

## **REPORT OF THE SECRETARY GENERAL TO THE 42<sup>ND</sup> ANNUAL GENERAL ASSEMBLY**

Mr. President  
Distinguished Guests  
Ladies and Gentlemen;

Welcome once again to the 42<sup>nd</sup> AGA of AFRAA.

I will start the report by reviewing the state of the industry, discuss what the Association is doing to ensure that our airlines survive and prosper, and end with my projection for the future challenges and opportunities and how to address them.

### **AFRICA'S AVIATION PROSPECTS:**

Africa's economic outlook is bright and this augurs well for the African aviation industry. According to the International Monetary Fund (IMF), Africa's gross domestic product was USD1600 billion in 2008. This has been growing at 4.9% per annum since 2000. The economic growth is being fueled by increased political stability on the continent as well as Africa's rich natural resources such as oil and minerals.

The traffic growth rate on the continent is projected by various studies to be higher than world average for the foreseeable future. For example, IATA forecasts that over the next 3 years, passenger traffic to and from the continent will have an annual growth rate of 6.5%, making it among the fastest in the world. This upbeat forecast is reflected by the growth in forecasted aircraft orders. Boeing forecasts that Africa will need 710 aircraft in the 20 years period to 2029 worth about USD80 billion. Airbus has a more bullish forecast of 1270 new aircraft deliveries between 2009 and 2028.

The growth prospects for the African continent have not gone unnoticed by carriers from outside Africa. Currently, non-African carriers dominate air transport to and from the African continent. For instance, the Lufthansa Group has about 220 flights a week to 33 African destinations. Several Middle Eastern and Asian carriers like Emirates, Qatar, Turkish Airlines, Air India and Cathay Pacific fly into the continent. China Southern and China Eastern have operations into Africa which are expected to expand in the future. Delta Airlines, which began its presence in 2006 has continued to increase its operations on the continent. It is expected that with the Boeing 787 starting operations in the continent by the end of 2010, will result in an aircraft with the right range and size for connecting Sub-Saharan Africa directly to the US.

The African airline industry has to gear itself for this exciting growth of the continent's air transport business. It is encouraging to see several African carriers renewing their fleets and taking advantage of the lower operational costs and lower environment emissions of the new aircraft types. The various initiatives by several stakeholders such as ICAO, IATA, AFCAC,

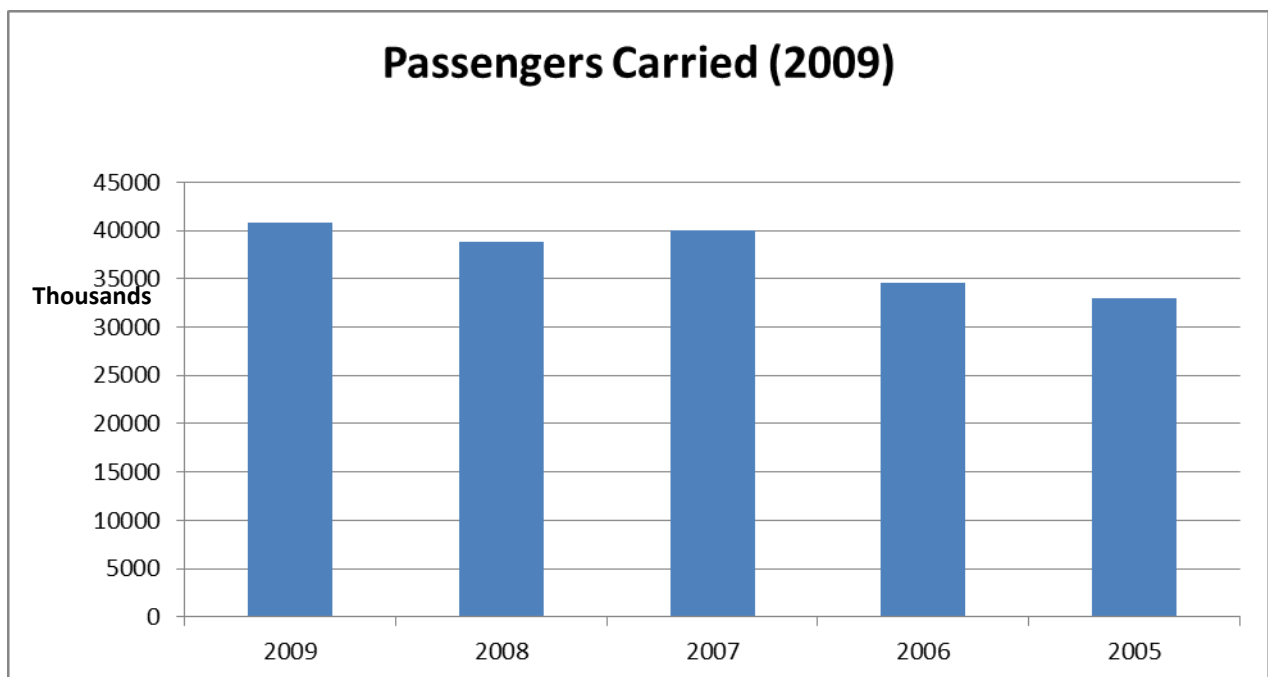
AFRAA, and States to improve safety on the continent augur well for air transport development. There has been significant infrastructure development such as more modern airports, in countries ranging from South Africa, Egypt, Kenya, Ethiopia, Senegal, Nigeria and Libya which should facilitate this expansion.

