A STAR ALLIANCE MEMBER™

Ethiopian
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THE NEW SPIRIT OF AFRICA

ANNUAL REPORT
2010-11

Ethiopian
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A STAR ALLIANCE MEMBER™

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THE NEW SPIRIT OF AFRICA

BOARD OF MANAGEMENT

1	*H.E. Mr. Addisu Legesse*	*Board Chairman*
2	*H.E. Mrs. Sinkenesh Ejigu*	*Board Member*
3	*H.E. Ambassador Berhane Gebre-christos*	*Board Members*
4	*H.E. Mr. Sisay Gemechu*	*Board Member*
5	*Mr. Mesfin Lemma*	*Board Member*
6	*Maj. Gen. Molla H. Mariam*	*Board Member*
7	*Mr. Mussa Mohammed*	*Board Member*
8	*Mr. Alemayehu Assefa*	*Board Member*
9	*Mr. Retta Melaku*	*Board Member*
10	*Mr. Tewodros Balcha*	*Board Member*

CEO's MESSAGE

The year 2011 has been very challenging one for the entire airlines industry in general and Ethiopian in particular. Following the Arab Spring, crude oil price has risen from an average of USD 79 per barrel to a peak of US 122 per barrel. My executive management had to battle with such a daunting challenge in a time when we have embarked on to one of the most ambitious growth and expansion program in line with our Vision 2025 strategic road map. The weak economies in Europe, USA and the civil unrest in North Africa and the Middle East have also increased pressure on the top line of our P&L statement. This tough economics operating environment severely tested our ability to effectively manage the different businesses of the airline.

However, with strong teamwork, dedication and hard work among all the 6,286 brave men and women of the airline, executive management and the Board of Directors, we have made it an eventful, demanding, but ultimately successful financial year. As a result, I am delighted to report that Ethiopian Airlines has passed the test with remarkable success and registered strong growth rates across all performance parameters compared to the last fiscal year.

Capacity measured in terms of Available Seat Kilometers (ASK) increase by 24%; passengers carried grew by 19%; freight uplift rose by 20%; operating revenue reached ETB 24.7 Billion, higher by 43%, whereas operating expense topped ETB 24.3 Billion, a 53% increase primarily due to the rise of oil and fuel prices. Consequently, the net result of the fiscal year 2010/2011 shows a net profit of ETB 1.23 Billion.

Although, for the major part of the year, we have focused on maintaining high frequency strategy rather than network expansion; we have added Hangzhou, Bangui, Milan, Maputo and Malakal to our list of worldwide destinations in response to the growing demand of our customers. I need not elaborate on the added value and benefits to our loyal customers as a result of bringing these dynamic and exotic cities into the family of Ethiopian's global network.

Our fleet modernization project has seen, in the beginning of the fiscal year, the complete replacement of the F-50 fleet by the modern technology new fleet of the Bombardier Q-400 which has been serving our domestic and regional routes. This aircraft is the fastest, quietest and most economical turbo-Propeller in its category.
With the arrival of its B777-200 LRs, Ethiopian also upgraded the standards of its services thereby enhancing its passenger comfort. The new fleet allowed Ethiopian to introduce a world class sleeper seats and a state-of-the-art entertainment system in business class. The B777-200LR is an ultra modern and long-range twin engine worldliner capable of connecting virtually any two cities in the world nonstop. As a result, Ethiopian now flies daily nonstop to Beijing and likewise from Washington DC to Addis Ababa.

Ethiopian Airlines is helping and playing a leading role in transforming Addis Ababa and Ethiopia into a world class aviation hub of the African continent not only for trade and business but also for tourism. Addis Ababa is now becoming a pivotal link that is connecting four continents.

In view of these positive developmental and success stories, as well as our policy of continuous improvements in all areas of the Airline's operations, we look forward to even greater results in 2011/12 culminating in increased customer satisfaction. The future of Ethiopian Airlines is bright.

With its exceptional know-how, long time experience, management efficiency and flexibility and employees dedication; Ethiopian is well positioned for continued growth and success stemming from a history of stellar achievements.
Through high professional standards, commitment and visionary leadership at all levels of the organization, I am very confident that Ethiopian will continue on the path of excellence and prosperity in line with its Vision 2025. I would also like to add a word of gratitude and sincere appreciation to all our customers and stakeholders for their continued support that made the fiscal year 2010/11 yet another year of success.

Tewolde G. Mariam
Chief Executive Officer

MANAGEMENT TEAM

MR. Tewolde Gebremariam
Chief Executive Officer

Mr. Gobena Mikael
A/CCO and SVP Global Sales

Mr. Mesfin Tassew
Chief Operating Officer

Mr. Kassim Geressu
Chief Financial Officer

Mr. Essayas Wolde Mariam
VP Ethiopian Cargo

Mr. Zemene Nega
SVP MRO

Mrs. Elizabeth Getachew
SVP Corporate HRM

Mr. Samuel Assefa
VP Ethiopian Aviation Academy

Mr. Yissehak Zewoldi
VP Alliances & Corporate Strategic Planning

Mr. Yeneneh Tekleyes
VP Marketing

Captain Desta Zeru
VP Flight Operations

Mr. Solomon Debebe
VP Customer Services

Mr. Kemeredin Bedru
Chief Information Officer

Mr. Nega Mekonnen
VP Corporate Finance

Mr. Wassu Zelelew
VP Internal Audit & Compliance

Ms. Rahel Zerihun
VP Legal Counsel & Corporate Secretariat

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.

CORPORATE SOCIAL RESPONSIBILTY

Ethiopian Airlines as a leading African airline will continue to support the social development efforts of the continent further to providing aviation services to its customers. Ethiopian this year also extended its support to various social development projects designed to build the livelihood of individuals, the community and the society in general. For Ethiopian Airlines, business means creating a better world for the society as well. The following were some of such activities undertaken by Ethiopian during the year.

Ethiopian Carries Humanitarian Goods on its 777-200LR Delivery Flights

Ethiopian transported much needed anesthesia equipment for the Black Lion Hospital and humanitarian goods like books and medical supplies for other three nonprofit organizations. The goods were transported to Ethiopia by the newly delivered four 777-200LRs between November 2010 and April 2011. The project involved more than six tons of books and medical supplies in collaboration with the Boeing Company, Seattle Anesthesia Outreach (SAO), Ethiopian Historic Conservation Council and Sunshine Construction Philanthropic Foundation.

Ethiopian 777-200LR loading medical equipment in Seattle for Black Lion Hospital

Support for Children Heart Fund of Ethiopia

Ethiopian is a major collaborator of the Children Heart Fund of Ethiopia since 1990s. Before the Center was established in Addis, hundreds of children were saved from life-threatening heart disease through successful heart surgery oversees. Ethiopian played a vital role by providing air transportation to destinations as far as the USA and Bangkok. Today, with the help of responsible citizens, the center has its own facilities in Addis and Ethiopian now sponsors medical professionals traveling to Addis to give cardiac surgeries for children and carries medical equipment with discounted rate accorded to the Center.

Walking for a Worthy Cause

Ethiopian is a long time partner of Cheshire Services supporting children and young people with physical disabilities in Ethiopia. Every year employees of Ethiopian participate in the annual walk organized by Cheshire Services Ethiopia to help the disabled children.

Ethiopian's staff participated in the event

Ethiopian's Contribution for the Needy

Ethiopian donated ETB 100,000 (ETB one hundred thousand) for the Abune Zena Markos Association for Children and the Elderly (NGO). The Association has been engaged in rehabilitating people with basic needs and with the ultimate aim of breaking the culture of dependence, helping orphans, infants and the elderly by providing their needs. The Association has so far facilitated schooling for 244 children and a day care has been established giving shelter to 32 infants while their parents are made to do some work in order to support themselves. Ethiopian has visited the rehabilitation center and witnessed how a person's initiative has changed one's hope towards a brighter future.

Ethiopian Supports the Teenagers Initiative

Hannah while visiting Ethiopian to thank for the supPort

Ethiopian helped 13 years old Diaspora Hannah Godefa for her endeavor to transport 50,000 pencils that she gathered from individuals and different organizations in Canada to be donated for Ethiopian school children. Hannah's aspiration to collect the pencils has mounted after she visited her home land Ethiopia for the first time in 2006 where she noticed children without pencils. She flashes back the moment as "I managed to have a friend in hometown country, Axum. And while I was about to get back to Canada, the need rouse to exchange address with my new friend to become pen pals where faraway friends enabled to talk regardless of any distance or time. But I've learnt that she doesn't have a pencil to write my address. This bothered me a lot, something as plain as a pencil was hindering me to last my friendship long".

Her ambition to reach the needy children became a reality in 2007 by donating 25,000 pencils in Axum, Mekele, Adwa and Adigudom. And now she multiplies the donation to 400,000 and Ethiopian was her right hand to freely transport the pencils to Ethiopia and offered two tickets for herself and her father. Hannah thanked Ethiopian and said "Giving comes from the heart…giving from the heart avoids all barriers, be it money, time, or sacrifice. And Ethiopian Airlines has such a heart. It was my first flight of choice and it will always be". She was invited by Ethiopia's Deputy Prime Minister, H.E. Ato Hailemariam Dessalegn, as guest speaker at the Renaissance Dam fundraising event on August 2, 2011. Besides she is nominated as UNICEF Child Ambassador on empowering children for the coming September, 2011.

Partnering Great Ethiopian Run

Great Run participants posing for a group picture

Ethiopian has been working with Great Ethiopian Run since 2004. For two consecutive years the airline became title sponsor of the race enhancing its affinity to the growing road race in Ethiopia. This year's race coincided with the delivery of Ethiopian's new Boeing 777-200LR aircraft, the first of its kind in Africa, giving Ethiopian a reason to celebrate the long distance running culture of Ethiopians with the long range service of Ethiopian airlines. Major races in which Ethiopian take part include Great Ethiopian 10km Run, Women's First 5km run and Ring Road Relay. Each year thousand of staff are sponsored to participate in the run which is aimed to encourage staff participation in social events.

Support for EIG Basketball Team

The winning EIG Basketball Team

Ethiopian has funded EIG Basketball team to cover the team's logistics and accessories at critical financial constraint that would have caused the team to dissolve. After the support the team won handful of trophies through different regional games. The winning team presented one of the trophies to the Ethiopian management in respect of the airline's support.

NEWS HIGHLIGHTS

Appointment of CEO - Designate of Ethiopian Airlines

The Board of Management of Ethiopian Airlines announced the appointment of Ato Tewolde G. Mariam as CEO – Designate of Ethiopian Airlines effective September 15, 2010. Ato Tewolde succeeded Ato Girma Wake as CEO effective January 01, 2011. Ato Tewode has served Ethiopian for the last 25 years in different capacities in the Marketing Division at the head office and at different area offices including India, Saudi Arabia and the USA. He has also served the airline as Executive Officer of Marketing and Sales Division. Prior to his appointment as CEO Designate, he has been serving as the Chief Operating Officer of Ethiopian, successfully steering the operations of the airline during a period of an unprecedented and profitable growth.

Ethiopian Airlines Accepted as Future Star Alliance Member Carrier

Senior Management of Ethiopian with Star Alliance guests on the ceremony held at Sheraton Addis

In September 2010, Chief Executive Board (CEB) of Star Alliance unanimously approved the application of Ethiopian Airlines to join Star Alliance, and announced that Ethiopian is accepted as the future member of the alliance.

