

**SECRETARY GENERAL'S ANNUAL REPORT ON
THE INDUSTRY – PRESENTED AT THE 37TH AFRAA
ANNUAL ASSEMBLY, SUN CITY
ON 14 NOVEMBER 2005**

Mr. President,

Distinguished Guests,

Ladies and Gentlemen ...

I will, first of all, pay a special tribute to Giovanni Bisignani, Director General of IATA and to Hans-Peter Kohlhammer, Director General and Chief Executive Officer of SITA Inc. for their presence in our midst and the wealth of information, experience and knowledge they kindly shared with us. Both of them interrupted very busy schedules to make their participation possible, mostly because these two great men of the industry have resolved to make the progress of our business in Africa a top priority of their organizations.

It is my privilege and pleasure to assure you, in return, of the determination of the African Airlines Association and its members to embark on cooperation and a mutual support policy with your two organizations on all their various programmes designed for a steady improvement of the industry in Africa.

Mr. President, before going into further details on the cooperation achievements and perspectives with IATA and SITA, I wish, as per tradition, to shed some quick additional highlights on:

- The business trend in the industry
- The performance of African Airlines
- The current main issues
- The recommendations and actions of the African Airlines Association (AFRAA)

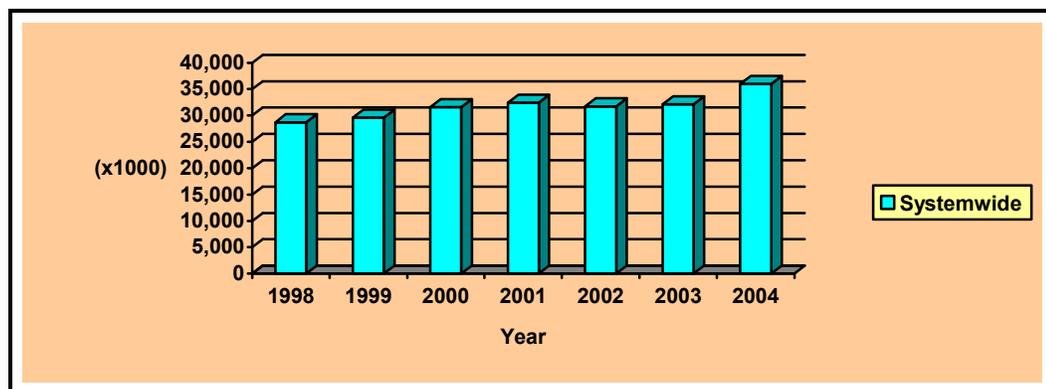
A. THE BUSINESS TREND IN THE INDUSTRY

Mr. President, during 2004, the world experienced a general economic upturn following a recession from around 1999 to 2003. African economies were and still are growing at above average world rates. This had created some expectation of significant improvement in the fortunes of airlines for 2004 and 2005. Alas, the outlook is not very encouraging with the performance of the industry being severely depressed by the steep rise in fuel prices! It is hoped that the possible bird flu pandemic would not materialize nor spread to our continent and worsen an already precarious economic and financial situation in the industry.

In 2004, the global airline industry lost USD 4.2 Billion. This year, the global loss is expected to reach USD 7.5 billion mainly because of the huge losses of the giant American carriers. However, the situation in Africa has generally been more positive with a number of airlines reporting positive results.

