The Emirates Group

Report and Accounts

1995 - 1996

The EMIRATES Group contents

H.H. Sheikh Maktoum bin Rashid Al Maktoum,
Vice President & Prime Minister of the U.A.E and Ruler of Dubai

H.H General Sheikh Mohammed bin Rashid Al Maktoum,
Crown Prince of Dubai and Minister of Defence, U.A.E.

It was a year of ups and downs in the travel business world-wide, but the Group ended on a high note and I am pleased to report a satisfactory result with a profit of Dh 144 million.

Considering the competitive climate for both Dnata and Emirates, this result showed the ability of management and staff to navigate their way through troubled waters - for, despite the euphoria in the international press, profitable airlines are still few and far between.

Emirates celebrated its 10th anniversary on 25th October 1995 quietly for we were far too busy planning for our 15th birthday.

The Boeing 777 which has recently arrived is the first of seven of this type of aircraft and we have options on another seven to be delivered before the year 2000. So, you can see we are doubling in size almost every three and a half years in keeping with our objective to be a medium-sized international airline with a global network by the turn of the century.

Chairman's Review

H.H. Sheikh Ahmed bin Saeed Al Maktoum - Chairman of the Emirates Group

It has been suggested that in the present state of the aviation world, with two of the world's biggest carriers recently announcing an alliance to create one of the largest-ever route networks, there is not much room for the smaller airlines like Emirates.

However, we have never accepted this policy of survival of the biggest as a criterion for our future in commercial aviation. On the contrary, it has always been our belief that our size enables us to offer a more personal, higher quality product to our customers.

We have proved this by being the first airline in the world in 1992 to provide a personal video set in each seat in all three classes of all our Airbus aircraft.

In the new Boeing 777 there is ample evidence that small is beautiful for an airline such as Emirates. We have been able to invest in the world's biggest twin-jet and then tailor it in our own style and we expect to become the market leader. No other airline offers the innovations of our 777... and not even the mammoths can claim to offer a comparable service in every aircraft in their fleets.

The 777 represents an investment in the future, not only for Emirates but also for Dubai itself, with which the Group's future is intrinsically interwoven.

We have moved into our new Training Centre with its revolutionary 'aircraft' architecture, a state-of-the-art educational establishment for all staff in the Emirates Group, underlining our commitment to the maintenance of the highest possible standards.

We are also investing in the most advanced reservation and ticketing systems in the world for Emirates and a check-in and departure control system at Dubai International Airport for Dnata.

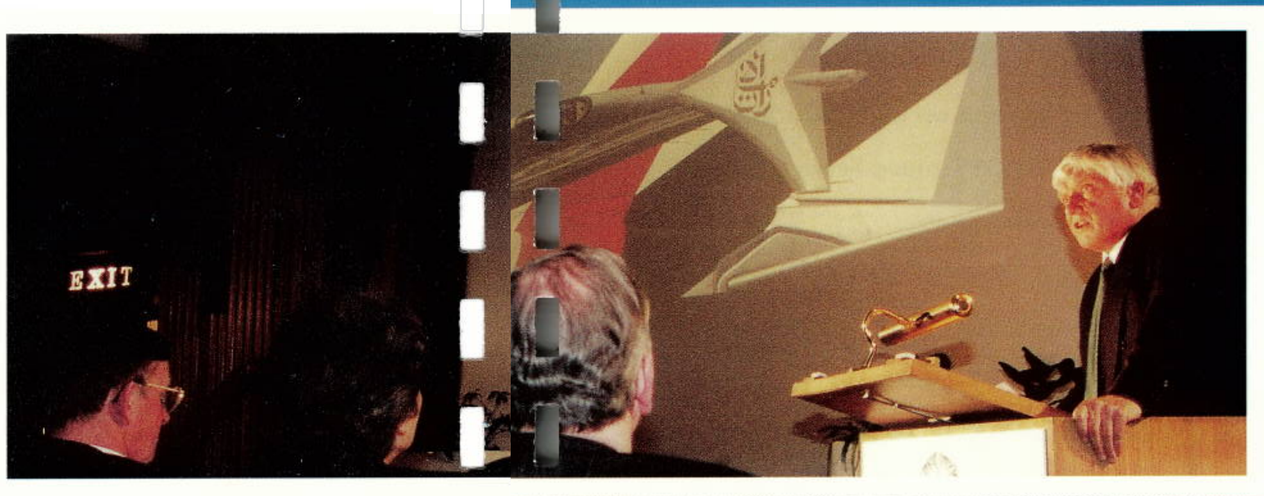
Our intention to concentrate on our core business, constantly endeavouring to be the best in the market, has been encouraged by the enthusiasm and loyalty of our customers who have showered awards on Emirates and Dnata. But we cannot become complacent for we know we are only as good as our last flight or shipment delivered.

Looking to the future we are expecting another challenging year for the Emirates Group in which we will need to continue to follow the twin disciplines of creative savings and aggressive sales to keep us profitable. Given the proven ability and commitment of our staff, to whom I express my appreciation, I am confident that we shall meet this challenge, and whatever other challenges the future may hold.

Ahmed bin Saeed Al Maktoum

Group Managing Director's Review

Maurice Flanagan - The Group Managing Director



As His Highness our Chairman has said, this has been another satisfactory year for the Group. Total profits reached Dh 144 million (USD 39 million), of which Dnata contributed Dh 63 million (USD 17 million) and Emirates Dh 81 million (USD 22 million). The story behind these statistics is one of consolidation and preparation for the future, in the face of intense competition on all fronts.

In our widely varying network Emirates has had to confront a number of factors putting severe pressure on passenger yields, including civil disturbance in some primary markets, devaluation of the Indian rupee, and the South African rand towards the end of the year as well as a strengthening of the dollar. Add to these economic conditions the competition from some 92 carriers benefiting from Dubai's Wide Open Skies (but we have no complaint about that unique and fundamentally passenger-friendly condition - would the rest of the world were the same!), and it becomes easier to understand the reason for the 3.4% decline in yield from last year's 8.46 cents per Revenue Passenger Kilometre (RPKM) to 8.17 cents per RPKM.

The lower revenue per passenger kilometre was largely offset by a dramatic increase in the number of passengers and cargo carried. But, although we were able to achieve an overall load factor of 68.6%, the break-even load factor increased to 66.2%. So, all in all, it has been a challenging year during which the airline has demonstrated its resilience and its ability to remain in the black, through aggressive marketing coupled with comprehensive and evolving process improvement which, although aimed at the future, has already begun to reduce overheads throughout the Group without impinging on service standards.

Emirates passenger numbers increased by 13.8% in 1995-96 to 2.56 million and cargo by 20.1% to 129,560 tonnes. This was a very robust performance and reflects credit on the efforts of our staff throughout the network.

We opened new routes to Johannesburg and the Comoros in June 1995 and in October to Nairobi and Ho Chi Minh. We were in the news in September when Emirates launched a rescue operation to evacuate 200 tourists stranded in the Comoros by a short-lived coup. We resumed operations immediately after the opening of the airport, and I am pleased to report that our services to Africa moved into profitability in a remarkably short period of time.

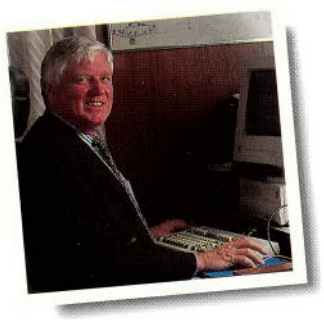
Dnata turned in a particularly strong financial performance from the operational divisions, with major savings achieved through all round efficiency improvements.

Passengers and cargo handled at Dubai International Airport are now running at over 7 million and 300,000 tonnes a year respectively. We continued to consolidate and expand our Airport Ground Services business in Karachi, and opened travel agencies in London, Birmingham, Glasgow and Manchester.

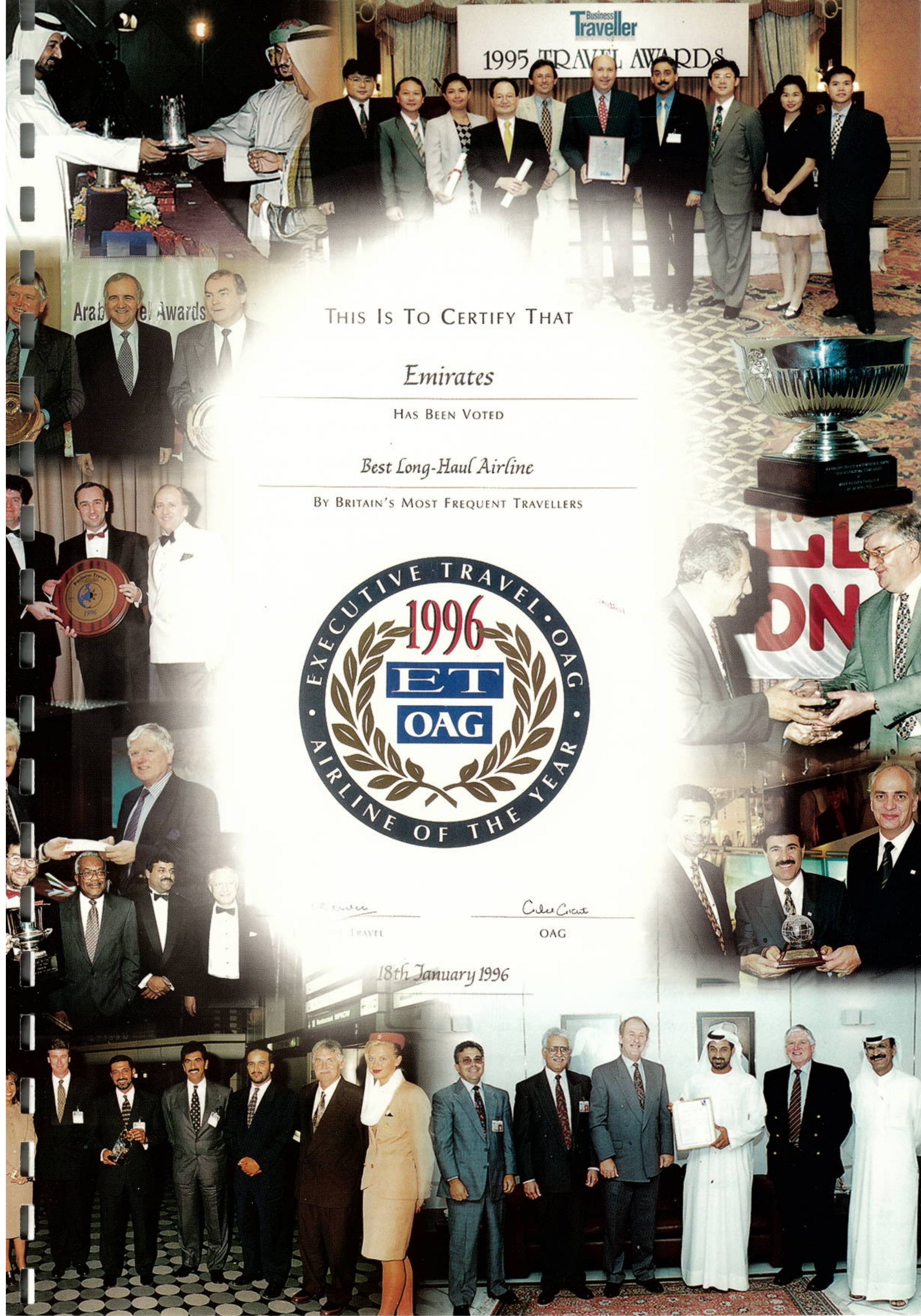
Dnata Cargo's terminal became the first department in the Emirates Group to be awarded ISO 9002 certification. In fact, since then the Emirates' Engineering division and the Inflight Services department have also achieved this coveted distinction. We understand that these represent a first for any air transport group.

While the airline has been preparing for the introduction of our new Boeing 777s, the first of which arrived in Dubai during the production of this report, we have also been concentrating on the structured programme of process improvement which I mentioned earlier, initially in the Finance, Human Resources, Dnata Cargo, Information Technology and Recruitment departments. The overall plan is designed to improve productivity and efficiency throughout the Group, and is linked, as it must be, with a strong emphasis on performance management. These activities are a necessary and natural exercise in a company which has expanded so quickly, with the airline averaging a compound growth in production of 29% a year in the past decade and Dnata not far behind, and will enable us to take a rigorously cost-effective operation into the 21st century.

Finally, I must mention our staff. Dnata achieved its ISO standing and was voted Best Travel Agency in the Middle East, while Emirates won some quite outstanding passenger and cargo titles, including Best Long Haul Airline, Best Inflight Food and Wine, Best Airline to the Middle East, Best Cabin Crew, Best Inflight Entertainment, Best Inflight Magazine - and became World Airline Cricket Champions for the second tournament in succession. None of this happened by accident. It is the loyalty, dedication and high quality of performance of all members of the team, in all areas, which has enabled us to negotiate these past difficult years so successfully, and which gives us great confidence for the future of the Emirates Group.



Maurice Flanagan



The Group Managing Director has underlined the economic conditions under which we strove during the past year and we are pleased all our efforts paid off as Emirates again remained in the black for the eighth year in succession.

Net income was marginally lower than we initially forecast though the number of passengers carried - a record 2.56 million - was right on target, mirroring the figures forecast in the five-year plan of 1991. However, it was the unexpected 3.4% decline in yield which spoilt an otherwise very impressive performance.

As well as the socio-economic conditions which affect all airlines, the industry is also facing a new phenomenon brought about by the rapid development of Global Distribution Systems - accelerating distribution costs. An internal and external awareness programme is now being carried out to educate staff and travel agents on how to avoid wastage and excess charges.

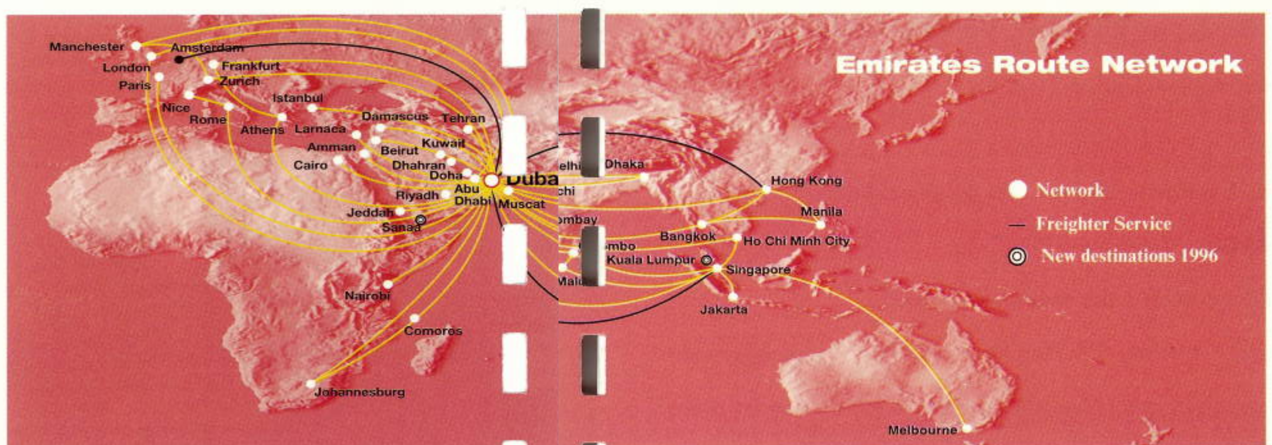
Commercial

Emirates achieved a passenger seat factor of 70.2% for the year which, when taken against an increase in capacity of 11%, was a notable landmark. We explored new frontiers in Africa and our Johannesburg, Comoros and Nairobi routes proved winners from the start with an immediate return on investment. The demand for our South African service was such that we quickly added a third flight. Everyone involved deserves praise for this outstanding result on a new continent where we had to start from scratch - recruiting new personnel, finding town and airport offices and promoting and launching our services.

Much preparation, imagination and planning has been invested in the choice of interiors for the new Boeing 777, new crockery, a new personal video system and the many hundreds of other facets associated with the acquisition and delivery of a new aircraft. A new uniform for cabin crew has also been approved and will be introduced in autumn 1996.

