



ETHIOPIAN ANNUAL REPORT 2017/18

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01

**BOARD
MEMBERS**

BOARD MEMBERS



H.E. Ato Moges Balcha
Board Member



H.E. Ato Admasu Nebebe
Board Member



Lieutenant Gen. Adem Mohammed
Board Member



Ato Girma Wake
Board Member



H.E. Ato Berhanu Tsegaye
Board Member



H.E. Dr. Aklilu Hailemichael
Board Member



Ato Tadesse Tilahun
Board Member



Ato Alemayehu Assefa
Board Member



Ato Retta Melaku
Board Member

THE WINNING SOCCER TEAM (WST)



Mr. Tewolde GebreMariam
Group Chief Executive Officer

Tewolde GebreMariam was appointed as Group Chief Executive Officer of Ethiopian Airlines in January 2011. He began his career at Ethiopian in 1985 as Transportation Agent and held a number of senior leadership positions in different divisions in the Airline including Ethiopian Cargo, Area Offices and Sales & Marketing.

In his role as CEO, Mr. Tewolde has been a multiple award winner including 'African CEO of the Year', 'Best African Business Leader', 'The Airline Strategy Award for Regional Leadership' and 'The Most Gender Focused CEO Award'.

Mr. Tewolde also serves as a member of the High-Level Advisory Group on Sustainable Transport with United Nations, Chief Executive Board member of Star Alliance, Board member of International Air Transport Association (IATA) and AirlinK Advisory Council. Additionally, he is an Executive Committee member of the African Airlines Association (AFRAA), a member of Board of Directors of Africa Travel Association (ATA) and Board of Directors of Ethiopian Tourism Organization (ETO).

Mr. Tewolde graduated from Addis Ababa University with B.A. Degree in Economics. He earned his Master's Degree in Business Administration from Open University in the United Kingdom.



Mr. Mesfin Tasew
Chief Operating Officer

Mr. Mesfin joined Ethiopian in 1984 as Associate Engineer and progressed through the ladder and served in supervisory and managerial positions in the technical areas. In 1997 and 1999, he was appointed as Director Operations & Technical Systems Support and Chief Information Officers respectively. In 2006, he was assigned as Vice President Maintenance and Engineering.

Currently, he is serving Ethiopian as Chief Operating Officer since November 01, 2010.

He holds BSC and MSC Degree in Electrical Engineering from Addis Ababa University. He also holds MSc. Degree of Master of Business Administration from the Open University of UK.



Mrs. Rahel Assefa
VP Marketing

Mrs. Rahel Assefa joined Ethiopian Airlines in 1988 as a college trainee in the Sales Department after graduating from the Addis Ababa University in Management & Public Administration.

She worked in various Managerial positions within the Airline such as Sales, Commercial Planning, Revenue Management, as Regional Representative (U.K) and she is currently serving Ethiopian as Vice President Marketing the position she is holding since October 2013.

In February 2015, she was named among the Worlds' 30 Most Compelling Women in Travel by the U.S based Premier Travel Magazine.



Mr. Meseret Bitew
Chief Financial Officer

Mr. Meseret joined Ethiopian as Senior Accountant in the Finance Division in 1986. He has been serving the airline in various managerial streams including Supervisor at Disbursement, Supervisor at General Accounting, Manager General Accounting, Director Financial Accounting, Director Management Accounting, Vice President Finance and as Acting Chief Financial Officer. Currently, he is serving as Chief Financial Officer as of October 2017.

He has also served as Director Finance and Strategic Planning for ASKY Airlines. He holds a BA Degree in Accounting from Asmara University and Master of Business Administration from London Open University.



Mr. Esayas WoldeMariam
MD Ethiopian
International Services

Mr. Esayas joined Ethiopian in July 1991 as Transit Agent in Marketing Division. He has been serving in various managerial positions including Manager Space Control & Yield Country Manager Greece, Nigeria and Germany.

In November 2010, Mr. Esayas was also appointed as Vice President of Ethiopian Cargo and Logistics to head all the cargo operation. In January 2012, he was appointed as SVP Global Sales. Currently, he is serving Ethiopian as Managing Director Ethiopian International Services since October 01, 2013. He holds BSc. Degree in Mathematics from Addis Ababa University.

He also earned Degree of Master of Business Administration from UK Open University.



Mr. Tekle G/Yohannes
MD Ethiopian Ground
Services

Mr. Tekle G/Yohannes began his career at Ethiopian in 1995 as Transportation Agent and has held a number of leadership positions in a number of divisions including: Addis Ababa Airport, Ethiopian Cargo, Aviation Academy as Chief Instructor, Area/Field Offices (Belgium and UK). In June 2013, Mr. Tekle was appointed as Director Addis Ababa Hub and transferred to Region Office as Director Europe and America in July 2016. Since July 2017, he has been assigned as A/MD Ethiopian Ground Services.

As of October 2017, he is serving as Managing Director Ethiopian Ground Services, the position he is currently holding.

Marketing Management and he has his Master's Degree in Economic Development and Good Governance from the university of Paris and CERIS in Belgium. He is also studying Executive MBA from open university in UK.



Mr. Fitsum Abady
MD Ethiopian Cargo
Services

Mr. Fitsum Abady began his career with Ethiopian in 1995 as Transportation Agent and has held a number of leadership positions in a number of divisions in the Airline including; Ethiopian Cargo, Area Offices and Sales and Marketing.

Currently, he is serving Ethiopian as Managing Director Ethiopian Cargo and Logistics Services since January 01, 2014.

He graduated from Addis Ababa University with a BSC Degree in Biology. He earned his Master's Degree in Business Administration from the Indian ITM University.



Mr. Zelalem Tsehaye
MD Ethiopian MRO
Services

Mr. Zelalem Tsehaye joined Ethiopian in 1998 as a Junior Aircraft Technician after graduating from Ethiopian Aviation Academy. He has been serving in various managerial positions including Supervisor Line Maintenance, Technical Manager ROME Station, Manager B757/B737 Scheduled Maintenance, Director Aircraft Base Maintenance and A/MD ET MRO SVCS.

He is a graduate of Ethiopian Aviation Academy in Aircraft Maintenance; and holds Master's Degree in Business Administration from the Open University of London(UK) and Master's Degree in Logistics and Supply Chain Management from Addis Ababa University.

He is Type rated and certified on B787/B777/B767/B757/B737 /F-50 aircraft. Currently he is serving Ethiopian as Managing Director Ethiopian Maintenance, Repair and Overhaul Services.



Mr. Laeke Tadesse
Chief Information
Officer

Mr. Laeke Tadesse has begun his career with Ethiopian in 1999 as Jr. Application Analyst and has served a number of positions as Senior Application Analyst, Mgr. Galileo System Support, Head Galileo Ethiopia and Dir. Commercial Systems & Galileo. He became Chief Information Officer in September 2015.

He graduated from Addis Ababa University with a B.Sc. Degree in Mathematics.



Mr. Solomon Debebe
MD Ethiopian Aviation Academy

Mr. Solomon joined Ethiopian in 1979 as a Junior Aircraft Mechanic after graduating from Ethiopian Aviation Academy. He has been serving in various managerial positions including Manager Market Research & Analysis, Area Manager Uganda, Scandinavia, Kenya & Seychelles, and South Korea. Director Service Quality Management, and VP Customer Services.

Currently he is serving Ethiopian as Managing Director Ethiopian Aviation Academy since July 26, 2016.

He holds BA degree in Management and Public Administration from Addis Ababa University.



Mr. Mesay Shiferaw
VP Corporate HRM

Mr. Mesay Shiferaw joined Ethiopian on April 10, 1995 as Transportation Agent and served the Airline in various positions including Customer Relations Officer, Supervisor Departure Control, Manager Airport Services Nairobi, Manager Airport Services Washington, Manager Ground Handling & Procedures, Director Recruitment & Placement, Director HR Development, Area Manager Japan, Head Group CEO Office & Corporate Communications, and A/VP HRM.

He is currently serving as VP Corporate HRM as of October 2017.

He holds BSC in Physics and BA Degree in Economics from A.A.U.



Mr. Kassim Geresu
VP Internal Audit and Corporate QMS, SMS & EMS Compliance

Mr. Kassim joined Ethiopian in 1988 as a college trainee and has been assigned as a senior accountant in Finance Division. He worked and progressed through the ladder of managerial and director positions within Finance and has held a number of senior leadership positions of Finance, IT and Strategic Planning divisions.

He has also served as Chief Executive Officer of ET's sister Company; Mala Currently, he is serving Ethiopian as Vice President Internal Audit & Compliance since 16th of October 2017.

He served as VP Customer Service at Ethiopian Airlines, for three years.

He earned his B.A. Degree in Accounting from Asmara University and his Master's Degree in Business Administration from the Open University of UK.



Mr. Michael Yared
VP Customer Service

Mr. Michael Yared joined Ethiopian as Jr. Customer Service Agent in ADD HUB Division in 1996. He has been serving the airline in various managerial streams including Sup. Passenger Services, Manager Cargo Sales and Cargo Traffic, Station Manager Dubai, Area Manager Ghana, and Area Manager UK and Ireland.

Currently, he is serving as VP Customer Service as of February 2018.

He holds a Master of Business Administration (MBA) from the highly acclaimed Australian Institute of Business.



Capt. Yohannes joined Ethiopian as a pilot after he has graduated from Ethiopian Aviation Academy in 1984. He has been serving in various positions including Chief Pilot on 767/757 in 2004, Manager Training and Standard in 2005, Director Flying and Training in 2007 and Air Crew Program Manager in 2010. Currently he is serving as VP Flight Operations since May 2015.

He is holder of a Diploma from Pilot Training School, Diploma from Addis Ababa University and 2nd year complete in Electrical Engineering from Addis Ababa University.

Capt. Yohannes HaileMariam
VP Flight Operations

Mr. Henok Teferra joined Ethiopian Airlines as Director of Corporate Communications and International Affairs in 2010. He previously served in government at the Ethiopian Ministry of Foreign Affairs including as Advisor to the Minister, and in the private sector in France.

He has been working in Executive Management positions at Ethiopian Airlines since 2013. He was Vice-President of Corporate Strategy, Communications and Alliances before been appointed and seconded in May 2015 as the Chief Executive Officer of ASKY Airlines, Ethiopian strategic partner carrier in West and Central Africa based in Lomé (Togo).

As of October 2017, he has assumed the position of Vice-President of Strategic Planning and Alliances, overseeing the airline's strategy and equity partnerships; strategic assets comprising of fleet and facility planning; network and business development; bilateral, government and industry affairs; alliances and international cooperation; public relation; ET-Holidays, the airline's in-house tourism program and packages; Ethiopian owned hotel; and the aerospace manufacturing project office.

Mr Henok holds a Bachelor's Degree in Public and Private International Law from the University of Nice-Sophia Antipolis and the Institute of Law for Peace and Development in France, and a Master's Degree in International Economic Law from Sorbonne University Paris 1, France, where he was also Ph.D. candidate in International Law.



Mr. Henok Teferra
Vice-President of Strategic Planning and Alliances



Mr. Busera joined Ethiopian in 1985 as a Space Control Agent and progressed through the ladder and has held a number of senior leadership positions including Director of Marketing and Sales Operations, Area Offices and Vice President of Commercial.

In September 2009, Mr. Busera was appointed as Chief Executive Officer of ASKY Airlines, Ethiopian second hub in Lomé' (Togo). In September 2013, he was assigned as Chief Commercial Officer. He graduated from Addis Ababa University with a B.A. Degree in Economics.

Mr. Busera Awel
Chief Commercial Officer



Mr. Genanaw began his career with Ethiopian in 2008 as Assistant General Counsel position and progressed through the ladder to become VP Legal Counsel & Corporate Secretariat in September 2014.

