ANNUAL REPORT 2011-12

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BOARD OF MANAGEMENT

H.E. Mr. Addisu Legesse	Chairman
H.E. Mrs. Sinknesh Ejigu	Member
H.E. Mr. Sisay Gemechu	Member
Mr. Mesfin Lemma	Member
Maj.Gen. Molla H.Mariam	Member
Mr. Mussa Mohammed	Member
Mr. Alemayehu Assefa	Member
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Mr. Tewodros Balcha	Member
Ms. Rahel Zerihun	Secretary

CEO'S MESSAGE

In 2011/12, the airline industry was caught in a perfect storm. On the one hand, fuel price stayed at high level for an unprecedented sixteen months, reaching at one point $ 125 per barrel in the slack season. On the other hand, demand for air travel, especially from Europe, was weakened by the economic slowdown. The demand side constraint has put downward pressure on yield that has been further exacerbated by growing competition between airlines for market share.

The combination of these two factors (declining revenue and increasing cost) tested the resilience of many airlines and led unprecedented number of them to declare bankruptcy or cease their operations

In 2011/12, the airline industry was caught in a perfect storm ... Against all the odds, however, i am delighted to report that Ethiopian Airlines successfully completed 2011/12 budget year and its second year of Vision 2025 period registering remarkable and profitable growth ... we are today the most successful and fastest growing airline in Africa.

all together. Particularly African aviation faced strong headwinds resulted from the aggressive competitive pressures from non-African carriers and much higher fuel price, very high aviation taxes and charges.

Against all the odds, however, I am delighted to report that Ethiopian Airlines successfully completed 2011/12 budget year and its second year of Vision 2025 period registering remarkable and profitable growth.

Capacity measured in terms of Available Seat Kilometers (ASK) increase by 22% passenger carried grew by 24% freight uplift rose by 20%, operating revenue reached ET 33.8 billion higher by 37%, whereas operating expense increased by 35% primarily due to the rise of oil and fuel prices.

The net result of the fiscal year 2011/12 shows operating profit of 1 billion ETB and a net profit of 734 million ETB, on track with fast, profitable and sustainable growth strategy of the airline.

During the period, we invested hugely in a number of projects to enhance our customer services to new heights.

Ethiopian embarked on a long term customer service strategic plan which has blended ingredients of operational excellence and personalized service of customer intimacy. This plan is proving valuable as we have already registered noted improvement on the three pillars of customer service that are flight punctuality, baggage services and total customer satisfaction.

As part of customer service focused strategy, we have contracted a Minneapolis USA based company called Service Quality Institute, one of the global leaders in customer service strategy, to conduct a three years customer service training programme for more than 2000 of our front line employees. Following on our historical experience, training will continue to be the foundation of our airline.

We have also upgraded our cabin interior and our new B777-200LR aircraft are equipped with sleeper seats in c-9 business class and on demand audio and video with over 80 channels of in-flight entertainment in C-9 and economy class. We have also started retrofitting our existing B767-300 and B757-200 aircraft with comfortable seats keeping customer needs in mind.

Our fleet renewal project saw the arrivals of 11 brand new aircraft during the year including the five ultra-long-range Boeing 777-200LRs fitted with angled lay-flat bed for cloud nine class making the long distance travel of our customers more comfortable and enjoyable. Furthermore the seats are fitted with the state of the art inflight entrainment system offering the choice of over 800 channels. The deployment of these aircraft has enabled us to operate daily non-stop from Washington to Addis Ababa and reduce both legs by over three hours in each direction.

With big growth in mind, we joined Star Alliance, a leading global airline network providing wider opportunities for our customers to fly across the globe. We will also be able to give improved benefits to Sheba miles members with gold and silver statuses including the choice to accumulate miles flown on other star alliance member airlines. This event is yet another milestone in the history of Ethiopian keeping with our aim to see Ethiopian branded among the best world ranking airlines.

Despite the tough operating environment, we continued to take advantage of opportunities to expand our network with the opening of 7 new passenger services: Milan (Italy); Muscat (Oman); Seychelles; Cotonou (Benin); Dammam (Saudi Arabia); Bahr Dar-Khartoum; and Mekelle-Khartoum.

I would like to sincerely appreciate and thank all our customers and stakeholders for their continued patronage that made the fiscal year 2011/12 another year of success.

Tewolde Gebremariam
Chief Executive Officer

MANAGEMENT TEAM

Ato Tewolde Gebremaria
Chief Executive Officer

Ato Gobena Mikael
Chief Commercial Officer

Ato Kassim Geresu
Corporate Finance Officer

Ato Mesfin Tassew
Chief Operatingl Officer

Ato Zemene Nega
SVP Ethiopian MRO

Wzo. Elizabeth Getachew
SVP Corporate HRM

Ato Esayas WoldeMariam
SVP Global Sales

Ato Kemeredin Bedru
Chief Information Officer

Ato Wassu Zelelew
VP Internal Audit & Compliance

Wz. Rahel Zerihun
VP Legal Counsel &
Corporate Secretariat

Ato Yissehak Zewoldi
VP Alliances &
Corp. Strategic Planning

Ato Samuel Assefa
VP Ethiopian Aviation Academy

Ato Nega Mekonnen
VP Corporate Finance

Ato Solomon Debebe
VP Customer Services

Capt. Desta Zeru
VP Flight Operations

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 GOVERNANCE

Corporate governance is the process by which companies are directed, controlled and held to account. Ethiopian Airlines Board of Management is responsible for the overall management of the governance of the airline and is accountable to the stakeholders for ensuring that the company complies with the law and the highest standards of best practices in corporate governance and business ethics. The Board is committed to the need to conduct the business and operations of the airline with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good corporate governance.

Board of Managemnt

The Board of Management of Ethiopian Airlines is formed in compliance to public enterprises law (proclamation no. 25/1992). Accordingly, the full Board meets at least 12 times a year. The Board receive all information relevant to the discharge of their obligations in accurate, timely and clear form so that they can guide and maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the Board has delegated authority for conduct of day-to-day business to the Chief Executive Officer. The Board nonetheless retains responsibility for establishing and maintaining the airline's overall internal control of financial, operational and compliance issues as well as implementing strategies for the long term success of the airline.

The Board have a wide range of skills and experience and each contributes independent judgment and knowledge to the Board's discussions.

Audit Committe

The Board has an Audit committee which meets during the year as necessary. Its responsibilities include review of the integrity of the financial statements and formal announcements relating to the airlines financial performance, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and maintaining oversight on internal control systems.

Internal Controls

The Airline has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organization remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal control, the Board takes into account the results of all the work carried out to audit and review the activities of the airline. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators. Weekly meetings are held by executive management to monitor performance and to agree on measures for improvement.

Internal Controls

The airline is committed to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. A formal code of ethics has been approved by the Board and is fully implemented to guide management, employees and stakeholders on acceptable behavior in conducting business. All employees of the airline are expected to avoid activities and financial interests that could undermine their responsibilities to the airline.

CORPORATE SOCIAL RESPONSIBILITY

Ethiopian Airlines' Corporate Social Responsibility activities emanates not only from its core mission to positively contribute to the socio-economic development of Ethiopia in particular and the countries it operates in general but also from its belief in the noble virtue of giving back to the community. The following are some of the activities Ethiopian took part during the period.

Orphans celebrating Christmas at Ethiopian Head Quarters

Christmas with Orphans

Ethiopian celebrated Christmas with orphans from different non-governmental organizations (NGOs) namely; Abebech Gobena, Mary Joy, Alepha School and Mother Teresa at its Headquarters. At the event, more than 300 orphans cherished with gifts, musical entertainments and different games.

Community Development

Ethiopian has been actively cooperating with different local and international organizations who are working on rehabilitation initiatives, environment protection, youth development and clean water project. Some of the beneficiaries with this program at the period were Agar Ethiopia Charitable Society, World Woman Trade Fair, Ethiopian Medical Student Association, Ethiopian Red Cross Society and Cheshire Services Ethiopia.

Ethiopian staff with the disabled children of Cheshire Services Ethiopia

Ethiopian also provided free air tickets for volunteer expat health professionals working with the Children's Heart Fund of Ethiopia and Orbis Ethiopia delivering cardiac surgery and ophthalmic care in the country. Ethiopian supported these worthy causes with amount close to ETB 700,000.

CORPORATE SOCIAL RESPONSIBILITY

The Law students thanking Ethiopian

Health

Ethiopian has supported needy patients to access foreign treatment on serious medical conditions by covering medical travel costs. In this regard, Ethiopian has offered gratis tickets for a number of patients worth half a million birr during the period.

Education

Ethiopian in collaboration with Addis Ababa and Haramaya University has supported Law students to attend Moot Court Competitions in different parts of world to help students improve their legal skills and gain experience from their counter parts in other parts of the world. The initiative targets to improve quality education through students' participation in exchange of knowledge.

Great Ethiopian Run participants

Sport

Ethiopian has a long tradition of supporting sports in the country including long distance running, cycling competitions etc. As part of this continued tradition, this year Ethiopian sponsored the Great Ethiopian Run annual mass run where more than 36,000 people participated. Similarly Ethiopian supported Women's 5km Run and Ring Road Relay.

SIGNIFICANT MILESTONES

2011 July

Ethiopian's maiden flight to Milan on July 02, 2011. Ethiopian Airlines Named "Official Carrier of Southern Sudan's Independence celebration"

2011 August

Ethiopian Airlines signed MPL Agreement with Flight Path International to develop and imple ment Multi Crew Pilot License Training program (MPL).

Ethiopian Aviation Academy graduated 73 cabin crew, 12 pilots and 50 Aviation Maintenance Technicians highlighting the airline's continued commitment to deliver quality services to its cus tomers.

Ethiopian signed Code Share Agreement with Asiana Airlines.

2011 September

Ethiopian Airlines has taken delivery of two DA42 pilot training aircrafts from Diamond Aircraft Industries GmbH of Austria.

2011 October

Ethiopian Airlines and Boeing announced an order for four Boeing 777 Freighters, making Ethiopian Airlines the first African carrier to order the twin-engine freighter.

Ethiopian Airlines has commenced direct international flights from Mekele and BahirDar to Khartoum.

