

ANNUAL REPORT

2005 - 06





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BOARD OF MANAGEMENT

- H.E. Mr. Seyom Mesfin.....Chairman
- H.E. Mr. Haile Assegidie..... Member
- Mr. Aberra Mekonnen..... Member
- Col. Semret Medhane..... Member
- Capt. Mohammed Ahmed.....Member
- Mr. Gebremedhin G.Hiwot..... Member
- Mr. Beniam Hirabo Member
- Mr. Matewos Menu..... Member
- Mr. Girma Kumbi Member
- Maj. General Alemishet Degife..... Member

CEO's MESSAGE

It is my great pleasure to report yet another year of record revenue and operating profits at Ethiopian Airlines. Operating revenue surpassed the 5 billion mark for the first time ever reaching Birr 5.4 billion, a 25% increase as compared to the previous budget year.

Operating profit for the period is Birr 237 million. The growth in revenue and operating profits was a result of a 14% increase in the number of passengers and a 28 % rise in freight carried during the period.

As always revenue from services provided to other airlines, particularly those from aircraft maintenance and training, contributed significantly to the bottom line.

We can proudly say that the fiscal year 2005/06, was exceptionally a successful year in all areas of our operations. It was the time when we completed the first phase of our fleet modernization programme and launched the second one. The past budget year was the time that we became the first African carrier to commit to the purchase of ten Boeing 787 'Dreamliner' aircraft – the new generation of long-range, fuel-efficient aircraft for which Ethiopian is a launch carrier. This will not only enhance our growing route network for years to come (the most extensive in Africa) but also enable us to provide an unbeatable level of comfort and service to our passengers.

Our aircraft maintenance center has been one of the strongest of our operations and this year it was named Quality Repair Center for the JT8D series of engines by Pratt & Whitney in addition to the U.S Federal Aviation Administration certification we have had since 1968. Our modernization and capacity building programme has also been expanded with the construction of a new maintenance hangar and cargo terminal complexes. They were officially inaugurated and commissioned during the period in question and are already operational.

We are continuously striving towards improving and maintaining customer satisfaction, from efficient ticketing, check-in facilities and baggage handling to personalized onboard services that have become uniquely Ethiopian. We have changed our passenger services management system to the new Sabre system which among other benefits, provides enhanced and more efficient passenger series including booking, electronic ticketing, customer friendly airport check-in system and state-of-the-art internet booking with electronic payment features.

During this period, the number of our frequent flyers increased to a total of 99,920 members of which 28,736 represent new membership enrollments; this translates into an increase of 40% compared to the previous year.

In response to our customers' demands, we have introduced new flight services to three destinations – Dakar, Libreville, and Brussels – while a significant number of frequencies have been added to many routes of the Airline.

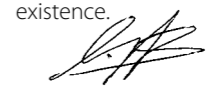
The same year marked Ethiopian's 60 years of successful operations in the skies. We were able to look back at the Airline's many pioneering achievements, creating new routes across Africa and training Ethiopian pilots, engineers, and other important airline staff, to the extent that Ethiopian Airlines has been recognized as one of the leading African airlines.

Our celebrations allowed us to say a big "thank you" to all those who have helped us along the way. Government support has been vital and it was fitting that our President and Prime Minister were both able to join us in our celebrations, along with other senior government officials. Equally important is the support readily given to us by the civil aviation authorities, especially at our African destinations and throughout our system.

We were also delighted to welcome the Executive Vice-President & CEO of Boeing Commercial Airplanes and the Vice President, Transportation Division of US EXIM Bank to our celebrations. They all expressed their 'Happy Birthday' wishes to the 60-years-young African airline and vowed to continue their support to raise the airline to even greater heights.

At this juncture, I wish to sincerely thank all of our staff- whom we regard more as an extended family than merely employees; without whom the airline would not be here today.

The biggest "thank you" goes to our esteemed customers who have supported us in great ways over the years and are the reason for our existence.



Girma Wake
Chief Executive Officer

MANAGEMENT TEAM



Mr. Girma Wake
Chief Executive Officer



Mr. Tewolde Gebre Mariam
Executive Officer,
Marketing and Sales
Responsibility:
Ensure that customer expectations are met regarding punctuality of flights, route rationalization, convenient connections and client responsive sales activities.



Mr. Getachew Tadesse
Executive Officer,
Customer Services
Responsibility:
Provide customers with a service centred smooth, comfortable and enjoyable flight.



Captain Tesfaye Ambaye
Executive Officer,
Flight Operations
Responsibility:
Ascertain that the professionalism of the cockpit crew remains at the highest level for the maximum inflight safety and comfort of passengers.



Mr. Kinfe Kahssaye
Executive Officer,
Corporate Planning &
Development
Responsibility:
Map out strategy and future plans in keeping with our commitment to become Africa's World Class Airline.



Mr. Abate Gidafe
Executive Officer,
Maintenance & Engineering
Responsibility:
Maintain aircraft to highest standard to guarantee safe and reliable transportation for travellers.



Mr. Kassim Geresu
Executive Officer,
Corporate Finance
Responsibility:
Establish proper and accurate finance management geared towards investment that will be required to enhance customer service.



Mrs. Frehiwot Worku
Executive Officer,
Human Resources
Management
Responsibility:
Training and development of an efficient and dedicated staff, while ensuring that the welfare and best interest of employees are maintained.



Mr. Mesfin Tassew
Chief Information Officer
Responsibility:
Incorporate the latest in technological development by acquiring and integrating advanced information systems that will enable fast and reliable customer service.



Mr. Haileleul Mulugeta
General Counsel
Responsibility:
Render legal advice and counsel on all corporate matters.



Mr. Samuel Assefa
Chief Audit Executive
Responsibility:
Make sure the audit of the organization's finances and management is properly conducted at all levels to allow effective utilization of the airline's resources.



Mrs. Yasmin Mohammed
Executive Officer,
Change Management
Responsibility:
Ensure implementation of Ethiopian's Repositioning Strategy to transform the airline into a customer focused, profitable and grow into World Class African Airline.

NEWS HIGHLIGHTS

Fleet Modernization Continued

The arrival of the 5th B737-700NG (ET-ALN) in Addis Ababa on 29 July 2005 marked the end of the first phase of Ethiopian's fleet modernization Programme that started in November 2003 with the delivery of a Boeing 767-300 aircraft. Ethiopian showed its commitment to the future success of the airline by embarking on the second phase – ordering ten of the world's most advanced twin-engine aircraft, the Boeing 787 also known as the Dreamliner.

Fleet Acquisition

To cope with increasing demands, two B757-200ERs, one A330-200 and one MD-11 were leased for international passenger services. One passenger B757-200 was converted into a freighter to provide more capacity for Ethiopia's growing export trade. A study for the purchase of a pilot training aircraft was completed with a view to enrolling more pilot trainees in every intake of the Pilot Training School.

60th Anniversary Attracts Worldwide Attention

Ethiopian proudly celebrated its 60 years of dependable air transport services on 5 May 2006 in the presence of Meles Zenawi, Prime Minister of the Federal Democratic Republic of Ethiopia, Mr. Robert A. Morin, Vice President Transport Division EXIM Bank, honourable ministers, board of management members, ambassadors Ethiopian employees and their families and members of the media. At the celebration Prime Minister Meles Zenawi inaugurated the new maintenance hangar and cargo terminal.



H.E Prime Minister Meles Zenawi inaugurating the new facilities.

A Day with Staff Children

Through the co-ordination of the Human Resources Division Ethiopian celebrated Employees Children Day's where hundreds of children cheerfully spent half-day at the airline's premises. They were entertained with music, drama, comedy and circus acts. The CEO, Ato Girma Wake, who joined in the fun with the children, remarked on the special attention Ethiopian gives to them.



The New Cargo Terminal facility.

New Cargo Terminal

Ethiopian Airlines has invested 240 million birr for the construction of state-of-the-art Cargo Terminal 1.5 kilometres to the west of the existing Bole Airport Passenger Terminal. The airplane taxiway is 235 metres long, connecting the existing North-South taxiway to the cargo apron and the 44,390 square metres cargo apron can accommodate four cargo airplanes of different types. Occupying an area of 14,000 square metres, the terminal has a capacity to accommodate 250,000 tonnes of air cargo per year. The warehouse includes, among other things, a 2,000 square metres cold room facility with storage capacity of 130 tonnes of palletized cargo at temperatures varying from -23°C to 11°C. The estimated annual capacity of the cold room is 142,350 tonnes. This cargo terminal is expected to serve as an international hub for perishables such as flowers, fruits, vegetables, meat, and medicine. It is a facility that handles cargo in accordance with international standards and expectations and is providing a boost to Ethiopia's foreign exchange earnings.

New Maintenance Hangar

The new hangar which was inaugurated on 5 May 2006 accommodates one Boeing 747-400 or four medium size aircraft at one time. It has a maintenance hall of 80 x 90 metres covering a total area of 7,200 square metres. The hangar can be closed and opened with a IGHTS telescopic door operating both electrically and manually. The auxiliary building attached to the hangar has offices, storage, power supply unit, washroom

facilities, ventilation system, and a water reservoir for the fire projection system. This new modern hangar on which Ethiopian invested a total project cost of USD 6.4 million is expected to satisfy the maintenance needs of both the Airline and customers.



The New Maintenance Hangar.

Information Systems Accomplishments

Ethiopian conducted a thorough evaluation of major Passenger Management Systems (PMS) and selected the Sabre PMS portfolio, with a contract worth USD 10.5 million. The agreement was signed on 30 December 2005. Migration from the SITA PMS environment to that of Sabre is planned for 3 November 2006.



Ethiopian and Sabre Executives exchanging documents of the agreement.

Internet Booking and e-ticketing

The Ethiopian online booking service is provided from all Ethiopian destinations and e-ticketing facility was launched on 20th February 2006.

Following IATA's resolution, simplifying the business e-ticketing service was implemented with SITA applications as a first phase initially in Addis Ababa, Nairobi, Johannesburg, New York/Washington and Frankfurt locations. The Ethiopian passenger revenue accounting system, TRACES, was also enhanced to handle e-ticketing rules.

Automated Cargo Systems

Ethiopian installed ICT Infrastructure for the new Cargo Terminal, consisting of Local Area Network, IP Telephony and Inventory Control System (ICS) and implemented a Cargo Terminal Material Handling System.

Other IT Services Improvements

To keep Ethiopian's computer systems at the forefront of technology Microsoft Windows 2003 is fully deployed. The airline's fully licensed current Microsoft platform is the latest technology. Services, like remote e-mail and remote desktop support, are now fully in use. Ethiopian's Wide Area Network (WAN) is fully upgraded from the legacy X.25 point-to-point Network to any-to-any Internet Protocol Virtual Private Network (IP-VPN) technology. Passenger General Sales Agents (GSAs) have moved from SITA's legacy network to the cost-effective AVIANET's internet based network. Based on the agreement with the IATA Interline Data Exchange Centre (IDEC) the monthly IDEC data has started to be loaded on the TRACES passenger revenue accounting system.

Customer Billing System

Ethiopian has developed and implemented a Customer Billing System for the Technical Sales and Marketing tasks. This system has functions of work order generation, shop status follow-up, production of work bulletin to shop print out, and all other related tasks.

