ETHIOPIAN AIRLINES
Annual Report 2004-05



AFRICA'S WORLD CLASS AIRLINE

Ethiopian
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"building on the FUTURE

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Ato Abera Mekonnen .... Member

Ato Gebremedhin G. Hiwot .... Member

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Ato Beniam Hirabo .... Member

Ato Matewos Menu .... Member

Ato Girma Kumbi .... Member

Maj. General Alemishet Degife .... Member

CEO's MESSAGE

It is my great pleasure to report yet another year of record revenue and operating profits at Ethiopian Airlines. Operating revenue surpassed the 4 billion mark for the first time ever reaching 4.3 billion Birr, a 26.5% increase as compared to the previous budget year. Operating profit for the period was 377 million Birr, a 40% increment as compared to last year's 269 million Birr. The growth in revenue and operating profits was a result of a 26% increase in the number of passengers and a 12.6% rise in freight carried during the period. As always revenue from services provided to other airlines, particularly from maintenance and engineering, contributed significantly to the bottom line.

In order to take revenue and operating profit growth to new heights, we placed a firm order of 10 Boeing 787 Dreamliners worth 1.3 billion US dollars in list prices becoming the first airline in Africa to do so. The first batch of the aircraft will be delivered in 2008 and Ethiopian will be only the second airline in the world to operate this ultra-modern jetliner cementing our position as Africa's aviation pioneer.

The Change Management Team we have established during the previous budget year to reposition the airline in consultation with Ernst & Young and SH&E has started to implement the recommendations of the consultants and to communicate our vision to all stake holders.

A new trend in African skies is the appearance of the major airlines serving routes in Africa which they considered as un-profitable previously. We are taking precautionary measures aimed at frequency increment, service differentiation and cost efficiency. Our focus during the period was improving customer service by delivering more frequencies, convenient departure and arrival times. I am happy to report that we are on the right track.

In terms of cost reduction two items continued to dominate our agenda: fuel cost and distribution cost. It seems high fuel cost will be with us for a while. Our short-term measures include fuel surcharges and close monitoring of operations to fly the shortest possible distance. We have completed a study on what percentage of our fuel consumption to hedge and at what price point. It will be implemented in the coming budget year.

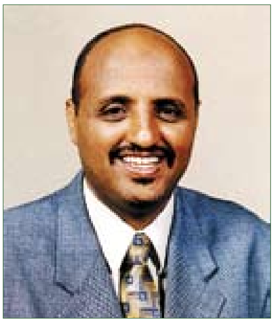
As for distribution costs, we are benefiting from the training conducted in the previous budget year to our staff and partners (travel agents) to eliminate wastage from the booking and ticketing process. The results are encouraging. The cost structure of distribution costs is an industry-wide issue that we actively participate in consultations and negotiations.

And finally, we have always attributed our success to the support of our customers, members of the Management Board, the government of Ethiopia, and the skill and dedication of our staff. During the report period, we have continued to provide training and development programs to our staff to secure our competitive position in African aviation.

Girma Wake
Chief Executive Officer

MANAGEMENT TEAM

Ato Girma Wake
Chief Executive Officer



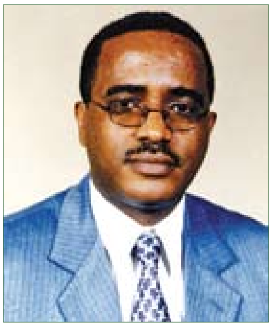
Ato Tewolde Gebre Mariam
Executive Officer,
Marketing and Sales

Ato Getachew Tadesse
Executive Officer,
Customer Services

Ato Abate Gidafe
Executive Officer,
Maintenance and Engineering

Captain Tesfaye Ambaye
Executive Officer,
Flight Operations

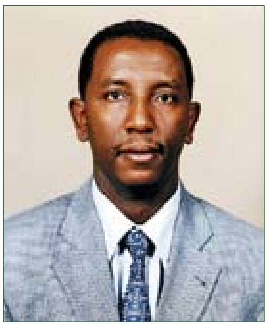
Wzo. Frehiwot Worku
Executive Officer,
Human Resources Management



Ato Kinfe Kahssaye
Executive Officer,
Corporate Planning & Dev't

Ato Mesfin Tassew
Chief Information Officer

Ato Haileleul Mulugeta
General Counsel



Ato Samuel Assefa
Chief Audit Executive

Ato Kassim Geresu
Acting Executive Officer,
Corporate Finance

Ato Anbessie Afework
Chief Safety & Flight
Security Officer

EMBARKING ON A LONG-RANGE REFORM

Mr. Scott Carson, Executive Vice President Sales of Boeing Commercial Airplanes (left) with Ato Girma Wake, Chief Executive Officer of Ethiopian Airlines signing the purchase agreement for the B787 Dreamliners to be delivered in 2008.

I. Investing for the future

During the budget year from July 1, 2004 up to June 30, 2005 Ethiopian Airlines asserted again its commitment to be Africa's leader of aviation with a firm order for 10 Boeing 787 Dreamliner aircraft worth 1.3 billion US dollars in list prices. The first aircraft is scheduled for delivery in 2008. Ethiopian Airlines will be the first Africa-based operator of the technologically advanced and rapidly selling jet.

"Having been the first to bring jet service to the African continent, Ethiopian Airlines is excited to once again be the first by launching operations in Africa with this revolutionary airplane," said Ethiopian Airlines CEO Ato Girma Wake at the signing ceremony. "The B787, represents the future – one in which Ethiopian Airlines will play a major part – and we view this airplane to be a cutting edge solution to bolster our passenger service, improve our efficiencies and add to the airline's bottom line."

With a multitude of operating efficiencies and unmatched performance characteristics, Boeing's 787 continues to gain ground with airlines worldwide.

"The ongoing success of the B787 speaks for itself and we welcome Ethiopian Airlines' pioneering spirit and share a sense of pride in their becoming the African launch customer," said Scott Carson, CEO of Boeing's Commercial Airplanes. "Because the B787 is unmatched in the 200-300 passenger capacity range by any current airplane, or any being developed in the foreseeable future, the B787 can look forward to a long and healthy life here in Addis Ababa and across the globe."

Dubbed the "game changer", the B787 will enable Ethiopian to deliver unmatched service to its esteemed customers world-wide.

II. Continuous Change

The year before, Ethiopian commissioned Ernest & Young and SH&E consultants to formulate medium- and long-term strategies to facilitate Ethiopian's forward thinking vision and mission with the future in mind. The first stage of the project detailed strategic analysis and assessment of all facets of the Airline. This analysis identified Ethiopian internal strengths and weaknesses as well as the opportunities and threats present in a hyper-competitive and highly volatile international airline environment.

During the budget year Ethiopian embarked on implementing the recommendations of the consultants especially in the areas of recruitment, training, scheduling, and management structures and processes that facilitate fast decisions. The ongoing changes are aimed at ensuring that the Airline is focused on customer service as a priority at all times.

III. Operations Review

A. International Passenger Operations

Ethiopian overarching strategy in international operations during the period was to pursue growth through increased frequencies to destinations already served. Ethiopian Winter 2004 schedule saw the increase of frequencies to twice daily flights to Nairobi except on Tuesdays, 10 flights a week to Dubai and Lagos, 8 flights a week to Rome, daily to China and to Bangkok.

Furthermore the summer 2005 schedule increased the frequency of flights to China to ten times a week and six times a week to London (three times each to Heathrow and Gatwick airports).

Angelina Jolie who chose to fly Ethiopian with the cabin crew on arrival at Bole International Airport, Addis Ababa.


taking
you to 28
DESTINATIONS
in AFRICA

The increase in flight frequencies has resulted in a 19.2% increase in Available Seat Kilometres (ASK) to 7.24 million. Number of passengers carried on international routes during the report period was 1.25 million passengers.

In addition to the growth strategy pursued by Ethiopian, streamlining the network by reducing stopovers is another facet of the strategy to increase customer satisfaction. Among the streamlined routes is the Washington DC flight. The New York stopover on the service to Washington DC was removed. All flights to Dubai were made non-stop. The flight to Riyadh was also cancelled to streamline the service to Jeddah.

B. Domestic Passenger Operations

Given the mountainous nature of Ethiopia's topography, the hallmark of the Airlines' domestic strategy is based on two main objectives. As most of the country is not easily accessible to other modes of transport, providing an affordable and reliable domestic air transport efficiently is the first priority. Secondly, promoting tourism to Ethiopia demands providing a seamless link between international and domestic networks.

During the report period Ethiopian Airlines transported 304 thousand passengers, an 11% increase compared to the same period of last year.

To cater to the growing needs of domestic travellers and to better satisfy the needs of the international tourist, Ethiopian introduced daily jet services to Bahar-Dar and Makelle. The average number of weekly domestic flights during the report period was 108.

C. Cargo Operations

Cargo uplift during the financial year 2004/05 rose by 20% as compared to the pervious year. Significant portion of this increase was attributed to increase in demand for cargo transport to/from Amsterdam, Entebbe, Hong Kong, Rome, and Stockholm.

A surge in flower export from Ethiopia and import from China and Europe to destinations in Africa has contributed to the surge.

To provide for this expanding freight market, a study on the feasibility of converting the Airline's B757-260 aircraft from passenger to cargo is completed and schedule for the coming budget year.

IV. Measures to Enhance Profitability

Ethiopian's efforts to enhance profitability focused on maximizing revenue and monitoring controllable costs. Measures taken to maximize revenue during the period were:

- Increasing cargo services revenue
- Increasing ancillary services revenue
- Service enhancement
- Advanced revenue management system
- Cost efficiency measures.

A. Increasing Cargo Services Revenue

Scheduled cargo flights between African destinations of the Airline and European routes have been increased. More frequency is necessary to meet the growing demand of flowers, fruits and vegetables from Ethiopia. That in turn will create an inbound cargo capacity. Ethiopian Airlines together with its European cargo General Sales Agents (GSA) is marketing that capacity aggressively.

