



44th AFRAA ANNUAL GENERAL ASSEMBLY

REPORT OF THE SECRETARY GENERAL

By

Dr. Elijah Chingosho
Secretary General

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INTRODUCTION

Mr President, distinguished guests, ladies and gentlemen, it is with great joy that I once again extend warm welcome to you all.

The aviation industry in Africa is vital for achieving sustainable development of our continent. Airlines in particular are an essential component in realising this objective. Airlines can only play this role if they are strong and are allowed to grow and expand their services.

We are most privileged and honoured therefore to meet in this great city, a centre of commerce and aviation in Africa, to consider strategies and programmes to strengthen our airlines. Johannesburg is also the home of African's most vibrant airlines, and the leading airline on the continent, South African Airways.

It is with this inspiration that I present the Annual Report, with details being in the Annual Report included with your AGA documentation.

In summary, the report includes the following

- Performance of the industry globally and in Africa
- The Secretariat Value Adding activities
- The future challenges and opportunities
- Conclusions

A. STATE OF THE AIRLINE INDUSTRY

Africa is a growing force in aviation driven by robust economic growth forecasts, with Africa having among the fastest growing economies worldwide. North African economies are also rebounding after disruptions arising from revolutions in 2011.

The areas I will briefly cover are shown on the screen.

African Air Transport Growth Potential

With the positive economic growth prospects, the role expected to be played by air transport in the socio-economic development and regional integration is enormous.

Direct foreign investment, growing urbanization and rising incomes will continue to spur higher domestic demand for consumer goods and air transport. Intra-Africa air travel which is currently 26% of total air passengers is set to grow significantly to support the fast expanding regional trade which is only 10% at the moment.

The various regional economic communities such as ECOWAS, EAC, COMESA, SADC etc. are working assiduously to eliminate trade barriers and increase cross border trade, investment and movement of goods and people.

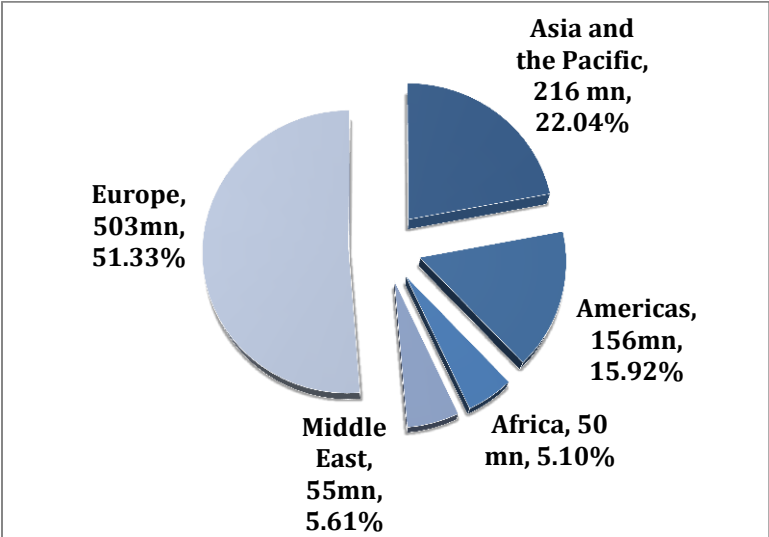
As China and India continue to be major trading partners in almost all African countries, traffic between Africa and Asia will continue to grow. Projections are that air travel between Africa and Asia will grow at 8.1% annually up to 2030. The Africa-Asia market will be the fastest intercontinental air travel growth region and

therefore African carriers would need to focus resources in developing their Asian networks before the Asian carries intensify their operations westwards into Africa.

Tourism in 2011

In a year characterized by a stalled global economic recovery, major political changes in the Middle East and North Africa and natural disasters in Japan, international tourist arrivals grew by 4.4% in 2011. According to UNWTO, international tourism receipts continued to recover from the losses of crisis year 2009 and hit new records in most destinations, reaching an estimated US\$ 1,03 trillion worldwide, up from US\$ 928 billion in 2010.

World inbound tourism: international tourist arrivals 2011 (million)