2004 PERFORMANCE

1. PASSENGERS CARRIED



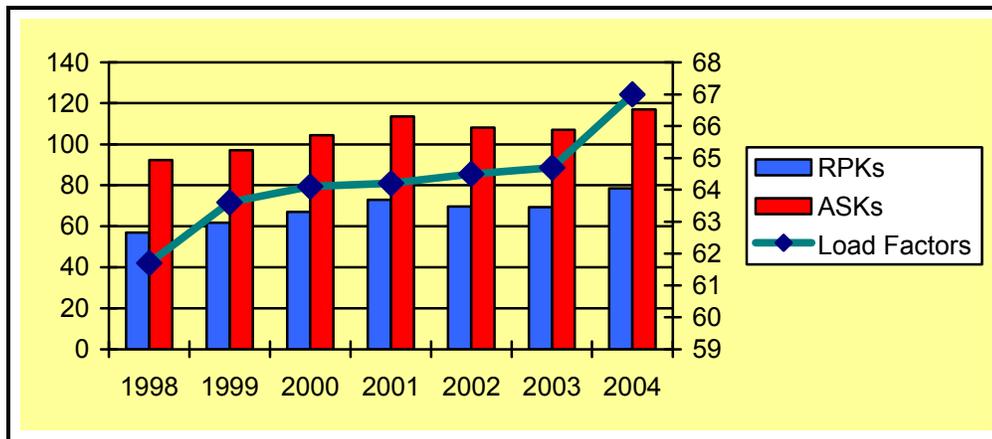
- In 2004, AFRAA member airlines carried a total of about 36 million passengers, 12.2% more than in 2003. Passenger traffic levels are rising on the back of general significant economic upturn worldwide, including on the African continent.
- This growth trend is overall mirrored in domestic, within Africa and intercontinental traffic. For example, growth in intra-Africa can be illustrated by the increase in frequencies between some cities as a result of the increased trend of liberalization as shown on the table. As you can see, there are now 65 flights between Lagos and Accra every week and this positive development is

mirrored between JNB – GBE, JNB/CPT – WDH/WVB, among several other city pairs.

ROUTING	AVERAGE PER DAY	AVERAGE PER WEEK
ACC – LOS	9+	65
ABJ – DKR	3	21
NBO – EBB	5	35
NBO – DAR	5	35
NBO – ADD	2	16
NBO – JNB	3	21
JNB – GBE	9	21
JNB/CPT – WDH/WVB	6	43

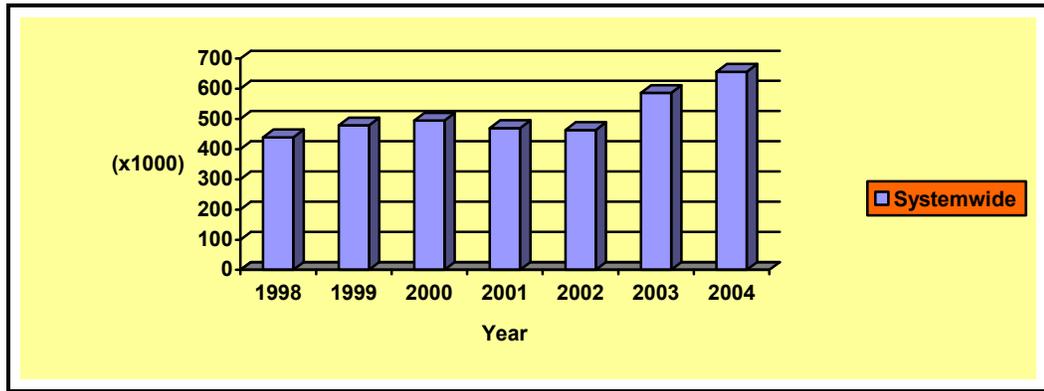
2. RPKs/ASKs/ AND PASSENGER LOAD FACTORS

Passenger traffic in 2003 in terms of Revenue Passenger Kilometers systemwide increased significantly by 13.1% to 78.4 billion. The capacity in terms of available seat kilometers (ASKs) was about 117 billion, an increase of 9% from last year. This resulted in the passenger load factor rising from 64.7% in 2003 to 67% in 2004, the highest on record.



3. FREIGHT

2004 recorded the highest freight tonnage on record at 656 thousand tonnes. This was a large 12% increase from 2003. This positive development reflects the general economic upturn on the African continent.