Planting Trees for Every Passenger We Fly

Ethiopian had launched a long term environmental campaign three years ago entitled "Fly Greener". Since then Ethiopian has planted seedlings of multipurpose and indigenous trees. Ethiopian also pledged to plant one tree for every passenger flown. Ethiopian has been pursuing the initiative with Greener Ethiopia, a community based association founded by a private group of individuals who are working on reforestation.

New Destinations

- Milan
- Maputo
- Bangui
- Hangzhou
- Malakal

African Airlines General Assembly Held in Addis Ababa

The African Airlines Association (AFRAA) 42nd Annual General Assembly (AGA) took place at the Ethiopian capital, Addis Ababa from November 21 - 23, 2010 under the theme "Adapting to survive and prosper". The 42nd General Assembly and African Air Transport Summit ever hosted by Ethiopian at the UNECA Conference Centre. AFRAA Annual General Assembly is by far the biggest and most prestigious aviation event in Africa, bringing together Chairmen and CEOs of all the major African airlines, civil aviation authorities, airport companies and other stakeholders in the aviation industry from within and outside the continent. The conference also attracts top government and industry policy makers and representatives of international and regional aviation organizations.

Ethiopian Airlines First Female Captain

First female Captain of Ethiopian Airlines, Captain Amsale Gualu Endegnanew

Ethiopian Airlines celebrated the maiden flight of its female Captain Amsale Gualu Endegnanew. Captain Amsale proudly took off her first flight from the left hand seat of the flight deck of a Q-400 aircraft from Addis Ababa to Gondar then to Axum and finally returned back to Addis Ababa after a total of 3.6 flight hours. Captain Amsale joined Ethiopian Airlines Pilot Training School on July 10, 2000 and started her career as first officer on November 26, 2002. Since then, she has trained and worked on Fokker-50, 757 and 767 aircraft as first officer. Captain Amsale has been able to complete successfully all the necessary training requirements and passed through rigorous checks to gain her four stripes. She had a total of 4475 flight hours under her belt when she became the commander-in-chief of her flight.

Customer Service

In line with its vision 2025 objective of becoming the airline of Customer Choice, ET has embarked on a three year Customer Service Culture plan by signing a contract with the globally renowned company called Service Quality Institute. The program was officially launched in March 2011 by delivering a Customer Service Strategy seminar to close to 500 management staff including the Executive Management Team. The seminar was facilitated by the founder and president of Service Quality Institute. The program is for 3 years and consists of 9 courses to be delivered to 2000 front line Customer Service Staff. The program is aimed at building a very strong customer service culture within the organization to put the customer and his/her expectations at the center stage.

The first course of the program called ''FEELING'' was given to about 1483 front office customer service staff starting from April 2011. This is designed to launch the quality service concepts and build commitment throughout the organization. Topics such as self esteem, communication, listening, keeping promises and handling difficult situations are covered in the program.

With the objective of improving efficiency and airport customer service, the ex-Domestic Terminal which was used to handle domestic flights only was refurbished, upgraded and renamed as a Terminal 1 to handle domestic and regional international flights and passengers effective January, 2011.

The Ethiopian Maintenance Repair & Overhaul (MRO)

Inline with vision 2025 Ethiopian MRO Strategy, capacity expansion and capability development on Airframe, Engine and Component MRO services to all aircraft models operated by ET and 3rd party customers in the region were the major projects in the year 2010/11.

The following are some of the major accomplishments during the year:-

- Wheels and brakes shop re-innovated to world class standard with state of the art equipments and ready to take ET to its Vision 2025.
- PW 4000 engine modular maintenance capability developed.
- 5ea B777, 3ea B737-800 & 10ea pilot training aircraft model Diamond DA42NG were introduced successfully and maintenance capability developed to maintain these airplanes.
- Capability for a total of 97 components (B777, B767/B757, B737 and DA42NG) developed.

In addition, various levels of maintenance work ranging from routine light maintenance to heavy checks including heavy structure modifications were carried out on both ET's fleet and customer's aircraft. Of particular interest will be the service we provided to ASKY Airlines in Lome, Togo. Ethiopian MRO has positioned licensed maintenance personnel in Lome and provides a complete line maintenance service (up to and including A-check) at Lome and several other African destinations to which ASKY flies. Simulator and basic-training and secondment of skilled personnel were also provided to customers as part of Ethiopian MRO services. Technical Handling Service Agreement has been signed with Royal Air Morocco and service is being rendered at Brazzaville Station.

The Ethiopian Aviation Academy

By expanding its capacity, the Academy admitted a total of 1038 basic trainees (105 PTS, 272 AMTS, 405 Cabin Crew, and 152 Commercial Operation trainees) to its regular program during the year in review; of which 920 basic trainees graduated (43 PTS, 235 AMTS trainees, 349 Cabin crew trainees, and 305 Commercial trainees) which is an increase of 27% compared to the preceding year. Furthermore, the Academy conducted recurrent training for 10310 participants in various areas (such as technical, cabin crew and commercial operation), which is an increase of 27% over the achievement of 2009/10.

During the period 2010/11 a total of 236 basic trainees from third party clients were admitted and graduated. In addition, a total of 1,222 participants from third party have taken our recurrent training.

Graduates of AMT with Ato Tewolde G. Mariam, CEO of Ethiopian (center)

Graduates of Cabin Crew with Ato Tewolde G. Mariam, CEO of Ethiopian (center)

CEO of Ethiopian, Mr. Tewolde G. Mariam,
H.E. Brigadier General Ding Admi Admi, Airforce Commander of SPLA,
and the course facilitator, with the graduates

The Ethiopian Aviation Academy graduated 15 Sudanese and two Mozambique Aviation Maintenance Technicians on 19 may 2011. The graduates from Sudan and Mozambique joined Ethiopian Aviation Academy for on-the-job training at the Ethiopian maintenance facilities. During their stay in the Academy, the trainees took on-the-job training for fifteen months in the fields of aircraft engine and hangar maintenance, aircraft structure and avionics maintenance.

Human Resource Management

Human Resource Division undertook the following major activities in 2010/11 budget year.

- Under the leadership development programme, a total of 150 employees were trained of which 52 employees attended Management Development Course (MDC), 98 employees taken supervisor Development Course (SDC).
- 197 employees attended the career development course while 147 employees participated in the Special Development Program (SAP Courses). In addition, 335 individuals from other organizations (3rd party) participated in the Human resource development courses.
- Through the company sponsored Educational Assistance Programme, 382 employees pursued their education through evening and correspondence programmes in various fields. Apprenticeship and college trainee programmes involving 132 individuals were facilitated.
- Achieving competitive excellence (ACE) training was given to more than 480 employees and Balanced Score Card (BSC) facilitation and support training was also given to several management employees.
- As a strategic tool, ET developed Coaching and Mentoring Programs system wide to shorten the learning curve and build a good corporate culture. In this regard, a policy was put in place, trainings were conducted for 66 employees and Coachers & Mentors have been identified.
- To satisfy the human capital requirement of the company along with Vision 2025, formulating cooperative programs with learning institutions was one of the major tasks for the year. The effort is complemented by the support secured from MoE (Ministry of Education) and MoD (Ministry of Defense). Currently, we have four groups of AMT (Aircraft Maintenance Technicians) trainees, enrolled in the Air force training facility. The project with MoE has been successful and the curricula development for Technician, Cabin Crew and Customer service fields are completed and the documents are ready to be forwarded to MoE for accreditation with a plan to start the program in September 2011. As one part of vision 2025 strategic direction, main partnership areas were clearly identified and memorandum of understanding (MoU) has been signed to institutionalize the relationships and assure continuity. To facilitate the recruitment process on cabin crew, customer service agents and others, ten regional and 14 preparatory high schools in Addis Ababa were approached to provide data exchange of students who are capable and interested to join Ethiopian before going to universities/colleges.

Information Technology

Information Communication Technology (ICT) has revolutionized all businesses and in particular the airline industry. Through time, the airline industry has demonstrated dependency on ICT for its day today operational and short and long term strategic management processes across its functions. Understanding the criticality of ICT for its current and future competitiveness, strategic and operational management, Ethiopian Airlines had embarked on implementing state of the art and top industry solutions adopting best practices that support its business processes across the organization based on its approved ICT strategy and implementation roadmap which has been crafted in alignment with the business strategy.

During the period in review, Ethiopian continued implementing key solutions like upgrade of its cargo reservation system from SITA to the CHAMP Cargo spot, implementation of Aircraft Communication Alerting and Reporting System (ACARS), upgrade of the flight schedule system, introduction of Crew Advisory Notice (CAN), subsequent enhancement of its website, upgrade and integration of the Crew Management System(CMS) with other systems, and partial cutover of the Maintenix MRO system for B777 and Q400. Additional PMS related solutions like Code-share manager, Slot manager, and contract manager are also functionalities implemented in Ethiopian's data center during this period. Two systems were developed in-house to facilitate the process of recruitment and canteen management. Creation of ICT security awareness through monthly newsletter and conducting awareness on scheduled HR and management training sessions, introduction of quality assurance process in the ICT process, introduction of system wide business process evaluation and proposal as well as providing 24 by 7 system support for Terminal 1 following its reopening as regional terminal are some major areas considered and implemented during this period. Trainings are also conducted to Galileo travel agents, internal technical and managerial staff employees. The ICT strategy developed in 2008 is revised to accommodate the Ethiopian Aviation Groups in line with Ethiopian Airlines vision 2025.

FINANCE

Overview of Operating and Financial Results

The Airline's level of operation and operating results in the fiscal year 2010/11 was higher than the previous year in all parameters. Capacity availed in terms of Available Seat Kilometers (ASK), Available Ton Kilometers (ATK) and Block Hours have increased during this year compared to last year.

Performance Category	Year 2010/11	Year 2009/10	%age Change
Block Hours (000)	171	147	17%
ASKs (Millions)	18,395	14,832	24%
RPKs (Millions)	13,151	10,705	23%
RTKs (Millions)	2,429	2,055	18%
ATKs (Millions)	3,940	3,201	23%

Block Hours

The total block hours flown during the year were higher than the previous year by about 17%. This was mainly due to additional capacity and opening of new destinations.

Available Seat Kilo Meters (ASK)

Seat kilometers availed during 2010/11 was higher than the preceding year by 24% mainly due to commencement of new services to Maputo, Bangui, Hangzhou, and Malakal and availing better capacity brand new aircraft – B777-200LR.

Available Ton Kilo Meters (ATK)

The total ton kilometers availed during the fiscal year 2010/11 was more than the actual ton kilometers availed during the preceding year by 23%. This increase was mainly due to the addition of the B777-200LR aircraft into our passenger system and the continuous increase of our cargo operations.

Revenue Ton Kilometers

The better results achieved in passenger and freight traffic has contributed to the overall increase in revenue ton kilometers recording a growth rate of 18%.

Revenue Passenger Kilometers (RPK)

The RPK has increased by 23% compared to the preceding year. The increase is mainly attributed to the capacity growth and traffic increase on international schedule services.

Financial Performance

Revenue

Compared to the total revenue of the previous year, the revenue generated during the year grew by 47%.

Passenger Revenue

Schedule passenger revenue realized during the year was higher by 49% compared to the preceding year mainly as a result of increase in passenger traffic.

Freight Revenue

Freight revenue earned during the year was more than the previous year by 79%. This was mainly because of the charter operations to and from Europe, Middle East and Asia and additional frequencies to Honk Kong and Chennai.

Operating Expenses

The total operating expense of the year has shown an increase of 58% compared to last year. The major contributor for this was the skyrocketing fuel lprices.

