

KENYA AIRWAYS LIMITED
AUDITED GROUP CONSOLIDATED RESULTS
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2011

CONSOLIDATED INCOME STATEMENT
30 SEPTEMBER 2011

	Six Months to 30-Sep-11 KShs M	Six Months to 30-Sep-10 KShs M
Revenue		
Passenger	48,587	36,739
Cargo and mail	4,296	3,039
Handling	919	669
Other	1,130	767
Total Revenue	54,932	41,214
Direct costs	(39,521)	(25,909)
Fleet ownership costs	(4,934)	(4,646)
Overheads	(9,458)	(8,279)
Total expenses	(53,913)	(38,834)
Operating profit	1,019	2,380
Operating margin (%)	1.9%	5.8%
Finance costs	(682)	(708)
Finance income	94	109
Other gains and losses	688	301
Share of results of associate	252	40
Realised gain/(loss) on fuel derivatives	1,454	(51)
Fair value loss on fuel derivatives	-	(20)
Profit before tax	2,825	2,051
Taxation	(791)	(615)
Profit after tax	2,034	1,436
Net profit margin (%)	3.7%	3.5%
Earnings per share (KShs)	4.40	3.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
30 SEPTEMBER 2011

	Six Months to 30-Sep-11 KShs M	Six Months to 30-Sep-10 KShs M
Profit for the period	2,034	1,436
Other comprehensive (loss)/income		
Cash flow hedges	(7,786)	(1,286)
Deferred taxation on cash flow hedges	2,336	386
Share of associate comprehensive income, net of tax	(131)	0
Total comprehensive (loss)/income for the period	(3,547)	536

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 SEPTEMBER 2011

	30-Sep-11 KShs M	31-Mar-11 KShs M
ASSETS		
Property, plant and equipment	49,932	50,794
Intangible assets	894	1,029
Prepaid operating lease rentals	5	5
Investment in associated company	460	338
Aircraft deposits	4,216	2,797
Deferred income tax asset	26	26
Fuel derivatives	-	132
Total Non-Current Assets	55,533	55,121
Inventories	2,331	1,907
Trade and other receivables	13,612	11,159
Current income tax	913	840
Fuel derivatives	-	2,462
Bank and cash balances	6,604	7,254
Total Current Assets	23,460	23,622
Total Assets	78,993	78,743
EQUITY AND LIABILITIES		
Total equity	19,540	23,090
Non-controlling interest	56	53
Total Equity	19,596	23,143
Borrowings	26,322	21,750
Deferred Tax Liability	6,757	8,303
Deferred Income	2,245	2,232
Finance lease obligations	1,354	1,101
Total Non-Current Liabilities	36,678	33,386
Current Liabilities		
Fuel derivatives	581	-
Sales in advance of carriage	10,523	9,010
Finance lease obligations	235	335
Trade, other payables and accruals	8,963	8,991
Deferred income	174	174
Borrowings	2,243	3,699
Current income tax	-	5
Total Current Liabilities	22,719	22,214
Total Equity and Liabilities	78,993	78,743

CONSOLIDATED STATEMENT OF CASH FLOWS
30 SEPTEMBER 2011

	30-Sep-11 KShs M	30-Sep-10 KShs M
OPERATING ACTIVITIES		
Cash generated fro operations	4,111	6,615
Taxation paid	(78)	(47)
Interest paid	(682)	(708)
Interest received	94	109
Net cash generated from operating activities	3,445	5,969
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,557)	(1,518)
Deposits paid for aircraft purchases	(1,062)	(148)
Deposit refunded	289	-
Boeing subsidy	100	-
Proceeds of disposal of property and equipment	3	46
Net cash used in investing activities	(2,227)	(1,620)
FINANCING ACTIVITIES		
Loans raised	174	-
Repayment of long term borrowings	(1,924)	(1,843)
Payment of lease obligations	(118)	(47)
Investment in short term deposits over 90 days	-	(144)
Net cash used in financing activities	(1,868)	(2,034)
Net (decrease)/increase in cash and cash equiv	(650)	2,315
At start of period	7,254	3,113
At end of period	6,604	5,428
Analysis of Bank and cash balances		
Maturing within three months	6,604	5,428
Maturing after three months	-	3,155
Bank and cash balances	6,604	8,583