The very successful FIFA 2010 Football Cup hosted by South Africa not only resulted in significantly increased air traffic movements but opened the world to the vast opportunities on the African continent. It is these prospects that AFRAA member airlines need to exploit. There is even talk of a scramble for Africa by carriers from outside the continent and yet already non-African carriers transport over 70% of international traffic to and from the continent.

To fully exploit the growing aviation opportunities, African States need to fully implement the Yamoussoukro Decision. This will result in much stronger African airlines that can effectively compete against the influx of mega-carriers from outside the continent.

### **PASSENGERS CARRIED**

Total number of passengers carried in 2009 by member airlines was 40.8 million which was an increase of 4.7% from 2008. Air Algérie, EgyptAir, Ethiopian Airlines, Libyan Airlines, Royal Air Maroc and South African Express are among the airlines that recorded significant increases in passenger numbers. The trend is expected to continue in 2010 as the African as well as world economies are registering growth.



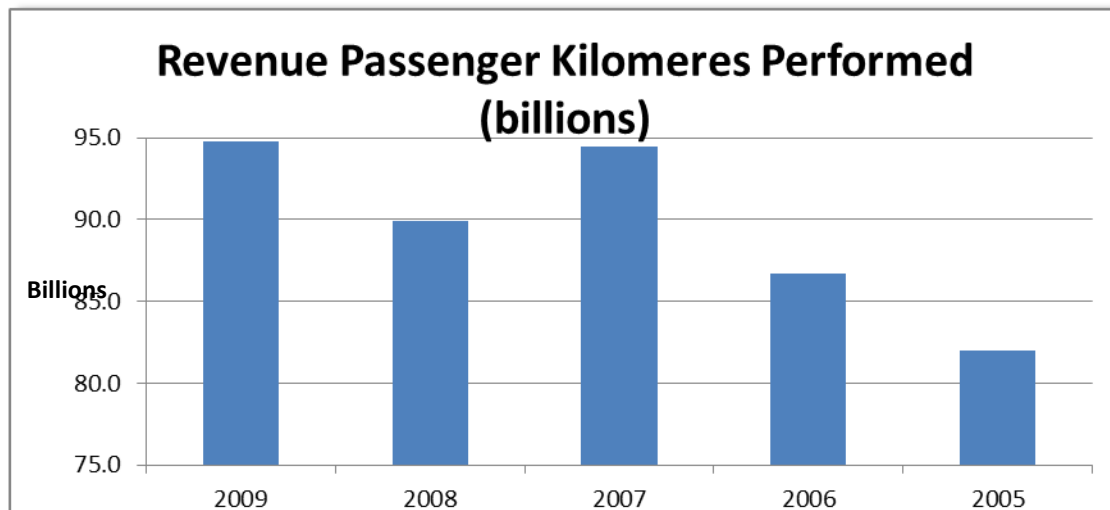
## Market Distribution

In terms of market share, International (Intercontinental) traffic dominates with 43% of the market followed by domestic with 34% and within Africa with 23%.



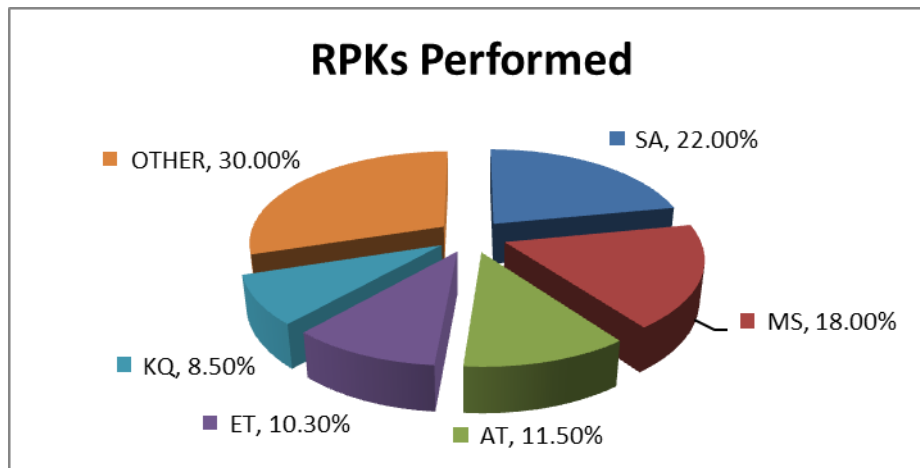
Of the airlines that reported, 5 airlines namely Air Algérie (AH), EgyptAir Group (MS), Ethiopian Airlines (ET), South African airways (SA) and Tunisair (TU) account for 78% of all international operations. Over 71% of all domestic traffic is transported by just 4 carriers namely AH, MS, SA and South African Express (YB). On regional operations only 4 carriers, that is MS, ET, KQ and SA account for over 64% of the market share.

