

Annual **REPORT** 2018/19

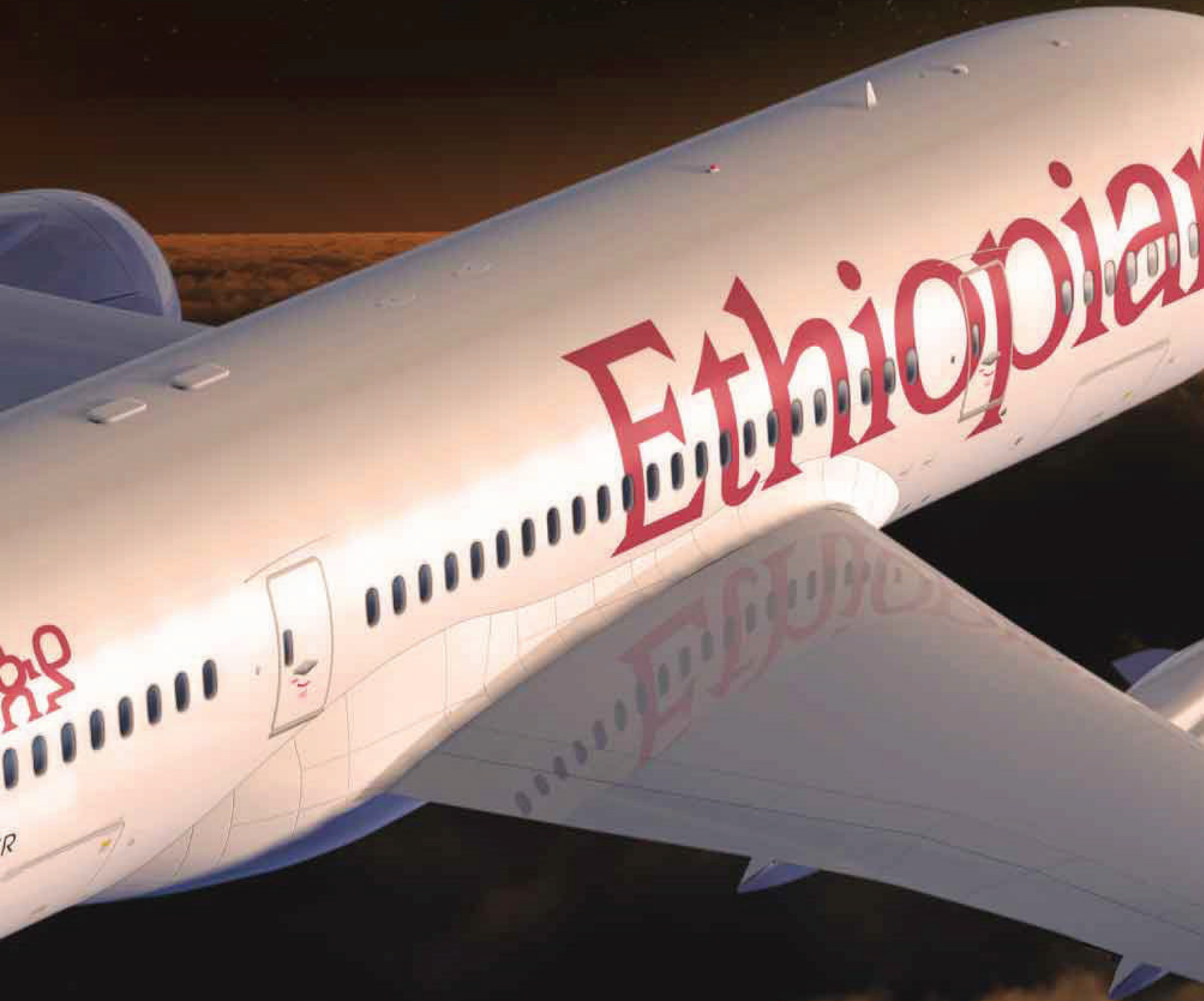




PROUD TO BE A



AIRLINE





**Best Airline in Africa
for 3 years in a row**

CONTENTS

| | |
|---|-----------|
| Board Members | 2 |
| The Winning Soccer Team | 4 |
| GCEO Message | 14 |
| Mission Statement | 16 |
| Awards | 18 |
| Route and Frequency | 20 |
| Mega Infrastructure developments | 22 |
| Technology | 38 |
| Graduation | 40 |
| Financial Report | 42 |
| Route Maps | 92 |





GLOBAL CONNECTOR OF WITH AWARD





PEOPLE AND GOODS WINNING SERVICES



BOARD MEMBERS



Ato Abadula Gameda
Board Chairman



Dr. Arkebe Oqubay
Board V/Chairman



Dr. Akilu Hailemichael
Board Member



W/o Dagmawit Moges
Board Member



Gen. Adem Mohammed
Board Member



Ato Teklewold Atnafu
Board Member



**Ambassador Berhanu
Tsegaye**
Board Member



Ato Tadesse Tilahun
Board Member



THE WINNING SOCCER TEAM (WST)



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

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

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

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

Mr. Tewolde GebreMariam
Group Chief Executive Officer

COO



Mr. Mesfin Tasew
Chief Operating Officer

Mr. Mesfin joined Ethiopian in 1984 as Associate Engineer and progressed through the ladder and served in supervisory and managerial positions in the technical areas. In 1997 and 1999, he was appointed as Director Operations & Technical Systems Support and Chief Information Officers respectively. In 2006, he was assigned as Vice President Maintenance and Engineering. Currently, he is serving Ethiopian as Chief Operating Officer since November 01, 2010.

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

CCO



Mr. Busera Awel
Chief Commercial Officer

Mr. Busera joined Ethiopian in 1985 as a Space Control Agent and progressed through the ladder and has held a number of senior leadership positions including Director of Marketing and Sales Operations, Area Offices and Vice President of Commercial. In September 2009, Mr. Busera was appointed as Chief Executive Officer of ASKY Airlines, Ethiopian second hub in Lome' (Togo). In September 2013, he was assigned as Chief Commercial Officer. He graduated from Addis Ababa University with a B.A. Degree in Economics.

VP



Mrs. Rahel Assefa
VP Marketing

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

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

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



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

CIO



Mr. Laeke Tadesse
Chief Information Officer

Mr. Meseret joined Ethiopian as Senior Accountant in the Finance Division in 1986. He has been serving the airline in various managerial streams including Supervisor at Disbursement, Supervisor at General Accounting, Manager General Accounting, Director Financial Accounting, Director Management Accounting, Vice President Finance and as Acting Chief Financial Officer. Currently, he is serving as Chief Financial Officer as of October 2017. He has also served as Director Finance and Strategic Planning for ASKY Airlines. He holds a BA Degree in Accounting from Asmara University and Master of Business Administration from London Open University.

CFO



Mr. Meseret Bitew
Chief Financial Officer

Capt. Yohannes joined Ethiopian as a pilot after he has graduated from Ethiopian Aviation Academy in 1984. He has been serving in various positions including Chief Pilot on 767/757 in 2004, Manager Training and Standard in 2005, Director Flying and Training in 2007 and Air Crew Program Manager in 2010. Currently he is serving as VP Flight Operations since May 2015. He is holder of a Diploma from Pilot Training School, Diploma from Addis Ababa University and 2nd year complete in Electrical Engineering from Addis Ababa University.

VP



Capt. Yohannes HaileMariam
VP Flight Operations



VP



Mr. Kassim Geresu

VP Internal Audit and Corporate QMS, SMS & EMS Compliance

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

He has also served as Chief Executive Officer of ET's sister Company; Malawi Airlines, for three years.

Currently, he is serving Ethiopian as Vice President Internal Audit & Compliance since 16th of October 2017.

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

VP



Mr. Mesay Shiferaw

VP Corporate HRM

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

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

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

VP



Mr. Michael Yared

VP Customer Service

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

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

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



Mr. Genanaw began his career with Ethiopian in 2008 as Assistant General Counsel position and progressed through the ladder to become VP Legal Counsel & Corporate Secretariat in September 2014. He graduated from Addis Ababa University with a Bachelor of Laws. He earned his Master of Laws from Peking University.

VP



Mr. Genanaw Assefa

VP Legal Counsel & Corporate Secretariat

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

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

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

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

VP



Mr. Henok Teferra

Vice-President of Strategic Planning and Alliances



MD



Mr. Fitsum Abady
MD Ethiopian Cargo Services

Mr. Fitsum Abady began his career with Ethiopian in 1995 as Transportation Agent and has held a number of leadership positions in a number of divisions in the Airline including; Ethiopian Cargo, Area Offices and Sales and Marketing. Currently, he is serving Ethiopian as Managing Director Ethiopian Cargo and Logistics Services since January 01, 2014. He graduated from Addis Ababa University with a BSC Degree in Biology. He earned his Master's Degree in Business Administration from the Indian ITM University.

MD



Mr. Solomon Debebe
MD Ethiopian Aviation Academy

Mr. Solomon joined Ethiopian in 1979 as a Junior Aircraft Mechanic after graduating from Ethiopian Aviation Academy. He has been serving in various managerial positions including Manager Market Research & Analysis, Area Manager Uganda, Scandinavia, Kenya & Seychelles, and South Korea. Director Service Quality Management, and VP Customer Services. Currently he is serving Ethiopian as Managing Director Ethiopian Aviation Academy since July 26, 2016. He holds BA degree in Management and Public Administration from Addis Ababa University.

MD



Mr. Zelalem Tsehaye
MD Ethiopian MRO Services

Mr. Zelalem Tsehaye joined Ethiopian in 1998 as a Junior Aircraft Technician after graduating from Ethiopian Aviation Academy. He has been serving in various managerial positions including Supervisor Line Maintenance, Technical Manager ROME Station, Manager B757/B737 Scheduled Maintenance, Director Aircraft Base Maintenance and A/MD ET MRO SVCS. He is a graduate of Ethiopian Aviation Academy in Aircraft Maintenance; and holds Master's Degree in Business Administration from the Open University of London(UK) and Master's Degree in Logistics and Supply Chain Management from Addis Ababa University. He is Type rated and certified on B787/B777/B767/B757/B737/F-50 aircraft. Currently he is serving Ethiopian as Managing Director Ethiopian Maintenance, Repair and Overhaul Services.



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

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

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

MD



Mr. Esayas WoldeMariam
MD Ethiopian International Services

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

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

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

MD



Mr. Tekle G/Yohannes
MD Ethiopian Ground Services



WE  AFRICA



Ethiopian 

A STAR ALLIANCE MEMBER 

PROUD TO SERVE



Ethiopian 

A STAR ALLIANCE MEMBER 

GROUP CEO MESSAGE

The 2018/19 fiscal year was one which saw a tragic episode in the long, successful history of our airline. The passing away of passengers and colleagues in the fateful ET-302 flight on 10 March 2019 has gone down in history as an incident which broke our hearts. We will always remember all the lives lost in the accident.

The fiscal year was a uniquely challenging year for Ethiopian for other reasons as well. Besides the emotional toll the accident had on every member of the Ethiopian family, we also grappled with the financial impacts of the grounding of all our 737-800 MAX fleet. During the fiscal year, fuel price hiked by 25 percent and demand for air transport showed a decrease due to a global economic slowdown. Inevitably, the combined impact has eaten into our revenue. Add to this the decline in inbound traffic to Africa due to the exaggerated coverage of the Ebola outbreak in DRC, and the sporadic instability in our country which led to a slowdown in the domestic economy, dwindling exports, and loss of potential revenue.

However, against all odds, we have continued striding forward on the path of growth as envisioned in our strategic growth roadmap. My deepest gratitude goes to all my 16,000 plus colleagues at Ethiopian who strive day and night for the success of our carrier!

During the 2018/19 fiscal year, we transported 12.1 million passengers, a 14 percent growth compared to that of the previous year, while cargo tonnage showed an increase of 8 percent. Our revenue also grew by 17 percent along with a 13 percent load factor growth. We also increased the number of international destinations we serve to a total of 121 by adding six new routes, namely, Asmara, Mogadishu, Istanbul, Moscow, Manchester and Jakarta.

In line with our multi-hub strategy in Africa, we set up Ethiopian Mozambique and Chad airlines through joint ventures; the carriers have now gone operational. Similarly, we have signed partnership agreements with the governments of Zambia and Ghana and we are setting up joint venture carriers.

During the fiscal year, we have also finalized and inaugurated major infrastructure projects including the expanded Addis Ababa International Airport and Ethiopian Skylight Hotel, the largest five-star hotel in Ethiopia.

As in the past years, our successful efforts have been appreciated and recognized worldwide with multiple awards including 'Best Airline in Africa' Award by SKYTRAX for the 2nd time, 'Company of the Year' by All Africa Business Leaders Award, and 'Best Airline in Africa' Award from African Airlines Association (AFRAA) for the 7th year in a row, among others.

