Ethiopian
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THE NEW SPIRIT OF AFRICA

ANNUAL REPORT

2007 - 2008

Ethiopian
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THE NEW SPIRIT OF AFRICA

CONTENTS

BOARD OF MANAGEMENT

1	H.E. Ato Seyoum Mesfin	Chairman
2	H.E. Ato Getachew Mengistie	Member
3	H.E. Dr. Hashim Tewfik	Member
4	Col. Semret Medhane	Member
5	Capt. Mohammed Ahmed	Member
6	Ato Gebremedhin G/Hiwot	Member
7	Ambassador Dr. Addis Alem Balema	Member
8	Maj. General Molla H. Mariam	Member
9	Ato Mussa Mohamed	Member
10	Ato Retta Melaku	Member
11	Ato Tewodros Balcha	Member
12	Ato Alemayehu Assefa	Member

CEO's MESSAGE

The fiscal year 2007/2008 was another year of success for Ethiopian Airlines with a newly recorded profit in the airline's history. I am pleased and proud to announce that Ethiopian achieved a record operating profit of ETB 428 million and a net profit of ETB 508 million despite the challenging business environment, which was negatively impacted by the economic slowdown and escalating fuel prices.

Ethiopian carried 2.5 million passengers and posted an impressive passenger load factor of 70% with 11% in capacity growth. Likewise, progress was registered in other operating parameters compared to the results of the preceding year.

During the fiscal period, the company generated annual revenue of ETB 9.2 billion which is 34% higher than that of the previous year. Compared against the previous year, an appreciable growth has been recorded in almost all revenue categories. Likewise, the operating expenses also rose, though the rate of increase is lower than that of the operating revenue. In contrast to the previous year, operating expenses increased by 31% mainly due to the rise of fuel and oil costs which accounted for 42% of the total expenses. The airline incurred ETB 687 million in additional expenses as a result of the fuel price variations.

Ethiopian renewed and revitalized its strategies during the year in review to improve the route network in order to meet the needs of its customers. Kuwait and Zanzibar were among those routes included to strengthen and reinvigorate the route network. The company also concluded new codeshare agreements with Lufthansa, Brussels Airlines, Gulf Air and Air One respectively. The agreement with Lufthansa permitted the establishment of codeshare partnership between Addis Ababa and Frankfurt and allowed both Ethiopian and Lufthansa to expand and streamline their services. In a similar venture, the partnership between Ethiopian and Brussels Airlines, Gulf Air and Air One opened greater access to each other's markets to provide relative ease and flexibility in customer service. These codeshare arrangements have created better and wider range of choices for the customers of the carriers involved. In addition to improving passenger convenience, such business relationships facilitate the operational and handling services offered by the partners.

Maintaining its African leadership position in the aviation technology, Ethiopian purchased and installed a new B737-700/800NG simulator at its headquarter so as to train not only its own pilots but also pilots from various customers.

For its fleet expansion programme, Ethiopian signed a contract with the Boeing Capital Corporation for the purchase of one MD-11 freighter aircraft. It also leased two GE powered Boeing 747-200 freighters with a capacity of 100 tonnes each to satisfy the growing demands of the flower exporting business in Ethiopia. On the other hand, the year caught the leasing of two additional B767-300ER passenger aircraft to accommodate the ever growing increase of passenger traffic.

At this point, I am pleased to share the good news with all concerned that Ethiopian Airlines has been on the fast track of development in all operating parameter during the last four years including the year under review. This success is attributed to the dedication and hard work of its highly motivated and competent workforce, continued support of its customers and all other stakeholders for which I take this opportunity to express my gratitude and appreciation.

Mr. Girma Wake
Chief Executive Officer

MANAGEMENT TEAM

Mr. Girma Wake
Chief Executive Officer

Mr. Tewolde Gebre Mariam
Chief Operating Officer

Mr. Kassim Geresu
Executive Vice President
Finance & Strategic Planning

Mrs. Frehiwot Worku
Executive Vice President
Corporate Services

Mr. Kinfe Kahssaye
Executive Vice President
Strategic Business Units

Mr. Busera Awol
Vice President Commercial

Mr. Solomon Dibebe
Acting Vice President
Customer Service

Captain Tesfaye Ambaye
Vice President Flight
Operations

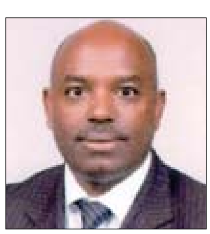
Mr. Mesfin Tassew
Vice President
Maintenance & Engineering

Ms. Rahel Zerihun
Acting General Counsel

Mr. Samuel Assefa
Vice President Internal Audit
& Intergrated Management
System Compliance

Mr. Matewos Mennu
Vice President Human
Resource Management

Mr. Kemeredin Bedru
Vice President
Information Technology



Mr. Meseret Bitew
Vice President Finance

Mr. Abate Gidafe
Vice President Strategic Planning

MISSION STATEMENT

Our Vision

To achieve market leadership by 2010 as a World Class African Airline.

Our Mission

- To create value to our customers and stakeholders by providing safe and reliable passenger and cargo air transport service.
- To provide aircraft maintenance, training and other aviation-related services.
- To become a market leader as a World Class African Airline.
- To invest in the latest aviation technology and a highly trained and motivated human resource.
- To play a visible role in the development of trade and tourism in Ethiopia and Africa.

Our Values

- We demonstrate integrity, honesty and teamwork in everything we do.
- We place the safety, security and satisfaction of our customers as our first priority.
- We are a learning organization with continuous improvement, innovation and knowledge-sharing.
- We recognize and reward employees for their performance.
- We are an equal opportunity employer.

ET Staff Wins 2nd plaque in 2008 Ring Road Relay

Ethiopian staff who participated in the 2008 ring road relay won the 2nd plaque competing along side with government organizations on 22 June 2008. The ring road relay took place all over the world to commemorate the founding of the International Olympic Committee. The Ethiopian team received certificate and plaque at the end of the run.

Above: The successful Ethiopian Airlines' team.

Ethiopian to Fly Greener with Greener Ethiopia

Ethiopian Airlines and Greener Ethiopia will jointly plant two million trees throughout Ethiopia during the Ethiopian Millennium.

Ethiopian Airlines and Greener Ethiopia unveiled joint plans to plant two million trees throughout Ethiopia during the Ethiopian Millennium year, marking a long term environmental campaign to be known as FLY GREENER.

The management and staff of Ethiopian recognize that planting a few trees is far from being adequate to offset the damage made to the environment.

This has led Ethiopian to leverage the expertise of the infrastructure and agro-forestry services of Greener Ethiopia to develop a long term programme to be scaled up on a year to year basis.

Mr. Pascal Woldemariam, Chairman of Greener Ethiopia, explained: "our nurseries will enable us to meet the target of planting 2,000,000 trees on behalf of Ethiopian Airlines during our Millennium year. Our strategy is to distribute seedlings of multipurpose trees that are certain to bring sustainable livelihood values to farming communities."

Sponsored Children Pay Tribute to Ethiopian

One of Ethiopian Airlines social responsibilities is to support the society at times of need. Children sponsored by Ethiopian for their medical trip abroad presented a thank you flower to the Chief Executive Officer, Mr. Girma Wake, on 17 June 2008. In a ceremony held at the Board Room, ten representative children, Dr. Belay Abegaz, FAAP Consultant, Pedestrian/ Cardiologist and Board Chairman of the Ethiopian Children's Heart Fund and "Yagebagnal" promotion representatives were present. On the occasion two children made a "thank you" speech by declaring, "We are here today as a result of Ethiopian Airlines generous offer to save our life and we would like to thank you on behalf of the children who have got the support of Ethiopian Airlines on their trip for life-saving heart surgery abroad. Thank you for letting us have a cured heart". After the heartfelt speech of the young children, Mr. Girma Wake said, "Ethiopian Airlines is a public property and has the responsibility to serve the public. You are part of these public and you have every right to benefit from the airline. That is what we have done." The ceremony was followed by picture taking with the Chief Executive Officer and Dr. Belay Abegaz at the entrance of Ethiopian headquarters.

Right: Children sponsored for medical trip say thanks to Ethiopian Airlines.

Ethiopian Receives Business & Financial Services Award

Ethiopian received the Golden Jubilee Business and Financial Services Award for its outstanding contribution to the economic and social development of Ghana at a dinner party held on 30 July 2007 at Accra International Conference Center. The Hon. Alan Kyerematen- Minister of Trade, Industry, Private Sector Development and President's Special Initiatives representative handed over the award plaque to Ato Busera Awel, Ethiopian Vice President Commercial. Ethiopian confidently pioneered the East/West Africa service beginning in 1960, the year of Independent Africa. On 8 November 1960, Ethiopian Airlines DC-6B Flight No ET 614, made history with its inaugural flight to Accra. The establishment of Ethiopian as the leading African carrier in the 1960s and the extension of its services to most cities in Africa is a major milestone in the history of the airline, which firmly positioned it as a truly inter-continental carrier.

Below: Mr. Michel and Mr. Tewaldo Gabre Mariam, Chief Operating Officer of Ethiopian at the signing ceremony for codeshare agreement.

New Destinations and Network Expansion

Pursing its decisive strategy of growth, ET has been busy developing and executing a network of destinations and frequencies having the following salient features in the year 2007/08:

- Non-stop services to major markets such as BOMBAY, DUBAI, ROME, FRANKFURT, JEDDAH, JOHANNESBURG, Luanda, LAGOS;

- A significant frequency increase to major markets – Southern Africa (KINSHASA, JOHANNESBURG), West Africa (ABIDJAN), Asia (BOMBAY, DEL/PEK, BANGKOK/GUANGZHOU), Europe (BRUSSELS, LONDON) and JUBA.

- Operating to new destinations with market potential-BAHRAIN, ZANZIBAR and SANAA.

Commercial Agreements/Alliances

Ethiopian has further entered into marketing alliances and, code share agreements with the following airlines in the year under review.

- Lufthansa on ADDIS - FRANKFURT;
- Air One on ADDIS-FIUMICINO (ROME) and the Italian Domestic and regional routes;
- Gulf Air on ADDIS-BAHRAIN; and
- Brussels Airlines on ADD-BRUSSELS

Sheba Miles- Frequent Flyer Programme

As of 30 June 2008 membership stands at 170,775. These members are from 193 countries. Nigeria with 21% and Ethiopia with 12% constitute 33% of the total membership. The rest of Africa contributes 34% while Europe follows with 12%, America with 9%, Asia 7% and the Middle East with 5%.
The year has seen membership enrollment of 41,534 which has increased by 30% compared to that of last year.

Flight Operations

At Ethiopian, training is given a special attention. To upgrade its personnel competence and gear to the customers need, ET took major step to improve its training programs during the year in review.
As a result a total of 80 captains and first officers took their refresher training on all aircrafts owned and operated by Ethiopian.

New B737NG Flight Simulator

The awards winning African carrier, Ethiopian Airlines purchased B737 Next Generation (NG) flight simulator from Flight Safety International (FSI), a company based in Tulus, Oklahoma.
The new B737NG flight simulator enables Ethiopian to train more pilots at the home base and to avail training to regional operators. The simulator was installed recently at Ethiopian headquarter in Addis Ababa adjacent to the airline's B767/N757 simulator and became operational effective 4 February 2008.
Ethiopian B767/B757 simulator has been serving ET and various other Airlines mainly from Africa and the Middle East for the last 15 years.
Both the B757/B767 and the B737NG simulators together with the Virtual Procedure Trainer will continue to enhance the standard of training at Ethiopian. The virtual procedure trainer is a computerised fixed base trainer that gives an initial 'glass cockpit' experience and Flight Management Computer familiarisation for fresh pilots.
Ethiopian's training facility has gained good reputation since its inception in 1964 providing modern training to many African carriers in addition to fulfilling the local demand.

Customer Services

Consistent with the training programme that is designed to meet the growing operational needs of the airline, 133 Cabin Crew have been recruited, trained and have joined the In-flight Service Department in 2007/08.
In line with our objective of tailoring the services to cater to our customer requirements, five Chinese nationals have also been recruited, trained and joined the In-flight Service as Cabin Crew members. They are now assigned to the BEIJING-ADDIS trunk route; three more are under training to join the service soon.
ET has joined the IATA Safety Audit for Ground Operations (ISAGO) programme which is aimed at monitoring the quality and safety standards of the Ground Services Procedures (GSP) at airports through an ISAGO Auditors pool to be formed by participating airlines one of which is ET. By participating in this programme, administered by IATA, ET ensures that its outsourced Ground Handling Services at airports are in compliance with the safety and quality requirements of IATA.

Above: Cabin crew graduates with the Mr. Girma Wake, Chief Executive Officer.

Above: Ethiopian's new B737 NG Flight Simulator.

Revenue Enhancement

One of the main challenges faced by the airline industry during the reporting period was fuel price. During the budget year, fuel prices skyrocketed to above 130 USD per barrel. Among the actions taken by the airline to mitigate the impact of the unprecedented rise was the introduction of fuel surcharge to recover part of the cost.
During the reporting period Ethiopian's average yield was 7.38 US cents as compared to 7.02 cents of the previous year. The increase in yield at a time of load factor and capacity growth indicates that more seats were sold at better fares even when more capacity was made available to the market.