## REVENUE PASSENGER KILOMETRES (RPK) PERFORMED



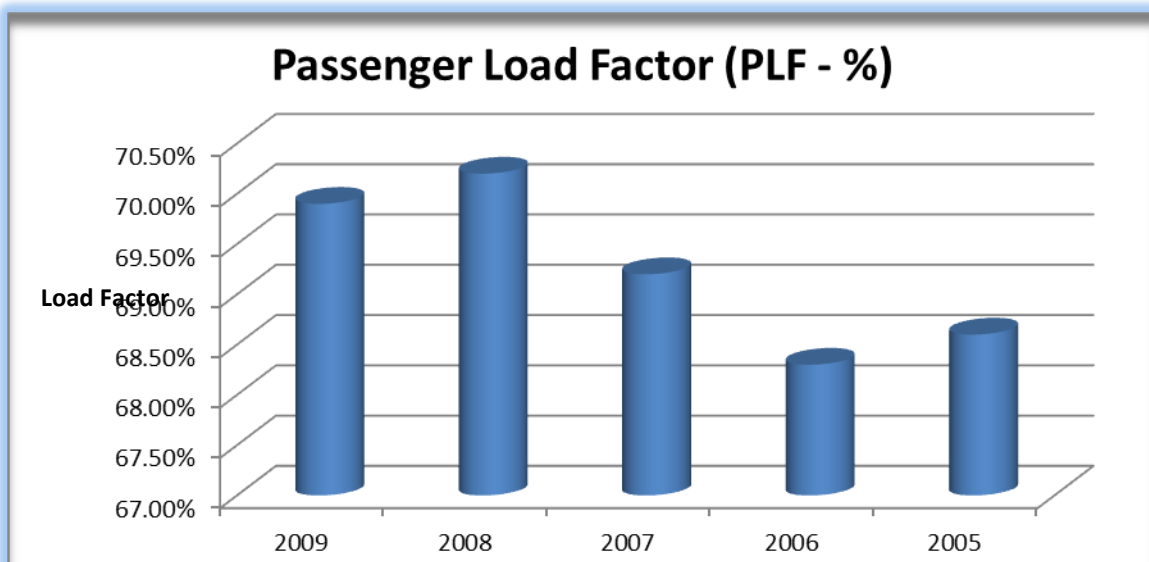
Airlines performed 94.8 billion RPKs in 2009 or 5.2% more than 2008. Available Seat Kilometers were 141.1 billion resulting in an overall load factor of 67.2%

The largest five airlines account for 70% of RPKs performed whilst the remaining 30% is shared by the rest. The dominance of the 'big five' is set to increase as they are among those that are expanding through investing in new equipment, people and facilities. Four of them are member of major worldwide alliance groups which further extends their market reach and their attractiveness to customers.



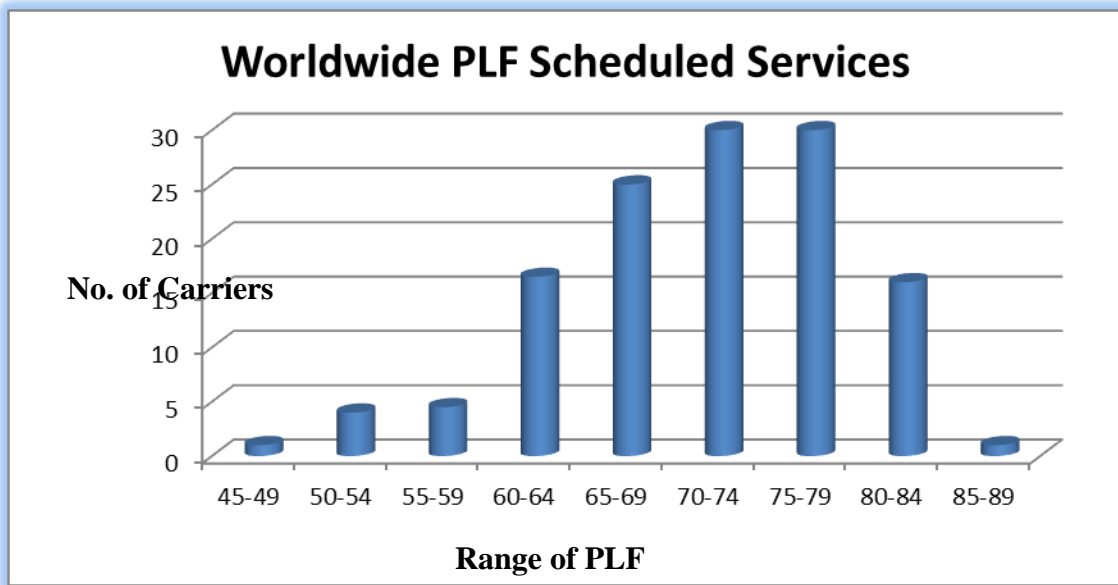
### PASSENGER LOAD FACTOR (PLF - %)

According to IATA, the PLFs reported for African airlines was 69.9% in 2009, 70.2% in 2008 and 69.2% in 2007.



Source: IATA

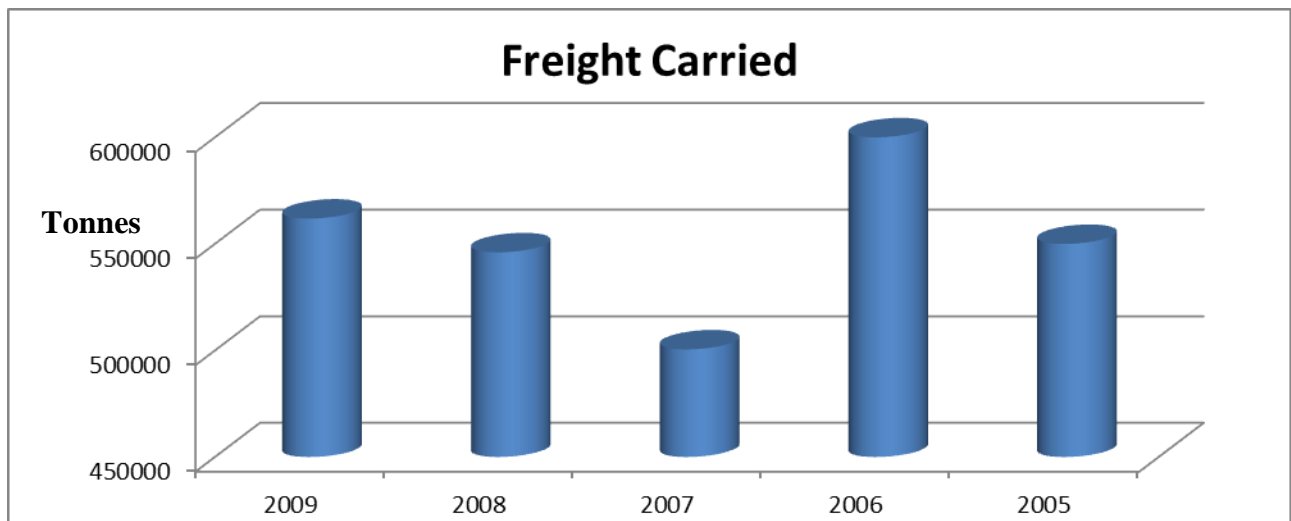
The load factors reported for African airlines are below world standards. The positive average financial results for AFRAA members shows that yields are good despite comparatively lower load factors.