Overall, our performance during the 2018/19 fiscal year once again highlighted that we, as an airline, are on the right track to further bolster the successes we have been achieving over the years. In fact, now that we have surpassed most of our Vision 2025 growth targets, we are drafting Vision 2035 with a view to scale up the achievements we cherished in the past.

Once again, I would like to thank all the management and staff of Ethiopian Airlines for their unreserved contribution which keeps our carrier shining high in the skies!



MISSION STATEMENT

VISION

- Vision 2025:
To become the most competitive and leading aviation group in Africa by providing safe, market driven and customer focused passenger and cargo transport, aviation training, flight catering, MRO and ground

MISSION

- To become the leading Aviation group in Africa by providing safe and reliable passenger and cargo air transport, Aviation Training, Flight Catering, MRO and Ground Services by 2025.
To ensure being an airline of choice to its customers, employer of choice to its employees and an investment of choice to its Owner,
To contribute positively to socio economic development of Ethiopia in particular and the countries which it operates in general by undertaking its corporate social responsibilities and providing vital global air connectivity,

VALUES

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



AWARDS



- Ethiopian Wins SKYTRAX Best Airline in Africa Award for 2nd Time Addis Ababa, 19 July 2018.
- Ethiopian Tops on SKYTRAX World Airline Awards 2018: 'Best Airline in Africa', 'Best Business Class in Africa' & 'Best Economy Class in Africa' : Addis Ababa, 21 July 2018.
- Ethiopian Receives ISO Environment Management System Certification August 30, 2018.
- Ethiopian Voted "Best African Airline" at Arabian Travel Awards Addis Ababa, September 25, 2018.
- Ethiopian wins Africa Lease Deal of the Year 2018 Award October 9, 2018.
- Ethiopian Crowned Best Airlines in Africa Award, for the 7th Consecutive year in a Row Addis Ababa: November 27, 2018.
- Ethiopian Recognized as Company of the Year by All Africa Business Leaders Award Addis Ababa, 5 December 2018.
- Ethiopian Airlines Group is Voted 'Best Airline in Africa' for 3rd Consecutive Year at Skytrax 2019 World Airlines Awards.
- Ethiopian Recognized for 2nd Year in a Row as Top Performing Cargo Airline by Guangzhou Airport Addis Ababa February 07, 2019.
- Ethiopian GCEO Receives "Most Influential People of African Descent" Award Addis Ababa, 11 February 2018.
- Ethiopian Wins 'African Cargo Airline of the Year' and 'Air Cargo Brand of the Year in Africa' Awards.
- Ethiopian Wins the Prestigious 'African Champion of the Year' Award Addis Ababa, 26, March 2019.
- Ethiopian Cargo & Logistics Services Wins Best Cargo Airline –Africa Award from Air Cargo News.
- Ethiopian Airlines Group is Voted 'Best Airline in Africa' for 3rd Consecutive Year at Skytrax 2019 World Airlines Awards Addis Ababa, 19 June 2019.



ROUTE AND FREQUENCY



- ▶ Asmara , Eretria July 17,2018
- ▶ Mogadishu, Somalia November 02,2018
- ▶ Manchester, UK December 11, 2018
- ▶ Moscow, Russia December 17, 2018
- ▶ John F. Kennedy (JFK), New York June 17, 2019



MEGA INFRASTRUCTURE DEVELOPMENTS

INFRASTRUCTURES

Ethiopian Airlines, the Largest Aviation Group in Africa and SKYTRAX Certified Four Star Global Airline, inaugurated state-of-the-art passenger terminal and its Skylight Hotel on January 27, 2019 in the presence of FDRE Prime Minister H.E. Dr. Abiy Ahmed, African Union Chairperson H.E. Mr Moussa Faki, Ministers, high level government officials, Ethiopian Airlines Board Members, Group CEO Ethiopian Airlines Mr Tewolde GebreMariam, Executive Management Members and invited guests.

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





CARGO

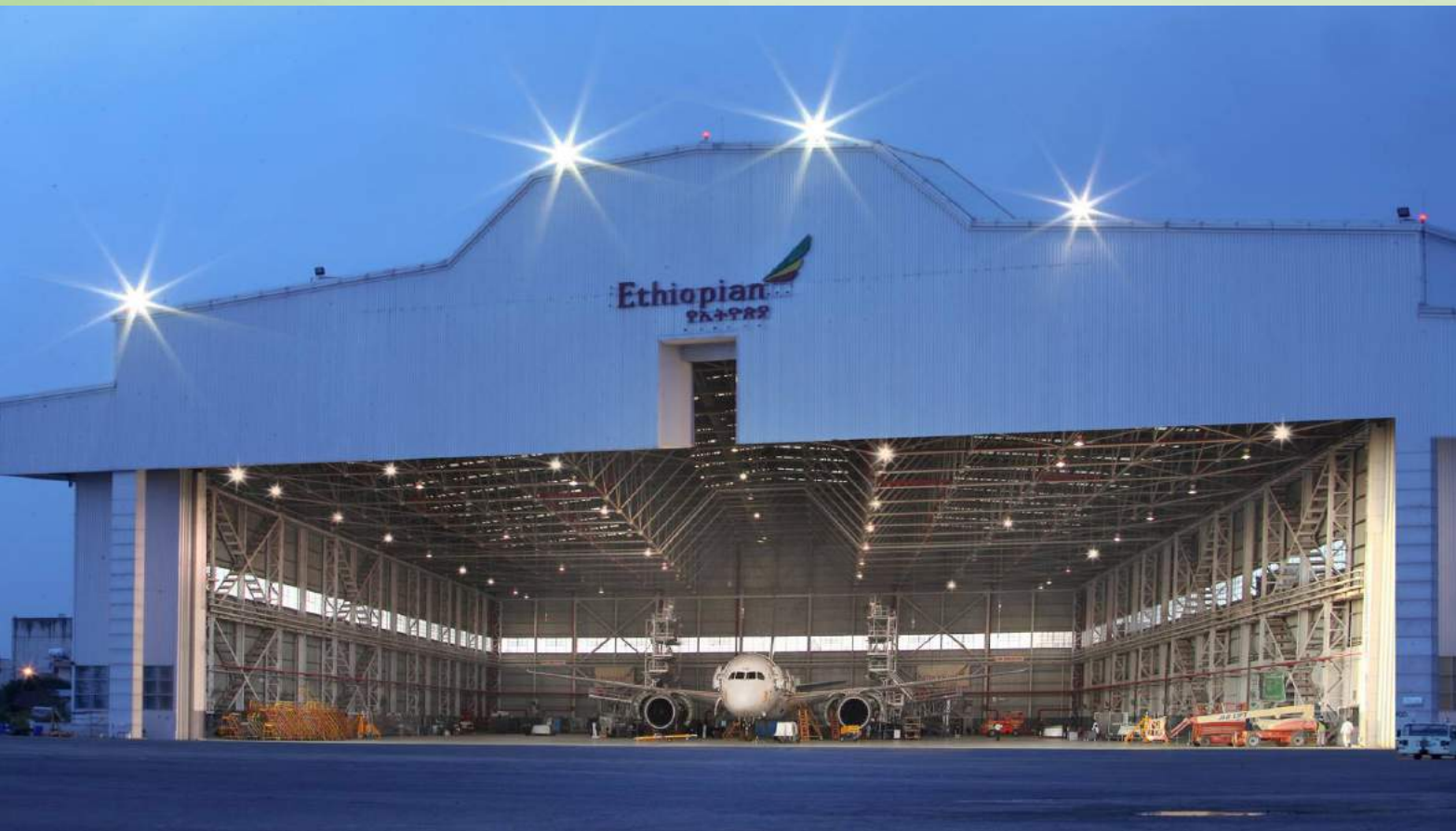
document is used. For tickets that cover more than one flight segment, the Ethiopian airlines Group identifies each flight segment as a distinct performance obligation, since each flight segment is independent and can be distinguished in the context of the contract.

In its cargo business, the Ethiopian airlines Group has identified the entire freight service as a distinct performance obligation. The customer receives the benefit of the transport service and uses the service at the same time as this performance obligation is fulfilled with each transport segment. In this case, the customer takes control of the company's output while the carrier provides its service. The customer receives the benefit of the service as each transport segment is fulfilled. The corresponding cargo





MAINTENANCE, REPAIR AND OVERHAUL (MRO)



revenue is therefore recognized at the prorata value when the documents for each individual freight segment are used. Ethiopian Airlines group consider for performing its service once the transport has been carried out.

The main distinct performance obligations in the MRO segment are the provision of



maintenance, aircraft, and engine overhaul services, which are recognized over time. These performance obligations involve estimating the proportion of the total contract already completed and the profit overall contract, so that an input-oriented measurement of the percentage of completion can be made contract assets and contract liabilities are therefore both recognized. In some cases, the contracts in the MRO segment make it necessary not to recognize distinct services as individual performance obligations but rather as a series. Furthermore, some of the contracts include stand by obligations that require



CATERING

the recognition of revenue over time.

This is particularly the case when remuneration is paid in the form of a fixed rate per hour of flying time. For such contract, the percentage of completion is primarily measured on the basis of the hours invoiced monthly to the customer.

The Ethiopian airlines group offers products and services related to in-flight service. These include catering, in-flight sales and entertainment, in-flight service equipment and the related goods and services and the operation of lounges related to this catering have been identified as distinct performance obligations. The performance obligation to prepare meals is generally fulfilled when the meals are delivered to the customers. The catering performance obligation is fulfilled over time between the transport of the meals to the airport and the disposal of the waste, depending on the services ordered by the customer. For performance obligations over time, the percentage of completion is measured on an output basis.

The Ethiopian airlines group offers services related to Airport services like landing, parking, lighting, terminal facility, passenger services, rental



Teff







AVIATION ACADEMY



EFFICIENT GROUND SERVICE





AIRPORT SERVICE





Ethiopian የኢትዮጵያ SKYLIGHT HOTEL



STAY | CONNECT | DINE | CELEBRATE

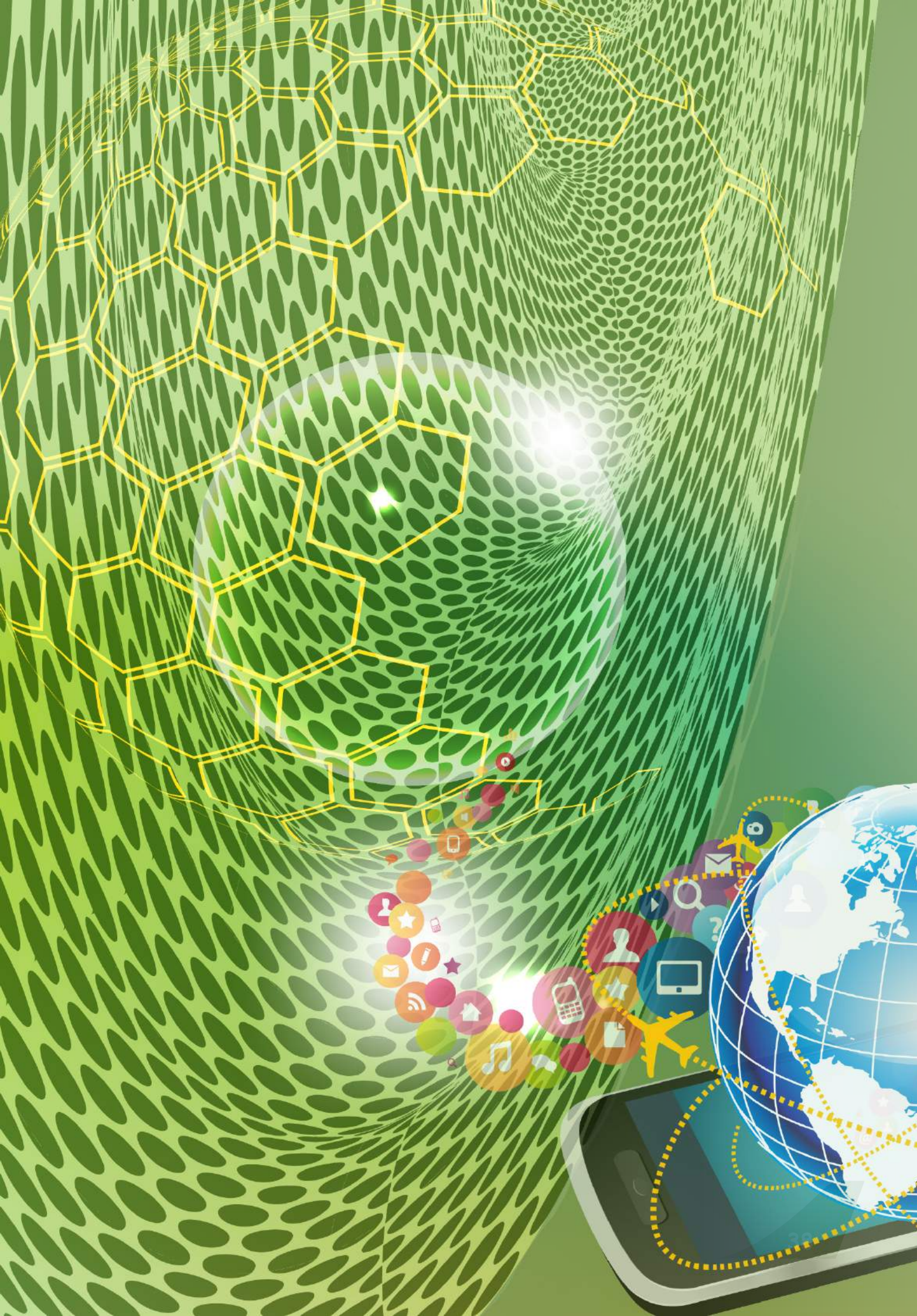


of offices, warehouse, restaurants, shops, and checking counters. Identified performance obligations the performance obligation to give airport services are ready to use and the revenue recognized when the contract obligation full field.