Ethiopian has introduced web check-in services as part of its continuous efforts to enhance the traveling experience of its passengers.

2011 November

Ethiopian Airlines Aviation Academy officially approved by the European Aviation Safety Agency (EASA) as an approved part-147 type maintenance training organization.

Ethiopian received its first next-generation Boeing 737-800 with the new Boeing Sky Interior.

Ethiopian Airlines has introduced a Markup System in Ethiopia changing on commission remuneration of Travel Agents from the current ticket commission structure to a service markup practice.

Ethiopian Airlines has earned another accolade from The African Airlines Association (AFRAA) for being consistently profitable over the years.

2011 December

The Boeing 787 Dreamliner made its debut on African soil at Addis Ababa's Bole International Airport. ET's Captain flew the First 787 to Africa.

Ethiopian Airlines joined Star Alliance, the biggest airline alliance on December 13, 2011. Ethiopian commenced new nonstop flights from Addis Ababa to Muscat, the capital of Oman.

Ethiopian Airlines has secured the European Aviation Safety Agency (EASA) Part 145

SIGNIFICANT MILESTONES

2012 February

Ethiopian launched new non-stop flights from Addis Ababa to Dammam, the capital of the Eastern Province in Saudi Arabia.

Ethiopian Airlines has received the Gold in the African Airline of the Year 2011/2012 Awards.

Ethiopian Airlines placed Firm Order for Five Q400 NextGen.

2012 March

Ethiopian Airlines unveiled an enhanced and user friendly website reaffirming its commitment to keep up with the needs and interests of its customers.

Ethiopian Maintenance, Repair and Overhaul (MRO) Unit has achieved another milestone with the successful fitting of blended winglets to its Boeing 767-300ER.

Ethiopian has welcomed 262 fresh graduates into its workforce from the Schools of Aviation Main tenance Technicians, Marketing and Cabin Crew.

2012 April

Ethiopian Airlines has received the second next-generation Boeing 737-800 Sky Interior Aircraft.

The Ethiopian Aviation Academy graduated 20 pilots and 22 Aviation Maintenance Technicians.

2012 May

Ethiopian Airlines, for a second time in a row, has won "The 2011 Annual Airline Reliability Perfor mance Award" from the Bombardier Aerospace.

Ethiopian started upgraded evening services between Addis Ababa and Bahir Dar with its Boeing 737–700/800.

Ethiopian Airports Enterprise and Ethiopian Airlines introduced common use self-service check-in KIOSKS at the Addis Ababa Bole International Airport on May 22, 2012.

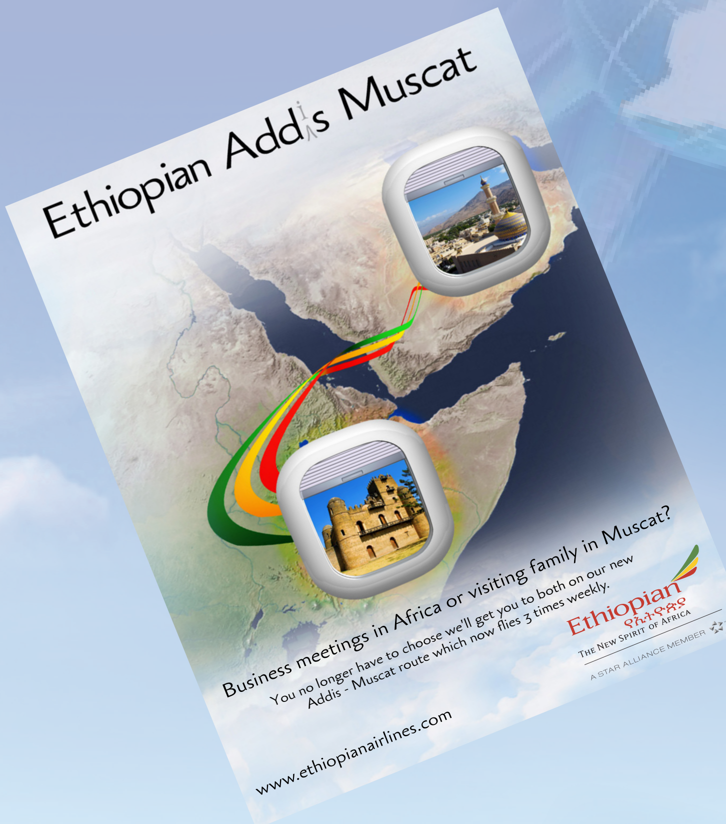
2012 June

Ethiopian Airlines started new flights to Berbera, the port city of Somaliland as of July 1, 2012.

Ethiopian Airlines and Abu Dhabi Aircraft Technologies (ADAT) has been awarded a seven year contract to provide Integrated Component Solutions (ICS) to Ethiopian Airlines' growing fleet of Boeing 737NG aircraft.

BUSINESS HIGHLIGHTS

New Destinations



CUSTOMER SERVICES

Enhanced Products and Services

During the year, the airline introduced new services and products, both on-ground and on-board, and continued to invest in the enhancement of the skills of its frontline staff.

Improved On-ground Services

At all points of contact with the customer, Ethiopian introduced changes and innovations to offer the best possible travel experience.

The airline started web check-in enabling customers to choose their seats and get their boarding passes from home. A new and customer friendly website was also launched.

Common use self-check-in Kiosks have been put in place at Addis Ababa, Mumbai and Johannesburg airports, with a view to give customers more control over their check-in and expedite the process, especially at peak hours.

Moreover, all domestic station offices, except Gode and Kebridehar, have been fully automated, with e-ticketing capabilities. The two remaining stations will also be automated, once the necessary infrastructure is in place.

New On-board Product and Service

Furthermore, the airline introduced new on-board products and services with the aim of greatly enhancing on-board comfort of customers. One ultra modern B777-200LR, arguably the best wide-body long haul aircraft, and three

B737-800 with Sky Interior, the most modern

CUSTOMER SERVICES

narrow body aircraft, were phased-in during the year. New C- Business Class seats for B767 and B757 Business have been ordered and will be installed in coming year.

As part of its efforts to enhance its services on domestic and regional routes, the airline has placed order for 5 Q-400 aircraft with full business class configuration, hot galley capabilities, larger baggage holding capacity, reclining seats, and second lavatory. These aircraft will enter into service at the start of coming year.

The airline has started to serve Ethiopian culinary specialties in Business/C-9 Class, as part of its differentiation effort through Ethiopian cultural and traditional services.

As part of its service delivery enhancement efforts, the airline is continuously upgrading the customer handling skills of its frontline staff through the Feel training program initiated with Service Quality Institute.

Seamless and Hassle Free Travel

During the year, Ethiopian joined Star Alliance, the largest airline alliance in the world, enabling its customers to enjoy a seamless and hassle free travel experience, with access to a network of over 21,000 points in 189 countries and the possibility of accruing and redeeming their miles on all Star Alliance member carriers.

Ethiopian ShebaMiles membership base grew robustly this year increasing by +35% to 615,883 members. Members now enjoy, in addition to the possibility of earning and redeeming their miles on other Star Alliance member carriers, enhanced benefits.

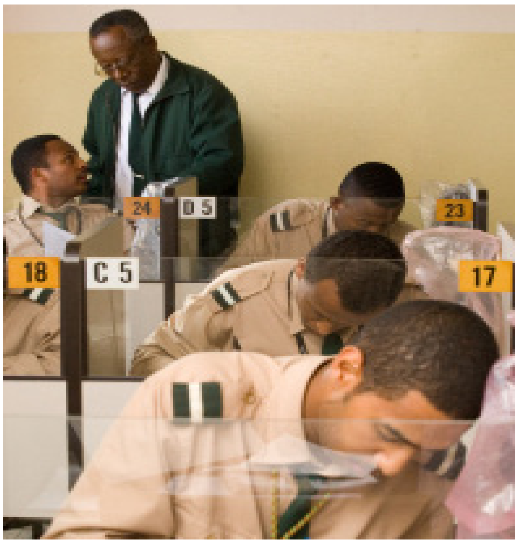
ETHIOPIAN MRO

Ethiopian MRO has played vital role in the area of availing Airworthy Airplane for the Airline operation requirement. It has also been a source of additional revenue from third party business.

One of the major modifications accomplished during the period was; installation of winglet on B767-300 Aircraft. Two Airplanes fitted with winglets to improve range and fuel consumption. In addition a drop down oxygen system has been installed on Q-400 airplanes to be able to fly at safer altitude during emergency decent.

Ethiopian MRO has been approved by the European Aviation Safety Agency (EASA) for B767 and B757 aircraft maintenance services. This certification is another testimony for the quality of maintenance service being rendered. Furthermore, to support its operation, Ethiopian MRO has introduced a new MRO management IT system known as Maintenix which has been fully implemented during budget year. Ethiopian MRO will continue to add new capability in coming budget year, of which the capability on complete overhaul of CFM-56 family engines being the biggest of all and will be source of revenue from third party work.

ETHIOPIAN AVIATION ACADEMY



In 2011/12, the Ethiopian Aviation Academy admitted a total of 935 new trainees in its basic pilot, aircraft technician, cabin crew and marketing schools and a total of 961 trainees from basic schools.

A total of 13,016 trainees have also gone through various trainings in technical recurrent, marketing/customer service recurrent, leadership, career development and other type of trainings.

The first batch of 100 trainees admitted for Line and Hangar Technicians training at Dense Engineering College completed their training and joined ET for practical On-the-job training. A cooperative training has been launched with ET Air Force Technical College and 93 air craft technicians have been following their training which will be completed in September 2012.

In order to increase the effectiveness and quality of training, ET has introduced E-learning in technical areas using open LMS software called Moddle. On-line Computer Based Testing (CBT) has also been made possible for various promotional exams.

The technical recurrent training of the Aviation Academy has been European Aviation Safety Agency (EASA 147) type certified to conduct trainings on system courses for B757/767 and B737.

Following the successful launch of Multi-crew Pilot Licensing Training in 2011/12, 48 trainees of MPL (multi-crew pilot licensing training) are pursuing their training in ground school, simulator and flight training phases. The MPL training will prepare the trainees to fly multi-crew, multi-engine technologically advanced aircraft and enable to get highly competent first officers in a shorter time.