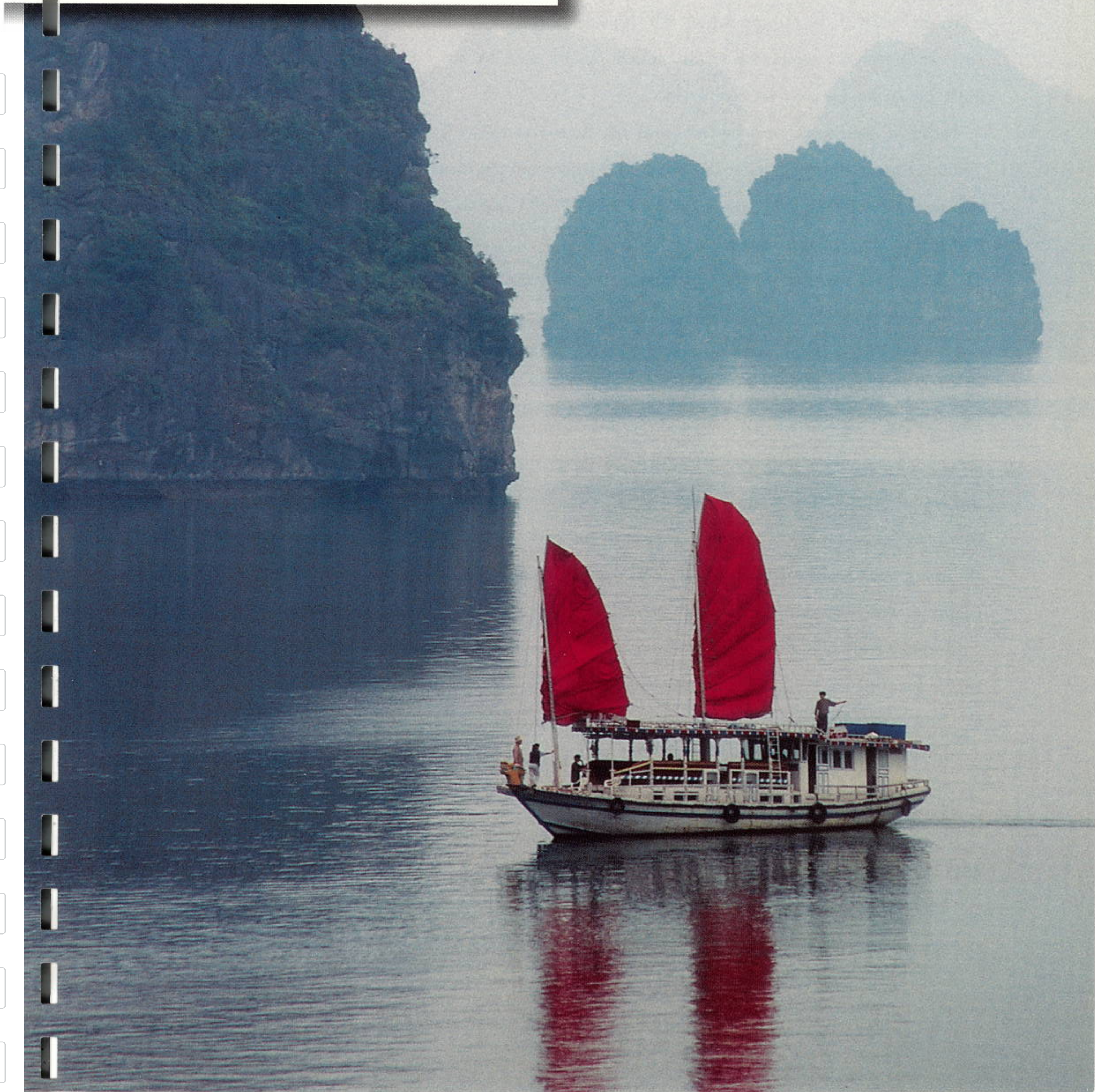
Sky Cargo

Boosted by its all-freighter services Sky Cargo also had another record-breaking year carrying a total tonnage of 129,560 which represents an increase of 20.1% over the previous year. Cargo now comprises 15.3% of the airline's total revenue and Emirates is recognised in the industry as a genuine freight carrier - proof being the poll in the trade publication Air Cargo News where, for the first time, Emirates was voted "Cargo Airline of the Year" and, for the seventh year in a row, voted "Best Cargo Carrier to the Middle East."



In terms of hard cargo, Sky Cargo carried 121,600 tonnes with a remarkably equal distribution across the network, Europe being responsible for 27%, the Pacific Rim 25%, West Asia 22%, Middle East 23% and offline stations, mainly the USA, some three percent.

Our freighter operation with a leased B747-200F from Atlas Air was expanded to three times a week to Amsterdam (a joint flight with KLM) with twice weekly services to Hong Kong and once a week to Singapore. Sky Cargo continues to widen its global cargo business and enhance market share as well as enter new markets with an emphasis on research, design and development of new services. The soon to be introduced "Airport-to-Door" service is a typical example of such products.



Leisure and Destination Management

Our long term strategy to sell more holiday packages overseas has gained momentum and the share of bookings from stations on the Emirates network has increased to 51% even though business was also strong in the UAE. Over 20,000 passengers travelled with Emirates Holidays in 1995-96 (up from 14,240 in 1994-95).

Most popular destinations were Dubai, the UK, India, the Maldives, Egypt, Thailand and Turkey. In addition, bookings for Southern Africa and Kenya have been encouraging. There has also been a definite trend towards quality holidays and a move away from the price led package offers which augers well for the future of our business. A highlight of the year for Emirates Holidays was the winning of the World Travel Market 1995 Global Award in recognition of our innovative marketing efforts in the Gulf and Middle East.

Arabian Adventures, the inbound destination management unit, has seen a dramatic increase in passenger volumes. This is the continuation of the trend over the past years as a result of our efforts to promote Dubai to world-wide markets. Major markets have been Germany, the UK, the GCC, Switzerland and South Africa. Of this total 81% of all passengers arrived on holiday packages, 12% on incentive programmes and 8% on stopover packages. The average stay in beach hotels was six nights and in city hotels three nights. Over 40,000 passengers explored the country on safaris and tours with dune dinners being the most popular outing.

Arabian Adventures organised several large events in the desert for major corporate companies and for participants of international conferences such as FLAG (Fibre Optics Link across the Globe).

Schedules and Production

During the year, new stations were opened at Moroni, Comoros Islands and Johannesburg, South Africa (June 1995), and Nairobi, Kenya and Ho Chi Minh City, Vietnam (October 1995).

We also started work on the long range operating and fleet plan for the years 1998-2005.

Emirates implemented a Windows based sales productivity system, EKSELL-i, at 46 of its passenger sales locations around the world for use by the sales force to effectively target, plan and report on sales visits to travel agents and corporate accounts. It also delivers accurate, concise and timely reports on these activities direct to the head office senior management via international telecommunications links. From head office, the system delivers travel agent revenue production information directly to the PCs of the sales force each month to allow them to develop, implement and monitor their strategies in their territories.

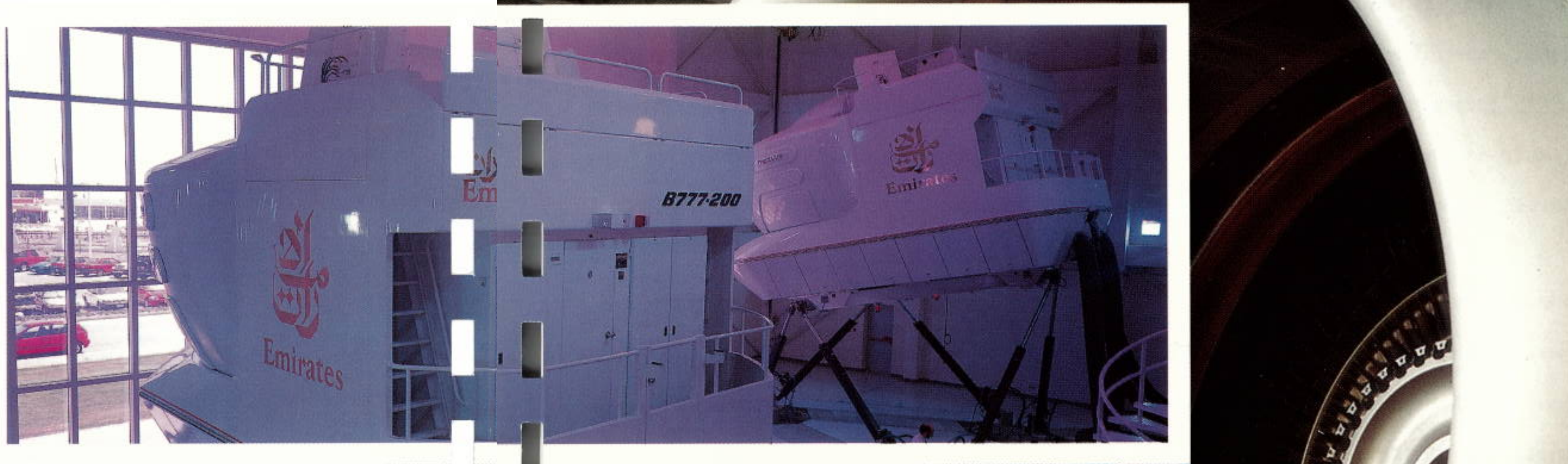
Engineering

Emirates Engineering demonstrated another year of excellent achievement with the production of the highest aircraft daily utilisation in the industry coupled with the highest aircraft technical dispatch reliability. This has been recognised again by Airbus Industrie who presented an award to Emirates Engineering for such achievements.

It was also gratifying to receive the ISO 9002 certification for our quality management system from Bureau Veritas Quality International (BVQ) on 2nd May 1996. In addition, UK Civil Aviation Authority granted Joint Aviation Requirement (JAR) 145 certification to Emirates in July 1995, on behalf of the European JAA, which means that Emirates is now an approved engineering facility which can be used by any European airline for contract maintenance.

Operations

Emirates engineering training has been transferred to the new Training Centre where the most up-to-date techniques and teaching aids are used including a full size General Electric CF680A engine.



Flight Operations

The highlight of the year was the commissioning of the new Training Centre with its outstanding facilities, including the latest computer-based aids for training our pilots. In September 1995, the Airbus Flight Simulator, manufactured by CAE Electronics Ltd, Canada, was certificated at level 4, the highest available, by both the UK Civil Aviation Authority and the UAE Directorate General of Civil Aviation. Our new Boeing 777 simulator achieved the same rating in December 1995, and both machines are now in use for 16 hours a day, training pilots for Emirates and five other airlines. The level of realism reached in the simulators is exceptionally good, with excellent representation of fog, snow and blowing sand, and even experienced pilots forget that they are in a ground based machine, not the real thing. The simulators are supported by a team of highly qualified engineers with many years of simulator experience who have joined Emirates in the past two years.

Recruitment to meet the needs of Emirates' expansion led to 44 experienced jet pilots joining us in the past twelve months, from 12 different countries. Twenty nine of our pilots were promoted to captain after an intensive and demanding upgrade course lasting three months.

All of Emirates' pilot training is now carried out in-house, with the exception of the basic training of young UAE nationals as airline pilots. They attend a 70-week course at the British Aerospace Flying College in Scotland, before joining Flight Operations as cadet first officers.

Operations Control

Operations Control which comprises flight dispatch, control, navigation services, crew planning and crisis management has made much progress in further automating systems to meet our growing needs.

We have introduced the latest crew management and operations control software from SBS International of the United States, which will improve the quality of rosters and maximise productivity of our crews. The operations control software will provide a computerised "flight watch" tool and informative management reports to help ensure that our high levels of punctuality performance are maintained and improved.

Following a three year evaluation of flight planning systems, we have concluded negotiations and will introduce a new system by December 1996. This system will allow Emirates to fly minimum cost routings based on a combination of fuel and overflying charges and it is estimated it will save over Dh 1million per year in operational costs.

The ongoing development of crisis management procedures at Dubai International Airport was enhanced with the first fully integrated exercise involving Emirates, Dnata, police, fire, ambulance, military and airport authorities in April 1995. Emirates has developed one of the few fully-dedicated crisis management centres in the world as part of our responsible attitude towards effective airline contingency planning. Already we have signed a mutual support agreement with Cathay Pacific and are in the process of agreeing similar arrangements with other airlines.

Inflight Services

Emirates Inflight Services division is the first of any airline in the world to be awarded ISO 9002 certification, the internationally recognised hallmark of efficiency. The division also won ISO accreditation in record time of just 12 months as compared to the more usual 18 or 24 months.

The inflight entertainment system for the Boeing 777 developed by GEC Marconi Inflight Systems, of Portsmouth, England, represents one of the most sophisticated and flexible available in the airline world. Dummy versions of the software for both passengers and crew were created and then 'tested' with user-groups. A full suite of computer based training software was produced for Emirates to train the crew how to operate the system but perhaps more importantly - how to be passengers. This is in order that they can quickly answer any queries that passengers may have about the system. A complete re-launch of the inflight entertainment programming has also taken place. On the 777 there are 15 channels of entertainment with more movies, dedicated channels for Arabic and Hindi films as well as new drama, arts and sports programming. In addition, 14 new audio channels have also been introduced on the 777, offering programmes for passengers from most of Emirates' Asian and European destinations as well as catering for some other niche tastes such as opera and country music. A new inflight entertainment guide will also be launched.

Emirates becomes the first airline to offer a "Flying Camera" channel - with two cameras installed in the 777 - allowing passengers to watch take-offs and landings as well as sightseeing on route.

A total of ten internationally known designers were invited to provide designs for Emirates' new uniform. 70 different designs for female staff, in a wide range of colour combinations and 50 designs for male staff were presented to the selection board. We believe the time and effort spent on this project will be well worthwhile when one considers the importance of the uniform in projecting the corporate image and creating a sense of pride and commitment in our staff.

Airport Services

Dnata Airport Services continued its rapid growth with a 13.7% increase in passengers and 25.6% increase in cargo handled with no signs of the numbers declining. All areas continued the trend of improved employee and ground support equipment productivity.

Passenger services expanded employee participation in the quality action team (QAT) programme, opened a new customer service counter in the transit lounge at Dubai International Airport and opened a new Marhaba office hiring Arabic-speaking "meet and greet" staff for our service.

The big effort during the year has been focused on the new passenger services systems, (departure control, DMACS, and a new multi-access check-in system, DMACS II) which will come on stream during 1996.

Ground operations have switched on a new baggage reconciliation system (BRS) in Terminal A during the year providing improved accuracy, security and timeliness in handling checked baggage for the airport's airlines.

The Redcap operation continues to grow in size and respect by the airlines' captains and management personnel. Work in progress for completion during 1996 includes a new Quick Cargo Transfer facility, the first of its type in the world and a new Dnata Operations Control Centre.

Data Systems continues to support the operating departments with systems development and is playing a key role in the DMACS and DMACS II development.

Dnata Engineering has seen productivity soar and is busy designing new maintenance and workshop areas which will be part of the new approved airport development.

Airport Services new resource planning department is involved in all work areas offering technical and administrative support in further improving employee productivity.

The major effort has been in the development of a resource management system (RMS) which, when operational in late 1996, will provide rostering, planning and real time control of all airport work areas, both for staff and ground support equipment.

DNATA

Agencies

Dnata Agencies had another tough year in the UAE which has rapidly become a free-for-all market where bucket shops are operating at margins of less than 1%, but emerged as the “Best Travel Agency in the Middle East” for a record sixth time in the poll of travellers conducted by Travel and Tourism News in the annual Arab Travel Awards.

To maintain its role as a market leader, Dnata Agencies expanded its “Holidays by Dnata” facilities to include a new Cruise Centre.

It also launched “Events by Dnata”, which shows encouraging signs of success, in bringing visitors to major events such as the Dubai World Cup and the Dubai Rugby Sevens.

Another new service was the introduction of the VAT Cashback scheme providing a service for visitors to Europe to claim their Value Added Taxes on goods purchased with VAT when they return to the UAE.

Dnata Agencies faced the increased competition and the discounting of airlines by providing a comprehensive all-the-way service for business travellers as a partner in BTI (Business Travel International) and continued to develop its own Axis group of agencies in the region.

Dnata now represents as General Sales Agent the following airlines: Aer Lingus, Air India, Air Lanka, Air Malta, Ansett New Zealand, Ansett Australia, Bhoja Air, Bangladesh Biman, British Airways, Emirates, Gulf Air, Iran Air, Jet Airways, KLM, Kuwait Airways, Libyan Arab Airlines, Lufthansa, Middle East Airlines, Pakistan International Airways, Philippine Airlines, Qantas, Royal Brunei Airlines, Royal Jordanian, Sabena, Singapore Airlines, State Transport Company of Russia, Swissair, Tavrey Air Company, Thai Airways (Sharjah), United Airlines.