Source: IATA

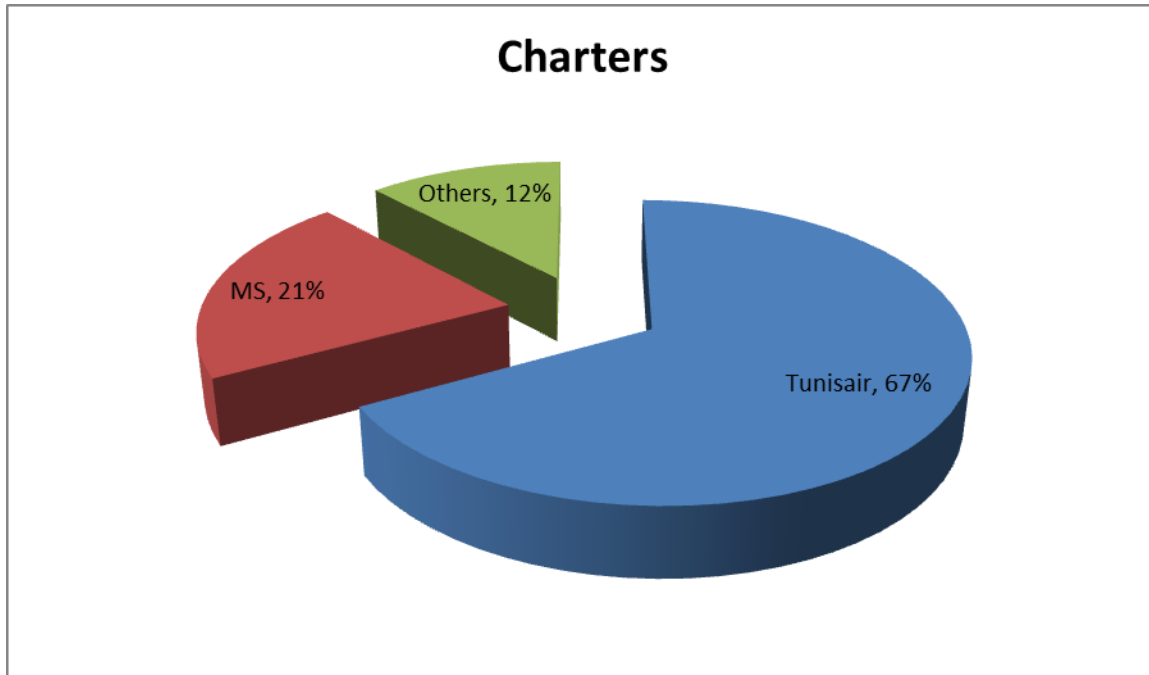
## **FREIGHT**

The 22 airlines that provided data reported over 560,000 tonnes of freight in 2009, a slight increase of 2.9% from 2008. More than 74% of the total amount is carried by just 4 airlines namely MS, ET, KQ and SA. These airlines have well developed cargo departments dedicated to optimizing revenue from this often neglected area of airline operations. It is also significant that these airlines with marked cargo volumes are also profitable in part due to cargo's significant contribution to the bottom-line.



## **CHARTER OPERATIONS**

Passenger charter operations transported only 1,877,042 people which is a tiny proportion of airline operations. Of these, two airlines namely Tunisair and EgyptAir accounted for 88% of charter operations.



### *AFRAA Member Airline Charter Services*

In terms of tonnage of freight carried, only 5 airlines reported freight charters. 44,225 tonnes of freight were transported and ET accounted for 87% of this with 38,384 tonnes being transported. ET is one of the airlines that realize the huge profitable opportunities in cargo services and the airline has invested heavily in modern facilities at its headquarters at Bole International Airport to capitalize on this.

## **FINANCIAL RESULTS**

### **Global**

The global airline industry suffered huge losses in 2008 and 2009, estimated by IATA at USD16.8billion and USD11.35billion respectively. The global financial crisis and world recession in these two years contributed to the losses and the sharply high fuel costs in 2008, which averaged USD121.00 per barrel, contributed to the huge losses that year. The sharp fall in fuel prices in 2009 was more than offset by the fall in traffic as the world recession took its toll.

**AFRAA Member Airlines**

The 19 airlines that provided financial results reported operating revenue of USD8,971 billion against operating expenses of USD8,611 billion. This resulted in operating profit of USD393 million and net profits of USD137 million. These are commendable results when IATA’s estimate for losses worldwide for 2009 is USD11.35 billion.

