

**Fédération Aéronautique Internationale
Lausanne**

**Report of the Statutory Auditors
to the General Conference
on the Financial Statements 2005**

2 May 2006//9/mjl

Report of the statutory auditors
to the General Conference of
Fédération Aéronautique Internationale
Lausanne

As statutory auditors, we have audited the accounting records and the financial statements of Fédération Aéronautique Internationale for the year ended 31 December 2005.

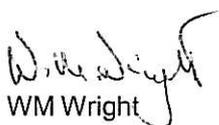
These financial statements are the responsibility of the Executive Board. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

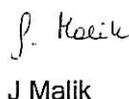
Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements comply with Swiss law and the statutes.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA


WM Wright


J Malik

Lausanne, 2 May 2006

Enclosures:

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Fédération Aéronautique Internationale, Lausanne

Balance sheet at December 31
(in Swiss Francs)

	Notes	2005	2004
Assets			
Current assets			
Cash and cash equivalents		1 619 057	1 662 114
Marketable securities			
- shares (market value CHF 361'877)		10 816	10 816
- bonds (market value CHF 569'880)		568 912	461 912
Accounts receivable, net of provision of CHF 13'590 in 2005, CHF 42'350 in 2004		69 728	34 808
Prepaid expenses and other receivables		39 178	112 293
Inventory		6 870	8 453
		<u>2 314 561</u>	<u>2 290 396</u>
Fixed assets (net)			
Tangible fixed assets	2	38 723	44 815
Financial fixed assets - advance deposits		14 112	14 077
		<u>52 835</u>	<u>58 892</u>
Total assets		<u><u>2 367 396</u></u>	<u><u>2 349 288</u></u>
Liabilities and funds			
Current liabilities			
Accounts payable		36 980	24 642
Accrued expenses and provisions	5	254 443	231 727
		<u>291 423</u>	<u>256 369</u>
Funds			
Special reserves	3	1 053 319	1 076 885
Development and Innovation Fund	4	402 453	386 564
Operating funds, as per statement of income and expenditure		620 201	629 470
		<u>2 075 973</u>	<u>2 092 919</u>
Total liabilities and funds		<u><u>2 367 396</u></u>	<u><u>2 349 288</u></u>

Statement of income and expenditure
for the year ended December 31
(in Swiss Francs)

	Notes	2005	2004
Income			
Annual subscriptions			
from National Federations:			
FAI		1 000 100	987 520
Europe Airsports		142 871	55 941
Financial net	6	41 994	8 359
Other income	7	189 367	91 119
		<u>1 374 332</u>	<u>1 142 939</u>
Expenditure			
Staff charges (and special provision)	8	673 671	599 996
General conference		31 779	12 893
Executive Board expenses		27 080	30 658
Travel expenses		22 748	10 558
Representation		11 860	8 870
Meetings		13 485	10 676
Office premises expenses		79 163	77 732
Correspondence, PR, Communications	9	40 917	52 543
Office supplies		16 013	19 806
Equipment maintenance		1 914	1 118
Insurance		56 498	52 349
Miscellaneous & unforeseen		11 628	9 834
Professional fees		30 143	29 130
Stock purchase		58 366	70 479
Transfer of subscriptions to Europe Airsports		142 871	55 941
Depreciation	2	15 167	22 987
Provision for unpaid subscriptions		13 590	37 630
Provision miscellaneous		0	15 000
100th FAI anniversary		18 783	10 975
Centenary books - High Flyers		102 034	0
		<u>1 367 711</u>	<u>1 129 175</u>
Excess of income over expenditure for the year		6 620	13 764
ADD: Operating fund balances at beginning of year		629 470	615 706
		636 090	629 470
LESS: Transfer to Development and Innovation Fund	4	15 889	0
Operating fund balances at end of year		<u>620 201</u>	<u>629 470</u>

Year ended December 31, 2005

Summary of significant accounting policies

(a) Basis of accounting

FAI uses the accruals basis of accounting.

(b) Recognition of revenue and expenses

Expenses and revenues from subscriptions and calendar events are recognised during the year to which they relate.

Income from inventory sales is recognised at the date of sale.

(c) Marketable securities

Shares are stated at the lower of cost and market value, determined on an individual basis. Bonds which are to be held to maturity are recorded at the lower of historical cost and maturity value; exchange gains or losses arising from the revaluation of bonds denominated in foreign currencies to exchange rates ruling at the balance sheet date are taken to the statement of income. Unrealised exchange gains are deferred.