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
30 SEPTEMBER 2011**

Attributable to equity holders of the Company					
	Share capital KShs M	Revenue reserve KShs M	Proposed dividend KShs M	Non controlling Interest KShs M	Total Equity KShs M
Six months period ended 30 September 2010					
At 1 April 2010	2,308	17,153	462	50	19,973
Comprehensive income					
Profit for the period	-	1,440	-	(4)	1,436
Other comprehensive income for the period	-	(900)	-	-	(900)
At 30 September 2010	2,308	17,693	462	46	20,509
Six months period ended 30 September 2011					
At 1 April 2011	2,308	20,089	693	53	23,143
Comprehensive income					
Profit for the period	-	2,031	-	3	2,034
Other comprehensive income for the period	-	(5,581)	-	-	(5,581)
At 30 September 2011	2,308	16,539	693	56	19,596

COMMENTARY

Kenya Airways recorded improved profitability in the half year ended 30 September 2011 compared to the prior year. This was realised despite the challenging economic and geopolitical environment that continues to impact the aviation industry. Factors that negatively impacted the airline industry in the period included the high fuel prices, Eurozone crisis and shocks in Japan.

Regarding the network, Kenya Airways successfully launched two new destinations namely N'Djamena and Ouagadougou during the period under review.

The Board is pleased to announce that Kenya Airways achieved a half year turnover of KShs 54.9 billion which is 33.3% increase on prior year turnover of KShs 41.2 billion. This resulted in KShs 2.034 billion profit after tax compared to prior year profit of KShs 1.436 billion. This resulted in a net profit margin of 3.7% which is an improvement from the 3.5% net margin achieved during the previous period. Earnings per share increased to KShs 4.40 from KShs 3.11 realised in the prior year.

Management continued to invest time and resources towards maintaining high levels of safety in all its operations during the period.

OPERATIONS

On Time Performance

The airline is continuously seeking to improve the On Time Performance (OTP) so as to ensure schedule integrity and maintain the quality of the product. Maintaining high OTP rates is however hampered by challenges including congestion at the airport, long traffic jams due to the ongoing rehabilitation of Mombasa Road, availability of equipment and shortage of captains.

The construction of Unit 4 at the airport scheduled to be operational in December 2012 will help alleviate the passenger congestion at JKIA. Additionally, tender documents are out for the Greenfield expansion expected to break ground next year. The ongoing Mombasa Road improvements and the Southern bypass will improve traffic flow once completed before the end of next year.

The airline is also currently recruiting expatriate pilots who will help eliminate the current shortage. There are also specific measures being undertaken in Technical Department to improve the availability of the aircrafts. All these measures will help maintain the OTP at levels acceptable to passengers.

Customer Service

The airline is committed to maintaining high levels of customer service. Because of the growth in the fleet, the number of employees has been steadily increasing. In order to ensure consistent first class service from the ground staff, they will all be undergoing a customer service training course commencing later this month. Other customer facing departments training will follow suit.

The introduction of the Mombasa Shuttle has also greatly improved service on the Mombasa route. This has resulted in an increase in capacity by 40% compared to the previous period. The capacity to Kisumu has grown by 55% following the re-opening of the Kisumu airport.

In addition, both the domestic and the Flying Blue lounges will be completed before the end of this year thereby improving service levels even further. All these measure, inter alia, are being ensued to ensure that Kenya Airways continues to be “ The pride of Africa”.

REVENUES

Passenger

Capacity measured in terms of Available Seat Kilometre (ASK) increased by 13.2% largely as a result of increased frequencies and new destinations launched. Passenger traffic measured in terms of Revenue Passenger Kilometre (RPK) grew by 17.9% above prior year due to improved demand during the period. Passenger yields including fuel surcharge in US cents increased by 0.9% and strengthened further to 12.6% when translated into Kenya Shillings, primarily due to the weaker Kenya Shilling in the period.

