

Overview of Operating and Financial Results

The Airline's level of operation and operating results in the fiscal year 2008/09 was higher than the previous year in all parameters. Capacity availed in terms of Available Seat Kilometres (ASK), Available Tonne Kilometres (ATK) and Block Hours have increased during this year compared to last year.

Performance Category	2008/09	2007/08	%age Change
Block Hours (000)	128	117	9.7
ASKs (Millions)	13,400	12,343	8.6
RPK (Millions)	9,389	8,682	8.1
RTKs (Millions)	1,725	1,474	17.1
ATKs (Millions)	2,745	2,376	15.5

BLOCK HOURS

The total block hours flown during the year were higher than the previous year by 10%. This was mainly due to additional capacity, opening of new passenger destinations and cargo operations increased to various destinations.

AVAILABLE SEAT KILOMETRES (ASK)

Seat kilometres availed during 2008/09 was higher than the preceding year by 9%. This was mainly due to additional capacity and new passenger destinations.

AVAILABLE TONNE KILOMETRES (ATK)

The total tonne kilometres availed during the fiscal year 2008/09 was more than the actual tonne kilometres availed during the preceding year by 16%. The cargo capacity was increased due to the addition of the MD11 Freighter during the year.

REVENUE TONNE KILOMETRES (RTK)

Better results achieved in passenger traffic and freight has contributed to the overall increase in revenue tonne kilometres recording a growth rate of 17%.

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 8%. The increase is mainly attributed to the capacity growth and traffic increase on international schedule services despite the world economic slowdown during the year in review.

Financial Performance

REVENUE

The total revenue generated during the year grew by 33% compared to the revenue of the previous year.

PASSENGER REVENUE

The actual passenger revenue, including excess baggage realised during the year, was 29% higher than in the preceding year, mainly as a result of increased passenger uplift.

FREIGHT REVENUE

Freight revenue earned during 2008/09 fiscal year was up over the previous period by 49%. This was mainly because the charter operations to and from Europe were increased.

OPERATING EXPENSES

The total operating expenses for the year showed an increase of 28% compared to the previous year. The major contributor for this was the increase of aviation fuel, aircraft lease and maintenance costs.

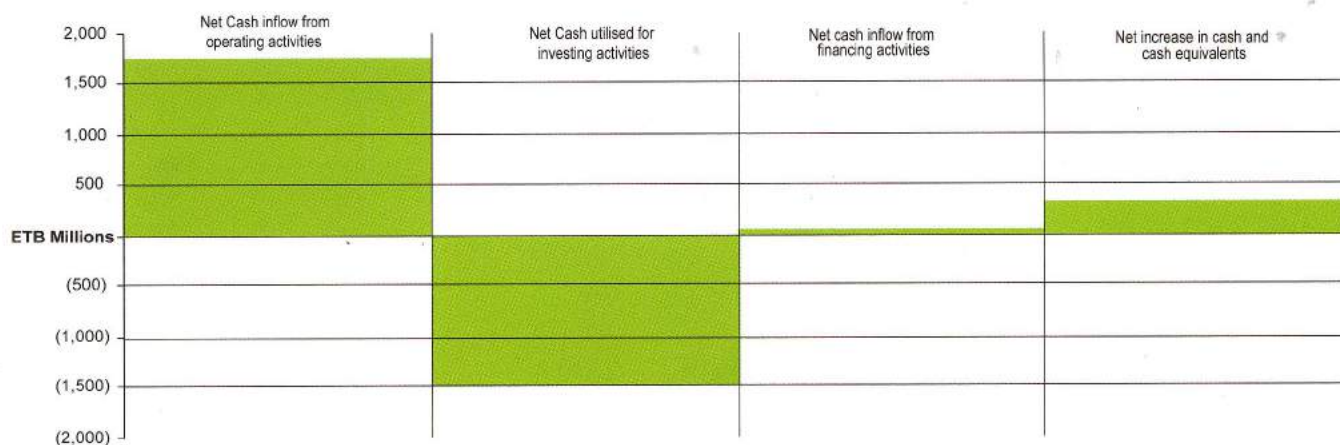
CASH POSITION

The airline generated a net cash inflow of ETB 1.4 billion from operating activities and raised ETB 15 million from financing activities and spent ETB 1.1 billion for investments. The overall movements of the cash during the period are represented graphically as follows:

CASH FLOW (in millions)

Cash Position

The airline has generated a net cash inflow of ETB 1.45 billion from operating activities and raised ETB 15.46 million from financing activities and spent ETB 1.14 billion for investments. The overall movements of the cash during the period are represented graphically as follows:



RATIO ANALYSIS

Description	2009	2008
A. Profitability Ratios (%)		
Operating Profit Margin	7.98	4.65
Net Profit Margin	11.02	5.52
Rate on Capital Employed (ROCE)	12.63	6.35
Interest on Operating Expense Ratio	0.95	1.47
Return on Total Assets	13.07	5.97
Cost of Debt	3.34	4.37
B. Liquidity Ratios		
Current Ratio	1.59:1	1.44:1
Quick Ratio	1.53:1	1.35:1
Working Capital ('000)	1,963,808	1,383,675
C. Leverage Ratios		
Total Debt to Total Asset	0.73:1	0.88:1
Debt to Equity Ratio	0.60:1	0.67:1
Times Interest Cover Ratio	9.11 Times	3.32 Times

THREE -YEAR SUMMARY OF FINANCIAL HIGHLIGHTS

In Millions

	2009		2008		2007	
	ETB	US\$	ETB	US\$	ETB	US\$
TURNOVER:						
Passenger	8,993	853	7,006	745	5,236	586
Freight & Mail	1,971	187	803	85	715	80
Handling	82	8	73	8	62	7
Others	1,167	111	1,317	140	875	98
Total	12,213	1,159	9,199	979	6,888	771
COSTS:						
Flying Costs	8,519	808	6,468	688	4,834	540
Passenger Services	659	63	550	58	505	56
Traffic & Sales	695	66	579	62	437	49
Other overhead costs	1,366	130	1,175	125	914	102
Operating Profit	974	92	427	45	198	24
Operating Margin (%)	8		5		3	
Non-operating Net	472	45	186	14	58	6
Interest Expense	(107)	(10)	(129)	(17)	(161)	(18)
Out of Period (Charge)	6	1	23	5	35	4
Profit for the year	1,345	128	507	81	130	16
Net Profit Margin	11		6		2	