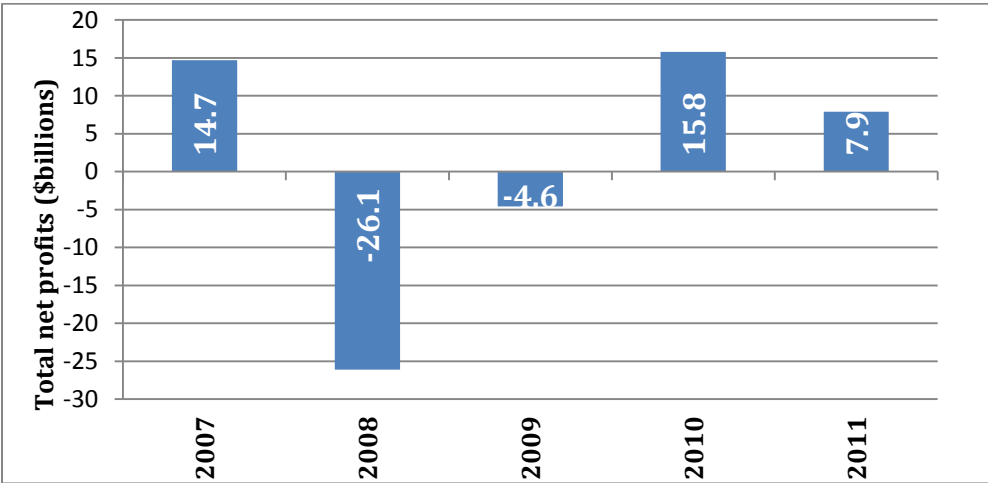
Source: UNWTO (2012)

Airline Performance in 2011

Global

Airlines worldwide made a net profit of \$7.9 billion in 2011 and are expected to make a net profit of almost half that at \$4.1 billion in 2012.

Total net profits in \$ billion



Source: IATA (2012)

African Airlines Performance

In 2011 the challenges posed by the economic and financial crisis in Europe and the political instability in North Africa resulting from the Arab Spring negatively impacted traffic performance generally across the continent. The total number of passengers carried in 2011 dropped by 8.2% to 56 million from the 2010 figure of 61 million.

The major airlines on the continent continued their aggressive network expansion, new markets development and further penetration of their domestic and intra-Africa

markets. As a result, passenger numbers (excluding operators from North Africa) increased by 13.9%. The resilience of African economies to the global economic downturn coupled with the high demand for air travel driven by a swelling middle class supported the traffic growth.

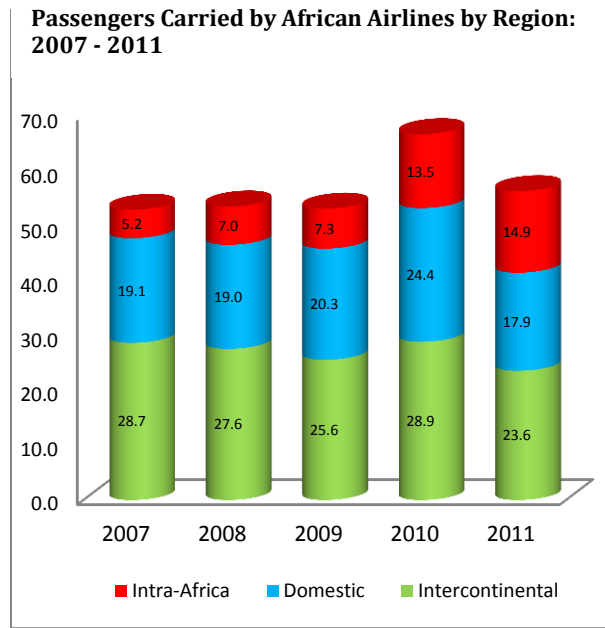
Domestic/Intra-Africa Passengers

Domestic passenger numbers decreased by 12.3% to 17.9 million due largely to the disruption of local operations in North Africa, particularly Egypt, Libya and Tunisia and also Cote D'Ivoire in West Africa. The growing competition in many domestic markets and the resultant improvement in service quality and lowering of fares is stimulating growth in some markets.

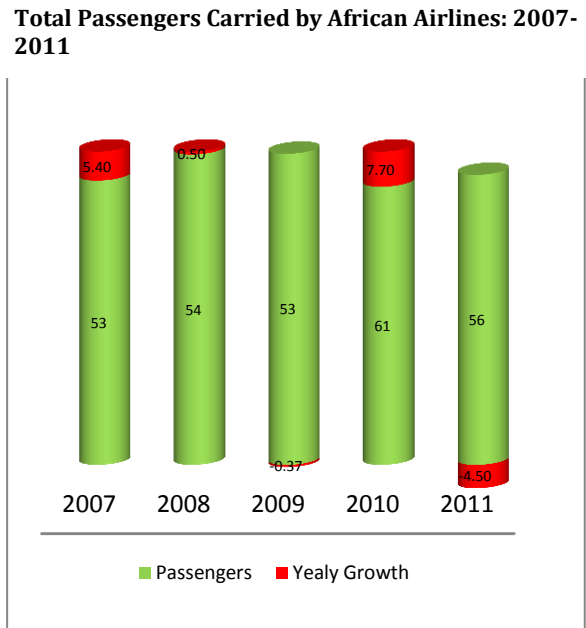
The domestic market in Ghana in 2011, for instance, more than doubled the number of passenger carried due to the entry into the market of Starbow Airlines with its superior product and marketing strategy.