The main reasons were:

- Significant economic growth in the home market;
- Robust growth of most African economies;
- Increase in travel from Africa to Europe and vice versa;
- The surge in travel from Africa to the Middle East and the Far East;
- More frequencies and better schedules which increased Ethiopian competitiveness; and most importantly;
- Better capacity and demand management using advanced revenue management techniques.

Ethiopian Multinational Aviation Training Center

In response to the demand from Maintenance & Engineering and the changes in the Aviation Training, the Aviation Academy has thoroughly revised the curriculum for Aviation Maintenance Technician (AMTS) and has come up with modularised syllabi and training programmes.
In an effort to make the training programmes cost effective, ET's Pilot Training School has revised and implemented a new syllabus after securing Civil Aviation Authority's (CAA) approval. This revised syllabus has resulted in the reduction of training cost by 20% and training time by 25% (from 24 to 18 months). In order to improve the training performance of Pilot Training School (PTS), ten single engine Cessna 172 glass cockpit airplanes have been ordered for purchase.
The construction of the new training dormitory with a total investment of 10 million Birr has been finalised. This will significantly improve the living conditions of the trainees.

To improve the services for trainees the following measures have been taken:

- Library service has been extended up to midnight on working days and weekend service has been implemented.
- Internet service for trainees has been upgraded.
- Washing machine has been installed at the dormitory for trainees.
- Installation of water tanker at the training dormitory with 20,000 litres capacity is on progress.

English language training for pilots is in progress to achieve ICAO level 4 and a full fledged English language training has been launched for cabin crew.
The commercial and customer services school has successfully completed IOSA audit without any negative findings. The Pilot Training School has also fulfilled regulatory requirements for pilot training.
The academy's year end budget has generated 11.9 Million Birr in revenue from the training of participants other than ET's.
With the aim of raising the professional competency of instructors, more than 20 instructors have been sent abroad to attend refresher courses.

Above right: Graduating Aircraft Mechanics with Mr. Girma Wake, Chief Executive Officer.

Below right: Graduating pilots with Mr. Tewaldo Gabre Mariam, Chief Operating Officer of Ethiopian.

Above: Maintained Aircraft with the team who worked on the job.

Increasing Ancillary Services

In line with the vision 2010 strategy on Maintenance Repair & Overhaul (MRO) business, intensive marketing activities took place during the year; and, various new and existing customers awarded to ET/MRO center, engine, airframe and component maintenance contracts. In addition, Simulator and basic training (both in-house and at the customer's location), and secondment of skilled personnel were also provided to customers.

As a result, compared to the total revenue of the previous year, the revenue generated from these auxiliary services grew by 26.21% during the year.

Multiple customer aircraft maintenance activities took place during the year 2007/08. Included in the list of the customers served are DHL-Bahrain, Chanchangi Airlines, D.R. Congo Presidential, Nicon Airways (Nigeria), Blue Bird Aviation (Kenya), Air Madagascar, Mid Airlines (Sudan), Dolphin Air (U.A.E), Al-Raise Cargo (U.A.E)

The Ethiopian Aviation Academy provided basic Pilot and Aviation maintenance training to candidates from various African countries. The list included 24 trainees from Chad, seven trainees from Madagascar and five from Congo Brazzaville. The flight simulator training for the B767/B757 was given to different customers including Kenya Airways, Air Madagascar, Capo Verde Airlines, Air Zimbabwe and Belleview Airlines.

Ethiopian Maintenance personnel were seconded to TAAG-Angola Airlines (Angola), Gabon Airlines (Gabon), Mid Airlines and Feeder Airlines (Sudan).

Mobile technical teams were also dispatched to various customer bases for on sight maintenance support and technical assistance.

Major investment decision on ICT

The level of development that Ethiopian has managed to achieve and its growth strategy challenged Ethiopian's ICT to be strategic and transform itself to a World Class Airline ICT capability.
It is no secret that the Airline Industry as a whole has become highly dependent upon ICT across all its functions and processes in the front office and back offices like sales and distribution, market planning, customer relations, operations in the air and on the ground, maintenance and engineering, HR, Finance and supply chain management.
Ethiopian recognises the vital role of ICT in meeting its vision and growth strategy and has embarked on a major investment to transform its ICT to enable and drive the business.
ICT capability is one of the differentiating factors of airlines. The best led airlines use advanced information and communications technology together with the best practices and standards that add value to the operation. So, the ICT Business Transformation Programme is a very crucial component in enabling Ethiopian Airlines to make a quantum leap in its business.
Accordingly, Ethiopian has been engaged in the major milestone of defining corporate IT strategy. The ICT Business Transformation Programme is expected to take two years to implement with an investment of USD 30 million.
Due to the significance of the project and the investment involved, Ethiopian decided to engage Systems Integration & Implementation partner (SIIP).
Satyam Computer Services and Ernst & Young, working in the capacity of a System Implementation and Integration Partners (SIIP) have been selected as of 11 April, 2008.
In this programme, Ethiopian will adopt a new generation of ICT solutions and upgrade its overall operations to achieve a new level of business efficiency and scalability.

Other Major ICT Accomplishments

- Electronic ticketing which is activated with the IATA mandate has been completed as scheduled.
- Ethiopian has also signed an agreement with Sabre to upgrade its flight operation system. The new flight operation system consists of a new crew management system that includes crew portal and upgrade of the major modules.

Human Resource Management

As part of the ongoing implementation of vision 2010, Human Resource Management Division had undertaken the following major activities during the budget year.

- A total of 395 employees system wide were hired for training by the various schools. These include 84 School of Marketing, 94 Aviation Maintenance Training School, 29 Pilot Training School, 41 Cabin Crew, 43 college trainees, 51 employees for outstations and 53 employees for different units.

- A total of 148 employees were trained under the leadership development programme. Out of these, 8 employees attended Executive Development Course (EDC), 19 employees the Business Management Course (BMC), 44 employees the Management Development Course (MDC), 77 employees' the Supervisor Development Course (SDC).

- 1034 employees attended the career development course.

- Through the Company Educational Assistance Programme, 895 employees were sponsored to pursue their education in the evenings and through correspondence programmes in various fields. A total of Birr 1,093,906.97 was expended for this programme.

- Short term scholarships were given to 21 employees and took their training abroad.

- In recognition of employees dedicated service, awards were given to 156 employees who served Ethiopian for 25, 30, 35 and 40 years respectively.

- Various measures were taken by the medical unit, such as the implementation of automated healthcare system, installation of new dry Sterilizer & Autoclave etc giving employees' health and safety due attention in the year.

Overview of Operating and Financial Results

The Airline's level of operation and operating results in the fiscal year 2007/08 was higher than the previous year in all parameters. Capacity availed in terms of Available Seat Kilometres (ASK), Available Ton Kilometres (ATK) and Block Hours have increased during this year compared to last year.

Performance Category	2007/08	2006/07	%age Change
Block Hours (000)	117	110	6.5
ASKs (Millions)	12,343	11,156	10.6
ATKs (Millions)	2,376	2,078	14.3

Block Hours
The total block hours flown during the year were higher than those of the previous year by 7%. This was mainly due to additional capacity, increased frequency and cargo operations to various destinations.

Available Seat Kilometres (ASK)
Seat kilometres made available during 2007/08 were higher than the preceding year by 11%.

Available Tonne Kilometres (ATK)
The total ton kilometres made available during the fiscal year 2007/08 were more than the actual ton kilometers provided during the preceding year by 14%.

Revenue Tonne Kilometres
Better results achieved in passenger traffic and freight have contributed to the overall increase in revenue with ton kilometres, recording a growth rate of 21%.

Revenue Passenger Kilometres (RPK)
The total revenue passenger kilometres achieved during the fiscal year was higher than the results of the preceding year registering a growth of 20%. The increase is mainly attributed to the capacity growth and traffic increase on internationally scheduled services.

Financial Performance

Revenue
Compared to the previous year, the total revenue generated during the year under review grew by 28%.

Passenger Revenue
The actual passenger revenue, including excess baggage realized during the year compared to that of the preceding year was higher by 30% mainly due to the increase in passenger uplift.

Freight Revenue
Due to the growth of export commodities, Cargo revenue earned during 2007/08 fiscal year was more than the previous period by 16%.

Operating Expenses
The total operating expenses for the year have shown an increase of 30% as compared to previous year. The major contributors for this increase were aviation fuel and aircraft lease expenses.

Cash Position
The airline has generated a net cash inflow of ETB 1.09 billion from operating activities and raised ETB 349 million from financing activities and allocated ETB 439 million for investments. The overall circulation of cash during the period is represented graphically as follows:

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CASH FLOW (in millions)

THREE YEAR SUMMARY OF FINANCIAL HIGHLIGHTS

	2008		2007		2006	
Turnover	**ETB Million**	**US$ Million**	**ETB Million**	**US$ Million**	**ETB Million**	**ETB Million**
Passenger	7,006	745	5,236	585.8	4,021	4,021
Freight & Mail	803	786	715	80	611	611
Handling	73	8	62	6.9	36	36
Other	1,317	140	875	97.8	731	731
Total	**9,199**	**978**	**6,888**	**770.5**	**5,399**	**5,399**
Direct Expenditure	8,020	853	(5,877)	(657.4)	(4,366)	(4,366)
Overheads	751	80	(813)	(90.9)	(796)	(796)
Operating Profit	**428**	**46**	**198**	**22.2**	**237**	**237**
Operating Margin%	**5%**		**3%**	**3%**	**4.38%**	**4.38%**
Net Financial Expenses	129	(14)	(161)	(18)	(154)	(154)
Foreign exchange gain/(loss)	160	17	34	3.9	22	22
Other Non-operating items	49	5	59	6.6	29	29
Profit for the year	**508**	**54**	**130**	**14.5**	**134**	**134**
Net Profit margin%	**6%**		**1.9%**	**1.9%**	**2.48%**	**2.48%**

RATIO ANALYSIS

Description	2008	2007
A. Profitability Ratios (Percent)		
Operating Profit Margin	4.65	2.88
Net Profit Margin	5.48	1.89
Rate on Capital Employed (ROCE)	11.23	5.48
Interest on Operating Expense Ratio	1.47	2.41
Return on Total Assets	5.31	1.73
Cost of Debt	4.38	5.48
B. Liquidity Ratios		
Current Ratio	1.43	1.18
Quick Ratio	1.36	1.10
Working Capital ('000)	1,367,086	416,506
C. Leverage Ratios		
Total Debt to Total Asset	0.57	0.64
Debt to Equity Ratio	1.09	1.24
Times Interest Cover Ratio	4.9 Times	1.8 Times

AIRPORT PERFORMANCE INDICATOR

	2007-08	2006-07	2005-06	2004-05
Passengers handled (number)	2,504,646	2,095,564	1,762,900	1,555,851
Cargo handled (Kg'000)	72,758	64,640	61,833	49,759
Employee				
Average employee strength (number)				
Airport Operations	375	361	400	416
Cargo	162	135	121	96
Passengers handled per employee (number)	6,679	5,805	4,407	3,740
Cargo handled per employee (Kgs)	449,123	478,815	511,017	518,323

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The New Spirit of Africa

OPERATING STATISTICS

	2007-08	2006-07	2005-06
Consolidated Financial Statements			
Total Revenue (ETB)	9,199,339,222	6,887,695,043	5,398,507,665
Total Expenditure (ETB)	8,771,617,599	6,689,653,876	5,161,982,062
Operating Profit (ETB)	427,721,623	198,041,167	236,525,603
Net Profit (ETB)	507,558,571	130,672,460	133,645,134
Airline Operating Statistics			
Performance Indicators			
Yield (Cents* per RTK)	595.62	537.31	565.25
Unit Cost (Cents* per ATK)	356.78	314.07	298.26
Breakeven load factor (%)	59.90	58.45	52.77
Fleet (No. of Aircraft)	35	33	29
Production			
Destination Cities	52	49	47
Overall Capacity (Available Ton Kms) (‘000)	2,375,639	2,079,917	1,682,990
Available Seat Kilometres (‘000)	12,342,519	11,356,816	8,971,568
Aircraft departures	40,002	37,544	37,829
Traffic			
Passengers carried	2,504,646	2,095,564	1,762,900
Passenger Seat Kilometres	8,681,920	7,242,931	5,833,316
Average distance flown per pax (Kms)	3,466	3,456	3,307
Passenger Load factor (%)	70.34	63.8	64.10
Cargo Tonnes	72,758	64,640	61,833
Overall load carried (‘000)	1,473,918	1,078,009	908,561
Overall pay load factor (%)	62.04	51.8	54.0
Employee			
Average employee strength (number)	4,893	4,837	4,705
Capacity per employee (ATK) 000	486	430	358
Load carried per employee (RTK) 000	301	223	193
Revenue per employee (Millions)	1.88	1.42	1.15
Value added per employee (thousands)	334.72	236.66	225.67

*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.