The passenger revenue for the period was KShs 48.6billion which is 32.3% above prior year, primarily due to increased passenger numbers in all regions, better yields and weaker Kenya Shilling.

High Passenger traffic growth was achieved in all regions over the period as follows: Africa grew by 15.7% largely due to launch of operations into Ouagadougou and N'Djamena during the period. There was also improved performance on routes launched last year to Southern Africa and increased frequencies to Juba. Far East traffic to Bangkok, Hong Kong and Guangzhou increased by 24.8% largely the result of increased capacity in the region. Middle East passenger numbers grew by 24% largely due to increased frequencies to Mumbai. European traffic was up 13.3% due to improved demand out of London, Paris and Rome that was launched in late 2010 thus, was not part of first half of prior year.

Domestic Kenya total traffic grew by 50.1% as a result of increased frequencies and capacity on Mombasa route and the re-introduction of Malindi when compared to prior period.

Cargo

Cargo tonnage volume was 16.5% above prior year coupled with a yield growth of 11.1%. This coupled with the weaker Kenya Shilling bolstered a revenue growth of 41.4% over the same period in the prior year. Regions with high growth in cargo tonnage volumes included Europe (+19.2%) and Mid-East (+19.1%). Africa routes grew by 15.6% over the prior year due to better equipment mix to ferry cargo as well as impact of new destinations. Far East recorded a dip in cargo traffic by 1.5% over prior year. Domestic Kenya recorded a marginal growth of 5.9% mainly the result on increased operations to Mombasa.

Exchange rate

The US Dollar strengthened against the Kenya Shilling with the average exchange rate for the period being KShs 87.91 per US Dollar against a prior year average of KShs 78.80 per US Dollar. The strong US Dollar and the relative weakening of the Kenya Shilling over this period had a positive effect on foreign currency denominated revenues when reported in Kenya Shillings. These gains were however partly offset by the adverse effect on foreign currency denominated expenses.

COSTS

Direct Operating Costs

Direct operating costs increased to KShs 39.5 billion which is an increase of 52.5% mainly due to increase in operations and high fuel bill in the period. Fuel cost, excluding hedge costs, increased to KShs 21.2 billion which is an increase of 89.7% compared to prior period. This significant increase was primarily driven by higher jet fuel prices from 248.84/cag in 2010 to 352.27/cag in 2011, an increase of 41.6%. The remaining increase of 48.1% in cost is a result of increased operations and a combination of volume consumption and exchange rate.

Overheads

Overheads increased to KShs 9.5billion which is an increase of 14.2% over same period last year. The performance was adversely impacted by an increase in employee costs of KShs 749 m and KShs 430m on general administration and establishment cost.

10 YEAR PLAN

The Board has taken cognisance of the cyclical traffic demand and has approved a ten year plan that will enable Kenya Airways remain competitive by positioning itself to capture the traffic flows in the future.

The ten year plan starts from this financial year to 2020/21. The plan includes new destinations roll out covering the six continents and a fleet acquisition plan. The immediate items in implementation of the plan starts with earnest within the next six months with a Rights Issue as already communicated to potential investors. The Rights Issue proceeds will form part of the initial fleet pre-delivery payments for the years 2013/14 and 2014/15 aircraft acquisitions.

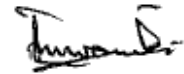
PROSPECTS

According to IATA, the global aviation industry is weak but still profitable. IATA estimates the airline industry worldwide profits in 2011 at USD 6.9billion, but will slip down to USD 4.9billion in 2012. The economic growth in Europe and North America remain weak, Asia-Pacific remain strong but with a damper on Japan.

Kenya Airways profit after tax in the first half of 2011/12 compares favourably against prior year's profit. The Board is optimistic that the company's performance will continue improving in the second half of the year.

The Board takes this opportunity to thank all its customers, staff, management and suppliers for their dedicated contribution to the growth of the airline.

By order of the Board
2nd November 2011



Evanson Mwaniki
Chairman