

Unaudited Interim Results
For the six months ended 30th September 2008

	Six Months to 30-Sep-08 KShs Million	Six Months to 30-Sep-07 KShs Million	% Variance
Turnover: Passenger	29,643	26,707	11.0
Cargo and Mail	3,084	2,545	21.2
Handling	547	502	9.0
Other	792	546	45.1
Total Revenue	34,066	30,300	12.4
Direct Expenditure - Fuel	12,901	7,517	(71.6)
- Other	14,194	14,159	(0.2)
Overheads	5,365	5,202	(3.1)
Total Expenses	32,460	26,878	(20.8)
Operating Profit	1,606	3,422	(53.1)
Operating Margin (%)	4.7%	11.3%	(6.6%)
Net Finance Expenses	(411)	(545)	24.6
(Loss) on Foreign Exchange (1)	(210)	(147)	(42.9)
Other Non-Operational Items (2)	66	87	(24.1)
Profit before tax	1,051	2,817	(62.7)
Taxation	(315)	(845)	62.7
Profit after tax	736	1,972	(62.7)
Net Profit Margin (%)	2.2%	6.5%	(4.3%)
Earnings per share before tax (KShs)	2.28	6.11	(62.7)
Earnings per share after tax (KShs)	1.59	4.27	(62.7)

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

(2) Share of associate's profit and rent income

COMMENTARY

The Board announces that Kenya Airways has maintained profitability in the first half of the 2008/09 financial year, albeit less than the corresponding period last year. Profit after tax for the period reviewed ended at KShs 736m with an operating margin of 4.7% compared to KShs 1,972m and an operating margin of 11.3% during the corresponding period last year.

The aviation industry has continued to face major challenges arising from fuel prices which hit an all time high of USD 147 per barrel in July 2008. This has resulted in a majority of airlines posting losses whilst pushing others into filing for bankruptcy. The escalating fuel prices have also seen the collapse of several airlines and IATA, the global industry body, projects airlines worldwide will make a combined loss of USD 5.2bn in 2008 and USD 4.1bn in 2009.

The post election violence experienced in Kenya at the beginning of the year adversely impacted the first half of the financial year which coincides with the peak season in the industry. However, the country has realised a marginal recovery in the tourism industry and the airline has managed a paltry growth in the passenger traffic over prior year.

The Company continues to strategically focus on improving its operational integrity, through investment in staff training, improvement of systems and fleet modernisation.

REVENUES

Passenger

Despite the difficult economic climate, both capacity measured in terms of ASK's and passenger traffic for the first half increased marginally by 2.0%. The passenger yields in US Cents improved by 10.9%, however the improvement reduces to 4.4% when translated into Kenya Shillings, primarily due to the weaker US Dollar in the period.

Areas of high passenger traffic growth included West and Central Africa with 20% mainly due to additional frequencies to Lagos, Kinshasa and Accra. Far East growth of 19% was driven by the introduction of three weekly Bangkok-Guangzhou services.

Modest growth of 8% was realised in Southern Africa and 5% in the Middle East regions. Europe suffered a decline of 6%, mainly impacted by the post election crisis prompting temporary suspension of Paris operations and reduction of capacity to Amsterdam. East Africa marginally declined 2% while Northern Africa was largely unchanged.

Domestic Kenya declined 9% due to reduced travel within the country and ex-European feed into Kenya. With an overall ASK growth of 2% and RPK growth of 3.4%, the average Cabin Factor moved from 72.7% to 73.8%.

Cargo

Cargo volumes were at par with prior year, but at an improved yield of 27.9% over the prior year. High Cargo growth in tonnes was achieved in Northern Africa 18% and Middle East 14%. Modest growth was achieved in Southern Africa 8% and West and Central Africa at 4%. European tonnage declined by 8% and Domestic Kenya by 16% based on similar reasons as mentioned above.

Exchange rate

Although the US Dollar is currently strengthening against the KShs, the average exchange rate for the period at KShs 64.72 per US\$ was much lower than the prior year level of KShs 67.80 per US\$. The weakness of the US\$ and the relative strengthening of the Kenya Shilling over this period had an adverse effect on foreign currency denominated revenues when reported in KShs, 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.

COSTS

Fuel cost increased by KShs 5.4bn or 71.6% over the period compared to prior year. This significant increase was primarily driven by high fuel prices from 210/cag in 2007 to 363/cag in 2008, a marked increase of 72.9%. This was mitigated by hedge benefits of KShs1.4 billion and the KShs/US\$ exchange rate movement of 4.5%. As a consequence, fuel cost represented 39.1% of all costs up from 27.8% in the prior year.

The overheads increase of 3.1% was in line with increased level of operations, but remained in range of 16%-17% of revenue similar to prior year. Other direct operating costs largely remained unchanged over the prior year.

PROSPECTS

Whilst the Board recognises that these results are much lower than the prior year, it remains optimistic that the Company's performance will improve in the next half year. The main drivers of the anticipated improved performance are increased passenger numbers, better yields and a favourable exchange rate. The expected cost savings due to global fuel price reduction are diluted by fixed forward hedge positions and the adverse exchange rate impact of US\$ denominated fuel costs.

The stability of the coalition Government remains vital to enable the country to continue to attract foreign travellers. The board also recognises that the threat of new and increased levels of competition remains and is therefore increasing its investment in developing the airlines fleet, people and systems to enable the airline to respond to these threats with an even more competitive product.

While the impact of the global economic crisis continues to affect the West and Asian economies, the full impact on the African and Kenyan economy is still uncertain. It is therefore difficult to fully assess the full impact on Kenya Airways. Management and the Board will continue to monitor this on a regular basis and take appropriate action.

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
29th October 2008

Evanson Mwaniki
Chairman