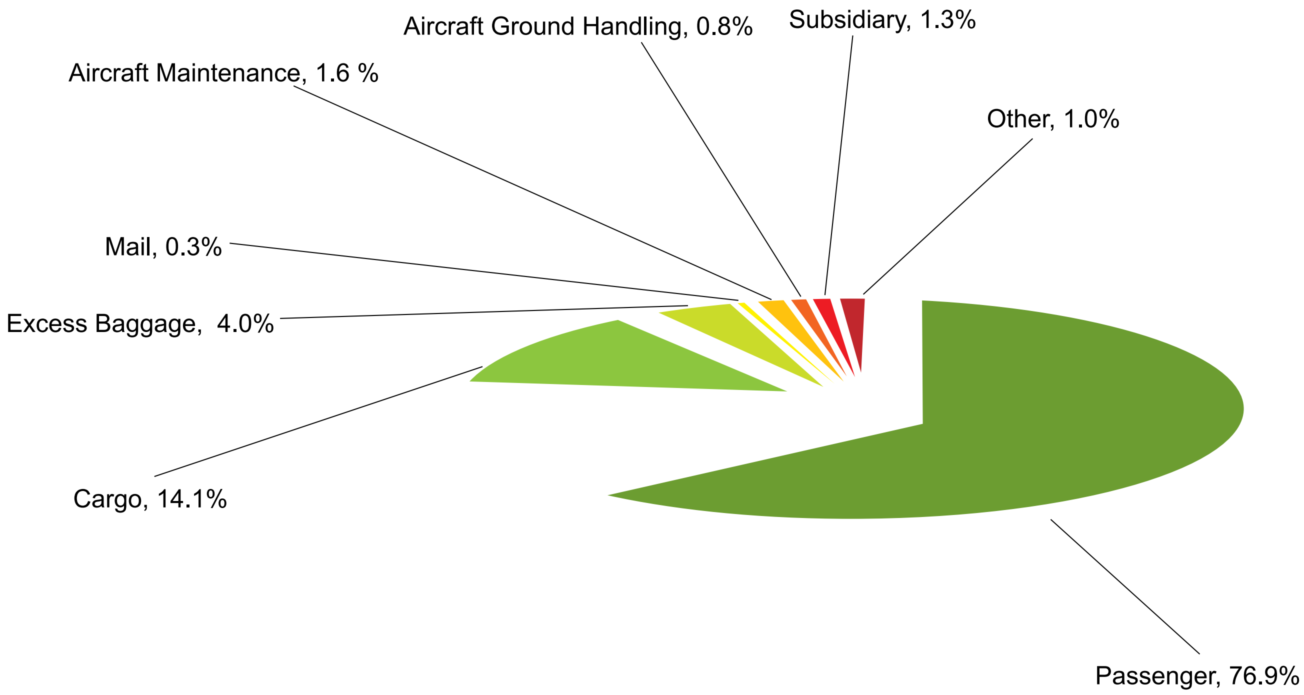
	2007-08		2006-07		2005-06	
	ETB'000	US$'000	ETB'000	US$'000	ETB'000	US$'000
Operating Revenue	9,199,339	942,632	6,687,695	770,542	5,398,508	609,779
Less: Purchase of goods and services	7,770,371	796,210	5,822,943	651,426	4,350,099	491,358
	1,428,968	**146,423**	**1,064,752**	**119,116**	**1,048,409**	**118,421**
Add: Other non-operating Income	139,869	2,332	38,899	4,352	12,452	1,406
Interest Income	68,934	19,063	69,489	7,774	52,627	5,944
Share of result in associated companies	-	-	-	-	-	-
Total value added	**1,637,771**	**167,818**	**1,173,140**	**131,242**	**1,113,488**	**125,771**
Distribution of Value added						
To employees Salaries	584,204	59,862	464,581	51,974	414,724	46,844
To overseas governments						
Corporation and other tax	14,732	1,510	12,552	1,404	10,937	1,235
To supplier of Capital						
Interest	128,966	13,215	161,127	18,026	154,304	17,429
Retained for reinvestment and future growth						
Depreciation and amortization	402,311	41,224	404,826	45,289	399,877	45,167
Retained Profits	507,558	52,008	130,054	14,549	133,645	15,095
Total Distribution of Value Added	**1,637,771**	**167,818**	**1,173,140**	**131,242**	**1,113,488**	**125,772**

In 2007-08, the total value added increased by ETB 465 million (40%). The increase came mainly from the high increase in operating revenue than the operating cost. Out of The total value added employees received 36% in the form of salaries and other related costs, interest paid 8% & government taxes 1%.

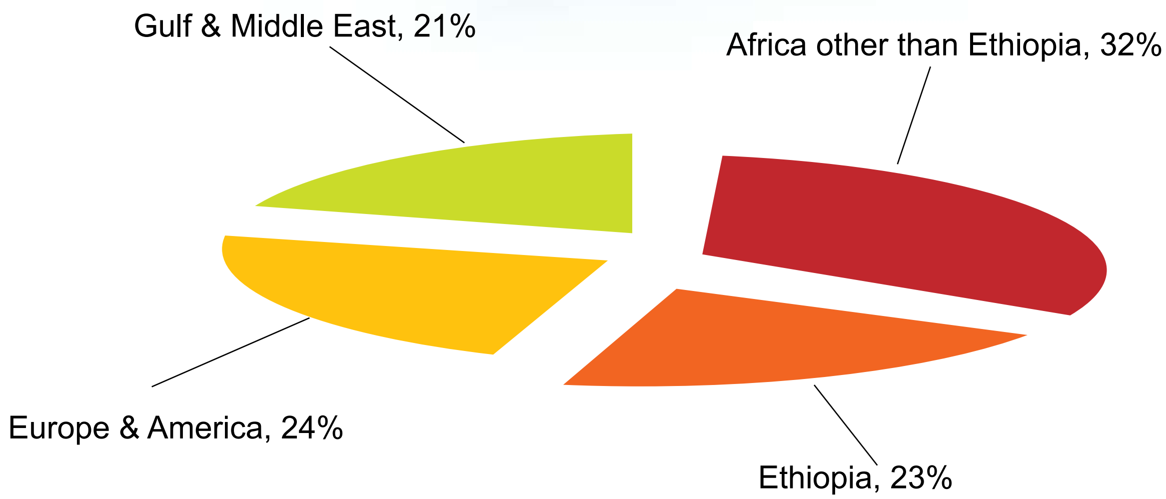
The amount retained in the business for future growth is 55%.

REVENUE BY BUSINESS SEGMENT

REVENUE	2007-08 ETB MILLION	%	2006-07 ETB MILLION	%
Passenger	7,076	76.9	5,304	77.0
Cargo	1,296	14.1	961	14.0
Excess baggage	372	4.0	244	3.5
Mail	28	0.3	31	0.4
Total Transport Revenue	**8,772**	**95.4**	**6,541**	**95.0**
Aircraft Maintenance Revenue	143	1.6	107	1.6
Aircraft Ground Handling	73	0.8	63	0.9
Subsidiary Revenue	122	1.3	97	1.4
Other	90	1.0	80	1.2
Total Operating Revenue	**9,199**	**100**	**6,888**	**100**



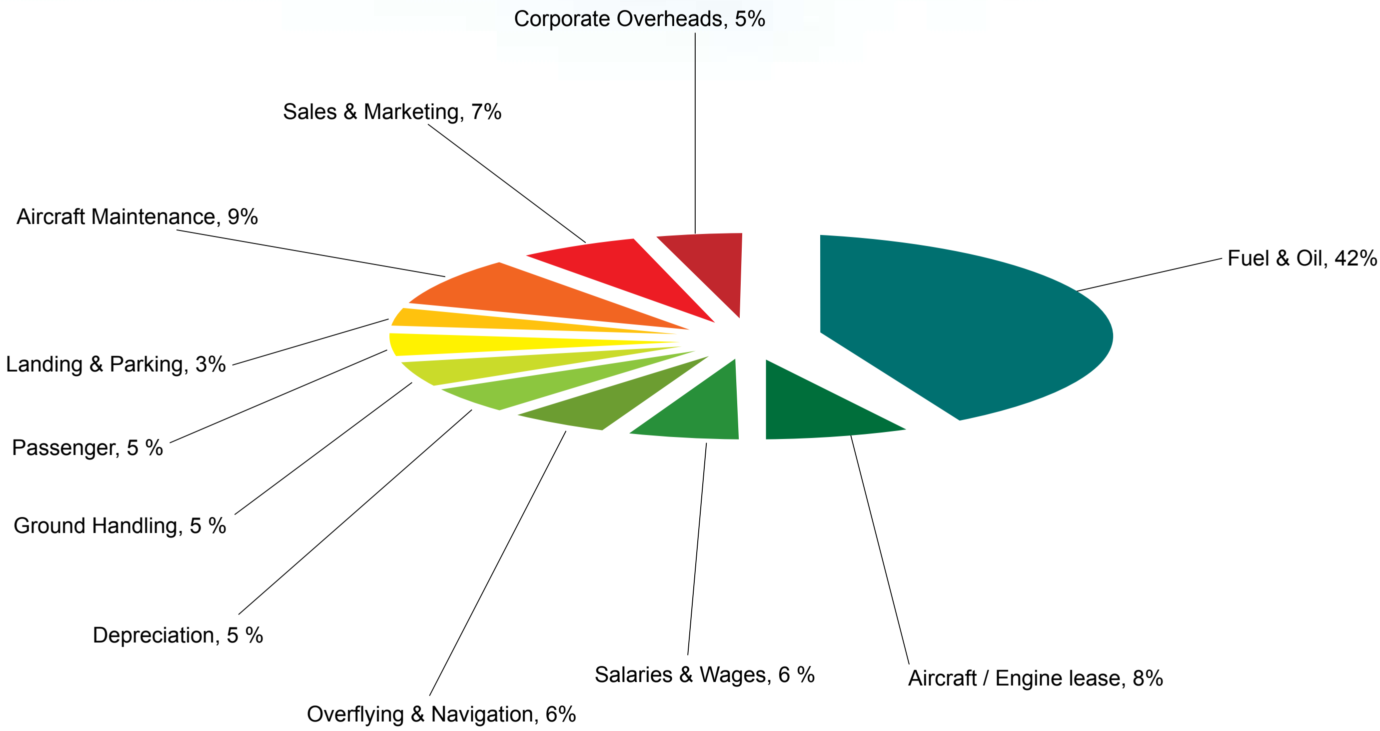
REVENUE BY GEOGRAPHICAL SEGMENT



EXPENDITURE

	2007/08 ETB Million	%	2006/07 ETB Million	%
Fuel & Oil	3,714	42%	2,593	39%
Aircraft/Engine lease	663	8%	560	8%
Salaries & Wages	570	6%	453	7%
Over-flying & Navigation	489	6%	411	6%
Depreciation	402	5%	390	6%
Ground Handling	466	5%	359	5%
Passenger	424	5%	351	5%
Landing & Parking	268	3%	220	3%
Aircraft Maintenance	772	9%	520	8%
Sales & Marketing	579	7%	437	7%
Corporate Overheads	425	5%	397	6%
Total Operating Expenses	**8,772**	**100%**	**6,690**	**100%**

EXPENDITURE



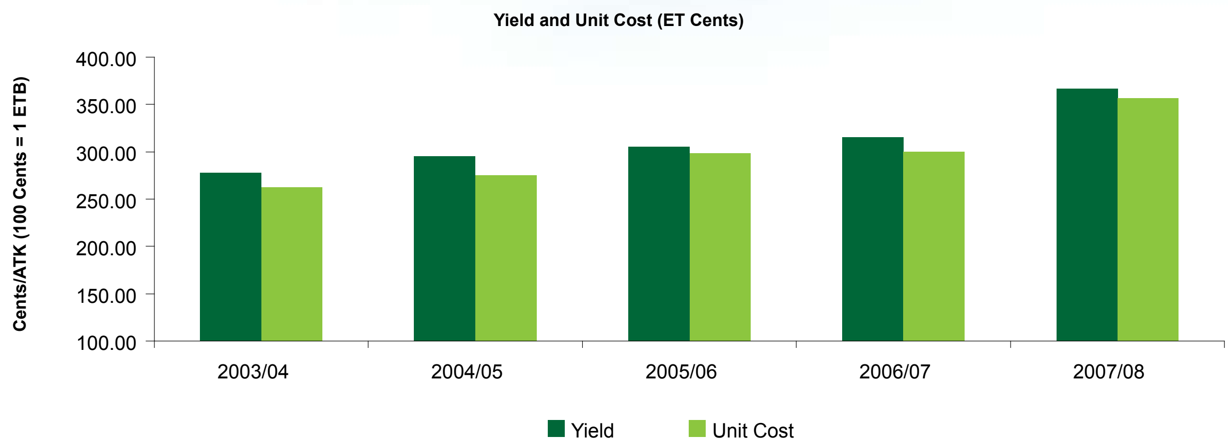
YIELD, UNIT COST AND BREAKEVEN LOAD FACTOR

Overall yield per RTK grew by 10.9% to 595.62 ET Cents while unit cost per RTK rose by 8.3% to 579.59 ET Cents as compared to the preceding year. The increase in overall yield is driven by the increase in passenger yield per revenue passenger kilometres.

When considering total capacity, Yield per ATK increased by 16.3% to 366.65 ET Cents while, Unit cost per ATK increased by 13.6% to 356.78 ET Cents. The increase in unit cost is mainly due to the change in fuel cost as a result of skyrocketing fuel prices and increase in ownership cost due to additional capacity.

The breakeven load factor has increased by 6.4 pts due to the fact that the increase in yield is more than the increase in unit costs.

