

A STAR ALLIANCE MEMBER 

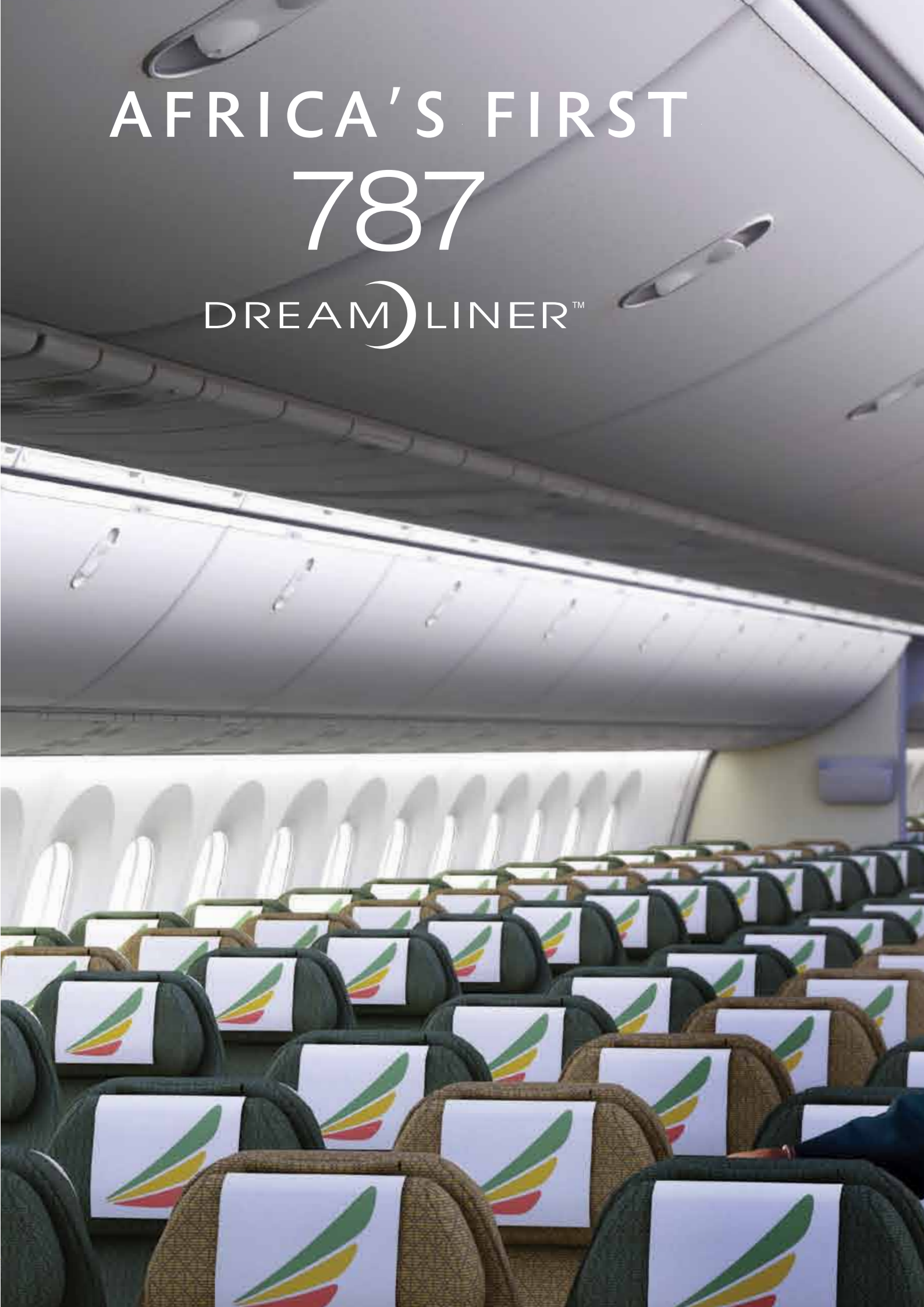
**Ethiopian**  
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THE NEW SPIRIT OF AFRICA



# ANNUAL REPORT 2013/14



# AFRICA'S FIRST 787 DREAMLINER™





Ethiopian  
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A STAR ALLIANCE MEMBER 



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## CEO'S MESSAGE



Ethiopian exhibited unprecedented performance during the 2013/14 fiscal year, in line with its fast, profitable and sustainable growth strategy. The period marked the 4th year of our Vision 2025 strategy.

During the fiscal year, capacity measured in terms of Available seat Kilometer (ASK) grew by 17.2%, traffic measured in revenue passenger kilometers (RPK) increased by 16% and passenger number was 13.2% higher than previous year. As a result, a record level of financial performance was attained whereby the operating profit jumped 34% to ETB 3.7 billion and the net profit 53% to ETB 3.1 billion. Once again, this notable achievement was a result of the tireless efforts of the more than 8000 strong Ethiopian family which work hard with unity of purpose and direction, the visionary, committed and focused leadership of the management team as well as the support of our Board of Directors.

This year brought many challenges to the airline industry and to Ethiopian Airlines as well. The challenges differ from region to region and the main ones were market access restrictions, terrorist tacks, civil strife and disease outbreaks, fuel and taxation related costs and the ever increasing stiff competition. Passenger numbers on the affected routes declined and negatively impacted our revenue earnings. As reported by many in the

industry, in a challenging global economic environment characterized by slow GDP growth and high oil prices, airlines faced many uncertainties which negatively impacted their performance. Due to business confidence deterioration, the critical premium market segment slowed down. At the same time, competitive pressure with excessive capacity on some routes has meant that airfares, after adjusting for inflation and before surcharges and taxes, have fallen by some 3.5% in 2014 compared with 2013. Air cargo has been particularly weak in the just ended fiscal year. The weakness of the air cargo business has led many global airlines to abandon their cargo business altogether.

During the year, African airlines experienced slow demand growth, the lowest among the world regions. In 2014, they recorded ASK growth of 6.5% and RPK of 5.8%. With capacity growth far outstripping traffic growth, African Airlines registered a sharp decline in load factors. The main reason for this performance was the stiff competition from carriers which are aggressively expanding their route network in to Africa. On the other hand, while foreign carriers continued to enjoy good access to the African market, African airlines were restricted in getting traffic rights to many important destinations within the continent. With all these challenges, it is not a surprise that many if not all of the major African airlines remain in the red.

Ethiopian, on the other hand, has completed its 4th year of Vision 2025 strategic roadmap with fast, profitable and sustainable growth. The airline registered much higher capacity and traffic growth than the global and African average.

In line with Vision 2025 strategic objective of transforming the airline into an airline group with diversified aviation business model, seven strategic business units (SBU) were formed. In order to strengthen global network coverage and enhance seamless customer services, Ethiopian concluded new codeshare partnership agreements with Star Alliance members and other carriers as well as launched new services to Sao Paulo, Rio, Enugu, Niamey, Singapore, Shanghai,

Vienna, Kano and Semera. Ethiopian continued its Aviation technological leadership by acquiring four more Boeing 787 Dreamliner's during the year. In addition two B777-300ERs, one B777-200LR, one B737-800 and two Q400s were phased in as part of the fleet modernization process. Similar investments were also made on infrastructure projects that include training, aircraft maintenance and cargo terminal facilities.

Upholding safety as the top priority, during the year ET successfully passed the 5th IATA Operational Safety Audit (IOSA) conducted by external auditors. ET was also reviewed onsite for Quality and Safety by United Airlines as part of the conclusion of the code share agreement. Ethiopian Cargo was audited by EU auditor for Air Cargo Carriers operating into EU countries and for Regulated Agents (ACC3 & RA) on Cargo Security audit and passed the audit. Environmental Management System (EMS) refresher training was given to employees working in different divisions.

As part of its Corporate Social Responsibility (CSR) duties, Ethiopian sponsored community development activities, particularly initiatives related to health, education, environment and sports. In the fiscal year 2013/14, Ethiopian spent ETB 2.1 million to support these worthy causes.

In line with one of the major objectives of the Growth and Transformation Plan (GTP) in the area of air transportation development, Ethiopian will continue to play a leading role in transforming Ethiopia's tourism and trade by being the major vehicle to transport tourists and business people to Ethiopia from all over the world. More than ever, the Airline's hub at Addis Ababa will be continually developed to be the major transit point for fast connections between the five continents.

Lastly, I would like to extend my thanks and appreciation to our customers, stake holders and my fellow colleagues whose trust and support was priceless in making the fiscal year 2013/2014 another record performance. The growth we have experienced over the years is because of customers like you, who faithfully patronize our business. We appreciate your trust, and we'll do our best to continue to give you the kind of service you deserve.



*Tewolde GebreMariam*  
Chief Executive Officer, Ethiopian Airlines

# MANAGEMENT TEAM 2013/14



*Ato Tewolde Gebremariam,  
Chief Executive Officer*



*Ato Busera Awel,  
Chief Commercial Officer*



*Ato Mesfin Tassew,  
Chief Operating Officer*



*Ato Kemeredin Bedru,  
Chief Information  
Officer*



*Ato Nega Mekonnen,  
Chief Financial Officer*



*Ato Hailemeleket Mamo,  
MD Ethiopian Regional Services*



*Ato Zemene nega,  
MD Ethiopian MRO Services*



*Ato Fitsum Abady,  
MD Ethiopian Cargo Services*



*Ato Eskinder Alemu,  
MD Ground Services*



*Ato Samuel Assefa,  
MD Ethiopian Aviation  
Academy*



*Ato Essayas Woldemariam,  
MD Ethiopian International  
Services*



*Wzo. Rahel Assefa,  
VP Marketing*



*Wzo. Aziza Mohammed,  
VP Corporate HRM*



*Ato Wassu Zelelew,  
VP Internal Audit and  
Compliance*



*Captain Yohannes Hailemariam,  
VP Flight Operations*



*Ato Tadesse Adabem,  
VP Customer Services*



*Ato Henok Teferra,  
VP Corporate Strategy,  
Communications and Alliances*

# MISSION STATEMENT

## Our Vision

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 services by 2025,

## Our 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 whose quality and price “value proposition” is always better than its competitors.
- 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 the socio-economic development of Ethiopia in particular and the countries to which it operates in general by undertaking its corporate social responsibilities and providing vital global air connectivity.

## Our 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 and ethical ideas regardless of their source. We recognize and reward employees for their performance and demonstrate integrity, respect to others, candour 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.



# NEWS HIGHLIGHTS

## *Ethiopian Becomes The Largest African Carrier* By

Ethiopian Airlines extended its appreciation to its esteemed customers for their vote of confidence, which has enabled the airline to become for the first time in its 69 years history the largest African carrier with revenue topping 2.3 billion \$ in 2013 and profit, according to the airlines ranking of the International Air Transport Association (IATA) published in the 58th edition of World Air Transport Statistics.

According to IATA annual airlines ranking, Ethiopian is first in Africa and 37th in the world in revenue as well as first in Africa and 18th in the world in operating profit. The historical ranking achieved by Ethiopian in 2013 is a testimony of the confidence of passengers in the airline; the soundness of its 15 year strategic roadmap of fast, profitable and sustainable growth, Vision 2025; the strategic guidance and support of the airline's Board of Directors and the Government of Ethiopia; the dedication and competence of its management; and the commitment, skill and hard work of its employees.

## *Ethiopian Receives Boeing 787 Dreamliner* Named *Walia Ibex*

Ethiopian Airlines took delivery of its 7th Boeing 787 Dreamliner on 20 May 2014.



Boeing 787 Dreamliner

Ethiopian was the first in the world outside Japan to receive B787 in August 2012. Ethiopian will take delivery of further 6 Boeing 787s in the fiscal year 2014-15.

The Boeing 787 is the most technologically advanced commercial aircraft in the world, providing customers the best possible on-board comfort with greatly reduced noise, higher ceilings, biggest windows in the sky, higher humidity, unique lighting and overall enhanced travel experience. Ethiopian B787s enjoyed on routes to Africa, Brazil, Europe, the U.S., Canada and China.

## *Ethiopian To Receive Its First B777-300ER*

Ethiopian Airlines took delivery of the first of its four Boeing 777-300ERs on 7 November 2013. The B777-300ER is the largest aircraft in the airline's fleet with 400 passengers seating capacity.



B777-300ER

Ethiopian B777-300 ER was operated in its dense routes such as Guangzhou, Washington D.C., Dubai and Luanda. The aircraft was scheduled to serve the Addis Ababa - Luanda route three times a week, as of 10 November 2013, and three times a week on the Addis Ababa - Guangzhou route, as of 15 November 2013.

## *Ethiopian Receives New B777-200LR In Seattle*

Ethiopian Airlines received its sixth Boeing 777-200LR (Long Range) Worldliner on July 2, 2013. The 777-200LR carries more passengers and more revenue cargo farther than any other jetliner and is capable of connecting virtually any two cities in the world nonstop.

Ethiopian Airlines was the first African airline to operate the B777-200LR, the B787-800 Dreamliner and the B777-200 LR Freighter. Ethiopian Airlines operated the youngest and most modern fleet with an average age of seven years with a mix of B787-800s, B777-200LRs, B737-800s with Sky Interior, and B777-200LR Freighters.

## *Ethiopian Wins Bombardier Airline Reliability Performance Award*

Ethiopian Airlines, the fastest growing and most profitable airline in Africa, won the 2014 Airline Reliability Performance Award from Bombardier Aerospace. Ethiopian has won the award four years in a row.

The award was given to Ethiopian for achieving an average dispatch reliability rate of 99.4 percent, making it first in the overall Q-400 product category for the Middle East and Africa region. The award recognizes the skill and dedication of Ethiopian employees working on the turbo prop and light aircraft of the airline.



Ethiopian Wins Bombardier Airline Reliability Performance Award

Ethiopian currently operates 13 Q-400 Next Generation aircraft, of which five of them are re-configured in to business and economy class with 7 and 60 seats respectively. The Q-400 is an ideal aircraft for domestic and regional flights with a speed closer to narrow body jet airplanes and with reduced noise, fuel consumption and emission.