He graduated from Addis Ababa University with a Bachelor of Laws. He earned his Master of Laws from Peking University.

Mr. Genanaw Assefa
VP Legal Counsel & Corporate Secretariat

03

Group CEO
MESSAGE



GROUP CEO'S MESSAGE



2017/18 fiscal year was an exceptional year in which we achieved a record and historic success against our strategic targets in all financial, commercial, operational and customer service areas. The performance registered is remarkable given the very tough operating and competitive environment in Africa, our home market, where jet fuel price, our main cost driver, soared with an average of 30% than in the rest of the world. The disparity in the fuel price put African carriers at a severe competitive disadvantage. However, we embraced our pledge and continued to register unprecedented growth. We achieved the result in the backdrop of aggressive foreign carriers' penetration into the African market with the African airline industry collectively forecasted to lose money. During the fiscal year, our operating revenue rose by 43% from previous fiscal year and with a net profit of 6.8 billion ETB.

The performance also attests the soundness of our fast, profitable and sustainable growth plan, Vision 2025, and further strengthens our position in the hyper-competitive and dynamic aviation industry. It also illustrates the strength of our diversified business model and disciplined approach to deploying capital, controlling costs and managing industry risks and challenges. The record performance is, due first and foremost, to the commitment, hard work and competence of my 16,000 plus colleagues with each one of them at all echelons of the company playing a critical role in this success – it has been an immense privilege to work alongside them. Our journey highlights the power of our purpose to unify every colleague under the common goal of serving global customers with the best travel experience possible. I continue to be inspired daily by the conviction, passion and imagination of my colleagues at Ethiopian.

We currently serve more than 120 passenger and cargo destinations across 5 continents. We thank our esteemed customers for their continued patronage and for flying with us in greater number than ever before. During the fiscal year, we carried close to 10.6 million passengers and 400,339 tons of cargo. We recognize that our customers have many choices about where to spend their hard-earned money and we will continue to work hard to earn their business by continuously enhancing their on-board and on-ground experience.

Leveraging latest technology and creating an exceptional customer experience is one of the pillars of our Vision 2025. Hence, we have introduced over one aircraft per month with a total of 14 additional new aircraft in our fleet family. We have passed the 100th aircraft in service milestone during the year and became the first African airline in history to do so.

We have seen unprecedented growth in the number of new destinations into our global route map, further enhancing connectivity for our passengers from around the world. We opened 8 new international destinations, namely Geneva (Switzerland), Chicago (USA), Bahrain, Kaduna (Nigeria), Buenos Aires (Argentina), Kisangani and Mbuji-Mayi (Democratic Republic of Congo) and Nosy-Be (Madagascar). With these exciting new additions, we have continued to seamlessly connect our business and leisure passengers to the world with the vast global connectivity options through our home and hub, Addis Ababa Bole International Airport.

During the fiscal year, we have been crowned for the first time a 4 Star rating by SKYTRAX, the leading customer service rating organization in the airline industry, putting us on par with other global airlines. SKYTRAX also recognized us as Best Airline in Africa; Best Business Class in Africa and Best Economy Class in Africa. The 4 Star recognition by SKYTRAX is a significant milestone in our long history. As a customer focused airline, it is extremely gratifying that our hard work to ensure high level of customer satisfaction at all times through a consistent delivery of global standard product and superior level of service won prestigious recognition. The rating is a great honor and responsibility to always meet the high expectations of our esteemed customers.

As we stand on the eve of our 2018/19 fiscal year, we are clear that what has driven our success in the past won't guarantee that same success in the future. This is why we are investing significantly in our digital solutions across all of our businesses, building on the strength of our service to deliver more value to today's connected passenger. We face another exciting and promising year in 2018/2019 to deliver on our vision and provide high quality and affordable air transport to the ever-growing global passengers.

We will keep the momentum as we have until now, safe in the knowledge that we have the ingredients to succeed in our mission and demonstrate every day what it means to serve.

Thank you
Tewolde GebreMariam
Group CEO, Ethiopian Airlines

04

MISSION STATEMENT



MISSION STATEMENT

Vision

Vision 2025:

To become the most competitive and leading aviation group in Africa by providing safe, market driven and customer focused passenger and cargo transport, aviation training, flight catering, MRO and ground

Values

- As an airline, safety is our first priority,
- Ethiopian is a high performance and learning organization with continuous improvements, innovation and knowledge-sharing.
- We accept change for the growth opportunity it brings and always seek for and apply the best ideas regardless of their source,
- We recognize and reward employees for their performance and demonstrate integrity, respect to others, candor and team work,
- Act in an open fashion and be result-oriented, creative and innovative,
- Adopt Zero tolerance to indifference, inefficiency and bureaucracy,
- Encourage 360° free flow and sharing of information,
- Treat our customers the same way we would like to be treated and always look for ways to make it easier for customers to do business with us,
- We are an equal opportunity employer

Mission

To become the leading Aviation group in Africa by providing safe and reliable passenger and cargo air transport, Aviation Training, Flight Catering, MRO and Ground Services by 2025.

To ensure being an airline of choice to its customers, employer of choice to its employees and an investment of choice to its Owner,

To contribute positively to socio economic development of Ethiopia in particular and the countries which it operates in general by undertaking its corporate social responsibilities and providing vital global air connectivity,

The background of the slide is a collage of various newspaper clippings, including headlines and text columns, all rendered in a light, faded, and slightly tilted manner. The text is mostly illegible due to the low contrast and perspective.

05

News Highlights

AWARDS

- ✓ Ethiopian Airlines was ranked as a **4 Star airline** by SKYTRAX for its superior quality service at a special ceremony held in London on November 8, 2017.
- ✓ Ethiopian won the 2017 **Airline Reliability Performance** Award for the 7th year in a row from Bombardier Aerospace.
- ✓ Ethiopian was recognized by TripAdvisor as **"The Best Business Class in Africa and Indian Ocean"** On May 4, 2018 based on reviews and ratings gathered from travelers worldwide.
- ✓ Ethiopian airlines won the 2018 **'Africa's Outstanding Food Services by a Carrier'** Award as voted by PAX International readers at a ceremony held at the Radisson Blu Hotel in Hamburg, Germany in April 2018.
- ✓ Ethiopian received an award as **"Fastest growing International Cargo Airline of the Year"** at Air Cargo India International conference held in Mumbai on February 21, 2018.
- ✓ Ethiopian Cargo & Logistics Services received the **"Export & Import Cargo Transportation award"** at a Customers Symposium organized in China on February 7, 2018.
- ✓ On February 7, 2018, Ethiopian Aviation Academy was ranked among the **world's top aviation training centers** by Aviation Voice
- ✓ Ethiopian won the 2018 APEX Passenger Choice Awards for **Best In-Flight Entertainment in Africa** at the APEX Asia Conference held from March 13-14, 2018 in Shanghai, China.
- ✓ Ethiopian received **Industry and Customer Choice Awards** on October 13, 2017
- ✓ Ethiopian Airlines was crowned as the **Rising Star Carrier of the Year** both in industry and customer choice awards on Payload Asia Awards 2017 held in Singapore for the third time in row.
- ✓ on October 3, 2017. Ethiopian was voted 2017 **Middle East and Africa Airline of the Year** by Airline Economics Magazine, the largest aviation finance and leasing print publication in the world
- ✓ On November 14, 2017, Ethiopian received **Airline of the Year Award** for the sixth time by the African Airlines Association (AFRAA) on the 49th Annual General Assembly held in Rwanda, Kigali.

ROUTE AND FREQUENCY

- Ethiopian Airlines started a **thrice weekly** service to Bahrain on August 17, 2017.
- Ethiopian increased flight frequency to Yaoundé and Libreville to **6 flights a week** as of November 3, 2017. The 6th flight was operated with the latest B-787 aircraft.
- Ethiopian Airlines Group made its maiden flight to Kaduna, Nigeria, a fifth destination in Nigeria August 1st, 2017

FLEET RECEIPT AND ORDER

- ❖ Ethiopian Airlines has taken delivery of its second Boeing 787-9 Dreamliner fleet on November 21, 2017 just weeks after it received the first Boeing 787-9 Dreamliner.
- ❖ On 5 June 2018, Ethiopian took delivery of its **100th aircraft**, Boeing 787-900. Ethiopian became the first in Africa to reach 100 aircraft milestone.
- ❖ Ethiopian **ordered four B 777 freighters**, the world's longest-range twin-engine cargo jet. Ethiopian airlines and Boeing announced the order at the 2017 Dubai Airshow.
- ❖ Ethiopian Airlines and Bombardier Commercial Aircraft concluded a firm order for 10 new Q400 aircraft on April 27, 2018.

TECHNOLOGY

- Ethiopian airlines removed paper from its systems and fully digitalized all its business processes as of September 28, 2017.
- On Dec 5, 2017, Ethiopian has launched a new Mobile Application with a range of features to enhance customer experience affording convenience in booking, making payment and checking in.
- Ethiopian availed free Wi-Fi connection at the main hub, Addis Ababa Bole International Airport as of October 2017 to meet customer's higher expectation.

CSR

Ethiopian Aviation Academy conducted Autism Awareness panel discussion on May 11, 2018 under the theme "*Flying with Autism*" to make air travel more accessible for passengers with Autism.

GRADUATION

- On February 1, 2018, Ethiopian aviation academy graduated **14 aircraft technicians** from Nigerian, Tanzania and Cote D'Ivoire, who successfully completed classroom and on-the-job training on the Q-400 and B737 aircraft.
- Ethiopian aviation academy, IATA certified training center, graduated **262 aviation professionals** on October 7, 2017.



06

AIRCRAFT
AGE

FLEET AGE

Average Aircraft Age (2017/18)

Aircraft Type	Aircraft Age
A350-900	0.99
B787-9	0.47
B787-8	4.71
B777-300ER	3.83
B777-200LR	6.95
B777F	4.11
B767-300ER	15.9
B737-8 Max	0.01
B737-800	5.81
B737-700	13.21
Q400	4.92
Fleet Average Age	5.54



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07

NEW

DESTINATIONS



NEW DESTINATIONS

<i>Destination</i>	<i>Launched in</i>
<i>Kaduna</i>	August 2017
<i>Bahrain</i>	August 2017
<i>Kisangani</i>	March 2018
<i>Mbuji-Mayi</i>	March 2018
<i>Mogadishu</i>	November 2018
<i>Nosi BE</i>	March 2018
<i>Buenos Aires</i>	March 2018
<i>Chicago</i>	June 2018
<i>Geneva</i>	June 2018

08

FINANCIAL REPORT



INDEPENDENT AUDITOR'S REPORT TO THE SUPERVISING AUTHORITY OF ETHIOPIAN AIRLINES GROUP

30 JUNE 2018

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ethiopian Airlines Group, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ethiopian Airlines Group as at 30 June 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) together with the

Ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Passenger revenue recognition

The accounting for passenger revenue recognition involves complex IT systems and exchange of information with different systems within the Ethiopian Airlines Group and other airlines. There is a risk that passenger revenue may not be correctly and completely recognized. In response to this risk, we have tested the operating effectiveness of key controls in the passenger revenue process; analyzed the flow of transactions from ticket sales to passenger revenue recognition; selected a sample of passenger tickets and traced them to the accounting records to ensure that the revenue was properly recognized in the correct period. Our testing did not identify significant errors in the recognition of passenger revenue

INDEPENDENT AUDITOR'S REPORT TO THE SUPERVISING AUTHORITY OF ETHIOPIAN AIRLINES GROUP

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Ethiopian Airlines Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Ethiopian Airlines Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Ethiopian Airlines Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ethiopian Airlines Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or condition that may cast significant doubt on the Ethiopian Airlines Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Ethiopian Airlines Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosure, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS REPORT TO THE SUPERVISING AUTHORITY OF ETHIOPIAN AIRLINES GROUP

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is woizero Azeb Tekleselassie.