Intra-Africa passenger numbers went up 10.4% to 14.9 million while inter-continental passenger numbers declined by 12.6% to 23.6 million in 2011.

With a population of over 1.0 billion, spread across the vast continent of 54 countries, there is huge potential for growth in intra-Africa air travel. The major constraint to the growth of intra-Africa traffic is the continued over-reliance on the restrictive Bilateral Air Services Agreements (BASAs) and failure to fully implement the Yamoussoukro Decision by many States as well as high taxes and charges that make air travel beyond the reach of many people.



Source: AFRAA



Source: AFRAA

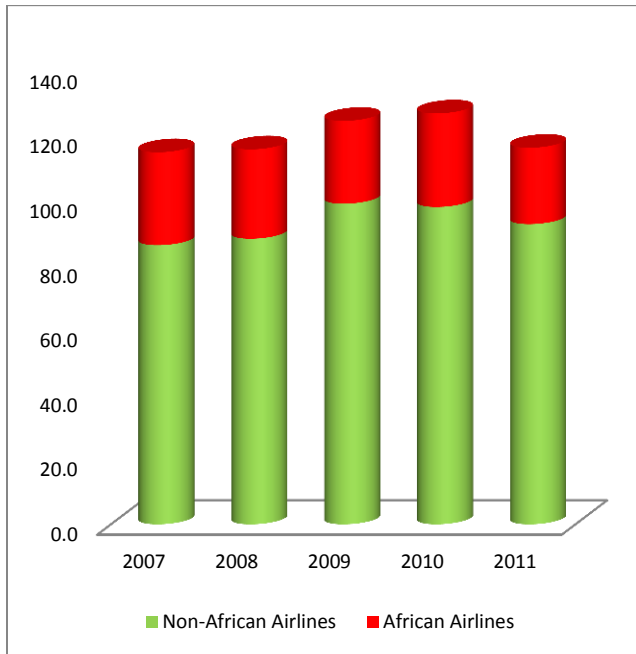
Intercontinental Passengers

Intercontinental passenger numbers dipped due to the economic and financial crisis in Europe and the political instability in North Africa during and after the Arab Spring. The continent's heavy dependence on international tourists took a hit as many passengers cancelled planned visits to the continent.

African airlines in 2011 carried about 25% of all intercontinental traffic to and from the continent.

Overall, intercontinental passengers carried by both African and non-African airlines dropped by 9.1% in 2011 compared to the previous year.

Passengers Carried by African and Non-African Airlines on Intercontinental Routes

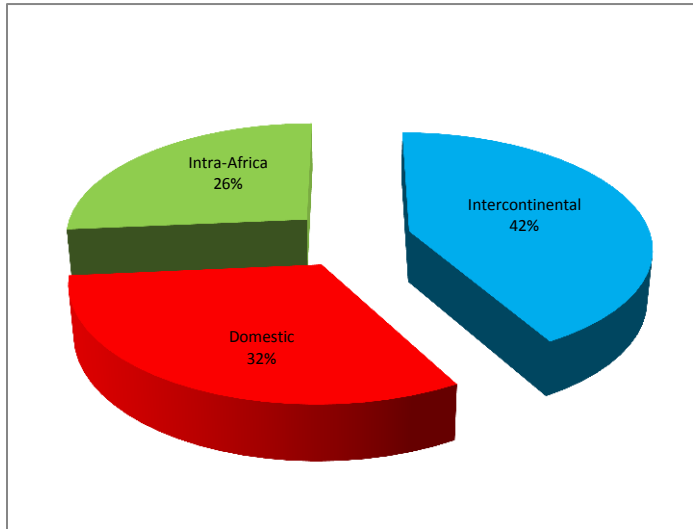


Source: AFRAA

Passenger Distribution

Intercontinental passenger market segment remains the largest with 42% of all passengers travelling between Africa and other regions of the world. Compared to 2010, this represents a 2% decline. The domestic market segment also lost 2% share to 32%. Intra-Africa segment gained 4% market share; from 22% in 2010 to 26% in 2011.