DNATA

Cargo

Dnata Cargo's concentration on quality management systems has paid off during the year with service improvements and increased contributions in both the Cargo Terminal and Cargo Marketing activities.

In July 1995 the Cargo Terminal Operations became the first department within the Emirates Group and only the second cargo terminal operator in the world to achieve ISO 9002 certification.

For the third consecutive year the Airport Cargo department secured the prestigious Asian Freight Industry Award for 1996 for its excellent cargo facilities, reflecting the continued high standard of service achieved.

Cargo volumes at the airport have grown by 25.6% mainly due to the explosive growth in the export charter market and transit.

Dnata Cargo was able to continue the optimisation of terminal throughput and staff productivity with the help of the in-house developed CAMIS (Cargo Activity Management Information System). The results were impressive. While income per tonne declined by 5%, expenses per tonne have improved by 16%, with the gross revenue contribution improving by 36% overall.

During the year Dnata World Cargo introduced several new niche market services including a personal effects door-to-door service between UAE and Philippines, a domestic door delivery and pick up service throughout the UAE and a Fairs & Exhibitions Site Handling Service.

Dnata's representation for Emery saw sales grow by as much as 70%, resulting in the Dnata team being awarded the Emery Middle Eastern Sales Achievement Award as top performer in the region.

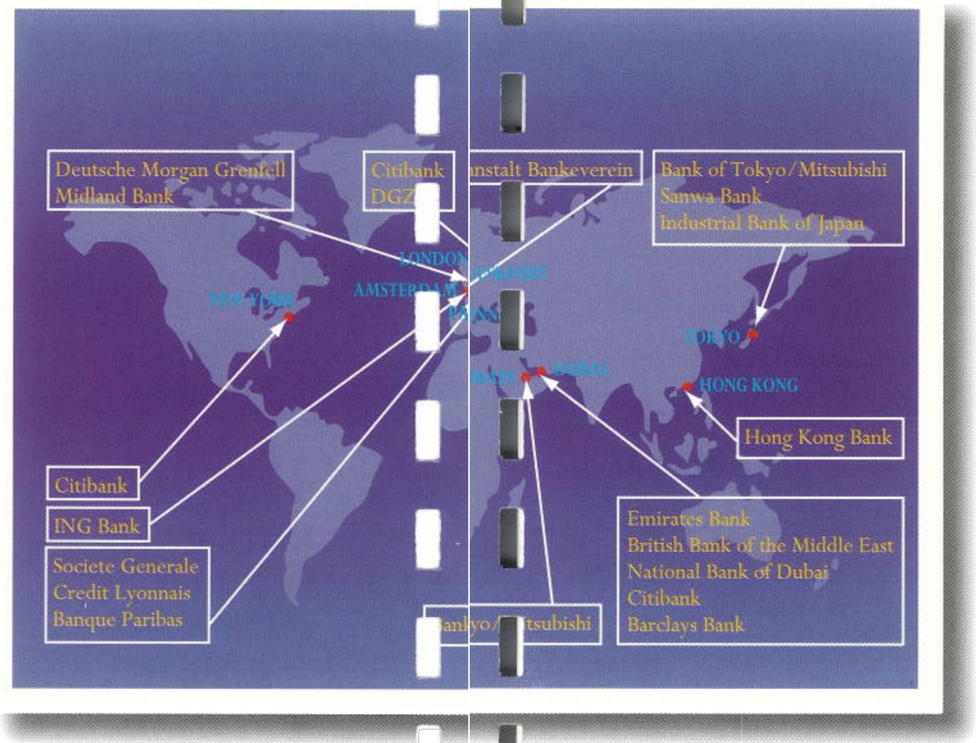
Dnata Cargo Agencies went from strength to strength and expanded its GSA portfolio to 20 principal airlines adding both State Transport Company of Russia and Tavrey Air Company.

Dnata Transguard - which started in early 1995 - is still the only company in the UAE providing cash-in-transit services to banks, money exchanges and jewellery traders using highly trained staff and state-of-the-art security vehicles to transport high value shipments. Transguard, with 56 staff and four vehicles, is planning for rapid expansion.

Last year's report highlighted a programme of examining processes and procedures which was initiated within the Finance unit. We are now seeing evidence of improvements in productivity and efficiency arising from these initiatives - perhaps the most spectacular example of success was achieved in Accounts Payable where the average processing time was more than halved and where we can now handle double the volume with the same number of staff.

As part of the same programme we have also undertaken a complete overhaul of our financial accounting system with a view to substantially improving the quality and timeliness of the management information produced which is so critical to our decision-making process. During this financial year a detailed system specification was prepared which was followed by a rigorous evaluation of the "on line" accounting packages available. The outcome was the selection of the Universal OLAS product from QSP Software Products Plc of the United Kingdom and implementation of the first phase is scheduled for October 1996. A key factor in our final selection was the ability to collate data in a way which facilitates ease of retrieval for the increasing number of ad hoc projects which are arising across the Group in our continuing efforts to reduce costs.

Finance



Our revenue accounting system RAPID, which was developed entirely in-house and first implemented in November 1994, continues to be enhanced. Detailed information at a revenue document level is now downloaded daily into another new system, C-VIEW, which is used extensively by the Commercial division to track revenue performance. Further enhancements are targeted in the coming year particularly in the area of fare auditing and RAPID has begun to attract significant interest from major international and regional carriers who have expressed interest in purchasing the system.

These initiatives are essential for Finance to enhance the level and quality of support it provides to the business units. Finance is charged with the responsibility not only for the provision of financial guidance and input but also for challenging assumptions and, more importantly, encouraging line management to come up with imaginative alternative proposals to avoid additional cost, perhaps by redeploying resources from other areas. The ability of the Finance unit to work closely with line management and add value in this critical area of endeavour will be vital in determining our future effectiveness to the Group's activities particularly so given the continuing challenge of yields remaining under pressure and the need to drive down unit costs still further.

The major financing activity has centered on the seven Boeing 777 aircraft - the largest financing placement ever of any Government of Dubai owned corporation.

At the time of writing, financing agreements have been satisfactorily concluded for an amount in excess of USD 200 million in respect of the first two Boeing 777 aircraft delivered in June and July 1996. In addition, in principle an agreement has also been reached to meet our financing needs for the remaining five firm orders. This brings total committed facilities to circa USD 1 billion drawn from a wide geographical spread of major financial institutions (see chart). We are particularly pleased with the competitively priced support we have achieved from the international financing community, as well as the innovative financing structures that have been adopted. A truly "global reach" with financial institutions from the USA, through Europe and the Middle East to Japan and Asia participating in this prestigious project.

Group cash and liquid fund balances at year end remained buoyant at Dh 108 million (1994-95 Dh 319 million) despite substantial cash outflows during the period in respect of progress payments for the Boeing 777 aircraft fleet of Dh 290 million (1994-95 Dh 129 million). This now brings to Dh 466 million the total of progress payments paid to date, all of which have been funded from internal cash flow.

Customer Affairs & Service Audit

With the rapid expansion of the Emirates Group, continual focus on service levels and customer satisfaction has taken on an important corporate emphasis. The philosophy of providing service of the highest quality, to meet and exceed customer expectations, is instilled and practised by all employees throughout the organisation.

As the product advocate and customer champion, the Customer Affairs & Service Audit department, comprising a team of dedicated professionals, acts as a catalyst for positive change, winning customer goodwill and friends for the organisation. In performing this role, the Customer Affairs & Service Audit department draws on the reservoir of customer feedback to analyse, identify and effect market-directed improvements and continuous fine-tuning of the product and indeed of the entire customer experience.

Customer concerns are addressed promptly and professionally, resulting in the restoration and retention of customer goodwill and confidence.

Human Resources

Changes in the Human Resources division during 1995 bore witness to the importance that the Group places on its employees. Training and health initiatives have been particularly high profile areas, but other forward looking developments in performance management, safety and recruitment are all steps to secure the future.

Personnel

On 31st March, 1996 the Group had a total of 8,796 employees, a net increase of 571 over the previous year. Of this total, Dnata employed 4,375 and Emirates 4,421.

1995 has witnessed considerable change in the Personnel department. Recruitment has been restructured on a centralised basis complete with streamlined procedures, established business targets and staffing dedicated to this important function. Whilst the process of improving service standards and efficiency is ongoing, benefits have already been achieved. Strategic reviews have also resulted in the establishment of a project to identify the competencies of all positions within the Group. This will later feed into the recruitment process enabling a closer match to the key attributes established in selection. The competency project has very important linkage to another Personnel initiative - performance management.

Performance management is seen as a major strategic initiative, aimed at ensuring the necessary environment is in place to enable each individual to achieve and exceed the objectives. By the development of our staff, and appropriate encouragement, we will be able to focus effort on achieving corporate objectives that will shape our future.

Training

Our new Training Centre was open for business in late 1995 and became fully operational in March 1996.

This comprehensive, fully equipped and unique complex is testimony to the Group's commitment to excellence and to the highest of safety standards. We now have two full flight simulators (one Airbus and one Boeing 777), a fixed base Airbus simulator and the world's most advanced emergency evacuation trainer. Engineering workshops cover 38,348 sq.ft. of space and to achieve full synergy of the "under one roof" facility, classroom space amounting to 88,110 sq.ft. is shared by Flight Operations Training, Engineering Training and Commercial Training. Add to this 18,686 sq.ft. of office space for instructors and administration, restaurant facilities for students, and underground car parking, and the extent of the commitment can be recognised.

Our future training strategy is to capitalise on this superb facility. The quality of all programmes is being enhanced by greater opportunities for practical exposure.

In future years, the Training Centre will become a Centre of Excellence in all areas and a hub of best practice in the aviation and transport industry. Partnerships with the highest calibre professional organisations will be forged to take advantage of third party opportunities. Currently, we have links with Cranfield University and recently with Bradford University, who now conduct their MBA programme within our Training Centre. Plans are in hand for providing engineering programmes to third parties in association with leading UK and American institutions, leading towards CAA/FAA licences or accreditation towards full degree programmes.

Health

August 1995 saw the opening of our own medical and dental facility offering a comprehensive range of medical and dental services to pilots, cabin crew, engineers and senior management. The clinic, which hosts its own pharmacy, is staffed by four highly qualified doctors who specialise in aviation medicine, three dentists, and a full complement of ancillary staff.

It is from this firm base that we will now move forward. Plans are already in hand for the introduction of a dental hygienist. Beyond the physical boundaries of the Clinic we are making intensive efforts to enhance the quality and level of first aid facilities and training throughout the Group's working areas.

It was a year of non-stop advertising, promotions and media relations activities for the External Relations Department in support of the commercial divisions of Emirates and Dnata.

Some 35 advertising agencies and 18 public relations agencies throughout the network were used to supplement the efforts of External Relations in addition to a number of freelancers and consultants.

For Emirates, four new destinations were opened on the network - Johannesburg, Comoros, Nairobi and

External Relations

Ho Chi Minh with External Relations involved in these inaugurals from the journalists' visits, to the gala dinners to the launch press advertising.

There were several unique Emirates' promotions, including sponsorships of the Miss World Pageant in South Africa and the Dubai World Cup Horse Race, as well as participating in Emirates' "annual events" including the PGA Desert Classic, World Offshore Powerboat Race, Longchamp Races, Irish Oaks, Newmarket, Singapore Derby and the Dubai Rugby 7s. The airline also had a major presence at the World Travel Market and ITB travel trade fairs and carried out a series of road-shows in the USA and recently in Australia.

For Dnata, there were major promotions for the launch of Mercator, Information Technology Department's commercial operation, and participation in the Dubai Air Show and the Arabian Travel Market in Dubai.

A new advertising agency, the London-based BDDH, was appointed in May and we took advantage of the large number of awards won by the airline, to create an "Award Winners" campaign with an above-the-line press campaign breaking in September and a new TV Commercial screened from January.

A Visual Standards Guide was produced for Emirates and subsequently updated for the Boeing 777 and Australia launches while a Dnata Visual Standards Guide is under production.

Dnata launched a new corporate advertising campaign in the UAE media and later major press drives followed for the new Holidays by Dnata, Events by Dnata and the Dnata VAT Cashback scheme.

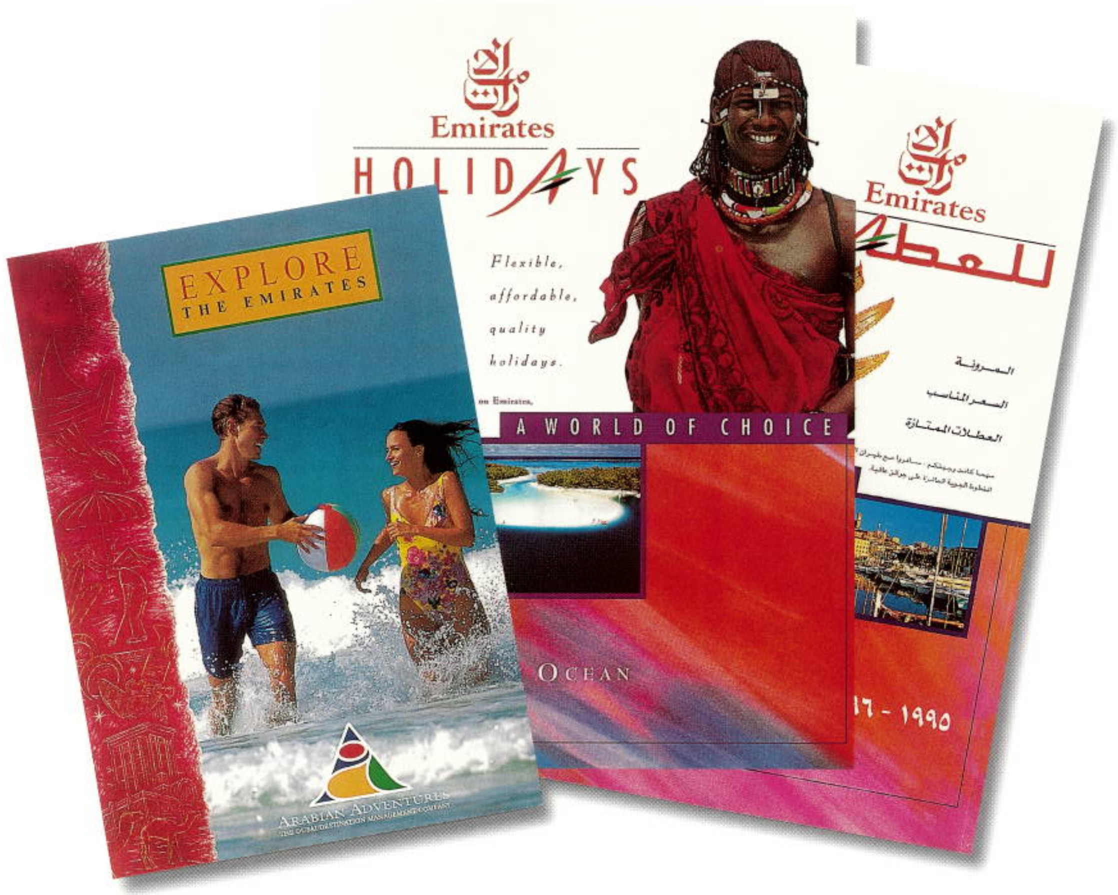
Eight different brochures were published for Emirates Holidays plus price guides in more than 200 different editions. For Arabian Adventures, new editions of the Tours & Safaris brochure were printed in four languages and the travel trade supported through newsletters, posters and other material.

At the International Advertising Association's (Middle East Chapter) Awards presentations, the Arabian Adventures logo was judged the winner in the Corporate Identity Category, and the incentive planner gained a runners-up award while Emirates Holiday Winter Ski and Safari campaign was runner-up in the Direct Mail category.

During the year the Emirates Group went live on the Internet with an initial 68 pages and we are now receiving more than 9,000 visits per week. As well as information pages, we have also used the new medium for recruiting. We plan to show the airline's schedules in the future and add 100 more pages of information. Our Internet address is http://www.ekgroup.com/

For Media Relations, probably the busiest period was October when more than 100 international journalists were hosted in Dubai in connection with the filming of 26 contestants for the Miss World Pageant. During the year some 200 journalists participated in Emirates' media trips. As well as going live on the Internet with press releases, more video news releases were also produced for TV stations world-wide.