To facilitate smooth handling of the increase in freight traffic, construction of a new modern cargo terminal that was began in July 2003 at a cost of 239 million Birr will be ready for service in the next budget year. When completed, the terminal will have a capacity of 104,000 tons per annum and will be equipped with an impressive 1,500 square metres cold room designed to accommodate a turnover of 130 tons of palletized cargo per day.

B. Increasing Ancillary Services Revenue

Ethiopian's ancillary services consist primarily of engineering and maintenance services provided to other airlines in the region. The Maintenance and Engineering Division is a United States Federal Aviation Administration approved maintenance centre (FAA license number ETIY102F).

Increasing the revenue and profit from ancillary services and diversifying the revenue stream is a top priority of Ethiopian.

During the financial year 2004/05, major maintenance and structural repair work was undertaken on aircraft and engines operated by African airlines such as ADC (Nigeria), Air West (The Sudan), Angola Air, African Express (Kenya), Bell view (Nigeria), Blue Bird (Kenya), Cameroon Airlines, Chanchangi

Congolese Presidential aircraft after superb maintenance work at Ethiopian.


"would you like something to drink SIR? SERVICE with a SMILE

(Nigeria), Congo Presidential Aviation, DASAB (Nigeria), EAS (Nigeria), Fresh Air (Nigeria), Air Gabon, Mahfooz (Gambia), Mid Air (The Sudan), LAM (Mozambique), Rwanda Air Force, SLOK Air (Gambia), Space world (Nigeria), Sudan Airways (The Sudan), TAAG (Angola), and TCAA (Tanzania).

Aerovista, Dolphin Air, Silver Air and AVE.COM Aviation of the United Arab Emirates, Saudia (Saudi Arabia), Air RUM (Jordan), YJV (Yemen) and Yemenia Airways are airlines of the Middle East that have chosen Ethiopian as their maintenance centre.

To significantly boost Ethiopian's technical maintenance capacity a new 7,200 square metre state-of-the-art maintenance hangar capable of accommodating two B767 size aircraft simultaneously will be ready for service in the coming budget year.

Aviation training is another area where Ethiopian maintains a worldwide competitive advantage. The multi-national aviation training centre, established in 1967, regularly provides training on aviation maintenance, cabin crew, travel marketing, and pilot training. The African Civil Aviation Commission has selected the centre as the training centre for English-speaking Africa since 1975. So far aircraft maintenance technicians from 47 countries and pilots from 35 countries were trained and licensed by the centre.

Discussions are underway with Alteon Training L.L.C. (a wholly owned subsidiary of The Boeing Company within Boeing Commercial Airplanes' Commercial Aviation Services - CAS) to upgrade the training facility into an institution that trains aviation professionals meeting the requirements of the aviation industry of the 21st century.

In addition to catering to pilot training requirements of Ethiopian, the B767 /757 Simulator Training Center is another source of revenue. Pilots of Alitalia (Italy), Bell view (Nigeria), Cape Verde Airways, Kenya Airways, Air Madagascar, Air Mozambique and Air Zimbabwe are proud customers of the simulator facility.

B767/757 Simulator.

Another ancillary service is the Spray Services Division that provides agricultural spray services to farmers in Ethiopia and neighbouring countries. The skill set required to manage and run such an operation and the competitive advantages required to be profitable in the agricultural services sector are different from those of an airline operation. Ethiopian will make necessary arrangements to phase out the division in the near future but will transfer employees of the unit to other units of Ethiopian.

C. Service Enhancement

Ethiopian approach to enrich the quality of service that it provides to its customers focuses on fleet renewal and renovation, onboard service, flight schedule, loyalty program, and the delivery aspect of the service by emphasizing frontline staff training, process re-engineering and customer relationship management.

The phasing in of five new aircraft, phasing out of four older airplanes during the previous budget year and introduction of a brand new Boeing 767-300 and Boeing 737-700 aircraft has contributed significantly to the on-time performance and onboard customer service. The much anticipated arrival of the first batch of the ten B787 Dreamliner aircraft in 2008 will play a major role in this regard.

ShebaMiles
ETHIOPIAN
FREQUENT FLYER PROGRAM

D. ShebaMiles Loyalty Programme

During the report period, member enrollment of Ethiopian's ShebaMiles frequent flyer programme surpassed 71,000 active members from 171 countries. Nigeria with 24% and Ethiopia with 16% are the top domicile of members. The rest of Africa contributes 28%, followed by Europe with 12%, the Americas 9% and Asia 4% and the Middle East 4%.

As compared to the previous budget year, ShebaMiles membership has increased by 40%. Such robust membership growth indicates the interest the programme has created and customer loyalty that was brought about by the program.

E. Revenue Management

Although the trend in the aviation industry is towards falling fares due to pricing pressures from low cost carriers and rising costs due to persistently high fuel charges, during the past year the tendency at Ethiopian is that of yield and load factor increment at a time of capacity growth of 19%.

This capacity increase is attributed mainly to the increase in flight frequencies and modernization of Ethiopians' fleet as stressed earlier. The yield and load factor increase was primarily as a result of reaping the benefit from maturity of the following systems and procedures instituted during the previous budget year:

- Upgrading of the revenue management system to PROS 5
- Strict adherence to PROS data entry procedures
- Minimum interference with PROS recommendations
- Increased confidence and acceptance of system recommendation by regional offices.

In addition, during the fiscal year Ethiopian began participating in the International Air Transport Association's (IATA) Billing and Settlement Plan (BSP) in Ireland, Japan and Malawi.

F. Cost Efficiency Measures

Ethiopian continued to focus on cost monitoring measures that started in the previous budget year. Emphasis was given to rationalization of airways, review of distribution costs, fuel tinkering and renegotiation of renewable contracts.

During the year in review, the saving obtained through re-negotiation with hotels that accommodate was over 1 million Birr.

Based on a study during the previous year that revealed flying via the shortest possible air-routes would lead to significant fuel savings, over 6 million Birr was saved through rationalization of the following routes:

- Addis Ababa – Rome – Addis Ababa
- Addis Ababa – Delhi – Addis Ababa
- Addis Ababa – Beirut – Addis Ababa
- Addis Ababa – Dubai – Addis Ababa
- Addis Ababa – Johannesburg – Addis Ababa
- Addis Ababa – Frankfurt – Addis Ababa
- Addis Ababa – Brazzaville – Addis Ababa
- Dubai – Delhi – Dubai

Furthermore, international stations where Ethiopian flights change cockpit and cabin crew (crew layover stations) were reviewed. Subsequently, the layover at Rome on the Addis Ababa – London route was replaced by London that resulted in increased crew utilization and efficiency.

Close monitoring of charges by service providers for landing, over-flying, parking, navigation, aircraft fuel uplift and crew travel invoices has saved close to 2 million Birr from erroneous charges.

Fuel tankering is one of the mechanisms in use by Ethiopian to minimize the impact of rising fuel costs. First implemented in 1996 and upgraded in 2001, the Eagle 32 Flight Planning System makes recommendations from where to uplift fuel and how much of it based on cost indexes supplied by Ethiopian.

V. Human Resource Development

The Chief Executive Officer with the pilot graduates.

By June 2005 the total number of Ethiopian Airlines employees reached 4,575. Among these, 3,508 are male and 1,067 female. During the fiscal year, 287 personnel were employed, of these, 169 are graduates of Ethiopian Airline's various training school. From the total new employees 246 were directly employed locally and 42 at outstation offices to fill vacant positions. On the other hand, 183 employees left the organization due to various reasons and 16 employees retired.

Training is an essential tool for Ethiopian to remain competitive. In today's uncertain economical environment, continued enhancement of our human asset is vital. By investing in training and leadership development, we enable our employees to improve their skills and knowledge to do a better job and be effective leaders. Therefore, training and re-training has always been and will be Ethiopian's corporate passion.

The Chief Executive Officer with the cabin crew graduates.


The Chief Executive Officer with the aircraft technician graduates.

Ethiopian human resource development aims at enabling the workforce to develop its full potential and to align it with the company's future corporate objectives. To that end, during the financial year 2004/05:

- 914 employees took management development training. Furthermore Orientations on the 9th collective agreement is given for 149 employees and Ethiopian Airlines safety seminar course is given for 60 employees were also given during this period.
- 22 employees were sent abroad on company sponsored training programmers.
- 1,554 employees pursued their education through evening and correspondence programs in various fields under the company sponsored Educational Assistance Program.
- In the recurrent training program a total of 948 employees were trained in this fiscal year, consisting of 297 employees in Technical, 366 in Marketing, and 262 in Flight Operations.
- Training centres of Ethiopian graduated, with diploma & certificate, 62 aircraft technicians, 23 pilots, 82 cabin crew members and 25 marketing agents. Currently 130 aircraft technicians, 74 pilot trainees and 38 cabin crew members are undergoing various levels of training.
- The School of Marketing (SOM) has provided basic marketing courses to 97 cabin crew staffs, 11 college trainees, 17 other airlines staffs, and 118 other companies' staffs.
- 61 pilots were evaluated and promoted in Transition Training.

VI. Fleet Planning and Financing

Two brand new aircraft a Boeing 767-300ER and a B737-700 aircraft were introduced into service during the budget year. A Boeing 767-200ER aircraft was re-introduced into service to meet demands until the arrival of the B787 aircraft.

VII. Information Systems

As part of Ethiopian five-year repositioning strategy, the IS division was reorganized to enable it develop and deliver effective IT services that fully support the business strategy. The major milestone of this reorganization is the establishment of IS Project & Operation services separately and the introduction of IT Security function (Chief IT Security Officer) that reports directly to the Chief Information Officer (CIO).

