	(170,553)
At 31 March 1997	243,205	11,618,110	656,159	12,517,474
DEPRECIATION				
At 1 April 1996	47,660	6,008,776	461,720	6,518,156
Charge for the year	5,307	288,252	59,984	353,543
Disposals	-	-	(75,312)	(75,312)
Exchange adjustment	-	62,588	-	62,588
At 31 March 1997	52,967	6,359,616	446,392	6,858,975
NET BOOK VALUE				
At 31 March 1997	190,238	5,258,494	209,767	5,658,499
At 31 March 1996	194,673	4,147,429	187,993	4,530,095

Aircraft which are financed in whole or in part in foreign currency borrowings are regarded together with the related liabilities as a separate group of assets and liabilities and accounted for in foreign currency. The amount in foreign currency are translated into Kenya Shillings at rates ruling at the balance sheet date and the net differences arising from the translation of aircraft costs and related foreign currency loans are taken to reserves. The cost of all other fixed assets are fixed in Kenya Shillings at rates ruling at the date of purchase.

CMA - LIBRARY

Notes to the Accounts cont..

For the year ended 31 March 1997

3. INVESTMENTS

	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's
(a) Investments in Subsidiaries		
Kenya Flamingo Airways Limited		
1,000 ordinary shares of KShs.20 each	20	20
Kenya Airfreight Handling Limited		
1,000 ordinary shares of KShs.20 each	20	20
	40	40
(b) Investment in Associated Company		
African Tours & Hotels Limited		
100,398 ordinary shares of KShs.20 each	2,030	2,030
Total Investments	2,070	2,070

The above investments are stated at cost. The subsidiaries are wholly owned, while the holding in African Tours & Hotels Limited represents 20.1% of the issued ordinary share capital of the company. The companies are incorporated in Kenya. The market value of the investment in associated company based on the previous deal price at Nairobi Stock Exchange was K.Shs 24,597,510. (31 March 1996 - KShs. 19,577,610). The shares are not actively traded in the stock exchange and there have been no transactions on them in the year 1997.

4. AMOUNT DUE FROM SUBSIDIARIES

	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's
Kenya Airfreight Handling Limited	123,902	423,854
Kenya Flamingo Airways Limited	16,382	16,382
	140,284	440,236

5. DEFERRED ASSETS

	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's
Sudan	27,361	7,853
Rwanda	56,484	56,484
	83,845	64,337
Provision	(56,484)	(56,484)
	27,361	7,853

These are bank and cash balances held overseas in currencies which are not readily remittable. In the case of Rwanda an amount of KShs.56,484,000 was fully provided for. No provision has been made against any unrealised losses which might arise due to possible depreciation of the currencies where these are held, against the Kenya shilling.

6. DEPOSITS

These deposits relate to the long term lease of one Airbus A310 and the two Boeing 737-200 aircraft for which the leases have expired after year end and are to be returned to the lessor, and deposit towards acquisition of two new Boeing 737-300.

Notes to the Accounts cont...

For the year ended 31 March 1997

7. STOCKS

	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's
THE GROUP		
Aircraft rotables	337,202	304,519
Aircraft consumable stocks	364,896	356,397
Other stocks	213,360	165,197
	915,458	826,113
Amortization - Aircraft rotables	(185,378)	(163,218)
Provisions - Other stocks	(76,117)	(152,234)
Spares - Credit	(27,695)	(33,234)
	626,268	477,427
THE COMPANY		
Aircraft rotables	337,202	304,519
Aircraft consumable stocks	364,896	356,397
Other stocks	211,952	165,197
	914,050	826,113
Amortization - Aircraft rotables	(185,378)	(163,218)
Provisions - Other stocks	(76,117)	(152,234)
Spares - Credit	(27,695)	(33,234)
	624,860	477,427

8. DEBTORS

	THE GROUP		THE COMPANY	
	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's	31 March 1997 K.Shs.000's	31 March 1996 K.Shs 000's
Airlines	133,245	47,681	133,245	47,681
Agents	318,323	321,873	318,323	321,873
Government Ministries and Parastatals	50,208	47,472	50,208	47,472
Other trade debtors	946,391	821,769	906,199	816,338
Staff debtors	3,542	10,310	3,542	10,310
Prepayments	284,904	101,695	280,305	101,695
	1,736,613	1,350,800	1,691,822	1,345,369