Cash Position

The airline has generated a net cash inflow of ETB 2.7 billion from operating activities and raised ETB 10.9 Billion from financing activities and spent ETB 12.9 Billion for investments. The overall movements of the cash during the period are represented graphically as follows:

Cash Flow (in millions)

Ratio Analysis

	2011	2010
Profitability Ratios (per cent)		
Return on Capital Employed (ROCE)	2%	14%
Operating Margin	2%	8%
Net Profit Margin	5%	10%
Return on Total Assets	5%	12%
Cost of Debt	2%	3%
Return on Equity	17%	27%
Leverage Ratios		
Debt/Equity Ratio	2.14	0.70
Total Debt to Total Asset Ratio	0.75	0.58
Times Interest Cover Ratio	1.38	11.26
Liquidity Ratios		
Current Ratio	0.96	1.12
Quick Ratio	0.88	1.03

Four Year Summary of Financial Highlights (millions)

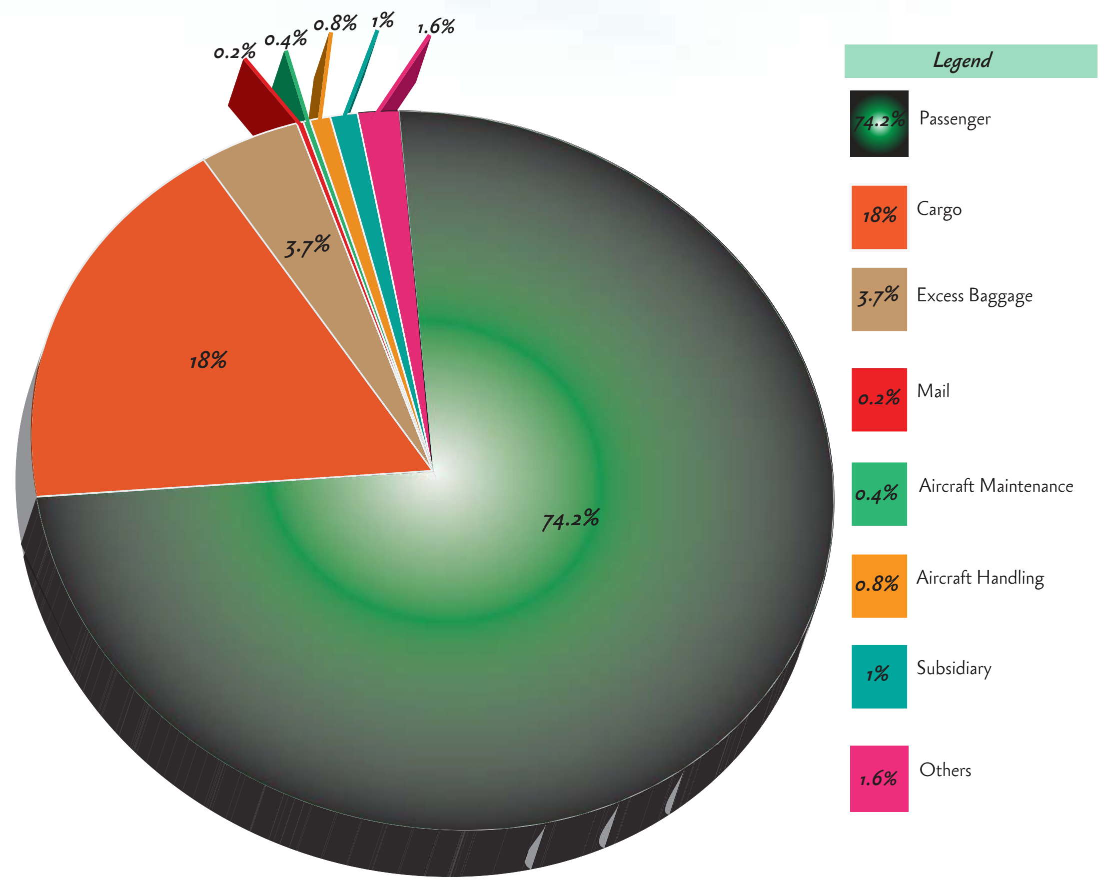
	2011		2010		2009		2008	
	ETB	US$	ETB	US$	ETB	US$	ETB	US$
Turnover:-								
Passenger (inc. Ex. Bag)	18,993	1,158	12,811	974	9,538	905	7,378	785
Freight & Mail	3,097	189	1,744	133	1,113	106	804	85
Charter (Pax and Cgo)	1,836	112	1,614	123	1,126	107	591	63
Other Revenues	834	51	647	49	437	41	428	45
Total	24,759	1,510	16,816	1,278	12,214	1,159	9,199	979
Costs:-	-		-					
Flying Costs	12,678	773	7,297	555	5,652	536	4,652	495
Passenger Services	1,179	72	890	68	659	63	550	58
Traffic & Sales	2,261	138	1,473	112	695	66	579	62
Ownership Costs	3,283	200	1,933	147	1,536	146	1,067	114
Other overhead costs	4,945	302	3,844	292	2,698	256	1,924	205
Total	24,346	1,485	15,436	1,174	11,240	1,067	8,772	933
Operating Profit	413	25	1,380	105	974	92	428	46
Non-operating Net	819	50	246	19	371	35	80	8
Profit for the year	1,232	75	1,626	124	1,345	128	508	54

VALUE ADDED

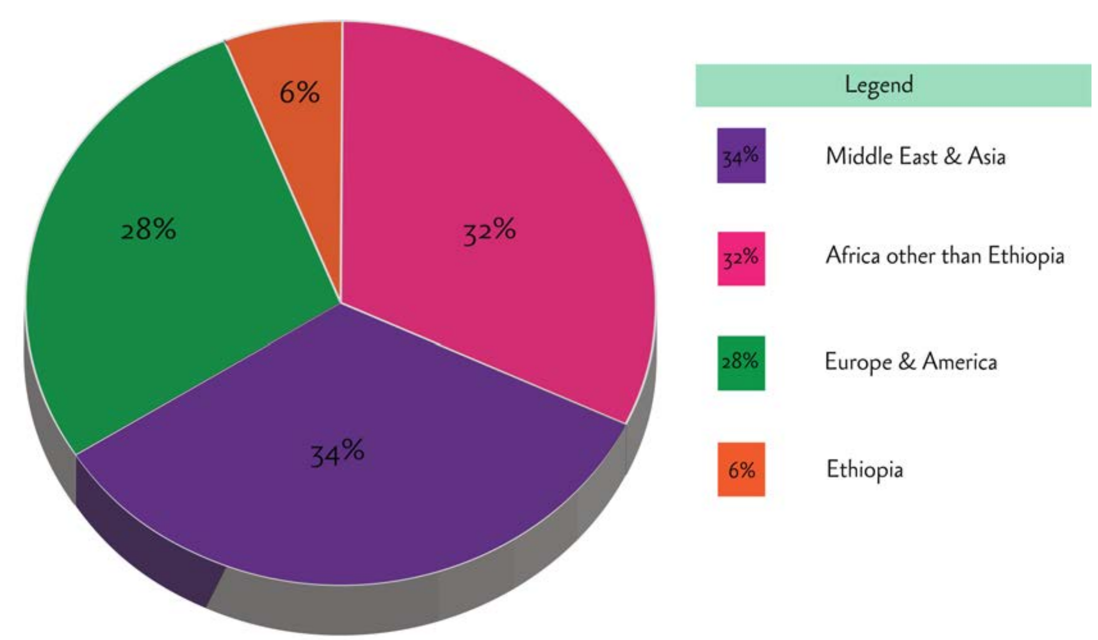
Value added is measure of wealth created. This statement shows the value added by the company over the past three years and its distribution by way of payments to employees, governments and to providers of capital. It also indicates the portion of wealth retained in the business.

	2010-11		2009-10		2008-09	
	ETB'000	US$'000	ETB'000	US$000	ETB'000	US$'000
Operating Revenue	24,639,988	1,502,596	16,816,363	1,278,452	12,213,744	1,159,038
Less: Purchase of goods & Services	22,015,526	1,342,551	13,986,724	1,063,331	10,068,535	955,466
	2,624,461	160,045	2,829,639	215,121	2,145,209	203,572
Add: Other non-operating income	1,104,469	67,353	355,894	27,057	419,528	39,812
Interest Income	16,883	1,030	12,290	934	58,695	5,570
Total Value Added	3,745,814	228,427	3,197,823	243,112	2,623,432	248,954
Distribution of Value						
To employee's salaries	1,275,716	77,796	951,587	72,344	725,261	68,825
To overseas Governments						
Corporation & other tax	25,070	1,529	20,987	1,596	17,878	1,697
To supplier of capital						
Interest	300,342	18,315	122,622	9,322	106,916	10,146
Retained for investment & future growth						
Depreciation & Amortization	912,563	55,650	476,799	36,248	427,900	40,606
Retained Profits	1,232,123	75,137	1,625,828	123,602	1,345,477	127,681
Total Distribution of Value added	3,745,814	228,427	3,197,823	243,112	2,623,432	248,954

