

The Capital Markets Act (Chapter 485A of the Laws of Kenya)

The Capital Markets (Securities)(Public Offers, Listing and Disclosures) Regulations, 2002

PUBLIC ANNOUNCEMENT

Conditional agreement reached with key stakeholders to implement financial and capital optimisation plan

Highlights

Kenya Airways PLC (the “**Company**”) announces that it has secured conditional agreement from its key stakeholders to proceed with its financial and capital optimization plan (the “**Optimisation Plan**” or the “**Transaction**”). The Optimisation Plan involves a solvent and consensual restructuring of its financial liabilities to be effected through a series of inter-conditional agreements. The Transaction will have no impact on the airline’s day-to-day operations and flights will continue as normal.

The key financial, strategic and operational aspects of the Optimisation Plan include:

- Repositioning Kenya Airways for longer-term growth from a financial and operational perspective and the validation of the future viability of the airline through an inter-conditional and consensual commitment by all of its key stakeholders and placing the Company on a path to financial stability and operational efficiency
- Building on a return to operating profitability in FY 2016/17 to KES 0.9 billion from an operating loss of KES 4.4 billion in FY 2015-16 on the same basis
- Reducing the Company’s current KES 242 billion (US\$ 2.3 billion) gross debt exposure by approximately KES 51 billion (US\$ 486 million)
- Obtaining cash-flow relief of approximately KES 37 billion (US\$ 360 million) through restructuring the timing and form of payments from operating and finance lessors for the airline’s fleet of aircraft over periods of up to five years
- Significant show of support from the Government of Kenya playing an important continuing role as sponsor and shareholder of Kenya Airways via conversion into equity of existing Government loans of US\$ 238 million (plus accrued interest) and provision of US\$ 750 million of credit support to certain of the Company’s key financial stakeholders via the issue of contingent guarantees
- Conversion into equity of US\$ 221 million of loans from certain Kenyan banks. Although conversion of debt to equity will mean a large equity capital increase and issue of new shares to these stakeholders, the effect will be to bolster balance sheet equity and capital structure sustainability with overall shareholder book equity becoming positive when compared to the current negative position
- Provision of cash and in-kind capital contributions from KLM Royal Dutch Airlines (KLM)
- Provision of US\$ 175 million via a new multi-purpose facility from certain Kenyan banks to enable the Company to meet its financial needs
- Both KLM and the Government of Kenya will remain shareholders in the Company going forward
- Existing minority shareholders will be offered the opportunity to invest in the Company via a new discounted share issue shortly after the completion of the Transaction
- The Transaction is inter-conditional on appropriate contributions from all stakeholders.

Stakeholder support, Lock-Up and Restructuring Agreement and approvals

The Company has secured support for the Optimisation Plan from the Government of Kenya, KLM, certain Kenyan banks that have lent money to the Company, and the various lenders and lessors for its aircraft fleet. The Company’s other creditors have continued to support the business.

Following constructive negotiations with the key stakeholders, formal letters of support from certain stakeholders and a legally binding inter-conditional agreement (the “**Lock-Up and Restructuring Agreement**”) from the remaining relevant stakeholders have been entered into with Kenya Airways.

The Transaction remains subject to a number of conditions precedent, among them approval by the shareholders of Kenya Airways at an extraordinary general meeting (the “**EGM**”) to be held on 7th August 2017.

In accordance with the Company’s Articles of Association, and Section 282 of the Companies Act (Act No. 17 of 2015), the Notice for the EGM, together with a circular to shareholders, shall be available for shareholders via the Company’s website. In accordance with section 283 of the Companies Act the notice on the website is for a general meeting (EGM) of shareholders of the Company to be held at 10 a.m. on Monday 7th August 2017 at KQ Pride Centre, off Airport North Road, Embakasi, Nairobi.

Implications for minority shareholders

The financial position of the Company has been a cause for concern for some time and in its current form is unsustainable. The Board has, together with its two major shareholders and its advisers, considered a number of scenarios for the future but concluded that the Transaction represented the best outcome and should, if successfully implemented, avoid insolvency and closure of the airline.

The Board believes that the Transaction, once implemented, and bearing in mind the full support being shown by its key stakeholders, notably the Government, KLM and the Company’s financiers, will provide a solution to the Company’s liquidity needs and is in the best interests of the Company, its shareholders, creditors and its customers.

As a result of the Transaction, current shareholders will be significantly diluted via the conversion of existing indebtedness into equity. Despite this, the Board believes that there are benefits to shareholders in supporting the Transaction, when compared to the alternative outcomes for the business, including if the Company were to fail.

Further, as noted above, existing shareholders will be offered the opportunity to re-invest in the Company at a discount to market value of the shares and thereby continue to participate in the future growth of Kenya Airways. The Company will launch a new share issue once the Transaction is closed.

Next Steps

The Transaction is expected to close during August 2017. Key steps required to implement the Transaction include:

- The approval of the resolution at the EGM to effect the Transaction
- Fulfilment of the conditions precedent under the Lock-Up and Restructuring Agreement and completion of the Lock-Up and Restructuring Agreement
- Execution of definitive documentation for the amendments to the Company’s existing finance arrangements with the financiers for the fleet of aircraft
- To the extent unanimous consent is not obtained from certain unsecured bank lenders, the Company will implement that aspect of the Transaction via a Scheme of Arrangement under the Companies Act.

Additional Transaction Information

For information purposes the Company has established a section on its website at www.kenya-airways.com dedicated to the Transaction.

Cautionary Statement

The shareholders of the Company and the public are advised to exercise caution when dealing in the shares of the Company until further announcements and further details of the Transaction are released.

By order of the Board

Michael Joseph
Chairman

Date: 16th July, 2017

DISCLAIMER:

This announcement has been issued with the approval of the Capital Markets Authority pursuant to the Capital Markets ((Securities)(Public Offers, Listing and Disclosures) Regulations, 2002 as amended. As a matter of policy, the Capital Markets Authority assumes no responsibility for the correctness of the statements appearing in this announcement.