YIELD AND UNIT COST (ET CENTS)

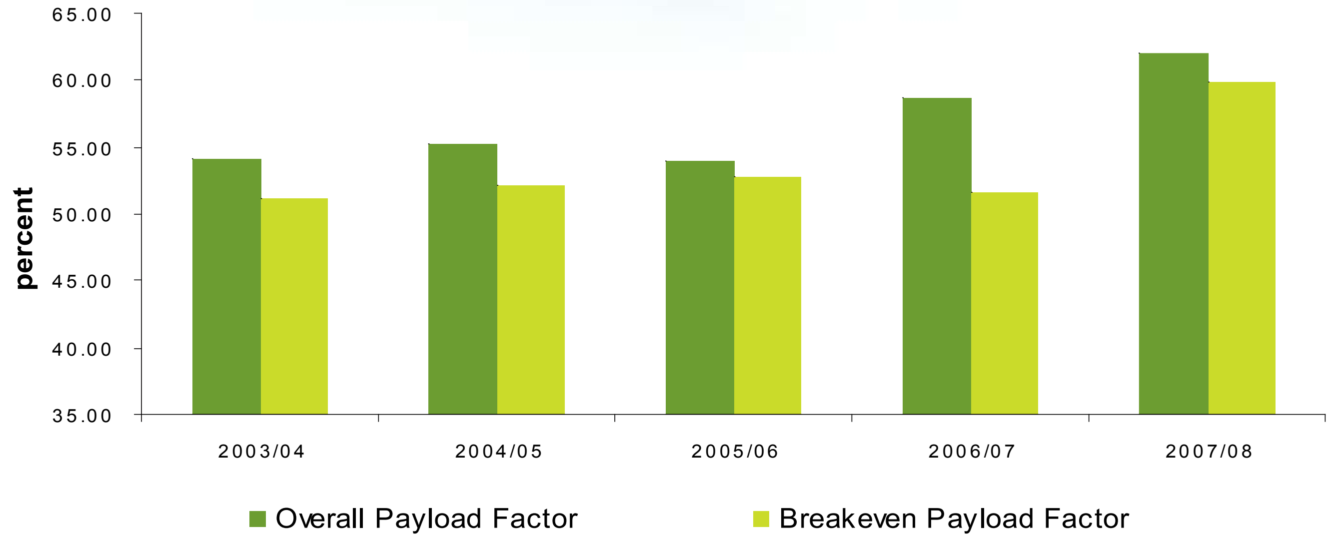


CAPACITY, TRAFFIC AND LOAD FACTOR

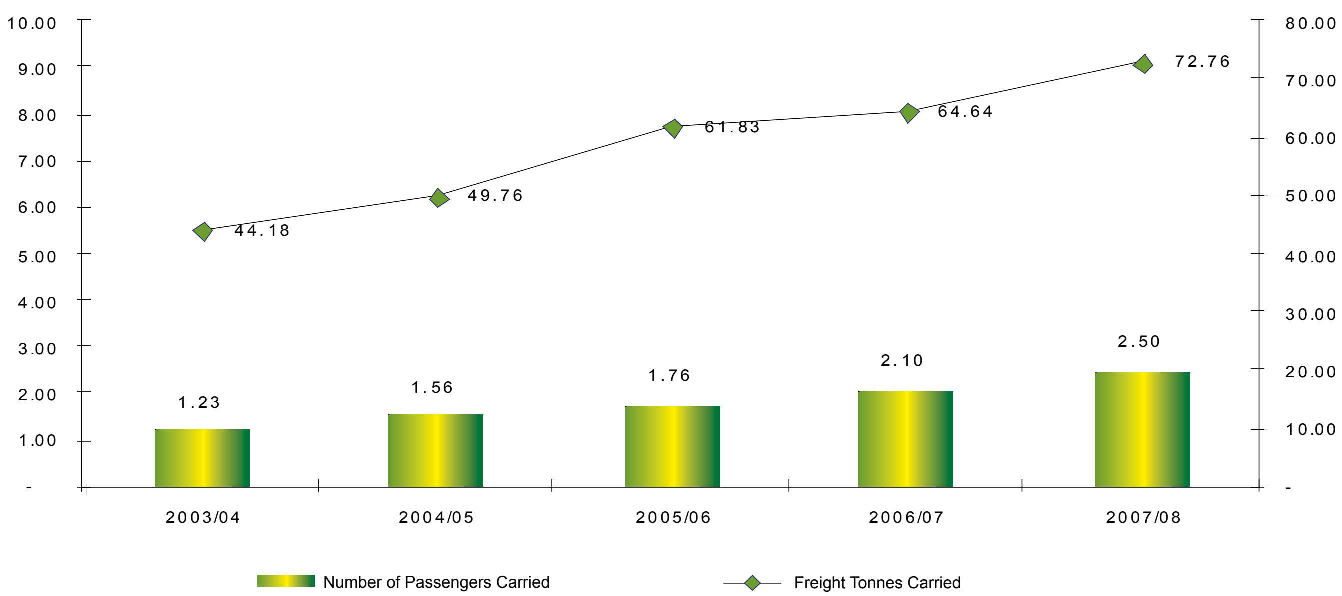
Traffic measured in RTKs has increased by 21% to 1,474 million and capacity measured in ATKs grew by 14% to 2,376 million. The increase in ATK is mainly due to increase in ASK as the result of frequency increases to the USA, Europe (Brussels, London), West Africa (Abidjan), South Africa (Johannesburg, Kinshasa), Asia (Bangkok/Guangzhou, Mumbai, Delhi/Peking) and Juba in Southern Sudan. Moreover, the airline also started new services to Zanzibar, Sana'a, Bahrain and Abu Dhabi during the year. The addition of two B747 – 200 freighters to the cargo business has also contributed greatly for the overall capacity growth during the year.

Passenger load factor increased by 5.4 pts because of the fact that the capacity increase expressed in terms of the number of seats available is less than the increase in actual passenger kilometres flown. An 11% capacity increase in Available Seat Kilometres has resulted in a 20% increase in traffic measured in terms of Revenue Passenger Kilometres.

OVERALL & BREAKEVEN LOAD FACTORS



PASSENGER AND CARGO CARRIED



PASSENGER AND CARGO CARRIED

Aircraft Type	Owned	Leased (Operating)	Total
Boeing 737-200	-	1	1
Boeing 737-700	3	2	5
Boeing 747-200F	-	2	2
Boeing 757-200 P	3	4	7
Boeing 757-200 F	1	1	2
Boeing 767-300	3	7	10
Boeing 767-200	1	-	1
DHC-6-300	2	-	2
Fokker-F27-MK050	5	-	5
Total	**18**	**17**	**35**

In addition to the above, ET and the Boeing Company concluded an order agreement for ten Boeing 787 Dream liner jets. The Memorandum of Understanding was signed between the two companies earlier last year.

The delivery date has been rescheduled to early 2010. Ethiopian Airlines will be the first Africa-based operator to acquire the technologically advanced and rapidly selling jet aircraft.

RISK MANAGEMENT

Ethiopian Airlines adopts a five-step risk management cycle adapted from the best international practices and currently concentrates on a variety of financial risks, specifically risks associated with Fuel, Interest Rate and Currencies. Treasury department is mainly responsible to identify, evaluate and hedge these financial risks.

1) Foreign Currency Risk

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

The Enterprise hence works through its area offices and airline industry organizations to promptly repatriate its funds and provide early warnings on such conditions, along with reporting the situation to the senior management.

In addition, the airline seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching receipts and payments in each individual currency.

As of June, 2008, cash position balance shows 65.59% in hard currencies of USD, EUR, GBP, CAD, and other European Currencies, 20.15% in African currencies, 4.97% in Ethiopian Birr and 9.29% in all other currencies.

2) Fuel Price Risk

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 total annual uplift.

This year the airline monitored the movement of jet fuel prices and found fueling them to be increasing from time to time due to speculative reasons and opted to monitor the trend during the year in review.

3) Interest Rate Risk

The airline is exposed to changes in interest rates of floating debt.

Since the end of 2003, Ethiopian has acquired a total of six aircraft and four spare engines. Due to the prevailing low rates at the time, the company opted to use the floating interest rate. But since interest rates were rising, the options of swap, collar and subsidised swap were evaluated so that a hedging exercise could 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. The resultant exposure is journalised immediately upon the periodic repayment of the loan.

Currently the company is reviewing its hedging policies for jet fuel price and interest rate risks, in consideration of the various strategies.

GLOSSARY

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

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AUDIT SERVICES CORPORATION

ፖ.ሣ.ቁ. / P.O. Box 5720   ስልክ / Tel. 51 52 22   የፋክስ ቁ. / FAX No. 51 30 83
አዲስ አበባ ADDIS ABABA

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

We have audited the financial statements of Ethiopian Airlines Enterprise set out on pages 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 article16 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 2008 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

29 January 2009

BALANCE SHEET

ETHIOPIAN AIRLINES ENTERPRISE
BALANCE SHEET

AT 30 JUNE 2008

				2007
	Notes	Birr	Birr	Birr
ASSETS EMPLOYED				
PROPERTY, PLANT AND EQUIPMENT	1b)(i),2		4,444,760,092	4,418,165,921
INVESTMENTS	1b)(ii),3		24,029,276	18,367,050
STANDING DEPOSITS	1b)(iii)		295,793,956	217,494,390
DEFERRED CHARGES	1b(iv),4		164,342,967	113,116,354
CURRENT ASSETS				
Stock	1b)(v),5	211,665,765		172,835,524
Debtors	1b)(vi),6	1,849,191,078		1,201,163,183
Cash and bank balances	1b)(vii),7	2,432,680,016		1,429,290,401
		4,493,536,859		**2,803,289,108**
CURRENT LIABILITIES				
Creditors	1b)(viii),8	1,207,994,428		1,018,423,968
Unearned transportation	1b)(ix)	1,588,435,404		923,083,210
Bank overdraft	9	36,595,746		31,443,095
Current maturity of long term loans	13	276,836,195		409,428,117
		3,109,861,773		**2,382,378,390**
NET CURRENT ASSETS			1,383,675,086	420,910,718
			6,312,601,377	**5,188,054,433**
FINANCED BY CAPITAL				
Authorized		**9,000,000,000**		
Paid up	10		2,948,636,946	2,441,078,911
CONTRIBUTIONS	1b(x)		123,862,945	79,860,786
			3,072,499,891	**2,520,939,697**
DEFERRED LIABILITIES	1b(xi),11		8,046,256	9,071,993
PROVISION FOR MAINTENANCE	1b(xii),12		354,558,665	323,698,420
LONG TERM LOANS	1e)(i),13		2,877,496,565	2,334,344,323
			6,312,601,377	**5,188,054,433**

The notes on pages 39 to 56 form an integral part of these financial statements.

PROFIT & LOSS ACCOUNT

ETHIOPIAN AIRLINES ENTERPRISE
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2008

	Notes	Birr	Birr	Birr 2007
OPERATING REVENUE	1d),14		9,199,339,084	6,887,695,043
OPERATING EXPENSES	15		8,771,618,119	_ 6,689,653,876
GROSS OPERATING PROFIT			**427,720,965**	**198,041,167**
NON-OPERATING EXPENSES (INCOME)				
Interest		128,966,605		161,126,549
Provision for blocked bank account		2,260,940		2,948,719
Provision for stock obsolescence		16,762,281		-
Others	1e)(iii),16	(227,826,896)		(96,706,561)
			79,837,070	(67,368,707)
NET PROFIT FOR THE YEAR			**507,558,035**	**130,672,460**

The notes on pages 39 to 56 form an integral part of these financial statements.

STATMENT OF CHANGE IN EQUITY

ETHIOPIAN AIRLINES ENTERPRISE
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

	Capital Birr	Contributions Birr	Unappropriated profit Birr	Total equity Birr
Balance at 30 June 2006	2,310,406,451	46,876,881	-	2,357,283,332
Net profit for the year	-	-	130,672,460	130,672,460
Transfer from profit of the year	130,672,460	-	(130,672,460)	-
Addition to contributions	-	71,077,787	-	71,077,787
Amortization of contributions	-	(38,093,882)	-	(38,093,882)
Balance at 30 June 2007	2,441,078,911	79,860,786	-	2,520,939,697
Net profit for the year			**507,558,035**	**507,558,035**
Transfer from profit of the year	507,558,035		(507,558,035)	-
Addition to contributions	-	80,056,716	-	80,056,716
Amortization of contributions	-	(36,054,557)	-	(36,054,557)
Balance at 30 June 2008	**2,948,636,946**	**123,862,945**	**- -**	**3,072,499,891**

