

Position Statement

Kenya Airways Aircraft Leasing Arrangements

Kenya Airways (KQ) would like to clarify and correct comments that have recently appeared in the media regarding its aircraft leasing arrangements. Leasing contracts for aircraft are purely commercial business arrangements entered into by airlines and lessors worldwide. Lessors contracted to KQ for leasing of aircraft and engines are all renowned international companies that manage hundreds of aircraft leased to different international airlines across the world.

Aircraft Leasing arrangements

Lease arrangements allow airlines to utilise assets while making monthly payments. There are two types of lease arrangements in aviation:

- **Financial leases** are long-term leases with an option to purchase the aircraft at the end of the leasing agreement. Because of the complexity and size of the lease, financiers typically prefer to use Special Purpose Vehicles (SPVs) to facilitate the finance leasing transaction. The setting up of SPVs is standard industry practice, as evidenced in relevant IATA aircraft financing literature, and is a regular practice for significant asset financing. KQ discloses the details of these SPVs in its Annual Reports. KQ currently has two SPVS, Tsavo and Samburu, which are further explained below.
- **Operating leases** are a legal agreement between two parties, a lessor and lessee, where the lessor agrees to provide the aeroplane to the lessee (KQ) for a set period of time in exchange for regular payments called rentals or lease payments. KQ deals with the following international renowned lessors; Dubai Aerospace Enterprise (DAE), AERCAP, Bank of China (BOC) Aviation, China Development Bank (CDB) Leasing, Deucallon, Macquarie, Aviation Capital Group (ACG), Goshawk, Nordic Aviation Capital (NAC), Azzora, Chorus Aviation, NAC and Montrose.

A summary of all the financed and leased aircraft through both arrangements is in the table below.

AIRCRAFT TYPE	Finance lease	Operating lease	TOTAL
Boeing 777-300 ER	1	2	3
Boeing 787-8	6	3	9
Boeing 737-800	-	8	8
Boeing 737-300F (owned)	2	-	2
Embraer 190	9	4	13
TOTAL	18	17	35

KQ leasing costs: Generally, the costs are within the prevailing market rates at the time of negotiating the transactions. Rates depend on several factors, some of which include negotiating power, economies of scale and timing. Typically, an airline leasing more aircraft is likely to enjoy more competitive rate offers than those leasing a smaller fleet. Similarly newer aircraft will attract higher lease costs as will the duration of the lease. Other factors that could attract lower rates is during low aircraft demand times, like during the COVID 19 pandemic.

KQ Board and Management have been engaging with the lessors to reduce the overall costs of our aircraft lease rentals. We have made significant progress and have arrived at significantly reduced

rates in line with the slump in the market after the COVID-19 pandemic. This reduction will reduce the overall cost of our operations.

Tsavo and Samburu financiers and facilities

In 2010, KQ sought a financing facility to facilitate the acquisition of 6 Boeing 787 Dreamliners, 1 Boeing 777-300ER and 1 GENx spare engine. As a result, a Special Purpose Vehicle (SPV), **Tsavo Aircraft Financing LLC**, was incorporated by the financier JP Morgan Chase Bank, Citi Bank NA, and Afrexim Bank.

KQ also sought another facility to acquire ten (10) Embraer E190 aircraft. **Samburu Limited**, another SPV, was incorporated to borrow the funds from a syndicate headed by Standard Chartered Bank to acquire the Ten (10) Embraer E190 aircraft. Other partners in the syndicate included China Development Bank, Trade Development Bank, Nedbank Int’l Ltd and Afrexim Bank.

Why use a Special Purpose Vehicle (SPV)?

SPVs are a well-established trend in aviation, and in KQ, they date back to 1996. The setting up of such SPVs is standard airline industry practice, as evidenced in relevant IATA aircraft financing literature. It is also standard practice for large asset financing, particularly in Aviation and Marine operations.

KQ fully and transparently discloses the details of these SPVs in its Annual Reports.

Most lenders adopt this finance structure in aircraft purchase transactions globally to minimise the risks associated with ownership and operation of aircraft during loan repayment periods. The SPV holds the aircraft title for the term of the loan and will only pass to the airline upon the full repayment of the loan.

KQ Ownership: KQ is a publicly listed company with the Government of Kenya (GoK) as the majority shareholder. The financial restructuring of November 2017 introduced the current shareholding structure below.

No.	Shareholder	Current Structure	Old Structure (Before 2017 restructuring)
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%
-	Total	100.0%	100.0%

*KQ Lenders (2017) Ltd. is a company established by a consortium of Kenyan Banks. The consortium as of FY2017 was made up of 10 local banks namely: Equity Bank, KCB, Cooperative Bank, NBK, DTB, Chase Bank now SBM, CBA, NIC, I&M Bank and Ecobank. They acquired this ownership through the conversion of their loans into equity in support of the restructuring plan of 2017.

**Minority shareholders (2.8% of all shares) consists of approx. 75,000 individuals who obtained their shares via Nairobi Securities Exchange.

Working towards sustainability

KQ is grateful for the GoK’s support and continues to work on restructuring the business towards profitability by 2024, having a sustainable business model that makes KQ self-sufficient, improved balance sheet and cash position.

This project, called Kifaru, will address the cost of the fleet and other structural cost issues. In addition, it will address the 'soft' issues around culture shift within KQ that is critical for a sustainable transformation. This plan has been discussed and endorsed by all the key stakeholders.

Key achievements so far include optimisation of the network by reviewing destinations and frequencies and assets utilisation, a reduction in annual rental obligations, and a reduction in outstanding lease deferrals and growing partnerships in Africa. Our efforts have achieved a cost reduction of approximately Kshs 5 billion from the 2019 cost base.

KQ has also diversified revenue streams away from overreliance on passenger revenue which currently stands at 90%. Some of the diversification strategies under implementation include; Fahari Aviation Limited to spearhead the effective application of new aviation technologies such as Unmanned Aircraft Systems (UAS), across various sectors in Africa, growing the KQ Technical - Maintenance Repair & Overhaul (MRO) through partnerships and growing KQ Cargo from 10% to 20% of KQ revenue over the next five years.

Conclusion

We want to reiterate that the KQ lease arrangements are fully transparent and purely commercial. All lessors and financiers are international reputable companies and to refer to them in any other way erodes the confidence of these partners, who have partnered with KQ for many years.

We are also confident that our current efforts to turn around the airline by 2024 will bear fruit and would like to urge all our stakeholders to continue giving us support.

Michael Joseph,
Chairman of the Board,
Kenya Airways Plc.

04th October 2022