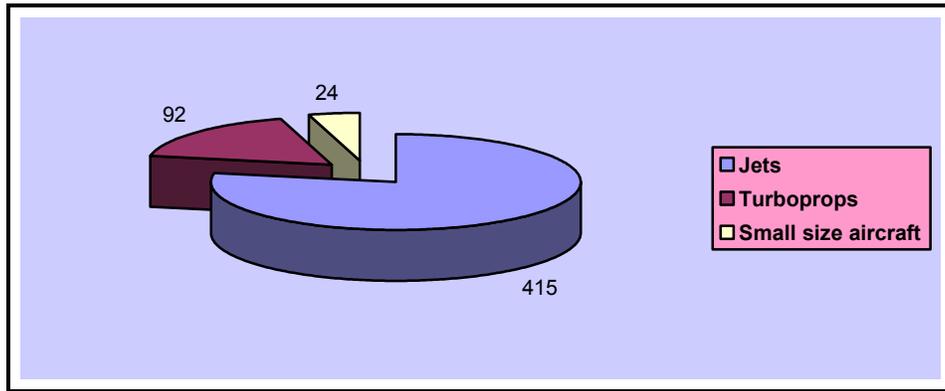
4. FINANCIAL PERFORMANCE

4.1 Operating Results

Overall, the AFRAA member airlines made a profit in 2004. A sample of 8 airlines comprising South African Airways, EgyptAir, Royal Air Maroc, Ethiopian Airlines, Kenya Airways, Air Mauritius, Air Namibia and Air Botswana made a net profit of over \$200 million. These encouraging results are remarkable in a world where red ink at the bottom line tends to be the norm in the recent past.

5. FLEET 2004

AFRAA member airline fleet stood at 531 aircraft as at the end of 2004, an increase by 1 over 2003. The fleet was made up of 415 jets, 92 turboprops and 24 small size aircraft. An important development is the continued fleet renewal by several airlines, particularly the larger and more profitable carriers, with the older generation aircraft types being retired. I can cite the announcement earlier this year, by Ethiopian Airlines, of their order of 10 state-of-the-art Boeing 787 Dreamliner aircraft as one notable example. South African Airways has also taken delivery of a number of the 41 new aircraft it ordered. Among the carriers that received new aircraft in 2004 were Kenya Airways, EgyptAir and Air Senegal International



B1/ PROGRESS MADE BY AFRICAN CARRIERS

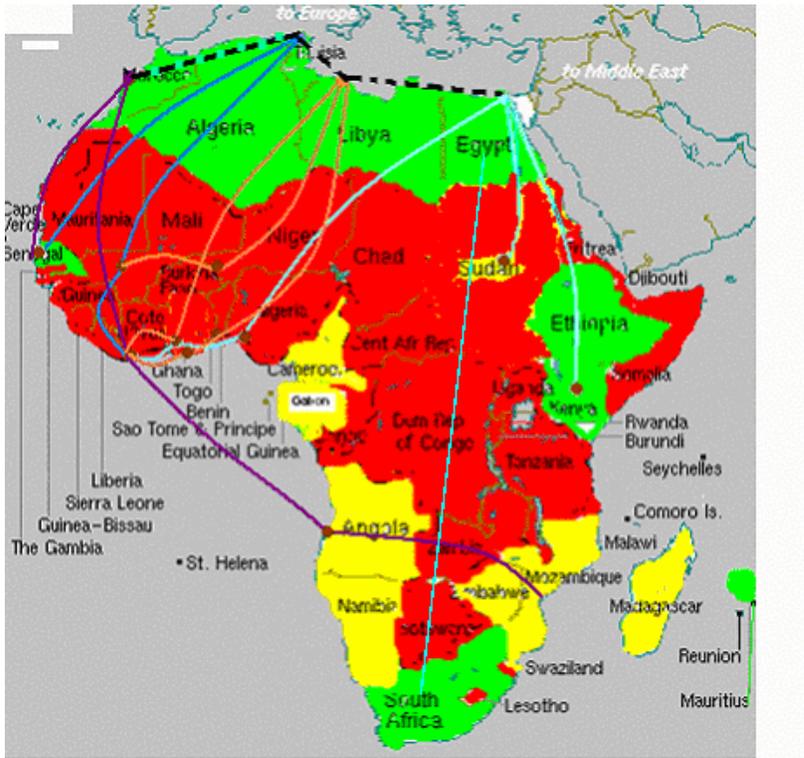
Beyond the figures, it is worth noting that many leading African carriers are taking the initiative to expand their intra-African markets as well as their international network.

Intra-African Routes

Some African carriers have made remarkable progress in expanding air service access across the continent and developing new routes to link the continent to the rest of the world.

From the North

Traveling within the North African countries is seamless with good frequency of services between the major cities. The second Libyan carrier, Afriqiyah Airways is now operating to most of the defunct Air Afrique member countries transforming Tripoli into a hub for passengers connecting to Europe and the Middle East.