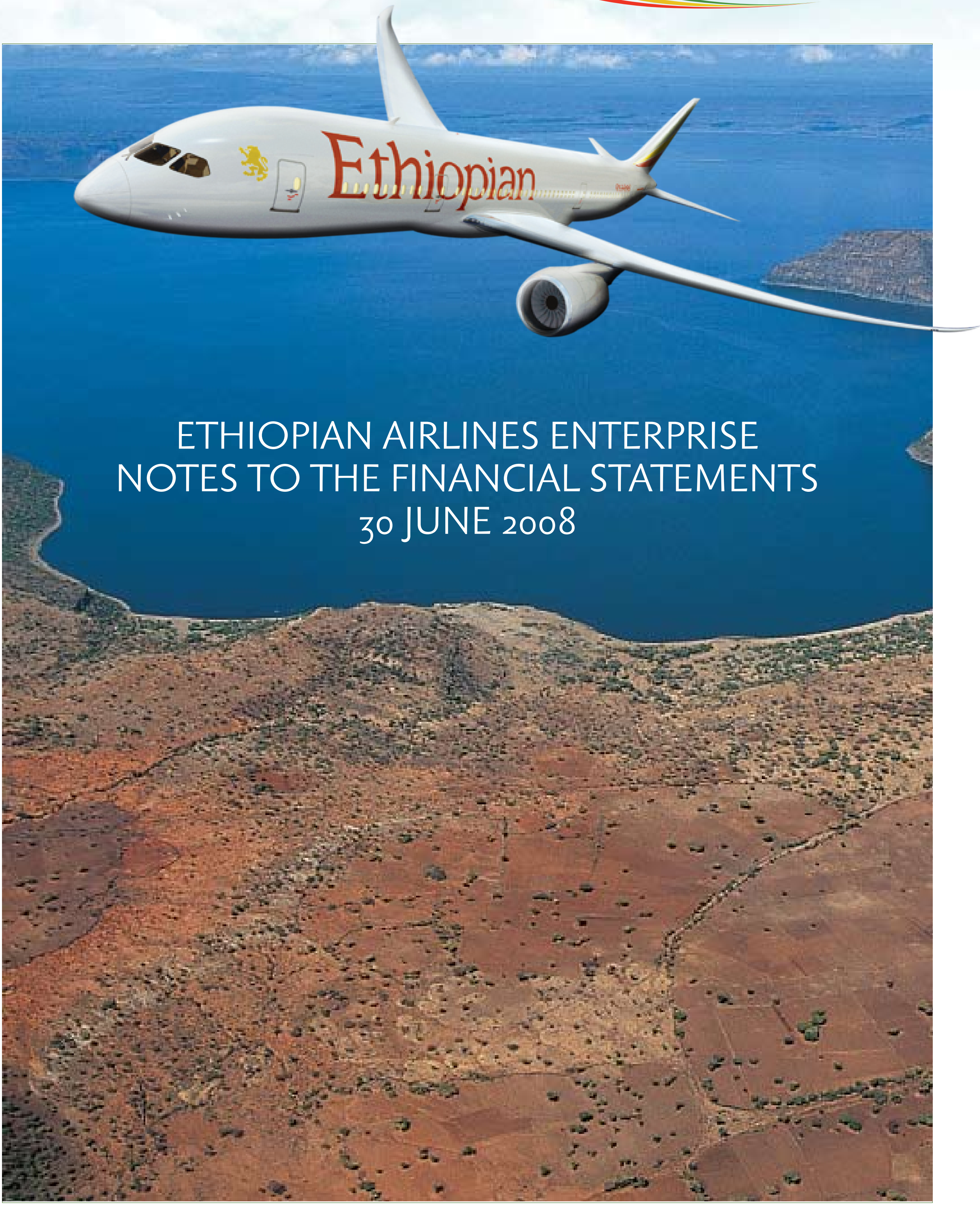
The notes on pages 39 to 56 form an integral part of these financial statements.

CASH FLOW STATEMENT

ETHIOPIAN AIRLINES ENTERPRISE
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

				2007
	Notes	**Birr**	**Birr**	**Birr**
OPERATING ACTIVITIES				
Net cash inflow from operating activities	17		1,093,336,474	745,545,430
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(437,142,261)		(245,264,244)
Proceeds from disposal of property, plant and equipment		3,008,112		12,546,112
Payments from investments		(5,662,226)		(858,206)
Net cash outflow from investing activities			(439,796,375)	**(233,576,338)**
FINANCING ACTIVITIES				
Bank overdraft received		5,152,651		31,443,095
Long term loans received		830,382,180		87,226,927
Repayment of long term borrowings		(419,821,860)		(481,514,398)
Interest paid		(134,797,877)		(162,915,945)
Interest received		68,934,422		69,489,290
Net cash inflow/(outflow) from financing activities			349,849,516	(456,271,031)
Net increase in cash and cash equivalents			1,003,389,615	55,698,061
Cash and cash equivalents at beginning of year			1,429,290,401	1,373,592,340
Cash and cash equivalents at end of year	7		**2,432,680,016**	**1,429,290,401**

The notes on pages 39 to 56 form an integral part of these financial statements.



ETHIOPIAN AIRLINES ENTERPRISE
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2008

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Enterprise, which are consistent with those applied in the preceeding 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	10,000
Tools	2,500
Neon signs	12,000
Personal computers	5,000
Improvements to buildings	5,000
Modification expenses on:Item Modified	Amount to be Capitalised
Jet Airframe	Birr 300,000 and over
Turbo Prop Airframe	" 200,000 and over
Twin Otter Airframe	" 100,000 and over
Jet Engine	" 100,000 and over

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

DHC-6	30 June 2006
Jet 757	31 August 2008 30 November 2009 30 April 2010
Jet 767-300	31 October 2010 30 November 2021 30 June 2022
Jet 737-700	30 June 2023 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 2006
Turbo Thrush	30 June 2006
AG - CAT	31 August 2008

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

– Other property

This is depreciated in the following periods:-

Radios, field passenger equipment and other similar items – 5 years.

Office equipment and furniture – 5 years.

Motorized vehicles and equipment – 5 years.

Computerized equipment – 4 years.

Machineries – 20 years.

Buildings – 7 to 20 years.

Improvements to government owned buildings – 10 years.

Improvements to leasehold property-over the term of the lease.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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 related provision for doubtful debts.

vii) Cash and bank balances

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

viii) Creditors

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

ix) Unearned transportation

Passenger ticket and cargo airway bill sales are recorded as current liabilities in the unearned transportation account until recognized as revenue when the transportation services are provided. The value of unused tickets and miscellaneous charge orders (MCOs) over eighteen months old are credited to revenue.

x) Contributions

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

xi) Deferred liabilities

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

xii) Provision for maintenance

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

c) Recognition of financial assets and financial liabilities

The Enterprise recognizes a financial asset or a financial liability on its 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Council of Ministers dated 16 November 2007 (6 Hidar 2000), ሕገመ Ref. No. 3 Se47/¨-146/2000.

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.

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 opposite). The said two jets are held as collateral for the commercial loan obtained from Barclays Bank see note 13(c) opposite).

2. PROPERTY, PLANT AND EQUIPMENT

	Balance at 30 June 2007 Birr	Additions Birr	Adjustments due to sale of aircraft and lease-back Birr	Adjustments due to currency fluctuation Birr	Disposals Birr	Balance at 30June 2008 Birr
COST OR VALUATION						
Flight equipment						
Own	5,533,648,040	61,602,711	-	163,338,121		5,736,288,778
Leased	848,206,425	-	-	-	(22,300,094)	848,206,425
Other property	1,076,830,859	212,653,180	-		(24,980,501)	1,264,503,538
	7,458,685,324	**274,255,891**	-	**163,338,121**	**(47,280,595)**	**7,848,998,741**
DEPRECIATION						
Flight equipment						
Own	1,897,742,218	327,516,328	(43,594,178)	-	(19,582,803)	2,162,081,565
Leased	657,653,087	-	43,594,178	-	-	701,247,265
Other property	530,236,798	76,346,531	-	-	(21,012,562)	585,570,767
	3,085,632,103	**403,862,859**	-	-	**(40,595,365)**	**3,448,899,597**
NET BOOK VALUE						
Flight equipment						
Own	3,635,905,822					3,574,207,213
Leased	190,553,338					146,959,160
Other property	546,594,061					678,932,771
	4,373,053,221					**4,400,099,144**
Work orders in progress	43,620,634					39,050,367
Capital goods in transit	1,492,066					5,610,581
	4,418,165,921					**4,444,760,092**

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

c) Foreign investments include Birr 14,062,588 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.

3. INVESTMENTS

a) These are as follows:-

	Birr	2007 Birr
Nationalized and state owned	1,224,500	1,224,500
Wholly-owned subsidiary nationalized	199,600	199,600
Foreign investments	24,179,928	18,517,702
	25,604,028	**19,941,802**
Less: Provision for diminution in investments	1,574,752	1,574,752
	24,029,276	**18,367,050**

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

c) Foreign investments include Birr 14,062,588 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. DEFERRED CHARGES

	Birr	2007 Birr
Predelivery payments for purchase of new aircraft	112,809,390	97,128,189
Miscellaneous	51,533,577	15,988,165
	164,342,967	**113,116,354**

5. STOCK

	Birr	2007 Birr
Stock in store	189,040,055	163,617,926
Supplies stock - customer work orders	14,783,769	12,853,100
Stock of printing and stationery items	67,310,781	38,940,581
	271,134,605	**215,411,607**
Less: Provision for stock obsolescence	59,988,363	43,226,082
	211,146,242	**172,185,525**
Goods in transit	519,523	649,999
	211,665,765	**172,835,524**

6. DEBTORS

a) These are made up of:-

	Birr	2007 Birr
Ethiopian Government	1,310,643	9,531,039
Airmail	12,116,546	16,251,146
Transportation - Airlines	4,922,385	35,792,859
Transportation - Others	822,174,207	447,151,460
Advance for purchase of aircraft	604,935,221	368,511,818
Deposits and prepayments	177,438,433	99,443,004
Others	302,734,934	346,180,457
	1,925,632,369	**1,322,861,783**
Less: Provision for doubtful debts	(76,441,291)	(121,698,600)
	1,849,191,078	**1,201,163,183**

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

	Birr	Birr
Balance at 30 June 2007		121,698,600
Less: Adjustment of provision no longer required (note16)	16,762,281	
Write off against provision	28,495,028	
		45,257,309
		76,441,291

7. CASH AND BANK BALANCES

a) Comprise the following:-

	Birr	2007 Birr
Cash with foreign banks	720,333,240	416,094,273
Less: Provision for currency fluctuation	(4,900,000)	(4,900,000)
Provision for blocked bank account	(69,073,914)	(66,812,974)
Technically overdrawn balances	(6,773,572)	(8,216,718)
	639,585,754	**336,164,581**
Cash with local banks	23,163,035	30,367,536
Foreign short term deposits	1,690,709,578	1,024,578,502
Unverified deposits	53,266,522	9,153,624
Cash on hand	25,955,127	29,026,158
	2,432,680,016	**1,429,290,401**

b) The cash with foreign banks includes balances at three locations amounting to Birr 67,948,105 which are not readily transferable. These have been fully provided for.

8. CREDITORS

	Birr	2007 Birr
Payable to oil companies	460,901,314	232,115,966
Goods received but not billed	65,300,893	42,537,139
Miscellaneous accounts payable	429,375,474	353,527,513
Accrued interest	16,323,658	22,154,931
Accrued insurance premium	10,918,948	7,137,256
Other airlines pool apportionment	25,972,281	16,509,655
Transportation tax and embarkation fees	102,010,674	101,832,966
Miscellaneous clearing accounts	1,711,812	271,292
Advances from customers' work orders	12,382,941	24,898,783
Others	83,096,433	217,438,467
	1,207,994,428	**1,018,423,968**

9. BANK OVERDRAFT

The Enterprise has an overdraft facility of Birr 50,000,000 with the Commercial Bank of Ethiopia, Airport Branch secured on buildings.

10. PAID UP CAPITAL

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

	Birr
Balance at 30 June 2007 Transfer from profit for the year	2,441,078,911 507,558,035
	2,948,636,946

b) The Council of Ministers authorized the Enterprise to transfer the net profits to paid up capital until the paid up capital reaches the authorized level. Details amending the capital of the Enterprise are stipulated in the Council of Ministers Regulations No. 147/2008 dated 24 April 2008.

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.

11. DEFERRED LIABILITIES

	Birr	2007 Birr
Training of other airlines' personnel	5,872,302	7,215,430
Accumulated fines deducted from employees	2,173,954	1,856,563
	8,046,256	**9,071,993**

12. PROVISION FOR MAINTENANCE

	Birr
Balance at 30 June 2007	323,698,420
Add: Provision made during the year	299,714,336
	623,412,756
Less: Actual payments made during the year	268,854,091
	354,558,665

13. LONG TERM LOANS

a) These are as follows:-

	TOTAL LOAN Birr	CURRENT PORTION Birr	LONG TERM PORTION Birr	LONG TERM PORTION 2007 Birr
Barclays Bank (Loan I)	2,382,846,850	256,371,698	2,126,475,152	2,229,902,472
DVB Bank AG	134,675,379	-	134,675,379	
Royal Bank of Scotland	150,368,680	-	150,368,680	-
Commercial Bank of Ethiopia (CBE III)	104,441,851	10,646,704	93,795,147	104,441,851
Commercial Bank of Ethiopia (CBE IV)	382,000,000	9,817,793	372,182,207	-
	3,154,332,760	**276,836,195**	**2,877,496,565**	**2,334,344,323**

b) Barclays Bank (Loan I)

The amount of Birr 2,382,846,850 represents the outstanding balance at 30 June 2008 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 instalments together with interest computed at floating and hedged rates. The loans are secured by the guarantee of Ex-IM Bank and pledges on the respective aircraft which are registered in the name of Ethiopian Leasing Limited.