ETHIOPIAN AIRLINES GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Birr	2017 (as restated) Birr
OPERATING REVENUE	2(s),4	90,906,968,909	60,846,884,846
OPERATING EXPENSES	5	(83,578,055,595)	(56,858,464,148)
GROSS OPERATING PROFIT		<u>7,328,913,313</u>	<u>3,988,420,698</u>
INTEREST INCOME		173,821,098	185,223,572
PROVISION FOR STOCK & DOUBTFUL DEBTS		(411,729,385)	(297,710,384)
BORROWING COSTS		(1,784,712,860)	(1,314,878,987)
SHARE OF LOSS FROM ASSOCIATES		(13,260,746)	(51,094,084)
GAIN (LOSS) ON FOREIGN CURRENCY TRANSLATION		469,852,268	(408,600,686)
NON - OPERATING REVENUE	6	2,210,502,206	2,764,906,327
NON - OPERATING EXPENSE	7	(797,095,658)	(405,253,042)
		<u>(152,623,077)</u>	<u>472,592,715</u>
PROFIT BEFORE TAX		7,176,290,237	4,461,013,413
INCOME TAX EXPENSE	26(a)	(552,382,907)	
PROFIT AFTER TAX		<u>6,623,907,329</u>	<u>4,461,013,413</u>
OTHER COMPREHENSIVE INCOME			
EXCHANGE RATE DIFFERENCE ON TRANSLATION TO PRESENTATION CURRENCY		6,030,042,935	1,674,321,355
ACTUARIAL GAIN (LOSS) ON EMPLOYEE BENEFIT		(26,007,572)	(4,241,437)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>12,627,942,692</u>	<u>6,131,093,331</u>

ETHIOPIAN AIRLINES GROUP
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

ASSETS	Notes	Birr	2,017 (as restated) Birr
NON-CURRENT ASSETS			
Property, plant and equipment	2(e),9	120,911,367,601	70,216,209,949
Intangible assets	2(g),10	190,652,142	134,363,174
Investment in associates	2(o),11	31,001,545	37,019,358
Treasury bonds	12	875,378,328	1,068,361,370
Standing deposits	13	12,604,692,157	10,085,871,069
Other loan receivables	2(i),14	<u>309,104,239</u>	<u>-----</u>
		<u>134,922,196,012</u>	<u>81,541,824,919</u>
CURRENT ASSETS			
Stock	2(n),15	4,069,740,619	3,169,660,987
Trade and other receivables	2(i),16	17,554,258,043	9,785,788,171
Short term investments	17	217,567,647	52,032,018
Cash and cash equivalents	2(p),18	<u>15,822,262,808</u>	<u>9,836,614,006</u>
		<u>37,663,829,117</u>	<u>22,844,095,182</u>
TOTAL ASSETS		<u>172,586,025,129</u>	<u>104,385,920,101</u>

EQUITY AND LIABILITIES
CAPITAL

Authorized - <u>Birr 100,000,0000,000</u>			
Paid up capital	19	47,615,547,717	29,111,702,344
Other comprehensive income		<u>7,845,351,195</u>	<u>1,841,315,832</u>
TOTAL EQUITY		<u>55,460,898,912</u>	<u>30,953,018,176</u>
NON-CURRENT LIABILITIES			
Long term loans	2(i),20	71,860,353,133	43,679,726,841
Provision for maintenance	2(l),21	346,017,710	72,177,297
Employee benefit obligation	22	205,955,912	160,019,964
Deferred Tax	2(k),23	2,251,733,883	-
Deferred and non-current liabilities	24	896,429,415	562,771,500
		<u>75,560,490,054</u>	<u>44,474,695,601</u>
CURRENT LIABILITIES			
Trade and other liabilities	2(i),25	12,265,480,371	8,906,066,381
Unearned transportation		19,164,695,985	12,524,236,173
Income Tax Payable	2(k),26	512,553,700	-
State dividend payable	27	1,173,756,574	-
Current maturity of long term loans	20	<u>8,448,149,533</u>	<u>7,527,903,769</u>
		<u>41,564,636,163</u>	<u>28,958,206,324</u>
TOTAL EQUITY AND LIABILITIES		<u>172,586,025,129</u>	<u>104,385,920,101</u>

**ETHIOPIAN AIRLINES GROUP
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018**

	Paid up capital Birr	Other comprehensive income Birr	Profit Birr	Total Birr
Balance at 30 June 2016 (as previously issued)	24,362,728,184			24,362,728,184
Adjustment (note 28)	<u>287,960,746</u>	<u>171,235,914</u>		<u>459,196,660</u>
Balance at 30 June 2016 (as restated)	24,650,688,930	171,235,914		24,821,924,844
Profit for the year (as previously issued)	-	-	5,381,918,309	-
Adjustment (note 28)	-	-	(920,904,896)	-
Profit for the year (as restated)	-	-	4,461,013,413	4,461,013,413
Transfer to capital	4,461,013,413	-	(4,461,013,413)	-
Other comprehensive income (note 28)	<u>-</u>	<u>1,670,079,918</u>	<u>-</u>	<u>1,670,079,918</u>
Balance at 30 June 2017 (as restated)	29,111,702,343	1,841,315,832	-	30,953,018,175
				-
Net worth from aquired business	6,369,882,696	-	-	6,369,882,696
Asset revaluation surplus from aquired business	5,287,238,275	-	-	5,287,238,275
Government contribution	222,817,074	-	-	222,817,074
Profit for the year		-	6,623,907,329	6,623,907,329
Transfer to capital	6,623,907,329	-	(6,623,907,329)	-
Other comprehensive income	<u>-</u>	<u>6,004,035,363</u>		<u>6,004,035,363</u>
Balance at 30 June 2018	<u>47,615,547,716.67</u>	<u>7,845,351,195</u>		<u>55,460,898,912</u>

**ETHIOPIAN AIRLINES GROUP
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

	Birr	2017 (as restated) Birr			
CASH FLOWS FROM OPERATING ACTIVITIES			CASH FLOWS FROM INVESTING ACTIVITIES		
Profit for the year	6,623,907,329	4,461,013,414	Interest received	153,784,969	148,556,945
Adjustments for			Proceed from matured treasury Bond	192,983,042	-
Income tax recognize in profit or loss	552,382,907	-	Payment for treasury bond	-	(1,068,361,370)
Finance costs recognized in profit or loss	1,784,712,860	1,314,878,987	Payments for property, plant and equipment	(2,303,962,204)	(4,959,072,425)
Interest income recognized in profit or loss	(173,821,098)	(185,223,572)	Payment for investment in associate	(588,472)	-
Depreciation and amortization	7,800,830,036	5,761,037,385	Payment for short term investment	(165,535,629)	-
Amortization of purchase incentives	(542,832,585)	(747,517,610)	Proceed from matured investments	-	2,252,609,292
Loss on currency fluctuation on loans	715,418,928	1,087,777,002	Payment for intangible assets	(165,614,624)	(62,187,405)
Provision for doubtful debts	280,798,771	190,982,733	Net cash used in investing activities	(2,288,932,918)	(3,688,454,963)
Provision for stock obsolescence & Stock written off	130,930,614	106,727,651	CASH FLOWS FROM FINANCING ACTIVITIES		
Share of loss from associate	13,260,746	51,094,084	Cash from business aquired	1,221,237,298	-
Provision for maintenance	273,840,413	(920,594,277)	Proceed from government subsidy	222,817,073	-
Creditors' accounts written back to profit or loss	(340,396,325)	(625,404,675)	Proceeds from borrowings	1,235,671,698	2,506,455,802
	17,119,032,597	10,494,771,123	Repayment of borrowings	(8,574,857,960)	(7,258,614,506)
Movements in working capital			Net cash used in financing activities	(5,895,131,891)	(4,752,158,704)
Increase in stock	(911,684,027)	(235,285,724)	Effect of exchange rates differences (net)	(2,400,826,969)	3,000,416,682
Increase in debtors and prepayments	(6,127,774,390)	(83,464,601)	Increase in cash and cash equivalents	5,985,648,802	4,917,247,983
Increase in standing deposits	(2,518,821,089)	(1,820,700,523)	Cash and cash equivalents at the beginning of the year	<u>9,836,614,006</u>	<u>4,919,366,023</u>
Increase in creditors	4,115,460,530	1,602,986,278	Cash and cash equivalents at the end of the year	<u>15,822,262,809</u>	<u>9,836,614,006</u>
Increase in unearned transportation	6,640,459,812	2,639,668,479	Cash and cash equivalents comprise:-		
Increase/(decrease) in deferred & non-current liabilities	333,657,916	(989,032,083)	Cash and bank balances	15,822,262,809	9,784,581,988
Cash generated from operations	18,650,331,348	11,608,942,949	Short term investments which mature with in three months	<u>52,032,018</u>	<u>52,032,018</u>
Interest paid	(1,746,505,928)	(1,251,497,980)		15,822,262,809	9,836,614,006
Income tax paid	(333,284,840)	-			
Net cash generated from operating activities	16,570,540,580	10,357,444,968			

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

1. GENERAL INFORMATION

Ethiopian Airlines Group was originally established in June 1945 and had its first scheduled flight in April 1946. It is the flag carrier of the country and serves 137 international and 21 domestic destinations.

The Airline was established as a public Enterprise in Ethiopia in 1995 by council of Ministers regulations NO.216/1995 and is governed further by Council of Ministers regulations No.81/2003, 147/2008, 292/2013 and NO.389/2016. With effect from 8 July 2017, Ethiopian Airlines Enterprise was renamed as Ethiopian Airlines Group by taking over Ethiopian Airports Enterprise by Council of Ministers Regulation No. 406/2017 as further amended by Council of Ministers regulation No.452/2019. The rights and obligations of the Ethiopian Airports Enterprise were transferred to the Ethiopian Airlines Group on the same date.

Its principal place of business is in Addis Ababa Ethiopia and it has area and station offices all over the world.

Ethiopian Airlines Group is wholly owned by the Government of the Federal Democratic Republic of Ethiopia.

Ethiopian Airlines Group was established for the following purposes:

- To provide domestic and international air transportation services as well as general aviation services;
- To manufacture and repair aircraft and aircraft parts
- To construct, expand, maintain and administer airports
- To provide aviation training services
- To provide airport Services (landing, parking, lighting, Passenger services and terminal facility)

- To provide hotel, recreational and other tourism services related to the aviation industry or invest in such services through equity participation
- To engage in other related activities necessary for the attainment of its purpose.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the Ethiopian airlines Group's accounting policies. The areas involving a high degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(b) Going concern

The financial statements have been prepared on a going concern basis. Management has no doubt that the Ethiopian Airlines Group would remain in existence after 12 months.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

(c) Changes in accounting policies and disclosures

New standards, amendments, interpretations issue but not yet effective.

There have been several new standards amendments and interpretations that were issued but have not been effective until after the balance sheet date of Ethiopian Airlines Group. The Ethiopian airlines Group intends to adopt these new standards, amendments and interpretations, where relevant to the Ethiopian airlines Group's business, when they become effective.

IFRS 9 Financial Instruments

IFRS 9 was published in July 2014 and replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Ethiopian Airlines Group plans to adopt the new standard on the required effective date. Overall, Ethiopian Airlines Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

Classification and measurement

Ethiopian Airlines Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

Loans and trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and Interest. Thus, Ethiopian Airlines Group expects that these will continue to be measured at amortized cost under IFRS 9.

Impairment

The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss approach. Ethiopian Airlines Group will be required to record an allowance for expected credit losses (ECL) for all of its loans and receivables. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. Ethiopian Airlines Group expects to apply the 12-month expected credit loss approach.