To ensure that the service level up to the expectation of other divisions of Ethiopian, the IT division has started to monitor services it renders to its internal customers on a monthly basis. Service Level Agreements (SLA) are assigned to each IT service and its achievement is monitored.

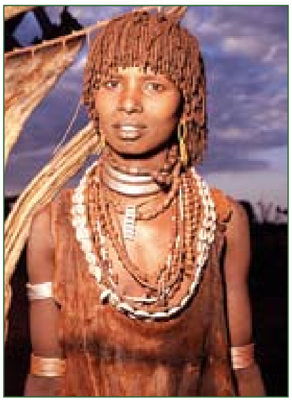
The Local Area Network (LAN) project, phase II, completed with the introduction of security components such as the Intrusion Detection System (IDS). Phase II of the project extends to Ethiopian facilities that were not included in the phase I project. This Cisco based network is now fully scalable, manageable, and secured from external threats.

Ethiopian wide area network connecting our international offices that extends to more than 44 countries was upgraded to full IP network replacing the old legacy x.25 network. The new network has improved functionalities enabling the company email and intranet services easy accessibility. This is not an easy fit considering the fact that most of our operation and offices are in Africa.

The computer based flight training (CBT) facility is upgraded to state-of-the-art server client environment for the B767/757/737 aircraft types. Improved training facility enhances the training capability of the Flight Operations division.

VIII. Tourism Promotion

Ethiopian's long-term strategy is to promote tourism to Ethiopia and Africa. To that end, Ethiopian continued its



tradition of participating in major tourism exhibitions and fairs such as the JATA in Tokyo, WTM in London, CBI in Amsterdam, FITUR in Madrid, BIT in Milan and ITB in Berlin in collaboration with the Ministry of Culture & Tourism of Ethiopia.

In the report period, educational tours to tour operators and travel writers from Austria, Egypt, Germany, Kenya, Nigeria, Tanzania and USA were conducted.

Articles that promote Ethiopia and destinations of the Airline are featured regularly in Selamta, Ethiopian's in-flight magazine.

IX. Corporate Social Responsibility (CSR) Measures

Since its inception in 1946, Ethiopian Airlines has always understood the obligations it has as a responsible corporate citizen, not only to its customers, employees, and stakeholders, but also to the society at large.

Our responsibility is always the deciding factor and the guiding principle. By providing air service to domestic stations that are difficult to reach, we provide reliable cargo service to local vegetable farmers, floriculture businesses and meat producers so that they have access to global markets even when the return load does not warrant it.

The Airline, as a good global citizen, must also regularly contribute to the communities in various parts of the world in which it operates. During the 2004/05 financial year, Ethiopian continued to involve in various philanthropic activities aimed at:

- Youth Education
- Women Empowerment
- Fighting HIV/AIDS
- Supporting medical treatment to the needy
- Promoting art, culture and sports

Dr. Shewalem, Ethiopian sponsored medical student receiving award from the Chief Executive Officer, Ato Girma Wake.

Blood donation for the Red Cross Society.

- Providing clean water
- Providing assistance to organizations of the visually and hearing impaired

In addition Ethiopian started to support "Save a Child's Heart" in their Endeavour in the free treatment of African children.

Our associations with these worthy causes will continue in the future on the belief that in addition to providing safe, reliable and affordable air transportation our customers can depend on us to work for the good of the society.

Ethiopian staff at the Great Ethiopian Run, November 2004.

Ethiopian employees with Cheshire home children.

FINANCE

OVERVIEW OF OPERATING AND FINANCIAL RESULTS

The Airline's level of operation and operating results in the fiscal year 2004/05 was higher than the previous year in all parameters.

Available Seat Kilometres (ASK) and Revenue Passenger kilometre (RPK) showed a remarkable growth of 19.2% and 29% respectively compared to the levels attained in 2003/04.

OPERATING RESULTS

Block Hours

The total block hours performed during the year was higher than the previous year by 26.5%. This was mainly due to additional capacity, frequency and cargo operation increase to various destinations.

Available Seat Kilometres (ASK)

Seat kilometres availed during 2004/05 was higher than the preceding year by 19.2%.

Available Ton Kilometres (ATK)

The total ton kilometres availed during the fiscal year 2004/05 was more than the actual ton kilometres availed during the preceding year by 23.3%.

Revenue Ton Kilometres (RTK)

Better results achieved in passenger traffic and freight have contributed to the overall increase in revenue ton kilometres recording a growth rate of 25.6%.

Revenue Passenger Kilometres (RPK)

The total revenue passenger kilometres achieved during the fiscal year was higher than the results of the preceding year recording a growth of 29%. This was due to growth in passenger number and improved utilization of second wave operation to-from East Africa.

Passenger and Pay Load Factor

The passenger load factor and pay load factor achieved during the year was more by 5.3 points and 1.0 points respectively as compared with the preceding year.

FINANCIAL PERFORMANCE

Revenue

Compared to the total revenue of the previous year, the revenue generated during the year grew by 26.5%.

Passenger Revenue

The actual passenger revenue including excess baggage realized during the year compared to the preceding year was higher by 29.7% mainly as a result of increase in passenger uplift.

Freight Revenue

Freight revenue realised during 2004/05 fiscal year was more than the actual of the previous period by 13.7%.

Operating Expenses

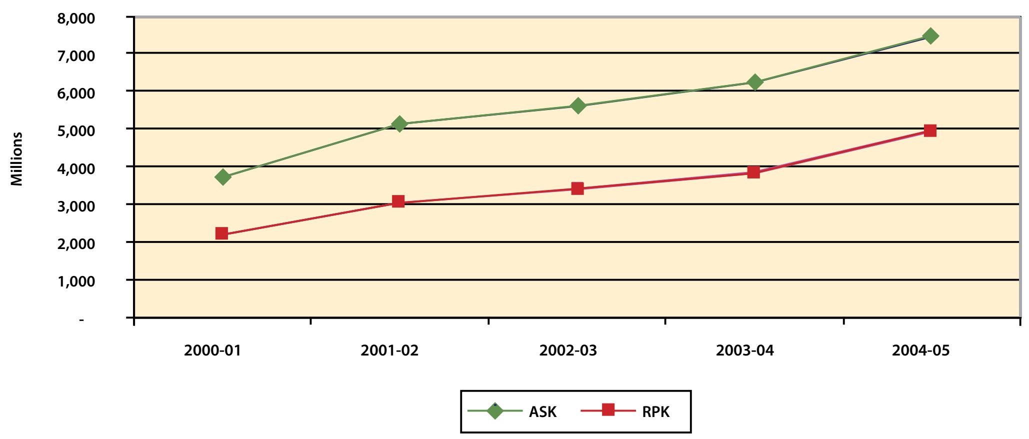
The total operating expenses of the year has shown an increase of 25.4% as compared to last year. The major contributor for this is the increase of fuel and oil expense.

Financials (Cont'd.)

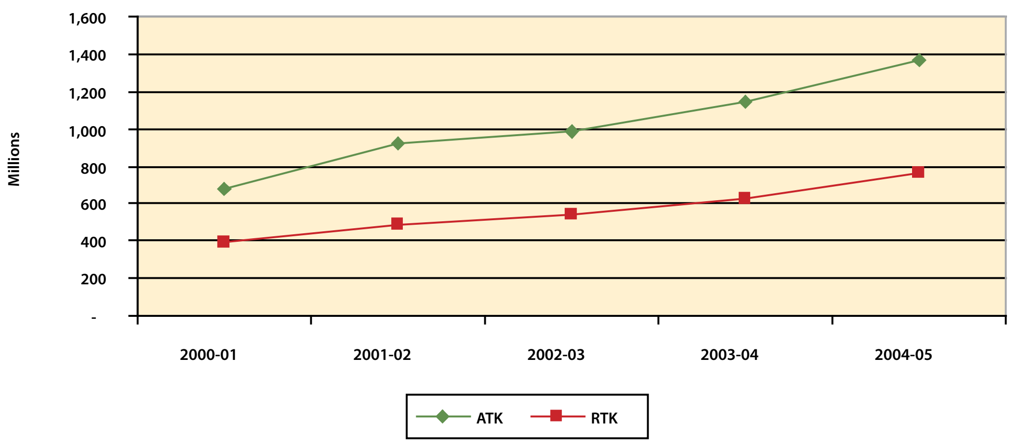
HIGHLIGHTS FOR THE YEAR ENDED 30 JUNE 2005

DESCRIPTION	2004/05	2003/04
FINANCIAL (000's)		
Operating Revenue	4,327,800	3,420,165
Operating Expenses	3,950,461	3,150,900
Gross Operating Profit (Loss)	377,339	269,265
Non Operating Income/(Expenses)-Net	67,427	(38,157)
Net Profit (Loss) Before Tax	309,912	231,108
STATISTICAL		
Revenue Passengers Carried	1,552,187	1,230,121
Passenger Kms. ('000)	4,952,960	3,836,728
Available Seat Kms. ('000)	7,244,261	6,075,922
Freight Ton Kms. ('000)	230,601	199,224
Total Revenue Ton Kms. excluding Freight	556,172	427,398
Available Ton Kms. ('000)	1,425,261	1,156,254
Passenger Load Factor	68.4	63.1
Pay Load Factor	55.2	54.2
Breakeven Load Factor before Interest	51.55	51.32
Breakeven Load Factor after Interest	52.70	52.09
Yield Per RTK (ET Cents)	522.17	511.15
Unit Cost per ATK (ET Cents)	269.18	262.31