Ethiopian flies the Q-400 to 18 domestic destinations and regional routes such as Djibouti, Mombasa, Nairobi, Kilimanjaro, Dar-es-Salaam, Zanzibar, Entebbe, Kigali, Juba, Khartoum and Hargeisa.

### *Ethiopian Aviation Academy Voted As Airline Training Service Provider Of The Year*

Ethiopian Aviation Academy voted the 2014 "Airline Training Services Provider of the Year" by the African Airlines Association (AFRAA).



Ethiopian Aviation Academy Voted as Airline Training Service Provider of the Year.

The Award was presented to Ethiopian Aviation Academy Managing Director, Mr. Samuel Assefa, during a Gala Dinner and Awards Ceremony of the Annual Aviation Suppliers and Stakeholders Convention held in Nairobi, Kenya between 4 and 6 May 2014. Ethiopian Aviation Academy was recognized for its cost effective and extensive training support to other sisterly African airlines.

Ethiopian Aviation Academy is the biggest aviation academy in Africa with an annual in-take capacity of 1,000 students in critical aviation areas such as pilots, aircraft technicians, Cabin Crew, Customer Service experts as well as Finance and Sales/marketing personnel.

Ethiopian Aviation Academy has recently been transformed into a profit center of the Ethiopian Airlines Group. It is certified by the Ethiopian Civil Aviation Authority, the U.S Federal Aviation Administration, European Aviation Safety Agency (EASA), and IOSA (IATA Safety Audit).

### *Ethiopian Voted And Won Best Airline Of The Year Award In China*

Ethiopian Airlines won the Best Airline of the Year Award at MICE Magazine's 7th Annual Award Ceremony held in Beijing, China on April 11, 2014 in the presence of 200 top travel trade professionals, travel agents, representatives of the national tourism offices and media from all over China. The award was given by Chinese travel professionals and passengers in recognition of exceptional Ethiopian service to the Chinese market.

MICE Magazine is the leading media outlet in China reaching over 210,000 travel industry professionals. Its annual awards are given based on on-line voting from the traveling and trade professionals, travel agents, consumers and media.

### *Ethiopian Voted Africa's Best Business Class Airline By Passengers In China*

Ethiopian Airlines voted as "Africa's Best Business Class Airline" by passengers at the 9th Annual Best Travel Media Award ceremony held on 18 December 2013 in Beijing, China, in the presence of over 200 top travel professionals, travel agents, national tourism office representatives, and the media across China.

Best Travel Media is the leading travel media in the Chinese market and reaches over 200,000 professionals in the travel industry. Its annual award is based on online voting by travel professionals, travel agents, consumers and the media. Ethiopian won the award by getting more votes than other nominees in the category.

### *Ethiopian Wins The Gold Boeing Performance Excellence Award*

Ethiopian Airlines received the 2013 "GOLD Level Boeing Performance Excellence Award" for its outstanding performance at the Wire Kits Harness Manufacturing Plant.



Planet Africa Professional Excellence Award

This is the second Gold award the plant has received from Boeing. The Boeing Company issues the award annually to recognize suppliers who have achieved superior performance.

Ethiopian established the aircraft wire production plant in July 2009. The plant manufactures certified seat to seat aircraft interior wires of different types and supplies them to Boeing, which uses the wires for 737, 747, 767 and 777 jet aircraft. Yet, the majority of the wires, close to 85%, are produced for the ultra-long range 777-200 LR. Ethiopian Airlines Wire Kit Harness Manufacturing Plant is one of only 124 suppliers to be awarded the Gold level recognition among thousands of Boeing suppliers.

**Ethiopian Airlines: 2013 African Airline of the Year**



African Airline of the Year Award 2013

Ethiopian Airlines won the 2013 “African Airline of the Year Award” from the African Airlines Association at its 45th Annual General Assembly meeting held between 25 and 26 November 2013, in Mombasa, Kenya. Ethiopian Airlines Group CEO, Mr. Tewolde Gebremariam, received the award from Mr. Tony Tyler, Director-General and Chief Executive Officer of IATA in the presence of over 370 airline executives from 55 African countries, aircraft manufacturers, service providers and other aviation stakeholders.

Ethiopian was recognized by the African Airlines Association for its global standard service, fast expanding network and continuous profitability.

**Ethiopian CEO Wins Professional Excellence Award In Toronto, Canada**

Ethiopian Airlines Chief Executive Officer, Mr. Tewolde Gebremariam won the 2013 Planet Africa Professional Excellence Award on 2 November 2013 during a ceremony held at the International Centre in Toronto, Canada. The award event of 2013 was held under theme “Celebrating the Dream”, in commemoration of the 50th anniversary of the “I have a Dream Speech” of the renowned American civil rights leader, Dr. Martin Luther King. His daughter, Dr. Bernice King, delivered a keynote speech and received the Legend Award in recognition of his legacy. Planet Africa Awards recognizes commendable individuals, businesses and organizations for their hard work and excellence in leadership demonstrated through visible difference brought in the lives of people of African heritage globally, especially the young generation.

**Ethiopian Wins Double Awards From The Pan-African Award Committee**

Ethiopian Airlines announced that the Pan-African Award Committee comprising of travel professionals and journalists from across Africa has recognized the airline with multiple awards, including as “African Airline of the Year” and “Best Cabin Crew in Africa” at the opening ceremony of the 9th Travel Market, AKWAAB, meeting in Nigeria at Eko Hotel Convention Centre on 27 October 2013.

Travel Market, AKWAAB, is the only annual international travel fair in West Africa bringing together all the stakeholders in the tourism industry value chain, including airlines, hotels, travel agencies, tour operators, restaurants, national tourism boards and media.

During the award ceremony of the 9th Travel Market, AKWAAB, meeting, Addis Ababa Bole International Airport was also recognized as “Best Airport in East Africa”.

On the sidelines of the UN General Assembly Meeting, which was conducted in New York, The African Business Award 2013 was held at the Mandarin Oriental New York on 20 September 2013, in the presence of high profile policy makers and businesspersons. Ethiopian won the African Business of the Year award. It was recognized for its exemplary role as an African business model that is effectively harnessing opportunities and making profits while as the same time registering fast growth, despite the tough economic times for the global aviation industry.

The African Business Awards is a platform, which celebrates excellence in African business by recognizing individuals and companies that are driving Africa's rapidly transforming economy, and creating new economic opportunities for citizens and communities, all over the continent.

### Ethiopian Chosen By Passengers As Best Airline In Africa

Ethiopian Airlines won the Passenger Choice Awards for "Best Regional Airline in Africa" on September 9, 2013 at a gala event held in Anaheim, California.

The Passenger Choice Awards were created by the USA based Airline Passenger Experience Association (APEX) to give voice to airline passengers. APEX encompasses a network of professionals that are committed to providing an outstanding airline experience for passengers around the globe.



Passenger Choice Awards

The award is also recognition and an encouragement for all Ethiopian employees all over the world, who are working hard every day to make the Pan-African airline shine high in the sky. Ethiopian Chief Executive Officer, Tewolde Gebremariam, thanked Ethiopian work force and call upon them to continue giving their best in the service to passengers.

Ethiopian in-flight magazine, Selamta, was also a finalist among the five best worldwide airline magazines at the Passenger Choice Awards of 2013.

### Ethiopian CEO Wins 2013 Airline Strategy Award For Regional Leadership

First African Carrier CEO to Receive the Award

Ethiopian Airlines CEO Tewolde Gebremariam won the 2013 Airline Strategy Awards for Regional Leadership on 14 July 2013 in London.



Mr Tewolde receiving the Airline Strategy Award for Regional Leadership

Ethiopian CEO was the first African Airline CEO to receive the Regional Leadership award in the award's 12 year history which is annually given out by Airline Business Magazine, a publication of Flight Global, the world's leading aviation media brand.

The Airline Strategy Awards for Regional Leadership was given for a management team that has demonstrated excellence in leading a carrier, which provides strong transport links in its geographical region. A key criterion for this award was the successful utilization of regional markets with high operational integrity as well as the ability to produce good growth rates while keeping a tight grip on costs.

The independent panel of judges comprised of highly respected industry professionals including analysts and former chief executives gave Tewolde Gebremariam the award for delivering consistent profits while developing Ethiopian Airlines' fleet, network and business infrastructure and, in doing so, for showing leadership in the continent.

The judges also recognized that Ethiopian success was in one of the most difficult regional markets, where airline liquidations were all too frequent, with one saying that Ethiopian was operating in a "difficult region", and its achievement was "very impressive".

Ethiopian has just successfully completed its third year of its fifteen year strategic road-map, Vision 2025. By 2025, the airline aims to become the leading aviation group in Africa with seven business units generating 10 billion dollars in revenue annually.

## *Bombardier Welcomes Ethiopian As An ASF For Q400 And Q400 Nextgen Turboprops In Africa*



Q400 Aircraft

Ethiopian Airlines maintenance facility joined a worldwide network of more than 60 facilities authorized to work on Bombardier commercial and business aircraft. Dubai, United Arab Emirates – Bombardier Aerospace celebrated its growing support network in Africa by welcoming one of the continent's leading carriers, Ethiopian Airlines of Addis Ababa, as yet another Authorized Service Facility (ASF) for commercial aircraft on the continent. The airline can now perform line and heavy maintenance on Q400 and Q400\* NextGen\* turboprop aircraft under the Bombardier ASF banner.

Ethiopian Airlines operates a fleet of modern aircraft, and performs complete aircraft, as well as engine and component overhaul and repair services from facilities at Bole International Airport in Addis Ababa. The facility employs an all-Ethiopian workforce of over 750 licensed technicians and support staff.

## *Star Alliance Members, Ethiopian and Austrian Airlines, Enter into Codeshare Agreement*

Ethiopian Airlines entered into a codeshare partnership with Austrian Airlines (OS), the flag carrier of Austria, effective June 2, 2014.

Ethiopian started four direct weekly flights to Vienna on 2 June 2014 and this agreement has offered greater connectivity options for customers of the two airlines. Ethiopian has marketed Austrian flights to Amsterdam, Geneva, Prague, Warsaw, Zurich, Leipzig and Munich while Austrian Airlines has marketed Ethiopian flights to Vienna and African destinations.

Through the codeshare agreement with Austrian Airlines, which has a strong network in Central and Eastern Europe, Ethiopian aims to provide seamless and convenient connectivity options for travelers between Africa and cities in Central and Eastern Europe. Likewise, the agreement will provide seamless and smooth connectivity to Austrian Airlines customers to a wide variety of destinations in Africa via Ethiopian gateway, Addis Ababa.

## *Singapore and Ethiopian Airlines Expand Codeshare Agreement*

Singapore Airlines and Ethiopian Airlines customers enjoyed seamless travel to more destinations as a result of an expanded codeshare agreement between the Star Alliance partners.

Under the agreement, codesharing has been expanded with immediate effect to Ethiopian Airlines-operated flights between Singapore and Addis Ababa, Ethiopia's capital, via Bangkok, and flights between Addis Ababa and Pointe Noire in Congo, Accra in Ghana, Entebbe in Uganda, and Kigali in Rwanda.

Singapore Airlines has marketed on Ethiopian Airlines-operated flights from Addis Ababa to Mombasa and Nairobi in Kenya and Dar Es Salaam in Tanzania.

On a reciprocal basis, Ethiopian Airlines has marketed on Singapore Airlines-operated flights beyond Singapore to Adelaide, Brisbane, Melbourne, Perth and Sydney in Australia.

The airlines have been codesharing since November 2011 on flights between Addis Ababa and Dubai, and between Singapore and Dubai. The agreement was expanded in October 2012 to include flights between Addis Ababa and New Delhi, and between Singapore and New Delhi. Both airlines also expanded codesharing on flights between Addis Ababa and Bangkok, and between Singapore and Bangkok in July this year.

## *Ethiopian Airlines, Boeing, Expand Wire Harness Production*



Wire Harness Manufacturing Shop

Ethiopian to double wire harness production at its Addis Ababa facility

Ethiopian Airlines and Boeing announced an agreement to double wire harness production at Ethiopian Airlines' Wire Harness Facility.

The Wire Harness Facility, based in the Ethiopian capital Addis Ababa, opened in 2009 and currently supplies seat-to-seat wire harnesses for all Boeing commercial airplane programs. Boeing and Ethiopian Airlines has

placed additional work at the facility, which has doubled its output by the end of 2014. With support from Boeing, Ethiopian has manufactured more varied and complex wire harnesses, expanding its value as an aerospace supplier.

The agreement was signed at The Corporate Council on Africa's 9th Biennial U.S.-Africa Business Summit in Chicago, designed to develop closer business relationships between African and U.S. industries.

### *Ethiopian and Agence Française de Développement Sign €50 million Loan Agreement*

Ethiopian Airlines and the Agence Française de Développement (AFD) signed a loan agreement of 50 million euros on 20 June 2014 at the Ethiopian Airlines Headquarters. The agreement was aimed at financing the construction of the new state-of-the-art cargo terminal.

Chief Executive Officer of Ethiopian Airlines, Tewolde Gebremariam, and Mr. Christian YOKA, AFD Regional Director signed the agreement at Ethiopian Headquarters on 20 June 2014 in the presence of H.E. Ms. Brigitte Collet, French Ambassador to Ethiopia.

### *MoU Was Signed Between Ethiopian And ICBC Financial Leasing Co. Ltd.*

During H.E. Chinese Premier Li Keqiang's state visit to Ethiopia, a Memorandum of Understanding was signed between Ethiopian Airlines and ICBC Financial Leasing Co., Ltd. According to the MOU, ICBC Leasing has provided Ethiopian Airlines financial support for its fleet expansion plan, including but not limited to B737 and B787 aircraft in the form of finance lease, sale and lease back, commercial loans or operating lease from ICBC Leasing's Boeing order.



ET and ICBC

The MOU was one of the largest financial cooperation in the aviation industry between the two countries, which is an important step of China's financial industry to go international.

### *Ethiopian Executes a Turnkey Contract Agreement for the Construction of its Second*

Ethiopian Airlines completed a Turnkey contract Agreement for construction of its cargo terminal 2 and apron, with Unitechnik Systems GmbH of Germany, and Varnero Construction on January 10, 2014. The total cost of the Cargo Terminal project was 107 million EURO.