African Airlines Passenger Distribution 2011

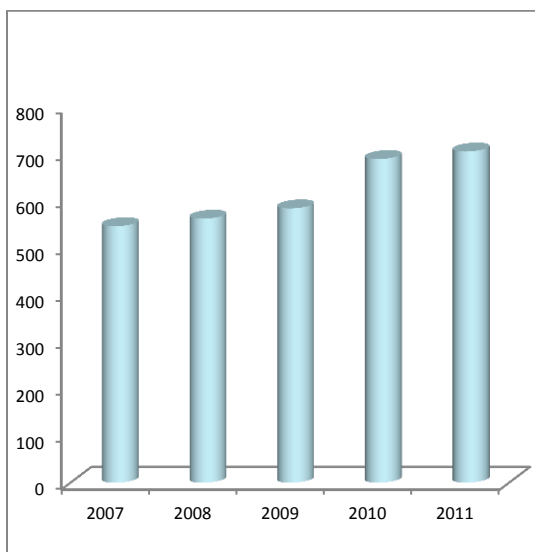


Source: AFRAA

Freight Traffic

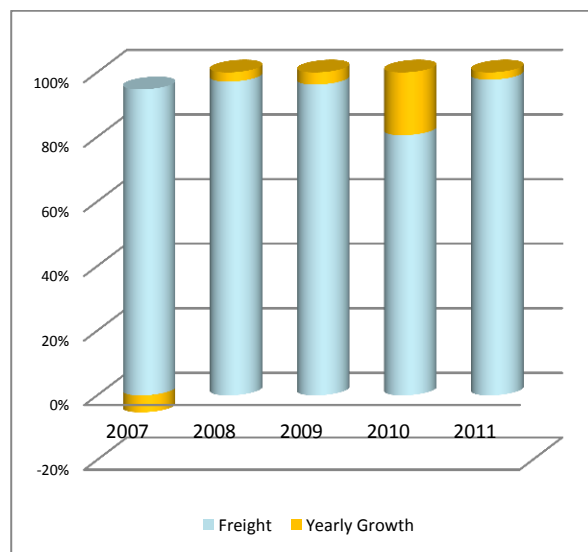
Air freight shipment in Africa is still very low. In 2011 the continent accounted for about 705,000 tonnes of total global freight carried. In FTKs, this represents a growth of 2.7% compared to 23.8% growth in 2010.

African Airlines Year-on-Year Freight Carried (000)



Source: AFRAA/IATA

Freight Carried by African Airlines: 2007 - 2011 (000)



Source: AFRAA/IATA

About 70% of all freight carried is between Africa and other regions. The outbound freight is composed mainly of perishables such as fresh fruits, vegetables, flowers and other agricultural produce while the inbound is largely manufactured goods, electronics and components.

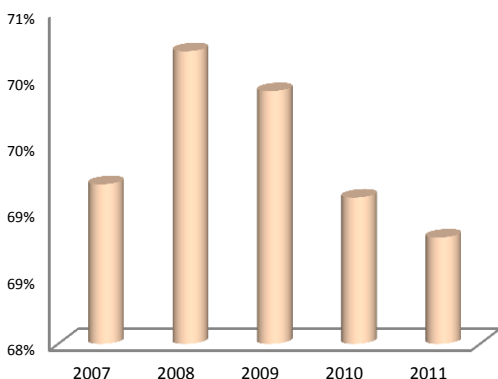
The failure by many airlines to develop the cargo component of their operations has led to dominance of this sector by non-African airlines. On the domestic and regional level, airlines have lost freight business to rail and road transporters due to lack of capacity and bureaucratic customs clearance processes at airports.

Passenger Load Factor

The imbalance of capacity and demand continues to create inefficiencies in many African airlines. The result is that average passenger load factor for 2011 was 68.2%, down 0.3% from what was achieved in 2010. Global industry average load factor was 78%; a 9.2 percentage points above the load factor achieved by Africa.

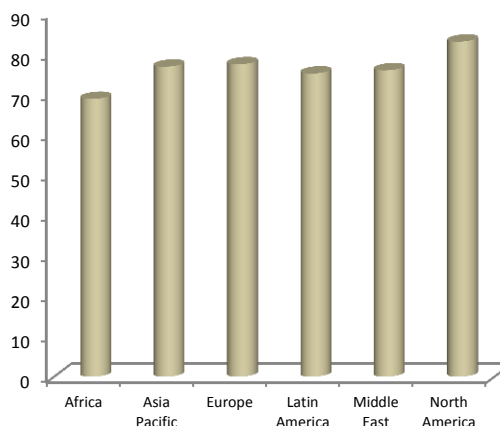
The deployment of high-capacity aircraft on low and mid-density markets drives down load factor and also acts as a disincentive to more frequencies where they may be needed.

Year-on-Year African Airlines Passenger Load Factor



Source: AFRAA/IATA

Passenger Load Factor by Region - 2011



Source: AFRAA/IATA

New Routes

The political crisis in North Africa did not significantly affect the development of new routes by African airlines. In 2011, 35 new routes were launched by 17 AFRAA member airlines to domestic, intra-Africa and intercontinental destinations. Of these 12 destinations were intercontinental with the other 23 points being within the continent.