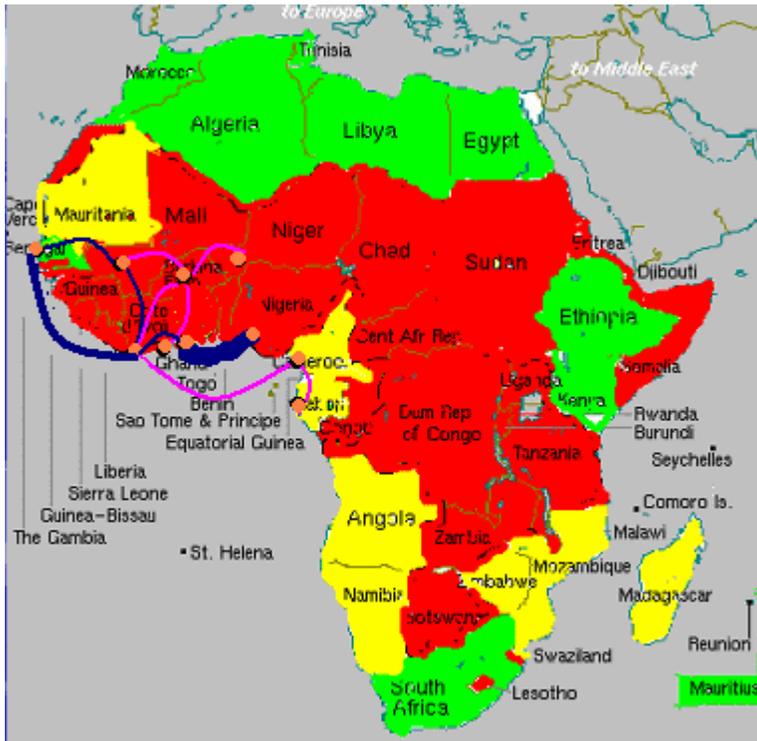
- Tunisair
- Royal Air Maroc
- Egyptair
- Afriqiyah Airways
- Connection covered by several North African airlines

Tunisia has also started flying to Bamako and Abidjan. Royal Air Maroc has all this time been operating flights to Dakar, Luanda and Maputo.

The combined efforts of these North African carriers has improved traveling between the Magreb region and sub-Saharan Africa.

West and Central Africa

Air Senegal International, Bellview, Air Ivoire and Air Burkina have put in a lot of efforts to fill up the vacuum left following the demise of Air Afrique. These airlines propose flights to travel within the region from Dakar to Douala and Libreville.

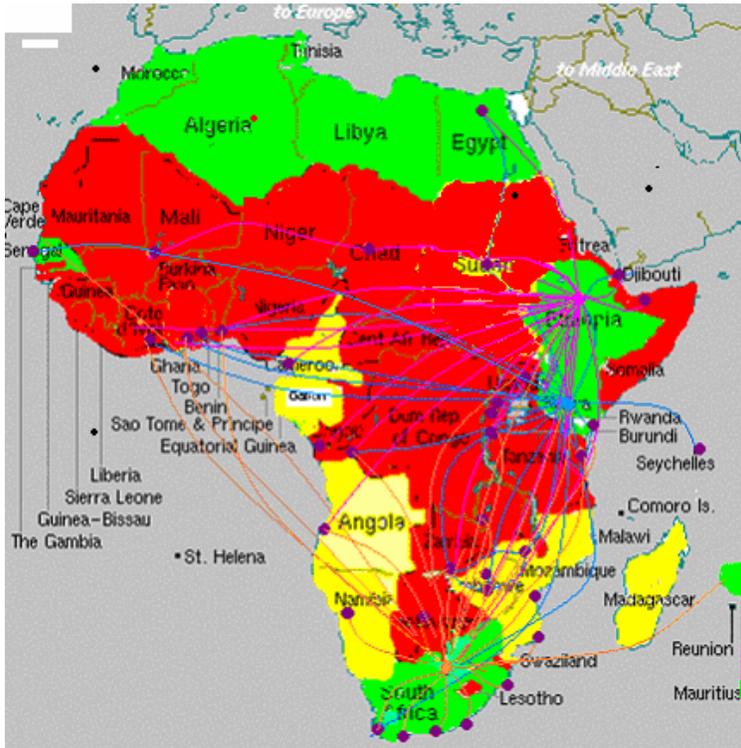


- Dense air traffic
- Other connections

In this region the good news is that Virgin Nigeria has started operating very strongly and that Ghana International Airlines has also recently launched its operations. In addition, a group of banks in the region have joined to form a new private investment multinational carrier to take over from the defunct Air Afrique. This development is commendable and the African Airlines Association is very supportive of such positive efforts. It is also AFRAA's wish that this promising carrier of the region engages in partnership with other leading African carriers so as to quickly help it contribute to the industry's renaissance in Africa.