The construction of Cargo Terminal-2 is expected to be completed within the next two years with a capacity to accommodate, 600,000 tons of cargo per annum, with cargo apron parking capacity for five B747-800 aircraft at a time. It has cold storage capacity to accommodate about 300,000 tons of temperature controlled perishable cargo per annum. Completion of Cargo Terminal-2 will be immediately followed with the construction of Cargo Terminal-3 which will also have an annual capacity to accommodate 600,000 tons. The entire construction of the two terminals planned to be constructed in two phases will have a capacity to accommodate 1.2 million tons of cargo per annum with capacity of eight B747-800 aircraft that places the cargo terminal to be one of the largest in the world.

Ethiopian cargo is an award winning Cargo service provider and has been ranked 43rd by revenue out of the top 50 global operators, in 2013.

### *Ethiopian Airlines and Rwandair Sign Technical Support Agreement*

Ethiopian Airlines, the fastest growing and most profitable airline in Africa, is pleased to announce the signing of a technical support agreement with fellow sisterly African airline, Rwandair on 18 December 2013 in Addis Ababa.

Per the agreement, Ethiopian will provide technical support service to Rwandair as of March 2014 for line maintenance up to A-Check and component exchange support for B737NG and Q400 aircraft. Ethiopian MRO Services will deploy technical team in Kigali to carry out the day to day activities on site while being supported as required from the main base in Addis Ababa.

In line with its Vision 2025 strategic roadmap, Ethiopian MRO Services aims to become the most competitive and leading provider of commercial aircraft maintenance, repair, and overhaul in Africa by 2025. Ethiopian MRO Services has a certified facility by both the U.S. Federal Aviation Administration and the European Aviation Safety Agency and has MRO capabilities in Boeing and Bombardier aircraft.

### *Ethiopian Becomes Strategic Partner in New Malawi Airlines*

Ethiopian Airlines has become the strategic partner of the new Malawian Air with 49% equity shareholding. The remaining 51% of the shares will be held by the Malawian Government and Malawian private investors.

The shareholder agreement for Malawi Airlines was signed between H.E. Dr. Cornelius Mwalwanda, Deputy Minister of Finance of the Government of the Republic of Malawi and Mr. Tewolde Gebremariam, Chief Executive Officer of Ethiopian in Lilongwe on Thursday, 11 July 2013.

This new partnership with Malawi Airlines was part of Ethiopian Vision 2025 strategic roadmap of setting up multiple hubs in Africa. Thru this strategic partnership with Malawian Air, Lilongwe has become Ethiopian third hub on the continent after its main hub in Addis Ababa and its West Africa in Lomé.

Thru this strategic partnership, Ethiopian and the newly formed Malawi Airlines shall harmonize their flight schedules so as to provide seamless and best connectivity options for travelers within, to and from the Southern Africa region.

As per its Vision 2025 multiple hubs strategy in Africa, Ethiopian Airlines aims to set up hubs in all regions of the continent and to become the leading aviation group in Africa generating 10 billion dollars in annual revenue by 2025.

### *Ethiopian Partnering with ASKY to Establish West African Cargo Hub*

Ethiopian Cargo, the largest cargo operator in Africa, has opened the second cargo hub in Africa based in Lomé, Togo, in partnership with ASKY Airlines. The new cargo hub commenced operations in September 2013 after the phase-in of a B737-400F.

For the past three years, Ethiopian and ASKY have been successfully serving the needs of passengers travelling within, to and from West and Central Africa thru the Lomé hub and enabling them to benefit from the easy and convenient connectivity options offered by their extensive and coordinated passenger networks.

Ethiopian and ASKY has partnered in the establishment of a new cargo hub in Lomé for the transportation of goods and commodities between West Africa and the rest of the world. This partnership will enable easy and convenient air transport of high value and perishable goods to and from West and Central Africa, thereby playing a critically essential role in the growth of trade and the economic development of the region.

### *Ethiopian Colorfully Celebrates 40 Years of Uninterrupted Service to China*

Ethiopian Airlines colorfully celebrated its 40 years of uninterrupted services to China at a Gala dinner on 07 November, 2013 in Beijing.

The event was graced by H.E. Mr. Ai Ping Vice-Minister of the International Department of the Central Committee

of the Communist Party of China, H.E. Mr. Seyoum Mesfin, Ambassador of the Federal Democratic Republic of Ethiopia to China; Mr. Han Jun, Director General of International Affairs Department of Civil Aviation Administration of China (CAAC). Also present were members of the diplomatic community, representatives from Boeing, fellow Star Alliance member Air China representatives, business executives, travel partners and members of the African community in China.

Ethiopian was the first African carrier and the fourth in the world to fly to China. Since the first flight 40 years ago, China has been a key market and continues to be one of the most important destinations for Ethiopian.

### *Ethiopian Colorfully Celebrates 55 Years of Service to Frankfurt*

Ethiopian Airlines celebrated 55 years of uninterrupted service to Frankfurt, Germany on October 24, 2013.

Ethiopian CEO, Mr. Tewolde Gebremariam, attended the celebrations in Frankfurt along with Dr. Renate Sterzel, City Councilor of Frankfurt, Dr. Stefan Schulte, Chairman of the Executive Board of Fraport AG, Mr. Mark Schwab, CEO of Star Alliance, H.E. Mr. Fesseha Asegedom, Ambassador of Ethiopia to Germany, and Ms. Dennenesh Zewdie, famous Ethiopian actress in Germany. Also present were representatives from the diplomatic community, the African Diaspora and various partners including Lufthansa, travel agencies and tour operators.

### *Ethiopian Offers Four Daily Services to Nairobi*

Ethiopian Airlines has offered four daily services to Nairobi with the latest B737-800 New Generation with Sky Interior, starting from 1 June 2014.

Ethiopian has increased the flight frequency to Nairobi from twice daily to four times a day. Nairobi holds a special historical significance for Ethiopian. The Pan-African carrier has been flying to the city since 1947, almost since the establishment of the airline. Today, Ethiopia and Kenya are registering fast economic growth and are strengthening their economic cooperation with increased trade ties and infrastructure connections. Ethiopian has been playing its part in enabling greater investment, trade and business ties between the two countries by availing critically essential air connectivity.

## Ethiopian Airlines Management and Staff Visit the Grand Renaissance Dam

### Africa's Biggest Infrastructure Project

Ethiopian Airlines executive management and employees visited the Grand Renaissance Dam from May 15-18, 2014.

The visit was organized under the theme "We will complete what we have began" was planned with view to create awareness about this critical national and continental project and to show Ethiopian management and employees unwavering commitment to support the project, financially and in any other way, until its full completion.



DAM Visit

The Grand Renaissance Dam, when completed, will help the country in attaining 10,000 megawatts electricity generation capacity as per the country's 5 year Growth and Transformation Plan. This will support the country's and the region's robust economic growth by serving as a critically essential energy source.



DAM Visit

## Former South African President Mbeki Tours Ethiopian Facilities

Ethiopia Airlines received a courtesy visit from former South African President, H.E Mr. Thabo Mbeki, a loyal and esteemed customer of the airline, on February 19, 2014 at its headquarters in Addis Ababa.



Mbeki's visit to ET facility

H.E. President Thabo Mbeki visited Ethiopian Aviation Academy, which is certified by the Ethiopian Civil Aviation Authority as well as the United States Federal Aviation Administration and the European Aviation Safety Agency, and provides pilot, technician, cabin crew, marketing, finance and leadership training not just for Ethiopian but for the continent. Ethiopian Aviation Academy is the premier African aviation training institution availing international standard aviation training to the continent. Per its Vision 2025 strategic roadmap, Ethiopian invested 55 million US \$ in last 3 years alone on the Academy, which has now an annual intake capacity of 1,000 students.

The former President also toured the maintenance facility of the airline, which provides aircraft maintenance support to numerous airlines across the continent and beyond on the Boeing family and Bombardier aircraft.

The former President praised the work being done by Ethiopian, an African institution that is contributing its part in bringing the continent together and serving as a vehicle for its renaissance.

Boeing, Ethiopian Airlines Partner with Non-Profits to Deliver Medical, Educational Supplies

Airline's 19th flight is the most of any carrier involved in Boeing's Humanitarian Delivery Flight program

The Boeing Company and Ethiopian Airlines have partnered with non-profit organizations, Seattle Anesthesia Outreach and Evangelical Africa Mission Outreach, to transport 7,300 pounds (3,311 kilograms) of medical and educational supplies to the Ethiopian capital, Addis Ababa, on a newly delivered 777-300ER (Extended Range) airplane.

The 777-300ER delivered to GE Capital Aviation Services (GECAS) for lease to Ethiopian Airlines, was loaded with a variety of medical equipment and supplies for the Black Lion Hospital, the largest general hospital in Ethiopia, along with more than 100 computers donated by the Bellevue, Wash. School District for use at Ethiopia's Goba High School.



Ethiopian attaches the highest importance to its corporate social responsibility and its duty to give back to the community it serves. Ethiopian has pledged to continue such humanitarian flights and to do even more in the future while expanding the fleet size.

***Ethiopian Joins Hands with ECF Children's Fund to Help Vulnerable Children***

Ethiopian Airlines partnered with African Mosaique for its annual Pan-African fashion show and Gala event at Sheraton Addis on January 10, 2014 to benefit Ethiopian Children's Fund (ECF).

The African Mosaique Pan-African fashion show and Gala event featured renowned African designers and models, and special appearances by famous African-American

movie celebrities, Boris Kodjoe and Nicole Parker, who traveled to Addis Ababa for the event on-board Ethiopian flight from Washington D.C.

The proceeds of the event has gone directly to support 700 destitute and highly vulnerable children, who has been take care of under the integrated development program of ECF Village in Aleltu, 55km north of Addis Ababa. ECF Village comprises of a school, health clinic, as well as feeding and environmental programs. Every year, the Village enrolls 80 children in place of the graduates, who go on to attend universities and higher learning institutions all over Ethiopia.

As part of its Corporate Social Responsibility Policy, Ethiopian has a strong record in supporting humanitarian causes and projects aimed at helping the community.