HUMAN RESOURCE MANAGEMENT

Human Resource Division undertook the following major activities in 2011/12 budget year.

- ❖ As part of Achieving competitive excellence (ACE) program implemented at ET to increase productivity and customer satisfaction, 99% Cells were qualified, 44% Cells achieved Bronze and 2% Cells met Sliver status.

- ❖ Organization structure: Matrix organization (dual reporting) organization structure was introduced in IT, HRM, and Commercial divisions.

- ❖ Employees Housing Project: Out of the 67 blocks to be constructed in phase-I, the construction of 50 blocks is in progress.

- ❖ Industrial relations: 10^{th} collective agreement policy negotiation was finalized. A total of 23 grievances were handled.

- ❖ Training and Development: A total of 96 employees were attended the training Induction & Indoctrination training. Coaching Program was introduced at Ethiopian MRO Skill Development Project with Lufthansa Technique and a total of 88 Coachees were attending the new skill development program.

- ❖ Educational Assistance: A total of 303 employees were renewed and 327 new employees were enrolled in 2011/12 budget year for educational Assistance.
- ❖ Recruitment (Basic Schools): A total of 721 candidates were recruited to join Ethiopian Airlines via Basic schools and college trainee program.

- ❖ Best Employee award: Best Employees Award program was conducted quarterly during the year.

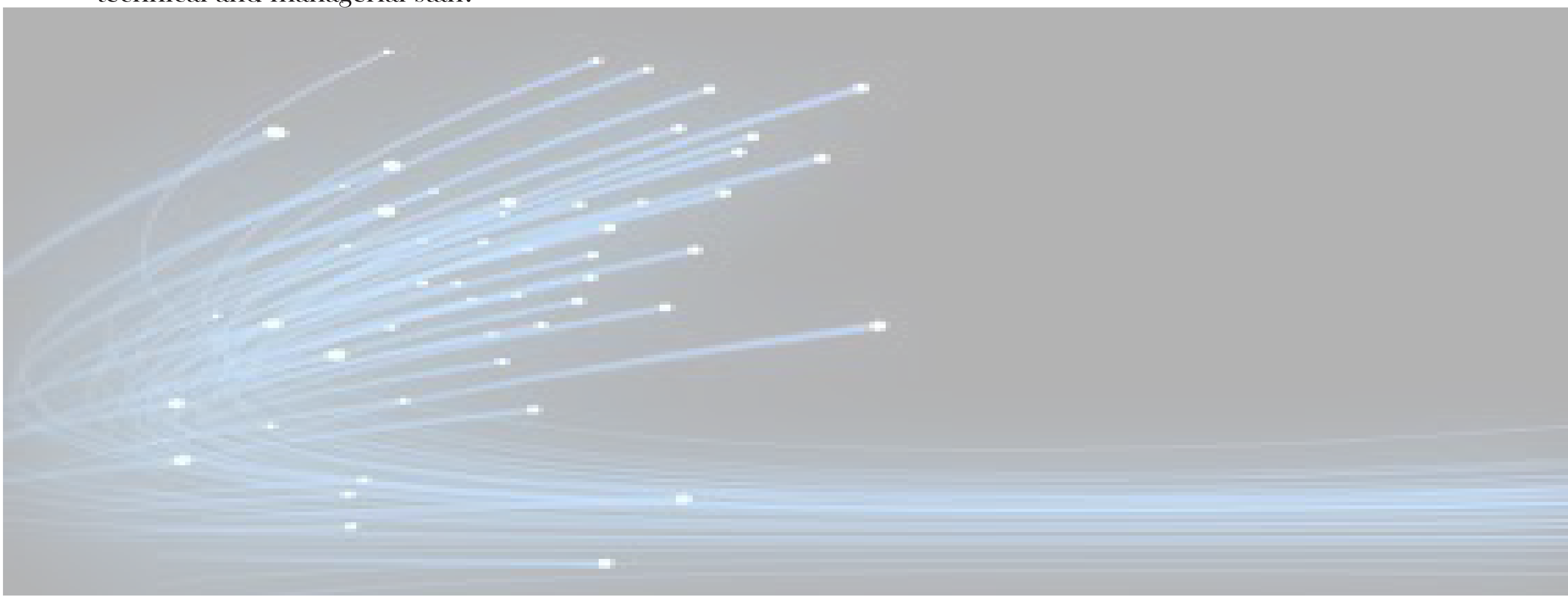
INFORMATION TECHNOLOGY

Information Communication Technology

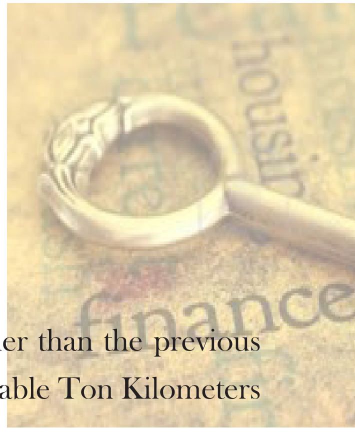
Ethiopian Airlines is one of the pioneers in introducing Computer Technology in the country using punch card for its operation in 1960's.The use of Information Communication Technology (ICT) has already demonstrated its impact in Ethiopian Airlines since its inception. ICT has simplified and transformed its wide range airline business functions. Accordingly, the continuous investment on ICT including on process and people will indeed further modernize the entire system and will have a profound and far reaching result in the overall operations and competitiveness of the airline.

Seeing this fact, Ethiopian airlines (ET) has recently embarked on implementing major ICT systems to facilitate its marketing, strategic and operational management to support its vision and growth strategy. The various major ICT systems implemented in the past few years are critical strategic assets contributed by ICT in Ethiopian Airline's growth, profitable and sustainable strategic Journey , as they assist in introducing best practices, customer satisfaction, cost reductions and maximize efficiency and effectiveness as well as bring greatest advantages in promoting and strengthening Ethiopian Airlines competitiveness.

During the period in review, Ethiopian airlines continued implementing key ICT solutions like Star Alliance related ICT solutions, booking engine upgrade, automated exchange & refund, web check-in, Traveler Notification Service, Sabre executive dashboard, Net Access (Sabre access via internet), the ultra-modern Boeing 787 e-enabling systems, the new version of schedule manager, Cargo weight and balance system , full Maintenix MRO system cutover, IATA Simplified Interline Settlement System implementation. The Master system integration (MSI) project that encompasses Finance, Human Resource, Logistics, Middleware, Corporate Portal, Data Warehousing and Business Intelligence is also one of the major projects that is in progress and will fully be implemented in the next fiscal year. Trainings are also conducted to Galileo travel agents, internal technical and managerial staff.



FINANCE AND STATISTICS



Overview of Operating and Financial Results

The Airline's level of operation and operating results in the fiscal year 2011/12 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 2011/12	Year 2010/11	%age Change
Block Hours (000)	193	171	12%
ASKs (Millions)	22,394	18,395	22%
RPKs (Millions)	16,175	13,151	23%
RTKs (Millions)	2,922	2,429	20%
ATKs (Millions)	4,631	3,940	18%

Block Hours

The total Block Hours flown during the year were higher than the previous year by about 12%. This was mainly due to additional frequency and opening of new destinations.

Available Seat Kilo Meters (ASK)

Seat Kilometers Availed during 2011/12 was higher than the preceding year by 22% mainly due to commencement of new services to Cotonou, Dammam, Milan, Muscat & Seychelles and availing additional capacity.

Available Ton Kilo Meters (ATK)

The Total Ton Kilometers Availed during the fiscal year 2011/12 was more than the actual ton kilometers availed during the preceding year by 18%. This increase was mainly due to the addition of high capacity aircraft.

FINANCE AND STATISTICS

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 20%.

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 operating revenue of the previous year, the total operating revenue generated during the year grew by 37%.

Passenger Revenue

Schedule passenger revenue, which represents 72.5% of the total Revenue, has increased by 36% compared to the preceding year mainly as a result of increase in passenger uplift.

Freight Revenue

Freight revenue earned during the year 2011/12 has increased by 47% compared to the previous year mainly due to increase in freight uplift.

Operating Expenses

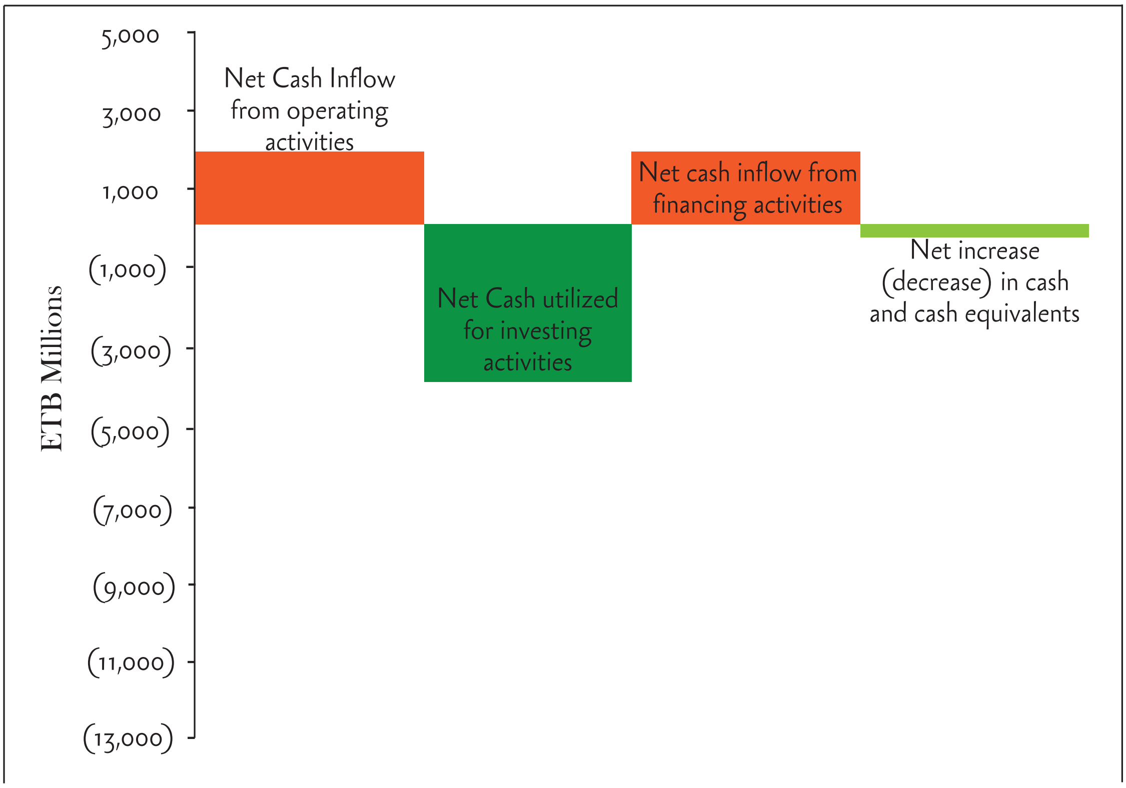
The total operating expense of the year 2011/12 has shown an increase of 35% compared to last year. The increase was in all expense components of the airline with fuel cost taking the lion's share.