From East Africa

Ethiopian Airlines and Kenya Airways have criss-crossed the entire COMESA Region with a good number of quality and reliable air services. In addition, they offer convenient flight connections to extend these services to the West and Central Africa, where passengers also use them to fly to the Middle East and the Far East.



- Kenya Airways
- Ethiopian Airlines
- South African Airways

In the SADC Region

South African Airways and its subsidiaries have increased their number of frequencies within the region. The continent’s leading carrier is also operating more flights to the West African region. It is worth noting that the airline is now flying to New York via Dakar in partnership with Air Senegal International and to Washington via Accra and discussing with Antrak Air for possible cooperation. The intra-Africa services have thereby increased. From the same region, Interair, which is currently flying to Brazaville, Douala and Cotonou has recently developed flights to Bamako.

Mr. President, in summary, air services are improving on African routes which translate into high traffic growth. At this juncture, we ought to mention the driving impact of the Yamoussoukro Decision despite all critics and skepticisms.

The reality is that the impact of the Yamoussoukro Decision’s implementation is visible on various intra-African routes as follows:

FLIGHT FREQUENCY PER WEEK ON SELECTED ROUTES

ROUTING	AVERAGE PER DAY	AVERAGE PER WEEK
ACC – LOS	9+	65
ABJ – DKR	3	21
NBO – EBB	5	35
NBO – DAR	5	35
NBO – ADD	2	16
NBO – JNB	3	21
JNB-GBE	9	61
JNB/CPT-WDK/WVB	6	43

The African Airlines Association is fighting for more of these types of results. As a member of the Monitoring Body of the Yamoussoukro Decision, we are intermediating currently between Egypt and Nigeria to bring these two great African Union championing countries to come to a common understanding to fully implement the Yamoussoukro Decision. In the past, AFRAA successfully organized a meeting between Kenya and Sudan to the same end. Our Association will be available and honoured to assist in any other such cases.

B1/ Inter-Continental Services

Mr. President, it is gratifying to note that many African airlines are actively extending their operations to other continents than their traditional destinations in Europe and the USA. These include in particular Asia, Australia and the Far East. The airlines spearheading this move are Egypt Air, South African Airways, Ethiopian Airlines, Kenya Airways and Air Mauritius. Despite its relatively small size, Air Zimbabwe also counted among the African carriers that opened the routes to China. This is going in the right direction as the

airlines ought to anticipate and read accurately the main trade streams so as to offer their international air services accordingly.

African passengers can now travel on their own carriers to Dubai, New Delhi, Mumbai, Bangkok, Hong Kong, Singapore, Beijing and Tokyo without transiting through Europe.

The routes towards the American continent are less operated by our carriers. Currently only Royal Air Maroc, Egypt Air, Ethiopian Air and South African Airways operate to the USA. Down South, the only air link that the continent has with Latin America is operated by South African Airways yet Latin America has a lot to trade with Africa since we have the similar climate which makes the technologies and the products developed there very responsive to African markets and needs.

The American continent's markets remain untapped for our carriers though American Airlines are not interested in direct operation to the continent themselves. There is room for development that needs to be considered.

Another business or market that African Airlines ought to invest in is the freight business. Most African carriers look at cargo as an accessory business. It is remarkable that despite the AGOA policy designed in the USA to enhance trade with the African continent, there are no records of any increase in cargo flights to and from the USA.

Though it can be argued that cargo businesses are most often unidirectional, it is our belief that AGOA offers opportunities that could help develop African airlines' cargo business.

Here again, because of the small size of the markets in each individual African country, the way forward would be to partner in numbers to ensure successful operations. Furthermore, it is only through partnerships, including code share arrangements, that operations we are launching to the Middle East, Asia, and the Far East as well as to the American continent can be viable and profitable.

C. THE CURRENT URGENT CHALLENGES

Out of the multitude of challenges that the industry is facing in Africa, this report will focus on a few that require urgent actions. They include, fuel cost, Simplifying the Business, Safety and the increasing demand of the market for low fares.