Commercial Agreements

Further to the MoU signed in April 2005, Ethiopian Airlines and Lufthansa have been in discussions to explore possible areas of cooperation towards conclusion and implementation of bilateral agreements.

Increasing Ancillary Services

Ethiopian MRO centre with the approval of the US-Federal Aviation Administration (FAA license number ETIY102F) has provided engine, airframe, and component maintenance services to various new and existing customers during the year. Various levels of maintenance ranging from routine light maintenance to heavy checks and new

avionics system modifications/installations such as RVSM and TCAS were carried out on various customer aircraft. Among customer airplanes maintained at Ethiopian's Maintenance facility are LAM-Mozambique Airlines, Chanchangi Airlines (Nigeria), Aerovista Airways (U.A.E), Bellview Airlines (Nigeria), AVE.com (U.A.E.), Tanzanian Government Flight, Slok Air (Gambia) and Blue Bird Aviation (Kenya).

Ethiopian generated a total revenue of ETB 112,401,687.88 from ancillary services during the budget year.

Other major activities were:

- Recurrent training conducted at customers' sites.
- Technical personnel seconded to TAAAG-Angola Airlines.
- Technical handling provided to Egypt Air at Addis Ababa and EL-AL in Bombay.

Ethiopian generated total revenue of Birr 24,779,361.13 from training, secondment, and technical handling.



Service on customer aircraft.

Ethiopian Multi-national Aviation Training Centre

The Ethiopian Multi-National Aviation Training Centre has provided basic pilot and aviation maintenance trainings to Ethiopians and other nationals who joined the centre from various African countries; Rwanda, Tanzania, Chad, Djibouti, Madagascar and Sudan. B757/B767 flight Simulator trainings were also conducted for different customers from other airlines (Kenya Airways, Air Zimbabwe, Bellview Airlines, Cape Verde Airline and Air Madagascar).

Other major activities carried out during the year includes:

- Recurrent training conducted at customers' sites.
- Technical personnel seconded to TAAAG-Angola Airlines.
- Technical handling provided to Egypt Air at Addis Ababa and EL-AL in Bombay.

Ethiopian generated a total revenue of Birr 24,779,361.13 from training, secondment, and technical handling.



Ethiopian pilot and co-pilot on duty.

Flight Operations Training Strengthened

Ethiopian provided annual safety refresher course to 214 cockpit crew. The airline also provided Crew Resources Management (CRM) courses for 151 cockpit crew. In addition, a total of 78 pilots have been given the necessary transition training and have been checked out on the following positions:

No.	Position Title	Number
1	Captain B757/B767	7
2	Captain B737	6
3	Captain F-50	9
4	Captain DHC-6	1
5	First Officer B757/B767	22
6	First Officer B737	14
7	First Officer F-50	19
Total		78

As part of its cost saving strategies, the Flight Operations Division has saved a total of ETB 37,618,880 through continuous review of airway routings, selecting the shortest possible routes and improving the cost index.

Establishment of IOCC

An effort to increase the efficiency and effectiveness of irregularity management and operational decision making, Ethiopian established the Integrated Operational Control Centre (IOCC). This is expected to help the Airline improve its on-time performance.

New Destinations Added

Ethiopian introduced three destinations in the summer 2006 schedule, bringing the total number of destinations served to 47. The newly added were:

- Resumption of service to Dakar, Senegal - 26 March 2006
- New service to Libreville, Gabon - 27 March 2006 and
- New service to Brussels, Belgium - 5 June 2006

To mark the commencement of service to these cities, Ethiopian organized inaugural flights on 9 May and 16 June to Dakar and Libreville. The inaugural flight on 5 June 2006 to Brussels increased Ethiopian's destinations in Europe to seven. These ceremonial flights received wide coverage from different local and international media. The route additions are in response to the market demand of Ethiopian.



Honourable guest H.E Dr. Olaghere 2nd from left with Executive Officer Marketing and Sales, Ato Tewolde and other Ethiopian staff, during the Dakar inaugural flight.



Inaugural Ceremony of Libreville.



Inaugural Ceremony of Brussels.

Frequency Increase

Ethiopian continuously conducts market studies and market surveys to ensure that it fully serves its customers' needs. As a result, it has increased its frequencies to the following routes:

No. Routes	Frequencies
1. Abidjan, Bujumbura, Kigali	From 3 to 4
2. Bangkok	From 5 to 7
3. Brazzaville and Kinshasa	From 2 to 4
4. Guangzhao, Paris, Douala, and Delhi Beijing	From 2 to 3
5. Tel Aviv	From 4 to 5

Customer Focused Pricing

Ethiopian has offered special fares for its passenger and cargo services. Attractive low season fares have been implemented for various areas. The airline also offers different kinds of fares according to market demand.

Placement (Distribution)

Ethiopian has appointed General Sales Agents in Seychelles, Belgium, Luxembourg, Switzerland and Lichtenstein.

IOSA Registration a Milestone for Ethiopian

Ethiopian is proud to have successfully passed the IATA Operational Safety Audit on 19 May 2006. This success confirms its fundamental commitment to provide a safe and reliable air transport service to its passengers and cargo.

Promoting Ethiopia's Tourism

Ethiopian Airlines has been proudly promoting Ethiopia and the whole of Africa as a tourist destination. The rich culture of Africa, its wildlife and historical places is an attraction to the world. Ethiopian has promoted its services and new destinations through TV commercials including CNN, travel magazines, give-aways, billboards, flyers and press kits. Several articles promoting Ethiopia as a tourist destination as well as the airline's route network have been featured in 'Selamta', Ethiopian's In-flight magazine. In addition, Ethiopian's presence in international trade fairs and exhibitions, such as INPUT 2006, has given it a great opportunity to showcase its dependable services in the 47 international cities where it operates, most of which are in Africa.

ShebaMiles - Frequent Flyer Programme

As of 30 June 2006 Ethiopian ShebaMiles – Frequent Flyer Programme membership stood at a total of 99,920 members (from 170 countries).

During the period, 28,736 new membership enrollments were recorded (an increase of 40% as compared to the previous period of 20,317 enrollments).



Media Relations

Interest in the Airline is at an all-time high, as shown by increasing media coverage worldwide. In almost all business conferences the

CEO, Mr. Girma Wake had interviews with journalists.

The news items that helped Ethiopian to attract global attention and receive wide coverage by a variety of local and international media include:

- Its order for acquisition of ten B787 Dreamliners.
- Introduction of new services to Libreville, Dakar and Brussels and
- Celebration of its 60th Anniversary and commission of new cargo terminal and hangar facilities.

Thus, Ethiopian Airlines has been promoted in all media, be it internet, TV, local and international newspapers, magazines and the radio.

Corporate Social Responsibility

Ethiopian has been engaged in addressing societal issues through various contributions made for the development of society as a whole. Corporate Social Responsibility (CSR) at the same time has given Ethiopian an ethical framework and a positive image. During 2005/06 the airline in its commitment to support the needy it accommodated various requests from the philanthropic, governmental and many other organizations in the countries where it operates. The CSR activities provided were in the areas of health, education, sports, women empowerment, and environment.



Ethiopian staff ready to set-off for the Women 5 kilometre Run.



**Ethiopian Hospitality
Awaits You Onboard**

FINANCE



Overview of Operating and Financial Results

The Airline's level of operation and operating results in the fiscal year 2005/06 was higher than the previous year in all parameters. Available Seat Kilometres (ASK) and Revenue Passenger Kilometres (RPK) showed a growth of 21.7% and 17.4% respectively compared to the level attained in 2004/05.

Operating Results

BLOCK HOURS

The total block hours performed during the year was higher than the previous year by 16.2%. This was mainly due to additional capacity, frequency and cargo operation increase to various destinations.

AVAILABLE SEAT KILOMETRES (ASK)

Seat kilometres availed during 2005/06 was higher than the preceding year by 21.7%.

AVAILABLE TONNE KILOMETRES (ATK)

The total tonne kilometres availed during the fiscal year 2005/06 was more than the actual tonne kilometres availed during the preceding year by 20.8%.

REVENUE TONNE KILOMETRES (RTK)

Better results achieved in passenger traffic and freight have contributed to the overall increase in revenue tonne kilometres, recording a growth rate of 16.4%.

REVENUE PASSENGER KILOMETRES (RPK)

The total revenue passenger kilometres achieved during the fiscal year was higher than the preceding year, recording a growth of 17.4%. The increase is mainly attributed to the capacity growth and traffic increase on international scheduled services.

Financial Performance

REVENUE

Compared to the total revenue of the previous year, the revenue generated during the year grew by 24.7%.

PASSENGER REVENUE

The actual passenger revenue, including excess baggage, realized during the year was 24.8% higher than in the preceding year, mainly as a result of an increase in passenger uplift.

FREIGHT REVENUE

Freight revenue realised during the 2005/06 fiscal year showed a 30.4% increase over the previous period.

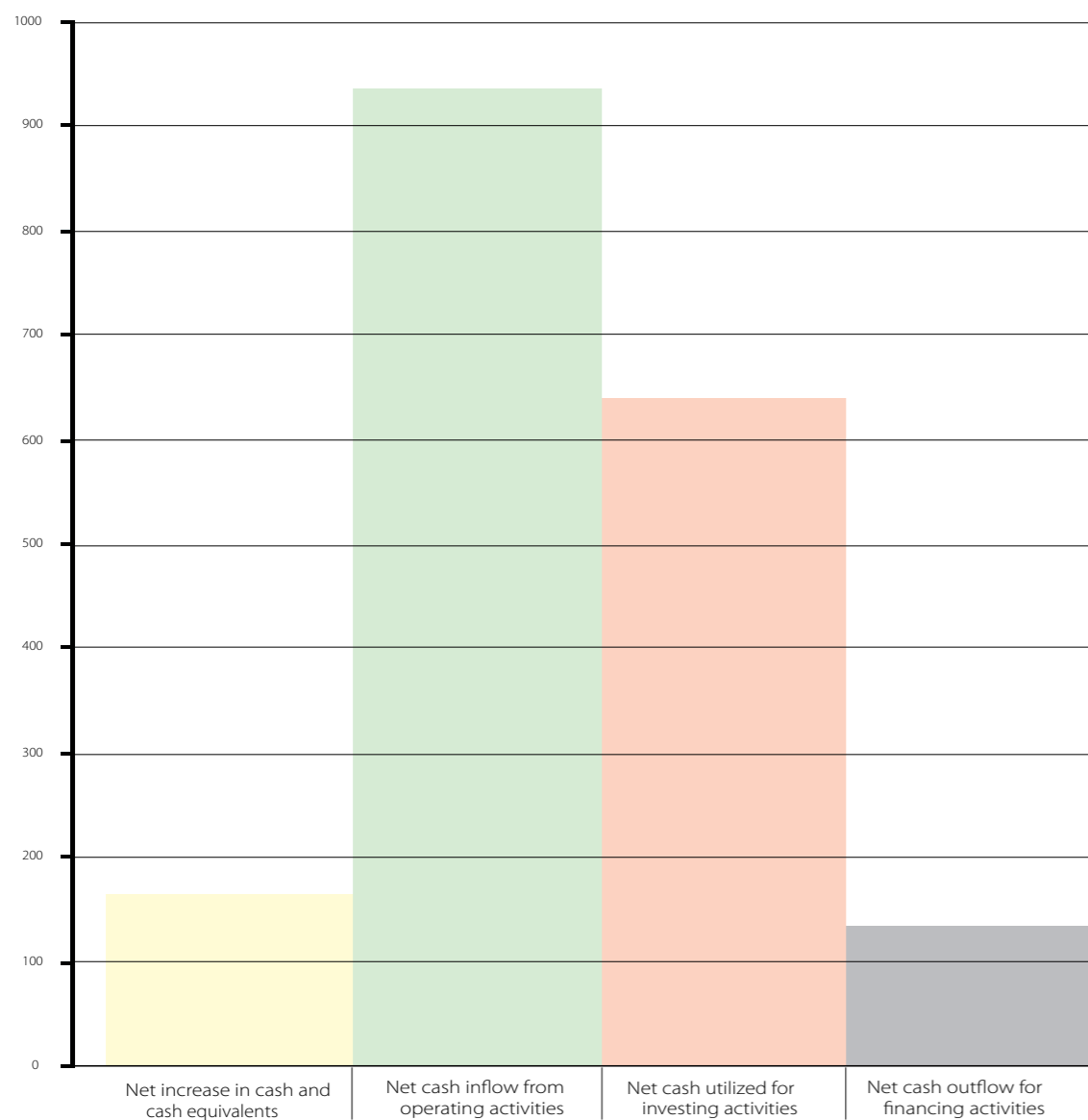
OPERATING EXPENSES

The total operating expenses of the year increased by 30.7% compared to the previous year. The major contributor for this was the increase of fuel and oil costs.