Email: reservation@ethiopiaskylighthotel.com
Tel: +251116818181
www.ethiopiaskylighthotel.com



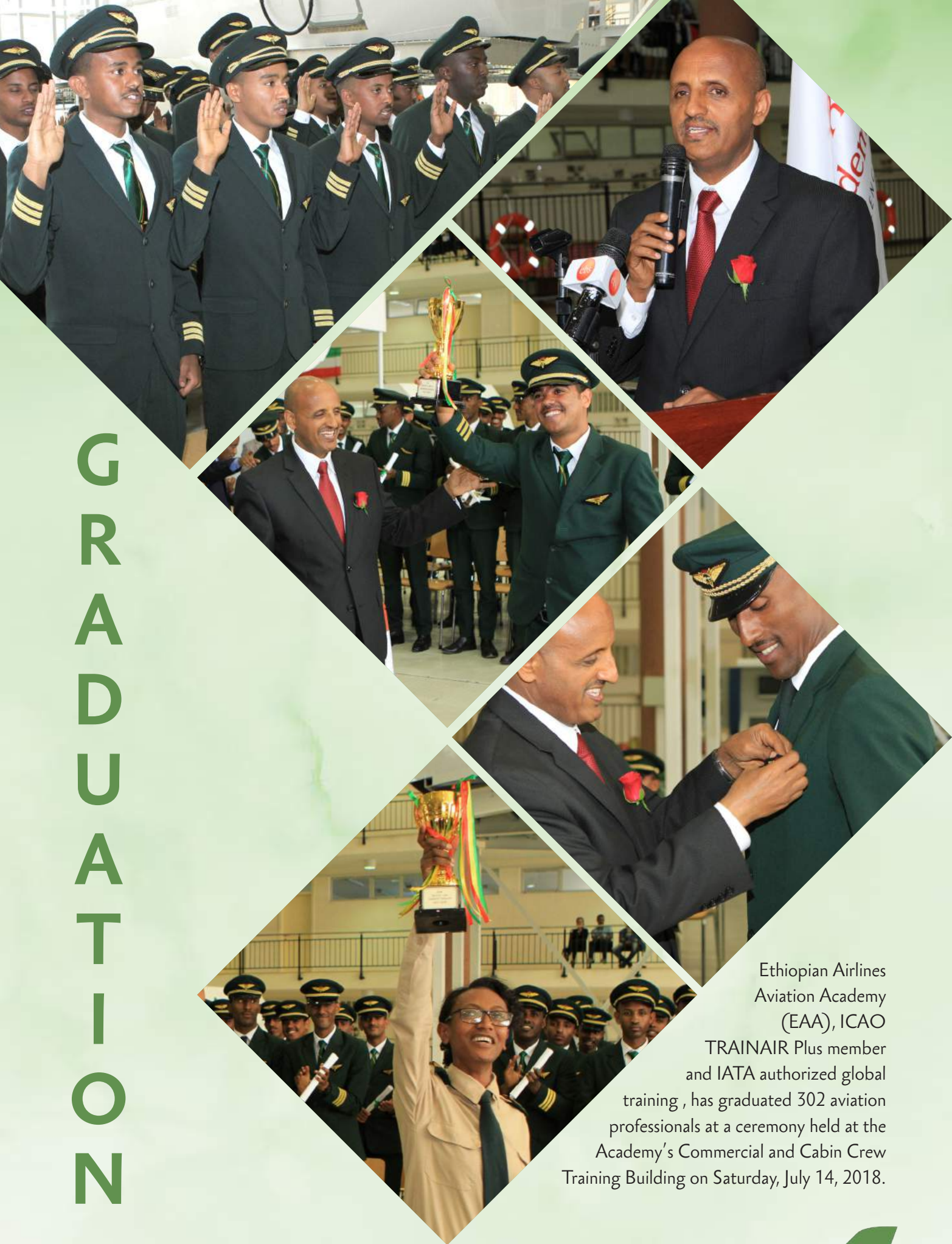


TECHNOLOGY

- Ethiopian Airlines Group to Set up Aircraft Seat Cover and Other Interior Parts Manufacturing Facility in partnership with ACM Aerospace of Germany : Addis Ababa, July 5, 2018
- Ethiopian Pioneers 1st GEnx Engine Repair in Africa Addis Ababa, 12 October 2018
- Ethiopia Avails to All African Travelers Visa On-line and On-Arrival Service: Addis Ababa, 2 November 2018
- Ethiopian Implements IATA's Fast Travel Self Check-in Initiative- Makes Airport Check-in in Addis Ababa Seamless and Hassle-Free Addis Ababa, 28 December 2018
- Ethiopian Airlines and Hibret Bank Launch New Co-Branded Debit Card January 4, 2019



GRADUATION



Ethiopian Airlines Aviation Academy (EAA), ICAO TRAINAIR Plus member and IATA authorized global training, has graduated 302 aviation professionals at a ceremony held at the Academy's Commercial and Cabin Crew Training Building on Saturday, July 14, 2018.

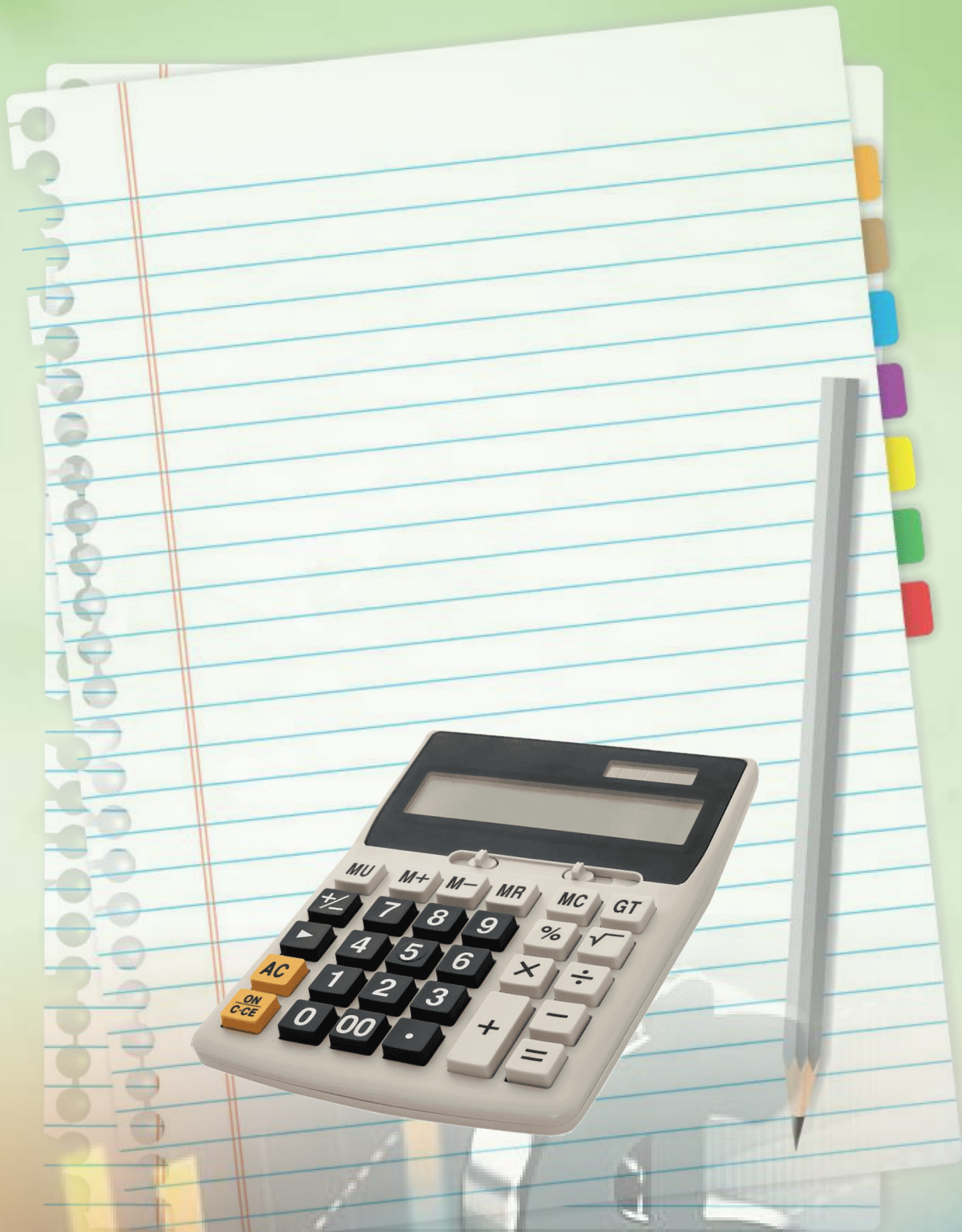




EAA Graduates 20 Flight Attendants from Mozambique A Dream Realized: The Next Step for a United Africa - Addis Ababa, 08 March 2019.



FINANCIAL REPORT



REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Ethiopian Airlines Group, which comprise the statement of financial position as at 30 June 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ethiopian Airlines Group as at 30 June 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) together with the Ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

A. Passenger revenue recognition

The accounting for passenger revenue recognition involves complex IT systems and involves the exchange of information with industry systems and other airlines for a high volume of transaction. There is a risk that operating revenue may not be appropriately and completely recognized. In response to the addressed risk, we have tested the operating effectiveness of key



controls designed for the passenger revenue process. We have analyzed the flow of transactions from ticket sales to passenger revenue. We have also identified and tested manual postings to passenger revenue. We have tested a sample of passenger tickets to ensure that the revenue was recognized in the correct period. Our testing did not identify major weaknesses in the design and operation of controls that would have required us to expand the nature or scope of our planned detailed test work. overall, we found no concerns in respect to the recording of revenue at appropriate value.

B. Provision for aircraft maintenance obligation

The accounting for maintenance obligation under lease agreement, including restoration and hand back provisions, is subject to management assumption. There are risks that obligations may not be recorded at correct amounts, may not be provided for at all, or may not be properly classified and disclosed in the financial statements. We obtained and inspected the engine, airframe and other assets lease agreements to check the completeness of the liabilities for obligations for restoration and hand back at the end of the lease. Our audit procedures did not identify major weakness and, overall, we found no concerns in respect to recording the provision.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statement in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, weather due to of error.

In preparing the financial statements, management is responsible for assessing Ethiopian's ability to continue as a going concern, disclosing, as applicable, matter related to going concern and using the gong concern basis of accounting unless management either intends liquidate Ethiopian or to cease operations, has no realistic alternative but to do so. Those charged with governance as responsible for overseeing Ethiopian financial reporting process.

Auditor's Responsibilities for the audit of the financial statements

Our objects are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered materials



if, individually or in the aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise financials professional judgment and maintain professional skepticism throughout the audit. We also

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



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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Ato Tegegn Haile Mariam.