(d) Inventory

Inventory is stated at cost, determined on an individual basis, provision being made for any impairment.

(e) Development and Innovation Fund

The Development and Innovation Fund (DIF) was created in 2003 with a sum of CHF 386'564 transferred to FAI from the independent "International Fund". The Fund is used to promote, develop and support the objectives of the FAI, and especially to fund innovative projects, and is represented by designated cash and marketable securities. Each year the FAI Executive Board decides how to use the Fund and any proceeds therefrom.

(f) Foreign currency translation

The accounts are maintained in Swiss Francs. Transactions in other currencies are recorded at the average monthly rate. Monetary assets and liabilities held in other currencies are translated at year-end rates. Realised exchange gains and losses are taken to income and expenditure; unrealised exchange gains are deferred. Exchange gains and losses on the assets of the commissions are borne entirely by the operating funds of the FAI.

(g) Taxation

FAI has been granted exoneration from Swiss taxation on its income and net assets.

(h) Depreciation

The following rates, according to the straight line basis, are being used:

Furniture and equipment	10%
Office and data processing equipment	33%
Fixtures and fittings	10%

Year ended December 31, 2005

Notes to the financial statements

1. Activity

The "Fédération Aéronautique Internationale" (FAI - the World Air Sports Federation) is an institution established in Switzerland under the Swiss Civil Code. Its main aims include ballooning, power flying, gliding, helicopter flight, parachuting, aeromodelling, aerobatics, hang gliding, microlight flying, amateur building of aircraft, manpowered flying, paragliding and all other aeronautic sporting activities. They are conducted under the FAI Sporting Code.

2. Fixed Assets

	Furniture and equipment CHF	Office and data processing equipment CHF	Fixtures and fittings CHF	Total CHF
Cost				
As at January 1, 2004	47 550	108 742	20 583	176 875
Additions in year	0	13 648	0	13 648
Disposals in year	0	0	0	0
As at December 31, 2004	<u>47 550</u>	<u>122 390</u>	<u>20 583</u>	<u>190 523</u>
Depreciation				
As at January 1, 2004	21 878	89 872	10 971	122 721
Disposals in year	0	0	0	0
Charge for the year	4 755	14 136	4 096	22 987
As at December 31, 2004	<u>26 633</u>	<u>104 008</u>	<u>15 067</u>	<u>145 708</u>
Net book value				
As at December 31, 2004	<u>20 917</u>	<u>18 382</u>	<u>5 516</u>	<u>44 815</u>
Cost				
As at January 1, 2005	47 550	122 390	20 583	190 523
Additions in year	2 780	6 295	0	9 075
Disposals in year	0	(6 323)	0	(6 323)
As at December 31, 2005	<u>50 330</u>	<u>122 362</u>	<u>20 583</u>	<u>193 275</u>
Depreciation				
As at January 1, 2005	26 633	104 008	15 067	145 708
Disposals in year	0	(6 323)	0	(6 323)
Charge for the year	4 801	9 170	1 196	15 167
As at December 31, 2005	<u>31 434</u>	<u>106 855</u>	<u>16 263</u>	<u>154 552</u>
Net book value				
As at December 31, 2005	<u>18 896</u>	<u>15 507</u>	<u>4 320</u>	<u>38 723</u>

The fire insurance value amounts to CHF 275'000 (CHF 275'000 in 2004).

Year ended December 31, 2005

Notes to the financial statements

3. Statement of changes in special reserves

The movements during the years 2004 and 2005, in special reserves, are summarised as follows :

	Balance at January 1, 2004 CHF	Funds received CHF	Amounts paid out CHF	Net Difference CHF	Balance at December 31 2004 CHF
Commissions :					
- Hang Gliding (CIVL)	163 800	101 279	(58 702)	42 577	206 377
- Aeromodelling (CIAM)	66 343	37 558	(40 782)	(3 224)	63 119
- Ballooning (CIA)	62 787	24 234	(5 642)	18 592	81 379
- Microlight (CIMA)	20 462	9 753	(8 306)	1 447	21 909
- Gliding (IGC)	60 251	17 722	(8 625)	9 097	69 348
- Aerobatics (CIVA)	100 194	16 526	(25 426)	(8 900)	91 294
- General aviation (GAC)	31 537	8 253	(3 160)	5 093	36 630
- Rotorcraft (CIG)	8 788	0	(210)	(210)	8 578
- Parachuting (IPC)	135 224	87 351	(25 551)	61 800	197 024
- Amateur built & experimental aircraft (CIACA)	1 064	0	0	0	1 064
	650 450	302 676	(176 404)	126 272	776 722
Great Balloon Race	(8 816)	0	0	0	(8 816)
World Air Games	129 404	0	0	0	129 404
Olympic Movement Fund	76 352	12 661	(295)	12 366	88 718
World Grand Prix of Aviation	82 554	15 303	(7 000)	8 303	90 857
TOTAL	929 944	330 640	(183 699)	146 941	1 076 885