CASH POSITION

Cash generated from operation activities was ETB 936 million, an increase of 51 million (5.7%) over 2004/05. The overall movements of cash during the period is graphically represented in the following pages:

CASH FLOW (in millions)



THREE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS

	2006		2005		2004	
	ETB Million	US\$ Million	ETB Million	US\$ Million	ETB Million	US\$ Million
Turnover						
Passenger	4,021	454.1	3,213	364.4	2,529	288.5
Freight & Mail	611	69.0	476	54.0	416	47.5
Handling	36	4.1	35	3.9	29	3.3
Other	731	82.6	605	68.6	447	51.0
Total	5,399	609.8	4,329	490.9	3,421	390.3
Direct Expenditure	(4,366)	(493.1)	(3,297)	(374.0)	(2,603)	(296.0)
Overheads	(796)	(89.9)	(653)	(74.1)	(548)	(62.5)
Operating Profit	237	26.7	377	42.8	269	30.7
Operating Margin%	4.38%	4.38%	8.72%	8.72%	7.86%	7.86%
Net Financial Expenses	(154)	(17.4)	(86)	(9.7)	(46)	(5.2)
Foreign exchange gain/(loss)	22	2.5	31	3.5	5	0.5
Other Non-operating items	29	3.3	(13)	(1.5)	3	0.4
Profit for the year	134	15.1	310	35.2	231	26.4
Net Profit margin%	2.48%	2.48%	7.16%	7.16%	6.75%	6.75%

RATIO ANALYSIS

Description	2006	2005
Profitability Ratios (Percent)		
Operating Margin	4.38	8.72
Net Profit Margin	2.48	7.16
Rate of Return	5.28	8.53
Interest on Operating Expense	2.99	2.17
Return on Total Assets	1.83	4.56
Cost of Debt	4.88	3.09
A. Liquidity Ratios		
Current Ratio	1.05:1	1.19:1
Quick Ratio	1:1	1.12:1
Working Capital ('000)	125,756	331,756
C. Leverage Ratios		
Total Debt to Total Asset	0.68:1	0.62:1
Debt to Equity Ratio	1.41:1	1.49:1
Times Interest Cover Ratio	1.87:1	4.62:1

AIRPORT PERFORMANCE INDICATOR

	2005-06	2004-05	2003-04	2002-3
Passengers handled (number)	1,762,900	1,552,187	1,230,121	1,122,018
Cargo Handled (Kg'000)	61,833	49,758	44,177	36,465
Employee				
Average employee strength (number)				
Airport Operations	400	416	452	387
Cargo	121	96	104	102
Passengers handled per employee (number)	4,407	3,731	2,722	2,899
Cargo handled per employee (Kgs)	511,017	518,313	424,779	357,500

OPERATING STATISTICS

	2005-06	2004-05	2003-04
Consolidated Financial Statements			
Total Revenue (ETB)	5,398,507,665	4,327,799,500	3,420,164,869
Total Expenditure (ETB)	5,161,982,062	3,950,460,613	3,150,900,363
Operating Profit (ETB)	236,525,603	377,338,887	269,264,506
Net Profit (ETB)	133,645,134	309,911,749	231,107,939
Airline Operating Statistics			
Performance Indicators			
Yield (Cents* per RTK)	565.25	527.35	512.39
Unit Cost (Cents* per ATK)	298.26	275.29	262.30
Breakeven load factor (%)	52.77	52.20	51.19
Fleet (No. of Aircraft)	29	26	29
Production			
Destination Cities	47	44	47
Overall Capacity (Average Tonne Kms) ('000)	1,682,990	1,425,261	1,156,254
Available Seat Kilometres ('000)	9,093,832	7,244,261	6,075,921
Aircraft departures	37,297	31,854	29,052
Traffic			
Passengers carried	1,762,900	1,552,187	1,230,121
Passenger seat kilometres	5,809,861	4,952,960	3,836,727
Average distance flown per pax (Kms)	3,307	3,191	3,119
Passenger Load factor (%)	64.10	68.40	63.10
Cargo Tonnes	61,833	49,758	44,177
Overall load carried ('000)	908,561	786,773	626,623
Overall payload factor (%)	54.0	55.2	54.2
Employee			
Average employee strength (number)	4,705	4,571	4,454
Capacity per employee (ATK)	357.70	311.81	259.60
Load carried per employee (RTK)	193	172	141
Revenue per employee (Millions)	1.15	0.95	0.77
Value added per employee	236,241	225,415	171,807

*100 cents = 1 ETB

VALUE ADDED

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

	2005-06		2004-05		2003-04	
	ETB'000	US\$'000	ETB'000	US\$'000	ETB'000	US\$'000
Operating Revenue	5,398,508	609,779	4,327,800	490,919	3,420,165	390,215
Less: Purchase of goods and services	4,350,099	491,358	3,324,943	377,161	2,667,228	304,310
	1,048,409	118,421	1,002,856	113,758	752,936	85,905
Add: Other Operating Income	12,452	1,406	7,346	833	5,225	596
Interest Income	52,627	5,944	21,320	2,418	7,303	833
Share of result in associated companies	-	-	-	-	-	-
Total Value Added	1,113,488	125,771	1,031,522	117,009	765,464	87,334
Distribution of Value added						
To employees salaries	414,724	46,844	295,059	33,470	233,340	26,622
To overseas governments Corporation and other tax	10,937	1,235	8,225	933	10,237	1,168
To supplier of Capital Interest	154,304	17,429	85,684	9,719	45,943	5,242
Retained for reinvestment and future growth						
Depreciation and amortization	399,877	45,167	332,642	37,733	244,837	27,934
Retained Profits	133,645	15,095	309,912	35,154	231,108	26,368
Total Distribution of Value Added	1,113,488	125,772	1,031,522	117,009	765,464	87,334

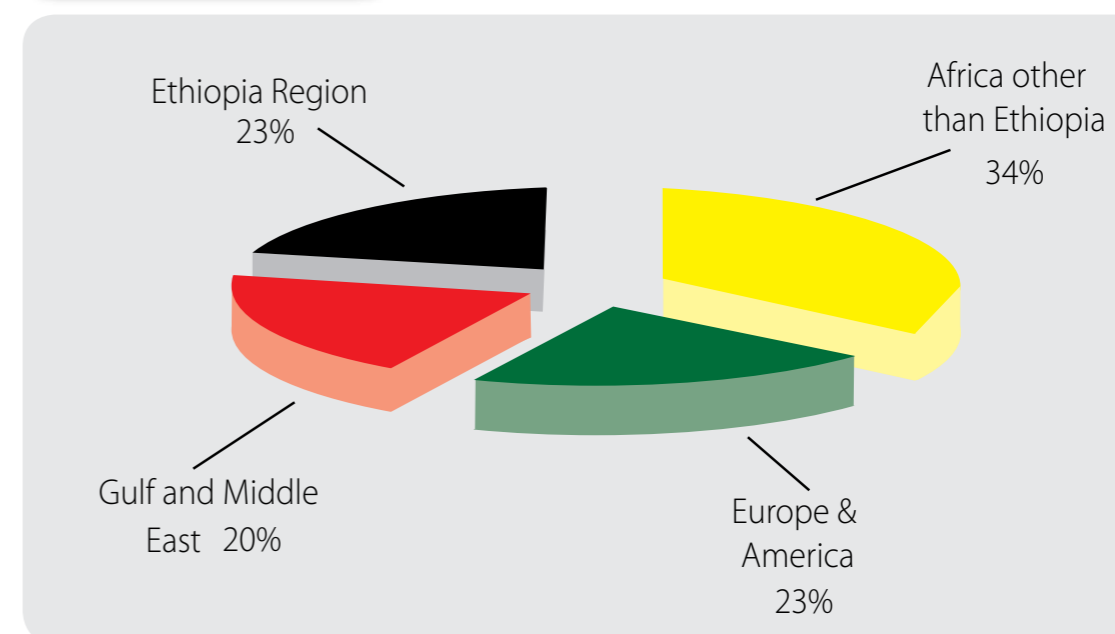
In 2005-06, the total value added increased by ETB 81 million (8%). The increase came mainly from the higher increased operating revenue than the operating cost.

Out of the total value added employees received 38% in the form of salaries and other related costs, interest paid 14% & government taxes 1%. The amount retained in the business for future growth is 48%.