ECF - CSR

# NEW DESTINATIONS

A STAR ALLIANCE MEMBER

PROUD  
ENUGU

KANO

SHANGHAI

SINGAPORE

Vienna

Ethiopian  
የኢትዮጵያ

THE NEW SPIRIT OF AFRICA

RIO DE JANEIRO

SAO PAULO

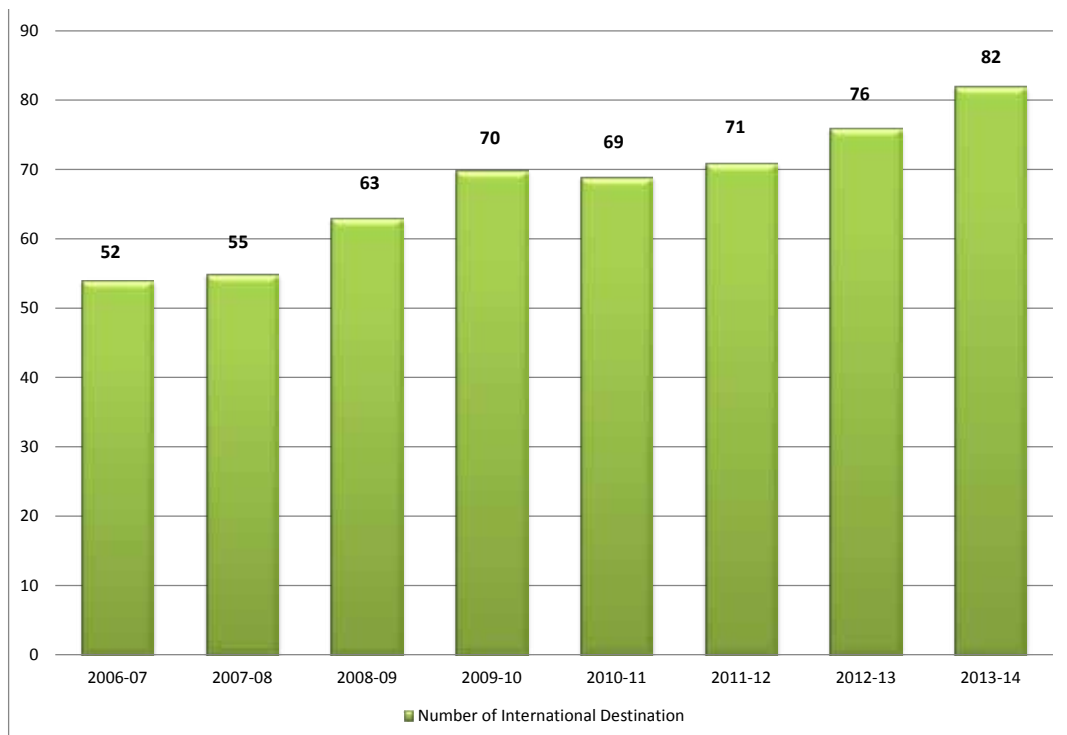
NOW LINKING NIGER  
TO OUR NETWORK

NIAMEY

ADDIS ABABA

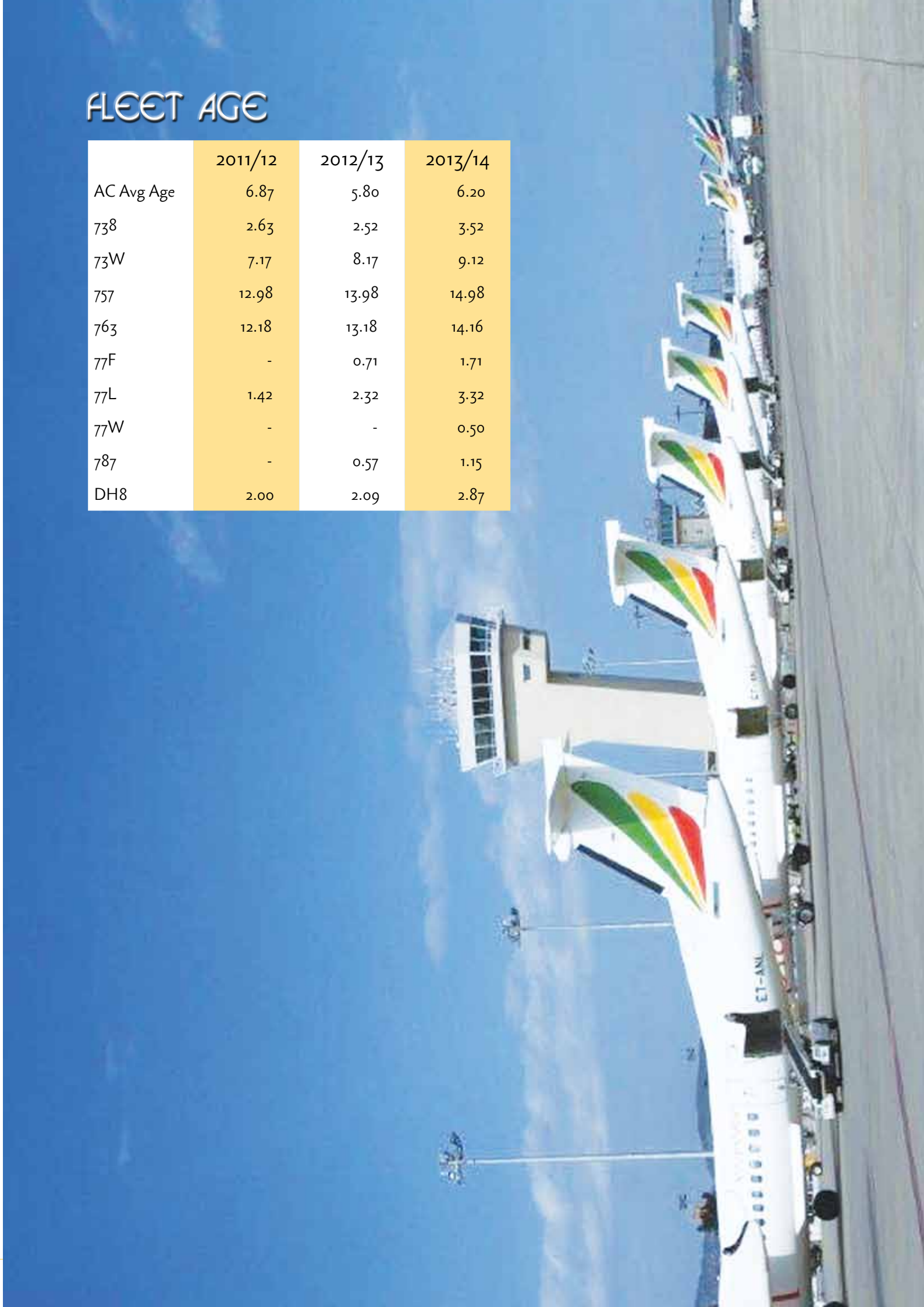
TO SERVE  
, NIGERIA

### *Number of International Destinations*




# FLEET AGE

	2011/12	2012/13	2013/14
AC Avg Age	6.87	5.80	6.20
738	2.63	2.52	3.52
73W	7.17	8.17	9.12
757	12.98	13.98	14.98
763	12.18	13.18	14.16
77F	-	0.71	1.71
77L	1.42	2.32	3.32
77W	-	-	0.50
787	-	0.57	1.15
DH8	2.00	2.09	2.87



# FINANCE

## 1. OPERATING STATISTICS

 Ethiopian continued with its fast and profitable growth despite the challenging operating environment:

Performance Category	Year to Date ('000) (July 1 – June 30)		Variance %
	2012/13	2013/14	
ASK	30,170	33,257	17
RPK	21,358	24,726	16
ATK	5,931	6,665	14
Passenger no	5,918	6,908	13

Compared to last year, Ethiopian registered strong growth in operating results, in line with its Vision 2025 fast, profitable and sustainable growth strategy. The airline's growth is much higher than the global and African industry average:-

### Ethiopian Growth vs. Africa & Global Industry Average

	RPK Growth	ASK Growth	LF	Operating Profit Margin
Africa Industry*	5.8%	6.5%	68.7%	0.8%
Global Industry*	5.8%	5.7%	79.6%	4.3%
Ethiopian**	16%	17.2%	70.8%	7.9%

Source: \*IATA-Jul 2013 –Jun. 2014

\*\* ET July 2013 – Jun 2014

As shown in the above table, Ethiopian has shown remarkable growth compared to both global and African airline industry.

#### a) Passenger Services:


Both ASK and RPK grew by 17% and 16% respectively from the previous year. 91% of the plan has been achieved.

The 9% shortfall from the plan was due to:-

- Late opening of new stations like Singapore and Shanghai, and postponement of other new stations such as Manila and Madras due to lack of operating permit.
- Tactical adjustment in line with market conditions.
- Adjustment of frequency due to light load in slack season.
- Capacity shortage due to the London B787 incident, which grounded the aircraft for six months.

#### b) Freighter Service:

ATK grew by 14% from last year and achievement from plan was 90%. Freighter Ton Kilometer (FTK) increased by 6.1% from last year and achieved 78% of plan.

 Major reasons for short fall in freight uplift compared to the plan is:

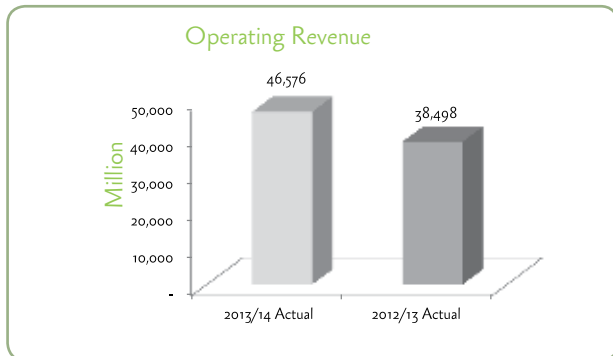
- Lower than expected export of horticultural produce.
- Planned freighter service to Moscow not commenced due to insufficient load and lack of operating permit.
- Planned meat export to Cairo and Beirut did not materialize.
- Anticipated freighter operation from Bahir Dar and Mekele did not materialize due to lack of adequate volume of export
- Decline in mail movement

## 2. FINANCIAL RESULTS

### 2.1. Total Operating Revenue

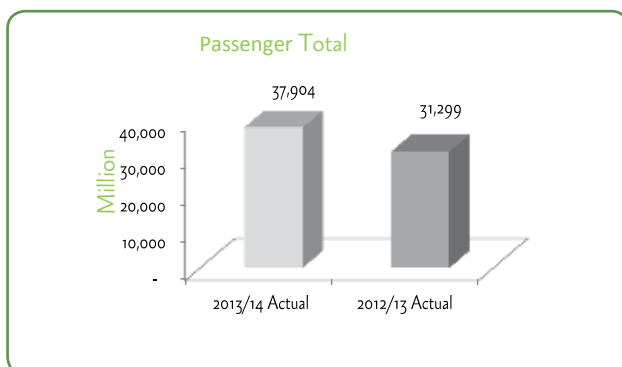
Total Operating Revenue increased by **21%** compared to the same period last year, **87%** completion rate in comparison from the plan. Passenger revenue has increased by 21%. Cargo and Mail revenue has also shown increase of **15%**. MRO – Customer work revenue rose by **107%** showing significant increase compared to the same period last year.

#### Annual



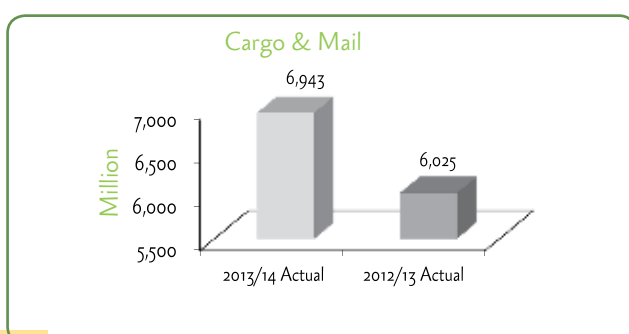
**PASSENGER REVENUE** has increased by **21%** compared to the same period last fiscal year. It has **87%** achievement of the plan. The variation from plan is due to postponement of new operation (Manila, Madrid), late commencement of Shanghai and Kano, less capacity deployed because of the 787 incident in London that affected the operation for six months, combined most East Africa operations instead of planned independent flights, cancellation of night Harare–Lusaka flights, suspension of Seashells operation, tactical adjustment of frequency and capacity due to load.

#### Annual



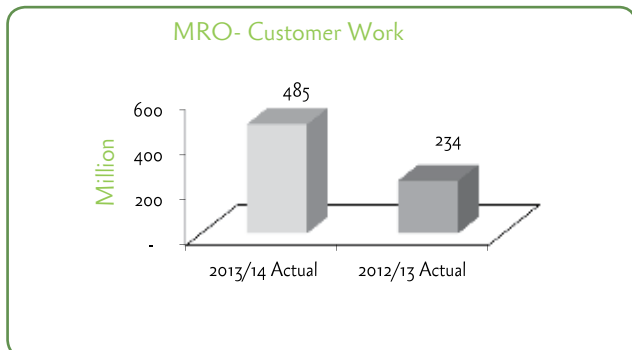
**CARGO & MAIL REVENUE** increased by **15%** compared to the same period of last fiscal year and has **90%** achievement of the plan. The increase was mainly due to increase in charter rate for Luxemburg-Pointe Noire weekly flight, commencement of Kano, Ouagadougou, Bamako and Lome freighter operation in 1st and 2nd quarter in connection with Lagos, Juba flight operation in combination with Bujumbura and Kigali, consistance service from Liege to Dawadmi and Hong Kong twice per week, combination of Riyadh with Mumbai reduced ferry sectors, consistance service from Brussels to Dubai twice per week, commencement of Lome hub operation which increased ET service to uplift more load to West African countries and consistent charter flight from Liège to Kuwait once a week and once per month from Liege to Shanghai.

#### Annual



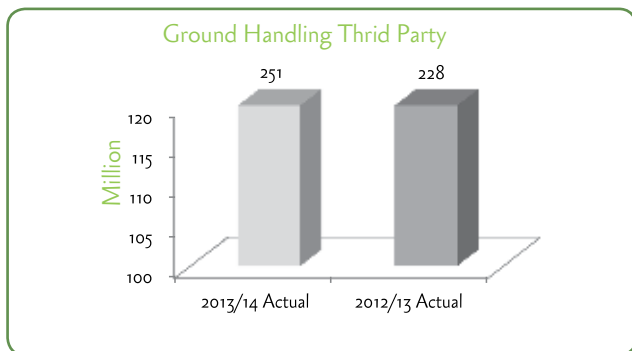
**MRO CUSTOMER WORK** grew by **107%** from last year but has only **66%** achievement of the plan. The increase was due to securing new technical support business from RwandAir and Malawian Airlines; new airframe maintenance business from Angolan, Mozambique and Cameroon Airlines; expanded B737 classic maintenance to operators in North & South Sudan and Chad; more secondment service (B767 pilots and Cabin crew) to Equatorial Guinea; Engine business won from Operators in Sudan and Chad and expanded component maintenance business from CamAir-Co, RwandAir. The variation from the plan was mainly due to capacity or hangar space limitation in airframe maintenance.

### Annual



**GROUND HANDLING REVENUE** has **122%** achievement of the plan. The increase is mainly due to more VIP movements at Addis Ababa Bole International Airport, operation of Saudi extra flights and addition of new customer at Addis Ababa Airport.

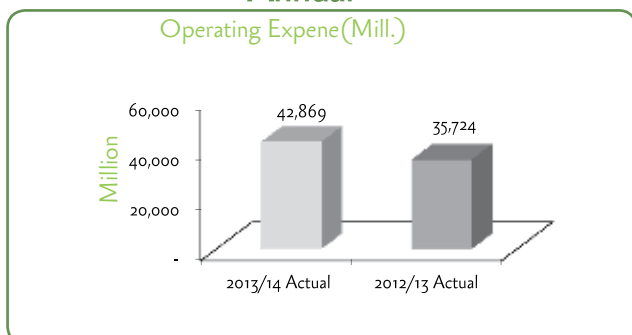
### Annual



## 2.2. OPERATING EXPENSES

- Operating expenses of this budget year increased by **20%** (**ETB 42.9 billion**), which is less than the rate of revenue growth of **21%**, due to continuation of structural cost saving initiative aiming to keep costs at the minimum possible level without compromising quality.
- The Airline spent **ETB 19.4 billion** for fuel cost which is **45%** of our total cost in this year and same has shown an increase of **ETB 2.8 billion (14%)** compared to same period of last year due to the net effect of increase in quantity uplifted and price variation. On the other hand, fuel cost has decreased by **ETB 3.3 billion (15%)** compared to the plan because of decrease in planned fuel uplift, mainly due to lower capacity availed.
- Over Flying & Navigation, Ground Handling and Landing charges during the period have increased by **ETB 1,067 billion (19%)** compared to same period last year mainly because of increase in volume of operations, continued high overflying rate in Sudan and exchange rate impact. (Full details of various expense items is in Attachment – B)

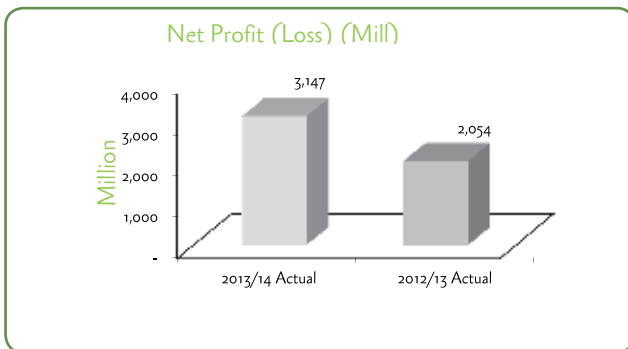
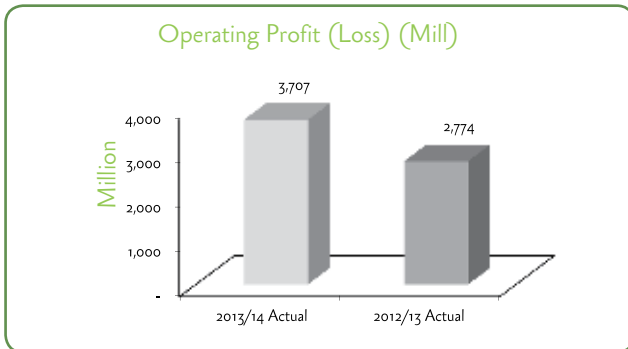
### Annual



## 2.3. PROFITABILITY

Ethiopian registered historical record operating profit of **ETB 3.7 billion**, which is a **34%** increase from last year and a net profit of **ETB 3.1 billion**, **53%** increase from last year. The airline registered profit in the fourth quarter, while its competitors in Africa are incurring loss. This is a testimony for the sound long term strategy (Vision 2025) and prudent operational management.