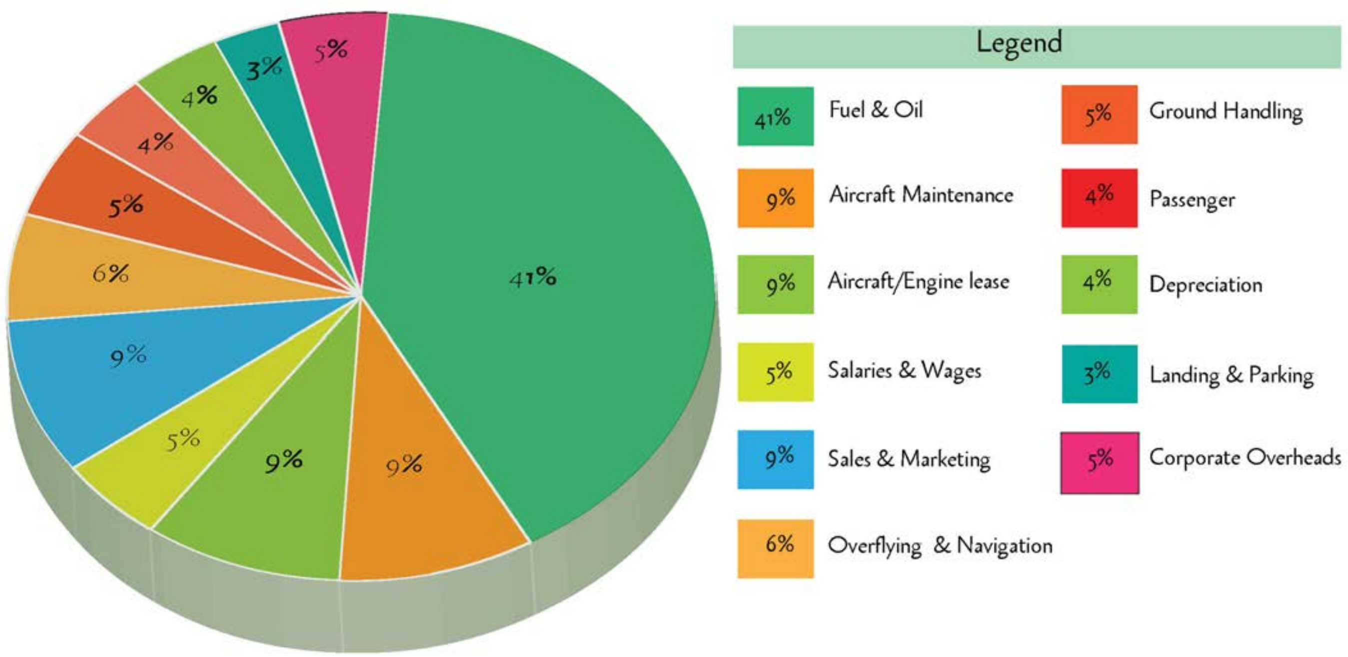
REVENUE BY BUSINESS SEGMENT



REVENUE BY GEOGRAPHICAL SEGEMENT

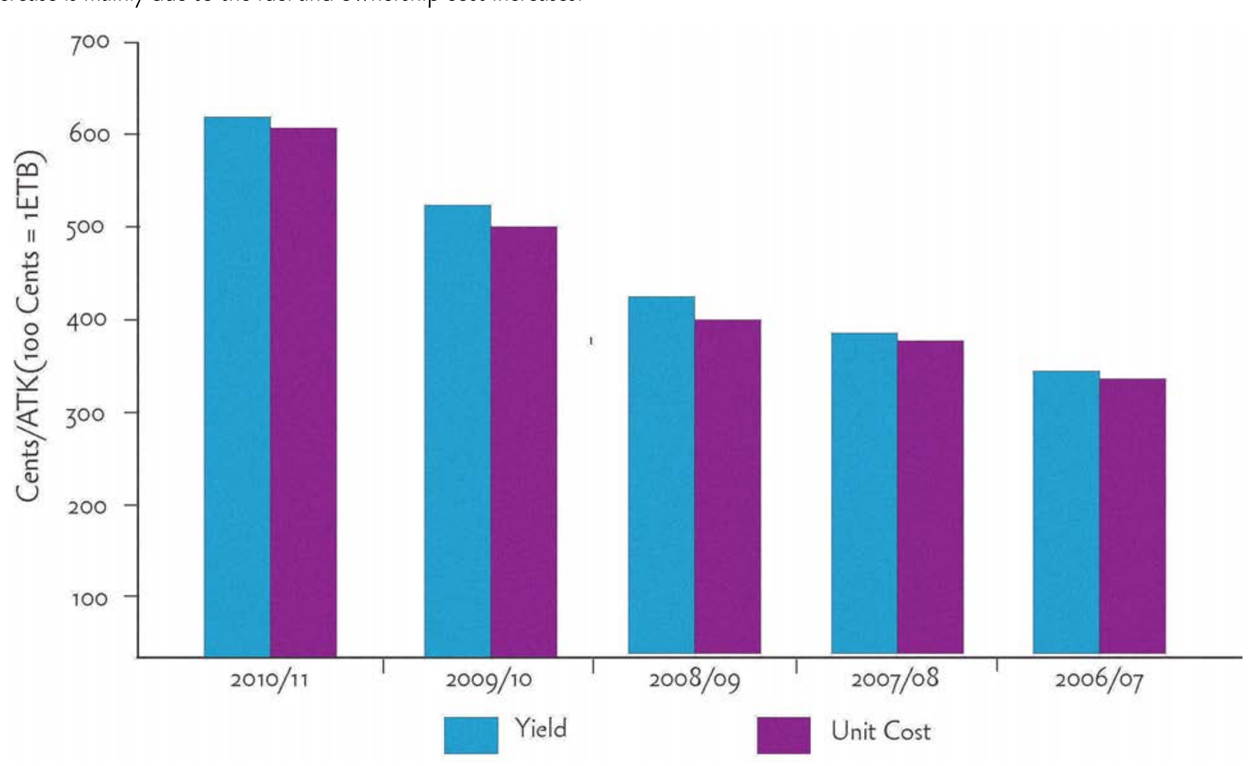


EXPENDITURE

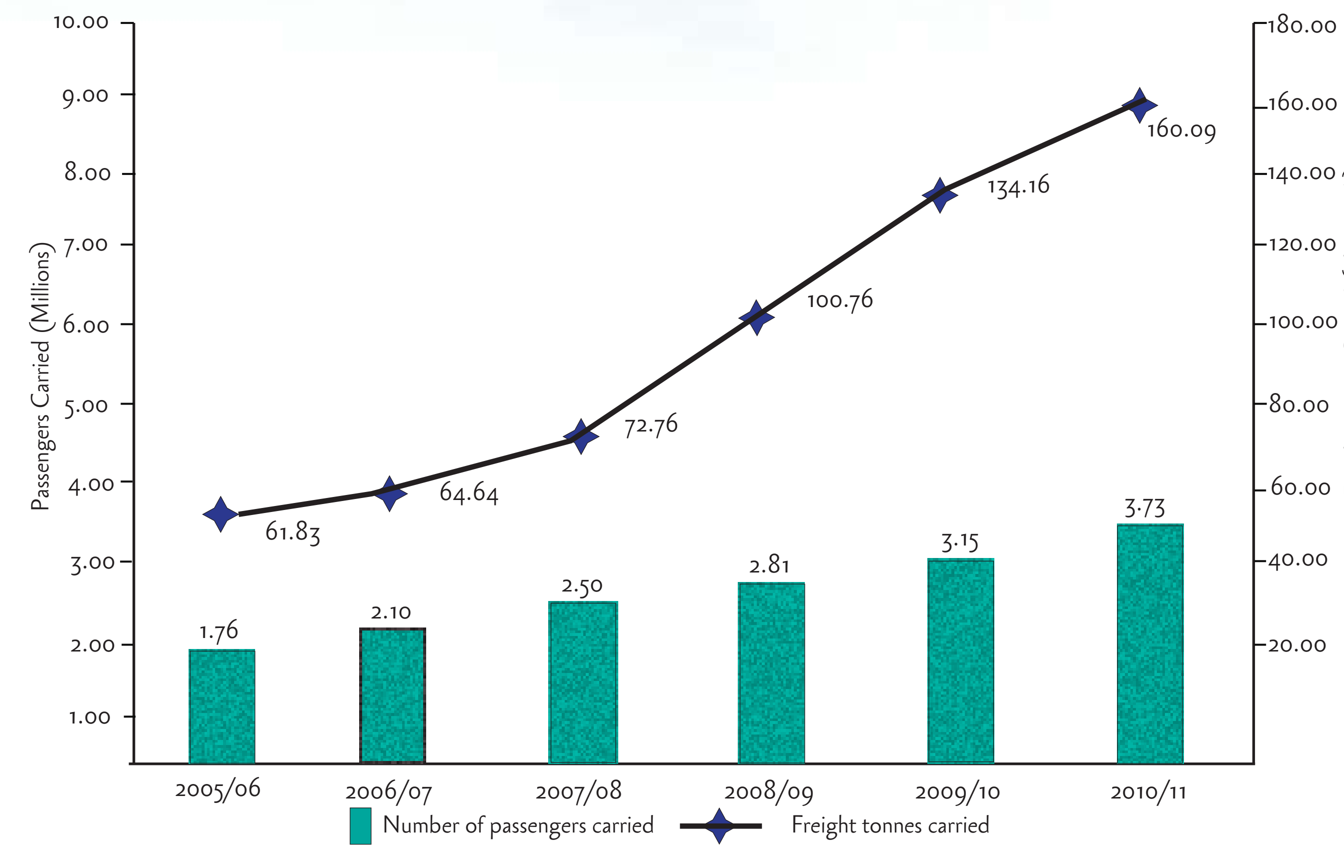


Yield and Unit Costs per ATK

Overall yield per ATK grew by 19.6% to 618 ET Cents while unit cost per ATK rose by 28.1% to 618 ET Cents as compared to the preceding year. The increase in overall yield is driven by the increase in passenger yield per revenue passenger kilometers. The unit cost increase is mainly due to the fuel and ownership cost increases.



PASSENGER & CARGO CARRIED



Fleet Information at Year End

Aircraft Type	*Owned*	*Leased (Operating)*	*Total*
Boeing 737-700	*3*	*2*	*5*
Boeing 737-800	-	*5*	*5*
Boeing 747-200F	-	*2*	*2*
Boeing 757-200 P	*3*	*4*	*7*
Boeing 757-200 F	*1*	*1*	*2*
Boeing 767-300	*3*	*8*	*11*
Boeing 777-200 LR	*4*	-	*4*
DH8- Q400	*8*	-	*8*
MD11 CF	*1*	*1*	*2*
Fokker-F27-MK050	*5*	-	*5*
Total	*28*	*23*	*51*

In addition to the above, ET and the Boeing Company completed an order agreement for ten Boeing 787 Dreamliner jets and five 737-800 aircraft.

RISK MANAGEMENT

Ethiopian Airlines adopts a five-step risk management cycle adapted from the best international practices and currently concentrates on a variety of financial risks, specifically risks associated with foreign currency, fuel price, and interest rates. The Financial risk and investment management section under the Treasury department of the airline is primarily responsible to identify, evaluate and mitigate these financial risks using various risk management mechanisms.

1. *Foreign Currency Risk*

As an enterprise operating in many countries with major operations in Africa, the company faces currency risk resulting from changes in foreign exchange rates, partially attributable to the inability to repatriate its funds as a result of regulatory restrictions, adverse economic conditions or actions taken by the government in the respective countries.

The enterprise hence works through its area offices and airline industry organizations to promptly repatriate its funds and provide early warning on such conditions, along with reporting the situation to the senior management for informed decision making. In addition, the airline seeks to reduce foreign exchange exposures arising from its concentration of accounts in various currencies through a policy of matching receipts and payments in each individual currency. The airline also spreads the holding of hard currencies in USD, EUR and GBP. As of June 2011, the cash position balance showed 62.73% in hard currencies of USD, EUR, GBP, CAD and other European Currencies, 21.77% in African currencies, 7.13% in Ethiopian Birr and 8.37% in all other currencies.

2. *Fuel Price Risk*

Jet fuel price being the major expenditure of the airline, the company has a clear policy and manages this risk using the various hedging strategies (swap, cap and collar options) for a maximum period of two years on a rolling basis; and the maximum to be hedged is 75% of the total annual uplift.

Because of the world economic downturn; banks, financing institutions and hedging companies have required a huge amount of cash collateral which is not advantageous to the airline industry. As the result, the airline has adopted a natural hedging strategy. More over, the airline is closely working with the potential hedging institutions on the completion of the pre-requisite documentations so that hedge any time deemed necessary.

3. *Fuel Price Risk*

The airline is exposed to changes in interest rates of floating debt. Since the end of 2003, Ethiopian has acquired a total of six aircraft and four spare engines. Due to the prevailing low rates at the time, the company opted to use the floating interest rate. But since then interest rates have risen, the options of swap, collar and subsidized swap were evaluated.

Using a swap hedging strategy, the airline was able to hedge 56% of its outstanding loan against interest rate volatility risk at a rate of 4.84% starting April 2006 until the termination of the loan which is 2015/16. The resultant exposure is journalized immediately upon the periodic repayment of the loan. The company has acquired about thirteen aircraft and four spare engines since 2009 and the borrowing rate is fixed averaging at 3.46% until the termination of the loan which is 2022.