REVENUE

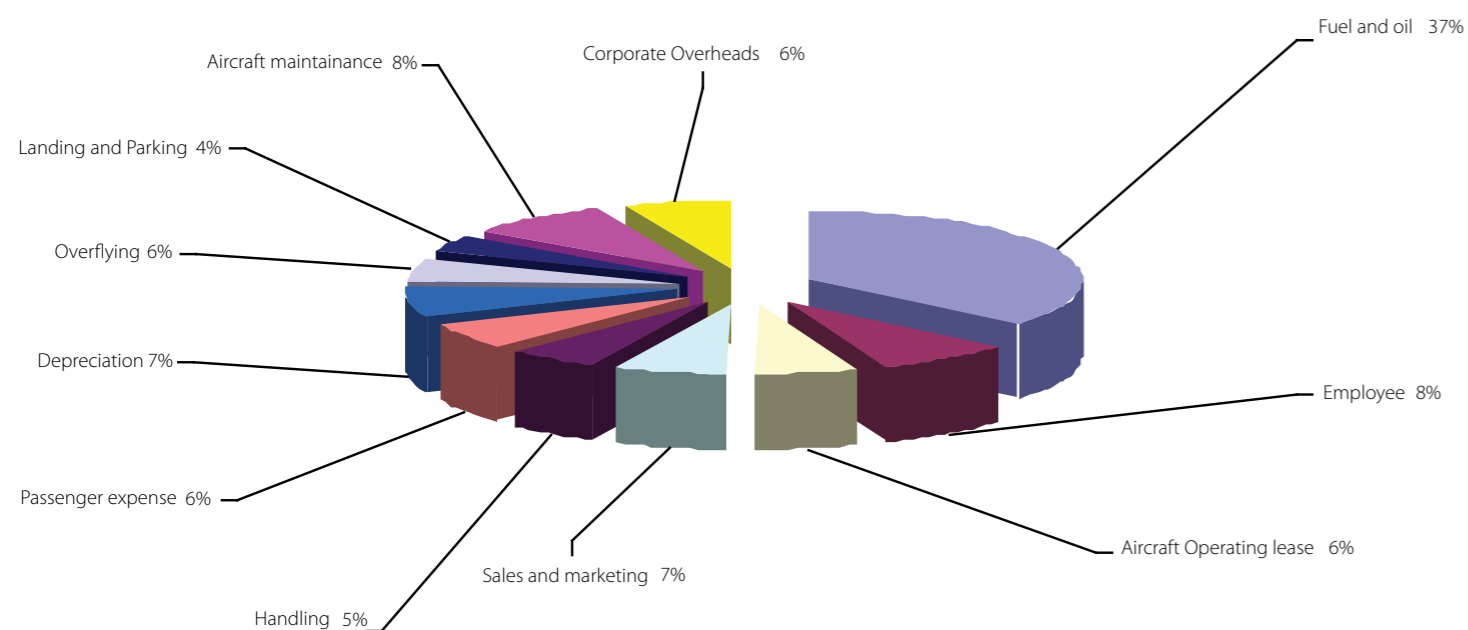
REVENUE	2005-06 ETB MILLION	%	2004-05 ETB MILLION	%
Passenger	4,079	75.6	3,277	75.7
Cargo	829	15.4	639	14.8
Excess baggage	202	3.8	170	3.9
Mail	19	0.3	22	0.5
				0.0
Transport revenue	5,129	95.0	4,108	94.9
Aircraft Maintenance revenue	112	2.1	101	2.3
Aircraft Ground Handling	37	0.7	36	0.8
Subsidiary Revenue	54	1.0	42	1.0
Other	67	1.2	42	1.0
Total Operating Revenue	5,399	100	4,328	100

SEGMENT REVENUE



EXPENDITURE

EXPENDITURE	2005-06 MILLION ETB	%	2004-05 MILLION ETB	%
Fuel and oil	1859	37	1276	32
Aircraft maintenance	434	8	399	10
Employee	415	8	295	7
Depreciation	384	7	321	8
Sales and marketing	346	7	242	6
Aircraft Operating lease	324	6	247	6
Over flying	301	6	260	7
Passenger expense	295	6	244	6
Handling	284	5	274	7
Landing and Parking	190	4	169	4
Corporate Overheads	330	6	222	6
Total Operating Costs	5162	100	3950	100



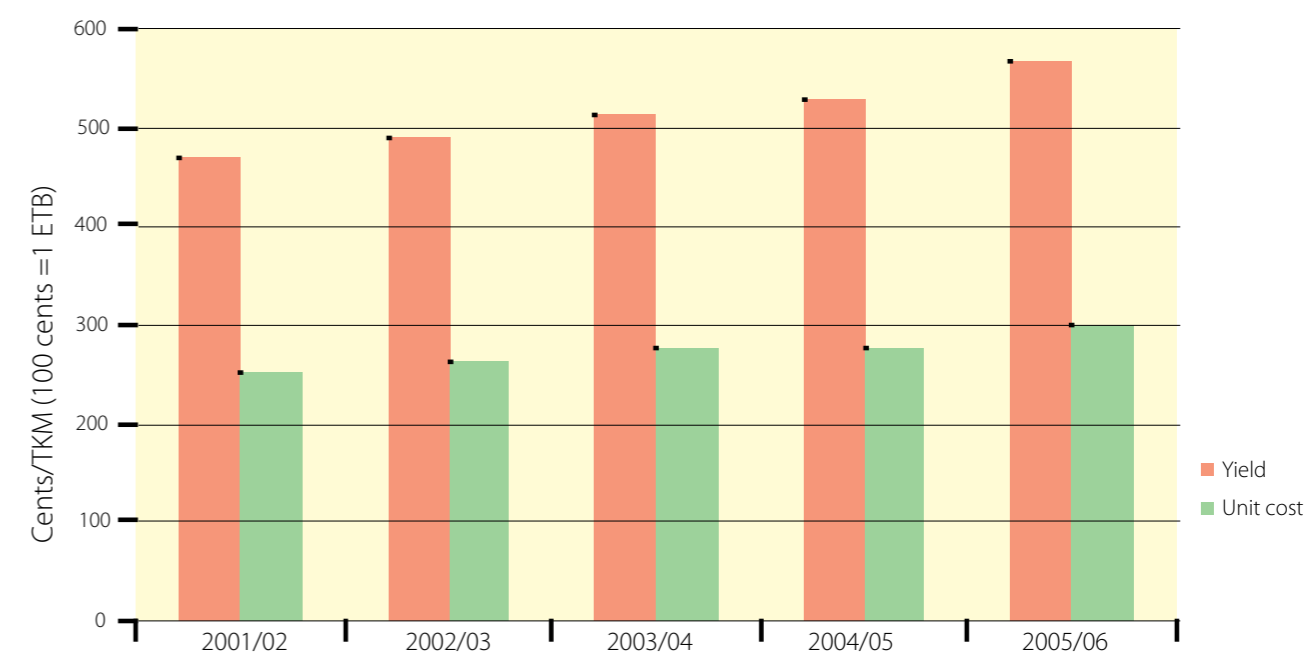
YIELD, UNIT COST AND BREAKEVEN LOAD FACTOR

Overall yield grew by 7.2% to 565.25 ET cents per revenue tonne kilometre. The increase in overall yield is driven by the increase in passenger yield per revenue passenger kilometre and increase in freight yield per Freight tonne kilometres. Passenger yield rose by 6.6% as a result of the collection of additional fuel surcharge attributable to the growth in passenger number and fuel surcharge rate per passenger to cover the sky rocketing fuel cost. Freight yield climbed by 10.2% mainly due to increase in charter freight rate and increase in fuel surcharge.

Unit cost per available tonne kilometre increased by 8.3%. The increase is mainly due to increase in fuel cost and increase in ownership cost due to additional capacity increase.

The breakeven load factor increased by 0.57 pts. due to the fact that the increase in unit cost is more than the increase in yield.

YIELD & UNIT COST

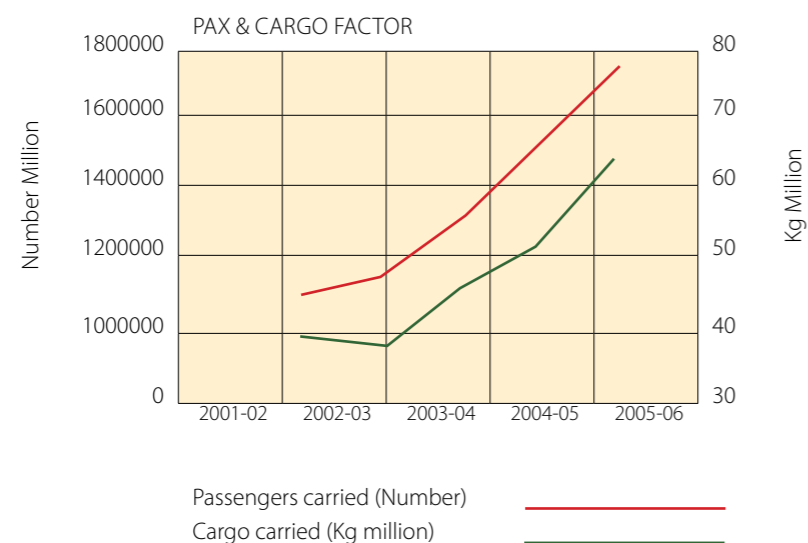
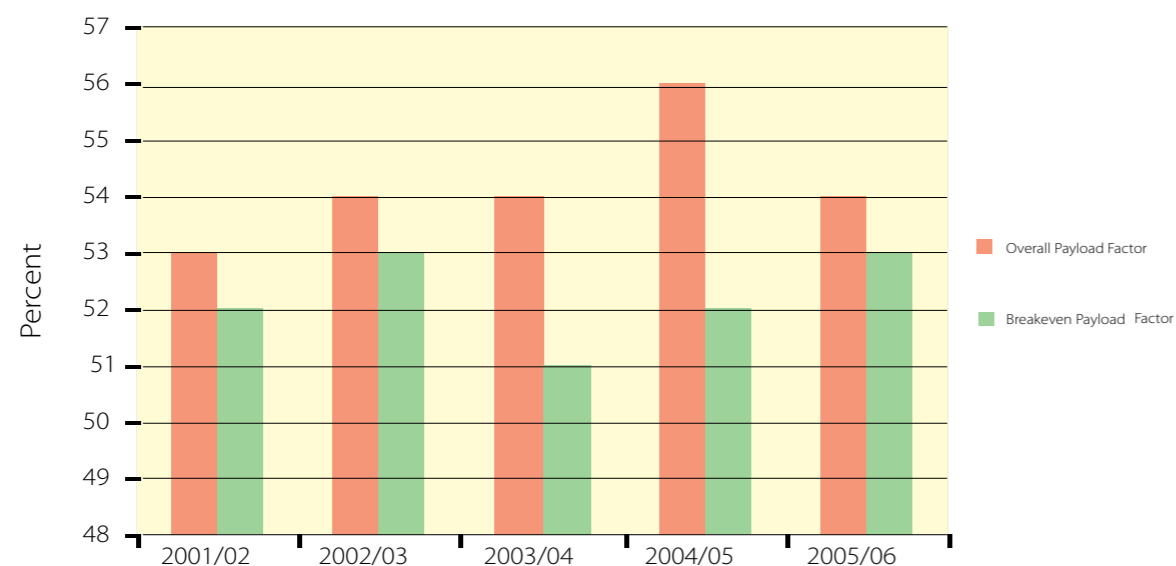


TRAFFIC, CAPACITY AND LOAD FACTOR

Traffic increased by 16.4% to 908.5 million tonnes kilometres and capacity grew by 20.8% to 1,682.9 million ATK. The increase is mainly due to increase in frequency to Abidjan, Bujumbura, Kigali, Bangkok, Brazzaville, Kinshasa, Guangzhou, Paris, Douala, New Delhi, Peking and Tel Aviv and split operations to Rome, London, Nairobi and Luanda. Moreover, the start of new services to Dakar, Libreville and Brussels contributed a lot to the traffic increase.

Passenger load factor decreased by 2.3 pts. owing to the fact that the capacity increase expressed in terms of number of seats available is more than the increase in actual passenger kilometres flown.