ETHIOPIAN AIRLINES GROUP
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

| | Notes | 2019 Birr | 2018 Birr |
|--|--------------|-----------------------------|------------------------------|
| Operating Revenue | 4 | 113,068,129,257 | 90,906,968,909 |
| Operating Expenses | 5 | (105,331,230,778) | (83,578,055,595) |
| GROSS OPERATING PROFIT | | <u>7,736,898,479</u> | <u>7,328,913,314</u> |
| Interest Income | | 143,813,454 | 173,821,098 |
| Provision for stock & Debtors | | 20,771,694 | (411,729,385) |
| Browning Costs | | (2,590,784,827) | (1,784,712,860) |
| Gain /(Loss) On Foreign Currency Translation | | 122,864,709 | 469,852,268 |
| Share of Loss in Associates | | (13,003,188) | (13,260,746) |
| Non-Operating Revenue | 6 | 2,402,887,336 | 2,210,502,206 |
| Non-Operating Expenses | 7 | (993,398,536) | (797,095,657) |
| NON-OPERATING GAIN (LOSS) | | <u>(906,849,360)</u> | <u>(152,623,077)</u> |
| PROFIT FOR THE YEAR | | <u>6,830,049,119</u> | <u>7,176,290,237</u> |
| Income Tax | | - | (552,382,907) |
| PROFIT AFTER TAX | | <u>6,830,049,119</u> | <u>7,176,290,237</u> |
| Other comprehensive income | | | |
| Items will not be reclassified to profit or loss | | | |
| Exchange rate difference on Translation to presentation currency | | 2,808,327,705 | 6,030,042,935 |
| Employee benefits | 22(iv) | (5,136,043) | (26,007,572) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | <u>9,633,240,781</u> | <u>12,627,942,692</u> |



ETHIOPIAN AIRLINES GROUP
STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2019

| ASSETS | Notes | Birr | 2018(as restated) Birr |
|--|---------------|-------------------------------|-----------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 2(f),(g),9,29 | 172,826,600,835 | 154,863,888,675 |
| Intangible assets | 2(h),(g),10 | 178,280,356 | 190,652,142 |
| Investment in associates | 2(p),11 | 492,507,965 | 31,001,545 |
| Treasury bond | 12 | 961,341,419 | 875,378,328 |
| Standing deposits | 13 | 13,373,183,873 | 12,604,692,157 |
| Other loan receivables | 2(j),14 | 298,257,587 | 309,104,239 |
| | | <u>188,130,172,035</u> | <u>168,874,717,086</u> |
| CURRENT ASSETS | | | |
| Stock | 2(o),15 | 4,611,067,046 | 4,069,740,619 |
| Trade and other receivables | 2(j),16 | 23,724,998,782 | 17,554,258,043 |
| Short term investments | 17 | 2,211,682,500 | 217,567,647 |
| Cash and cash equivalents | 2(q),18 | 10,834,815,394 | 15,822,262,808 |
| | | <u>41,382,563,721</u> | <u>37,663,829,117</u> |
| TOTAL ASSETS | | <u>229,512,735,756</u> | <u>206,538,546,203</u> |
| EQUITY AND LIABILITIES | | | |
| CAPITAL | | | |
| Authorized - Birr <u>100,000,000,000</u> | | | |
| Paid up capital | 19 | 90,625,693,785 | 81,568,068,791 |
| Other comprehensive income | | 10,653,678,900 | 7,845,351,195 |
| TOTAL EQUITY | | <u>101,279,372,685</u> | <u>89,413,419,986</u> |
| NON-CURRENT LIABILITIES | | | |
| Long term loans | 2(j),20 | 77,292,240,450 | 71,860,353,133 |
| Provision for maintenance | 2(m),21 | 879,706,375 | 346,017,710 |
| Employee be | 22 | 345,695,560 | 205,955,912 |
| Deferred Tax | 2(1,ii),23 | 0 | 2,251,733,883 |
| Deferred and non-current liabilities | 24 | 781,526,265 | 896,429,415 |
| | | <u>79,299,168,650</u> | <u>75,560,490,054</u> |
| CURRENT LIABILITIES | | | |
| Trade and other liabilities | 2(j),25 | 14,193,713,209 | 12,265,480,371 |
| Contract liability | 2(ii) | 22,192,040,564 | 19,164,695,985 |
| Income tax payable | 2(1),26 | 103,327,570 | 512,553,700 |
| State dividend payable current portion | 27 | 495,589,630 | 1,173,756,574 |
| Current maturity of long term loans | 20 | 11,949,523,448 | 8,448,149,533 |
| | | <u>48,934,194,421</u> | <u>41,564,636,163</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>229,512,735,756</u> | <u>206,538,546,203</u> |



ETHIOPIAN AIRLINES GROUP

EQUITY FOR THE YEAR

| | Paid up capital Birrr |
|---|----------------------------------|
| BALANCE AT 30 JUNE 2017 | <u>29,111,702,343</u> |
| Net worth from acquired business (as restated, note 29) | 40,322,403,770.00 |
| Asset revaluation surplus from acquired business | 5,287,238,2785 |
| Contribution from government | 222,815,074 |
| Profit for the year | |
| Transfer to capital | 6,623,907,329 |
| Other comprehensive income (loss) | <u>-</u> |
| BALANCE AT 30 JUNE 2018 (AS RESTATED) | <u>81,568,068,791</u> |
| Deferred Tax Liability (note 23) | 2,227,575,875 |
| Profit for the year | |
| Transfer to capital | 6,830,049,119 |
| Other comprehensive income (loss) | <u>-</u> |
| BALANCE AT 30 JUNE 2019 | <u>90,625,693,785</u> |



STATEMENT OF CHANGES IN ENDED 30 JUNE 2019

| Comprehensive income (loss) Birr | Profit Birr | Total Birr |
|-------------------------------------|-----------------|------------------------|
| 1,841,315,832 | - | 30,953,018,175 |
| | | 40,322,403,770 |
| | | 5,287,238,275 |
| | | 222,817,074 |
| | 6,623,907,329 | 6,623,907,329 |
| | (6,623,907,329) | - |
| 6,004,035,363 | - | 6,004,035,363 |
| 7,845,351,195.00 | - | 89,413,419,986 |
| | | 2,227,575,875 |
| | 6,830,049,119 | 6,830,049,119 |
| | (6,830,049,119) | - |
| 2,808,327,705 | - | 2,808,327,705 |
| 10,653,678,900 | - | 101,279,372,685 |



ETHIOPIAN AIRLINES GROUP
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

| CASH FLOWS FROM OPERATING ACTIVITIES | Birr | 2018 Birr |
|---|-------------------------|------------------------|
| Profit for the year | 6,830,019,119 | 6,623,907,329 |
| Adjustments for income tax expense recognized in profit or loss | - | 552,382,907 |
| Finance costs recognized in profit or loss | 2,590,784,827 | 1,784,712,860 |
| Interest income recognized in profit or loss | (143,813,454) | (173,821,098) |
| Depreciation and amortization | 8,444,022,035 | 7,800,830,036 |
| Amortization of purchase incentives | (527,741,308) | (542,832,585) |
| Loss on currency fluctuation on loans | (282,331,312) | 715,418,928 |
| Provision for doubtful debts | (212,631,368) | 280,798,771 |
| Provision for stock obsolescence | 191,859,674 | 130,930,614 |
| Share of loss from associate | 13,003,188 | 13,260,746 |
| Provision for maintenance | 546,140,531 | 273,840,413 |
| Creditors' accounts written back to profit or loss | (727,455,507) | (340,396,325) |
| | 16,721,886,425 | 17,119,032,597 |
| Movements in working capital | | |
| Increase in stock | (992,241,207) | (911,684,027) |
| Decrease/ (increase) in debtors and prepayments | (6,529,869,856) | (6,127,774,390) |
| Increase in standing deposits | 768,491,715 | (2,518,821,089) |
| Increase in creditors | 3,760,480,470 | 4,115,460,530 |
| Increase (decrease) in unearned transportation | 3,027,344,579 | 6,640,459,812 |
| (Decrease)/increase in deferred and non-current liabilities | (793,070,100) | 333,657,916 |
| Cash generated from operations | 15,963,022,027 | 18,650,331,348 |
| Interest paid | (2,510,282,586) | (1,746,505,928) |
| Income tax paid | (409,226,132) | (333,284,840) |
| Net cash generated by operating activities | 13,043,513,310 | 16,570,540,580 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 121,254,206 | 153,784,969 |
| Treasury bond | (85,963,091) | 192,983,042 |
| Payments for property, plant and equipment | (7,044,025,500) | (2,303,962,204) |
| Payment for investment in associate | (472,631,180) | (588,472) |
| Payment for short term investment | (1,994,114,853) | (165,535,629) |
| Payment for intangible assets | (38,029,507) | (165,614,624) |
| Net cash used in investing activities | (9,513,509,925) | (2,288,932,918) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Chas from business acquired | - | 1,221,237,298 |
| Proceed from government subsidy | 354,046,465 | 222,817,073 |
| Proceeds from borrowings | 51,083,166 | 1,235,671,698 |
| Payment for stated dividend | (678,166,950) | - |
| Repayment of borrowings | (10,024,087,606) | (8,574,857,960) |
| Net cash generated from financing activities | (10,297,124,925) | (5,895,131,891) |
| Effect of exchange rates differences (net) | 1,779,674,125 | (2,400,826,969) |
| (Decrease)/Increase in cash and cash equivalents | (4,987,447,415) | 5,985,648,802 |
| Cash and cash equivalents at the beginning of the year | 15,822,262,809 | 9,836,614,006 |
| Cash and cash equivalents at the end of the year | 10,834,815,394 | 15,822,262,809 |
| Cash and cash equivalents comprise:- | | |
| Cash and bank balances | 10,834,815,394 | 15,822,262,809 |
| Short term investments which mature within three months | 10,834,815,394 | 15,822,262,809 |

1. BUSINESS DESCRIPTION

Ethiopian Airlines Group was originally established in June 1945 and had its first scheduled flight in April 1946. It is the flag carrier of the country and during the year served 141 international and 21 domestic destinations.

The Airline was established as a public Enterprise in Ethiopia in 1995 by council of Ministers regulations NO.216/1995 and is governed further by Council of Ministers Regulations No.81/2003, 147/2008, 292/2013 and NO.389/2016. Its principal place of business is in Addis Ababa Ethiopia and it has area and station offices all over the world. Ethiopian Airlines Group is wholly owned by the Government of the Federal Democratic Republic of Ethiopia.

Ethiopian airlines group follows multi business model to get advantage of integrating backward so that they can give complete services for our customers. The airline business is mainly six-freedom traffic where by passengers passes through the main hub Addis Ababa and layover and connect next flights. Then they can stay near to airport to its own hotel. In order to grow Ethiopian airlines group need to have well advanced airports which can grow parallel to the airline business. The airport merger facilitates the advantage of growing together.

Ethiopian Airlines Group was established for the following purposes:

- To provide domestic and international air transportation services as well as general aviation services;
- To manufacture and repair aircraft and aircraft parts
- To construct, expand, maintain and administer airports
- To provide aviation training services
- To provide airport Services (landing, parking, lighting, Passenger services and terminal facility)
- To provide hotel, recreational and other tourism services related to the aviation industry or invest in such services through equity participation
- To engage in other related activities necessary for the attainment of its purpose.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, which have been applied consistently in the preparation of these financial statements, are set out below.

A. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

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

B. Going concern

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

C. Changes in accounting policies and disclosures

New standards, amendments to published standards and interpretations that are relevant to Ethiopian airlines group

New Standards Effective and applied in the current year

Certain new standards or amendments became effective for the current year. These are as follows

I. IFRS 9, Financial Instruments

IFRS 9 replaced IAS 39. The new standard addresses the classification, measurement and de recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets and also new rules for hedge accounting.

Ethiopian Airlines Group adopted IFRS 9 from 1 July 2018. Ethiopian Airlines Group' financial assets comprising trade and other receivables (excluding prepayments). Ethiopian Airlines Group has assessed that these financial assets meet the conditions for



classification and measurement at amortised cost under IFRS 9. Accordingly, there is no impact on the measurement of Ethiopian Airlines Group' financial assets at amortised cost'. There is no impact on Ethiopian Airlines Group' financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and Ethiopian Airlines Group does not have such liabilities of significant value.

The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses, as is the case under IAS 39. It applies to trade receivables and other financial assets. For financial assets comprising of trade receivables, Ethiopian Airlines Group adopted the simplified approach allowed under IFRS 9, under which lifetime expected loss allowance is estimated to calculate provision. For all other financial assets, Ethiopian Airlines Group follows the 12 month expected credit loss model to calculate the impairment provision. This change did not have any significant impact on the loss allowance for these financial assets compared to the previous methodology.

IFRS 9 has substantially reformed the existing hedge accounting rules. It provides a more principles-based approach that aligns hedge accounting closely with risk management policies. Interest rate swaps and currency forwards in place as at 1 July 2018 qualified as cash flow hedges. Ethiopian Airlines Group risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges. Accordingly, there is no material impact on Ethiopian Airlines Group' hedge accounting on adoption of IFRS 9.

II. IFRS 15- Revenue from contracts with customers

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Revenue from passenger tickets including excess baggage and cargo sales are recognized when the transportation services is provided .initially sales of tickets and airway bills are recognized as a liability and shown in the statement of financial position under current liabilities with the heading contract liability until the obligation will satisfy.



All other revenues including revenue from catering operation, hotel services, and airport services, Maintenance, Repair and Overhaul (MRO) recognized when goods and services are delivered. most of Ethiopian airlines group contract liability are transferred to revenue when the obligation satisfies and liability reduces when the un used flight coupons more than a year will be reduced the contract liability .and there is few contract assets related to MRO revenue which is very minimal .see the below contract liability summary table .