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 tones 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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AUDIT SERVICES CORPORATION

ፖ.ሣ.ቁ. P. O. Box 5720 ስልክ Tel. 551 52 22 የፋክስ ቁ. Fax No. 551 30 83

አዲስ አበባ ADDIS ABABA

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF ETHIOPIAN AIRLINES ENTERPRISE

We have audited the financial statements of Ethiopian Airlines Enterprise set out on pages 25 to 41 which have been prepared under the historical cost convention and the accounting policies set out on pages 25 to 29. These financial statements are the responsibility of the Enterprise's chief executive officer in accordance with article 16 of Public Enterprises Proclamation No. 25/1992. Our responsibility is to express an independent opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly the financial position of Ethiopian Airlines Enterprise at 30 June 2011 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Audit Services Corporation

12 January 2012

BALANCE SHEET

ETHIOPIAN AIRLINES ENTERPRISE STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011

				2010
	Notes	Birr	Birr	Birr
ASSETS EMPLOYED				
PROPERTY, PLANT AND EQUIPMENT	1b)(i),2		18,735,967,394	6,929,651,277
INVESTMENTS	1b)(ii),3		326,268,346	260,799,898
STANDING DEPOSITS	1b)(iii),4		3,477,296,167	3,224,607,645
DEFERRED CHARGES	1b(iv),5		630,450,352	121,879,219
CURRENT ASSETS				
Stock	1b)(v),6	690,524,301		439,968,785
Debtors	1b)(vi),7	4,434,886,840		2,616,542,436
Cash and bank balances	1b)(vii),8	3,082,835,108		2,338,835,849
		8,208,246,249		5,395,347,070
CURRENT LIABILITIES				
Creditors	1b)(viii),9	3,697,710,639		2,087,648,279
Unearned transportation	1b)(ix)	3,162,117,226		2,151,637,716
Bank overdraft	10	63,797,460		41,443,377
Current maturity of long term loans	15	1,615,840,040		517,831,603
		8,539,465,365		4,798,560,975
NET CURRENT (LIABILITIES)/ASSET			(331,219,116)	596,786,095
			22,838,763,143	11,133,724,134
FINANCED BY CAPITAL				
Authorized		9,000,000,000		
Paid up	11		7,155,775,385	5,921,482,681
CONTRIBUTIONS	1b(x)		694,830,658	716,505,039
			7,850,606,043	6,637,987,720
DEFERRED LIABILITIES	1b(xi),12		11,415,873	6,828,030
PROVISION FOR MAINTENANCE	1b(xii),13		1,151,899,344	764,288,392
NON-CURRENT LIABILITIES	14		135,201,487	88,773,874
LONG TERM LOANS	1e)(i),15		13,689,640,396	3,635,846,118
			22,838,763,143	11,133,724,134

The notes on page 25 to 41 form an integral part of these financial statements.

PROFIT & LOSS ACCOUNT

ETHIOPIAN AIRLINES ENTERPRISE
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Birr	Birr	Birr
OPERATING REVENUE	1d),16		24,759,277,395	16,816,362,661
OPERATING EXPENSES	17		24,346,100,134	15,436,097,093
GROSS OPERATING PROFIT			413,177,261	1,380,265,568
NON-OPERATING EXPENSES (INCOME)				
Interest		300,341,8		122,621,439
Provision for stock obsolescence		24,549,5		2,629,449
Provision for doubtful debts		74,627,742		28,412,223
Others	1e)(iii),18	(1,218,464,83		(399,225,492)
			818,945,680	245,562,381
NET PROFIT FOR THE YEAR			1,232,122,941	1,625,827,949

The notes on page 25 to 41 form an integral part of these financial statements.

STATMENT OF CHANGE IN EQUITY

ETHIOPIAN AIRLINES ENTERPRISE
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	Capital Birr	Contributions Birr	Unappropriated profit Birr	Total equity Birr
	Birr	Birr	Birr	Birr
Balance at 30 June 2009	4,294,114,047	164,304,327	-	4,458,418,374
Net profit for the year	-	-	1,625,827,949	1,625,827,949
Transfer from profit of the year	1,625,827,949	-	(1,625,827,949)	
Transfer from income tax of expatriate staff	1,540,685	-	-	1,540,685
Addition to contributions	-	657,659,960	-	657,659,960
Amortization of contributions	__-_____	(105,459,248)	__-_____	(105,459,248)
Balance at 30 June 2010	5,921,482,681	716,505,039	-	6,637,987,720
Net profit for the year	-	-	1,232,122,941	1,232,122,941
Transfer from profit of the year	1,232,122,941	-	(1,232,122,941)	-
Transfer from income tax of expatriate staff	2,169,763	-	-	2,169,763
Addition to contributions	-	59,471,287	-	59,471,287
Amortization of contributions	__-_____	(81,145,668)	_-_____	(81,145,668)
Balance at 30 June 2011	7,155,775,385	694,830,658	-	7,850,606,043

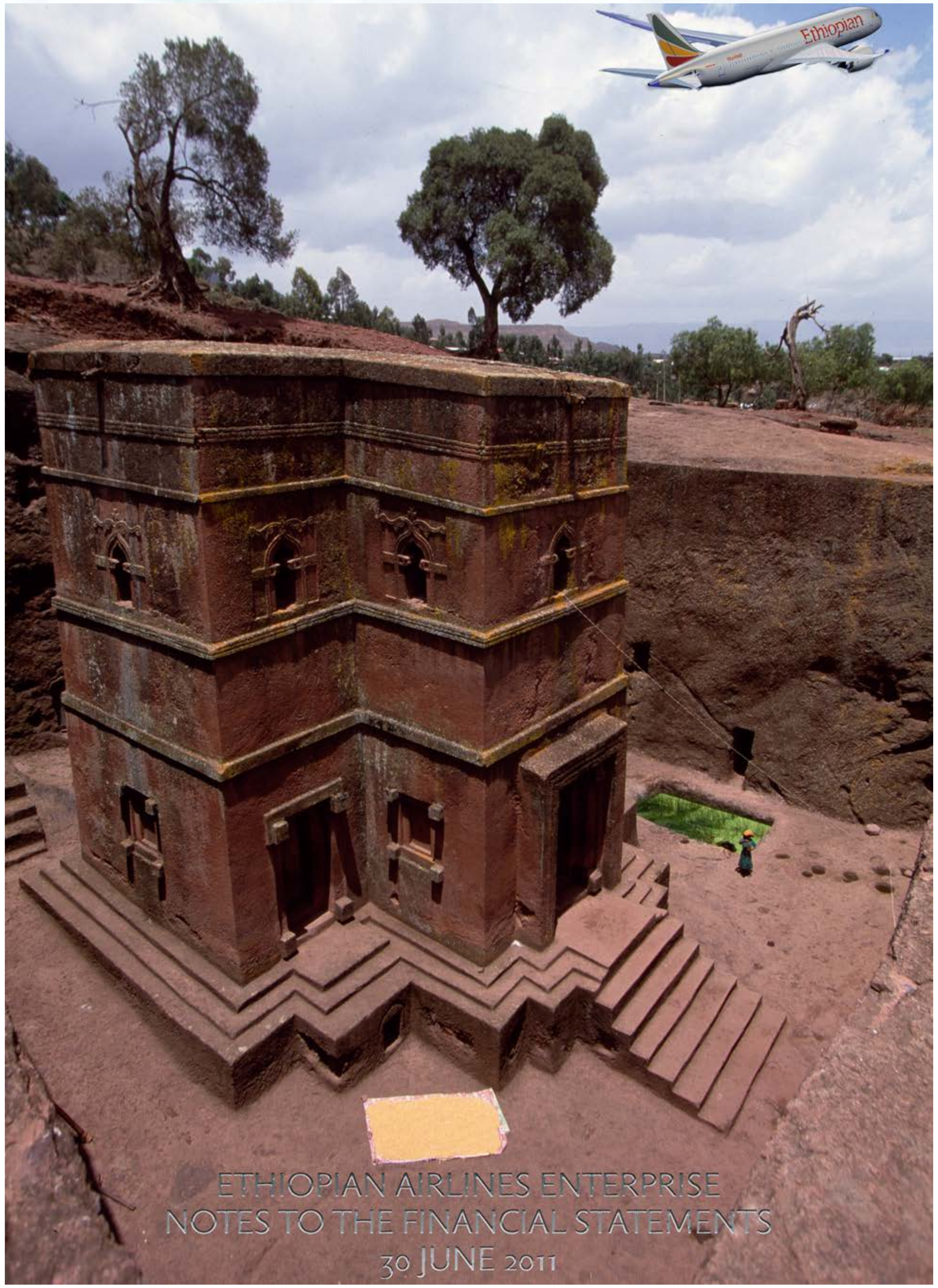
The notes on page 25 to 41 form an integral part of these financial statements.

CASH FLOW STATEMENT

ETHIOPIAN AIRLINES ENTERPRISE
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Birr	Birr	2010 Birr
OPERATING ACTIVITIES				
Net cash inflow from operating activities	19		2,729,197,387	1,086,732,749
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(12,851,018,794)		(2,136,187,544)
Proceeds from disposal of property, plant and equipment		232,449		33,009,866
Payments from investments		(65,468,448)		(233,129,367)
Net cash outflow from investing activities			(12,916,254,793)	(2,336,307,045)
FINANCING ACTIVITIES				
Bank overdraft received		22,354,083		41,443,377
Long term loans received		12,066,578,667		1,532,946,917
Repayment of long term borrowings		(914,775,953)		(631,712,111)
Interest paid		(259,983,295)		(116,076,061)
Interest received		16,883,163		12,290,010
Net cash inflow from financing activities			10,931,056,665	838,892,132
Net increase/(decrease) in cash and cash equivalents			743,999,259	(410,682,164)
Cash and cash equivalents at beginning of year			2,338,835,849	2,749,518,013
Cash and cash equivalents at end of year	8		3,082,835,108	2,338,835,849

The notes on page 25 to 41 form an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

1. *SIGNIFICANT ACCOUNTING POLICIES*

The principal accounting policies adopted by the Enterprise, which are consistent with those applied in the preceding year, are stated below.

a) Basis of preparation

i) These financial statements have been prepared in compliance with International Financial Reporting Standards except as explained in note No. 1e)(i) below. They are prepared under the historical cost convention.

ii) All amounts in the financial statements are expressed in Birr.

b) Valuation of assets and liabilities

Except as otherwise stated below, all major assets are valued at market prices, which management considers to be fair values.

i) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation, excepting capital items whose individual unit costs are less than the following amounts, which are charged to operating expenses:-

	USD	*Equivalent in Birr*
Ground equipment	1,250	21,750
Tools	300	5,154
Neon signs	1,500	25,770
Personal computers	600	10,308
Improvements to buildings	600	10,308
Modification expenses on: Item Modified	*Amount to be Capitalized in USD*	*Equivalent in Birr*
Jet Airframe	35,000 and over	601,300 and over
Turbo Prop Airframe	25,000 and over	429,500 and over
Twin Otter Airfram	15,000 and over	257,700 and over
Jet Engine	15,000 and over	257,700 and over

NOTES TO FINANCIAL STATEMENTS

1. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

- Depreciation is charged on the following bases:-
- Flight equipment

The costs of new acquisitions are written down to their estimated residual values by the end of the terminal dates detailed below:-

The common terminal dates for the aircraft, associated engine, rotables and spares are:-

Jet 757	*31 August 2008* *30 November 2009* *30 April 2010* *31 October 2010*
Jet 767-300	*30 November 2021* *30 June 2022* *30 June 2023*
Jet 737-700	*31 December 2021* *31 July 2022* *31 July 2023*
Jet 777-260 LR	*30 November 2028* *31 January 2029* *30 April 2029*
Fokker 50	*30 April 2009* *30 September 2008* *30 November 2008* *31 January 2009*
Cessna	*30 November 1985* *30 May 1997* *31 August 2011* *30 June 2016*
Piper	*31 December 1997*
MD II	*31 January 2027*
Q 400	*31 March 2022* *30 April 2022* *30 June 2022* *31 July 2022* *30 September 2022* *30 November 2022*
Diamond	*30 November 2017* *28 February 2018* *31 March 2018*

1. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Modification costs after the terminal dates are expensed in the year they are incurred.