OVERALL AND BREAKEVEN LOAD FACTOR



FLEET INFORMATION

Aircraft	Owned	Leased	Total
Boeing 737-700	3	2	5
Boeing 757-200	4	1	5
Boeing 757-200PF (AJS)	1	-	1
Boeing 767-200	-	1	1
Boeing 767-300	3	3	6
DHT	2	-	2
A330-200	-	1	1
F50	5	-	5
ANTONOV FREIGHTER AN-12	-	1	1
McDonnell Douglas DC-8	-	1	1
McDonnell Douglas DC-10	-	1	1
Total	18	11	29

In addition to the above, Ethiopian Airlines and the Boeing Company completed an order agreement for ten Boeing 787 Dreamliner jets. The agreement is based on the Memorandum of Understanding signed between the two companies earlier this year. The first aircraft is scheduled for delivery in early 2009. Ethiopian Airlines will be the first Africa-based operator of the technologically advanced and rapidly selling jet.

RISK MANAGEMENT

Ethiopian Airlines adopts a five-step risk management cycle adapted from international best practices and currently concentrates on specific risks associated with Fuel, Interest Rate and Currencies.

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

The enterprise thus works through its area offices and airline industry organizations to quickly repatriate its funds and provide early warnings on such conditions, along with reporting the situations to senior management. The June 2006 cash position was 87.1% in hard currencies of USD, EUR, GBP and other European Currencies, 8.0% in African currencies, 2.3% in Ethiopian Birr and 2.6% in all other currencies.

Jet fuel price being the major expenditure of the airline, the company manages this risk using the various hedging strategies (swap, cap and collar options) for a maximum period of two years on a rolling basis and the maximum to be hedged is 75% of the annual total uplift. This year the airline monitored the movement of jet fuel price and exercised fuel hedging for 20% of its total uplift for a period of the winter season of five months starting November 2005.

Moreover, since the end of 2003 the airline has acquired a total of six aircraft and four spare engines to which the company opted to use the floating interest rate due to the low rates prevailing at the time. But since interest rates are rising the options of swap, collar and subsidized swap were evaluated so that a hedging exercise will be done.

Accordingly, the airline was able to hedge using a swap hedging strategy for 56% of its outstanding loan against interest rate volatility risk at a rate of 4.84% starting April 2006 until the termination of the loan.

Currently the company is reviewing its hedging policies for jet fuel price and interest rate risks, with a view to accommodating various strategies.

GLOSSARY

Ratios

1. Passenger Seat factor – RPK divided by ASK.
2. Overall Load Factor – RTK divided by ATK.
3. Yield (Cents per RTK) – Transport revenue earned per RTK.
4. Unit Cost (Cents per ATK) – Transport operating costs incurred per ATK.
5. Breakeven load factor – The load factor at which revenue will equal operating costs
6. Operating margin – Operating profit expressed as a percentage of operating revenue.
7. Net Profit Margin – Net Profit divided by operating revenue
8. Rate of return – Net income before interest and tax divided by equity plus long term loan which includes current maturity of long term loan.
9. Current ratio – Total current asset divided by total current liabilities.
10. Quick ratio – Total current asset minus inventory divided by total current liability.
11. Working capital – Total current asset minus total current liability.
12. Total debt to total asset ratio – Total debt divided by total asset.
13. Debt equity ratio – Long Term debt plus current maturity of long term debt divided by equity.
14. Times interest cover ratio – Net income before interest and tax divided by interest expense.

Terms

1. ATK (Available Tonne Kilometre) – Overall capacity measured in tonnes available for carriage of passengers and cargo load multiplied by the distance flown.
2. RTK (Revenue Tonne Kilometre) – Actual traffic load (passenger and cargo) carried in terms of tonnes multiplied by the distance flown
3. ASK (Available Seat Kilometre) – Passenger seat capacity measured in seats available multiplied by the distance flown.
4. RPK (Revenue Passenger Kilometre) – Number of passengers carried multiplied by the distance flown.

BALANCE SHEET

As at 30 JUNE 2006



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AUDIT SERVICES CORPORATION

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

We have audited the financial statements of Ethiopian Airlines Enterprise set out on pages 2 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 10. These financial statements are the responsibility of the Enterprise's chief executive officer in accordance with article 16 of Public Enterprises Proclamation No. 25/1992. Our responsibility is to express an independent opinion on these financial statements based on our audit.

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

In our opinion the financial statements present fairly the financial position of Ethiopian Airlines Enterprise at 30 June 2006 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Audit Services Corporation

12 January 2007

	Notes	Birr	Birr	2005 Birr
ASSETS EMPLOYED				
PROPERTY, PLANT AND EQUIPMENT	1b)(i),2		4,579,995,824	4,327,266,334
INVESTMENTS	1b)(ii),3		17,508,844	17,647,419
STANDING DEPOSITS	1b)(iii)		182,764,761	223,691,371
DEFERRED CHARGES	1b)(iv),4		119,336,283	119,316,707
CURRENT ASSETS				
Stock	1b)(v),5	135,990,920		125,856,064
Debtors	1b)(vi),6	910,514,515		767,156,941
Cash and bank balances	1b)(vii),7	1,373,592,340		1,210,289,904
		2,420,097,775		2,103,302,909
CURRENT LIABILITIES				
Creditors	1b)(viii),8	1,113,282,951		825,370,102
Unearned transportation	1b)(ix)	702,434,798		559,636,547
Current maturity of long term loans	11	478,623,258		386,540,160
		2,294,341,007		1,771,546,809
NET CURRENT ASSETS				
			125,756,768	331,756,100
			5,025,362,480	5,019,677,931
FINANCED BY				
CAPITAL				
Authorized		2,500,000,000		
Paid up	9		2,310,406,451	2,176,761,317
CONTRIBUTIONS				
	1b (x)		46,876,881	44,674,427
			2,357,283,332	2,221,435,744
DEFERRED LIABILITIES				
	1b (xi),10		8,642,495	2,569,556
LONG TERM LOANS				
	1e)(i),11		2,659,436,653	2,795,672,631
			5,025,362,480	5,019,677,931

The notes on pages 29 to 42 form an integral part of these financial statements.

PROFIT & LOSS ACCOUNT

For the year ended 30 JUNE 2006

	Notes	Birr	Birr	2005 Birr
OPERATING REVENUE	1d),12		5,398,507,665	4,327,799,500
OPERATING EXPENSES	13		5,161,982,062	3,950,460,613
GROSS OPERATING PROFIT			236,525,603	377,338,887
NON-OPERATING EXPENSES/ (INCOME)				
Interest		154,303,917		85,653,933
Provision for blocked bank account		28,072,380		-
Provision for doubtful debts		-		26,259,782
Others	1e)(iii),14	(79,495,828)		(44,486,577)
			102,880,469	67,427,138
NET PROFIT FOR THE YEAR			133,645,134	309,911,749

The notes on pages 29 to 42 form an integral part of these financial statements.

STATEMENT FOR CHANGES IN EQUITY

For the year ended 30 JUNE 2006

	Capital Birr	Contributions Birr	Unappropriated profit Birr	Total equity Birr
Balance at 30 June 2004	1,866,849,568	43,581,522	-	1,910,431,090
Net profit for the year	-	-	309,911,749	309,911,749
Transfer from profit of the year	309,911,749	-	(309,911,749)	-
Addition to contributions	-	14,139,801	-	14,139,801
Amortization of contributions	-	(13,046,896)	-	(13,046,896)
Balance at 30 June 2005	2,176,761,317	44,674,427	-	2,221,435,744
Net profit for the year	-	-	133,645,134	133,645,134
Transfer from profit of the year	133,645,134	-	(133,645,134)	-
Addition to contributions	-	16,119,258	-	16,119,258
Amortization of contributions	-	(13,916,804)	-	(13,916,804)
Balance at 30 June 2006	2,310,406,451	46,876,881	-	2,357,283,332

The notes on pages 29 to 42 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 JUNE 2006

CASH FLOW STATEMENT

For the year ended 30 JUNE 2006

	Notes	Birr	Birr	2005 Birr
OPERATING ACTIVITIES				
Net cash inflow from operating				
activities	15		936,470,928	885,659,112
INVESTING ACTIVITIES				
Purchase of property, plant and				
equipment		(658,691,192)		(1,331,274,380)
Proceeds from disposal of		19,189,381		773,362
property, plant and equipment				
Receipts from disposal of investments		138,575		403,624
Net cash outflow from investing activities			(639,363,236)	(1,330,097,394)
FINANCING ACTIVITIES				
Long term loans received		378,780,901		1,132,837,599
Repayment of long term borrowings		(422,933,782)		(314,789,770)
Interest paid		(142,279,465)		(80,899,301)
Interest received		52,627,090		21,319,564
Net cash (outflow)/inflow from			(133,805,256)	758,468,092
financing activities				
Net increase in cash and cash equivalents			163,302,436	314,029,810
Cash and cash equivalents			1,210,289,904	896,260,094
at beginning of year				
Cash and cash equivalents at end of year	7		1,373,592,340	1,210,289,904

The notes on pages 29 to 42 form an integral part of these financial statements.

1. Significant Accounting Policies

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

- a) Basis of preparation
 - i) These financial statements have been prepared in compliance with International Financial Reporting Standards. They are prepared under the historical cost convention.
 - ii) All amounts in the financial statements are expressed in Birr.

b) Valuation of assets and liabilities

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

i) Property, plant and equipment

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

	Birr
Ground equipment	5,000
Tools	1,200
Neon signs	6,000
Computerized equipment	5,000
Improvements to buildings	20,000
Modification expenses on:	
JT9D-7R4E engines	50,000
FW2040 engines	50,000
737 aircraft	200,000
767-200 aircraft	200,000
757 aircraft	200,000
ATR-42 aircraft	100,000
Fokker-50 aircraft	100,000
DHC 6	50,000

For the year ended 30 JUNE 2006

- Depreciation is charged on the following bases:-
 - Flight equipment
 The costs of new acquisitions are written down to their estimated residual values by the end of the terminal dates detailed below:-
 The common terminal dates for the aircraft, associated engine, rotables and spares are:-

DHC-6	30 June 2006
ATR-42	28 February 1995, 31 March 1995
Jet 757	31 August 2008 30 November 2009 30 April 2010 31 October 2010
Jet 767-300	30 November 2021 30 June 2022 30 June 2023
Jet 737-700	31 December 2021 31 July 2022 31 July 2023
Fokker 50	30 April 2009 30 September 2008 30 November 2008 31 January 2009
Cessna	30 June 2006 31 August 2009
Turbo Ag - CAT	30 June 1993 30 June 2006
Turbo Thrush	30 June 2006
AG - CAT	30 August 2006

- Modification costs after the terminal dates are expensed in the year they are incurred.
 - Other property
 This is depreciated in the following periods:-
 Radios, field passenger equipment and other similar items - 5 years.
 Office equipment and furniture - 10 to 15 years.
 Motorized vehicles and equipment - 5 years.
 Buildings - 7 to 20 years.
 Improvements to government owned buildings - 10 years.
 Improvements to leasehold property over the term of the lease.