13. LONG TERM LOANS (continued)

c) DVB Bank AG

The amount of Birr 134,675,379 (USD 13,779,838) represents the outstanding balance at 30 June 2008 of a total loan facility of Birr 586,488,000 (USD 60,000,000) for financing the predelivery payment (PDP) of Boeing 787 aircraft. Upon delivery of the aircraft, the full outstanding balance of the PDP loan will be transferred to ING – Capital and EIAF who will jointly finance the full cost of the aircraft under a separate agreement.

d) Royal Bank of Scotland

The amount of Birr 150,368,680 (USD 15,407,890) represents the outstanding balance at 30 June 2008 of a total loan facility of Birr 431,892,620 (USD 44,206,000) for financing the PDP of two Boeing 787 aircraft on a sale and lease back arrangement. Upon delivery of the aircraft, the full loan balance will be cleared as the two aircraft will be sold and leased back by the Enterprise under a separate agreement.

e) CBE Loan No. III

The loan from CBE of Birr 104,441,851 was obtained to finance part of the cost of construction of the cargo terminal and purchase of equipment for the terminal. The said balance is to be repaid in quarterly instalments of Birr 4,666,716 starting from 22 September 2007 and ending on 21 December 2015 and interest is to be paid at the rate of 8% per annum. This loan is secured against the collateral of buildings worth Birr 133,028,311.

f) CBE Loan No. IV

The balance of Birr 382,000,000 is out of the total loan granted by CBE of Birr 497,620,800 to be disbursed on a monthly basis starting from October 2007 to January 2009 to finance the agreement signed between the Enterprise and Boeing Capital Corporation to purchase one MD-11 Cargo Airfreight. The said balance is to be repaid in quarterly installments of Birr 15,884,676 starting from 30 April 2009 and ending on January 2019 and interest is to be paid at the rate of 5% per annum. This loan is secured against the Aircraft itself worth Birr 552,912,000.

14. OPERATING REVENUE

	Birr	2007 Birr
Passenger	7,005,538,232	5,235,911,965
Freight	775,868,281	684,539,527
Charter	590,621,312	345,125,300
Mail	27,679,785	30,879,854
Excess baggage	372,037,424	244,172,246
Commission	7,273,926	9,687,474
Customer services (work orders)	142,737,567	107,268,130
Subsidiaries	121,804,181	97,174,281
Miscellaneous	155,778,376	132,936,266
	9,199,339,084	**6,887,695,043**

15. OPERATING EXPENSES

	Birr	2007 Birr
Flying operations	4,652,252,529	3,380,020,216
Direct maintenance	775,346,751	523,906,647
Depreciation of flying equipment	327,516,328	324,888,848
Rentals-leased aircraft	663,247,757	560,038,774
Promotion and sales	578,613,006	436,962,484
Passenger service	549,730,820	504,817,771
Ground operations	754,413,464	563,619,617
Indirect maintenance	60,887,876	41,663,045
Depreciation	76,346,531	64,688,953
Customer services (work orders)	69,636,513	48,701,208
Subsidiaries	102,362,807	79,495,201
General and administration	161,263,737	160,851,112
	8,771,618,119	**6,689,653,876**

16. OTHER NON-OPERATING EXPENSES (INCOME)

	Birr	2007 Birr
Credit card service charge	30,645,259	15,063,131
Bank charges	13,548,253	13,262,261
Gain on currency fluctuation	(162,058,340)	(15,841,019)
Loss on disposal of fixed assets	3,677,118	4,970,234
Interest income	(68,934,422)	(69,489,290)
Write back of creditors accounts	(13,422,513)	(7,006,144)
Collection of debt written off in earlier years	-	(4,487,837)
Adjustment of provision for doubtful debts no longer required (note 6b)	(16,762,281)	(2,948,719)
Miscellaneous	(14,519,970)	(30,229,178)
	(227,826,896)	**(96,706,561)**

17. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATIONS

	Birr	2007 Birr
Net profit for the year	507,558,035	130,672,460
Interest income	(68,934,422)	(69,489,290)
Interest expense	128,966,605	159,906,471
(Increase)/ decrease in deferred charges	(51,226,613)	6,219,929
Increase in standing deposits	(78,299,566)	(34,729,629)
Loss on disposal of fixed assets	3,677,118	4,970,234
Depreciation	403,862,859	389,577,801
Adjustment of provision for doubtful debts no longer required	(16,762,281)	(2,948,719)
Write off of debtors against provision	(28,495,028)	(1,478,094)
Provision for stock obsolescence	16,762,281	-
Increase in stock	(55,592,522)	(36,844,604)
Increase in debtors	(602,770,586)	(286,221,855)
Increase in creditors	195,401,733	173,425,382
Increase in unearned transportation	665,352,194	220,648,412
Increase in contributions	44,002,159	32,983,905
(Decrease)/increase in deferred liabilities	(1,025,737)	429,498
Increase in provision for maintenance	30,860,245	58,423,529
Net cash inflow from operations	**1,093,336,474**	**745,545,430**

18. 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 2008**	**% of total assets portfolio at 30 June 2007**
Foreign investments		
Holdings of securities	0.25	0.24
Short term deposits	17.72	13.53
Cash with foreign banks	8.12	5.62

b) Interest rate risk

Current borrowings are at fixed and floating rates averaging 4.9466% p.a. Investments made by the Enterprise in various international banks generated interest income that covered the cost of borrowing by 53.87% in the year 2008 compared to 43.45% in the previous financial year.

c) Foreign currency risk

About 98.98% of the monies earned by the Enterprise are in hard and convertible currencies.

19. COMMITMENTS

The Enterprise has commitments, not provided for in these financial statements of Birr 18,266,146,137 for the purchase of ten aircraft and spare engines.

20. CONTINGENT LIABILITIES

The Enterprise has contingent liabilities of Birr 38,249,735, 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.

21. 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 and 147/2008. Its principal place of business is in Addis Ababa, Ethiopia, and it has area and station offices all over the world.

22. EMPLOYEES

The Enterprise employed 4,896 staff at 30 June 2008 (2007 – 4,715).

23. RETIREMENT BENEFIT OBLIGATIONS

The Enterprise's employees are eligible for retirement benefits under a defined contribution plan. For the year ended 30 June 2008, the Enterprise contributed Birr 14,074,511, (2007 – Birr 11,410,070) which has been charged to the profit and loss account.

24. STAFF COSTS

Staff costs for the year amounted to Birr 881,609,731 (2007 – Birr 729,377,448) and are included in the various major expense categories.

25. DATE OF AUTHORIZATION

The Chief Executive Officer of the Enterprise authorized the issue of these financial statements on 29 January 2009.

ETHIOPIAN AIRLINES GENERAL SALES AGENTS

ABU DHABI
Salem Travel Agency
Tel: 971 2 6268900/6273333
E-mail: travels@salemtravelagency.com

ALGERIA
Air Algeria
Tel: 213 643731

ANGOLA
Luanda, Angola
Tel/Fax:244-222-335-713
E-mail: tchukombe@yahoo.com

ARGENTINA
Aviareps
Tel: 54 1148933003
Fax: 54 114893005

AUSTRALIA
World Aviation System (WAS)
Tel: 612-9244-2122
E-mail: terryd@worldaviation.com.au

AUSTRIA
Aviareps Austria,Argentinierstrasse
2/4 1040 Vienna/Austria
Tel: 431 585 363 019
Fax: 431 585 363 088
Email: e-sbuocz@aviareps.com

ATC Aviation Cargo Agent
Tel: 43 1-7007-38854
Fax: 43 1-7007 38853
E-mail: vie@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
Email: maas@agni.com

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
Toll Free No: Tel: 800-4452733;
asi@airlineservices.com

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

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

CONGO
Brazaville
Euro World SARL
Tel: 242-6712020/6713030
Mobile:971505589504
Fax: 31 020 655 3686
E-mail: a_chandirani@yahoo.com

CZECH & SLOVAK REPUBLICS
Tal Aviation Czech & Slovak Republics
Mala Stupartska 7
Praha 1, Czech Republic
Tel. 420 224 815 377
Fax. 420 224 815 379
email: flamini@t-m-i.cz

DENMARK
Khyber International
Tel: 453 3934455
Fax: 453 3933799

DUBAI
Asia Travel & Tour Agency
Tel: 971- 4 2951511
Fax: 971- 4 2955315

FINLAND & ESTONIA
Matkantekijat oy
(Tour Planners Ltd.)
Tel: 358 9687 78940
Fax: 368 9687 78910

GERMANY
ATC Aviation
Te: 49 69 698053 47
Fax: 49 69 698053 20
Email: fra@atc.aviation.com

GREECE
Gold Star Ltd.
Tel: 30 2103246706
Fax: 30 2103246723

HONG KONG
Desk Air Ltd
Tel: 852-2861-1811
Email: dekshk@netvigator.com

HUNGARY
AVIAREPS MO.KFT Borbely utca 5-7
1132 budapest, Hungary
Tel: 36 1 411 3880
Fax: 36 1 411 3881
Email: jvaradi@aviareps.com

INDIA
Ahmedabad
Sheba Travels Pvt. Ltd.
Tel: (079) 27544056
Fax: (079) 27542317
Email: shebajs@dataone.in

Pune
Leonard Travels Pvt Ltd
Tel: (952-0) 26131647/7690
Fax: (952-0) 26130782
Email: kajal@leonardtravels.com

STIC Travels Pvt :Ltd
Bangalore
Tel: (080) 22267613/22202408/22256194
Fax: (080) 22202409
Email: blr@sticgroup.com
Cochin
Tel: (0484) 2367476/477/478
Fax: (0484) 2367476
Email: cochin@sticgroup.com
Jaipur
Tel: (0141) 2372997/998/965
Fax: (0141) 2373059
Email: sticjai@sticgroup.com
Chandigarh
Tel : (0172) 2706562/67
Fax: (0172) 2702770
Email: sticixc@sticgroup.com
Kolkata
Tel: (033) 22174913/17 22292092
Fax: (033) 22266588
Email: sticccu@sticgroup.com
Hyderabad
Tel: (040) 23231451/66618755
Fax: (040) 66612966
Email: stichyd@sticgroup.com
Jallandhar
Tel: (018) 2232056/58/59
Fax: (018) 2230961
Email: qjustic@vsnl.net
Chennai
Tel: (044) 24330211/24351829
Fax: (044) 24330170
Email: sticmaa@sticgroup.com

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

IRAN
Iran National Airlines Corp.
Tel: 9821 6002010
Fax: 9821 6012941
info@preair.i.e

IRELAND
PremAir Marketing Services
(Passengers Only).
7 Herbert Street
Dublin 2, Ireland
Tel: 353-1-663-3938
Fax: 353-1-661-0752
E-mail: info@premair.i.e

ISRAEL-TEL AVIV
Opensky Cargo Ltd
Tel: 972-3-972-4338
CTO Tel:972 3 7971405
Central Reservation Office
Tel:972 3 7971400/1403/1404
Reservation agent
Tel:972 3 7971407 ShebaMiles &
Group desk
E-mail: david@opensky-cargo.co.il

JAPAN
Air System Inc. Japan
Tel: 03-3593-6608
E-mail: asipaxtyo@airsystem.jp

Mercury International Co Ltd
Cargo
Tel: 03-5777-3734
Email: aso@mercury-intl.co.jp

JORDAN
Al Karmel Travel
Tel: 9626 5688301
Fax: 9626 5688302

KUWAIT
Al-Sawan Co. W.L.L.
Tel: 965 808020 Ext. 1603/1604
Fax: 965 2453130/2462358

LIBERIA
Trade Management Int'l
Tel: 002316 524452

LIBYA (passenger & cargo)
Herodotus Travel & Tourism Services
Tel: 218 21 3408306/07
Fax: 218 21 3408305
Email: info@herodotus.com.ly

MALAYSIA
Plancongan Abadi SDN BHD
Tel: 2426360/2484313
Fax: 2412322/2486462

MADAGASCAR
Air Madagascar
Tel: 222-22

MALTA
Bajada Enterprises Limited
Tel: 356 21237939
Fax: 356 21237939

MAURITANIA
Agence Megrebine de Voyages
Tel: 222 254852/250584

MEXICO
Aviareps
Tel: 5255-5212-1193
Toll free: 01800-510-8212 (MEX)
Fax: 5255-5553-5867

MOROCCO
Skyline International
Tel: 212 2368322/23
Fax: 212 2369775

MOZAMBIQUE
Globo Tours LDA
Tel: 27 11 308067
Fax: 27 11 303596

NEPAL
Gurans Travel & Tours Pvt. Ltd.
Tel: 97 71 552 4232
Fax: 97 71 421 2736
Email: imel@wink.com.np

NETHERLANDS
Kales Airline Services B.V
Tel: 31 020 655 3680
Fax: 31 020 655 3686
Email: Danny.van.der.harst@kales.com

NEW ZEALAND
World Aviation systems
Tel: 64 9 308 3355

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

PAKISTAN
Trade Winds Associates Pvt. Ltd.
Islamabad
Tel: 92 51 2823040/2823350
Fax: 92 51 2824030
Karachi
Tel: 92 21 5661712-14/5661716
Fax: 92 21 566175
Lahore
Tel: 92 42 6365165/6305229
Fax: 92 42 6314051

PERU
Aviareps
Tel: 511-2418289/2416767
Fax: 511-8278

PHILIPPINES
Travel Wide Associates Sales Philippines
Tel: 632 8905464
Fax: 632 8906631
E-mail: et@twasp.com

POLAND
Tal Aviation Poland Ltd., Al.
Ujazdowskie 20 00-478 Warsaw Poland
Tel: 48 22627 2259
Fax: 48 22625 3146
email: ethiopian@tal.pl

PORTUGAL
Across / Air Mat
Tel: 351 217-817470
Fax: 351 217-817979

QATAR
Fahd Travels
Tel: 974 4432233
Fax: 974 4432266

RWANDA
Kigali,
Satguru International (Rwanda) SARL
Tel: 250-573079
E-mail a_chandirani@satgurutravel.com