Contract liability summary table

| | | | |
|---|-----------------|--|-----------------|
| Contract liability beginning Balance in ETB | 19,164,695,985 | Revenue realized from contract liability Beginning of the year | 15,856,770,215 |
| Contract liability Current year addition In ETB | 166,660,087,648 | Revenue realized from current year contract liability | 89,855,031,216 |
| | | Total revenue recognized In ETB | 105,711,801,431 |
| | | Total Refund from Current Year liability In ETB | 57,920,941,638 |
| Total | | | 163,632,743,069 |
| Contract liability Ending Balance in ETB | | | |
| Contract liability Ending Balance in ETB | | | |



III. IFRIC 22- Foreign currency transaction and advance consideration

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

According to the interpretation, the date of the transaction, for determining the exchange rate to use on initial recognition of the related assets, expense or income (or part of it) upon the de recognition of the non-monetary asset or non-monetary liability, is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. This interpretation does not apply when an entity measures the related asset, expense or income on initial recognition:

(a) At Fair value or

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

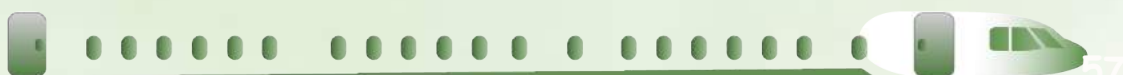
Furthermore, this Interpretation should not be applied to income taxes and insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds. The Group apply IFRIC 22 on initial recognition of the related asset, expense or income on the de recognition of a non-monetary asset or non-monetary liability relating to advance consideration beginning from its financial year ending 30 June 2019.

Not yet effective and have not been early adopted

At the date of authorisation of these financial statements, certain new accounting standards have been published that are not mandatory for the financial year ended 30 June 2019, and have not been early adopted. The following new standards will have an impact on Ethiopian Airlines Group and management has performed an initial estimate of its impact;

I. IFRS 16, Leases (effective for Ethiopian Airlines Group from 1 July 2019)

This standard was issued in January 2016. It replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition,



measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value (such as personal computers). The lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

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

This standard will have a significant impact on Ethiopian Airlines Group considering the number of aircrafts under operating lease. Operating lease charges will be replaced with interest and depreciation charges. These changes affect key ratios like current ratio, asset turnover, interest cover, earnings before

interest taxes, depreciation, and amortization (EBITDA), earnings before interest and tax (EBIT), earning per share (EPS), return on equity (ROE) and operating cash flows. On the statement of financial position both asset and liability are increased and expected to decrease the operating income of the Ethiopian airlines group and will increase-operating expense of the Ethiopian airlines group on this effect operating profit will expect to decrease. Ethiopian Airlines Group will apply this standard on July 2019.

II. IFRIC 23 uncertainty over income tax treatments

IFRIC 23 clarifies how to account for income tax when it is unclear whether the taxing authority will accept the company's tax treatment. If there is an uncertain tax treatment which is any tax treatment applied by a company when it is unclear whether that treatment will be accepted by the tax authorities. The IFRS Interpretations Committee (IFRS IC) observed that entities applied diverse accounting methods when the application of tax laws has been uncertain. Under IFRIC 23, the key test is whether it is probable (i.e. more likely than not) that the taxing authority will accept the company's tax treatment as reported in the income tax filing. If yes, the company records the same amount in the financial statements as submitted (or planned to be submitted) in the income tax return.



If no, the company reflects the effect of the tax uncertainty with different method that it expects will better predict the resolution of the uncertainty: IFRIC 23 applies to all aspects of income tax accounting when there is uncertainty about the income tax treatment of an item, including taxable profit or loss, the tax basis of assets and liabilities, tax losses and credits, and tax rates effective from 01,January 2019 .In the case of Ethiopian airlines group tax applied only one of Business segments which is Skylight hotel .we will comply starting from 01July 2019 and the impact is not assessed.

The below Additional new standards and amendments not effective and not early adapted and will comply starting from 01july 2019.

| Title | Effective date (annual periods beginning on or after) | Impact on financial statement assessment status |
|--|--|--|
| Amendments to IFRS 9 - Prepayment Features with Negative Compensation | 1-Jan-19 | This has no impact |
| Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures | 1-Jan-19 | As this is related to IFRS 9 with investment in associates for long term interest, it has no major impact |
| AIP (2015-2017 Cycle): IFRS 11 Joint Arrangements - Previously held Interests in a joint operation | 1-Jan-19 | This has no impact |
| AIP (2015-2017 Cycle): IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity | 1-Jan-19 | Ethiopian airlines group is exempt from profit tax except Skly light hotel and this is assessed and has no major impact. |
| AIP (2015-2017 Cycle): IAS 23 Borrowing Costs – Borrowing costs eligible for capitalization | 1-Jan-19 | This has no impact. |



D. FOREIGN CURRENCY TRANSLATION

I Functional and presentation currency

The functional currency of the Ethiopian Airlines Group is United States Dollar (USD) while that of Ethiopian Airports and Sky light hotel (the operating segment under Ethiopian Airlines Group) is Ethiopian Birr. These financial statements are presented in Ethiopian Birr.

II Foreign currency transactions and balances

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

At the end of each reporting period, foreign currency monetary items are translated using the closing rates. Foreign exchange gains and losses arising on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements or on the settlement of monetary items are recognized in profit or loss in the period in which they arise. Ethiopian Airlines Group financial statements are presented in Ethiopian Birr by translating all assets and liabilities at the closing rate at the date of the statement of financial position and all revenue and expenses presented in the statement of profit or loss and other comprehensive income are translated at exchange rates at the dates of the transactions. For practical reasons an average rate for a month has been used for all transactions in each foreign currency occurring during the year.

All the resultant exchange differences are recognized in other comprehensive income as per the requirements of IAS 21.

E. Property, Plant, and Equipment Recognition and measurement

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

Aircraft

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

Aircraft Accessories (Rotables)

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

Ground Equipment

This category of capital asset shall include radio field/passenger, Service/ramp equipment, furniture and fixture and are capitalized if the unit cost of the item plus shipping and other purchasing costs are equivalent to Birr 36,861.38 (USD 1,250) or more.

Tools

Tools shall be capitalized if the unit cost of the item plus shipping and other purchasing costs is equivalent to Birr 8,846.73 (USD300) or more.

Neon Signs

Neon Signs shall be capitalized if the unit cost of the item is equivalent to Birr 41,711 (USD1, 500) or more.

Computerized Equipment

Computerized equipment shall be capitalized if the unit cost of the item plus shipping and other purchasing costs are equivalent to Birr 36,861.38 (USD 1,250) or more.

Motorized Vehicles and Equipment

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

Capitalization of modification costs

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

| Item | Amount to be capitalized |
|---------------------|--------------------------|
| Jet Airframe | USD 35,000.00 and over |
| Turbo Prop Airframe | USD 25,000.00 and over |
| Twin Otter Airframe | USD 15,000.00 and over |
| Jet Engine | USD 15,000.00 and over |



Building

The construction costs of all buildings are capitalized. Subsequent costs of improvement, modification or extension are capitalized only if it is probable that future economic benefits associated with the item will flow to Ethiopian Airlines Group and the cost of the item is over Birr 589,782.00 (USD 20,000). All other repair and maintenance costs are recognized in the statement of profit or loss as incurred.

Depreciation

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

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

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

| Class of assets | Service Life- Years | Residual Values (% on cost) |
|--|--|--|
| Airframe and Engines Jet | 18 | 10 |
| Turbo Propeller | 12 | 10 |
| Twin Otter | 10 | 10 |
| Light Aircraft | 9 | 10 |
| Simulators | 12 | - |
| Rotables | As per the life of the respective aircraft | - |
| Building | 35 | 10 |
| Office furniture and fixture | 5 | - |
| Computerized equipment | 4 | - |
| Motorized vehicles and equipment | 15 | - |
| Ground equipment | 5 | - |
| Radio, field passenger's service, hangar, ramp, tools ,equipment and office machines | 5 | - |
| Neon Signs | 5 | - |



F. Property, plant and equipment obtained by donation

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

G. Land

Land is recorded separately from the Building or runway as non-depreciable asset. The value is determined based on appraisals prepared by external professional valuers.

H. Intangible assets

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

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

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

Other research and development expenditures not meeting the criteria for capitalization are recognized in the statement of profit or loss as incurred. Intangible assets are amortized on the straight-line basis over their estimated useful lives between 3 and 7 years.

I. Impairment of non-financial assets

At each reporting date, Ethiopian Airlines Group reviews the carrying amount of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generating Units (CGU).

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

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

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then reduce the carrying amount of the other asset in the CGU on a prorata basis.

For other assets an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have

been determined, net of depreciation or amortization if no impairment loss had been recognized.

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

J. Financial assets and financial liabilities

I. Recognition and Measurement

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

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

long Term loans

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

Trade Receivables

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

Trade payables

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

II. De recognition of financial assets and financial liabilities

De recognition of financial assets

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

The right to receive cash flows from the assets has expired, or

Ethiopian Airlines Group has transferred its rights to receive cash flows from the asset or, has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and either

- a. has transferred substantially all the risks and rewards of the asset, or
- b. has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Ethiopian Airlines Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the



risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of Ethiopian Airlines Group continuing involvement in the asset. In that case, Ethiopian Airlines Group also recognizes an associated liability.

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

Derecognition of financial liabilities

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

III. Impairment of financial assets

Ethiopian Airlines Group assesses at each reporting date financial asset or a group of financial assets impairment, which is calculated based on expected loss on the future those loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the balance aged more than a year, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the

estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

K. Provisions

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

L. Income Tax

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

i. Current income tax

The income tax expense of Ethiopian Airlines Group Skylight hotel for the year is the tax payable on the current year's taxable income based on the applicable income tax rate in Ethiopian Airlines Group adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

ii. Deferred tax

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

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



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

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

M. Provision for aircraft maintenance

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

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

N. Value Added Taxes

Domestic airfares are exempted while international fares are zero-rated. Revenues, expenses

and assets are recognized net of the amount of value added taxes except where the value added tax incurred on purchased assets or services is not recoverable from the taxation authority, in which case the value added tax is recognized as part of the cost of the asset or absorbed as an expense.

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

O. Stock

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

P. Investment in associates

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

Investment in associates is accounted for using the equity method. Under the equity method, investments are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of profit or loss after the date of acquisition. Ethiopian Airlines Group share of its associate's post acquisition profits or losses is recognized in the statement of profit or loss. When the Ethiopian Airlines Group share of losses in an associate exceeds its interest in the associate, the Group does not recognize any further losses. Although Ethiopian Airlines group has 99% share in Ethiopian



Mozambique Airlines LTD and has full control, we did not consolidate in this financial statement as the airline is newly established as of December 2018 and will evaluate and report in the next financial year.

Q. Cash and cash equivalents

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

R. Offsetting of financial asset and liabilities

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

S. Manufacturers credits

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

T. Revenue

Revenue from passenger tickets including excess baggage and cargo sales are recognized when the transportation services is provided. Sales of unutilized tickets and airway bills are recognized as a liability and shown in the statement of financial position under current liabilities with the heading contract liability.

The values of unused tickets are recognized as revenue after the expiry date of one-year. Ethiopian airlines group major Revenues, which is reported in operating revenues, are:

Passenger transport

The Ethiopian Airlines Group sells flight tickets primarily via agents, its own websites, own sales office or other air- lines in the course of interlining. The payments are received by the Ethiopian Airlines Group via credit card billing companies, agents or other airlines, generally, before the corresponding service is provided. Receivables from the sale of flight tickets and related ancillary services are only amounts payable by credit card billing companies, agents or other airlines.

The Ethiopian Airlines Group initially recognizes all ticket sales as liabilities from unused flight documents. These are presented as current liability. Depending on the terms of the selected fare, the contract liabilities reflect a range of possibilities for refunding services that have not yet been provided. Liabilities include both the deferred income for future flights and ancillary services that are recognized as revenue when the flight documents are used, and the liabilities for award miles credited to the passenger when the flight documents are used. The Ethiopian airlines Group allocates the transaction price to all of the performance obligations identified on the flight ticket based on their individual transaction prices. The individual transaction prices for flight segments are determined using the IATA procedure. The total price payable is allocated to individual flight segments using what is known as a prorate calculation. The individual transaction prices for ancillary services that are not included in the fare are directly observable prices. The Ethiopian Airlines Group reduces liabilities from unused flight documents and recognizes revenue for each flight when the respective



HOTEL SERVICES

The Ethiopian airlines group offers services related to hotels services. The performance obligation related to this services are provide goods, services, and the revenue recognized when the contract obligation full filed.

Frequent flyer program

Ethiopian Airlines Group Airlines Group operates a customer loyalty program called Sheba Miles, the Frequent Flyer Program (FFP). The Fallows qualifying customers to accumulate mileage credits that entitle them to a choice of various awards such as primarily free travel and upgrading of tickets. There are two steps between the time passengers accumulate their flown miles and the time they are privileged to be benefited from their accumulated flown miles.