For the year ended 30 JUNE 2006

- ii) **Investments**
Investments are stated at cost less provisions, which approximates their fair values.
- iii) **Standing deposits**
These comprise long-term security deposits held by hotels, hospitals and similar institutions.
- iv) **Deferred charges**
Predelivery expenses in connection with the acquisition of new aircraft are amortized over a period of twelve years, while the miscellaneous deferred charges are amortized over different periods of between four and eight years.
- v) **Stock**
Stock is valued at the lower of cost and net realizable value. Cost is determined on a simple average basis less provision for stock obsolescence. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.
- vi) **Debtors**
Trade debtors are recognized and carried at original invoice amounts less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection for the full amount is no longer probable. Bad debts are written off against the relate provision for doubtful debts.
- vii) **Cash and bank balances**
These comprise cash on hand and in banks and short-term deposits which are held to maturity and carried at cost plus interest less provision for currency fluctuation.
- viii) **Creditors**
Liabilities for trade and other amounts payable are carried at cost which is considered to be the fair value to be paid in the future for goods and services received.
- ix) **Unearned transportation**
Passenger ticket and cargo airway bill sales are recorded as current liabilities in the unearned transportation account until recognized as revenue when the transportation services are provided. The value of unused tickets and miscellaneous charge orders (MCOs) over eighteen months old are credited to revenue.
- x) **Contributions**
These represent purchase incentives given by the Enterprise's suppliers. The values are amortized over the life of the aircraft for which the purchase incentives were obtained.
- xi) **Deferred liabilities**
The training fees of personnel of other airlines are amortized over the duration of the training period.

For the year ended 30 JUNE 2006

c) **Recognition of financial assets and financial liabilities**

The Enterprise recognizes a financial asset or a financial liability on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset is derecognized when, and only when, the control over the contractual rights is lost.

A financial liability is derecognized when, and only when, it is extinguished.

d) **Revenue recognition**

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

e) **Foreign currency accounts**

i) Loans in foreign currency used to acquire property, plant and equipment are translated into Birr at the exchange rates ruling on the first day of June prior to the balance sheet date. Exchange losses are treated as part of the cost of such acquisitions.

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

iii) Losses or gains on recurring foreign currency transactions are directly charged or credited to the profit and loss account.

f) **Income tax**

The Enterprise is exempt from income tax in accordance with the letter from the Ministry of Finance and Economic Development dated 5 July 2002 (28 Sene 1994), Ref. No. አመ 3/16/28/775'.

g) **Subsidiary**

The Enterprise established a wholly owned subsidiary, incorporated in the Cayman Islands and registered in the name of Ethiopian Leasing Limited on 7 May 2003. This subsidiary acts only as a lessor of aircraft to the Enterprise and does not carry out any other transactions. Consequently, neither separate financial statements were prepared for the subsidiary nor consolidated financial statements were prepared for the Enterprise and its subsidiary as all inter-company balances and transactions have been eliminated at the year end.

h) **Finance lease**

Leases of assets under which all the risks and benefits of ownership are substantially transferred to the lessee are classified as finance lease in accordance with International Accounting Standard No. 17 Lessees should recognize finance leases as assets and liabilities in their balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

For the year ended 30 JUNE 2006

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

During the year ended 30 June 2004, two Boeing 757 jets were sold at net book value to Ethiopian Leasing Limited and leased back to the Enterprise (see note 2 below). The said two jets are held as collateral for the commercial loan obtained from Barclays Bank (see note 11(c) below).

2. Property, Plant And Equipment

	Balance at 30 June 2005 Birr	Additions Birr	Adjustments due to sale of aircraft and lease-back Birr	Adjustments due to currency fluctuation Birr	Disposals Birr	Balance at 30 June 2006 Birr
COST OR VALUATION						
Flight equipment						
Own	5,098,710,122	423,026,280	-	9,351,387	36,023,590	5,495,064,199
Leased	848,206,425	-	-	-	-	848,206,425
Other property	680,464,122	36,741,900	-	-	5,246,872	711,959,150
	6,627,380,669	459,768,180	-	9,351,387	41,270,462	7,055,229,774
DEPRECIATION						
Flight equipment						
Own	1,427,488,199	333,169,157	(43,594,178)	-	18,494,470	1,698,568,708
Leased	570,464,731	-	43,594,178	-	-	614,058,909
Other property	424,923,598	53,052,357	-	-	3,035,805	474,940,150
	2,422,876,528	386,221,514	-	-	21,530,275	2,787,567,767
NET BOOK VALUE						
Flight equipment						
Own	3,671,221,923					3,796,495,491
Leased	277,741,694					234,147,516
Other property	255,540,524					<u>237,019,000</u>
	4,204,504,141					4,267,662,007
Work orders in progress	122,275,230					312,206,268
Capital goods in transit	486,963					127,549
	4,327,266,334					4,579,995,824

3. Investments

A) These are as follows:

	Birr	2005 Birr
Nationalized and state owned	1,224,500	1,224,500
Wholly-owned subsidiary nationalized	199,600	199,600
Foreign investments	17,659,496	17,798,071
	19,083,596	19,222,171
Less: Provision for diminution in investments	1,574,752	1,574,752
	17,508,844	17,647,419

b) The Government had indicated that fair compensation will be paid for the nationalized investments.

c) Foreign investments include Birr 12,775,813 representing principal capitalized on the promissory note issued by the Central Bank of Nigeria in respect of the fund of the Enterprise lying in Nigeria.

4. Deffered Charges

	Birr	2005 Birr
Predelivery payments for purchase of new aircraft	102,891,601	98,481,331
Miscellaneous	16,444,682	20,835,376
	119,336,283	119,316,707

5. Stock

	Birr	2005 Birr
Stock in store	140,828,970	142,494,717
Supplies stock - customer work orders	13,595,259	7,610,028
Stock of printing and stationery items	23,563,986	16,554,928
	177,988,215	166,659,673
Less: Provision for stock obsolescence	43,226,082	43,226,082
	134,762,133	123,433,591
Goods in transit	1,228,787	2,422,473
	135,990,920	125,856,064

6. Debtors

a)

	Birr	2005 Birr
Ethiopian Government	2,271,710	3,917,998
Airmail	7,916,570	34,274,559
Transportation - Airlines	116,793,656	69,036,046
Transportation - Others	320,586,619	355,837,611
Advance for purchase of aircraft	158,897,597	73,742,087
Deposits and prepayments	77,499,736	153,935,050
Others	352,674,040	227,452,498
	1,036,639,928	918,195,849
Less: Provision for doubtful debts	126,125,413	151,038,908
	910,514,515	767,156,941

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

	Birr
Balance at 30 June 2005	151,038,908
Adjustment of provision no longer required (note 14)	(24,913,495)
	126,125,413

7. Cash And Bank Balances

a) Comprise the following:

	Birr	2005 Birr
Cash with foreign banks	201,695,716	282,034,343
Less: Provision for currency fluctuation	(4,900,000)	(4,900,000)
Provision for blocked bank account	(63,864,255)	(35,791,874)
Technically overdrawn balances	(43,738,047)	(37,199,574)
	89,193,414	204,142,895
Cash with local banks	45,999,682	109,431,359
Foreign short term deposits	1,147,908,650	802,654,137
Unverified deposits	60,362,116	56,346,150
Cash on hand	30,128,478	37,715,363
	1,373,592,340	1,210,289,904

For the year ended 30 JUNE 2006

- b) The cash with foreign banks includes balances at three locations amounting to Birr 63,864,255 which are not readily transferable. These have been fully provided for.
- c) The Enterprise has a clean unutilized overdraft facility of Birr 30,000,000 with the Commercial Bank of Ethiopia.

8. Creditors

	Birr	2005 Birr
Payable to oil companies	144,124,919	126,645,335
Goods received but not billed	25,121,964	39,864,579
Miscellaneous accounts payable	308,101,875	242,072,644
Accrued interest	25,164,404	13,465,843
Accrued insurance premium	6,997,028	183,138
Other airlines pool apportionment	16,314,029	24,724,782
Transportation tax and embarkation fees	83,474,798	114,665,980
Miscellaneous clearing accounts	285,780	458,099
Advances from customers' work orders	21,488,794	15,540,894
Others	482,209,360	247,748,808
	1,113,282,951	825,370,102

9. Paid Up Capital

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

	Birr
Balance at 30 June 2005	2,176,761,317
Transfer from profit for the year	133,645,134
	2,310,406,451

- b) The Council of Ministers authorized the Enterprise to transfer the net profits for five years (2003-2007) to paid up capital until the paid up capital reaches the authorized level. Details amending the capital of the Enterprise are stipulated in the Council of Ministers Regulations No. 81/2003 dated 17 January 2003.
- c) The Enterprise is wholly owned by the Federal Government of Ethiopia. The capital allocated to the Enterprise is not repayable to the Government in whole or in part, as long as the Enterprise continues trading. There are no shares and no par value.

For the year ended 30 JUNE 2006

10. Deffered Liabilities

	Birr	2005 Birr
Training of other airlines' personnel	7,012,412	1,221,082
Accumulated fines deducted from employees	1,630,083	1,348,474
	8,642,495	2,569,556

11. Long Term Loans

- a) These are as follows:

	Total Loan Birr	Current Portion Birr	Long Term Portion Birr	Long Term Portion 2005 Birr
Barclays Bank (Loan i)	2,597,412,102	211,138,836	2,386,273,266	2,286,344,219
Barclays Bank (Loan ii)	221,304,436	110,679,182	110,625,254	241,013,660
Commercial Bank of Ethiopia (CBE i)	166,477,401	109,060,332	57,417,069	166,477,400
Commercial Bank of Ethiopia (CBE ii)	105,121,064	-	105,121,064	54,250,765
Fokker Aircraft b.v.	47,744,908	47,744,908	-	47,586,587
	3,138,059,911	478,623,258	2,659,436,653	2,795,672,631

- b) Barclays Bank (Loan i)
The amount of Birr 2,597,412,102 represents the outstanding balance at 30 June 2006 of a total loan facility of Birr 2,935,665,555 for financing 85% of the cost of six aircraft and four spare engines. Separate loan agreements were signed for each of the six aircraft and four engines between Ethiopian Leasing Limited (a subsidiary in the Cayman Islands wholly owned by the Enterprise), Barclays Bank, and Export-Import Bank of the United States of America (Ex-IM Bank). The loans are repayable over a period of twelve years in quarterly instalment together with interest computed at floating and hedged rates. The loans are secured by the guarantee of Ex-IM Bank and pledges on the respective aircraft which are registered in the name of Ethiopian Leasing Limited.
- c) Barclays Bank (Loan ii)
The amount of Birr 221,304,435 represents the outstanding balance at 30 June 2006 of a total loan facility of Birr 416,861,040 for financing 12.5% of the above mentioned cost of aircraft and spare engines. The remaining 2.5% of the cost is borne by the Enterprise. The loan agreements were signed between Ethiopian Leasing Limited and

For the year ended 30 JUNE 2006

For the year ended 30 JUNE 2006

Barclays Bank. The loans are repayable over a period of four years in quarterly instalments together with interest computed at floating rates. The loans are secured against the collateral of two Boeing 757 aircraft which have been sold to Ethiopian Leasing Limited on lease back arrangements (see note 1(h) above). In addition, there is a second degree mortgage on the aircraft partially financed through this loan.