SAUDI ARABIA
Jeddah
Tel: 966 2 6531222
Fax: 966 2 6534258
Alkhober
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
Tel: 966 2 5375081
Fax: 966 2 5373484
Makkah
Tel: 966 4 5492222
Fax: 966 4 5422258
Tabuk
Tel: 966 4 4221064
Fax: 966 4 4221816
Yanbu
Tel: 966 4 3227325/3213819
Fax: 966 4 3213926
Madina
Tel: 966 4 8275469
Fax: 966 4 8275484

SEYCHELLES
Mason's Travel Pty. Ltd.
Tel: 248 324173
Fax: 248 288888

SIERRA LEONE
IPC Travel
Tel: 221481/2/3/226244
Fax: 227470

SINGAPORE
Tel: 65 6297-1213
E-mail: citiair@pacific.net.sg

SOUTH AFRICA
Holiday Aviation
Tel: 27 11-289-8077/800
Fax: 27 11-289-8072

SOUTH KOREA
Whoree Agency Corp
Tel: 82-2319-0059
E-mail: worsel@chollian.net

SPAIN
Air Travel Management
Tel: 34 914 022718
Fax: 34 914 015239

SRI LANKA & MALDIVES
VMS Air Services Pvt. Ltd.
Tel: 94 11-244 7370/72/232 3929
Fax: 94 11-243 7249
Email: vickky@eureka.lk

SWEDEN
GSA Scandiniva
Tel: 468-797 9840
Fax: 468-797 9842

SWITZERLAND
Airline Center 15, Ch 8004, Zurich
Swirtzerland
Tel. 41 44 286 9968
Fax. 41 44 28 69978
Email: ethiopian@zrh.airlinecenter.ch
Airnautic (Cargo only)
Tel: 41 61 227 9797
Fax: 41 61-227 9780
E-mail info@airnautic.ch

SYRIA
Al Tarek Travel & Tourism
Tel: 963 11 2211941/2216265
Fax: 963 11 2235225

TANZANIA
Arusha, Boma Road
Tel: 255 2 72504231/6167
255 2 72509904-TSM
Kilimanjaro Airport
255 2 72554159
Email : jrocto@ethiopianairlines.com
arkapt@ethiopianairlines.com

TAIWAN
Apex Travel
Tel: 886-2-2713-1900
Fax: 886-2-2718-1057
E-mail:
apex-sherry@agent.abacus.com.tw

Global Aviation Service
(Taiwan) Inc
Cargo
Tel: 886-2-8712-2113
Email: cgo@gastwn.com

THAILAND
Oriole Travel & Tour (cargo only)
Tel. 66 2650 9207-9
Fax: 66 2237 9200

TUNIS
Tunis Air
Tel: 785100/288100

TURKEY
Panorama
Tel: 90 212 2315919
90 212 2309171
Fax: 90 212 2344999

UK
Globe Air Ltd. (Cargo Only)
Unit 8, Radius Park
St. Antony's Way
Feltham, Middlesex TW14 ONG
Tel: 44 020 8757 4747
Fax: 44 020 8831 9309
E-mail:
amanda.markham@uk.euro-cargo.com

USA
City Office
Tel: 703 682 0569
Fax: 703 682 0573
email:-
etusa@ethiopianairlines.com
Toll Free number 1-800-445 2733

Washington Dulles International
Airport
Tel : 703 572 6809
Fax: 703 572 8738

Cargo Only
Tel: 630 595 2323
Fax: 630 595 3232
Email:
hae.us@heavy-weight.com

VENEZUELA
Aviareps
Tel: 58-212-2866951
Fax: 58-212-2866951

YEMEN
Marib Travel & Tourist Agency
Tel: 9671-426
831/832/833/834/835
Fax: 9671-726 836

YUGOSLAVIA
Jugoslovenski Aerotransport
Tel: 683164

ZANZIBAR
(passenger & cargo)
MARHABA Hotels Travels & Tours
Tel: 255 24 2231527
Fax: 255 24 2231526
E-mail: marhaba@zanzinet.com

* For Physical Address please call or email the respective general sales offices

ETHIOPIAN AIRLINES OFFICES

ANGOLA
Largo 4 De Fevereiro
Hotel Meridien Presidente
Luanda, Angola
Tel: 2442 310328/310615
Fax: 2442 310328

BAHRAIN
Chamber of Commerce Building
P. O. Box 1044
Manama, Kingdon Of Bahrain
Tel: 973-17-215-022/29
Fax: 973-17-210-175
Email: bethlehemk@ethiopianairlines.com

BELGIUM
Building 704, BP31
BRUCARGO, B1931
CGO Tel: 3227-535-229
CGO Fax: 3227-535-226
APT Tel: 3227-535-228/043
APT Fax: 3227-535-043

Brussels LGG-Ethiopian Airlines
Rue St Expery 22 Cargo Nord
4460 Grace-Hollogne Liege Airport
Tel: 0032 4 225 5131/132/133/178
Fax: 0032 4 225 5134
Email: Fitsuma@ethiopianairline.com
Fitsuma@ethiopianairlines.be

BURUNDI
Avenue De La Victorie No. 09
P.O. Box 573, Bujumbura
Tel: 257-226820/226038
Fax: 257-248089
APT: 257-229842
Mobile: 257-841844
E-mail: bjmam@ethiopianairlines.com

CAMEROUN
30 Avenue General Charles De Gaulle
B.P 1326 Douala, Cameroun
CTO Tel: 237-33-430246
AM Direct Line: 237-33-430264
CTO Fax: 237-33-430167
AM Mobile: 237-77-937929
APT:237-33433730
E-mail: dlaam@ethiopianairlines.com
Sheba Miles Desk :DLASHEBA@
ethiopianairlines.com

CHAD
Avenue Charles De Gaule
P.O. Box 989, N'djamena
CTO Tel:235 2523143/2523027
Tel: 235-523143/523027
ATO Tel:235 2522599
APT: 235-522599
Mobile: 235-6896226

CHINA
L203 China World Tower 2,
China World Trade Centre
No.1 Jianguomenwai Ave. Beijing
(100004)
Tel: 8610-65050314/5 / 65069692
Fax: 8610-65054120
APT Tel: 8610-64591156
APT Fax: 8610-64599445
E-mail: bjsam@ethiopianairlines.com

Guangzhou World Trade Centre Complex
13th Floor, Room No. 1303-1305
Huan Shi Dong Road, China
CTO Tel: 8620-87621101/0120/0836
Fax: 8620-87620837
APT Tel./Fax: 8620-36067405
E-mail: cansm@ethiopianairlines.com

CONGO, DEMOCRATIC REPUBLIC
Boulevard du 30 Juin No. 1525
Aforia Building - 1st Floor
Gombe, Kinshasa
CTO tel.: 243-817-006-585/810-884-000
Apt. Mobile: 243-817-006-589
E-mail: fihres@ethiopianairlines.com
fihapt@ethiopianairlines.com
fiham@ethiopianairlines.com

CONGO, REPUBLIC OF
Avenue Foch, Brazzaville
P.O. Box 14125
Tel: 242-810761/810766
Fax: 242-810766
E-mail: bzvam@ethiopianairlines.com

COTE D'IVOIRE
Avenue Chardy
Immeuble Le Paris
P.O. Box 01 BP 5897 ABJ 01, Abidjan
Tel: 225-20219332/20215538/
20215884/20219179
Fax: 225-20219025
Mobile: 225-05061583
APT: 225-2021278819
APT Mobile: 00225-05063294
CTO Email:abjam@ethiopianairlines.com
E-mail: abjet@ethiopianairlines.com

DJIBOUTI
Rue De Marseilles
P.O. Box 90, Djibouti
Tel: 253-351007/354235
Fax: 253-350599
APT: 253-341216
E-mail: jibam@ethiopianairlines.com

EGYPT
3ARifat Saleh Tawfik off Farid Semeika
Higaz-Al Nozha Helipolis
P.O. Box 807, Ataba, Cairo
Tel: 262-14934/935/936/937
Fax: 262-14938
APT: 202-2265 4398
CGO: 2654346
E-mail: caiam@ethiopianairlines.com

ETHIOPIA
Main City Ticket Office
Churchill Road
P.O. Box 1755, Addis Ababa
Tel: 251 11 5517000
251 11 6656666 (Reservation)
251 11 5178320 (Apt)
Fax: 251 11 6611474

Yekatit 66 Avenue
P.O. Box 176, Dire Dawa
Tel: 251 25 1113069
251 25 1112546

FRANCE
66 Avenue des Champs Elysees
75008 Paris
CTO Tel: 331-5376-4153 /
338-258-26135
Fax: 331-537-71303/60537
APT: 331-4862-6632
APT Fax: 331-4862-6634
APT (Mobile): 0607616375
E-mail: ethiopian-airlines.paris@
wanadoo.fr

GABON
Quartier London
Rue Ogouarouwe Plaque No. 14
PO Box 12802, Libreville
Tel: 241 760144/45
APT Tel: 241 443255
Fax: 241 760146

GERMANY
Am Hauptbahnhof 6
60329 Frankfurt Am Main
CTO Tel: 49-69-274-00727, 2740070/+0049
(0) 1711 472 569
CTO Fax: 49-69-274-00730
APT: Frankfurt Flughafen,PO Box 750254
Tel:+49 (0) 6969051921/+49 (0) 1764
0251387
APT Tel: 4969-032-391/4969-690-5192
APT Fax: 4969-691-945
CTO E-mail: Eayasw@ethiopianairlines.com
APT E-mail: fraapt@ethiopianairlines.com

GHANA
Kwame Nkrumah Avenue, Cocoa House,
Ground Floor
Tel: 233-21664856/57/58
Fax: 233-21673968
APT: 233-21775168/778993/776171
E-mail: accam@ethiopianairlines.com

HONG KONG
Rm 1102 Lippo Sun Plaza 28 Canton Road,
Tsim Sha Tsui, Kowloon, Hong Kong
Tel: 852-2117 0233
Fax: 852-2117 1811
APT: 852-31508122
APT Fax: 852-31508125
SITA:HKGKKET,HKGAPET
E-mail: hkgam@ethiopianairlines.com

INDIA
30-B World Trade Centre, Cuffe,
Cuffe Parade, Mumbai 400005
CTO Tel. 22166066/67/68
CTO Fax: 22153725
ATO Tel: 26828626/27
ATO Fax: 26828628
CGO Tel: 26828415/16
CGP Fax: 26828417
E-mail: etsales@sticgroup.com
etreservations@sticgroup.com

Alps Building, 1st Floor
56, Janpath, New Delhi 110 001
Tel: 95 11-23312304
Fax: 95 11-23529235
CTO Tel: 95 11-23312302/303
ATO Tel: 95 11-25653739/40
E-mail: solomonya@yahoo.com

ISRAEL
1 Ben Yehuda Street
Room 2016, Tel Aviv
CTO Tel: 972-3-5100501/5160564
Fax: 972-3-5160574
APT: 972-3-9754096
APT Fax: 972-3975-4097
CGO: 972-3975-4096
E-mail: tlvam@ethiopianairlines.com

ITALY
Piazza Barberini 52
00187 Rome, Italy
CTO Tel:39 06 42011199
Tel: 3906-4200-9220
Fax: 3906-481-9377
APT: 3906-6595-4126
APT Fax: 3906-6501-0621
CGO: 3906-65954113
E-mail: ethiopian-rom@mclink.It

Via Albricci 9 - 20122 Milan
Tel: 3902 8056562
Fax: 3902 72010638
E-mail: ethiopian-mil@mclink.it

KENYA
Bruce House Muindi Mbingu Street
P.O. Box 42901-00100, Nairobi
Tel: 254-20 247508
Fax: 254-20 219007
APT: 254-20 822236/311
CTO: 254-20311507/311544
Mobile: 254-722518532
E-mail: nboam@ethiopianairlines.com
nboadm@ethiopianairlines.com
APT E-mail: nboapt@ethiopianairlines.com
CTO E-mail: nbores@ethiopianairlines.com

LEBANON
Clemenceau St. Gefinor Center,
Block (B)
Beirut, Lebanon
Tel/Fax: 961-1752846/7
APT: 961-1629814
E-mail: beyam@ethiopianairlines.com

MALAWI
Kenyata Drive, Bisnowaty Centre
CTO Tel: 01 771 002/ 308
01 772 031
Fax: 01 772 013
ATO: 01 700 782
Email: llwres@ethiopianairlines.com
llwsr@ethiopianairlines.com
llwcgo@ethiopianairlines.com

MALI
Square Patrice Lumumba
P.O. Box 1841, Bamako
Tel: 00 223-2222088
Fax: 00 223-2226036
APT Mobile: 00 223-6795819
E-mail: bkoam@ethiopianairlines.com

NIGERIA
3, Idowu Taylor, Victoria Island,
Lagos, Nigeria
P.O. Box 1602
Tel: 2341-7744711/2
Fax: 2341-4616297
APT: 2341-7744710/7751921/3
E-mail: losam@ethiopianairlines.com

RWANDA
Centenary House, Ground Floor
P.O. Box 385, Kigali
Tel: 250-575045/570440/42
Fax: 250-570441
APT: 250-514296
E-mail: kgletam@rwanda1.com