ASK / RPK



ATK / RTK



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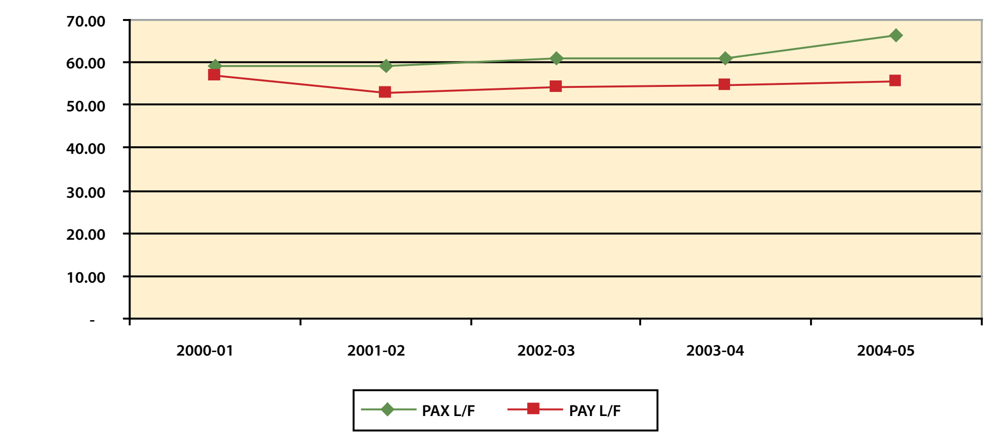
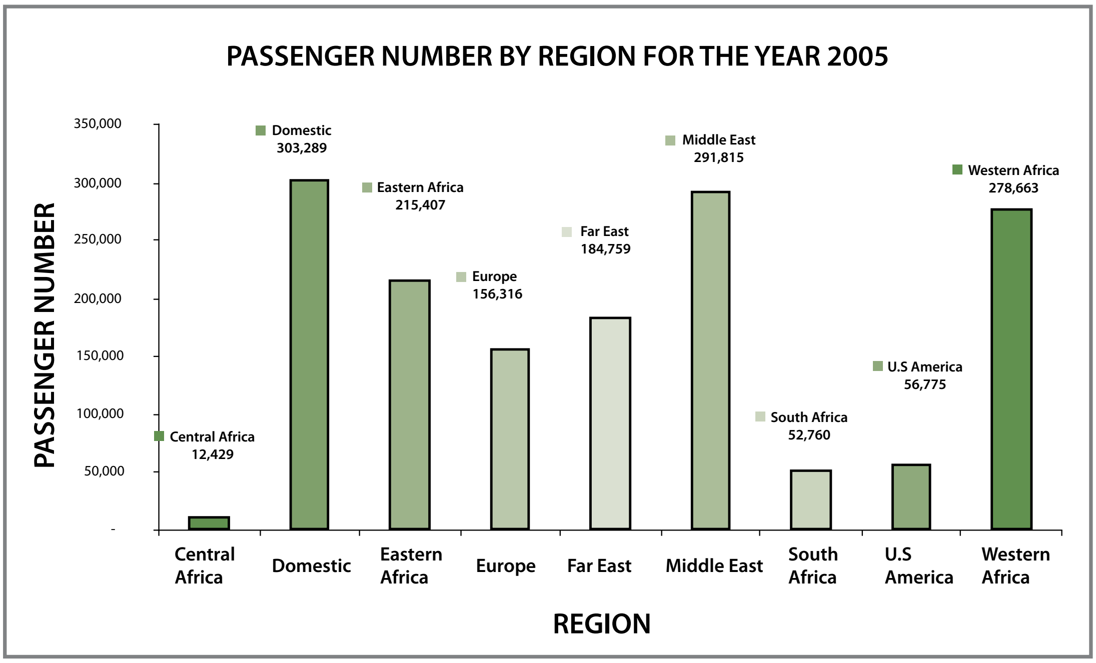


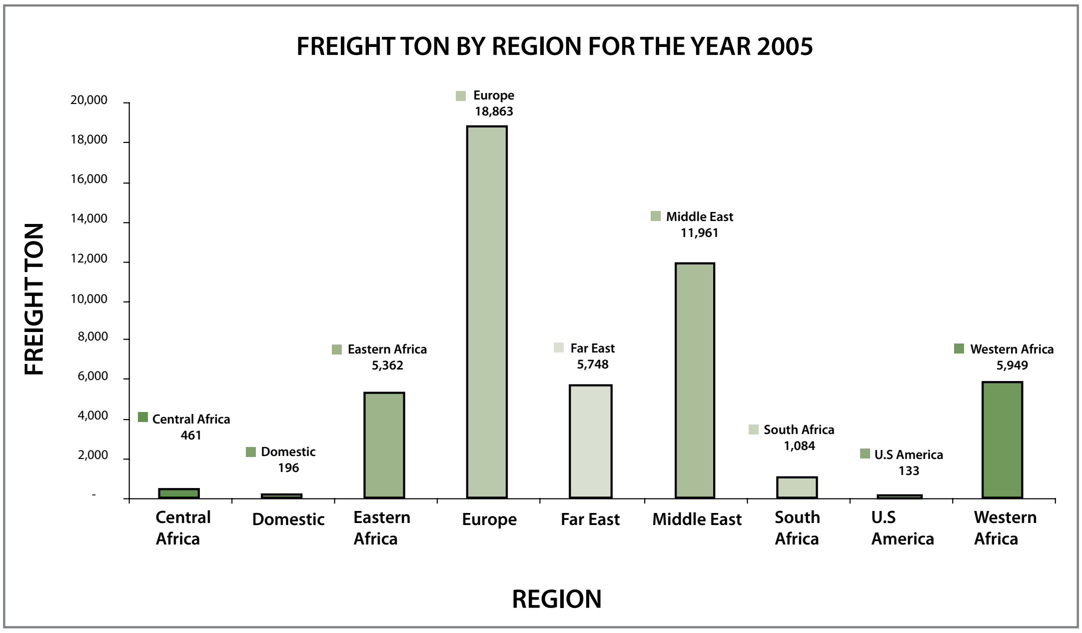
1. Passenger uplift by routes

The number of passenger uplifted in year 2004/05 reached 1,552,187 which is an increase of 26.2% against previous year 35.9% of the increase in passenger number was contributed by Middle East Region.



2. Freight tons carried

Total freight ton carried in 2004/05 increased by 12.62 as compared to last year Europe and Middle East routes took the major share of the freight tons carried during the period under review.



FINANCIAL HIGHLIGHTS

Risk Management

Ethiopian Airlines adopts a five step risk management cycle adapted from international best practices and for the time being concentrates on specific risks associated with Fuel, Interest rate and currencies.

As an Enterprise operating in many countries with major operations in Africa, currency risk is the risk that the company suffers losses resulting from changes in foreign exchange rates, partially attributable to the inability to repatriate its funds as a result of adverse economic condition or actions taken by governments in the relevant country.

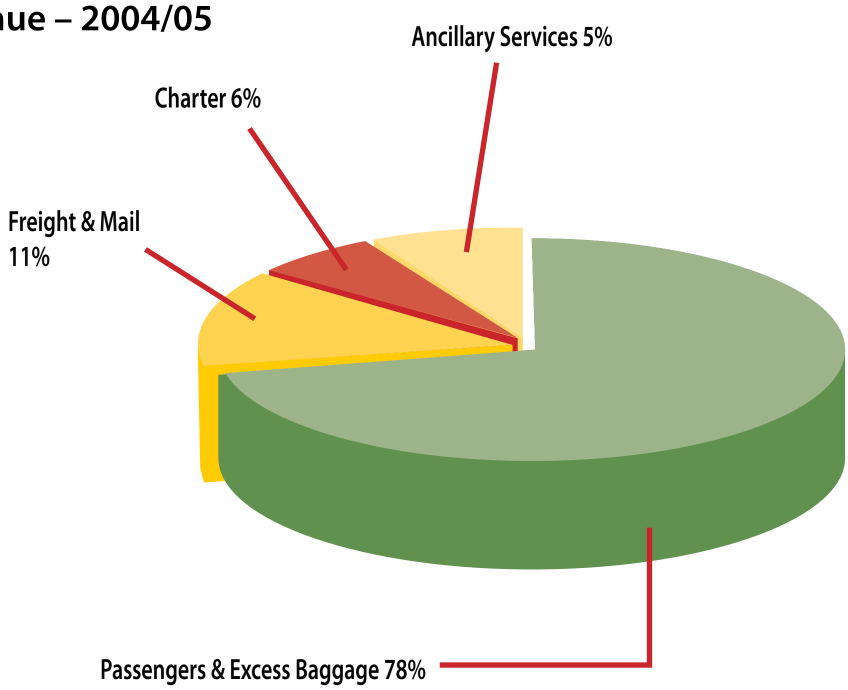
The enterprise thus works through its area managers and airline industry organizations to quickly repatriate its funds and provide early warnings on such conditions, along with reporting the situations of senior management. The current currency composition of the company's cash is 77.7% in hard currencies of USD, EUR and GBP, 12.7% in African currencies, 7% in Ethiopian Birr and the other currencies account 2.6%.

Recently the company has established hedging policies for jet fuel price and interest rate risks.

Jet fuel price being the major expenditure of the airline, the company manages this risk using the swap, cap and collar options for a maximum period of two years on rolling basis and the maximum to be hedged is 75% of the annual total uplift. Currently the airline is monitoring the movement of jet fuel price to exercise the hedging.