The Audio Visual Department also had a busy year creating videos for training, cabin crew and IT recruitment, Sky Cargo, Inflight Duty Free Sales plus the production of a new Arabian Adventures film and an updated Corporate video.



The traditional reactive role of Information Technology is changing and the Emirates Group IT division is now implementing strategies which are proactively supporting business development.

The planning of systems and communications for the Emirates business units has never been an easy task. Supporting their rapid growth over the last 10 years, from travel agency origins through airport handling to international airline operations, has been an achievement in itself. In the past, it has been sufficient just to cope with the extraordinary increases in volumes of business, passenger traffic and diversity of service. Today, line managers and their customers have greater expectations of product and service improvement which can only be met by IT taking more of a leading role in planning the automation of the future.

Two examples illustrate this trend - the strategic software alliance with Swissair for providing passenger services systems and the implementation of strategic gateways for global communications.

Information Technology

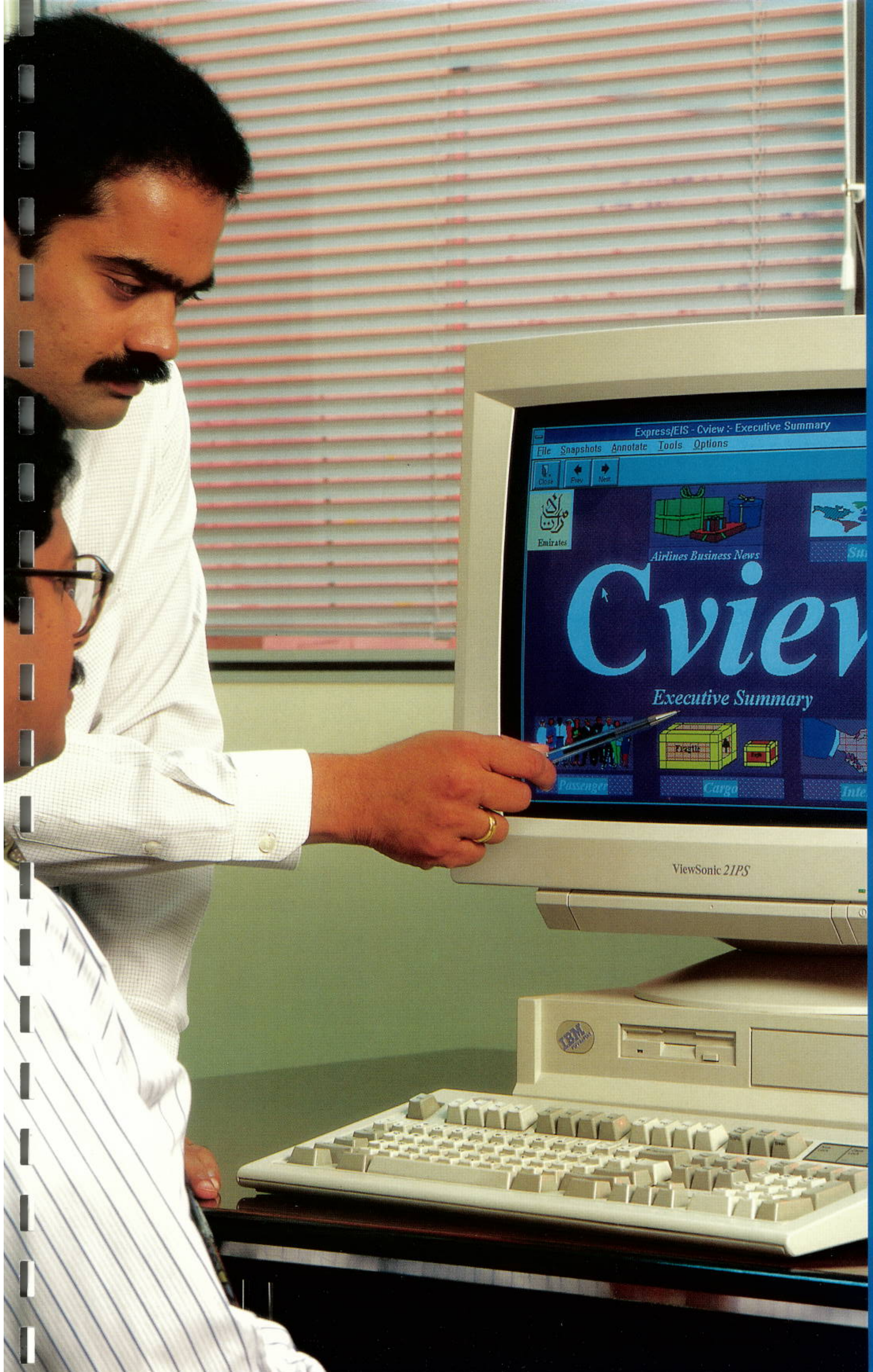
With a reputation for excellence in its passenger care and service, the business requires a continuous process of enhancement of core systems to satisfy an increasingly sophisticated travel market. It has been difficult for the development team to keep up with this demand for new features and it was clear that a new strategy was necessary.

In November 1996, Emirates will switch off its EMIR reservations system and will open up a new era of passenger service with the release of two world-class systems provided under a long term software alliance with Swissair.

The Mercator Airline Reservations System (MARS) is the most advanced reservations and ticketing system in the world, providing performance and features which will please corporate users, travel agents and passengers alike. The Mercator Airport Control System (MACS) will provide state-of-the-art check-in and departure control services to more than 50 airlines using Dubai's International Airport. Together, they will provide an unrivalled service and will enable the business to achieve its growth and service plans, well into the next century. The systems will continue to be developed by Swissair in Zurich and by the Emirates IT group in Dubai. Under a joint venture agreement, the systems will also be offered to other airlines and airports in the region by IT's commercial operation, Mercator.

No matter how advanced these systems are, however, they are very dependent on efficient international lines to all of the users - many thousands of them. Costs of communications are extremely high in the industry, typically accounting for more than 30% of the annual IT budget. Internet services are going to make a difference and the business is already making full use of it through its well established web pages. In a wider context, Internet will soon be integrated with the corporate E-mail system to provide suppliers, customers and remote offices with cost effective messaging and document interchange.

A breakthrough is now in prospect, however, through IT's design of a system to provide a communications gateway which will manage the many remote links between users and systems. The applications that are available to users in Dubai, are now cost-effectively accessible from London and Manchester. The country and station managers, in many other cities, can now look forward to sharing in the benefits of having information-on-demand, and will have opportunities of delivering service improvements to their customers.



The EMIRATES Group operating statistics

	1995-96	1994-95	1993-94	1992-93	1991-92
Emirates					
Total revenue (Dh'000)	2,805,058	2,506,933	2,203,595	1,826,954	1,459,672
Total expenditure (Dh'000)	2,724,236	2,411,877	2,114,028	1,816,326	1,392,209
Operating income (Dh'000)	165,597	186,576	181,430	121,669	167,610
Net income (Dh'000)	80,822	95,056	89,567	10,628	67,463
Yield (Fils per RTKM)	231	244	247	268	294
Unit cost (Fils per ATKM)	153	155	157	159	170
Breakeven load factor (%)	66.2	63.8	63.5	59.6	57.9
Fleet					
No. of aircraft	16	17	15	15	11
Average age (months)	58	63	52	52	56
Production					
Destination cities	38	34	32	31	26
Overall capacity (ATKM million)	1,707	1,478	1,281	1,066	754
Available seat kilometres (ASKM'000)	10,634,874	9,583,407	8,438,075	6,927,524	5,045,691
Traffic					
Passengers carried (number)	2,562,911	2,252,473	2,006,428	1,628,268	1,288,217
Passenger seat kilometres (RPKM'000)	7,461,177	6,527,764	5,894,844	4,637,545	3,445,201
Passenger seat factor (%)	70.2	68.1	69.9	66.9	68.3
Cargo carried (Kg'000)	129,560	107,897	86,872	64,268	44,695
Overall load carried (RTKM million)	1,171	996	867	665	480
Overall load factor (%)	68.6	67.4	67.6	62.4	63.7
Staff					
Average staff strength (number)	4,270	3,915	3,435	2,917	2,133
Capacity per employee (ATKM)	399,765	377,464	373,008	365,354	353,376
Load carried per employee (RTKM)	274,238	254,446	252,265	227,956	225,037
Revenue per employee (Dh)	656,922	640,340	641,512	626,313	684,328
Value added per employee (Dh)	228,412	244,768	238,831	237,466	264,988

The EMIRATES Group operating statistics

	1995-96	1994-95	1993-94	1992-93	1991-92
Dnata					
Total revenue (Dh'000)	376,999	318,993	272,136	257,673	235,454
Total expenditure (Dh'000)	314,073	268,428	244,157	231,621	200,029
Operating income (Dh'000)	52,210	42,551	21,343	20,958	45,348
Net income (Dh'000)	62,926	50,565	27,979	26,052	35,425
Aircraft handled (number)	41,871	37,658	32,337	31,785	28,571
Passengers handled (number)	7,344,980	6,457,208	5,803,911	5,518,780	5,054,258
Cargo handled (Kg'000)	331,778	264,055	222,671	192,506	163,713
Staff					
Average staff strength (number)	4,261	4,083	4,063	3,824	3,222
Revenue per employee (Dh)	88,477	78,127	66,979	67,383	73,077
Value added per employee (Dh)	71,253	64,740	56,052	56,159	58,842

The EMIRATES Group financial statistics

		1995-96	1994-95	% Change
Group				
Total revenue*	Dh (million)	3,059.9	2,722.6	12.4
Total costs*	Dh (million)	2,916.2	2,577.0	13.2
Operating income	Dh (million)	217.8	229.1	(4.9)
Net income	Dh (million)	143.7	145.6	(1.3)
Liquid funds	Dh (million)	108.1	318.7	(66.1)
Shareholders' funds	Dh (million)	1,090.0	946.2	15.2
Return on shareholders' funds	%	14.1	16.7	(2.6) pts
Value added	Dh (million)	1,274.0	1,221.2	4.3
Emirates				
Total revenue	Dh (million)	2,805.0	2,506.9	11.9
Total costs	Dh (million)	2,724.2	2,411.9	13.0
Operating income	Dh (million)	165.6	186.6	(11.2)
Net income	Dh (million)	80.8	95.0	(15.0)
Value added	Dh (million)	975.3	958.3	1.8
Dnata				
Total revenue	Dh (million)	377.0	319.0	18.2
Total costs	Dh (million)	314.1	268.4	17.0
Operating income	Dh (million)	52.2	42.5	22.7
Net income	Dh (million)	62.9	50.6	24.4
Value added	Dh (million)	303.6	264.3	14.9

*After eliminating inter-company trading of Dh 122.1 million in 1995-96 and Dh 103.3 million in 1994-95.

The Emirates Group comprises the separate legal entities of Emirates and Dnata which share senior management and corporate functions, but prepare independent financial statements. The financial year of the Emirates Group is from April 1 to 31 March.

Throughout this report all figures are in U.A.E. Dirhams (Dh), unless otherwise stated. The exchange rate of the Dirham to the US Dollar is fixed at 3.67.

The percentage change has been based on the exact figures in respect of the two financial years.

Income

Group operating income for 1995-96 was Dh 218 million, a reduction of Dh 11 million (4.9%) over 1994-95.

Income before tax fell by Dh 9 million (5.9%) to Dh 146 million.

After provision for taxation payable to overseas governments, net income registered a 1.3% decrease to Dh 144 million from Dh 146 million last year.

Return on shareholders' funds fell by 2.6 percentage points to 14.1%.

At the company level, Emirates' operating income fell by Dh 21 million (11.2%) to Dh 166 million. Dnata's operating income increased by 22.7% to Dh 52 million from Dh 43 million the previous year.

Emirates' income before tax decreased by Dh 21 million (20.7%) to Dh 83 million and net income decreased by Dh 14 million (15.0%) to Dh 81 million. Dnata's income before and after tax increased 24.4% to Dh 63 million.

Revenue

Total Group revenue in 1995-96 was Dh 3,060 million, an increase of Dh 337 million (12.4%) over the previous year. Group revenue consisted of operating revenue of Dh 3,027 million and other income of Dh 33 million. (1994-95 Dh 2,692 million and Dh 31 million).

All inter-company trading between Emirates and Dnata has been eliminated in computing Group revenue.

Emirates' operating revenue rose by Dh 295 million (11.9%) to Dh 2,778 million. Other income for the year was Dh 27 million, up from Dh 25 million in 1994-95.

Passenger revenue at Dh 2,240 million was 10.5% higher than last year, while cargo revenue grew by 18.6% to Dh 425 million.

Transport revenue constituted 97.5% of Emirates' total operating revenue.

Dnata's operating revenue increased by 17.8% over last year to Dh 366 million. Other income for the year increased to Dh 11 million from Dh 8 million in 1994-95. Dnata handled 41,871 aircraft, 7.3 million passengers and 332 million kg of cargo, representing increases of 11.2%, 13.7% and 25.6% respectively.

Expenditure

Group operating costs at Dh 2,809 million were Dh 346 million (14.1%) up over last year.

Total expenditure including financing costs and taxation was Dh 2,916 million, a rise of Dh 339 million (13.2%) over last year.

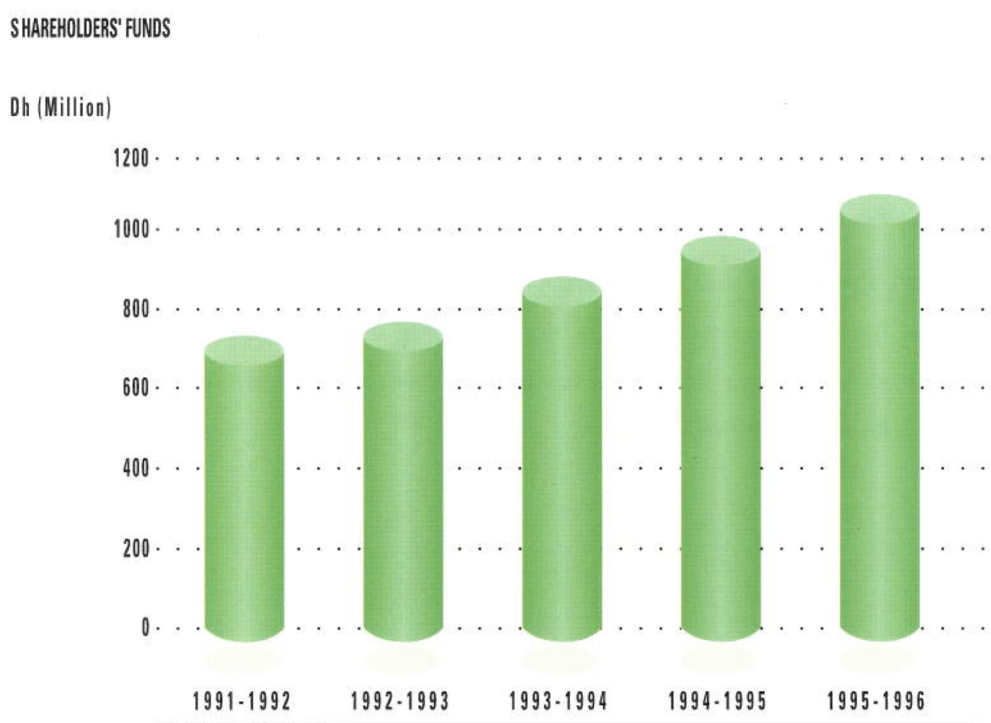
The increase in costs came mainly from higher staff expenditure (Dh 91 million or 13.5%), aircraft operating leases (Dh 53 million or 56.1%) and other airline direct operating and fleet costs.

Capital expenditure

Group capital expenditure for 1995-96 increased more than two-fold over the previous year to Dh 508 million. Aircraft, engines and rotable spares comprised 81% of the total capital spend. This included progress payments for future deliveries of aircraft.

Financial position

The financial position of the Group remained healthy. Group liquid funds at 31 March 1996 stood at Dh 108 million (1994-95 Dh 319 million) despite substantial cash outflows during the year in respect of advance payments for new aircraft of Dh 290 million (1994-95 Dh 129 million). Shareholders' funds at 31 March 1996 were Dh 1,090 million, up Dh 144 million (15.2%) from 31 March 1995, after eliminating inter-company transactions.