Cash Position

The airline has generated a net cash inflow of ETB 2.4 billion from operating activities and raised ETB 2.8 Billion from financing activities and spent ETB 5.6 Billion for investments. The overall movements of the cash during the period are represented graphically as follows:

FINANCE AND STATISTICS

Cash Flow (In Millions)



Ratio Analysis

Profitability Ratios (per cent)	2012	2011
Return on Capital Employed (ROCE)	4%	2%
Operating Margin	3%	2%
Net Profit Margin	2%	5%
Return on Total Assets	2%	5%
Cost of Debt	3%	2%
Return on Equity	10%	21%
Leverage Ratios		
Debt/Equity Ratio	2.36	2.14
Total Debt to Total Asset Ratio	0.51	0.49
Times Interest Cover Ratio	1.88	1.38
Liquidity Ratios		
Current Ratio	1.02	0.96
Quick Ratio	0.95	1.03

FINANCE AND STATISTICS

Four Year Summary of Financial Highlights (Millions)

	2012		2011		2010		2009	
	ETB	US$	ETB	US$	ETB	US$	ETB	US$
Turnover:-								
Passenger (inc. Ex. Bag)	25,885	1,474	18,993	1,158	12,811	974	9,538	905
Freight & Mail	4,540	259	3,097	189	1,744	133	1,113	106
Charter (PAX and CGO)	2,099	120	1,836	112	1,614	123	1,126	107
Other Revenues	1,291	73	834	51	647	49	437	41
Total	**33,815**	**1,926**	**24,759**	**1,510**	**16,816**	**1,278**	**12,214**	**1,159**
Costs:-								
Flying Costs	19,066	1,086	12,678	773	7,297	555	5,652	536
Passenger Services	1,314	75	1,179	72	890	68	659	63
Traffic & Sales	2,693	153	2,261	138	1,473	112	695	66
Ownership Costs	3,338	190	3,283	200	1,933	147	1,536	146
Other overhead costs	6,355	362	4,945	302	3,844	292	2,698	256
Total	**32,766**	**1,866**	**24,346**	**1,485**	**15,436**	**1,174**	**11,240**	**1,067**
Operating Profit	**1,049**	**60**	**413**	**25**	**1,380**	**105**	**974**	**92**
Non-operating Net	(315)	(18)	819	50	246	19	371	35
Profit for the year	**734**	**42**	**1,232**	**75**	**1,626**	**124**	**1,345**	**128**

FINANCE AND STATISTICS

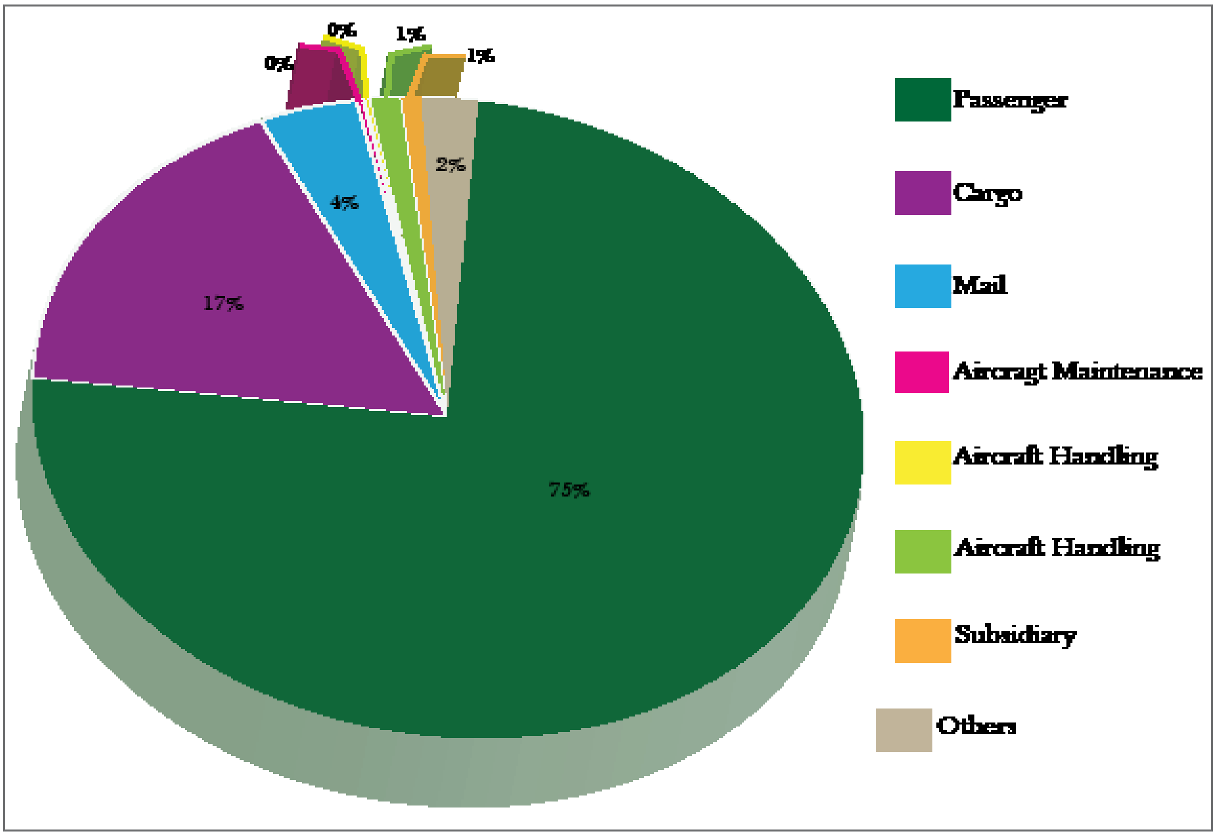
Value Added

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.

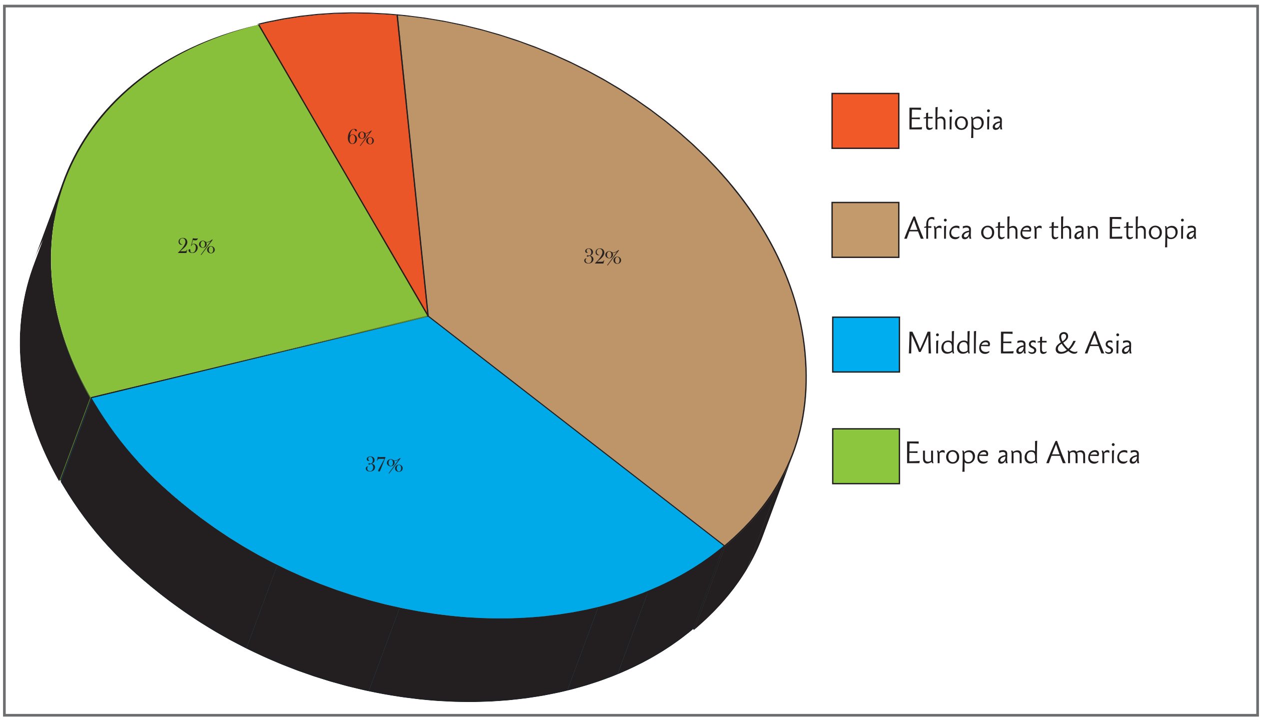
	2011-12		2010-11		2009-10	
	ETB'000	US$'000	ETB'000	US$000	ETB'000	US$'000
Operating Revenue	33,814,982	1,925,682	24,759,277	1,509,869	16,816,363	1,278,452
Less: Purchase of goods & Services	29,627,580	1,687,220	22,132,751	1,349,698	13,986,724	1,063,331
	4,187,402	238,463	2,626,526	160,171	2,829,639	215,121
Add: Other non-operating income	223,401	12,722	1,104,469	67,353	355,894	27,057
Interest Income	19,683	1,121	16,883	1,030	12,290	934
Total Value Added	4,430,485	252,306	3,747,879	228,553	3,197,823	243,112
Distribution of Value						
To employee's salaries	1,567,745	89,052	1,275,716	77,796	951,587	72,344
To overseas Governments						
Corporation & other tax	32,708	1,863	25,070	1,529	20,987	1,596
To supplier of capital						
Interest	559,889	31,884	300,342	18,315	122,622	9,322
Retained for investment & future growth						
Depreciation & Amortization	1,511,811	86,094	912,563	55,650	476,799	36,248
Retained Profits	734,159	41,809	1,232,123	75,137	1,625,828	123,602
Total Distribution of Value added	4,402,312	250,701	3,745,814	228,427	3,197,823	243,112