### Annual





This fiscal year net profit is a historical record **ETB 3.1 billion**, which is **53%** higher than last year.





## 2.4. Cost Saving

-  Through implementation of various structural and strategic cost saving measures, the airline was able to save close to **ETB 871 million** which is **87%** from the target of this fiscal year.
-  The breakdown of this year cost saving includes **ETB 244.9 million** from Fuel Tankering, **ETB 109.8 million** from strategic sourcing **ETB 68.1 million** from tackling HX using Amadeus Automated Ticketing Limited (ATL), **ETB 52 million** from control wastage, ETB 50.9 million Reduce Engine/APU maintenance cost from material purchase, **ETB 43.6 million** from engine in-house maintenance capability development and in-house parts/tools/components manufacturing and repair, **ETB 25.6 million** from cost saving due to new route shortening, and **ETB 276.9 million** from other miscellaneous savings.

## 2.5. Cooperation and Distribution

### Alliances:

As a full member of Star Alliance, ET has benefited in terms of revenue, cost saving and branding. In 2013 economic contribution of Star Alliance to Ethiopian Airlines was 8.7 million euros.

Since its membership in Star Alliance, ET has surpassed the Star Alliance average service standard compliance for the first time and achieved 98.4% compliance against Star Alliance average of 97.45%.

### Code share, Bilateral and other developments

- New code share agreements have been finalized with **EI-AI, Malaysia Airways, Air Canada, Austrian Airlines and United Airlines.**
- Negotiations are being carried for new code share agreements with **All Nippon Airways and TAP Portugal** with implementation expected in 2014.
- Ethiopian Civil Aviation Authority in cooperation with Ethiopian Airlines concluded the following bilateral agreements:
  - New Bilateral Air Service Agreements signed with Vietnam, New Zealand and Ireland.
  - Revised Bilateral Air Service Agreements signed or permits secured with Nigeria (daily flights to Abuja, rights to Kano and Enugu), China (daily flights to Shanghai), Austria, Sri Lanka, Japan, the Sudan, Malawi, Niger (5th freedom rights between Niamey and Ouagadougou), Greece, Australia (code share rights with Singapore Airlines for Australian market), Hong Kong (5th freedom rights between Hong Kong and Seoul), Belgium and Austria (5th freedom rights between Vienna and Stockholm).

### 3. CUSTOMER FOCUSED

Area of performance	Year to date	
	2013/14	2012/13
Customer Satisfaction	87.14	86.53%
Baggage irregularities per 1000 Passengers	4.2	5.9 <sup>1</sup>
Denied boarding per 1000	5.49	5.14
On-Time Performance	79.25%	76.2%

- Customer satisfaction and baggage handling have seen strong performance improvements from last year.
- On time Performance of 85.6% achieved in the fourth quarter in which we met our target is a remarkable improvement from previous periods. However, in the annual performance, we are still below our target at 79.25%, yet with much improvement from the last year (76.2%). Major reasons which affected on time performance were:
  - Bad weather in Ethiopia, China, India, North America and Europe in Winter.
  - Aircraft shortage mainly due to delay in delivery of the 5th B787 and incident on the 4th B787 in London.
  - Technical delays with chain effects.
  - Hajji flight connection problems from Jeddah
  - Emergency evacuation of 150,000 Ethiopian deportees from Saudi Arabia caused congestion at Addis Ababa airport.
- The achievement is more remarkable given the challenging winter this year and the decline in on-time performance by other major carriers. For example according to U.S. Department of Transportation, major U.S. airlines registered on-time performance of 76.9% in May 2014 and 71.8% in June 2014 down by 2.5 and 0.11 points respectively from last year.
- While meeting the target in the 4th quarter needs to be encouraged and the fact that our on-time performance is better than the US average, on time performance still remains to be a daunting challenge for the management and, thus, continues to be a strategic focus area for improvement.

### Airlines Customer Services Measurements

Airlines	OTP
Lufthansa	83%
Singapore Airlines	87%
Emirates	74%
Kenya Airways	62%
Qatar Airways	71%

Source: Flightstats.com June-July 2014

### Baggage Irregularity per 1000 passengers

Airlines	Baggage Handling
Europe Region	9.00/1000
North America	3.22/1000
Asia Region	1.96/1000
World Average	6.96/1000
Ethiopian Airlines	4.2/1000

Source: www.SITA.2014 Report

In general, customer service has been identified as a priority area for improvement for the continuation of our fast, profitable and sustainable growth strategy.

## 4. INFORMATION, COMMUNICATION AND TECHNOLOGY

### 4.1 INFORMATION, COMMUNICATION AND TECHNOLOGY

○ In line with Vision 2025 ICT strategy, the following main project tasks have been performed:








-  **Air Vision Revenue Manager (AVRM):** migration from the previous revenue optimization system (PROS) to the current Air Vision Revenue Manager (AVRM) has been done.
-  **Alpha Web Based Hotel Management system:** A web based hotel management system with features to define hotel inventory is developed in-house and adopted.
-  **Profit Manager:** Sabre AirVision Profit Manager adopted in ET's network planning section.
-  **Loyalty Management System:** Amadeus Loyalty Management System (ALMS) formerly HITIT is selected and project for implementation is underway.
-  **Upgrade of current ACSI module to Sabre Sonic Check-in (SSCI):** SabreSonic Check-in provides reliable and consistent check-in capabilities for both customers and baggage.
-  **GHS or Airport Operation Management System:** Instead of purchasing from outside a system is developed in-house to automate airport operation system environment. This is good cost saving.
-  **Access Control and Time Recording System:** A KABA Access Control and Time recording system acquired to automate the manual attendance capturing process in SAP using RFID and biometric technology. More than 8,000 employees use the system every day.
-  **Mobile Applications:** Mobile Applications development for Business to Business purpose has started and Mobile Applications for On-time performance (OTP) and Delay notification released for use by executive management.
-  **Excess baggage reconciliation:** A system that extracts excess baggage uplift daily and
-  **Maximize system utilization:** SAP Phase-II implementation completed.
-  **B787 Entry into service (EIS) e-enabling Requirement:** The E-enabling Airline Modifiable Information (AMI) configuration software parts developed internally and published to Boeing Software Control Library (SCL) as part of the mandatory entry into service (EIS) requirement for all the B787 aircrafts delivered to ET in the fiscal year.
-  **Line Operations Safety Audit (LOSA) Management System Development:** Development of LOSA management system was one of the major requirements of the IOSA audit and implemented successfully. The system is developed as per the IATA published standard
-  **E-AWB / e-freight:** piloted and 100% implemented on ADD/JED, ADD/JNB, LUX/LGG/ADD 100% eAWB with Panalpina, LUX/LGG/JNB routes 100% eAWB implemented with PAO; Plan to implement JED/ADD, DXB/ADD, BOM/ADD, ADD/LOS, ADD/HKG, HKG/ADD, ADD/NBO or MBA, ADD/KUL, ADD/SIN and ADD/ICN

## 4. 2 MAINTENANCE CAPABILITY DEVELOPMENT



### Major Projects Completed

The high flow fuel components test facility installation and commissioning is finalized.




#### • In-house Capability Development

-  **PW150A Engine (Q400):** Special tooling requirement for Hot section capability ordered. PW150A Engine Test cell upgrade agreement is finalized and purchase authority was released.
-  **GTCP131 APU (B737NGs):** The APU Overhaul special tools requirement ordered. Test cell upgrading agreement is finalized and purchase authority released.
-  **CFM56-3/7 Engine Parts repair:** The project divided into three phases. Phase I Repair capability for 140 CFM56 Engine Parts completed for further CAA/FAA approvals request. Phase II CFM56 Engine Parts: three repair machines identified and ordered; technical proposal is under preparation to two repair equipment; special tools are identified, quotation collected and under evaluation for procurement; and locally manufactured tools are identified and in-house manufacturing is on progress. Phase III is proprietary task and working closely with manufacturers.
-  **Q400 APU DC Starter/Generator:** The Commissioning and training on the test bench operation, maintenance and calibration completed. Ethiopian Civil Aviation Authority (ECAA) & U.S. Federal Aviation Administration (FAA) approval secured and completed. ET MRO has now capable to maintain in house Q-400 APU and Engine DC starter generator (2 units)
-  **Oxygen Bottles:** Tools are on procurement, facility requirements have been identified and construction of a new shop will be started next budget year.
-  **Electric Linear and Rotary Actuators:** The Commissioning and training on the test bench operation, maintenance and calibration completed. ET CAA and FAA approval secured for 12 components. 11 components regulatory approval is on process due to late finding of additional tool requirements.
-  **CFM56-7 Engine Electrical Harness Maintenance Capability:** Supplier selected and Tester is on procurement process. The necessary parts and tooling identified and on quotation and on order.

#### • Additional Projects

-  **Electronic Control Unit Project:** It is in house maintenance capability for 15 Electronic Control Units. The test bench is ordered and manufacturing started in April 2014. The required tools and equipment for the 15 components are identified.
-  **Feasibility studies:** on different high removal rate aircraft components repair capability development is conducted.

#### • Major Aircraft Modifications

-  **B777 Business Class – Conversion to full flat seats:** Agreement is reached with Zodiac Seating Co. for the installation of Ottoman and cabin integration. The modification addresses six B777-260LR and two B777-300ER airplanes.
-  **Q400 – Conversion of all economy to two class configurations on 2-3 airplanes:** An agreement is concluded with Bombardier aligned with the lease of four new Q400s. The conversion will be done on all Q400 aircraft with the lead time of 52 weeks. The 25% payment is paid to launch the project.
-  **Installation of winglets on the third B767 aircraft:** The winglet installation on two aircraft is completed. The required kit is purchased and fitted for the remaining third aircraft. The installation is planned after summer 2014 season.

## 4.3 FLEET AND FACILITY

### 13 Aircraft Phased in:

- Four B787-800 (Jul. 13, May 14, May 14, Jun14)
- One B737-400F freighter (Aug 13)
- One B777-200LR (Jul. 13)
- Two B777-300ERs (400 seating capacity) phased in November 2013 and January 2014
- One brand new B737-800 leased from AWAS (Jun. 2014)
- Two brand new Q400s leased from Palma Capital Services (Jun 2014)
- One B767-300ER leased from Boeing for four months to fill in the gap created by the 787 incident in London. (The lease cost was covered by Boeing)
- Two 737-700 leased for replacements (Feb. 14, Apr. 14)

### Projects

- Narrow Body Fleet Renewal: Project evaluation completed.
- One B787 FFS, B787 IPT & B787 Virtual Maintenance trainer (VMT) Purchase: B787 VMT installations completed & Ready for Training (RFT) started.
- Purchase of 3 Cessna 172 Pilot Training aircraft: Factory Acceptance completed, and airplanes shipped to ET, delivery & Entry in to Service (EIS) in July 2014.
- Cabin Crew Mock-up Trainer: Technical evaluation completed, winner selected, management approval secured, commercial negotiation completed, AFD loan secured, proposal and definitive agreements concluded. Initial deposit 25% paid. Critical design review completed.
- One DA40/42 Convertible Flight Training Device (FSTD) purchase: Technical and financial evaluation completed. Contract agreement review is in process.

### Phase out:

- One B757-200ER delivered to Ministry of National Defense and working to deliver remaining two aircraft.
- Sale Agreement concluded with Kush Air of South Sudan for two F-50s and one aircraft already delivered.

## 4.4 Infrastructure

### Projects

#### Facility:

#### New Facility Projects







- **New Cargo Terminal:** The construction work has commenced. Loan agreement signed with AFD for civil work of the project. For equipment supply & installation work negotiation is in progress with the two project financier Kreditanstalt für Wiederaufbau (KfW) & Netherlands Development Finance Company (FMO).
- **Temporary Cargo Storage Warehouse:** To alleviate congestion problem, new dry cargo storage warehouse is being built and will be finished soon.
- **4 Star Hotel:** design agreement is signed and the design work is in progress. AVIC has advised to come up with financing proposal from Chinese Banks. Ernest & Young has concluded the land value evaluation and submitted the report to AVIC. Negotiation with the hotel management company is in progress.
- **New Major Maintenance Hangar (No.4):** The design work is completed and approved. Loan agreement is signed and the first advance payment is released by the Bank (EXIM Bank of China). Contractor has mobilized on site and started the construction of site office and clearing of left over material from the site.
- **New Light Maintenance Hangar (No.5):** construction has started with foundation and floor slab works completed. The steel structures assembling works is completed and installation of same has commenced

- **Relocation of Base Services & Parking:** The design build agreement is signed and the site for the work is handed over to the contractor. The contractor has mobilized and completed excavation and cart away works. Backfilling work has commenced. Preliminary design work is completed and is under review by ET. Motor pool relocation area to consider executive gym, relocate the library and clinic that is under review.

#### On-going Facility Projects

- **Further Expansion of Aviation Training Centre:** All construction of Aviation Training Center facilities are progressing well and 90% of the construction work is completed.
  - Commercial training, Cabin Crew training and Human Resource development training class rooms: finishing work is in progress.
  - Workshop building for Aviation Maintenance Training School: completed except for some finishing works.
  - Administration Building for Ethiopian Aviation Academy: completed
  - Student Cafeteria building: finishing work is in progress
  - Auditorium Hall : finishing work is in progress
- **New Head Office Building:** The design work is completed. In the meantime the design will be forwarded to the Addis Ababa City Administration for approval.
- **Expansion, Decoration & Furnishing of Cloud Nine Lounge in Addis Ababa Airport** which is 1000 square meter is completed and has started giving services.