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Year ended December 31, 2005

Notes to the financial statements

	Balance at January 1, 2005 CHF	Funds received CHF	Amounts paid out CHF	Net Difference CHF	Balance at December 31 2005 CHF
Commissions :					
- Hang Gliding (CIVL)	206 377	51 937	(87 011)	(35 074)	171 303
- Aeromodelling (CIAM)	63 119	38 700	(24 334)	14 366	77 485
- Ballooning (CIA)	81 379	31 488	(35 213)	(3 725)	77 654
- Microlight (CIMA)	21 909	9 603	(2 080)	7 523	29 432
- Gliding (IGC)	69 348	18 523	(10 134)	8 389	77 737
- Aerobatics (CIVA)	91 294	20 748	(72 585)	(51 837)	39 457
- General aviation (GAC)	36 630	6 895	(3 447)	3 448	40 078
- Rotorcraft (CIG)	8 578	12 660	(6 477)	6 183	14 761
- Parachuting (IPC)	197 024	107 650	(76 654)	30 996	228 020
- Amateur built & experimental aircraft (CIACA)	1 064	0	0	0	1 064
	<u>776 722</u>	<u>298 204</u>	<u>(317 935)</u>	<u>(19 731)</u>	<u>756 991</u>
 Great Balloon Race	 (8 816)	 0	 0	 0	 (8 816)
 World Air Games	 129 404	 0	 (5 000)	 (5 000)	 124 404
 Olympic Movement Fund	 88 718	 48 560	 (49 730)	 (1 170)	 87 548
 World Grand Prix of Aviation	 90 857	 5 178	 (2 843)	 2 335	 93 192
TOTAL	<u>1 076 885</u>	<u>351 942</u>	<u>(375 508)</u>	<u>(23 566)</u>	<u>1 053 319</u>

Year ended December 31, 2005

Notes to the financial statements

4. Statement of Changes in Development and Innovation Fund (DIF)	2005	2004
	CHF	CHF
Fund balances at beginning of year	386 564	386 564
Net investment return (from operating funds)	15 889	0
DIF fund balances at end of year	<u>402 453</u>	<u>386 564</u>
5. Accrued Expenses and Provisions	2005	2004
	CHF	CHF
Accrued expenses	105 443	41 727
Provisions	106 000	190 000
Deferred unrealised exchange gains	43 000	0
	<u>254 443</u>	<u>231 727</u>
6. Financial - net	2005	2004
	CHF	CHF
Interest / dividend income	43 485	45 600
Interest from bank accounts; late payment penalties	10 985	5 651
Gain on foreign exchange	61	0
	<u>54 531</u>	<u>51 251</u>
Bank and brokerage charges	8 831	6 603
Loss on marketable securities	3 706	0
Loss on foreign exchange	0	36 289
	<u>12 537</u>	<u>42 892</u>
Financial - net income	<u>41 994</u>	<u>8 359</u>
7. Other income	2005	2004
	CHF	CHF
Sales of medals, badges, etc...	41 016	48 044
Sales of High Flyers books	40 433	0
Records homologation	16 700	25 598
Miscellaneous, incl. unused provisions	2 217	17 477
Sponsoring - centenary	89 000	0
	<u>189 367</u>	<u>91 119</u>
8. Staff charges	2005	2004
	CHF	CHF
Staff charges	545 249	517 584
Social charges	86 162	82 412
World Games contribution for secretariat services	(17 740)	0
Other personnel costs - provision for staff benefits	60 000	0
	<u>673 671</u>	<u>599 996</u>

Year ended December 31, 2005

Notes to the financial statements

9. Correspondence, PR, Communication	2005	2004
	CHF	CHF
Correspondence	22 565	20 813
Communications Strategy	3 902	2 623
Visual image - new logo	0	12 993
Internet	14 450	16 114
	<u>40 917</u>	<u>52 543</u>