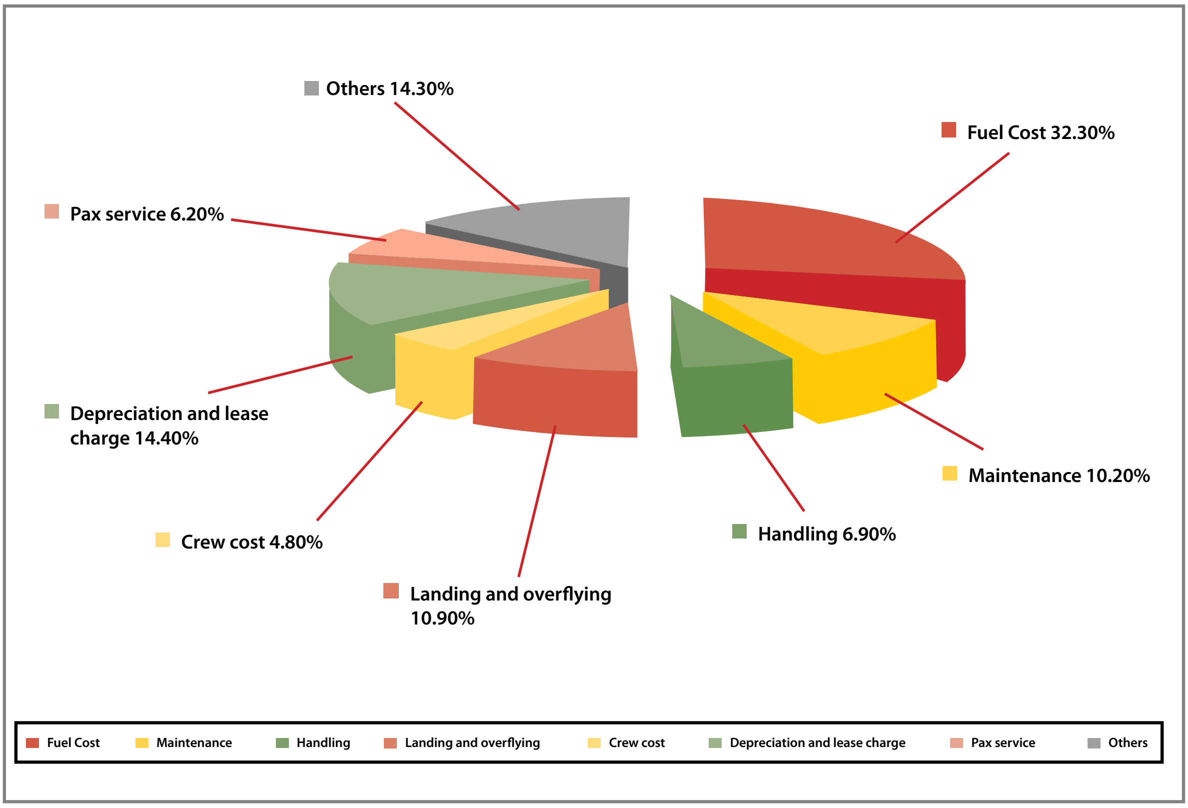
Since the end of 2003 the airline acquired a total of five Aircraft and four spare engines for which the company opted to use the floating interest rate due to the low rates prevailing at the times. But now since interest rates are on the rising the options of swap, collar and subsidized swap are under evaluation so that a hedging exercise is done in the next budget year. It was planned to hedge between 50% up to 100% of the total loan balance.

Operating Revenue – 2004/05



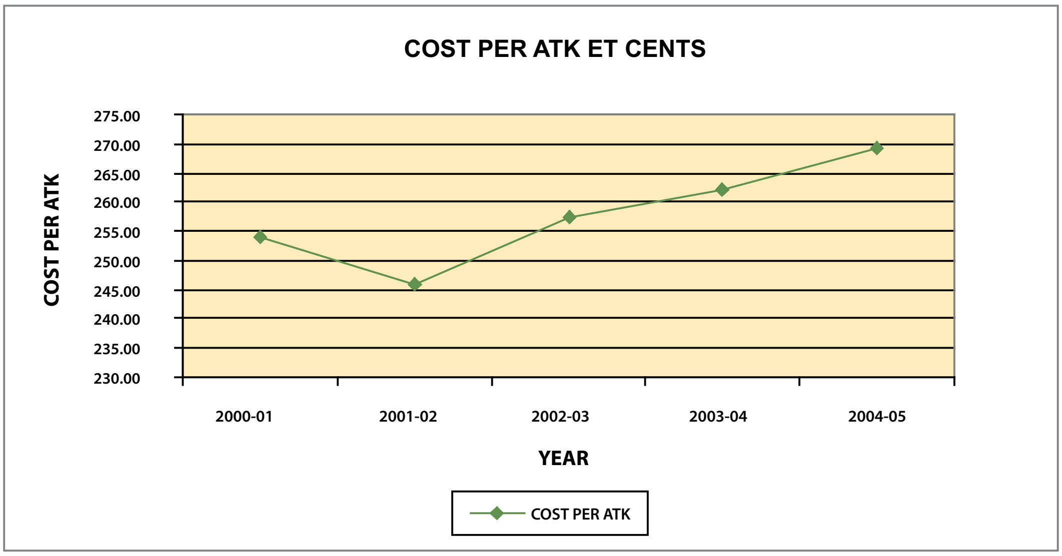
Financials (Cont'd.)

Operating Expenses – 2004/05



COST PER ATK ET CENTS

Unit cost per available ton kilometre rose from ET cents 262.31 to ET cents 269.18 in year 2004/05 which is an increase of 2.62% over previous year.



Financials (Cont'd.)

COMPARATIVE ANALYSIS FOR THE YEAR ENDED 30 JUNE 2005 (Birr '000)

Operating Revenue	**2005**	**2004**	**2003**	**2002**	**2001**
Passenger	3,212,632	2,528,948	2,110,786	1,854,763	1,593,269
Freight	453,821	399,050	298,569	252,460	279,655
Charter	249,908	179,525	138,584	132,256	216,984
Mail	21,943	17,004	17,422	14,378	13,371
Excess Baggage	169,985	78,462	55,335	54,656	51,399
Commission	6,212	7,734	7,580	6,775	6,063
Customer Services	100,568	99,630	104,302	108,755	119,324
Miscellaneous	70,981	67,883	58,710	54,124	46,688
Subsidiaries	41,748	41,927	41,425	37,709	34,808
Total Operating Revenue	**4,327,800**	**3,420,165**	**2,832,713**	**2,515,876**	**2,361,559**
Operating Expenses					
Flying Operations	1,646,299	1,171,255	1,001,327	863,930	837,697
Direct Maintenance	401,423	327,776	268,267	234,836	220,932
Depreciation Flt Equipment	275,787	191,646	175,400	196,166	191,039
Rentals Leased A/c	247,343	267,218	223,983	198,044	200,328
Promotion and Sales	242,058	259,572	239,861	204,189	187,937
Passenger Services	354,026	273,293	222,254	187,359	160,523
Ground Operations	420,206	348,833	302,154	276,908	252,306
Indirect Maintenance	41,602	36,786	28,248	25,949	34,241
Depreciation Others	46,446	48,449	33,798	26,024	37,219
Customer Maintenance	38,161	49,425	59,975	48,895	49,570
Subsidiaries	41,378	36,432	47,868	26,368	21,069
General and Administrative	195,732	140,217	94,046	90,102	99,846
Total Operating Expenses	**3,950,461**	**3,150,900**	**2,697,181**	**2,378,770**	**2,292,707**
Operating Profit	**377,339**	**269,265**	**135,532**	**137,106**	**68,852**
Other Non Operating Exp./(Income)	(18,227)	7,786	(177,941)	10,119	(43,590)
Interest Expenses	85,654	45,943	36,818	48,200	57,304
Net Non Operating Exp./(Income)	67,427	38,157	(141,123)	58,319	13,714
Net Profit Before Tax	**309,912**	**231,108**	**276,655**	**78,787**	**55,138**

Financials (Cont'd.)

COMPARATIVE ANALYSIS FOR THE YEAR ENDED 30 JUNE 2005 (Birr '000)

Operating Revenue	**2000**	**1999**	**1998**	**1997**	**1996**
Passenger	1,402,986	1,095,877	1,179,064	1,166,227	1,187,279
Freight	268,274	241,450	333,456	306,537	267,962
Charter	134,109	147,569	47,676	43,698	62,600
Mail	9,842	7,377	5,727	5,006	7,265
Excess Baggage	44,324	33,639	33,630	39,684	34,240
Commission	6,492	8,915	13,371	14,731	17,270
Customer Services	56,721	59,922	41,295	30,948	29,499
Miscellaneous	58,085	66,875	50,176	36,568	26,467
Subsidiaries	34,585	26,682	12,213	13,620	10,262
Total Operating Revenue	**2,015,418**	**1,688,306**	**1,716,608**	**1,657,019**	**1,642,844**
Operating Expenses					
Flying Operations	745,005	523,038	474,368	474,043	397,479
Direct Maintenance	204,332	192,213	231,262	186,093	207,835
Depreciation Flt Equipment	193,878	183,212	211,199	184,813	173,422
Rentals Leased A/c	201,058	149,466	88,008	48,118	5,150
Promotion and Sales	192,834	180,899	198,961	282,565	300,466
Passenger Services	164,981	142,932	164,185	129,113	121,106
Ground Operations	251,793	183,864	168,835	159,402	154,208
Indirect Maintenance	25,108	31,972	20,832	20,186	18,777
Depreciation Others	37,445	38,432	17,559	16,654	17,369
Customer Maintenance	26,586	28,888	15,301	9,355	5,152
Subsidiaries	23,563	18,037	7,459	7,779	4,304
General and Administrative	104,775	62,942	23,958	77,128	73,706
Inventory Adjustment			-	18,044	-
Total Operating Expenses	**2,171,358**	**1,735,896**	**1,621,927**	**1,613,293**	**1,478,974**
Operating Profit	**(155,934)**	**(47,590)**	**94,676**	**43,726**	**163,870**
Other Non Operating Exp./ (Income)	(193,330)	(137,244)	(34,347)	(82,944)	(21,223)
Interest Expenses	68,033	75,791	85,223	103,430	126,776
Net Non Operating Exp./ (Income)	(125,297)	(61,453)	50,876	20,486	105,553
Net Profit Before Tax	**(30,643)**	**13,863**	**43,800**	**23,240**	**58,317**

Financials (Cont'd.)