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

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

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

U. Non-operating revenue and expenses

i. Revenue from Aircrafts trading

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

ii. Finance income and costs

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

iii. Other non-operating revenue

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

iv. Borrowing costs

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

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

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



V. Operating leases

Leases, where significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Aircraft lease rental charges, are recognized in the statement of profit or loss on a straight line basis over the term of the lease. Ethiopian Airlines Group has 56 aircrafts under operating lease as of June 30, 2019.

W. Employee benefits

i. Defined Contribution plan

Defined contribution plan is a pension scheme under which Ethiopian Airlines Group pays fixed contribution. The fund is administered by an independent Government Agency and is funded by fixed contributions from both Ethiopian Airlines Group and the employees. Ethiopian Airlines Group has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient asset to settle the benefit relating to the employee's services in the current and prior periods. Contributions to the pension fund are charged to the statement of profit or loss in the period in which they fall due.

Ethiopian Airlines Group makes contributions to a statutory defined contribution pension scheme. The employer and the employee make contributions of 11% and 7% of the employee's basic salary respectively, as determined by statutory. For the year ended 30 June 2019 Ethiopian Airlines Group contributed Birr 297,585,357. (2018-Birr 229,835,634.) which has been charged to the profit or loss account in the period to which they relate.

ii. Defined benefit plan

Ethiopian Airlines Group net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods,

those benefits are discounted to determine the present value and any unrecognized past service costs and the fair value of any plan asset is deducted. The discount rate is the current government deposit rate.

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

Past service costs are recognized immediately in profit or loss and other comprehensive income.

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

iii. Short term benefit

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

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

iv. Termination benefits

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



3. Significant accounting estimates, judgments and assumptions

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

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

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

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

B. Provision for leased aircraft maintenance costs

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

C. Defined benefits plans

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

D. Investment in associates

Judgments made in applying accounting policies have the most significant effect on the amounts recognized in the combined financial statements and the related disclosures. One of these is determination of whether there is significant influence over investees. Management used the control model under IFRS10 to determine whether the control indicators set out are used to define whether there is significant influence in investment under equity partners or control. Management determined that Ethiopian Airlines Group has significant influence over the associate companies.

E. Going concern

Management has assessed the Ethiopian Airlines Group ability to continue as a going concern and is certain that it has the resources to continue in business for the near future.

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections being recorded globally. Measures taken to contain and slow the spread of the virus have significantly impacted



global economic activity including limiting movements of people and restricting flights. The worldwide aviation market has been significantly disrupted in the short term. This disruption is expected to be followed by a gradual recovery as travel restrictions are lifted. As a global network airline, Ethiopian Airlines Group has been unable to viably operate its normal full passenger services. On the other hand the couple of months disruption in global supply chain caused by the closure of factories mainly in China due to the very COVID-19 has caused a sudden and large demand in global air cargo transport. Hence the air cargo business is booming, and it is operating at its peak capacity. As a result of the outbreak, although the full impact and the time period of the disruption is not possible to predict with certainty. Ethiopian Airlines group has taken various measures to maximize cargo revenue by using passenger airplanes for cargo transport either with their seats using the traditional cabin loading or by taking out the seats and loading cargo in the main cabin floor of the aircraft besides the cargo aircrafts. There is also more activities on passenger charter and MRO. Based on measures Ethiopian Airlines group has taken, management believes there is no doubt on going concern.

4. Operating Revenue

| | Birr | 2018 Birr |
|---------------------------------|-------------------------------|------------------------------|
| Passenger | 80,634,372,904 | 65,674,265,162 |
| Airport charges | 969,612,135 | 1,302,061,692 |
| Freight | 17,769,032,811 | 14,633,436,653 |
| Charter | 4,668,117,799 | 2,471,978,196 |
| Excess baggage | 2,351,956,965 | 1,851,378,196 |
| Customer services – work orders | 2,297,937,064 | 1,569,117,959 |
| Subsidiaries | 1,124,241,220 | 988,907,659 |
| Mail | 288,320,952 | 219,156,480 |
| Commission | 757,075,527 | 471,900,515 |
| Aircraft lease | 705,779,785 | 348,785,268 |
| Hotel services | 91,298,294 | - |
| Miscellaneous | 1,410,383,801 | 1,375,981,255 |
| | <u>113,068,129,257</u> | <u>90,906,968,909</u> |



5. Operating Expenses

| | Birr | 2018 Birr |
|-----------------------------------|-------------------------------|------------------------------|
| Salaries and related benefits | 6,975,520,661 | 5,521,020,941 |
| Aircraft fuel and oil | 39,440,318,856 | 29,611,984,299 |
| Rentals | 11,288,754,059 | 9,647,753,190 |
| Overflying and navigation | 5,753,237,418 | 4,838,539,663 |
| Depreciation of flying equipment | 6,968,919,165 | 5,443,006,412 |
| Passengers' expense | 4,432,444,578 | 3,402,916,354 |
| Handling | 4,497,129,845 | 3,619,077,050 |
| Commission and incentive | 3,090,052,078 | 2,591,861,818 |
| Foreign overhauls | 4,339,449,866 | 2,496,562,246 |
| Maintenance of leased aircraft | 3,003,781,266 | 2,745,162,316 |
| Landing and parking | 1,673,455,842 | 1,665,685,610 |
| Central reservation system charge | 2,576,712,381 | 2,282,090,523 |
| Aircraft materials | 2,336,965,394 | 2,267,884,567 |
| Travels | 1,656,853,870 | 1,179,400,882 |
| Service | 1,352,324,127 | 1,378,711,299 |
| Depreciation non-flying equipment | 1,475,102,870 | 1,067,561,295 |
| Insurance | 783,814,545 | 583,415,440 |
| Communications | 556,297,219 | 522,937,549 |
| Utilities | 49,542,918 | 42,494,753 |
| Taxes | 115,389,523 | 87,550,811 |
| Advertising and publishing | 70,417,843 | 49,760,385 |
| Training | 4,560,140 | 1,552,979 |
| Amortization | 2,141,546,143 | 1,517,676,918 |
| Entertainment | 3,234,660 | 7,919,625 |
| Supplies | 270,194,664 | 215,375,512 |
| Cost of sales hotel | 20,974,122 | - |
| Other | 454,236,727 | 790,153,159 |
| Total Sum | <u>105,331,230,778</u> | <u>83,578,055,595</u> |

6. Non-Operating Revenue

| Itemes | Birr | 2018 Birr |
|---------------------------------|-----------------------------|-----------------------------|
| Write back of creators account | 727,455,507 | 340,396,325 |
| Revenue from purchase incentive | 527,741,308 | 542,832,585 |
| Others | 1,447,690,520 | 1,327,273,295 |
| | <u>2,402,887,336</u> | <u>2,210,502,206</u> |



7. Non-Operating Expenses

| Itemes | Birr | 2018 Birr |
|------------------------|-----------------------------|-----------------------------|
| Bank Charges | (145,872,754) | (127,323,957) |
| Credit card charges | (568,250,163) | (644,043,313) |
| Miscellaneous Expenses | (279,275,619) | (25,728,387) |
| Total | <u>(993,398,536)</u> | <u>(797,095,658)</u> |

8. Staff Costs

| Itemes | Birr | 2018 Birr |
|--------------------------------------|-----------------------------|-----------------------------|
| Salaries and related benefits | 6,693,385,408 | 5,300,292,320 |
| Pension costs- company contributions | 297,585,357 | 220,728,620 |
| Total | <u>6,990,970,763</u> | <u>5,521,020,940</u> |



9. Property plant and equipment

| | Balance at 30 June 2018 Birr | Exchange rate var on Beginning balance (last year adjustment) Birr |
|------------------------------|---|---|
| COST OR VALUATION | | |
| Flight equipment | 123,253,602,387 | (5,233,517,082) |
| Other property | 17,532,800,448 | 856,038,655 |
| land | - | 33,952,521,074 |
| Engine Maintenance cost | 5,048,861,005 | (219,712,462) |
| Runways, taxiways & aprons | 6,849,259,674 | - |
| | 152,684,523,514 | 29,355,330,184 |
| DEPRICIATION | | |
| Flight equipment | 31,966,143,044 | 1,933,328,995 |
| Other property | 4,687,018,902 | 283,473,346 |
| Engine Maintenance cost | 2,178,136,236 | (393,335,393) |
| Runways, taxiways & aprons | - | - |
| | 38,831,298,183 | 1,823,466,949 |
| NET BOOK VALUE | | |
| Flight equipment | 91,287,459,343 | 5,521,113,122 |
| Other property | 12,845,781,546 | 572,565,308 |
| Engine Maintenance cost | 2,870,724,768 | 173,622,931 |
| Runways, taxiways & aprons | 6,694,157,176 | - |
| | 113,853,225,331 | 27,531,863,236 |
| Work orders in progress | 7,058,142,269 | 97,961,387 |
| Ex rate variance beg balance | | 6,322,696,451 |
| | 120,911,367,601 | 33,952,521,074 |

N.B Four B 737 Max with a book value of birr 5,669,557,088 is included in PPE while aircrafts are grounded due to ET 302 accident. Boeing commercial is working to fix the problem and management believe all grounded aircrafts will be back to the operation



| Balance at 30 June 2018 (as restated) Birr | Additions Birr | Disposals and Retirements USD | Balance at 30 June 2019 Birr |
|---|--------------------------------|---|--|
| 118,020,085,306 | 36,865,580,077 | (8,916,624,092) | 145,969,041,291 |
| 18,388,839,103 | 2,915,330,456 | (379,798,154) | 20,924,371,404 |
| 33,952,521,074 | - | - | 33,952,521,074 |
| 4,829,148,542 | 1,106,859,150 | - | 5,936,007,693 |
| 6,849,259,674 | 576,521,428 | - | 7,425,781,102 |
| 182,039,853,698 | 41,464,291,111 | 9,296,422,246 | 214,207,722,563 |
| 33,899,472,039 | 5,572,780,494 | - | 39,472,252,534 |
| 4,970,492,249 | 897,484,556 | (128,196,178) | 5,739,780,986 |
| 1,784,800,843 | 2,141,546,143 | - | 3,926,346,986 |
| - | 380,359,334 | (155,102,498) | 225,256,836 |
| 40,654,765,131 | 8,992,170,527 | (283,298,675) | 49,363,636,982 |
| 96,808,572,465 | - | (8,916,624,092) | 87,891,948,373 |
| 13,418,346,854 | 520,313,721 | (251,601,976) | 13,687,058,598 |
| 3,044,375,699 | - | - | 3,044,347,699 |
| 6,694,157,176 | 196,162,094 | 155,102,498 | 7,045,421,768 |
| 141,385,088,567 | | (9,013,123,570) | 164,844,085,581 |
| 7,156,103,656 | 5,969,095,402 | (5,142,683,805) | 7,982,515,254 |
| (6,322,696,451) | | - | - |
| 154,863,888,675 | 5,969,095,402 | (14,155,807,375) | 172,826,600,835 |



10. Intangible assets

| Cost | Balance at 30 June 2018 Birr | Additions Birr | Balance at 30 June 2019 Birr |
|----------------|---|---------------------------|---|
| Software costs | 585,618,707 | 38,029,507 | 623,648,214 |
| Amortization | (394,966,565) | (50,401,293) | (445,367,858) |
| Net book value | <u>190,652,142</u> | | <u>178,280,356</u> |

11. Investment in associates

| | Birr | 2018 Birr |
|--|---------------------------|--------------------------|
| ASKY Airlines (900,000 shares of US dollars 20 each par value) | 530,803,800 | 500,531,400 |
| Malawi Airlines (490,000 shares of USdollars 20 each par value) | 288,993,180 | 272,511,540 |
| Investment in Chad Airlines | 113,238,144 | |
| Ethiopian Mozambique Airlines LTD (99% of share) | 353,869,200 | |
| DHL- ET logistics service investment (5,355.00) shares of Ethiopian Birr 1000 each par value) | 5,523,836 | |
| Other foreign investments | 19,876,785 | 18,743,187 |
| Share of loss from investment | <u>(819,796,980)</u> | <u>(760,784,582)</u> |
| | <u>492,507,965</u> | <u>31,001,545</u> |

12. Treasury Bonds

These are treasury bonds purchased from Industry Trade Bank in Angola in AOA currency bearing interest 7% at market rate semi-annually. It will mature between 11 July 2020 to 4 December 2020.