New Destinations by 17 AFRAA Airlines in 2011

New Domestic, Intra-Africa & Intercontinental Routes	
Dakhla	Lagos
Saint Pierre	Libreville
Monrovia	Brazzaville
Sao Tome	Ndola
Enugu	Manchester
Abuja	Kinshasa

Madinah	Cape Town
Abha	Shanghai
Baghdad	Paris
Juba	Guangzhou
Port Said	Muscat
Malakal	Hangzou
N'djamena	Milan
Ouagadougou	Jeddah
Johannesburg	Moscow
Hahaya	New York
Luanda	Porto

Fleet Composition and Development

Global commercial airline fleet in 2011 was composed of 19,410 passenger aircraft and 1,760 freighters according to Boeing. Of this, Africa's passenger aircraft make up 680 (3.6%) aircraft and freighters are less than 10 aircraft. AFRAA airlines in 2011 operated a total of 556 aircraft up from 501 in 2010. Global passenger fleet is forecasted to increase to 32,530 by 2030.

World Aircraft Fleet – 2010

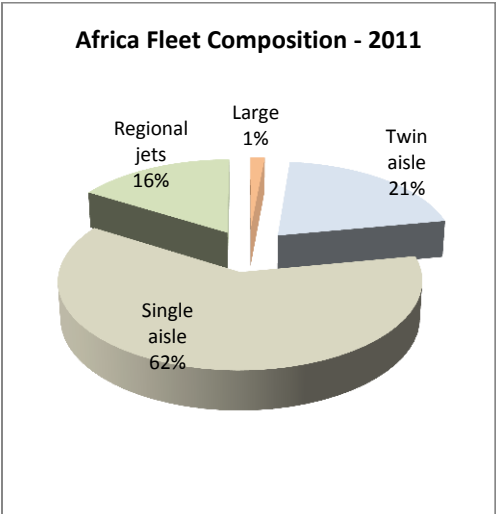
Region	No. of Aircraft	% of Total Fleet
Asia Pacific	4,410	22.7%
North America	6,610	34.0%
Europe	4,380	22.5%
Middle East	1,040	5.3%
Latin America	1,150	6.0%
C.I.S.	1,140	5.9%
Africa	680	3.6%
World	19,410	100%
Freighters (All Regions)	1,760	

Source: Boeing

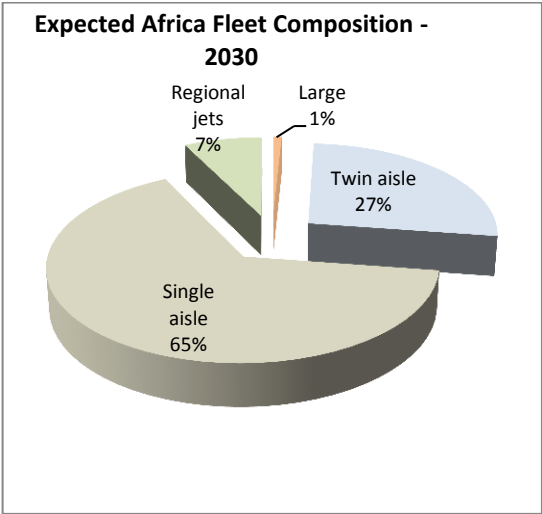
Africa Fleet and Order Book

Africa’s fleet of 680 aircraft is forecasted to almost double to 1,210 by 2030. The continent expects to purchase 800 new aircraft to augment the current fleet. The current fleet is composed of 420 single aisle jets, 140 twin aisle jets, 110 regional aircraft and about 10 large aircraft.

60% of the new fleet will be addition to the existing aircraft in operation while the other 40% will replace current old generation aircraft. Various forecasts indicate that single aisle and middle range aircraft would constitute the bulk of all new aircraft deliveries in Africa to support intra-Africa traffic development.



Source: Boeing



Source: Boeing

Airline Profitability

IATA estimates the global commercial airline industry generated a net profit of US\$7.9 billion in 2011, about half the profit of US\$15.8 billion recorded in 2010. This profit is on revenue of US\$534.3 billion.

African airlines are estimated to have broken even in 2011.

Global Commercial Airlines Net Profit (US\$ billions)

Region	2009	2010	2011E
North America	-2.7	4.1	1.1
Europe	-4.3	1.9	0.7
Asia-Pacific	2.6	8	4.8
Middle East	-0.6	0.9	1.0
Latin America	0.5	0.9	0.3
Africa	-0.1	0.1	0.0
Global	-4.6	15.8	7.9

Source: IATA

Jet Fuel Cost

Jet fuel price rose significantly during 2011. According to IATA, the price of jet fuel rose by about 39% in 2011, from the average price of \$91.4 / barrel in 2010 to \$ 127.5 in 2011.

For African aviation, the jet fuel cost situation is worsened by the various taxes, duties, levies and charges on fuel which generally contravene global norms and handicap the African aviation industry. Globally, fuel accounts for about 36% of an airline's operational cost whilst in Africa this ranges from 45% -55%. Fuel prices at some stations in Africa are over twice the world average.