RATIO ANALYSIS

Description	2005	2004
Profitability Ratios (Percent)		
Operating Margin	8.72	7.87
Net Profit Margin	7.16	6.76
Rate of Return	4.48	6.55
Interest on Operating Expenses	2.17	1.46
Return on Total Assets	4.56	4.39
Cost of Debt	2.69	1.94
A. Liquidity Ratios		
Current Ratio	1.19:1	1.36:1
Quick Ratio	1.12:1	1.28:1
Working Capital ('000)	331,756	441,299
C. Leverage Ratios		
Total Debt to Total Asset	0.67:1	0.64:1
Debt to Equity Ratio	1.46:1	1.27:1
Times Interest Cover Ratio	4.62:1	6.03:1

AUDITORS REPORT

የሂሣብ ምርመራ አገልግሎት ኮርፖሬሽን
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 article 16 of Public Enterprises Proclamation No. 25/1992. Our responsibility is to express an independent opinion on these financial statements based on our audit.

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

In our opinion the financial statements present fairly the financial position of Ethiopian Airlines Enterprise at 30 June 2005 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

8 March 2006

BALANCE SHEET AT 30 JUNE 2005

	Notes	Birr	Birr	2004 Birr
ASSETS EMPLOYED				
PROPERTY, PLANT AND EQUIPMENT	1b)(i), 2		4,327,266,334	3,321,642,175
INVESTMENTS				
STANDING DEPOSITS	1b)(ii), 3		17,647,419	18,051,043
	1b)(iii)		223,691,371	173,526,017
DEFERRED CHARGES	1b(iv), 4		119,316,707	91,079,896
CURRENT ASSETS				
Stock	1b)(v), 5	125,856,064		113,069,948
Debtors	1b)(vi), 6	766,269,261		622,414,429
Cash and bank balances	1b)(vii), 7	1,210,289,904		896,260,094
		2,102,415,229		1,631,744,471
CURRENT LIABILITIES				
Creditors	1b)(viii), 8	825,370,102		570,810,023
Unearned transportation	1b)(ix)	558,748,867		389,455,553
Current maturity of long term loans	11	386,540,160		230,179,194
		1,770,659,129		1,190,444,770
NET CURRENT ASSETS			331,756,100	441,299,701
			5,019,677,931	4,045,598,832
FINANCED BY				
CAPITAL				
Authorized		2,500,000,000		
Paid up	9		2,176,761,317	1,866,849,568
CONTRIBUTIONS	1b(x)		44,674,427	43,581,522
			2,221,435,744	1,910,431,090
DEFERRED LIABILITIES	1b(xi), 10		2,569,556	1,181,974
LONG TERM LOANS	1e)(i), 11		2,795,672,631	2,133,985,768
			5,019,677,931	4,045,598,832

The notes on pages 27 to 39 form an integral part of these financial statements.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Birr	Birr	2004 Birr
OPERATING REVENUE	1d), 12		4,327,799,500	3,420,164,869
OPERATING EXPENSES	13		3,950,460,613	3,150,900,363
GROSS OPERATING PROFIT			377,338,887	269,264,506
NON-OPERATING EXPENSES/ (INCOME)				
Interest		85,653,933		45,942,527
Provision for blocked bank account	7c	-		35,791,874
Provision for doubtful debts		26,259,782		23,080,036
Provision for stock obsolescence		-		11,500,981
Others	1e)(iii), 14	(44,486,577)		(78,158,851)
			67,427,138	38,156,567
NET PROFIT FOR THE YEAR			309,911,749	231,107,939

The notes on pages 27 to 39 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2005

	Capital Birr	Contributions Birr	Unappropriated profit Birr	Total equity Birr
Balance at 30 June 2003	1,635,741,629	44,221,856	-	1,679,963,485
Net profit for the year	-	-	231,107,939	231,107,939
Transfer from profit of the year	231,107,939	-	(231,107,939)	-
Addition to contributions	-	17,482,560	-	17,482,560
Amortization of contributions	-	(18,122,894)	-	(18,122,894)
Balance at 30 June 2004	1,866,849,568	43,581,522	-	1,910,431,090
Net profit for the year	-	-	309,911,749	309,911,749
Transfer from profit of the year	309,911,749	-	(309,911,749)	-
Addition to contributions	-	14,139,801	-	14,139,801
Amortization of contributions	-	(13,046,896)	-	(13,046,896)
Balance at 30 June 2005	2,176,761,317	44,674,427	-	2,221,435,744

The notes on pages 27 to 39 form an integral part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Birr	Birr	2004 Birr
OPERATING ACTIVITIES				
Net cash inflow from operating Activities	15		885,659,112	693,912,583
INVESTING ACTIVITIES				
Purchase of property, plant and Equipment		(1,331,274,380)		(2,130,963,790)
Proceeds from disposal of property, plant and equipment		773,362		901,969
Receipts from disposal of investments		403,624		1,359,003
Net cash outflow from investing activities			(1,330,097,394)	(2,128,702,818)
FINANCING ACTIVITIES				
Long term loans received		1,132,837,599		2,173,206,542
Repayment of long term borrowings		(314,789,770)		(267,276,828)
Interest paid		(80,899,301)		(46,536,121)
Interest received		21,319,564		7,302,835
Net cash inflow from financing activities			758,468,092	1,866,696,428
Net increase in cash and cash equivalents			314,029,810	431,906,193
Cash and cash equivalents at beginning of year			896,260,094	464,353,901
Cash and cash equivalents at end of year	7		1,210,289,904	896,260,094

The notes on pages 27 to 39 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005

1. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

i) These financial statements have been prepared in compliance with International Financial Reporting Standards. They are prepared under the historical cost convention.

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

b) Valuation of assets and liabilities

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

i) Property, plant and equipment

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

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

- 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:-

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

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

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

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

- Other property

  This is depreciated in the following periods:-

  Radios, field passenger equipment and other similar items - 5 years.
  Office equipment and furniture - 10 to 15 years.
  Motorized vehicles and equipment - 5 years.
  Buildings - 7 to 20 years.
  Improvements to government owned buildings - 10 years.
  Improvements to leasehold property over the term of the lease.

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.

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

iv) Deferred charges

Pre-delivery 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

e) Foreign currency accounts

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

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

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

f) Income tax

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

g) Subsidiary

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

h) Finance lease

Leases of assets under which all the risks and benefits of ownership are substantially transferred to the lessee are classified as finance lease in accordance with International Accounting Standard No. 17.

Lessees should recognize finance leases as assets and liabilities in their balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

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

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

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

2. PROPERTY, PLANT AND EQUIPMENT

	Balance at 30 June 2004 Birr	Additions Birr	Adjustments due to sale of aircraft and lease-back Birr	Adjustments due to currency fluctuation Birr	Disposals Birr	Balance at 30 June 2005 Birr
COST OR VALUATION						
Flight equipment						
Own	3,846,742,095	1,246,274,830	(615,261)	11,579,141	(5,270,683)	5,098,710,122
Leased	847,591,164	-	615,261	-	-	848,206,425
Other property	667,356,542	18,729,352	-	-	(5,621,772)	680,464,122
	5,361,689,801	1,265,004,182	-	11,579,141	(10,892,455)	6,627,380,669
DEPRECIATION						
Flight equipment						
Own	1,202,581,875	275,787,125	(47,311,770)	-	(3,569,031)	1,427,488,199
Leased	523,152,961	-	(47,311,770)	-	-	570,464,731
Other property	382,383,927	46,446,086	-	-	(3,906,415)	424,923,598
	2,108,118,763	322,233,211	-	-	(7,475,446)	2,422,876,528
NET BOOK VALUE						
Flight equipment						
Own	2,644,160,220					3,671,221,923
Leased	324,438,203					277,741,694
Other property	284,972,615					255,540,524
	3,253,571,038					4,204,504,141
Work orders in progress	67,258,595					122,275,230
Capital goods in transit	812,542					486,963
	3,321,642,175					4,327,266,334

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

3. INVESTMENTS

a) These are as follows:-

	Birr	2004 Birr
Nationalized and state owned	1,224,500	1,224,500
Wholly-owned subsidiary		
Nationalized	199,600	199,600
Foreign investments	17,798,071	18,050,943
	19,222,171	19,475,043
Less: Provision for diminition in investments	1,574,752	1,424,000
	17,647,419	18,051,043

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

c) Foreign investments include Birr 12,733,449 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	2004 Birr
Predelivery payments for purchase of new aircraft	98,481,331	74,648,152
Aircraft manufacture licence fee	-	776,803
Miscellaneous	20,835,376	15,654,941
	119,316,707	91,079,896

5. STOCK

	Birr	2004 Birr
Stock in store	142,494,717	136,413,950
Supplies stock - customer work orders	7,610,028	7,150,524
Stock of printing and stationery items	16,554,928	10,938,627
	166,659,673	154,503,101
Less: Provision for stock obsolescence	43,226,082	43,226,082
	123,433,591	111,277,019
Goods in transit	2,422,473	1,792,929
	125,856,064	113,069,948

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

6. DEBTORS

a) These are made up of:-

		2004
	Birr	**Birr**
Ethiopian Government	3,917,998	10,526,752
Airmail	34,274,559	33,203,321
Transportation - Airlines	69,036,046	45,025,190
Transportation - Others	355,837,611	202,658,411
Advance for purchase of aircraft	73,742,087	199,553,757
Deposits and prepayments	153,935,050	78,819,730
Others	226,564,818	177,406,394
	917,308,169	747,193,555
Less: Provision for doubtful debts	151,038,908	124,779,126
	766,269,261	622,414,429

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

	Birr
Balance at 30 June 2004	124,779,126
Additional provision	26,259,782
	151,038,908

7. CASH AND BANK BALANCES

a) Comprise the following:-

		2004
	Birr	**Birr**
Cash with foreign banks	282,034,343	260,894,973
Less: Provision for currency fluctuation	(4,900,000)	(4,900,000)
Provision for blocked bank account	(35,791,874)	(35,791,874)
Technically overdrawn balances	(37,199,574)	(55,522,712)
	204,142,895	164,680,387
Cash with local banks	109,431,359	99,083,279
Foreign short term deposits	802,654,137	422,643,085
Unverified deposits	56,346,150	180,021,522
Cash on hand	37,715,363	29,831,821
	1,210,289,904	896,260,094

b) The cash with foreign banks includes balances at three locations amounting to Birr 63,418,746 which are not readily transferable.

c) The provision for blocked bank account represents 60% of the bank balance which has been blocked due to the closure of a bank in Nigeria.