FINANCE AND STATISTICS

Revenue by Business Segment

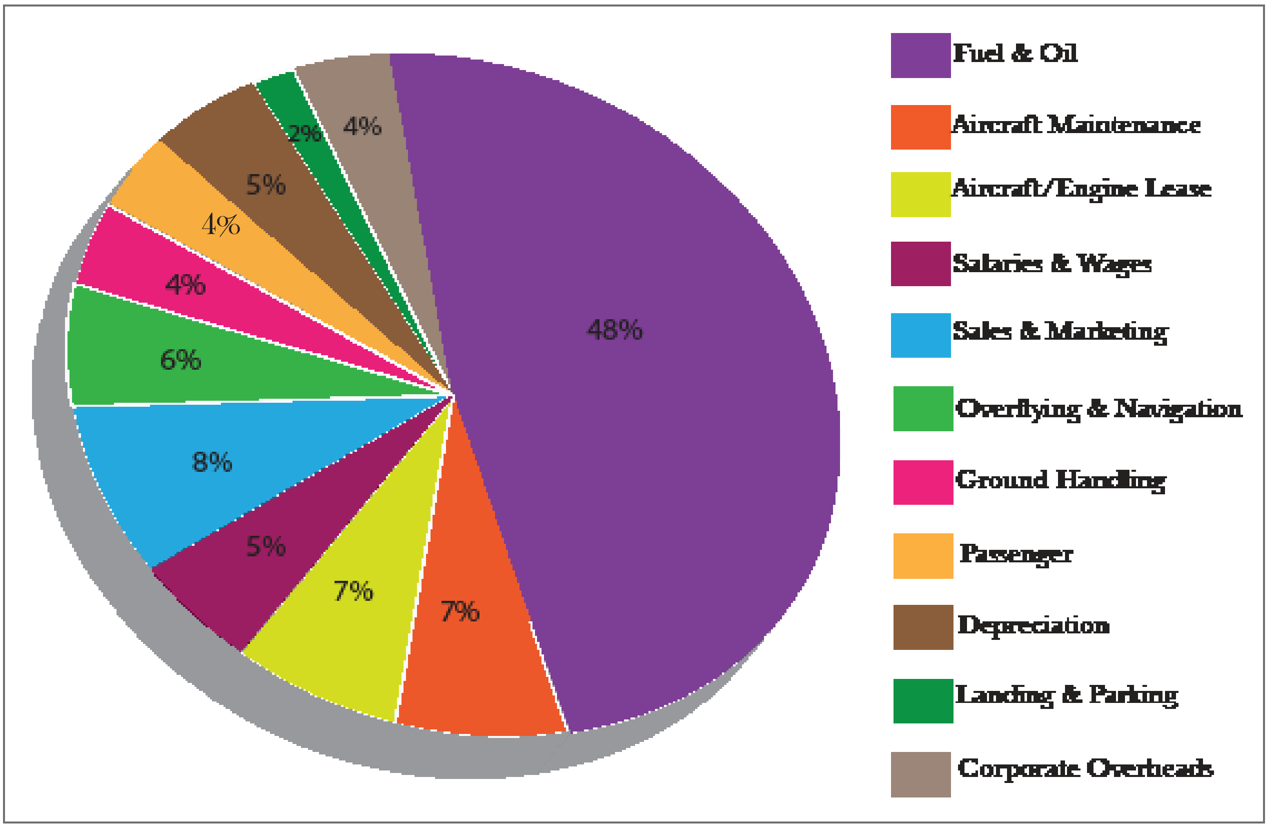


Revenue by Geographical Segment



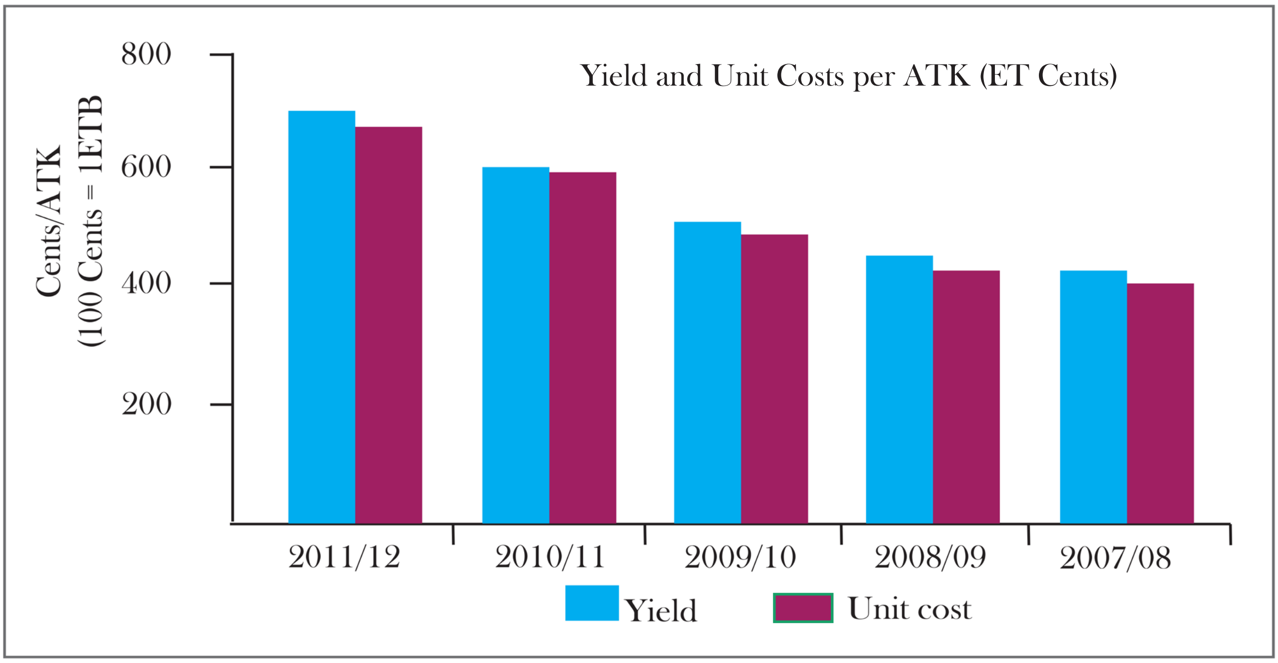
FINANCE AND STATISTICS

Expenditure



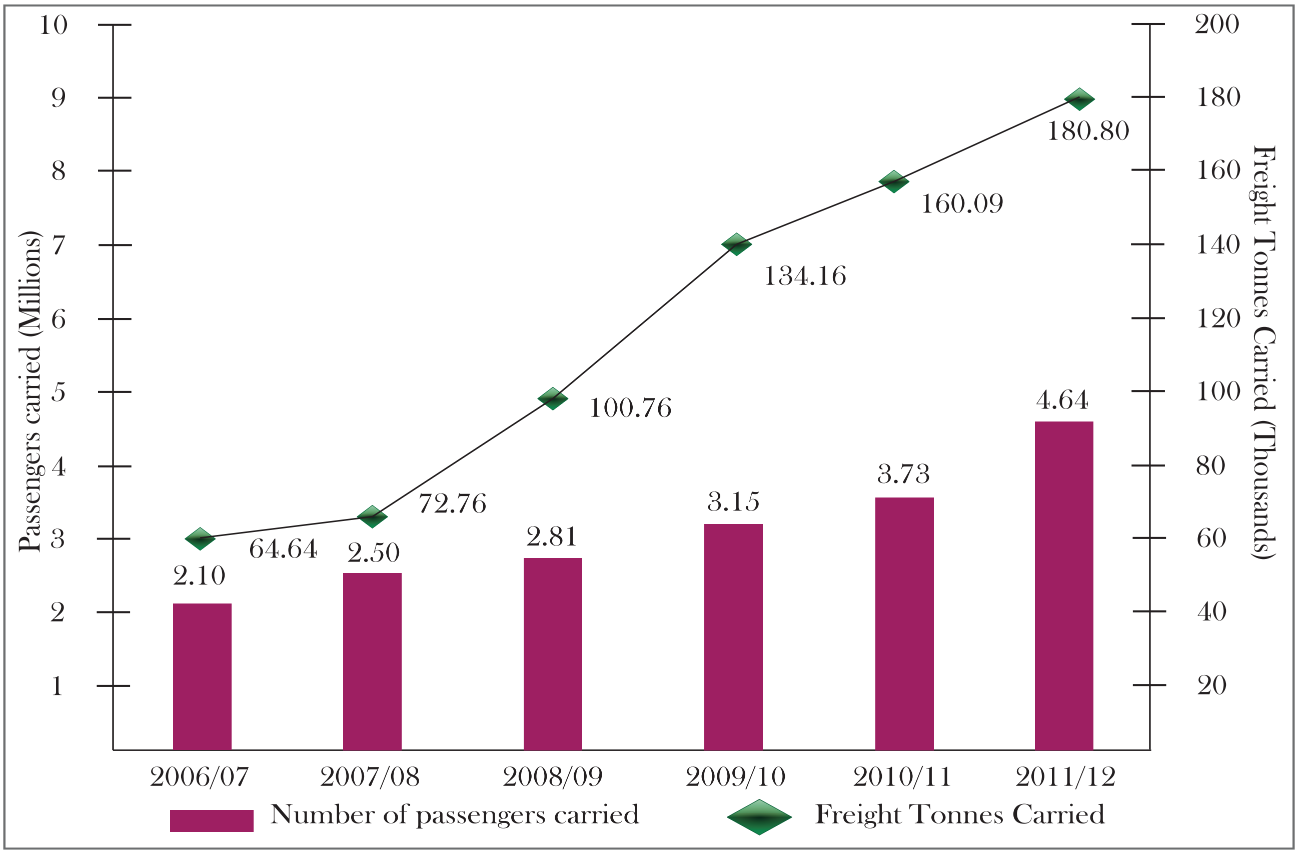
Yield and Unit Costs per ATK

Overall yield per ATK grew by 16% to 730 ET Cents while unit cost per ATK rose by 15% to 708 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.