## 4.5. SAFETY AND QUALITY ASSURANCE

-  The 5th IATA Operational Safety Audit (IOSA) was conducted by external auditors and ET passed with no finding.
-  ET was reviewed for Quality and Safety onsite by United Airlines as part of code share agreement negotiation and passed the assessment review with no finding.
-  ET Cargo was audited by EU auditor for Air Cargo Carriers operating into EU countries and for Regulated Agents (ACC3 & RA) on Cargo Security audit and passed the audit with no finding.
-  Handled SAFA, ECAA and other CAA inspection findings
-  Coordination and follow up activity are performed for IATA Fuel Quality Pool (IFQP) audits at Juba Airport
-  A half day free Environmental Management System refresher training delivered by Ethiopian Standards Agency experts to newly assigned EMS team members and existing ones.

## 5. HUMAN CAPITAL DEVELOPMENT













### Training & Development

During the period under review, Aviation Academy enrolled 1,252 new trainees and graduated 1,126 trainees as shown below.


#### 2013-14 Aviation Academy Performance

	Year to Date			
	Admission		Graduation	
	Actual	Target	Actual	Target
Pilots	94	116	99	122
Technicians	301	400	335*	174
Cabin crew	234**	300	195	250
Marketing + Finance	623***	350	400	350
<b>Total</b>	<b>1,252</b>	<b>942</b>	<b>1,126</b>	<b>896</b>







N.B. \*75 Cabin Maintenance trainees, which was not planned during the last budget year graduated at a crash program due to the demand of the operations. Besides, in the first quarter, carried over trainees from 2012/2013 budget year were also graduated. \*\* 20 private cabin crew; \*\*\* 55 private trainees for 4th Quarter and 322 private trainees for year to date.

-  Induction and indoctrination program conducted for over 875 new basic trainees and employees covering the topic of Vision 2025, Values and Mission of the airlines, Growth Transformation Plan (GTP), soft skills, safety and security.
-  Executive Development Course has been given to 20 staff.
-  Business Management Course has been given to 13 staff.
-  Management Development Course has been given to 26 staff.
-  Supervisor Development Course has been given to 78 staff.
-  Recurrent Trainings have been given to 8,291 staff.
-  Career development courses have been given to 324 employees.
-  In-house training provided for 66 employees.
-  Leadership training for 3rd party has been given to 673 trainees.
-  22 MPL II trainees graduated from the Pilot School as first officer on B737-800NG. The training was conducted by Ethiopian Aviation Academy instructors under the supervision of Flight Path.
-  21 CPL Instructors graduated from the Pilot training School. Currently pilot training school runs four MPL classes (MPL-3, MPL-4, MPL-5, and MPL-6) and two CPL classes (CPL 48 and CPL49)
-  European Aviation Safety Agency (EASA) approval for the basic Aircraft Maintenance Training School (AMTS) is on progress and academy is working to get the approval.







#### • Succession Planning

-  In order to ensure sustainable and stable leadership of the airline at all times, 331 potential managers and directors are under developmental study to succeed their supervisors.






## • Coaching & Mentoring

-  In line with our HCM strategy of fast skill development to fill in the wide gap between experienced employees and new comers, and shorten the learning curve for new hires, structured coaching and mentoring program is underway throughout the airline and the status in each division is as follows:
-  Mentoring program for field stations appointees is in preparation phase, with procedure for blended coaching & mentoring program on review.
-  Coaching project is under way in IT, In-flight Catering, Corporate HRM, Finance & Corporate Strategy divisions. The detail progress/developmental work/ is reported to Corporate HRM from project managers every week.
-  MRO already implemented. Purchasing and Supply Chain Management, Ethiopia Aviation Academy (on AMTS, SOM, Cabin Crew, PTS, HR & Curriculum Dev't), Base Services started pilot implementation after training is given to coaches and assessors.
-  Global Call Center, Cargo, Ticket Office & ADD-HUB Airport Operation have started pilot implementation on 180 employees. 20 staffs from global call center have completed their assessment.
-  In-Flight Services started pilot implementation on batch 159 & 22 staffs finished their assessment out of 24 trainees. Remaining assessment to be finished in 1st quarter of 2014/15 budget year & broader implementation to be started in 2014/15.




## • Addressing good governance

-  Conducted three Regular Monthly Labor-Management Consultation Meetings (MCM) with the Basic Trade Union on the agenda items forwarded from both the Union and the Management.
-  Conducted Consultation meeting with the Management Members of Ethiopian In-Flight Catering Division on the issue of Industrial Relations & Good Management with the presence of VP Corporate HRM.
-  Conducted 2 (Two) short briefing sessions for Ethiopian Airline Basic Trade Union Council members and Shop Stewards. Reviewed, commented and sent the draft Memorandum of Understanding (MOU) between ET and Basic Trade Union (BTU) ,
-  Conducted Familiarization with ET Policies Training on the newly revised Corporate HRM Procedure Manual for 17 employees in coordination with Aviation Academy.
-  Provided Induction/Orientation Training Programs regarding the Basics of Industrial Relations and the 10th Collective Agreement.
-  HRM has been monitoring monthly crew meetings of each unit to ensure the culture of candor and transparency and to encourage employees to speak up.






## • Reward & retention

-  Implemented Enterprise Compensation Management , SAP, system
-  Employee's electronic self-service for vacation process, free ticket services, uniform and other employee benefits services commenced in SAP system.
-  Automated attendance control system has been in place and assisted by gate sign in and sign out access control system which is automatically linked with the payroll system.
-  Mapped all jobs for housing and representation allowance and maintained in the system for all eligible employees
-  Implemented salary service increase effective July 01, 2013 and onetime bonus for all Home base employees & foreign assigned employees.




-  An upward salary scale adjustment between 10% and 20% was made to all home base staff with effect of January 01, 2014.
-  For the first time in the airline's history different levels of housing allowance was introduced to all home base employees.
-  Revised international home base salaries of different locations to adjust for CPI.

## • [Internal Communication

-  Structured internal communication through Ethiopian Weekly every day of the week.
-  Creating awareness on ET mission, vision and values through continuous communications.
-  Continue monitoring of crew meeting quality and standard by attending selected crew meeting sessions and providing feedback.
-  Structured daily news and updates on Ethiopian Weekly on ET, ET's values and the air industry in general.
-  Encouraging two way communications through revitalization of suggestion boxes and checking on the efficiency of crew meetings and other forums.

## • Corporate Social Responsibilities

-  As part of its corporate social responsibility, Ethiopian sponsored community development activities, particularly initiatives related to health, education, environment and sports. In the fiscal year 2013/14 third quarter, Ethiopian spent ETB 2,123,635 to support these worthy causes.

# ETHIOPIAN AIRLINES ENTERPRISE SUMMARY OF FINANCIAL RATIOS FOR THE YEAR ENDING 30 JUNE 2014

<i>Description</i>	<i>2013/14</i>	<i>2012/13</i>
<b>1. Profitability Ratio</b>		
1.1 Operating Profit Margin	7.94	7.21
1.2 Net Profit Margin	6.74	5.34
1.4 Return on Total Asset	5.19	4.58
1.5 Return on Equity	27.15	21.62
1.6 Cost of Debt	2.78	3.11
<b>2. Liquidity Ratio</b>		
2.1 Current Ratio	0.96:1	0.97:1
2.2 Quick Ratio	0.72:1	0.73:1
<b>3. Leverage Ratio</b>		
3.1 Debt/Equity Ratio	2.46:1	2.53:1
3.2 Total Debt to Total Asset Ratio	0.75:1	0.75:1
3.3 Times Interest Coverage Ratio	4.08 times	3.73 times

## GLOSSARY

No.	Parameters	Definitions
1	Passenger Seat Factor	RPK divided by ASK.
2	Overall Load Factor	RTK divided by ATK.
3	Yield (cents per RTK)	Transport Revenue earned per RTK.
4	Unit Cost (cents per ATK)	Transport operating costs incurred per ATK.
5	Breakeven Load Factor	The load factor at which revenue will be equal to operating costs.
6	Operating Margin	Operating profit expressed as a percentage of operating revenue.
7	Net Profit Margin	Net profit divided by operating revenue.
8	Return on Capital Employed (ROCE)	Earnings before interest and taxes divided by equity plus long term loan.
9	Current ratio	Total current assets divided by total current liabilities.
10	Quick ratio	Total current assets minus inventory divided by total current liabilities.
11	Net Working Capital	Total current assets minus total current liabilities.
12	Total debt to total asset ratio	Total debt divided by total assets.
13	Debt/Equity ratio	Long term debt plus current maturity of long term debt divided by equity.
14	Times interest cover ratio	Net income before interest and tax divided by interest expense.
15	ATK (Available Ton Kilometers)	Overall capacity measured in tones available for carriage of passengers and cargo load multiplied by the distance flown.
16	RTK (Revenue Ton Kilometers)	Actual traffic load (passenger and cargo) carried in terms of tons multiplied by the distance flown.
17	ASK (Available Seat Kilometers)	Passenger seat capacity measured in seats available multiplied by distance flown.
18	RPK (Revenue Passenger Kilometers)	Number of revenue passengers carried multiplied by the distance flown.



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**INDEPENDENT AUDITORS' REPORT  
TO THE SUPERVISING AUTHORITY OF  
ETHIOPIAN AIRLINES ENTERPRISE**

We have audited the accompanying financial statements of Ethiopian Airlines Enterprise, which comprise the balance sheet as at 30 June 2014 and the profit and loss account, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

***Responsibility for the Financial Statements***

The Enterprise's Chief Executive Officer is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Commercial Code of Ethiopia of 1960, and for such internal control as he determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

**INDEPENDENT AUDITORS' REPORT  
ON THE FINANCIAL STATEMENTS OF  
ETHIOPIAN AIRLINES ENTERPRISE (continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion the financial statements present fairly in all material respects, the financial position of Ethiopian Airlines Enterprise as at 30 June 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Commercial Code of Ethiopia of 1960.

*Audit Services Corporation*

24 February 2015

# ETHIOPIAN AIRLINES ENTERPRISE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2014

	<i>Notes</i>	<i>2014 Ethiopian Birr</i>	<i>2013 Ethiopian Birr</i>
Operating Revenue	3	46,576,492,012	38,498,291,996
Operating Expenses	4	42,869,273,669	35,723,824,951
Gross Operating Profit		<u>3,707,218,343</u>	<u>2,774,467,045</u>
<i>Non - Operating Expense (Income)</i>			
Provision For Stock Obsolescence		19,552,518	-
Provision For Doubtful Debts		70,318,505	70,990,503
Miscellaneous	5	(438,831,472)	(94,453,192)
Borrowing Costs		908,811,197	743,930,083
		<u>559,850,748</u>	<u>720,467,394</u>
Profit For The Year		<u>3,147,367,595</u>	<u>2,053,999,651</u>

ETHIOPIAN AIRLINES ENTERPRISE  
BALANCE SHEET  
AS AT 30 JUNE 2014

		2014 <i>Ethiopian Birr</i>	2013 <i>Ethiopian Birr</i>
<b>Assets</b>			
	Notes		
<b>Non - Current Assets</b>			
Property, Plant And Equipment	7	45,728,219,991	36,933,266,748
Investments	8	466,358,041	325,980,380
Standing Deposits	9	1,996,253,212	1,655,201,112
Deferred Charges	10	434,666,143	353,104,031
		<u>48,625,497,387</u>	<u>39,267,552,271</u>
<b>Current Assets</b>			
Stock	11	1,762,156,838	1,242,159,210
Debtors And Prepayments	12	11,503,784,609	9,439,810,893
Short Term Investment		-	30,575,500
Cash And Bank Balances	13	5,692,048,996	3,302,223,479
		<u>18,957,990,443</u>	<u>14,014,769,082</u>
<b>Total Assets</b>		<u>67,583,487,830</u>	<u>53,282,321,353</u>
<b>Equity And Liabilities Capital</b>			
Authorized - <u>Birr 20,000,000,000</u>			
Paid Up	14	14,702,430,971	9,000,000,000
Excess Capital		-	2,555,063,376
		<u>14,702,430,971</u>	<u>11,555,063,376</u>
<b>Contributions</b>	15	591,710,264	697,447,843
<b>Total Equity</b>		<u>15,294,141,235</u>	<u>12,252,511,219</u>
<b>Non - Current Liabilities</b>			
Long Term Loans	16	31,404,445,815	26,123,935,578
Provision For Maintenance	17	765,745,312	422,610,213
Deferred And Non-Current Liabilities	18	547,966,282	206,383,572
		<u>32,718,157,409</u>	<u>26,752,929,363</u>
<b>Current Liabilities</b>			
Creditors And Accruals	19	7,721,652,198	5,421,240,687
Unearned Transportation		7,048,282,843	5,713,202,406
Current Maturity Of Long Term Loans	16	4,801,254,145	3,142,437,678
		<u>19,571,189,186</u>	<u>14,276,880,771</u>
<b>Total Equity And Liabilities</b>		<u>67,583,487,830</u>	<u>53,282,321,353</u>

## ETHIOPIAN AIRLINES ENTERPRISE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	<i>Paid up capital</i> <i>Ethiopian Birr</i>	<i>Excess capital</i> <i>Ethiopian Birr</i>	<i>Contributions</i> <i>Ethiopian Birr</i>	<i>Profit</i> <i>Ethiopian Birr</i>	<i>Total</i> <i>Ethiopian Birr</i>
<b><i>Balance at 30 June 2012</i></b>	9,000,000,000	501,063,725	626,140,297	-	10,127,204,022
Profit for the year	-	-	-	2,053,999,651	2,053,999,651
Transfer to capital	-	2,053,999,651	-	(2,053,999,651)	-
Additions to contributions	-	-	71,307,546	-	71,307,546
<b><i>Balance at 30 June 2013</i></b>	<b>9,000,000,000</b>	<b>2,555,063,376</b>	<b>697,447,843</b>	<b>-</b>	<b>12,252,511,219</b>
Profit for the year	-	-	-	3,147,367,595	3,147,367,595
Transfer to capital	5,702,430,971	(2,555,063,376)	-	(3,147,367,595)	-
Amortization of contributions	-	-	(105,737,579)	-	(105,737,579)
<b><i>Balance at 30 June 2014</i></b>	<b>14,702,430,971</b>	<b>-</b>	<b>591,710,264</b>	<b>-</b>	<b>15,294,141,235</b>