IATA Corporate Financial Results:

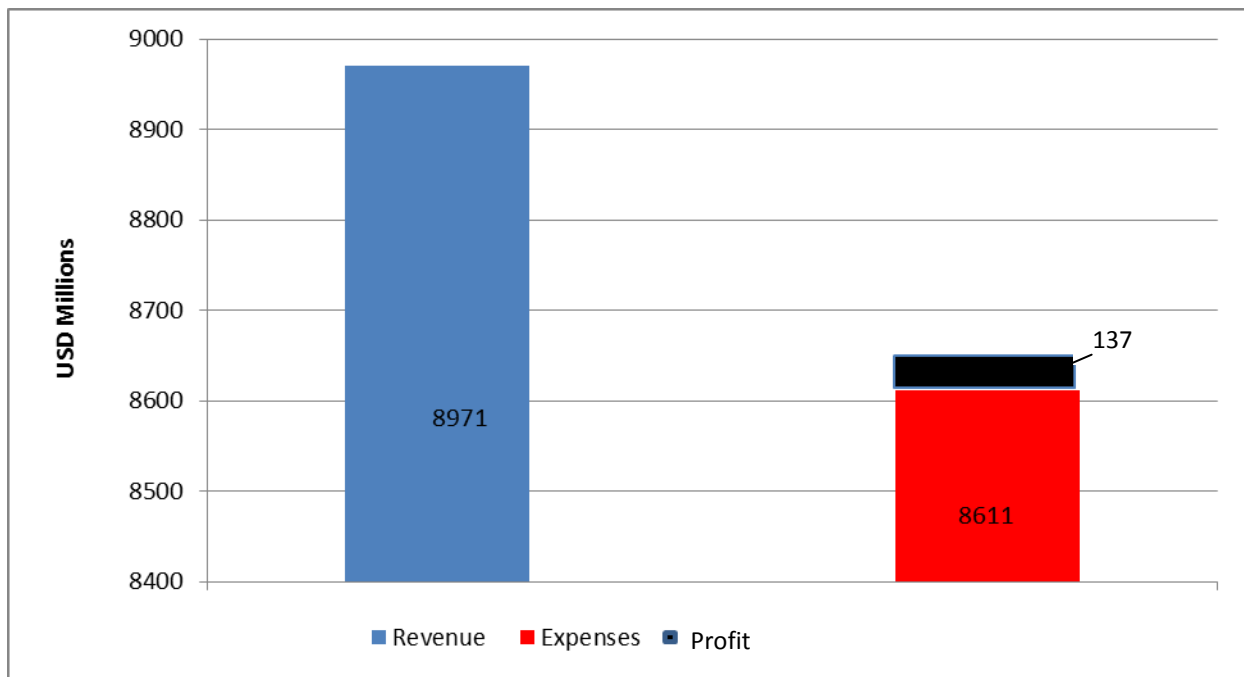
<b>YEAR</b>	<b>Operating Result (USD millions)</b>	<b>Net Result (USD millions)</b>
2009	-3,731	2,173
2008	-3,019	9,983
2007	23,369	17,656
2006	17,206	-16,524
2005	10,240	-11,350

Source: IATA

The positive financial results by AFRAA carriers are as a result of stringent cost control helped in part by the significant reduction in fuel costs.

**FINANCE**

Systemwide Operating Performance (USD millions)



<b>FINANCIAL PERFORMANCE (USD 000)</b>				
<b>Airline</b>	<b>Operating Revenue</b>	<b>Operating Expenses</b>	<b>Operating Results</b>	<b>Net Results</b>
Afriqiyah Airways	157,130	189,731		-32,601
Air Algerie	865,982	854,426	11,555	51,212
Air Burkina	51,238	58,010	-6,771	-7,198
Air Madagascar	-	-	-	-
Air Malawi	18,708	25,469	-6,762	-8,892
Air Mali	-	-	-	-
Air Mauritius	-	-	-	-
Air Namibia	1,173,253	1,459,791	-286,538	-174,038
Air Nigeria Dev. Co.	114,558	102,602	11,956	-44,090
Air Seychelles	107,183	112,503	-5,320	-5,353
Air Tanzania	16,813	33,241	-16,428	-16,428
Air Zimbabwe	57,735	73,492	-15,757	-33,246
EgyptAir Group				
Ethiopian Airlines	1,138,879	1,011,702	127,177	176,494
InterAir	31,028	27,204	3,824	4,201
Kenya Airways	-	-	-	-
LAM Mozambique	96,324	88,994	7,330	131
Libyan Airlines	-	-	-	-
Precision Air	68,871	45,015	23,856	2,057
Royal Air Maroc				
South African Airways	2,700,076	2,361,767	338,309	-25,900
South African Express	1,667,282	1,492,776	174,506	250,759
TAAG-Angola Airlines				
Tunisair	706,061	674,372	31,689	
Zambezi Airlines				
<b>TOTAL</b>	<b>8,971,121</b>	<b>8,611,094</b>	<b>392,626</b>	<b>137,109</b>

## **EMPLOYMENT**

In 2009, the total number of people employed by AFRAA members was about 82,000. A number of airlines are expanding their fleet and operations which is resulting in them having to increase their staff numbers. Airlines that are involved in significant increase in staff numbers include Afriqiyah Airways, Ethiopian Airlines and Rwandair. Some of the smaller airlines are right-sizing through restructuring programmes brought about by the need to survive in a challenging operating environment.