VALUE ADDED

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

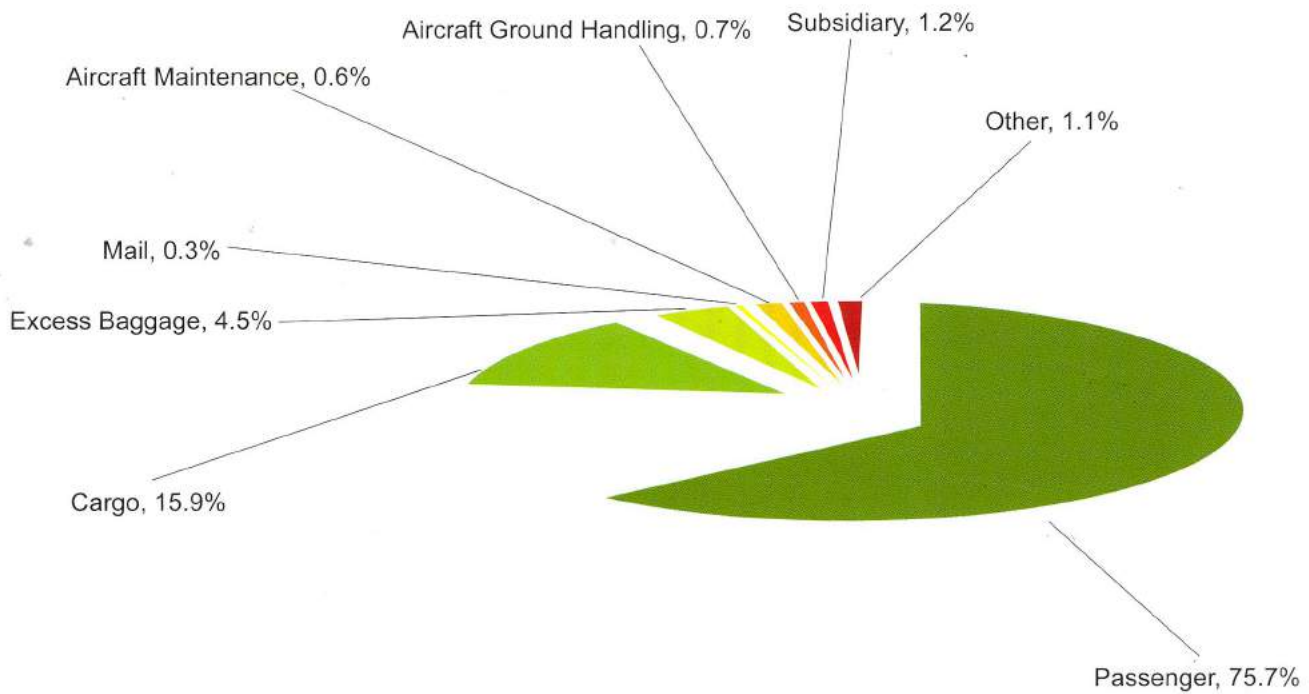
	2008-09		2007-08		2006-07	
	ETB'000	US\$'000	ETB'000	US\$'000	ETB'000	US\$'000
Operating Revenue	12,213,744	1,159,019	9,199,399	942,632	6,687,695	770,542
Less: Purchase of goods and services	10,068,536	955,450	7,770,371	796,210	5,822,943	651,426
	2,145,208	203,569	1,428,968	146,423	1,064,752	119,116
Add: Other non-operating Income	419,273	39,787	139,869	2,332	38,899	4,352
Interest Income	58,695	5,570	68,934	19,063	69,489	7,774
Share of result in associated companies	-	-	-	-	-	-
Total value added	2,623,176	248,925	1,637,771	167,818	1,173,140	131,242
Distribution of Value added						
To employees Salaries	725,261	68,823	584,204	59,862	464,581	51,974
To overseas governments						
Corporation and other tax	17,878	1,697	14,732	1,510	12,552	1,404
To supplier of Capital						
Interest	106,916	10,146	128,966	13,215	161,127	18,026
Retained for reinvestment and future growth						
Depreciation and amortisation	427,900	40,605	402,311	41,224	404,826	45,289
Retained Profits	1,345,221	127,654	507,558	52,008	130,054	14,549
Total Distribution of Value Added	2,623,176	248,925	1,637,771	167,818	1,173,140	131,242

In 2008-09, the total value added increased by ETB 985 million (60%) from last year. The increase came mainly from the high rise in operating revenues over the operating costs. Out of the total value added employees received 28% in the form of salaries and other related costs, interest paid 4% & government taxes 0.7%.

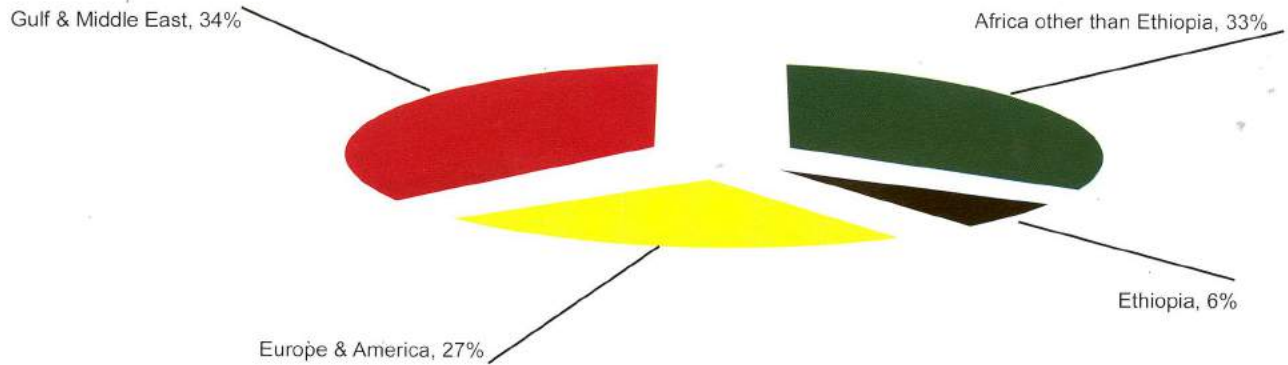
The amount retained in the business for future growth is 51%.