IFRS 15- Revenue from contracts with customers

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. [IFRS 15:1] Application of the standard is mandatory for annual reporting periods starting from 1 January 2018 onwards.

The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework: [IFRS 15:IN7]

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Ethiopian Airlines Group has been substantially compliant to the core principles of this standard. It intends to strictly adhere to the standard in all respects in the financial year ending on 30 June 2019. The impacts of this standard are not yet assessed.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

IFRS 16- leases

This standard was issued in January 2016. It replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value (such as personal computers). The lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

This standard will have a significant impact on Ethiopian Airlines Group considering the number of air crafts under operating lease. Operating lease charges will be replaced with interest and depreciation charges. These charges affect key ratios like profit margin. The quantitative impact of this standard is yet to be determined.

IFRIC 22- Foreign currency transaction and advance consideration

The interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income.

According to the interpretation:

- The date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related assets, expense or income (or part of it) upon the de recognition of the non-monetary asset or non-monetary liability, is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

This interpretation does not apply when an entity measures the related asset, expense or income on initial recognition:

- a. at Fair value or
- b. at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary assets or non-monetary liability arising from advance consideration (for example measurement of goodwill applying IFRS 3 business combination).

Furthermore, this Interpretation should not be applied to income taxes and insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018.

The Group intends to apply IFRIC 22 on initial recognition of the related asset, expense or income on the de recognition of a non-monetary asset or non-monetary liability relating to advance consideration beginning from its financial year ending 30 June 2019. The impacts of this interpretation are not yet assessed.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

d. Foreign currency translation

i. Functional and presentation currency

The functional currency of the Ethiopian Airlines Group is United States Dollar (USD). While that of Ethiopian Airports (one of the operating segment under Ethiopian Airlines Group) is Ethiopian Birr. These financial statements are presented in Ethiopian Birr which is Ethiopian Airlines Group's presentation currency

The functional currency has been determined by reference to the following factors;

The currency:

- ✓ that mainly influences sales prices for goods and services
- ✓ that mainly influences labor, material and other cost of providing goods or services
- ✓ in which funds from financing activities are generated
- ✓ in which receipts from operating activities are usually retained
- ✓ the primary economic environment in which the entity operates;
- ✓ that mainly influences the determination of costs of providing services
- ✓ the geographical location whose competitive forces mainly determine the sales prices of Ethiopian airlines group's services.

ii. Foreign currency transactions and balances

All foreign currency transactions are recorded, on initial recognition in USD, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. For practical reasons an average rate for a month has been used for all transactions in each foreign currency occurring during the year.

At the end of each reporting period, foreign currency monetary items are translated using the closing rates. Foreign exchange gains and losses arising on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements or on the settlement of monetary items are recognized in profit or loss in the period in which they arise.

Ethiopian Airlines Group financial statements are presented in Ethiopian Birr by translating all assets and liabilities at the closing rate at the date of the statement of financial position. And all income and expenses presented in the profit or loss and other comprehensive income are translated at exchange rates at the dates of the transactions. For practical reasons an average rate for a month has been used for all transactions in each foreign currency occurring during the year. All the resultant exchange differences are recognized in other comprehensive income as per the requirements of IAS 21.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

e. Property, Plant, and Equipment

i) Recognition and measurement

Property, Plant and equipment are measured at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Aircraft

All aircrafts purchased by Ethiopian Airlines Group shall be considered as capital assets and measured at cost including any conversion expenses.

Aircraft Accessories (Retables)

This category of capital assets include all durable accessories, including but not necessarily limited to engines, propellers, starters, generators. For determination of items falling into this classification of assets, an accessory which can normally be repaired and re-used over the serviceable life of the related type of aircraft shall be considered as durable accessory or ratable spares.

Ground Equipment

This category of capital asset shall include radio field/passenger, Service/ramp equipment, furniture and fixture and are capitalized if the unit cost of the item plus shipping and other purchasing costs are equivalent to Birr 34,759 (USD 1,250) or more.

Tools

Tools shall be capitalized if the unit cost of the item plus shipping and other purchasing costs are equivalent to Birr 8,342 (USD 300) or more.

Neon Signs

Neon Signs shall be capitalized if the unit cost of the item is equivalent to Birr 41,711 (USD 1,500) or more.

Computerized Equipment

Computerized equipment shall be capitalized if the unit cost of the item plus shipping and other purchasing costs are equivalent to Birr 34,759 (USD 1,250) or more.

Motorized Vehicles and Equipment

This category of capital assets shall include all self-propelled and motorized vehicles and mobile equipment and are capitalized at cost.

Capitalization of modification costs

Modification expenses on airframes and jet engines will be capitalized if such expenses increase the productivity or extend the serviceable life of the equipment. The detailed are as follows:-

<i>Item</i>	<i>Amount to be capitalized</i>
Jet Airframe	Birr 973,256 (USD 35,000) and over
Turbo Prop Airframe	Birr 695,183 (USD 25,000) and over
Twin Otter Airframe and jet engines	Birr 417,110 (USD 15,000) and over

Building and Land

The construction costs of all buildings are capitalized. Subsequent costs of improvement, modification or extension are capitalized only if it is probable that future economic benefits associated with the item will flow to Ethiopian Airlines Group and the cost of the item is over Birr 556,146 (USD 20,000).

All other repair and maintenance costs are recognized in the statement of profit or loss as incurred.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

II) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

Depreciation of an asset begins when it is available for use.

The estimated useful lives of significant items of property, plant and equipment are as follows:

Class of assets	Service Life- Years	Residual Values (% on cost)
Airframe and Engines Jet	18	10
Turbo Propeller	12	10
Twin Otter	10	10
Light Aircraft	7	10
Simulators	12	-
Rotables	As per the life of the respective aircraft	-
Building	20	10
Office furniture and fixture	5	-
Computerized equipment	4	-
Motorized vehicles and equipment	5	-
Ground equipment		
-Radio, field passenger's service, hangar, ramp, tools ,equipment and office machines	5	-
Neon Signs	5	-

f. Property, plant and equipment obtained by donation

Items obtained by donation are recorded based on the price estimation or market value received from either the donors or manufacturers. These items are capitalized if they meet the capitalization policy of Ethiopian Airlines Group.

g. Intangible assets

Intangible assets are measured on initial recognition at cost only when future economic benefits are probable. Cost includes the purchase price together with any directly attributable expenditure. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any

In the case of internally developed intangibles, development expenditure is capitalized if:

- ✓ cost can be measured reliably;
- ✓ the product is technically and commercially feasible;
- ✓ future economic benefits are probable, and there exists an intent and ability to complete the development and to use or sell the asset.

Other research and development expenditures not meeting the criteria for capitalization are recognized in the statement of profit or loss as incurred.

Intangible assets are amortized on the straight-line basis over their estimated useful lives between 3 up to 7 years.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

h. Impairment of non-financial assets

At each reporting date, Ethiopian Airlines Group reviews the carrying amount of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Units (CGU).

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sale. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then reduce the carrying amount of the other asset in the CGU on a prorata basis.

For other assets an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization if no impairment loss had been recognized.

Impairment assessment has been made for aircrafts which are the Ethiopian Airlines Group's major non-financial assets. All aircrafts have air worthiness certificate and can operate properly. Furthermore, the value in use of the aircrafts was tested.

i. Financial assets and financial liabilities

i. Recognition and Measurement

Financial assets and liabilities are recognized when Ethiopian Airlines Group becomes a party to the contractual provisions of the instrument.

All financial instruments are measured initially at fair value plus transactions costs that are directly attributable to its acquisition of the respective financial instruments. Ethiopian Airlines Group has the following classification of financial assets and liabilities.

Long Term Loans

Ethiopian Airlines Group has foreign long term loans to finance the purchase aircrafts under fixed rate and floating rate with standard interest rates (such as the benchmark rates of LIBOR plus margin) to be paid quarterly. At initial recognition, the loan is measured at fair value plus or minus the transactions cost and subsequently measured at amortized cost discounted using effective interest rate. For loans with floating interest rate, interests are compounded quarterly using the average benchmark rate (LIBOR) for the quarter where interest is accrued and paid to the Loan providers. On subsequent measurement, we check if there is any circumstance that changes the effective interest rate and re-measure the loans with discounting rate of the effective interest rate.

Trade Receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Where there is objective evidence of amounts that are not collectible, provision is made for the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

ii. De recognition of financial assets and financial liabilities

De recognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The right to receive cash flows from the assets has expired, or
- Ethiopian Airlines group has transferred its rights to receive cash flows from the asset or, has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and either
 - (a) has transferred substantially all the risks and rewards of the asset, or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Ethiopian Airlines Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of Ethiopian Airlines Group's continuing involvement in the asset. In that case, Ethiopian Airlines Group also recognizes an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Ethiopian Airlines Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Ethiopian Airlines group could be required to repay.

Derecognition of financial liabilities

A financial liability is derecognized when the contractual obligations are discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

iii. Impairment of financial assets

Ethiopian Airlines Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets not classified at fair value through profit or loss is impaired. A financial asset or a group of financial assets are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

j. Provisions

A Provisions is recognized when there is a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

k. Income Tax

Ethiopian Airlines Group is exempt from income tax in accordance with a decision of the-Council of Ministers. Ethiopian Airports –one of the operating segments is required to pay business profit tax.

i. Current income tax

The income tax expense of Ethiopian Airports for the year is the tax payable on the current year's taxable income based on the applicable income tax rate in Ethiopian adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

ii. Deferred tax

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

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l. Provision for aircraft maintenance

Ethiopian Airlines Group operates aircrafts through operating lease and monthly maintenance reserve payments are effected based on agreed charges on contractual agreements taking into account block hours, actual flight hours, and cycle to ratio. This amount will cover maintenance cost which will occur in the future due to the current activities. From past trend analysis, the actual maintenance payments for leased aircrafts vary when compared with the monthly contractual payments when the maintenance is due. Additional provisions are maintained based on the number of hours flown by each aircraft/engine and an estimated rate for any short fall other than maintenance reserve paid and for those lease aircrafts without maintenance reserve payments.

Ethiopian Airlines Group record this cost as maintenance reserve expense on monthly basis based on actual activities of the aircrafts. The long term portion of the provision is not discounted to its present value due to uncertainties as the final maintenance costs to be incurred when compared to the estimated rate applied.

m. Value Added Taxes

Domestic airfares are exempted while international fares are zero rated. Revenues, expenses and assets are recognized net of the amount of value added taxes except where the value added tax incurred on purchased assets or services is not recoverable from the taxation authority, in which case the value added tax is recognized as part of the cost of the asset or absorbed as an expense.

The net amount of value added tax recoverable from or payable to the taxation authority is included as part of receivables or payables in the statements of financial position.

n. Stock

Inventories are held for consumption in the process of rendering services and are measured at the lower of cost and estimated net realizable value based on market assessment. Cost is determined using the weighted average method.

o. Investment in associates

Associates are those entities over which Ethiopian Airlines Group has significant influence accompanying a shareholding between 20% and 50% of the voting right. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Investment in associates is accounted for using the equity method. Under the equity method, investments are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of profit or loss after the date of acquisition. Ethiopian Airlines Group's share of its associate's post acquisition profits or losses is recognized in the statement of profit or loss. When the Ethiopian Airlines Group's share of losses in an associate exceeds its interest in the associate, the Group does not recognize any further losses.