The downturn in the global airline industry in 2008 and 2009 brought about some respite in the loss of skilled manpower which was particularly adversely affecting the smaller and less resource endowed airlines. However, the current positive global economic outlook and the consequent increase in demand for air transport services is already seeing some airlines losing



pilots, experienced maintenance personnel and other key staff to larger industry players from outside Africa. African airlines therefore need to design better employment packages to retain their staff as well as to invest in training and human resource development to ensure that there are adequately qualified and competent people to ensure viable, safe and profitable airlines.

### **Employment Productivity**

The table below shows IATA Employee productivity in the period 2005 – 2009. Member airlines can use this to benchmark their employee productivity.

All Services	RTK/Employee (thousands)
2009	344
2008	347
2007	357
2006	346
2005	317

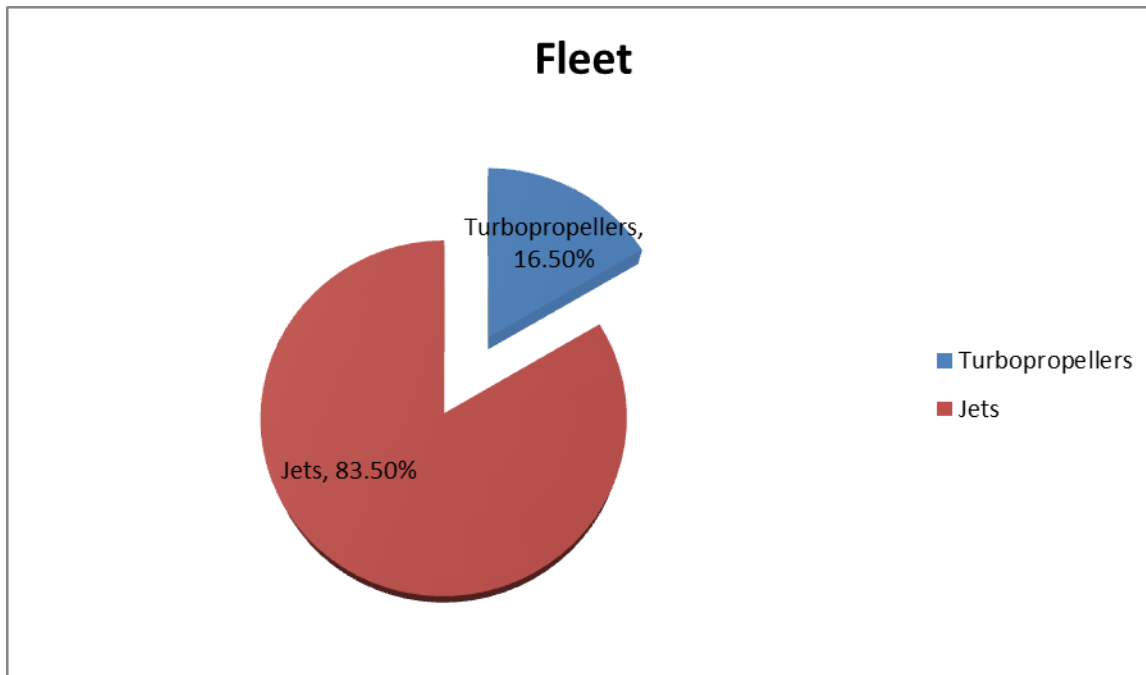
*Source: IATA*

EMPLOYMENT						
Airline	Engineering/ Maintenance	Pilots	Cabin Crew	Traffic/ Commercial	Others	Total
Afriqiyah Airways	85	89	294	496	59	1,023
Air Algerie	1,507	440	886	3,822	2,243	8,898
Aor Botswana						355
Air Burkina	39	16	40	108	59	262
Air Madagascar	-	-	-	-	-	1,388
Air Malawi	38	9	25	83	85	240
Air Mali	23	20	58	64	48	213
Air Mauritius	359	160	510	789	613	2,431
Air Namibia	8	95	134	84	250	577
Air Nigeria Dev. Co.	179	62	121	393	149	904
Air Seychelles	115	69	153	52	421	810
Air Tanzania	77	40	84	69	88	358
Air Zimbabwe	242	52	102	344	494	1,234
EgyptAir Group						27,000
Ethiopian Airlines	1,567	339	632	1,454	1,366	5,358
InterAir	39	16	32	65	78	230
Kenya Airways	-	-	-	-	-	2,408
LAM Mozambique	97	24	71	207	399	798
Lybyan Airlines	-	-	-	-	-	2,030
Mauritania Airways						200
Nasair						85
Precision Air	76	61	81	241	148	607
Royal Air Maroc						5,363
Rwandair						409
South African Airways	2,605	772	1,505	1,722	1,688	8,292

South African Express	153	227	220	361	9	970
Sudan Airways						1,840
TAAG-Angola Airlines	319	146	368	542	2,749	4,124
Tunisair	159	336	750	903	889	3,037
Zambezi Airlines	14	10	24	46	34	128
<b>TOTAL</b>	<b>7,701</b>	<b>2,983</b>	<b>6,090</b>	<b>11,845</b>	<b>11,869</b>	<b>81,572</b>