9. CREDITORS

Trade creditors	1,027,241	712,990	1,027,241	712,990
Other creditors	1,216,356	1,531,370	1,156,867	1,493,886
	2,243,597	2,244,360	2,184,108	2,206,876

CMA-LIBRARY

Financial Statements for the year ended 31 March 1997

10. LOANS

	Loan Currency	Rate of interest	31 March 1997 KShs'000's	31 March 1996 KShs'000's
Standard Chartered Financial Services Limited	KShs.	14.0%	-	100,000
Credit Lyonnais Bank - Nederland	USD.	10.5% for 2 years and 7.4% for 10 years	641,223	925,671
EX-IM Bank Export Credit Loans:-	USD	7.15%	1,429,217	-
German Banking Syndicate	DMK.	8.75%-9.0%	-	167,211
French Banking Syndicate	FFR.	11.50%-13.125%	-	158,344
British Banking Syndicate	UK£.	12.00%-13.625%	-	59,474
			2,070,440	1,410,700
Loans payable within one year			(282,640)	(729,621)
Long-term portion			1,787,800	681,079
Payable within one year as above			282,640	729,621
Loan interest			17,372	34,047
Current portion			300,012	763,668

The loans were obtained for the purpose of acquiring aircraft and spare engines.

- i) The loan from Standard Chartered Financial Services Limited was repayable in full after ten years in January 1997, and was guaranteed by the Government of Kenya.
- ii) Credit Lyonnais Bank-Nederland loan is guaranteed by the Government of Kenya and is repayable in twelve years from June 1990.
- iii) The export credit loans were guaranteed by the Government of Kenya and were repayable in ten years from 1986.
- iv) Ex-Im bank loan is repayable in twelve years from July 1997 and is secured by a charge on the aircraft.

11. SHARE CAPITAL

	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's
Authorised:- 1,000,000,000 ordinary shares of K.Shs 5 each	5,000,000	5,000,000
Issued and fully paid 461,615,484 ordinary shares of KShs,5 each	2,308,077	2,308,077

12. CAPITAL RESERVE

	Revaluation Reserve K.Shs 000's
At 1 April 1996	202,872
Transfer to profit and loss account	(107,720)
At 31 March 1997	95,152

The revaluation reserve arose on the revaluation of fixed assets in 1989 by M/s Bageine Karanja Mbuu Limited, professional valuers. The surplus arising from these was transferred to the capital reserve and KShs.107,720,000 is being transferred annually to profit and loss account for a period of eight years representing the excess depreciation charged in the profit and loss account.

13. STATEMENT OF RETAINED PROFIT

	Note	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's
THE GROUP			
RETAINED PROFIT/ACCUMULATED			
LOSSES BROUGHT FORWARD			
As previously stated		3,098,224	(5,236,226)
Prior year adjustment	18	-	2,101,830
As restated		3,098,224	(3,134,396)
RETAINED PROFIT FOR THE YEAR		613,084	1,526,811
EXCHANGE MOVEMENT	2a	(193,284)	411,660
TRANSFER FROM CAPITAL RESERVE		-	4,294,149
RETAINED PROFIT CARRIED FORWARD		3,518,024	3,098,224
THE COMPANY			
RETAINED PROFIT/ACCUMULATED			
LOSSES BROUGHT FORWARD			
As previously stated		3,543,116	(4,878,134)
Prior year adjustment	18	-	2,101,830
As restated		3,543,116	(2,776,304)
RETAINED PROFIT FOR THE YEAR		268,170	1,613,611
EXCHANGE MOVEMENT	2b	(193,284)	411,660
TRANSFER FROM CAPITAL RESERVE		-	4,294,149
RETAINED PROFIT CARRIED FORWARD		3,618,002	3,543,116

The transfer from capital reserve represented loans taken over by the Government of the Republic of Kenya under a restructuring programme. This was transferred to revenue reserve to reduce accumulated losses.

Notes to the Accounts cont...