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p. Cash and cash equivalents

Cash comprises cash on hand and cash at banks in the current and deposit accounts. Cash equivalents are short term, highly liquid investments which are easily convertible into cash within three months following the date of the financial statements.

q. Offsetting of financial asset and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when and only when there is a legally enforceable right to offset the amount and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legal enforceable right must not be contingent on future event and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

r. Manufacturer's credits

Ethiopian Airlines Group receives credit from manufacturers in connection with the acquisition of certain aircrafts and engines. Depending on their nature, these credits are either recorded as a reduction to the cost of the related aircraft and engines or reduced from ongoing operating expenses.

s. Revenue

Revenue from passenger tickets including excess baggage and cargo sales are recognized when the transportation service is provided. Sales of unutilized tickets and airway bills are recognized as liability and shown in the statement of financial position under current liabilities with the heading unearned transportation. The values of unused tickets are recognized as revenue after the expiry date of one year.

All other revenues including revenue from catering operation and Airport services like landing, parking, lighting, terminal facility, passenger services and rental of offices, warehouses, restaurants, shops, and checking counters are recognized net of discount and taxes when goods or services are transferred to the customer.

t. Frequent flyer program

Ethiopian Airlines Group operates a customer loyalty program called Sheba Miles, the Frequent Flyer Program (FFP). The FFP allows qualifying customers to accumulate mileage credits that entitle them to a choice of various awards such as primarily free travel and upgrading of tickets.

There are two steps between the time passengers accumulate their flown miles and the time they are privileged to be benefited from their accumulated flown miles.

Step 1 -Earn: This is the process of accumulating flown miles which occurs up on purchase of ticket. There is a minimum set up miles for earning economy and business class in which the number of miles required before redeeming benefit depends from destination to destination.

Step 2-Redeem (spend): This is the process where loyal members start to benefit from their accumulated miles.

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NOTES TO THE FINANCIAL STATEMENTS

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The consideration in respect of the initial sales is allocated to Sheba Mile awards based on the relative stand-alone selling price and adjusted for expected expiry and the extent to which the demand for an award cannot be met. The estimated amount of Sheba Mile awards is recorded under current liabilities under the heading unearned transportation. The stand-alone selling price is determined based on the price of the benefit we provide to the customers through assessment using estimation techniques and taking in to account the consideration of various redemption options available to Sheba Miles.

u. Non-operating revenue and expenses

i. Revenue from Aircrafts trading

Aircrafts are ordered in advance as production takes long time. Before delivery of the respective aircraft, management may decide either to sale or sale and lease back the respective aircraft. Under such circumstance the difference between the sales price and initial order price will be recognized under non-operating revenue.

ii. Finance income and costs

Interest income and expenses are recognized on a time proportion basis using the effective interest method.

iii. Other non-operating revenue

Other non-operating revenue is recognized when significant risks and rewards of ownership are transferred to the recipient and the amounts of revenue can be measured reliably. Unclaimed sundry liabilities over one-year-old are absorbed to non-operating income.

iv. Borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare or acquire for their intended use, are added to the costs of those assets until such time that the assets are substantially ready for their intended use.

Where funds are borrowed specifically for the purpose of obtaining a qualifying asset, any investment income earned on temporary surplus fund is deducted from borrowing costs eligible for capitalization. In the case of general borrowings, a capitalization rate, which is the weighted average rate of general borrowing costs, is applied to the expenditure on qualifying asset and included in the cost of the asset.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred

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v. Operating leases

Leases, where significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Aircraft lease rental charges, are recognized in the statement of profit or loss on a straight line basis over the term of the lease.

Ethiopian Airlines Group has 49 aircrafts under operating lease as of June 30, 2018.

w. Employee benefits

i. Defined Contribution plan

Ethiopian Airlines Group operates a defined contribution pension fund in line with the provisions of Ethiopian pension law. The fund is administered by an independent Government Agency and is funded by fixed contributions from both Ethiopian Airlines Group and the employees. Ethiopian Airlines Group has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient asset to settle the benefit relating to the employees services in the current and prior periods. Contributions to the pension fund are charged to the consolidated statement of profit or loss in the period in which they fall due.

Ethiopian Airlines Group makes contributions to a statutory defined contribution pension scheme. The employer and the employee make contributions of 11% and 7% of the employee's basic salary respectively, as determined by statutory. For the year ended 30 June 2018 Ethiopian Airlines Group contributed Birr 229,835,634 (2017-Birr 197,605,522.) which has been charged to the profit or loss account in the period to which they relate.

ii. Defined benefit plan

Ethiopian Airlines Group's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods, those benefits are discounted to determine the present value and any unrecognized past service costs and the fair value of any plan asset is deducted . The discount rate is the current government deposit rate.

The calculation is performed annually by independent qualified actuary using the projected unit credit method. The current service cost of the defined benefit plan, recognized in the statement of profit or loss in employee benefit expenses, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements.

Past service costs are recognized immediately in profit or loss and other comprehensive income. Actuarial gains or loss arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

iii. Short term benefit

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are rendered by employees.

A liability is recognized for the amount expected to be paid and include mainly wages and salaries, bonus, leave benefits and other allowances and incentives as a result of past service provided by the employees, and the obligation can be estimated reliably.

iv. Termination benefits

According to the law in the case of unjustified dismissal, employers are obliged to pay to their employee's compensation based on the years of service. This obligation is computed as per proclamation no 377/2003, further amended by proc.NO 494/2006.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

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3. Significant accounting estimates, judgments and assumptions

In the preparation of these combined financial statements a number of estimates, judgments and associated assumptions have been made relating to the application of accounting policies and reported amounts of assets liabilities, revenues and expenses. The estimates and associated assumptions are assessed on an ongoing basis and are based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstance. The following narrative addresses the accounting policies that require subjective and complex judgment often as a result of the need to make estimates.

i. Useful lives and residual values of aircraft and related assets

Management assigns useful lives and residual values to aircrafts and related assets based on the intended use and the economic lives of those assets.

Subsequent changes in circumstances such as technological advances or prospective utilization of the assets concerned could result in the actual useful lives or residual value to be different from initial estimates.

ii. Provision for leased aircraft maintenance costs

From past trend analysis, the actual maintenance payments for leased aircrafts vary when compared with the monthly contractual payments when the maintenance is due. Management estimate the short fall and maintain provision based on the actual flight hour when leased aircraft operates. Moreover, for those leased aircrafts with no contractual maintenance reserve payments, management estimate and maintain provision based on actual flight hours and estimated provision rate.

iii. Defined benefits plans

The cost of the defined benefits of long service awards, severance pay and retirement awards and the present value of these defined benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

iv. Investment in associate

Judgments made in applying accounting policies have the most significant effect on the amounts recognized in the combined financial statements and the related disclosures. One of these is determination of whether there is significant influence over investees. Management used the control model under IFRS 10 to determine whether the control indicators set out are used to define whether there is significant influence in investment under equity partners or control. Management determined that Ethiopian Airlines Group has significant influence over the associate companies.

v. Going concern

Management has made an assessment of the Ethiopian Airlines Group's ability to continue as a going concern and is certain that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Ethiopian Airlines Group's ability to continue as a going concern.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

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4 OPERATING REVENUE

	Birr	2017 (as restated) Birr
Passenger	65,674,265,162	44,872,446,705
Airport charges	1,302,061,692	-
Freight	14,633,436,653	9,532,543,570
Charter	2,471,978,071	1,637,658,857
Excess baggage	1,851,378,196	1,391,519,606
Customer services - work orders	1,569,117,959	1,363,995,411
Subsidiaries	988,907,659	643,829,430
Mail	219,156,480	154,668,541
Commission	471,900,515	261,253,403
Aircraft lease	348,785,268	334,575,120
Miscellaneous	1,375,981,255	654,394,203
	<u>90,906,968,909</u>	<u>60,846,884,846</u>

5 OPERATING EXPENSES

	Birr	2017 (as restated) Birr
Salaries and related benefits	5,521,020,941	4,146,288,939
Aircraft fuel and oil	29,611,984,299	18,148,865,153
Rentals	9,647,753,190	6,925,912,416
Overflying and navigation	4,838,539,663	3,601,538,675
Depreciation of flying equipment	5,443,006,412	4,142,502,142
Passengers' expense	3,402,916,354	2,347,923,192
Handling	3,619,077,050	2,537,323,905
Commission and incentives	2,591,861,818	1,850,877,265
Foreign overhauls	2,496,562,246	561,439,355
Maintenance of leased aircraft	2,745,162,316	2,225,611,423
Landing and parking	1,665,685,610	1,793,542,773
Central reservation system charge	2,282,090,523	1,557,471,033
Aircraft materials	2,267,884,567	1,992,065,937
Travel	1,179,400,882	951,891,590
Service	1,378,711,299	980,821,231
Depreciation non - flying equipment	1,067,561,295	443,099,670
Insurance	583,415,440	449,133,905
Communications	522,937,549	460,711,421
Utilities	42,494,753	23,502,854
Taxes	87,550,811	57,332,636
Advertising and publishing	49,760,385	55,739,448
Training	1,552,979	11,862,301
Amortization	1,517,676,918	1,129,849,826
Entertainment	7,919,625	6,646,865
Supplies	215,375,512	203,016,015
Other	790,153,159	253,494,179
	<u>83,578,055,595</u>	<u>56,858,464,148</u>

ETHIOPIAN AIRLINES GROUP
NOTES TO THE FINANCIAL STATEMENTS
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6 NON OPERATING REVENUE	Birr	2017 (as restated) Birr
Write back of creditors account	340,396,325	625,404,675
Revenue from purchase incentives	542,832,585	747,517,610
Others	1,327,273,295	1,391,984,042
	<u>2,210,502,206</u>	<u>2,764,906,327</u>

7 NON OPERATING EXPENSE	Birr	2017 (as restated) Birr
Bank Charges	127,323,957	83,937,675
Credit card Charges	644,043,313	262,649,701
Miscellaneous Expenses	25,728,388	58,665,667
	<u>797,095,658</u>	<u>405,253,042</u>

8 STAFF COSTS

	Birr	2017 (as restated) Birr
Salaries and related benefits	5,300,292,320	3,961,233,751
Pension costs - Company contribution	220,728,620	185,055,187
	<u>5,521,020,940</u>	<u>4,146,288,939</u>

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NOTES TO THE FINANCIAL STATEMENTS

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9. PROPERTY, PLANT AND EQUIPMENT

	Balance at 30 June 2017 (as previously issued)	Adjustment	Balance at 30 June 2017 (as restated)	Additions	Disposals/ Adjustment & Retirements	Revaluation Surplus	Balance at 30 June 2018
	Birr	Birr	Birr	Birr	Birr	Birr	Birr
COST OR VALUATION							
Flight equipment	78,353,644,619	3,216,807,654	81,570,452,273	41,687,005,749	(3,855,634)	-	123,253,602,387
Other property	7,229,319,670	897,949,802	8,127,269,472	6,806,393,720	(21,017,264)	2,620,154,518	17,532,800,448
Engine maintenance	4,166,375,456	(1,836,319,122)	2,330,056,334	2,718,804,671		-	5,048,861,005
Runways, taxiways & aprons				<u>1,916,216,657</u>		<u>4,933,043,017</u>	<u>6,849,259,674</u>
	89,749,339,745	2,278,438,334	92,027,778,079	53,128,420,797	(24,872,898)	7,553,197,536	152,684,523,514
DEPRECIATION							
Flight equipment	19,568,153,876	2,840,393,958	22,408,547,834	9,557,595,210			31,966,143,044
Other property	2,627,428,716	596,406,982	3,223,835,698	1,463,183,204			4,687,018,902
Engine maintenance	2,419,698,227	(1,924,573,425)	495,124,802	1,683,011,434			2,178,136,236
Runways, taxiways & aprons							
	24,615,280,819	1,512,227,515	26,127,508,334	12,703,789,848			38,831,298,182
NET BOOK VALUE							
Flight equipment	58,785,490,743	376,413,696	59,161,904,439	32,129,410,539			91,287,459,343
Other property	4,601,890,954	301,542,820	4,903,433,774	5,343,210,517			12,845,781,546
Engine maintenance	1,746,677,229	88,254,303	1,834,931,532	1,035,793,236			2,870,724,769
Runways, taxiways & aprons							<u>6,849,259,674</u>
	65,134,058,926	766,210,819	65,900,269,745	40,424,630,949			113,853,225,332
Work orders in progress	4,027,174,947		4,307,861,244	2,750,281,025			7,058,142,269
Goods in transit (GIT)	8,078,959	280,686,297	8,078,959		(8,078,959)		-
	69,169,312,832	1,046,897,116	70,216,209,948				120,911,367,601

ASSETS PLEDGED AS SECURITY

Some of the Group's flight equipment and all other property are held as collateral by various lending institutes.