13. Standing Deposits

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

14. Other Loan Receivables

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



15. Stock

| | Birr | 2018 Birr |
|---|-------------------------------|-----------------------------|
| Aircraft parts | 4,327,357,521 | 3,486,679,661 |
| Supplies stock-customer Work orders | 10,366,342 | 9,325,733 |
| Stock of stationery and Other materials | <u>999,679,491</u> | <u>1,006,688,178</u> |
| | 5,337,403,353 | 4,502,693,572 |
| Less: provision for stock obsolescence | (726,336,307) | (432,952,953) |
| | <u>(4,611,067,046)</u> | <u>4,069,740,619</u> |

16. Trade and other receivables

| | Birr | 2018 Birr |
|--|------------------------------|--------------------------------|
| Transportation-others | 5,013,863,825 | 3,927,511,545 |
| Airport service charges | 852,929,888 | 3,803,803,973 |
| Debtors | 63,384,605 | - |
| Deposits and prepayments | 6,539,113,942 | 2,991,832,093 |
| Transportations-Airlines | 4,278,530,870 | 3,801,012,510 |
| Claims from aircraft lessor | 545,588,167 | 104,296,897 |
| Ethiopian Government | 89,288,412 | 311,368,031 |
| Value added tax and duties recoverable | 1,097,327,567 | 1,144,564,666 |
| Airmail | 24,822,778 | 30,495,988 |
| Miscellaneous | <u>7,380,700,048</u> | <u>3,763,328,867</u> |
| | <u>25,885,550,104</u> | <u>19,878,214,570</u> |
| Less: provision for doubtful debts | (2,160,551,322) | (2,323,956,528) |
| | <u>23,724,998,782</u> | <u>(17,554,258,048)</u> |

17. Short term investment

| | Birr | 2018 Birr |
|---------------------|-----------------------------|---------------------------|
| Short term deposits | 2,211,682,500 | 217,567,647 |
| | <u>2,211,682,500</u> | <u>217,567,647</u> |

18. Cash and cash equivalent



| | Birr | 2018 Birr |
|--|------------------------------|------------------------------|
| Cash with foreign banks | 9,850,851,001 | 13,603,815,486 |
| Less: provision for accounts, difficult to transfer | <u>(3,205,059)</u> | <u>(3,022,271)</u> |
| | 9,847,645,942 | 13,600,793,215 |
| Cash with local banks | 934,188,501 | 2,126,922,050 |
| Cash on hand | 52,980,951 | 94,547,543 |
| | <u>10,834,815,393</u> | <u>15,822,262,808</u> |

19. Capital

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

20. Long term loans

| | Birr | 2018 Birr |
|-------------------------------|------------------------------|------------------------------|
| Balance at 30 June 2018 | 80,308,502,667 | 151,207,630,610 |
| Additional loans | 27,568,539,716 | 36,960,311,088 |
| Foreign exchange fluctuation | <u>-8,611,190,878</u> | <u>715,418,928</u> |
| | 99,265,851,505 | 88,883,360,626 |
| Less: Repayments | <u>10,024,087,606</u> | <u>8,574,857,960</u> |
| | <u>89,241,763,899</u> | <u>80,308,502,667</u> |
| Less: Amount repayable within | <u>11,949,523,448</u> | <u>8,448,149,533</u> |
| | <u>77,292,240,450</u> | <u>71,860,353,133</u> |

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

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

21. Provision for maintenance

| | Birr | 2018 Birr |
|-------------------------------------|---------------------------|---------------------------|
| Balance at 30 June 2018 | 346,017,710 | 72,177,297 |
| Additional provision | 546,140,531 | 292,028,740 |
| Reduction arising from actual costs | <u>(12,451,866)</u> | <u>(18,188,327)</u> |
| | <u>879,706,375</u> | <u>346,017,710</u> |

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



22. Employee Benefit Obligation

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

A. Severance pay

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

Severance pay is calculated as the employee's one month's salary for the first year of service and 1/3 (one third) of the employee's salary for every additional year of service. This benefit is paid on withdrawal, death and ill health retirement from the Company.

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

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

B. Service Award

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

C. Retirement Award

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

i. Reconciliation of benefit obligation

| | 2019 | 2018 |
|--------------------------------------|---------------------------|---------------------------|
| Opening benefit obligation | 205,955,912 | 160,019,964 |
| Current service cost(employer) | 38,957,843 | 16,821,072 |
| Interest cost | 15,174,792 | 12,065,341 |
| Employee contributions | | |
| Actuarial (gain)/loss –due to experi | 31,143,615 | 26,007,572 |
| Actuarial gain loss- due to | | |
| Changes in assumptions | | |
| Past service cost | 71,767,567 | |
| Benefits paid | (17,304,169) | (8,958,037) |
| Insurance premiums | | |
| Curtailements | | |
| Settlements | | |
| Closing benefit obligation | <u>345,695,560</u> | <u>205,955,912</u> |



ii. Defined benefit obligation (asset) Recognized in the balance sheet

| | 2019 | 2018 |
|---|---------------------------|---------------------------|
| Present value of funded obligations | 345,695,560 | 205,955,912 |
| Fair value of scheme assets | | |
| Net underfunding in funded plan | 345,695,560 | 205,955,912 |
| Defined benefit obligation (asset) reco | <u>345,695,560</u> | <u>205,955,912</u> |

iii. Amount recognized in profit or loss

| | 2019 | 2018 |
|--|---------------------------|--------------------------|
| Service cost | | |
| Current service cost (employee) | 38,957,843 | 16,821,072 |
| Past Service Cost | | |
| Loss and gain on curtailment and settlements | | |
| Total Service Cost | 38,957,843 | 16,821,072 |
| Interest Cost | | |
| Interest cost on defined benefit | | |
| Obligation | 15,174,792 | 12,065,341 |
| Interest income on plan assets | | |
| Recognition of past service medical cost | 71,767,567 | |
| Net interest cost n balance sheet Liability | 86,942,359 | 12,886,413 |
| Total included in and loss in | | |
| Respect of Scheme | <u>125,900,202</u> | <u>28,886,413</u> |

iv. Amount recognized in OCI

| | 2019 | 2018 |
|---|--------------------------|--------------------------|
| Change in unrecognized positions | | |
| Actuarial (gain loss –obligation | 31,143,615 | 26,007,572 |
| Return on plan assets (excluding amount in interest cost) | | |
| Change in effect of assets ceiling | | |
| (excluding amount recognized in OCI | | |
| Statement for the fiscal year | <u>31,143,615</u> | <u>26,007,572</u> |
| These will not be reclassified subsequently to profit or loss | | |



v. Reconciliation

| | Scenario-1 base | Scenario-2 Discount rate increased by 1% | Scenario-3 salary rate increased by 1% | Scenario-4 Discount rate decr by 1% | Scenario-5 salary rate decr by 1% |
|---|------------------------|---|---|--|--|
| Discount rate | 7.00% | 8.00% | 7.00% | 6.00% | 7.00% |
| Salary increases 6 | 6.00% | 6.00% | 7.00% | 6.00% | 5.00% |
| Net liability at start of period | 205,955,912 | 205,955,912 | 205,955,912 | 205,955,912 | 205,955,912 |
| Total net expense recognised in the statement of profit or Loss | 125,900,202 | 117,362,985 | 125,900,202 | 136,699,672 | 125,900,202 |
| Net expense recognised in the other comprehensive income | 31,143,615 | 11,750,080 | 50,258,224 | 53,584,566 | 14,345,447 |
| Employer contributions | -17,304,169 | -17,304,169 | -17,304,169 | -17,304,169 | -17,304,169 |
| Net liability at end of period | 345,695,560 | 317,794,808 | 364,810,169 | 348,935,981 | 328,897,392 |

| | 2019 | 2018 |
|--|---------------------------|---------------------------|
| Net liability at start of period | 205,955,912 | 160,019,964 |
| Net expense recognized in the income statement | 125,900,202 | 28,886,413 |
| Employer contributions | (17,304,169) | (8,958,037) |
| Amount recognized in OCI | 31,143,615 | 26,007,572 |
| Net liability at end of period | <u>345,695,560</u> | <u>205,955,912</u> |

vi. Actuarial Assumptions

| | 2019 | 2018 |
|--|-------------------|------------------|
| Discount rate(% p.a) | 7% | 7.00% |
| Features salary increases (% p.a) | 6% | 6.00% |
| Mortality Assumptions – males | A1949-52males | A1949-52 males |
| Mortality Assumptions – females | A1949- 52 females | A1949-52 females |
| Weighted average durations of defined Benefit obligation | 8% | |

Ethiopian Airlines Group also make statutory contributions to the national social security fund. Contributions are determined by the local statute and are shared between the employer and employee. For the year, ended 30 June 2019 the company contributed birr 297,585,357 (2018 birr 228,840,828).



vii. Sensitivity analysis:

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

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

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

viii. Expected impact on future cash flow

The current arrangements are unfunded with no pre-determined contributions. The Ethiopian Airlines Group however meets benefits payments on a pay-as-you-go basis. The company benefit outgo was birr 17,304,169 (2018 birr 8,958,037)

23. Deferred Tax Liability

For sky light hotel, one of Ethiopian airlines group segment deferred tax is calculated on all temporary differences under the liability method using the enacted rate, currently at 30%. The deferred tax Liability at the end of the year is attributable to the difference between the tax basis of property, plant and equipment and its carrying value for financial reporting purposes. as per the proclamation Ethiopian airport one of the Ethiopian airlines group segment tax exempted ,the deferred tax liability amount which is reported on the previous year's as liability the balance absorbed and transferred to the equity .

24. Deferred and Non-Current Liabilities

| | Birr | 2018 Birr |
|-----------------------------------|---------------------------|---------------------------|
| Management fee | 36,273,984 | 48,308,338 |
| | 36,273,984 | 48,308,338 |
| Non- current liabilities | | |
| Security deposit | 208,230,771 | 91,810,181 |
| Foreign terminations indemnity | 1,129,545 | 1,494,656 |
| Rotations payable | 33,499,695 | 27,262,667 |
| Leased Aircraft maintenance reser | 226,760,707 | 225,652,906 |
| Miscellaneous | 275,631,565 | 501,900,669 |
| | <u>745,252,282</u> | <u>848,121,078</u> |
| | <u>781,526,265</u> | <u>896,429,415</u> |



25. Trade and other liabilities

| | Birr | 2018 Birr |
|--|------------------------------|------------------------------|
| Transportation tax and embarkation fees | 2,437,288,806 | 2,121,461,612 |
| Payable to oil companies | 69,542,580 | 44,985,428 |
| Goods received but not billed | 688,217,055 | 188,323,490 |
| Customers' advances for work order | 161,882,247 | 166,161,201 |
| Accruals interest | 50,099,091 | 438,430,079 |
| Accruals for leasing and maintenance of aircraft | 58,678,366 | 66,274,751 |
| Pool apportionment with other airlines | 76,671,660 | 150,796,977 |
| Services received but not billed | 5,933,339,185 | 6,064,706,114 |
| Others | 4,717,994,218 | 3,024,340,718 |
| | <u>14,193,713,209</u> | <u>12,265,480,371</u> |

26. Taxation

Ethiopian airlines group exempted from tax but one of the segment SKY light hotel are not exempted.

27. State Dividend

The Ministry of Finance in its letter of 10 January 2019 authorized Ethiopian Airlines Group to settle the dividend in the months of July 2019.

28. CASH flows

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

An increase in property, plant and equipment financed by loan----- 27,228,555,450

29. Adjustment in changes in owners' equity

Land value of Ethiopian airport associated with its acquisition by Ethiopian airlines of ETB 33,952,521,074.00 which was omitted and not included in the previous year financial statement is now included and previous year balance of Property, plant and Equipment and Change in Equity are re-stated.

Segment Information

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision Maker. The Chief operating decision maker is considered to be the executive management members of Ethiopian Airlines Group who make strategic decisions and are responsible for allocating resources and assessing the performance of the operating segments. The operating segments of Ethiopian Airlines Group are



defined based on IFRS8, considering the 10% threshold of segment revenue, total assets and profits of the year. Ethiopian Airlines Group Chief Executive Officer monitors the operating results of the business units for making decisions about resource allocation and performance assessment. Ethiopian Airlines Group has three reportable segments: Ethiopian Airlines, Ethiopian Airports and SKY light hotel. Ethiopian Airlines provides commercial air transportation including passenger, and cargo services, Ethiopian Airports provides airport services and SKY light hotel provide hotel services.

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

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Ethiopian Airlines Group accounts for intersegment sales and transfers as if the sales or transfers were to a third party, which is at current market prices.

| | Ethiopian Airlines Birr | Ethiopian Airports Birr | Skylight Hotel Birr | Inter segment Transaction Birr | Ethiopian Airlines group Birr |
|---------------------------------|------------------------------------|------------------------------------|--------------------------------|---|--|
| Total segment Revenue | 112,779,383,284 | 2,605,409,004 | 92,619,288 | 1,409,282,319 | 113,068,129,257 |
| Revenue from external customers | 111,779,383,284 | 1,235,629,807 | 53,116,165 | | 113,068,129,257 |
| Segment profit before tax | 5,411,064,960 | 1,463,506,146 | (44,521,987) | | 6,830,049,119 |
| Finance income | 130,227,232 | 13,586,222 | - | | 143,813,454 |
| Finance cost | (2,590,784,827) | - | - | | 2,590,784,827 |
| Income tax | | | | | |
| Depreciation and amortizations | 9,916,476,929 | 603,152,801 | 65,938,448 | | 10,585,568,178 |
| Segment Net asset | 50,627,181,924 | 50,696,712,748 | 44,521,988 | 1,096,938,785 | 100,182,433,900 |

30. Financial Risk management objectives and policies

A. Introduction

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

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

Ethiopian Airlines Group is exposed to various financial risks arising from its underlying operations and



financial activities. It is primarily exposed to liquidity risk, market risk (i.e. fuel price, interest rate and currency risks) and credit risk.