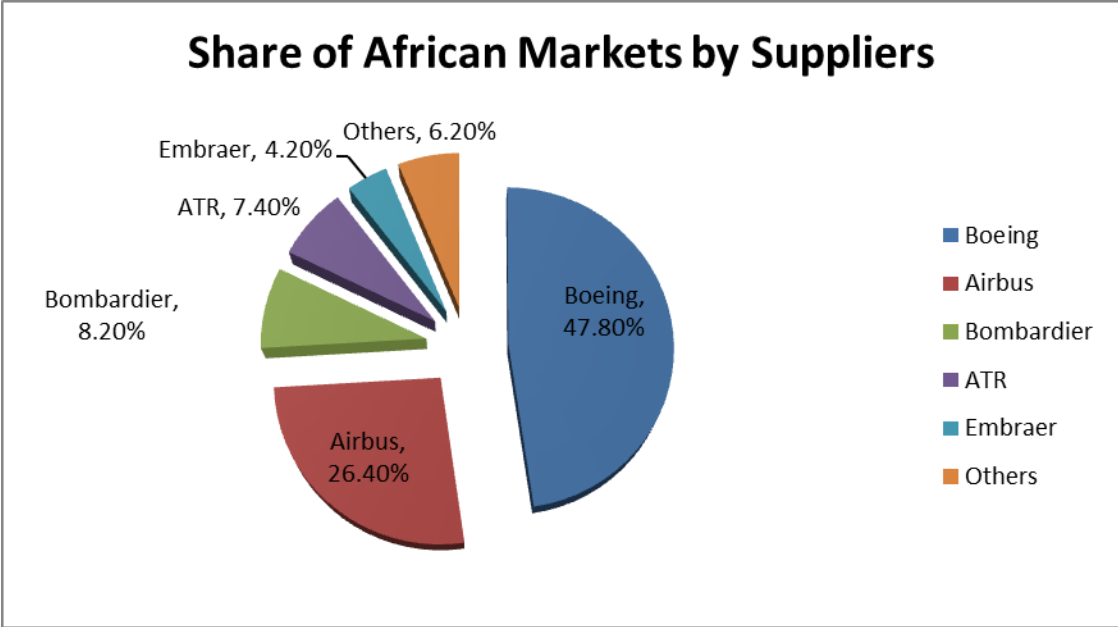
**FLEET**

The effect of the global economic downturn in 2008 and 2009, volatile fuel prices and the need to drastically cut costs to remain viable compelled some airlines to retire or put into storage the older generation aircraft such as the Boeing B737-200 and the Airbus A310. At the end of October, 2010, AFRAA members operated a fleet of 503 aircraft. The fleet is made up of 420 jets and 83 turbo propellers.



**Fleet breakdown by Suppliers**

Boeing is the dominant supplier of aircraft with 240 jets including the McDonnell Douglas types, followed by Airbus with 133 jets. The other major suppliers on the continent are Bombardier with its CRJ regional jets and the Dash 8 and Q Series turboprops, the ATR regional turbopropeller aircraft (ATR-42 and ATR-72) as well as the Embraer family of regional jets.



**Aircraft on Order**

As of October 2010, AFRAA member airlines had 112 aircraft on order. This is continuing the modernizing trend of member airline fleets to reduce operational costs as well as reducing the carbon dioxide footprint in line with IATA’s goal of 25% reduction in fuel consumption per Revenue Tonne Kilometre from 2005 to 2020.

Among the airlines with significant modernization programmes include Afriqiyah Airways, Air Algerie, TAAG Angola Airlines, EgyptAir, Ethiopian Airlines, Kenya Airways, Libyan Airlines, Royal Air Maroc, Air Nigeria and Rwandair.

<b>Airline</b>	<b>Number of Aircraft on Order</b>
Afriqiyah Airways	8
Air Algerie	7
Air Nigeria	2
TAAG Angola Airlines	17
EgyptAir	32
Ethiopian Airlines	11
Kenya airways	15
Libyan Airlines	10
Royal Air Maroc	8
Rwandair	2
<b>Total</b>	<b>112</b>

**Airline Fleet Breakdown**

The table below shows the AFRAA member airline fleet breakdown.



## **MEMBERSHIP**

As at 31 December, 2009, there were 37 AFRAA members. Two airlines joined the Association and one went bankrupt.

## **PARTNERS**

There were 14 partners as at 31 December, 2009. Three joined the Association in 2009.

## **GLOSSARY (to be put at the back of the report)**

**Airline alliance** - An airline alliance is an agreement between two or more airlines to cooperate for the foreseeable future on a substantial basis. The alliances go beyond code sharing as they seek to harmonize the route systems of several international airlines into a single worldwide network. In the USA, the Departments of Transport and Justice have to authorise anti-trust immunity before two or more airlines may discuss harmonised pricing and service standards. In the USA, the creation of an Open Skies bilateral is a precondition to the grant of any anti-trust immunity to a foreign and USA carrier alliance, as well as a thorough competition analysis.

**Available seat kilometres** - A seat-kilometre is available when a seat is flown one kilometre. Seat-kilometres available are equal to the sum of the products obtained by multiplying the number of passenger seats available for sale on each flight stage by the stage distance. It excludes seats not available for the carriage of passengers because of the weight of fuel or other loads.

**Available tonne-kilometres** - A tonne-kilometre is available when one tonne of payload capacity is flown one kilometre. Tonne-kilometres available equals the sum of the products obtained by multiplying the number of tonnes available for the carriage of revenue load (passengers, freight and mail) on each flight stage by the stage distance.

**Charter** – A non-scheduled flight operated according to the national laws and regulations of the country being served as provided in Article 5 of the Chicago Convention. A flight in which all, or almost all the passenger or cargo capacity is sold to one or more charterers for resale.

**Domestic flights** - All flights of national or foreign aircraft in which all the airports are located in the territory of the same State.