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10. INTANGIBLE ASSETS

	Balance at 30 June 2017 (as previously issued)	Adjustment	Balance at 30 June 2017 (as restated)	Additions	Balance at 30 June 2018
	Birr	Birr	Birr	Birr	Birr
Software costs	337,127,870	82,876,213	420,004,083	165,614,624	585,618,707
Amortization	<u>(228,219,413)</u>	<u>(57,421,496)</u>	<u>(285,640,909)</u>	<u>(109,325,656)</u>	<u>(394,966,565)</u>
Net book value	<u>108,908,458</u>	<u>25,454,716</u>	<u>134,363,174</u>		<u>190,652,142</u>

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NOTES TO THE FINANCIAL STATEMENTS
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11 INVESTMENT IN ASSOCIATES

ASKY Airlines	
(900,000 shares of US dollars 20 each par value)	500,531,400
Malawian Airlines	272,511,540
Other foreign investments	<u>18,743,187</u>
Share of loss from associates	<u>(760,784,582)</u>
	<u>31,001,545</u>

Birr

2,017
(as restated)
Birr
424,265,400
230,988,940
<u>15,388,480</u>
<u>(633,623,462)</u>
<u>37,019,358</u>

12. TREASURY BONDS

These are treasury bonds purchased from Industry Trade Bank bearing interest at market rate semi-annually. They mature between 11 July 2020 to 4 December 2020.

13. STANDING DEPOSITS

These are deposits for security, aircraft lease, hotel, hospital and similar purposes. It also includes pre-delivery advances for aircraft purchase.

14. OTHER LOAN RECEIVABLES

This represents loan given to employees for housing construction at interest rate of 9.5%. The carrying amount of the loan was discounted at effective interest rate of 16% and shown at fair value. The difference between the carrying amount and the discounted amount was accounted as prepaid employee benefit under trade and other receivables. This amount will be amortized annually and charged to profit or loss when employees provide service.

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15 STOCK

	Birr	2,017 (as restated) Birr
Aircraft parts	3,486,679,661	2,869,440,659
Supplies stock - customer work orders	9,325,733	6,234,352
Stock of stationery and other materials	<u>1,006,688,178</u>	<u>604,374,840</u>
	4,502,693,572	3,480,049,851
Less: Provision for stock obsolescence	<u>(432,952,953)</u>	<u>(310,388,864)</u>
	<u>4,069,740,619</u>	<u>3,169,660,987</u>

ETHIOPIAN AIRLINES GROUP
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16 Trade and other receiveables	Birr	2017 (as restated) Birr
Transportation - others	3,927,511,545	2,471,817,261
Airport Service charges	3,803,803,973	-
Deposits and prepayments	2,991,832,093	2,880,300,135
Unverified deposits	3,382,224,753	1,517,934,499
Transportation - airlines	418,787,757	622,377,532
Claims from aircraft lessor	104,296,897	146,857,163
Ethiopian Government	311,368,031	289,803,918
Value added tax and duties recoverable	1,144,564,666	-
Airmail	30,495,988	29,844,632
Miscellaneous	<u>3,763,328,867</u>	<u>3,465,258,844</u>
	19,878,214,571	11,424,193,982
Less: Provision for doubtful debts	<u>(2,323,956,528)</u>	<u>(1,638,405,811)</u>
	<u>17,554,258,043</u>	<u>9,785,788,171</u>

All provisions for impairment are specific.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

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17 SHORT TERM INVESTMENTS

	Birr	2017 (as restated) Birr
Short term deposits	-	52,032,018
Treasury bonds	<u>217,567,647</u>	<u>52,032,018</u>
	<u>217,567,647</u>	<u>52,032,018</u>

These are treasury bonds purchased from Industry Trade Bank bearing interest between 3.14 to 4.83. They mature on November 2018.

18 CASH AND CASH EQUIVALENTS

	Birr	2,017 (as restated) Birr
Cash with foreign banks	13,603,815,486	9,716,277,619
Less: Provision for accounts, difficult to transfer	<u>(3,022,271)</u>	<u>(2,561,767)</u>
	13,600,793,215	9,713,715,852
Cash with local banks	2,126,922,050	55,830,241
Cash on hand	<u>94,547,543</u>	<u>67,067,913</u>
	<u>15,822,262,808</u>	<u>9,836,614,006</u>

19. CAPITAL

Ethiopian Airlines Group is wholly owned by the Government of the Federal Democratic Republic of Ethiopia. There are no shares and no par value. Ethiopian Airlines Group is authorized by the Council of Ministers to transfer the net profits to paid up capital.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

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20 LONG TERM LOANS

	Birr	2017 (as restated) Birr	Adjustment Birr	2017 (as previously issued) Birr
Balance at 30 June 2017 (as restated)	51,207,630,610	49,430,105,915	2,634,498,287	46,795,607,628
Additional loans	36,960,311,088	7,948,362,199	254,182,669	7,694,179,530
Foreign exchange fluctuation	<u>715,418,928</u>	<u>1,087,777,002</u>	<u>(1,791,387,099)</u>	<u>2,879,164,101</u>
	88,883,360,626	58,466,245,116	1,097,293,857	57,368,951,259
Less: Repayments	<u>8,574,857,960</u>	<u>7,258,614,506</u>		<u>7,258,614,506</u>
	80,308,502,667	51,207,630,610	1,097,293,857	50,110,336,753
Less: Amounts repayable within 12 months	<u>8,448,149,533</u>	<u>7,527,903,769</u>	<u>1,226,841,562</u>	<u>6,301,062,207</u>
	<u>71,860,353,133</u>	<u>43,679,726,841</u>	<u>(129,547,705)</u>	<u>43,809,274,546</u>

Loans from foreign lending institutions, secured on aircraft, bearing interest at rates of between 1.50% and 7.31% per annum, and repayable in quarterly installments.

68,498,275,005

Secured and unsecured loans from local and foreign lending institutions and development agencies, bearing interest at rates of between 2.38% and 4.66% per annum, and repayable in, mainly, quarterly installments.

11,810,227,662

80,308,502,667

ETHIOPIAN AIRLINES GROUP
NOTES TO THE FINANCIAL STATEMENTS
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21 PROVISION FOR MAINTENANCE	Birr	2017 (as restated) Birr	Adjustment Birr	2,017 (as previously issued) Birr
Balance at 30 June 2017 (as restated)	72,177,297	854,434,489	5,081	854,429,408
Additional provision	292,028,740	14,317,207	-	14,317,207
Reduction arising from actual costs	<u>(18,188,327)</u>	<u>(796,574,399)</u>	<u>5,081</u>	<u>(796,574,400)</u>
	<u>346,017,710</u>	<u>72,177,297</u>		<u>72,172,216</u>

22. EMPLOYEE BENEFIT OBLIGATION

A. Ethiopian Airlines Group operates an unfunded lump sum Gratuity Arrangement ("the Arrangement"). As the Arrangement is unfunded, gratuity benefits are paid out of the Ethiopian Airlines Group's general revenues. The following arrangement benefits were valued:

i. Severance pay

Severance benefits are based on the statutory severance benefit as set out in labor Proclamation No. 377/2003 Article No. 39 and 40 as amended by labor proclamation No 494/2006 Article No.2. This benefit is implemented for those employees who have a service period of a minimum of 5 years.

Severance pay is calculated as the employee's one month's salary for the first year of service and 1/3 (one third) of the employee's salary for every additional year of service.

This benefit is paid on withdrawal, death and ill-health retirement from the Company. Employees who are over 55 years and have a past-service of more than 25 years are not entitled to this benefit. In addition, this benefit is not paid on retirement from the company.

ii. Service Award

Long service award benefits are payable to employees only on completion of specified anniversaries of service as follows:

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Service anniversary (years)	Amount Birr
20th	4,000
25th	7,000
30th	10,000
35th	13,000
40th	15,000

iii. Retirement Award

Retirement benefit awards are payable to employees on retirement from the Ethiopian Airlines Group. The retirement benefit is Birr 6,000 plus Birr 500 for every year above 20 Years of service.

B. Reconciliation of benefit obligation

	Birr	2017 Birr
Opening benefit obligation	160,019,964	141,940,563
Current service cost (employer)	16,821,072	14,468,309
Interest cost	12,065,341	10,557,062
Employee contributions	-	-
Actuarial (gain) / loss - due to experience	26,007,572	4,241,437
Actuarial (gain) / loss - due to changes in assumptions	-	-
Past service cost	-	-
Benefits paid	(8,958,037)	(11,187,407)
Insurance premiums	-	-
Curtailments	-	-
Settlements	-	-
Closing benefit obligation	<u>205,955,912</u>	<u>160,019,964</u>

ETHIOPIAN AIRLINES GROUP
NOTES TO THE FINANCIAL STATEMENTS
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C. Reconciliation of assets

	Birr	2017 Birr
Opening market value of assets		
Interest income on plan assets		
Employer contributions	(8,958,037)	(11,187,407)
Employee contributions	-	
Return on plan assets, excluding amount in interest income	-	
Benefits paid	8,958,037	11,187,407
Insurance premium		
Settlements		
Closing market value of assets	<u>-</u>	<u>-</u>

D. Defined benefit obligation (asset) recognized in the balance sheet

	Birr	2017 Birr
Present value of funded obligations	205,955,912	160,019,964
"Fair" value of Scheme assets	-	-
Net underfunding in funded plan	<u>205,955,912</u>	<u>160,019,964</u>

ETHIOPIAN AIRLINES GROUP
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2018

E. Amount recognized in profit or loss

Service Cost

Current service cost (employer)

16,821,072

2017

Birr

14,468,309

Past Service Cost

Losses/(gains) on curtailments and settlements

Total Service Cost

16,821,072

14,468,309

Interest Cost

Interest cost on defined benefit obligation

12,065,341

10,557,062

Interest income on plan assets

Interest on the effect of the asset ceiling

Net Interest Cost on Balance Sheet Liability

12,065,341

10,557,062

28,886,413

25,025,371

ETHIOPIAN AIRLINES GROUP
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2018

F. Amount recognized in OCI

	Birr	2017 Birr
Change in unrecognized positions		
Actuarial (gain) loss - obligation	26,007,572	4,241,437
Return on plan assets (excluding amount in interest cost)		
Change in effect of asset ceiling (excluding amount in interest cost)		
	<u>26,007,572</u>	<u>4,241,437</u>
G. Reconciliation		
Net liability at start of period	160,019,964	141,940,563
Net expense recognised in the income statement	28,886,413	25,025,371
Employer contributions	(8,958,037)	(11,187,407)
Amount recognized in OCI	26,007,572	4,241,437
Net liability at end of period	<u>205,955,912.00</u>	<u>160,019,964</u>

H Actuarial Assumptions

		2017 Birr
Discount rate (% p.a.)	7.00%	7.00%
Future salary increases (% p.a.)	6.00%	6.00%
Mortality (pre-retirement)	A 1949-1952	A 1949-1952
Mortality (post-retirement)	n/a	n/a
Withdrawals (voluntary)	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Ill - Health	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement Age	60 years	60 years

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

I. Sensitivity analysis:

The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, we have relied on calculations of the duration of the liability.