The EMIRATES Group value added

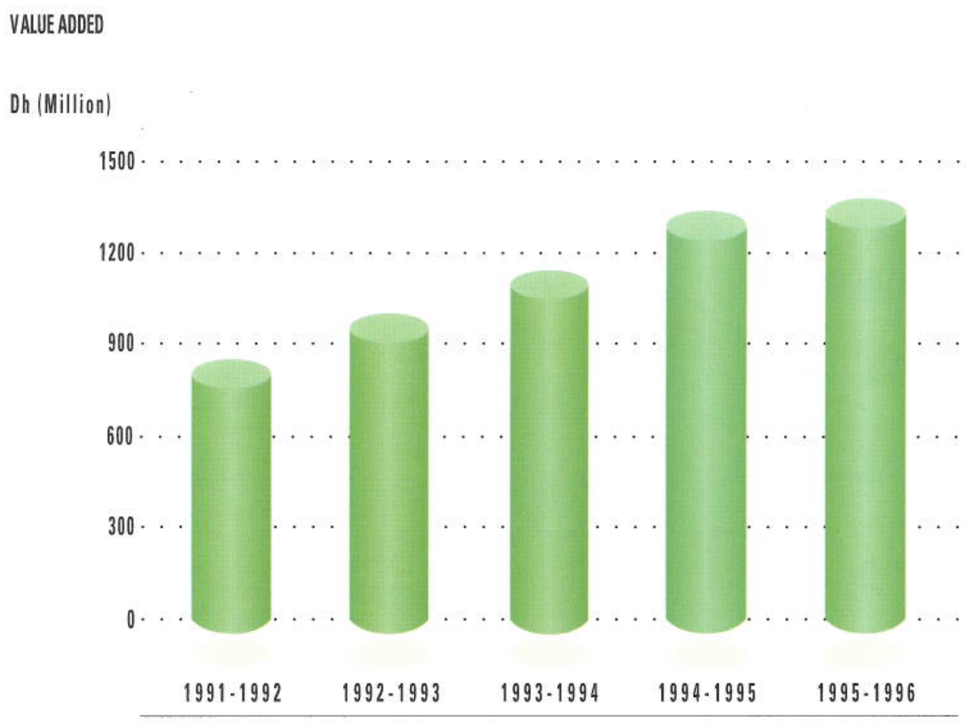
Value added is a measure of wealth created. This statement shows the value added by the Group over the past five years and its distribution by way of payments to employees, governments, and to providers of capital. It also indicates the portion of wealth retained in the business.

	1995-96 Dh'000	1994-95 Dh'000	1993-94 Dh'000	1992-93 Dh'000	1991-92 Dh'000
Total operating revenue	3,026,701	2,691,562	2,365,198	1,991,702	1,608,742
Less: Purchase of goods and services	1,785,898	1,501,483	1,336,428	1,095,005	872,318
Loss on sale of fixed assets	2,338	1,403	602	1,060	968
	1,238,465	**1,188,676**	**1,028,168**	**895,637**	**735,456**
Add: Investment income	16,601	20,521	9,498	2,675	7,606
Non-operating income	17,189	11,052	8,141	6,261	9,060
Share of profits of associated companies	1,759	901	2,173	1,596	1,503
Total value added by the Group	**1,274,014**	**1,221,150**	**1,047,980**	**906,169**	**753,625**
Distribution of value added:					
To employees - salaries and other staff costs	762,653	671,766	588,401	534,609	404,341
To overseas governments -					
Corporation and other taxes	1,817	9,123	8,373	8,950	9,976
To suppliers of capital -					
Dividends		25,000	25,000	25,000	45,000
Interest	105,453	105,454	96,064	106,469	97,449
Retained for re-investment and future growth					
Depreciation	260,343	289,186	237,596	219,461	138,971
Retained profits	143,748	120,621	92,546	11,680	57,888
Total value added	**1,274,014**	**1,221,150**	**1,047,980**	**906,169**	**753,625**

In 1995-96, the total 'value added' of the Group increased by Dh 53 million (4.3%) to Dh 1,274 million (1994-95 1,221 million). The increase came mainly from increased revenue (Dh 337 million) while the cost of purchase of goods and services increased by only Dh 284 million.

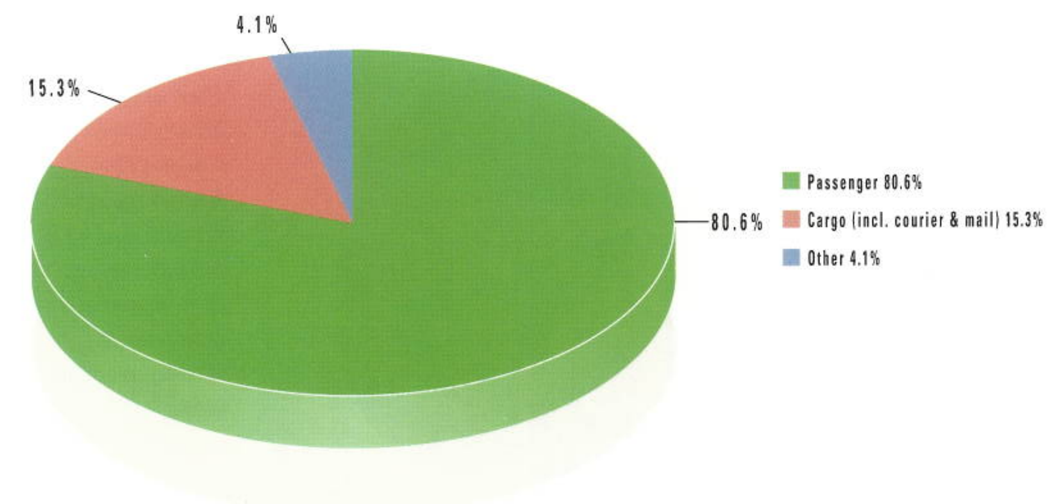
Staff received Dh 763 million (59.9% of the total value added) in the form of salaries and other related costs whilst distributions as taxation and interest were Dh 107 million (8.4%).

The amount retained in the business for future growth was Dh 404 million (31.7%).



EMIRATES revenue

	1995-96 Dh (million)	%	1994-95 Dh (million)	%
Passenger	2,240	80.6	2,028	81.7
Cargo	375	13.5	313	12.6
Excess baggage	42	1.5	41	1.6
Courier	38	1.4	32	1.3
Mail	11	0.4	12	0.5
Revenue on scheduled services	2,706	97.4	**2,426**	**97.7**
Non-scheduled services	2	0.1	2	0.1
Transport revenue	2,708	97.5	**2,428**	**97.8**
Catering revenue	35	1.2	30	1.2
Emirates Holidays	21	0.8	14	0.6
Other	14	0.5	10	0.4
Total operating revenue	2,778	100.0	**2,482**	**100.0**



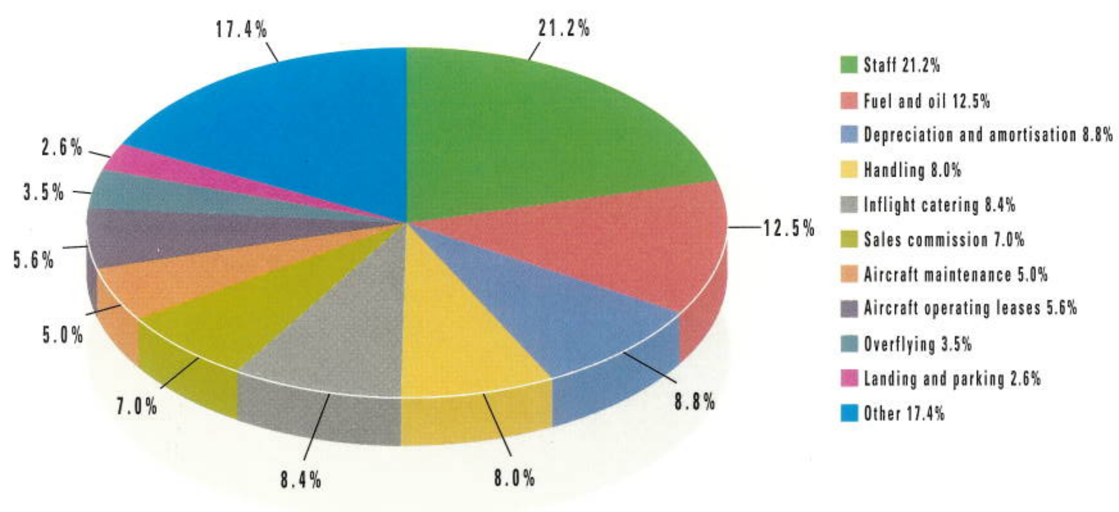
Emirates

EMIRATES expenditure

	1995-96 Dh (million)	%	1994-95 Dh (million)	%
Staff (1)	553	21.2	486	21.2
Fuel and oil	327	12.5	271	11.8
Depreciation and amortisation	230	8.8	261	11.4
Handling	209	8.0	198	8.6
Inflight catering	219	8.4	193	8.4
Sales commission	182	7.0	150	6.5
Aircraft maintenance	130	5.0	108	4.7
Aircraft operating leases	148	5.6	95	4.1
Overflying	91	3.5	82	3.6
Landing and parking	69	2.6	67	2.9
Other	454	17.4	385	16.8
Total operating costs (2)	**2,612**	**100.0**	**2,296**	**100.0**

(1) includes in-house engineering staff

(2) excludes interest and financing charges



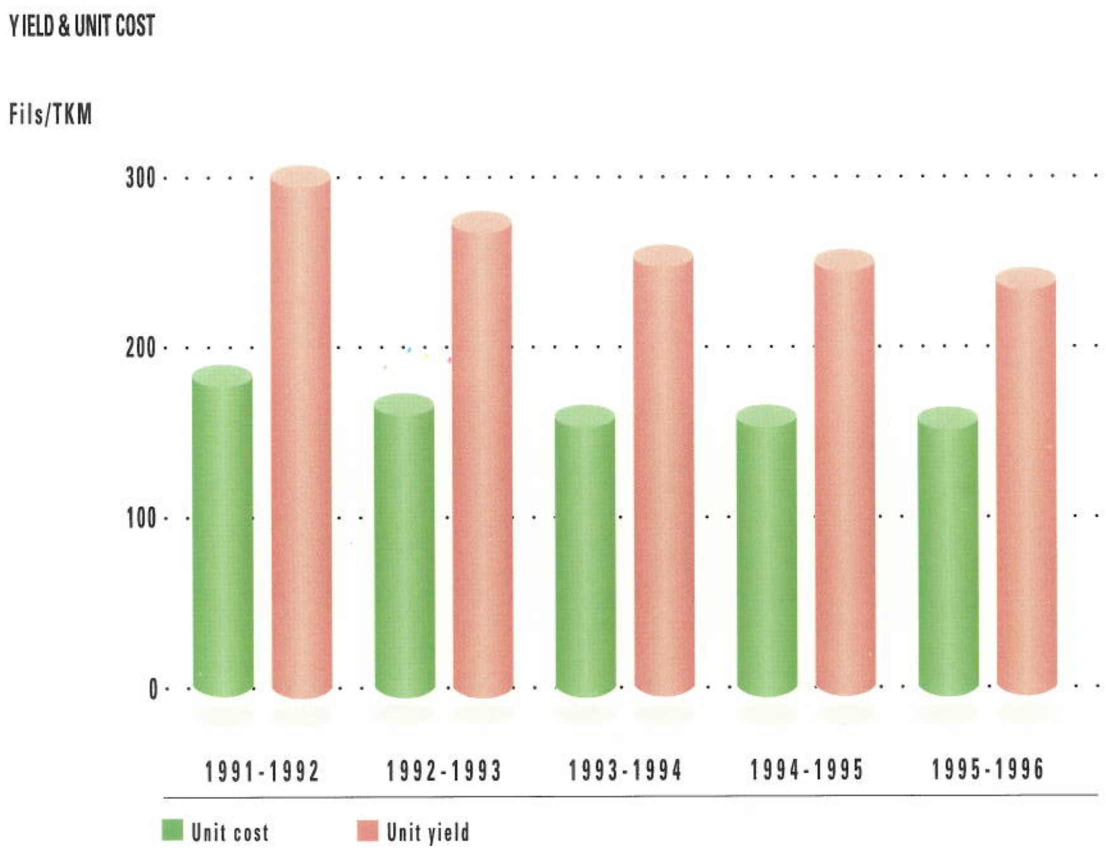
EMIRATES yield, unit cost and breakeven load factor

Overall yield reduced 5.0% to 231 fils per revenue tonne-kilometre, with passenger yield dropping by 3.4% and cargo yield falling by 3.3%. Our yield performance has been no exception to the recent global phenomena.

However, unit cost improved by 2.3 fils to 153 fils per capacity tonne-kilometre as capacity growth continued to outpace the increase in operating expenditure. This reduction in unit cost was achieved despite higher jet fuel prices in the second half of the year.

Breakeven load factor increased to 66.2% from 63.8% last year. The load factor gap - the difference between the overall and breakeven load factors - also narrowed from 3.6 percentage points last year to 2.4 percentage points.

In an environment where yields continue to be under pressure, control of unit costs remains the key challenge for the future.



EMIRATES capacity, traffic and load factor

Traffic increased 17.6% to 1,171 million tonne-kilometres, which was ahead of the increase in capacity (15.5% to 1,707 million tonne-kilometres).

The increase in traffic came principally from:

• increased frequencies to the Far East.

• the introduction of four new destinations during the year - Moroni and Johannesburg in June 1995, Ho Chi Minh and Nairobi in October 1995.

• the full year's effect of services introduced during the previous financial year.

The overall load factor rose 1.2 percentage points to 68.6%, which represents a robust performance.

Passengers uplifted in 1995-96 were 2.56 million, representing an increase of 13.8% over last year. The passenger seat factor improved by 2.1 percentage points to 70.2%.

Cargo carried in 1995-96 was 129,560 tonnes, representing an increase of 20.1% over last year.

OVERALL & BREAKEVEN LOAD FACTOR

EMIRATES staff strength and productivity

In the year under review, the company's average workforce rose by 355 (9.1%) to 4,270.

A breakdown of the number of staff by category is shown below:

	1995-96	1994-95
Cabin crew	1,070	966
Flight deck crew	258	241
Engineering	479	448
Other (includes all administrative & support staff for operating departments)	2,463	2,260
Average staff strength	4,270	**3,915**

Employee productivity, measured in terms of revenue per employee, rose by 2.6% to Dh 656,922 from Dh 640,340 in 1994-95.

Capacity per employee improved for the fourth straight year with a 5.9% increase in ATKM's to 399,765 (1994-95 377,464).

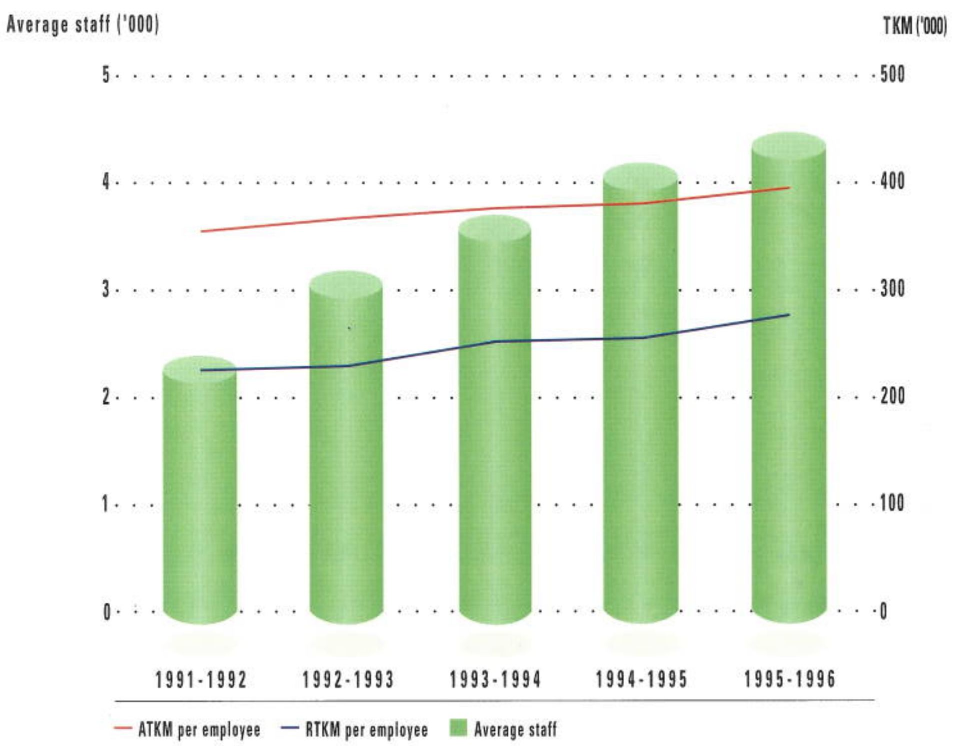
In addition, load carried per employee increased by 7.8% to 274,238 RTKM's (1994-95 254,446).