# ETHIOPIAN AIRLINES ENTERPRISE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

Annual Report 2013/14

	<i>2014</i> <i>Ethiopian Birr</i>	<i>2013</i> <i>Ethiopian Birr</i>
<b><i>Cash Flows From Operating Activities</i></b>		
Profit For The Year	3,147,367,595	2,053,999,651
Adjustments For		
Finance Costs Recognized In Profit Or Loss	908,811,197	743,930,083
Interest Income Recognized In Profit Or Loss	(19,566,546)	(14,060,720)
“Loss (Gain) On Currency Fluctuation Recognized In Profit Or Loss”	379,110,964	161,130,075
Depreciation Of Non-Current Assets	2,822,205,289	2,109,890,100
Gain On Disposal Of Property, Plant And Equipment	(6,349,398)	(191,175,087)
Provision For Doubtful Debts	70,196,732	70,990,504
Provision For Stock Obsolescence	19,552,518	-
Provision For Maintenance	343,135,099	376,040,768
Creditors’ Accounts Written Off In Profit Or Loss	<u>171,644,893</u>	<u>217,201,832</u>
	<b>7,836,108,343</b>	<b>5,527,947,206</b>
<b><i>Movements In Working Capital</i></b>		
Increase In Stock	(701,628,728)	(682,545,162)
Increase In Debtors And Prepayments	(2,274,548,109)	(2,437,863,323)
Decrease In Standing Deposits	(341,052,100)	(495,659,297)
Increase In Creditors	2,452,133,058	1,374,228,158
Increase In Unearned Transportation	<u>1,335,080,437</u>	<u>1,778,375,366</u>
<b><i>Cash Generated From Operations</i></b>	<b>8,306,092,901</b>	<b>5,064,482,948</b>
Interest Paid	(890,594,927)	(704,579,950)
Payments Made In Connection With Currency Fluctuation	<u>(380,919,916)</u>	<u>(133,478,962)</u>
<b><i>Net Cash Generated By Operating Activities</i></b>	<b><u>7,034,578,058</u></b>	<b><u>4,226,424,036</u></b>

# ETHIOPIAN AIRLINES ENTERPRISE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

	<i>2014</i> <i>Ethiopian Birr</i>	<i>2013</i> <i>Ethiopian Birr</i>
<i>Cash Flows From Investing Activities</i>		
Interest Received	19,566,546	14,060,720
Payments For Property, Plant And Equipment	(10,102,447,149)	(13,265,053,445)
Proceeds From Disposal Of Property, Plant And Equipment	31,251,953	330,717,813
Proceeds From Matured Investments	30,575,500	-
Payment For Short Term Investment	-	(31,118,500)
Net Cash Used In Investing Activities	<u>(10,021,053,150)</u>	<u>(12,951,393,412)</u>
<i>Cash Flows From Financing Activities</i>		
Net Increase (Decrease) In Contributions	(105,737,579)	71,307,546
Proceeds From Borrowings	9,654,078,381	12,099,484,971
Repayment Of Borrowings	(4,172,040,193)	(2,755,716,249)
Net Cash Generated From Financing Activities	<u>5,376,300,609</u>	<u>9,415,076,268</u>
Increase In Cash And Cash Equivalents	2,389,825,517	690,106,892
Cash And Cash Equivalents At The Beginning Of The Year	<u>3,302,223,479</u>	<u>2,612,116,587</u>
Cash And Cash Equivalents At The End Of The Year	<u>5,692,048,996</u>	<u>3,302,223,479</u>



**WARM ETHIOPIAN HOSPITALITY  
EVERY TIME YOU FLY**

# ETHIOPIAN AIRLINES ENTERPRISE NOTES TO THE FINANCIAL STATEMENTS

## 1. ENTERPRISE INFORMATION

Ethiopian Airlines 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 83 international destinations and 20 domestic.

The Enterprise 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 and 292/2013.

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

The Enterprise is wholly owned by the Government of the Federal Democratic Republic of Ethiopia.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and in the manner required by the Commercial Code of Ethiopia of 1960.

### b) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the measurement of impaired assets at their recoverable amounts. The principal accounting policies are set out below.

### c) Revenue

Revenue from services is recognized when the service is provided. Revenue is measured at the fair value of the consideration received or receivable.

### d) Other income

#### i) Finance revenue

Finance revenue comprises interest receivable from bank deposits. Finance revenue is recognized as it accrues in profit or loss, using the effective yield method.

#### ii) Unclaimed sundry liabilities

Unclaimed sundry liabilities over one year old are absorbed to non-operating income.

#### iii) Other operating income

Other income is recognized when significant risks and rewards of ownership are transferred to the recipient and the amounts of revenue can be measured reliably.

### e) Taxation

The Enterprise is exempt from income tax, in accordance with a decision of the Council of Ministers

# ETHIOPIAN AIRLINES ENTERPRISE

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *f) Tangible assets*

##### *i) Property, plant and equipment*

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful residual values and depreciation method are reviewed at the end of each reporting period.

The useful lives of flight equipment are estimated at between 7 and 18 years, dependent on type of aircraft. Other property is depreciated over between 4 and 20 years. Assets costing less than between Birr 5,000 and Birr 30,000 each, depending on purpose, are expensed at the time of acquisition.

##### *ii) Major overhauls*

###### *1. Own aircraft, including engines*

Major overhaul expenditure is capitalized and amortized over the average expected life between major overhauls.

###### *2. Leased aircraft, including engines*

A provision for maintenance is made to match aircraft maintenance costs with the generated revenues.

###### *3. Capital work orders in progress*

Capital work orders in progress are included under property, plant and equipment and comprise costs incurred on ongoing capital works. These costs include material, transport, interest and labour.

#### *g) Investments*

Investments are stated at cost. Income is recognized only to the extent that distributions are received from net profits that have arisen subsequent to the date of acquisition.

#### *h) Deferred charges*

Predelivery expenses in connection with the acquisition of new aircraft are held in this account until the associated aircraft are received and are then capitalized. Miscellaneous deferred charges are amortized over periods of between four and eight years.

#### *i) Stock*

Stock is stated at weighted average cost, less provision for impairment through obsolescence or other reasons.

#### *j) Financial instruments*

Financial assets and financial liabilities are recognized when the Enterprise becomes a party to the contractual provisions of the instrument. They are initially measured at fair value. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

# ETHIOPIAN AIRLINES ENTERPRISE

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *k) Unearned transportation*

Passenger ticket and cargo airway bill sales are recorded as current liabilities in the unearned transportation account until recognized as revenue when the transportation services are provided. Because experience has shown that there are few and only minor claims after the expiry date of tickets, the value of unused tickets and miscellaneous charge orders over one year old are credited to revenue, when they are no longer valid.

#### *l) Contributions*

Contributions are purchase incentives given by suppliers. A contribution is amortized through profit or loss over the life of the aircraft for which it was received.

#### *m) Borrowing costs*

Borrowing costs incurred directly attributable to the acquisition, construction or production of qualifying assets, including aircraft, which are assets that necessarily take a substantial period of time to prepare or acquire for their intended use, are added to the cost of those assets, until such time as the assets are ready for their intended use. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### *n) Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand, cash at banks in current and deposit accounts and short term, highly liquid investments with maturity periods of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash in hand and at banks net of short term finances.

#### *o) Translation of foreign currencies*

Transactions in foreign currencies during the year are translated into Ethiopian Birr at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rates ruling one month prior to the balance sheet date. Resultant exchange differences are recognized in profit or loss, except as discussed below. Loans in foreign currencies are fully used to finance the acquisition of property, plant and equipment, mostly aircraft and accessories. The acquisition of these aircraft and other flight equipment are primarily made in United States dollars, which is the functional currency of the Enterprise. Their values are translated into Ethiopian Birr at the exchange rates prevailing at the time the loan is incurred and the assets are acquired. As at the balance sheet date such loan balances are translated at the exchange rates ruling at the beginning of the month. Resultant exchange differences are recognized as additional acquisition costs of the pertinent assets and not in profit or loss.

#### *p) Special purpose entities*

The Enterprise has established special purpose entities for the purpose of selling and leasing back aircraft and accessories. Those latter are registered in the name 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.

# ETHIOPIAN AIRLINES ENTERPRISE

## NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Ethiopian Birr	2013 Ethiopian Birr
<b>3 Operating Revenue</b>		
Passenger	34,713,655,194	28,611,469,243
Freight	6,436,573,911	5,584,120,048
Charter	1,927,242,184	1,477,805,231
Excess baggage	1,430,019,659	1,377,347,657
Customer services - work orders	484,649,534	234,342,615
Subsidiaries	453,912,362	387,357,625
Mail	97,007,014	75,999,701
Commission	25,088,929	23,093,972
Miscellaneous	1,008,343,225	726,755,904
	<b><u>46,576,492,012</u></b>	<b><u>38,498,291,996</u></b>
<b>4 Operating Expenses</b>		
Salaries and wages	2,568,566,159	1,955,159,117
Aircraft fuel and oil	19,429,043,069	16,648,123,491
Rentals	2,596,318,103	2,314,364,370
Overflying and navigation	2,544,037,721	2,033,542,579
Depreciation of flying equipment	2,439,820,319	1,863,350,648
Passengers' expense	2,130,062,786	1,453,049,129
Handling	1,820,563,110	1,467,509,052
Commission and incentives	1,575,140,709	1,410,751,625
Foreign overhauls	1,253,096,031	1,476,400,474
Maintenance of leased aircraft	1,159,232,433	911,026,024
Landing and parking	1,127,503,877	923,917,785
Central reservation system charge	1,041,204,646	730,816,009
Aircraft materials	778,108,695	278,050,119
Travel	776,975,893	669,619,467
Service	582,552,652	442,746,244
Depreciation non - flying equipment	301,950,066	246,539,453
Insurance	290,178,785	278,552,974
Utilities	266,452,564	218,279,851
Taxes	75,284,380	47,271,693
Advertising and publishing	64,845,712	38,568,611
Training	34,821,127	65,307,714
Amortization	27,494,813	24,125,953
Entertainment	7,040,764	2,549,971
Supplies	(101,738,160)	210,272,829
Other	80,717,415	13,929,769
	<b><u>42,869,273,669</u></b>	<b><u>35,723,824,951</u></b>

# ETHIOPIAN AIRLINES ENTERPRISE NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Ethiopian Birr	2013 Ethiopian Birr
<b>5</b> <i>Miscellaneous Non - Operating Expense (Income)</i>		
Credit Card Service Charge	166,831,761	133,334,976
Bank Charges	66,133,981	52,826,167
Loss (Gain) On Currency Fluctuation	(379,110,963)	161,130,075
Write Back Of Creditors Accounts	(171,644,893)	(217,201,832)
Interest Income	(19,566,546)	(14,060,720)
"Gain On Disposal Of Property, Plant And Equipment"	(6,349,398)	(191,175,087)
Miscellaneous	(95,125,414)	(19,306,771)
	<b><u>(438,831,472)</u></b>	<b><u>(94,453,192)</u></b>
<b>6</b> <i>Staff Costs</i>		
Salaries And Wages	3,281,594,276	2,642,999,996
Pension Costs - Company Contribution	103,348,690	71,955,078
	<b><u>3,384,942,966</u></b>	<b><u>2,714,955,074</u></b>



## ETHIOPIAN AIRLINES ENTERPRISE NOTES TO THE FINANCIAL STATEMENTS (continued)

### 7 Property, Plant And Equipment

	" Balance At 30 June 2013" Etb	Additions Etb	Currency Fluctua- tion Adjustment Etb	Disposals Etb	" Balance At 30 June 2014" Etb
<b>Cost Or Valuation</b>					
Flight Equipment	39,011,249,171	10,365,136,139	1,459,097,468	(17,779,008)	50,817,703,770
Other Property	<u>2,563,914,152</u>	551,318,774	-	(69,895,284)	3,045,337,642
	<b>41,575,163,323</b>	<b>10,916,454,913</b>	<b>1,459,097,468</b>	<b>(87,674,292)</b>	<b>53,863,041,412</b>
<b>Depreciation</b>					
Flight Equipment	6,130,022,115	2,439,812,384	-	(493,010)	8,569,341,489
Other Property	<u>1,340,951,052</u>	301,876,435	-	(62,278,727)	1,580,548,760
	<b>7,470,973,167</b>	<b>2,741,688,819</b>	-	<b>(62,771,737)</b>	<b>10,149,890,249</b>
<b>Net Book Value</b>					
Flight Equipment	32,881,227,056				42,248,362,281
Other Property	<u>1,222,963,100</u>				1,464,788,882
	34,104,190,156				<b>43,713,151,163</b>
Work Orders In Progress	732,454,503				769,497,301
Capital Goods In Transit	1,781,534				216,045
"Advances And Predelivery Deposits For Flight Equipment"	2,094,840,555				1,245,355,482
	<b>36,933,266,748</b>				<b>45,728,219,991</b>

### **Assets Pledged As Security**

Some Of The Company's Flight Equipment And All Other Property Are Held As Collateral By Various Lending Institutes.