Fuel Prices

Mr. President, the sky-rocketing fuel prices are devastating the industry world-wide. IATA estimated that the operating cost of the industry in 2005 compounded by the high fuel cost will result in the overall loss by the airline industry of approximately 7.5 billion US dollars. I am confident that many of our airlines are implementing the ICAO operational measures to mitigate the impact of high fuel cost on the industry. These include flying the shortest routes, carrying optimum of fuel, cruising at optimum speed, minimizing flights at low altitude during descend and climb and having clean aircraft.

Where we have clearly failed is in fuel hedging. South African Airways misfortune on financial hedging in the last few years seems to have developed into an allergy in our airlines, for any concept of hedging. This lack of proactive action reinforce our natural adversity to quick and decisive action, anticipation and risk taking, which are all essential to be successful in business, where deals are concluded at the same pace as the stock exchange transactions across the world.

Whilst the fuel market prices are currently around US\$60 a barrel, South-West Airlines of the USA is said to be still paying between US\$25 to US\$30 per barrel for most of their fuel needs because of their far-sighted and judicious hedging decision at a time when African carriers kept on saying that the oil price was too high now to hedge.

For two good years, AFRAA has been making presentations in vain on this issue in all relevant standing committees including the Executive Committee.

I am happy to announce that we have in our midst specialists from Barclays Bank (UK) and World Fuel Services Corporation (USA). They are still available and ready to advice on future actions.

Simplifying the Business (StB)

In compliance with our resolution taken in Dakar, AFRAA has embarked on very close working relations and cooperation with IATA in order to make African airlines meet the deadline of December 2007 for the migration of the industry from paper tickets to electronic ticketing. Four sensitization workshops have been organized and conducted by AFRAA on the matter in 2005 out of which two were in association with IATA Regional Office in Africa. In order to proceed with the migration in a cost efficient manner, the workshops have formed groups of the same reservations systems and GDS users to negotiate together under the leadership of AFRAA. It is critical that each member join its group so as to increase the bargaining power for their highest benefit.

AFRAA will remain mobilized and available to go any extra mile with IATA, to fully implement the StB programme at each of its stages to the best interest of its member airlines.

Safety and IOSA

Airlines of Africa cannot afford to stay out of the IOSA audit programme. IATA reported recently that 140 airlines in the world had already undergone the IOSA audit out of which 62 have passed successfully and are registered under the IOSA compliance airline list.

Egypt Air, the first African carrier that ranks on this IOSA honours list has circulated to all members through AFRAA, the list of benefits they are deriving from IOSA which include a huge saving of US\$9.0 million on their insurance premiums in 2005.

As the African sky is perceived as unsafe, though AFRAA members are not involved in the accidents that stain the safety record of the continent, African airlines need more than the others this safety accreditation reference to remain strong in business and compete on an equal basis with their counterparts from outside the continent. Actually, as the IOSA audit programme spreads, all non-compliant airlines will be perceived as unsafe.

Having said this, IOSA inspection, preparation and implementation of findings have proved to be very expensive. In order to reduce the related costs, AFRAA is in discussion some IOSA accredited firms to set-up a training programme that will qualify selected personnel from our member airlines who would jointly conduct African carriers audits with the accredited firm and thereby help reduce costs.

In due course, I will call on all members to invest in such training for 2 or 3 of their safety specialists.

D. OTHER IDEAS, ACTIVITIES AND ACTIONS OF AFRAA

AU and ADB Meeting with Airline CEOs and AFRAA

It is critical that our industry presents to this meeting its analysis on the major requirements for air transport development in Africa. This will of course elaborate on the creation of a conducive political and regulatory environment but beyond this, as we will be addressing development with donors, all financial facilities that they can offer should be requested for.

Top priority would be given to safety, IOSA, new Information and Communications Technologies (ICT), StB programme, training, financial warranties, restructuring and equipment financing.

From experience, we know that only group collective projects and investments promoting regional integration will be considered. It is against this background that we requested Sabre to work out an MIDT acquisition formula that can be based in AFRAA for the common use of all African carriers.

On their side, SITA as our partner of reference has invested in a study with the objective making recommendations to AFRAA on the new ICT developments that the meeting can consider to fund for the improvements of the industry.

E-ticketing, online booking systems, call centre and ICT security are some of the subjects being tackled.