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

8. CREDITORS

	Birr	2004 Birr
Payable to oil companies	126,645,335	97,153,202
Goods received but not billed	39,864,579	44,522,861
Miscellaneous accounts payable	242,072,644	189,408,838
Accrued interest	13,465,843	8,711,211
Accrued insurance premium	183,138	5,502,246
Other airlines pool apportionment	24,724,782	15,605,620
Transportation tax and embarkation fees	114,665,980	74,997,457
Miscellaneous clearing accounts	458,099	9,049,097
Advances from customers' work orders	15,540,894	14,986,765
Others	247,748,808	110,872,726
	825,370,102	570,810,023

9. PAID UP CAPITAL

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

	Birr
Balance at 30 June 2004	1,866,849,568
Transfer from profit for the year	309,911,749
	2,176,761,317

b) The Council of Ministers authorized the Enterprise to transfer the net profits for five years (2003-2007) to paid up capital until the paid up capital reaches the authorized level. Details amending the capital of the Enterprise are stipulated in the Council of Ministers Regulations No. 81/2003 dated 17 January 2003.

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

10. DEFERRED LIABILITIES

	Birr	2004 Birr
Training of other airlines' personnel	1,221,082	-
Accumulated fines deducted from employees	1,348,474	1,181,974
	2,569,556	1,181,974

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

11. LONG TERM LOANS

a) These are as follows:-

	TOTAL LOAN Birr	CURRENT PORTION Birr	LONG TERM PORTION Birr	LONG TERM PORTION 2004 Birr
Barclays Bank (Loan i)	2,454,043,159	167,698,940	2,286,344,219	1,525,203,676
Barclays Bank (Loan ii)	336,025,378	95,011,718	241,013,660	316,291,839
Commercial Bank of Ethiopia (CBE i)	218,295,946	51,818,546	166,477,400	160,436,189
Commercial Bank of Ethiopia (CBE ii)	54,250,765	-	54,250,765	12,971,368
African Development Bank (Ministry of Finance & Economic Development)	16,252,188	16,252,188	-	16,252,187
Fokker Aircraft b.v.	103,345,355	55,758,768	47,586,587	102,830,509
	3,182,212,791	386,540,160	2,795,672,631	2,133,985,768

b) Barclays Bank (Loan i)

The amount of Birr 2,454,043,159 represents the outstanding balance at 30 June 2005 of a total loan facility of Birr 2,616,234,464 for financing 85% of the cost of five aircraft and five spare engines. Separate loan agreements were signed for each of the five aircraft and five 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 rates. The loans are secured by the guarantee of Ex-IM Bank and pledges on the respective aircraft which are registered in the name of Ethiopian Leasing Limited.

c) Barclays Bank (Loan ii)

The amount of Birr 336,025,378 represents the outstanding balance at 30 June 2005 of a total loan facility of Birr 416,861,040 for financing 12.5% of the above mentioned cost of five aircraft and five spare engines. The remaining 2.5% of the cost is borne by the Enterprise. The loan agreements were signed between Ethiopian Leasing Limited and Barclays Bank. The loans are repayable over a period of four years in quarterly instalments together with interest computed at floating rates. The loans are secured against the collateral of two Boeing 757 aircraft which have been sold to Ethiopian Leasing Limited on lease back arrangements (see note 1(h) above).

d) CBE (i)

The balance payable to CBE amounting to Birr 218,295,946 represents the outstanding balance in respect of bonds payable to Ethiopian Electric Power Corporation through CBE. The said balance is to be repaid to CBE in quarterly installments of Birr 29,479,339 starting from 25 February 2006 and ending on 25 November 2007 and interest is to be paid at the rate of 7% per annum.

e) CBE (ii)

The second loan from CBE represents the disbursed portion of Birr 54,250,765 out of a total loan of Birr 164,327,054 which was obtained to finance part of the cost of construction of the cargo terminal and purchase of equipment for the terminal. The loan is repayable over a period of $8^1/_2$ years after project implementation and grace periods of three and half years in quarterly installments of Birr 4,833,149 and interest is to be paid at the rate of 6.5% per annum. The loan is secured against the collateral of the cargo terminal building and related equipment.

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

f) African Development Bank

The loan from African Development Bank obtained through the Ministry of Finance and Economic Development (MoFED) amounting to BUA 28,200,000 is for the financing of the entire foreign exchange cost of the Ethiopian Airlines Infrastructure Development Project. The loan is repayable to MoFED in Birr in 20 semi-annual installments after a grace period of 5 years commencing 1 July 1996. Interest is to be paid at the rate of the average borrowing cost plus 2.5% per annum on the loan disbursed and outstanding from time to time.

g) Fokker Aircraft b.v.

The credit from Fokker Aircraft b.v. representing the purchase of five Fokker 50 aircraft is repayable in 20 semi-annual installments over a period of 10 years starting 6 months after the dates of delivery of each aircraft. The interest rates are fixed as follows:-

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

12. OPERATING REVENUE

		2004
	Birr	Birr
Passenger	3,212,632,212	2,528,948,252
Freight	453,821,310	399,050,978
Charter	249,907,827	179,525,292
Mail	21,943,256	17,003,636
Excess baggage	169,985,057	78,462,378
Commission	6,212,329	7,734,167
Customer services (work orders)	100,568,353	99,630,455
Subsidiaries	41,748,219	41,927,022
Miscellaneous	70,980,937	67,882,689
	4,327,799,500	3,420,164,869

13. OPERATING EXPENSES

		2004
	Birr	Birr
Flying operations	1,646,298,618	1,171,254,570
Direct maintenance	401,422,715	327,775,910
Depreciation of flying equipment	275,787,125	191,645,915
Rentals-leased aircraft	247,342,798	267,217,912
Promotion and sales	242,058,098	259,571,558
Passenger service	354,026,067	273,293,233
Ground operations	420,205,797	348,832,709
Indirect maintenance	41,602,397	36,785,632
Depreciation	46,446,086	48,448,970
Customer services (work orders)	38,160,947	49,425,349
Subsidiaries	41,378,431	36,431,872
General and administration	195,731,534	140,216,733
	3,950,460,613	3,150,900,363

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

14. OTHER NON-OPERATING EXPENSES/(INCOME)

		2004
	Birr	**Birr**
Bank charges	20,177,357	13,679,231
(Gain)/ Loss on currency fluctuation	(1,215,271)	1,882,014
Loss on disposal of fixed assets	2,643,648	1,560,108
Interest income	(21,319,563)	(7,302,834)
Write back of creditors accounts	(12,167,250)	(16,561,386)
Direct write off of debtors accounts	141,508	22,341,532
Collection of debt written off in earlier years	(30,044,519)	(42,204,830)
Miscellaneous	(2,702,487)	(51,552,686)
	(44,486,577)	(78,158,851)

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

		2004
	Birr	**Birr**
Net profit for the year	309,911,749	231,107,939
Interest income	(21,319,564)	(7,302,834)
Interest expense	85,653,933	45,942,527
Increase in deferred charges	(28,236,811)	(69,703,053)
Increase in standing deposits	(50,165,354)	(100,365,440)
Loss on disposal of fixed assets	2,643,648	1,560,108
Depreciation	322,233,211	240,094,885
Provision for doubtful debts	26,259,782	23,080,036
Provision for stock obsolescence	-	10,161,478
Increase in stock	(12,786,116)	(15,550,656)
(Increase)/ Decrease in debtors	(170,114,614)	211,505,811
Increase in creditors	249,805,447	61,838,331
Increase in unearned transportation	169,293,314	63,063,150
Increase/(Decrease) in contributions	1,092,905	(640,334)
Increase/(Decrease) in deferred liabilities	1,387,582	(879,365)
Net cash inflow from operations	885,659,112	693,912,583

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

16. FINANCIAL RISKS

a) Credit risk

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

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

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

Security type	% of total assets portfolio at 30 June 2005	% of total assets portfolio at 30 June 2004
Foreign investments		
Holdings of securities	0.26	0.35
Short term deposits	11.82	8.08
Cash with foreign banks	4.99	8.42

b) Interest rate risk

Current borrowings are at fixed and floating rates averaging 6.06% p.a. Investments made by the Enterprise in various international banks generated interest income that covered the cost of borrowing by 24.89% in the year 2005 compared to 15.89% in the previous financial year.

c) Foreign currency risk

About 88% of the monies earned by the Enterprise are in hard and convertible currencies.

17. COMMITMENTS

The Enterprise has commitments, not provided for in these financial statements of:-

- Birr 15,127,303,948 for the purchase of ten aircraft and spare engines;
- Birr 110,076,289 for the construction of cargo terminal.

18. CONTINGENT LIABILITIES

The Enterprise has contingent liabilities of Birr 81,299,984, 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.

19. ESTABLISHMENT

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

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (continued)

20. EMPLOYEES

The Enterprise employed 4,632 staff at 30 June 2005 (2004 - 4,513).