In order to realize the huge potential existing in the continent, all stakeholders need to work together to reduce the cost of travel particularly the high punitive taxes and charges so as to make it affordable to a larger sector of the African population who currently are excluded from the use of air transport because of the high fares, among other reasons.

B. AFRAA SECRETARIAT VALUE ADDED ACTIVITIES

The activities of the Secretariat are guided by the AFRAA Business Plan 2011-2013 approved by the Executive Committee in February 2011. The Business Plan was predicated on the need to transform AFRAA and realign its activities with the diverse needs of members and delivering value added services to airlines. A key feature of the business plan is Key Performance Indicators for the Secretariat premised on the dictum that “what gets measured gets done”.

The report covers safety, training, industry costs, enhancing image of African airlines, environment, liberalization of air transport services, strengthening AFRAA’s continental representation and leadership role. I now highlight the activities by the Secretariat to meet specified targets.

1. Safety

Safety is the top priority of AFRAA. To enhance safety, AFRAA is committed to work with several stakeholders including ICAO, AFCAC, IATA, AASA and regional economic communities.

Compared to the past 20 years, 2011 turned out as the safest year for civil aviation in Africa. The improvement in safety on the continent is due to the collaborative efforts by various stakeholders including AFRAA, ICAO, IATA, AFCAC as well as States that are working within their capacities to enhance safety. Currently 38 African airlines are IOSA Certified and the number of airlines preparing for IOSA certification continues to increase. The Secretariat undertook a number of actions to enhance safety as follows:

i. AFI Safety Summit

The AFI 2012 Safety Summit was convened by IATA and ICAO in Johannesburg, South Africa in May 2012. The AFRAA Secretary General joined several other organizations including ICAO, IATA, AFCAC, ASECNA, ACI Africa, CANSO, IFALPA, AASA, Boeing and Airbus to endorse the AFI Strategic Safety Improvement Action Plan 2012- 2015. The Action Plan has specific actions by various stakeholders to ensure that safety levels in Africa reach world standards by 2015 including ensuring that all airlines on the EU blacklist are out of it by then. The Plan was endorsed by Ministers responsible for Aviation at a conference in Abuja in July 2012.

ii. Ministerial Conference in Abuja, Nigeria

The Secretary General attended the conference of Ministers responsible for Aviation held in Abuja on 16-20 July 2012 where the conference endorsed AFRAA's recommendations to condemn the EU Blacklist and instead, for the EU to seek dialogue with the AU and AFCAC on enhancing safety on the continent. The conference also endorsed our recommendations which we made together with IATA to make IOSA mandatory for all carriers.

iii. Safety Workshop in DRC

The Secretariat made presentations at the Safety workshop held in Kinshasa, DRC on 7-10 August 2012. Since the DRC consistently have the highest fatal accident rates in the world, AFRAA's presentations focused on the need for the authorities to take their safety oversight responsibilities seriously as the accident rates in the country were tarnishing the whole continent. AFRAA pledged its willingness to

help in training and human capital development.

iv. ISAGO

The Secretariat at various forums urged airports to only license Ground Handlers that have ISAGO certification.

AFRAA and IATA are working together to have at least five more ground handling companies obtain ISAGO certification by 2013.

v. Safety Training

AFRAA is on target to complete 18 safety courses by December 2012. AFRAA was targeting to help at least three more airlines to be IOSA certified by 2013 and worked very closely with IATA, who sponsored six safety courses. One of the target airlines, Air Botswana, successfully completed the IOSA Certification in mid-2012 and is now a proud holder of IOSA certification and is now back as IATA member.

2. Training and Human Capital Development

Developing people is among the top priorities of AFRAA to ensure that African aviation continues to grow using highly trained and capable personnel. Our mission, therefore, is to develop knowledge of the aviation business through training, seminars, workshops and conferences.

In 2011 the AFRAA Secretariat conducted 13 training courses attended by a total of 440 trainees. Our collaboration with the IATA Airline Training Fund (IATF) for the development of capacity continues to grow. In 2011 and 2012 IATF sponsored 5

and 6 free courses respectively which were allocated to airlines to assist them in preparing for IOSA registration.

World class African training centres in Egypt, Ethiopia, Kenya, Libya, Kingdom of Morocco, Seychelles and Tunisia are on the AFRAA website and Annual Report to facilitate bilateral co-operation among airlines.

3. AFRAA Fuel Project

AFRAA in 2011 launched the joint fuel project with 8 participating airlines pooling their volumes and jointly tendering for their fuel requirements resulting in significant savings for participating airlines.

Following the initial success, the second tender was issued in 2012 for jet fuel procurement in 2013. The number of airlines has increased from 8 to 14 and the pooled fuel volumes more than double to over 1.0 billion litres. Negotiations are ongoing and expected to conclude by the end of November.