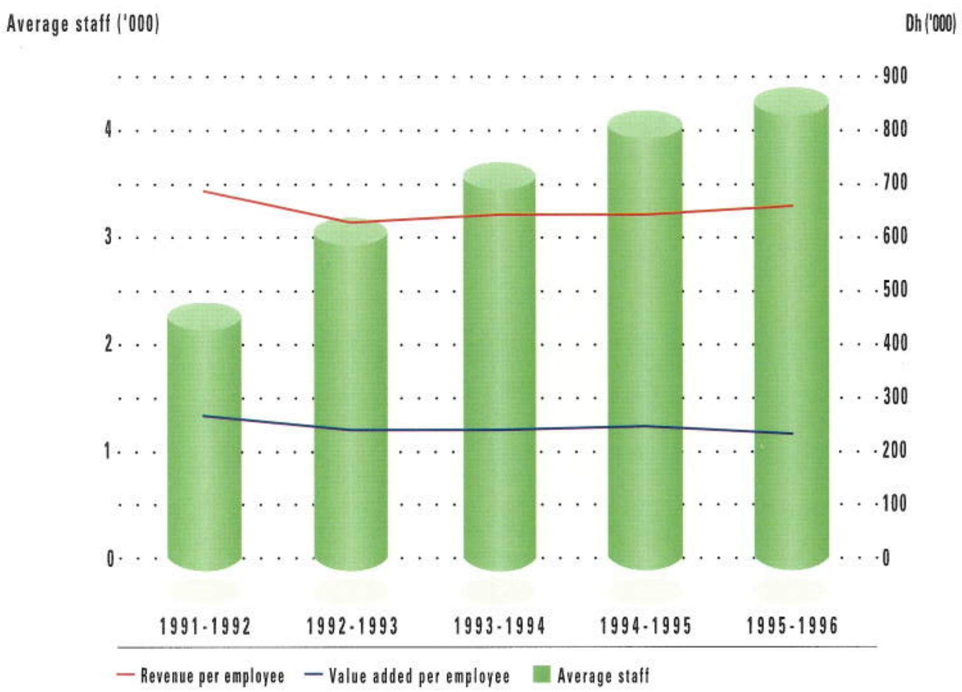
Value added, which is a measure of wealth created by Emirates during the year, was Dh 975 million (1994-95 Dh 958 million).

This is equivalent to Dh 228,412 per employee compared with Dh 244,768 the previous year.

EMIRATES staff strength and productivity

STAFF STRENGTH & PRODUCTIVITY



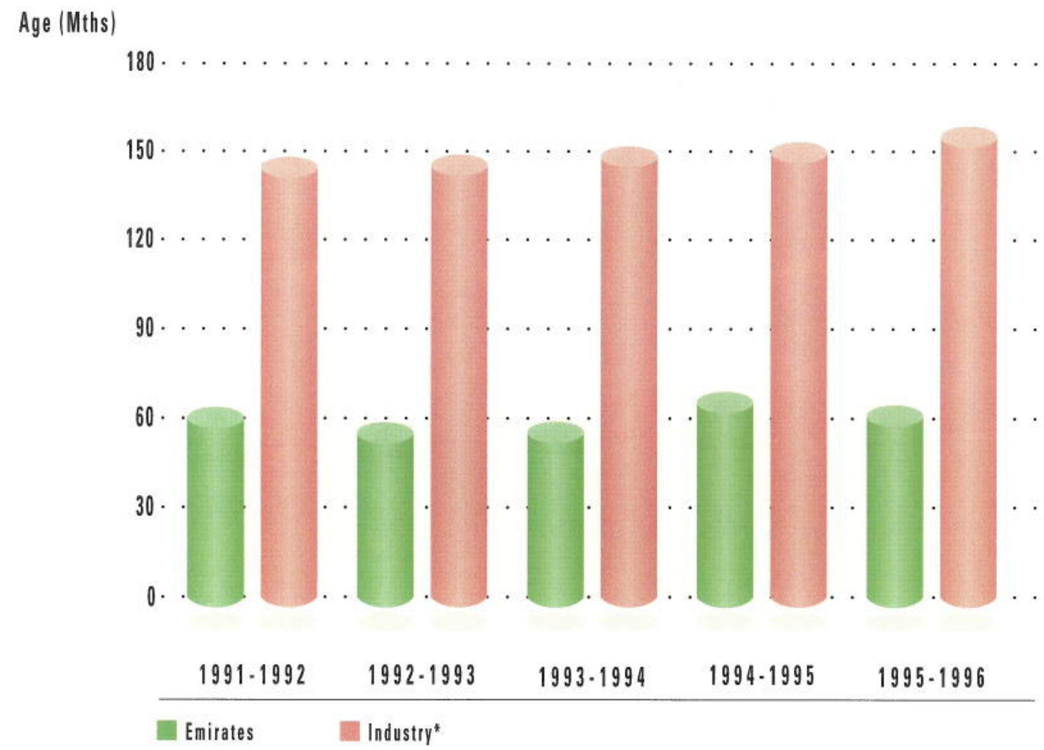


Emirates

EMIRATES fleet information

Aircraft	In operation	On firm order	On option
B777-200	-	7	7
A310-300	10	-	-
A300-600R	6	-	-
	16	7	7

AVERAGE FLEET AGE : EMIRATES & INDUSTRY

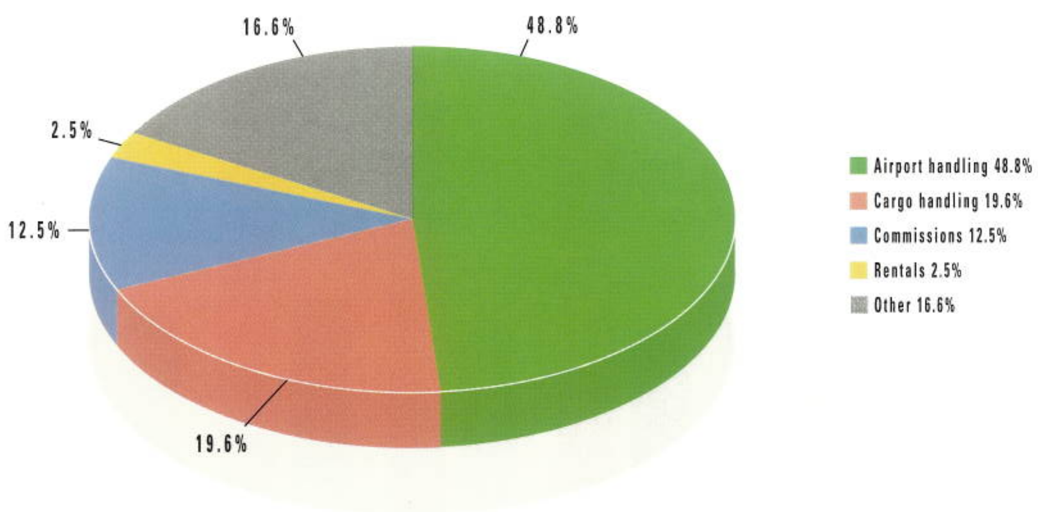


(*) Source: AvSoft Information Systems, England.
Average age of Emirates fleet: 4 years and 10 months (at 31 March 1996)

Emirates

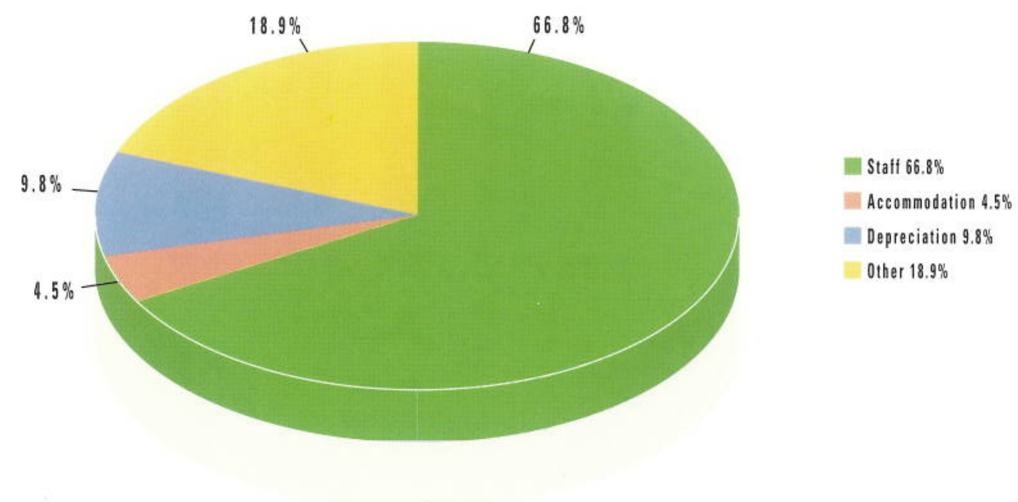
DNATA revenue

	1995-96 Dh (million)	%	1994-95 Dh (million)	%
Airport handling	179	48.8	157	50.5
Cargo handling	72	19.6	60	19.2
Commissions	46	12.5	42	13.5
Rentals	9	2.5	8	2.7
Other	61	16.6	44	14.1
Total operating revenue	367	100.0	**311**	**100.0**



DNATA expenditure

	1995-96 Dh (million)	%	1994-95 Dh (million)	%
Staff	210	66.8	186	69.2
Accommodation	14	4.5	12	4.6
Depreciation	31	9.8	28	10.5
Other	59	18.9	42	15.7
Total operating costs	314	100.0	**268**	**100.0**



DNATA aircraft, passengers and cargo handled

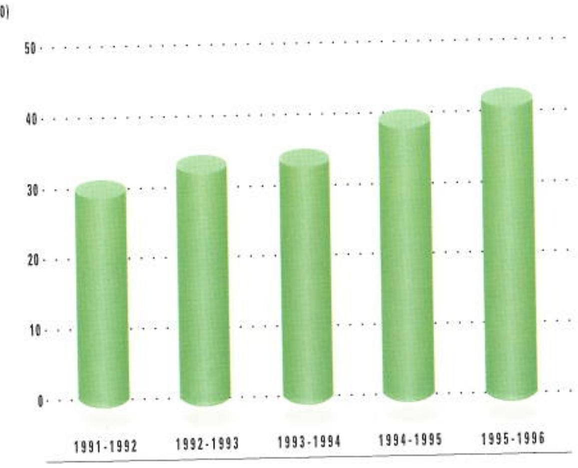
During 1995-96, Dubai International Airport achieved significant milestones: in excess of 40,000 aircraft, 7 million passengers and 300,000 cargo tonnes handled. Specifically:

- The number of aircraft handled during the year rose to 41,871 compared with 37,658 during 1994-95, representing an increase of 11.2%.
- The number of passengers handled during the year rose to 7.3 million compared with 6.5 million during 1994-95, an increase of 13.7% over the previous year.
- The volume of cargo handled during the year increased by 25.6% to 331,778 tonnes (1994-95 264,055).
- The number of scheduled international airlines operating to Dubai International Airport increased to 85 during the year 1995-96 (1994-95 80) taking the total number of carriers operating to 92 (1994-95 85).

Dubai International Airport's status as a dynamic transportation hub and, specifically as one of the largest sea/air transhipment points in the world, continues to fuel profitable growth in all aspects of the Emirates Group's operations.

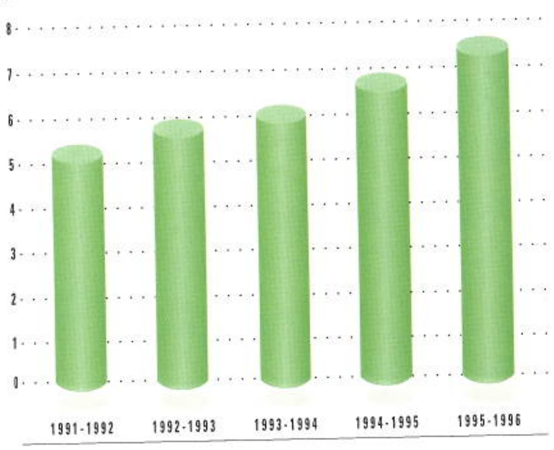
AIRCRAFT HANDLED

No. ('000)



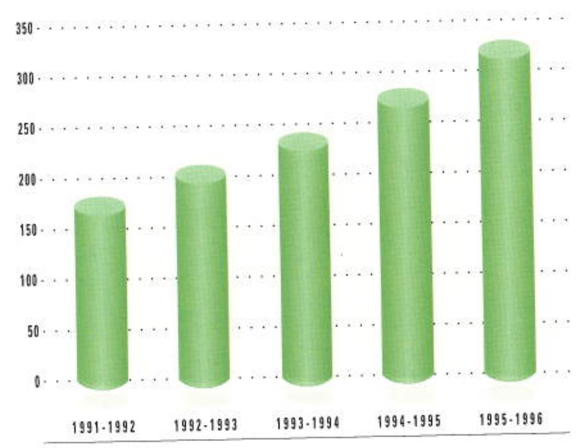
PASSENGERS HANDLED

No. (Million)



CARGO HANDLED

Tonnes ('000)



DNATA staff strength and productivity

During the year under review the company's average workforce increased by 178 (4.4%) to 4,261.

A breakdown of the number of staff by category is shown below:

	1995-96	1994-95
Airport handling	2,348	2,307
Cargo handling	935	906
Dnata agencies	359	318
Other	619	552
Average staff strength	4,261	**4,083**

Overall employee productivity, measured in terms of revenue per employee, increased by 13.2% to Dh 88,477 from Dh 78,127 in 1994-95.

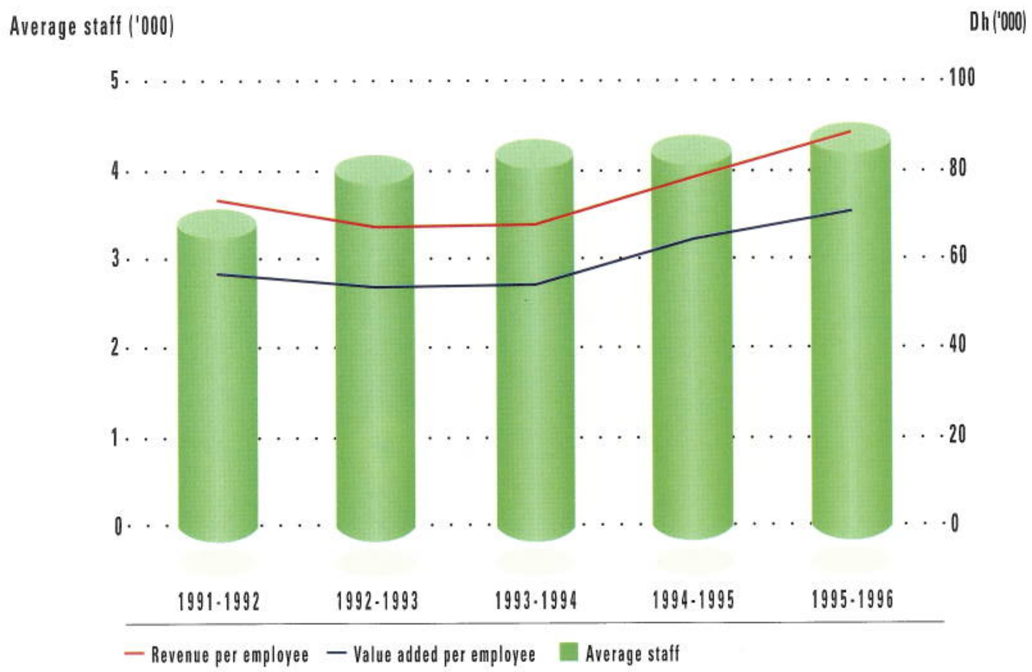
Aircraft handled per employee increased by 9.3% from 16 in 1994-95 to 18 in 1995-96.

Passengers handled per employee increased by 11.8% from 2,799 in 1994-95 to 3,128 in 1995-96.

Cargo handled per employee increased by 21.8% from 291,451 kg in 1994-95 to 354,843 kg in 1995-96.