- Other property

This is depreciated in the following periods:-

Radios, field passenger equipment and other similar items - 5 years.
Office equipment and furniture - 5 years.
Motorized vehicles and equipment - 5 years.
Computerized equipment - 4 years
Machineries - 20 years
Buildings - 7 to 20 years.
Improvements to government owned buildings - 10 years.
Improvements to leasehold property-over the term of the lease.

ii) Investments

Investments are stated at cost less provisions, which approximates their fair values.

iii) Standing deposits

These comprise predelivery advances and long term security deposits held by banks, hotels, hospitals and similar institutions.

iv) Deferred charges

Predelivery expenses in connection with the acquisition of new aircraft are amortized over the life of the aircraft, while the miscellaneous deferred charges are amortized over different periods of between four and eight years.

v) Stock

Stock is valued at the lower of cost and net realizable value. Cost is determined on a simple average basis less provision for stock obsolescence. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to
make the sale.

vi) Debtors

Trade debtors are recognized and carried at original invoice amounts less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection for the full amount is no longer probable. Bad debts are written off against the related provision for doubtful debts.

vii) Cash and bank balances

These comprise cash on hand and in banks and short term deposits which are held to maturity and carried at cost plus interest less provision for currency fluctuation.

viii) Creditors

Liabilities for trade and other amounts payable are carried at cost which is considered to be the fair value to be paid in the future for goods and services received.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

ix) 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. The value of unused tickets and miscellaneous charge orders (MCOs) over eighteen months old are credited to revenue.

x) Contributions

These represent purchase incentives given by the Enterprise's suppliers. The values are amortized over the life of the aircraft for which the purchase incentives were obtained.

xi) Deferred liabilities

The training fees of personnel of other airlines are amortized over the duration of the training period.

xii) Provision for maintenance

The provision for heavy maintenance expenses has been formed to match aircraft maintenance costs with the revenue generated by the aircraft. This is provided for on the basis of a predetermined amount for each block hour flown. The actual costs of such maintenance are charged against this provision.

c. Recognition of financial assets and financial liabilities

The Enterprise recognizes a financial asset or a financial liability on its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when, and only when, the control over the contractual rights is lost. A financial liability is derecognized when, and only when, it is extinguished.

d. Revenue recognition

Unclaimed sundry liabilities over one year old are absorbed to non-operating income. All other revenues are recognized at the time the service is provided.

e. Foreign currency accounts

i) Loans in foreign currencies are fully used to finance the acquisition of property, plant and equipment and mostly aircraft and accessories. The acquisition of these aircraft and other flight equipment are primarily made in USD, which is assumed to be the functional currency of the Enterprise, and their corresponding values are converted to and recorded in the Ethiopian Birr, which is the presentation currency of the Enterprise, at the exchange rate prevailing at the time of the acquisition of the assets. Loan balances denominated in foreign currencies at the date of the financial position are translated into Ethiopian Birr at the exchange rates ruling on the first day of June prior to the date of financial position. In order to reasonably address the requirements of IAS 21(39), the exchange rate differences, resulting from the appropriation of the carrying amounts of the loans are added and accounted for as part of the acquisition costs of the assets. The management of the Enterprise considers that their treatment is reasonable as the appreciations in the values of the assets and their corresponding liabilities (loans) offset each other and do not significantly affect the financial position of the Enterprise or its operating results.

ii) Other non-current and current assets and current liabilities in foreign currency balances are translated at the exchange rates ruling on the first day of June prior to the date of financial position and the resultant net gain or loss is taken to the income statement.

iii) Losses or gains on recurring foreign currency transactions other than loans, are directly charged or credited to the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f. Income tax

The Enterprise is exempt from income tax in accordance with the letter from the Council of Ministers dated 16 November 2007 (6 Hidar 2000), Ref. No. 3 Se47/¨-146/2000.

g. Subsidiaries

The Enterprise has established two wholly owned subsidiaries, one incorporated in the Cayman Islands and registered in the name of Ethiopian Leasing Limited and the other one incorporated in Delaware U.S.A. and registered in the name of Ethiopian Leasing 2010 LLC Delaware Limited. These subsidiaries act only as lessor of aircraft to the Enterprise and do not carry out any other transactions. Consequently, neither separate financial statements were prepared for the subsidiaries nor consolidated financial statements were prepared for the Enterprise and its subsidiaries as all inter-company balances and transactions have been eliminated at the year end.

h. Finance lease

Leases of assets under which all the risks and benefits of ownership are substantially transferred to the lessee are classified as finance lease in accordance with International Accounting Standard 17.

Lessees should recognize finance leases as assets and liabilities in their statements of financial position at cost or at present value.

A finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets should be consistent with that for depreciable assets which are owned.

2. PROPERTY, PLANT AND EQUIPMENT

	Balance at 30 June 2010 Birr	Additions Birr	Adjustments due to currency fluctuation Birr	Disposals Birr	Balance at 30June 2011 Birr
COST OR VALUATION					
Flight equipment	9,491,200,938	11,174,131,708	1,161,498,743	(20,317,400)	21,806,513,989
Other property	1,544,957,471	261,982,707	-	(9,408,760)	1,797,531,418
	11,036,158,409	11,436,114,415	1,161,498,743	(29,726,160)	23,604,045,407
DEPRECIATION					
Flight equipment	3,499,594,963	869,107,944	-	(5,985,260)	4,362,717,647
Other property	782,379,571	160,680,059	-	(8,826,226)	934,233,404
	4,281,974,534	1,029,788,003	-	(14,811,486)	5,296,951,051
NET BOOK VALUE					
Flight equipment	5,991,605,975				17,443,796,342
Other property	762,577,900				863,298,014
	6,754,183,875				18,307,094,356
Work orders in progress	174,900,279				415,389,182
Capital goods in transit	567,123				13,483,856
	6,929,651,277				18,735,967,394

3. INVESTMENT

a) These are as follows:-

	Birr	2010 Birr
Share in ASKY Airlines	309,231,000	247,590,000
Other foreign investments	17,037,346	13,209,898
	326,268,346	260,799,898

b) The Enterprise joined ASKY Airlines as a shareholder contributing in cash the sum of USD 18,000,000 equivalent to Birr 309,231,000 representing 15% of the total authorized capital of the Company.

4. STANDING DEPOSITS

	Birr	2010 Birr
Predelivery deposits for aircraft	2,498,089,690	2,732,029,299
Deposits for security for aircraft lease, hotel, hospital and others	979,206,477	492,578,346
	3,477,296,167	3,224,607,645

5. DEFERRED CHARGES

a) These are made up of:-

	Birr	2010 Birr
Star Alliance membership fee	58,328,426	-
Administrative and transaction costs for purchase of new aircraft	535,713,762	103,103,326
Miscellaneous	36,408,164	18,775,893
	630,450,352	121,879,219

b) As per the agreement with Star Alliance GMBH, 50% of the total membership fee amounting to EURO 2,500,000 or Birr 58,328,426 was paid during the year under review while the remaining 50% was paid in the subsequent year at the membership implementation date. The total membership fee of EURO 5,000,000 is to be amortized over a period of five years.

6. STOCK

a) This consists of:-

	Birr	2010 Birr
Stock in store	627,047,528	374,507,391
Supplies stock - customer work orders	16,773,820	16,007,628
Stock of stationery items and other materials	123,486,661	101,678,780
	767,308,009	492,193,799
Less: Provision for stock obsolescence	76,841,398	52,334,922
	690,466,611	439,858,877
Goods in transit	57,690	109,908
	690,524,301	439,968,785

b) The movement in the provision for stock obsolescence is as follows:-

	Birr
Balance at 30 June 2010	52,334,922
Less: Write off against provision	(43,106)
	52,291,816
Add: Current year provision	24,549,582
	76,841,398

7. DEBTORS

a) These are made up of:-

	Birr	2010 Birr
Ethiopian Government	1,011,439	633,813
Airmail	26,681,154	14,504,853
Transportation - Airmail	51,751,287	128,345,530
Transportation - Others	1,371,967,781	734,683,783
Claim from aircraft lessor	140,245,556	249,788,408
Receivable from Bank Settlement Plan and Airlines Reporting Cooperatives	1,105,162,711	638,267,511
Prepayments	879,860,920	493,452,274
Others	1,044,181,870	468,154,343
	4,620,862,718	2,727,830,515
Less: Provision for doubtful debts	185,975,878	111,288,079
	4,434,886,840	2,616,542,436

b) The movement in the provision for doubtful debts is as follows:-

	Birr	Birr
Balance at 30 June 2010		111,288,079
Add: Adjustment of provision	60,057	
Additional provision for the year	74,627,742	
		74,687,799
		185,975,878

Notes to the Financial Statements (cont.)

8. CASH AND BANK BALANCES

a) Comprise the following:-

	Birr	2010 Birr
Cash with foreign banks	1,397,328,102	820,227,229
Less: Provision for blocked bank account	(67,949,248)	(67,948,105)
	1,329,378,854	752,279,124
Cash with local banks	174,230,373	109,914,816
Foreign short term deposits	1,539,004,575	1,434,047,888
Unverified deposits	6,109,857	19,263,722
Cash on hand	34,111,449	23,330,299
	3,082,835,108	2,338,835,849

b) The cash with foreign banks includes balances at three locations amounting to Birr 67,949,248 which are not readily transferable. These have been fully provided for.

9. CREDITORS

	Birr	2010 Birr
Payable to oil companies	1,457,807,354	713,606,808
Goods received but not billed	260,510,746	172,247,034
Miscellaneous accounts payable	798,561,778	595,410,379
Accrued interest	65,390,510	25,031,973
Other airlines pool apportionment	47,956,945	20,476,024
Transportation tax and embarkation fees	621,408,440	348,368,139
Advances from customers' work orders	6,398,539	13,003,912
Accrual for lease and maintenance of aircraft	130,218,665	81,457,658
Accrual for moving cost of materials	151,616,111	73,617,286
Others	157,841,551	44,429,066
	3,697,710,639	2,087,648,279

10. BANK OVERDRAFT

The Enterprise has overdraft facility of Birr 100,000,000 with the Commercial Bank of Ethiopia, Airport Branch secured on buildings.

11. PAID UP CAPITAL

a) The movement in the account is as follows:-

	Birr	Birr
Balance at 30 June 2010 *Income tax deducted from expatriate staff*	*2,169,763*	*5,921,482,681*
Transfer from profit for the year	*1,232,122,941*	*1,234,292,704*
		7,155,775,385

b) The Council of Ministers authorized the Enterprise to transfer the net profits to paid up capital until the paid up capital reaches the authorized level. Details amending the capital of the Enterprise are stipulated in the Council of Ministers Regulations No. 147/2008 dated 24 April 2008. Furthermore, the Ministry of Finance and Economic Development authorized the Enterprise to transfer to capital the income tax deducted from expatriate staffs' salaries pursuant to their letter No. >S3/16/38/01 dated 15 July 2009.

c) The Enterprise is wholly owned by the Federal Government of Ethiopia. The capital allocated to the Enterprise is not repayable to the Government in whole or in part, as long as the Enterprise continues trading. There are no shares and no par value.