21. RETIREMENT BENEFIT OBLIGATIONS

The Enterprise's employees are eligible for retirement benefits under a defined contribution plan. For the year ended 30 June 2005, the Enterprise contributed Birr 7,374,047 (2004 – Birr 5,553,518) which has been charged to the profit and loss account.

22. RELATED PARTY TRANSACTIONS

Related parties are considered to be other entities that exercise significant influence over the Enterprise's financial and operating decisions or entities over which the Enterprise is able to exercise significant influence in their financial and operating decisions. However, as per the provisions of IAS 24 related parties do not include the government, government departments or agencies.

The Enterprise has no related party transactions except advances to staff amounting to Birr 7,333,950 (2004 – Birr 5,836,023) which are non – interest bearing.

23. STAFF COSTS

Staff costs for the year amounted to Birr 460,957,544 (2004 – Birr 332,435,046) and are included in the various major expense categories.

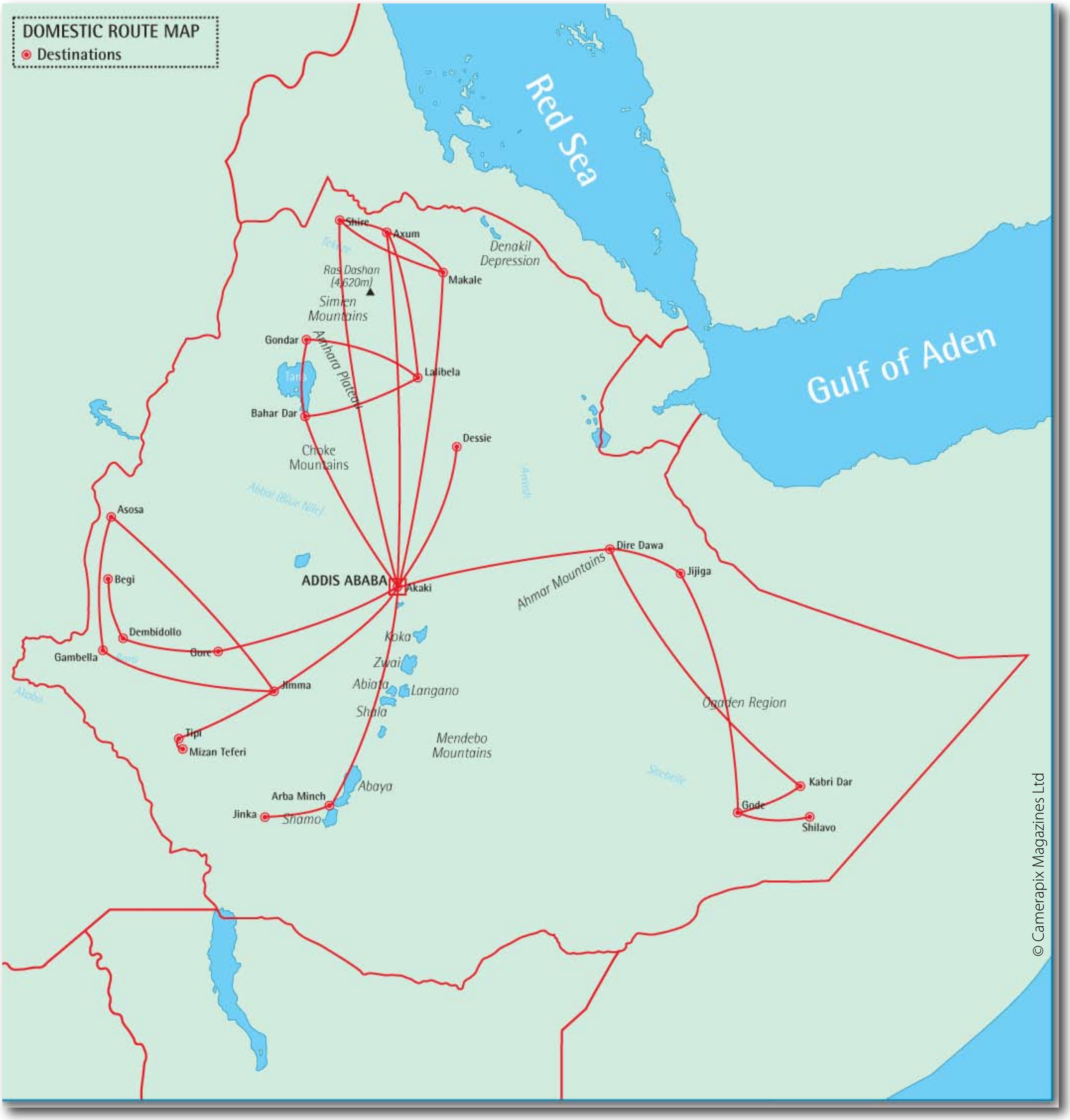
24. COMPARATIVES

In order to facilitate comparisons, certain of the 2004 figures have been rearranged in these financial statements.

25. DATE OF AUTHORIZATION

The Chief Executive Officer of the Enterprise authorized the issue of these financial statements on 8 March 2006.

DOMESTIC ROUTE MAP



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

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INTERNATIONAL ROUTE MAP

Ethiopian Destinations

Abidjan (Côte d'Ivoire)
Accra (Ghana)
Addis Ababa (Ethiopia)
Amsterdam (Netherlands)
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)
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)
Stockholm (Sweden)
Tel Aviv (Israel)
Washington D.C. (USA)

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Dorval, Montréal (Canada)
Gaborone (Botswana)
Helsinki (Finland)
Jarkata (Indonesia)
Kolkata (India)
Manila (Philippines)
Oslo (Norway)
Ottawa, Ontario (Canada)
Palermo (Italy)
Stockholm (Sweden)
Toronto (Canada)
Vancouver (Canada)
Windhoek (Namibia)
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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
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San Diego, California
San Francisco, California
San Jose, California
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Syracuse, New York
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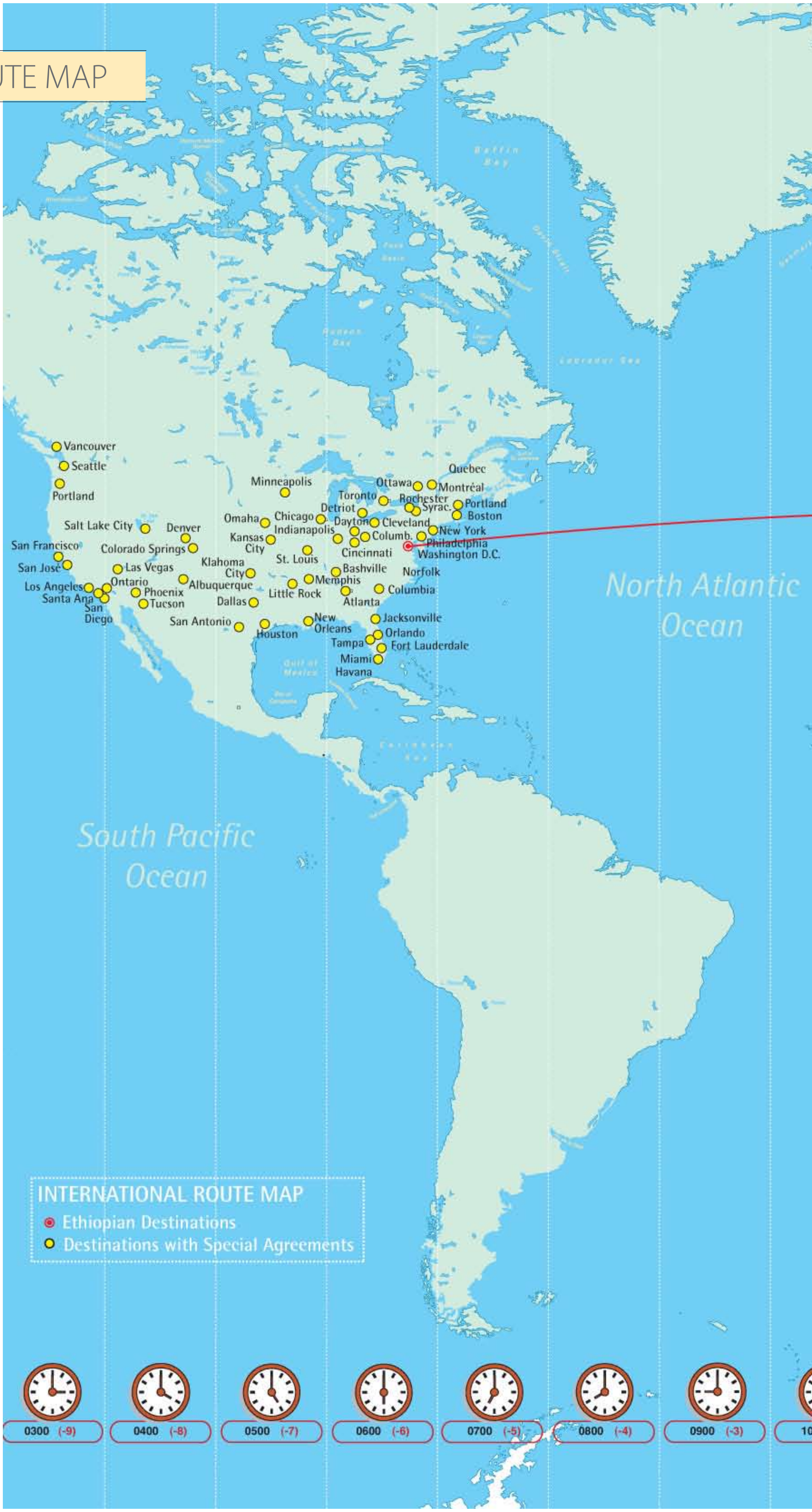

NOTE: Graphics representation only. Not to scale. The actual flight paths may vary.

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