In addition to pooling of fuel volumes, the Fuel Project is also addressing issues of product quality, supply reliability, insurance cover, fuel taxes/charges and monopoly suppliers at some stations.

To develop capacity in cost effective fuel management, AFRAA in partnership with IATA organised a two-day course on fuel at the AFRAA Headquarters in Nairobi in October, attended by 25 trainees from 12 airlines.

4. Taxes, Fees and Charges

Taxes, fees and charges on African airlines, and passengers are still among the highest in the industry. During the year, AFRAA did analysis and identified the various high taxes and charges applied to airlines by some States and service providers. This information enabled us to do lobbying work for reduction.

The AFRAA Fuel Steering Committee also held a meeting in Addis Ababa to discuss the impact of taxes, fees and charges on airlines and map out a strategy for campaigning for reduction. This lobbying effort by AFRAA and IATA resulted in the reduction of 20% in jet fuel price in Angola. A saving of about US\$60 million in fuel cost is expected to be realised by African airlines each year.

I would like to take this opportunity to recognise the sterling work that De Oliveira Luis Felipe, IATA Asst. Director Commercial Fuel Services and his team are doing working with AFRAA to lobby for reduction of fuel taxes, charges and fees on the continent.

5. Route Network Coordination

AFRAA launched a Route Network Cooperation Task Force aimed at optimising the schedules of participating airlines, develop virtual alliances and deliver incremental revenues. 9 airlines have shown interest in the project.

The project consultant is Sabre Airlines Solutions, which has vast experience in supporting similar initiatives in the Middle East and Latin America. A MoU was

signed in March between AFRAA and Sabre. The project potentially could increase passenger revenue significantly.

6. Ground Handling Cooperation

AFRAA is promoting a Joint Ground Handling Project to address some of the common challenges faced by airlines at some airports as well as reducing costs.

7. ICT and E-Commerce

Technology continues to evolve and this offers airlines opportunities for business development.

AFRAA and IATA held a joint Electronic Miscellaneous Document (EMD) implementation workshop in Nairobi in March 2012. The workshop provided guidelines to airlines on how to best implement EMD within the IATA project deadline of December 2013.

AFRAA also held two events jointly with Sabre and SITA. The Sabre Airline Solutions summit was held in Nairobi in April and the AFRAA-SITA ICT Forum was held in Dubai in October. Both events were well attended by AFRAA airlines and the presentations and discussions were focused in updating airlines on ICT development trends and the solutions/support these partners can provide.

8. Regulatory Issues

Aero-political and regulatory priorities throughout the year were focused on pushing for the full implementation of the Yamoussoukro Decision (YD), the

operationalization of the Executing Agency of the YD, development of non-binding Airlines Passenger Service Commitment Guidelines, lobbying against the EU banned list and EU ETS scheme as well as updating airline legal and regulatory affairs officers of global and regional developments in the sector.

9. Land Development

AFRAA has a vast piece of valuable unused land at its headquarters in Nairobi. The Association wants to develop this land to generate additional revenue. This will enable AFRAA to fund more activities for the benefit of members.

10. Communication and Information Dissemination

One of the key areas of focus by AFRAA is to enhance the knowledge base of its stakeholders about developments within the African aviation industry. In this regard, AFRAA has developed a number of communication channels through which it disseminate accurate, relevant and timely information to member airlines, partners and other stakeholders. Stakeholders now receive regular communication through a variety of publications. Soft copies are available on the AFRAA website.

i. Annual Report

The AFRAA Annual Report is the statistical presentation of the air transport performance yearly. This publication is distributed at the Annual General Assembly with copies also mailed directly to all member airlines.

ii. Quarterly Africa Wings Magazine

This is a comprehensive quarterly full colour air transport magazine, dedicated to reporting on developments in the industry. It carries research articles on various sectors of the industry and also reports successes, challenges and changes taking place in African airlines and partner companies.

iii. Monthly AFRAA News Bulletin

To keep stakeholders abreast with current developments in African aviation, an electronic monthly newsletter is published and distributed to over 600 readers.

iv. Bi-monthly CEOs Briefing Paper

With the support of some AFRAA partners, a bi-monthly CEOs briefing paper is published and exclusively circulated to airline CEOs and other top Executives. The briefing paper is based on a topical subject and is presented in a concise, easy-to-read manner with illustrations in graphs, tables and charts.

v. AFRAA Website

The main source of both current and historical information about developments within AFRAA is the website. Redesigned last year, with improved aesthetics and now easy to navigate, the website attracts many visitors on a daily basis.