REVENUE BY BUSINESS SEGMENT

REVENUE	2008-09 ETB MILLION	%	2007-08 ETB MILLION	%
Passenger	9,261	75.8	7,076	76.9
Cargo	1,936	15.8	1,296	14.1
Excess baggage	545	4.5	372	4.0
Mail	35	0.3	28	0.3
Total Transport Revenue	11,777	96.4	8,772	95.4
Aircraft Maintenance Revenue	79	0.6	151	1.6
Aircraft Ground Handling	82	0.7	73	0.8
Subsidiary Revenue	142	1.2	113	1.2
Other	134	1.1	90	1.0
Total Operating Revenue	12,214	100	9,199	100



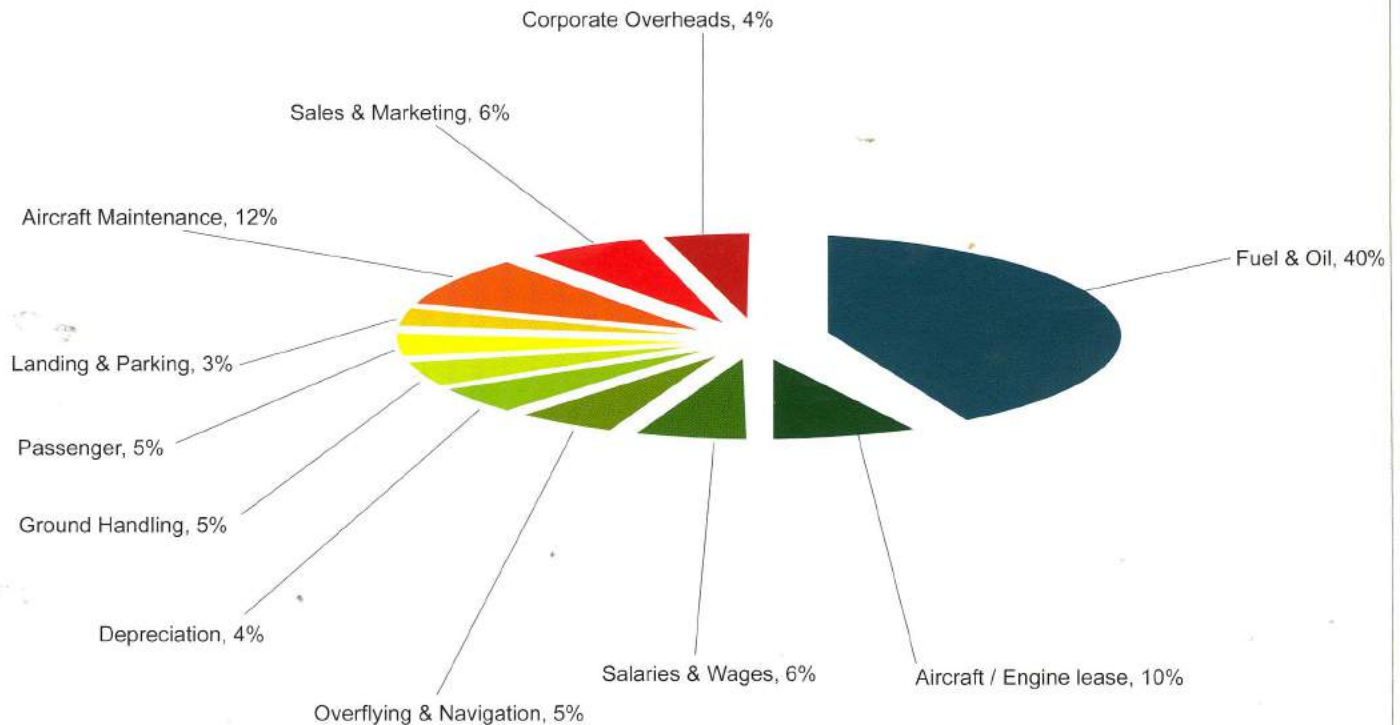
REVENUE BY GEOGRAPHICAL SEGMENT



EXPENDITURE

	2008/09		2007/08	
	ETB Million	%	ETB Million	%
Fuel & Oil	4,483	40%	3,714	42%
Aircraft Maintenance	1,368	12%	772	9%
Aircraft/Engine lease	1,108	10%	663	8%