FINANCE AND STATISTICS

Passenger and Cargo Carried



Fleet Information at Year End

Aircraft Type	Owned	Leased (Operating)	Total
Boeing 737-700	3	2	5
Boeing 737-800	3	5	8
Boeing 747-200F	-	2	2
Boeing 757-200 P	-	4	4
Boeing 757-200 F	1	1	2
Boeing 767-300	3	9	12
Boeing 777-200 LR	5	-	5
DH8- Q400	8	-	8
MD11 CF	-	2	2
Fokker-F27-MK050	-	-	-
Total	23	25	48

In addition to the above, ET and the Boeing Company completed an order agreement for ten Boeing 787 Dream liner jets and they will be delivered to ET starting from August 2012.

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 of Ethiopian Airline's treasury department is primarily responsible to identify, evaluate and hedge these financial risks.

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 organisations 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 2010, the cash position balance showed 53.48% in hard currencies of USD, EUR, GBP, CAD and other European Currencies, 27.65% in African currencies, 4.80% in Ethiopian Birr and 14.07% 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.

3) Interest Rate Risk

The airline is exposed to changes in interest rates of floating debt. In the year 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 subsidised swap were evaluated so that a hedging exercise could be adopted.

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. The resultant exposure is journalized immediately upon the periodic repayment of the loan. Currently the company is reviewing its hedging policies for jet fuel price and interest rate risks, in consideration of the various strategies.

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.

AUDITORS' REPORT

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 2 to 23 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 11. 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 2012 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.

1 January 2013

BALANCE SHEET

Ethiopian Airlines Enterprise
Statement of Financial Position
at 30 June 2012

ASSETS EMPLOYED	Notes	Birr	Birr	2011 Birr
PROPERTY, PLANT AND EQUIPMENT	1b)(i),2		22,989,410,829	18,735,967,394
INVESTMENTS	1b)(ii),3		326,361,206	326,268,346
STANDING DEPOSITS	1b)(iii),4		1,957,746,157	3,477,296,167
DEFERRED CHARGES	1b(iv),5		882,751,510	630,450,352
CURRENT ASSETS				
Stock	1b)(v),6	703,945,548		690,524,301
Debtors	1b)(vi),7	6,845,501,253		4,410,685,892
Cash and bank balances	1b)(vii),8	2,771,761,948		3,082,835,108
		10,321,208,749		8,184,045,301
CURRENT LIABILITIES				
Creditors	1b)(viii),9	3,882,108,338		3,697,710,639
Unearned transportation	1b)(ix)	3,934,827,041		3,137,916,278
Bank overdraft	10	159,645,361		63,797,460
Current maturity of long term loans	15	2,133,028,551		1,615,840,040
		10,109,609,291		8,515,264,417
NET CURRENT ASSETS/ (LIABILITIES)			211,599,458	(331,219,116)
			26,367,869,160	22,838,763,143
FINANCED BY				
CAPITAL				
Authorized		9,000,000,000		
Paid up	11		7,890,596,767	7,155,775,385
CONTRIBUTIONS	1b(x)		626,140,297	694,830,658
			8,516,737,064	7,850,606,043
DEFERRED LIABILITIES	1b(xi),12		12,145,329	11,415,873
PROVISION FOR MAINTENANCE	1b(xii),13		1,260,901,665	1,151,899,344
NON-CURRENT LIABILITIES	14		102,590,469	135,201,487
LONG TERM LOANS	1e)(i),15		16,475,494,633	13,689,640,396
			26,367,869,160	22,838,763,143

The notes on pages 34 to 52 form an integral part of these financial statements.

PROFIT & LOSS ACCOUNT

Ethiopian Airlines Enterprise
Statement of Comprehensive Income
for the year ended 30 June 2012

	Notes	Birr	Birr	2011 Birr
OPERATING REVENUE	1d),16		33,814,981,656	24,759,277,395
OPERATING EXPENSES	17		32,765,844,349	24,346,100,134
GROSS OPERATING PROFIT			1,049,137,307	413,177,261
NON-OPERATING EXPENSES/ (INCOME)				
Interest		559,889,388		300,341,832
Provision for stock obsolescence		23,206,486		24,549,582
Provision for doubtful debts		36,025,246		74,627,742
Others	1e)(iii),18	(304,142,445)		(1,218,464,836)
			314,978,675	818,945,680
NET PROFIT FOR THE YEAR			734,158,632	1,232,122,941

The notes on pages 34 to 52 form an integral part of these financial statements.

STATEMENT OF CHANGE IN EQUITY

Ethiopian Airlines Enterprise
Statement of Changes in Equity
for the year ended 30 June 2012

	Capital	Contributions	Unappropriated profit	Total equity
	Birr	Birr	Birr	Birr
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
Net profit for the year	-	-	734,158,632	734,158,632
Transfer from profit of the year	734,158,632	-	(734,158,632)	-
Transfer from Income tax of expatriate staff	662,750	-	-	662,750
Addition to contributions	-	15,203,414	-	15,203,414
Amortization of contribution	-	(83,893,775)	-	(83,893,775)
Balance at 30 June 2012	7,890,596,767	626,140,297	-	8,516,737,064

The notes on pages 34 to 52 form an integral part of these financial statements.

CASH FLOW STATEMENT

Ethiopian Airlines Enterprise
Statement of Cash Flows
for the year ended 30 June 2012

OPERATING ACTIVITIES	Notes	Birr	Birr	2011 Birr
Net cash inflow from operating activities	19		2,424,357,746	2,729,197,387
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(6,273,541,821)		(12,851,018,794)
Proceeds from disposal of property, plant and equipment		656,368,996		232,449
Payments from investments		(92,860)		(65,468,448)
Net cash outflow from investing activities			(5,617,265,685)	(12,916,254,793)
FINANCING ACTIVITIES				
Bank overdraft received		95,847,901		22,354,083
Long term loans received		5,413,002,679		12,065,578,667
Repayment of long term borrowings		(2,109,959,931)		(914,775,953)
Interest paid		(536,738,518)		(259,983,295)
Interest received		19,682,648		16,883,163
Net cash inflow from financing activities			2,881,834,779	10,931,056,665
Net (decrease) /increase in cash and cash equivalents			(311,073,160)	743,999,259
Cash and cash equivalents at beginning of year			3,082,835,108	2,338,835,849
Cash and cash equivalents at end of year	8		2,771,761,948	3,082,835,108

The notes on pages 34 to 52 form an integral part of these 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	22,444
Tools	300	5,387
Neon signs	1,500	26,933
Personal computers	600	10,773
Improvements to buildings	600	10,773
Modification expenses on:		
Item Modified	Amount to be Capitalized	Equivalent in Birr
Jet Airframe	USD 35,000 and over	628,425 and over
Turbo Prop Airframe	" 25,000 and over	448,875 and over
Twin Otter Airframe	" 15,000 and over	269,325 and over
Jet Engine	" 15,000 and over	269,325 and over

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 737-800	30 November 2029 31 March 2030 30 June 2030
Jet 777-260 LR	30 November 2028 31 January 2029 30 April 2029 31 July 2029
Fokker 50	30 November 2008 31 January 2009
Piper	31 December 1997
Q 400	31 March 2022 30 April 2022 30 June 2022 31 July 2022 30 September 2022 30 November 2022
Diamond 40 NG	30 November 2017 28 February 2018 31 March 2018
Diamond DA 42 NG	30 September 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 one year 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, 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

During the year under review, one MD11 Cargo Aircraft was sold and leased back by the Enterprise. Although the lease of the aircraft is to terminate in March 2016, it was decided that the value of the aircraft's accessories which were purchased earlier be amortized by way of depreciation up to February 2017 representing the original terminal date of the aircraft.

2. Property, Plant and Equipment

	Balance at 30 June 2011 Birr	Additions Birr	Adjustments due to currency fluctuation Birr	Disposals Birr	Balance at 30June 2012 Birr
COST OR VALUATION					
Flight equipment	21,806,513,989	5,013,895,698	735,103,155	(797,051,656)	26,758,461,186
Other property	1,797,531,418	474,707,476	-	(15,051,045)	2,257,187,849
	23,604,045,407	5,488,603,174	735,103,155	(812,102,701)	29,015,649,035
DEPRECIATION					
Flight equipment	4,362,717,647	1,293,435,327	-	(253,739,120)	5,402,413,854
Other property	934,233,404	173,967,081	-	(5,667,604)	1,102,532,881
	5,296,951,051	1,467,402,408	-	(259,406,724	6,504,946,735
NET BOOK VALUE					
Flight equipment	17,443,796,342				21,356,047,332
Other property	863,298,014				1,154,654,968
	18,307,094,356				22,510,702,300
Work orders in Progress	415,389,182				456,536,997
Capital goods in Transit	13,483,856				22,171,532
	18,735,967,394				22,989,410,829

3. Investments

a) These are as follows:-

	Birr	2011 Birr
Share in ASKY Airlines	309,231,000	309,231,000
Other foreign investments	17,130,206	17,037,346
	326,361,206	326,268,347

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	2011 Birr
Predelivery deposits for aircraft	798,204,342	2,498,089,690
Deposits for security, aircraft lease, hotel, hospital and others	1,159,541,815	979,206,477
	1,957,746,157	3,477,296,167

5. Deferred Charges

a) These are made up of:-

	Birr	2011 Birr
Star Alliance membership fee	108,987,903	58,328,426
Administrative and transaction costs for purchase of new aircraft	687,021,662	535,713,762
Miscellaneous	86,741,945	36,408,164
	882,751,510	630,450,353