SAUDI ARABIA
Medina Road, Adham Center
P.O. Box 8913, Jeddah 21492
Tel: 9662-6512365/6614/9609
Fax: 9662-6516670
APT: 9662-6853064/196
APT Fax: 9662-685316
CGO Tel/Fax: 9662 6851041
E-mail: jedet@arab.net.sa
Jeddah Airport
Tel: 9662-6853064/6853196/6853527
APT (Mobile): 009662-54301354
E-mail: jedet@arab.net.sa

Riyadh Airport
Al Zouman Centre, Old Airport Road
PO Box 7543, Riyadh 11472
Tel: 966-1-4782140/4789763/4793155
Fax: 966-1-4793155

SENEGAL
Immeuble La Rotonde, Rue Dr. Theze
PO Box 50800, CP 18524 DKR RP
Tel: 221-823 5552/54
Fax: 221-823 5541
E-mail: dkrres@ethiopianairliens.com
APT tel: 221-820-9396/5077
E-mail: dkrapt@ethiopianairliens.com

SOMALI LAND
Cl Maarat al Khayr Building
Tel: 252-2-520681/528445
Mobile: 252-2-4427575
E-mail: hgaet@hotmail.com

SOUTH AFRICA
156 Hendrick Verwoerd Drive
2nd floor Holiday House - Randburg
CTO Tel: 27-11-7815950
CTO Fax: 27-11-7816040
APT Tel: 27-11-3903819
APT Fax: 27-11-3943438
CTO Email: inbam@ethiopianairlines.com
ATO inbapt@ethiopianairlines.com

SWEDEN
Kungsgatan 37, SE-11156 Stockholm
Tel:46 (0) 8 440 0060/ 46 (0) 8 440 2900
ATO: 46 8 59360170
CTO: 46 8 4402900/4400060
Fax: 46 (0) 8 206622
APT: 46 859360170
E-mail: res.ethiopian@telia.com
info.ethiopian@telia.com

SUDAN
Gamhoria Street, El-Nazir Building
No. 3/2G
P.O. Box 944 Khartoum
Tel: 2491-83762063/88
Fax: 2491-83788428
APT: 2491-8790991
E-mail: krtres@ethiopianairlines.com
krtsm@ethiopianairlines.com
Juba
Tel: 249-811-823600/20
Fax: 249-811-823600

TANZANIA
T.D.F.L Building Ohio Street
P.O. Box 3187, Dar-es-Salaam
Tel: 255-22 2117063/4/5/2125443
Fax: 255-22 2115875
APT Tel: 255-22 2844243
Mobile:255 786 285 898
E-mail: daram@ethiopianairlines.com

Boma Road
P.O. Box 93 Arusha, Tanzania
CTO: 255-27 2504231/2506167
TSM: 255-27 2509904
Mobile: 255 754450224
Kilimanjaro Airport: 255 27 2554159
E-mail: arkres@ethiopianairlines.com
jrocto@ethiopianairlines.com

THAILAND
140 One Pacific Bldg, Unit 1807
18th Floor, Sukhumvit Road
Klongtoey, Bangkok 10110
Tel: 662-6534366/7/8
Fax: 662-6534370
APT Tel: 662-1343061/64
APT Fax: 662-1343060
CGO: 662-2379207
Fax: 662-2379200
E-mail: bkkam@ethiopianairlines.com

TOGO
Hotel Palm Beach, 1 Rue Komore
P.O. Box 12923
Tel: 228 2217074/2218738
Fax: 228 2221832
APT: 228 2263029/228 2261240
Ext. 4313/4517
E-mail: lfwam@ethiopianairlines.com

UGANDA
1 Kimathi Avenue
P.O. Box 3591, Kampala
Tel: 256 41 254796/97/345577/78
Fax: 256 41 321130/231455
APT: 256 41 320570/321130/
320555/320516 Ext. 3052/98
E-mail: klaetam@africaonline.co.ug

UNITED ARAB EMIRATES
Flat 202, Pearl Bldg., Beniyas Street
P.O. Box 7140, Dubai
Tel: 9714-2237963/87
Fax: 9714-2273306
APT: 9714-2166833/1833/2161833
APT Fax: 9714-2244841/2822655
CGO: 9714-2822880/2163813
CGO Fax: 9714-2822655
CTO E-mail: dxbcto@ethiopianairlines.com
APT E-mail: dxbapt@ethiopianairlines.com
CGO E-mail: dxbcgo@ethiopianair-lines.com

UNITED KINGDOM
1 Dukes Gate, Acton Lane
London W4 5DX
Tel: 44-020-89899086 (Admin)
44-020-89877000 (Reservation)
Fax: 44-020-8747 9339
CGO Tel: 44-020-89872471
E-mail: lonam@ethiopianairlines.com

Airport office Rm 238,East wing terminal 3
London Heathrow,Airport
Middlesex, TW6 1JT
Tel: 44 020 8745 4235/6
Fax: 44 020 8745 7936
Tel: 07984916159 (CARGO)
E-mail lonapt@ethiopianairlines.com

Cargo Services:Blgd 581,Sandringham Rd
World Cargo Centre Hounslow, Middlesex
TW6 3SN
Mobile:07984916159
Fax:44-020 8754 9081
Email:Loncgo@ethiopianairlines.com

UNITED STATES OF AMERICA
Toll Free No:Tel: 800-4452733

Dulles International Airport
P.O. Box 16855
Washington, DC 20041
Tel: 703-572-8740
Fax: 703-572-8738
Mobile: 202-255-8399
Ethiopian Airlines
277 South Washington Street
Suit 120
Alexandria, VA 22314
Tel: (01) 703-6820569
Fax: (01) 703-6920573

YEMEN
Marib Travel & Tourism
Damascus (Haddah) St.
CTO Tel. 9671-427993/6833
CTO Fax: 9671-427992/6836
E-mail: saham@ethiopianairlines.com
APT Tel. 9671-348188
E-mail: sahapt@ethiopianairlines.com

ZAMBIA
Indo Zambia Bank Building
Off Cairo Road, Plot No. 6907
P.O. Box 38392
Tel: 260 211 236401/236402/236403
Fax: 260 211 235644
APT: 260 1 271141 or 260 1 271313
Ext 473
E-mail: lunam@ethiopianairlines.com

ZIMBABWE
Cabs Center, 4th Floor
CNR Jason Moyo Avenue 2nd St.
P.O. Box 1332, Harare
Tel: 263 4790705/6/700735
Fax: 263 4795216
APT: 263 4575191
E-mail: ethhre@mweb.co.zw
hreres@ethiopianairlines.com
hream@ethiopianairlines.com

ETHIOPIAN AIRLINES INTERNATIONAL ROUTE MAP

ETHIOPIAN DESTINATIONS

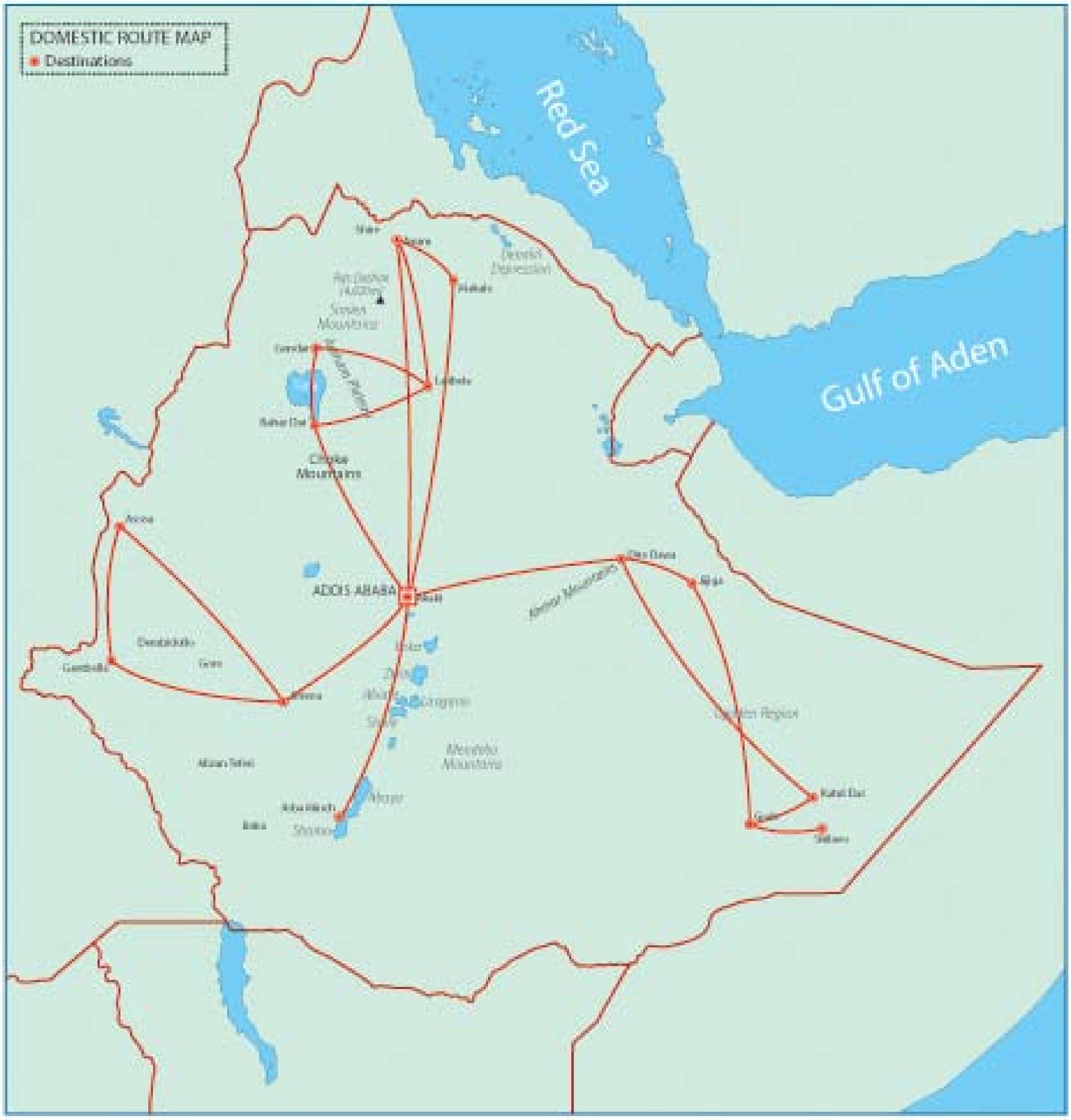
Abidjan (Côte d'Ivoire)
Abu Dhabi (UAE)
Accra (Ghana)
Addis Ababa (Ethiopia)
Bamako (Mali)
Bangkok (Thailand)
Beijing (China)
Beirut (Lebanon)
Brazzaville (Congo)
Brussels (Belgium)
Bujumbura (Burundi)
Cairo (Egypt)
Dar es Salaam (Tanzania)
Dakar (Senegal)
Delhi (India)
Dire Dawa (Ethiopia)
Djibouti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

DESTINATIONS WITH SPECIAL AGREEMENTS

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


Beijing
New Delhi
Hong Kong
Guangzhou
Mumbai (Bombay)
Kolkata (Calcutta)
Bangkok
Manila
Jakarta
Dubai
Kuwait
Beirut
Cairo
Frankfurt
London
Amsterdam
Rome
Stockholm
Helsinki
Oslo
Lusaka
Harare
Johannesburg
Durban
Cape Town
Indian Ocean
Atlantic
Ethiopian

ETHIOPIAN AIRLINES DOMESTIC OFFICES



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

ADDIS ABABA
Main City Ticket Office
Churchill Road
PO Box 1755
Tel: 251-11-5517000
Fax: 251-11-5513047/5513593

ARBA MINCH
Tel: 251-46-8810649 (CTO)

ASSOSA
Tel: 251-47-7750574/1197

AXUM
Tel: 251-34-7752300 (CTO)
251-34-7753544 (APT)

BAHAR DAR
Tel: 251-58-2200020 (CTO)
251-58-2206900 (CTO)
251-58-2260036 (APT)

DIRE DAWA
PO Box 176
Tel: 251-25-1113317 (APT)
251-25-1111766/1147 (CTO)
251-25-1113017 (CGO)

GAMBELLA
Tel: 251-47-5510099

GODE
Tel: 251-25-7760015 (CTO)
251-25-7760030 (APT)

GONDAR
PO Box 120
Tel: 251-58-1110129 (CTO)
251-58-1117688 (CTO)
251-58-1117602 (CTO)
251-58-1140735 (APT)

JIJIGA
Tel: 251-25-7752030 (CTO)
251-25-7754300 (APT)

JIMMA
Tel: 251-47-1117271 (CTO)
251-47-1110030 (CTO)
251-47-1110207 (APT)

LALIBELLA
Tel: 251-33-3360046 (CTO)

MEKELLE
PO Box 230
Tel: 251-34-4400055 (CTO)
251-34-4404052 (CTO)
251-34-4420437 (APT)
251-91-4700910 (Cell)

CTO – City Ticket Office
APT – Airport Office
CGO – Cargo Office

Ethiopian
የኢትዮጵያ
THE NEW SPIRIT OF AFRICA

P.O. Box 1755, Addis Ababa | Tel: (+251-11) 6652-222 | Fax (+251-11) 6611-474 | Tlx 21012
Cable ETHAIR Sita: ADDXSET | Email: webmaster@ethiopianairlines.com | www.ethiopianairlines.com