12. DEFERRED LIABILITIES

	Birr	2010 Birr
Management fee	*1,119,228*	-
Training of other airlines' personnel	*6,457,606*	*3,842,290*
Accumulated fines deducted from employees	*3,839,039*	*2,985,740*
	11,415,873	*6,828,030*

13. PROVISION FOR MAINTENANCE

	Birr
Balance at 30 June 2010	*764,288,392*
Add: Provision made during the year	*943,402,930*
	1,707,691,322
Less: Actual payments made during the year	*555,791,978*
	1,151,899,344

14. NON-CURRENT LIABILITIES

	Birr	2010 Birr
Termination indemnity - foreign	*16,644,187*	*9,790,181*
Security deposits	*100,424,984*	*75,215,154*
Retention payable	*6,128,323*	*3,367,513*
Others	*12,003,993*	*401,026*
	135,201,487	*88,773,874*

15. LONG TERM LOANS

a) These are as follows:-

	TOTAL LOAN Birr	CURRENT PORTION Birr	LONG TERM PORTION Birr	LONG TERM PORTION 2010 Birr
Barclays Bank (Loan I)	*2,771,423,351*	*498,876,858*	*2,272,546,493*	*2,218,977,734*
Export Development Canada	*2,448,713,377*	*177,481,640*	*2,271,231,737*	*940,993,349*
Citibank	*8,105,988,347*	*694,111,843*	*7,411,876,504*	
African Financing Corporation (AFC)	*407,823,848*	*62,742,130*	*345,081,718*	-
African Development Bank (AFDB)	*378,052,993*	*55,056,274*	*322,996,719*	-
Eastern and Southern African Trade and Development Bank (PTA)	*333,306,388*	*49,650,610*	*283,655,778*	-
UT Finance Corporation	*126,103,723*	*22,141,029*	*103,962,694*	-
DBS Bank of Singapore	*257,692,500*	-	*257,692,500*	
Commercial Bank of Ethiopia (CBE III)	*69,959,530*	*13,262,311*	*56,697,219*	*69,804,337*
Commercial Bank of Ethiopia (CBE IV)	*406,416,379*	*42,517,345*	*363,899,034*	*406,070,698*
	15,305,480,436	*1,615,840,040*	*13,689,640,396*	*3,635,846,118*

b) Barclays Bank (Loan)

The amount of Birr 2,771,423,351 represents the outstanding balance at 30 June 2011 of a total loan facility of Birr 5,705,127,365 for financing 85% of the cost of six aircraft and four spare engines. Separate loan agreements were signed for each of the six aircraft and four engines between Ethiopian Leasing Limited (a subsidiary in the Cayman Islands wholly owned by the Enterprise), Barclays Bank, and Export-Import Bank of the United States of America (Ex-IM Bank). The loans are repayable over a period of twelve years in quarterly instalments together with interest computed at floating and hedged rates. The loans are secured by the guarantee of Ex-IM Bank and pledges on the respective aircraft which are registered in the name of Ethiopian Leasing Limited.

15. LONG TERM LOANS (continued)

c) Export Development Canada (EDC)

The loan of USD 150,795,432 was obtained from EDC to cover 85% of the total cost of eight Q400 aircraft and their associated engines supplied by the aircraft manufacturer Bombardier Incorporated of Canada. The outstanding balance of USD 142,536,941 or Birr 2,448,713,377 at 30 June 2011 is repayable over a period of twelve years in quarterly instalments together with interest computed at rates ranging from 2.978% to 4.692% per annum.

d) Citibank

A loan agreement was signed between Ethiopian Leasing 2010 LLC Delaware Limited (a subsidiary in Delaware U.S.A. wholly owned by the Enterprise) and GOVCO LLC, the primary lender. The total loan facility of USD 604,823,000 was obtained to cover up to 85% of the total cost of five Boeing 777-260 LR aircraft, each having two installed General Electric Model engines and one spare engine. The outstanding balance at 30 June 2011 of USD 471,840,760 or Birr 8,105,988,347 is repayable through Citibank (guarantor) over a period of twelve years in quarterly instalments together with Interest computed at fixed and floating rates for each of five aircraft. The loan is secured by the guarantee of Citibank and pledges on the respective aircraft which are registered in the name of Ethiopian Leasing 2010 LLC Delaware Limited.

e) As stated in note 15(d) above, 85% of the total cost of five Boeing 777-260 LR aircraft Is to be covered by Citibank while 2.5% of the cost is to be covered by the Enterprise and the remaining 12.5% of the cost is to be covered by the following institutions:-

Name	*Amount of loan Birr*	*Interest rate %*	*Terms of repayment*
African Finance Corporation	*407,823,848*	*LIBOR plus fixed margin*	*Over 7 years in quarterly installments*
African Development Bank	*378,052,993*	*"*	*"*
Eastern and Western African Trade and Development Bank	*333,306,388*	*"*	*"*
DBS Bank of Singapore	*257,692,500*	*-*	*To be transferred to the above loans upon delivery of the fifth Boeing 777-260 aircraft*

f) UT Finance Corporation

The loan of USD 7,340,360 was obtained from UT Finance Corporation to cover the Cost of spare engine for Boeing 767-300 aircraft. The outstanding balance of Birr 126,103,723 at 30 June 2011 is repayable over a period of five years in quarterly instalments and interest is to be paid at the rate of 4% per annum.

g) CBE Loan No. III

The balance of Birr 69,959,530 is out of the total loan from CBE of Birr 114,327,054 which was obtained to finance part of the cost of construction of the cargo terminal and purchase of equipment for the terminal. The said balance is to be repaid in quarterly instalments of Birr 4,783,864 starting from 22 September 2007 and ending on 21 December 2015 and interest is to be paid at the rate of 9% per annum. This loan is secured against the collateral of buildings worth Birr 133,028,311.

h) CBE Loan No. IV

The balance of Birr 406,416,379 is out of the total loan granted by CBE of Birr 497,620,800 to be disbursed on a monthly basis starting from October 2007 to January 2019 to finance the agreement signed between the Enterprise and Boeing Capital Corporation to purchase one MD-11 Cargo Airfreight. The said balance is to be repaid in quarterly instalments of Birr 16,506,772 starting from 30 April 2009 and ending on January 2019 and interest is to be paid at the rate of 6% per annum. This loan is secured against the Aircraft itself worth Birr 552,912,000.

16. OPERATING REVENUE

	Birr	*2010 Birr*
Passenger	*18,066,798,230*	*12,095,320,763*
Freight	*3,040,179,604*	*1,694,212,252*
Charter	*1,835,598,978*	*1,614,481,830*
Mail	*56,875,020*	*49,698,641*
Excess baggage	*925,900,722*	*716,066,378*
Commission	*12,869,802*	*8,670,313*
Customer services (work orders)	*109,191,964*	*165,963,544*
Subsidiaries	*246,367,627*	*174,007,149*
Ground handling revenue	*195,214,673*	*129,645,368*
Miscellaneous	*270,280,775*	*168,296,423*
	24,759,277,395	*16,816,362,661*

17. OPERATING EXPENSE

	Birr	2010 Birr
Flying operations	12,677,940,667	7,297,011,840
Direct maintenance	2,468,581,534	1,809,428,199
Depreciation of flying equipment	869,107,944	360,567,982
Rentals-leased aircraft	2,052,460,144	1,455,956,396
Promotion and sales	2,260,674,159	1,472,522,000
Passenger service	1,179,115,634	889,830,936
Ground operations	1,725,201,474	1,270,679,362
Indirect maintenance	142,425,470	155,838,738
Depreciation	160,680,059	116,230,835
Customer services (work orders)	64,782,022	108,480,429
Subsidiaries	138,753,564	83,659,175
General and administration	606,377,463	415,891,201
	24,346,100,134	15,436,097,093

18. OTHER NON-OPERATING EXPENSES/(INCOME)

	Birr	2010 Birr
Credit card service charge	83,828,779	49,190,463
Bank charges	31,322,853	19,064,939
Gain on currency fluctuation	(1,195,552,295)	(310,443,933)
Loss/(gain) on disposal of fixed assets	14,682,225	(26,558,236)
Interest income	(16,883,162)	(12,290,010)
Write back of creditors accounts	(131,251,599)	(101,687,933)
Miscellaneous	(4,611,637)	(16,500,782)
	(1,218,464,836)	(399,225,492)

Notes to the Financial Statements (cont.)

19. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATION

	Birr	2010 Birr
Net profit for the year	1,232,122,941	1,625,827,949
Transfer to capital	2,169,763	1,540,685
Interest income	(16,883,162)	(12,290,010)
Interest expense	300,341,832	122,621,439
(Increase)/ decrease in deferred charges	(508,571,133)	42,552,417
Increase in standing deposits	(252,688,522)	(59,261,675)
Loss/(Gain) on disposal of fixed assets	14,682,225	(26,558,236)
Depreciation	1,029,788,003	476,798,818
Adjustment of provision for doubtful debts	60,057	1,574,751
Provision for doubtful debts	74,627,742	28,412,223
Write off of stock against provision	(43,105)	(13,419,905)
Provision for stock obsolescence	24,549,582	2,629,449
Increase in stock	(275,061,992)	(121,159,663)
Increase in debtors	(1,893,032,203)	(3,165,525,157)
Increase in creditors	1,569,703,822	671,501,248
Increase in unearned transportation	1,010,479,510	653,810,681
(Decrease)/increase in contributions	(21,674,381)	552,200,712
Increase/(decrease) in deferred liabilities	4,587,843	(5,164,945)
Increase in provision for maintenance	387,610,952	254,571,938
Increase in non-current liabilities	46,427,613	56,070,030
Net cash inflow from operations	2,729,197,387	1,086,732,749

20. FINANCIAL RISK

a) Credit risk

Credit risk in relation to a financial instrument is the risk that a customer, bank or other counter-party will not meet its obligations (or not be permitted to meet them) in accordance with agreed terms.

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 indicated in the statement of financial position.

The following table indicates the concentration of credit risk in the Enterprise's investment portfolio:-

Security type	*% of total assets portfolio at 30 June 2011*	*% of total assets portfolio at 30 June 2010*
Foreign investments		
Holdings of securities	*1.04*	*1.64*
Short term deposits	*4.90*	*9.00*
Cash with foreign banks	*4.47*	*5.28*

b) Interest rate risk

Current borrowings are at fixed and floating rates averaging 3.46% p.a. Investments made by the Enterprise in various international banks generated interest income that covered the cost of borrowing by 5.62% in the year 2011 compared to 10.02% in the previous financial year.

c) Foreign currency risk

About 94.25% of the monies earned by the Enterprise are in hard and convertible currencies.

21. COMMITMENTS

The Enterprise has commitments, not provided for in these financial statements, of Birr 88,075,490,688 for the purchase of 10 B787-8, 10 B737-8 and 12 A350 aircraft to be delivered between November 2011 and November 2019. The commitment for the purchase of 10 B737-8 and 12 A350 aircraft amounting to Birr 55,465,647,804 is with a possibility of sale and lease back arrangement to be decided in future.

22. CONTINGENT LIABILITIES

The Enterprise has contingent liabilities of Birr 17,288,142, not provided for in these financial statements, in respect of legal actions brought by different organizations and individuals which are contested by the Enterprise. It is not possible to determine the outcome of these actions at the moment.

23. ESTABLISHMENT

The Enterprise was established as a public enterprise by Council of Ministers Regulations No. 216/1995, amended by Council of Ministers Regulations No. 81/2003 and 147/2008. Its principal place of business is in Addis Ababa, Ethiopia, and it has area and station offices all over the world.

24. EMPLOYEES

The Enterprise employed 6,286 staff at 30 june 2011 (2010 - 5,555).