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

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

B. Ethiopian Airlines Group Airlines Group's risk management framework

A continuous dialogue between the Management, Risk management team under Treasury department, Enterprise Risk Management team and the Audit Committee is maintained in order to assure its effectiveness in this area. The Risk Management section of Treasury department deals with financial risk analysis and report to the Enterprise Risk management through which the report goes to higher Management for the decision making. The risk management system is governed by the Risk Assessment Guideline defining the structure and the process of risk assessments.

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

C. Market Risk and its management

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

financial instruments.

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

I. Currency risk and its management

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

To mitigate the foreign currency risk exposure, Treasury department under its Risk management team closely review and monitor exchange rate trends. Having



those currencies with high volatility and devaluation risk on its watch lists, the team is responsible to assess the impact of currency fluctuation on Sales and transfers.

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

Onshore derivatives such as, outright forward purchase and money market instruments are used to hedge and mitigate the exchange rate risk of major currency with volatility and repatriation risk.

The team also study some other hedging structures available in the market for those currencies which Ethiopian Airlines Group is exposed and recommend to top management for implementation of the exchange rate hedging.

As major commitments such as loan repayments are mostly in United States Dollar (USD) and the concentration account is maintained in USD, the currency risk is assessed in terms of convertibility and volatility against USD. Major currencies in Ethiopian Airlines Group revenue stream such as Yuan (CNY), Euro (EUR), Hong Kong Dollar (HKD) and Indian Rupee (INR) are relatively stable and easily convertible. As XAF/XOF (CFA Franc) is pegged with EUR it is largely stable and only moves as EUR moves against dollar, repatriation risks are also minimum.

The revenue inflows are coming through 94 currencies of which 82.16% of the revenue originates from eleven currencies namely USD (24.86%), CNY (12.64%), ETB (Ethiopian Airlines Group Birr) (11.57%), EUR (10.66%), HKD (5.37%), XAF

(3.73%), INR (3.59%), XOF (3.02%), NGN (2.45%), AED (2.20%) and GBP (2.11%). The ETB inflows are fully utilized for local expenditures even at times requiring foreign currency inflows to meet local commitments in ETB.

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

II. Interest rate risk and its management

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

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

93% of the loans are USD denominated at LIBOR benchmarked rates. The Risk Management Team under Treasury closely monitors the interest rate movements on the world market and keeps a balance between fixed and floating interest rate loans. As of 30 June 2019 about 72% of the loans of Ethiopian Airlines Group are at fixed rate at weighted average rate of 3.68% p.a.



Closely monitoring the movement of interest rate will continue and swaps could also be considered if the rate is declining further.

Financial risk management section conducts interest rate risk sensitivity analysis based on the assumption that interest rate fluctuation will affect the floating portion of the loan. Under these assumptions, the effect of increase in LIBOR rate (at various scenarios) and its sensitivity on statement of profit or loss and equity is being assessed to control and monitor the impact.

III. Fuel price risk and its management

Ethiopian Airlines Group is exposed to jet fuel price risk to the extent that there are significant changes in the prices of jet fuel. Jet Fuel price risk is the risk of loss to the Group arising from adverse fluctuations in fuel prices. Treasury Department will review price trends, forecasts & hedging structures available in the market and recommend to top management for implementation of hedging.

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

All hedging instruments are open for consideration. Currently, due to high volatility of oil prices, with much uncertainty on the oil price direction, lack of clear long-term prediction and uncertainty over technical adjustment to oil supplies, the Ethiopian Airlines Group has not hedged any volume. However, the oil future prices are being monitored closely and

hedging practice of close competitors is also being monitored as airlines business does not allow automatic price adjustment in case of sudden fall of oil prices below the hedged amount.

Financial risk management section conducts Jet fuel price risk sensitivity analysis based on the assumption that all other factors, such as fuel surcharge and uplift volume remain constants. Under these assumptions, the effect of increase in crude oil prices (at various scenarios) and its sensitivity on statement of profit or loss and equity is being assessed to control and monitor the impact.

D. Liquidity Risk and its management

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

Financial Risk Management section of Treasury department carries out Cash flow forecasts at various planned profit scenarios on monthly basis, monitors rolling forecasts of Ethiopian Airlines Group and assess liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining excess amount, so that Ethiopian Airlines Group do not default on any of its borrowing facilities.

E. Credit risk and its management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The credit risk exposure of Ethiopian Airlines Group primarily emanates from travel agents; both International Air



Transport Association (IATA) approved Sales agents and non-IATA agents through which its major sales are conducted.

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

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

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

31. Commitments

Ethiopian Airlines Group has commitments, not provided for in these financial statements of

Birr39,161,524,800 for the purchase of 14 aircrafts. Out of which Birr 27,365,884,800 is with the possibility of sale and lease back arrangement. Furthermore, there are additional commitment of Birr 138,902,090.00 the remaining cost for the construction of phase II Ethiopian Airlines Group Skylight Hotel. The commitments will be financed through long term Loan and partially through equity.

32. Contingent Liabilities

Ethiopian Airlines Group has contingent liabilities, not provided for in these financial statements of Birr 378,325,004. in respect of legal actions brought by different organizations and individuals, which are being contested by Ethiopian Airlines Group. It is not possible to determine the outcome of these cases.

33. Employees

The Ethiopian Airlines Group employed 13,953 staff at 30 June 2019 (2018- 13,792).

34. Subsequent Events

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

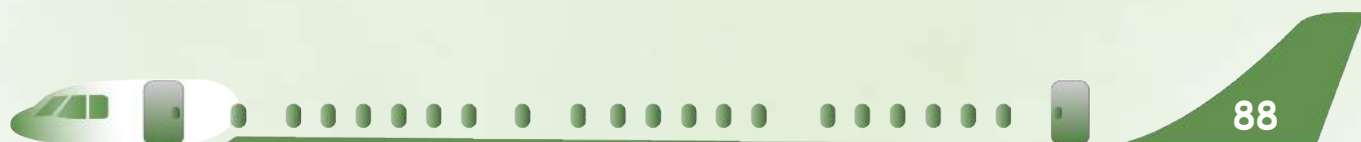
- Zambia airways with 45 % shareholding starting from July 2019

35. Related parties

A. Remuneration of key management personnel

Key management members received the following remuneration during the years ended 30 June 2019 and 2018

| | 2019 (Birr) | 2018 (Birr) |
|--------------------|-------------|-------------|
| Short term benefit | 26,555,375 | 19,200,131 |



Compensation of key management personnel includes salaries, housing allowances, fuel allowance, representation allowance and bonus. These amounts are also included in operating expenses.

B. Other related parties

As of the reporting date, Ethiopian Airlines Group has investment of 24% shareholding in African sky (ASKY) based in Lomé Togo, 49% shareholding in Malawi Airlines based in Lilongwe Malawi, 49% shareholding Tchadia airlines, 99% shareholding Ethiopian Mozambique Airlines LTD, and 51% Shareholding DHL-ET Logistics Services.

Outstanding balances at the year-end are interest free and settlements are to be made in cash. For the year-ended 30 June 2019, Ethiopian Airlines Group has not maintained any provision for doubtful debts relating to amounts owed by ASKY, Malawi airlines, Tchadia, Ethiopian Mozambique Airlines LTD and DHL-ET Logistics service. Assessment is undertaken at the end of each reporting date through examining the financial position of the related parties and the market in which the related parties operate.

As at 30 June 2019, Ethiopian Airlines Group has due from ASKY Airlines Birr 326,621,309 and Ethiopian Airlines Group has due from Malawi Airlines Birr 154,553,731 Ethiopian Airlines Group has due from Tchadia airlines Birr 56,131,513 due from Ethiopian Mozambique Airlines LTD Birr 100,597,240 and due from DHL-ET logistics service Birr 900,129.

36. Special purpose entities

Ethiopian Airlines Group has established special purpose entities for the purpose of selling and leasing back aircraft and accessories. Those latter are registered

in the names of the entities and either the assets or the entities themselves serve as collateral for loans. No other material transactions have been carried out by the entities and all transactions are recognized in these financial statements.

37. Date of Authorization

The Chief Executive Officer of Ethiopian Airlines Group authorized the issue of these financial Statements on 25 June 2020.



ENCHANTING ETHIOPIA

THE LAND OF TIMELESS APPEAL





ROUTE MAPS

More than 127 International



A STAR ALLIANCE MEMBER 

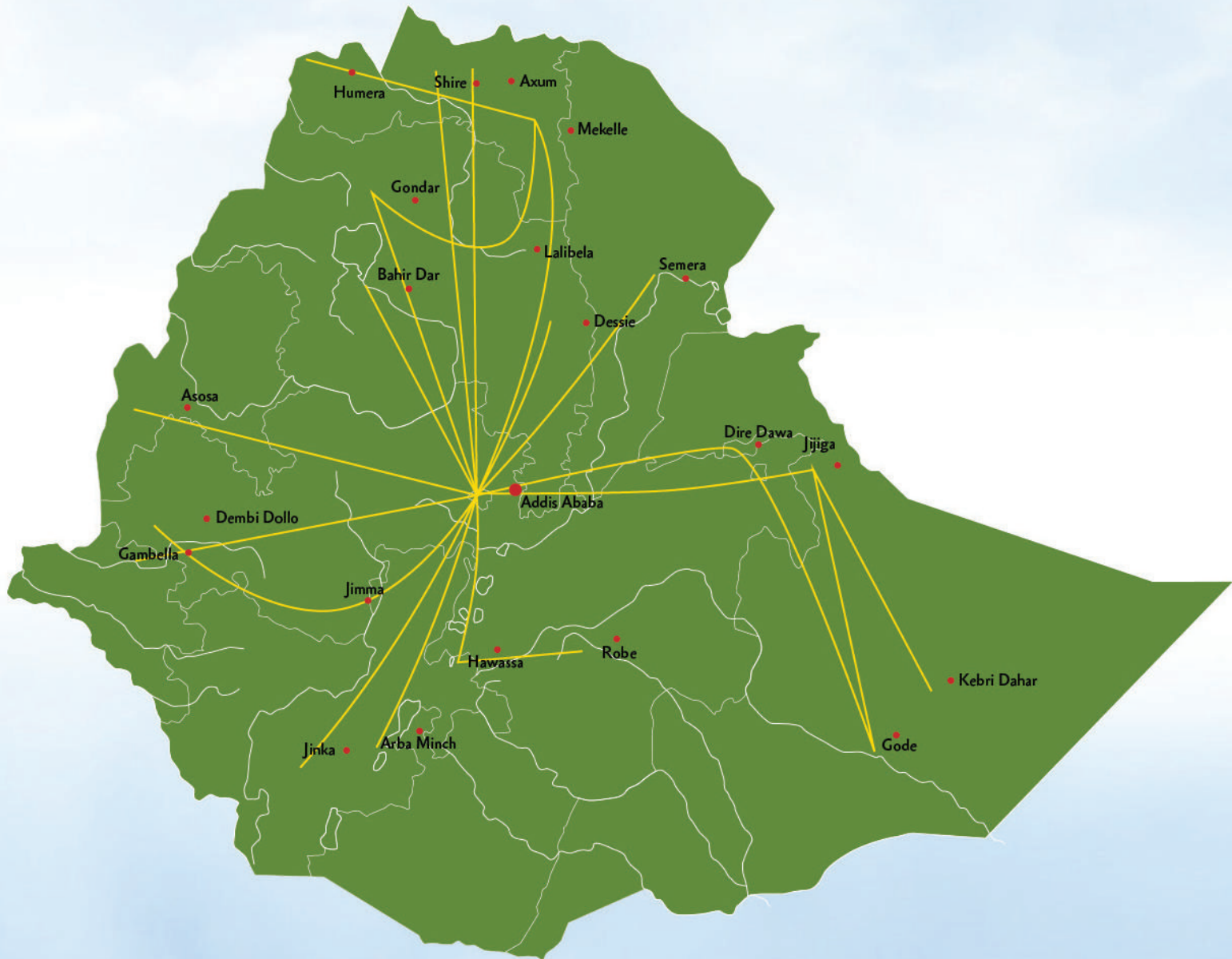
Destinations in Five Continents



Ethiopian
የኢትዮጵያ



Domestic



A STAR ALLIANCE MEMBER



Ethiopian
የኢትዮጵያ



More than 62 Destinations in Africa



A STAR ALLIANCE MEMBER



Ethiopian
የኢትዮጵያ