AFRAA members and partners have a dedicated page where details of their services can be seen in addition to a pointing link to their websites.

vi. New AFRAA Logo

In keeping with the rebranding of AFRAA, a new logo approved by the Executive Committee has been in use since 01 June 2012.

vii. Data Partners

AFRAA has partnered with Innovata and OAG for the provision of statistics and data which we use in our reports to help our stakeholders make informed decisions.

11. New Members and Partners

The Association continues to recruit new members and partners with the objective of providing support to airlines.

This year, 4 airlines and 9 service providers joined AFRAA. The new airlines are: Camair-Co; ECAIR, Congo Brazzaville; Starbow Airlines, Ghana and Air Burundi. The 9 new Partners are: Aero Industrial Sales Co, Airbus, Bombardier, Mercator, Rockwell Collins, OneSutra, Ilyushin Finance Co., Aviation News Ltd and OAG.

AFRAA partners continue to provide valuable support to the development of African aviation through financial and non-financial contributions to the Secretariat and member airlines. We greatly value their support.

12. Working with other Organisations

AFRAA cooperates with the African Union Commission; other major industry organisations including IATA, AASA, AACO, ICAO, AFCAC, ACI-Africa; governmental and non-governmental bodies, Regional Economic Communities (RECs) – ECOWAS, EAC, COMESA, SADC, UEMOA; manufacturers and service

providers. This collaboration accords AFRAA goodwill and a broad framework resources and assistance that benefits members, protecting their interest and provides support for better economic environment for their operations.

C. FUTURE CHALLENGES AND OPPORTUNITIES

In this section I highlight the major future challenges and opportunities for African aviation that are shown on the screen.

a. Safety

Going forward, Safety will continue to be the greatest challenge facing African aviation. We need to tackle safety issues seriously and head-on. AFRAA will strengthen collaboration with various organisations particularly IATA, AFCAC and ICAO to jointly facilitate the attainment of industry best practices in safety.

AFRAA will assist airlines to attain and maintain IOSA registration by providing training as well as facilitating cooperation and assistance among African Airlines particularly in availing expertise and sharing of experiences in this area. It will work to reduce cost and make it more affordable for airlines to obtain and maintain IOSA registration.

b. Industry Costs

The Association will re-double efforts to sensitize and lobby Governments, airports and other service providers on the need to reduce taxes and charges and improve efficiency and services. AFRAA will also vigorously lobby for the removal of

monopoly service providers to facilitate efficiency and provide choice to carriers. As this requires collaborative effort we will closely work with all relevant stakeholders.

c. Collaboration

The need for collaboration has never been greater to ensure our survival and prosperity. With mega- carriers worldwide seeking alliances and partnerships, there is huge scope for consolidation in the industry. More African airlines need to get into joint ventures, marketing arrangements, equity participation to enjoy economies of scale.

AFRAA will continue to send out this message and work to create a conducive environment for better cooperation and consolidation, including providing information and data, consultation and advice to facilitate better cooperation.

d. Human Resource Development

AFRAA will continue to strengthen the training unit to increase the number of training programmes that benefit members. We will continue to strengthen collaboration with IATA, our partners and others to jointly hold courses and seminars to keep African airlines abreast with the latest developments in the industry.

AFRAA will also continue to market the world class training facilities at member airlines including in Egypt, Ethiopia, Kenya, Libya, Kingdom of Morocco, South Africa and Tunisia.

e. Level Playing Field

The intercontinental market to and from Africa is currently dominated by non-African carriers taking 75% market share. AFRAA will vigorously lobby against favouritism conferred by some African governments to some non-African airlines in terms of providing them with more frequencies including 5th Freedom traffic rights which are denied African carriers.

Also in negotiating traffic rights with the EU, we will lobby the AU to take the lead in ensuring balance, equity and fairness.

f. Opportunities Abound

On average, Africans travel by air once in 15 years, an American travels 1.8 times a year while a European travels about 1.1 times a year. By making air transport more affordable, the approximately 56 million Africans that travelled in 2011 can be significantly increased within a short time.

Mr President, I have a dream of many more co-operative ventures between large and small African carriers working together along the lines of the Kenya Airways and Precision Air and Ethiopian Airlines and ASKY cooperation for the development of African aviation.

The growing African economies and growing middle class provide huge opportunities for the growth of African aviation. Carriers from outside the continent have seen these opportunities and are greatly increasing their presence on the continent. We therefore need to be bold, think big, embrace change, think

beyond borders and ensure that African aviation has a fair share of the continent air transport market.

D. CONCLUSIONS

It is my utmost commitment that during my term as AFRAA Secretary General, with the strong support of the Executive Committee members, AFRAA will give priority to the needs of our member airlines so that together we can effectively face the various challenges in our industry.

I consider it my responsibility to ensure that we have activities that are pertinent and appropriate for each and every member airline.

I will continue to look to you for your strong support as we drive towards our goal of sustainable growth of the African air transport business with our carriers having a significant share of all traffic.