- d) CBE (i)
The balance payable to CBE amounting to Birr 166,477,401 represents the outstanding balance in respect of bonds payable to Ethiopian Electric Power Corporation through CBE. The said balance is to be repaid to CBE in quarterly installments of Birr 29,479,339 starting from 25 February 2006 and ending on 25 November 2007 and interest is to be paid at the rate of 7% per annum. This loan is secured against the collateral of three Fokker-50 aircraft.
- e) CBE (ii)
The second loan from CBE represents the disbursed portion of Birr 105,121,064 out of a total loan of Birr 164,327,054 which was obtained to finance part of the cost of construction of the cargo terminal and purchase of equipment for the terminal. Originally, the total loan of Birr 164,327,054 was supposed to be jointly serviced by CBE, Ethiopian Insurance Corporation (EIC) and Social Security Authority (SSA), with CBE acting as the administrator of the loan. However, since EIC and SSA declined to participate in the loan, CBE became the sole lender. According to National Bank of Ethiopia's policy concerning single borrowing limit, the maximum amount to be lent to the Enterprise would be Birr 106,000,000 only and as a result CBE has stopped making disbursements in order to adhere to its loan policy and the matter is yet to be resolved by higher authorities.
- g) Fokker Aircraft b.v.
The credit from Fokker Aircraft b.v. representing the purchase of five Fokker 50 aircraft is repayable in 20 semi-annual instalments over a period of 10 years starting 6 months after the dates of delivery of each aircraft. The interest rates are fixed as follows:

	%
1 st Fokker 50	7.69
2 nd Fokker 50	7.28
3 rd Fokker 50	7.32
4 th Fokker 50	7.87
5 th Fokker 50	7.64

12. Operating Revenue

	Birr	2005 Birr
Passenger	4,020,586,804	3,212,632,212
Freight	591,906,491	453,821,310
Charter	295,267,925	249,907,827
Mail	18,675,674	21,943,256
Excess baggage	202,478,219	169,985,057
Commission	7,254,834	6,212,329
Customer services (work orders)	111,806,467	100,568,353
Subsidiaries	54,518,352	41,748,219
Miscellaneous	96,012,899	70,980,937
	5,398,507,665	4,327,799,500

13. Operating Expenses

	Birr	2005 Birr
Flying operations	2,482,817,165	1,646,298,618
Direct maintenance	435,839,322	401,422,715
Depreciation of flying equipment	333,169,157	275,787,125
Rentals-leased aircraft	323,511,490	247,342,798
Promotion and sales	346,141,464	242,058,098
Passenger service	423,233,238	354,026,067
Ground operations	465,911,164	420,205,797
Indirect maintenance	51,737,450	41,602,397
Depreciation	53,052,357	46,446,086
Customer services (work orders)	54,209,873	38,160,947
Subsidiaries	55,844,381	41,378,431
General and administration	136,515,001	195,731,534
	5,161,982,062	3,950,460,613

For the year ended 30 JUNE 2006

14. Other Non-operating Expenses (Income)

	Birr	2005 Birr
Credit card service charge	9,852,003	-
Bank charges	14,135,160	20,177,357
Gain on currency fluctuation	(17,625,350)	(1,215,271)
Loss on disposal of fixed assets	550,807	2,643,648
Interest income	(52,627,090)	(21,319,563)
Write back of creditors accounts	(11,520,436)	(12,167,250)
Direct write off of debtors accounts	1,143,901	141,508
Collection of debt written off in earlier years	(4,526,963)	(30,044,519)
Adjustment of provision for doubtful debts no longer required	(24,913,495)	-
Engine maintenance of L-100 aircraft	(9,854,734)	-
Miscellaneous	15,890,369	(2,702,487)
	(79,495,828)	(44,486,577)

15. Reconciliation Of Operating Profit To Net Cash Flow From Operations

	Birr	2005 Birr
Net profit for the year	133,645,134	309,911,749
Interest income	(52,627,090)	(21,319,564)
Interest expense	153,978,027	85,653,933
Increase in deferred charges	(19,576)	(28,236,811)
Decrease/ (Increase) in standing deposits	40,926,610	(50,165,354)
Loss on disposal of fixed assets	550,807	2,643,648
Depreciation	386,221,514	322,233,211
Adjustment of provision for doubtful debts no longer required	(24,913,495)	-
Provision for doubtful debts	-	26,259,782
Increase in stock	(10,134,856)	(12,786,116)
Increase in debtors	(118,444,079)	(170,114,614)
Increase in creditors	276,214,288	249,805,447
Increase in unearned transportation	142,798,251	169,293,314
Increase in contributions	2,202,454	1,092,905
Increase in deferred liabilities	6,072,939	1,387,582
Net cash inflow from operations	936,470,928	885,659,112

For the year ended 30 JUNE 2006

16. Financial Risks

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

The Enterprise's maximum exposure to credit risk in relation to each class of recognized financial assets, is the carrying amount of those assets as indicated in the balance sheet.

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

Security type	% of total assets portfolio at 30 June 2006	% of total assets portfolio at 30 June 2005
Foreign investments		
Holdings of securities	0.23	0.26
Short term deposits	15.68	11.82
Cash with foreign banks	3.58	4.99

- b) Interest rate risk
Current borrowings are at fixed and floating rates averaging 6.06% p.a. Investments made by the Enterprise in various international banks generated interest income that covered the cost of borrowing by 34.18% in the year 2006 compared to 24.89% in the previous financial year.
- c) Foreign currency risk
About 94.5% of the monies earned by the Enterprise are in hard and convertible currencies.

17. Commitments

The Enterprise has commitments, not provided for in these financial statements of Birr 15,071,448,729 for the purchase of ten aircraft and spare engines.

For the year ended 30 JUNE 2006

18. Contingent Liabilities

The Enterprise has contingent liabilities of Birr 23,324,871, not provided for in these financial statements, in respect of legal actions brought by different organizations and individuals which are contested by the Enterprise. It is not possible to determine the outcome of these actions at the moment.

19. Establishment

The Enterprise was established as a public enterprise by Council of Ministers Regulations No. 216/95, amended by Council of Ministers Regulations No. 81/2003. Its principal place of business is in Addis Ababa, Ethiopia, and it has area and station offices all over the world.

20. Employees

The Enterprise employed 4,960 staff at 30 June 2006 (2005 - 4,632).

21. Retirement Benefit Obligations

The Enterprise's employees are eligible for retirement benefits under a defined contribution plan. For the year ended 30 June 2006, the Enterprise contributed Birr 10,473,294 (2005 - Birr 7,374,047) which has been charged to the profit and loss account.

22. Staff Costs

Staff costs for the year amounted to Birr 612,350,775 (2005 - Birr 460,957,544) and are included in the various major expense categories.

23. Comparatives

In order to facilitate comparisons, certain of the 2005 figures have been rearranged in these financial statements.

24. Date of Authorization

The Chief Executive Officer of the Enterprise authorized the issue of these financial statements on 12 January 2007.

BACK TO THE FUTURE

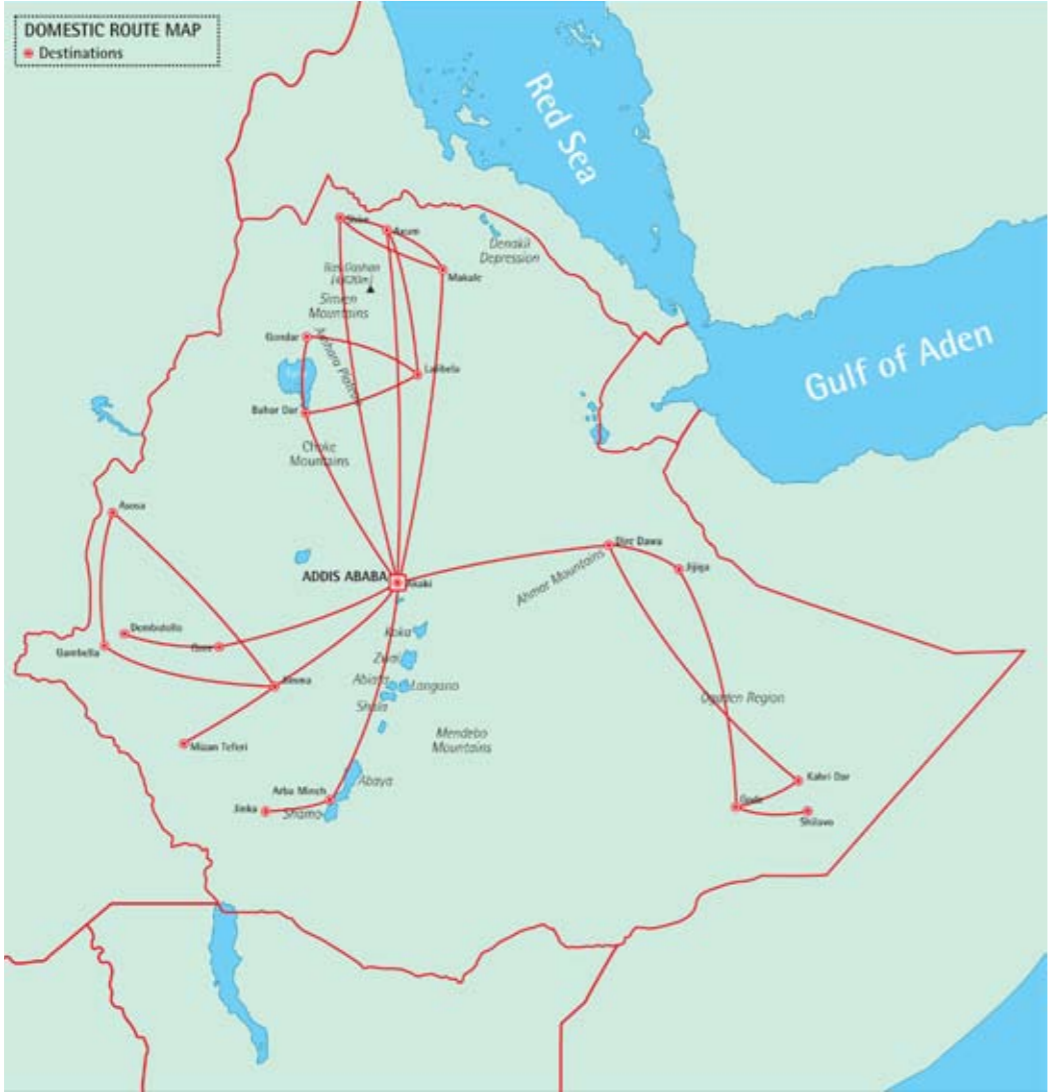


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ETHIOPIAN AIRLINES OFFICES



NOTE: Graphics representation only. Not to scale. The actual flight paths may vary.