**Globalisation** - This is the process of integration of the world community into a common system either economically, politically or socially.

**International flight** - All flights of national or foreign aircraft whose origin or destination is located in the territory of a State other than that in which the airport being reported on is located. The flight is considered as consisting of the total of its flight stages (i.e. from take-off to its next landing); technical stops are not taken into account.

**Non-scheduled revenue flights** - Charter flights and special flights performed for remuneration other than scheduled flights.

**Passengers carried** - The number of passengers carried is obtained by counting each passenger on a particular flight (with one flight number) once only and not repeatedly on each individual stage of that flight, with a single exception that a passenger flying on both the international and domestic stages of the same flight should be counted as both a domestic and an international passenger.

**Revenue passenger-kilometres (RPK)** – A revenue passenger-kilometre is performed when a revenue passenger is carried one kilometre. Calculation of revenue passenger-kilometres equals the sum of the products obtained by multiplying the number of revenue passengers carried on each flight stage by the stage distance. The resultant figure is equal to the number of revenue kilometres travelled by all passengers.

**Passenger load factor** - Passenger-kilometres performed expressed as a percentage of seat-kilometres available.

**Passenger Yield (Passenger revenue per traffic-unit)** - This is a type of financial measurement which relates the passenger traffic applicable to the passenger revenues. It is computed by dividing passenger revenues by the passenger-kilometres performed.

**Passenger tonne-kilometres** - Passenger tonne-kilometres are obtained by applying a standard weight per passenger to the passenger-kilometres flown.

**Payload capacity** - Total payload capacity available (in metric tonnes), above and below deck, for the carriage of revenue load (passengers, baggage, freight and mail) taking into account payload restrictions, where applicable, and operational restrictions on the supply of capacity.

**Revenue kilometres** –The sum of the product obtained by multiplying the number of revenue flight stages flown by the corresponding stage distance.

**Revenue passenger** - A passenger for whose transportation an air carrier receives commercial remuneration. This definition includes passengers travelling under publicly available promotional offers or loyalty programmes (for example, frequent-flyer programme); or as compensation for denied boarding or on corporate discounts or on preferential fares (government or student). The definition excludes persons travelling free or on a fare or discount available only to employees of air carriers or their agents or only for travel on business for the carriers or infants who do not occupy a seat.

**Scheduled revenue flights** – Flights scheduled and performed for remuneration according to a published timetable, or so regular or frequent as to constitute a recognizably systematic series, which are open to direct booking by members of the public. This includes extra flights occasioned by overflow traffic from scheduled flights.

**Stage distance flown per aircraft.** The average stage distance flown per aircraft is obtained by dividing the aircraft kilometres flown by the related number of aircraft departures.

**Revenue tonne-kilometres (RTK)** – A RTK is a metric tonne of revenue load carried one kilometre. Revenue tonne-kilometres equals the sum of the product obtained by multiplying the number of total tonnes of revenue load (passengers, freight and mail) carried on each flight stage by the stage distance.

**Traffic** - The carriage of passengers, freight and mail.

**Unit Cost (Operating expenses per traffic-unit)** - This is a type of financial measurement which relates the traffic or capacity applicable to the operating expenses. It is computed by dividing the operating expenses by the revenue tonne-kilometres or by the available tonne-kilometres available.

**Utilisation** – Number of block hours flown in a given period, such as a day, week, month or a year.

**Weight load factor** – Revenue tonne-kilometres expressed as a percentage of tonne-kilometres available.

**Yield (Operating revenue per traffic-unit)** - This is a type of financial measurement which relates the traffic or capacity applicable to the operating revenues. It is computed by dividing the operating revenues by the revenue tonne-kilometres or by the available tonne-kilometres.

## **AFRAA Airline Two Letter Designator Codes**

AH	Air Algérie
AT	Royal Air Maroc
BP	Air Botswana
DT	TAAG Angola
D6	Inter Air
ET	Ethiopian Airlines
HM	Air Seychelles
KQ	Kenya Airways
LN	Libyan Arab Airlines
L9	Air Mali
MD	Air Madagascar
MK	Air Mauritius
MR	Air Mauritanie
MS	EgyptAir
PB	Air Burundi
PW	Precision Air
QM	Air Malawi
SA	South African Airways
SD	Sudan Airways
SW	Air Namibia
TC	Air Tanzania
TM	LAM Mozambique Airlines
TU	Tunisair
UM	Air Zimbabwe
VK	Virgin Nigeria
VU	Air Ivoire
WB	Rwandair Express
YB	South African Express
ZT	Air Zambezi
2J	Air Burkina
8U	Afriqiyah Airways
8Y	Air Burundi



**AFRAA Partners (to be put at the back of the report)**

 <p><b>amadeus</b> Your technology partner</p>	<p>AMERICAN GENERAL SUPPLIERS INC (AGS)</p>
 <p><b>cfm</b> THE POWER OF FLIGHT</p>	 <p><b>EMBRAER</b>   FOR THE JOURNEY</p>
 <p><b>GE</b> Aviation</p>	 <p><b>Hahn Air</b></p>
 <p><b>KENYON</b> INTERNATIONAL EMERGENCY SERVICES <i>A Worldwide Disaster Management Company</i></p>	 <p><b>Lufthansa</b></p>
 <p><b>Lufthansa Systems</b></p>	 <p><b>مرکاتور</b> <b>Mercator</b></p>
 <p><b>Sabre</b> / Airline Solutions.</p>	 <p><b>SITA</b> Specialists in air transport communications and IT solutions</p>