Value added which is a measure of wealth created by Dnata during the year, was Dh 304 million (1994-95 Dh 264 million). This is equivalent to Dh 71,253 per employee compared with Dh 64,740 the previous year.

STAFF STRENGTH & PRODUCTIVITY



EMIRATES independent auditor's report to the Government of Dubai

We have audited the accompanying balance sheet of Emirates at 31 March 1996 and the related statements of income and cash flows for the year then ended as set out on pages 61 to 76.

Respective responsibilities of management and auditors

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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.

We obtained all the information and explanations which we considered necessary for the purpose of our audit.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Emirates at 31 March 1996 and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards.

Coopers & Lybrand

COOPERS & LYBRAND
Chartered Accountants

Dated this 18th day of June 1996
Dubai

EMIRATES income statement for the year ended 31 March

	Note	1996 Dh'000	1995 Dh'000
Operating revenue	3	2,777,651	2,482,426
Operating costs	4	(2,612,054)	(2,295,850)
Operating income		165,597	**186,576**
Net interest charges	5	(97,082)	(89,661)
Other income		14,124	7,264
Income before taxation		82,639	**104,179**
Taxation	6	(1,817)	(9,123)
Income for the year		80,822	**95,056**

STATEMENT OF RETAINED INCOME

		1996 Dh'000	1995 Dh'000
Balance brought forward		312,727	217,671
Income for the year		80,822	95,056
Balance carried forward		393,549	**312,727**

EMIRATES balance sheet at 31 March

	Note	1996 Dh'000	1995 Dh'000
Long term assets			
Property, plant and equipment	7	2,745,208	2,526,884
Other long term assets			
Investments	8	27,825	27,822
Deferred expenditure	9	23,869	20,882
		2,796,902	**2,575,588**
Current assets			
Cash		80,024	249,003
Other liquid funds	10	103,091	96,869
Receivables	11	479,514	419,518
Inventories	12	92,649	87,261
		755,278	**852,651**
Current liabilities	13	**(1,127,393)**	**(923,380)**
Net current liabilities		**(372,115)**	**(70,729)**
Total assets less current liabilities		**2,424,787**	**2,504,859**
Long term liabilities	14	(1,245,695)	(1,400,631)
Other liabilities and provisions	18	(258,329)	(264,287)
		920,763	839,941
Capital and reserves			
Capital	20	527,214	527,214
Retained income		393,549	312,727
		920,763	**839,941**

The financial statements on pages 61 to 76 were approved on the 18th day of June 1996 and signed by:

Sheikh Ahmed bin Saeed Al Maktoum
Chairman

Maurice Flanagan
Group Managing Director

EMIRATES statement of cash flows for the year ended 31 March

	1996 Dh'000	1995 Dh'000
Cash flows from operating activities		
Income for the year before taxation	82,639	104,179
Adjustments for:		
Depreciation	221,669	256,133
Amortisation	7,741	5,054
Finance charges (net)	97,082	89,661
Loss on sale of fixed assets	2,291	1,666
Net transfer (from) to aircraft maintenance provision	(4,397)	23,886
Net transfer to terminal benefit provision	2,561	7,248
Deferred credits recognised	(4,122)	(4,112)
(Increase) decrease in working capital		
Receivables	(59,996)	(101,140)
Inventories	(5,388)	(2,311)
Current liabilities	169,187	77,659
Net cash provided from operating activities	**509,267**	**457,923**
Cash flows from investing activities		
Proceeds from sale of fixed assets	30,633	2,057
Purchase of fixed assets (net of transfers from Dnata)	(472,917)	(213,468)
Deferred expenditure	(10,728)	(19,583)
Investments made during the year	(3)	(27,818)
Investment in other liquid funds	(6,222)	(96,869)
Interest income	13,283	17,243
Net cash used in investing activities	**(445,954)**	**(338,438)**
Taxation paid	**(13,847)**	**(6,128)**
Cash flows from financing activities		
Loan repayments	(149,134)	(146,368)
Aircraft financing charges	(105,244)	(105,438)
Other finance charges	(5,121)	(1,466)
Lease commitments	(74,312)	(61,742)
Dnata account	90,380	65,975
Capital introduced	-	25,000
Net cash used in financing activities	**(243,431)**	**(224,039)**
Net decrease in cash and cash equivalents	**(193,965)**	**(110,682)**
Cash and cash equivalents at beginning of year	201,261	311,943
Cash and cash equivalents at end of year (Note 23)	**7,296**	**201,261**

1. Principal accounting policies

The financial statements have been prepared in accordance with International Accounting Standards. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Revenue

Passenger and cargo sales are recognised as revenue when the transportation is provided. Tickets sold but unused are reflected as passenger and cargo sales in advance.

Operating revenue is stated after deduction of discounts.

Property, plant and equipment

The cost of property, plant and equipment consists of purchase cost, together with any incidental expenses of acquisition. Depreciation is calculated so as to write off the cost of property, plant and equipment, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The estimated useful lives and residual values are:

Aircraft	15 years (residual value 10%)
Aircraft engines and rotable spares	5 - 15 years (residual value 0-10%)
Buildings	5 - 20 years
Other property and equipment	3 - 15 years

Major modifications and improvements to property, plant and equipment are capitalised and depreciated over the remaining useful life of the asset.

Capital projects

Capital projects are stated at cost together with financing costs incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital projects are transferred to the appropriate property, plant and equipment category and depreciated in accordance with company policies.

Investments

Investments are stated at cost less provision for any permanent diminution in value. Income from the investments is recognised when receivable.

Emirates

1. Principal accounting policies (continued)

Finance and operating leases

Where fixed assets have been financed by lease agreements under which substantially all of the risks and rewards of ownership are transferred to the lessee, they are treated as if they had been purchased outright. The amount included in fixed assets represents the principal sum included in total rents payable during the period of the lease. The corresponding lease obligations are included under liabilities. Lease payments are treated as consisting of capital and interest elements. Interest on the outstanding liability at current rates together with depreciation on the asset are charged to the income statement.

Lease rental charges in respect of operating leases are charged to the income statement over the period of the lease.

Deferred expenditure

Expenditure associated with the development of new routes and pre-operating crew costs is deferred and amortised over a period of up to two years. Net expenditure associated with aircraft under operating leases is deferred and amortised over the period of the lease.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis.

Other liquid funds

Other liquid funds are stated at market value. Changes in market value are recognised in the income statement under net interest.

Aircraft maintenance provision

All costs in relation to maintenance and overhaul of aircraft and engines are charged to the income statement as they are incurred with the exception of heavy maintenance checks, which are provided for on the basis of a predetermined amount for each block hour flown. The hourly rate of provision is revised in each accounting period to reflect more accurately actual costs incurred. Movements in the provision arising from such revisions in estimates are dealt with in the income statement. The actual costs of such maintenance are charged against the provision.

Taxation

Taxation relates to certain overseas stations where the company is subject to tax and where tax exemptions are not likely to be obtained. No provision is made for taxation where management is of the firm opinion that exemption from such taxation will ultimately be granted by the countries concerned.

Emirates

1. Principal accounting policies (continued)

Terminal benefit provision

Provision for terminal benefit for employees who joined the company prior to 1 July 1991 is based on cumulative service and current basic salary at the following rates:

21 days per annum for the first 3 years of employment

28 days per annum for the next 3 years of employment

35 days per annum thereafter

Provision for terminal benefit for employees who joined the company after 30 June 1991 is made in accordance with local labour legislation and is based on cumulative service and current basic salary.

Provident fund

Senior employees are entitled to participate in a defined contribution provident fund.

On termination, Emirates guarantees that senior employees will receive, at a minimum, benefits equal to their terminal benefit entitlements in accordance with their contracts of employment.

Deferred credits

Profits arising from sale and lease back transactions are deferred and recognised over the period of the lease.

Foreign currency

Foreign currency transactions are translated into Dirhams at the rate ruling on the transaction date. Foreign currency assets and liabilities are translated into Dirhams at the rate ruling at the balance sheet date with the exception of lease commitments and the related matched term deposits which are translated into Dirhams at the original transaction rate. Exchange differences are dealt with in the income statement.

Cash and cash equivalents

For the purpose of reporting cash flows, the company considers all bank and cash balances with a maturity of less than three months and bank overdrafts to be cash and cash equivalents.

2. Establishment and operations

Emirates was incorporated, with limited liability, by an Emiri Decree issued by H.H. Sheikh Maktoum bin Rashid Al Maktoum on 26 June 1985 as the national airline for the emirate of Dubai. Emirates is owned by the Government of Dubai and commenced commercial operations on 25 October 1985.

The main activity of Emirates is to undertake commercial air transport services which include passenger, cargo and postal carriage services. Emirates also participates with Abela & Co. LLC in providing catering and related services to airlines using Dubai International Airport.

3. Operating revenue

	1995-96 Dh '000	1994-95 Dh '000
Passenger	2,241,612	2,029,348
Cargo	375,286	313,904
Excess baggage	41,937	40,787
Catering revenue	34,415	29,520
Courier	38,322	32,284
Mail	11,315	12,109
Emirates Holidays	20,891	13,552
Licensed engineering income	10,314	8,686
Duty free income	3,559	2,236
	2,777,651	**2,482,426**

4. Operating costs

Staff	552,904	485,998
Fuel and oil	326,918	271,075
Depreciation (see below)	221,669	256,133
Amortisation	7,741	5,054
Handling (see below)	209,102	198,199
Inflight catering	219,368	192,602
Sales commission	181,730	149,847
Aircraft maintenance (see below)	130,028	107,654
Aircraft operating leases (see below)	148,472	95,100
Overflying (see below)	90,630	81,895
Landing and parking (see below)	69,123	67,526
Other (see below)	454,369	384,767
	2,612,054	**2,295,850**

4. Operating costs (continued)

Aircraft operating lease charges include Dh 128.7 million (1995 Dh 89.8 million) in respect of five aircraft (1995 four), leased from Ghir Limited, GATX/CL Air Leasing Co-operative Association and International Lease Finance Corporation. Aircraft operating lease charges also include Dh 19.7 million (1995 Dh 5.3 million) of payments to Atlas Air Inc. in respect of the wet lease of two freighter aircraft.

The block hour rate used as the basis for the aircraft maintenance provision has been revised in accordance with the accounting policy. The revision of estimated future costs was based on actual costs incurred and has resulted in a release of provisions made in prior years amounting to Dh 22.3 million (1995 Dh 32.5 million).

A detailed review of direct operating cost accruals has been performed during the year. This review highlighted excess accruals against actual costs incurred for landing, handling and overflying charges. The excess accruals released to operating income included Dh 24.9 million relating to prior years.

The depreciation charged for the year ended 31 March 1995 included accelerated depreciation of Dh 32.4 million in respect of two Boeing 727 aircraft and spares sold during the current year.

Other operating costs include net losses from foreign currency transactions of Dh 6.0 million (1995 gains Dh 7.3 million).

5. Net interest charges

	1995-96 Dh'000	1994-95 Dh'000
Aircraft financing charges	(105,244)	(105,438)
Interest charges	(5,121)	(1,466)
Interest income	13,283	17,243
	(97,082)	**(89,661)**

Interest income includes Dh 6.2 million (1995 Dh 5.1 million) earned on other liquid funds.

6. Taxation

Taxation is provided in accordance with the accounting policy. In the event of exemptions from taxation not being granted, the maximum unprovided taxation liability as at 31 March 1996 was Dh 1.3 million (1995 Dh 5.2 million).

7. Property, plant and equipment

	Aircraft Dh'000	Aircraft engines and rotable spares Dh'000	Buildings Dh'000	Other property & equipment Dh'000	Capital projects Dh'000	Total Dh'000
Cost						
1 April 1995	2,621,439	352,481	87,281	263,659	217,045	3,541,905
Additions	-	57,322	2,175	26,366	387,046	472,909
Transfers	7,984	-	-	71,519	(79,503)	-
Re-classifications	(2,722)	2,722	-	-	-	-
Net transfers from Dnata	-	-	-	355	-	355
Disposals	(88,461)	(36,929)	(5)	(11,797)	-	(137,192)
31 March 1996	**2,538,240**	**375,596**	**89,451**	**350,102**	**524,588**	**3,877,977**
Depreciation						
1 April 1995	722,331	115,285	48,943	128,462	-	1,015,021
Additions	153,621	20,145	10,124	37,779	-	221,669
Re-classifications	(1,996)	1,996	-	-	-	-
Net transfers from Dnata	-	-	-	347	-	347
Disposals	(73,769)	(19,701)	(5)	(10,793)	-	(104,268)
31 March 1996	**800,187**	**117,725**	**59,062**	**155,795**	**-**	**1,132,769**
Net book value						
31 March 1996	**1,738,053**	**257,871**	**30,389**	**194,307**	**524,588**	**2,745,208**
31 March 1995	1,899,108	237,196	38,338	135,197	217,045	2,526,884

7. Property, plant and equipment (continued)

The net book value of aircraft and aircraft rotable spares includes an amount of Dh 1,026.4 million (1995 Dh 1,097.8 million) in respect of assets held under finance leases (Note 16) and Dh 714.7 million (1995 Dh 747.5 million) in respect of assets acquired under term loans (Note 15).

Aircraft fleet

At 31 March 1996 the aircraft fleet comprised:

10 Airbus A310-300 (3 under operating leases)

6 Airbus A300-600R (2 under operating leases)

Two Boeing 727 aircraft and spares were sold during the current year (Note 4).

Capital projects

Capital projects include pre-delivery payments of Dh 485.8 million (1995 Dh 185 million) in respect of seven aircraft including spare engines due for delivery in 1996 and 1997 and non-refundable option deposits of Dh 18 million held on seven aircraft (1995 Dh 18 million) for delivery between 1998 and 2000 (Note 21).

8. Investments

Investments comprise a 5.81% shareholding in Chieftain Corporation N.V., a company incorporated in Netherlands Antilles, and GBP 1.9 million zero coupon notes in St. James' Court Hotel Ltd., London, a subsidiary of Chieftain Corporation N.V. The principal activities of Chieftain Corporation N.V., are investment holding, and hotel ownership and operations.

9. Deferred expenditure

	1996 Dh'000	1995 Dh'000
Balance brought forward	20,882	6,353
Expenses incurred	10,728	19,583
Amortisation for the year	(7,741)	(5,054)
Balance carried forward	**23,869**	**20,882**

10. Other liquid funds

Other liquid funds are placed with an international investment portfolio manager. These funds are managed on a discretionary basis within specified limits set by the management of the company, provide guaranteed earnings and are not expected to be converted into cash within three months.

11. Receivables

	1996 Dh'000	1995 Dh'000
Trade debtors:		
Airlines	61,255	67,577
Agents	242,467	186,169
Dnata (Note 17)	2,512	1,959
Other trade debtors	56,780	57,454
	363,014	**313,159**
Other debtors and prepayments:		
Prepayments and deposits	71,232	62,087
Aircraft operating lease deposits	12,727	12,727
Other	32,541	31,545
	116,500	**106,359**
	479,514	**419,518**

12. Inventories

Expendable engineering	64,596	55,808
Inflight consumables	20,378	22,696
Other	7,675	8,757
	92,649	**87,261**

13. Current liabilities

	1996 Dh'000	1995 Dh'000
Bank overdrafts	72,728	47,742
Term loans (Note 15)	152,136	149,133
Lease commitments (Note 16)	92,606	73,739
Creditors and accruals	503,649	371,563
Taxation (Note 6)	3,720	15,750
Passenger and cargo sales in advance	302,554	265,453
	1,127,393	**923,380**

14. Long term liabilities

Term loans (Note 15)	552,836	704,973
Lease commitments (Note 16)	530,737	623,916
Dnata account (Note 17)	162,122	71,742
	1,245,695	**1,400,631**

15. Term loans

Balance brought forward	854,106	1,000,474
Repayments during the year	(149,134)	(146,368)
Balance carried forward	**704,972**	**854,106**
Loans are repayable as follows:		
Within one year (Note 13)	**152,136**	**149,133**
2-5 years	452,560	507,307
After 5 years	100,276	197,666
Total over one year (Note 14)	**552,836**	**704,973**

The loans are secured on certain aircraft and bear interest at rates of 6% to 9.25% (1995 3.56% to 9.25%) per annum.