Salaries & Wages	706	6%	570	6%
Sales & Marketing	695	6%	579	7%
Over-flying & Navigation	619	5%	489	6%
Ground Handling	573	5%	466	5%
Passenger	545	5%	424	5%
Depreciation	428	4%	402	5%
Landing & Parking	314	3%	268	3%
Corporate Overheads	401	4%	425	5%
Total Operating Expenses	11,240	100%	8,772	100%

EXPENDITURE



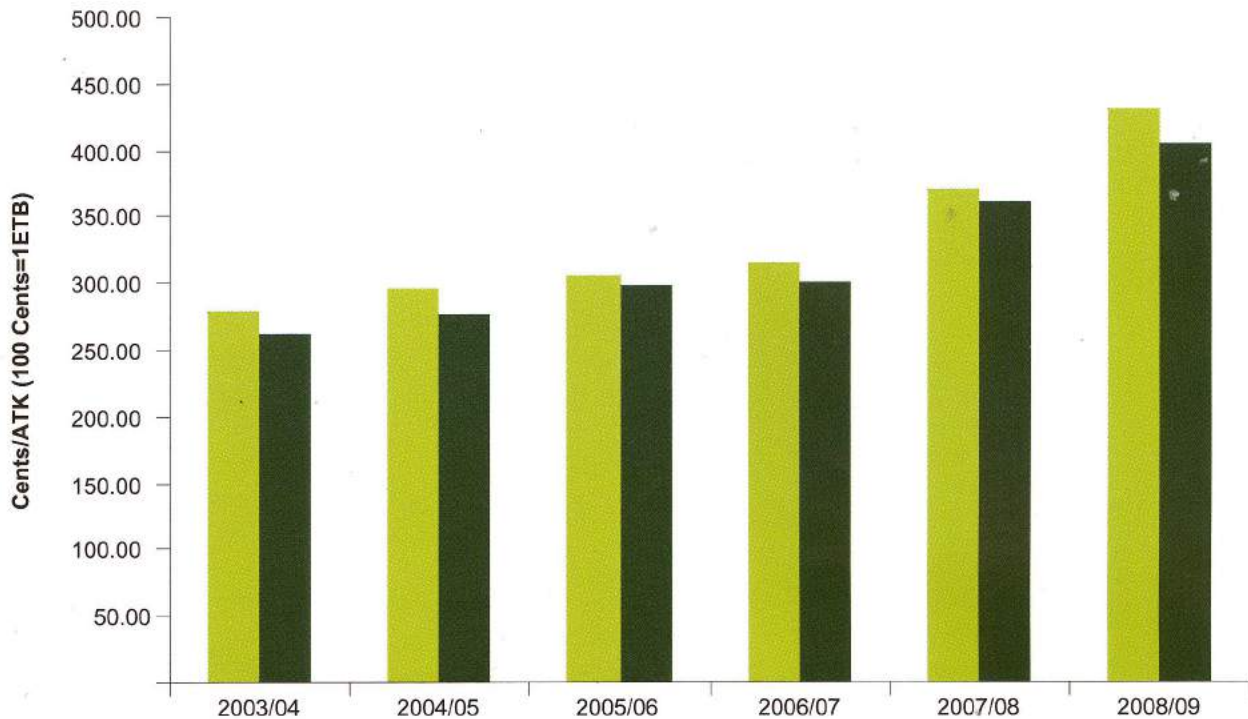
YIELD, UNIT COST AND BREAKEVEN LOAD FACTOR

Overall yield per RTK grew by 2.37% to 609.73 ET Cents while unit cost per RTK decreased by 5% to 575.02 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 4.49% to 383.11 ET Cents while, unit cost per ATK increased by 1.27% to 361.31 ET Cents.