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CTO Fax: 9671-427992/6836
E-mail: saham@ethiopianairlines.com
APT Tel: 9671-348188
E-mail: sahapto@ethiopianairlines.com
- ZAMBIA**
Indo Zambia Bank Building
Off Cairo Road, Plot No. 6907
P.O. Box 38392
Tel: 260 1 236402/3
Fax: 260 1 236401
APT: 260 1 271141 or 260 1 271313
Ext 473
E-mail: lunam@ethiopianairlines.com
- ZIMBABWE**
CNR Centre, 4th Floor
CNR Jason Moyo Avenue 2nd St.
P.O. Box 1332, Harare
APT Fax: 263 4790705/6/700735
Fax: 263 4795216
APT: 263 4575191
E-mail: ethhre@imweb.co.zw
hres@ethiopianairlines.com
hream@ethiopianairlines.com

INTERNATIONAL ROUTE MAP

ETHIOPIAN DESTINATIONS

- | | |
|-----------------------------|---------------------------|
| Abidjan (Côte d'Ivoire) | Johannesburg (S. Africa) |
| Abu Dhabi (UAE) | Juba (Sudan) |
| Accra (Ghana) | Khartoum (Sudan) |
| Addis Ababa (Ethiopia) | Kigali (Rwanda) |
| Bamako (Mali) | Kilimanjaro (Tanzania) |
| Bangkok (Thailand) | Kinshasa (D. R. of Congo) |
| Beijing (China) | Lagos (Nigeria) |
| Beirut (Lebanon) | Libreville (Gabon) |
| Brazzaville (Congo) | Lilongwe (Malawi) |
| Brussels (Belgium) | Lomé (Togo) |
| Bujumbura (Burundi) | London (United Kingdom) |
| Cairo (Egypt) | Luanda (Angola) |
| Dar es Salaam (Tanzania) | Lusaka (Zambia) |
| Dakar (Senegal) | Mumbai (India) |
| Delhi (India) | Nairobi (Kenya) |
| Dire Dawa (Ethiopia) | N'Djamena (Chad) |
| Djibouti (Rep. of Djibouti) | Paris (France) |
| Douala (Cameroun) | Rome (Italy) |
| Dubai (UAE) | San'á (UAE) |
| Entebbe (Uganda) | Stockholm (Sweden) |
| Frankfurt (Germany) | Tel Aviv (Israel) |
| Guangzhou (China) | Washington D.C. (USA) |
| Harare (Zimbabwe) | Zanzibar (Tanzania) |
| Hargeisa (Somaliland) | |
| Hong Kong (China) | |
| Jeddah (Saudi Arabia) | |

DESTINATIONS WITH SPECIAL AGREEMENTS

- | | |
|----------------------------|---------------------------|
| Cape Town (South Africa) | Kansas City, Kansas |
| Dorval, Montréal (Canada) | Las Vegas, Nevada |
| Gaborone (Botswana) | Little Rock, Arkansas |
| Helsinki (Finland) | Los Angeles, California |
| Jakarta (Indonesia) | Memphis, Tennessee |
| Kolkata (India) | Miami, Florida |
| Manila (Philippines) | Minneapolis, Minnesota |
| Oslo (Norway) | Nashville, Tennessee |
| Ottawa, Ontario (Canada) | New Orleans, Louisiana |
| Palermo (Italy) | New York |
| Stockholm (Sweden) | Oklahoma City, Oklahoma |
| Toronto (Canada) | Oklahoma |
| Vancouver (Canada) | Omaha, Nebraska |
| Windhoek (Namibia) | Ontario, California |
| United States of America: | Orlando, Florida |
| Albuquerque, New Mexico | Philadelphia, Pa. |
| Atlanta, Georgia | Phoenix, Arizona |
| Boston, Massachusetts | Portland, Oregon |
| Chicago, Illinois | Portland, Maine |
| Cincinnati, Ohio | Rochester, New York |
| Cleveland, Ohio | Saint Louis, Missouri |
| Colorado Springs, Colorado | Salt Lake City, Utah |
| Columbia, S. Carolina | San Antonio, Texas |
| Columbus, Ohio | San Diego, California |
| Dallas, Texas | San Francisco, California |
| Dayton, Ohio | San Jose, California |
| Denver, Colorado | Santa Ana, California |
| Detroit, Michigan | Seattle, Washington |
| Fort Lauderdale, Florida | Syracuse, New York |
| Houston, Texas | Tampa, Florida |
| Indianapolis, Indiana | Tucson, Arizona |
| Jacksonville, Florida | |



ETHIOPIAN AIRLINES GENERAL SALES AGENTS

ABU DHABI

Salem Travel Agency
Tel: (009712) 6215600/6218000
Fax: (009712) 6211155

ALGERIA

Air Algeria
Tel: 213-643731

ANGOLA

Reino, Comercio Geral, Transitarios
Industrias e Representacoes Comerciais
Limitada
Rua Marques Das Minas No. 4
Luanda, Angola
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E-mail: tchukombe@yahoo.com

ARGENTINA

Aviareps
Tel: 54-1148933003
Fax: 54-114893005

AUSTRALIA

World Aviation System (WAS)
Level 11
403 George St.
Sydney NSW 2000 Australia
Tel: 02-9244-2111
Fax: 02-9290-3641
E-mail: terryd@worldaviation.com.au

AUSTRIA

Aviareps Airline Management Services GMBH
Tel: 431 585 363 019
Fax: 431 585 363 088

ATC Aviation Cargo Agent

Objekt 262, Entrance 08
Floor 3, Room A03.085
1300 Vienna Airport, Austria
Tel: 43-1-7007-38852/54
E-mail: vie@atc-aviation.com
horozov@atc-aviation.com
thums@atc-aviation.com

BAHRAIN

Bahrain Int'l Travel
Tel: (973) 17223315
Fax: (973) 17210175

BANGLADESH

MAAS Travels & Tours Ltd.
Tel: 8802-717 0517/956 8388/956 5380
Fax: 8802-956 5378

BELGIUM & LUXEMBOURG

Park Hill, Mommaertslaan 20A
Tel: 32 (0) 22750175/24034476
Fax: 32 (0) 24034479

Aviareps

Tel: 32 (0) 27120586
Fax: 32 (0) 27258392

BENIN

Vitesse Voyage (Speed Travel)
Tel: 229-2131-0718
Mobile: 229 9713-7791

BRAZIL

Aviareps
Tel: 5511-3123-1800
Fax: 5511-3259-8440

CANADA

Airline Services International
Tel: (905) 6294522
Fax: (905) 6294651

CHILE

Aviareps
Tel: 562-2362748/2362749
Fax: 562-2362750

COLOMBIA

Aviareps
Tel: 571-317 2805/257 1818
Fax: 571-317 2890

CZECH & SLOVAK REPUBLICS

Tal Aviation Czech & Slovak Republics
Mala Stupartska 7, 11000 Prague 1
Tel: 224-815-372/77
Fax: 224-815-379

DENMARK

Khyber International
Tel: 4533934455
Fax: 4533933799

DHAKA (Bangladesh)

MAAS Travels & Tours Ltd.
Tel: (8802)7170517/9568388/9565380
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DUBAI

Asia Travel & Tour Agency
Tel: (009714) 2951511
Fax: (009714) 2955315

FINLAND & ESTONIA

Matkantekijät oy
(Tour Planners Ltd.)
Tel: 358 9687 78940
Fax: 358 9687 78910

GREECE

Gold Star Ltd.
Tel: (030) 2103246706
Fax: (030) 2103246723

HUNGARY

Aviareps
1132 Budapest, Borbely u. 5-7
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INDIA

Ahmedabad
Sheba Travels Pvt. Ltd.
Tel: (079) 27544056
Fax: (079) 27542317

Bangalore

Stic Travels Pvt. Ltd.
Tel: (080) 22267613/22202408/22256194
Fax: (080) 22202409

Cochin

Stic Travels Pvt. Ltd.
Tel: (0484) 2367476/477/478
Fax: (0484) 2367476

Bohdgaya

Stic Travels Pvt. Ltd.
Tel: (0631) 2201166

Jaipur

Stic Travels Pvt. Ltd.
Tel: (0141) 2372997/998/965
Fax: (0141) 2373059

Chandigarh

Stic Travels Pvt. Ltd.
Tel: (0172) 2706562/67
Fax: (0172) 2702770

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Tel: (0471) 2310919/1548/1554/3509
Fax: (0471) 2310919

Kolkata

Stic Travels Pvt. Ltd.
Tel: (033) 22297112/105
Fax: (033) 22266588

Hyderabad

Stic Travels Pvt. Ltd.
Tel: (040) 23235657/1451/101277
Fax: (040) 55612966

Jalandhar

Stic travels Pvt. Ltd.
Tel: (0181) 2232056/58/59
Fax: (0181) 2230961

Pune

Leonard Travels
Tel: (9520) 26131647/7690
Fax: (9520) 26130782

Chennai

Stic Travels Pvt. Ltd.
Tel: (044) 24330211/098/255/841
Fax: (044) 24330170

INDONESIA

PT Ayuberga
Tel: 62-218356214/15/16/17/18
Fax: 62-218353937

IRAN

Iran National Airlines Corp.
Tel: (009821) 6002010
Fax: (009821) 6012941

IRELAND

PremAir Marketing Services Ltd.
7 Herbert At, Dublin 2
Tel: 353-1663-3933
Fax: 353-1661-0752
E-mail: info@premaire.com

ISRAEL-TEL AVIV

Opensky Cargo Ltd
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PO Box 61570151
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E-mail: david@opensky-cargo.co.il

JAPAN

Air System Inc.
Toranamon TBL Building, 8F
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Tokyo 105-0001 Japan
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JORDAN

Al Karmel Travel
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KUWAIT

Al-Sawan Co. W.L.L.
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Fax: (965) 2453130/2462358

LIBERIA

Trade Management Int'l
Tel: 002316 524452

MALAYSIA

Plancongan Abadi SDN BHD
Tel: 2426360/2484313
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MADAGASCAR

Air Madagascar
Tel: 222-22

MALTA

Bajada Enterprises Limited
Tel: (356) 21237939
Fax: (356) 21237939

MAURITANIA

Agence Megrebine de Voyages
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MEXICO

Aviareps
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Toll free: 01800-510-8212 (MEX)
Fax: 5255-5553-5867

MOROCCO

Skyline International
Tel: 00212 2368322/23
Fax: 00212 2369775

MOZAMBIQUE

Globo Tours LDA
Tel: (2711) 308067
Fax: (2711) 303596

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Gurans Travel & Tours Pvt. Ltd.
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Fax: 977-1552 6926

NEW ZEALAND

World Aviation systems
Tel: 64 9 308 3355

OMAN

National Travel & Tourism
Tel: 968-2466 0300
Fax: 968-2456 6125

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Fax: (9251) 2824030

Karachi

Tel: (9221) 5661712-14/5661716
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Tel: (9242) 6365165/6305229
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PERU

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email: ethiopija@tal.pl
rgrabski@tal.pl

PORTUGAL

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Fax: 351-217-817-979

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Fahd Travels
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Fax: 974-4432266

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e-mail a_chandirani@satgururtravel.com
Kigali, Rwanda

SAUDI ARABIA

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Jeddah

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Alkhuber

Tel: (966-3) 8642084/8642432
Fax: (966-3) 8991539

Alqatif

Tel: (966-3) 8520513
Fax: (966-3) 8520022

Dammam

Tel: (966-3) 8328572
Fax: (966-3) 8349383

Hofuf

Tel: (966-3) 5924637
Fax: (966-3) 5929917

Khamis Mushayat

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Fax: (966-2) 5373484

Makkah

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Fax: (966-4) 5422258

Tabuk

Tel: (966-4) 4221064
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Yanbu

Tel: (966-4) 3227325/3213819
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Madina

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Mason's Travel Pty. Ltd.
Tel: 248 324173
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SIERRA LEONE

IPC Travel
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Fax: 227470

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Fax: 2711-289-8072

SOUTH KOREA

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SRI LANKA & MALDIVES

VMS Air Services Pvt. Ltd.
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SWEDEN

GSA Scandinavia
Tel: 468-797 9840
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Airnauc (Cargo only)
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Fax: 41-61-227 9780

Airline Centre (Airline Management GmbH)

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Tunis Air
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