5. Deferred Charges (continued)

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 preceding year while the remaining 50% was paid in the current 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	2011 Birr
Stock in store	642,327,435	627,047,528
Supplies stock - customer work orders	16,539,186	16,773,820
Stock of stationery items and other materials	145,073,345	123,486,661
	803,939,966	767,308,009
Less: Provision for stock obsolescence	100,047,884	76,841,398
	703,892,082	690,466,611
Goods in transit	53,466	57,690
	703,945,548	690,524,301

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

	Birr
Balance at 30 June 2011	76,841,398
Add: Current year provision	23,206,486
	100,047,884

7. Debtors

a) These are made up of:-

	Birr	2011 Birr
Ethiopian Government	913,506	1,011,439
Airmail	43,773,606	26,681,154
Transportation - Airlines	152,470,169	51,751,287
Transportation - Others	1,736,229,191	1,347,766,833
Claim from aircraft lessor	36,886,340	140,245,556
Advance for pre-delivery of aircraft	1,612,405,773	-
Receivable from Bank Settlement Plan and Airlines Reporting Cooperatives	1,198,020,569	1,105,162,711
Prepayments	1,105,100,643	879,860,920
Others	1,184,981,483	1,044,181,870
	7,070,781,280	4,596,661,770
Less: Provision for doubtful debts	225,280,027	185,975,878
	6,845,501,253	4,410,685,892

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

	Birr	Birr
Balance at 30 June 2011		185,975,878
Add: Adjustment of provision	3,278,903	
Additional provision for the year	36,025,246	
		39,304,149
		225,280,027

8. Cash and Bank Balances

a) Comprises the following

	Birr	2011 Birr
Cash with foreign banks	1,189,228,505	1,397,328,102
Less: Provision for blocked bank account	(67,949,248)	(67,949,248)
	1,121,279,257	1,329,378,854
Cash with local banks	206,023,956	174,230,373
Foreign short term deposits	1,416,203,520	1,539,004,575
Unverified deposits	4,323,486	6,109,857
Cash on hand	23,931,729	34,111,449
	2,771,761,948	3,082,835,108

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	2011 Birr
Payable to oil companies	1,571,299,950	1,457,807,354
Goods received but not billed	248,316,054	260,510,746
Miscellaneous accounts payable	931,841,765	798,561,778
Accrued interest	88,541,380	65,390,510
Other airlines pool apportionment	44,310,940	47,956,945
Transportation tax and embarkation fees	617,496,931	621,408,440
Advances from customers' work orders	53,965,817	6,398,539
Accrual for lease and maintenance of aircraft	104,882,631	130,218,665
Accrual for moving cost of materials	38,944,536	151,616,111
Others	182,508,334	157,841,551
	3,882,108,338	3,697,710,639

10. Bank Overdraft

The Enterprise has overdraft facility of Birr 350,000,000 with the Commercial Bank of Ethiopia, Airport Branch secured against pledge on all movable and immovable property of the Enterprise other than aircraft.

11. Paid Up Capital

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

	Birr	Birr
Balance at 30 June 2011		7,155,775,385
Income tax deducted from expatriate staff	662,750	
Transfer from profit for the year	734,158,632	734,821,382
		7,890,596,767

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	2011 Birr
Management fee	1,205,025	1,119,228
Training of other airlines' personnel	6,097,058	6,457,606
Accumulated fines deducted from employees	4,843,246	3,839,039
	12,145,329	11,415,873

13. Provision for Maintenance

	Birr
Balance at 30 June 2011	1,151,899,344
Add: Provision made during the year	948,647,761
	2,100,547,105
Less: Actual payments made during the year	839,645,440
	1,260,901,665

14. Non-current Liabilities

	Birr	2011 Birr
Termination indemnity - foreign	17,733,182	16,644,187
Security deposits	62,240,846	100,424,987
Retention payable	15,856,820	6,128,323
Others	6,759,621	12,003,993
	102,590,469	135,201,487

15. Long Term Loans:

a) These are as follows:-

	TOTAL LOAN Birr	CURRENT PORTION Birr	LONG TERM PORTION Birr	LONG TERM PORTION 2011 Birr
Barclays Bank (Loan I)	2,375,131,540	522,596,176	1,852,535,364	2,272,546,493
Export Development Canada	2,373,768,746	193,057,431	2,180,711,315	2,271,231,737
Citibank	9,691,163,653	898,307,647	8,792,856,006	7,411,876,504
African Financing Corporation (AFC)	360,659,054	65,574,373	295,084,681	345,081,718
African Development Bank (AFDB)	601,308,119	99,738,531	501,569,588	322,996,719
Eastern and Southern African Trade & Development Bank (PTA)	296,460,287	51,891,888	244,568,399	283,655,778
UT Finance Corporation	100,787,394	32,267,860	68,519,534	103,962,694
DBS Bank of Singapore	-	-	-	257,692,500
JP Morgan Chase Bank	2,015,029,128	170,492,253	1,844,536,875	-
ING Capital LLC	269,273,589	39,404,401	229,869,188	-
Agence Francaise De. Development	104,377,092	-	104,377,092	-
Commercial Bank of Ethiopia (CBE III)	56,665,547	14,512,821	42,152,726	56,697,219
Commercial Bank of Ethiopia (CBE IV)	363,899,035	45,185,170	318,713,865	363,899,034
	18,608,523,184	2,133,028,551	16,475,494,633	13,689,640,396

15. Long Term Loans (continued)

b) Barclays Bank (Loan I)

The amount of Birr 2,375,131,540 represents the outstanding balance at 30 June 2012 of a total loan facility of Birr 5,962,662,583 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.

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 132,206,558 or Birr 2,373,768,746 at 30 June 2012 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 2012 of USD 539,747,349 or Birr 9,691,163,653 is repayable through Citibank (arranger) 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 US EXM Bank and pledges on the respective aircraft which are registered in the name of Ethiopian Leasing 2010 LLC Delaware Limited.

15. Long Term Loans (continued)

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	360,659,054	LIBOR plus fixed margin	Over 7 years in quarterly installments
African Development Bank	601,308,119	"	"
Eastern and Southern African Trade and Development Bank (PTA)	296,460,287	"	"

f) The loan of USD 5,613,333 was obtained from UT Finance Corporation to cover the Cost of spare engine for Boeing 767-300 aircraft. The outstanding balance of Birr 100,787,394 at 30 June 2012 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)J.P. Morgan Chase Bank

The loan of USD 192,696,419 was obtained from J.P. Morgan Chase Bank by Ethiopian Leasing (2011 LLC), a subsidiary wholly owned by the Enterprise to cover 85% of the total cost of five 737-800 aircraft each with two installed CFM 56-TB engines. The outstanding balance of USD 112,226,629 or Birr 2,015,029,129 at 30 June 2012 is repayable over a period of twelve years in quarterly instalments together with interest computed at rates ranging between 1.9% to 6% per annum. The loan is secured by the guarantee of EX-IM Bank and pledges on the respective aircraft.

h) ING Capital LLC

As stated in note 15(g) above, 85% of the total cost of five Boeing 737-800 aircraft is to be covered by J.P. Morgan Chase Bank 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 ING Capital LLC. The outstanding balance of USD 14,997,137 or Birr 269,273,589 at 30 June 2012 is repayable over a period of seven years in quarterly instalments together with interest computed on a floating basis.

15. Long Term Loans (continued)

i) Agence Francaise de Development (AFD)

The loan of EURO 30,000,000 was obtained from AFD to finance the project cost of the Multinational Aviation Training Center which is to be implemented within 2½ years. The loan is repayable effective 30 April 2014 over a period of twelve years in 24 equal half-yearly instalments together with interest computed at floating rates.

j) CBE Loan No. III

The balance of Birr 56,665,547 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 4,783,865 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.

k) CBE Loan No. IV

The balance of Birr 363,899,034 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. The loan is secured against the collateral of maintenance hangar.

16. Operating Revenue

	Birr	2011 Birr
Passenger	24,523,392,759	18,066,798,230
Freight	4,463,462,659	3,040,179,604
Charter	2,099,110,013	1,835,598,978
Mail	76,923,036	56,875,020
Excess baggage	1,361,482,711	925,900,722
Commission	18,074,930	12,869,802
Customer services (work orders)	174,693,287	109,191,964
Subsidiaries	301,466,630	246,367,627
Ground handling revenue	228,730,754	195,214,673
Leased Aircraft	102,243,311	56,618,754
Items received free of charge	91,712,078	-
Miscellaneous	373,689,488	213,662,021
	33,814,981,656	24,759,277,395

17. Operating Expense

	Birr	2011 Birr
Flying operations	19,065,967,141	12,677,940,667
Direct maintenance	2,943,759,185	2,468,581,534
Depreciation of flying equipment	1,293,435,327	869,107,944
Rentals-leased aircraft	2,235,354,019	2,052,460,144
Promotion and sales	2,693,147,168	2,260,674,159
Passenger service	1,313,710,556	1,179,115,634
Ground operations	2,166,921,163	1,725,201,474
Indirect maintenance	97,808,100	142,425,470
Depreciation	173,967,081	160,680,059
Customer services (work orders)	87,336,787	64,782,022
Subsidiaries	149,554,888	138,753,564
General and administration	544,882,934	606,377,463
	32,765,844,349	24,346,100,134

18. Other Non-operating Expense (Income)

	Birr	2011 Birr
Credit card service charge	100,067,455	83,828,779
Bank charges	45,571,655	31,322,853
Gain on currency fluctuation	(39,925,052)	(1,195,552,295)
(Gain) /Loss on disposal of fixed assets	(103,673,018)	14,682,225
Interest income	(19,682,648)	(16,883,162)
Write back of creditors accounts	(251,707,507)	(131,251,599)
Miscellaneous	(34,793,330)	(4,611,637)
	(304,142,445)	(1,218,464,836)