For the year ended 31 March 1997

14. PROFIT BEFORE TAXATION

	THE GROUP		THE COMPANY	
	31 March 1997 K.Shs 000's	31 March 1996 K.Shs 000's	31 March 1997 K.Shs.000's	31 March 1996 K.Shs 000's
The profit before taxation is stated after charging:-				
Directors emoluments	730	1,048	730	1,048
Audit fees	3,250	3,250	3,000	3,000
Depreciation	362,553	355,940	353,543	355,940
Hire of aircraft	628,545	767,818	628,545	767,818
Interest payable on Capital borrowings	128,401	152,184	128,041	152,184

15. EXCEPTIONAL ITEM

	31 March 1997 KShs 000's	31 March 1996 KShs 000's
Salary arrears - pilots	-	(411,065)

16. TAXATION

Current tax at 35% on adjusted profit	238,532	189,570
Tax assessments have been agreed with the Income Tax Department upto and including 1991. From 1992 returns have been filed on a self-assessment basis.		

17. DIVIDEND

	31 March 1997 KShs 000's	31 March 1996 KShs 000's
(i) Interim - paid	115,396	-
Final - proposed	230,808	-
	<u>346,204</u>	-

(ii) Dividend per share is arrived at by dividing the total dividend of KShs.346,204,000 by the number of shares in issue at the balance sheet date.

18. PRIOR YEAR ADJUSTMENT

	31 March 1997 KShs 000's	31 March 1996 KShs 000's
Change in accounting policy	-	2,101,830
The prior year adjustment comprised the change in accounting policy dealing with valuation of aircraft financed by foreign borrowing as explained in Note 2.		

19. CONTINGENT LIABILITIES

- (i) Kenya Flamingo Airways Limited is being sued for KShs.165 million (US\$ 3 million) by a third party. Legal opinion received indicates that the case is without merit and there has been no activity since 1991, and in the unlikely event that the case is prosecuted, the company has substantial defence to the case.
- (ii) Some 964 former employees of the company who were declared redundant in 1990 allege that they were not paid off all their dues and that the redundancy was unlawful and have applied to court to amend their claim which was originally for an unspecified amount, to an amount of KShs.2.2 billion. Legal opinion received indicates that the application is resisted on good grounds and it is not correct that the decision taken by Kenya Airways Limited was unlawful and that there is no basis for their being granted authority to amend their claim to KShs.2.2 billion.
- (iii) Kenya Airways Limited has given guarantees to various third parties amounting to KShs.35 million. In the opinion of the directors, no liability is expected to arise in respect of the above claims and guarantees.
- (iv) The company is currently in negotiation with its unionisable staff over pay increase. A provision has been made in these accounts for the amounts, which in the opinion of the directors is likely to be payable.

20. CAPITAL COMMITMENTS

	31 March 1997	31 March 1996
	K.Shs 000's	K.Shs 000's
Authorised and contracted for	1,667,493	3,980,264
Authorised but not contracted for	24,639	37,519

21. FLEET LEASING COMMITMENTS

	31 March 1997	31 March 1996
	K.Shs 000's	K.Shs 000's
Due within one year	334,620	422,918
Between one and five years	864,435	913,158
	<u>1,199,055</u>	<u>1,336,076</u>
Amounts payable within one year relate to commitments expiring as follows:		
Within one year	-	69,437
Between one and five years	334,620	353,481
	<u>334,620</u>	<u>422,918</u>

The fleet leasing commitments include the balance of rental obligation under operating lease in respect of an Airbus A310-300. The company is required to pay a fee of KShs.110,000,000 (US\$ 2 million) in the event of cancellation of the lease before expiry.

Accounting for the Accounts receivable

Notes to the accounts receivable

22. EARNINGS PER SHARE

a) Earnings per share before taxation and exceptional item.

The calculation of earnings per share is based upon the profit before taxation and exceptional item in each year divided by 461,615,484, the number of shares in issue as at 31 March 1997.

b) Earnings per share after taxation and exceptional item.

The calculation of earnings per share is based upon the profit after taxation and exceptional item in each year divided by 461,615,484, the number of shares in issue as at 31 March 1997.

23. LITIGATION

A number of legal claims have been made against the company. Having regard to the legal advice received, and in all the circumstances, the directors are of the opinion that these claims will not give rise to liabilities which will in the aggregate have a material effect on these accounts.