SITA has been a long standing partner of AFRAA and AFRAA members. This year, SITA has helped AFRAA members to make a cost saving of over 3 million dollars as the DG of SITA has confirmed. I wish to thank SITA for their good will.

It is our sincere hope that the AU and ADB meeting with AFRAA and airline CEOs in Tunis will put air transport at the top of the agenda of priority economic actions of AU, NEPAD, ADB and other donors that are pledging financial support to the continent's development programmes.

May I take this opportunity to invite you all to attend this unprecedented meeting where an air transport development road map can hopefully be set up with the African Union and the donors from which we dearly expend funding. Your massive attendance will carry weight and the needs of the airlines will be extensively articulated and listened to.

Market's demand for low fares

There are growing demands in the world for economic and affordable air transport. African countries that rank among the poorest in the world express dire needs in this regard. Yet because of the small size of our markets, economy of scale is scarcely achievable. This situation is compounded in land-locked countries where fuel prices may be two to three times more expensive than in developed countries of the world. Hence the cost components of air transport are very expensive in Africa and translate in high air fare.

Nevertheless, we need to put in creativity to give air services to this large population which is actively engaged in intra-African trade. One of the ways forward is certainly to introduce more regional operation aircraft on the sub-region and neighbouring route. Embraer and Bomardier are eager to offer solutions. It has also come to our notice through the successful regional operations of Air Zimbabwe that China can also respond to such needs. More reflections ought to be dedicated to this appeal.

Training

It is AFRAA's strong belief that future challenges of the industry require intensive capacity building. The training should target decision makers who need to be updated on modern psycho-sociological management styles and tools that enhance productivity and commitment of all stakeholders of any business, including members of staff. Last year, training activities have been as follows:

- 6 managerial courses attended by 137 participants
- 3 skills courses with 41 participants
- 3 other industry management courses conducted in association with IATF where 52 participants were trained

As you all know, AFRAA in conjunction with IATA, IATF and AASA, launched, two years ago, a project to create an African Airlines Training Foundation, AATF. The aim of this project was to raise money from donors to fund, at a large scale the training and development of airline personnel. Because of some misconception and the fact that free money is scarcely available particularly within the continent, this project has made little progress. Nonetheless, as the training needs are huge and critical and perseverance being the key for success, particularly on these types of projects, we might consider reshaping the request and presenting it differently and clearly as a project of the African Airlines Association, to which IATA would be associated as a technical partner for its experience and dedication to Africa.

Image and Communication

In today's era of communication, success in business often requires good communication and lobbying force. The African Airlines Association (AFRAA) is, day after day, struggling to provide our industry in Africa with these two indispensable tools of success.

AFRAA never turns down any opportunity to update the media on current industry issues, positions and recommendations of its member airlines. By and large, the international media seek for such positions in all their analysis.

Powerful information search engines such as google and yahoo relay the Association's messages.

Members should often go on these websites to see the impact and at the same time be fully updated. In partnership with PANAPRESS, the Association has also added to its own website a page on "Latest News". This page lists current news concerning the industry in Africa as they happen.

In addition, still in association with PANAPRESS, AFRAA has launched the Association's magazine "*Africa Wings*" which captures and reflects the views of the airline industry business in Africa.

Complimentary copies of the second issue of "*Africa Wings*" will be circulated to all delegates attending the conference.

I am confident that you will discover its wealth of useful information and resolve to extend your support.

Finally, AFRAA has published an e-book on African airlines entitled "*African Airlines in the Era of Liberalisation*". This book, which is available at the AFRAA website gives an overview of the African airline industry and proffers some thoughts on the way forward. The book also gives advice to various stakeholders on what they need to do, not only to facilitate the development of African airlines, but also to realize their own interests.

In order to leave behind a record of reflections, strategies and actions undertaken in the industry, AFRAA has resolved to write and invite all members to join us in this image building and communication exercise at all levels including newsletter, magazine and book, so that AFRAA accounts for its activities and history.

CONCLUSION

It has been my greatest pleasure to take the opportunity of this report to fly you through the business trends of the industry, the performance of African airlines, the current and other issues, share with you some insights and sentiments concerning the future challenges.

May I confess that I view the large attendance at this conference, as a remarkable encouragement to the Association's activities. In reality, your high level of satisfaction, the quality of knowledge that we will share and the friendship and business contacts that we will build will represent the best achievements of the year. I wish you a very successful AGA.