Based on this methodology the results of the sensitivity analysis are summarized in the below table

	Current discount rate (7%)	Discount rate -1% (6%)
Present value of obligations	Birr 205,955,912	Birr 221,766,915

Since, the majority of benefits payable under the arrangements are salary related, the sensitivity of the liability to a change in the salary escalation assumptions is not expected to be materially different.

23 DEFERRED TAX LIABILITY

Deferred tax is calculated on all temporary differences under the liability method using the enacted rate, currently at 30%. The deferred tax Liability at the end of the year is attributable to the difference between the tax basis of property, plant and equipment and its carrying value for financial reporting purposes and the deferred tax liability arising from the revaluation surplus .

	Birr
Movement on the deferred tax account is as follows	
At the beginning of the year	9,926,762
Adjustment	697,497
Credit to profit or loss	3,601,119
Deferred tax liability arising from revaluation surplus	<u>(2,265,959,261)</u>
	<u>(2,251,733,883)</u>

24 DEFERRED AND NON-CURRENT LIABILITIES

	Birr	2017 (as restated) Birr
Deferred liabilities		
Training of personnel of other airlines	-	1,987,703
Management fee	48,308,338	5,450,293
	<u>48,308,338</u>	<u>7,437,996</u>
Non - current liabilities		
Security deposits	91,810,181	57,053,849
Foreign termination indemnity	1,494,656	(1,238,223)
Retentions payable	27,262,667	-
Leased out Aircraft maintenance reserve	225,652,906	115,435,496
Miscellaneous	501,900,669	384,082,381
	<u>848,121,078</u>	<u>555,333,503</u>
	<u>896,429,415</u>	<u>562,771,500</u>

ETHIOPIAN AIRLINES GROUP
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2018

	Birr	2,017 (as restated) Birr
25 Trade and others liabilities		
Transportation tax and embarkation fees	2,121,461,618	1,310,298,219
Payable to oil companies	44,985,428	53,356,699
Goods received but not billed	188,323,490	475,772,681
Customers' advances for work orders	166,161,201	129,051,439
Accrued interest	438,430,079	237,217,510
Accruals for leasing and maintenance of aircrafts	66,274,751	43,112,460
Pool apportionment with other airlines	150,796,977	64,909,988
Services received but not billed	6,064,706,114	3,792,845,925
Others	<u>3,024,340,712</u>	<u>2,799,501,461</u>
	<u>12,265,480,371</u>	<u>8,906,066,381</u>

26 TAXATION

(a) Profit and loss account-Income tax expense	Birr
Current taxation based on the adjusted profit for the year at 30%	555,984,026
	<u>(3,601,119)</u>
	<u>552,382,907</u>
 (b) Tax expense computation	 Birr
Net profit before taxation	<u>1,725,554,517</u>
 Add: Disallowed expenses	
Depreciation	283,298,676
Provision for doubtful debts	111,736,004
Penalties	349
Entertainment	12,163,160
Donation	-
	<u>407,198,190</u>
	2,132,752,706
 Less: Allowed expenses	
Depreciation	<u>(271,294,949)</u>
	1,861,457,757
Less: tax free interest	<u>(8,177,672)</u>
Taxable profit	<u>1,853,280,085</u>
Income tax at 30%	555,984,026
Deferred tax in respect of the current year	<u>(3,601,119)</u>
Tax Expense	<u>552,382,907</u>

ETHIOPIAN AIRLINES GROUP
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2018

(c) Reconciliation of tax expense to to the expected tax based on accounting profit

Netprofit before taxation	<u>1,725,554,517</u>
Tax at the applicable rate of 30%	517,666,355
Tax effect of expenses not deductible for tax purposes	122,159,457
Tax effect of expenses deductible for purposes	(81,388,485)
Tax effect of tax-free income	(2,453,302)
Deferred tax	<u>(3,601,119)</u>
Tax expense	<u>552,382,907</u>

26. TAXATION (continued)

(d) Balance sheet-Tax payable

	Birr
At the beginning of the year	291,840,871
Paid during the period	(333,284,840)
Withholding tax	(2,683,853)
Adjustment	697,497
Current year tax payable	<u>555,984,026</u>
	<u>512,553,701</u>

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

27. STATE DIVIDEND

The Ministry of Finance in its letter of 10 January 2019 Ref. No. ክሂአ32/7/6 authorized Ethiopian Airports to settle the dividend in two equal installments in the months of January 2019 and July 2019.

28. CASH FLOWS

Increases and decreases in the balance sheet items without actual movement of cash are not considered in the cash flow statement. These are as follows:-

An increase in property, plant and equipment financed by loan
 14,578,574,171
 Write back of creditors 340,396,325

29. Breakdown of adjustments in Change's in owners' equity

i. Adjustments related with capital, profit and OCI

	2017 Birr	2016 Birr
Unearned Sheba miles	(63,785,446.00)	(141,706,913.00)
Share of loss in associates	(51,145,294.00)	(548,950,885.00)
Employee benefit expense	(3,280,902.00)	(141,940,563.00)
Interest expense on defined benefit obligation	(10,557,062.00)	-
Exchange rate differences on Translation	<u>(792,187,402.00)</u>	<u>1,120,559,107.00</u>
	<u>(920,904,896.00)</u>	<u>287,960,746.00</u>
Employee benefit obligation	4,241,437.00	-
Exchange rate difference from translation of functional currency to presentation currency	<u>1,665,838,481.00</u>	<u>171,235,914.00</u>
	<u>1,670,079,918.00</u>	<u>459,196,660.00</u>

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

30 . Segment Information

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision Maker. The Chief operating decision maker is considered to be the executive management members of Ethiopian Airlines Group who make strategic decisions and are responsible for allocating resources and assessing the performance of the operating segments. The operating segments of Ethiopian Airlines Group are defined based on IFRS 8, considering the 10% threshold of segment revenue, total assets and profits of the year. Ethiopian Airlines Group's Chief Executive Officer monitors the operating results of the business units for the purpose of making decisions about resource allocation and performance assessment. Ethiopian Airlines Group has two reportable segments: Ethiopian Airlines and Ethiopian Airports. Ethiopian Airlines provides commercial air transportation including passenger, and cargo services and Ethiopian Airports provides airport services.

The performance of the business units is evaluated based on segment profit or loss and is measured consistently based on the profit of the year as shown in the combined financial statements. Intersegment revenues and expenses and assets and liabilities were eliminated upon combination.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Ethiopian Airlines Group accounts for intersegment sales and transfers as if the sales or transfers were to a third party, which is at current market prices.

Segment information for the year ended 30 June 2018

	Ethiopian Airlines	Ethiopian Airports	Inter-segment transactions	Ethiopian Airlines Group
	Birr	Birr	Birr	Birr
Total segment revenue	89,381,097,273	2,260,666,029	(734794392)	90,906,968,910
Revenue from external customers	89,381,097,273	1,525,871,637	-	90,906,968,910
Segment profit before tax	5,450,735,720	1,725,554,517	-	7,176,290,237
Finance income	162,495,885	8,177,672	-	170,673,557
Finance cost	1,784,712,860			
Income tax	-	552,382,907	-	552,382,907
Depreciation and amortization	6,227,269,031	283,298,675	-	6,610,567,706
Segment assets	150,768,797,102	22,564,166,810	(746938782)	172,586,025,130

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

31. Financial risk management objectives and policies

a. Introduction

As Ethiopian Airlines Group carries out its activities in an extremely dynamic and highly volatile commercial environment, both opportunities and risks are encountered as part of everyday business. The Ethiopian Airlines Group's ability to identify, control and manage risks at the early stage and to pinpoint and exploit opportunities is vital to its ability to effectively realize the corporate vision.

Accordingly, the risk management section under Treasury is responsible to assess, identify, measure and mitigate the important financial risk exposures of the Ethiopian Airline Group.

Ethiopian Airlines Group is exposed to various financial risks arising from its underlying operations and financial activities. It is primarily exposed to liquidity risk, market risk (i.e. fuel price, interest rate and currency risks) and credit risk.

Volatility and fluctuations in the market conditions exposes Ethiopian Airlines Group to various financial risks and management gives a strong emphasis on the importance of financial risk management as an element of control. The policy and aim is therefore to reduce the negative impact of such risks on cash flow, financial performance and equity.

This note is intended to present information about Ethiopian Airlines Group exposure to each of the above risks, its objectives, policies and processes for measuring and managing risks.

b. Ethiopian Airlines Group's risk management framework

A continuous dialogue between the management, risk management team and the Audit Committee is maintained in order to assure its effectiveness in this area. The risk management system is governed by the Risk Assessment Guideline defining the structure and the process of risk assessments.

Financial risk management of Ethiopian Airlines Group is governed by policies and guidelines approved by the senior management. These policies and guidelines cover interest rate risk, currency risk, credit risk and liquidity risk. Its policies and guidelines also cover areas such as cash management, investment of excess funds and the raising of short and long-term debt. Compliance with the policies and guidelines is managed by segregated functions within Ethiopian Airlines Group. The objective of financial risk management is to minimize or reduce the negative impact of such risks on its results, cash flow, financial performance and equity.

c. Market Risk and its management

Market risk is the possibility of experiencing losses due to factors that affect the overall performance of the financial markets in which Ethiopian Airlines Group is involving. It is the risk that market prices change due to the change in Interest rates, Jet fuel prices and foreign exchange rates and which will affect Ethiopian Airlines Group's income or the value of its holdings of financial instruments.

In accordance with its financial risk policies, Ethiopian Airlines Group manages its market risk exposures through the use of financial instruments when it is appropriate. This is applied by entering into derivative transactions with the intention to reduce exposure to price risk by shifting that risk to companies that have opposite risk profiles or to investors who are willing to accept the risk in exchange for profit opportunity.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

d. Currency risk and its management

Currency risk is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of Ethiopian Airlines Group and it is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

To mitigate the foreign currency risk exposure, treasury department will closely review and monitor exchange rate trends and study hedging structures available in the market for those currencies which Ethiopian Airlines Group is exposed and recommend to top management for implementation of the exchange rate hedging.

As major commitments such as loan repayments are mostly in United States Dollar (USD) and the concentration account is maintained in USD, the currency risk is assessed in terms of convertibility and volatility against USD. Major currencies in Ethiopian Airlines Group revenue stream such as Yuan (CNY), Euro (EUR), Hong Kong Dollar (HKD) and Indian Rupee (INR) are very stable and easily convertible. As XAF/XOF (CFA Franc) is pegged with EUR it is largely stable and only moves as EUR moves against dollar, repatriation risks are also minimum. The Nigerian Naira (NGN) is the major currency with volatility and repatriation risk. Accordingly, onshore derivatives such as, outright forward purchase and money market instruments are used to hedge and mitigate the exchange rate risk of this currency.

Natural hedging is used as the most common and primary hedging mechanism by the Ethiopian Airlines Group. Procedurally all local commitments including major direct operating costs such as fuel, landing, and handling will be settled in local currency in which the revenue inflows are received.

The revenue inflows are coming through 83 currencies of which 80% of the revenue originates from eight currencies namely USD (22%), CNY (12.36%), ETB (Ethiopian Birr) (12.05%), EUR (10.58%), HKD (6.07%), INR (4%), XAF/XOF (3.5%), and NGN (3.4%). The ETB inflows are fully utilized for local expenditures even at times requiring foreign currency inflows to meet local commitments in ETB.

