Commentary:

The Board is pleased to announce that Kenya Airways has sustained profitability growth in the first half of the 2005/06 financial year over the same period in 2004/05.
Profit after tax for the period reviewed ended at KShs 2,231m compared to KShs 1,511m during the corresponding period last year. The results indicate a growth of 48% (KShs 720m) improvement on prior year's first six months.

Passenger numbers were sharply up on the same period last year with an overall growth of 23% to a half year record of 1.2 million passengers. The airline realised an average seat occupancy of 78.6% some 4 percentage points above prior year's level of 74.3%. Areas of strong growth include Europe at 27% due to the positive passenger response to the deployment of new Boeing 777s. Middle East and Asia growth was 15% while all African destinations registered growth exceeding 12% with West Africa leading at 25%. This was largely due to increased frequencies to Douala, Lagos, the introduction of Bamako - Dakar and use of larger B767s in place of the narrow body B737s on some flights to Kinshasa, Accra and Abidjan. Growth in Kenya at 34% was the highest in the network mainly attributed to increased demand from the growing economy as well as the tourism sector in the region, necessitating operation of larger aircraft and the expansion of the KQ network leading to improved connectivity.

Strong growth in yields were realised in Southern Africa 18%, Northern Africa 12%, Europe 10% and Eastern Africa 8%. Overall, network wide yield grew by 5%, largely unchanged because of the greater proportion of long haul low yield traffic in the overall mix. Cargo performance was particularly encouraging with tonnages improving by 22% and yields in US$ growing across the network by some 16%. Other income has increased in the period reflecting the industry's raising of fuel surcharges in response to significantly increased fuel prices.

Global fuel prices during the period under review averaged over 58% higher than the corresponding period last year but we were able to hold the impact of this to 52% (in USD terms) through a successful hedging programme. The fuel cost was 70% above prior year driven largely by price increases of 58%, increased consumption in US gallons by 16%, in line with the increased capacity offered, but partly mitigated by the 3.5% appreciation of the Kenya Shilling.
The increase in overheads was 25% due mainly to increased level of operations. Higher finance costs are due to the financing of the two new Boeing 777s delivered in April and June 2005.

Prospects

Whilst your Board remains cautiously optimistic about operations for the remainder of the financial year, there remains the challenge of a potential increase in competition as well as continuing high fuel prices, which have now more than doubled in the past 12 months. The cost of jet fuel still remains the greatest threat to profitability, while a part of this cost is likely to be passed to customers by way of fuel surcharges, the airline will still have to absorb the balance. Accordingly, the airline is actively seeking ways to improve its fuel usage efficiency, improving revenue performance as well as other potential cost saving actions.

Unaudited Interim Results

For the six months ended 30th September 2005

	Six Months to 30-Sep-05 KShs Million	Six Months to 30-Sep-04 KShs Million	Variance KShs Million	Variance (%) Fav/(Adv)
Turnover: Passenger	20,569	16,720	3,849	23
Cargo and Mail	2,477	1,832	645	35
Handling	587	429	158	37
Other	1,708	644	1,064	165
Total Revenue	**25,341**	**19,625**	**5,716**	**29**
Total Operating Expenses	**21,255**	**17,047**	**4,208**	**(25)**
Expenses to Revenue Ratio	**83.9%**	**86.6%**	**2.7%**	**Points**
Fuel Costs	6,054	3,555	2,499	(70)
Other Direct Operating Costs (“DOCs”)	8,011	7,300	711	(10)
Fleet Ownership Costs	3,099	2,918	181	(6)
Overheads	4,091	3,274	817	(25)
Operating Profit	**4,086**	**2,578**	**1,508**	**58**
Operating Margin	**16.1%**	**13.4%**	**2.7%**	**Points**
Net Interest Expenses	(614)	(360)	(254)	(71)
Losses on Foreign Exchange (1)	(320)	139	(459)	(330)
Other Non-Operational Items (2)	34	(8)	42	530
Net Profit before Tax	**3,187**	**2,349**	**838**	**36**
Provision for Taxation	(956)	(838)	(118)	(14)
Net Profit after Tax	**2,231**	**1,511**	**720**	**48**
Net Profit Margin	**8.8%**	**7.7%**	**1.1%**	**Points**
	KShs	**KShs**	**KShs**	**%**
Earnings per share before tax	**6.90**	**5.09**	**2**	**36**
Earnings per share after tax	**4.83**	**3.27**	**2**	**48**

(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.