25. RETIREMENT BENEFIT OBLIGATIONS

The Enterprise's employees are eligible for retirement benefits under a defined contribution plan. For the year ended 30 June 2011, the Enterprise contributed Birr 31,892,092, (2010 - Birr 22,643,661) which has been charged to the income statement.

26. STAFF COSTS

Staff costs for the year amounted to Birr 1,887,994,040 (2010 - Birr 1,392,819,379) and are included in the various major expense categories.

27. COMPARATIVE FIGURES

In order to facilitate comparison, certain of the 2010 figures have been rearranged in these financial statements.

28. DATE OF AUTHORIZATION

The Chief Executive Officer of the Enterprise authorized the issue of these financial statements on 12 January 2012.

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ETHIOPIAN AIRLINES INTERNATIONAL ROUTE MAP

ETHIOPIAN DESTINATIONS

Abidjan (Côte d'Ivoire)
Abuja (Nigeria)
Accra (Ghana)
Addis Ababa (Ethiopia)
Bahar Dar (Ethiopia)
Bamako (Mali)
Bangkok (Thailand)
Bangui (Central Africa)
Beijing (China)
Beirut (Lebanon)
Brazzaville (Congo)
Brussels (Belgium)
Bujumbura (Burundi)
Cairo (Egypt)
Dar es Salaam (Tanzania)
Dakar (Senegal)
Delhi (India)
Dire Dawa (Ethiopia)
Djibouti (Rep. of Djibouti)
Douala (Cameroun)
Dubai (UAE)
Entebbe (Uganda)
Frankfurt (Germany)
Guangzhou (China)
Harare (Zimbabwe)
Hangzhou (China)
Hong Kong (China)
Jeddah (Saudi Arabia)
Johannesburg (S. Africa)
Juba (Southern Sudan)
Khartoum (Sudan)
Kigali (Rwanda)
Kilimanjaro (Tanzania)
Kinshasa (D. R. of Congo)
Kuwait City(Kuwait)
Lagos (Nigeria)
Libreville (Gabon)
Lilongwe (Malawi)
Lomé (Togo)
London (United Kingdom)
Luanda (Angola)
Lubumbashi (Congo)
Lusaka (Zambia)
Makale (Ethiopia)
Malabo (Equitorial Guinea)
Malakal (Southern Sudan)
Manama (Bahrain)
Maputo (Mozambique)
Milan (Italy)
Mombasa (Kenya)
Mumbai (India)
Nairobi (Kenya)
N'Djamena (Chad)
Ouagadougou (Burkina Faso)
Pointe Noire (Congo)
Paris (France)
Riyadh (Saudi Arabia)
Rome (Italy)
Sanáa (Yemen)
Victoria (Seychelles)
Stockholm (Sweden)
Toronto (Canada)
Tel Aviv (Israel)
Washington D.C. (USA)
Zanzibar (Tanzania)

DESTINATIONS WITH SPECIAL AGREEMENTS

Cape Town (South Africa)
Dorval, Montréal (Canada)
Gaborone (Botswana)
Helsinki (Finland)
Jarkata (Indonesia)
Kolkata (India)
Manila (Philippines)
Oslo (Norway)
Ottawa, Ontario (Canada)
Palermo (Italy)
Stockholm (Sweden)
Toronto (Canada)
Vancouver (Canada)
Windhoek (Namibia)
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Chicago, Illinois
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Columbia, S. Carolina
Columbus, Ohio
Dallas, Texas
Dayton, Ohio
Denver, Colorado
Detroit, Michigan
Fort Lauderdale, Florida
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Little Rock, Arkansas
Los Angeles, California
Memphis, Tennessee
Miami, Florida
Minneapolis,
Minnesota
Nashville, Tennessee
New Orleans,
Louisiana
New York
Oklahoma City,
Oklahoma
Omaha, Nebraska
Ontario, California
Orlando, Florida
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Phoenix, Arizona
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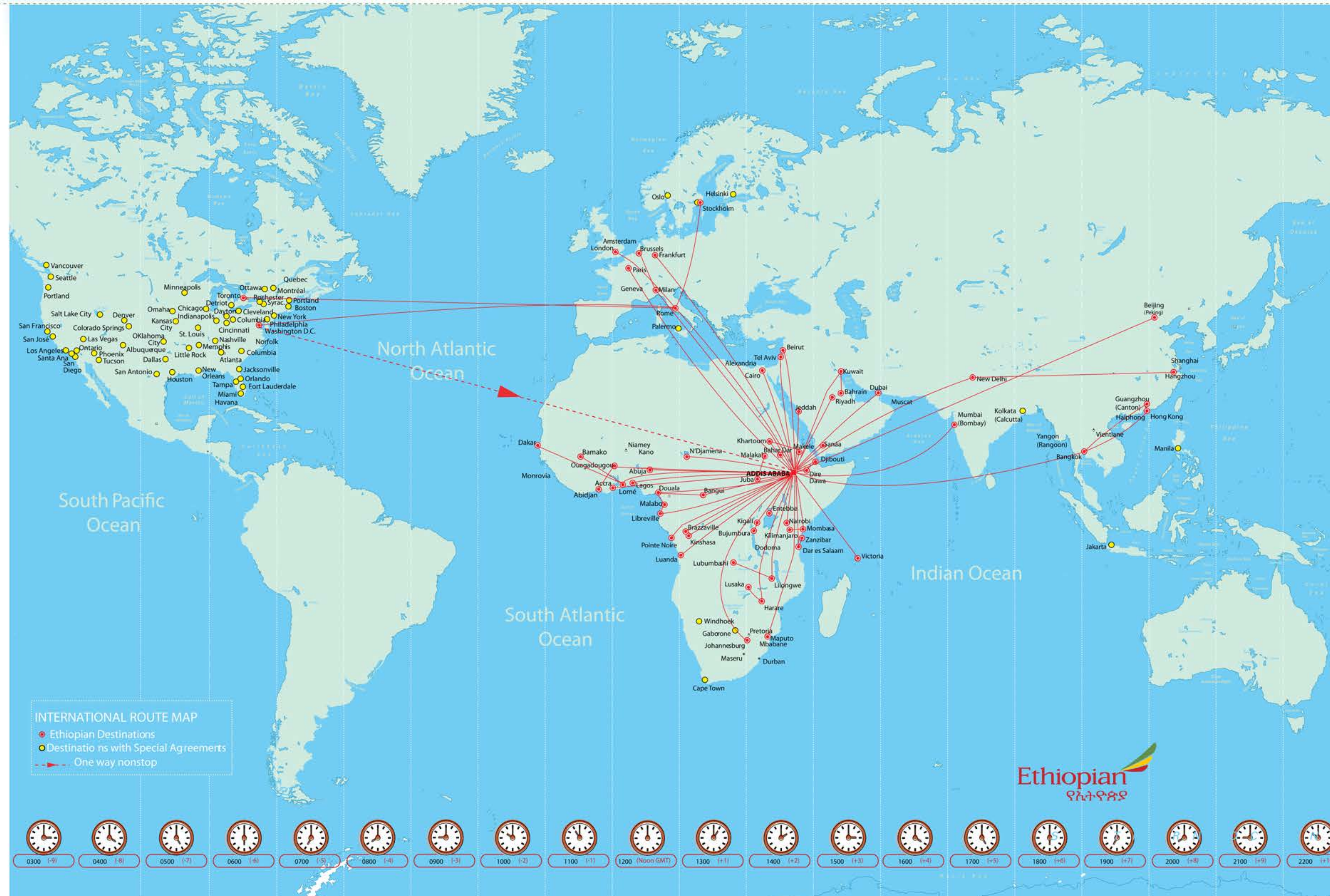

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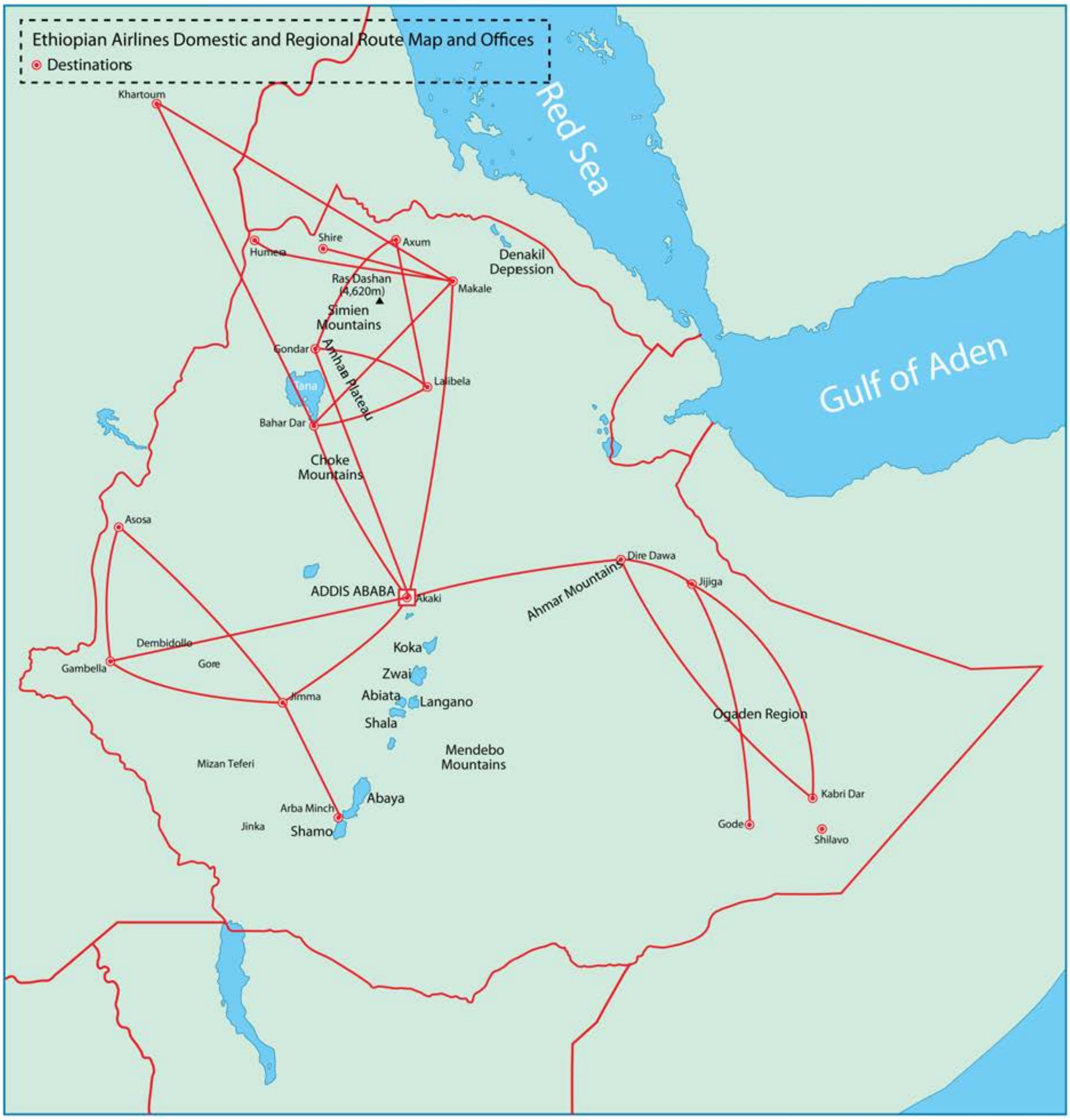

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