Other currencies with small proportion to revenue but with devaluation risk and where no derivative instruments are available in the market, fixed income instruments such as dollar indexed bonds are used for hedging. The Risk Management Team closely monitors economic changes and forecasts in Ethiopian Airlines Group markets (the market for which Ethiopian Airlines Group operates in) to identify and mitigate exchange rate and repatriation risks in a proactive manner. Country risk ratings are profiled and those markets with speculative grade ratings are further scrutinized by the team. Macro-economic data are collected and analyzed to identify and mitigate devaluation and repatriation risk.

e. Interest rate risk and its management

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Ethiopian Airlines Group market risk due to changes in interest rates primarily relates to its cash deposits and borrowings.

Most of Ethiopian Airlines Group debts are asset backed, which reveals the capital intensive nature of the Airline Industry. It has a mix of both fixed rate interest loans and variable or floating rate interest loans.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

90% of the loans are USD denominated at LIBOR benchmarked rates. The Risk Management Team under Treasury closely monitors the interest rate movements on the world market and keeps a balance between fixed and floating interest rate loans. As of 30 June 2018 about 84% of the loans of Ethiopian Airlines Group are at fixed rate averaging 3.25% p.a. with the current increasing trend of USD LIBOR rate. It appears that having a higher proportion of fixed interest rate loans situates in a favorable position. However, closely monitoring the movement of interest rate will continue and swaps could also be considered if there is a reverse in direction where LIBOR rate would be falling.

f. Fuel price risk and its management

Ethiopian Airlines Group is exposed to jet fuel price risk to the extent that there are significant changes in the prices of jet fuel. Treasury Department will review price trends, forecast hedging structures available in the market and recommend to top management for implementation of hedging.

Ethiopian Airlines Group policy currently allows to hedge fuel price, up to the maximum of 75% of its annual fuel volume uplift requirements at any one time for a maximum period of one year. However, if conditions are believed to be extremely favorable to hedge fuel prices for more than one year, proper management approval is required.

All hedging instruments are open for consideration. Currently, due to high volatility of oil prices, with much uncertainty on the oil price direction and lack of clear long-term prediction, the Ethiopian Airlines Group has not hedged any volume. However, the oil future prices are being monitored closely and hedging practice of close competitors is also being monitored as airlines business does not allow automatic price adjustment in case of sudden fall of oil prices below the hedged amount.

g. Sensitivity analysis

An increase or decrease in one percentage point in the fuel price at the reporting date would have decreased or increased profit or loss and equity by the amounts shown below:

	Profit or loss/equity	
	2018	2017
	USD'000	USD'000
1% Increases	17,363	11,511
1% Decrease	(17,363)	(11,511)

h. Liquidity Risk and its management

Liquidity risk is the risk that Ethiopian Airlines Group will be unable to meet its financial obligations or liabilities when they fall due and to replace funds when they are withdrawn. Ethiopian Airlines Group's approach to managing liquidity risk is to make sure that it will have sufficient liquidity to meet its liabilities when they fall due without incurring unacceptable losses or risking damage to its reputation.

Treasury department carries out cash flow forecasts and monitors rolling forecasts of Ethiopian Airlines Group and assess liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining excess amount, so that Ethiopian Airlines Group do not default on any of its borrowing facilities.

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

i. Credit risk and its management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The credit risk exposure of Ethiopian Airlines Group primarily emanates from travel agents; both International Air Transport Association (IATA) approved Sales agents and non-IATA agents through which its major sales are conducted.

The default risk of IATA Billing Settlement Plan (BSP) agents is managed by IATA through local financial criteria which are gauged by the sales volume of the agent. Ethiopian Airlines Group as participating airline involves in the process of evaluation and decision making of each local financial criterion. Adherence to the financial criteria is monitored on an on-going basis by IATA through the Association's Agency Program.

A financial security is mandatory to be activated on IATA BSP link platform where the agents are authorized to sell airline tickets. The financial security is held in the form of bank guarantee, letter of credit or insurance guarantee calculated based on the agent's sales volume. All new agents are required to have a security of USD 50,000. The credit risk associated with these sales agents is relatively low. Ethiopian Airlines Group receivables are generated largely from the sales of passenger tickets and cargo transportation services. Majority of these sales are in accounts receivable which are generally short term in duration in terms of collection period and the risk associated with these receivables is minimal.

For non- IATA agents which are connected to the airline's stock directly, the same methodology is used where they will be required to provide an irrevocable bank guarantee or security deposit in line with the volume of their sales and remittance period. Similarly, corporate customers are also required to present their financial statements and bank guarantee to have a credit facility from Ethiopian Airlines Group.

32. COMMITMENTS

Ethiopian Airlines Group has commitments, not provided for in these financial statements of Birr 26,500,356,900 for the purchase of 17 aircrafts. Out of which Birr 23,990,260,300 is with the possibility of sale and lease back arrangement. Furthermore, there are additional commitment of Birr 639,231,643 and 9,623,115,318 respectively representing the remaining cost for the construction of Ethiopian Skylight Hotel and Addis Ababa Bole International Airport.

33. CONTINGENT LIABILITIES

Ethiopian Airlines Group has contingent liabilities, not provided for in these financial statements of Birr 115,259,305 in respect of legal actions brought by different organizations and individuals, which are being contested by Ethiopian Airlines Group. It is not possible to determine the outcome of these cases.

34. EMPLOYEES

The Ethiopian Airlines group employed 13,792 staff at 30 June 2018 (2017- 11,284).

ETHIOPIAN AIRLINES GROUP

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2018

35. *Subsequent Events*

Ethiopian Airlines Group has continued to form equity partnership with other airlines by way of investment in different African countries and has formed the following airlines before issuance date of this report.

- TChadia Airlines with 49 % shareholding starting from 1 October 2018;
- Ethiopian Mozambique Airlines with 99% shareholding starting from 1 December 2018.

Furthermore, Ethiopian Skylight Hotel which is fully owned by Ethiopian Airlines Group was launched and started operation since February 2019.

Ethiopian Airlines Group's one B737-800 MAX Aircraft crashed on 10 March 2019. The aircraft was totally damaged and it will be fully covered by insurance. The insured Value of the aircraft is Birr 1,555,337,603 (USD 53,568,603).

36. *Related parties*

i. Remuneration of key management personnel

Key management members received the following remuneration during the years ended 30 June 2018 and 2017

	2018 (Birr)	2017 (Birr)
Short term benefits	19,200,131	16,652,166
Compensation of key management personnel includes salaries, housing allowances, fuel allowance, representation allowance and bonus. These amounts are also included in operating expenses.		

ii. Other related parties

As of the reporting date, Ethiopian Airlines Group has investment of 24% shareholding in African sky (ASKY) based in Lomé, Togo and 49% shareholding in Malawi Airlines based in Lilongwe, Malawi.

Outstanding balances at the year-end are interest free and settlements are to be made in cash. For the year-ended 30 June 2018, Ethiopian Airlines Group has not maintained any provision for doubtful debts relating to amounts owed by ASKY and Malawian. Assessment is undertaken at the end of each reporting date through examining the financial position of the related parties and the market in which the related parties operate.

As at 30 June 2018, Ethiopian Airlines Group has due from ASKY Airlines Birr 112,716,056 and Ethiopian Airlines Group owed to Malawi Airlines Birr 15,620,673.

37. *Special purpose entities*

Ethiopian Airlines Group has established special purpose entities for the purpose of selling and leasing back aircraft and accessories. Those latter are registered in the names of the entities and either the assets or the entities themselves serve as collateral for loans. No other material transactions have been carried out by the entities and all transactions are recognized in these financial statements.

38. *DATE OF AUTHORIZATION*

The Chief Executive Officer of Ethiopian Airlines Group authorized the issue of these financial Statements on 9 August 2019.

A network diagram consisting of several colorful pushpins (orange, green, yellow, blue) connected by thin red lines on a light-colored surface. The pushpins are arranged in a roughly circular pattern, with lines connecting them to form a complex web of relationships. A dark green vertical bar is positioned on the left side of the image, containing the number '09' in white.

09

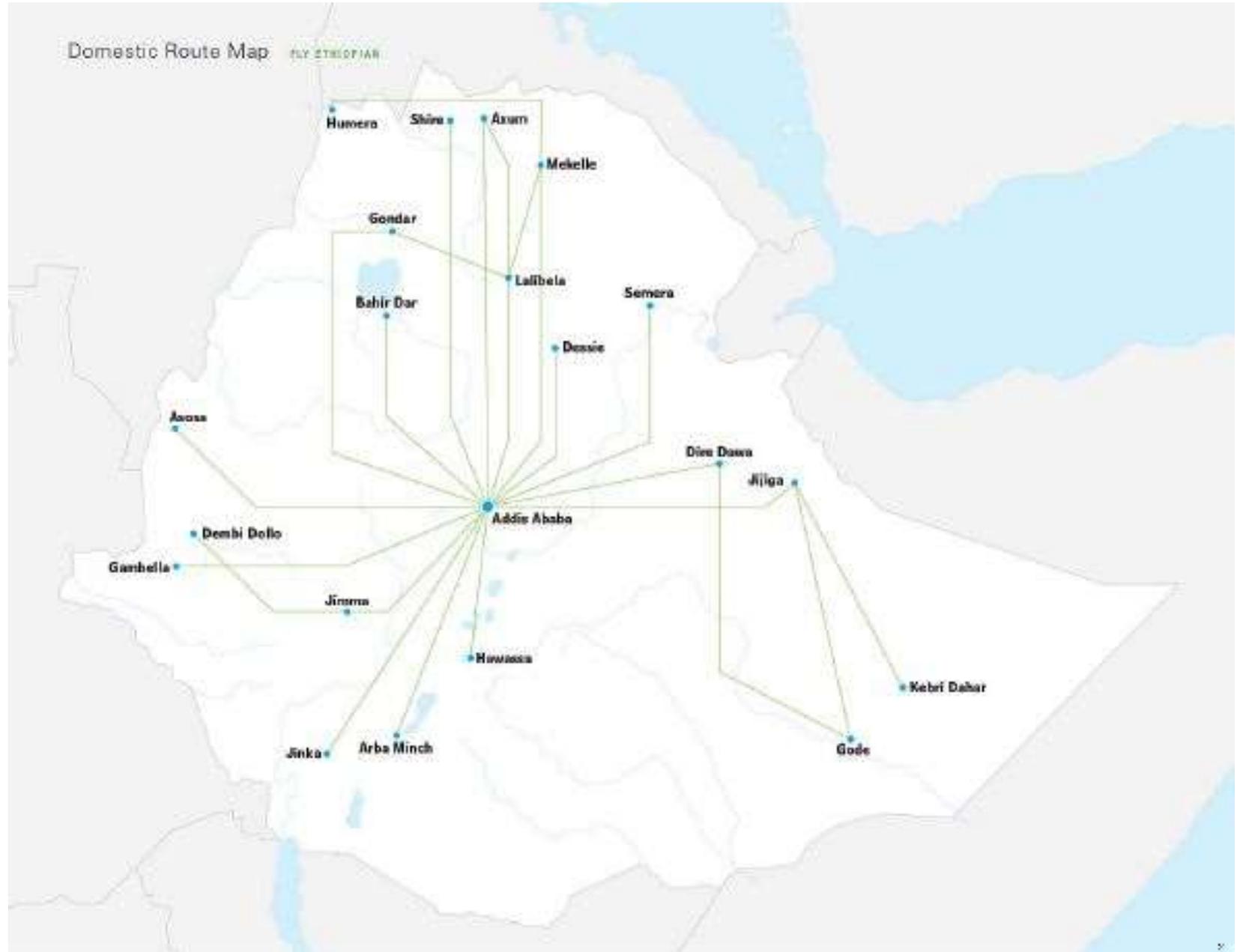
ROUTE
MAPS

INTERNATIONAL ROUTES

Stretching Our Wings to Over 110 International Destinations in 5 Continents



DOMESTIC ROUTES



CARGO ROUTES