# ETHIOPIAN AIRLINES ENTERPRISE NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Ethiopian Birr	2013 Ethiopian Birr
<b>8</b>	<b><i>Investments</i></b>	
Asky Airlines		
“ (18,000 Shares Of Us Dollars 1,000 Each Par Value, Representing 15% Of Authorized Capital)”	309,231,000	309,231,000
Malawian Airlines	140,414,571	-
Other Foreign Investments	<u>16,712,470</u>	<u>16,749,380</u>
	<b><u>466,358,041</u></b>	<b><u>325,980,380</u></b>
<b>9</b>	<b><i>Standing Deposits</i></b>	
These Are Deposits For Security, Aircraft Lease, Hotel, Hospital And Similar Purposes.		
<b>10</b>	<b><i>Deferred Charges</i></b>	
Star Alliance Membership Fee		
Cost,		
Net Of : Amortization	62,717,295	91,370,536
“Administrative And Transaction Costs For Purchase Of New Aircraft”	259,231,542	144,547,459
Miscellaneous	<u>112,717,306</u>	<u>117,186,036</u>
	<b><u>434,666,143</u></b>	<b><u>353,104,031</u></b>
<b>11</b>	<b><i>Stock</i></b>	
Stock In Store	1,120,481,222	823,026,478
Supplies Stock - Customer Work Orders	24,789,485	17,790,342
Stock Of Stationery And Other Materials	<u>736,486,532</u>	<u>501,390,274</u>
	1,881,757,239	1,342,207,094
Less: Provision For Stock Obsolescence	<u>119,600,401</u>	<u>100,047,884</u>
	<b><u>1,762,156,838</u></b>	<b><u>1,242,159,210</u></b>

# ETHIOPIAN AIRLINES ENTERPRISE NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Ethiopian Birr	2013 Ethiopian Birr
<b>12 Debtors And Prepayments</b>		
Transportation - Others	3,013,917,263	2,827,625,287
Deposits and prepayments	2,999,922,891	2,028,195,494
Deposits And Prepayments	2,999,922,891	2,028,195,494
Unverified Deposits	1,660,753,352	1,702,432,724
Transportation - Airlines	749,001,876	390,910,391
Claims From Aircraft Lessor	414,766,416	12,910,540
Prepaid Maintenance Costs	313,543,982	236,514,091
Ethiopian Government	242,809,163	221,967,143
Predelivery Payments	118,991,810	450,551,870
Airmail	31,828,055	30,500,382
Miscellaneous	<u>2,324,717,063</u>	<u>1,834,473,502</u>
	11,870,251,871	9,736,081,424
Less: Provision For Doubtful Debts	<u>366,467,262</u>	296,270,531
	<b><u>11,503,784,609</u></b>	<b><u>9,439,810,893</u></b>
All Provisions For Impairment Are Specific.		
<b>13 Cash And Bank Balances</b>		
Cash With Foreign Banks	2,679,043,761	949,709,257
"Less: Provision For Accounts, Difficult To Transfer"	<u>2,128,321</u>	67,949,248
	2,676,915,440	881,760,009
Cash With Local Banks - (Net Overdrawn)	(294,218,520)	(94,739,108)
Foreign Short Term Deposits	3,250,215,988	2,431,150,688
Cash On Hand	59,136,088	84,051,890
	<b><u>5,692,048,996</u></b>	<b><u>3,302,223,479</u></b>

The Enterprise Has An Overdraft Facility Of Birr 350,000,000 With Commercial Bank Of Ethiopia Bearing Interest At The Rate Of 9.5% Per Annum, And Secured On All Of The Moveable And Immoveable Property Of The Enterprise Except For Aircraft.

# ETHIOPIAN AIRLINES ENTERPRISE NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Ethiopian Birr	2013 Ethiopian Birr
<b>14 Capital</b>		
"The Enterprise Is Wholly Owned By The Government Of The Federal Democratic Republic Of Ethiopia. There Are No Shares And No Par Value. The Enterprise Is Authorized By The Council Of Ministers To Transfer The Net Profits To Paid Up Capital."		
<b>15 Contributions</b>		
These Represent The Value Of Incentives Given By Suppliers, Less Amortization.		
<b>16 Long Term Loans</b>		
	2014 Ethiopian Birr	2013 Ethiopian Birr
Balance At 30 June 2013	29,266,373,256	18,608,523,184
Additional Loans	9,654,078,381	12,099,484,971
Foreign Exchange Fluctuation	<u>1,457,288,516</u>	<u>1,314,081,350</u>
	40,377,740,153	32,022,089,505
Less: Repayments	<u>4,172,040,193</u>	<u>2,755,716,249</u>
	<b>36,205,699,960</b>	29,266,373,256
"Less: Amounts Repayable Within 12 Months"	<u>4,801,254,145</u>	<u>3,142,437,678</u>
	<b><u>31,404,445,815</u></b>	<b><u>26,123,935,578</u></b>
Loans From Foreign Lending Institutions, Secured On The Aircrafts, Bearing Interest At Average Rates Of 2.57% Per Annum, And Repayable In Quarterly Installements.		34,182,058,957
Secured And Unsecured Loans From Local And Foreign Lending Institutions And Development Agencies, Bearing Interest At Rates Of Between 4% And 9% Per Annum, And Repayable Mainly In Quarterly Installements.		2,023,641,003
		<b><u>36,205,699,960</u></b>

## ETHIOPIAN AIRLINES ENTERPRISE NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Ethiopian Birr	2013 Ethiopian Birr
<b>17</b>	<b><i>Provision For Maintenance</i></b>	
Balance At 30 June 2013	422,610,213	46,569,445
Additional Provision	513,557,552	569,109,602
Reduction Arising From Actual Costs	(170,422,453)	(193,068,834)
	<b>765,745,312</b>	<b>422,610,213</b>
The Provision For Maintenance Is Made To Match Aircraft Maintenance Costs With The Generated Revenues.		
<b>18</b>	<b><i>Deferred And Non-Current Liabilities</i></b>	
Deferred Liabilities		
Training Of Personnel Of Other Airlines	41,173,726	24,921,350
Accumulated Employees' Fines	7,651,965	6,147,520
Management Fee	<u>11,281,382</u>	<u>1,343,323</u>
	<b><u>60,107,073</u></b>	<b><u>32,412,193</u></b>
Non - Current Liabilities		
Security Deposits	136,124,681	93,194,678
Foreign Termination Indemnity	20,425,791	19,327,822
Retentions Payable	37,453,204	33,234,430
Purchase Incentive	15,439,656	20,749,036
Miscellaneous	<u>278,415,877</u>	<u>7,465,413</u>
	<b><u>487,859,209</u></b>	<b><u>173,971,379</u></b>
	<b><u>547,966,282</u></b>	<b><u>206,383,572</u></b>

# ETHIOPIAN AIRLINES ENTERPRISE NOTES TO THE FINANCIAL STATEMENTS (continued)

	2014 Ethiopian Birr	2013 Ethiopian Birr
<b>19</b>	<b><i>Creditors And Accruals</i></b>	
Transportation Tax And Embarkation Fees	1,104,306,420	776,552,374
Payable To Oil Companies	1,060,008,351	1,997,147,603
Goods Received But Not Billed	425,232,232	-
Customers' Advances For Work Orders	158,994,503	67,041,493
Accrued Interest	146,107,783	127,891,513
"Accruals For Leasing And Maintenance Of Aircraft"	50,680,398	41,879,172
Pool Apportionment With Other Airlines	39,844,059	54,969,497
Cost Of Moving Materials	-	2,715,071
Miscellaneous	3,314,605,365	1,499,829,748
Others	1,421,873,087	853,214,216
	<b><u>7,721,652,198</u></b>	<b><u>5,421,240,687</u></b>

## **20** *Retirement Benefit Obligations*

The Enterprise Makes Contributions To A Statutory Defined Pension Scheme. The Employer And The Employee Make Contributions Of 9% And 7% Of The Employee's Basic Salary As Determined By Statute.

## **21** *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 By Way

Of Currency Fluctuation Adjustment To Long Term Loans 1,459,097,468

An Increase In Deferred Charges By Way Of A Transfer From Stock 162,078,582

## **22** *Risks*

### **(A)** *Credit Risk*

The Enterprise's Maximum Exposure To Credit Risk In Relation To Each Class Of Recognized Financial Assets Is The Carrying Amount Of Those Assets As Shown On The Balance Sheet.

The Risk That Counter-Parties To Trading Instruments Might Default On Their Obligations Is Monitored On An On-Going Basis By The Appropriate Management Organ.

# ETHIOPIAN AIRLINES ENTERPRISE NOTES TO THE FINANCIAL STATEMENTS (continued)

2014  
Ethiopian Birr

2013  
Ethiopian Birr

## **(B) Liquidity Risk**

Liquidity Risk Arises In The General Funding Of The Enterprise's Activities. It Includes Both The Risk Of Being Unable To Fund Liabilities At Appropriate Maturities And Rates And The Risk Of Being Unable To Liquidate An Asset At A Reasonable Price And In An Appropriate Time frame.

"The Enterprise Has Access To A Diverse Funding Base. This Enhances Funding Flexibility And Limits Dependence On Any One Source Of Funds."

## **(C) Interest Rate Risk**

Current Borrowings Are At Fixed And Floating Rates Averaging 2.57% P.A. Investments Made By The Enterprise In Various International Banks Generated Interest Income That Covered The Cost Of Borrowing By 2.15% In The Year 2014 Compared To 1.89% In The Previous Financial Year.

## **(D) Foreign Currency Risk**

Over 90% Of The Monies Earned By The Enterprise Are In Hard And Convertible Currencies.

## **23 Commitments**

"The Enterprise Has Commitments Not Provided For In These Financial Statements, Of Birr 50,337,750,000 For The Purchase Of 22 Aircraft. The Commitment For The Purchase Of 9 Of These, Amounting To Birr 18,706,250,000, Is With The Possibility Of A Sale And Lease-Back Arrangement, Which Is To Be Decided In Future. Birr 1,591,190,476 For The Construction Of A Maintenance Hangar."

## **24 Contingent Liabilities**

The Enterprise Has Contingent Liabilities, Not Provided For In These Financial Statements, Of Birr 276,141,055 In Respect Of Legal Actions Brought By Different Organizations And Individuals, Which Are Being Contested By The Enterprise. It Is Not Possible To Determine The Outcome Of These Cases.

## **25 Incorporation**

"The Enterprise Is Incorporated In Ethiopia Under Public Enterprises Proclamation No. 25/1992 And Is Domiciled In Ethiopia"

## **26 Functional And Presentation Currency**

"The Functional Currency Of The Enterprise Is The United States Dollar. These Financial Statements Are Presented In Ethiopian Birr."

## **27 Date Of Authorization**

"The Chief Executive Officer Of The Enterprise Authorized The Issue Of These Financial Statements On 24 February 2015"

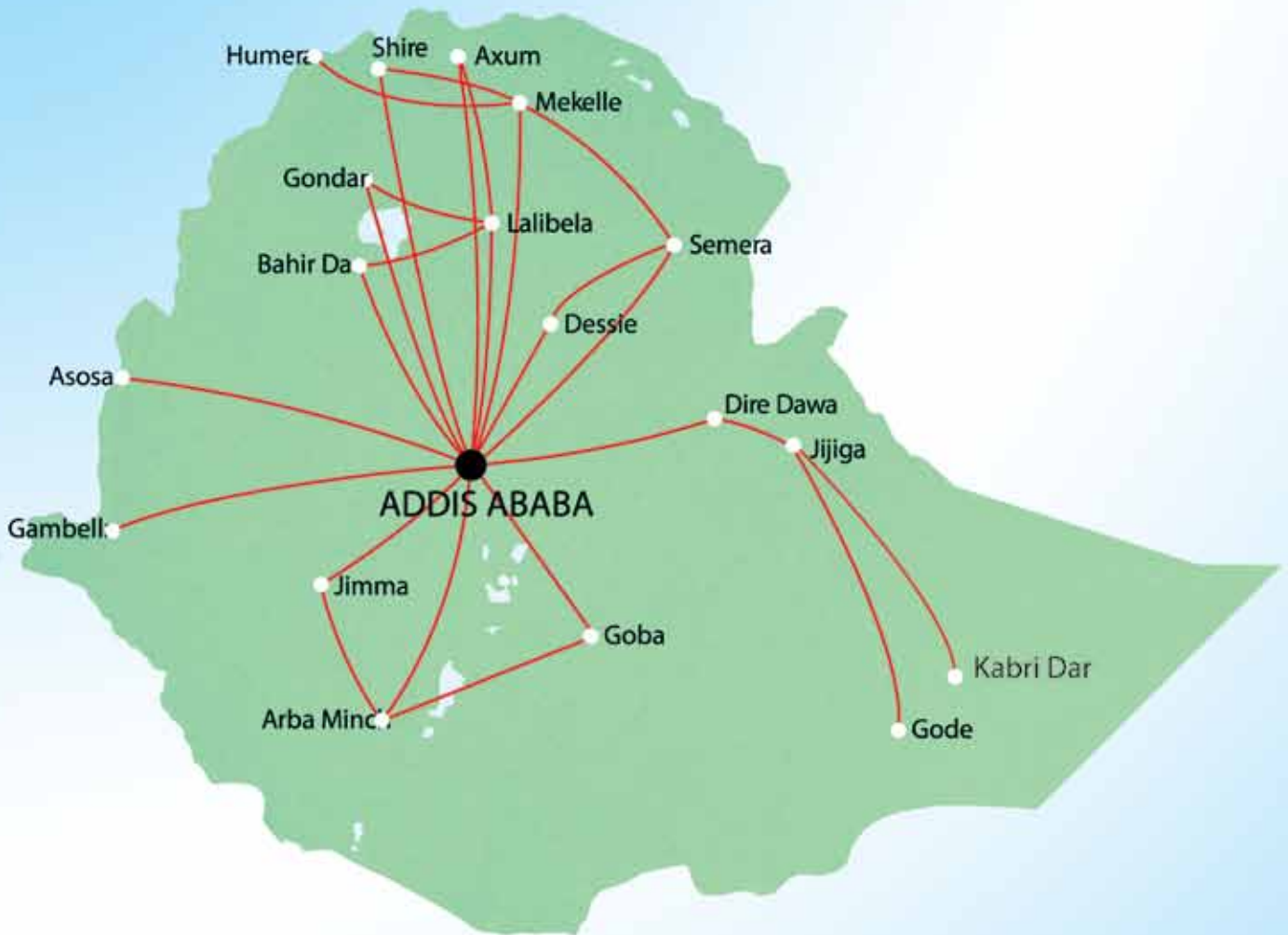




**MAP KEY**

- Ethiopian destinations
- Codeshare flights
- Future destinations
- One-way nonstop
- ASKY routes





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APT – Airport Office  
CGO – Cargo Office  
CELL – Cell phone



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