

**Unaudited Interim Results**  
For the six months ended 30<sup>th</sup> September 2007

	<b>Six Months to 30-Sep-07 KShs Million</b>	<b>Six Months to 30-Sep-06 KShs Million</b>	<b>% Variance</b>
Turnover: Passenger	26,707	24,237	10.2
Cargo and Mail	2,545	2,812	(9.5)
Handling	502	541	(7.3)
Other	546	876	(37.7)
<b>Total Revenue</b>	<b>30,300</b>	<b>28,466</b>	<b>6.4</b>
Direct Expenditure - Fuel	7,517	7,648	1.7
- Other	14,159	12,155	(16.5)
Overheads	5,202	4,572	(13.8)
<b>Total Expenses</b>	<b>26,878</b>	<b>24,375</b>	<b>(10.3)</b>
<b>Operating Profit</b>	<b>3,422</b>	<b>4,091</b>	<b>(16.3)</b>
<b>Operating Margin (%)</b>	<b>11.3%</b>	<b>14.4%</b>	<b>(3.4)%</b>
Net Finance Expenses	(545)	(592)	8.0
(Loss) on Foreign Exchange (1)	(147)	(155)	4.8
Other Non-Operational Items (2)	87	126	(31.6)
<b>Profit before tax</b>	<b>2,817</b>	<b>3,470</b>	<b>(18.8)</b>
Taxation	(845)	(1,041)	(18.8)
<b>Profit after tax</b>	<b>1,972</b>	<b>2,429</b>	<b>(18.8)</b>
<b>Net Profit Margin (%)</b>	<b>6.5%</b>	<b>8.5%</b>	<b>(2.0)%</b>
<b>Earnings per share before tax (KShs)</b>	<b>6.11</b>	<b>7.52</b>	<b>(18.8)%</b>
<b>Earnings per share after tax (KShs)</b>	<b>4.27</b>	<b>5.26</b>	<b>(18.8)%</b>

(1) Loss on Foreign Exchange is mainly due to the impact of the depreciating USD to the KES on the USD denominated deposits.

(2) Share of associate's profit.

## **Commentary:**

The Board announces that Kenya Airways has maintained profitability in the first half of the 2007/08 financial year, albeit less than the corresponding period last year. Profit after tax for the period reviewed ended at KShs 1,972m with an operating margin of 11.3% compared to KShs 2,429m and an operating margin of 14.4% during the corresponding period last year.

The Company continues to focus on improving its operational integrity, including addressing its manning shortages for the balance of this financial year as well as investing in training for its future engineer and pilot needs.

In September, its application to become an associate member of the SkyTeam alliance was formally approved, which will enable it to strengthen its market credibility in the world wide airline sales systems. It is also pleased to advise that following a routine audit by IATA its IOSA safety accreditation was renewed for another two years with effect from 21<sup>st</sup> October 2007.

## **Revenues**

### **Passenger**

Passenger traffic for the first half increased to 1.4m, up from the prior period's 1.3m, a growth of 10% with a capacity increase of 12.2%, measured in ASK's. The passenger yields in US Cents improved by 4.8%, however they declined by 2.6% when translated into Kenya Shillings, primarily due to the weaker US Dollar.

Areas of high passenger traffic growth included West and Central Africa with 28% due to additional destinations of Monrovia in Liberia and Cotonou in Benin that were introduced in the second half of the prior year. East Africa growth of 18% was mainly driven by operations to Dzaoudzi in Mayotte and Moroni in Comoros that were introduced late last year.

Other regions of high growth included North Africa 15%, Far East 13% and South Africa at 9%. Modest growth of 6% was realised in the Far East. Europe was largely unchanged as the effect of new competition on the London route, which inevitably reduced carryings, was offset by the new operation to Paris.

Domestic Kenya was also largely unchanged over prior year as there were no significant new operations in this region. With an overall ASK growth of 12.2% and an RPK growth of 8.5%, the average Cabin Factor moved from 75.2% to 72.7%.

### **Cargo**

Cargo volumes experienced a growth of 5%, mainly due to increased cargo uplift to East Africa, North Africa and Southern Africa. However, due to increased competition the cargo yields declined at a rate of 4.7% period on period.

### **Exchange rate**

The continuing weakness of the US\$ and the relative strengthening of the Kenya Shilling is having an adverse effect on foreign currency denominated revenues when reported in KSh,, albeit partly offset by a favourable effect on foreign currency denominated expenses. In addition, it is also affecting profits to the extent of adverse FOREX losses on the value of the US\$ denominated bank balances but offset by favourable FOREX gains on the US\$ denominated loan repayments. Overall, the net effect is adverse in the period by KSh. 125m at the Profit after Tax level. Any further weakening of the US\$ and/or strengthening of the Kenya shilling will exacerbate this effect in future.

### **Costs**

Fuel cost has fallen, period on period, primarily due to the effect of a 7% fall in the KSh/US\$ exchange rate and a 3% improvement in fuel burn as well as the benefit of a 1% fall in the unit cost of jet fuel. As a consequence, fuel cost represented 27.8% of all costs down from 30.6% in the prior year. However, it is anticipated that this price reduction will likely reverse in the future, as crude oil prices have recently reached new historic highs with oil currently costing some \$85 per barrel.

The overheads increase of 13.8% was in line with increased level of operations, but remained stable at 17% of revenue. Other direct operating costs increased by 16.5% on prior year. Out of that, 9.4% was due to increased operations while the remaining 7.1% a result of increased fleet ownership costs due

acquisition of the 4<sup>th</sup> B777, the increased lease differential costs between the three new B737-800's that replaced the older B737-200's plus the recent introduction of the two E170's.

### **Prospects**

Whilst the Board remains optimistic that the Company will continue to grow during the remainder of the financial year, it has concerns about the cost of jet fuel that currently continues to escalate. It also recognises that the threat of new and increased levels of competition remains and thus is increasing its investment in developing its fleet, systems and staff to enable it to respond to these threats with an even more competitive product.

The Board would also like to take this opportunity to thank all the staff, management, suppliers and loyal customers who have contributed to this continued growth.

By order of the Board  
25<sup>th</sup> October 2007

Evanson Mwaniki  
Chairman