The unit cost increase is mainly due to the increase in fuel cost as a result of the increase in fuel prices and increase in ownership cost due to additional capacity and foreign maintenance cost has increased appreciably.

YIELD AND UNIT COST (ET CENTS)

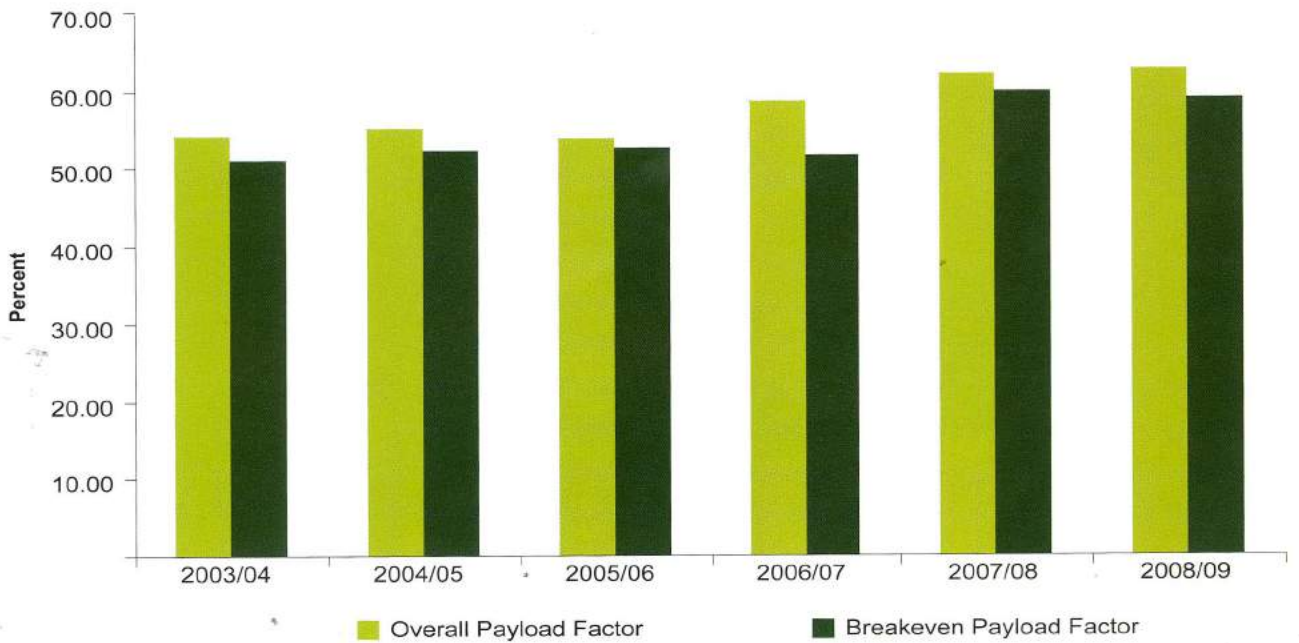


CAPACITY, TRAFFIC AND LOAD FACTOR

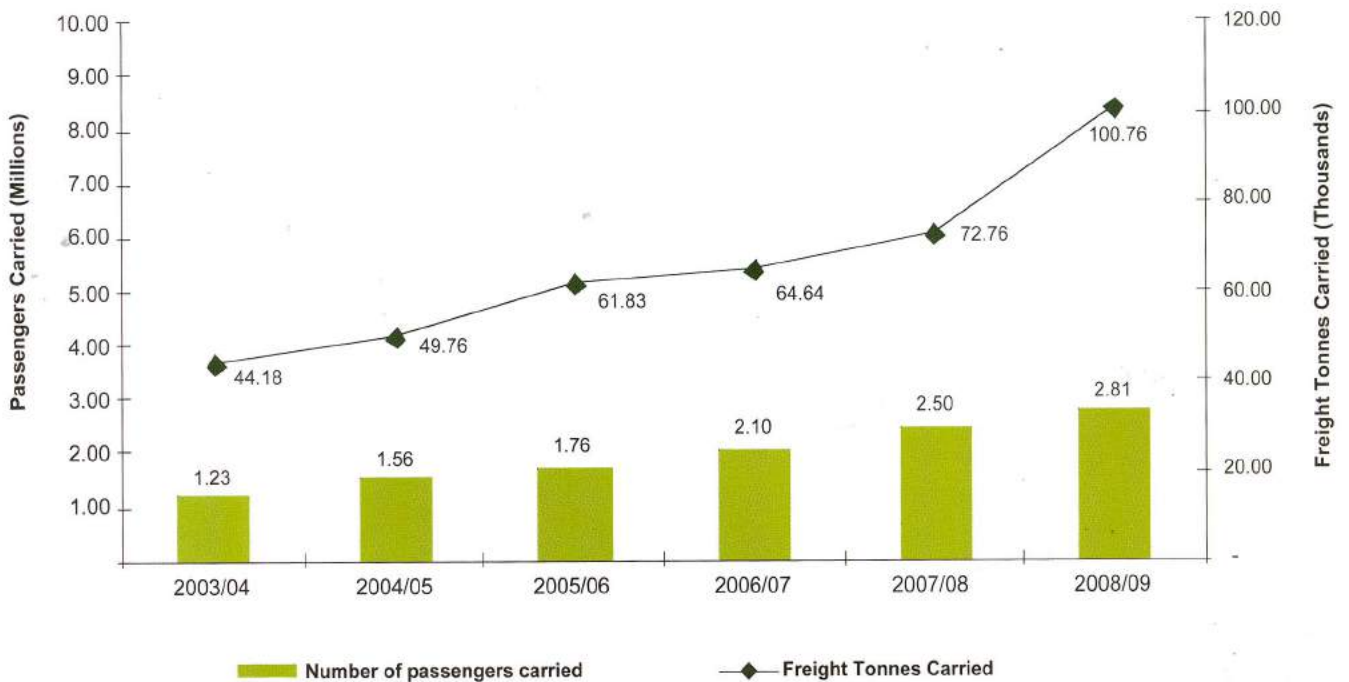
Traffic measured in RTKs has increased by 17% to 1,725 million and capacity measured in ATKs grew by 15.5% to 2,745 million. The increase in ATK is mainly due to frequency increase in certain destinations of Europe, Middle East and Africa. Moreover, the Airline started new services to Abuja, Lubumbashi, Ouagadougou, Riyadh, and Malabo during the year. The addition of a MD11 freighter to the system also contributed to the overall capacity increase during the year.

Passenger load factor is almost the same compared to last year due to the fact that the capacity increase expressed in terms of the number of the seats available is the same as the increase in actual passenger kilometres flown. An 8.6% capacity increase in Available Seat Kilometres has resulted in an 8.14% increase in traffic measured in Revenue Passenger Kilometres.

OVERALL & BREAKEVEN LOAD FACTORS



PASSENGER AND CARGO CARRIED



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 restriction, adverse economic conditions or actions taken by government in the respective countries.

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

In addition, the airline seeks to reduce foreign exchange exposures arising from its concentration accounts in various currencies through a policy of matching receipts and payments in each individual currency. The airline also spreads the holding of hard currencies in USD, EUR and GBP.

As of June 2009, cash position balance shows 54.66% in hard currencies of USD, EUR, GBP, CAD, and other European Currencies, 27.85% in Africa currencies, 5.90% in Ethiopian Birr and 11.59% in all other currencies.

2) Fuel Price Risk

Jet fuel price being the major expenditure of the airline, the company has a clear policy and manages this risk using the various hedging strategies (swap, cap and collar options) for a maximum period of two years on a rolling basis; and the maximum to be hedged is 75% of the total annual uplift.

Because of the world economic downturn banks, financing institutions and hedging companies have required a huge amount of cash collateral which is not advantageous to the airline industry. As a result the airline adopted a natural hedging strategy which due to the high volatility of price has benefited the airline during the year.

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 Tonne Kilometres)	Overall capacity measured in tonnes available for carriage of passengers and cargo load multiplied by the distance flown
16	RTK (Revenue Tonne 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