19. Reconcilation of Operating Profit to Net Cash Flow from Operation

	Birr	2011 Birr
Net profit for the year	734,158,632	1,232,122,941
Transfer to capital	662,750	2,169,763
Interest income	(19,682,648)	(16,883,162)
Interest expense	559,889,388	300,341,832
Increase in deferred charges	(252,301,158)	(508,571,133)
Decrease /(increase) in standing deposits	1,519,550,010	(252,688,522)
(Gain) /Loss on disposal of fixed assets	(103,673,018)	14,682,225
Depreciation	1,467,402,408	1,029,788,003
Adjustment of provision for doubtful debts	3,278,903	60,057
Provision for doubtful debts	36,025,246	74,627,742
Write off of stock against provision	-	(43,105)
Provision for stock obsolescence	23,206,486	24,549,582
Increase in stock	(36,627,733)	(275,061,992
Increase in debtors	(2,474,119,510)	(1,893,032,203)
Increase in creditors	161,246,829	1,569,703,822
Increase in unearned transportation	796,910,763	1,010,479,510
Decrease in contributions	(68,690,361)	(21,674,381)
Increase in deferred liabilities	729,456	4,587,843
Increase in provision for maintenance	109,002,321	387,610,952
(Decrease) /increase in non-current liabilities	(32,611,018)	46,427,613
Net cash inflow from operations	2,424,357,746	2,729,197,387

20. Financial Risks

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 2012	% of total Assets Portfolio at 30 June 2011
Foreign investments:-		
Holdings of securities	0.89	1.04
Short term deposits	5.36	4.90
Cash with foreign banks	3.27	4.47

b) Interest rate risk

Current borrowings are at fixed and floating rates averaging 3.12% p.a. Investments made by the Enterprise in various international banks generated interest income that covered the cost of borrowing by 3.5155% in the year 2012 compared to 5.62% in the previous financial year.

c) Foreign currency risk

About 92.44% 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 106,851,996, 572 for the purchase of 36 aircraft. The commitment for the purchase of 22 aircraft amounting to Birr 53,714,777,148 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 16,931,431, 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 6,559 staff at 30 June 2012 (2011 – 6,286).

25. Retirement Benefit Obligations

The Enterprise's employees are eligible for retirement benefits under a defined contribution plan. For the year ended 30 June 2012, the Enterprise contributed Birr 48,066,477, (2011 - Birr 31,892,092) which has been charged to the income statement.

26. Staff Costs

Staff costs for the year amounted to Birr 2,270,953,019 (2011 - Birr 1,887,994,040) and are included in the various major expense categories.

27. Comparative Figures

In order to facilitate comparison, certain of the 2011 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 January 1, 2013.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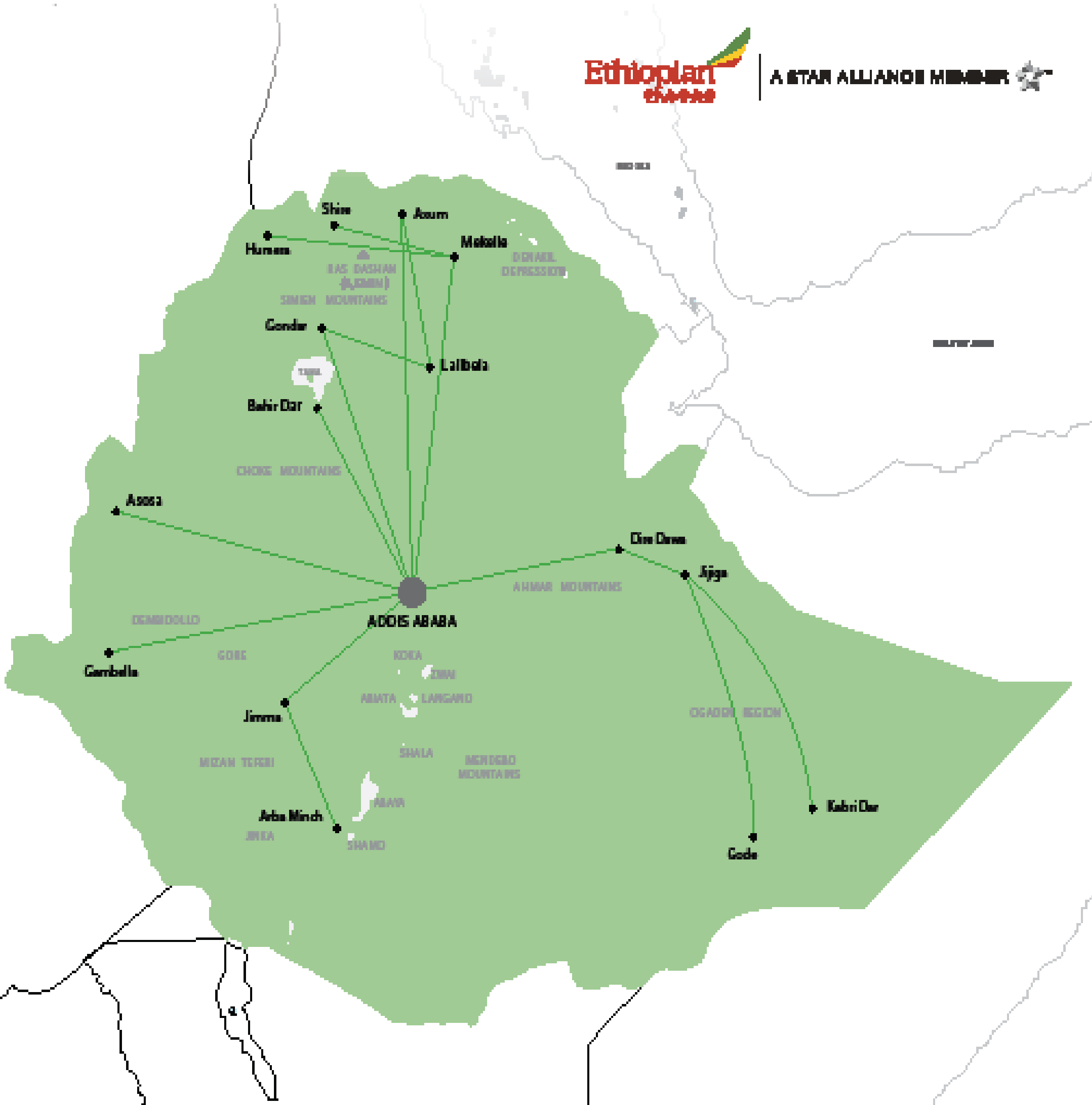

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CTO – City Ticket Office
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CGO – Cargo Office
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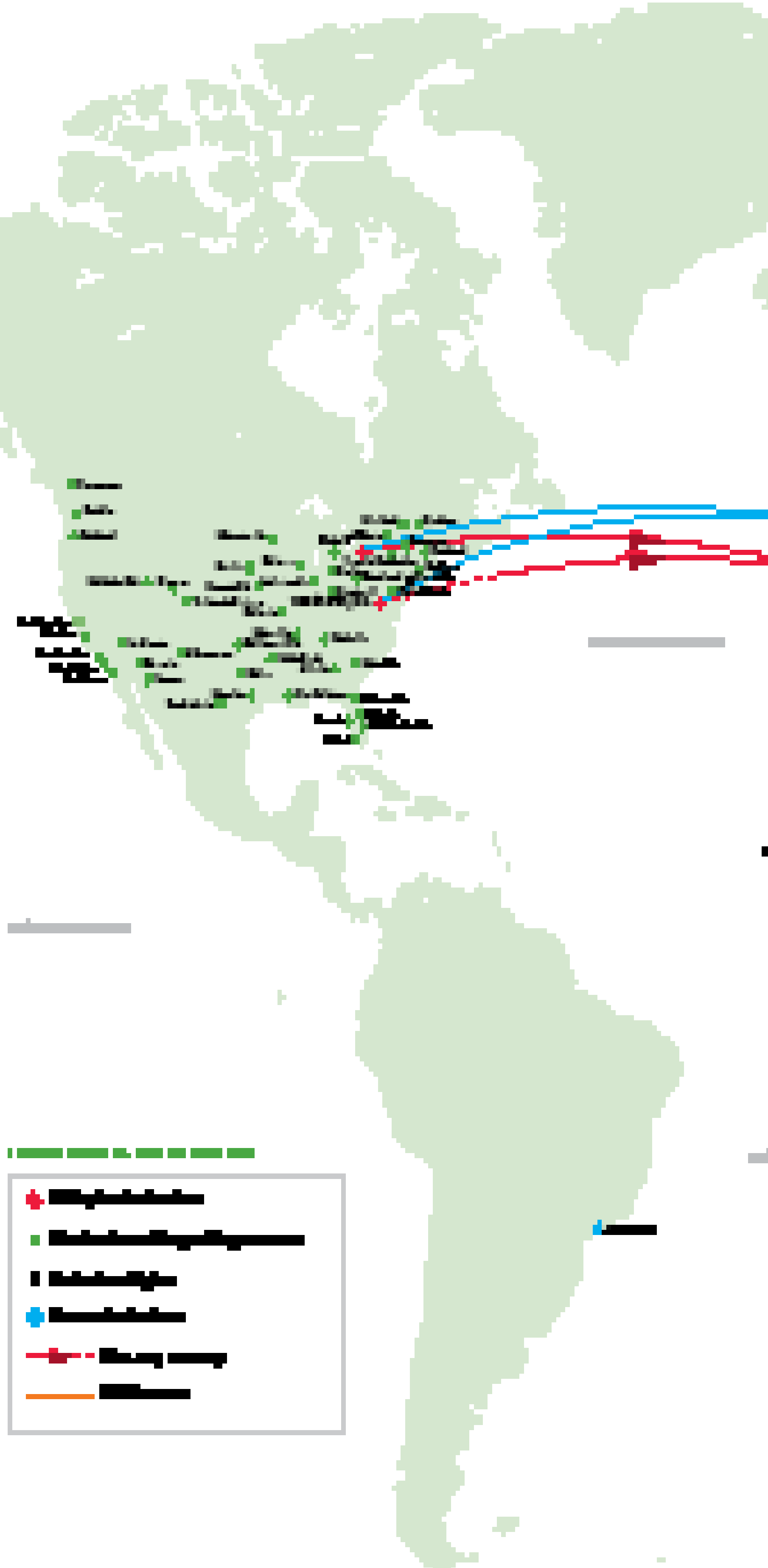

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