16. Lease commitments

	1996 Dh'000	1995 Dh'000
Deposit funded finance leases		
Gross liabilities under lease commitments	414,856	498,016
Future interest	(71,786)	(106,722)
	343,070	**391,294**
Term deposits	(343,070)	(391,294)
Net lease commitments	-	-

The term deposits are equivalent in value to the liabilities under the lease commitments. The finance charges accruing under these lease commitments are matched by interest earned on the term deposits. The lease commitments are secured on the term deposits and the related aircraft.

	1996 Dh'000	1995 Dh'000
Other finance leases		
Gross liabilities under lease commitments	840,468	972,930
Future interest	(164,688)	(225,898)
Term deposits	(52,437)	(49,377)
Net lease commitments	**623,343**	**697,655**
Net lease commitments are repayable as follows:		
Within one year (Note 13)	**92,606**	**73,739**
2-5 years	427,092	370,774
After 5 years	103,645	253,142
Total over one year (Note 14)	**530,737**	**623,916**

The lease commitments are secured on the related aircraft.

In the event of these finance leases being terminated prior to their expiry, penalties are payable. Had the leases been cancelled at 31 March 1996, the penalties would have been Dh 629.9 million (1995 Dh 698.9 million).

16. Lease commitments (continued)

Operating leases

Emirates holds purchase options for three of five aircraft leased for a period of 5 to 10 years. Future minimum lease payments are as follows:

	1996 Dh'000	1995 Dh'000
Less than 1 year	133,656	126,068
2-5 years	543,800	553,630
After 5 years	212,463	340,148
	889,919	**1,019,846**

In the event of these leases being terminated prior to their expiry, penalties are payable. Had the leases been cancelled at 31 March 1996, the penalties would have been Dh 661.3 million (1995 Dh 752.7 million).

17. Dnata account

Emirates and Dnata share senior management and central corporate functions. The amount payable to Dnata shown in Note 14 arises from the recharge of expenses wholly attributable to Emirates, charges raised in respect of services provided and the transfer of funds. Interest is paid to Dnata in line with Dirham bank deposit rates.

The amount receivable from Dnata shown in Note 11 arises from ticket and cargo sales less engineering and handling charges.

Common Emirates/Dnata management costs are fully recharged except where the basis of recharge would be arbitrary and in these instances no recharge is made. The net effect of these arrangements did not materially affect income for the year.

18. Other liabilities and provisions

	1996 Dh'000	1995 Dh'000
Aircraft maintenance provision	185,629	190,026
Terminal benefit provision	42,981	40,420
Deferred credits (Note 19)	29,719	33,841
	258,329	**264,287**

Terminal benefit provision relates to employees who do not participate in the company provident scheme.

Senior employees participate in the company provident scheme, an independent provident fund for which Emirates guarantees that, on termination, employees will receive as a minimum, benefits equal to their terminal benefit entitlements in accordance with their contracts of employment. At 31 March 1996, the benefits secured by Emirates' contributions exceeded employees' contractual terminal benefit entitlements.

19. Deferred credits

	1996 Dh'000	1995 Dh'000
Brought forward	33,841	37,953
Recognised during the year	(4,122)	(4,112)
Balance carried forward (Note 18)	**29,719**	**33,841**

20. Capital

Balance brought forward	527,214	502,214
Introduced during the year		25,000
Balance carried forward	**527,214**	**527,214**

Capital represents the permanent capital provided by the Government of Dubai.

21. Commitments

	1996 Dh'000	1995 Dh'000
Capital Commitments		
Authorised and contracted	3,015,417	3,280,946
Authorised but not contracted	377,889	442,518
	3,393,306	**3,723,464**

Commitments have been entered into for the purchase of aircraft for delivery as follows:

Financial year	Boeing 777-200
1996-97	3
1997-98	4

In addition, options are held on seven Boeing 777-200 aircraft for delivery between 1998 and 2000 (Note 7).

	1996 Dh'000	1995 Dh'000
Operational Commitments		
Letters of credit	9,628	7,960

The above were issued in the normal course of business.

22. Contingent liabilities

Guarantees and bills discounted	3,598	15,868

The above were issued in the normal course of business.

23. Cash and cash equivalents

Bank and cash	80,024	249,003
Bank overdrafts	(72,728)	(47,742)
	7,296	**201,261**

24. Comparative figures

Certain comparative figures have been re-classified to conform with current year presentation.

DNATA independent auditor's report to the Government of Dubai

We have audited the accompanying balance sheet of Dnata at 31 March 1996 and the related statements of income and cash flows for the year then ended as set out on pages 78 to 87.

Respective responsibilities of management and auditors

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statement. 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.

We obtained all the information and explanations which we considered necessary for the purpose of our audit.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Dnata at 31 March 1996 and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards.

Coopers & Lybrand

COOPERS & LYBRAND
Chartered Accountants

Dated this 18th day of June 1996
Dubai

DNATA income statement for the year ended 31 March

	Note	1996 Dh'000	1995 Dh'000
Operating revenue	3	366,283	310,979
Operating costs	4	(314,073)	(268,428)
Operating income		52,210	**42,551**
Interest income		8,230	4,728
Other income		727	2,385
Associated companies - share of profit	6	1,759	901
Income for the year		62,926	**50,565**

STATEMENT OF RETAINED INCOME

	1996	1995
Balance brought forward	43,685	18,120
Income for the year	62,926	50,565
Dividend paid	-	(25,000)
Balance carried forward	106,611	**43,685**

DNATA balance sheet at 31 March

	Note	1996 Dh'000	1995 Dh'000
Long term assets			
Property, plant and equipment	5	71,061	67,420
Other long term assets			
Investments	6	5,953	5,194
Long term receivables	7	169,053	79,098
		246,067	**151,712**
Current assets			
Cash		5,928	34,372
Receivables	8	84,040	69,823
Inventories		6,928	6,104
		96,896	**110,299**
Current liabilities	9	(115,676)	**(103,450)**
Net current (liabilities) assets		(18,780)	**6,849**
Total assets less current liabilities		227,287	**158,561**
Other liabilities and provisions	11	(58,061)	**(52,261)**
		169,226	**106,300**
Capital and reserves			
Capital	12	62,615	62,615
Retained income		106,611	43,685
		169,226	**106,300**

The financial statements on pages 78 to 87 were approved on the 18th day of June 1996 and signed by

Sheikh Ahmed bin Saeed Al Maktoum
Chairman

Maurice Flanagan
Group Managing Director

	1996 Dh'000	1995 Dh'000
Cash flows from operating activities		
Income for the year	62,926	50,565
Adjustments for:		
Depreciation	30,933	27,999
Loss (profit) on sale of fixed assets	47	(263)
Share of associated company profit	(1,759)	(901)
Interest income	(8,230)	(4,728)
Net transfer to terminal benefit provision	5,800	5,222
(Increase) decrease in working capital:		
Receivables	(14,217)	2,472
Inventories	(824)	(893)
Current liabilities	17,872	(13,408)
Net cash provided from operating activities	**92,548**	**66,065**
Cash flows from investing activities		
Emirates account	(90,380)	(65,975)
Proceeds from sale of fixed assets	301	286
Purchase of fixed assets (net of transfers to Emirates)	(34,922)	(25,430)
Interest income	8,230	4,728
Dividend received from associated company	1,000	500
Gerry's-Dnata (Pvt.) Ltd. loan	425	481
Net cash used in investing activities	**(115,346)**	**(85,410)**
Cash flows from financing activities		
Dividend paid	-	**(25,000)**
Net decrease in cash and cash equivalents	**(22,798)**	**(44,345)**
Cash and cash equivalents at beginning of year	20,544	64,889
Cash and cash equivalents at end of year (Note 15)	**(2,254)**	**20,544**

1. Principal accounting policies

The financial statements have been prepared in accordance with International Accounting Standards. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Revenue

Operating revenue is recognised in the year in which it is earned.

Property, plant and equipment

The cost of property, plant and equipment consists of purchase cost, together with any incidental expenses of acquisition. Depreciation is calculated so as to write off the cost of property, plant and equipment on a straight line basis over the expected useful economic lives of the assets concerned. The estimated useful lives are:

Buildings	5-20 years
Airport plant and equipment	3-5 years
Office equipment, furniture and fittings	3-5 years
Motor vehicles	5 years

Major modifications and improvements to property, plant and equipment are capitalised and depreciated over the remaining useful life of the asset.

Capital projects

Capital projects are stated at cost. When commissioned, capital projects are transferred to the appropriate property, plant and equipment category and depreciated in accordance with company policies.

Investments

Investments in associated companies are accounted for in accordance with the equity method.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis.

Terminal benefit provision

Provision for terminal benefits for employees who joined the company prior to 1 July 1991 is based on cumulative service and current basic salary at the following rates :

21 days per annum for the first 3 years of employment
28 days per annum for the next 3 years of employment
35 days per annum thereafter

Provision for terminal benefits for employees who joined the company after 30 June 1991 is made in accordance with local labour legislation and is based on cumulative service and current basic salary.

Provident fund

Senior employees are entitled to participate in a defined contribution provident fund.

On termination, the company guarantees that senior employees will receive, at a minimum, benefits equal to their terminal benefit entitlements in accordance with their contracts of employment.

1. Principal accounting policies (continued)

Foreign currency

Foreign currency transactions are translated into Dirhams at the rate ruling on the transaction date. Foreign currency assets and liabilities are translated into Dirhams at the rate ruling at the balance sheet date. Differences on exchange are dealt with in the income statement.

Cash and cash equivalents

For the purpose of reporting cash flows, the company considers all bank and cash balances with a maturity of less than three months and bank overdrafts to be cash and cash equivalents.

2. Establishment and operations

Dnata comprises two separate legal entities; Dnata and Dnata World Travel. Dnata was incorporated with limited liability under an Emiri Decree issued by H.H. Sheikh Maktoum bin Rashid Al Maktoum on 4 April 1987. On that date Dnata took over for nil consideration, the total assets and liabilities of Dubai National Air Travel Agency with effect from 1 April 1987. Dnata World Travel was incorporated with limited liability under an Emiri Decree issued by H.H. Sheikh Maktoum bin Rashid Al Maktoum on 27 February 1989. In view of the common ownership and the related business activities of the companies, the directors consider it appropriate to prepare a single set of financial statements incorporating the two entities. The main activities of the companies comprise:

- the provision of aircraft handling services at Dubai International Airport
- the provision of engineering services to airlines using Dubai International Airport
- the sale of air tickets on behalf of airlines as general sales agent and as an agent
- the provision of handling services for cargo exported and imported through Dubai International Airport
- the management of the Dubai Airline Centre
- provision of support services to Emirates
- provision of freight clearing and forwarding services through its associated company Dubai Express (Note 6), a Dubai registered partnership
- provision of handling and engineering services at Quaid-e-Azam International Airport, Karachi through its associated company Gerry's - Dnata (Pvt.) Ltd. (Note 6), a company incorporated in Pakistan
- travel agency activity in the United Kingdom through Dnata World Travel's subsidiary company, Dnata Travel (UK) Ltd., a company incorporated in the United Kingdom.

3. Operating revenue

	1995-96 Dh'000	1994-95 Dh'000
Handling	106,885	93,132
Cargo	72,197	59,662
Engineering	72,020	64,190
Commission on ticket sales	45,655	41,810
Reservations system	28,038	20,863
Data processing	24,050	18,892
Rentals	8,804	8,272
Other	8,634	4,158
	366,283	**310,979**

4. Operating costs

	1995-96 Dh'000	1994-95 Dh'000
Staff	209,749	185,768
Accommodation	14,079	12,439
Depreciation	30,933	27,999
Other	59,312	42,222
	314,073	**268,428**

5. Property, plant and equipment

	Buildings Dh'000	Airport plant & equipment Dh'000	Office equipment furniture & fittings Dh'000	Motor vehicles Dh'000	Capital projects Dh'000	Total Dh'000
Cost						
1 April 1995	27,313	86,124	160,423	6,408	2,400	282,668
Additions	-	9,931	12,668	2,732	9,599	34,930
Transfer from capital projects	-	-	6,555	-	(6,555)	-
Net transfers to Emirates	-	(365)	(89)	99	-	(355)
Re-classifications	-	(2,376)	-	2,376	-	-
Disposals	(258)	(2,250)	(24,404)	(707)	-	(27,619)
31 March 1996	27,055	91,064	155,153	10,908	5,444	289,624
Depreciation						
1 April 1995	21,564	71,126	118,785	3,773	-	215,248
Charge for the year	1,520	9,034	18,904	1,475	-	30,933
Net transfers to Emirates	-	(335)	(89)	77	-	(347)
Re-classifications	-	(1,555)	-	1,555	-	-
Disposals	(258)	(2,250)	(24,177)	(586)	-	(27,271)
31 March 1996	22,826	76,020	113,423	6,294	-	218,563
Net book value						
31 March 1996	4,229	15,044	41,730	4,614	5,444	71,061
31 March 1995	5,749	14,998	41,638	2,635	2,400	67,420

	1996 Dh'000	1995 Dh'000
Capital projects comprise:		
Advance payments for computer equipment, software and communications equipment	1,703	2,023
Dubai airport infrastructure	2,915	-
Resource management system	625	-
Other	201	377
	5,444	2,400

6. Investments

The investment in associated companies comprises 50% shareholdings in Dubai Express and Gerry's-Dnata (Pvt.) Ltd. Pakistan, which are represented by:

	1996 Dh'000	1995 Dh'000
Opening share of net assets	5,194	4,793
Share of profit for the year	1,759	901
Dividend received	(1,000)	(500)
Closing share of net assets	5,953	**5,194**

7. Long term receivables

	1996	1995
Due from Emirates (Note 10)	162,122	71,742
Gerry's-Dnata (Pvt.) Ltd. loan	931	1,356
Due from Bank of Credit and Commerce International S.A. Dubai	6,000	6,000
	169,053	**79,098**

The loan to Gerry's-Dnata (Pvt.) Ltd. was drawn down on 26 August 1993 and interest is charged at 1% above LIBOR. The loan is repayable on demand but is not scheduled for repayment within a year of the balance sheet date.

The amount due from Bank of Credit & Commerce International S.A., Dubai branch represents a deposit of Dh 15 million less a provision of Dh 9 million, based on management estimates that 40% of the deposit will ultimately be recovered.

8. Receivables

	1996 Dh'000	1995 Dh'000
Trade debtors:		
Travel agents	4,902	4,734
Airlines	14,136	13,180
Other trade debtors	33,104	32,221
	52,142	**50,135**
Other debtors and prepayments:		
Prepayments and deposits	9,961	10,569
Other debtors	21,937	9,119
	84,040	**69,823**

9. Current liabilities

	1996 Dh'000	1995 Dh'000
Bank overdrafts	8,182	13,828
Airlines:		
Emirates (Note 10)	2,512	1,959
Other	35,442	30,170
Staff leave pay	13,160	11,368
Other creditors and accruals	56,380	46,125
	115,676	**103,450**

10. Emirates account

Dnata and Emirates share senior management and central corporate functions. The amount receivable from Emirates shown in Note 7 arises from the recharge of expenses wholly attributable to Emirates, charges raised in respect of services provided and the transfer of funds. This receivable has been classified as long term on the basis that there are no fixed repayment terms and repayment is not expected within one year. Interest is charged to Emirates in line with Dirham bank deposit rates.

The amount payable to Emirates shown in Note 9 arises from ticket and cargo sales.

Common Dnata/Emirates management costs are fully recharged except where the basis of recharge would be arbitrary and in these instances no recharge is made. The net effect of these arrangements did not materially affect income for the year.

11. Other liabilities and provisions

	1996 Dh'000	1995 Dh'000
Terminal benefit provision	58,061	52,261

Terminal benefit provision relates to employees who do not participate in the company provident scheme.

Senior employees participate in the company provident scheme, an independent provident fund for which Dnata guarantees that, on termination, employees will receive as a minimum, benefits equal to their terminal gratuity entitlements in accordance with their contracts of employment. At 31 March 1996, the benefits secured by Dnata's contributions exceeded employees' contractual terminal benefit entitlements.

12. Capital

Capital comprises the value of the net assets taken over from Dubai National Air Travel Agency for nil consideration with effect from 1 April 1987 (Note 2).

13. Contingent liabilities

Dnata has entered into "put-option" agreements with the lessor of two aircraft leased to Emirates. Under the terms of the agreements, if Emirates exercises its right to return the aircraft on the put dates (30 March and 30 August 1998), the lessor has the option to require Dnata to purchase the aircraft for a total fixed purchase price of USD 31.8 million (Dh 116.8 million).

Dnata has undertaken to extend the put dates for a further 5 years if Emirates extends the aircraft leases for a second five year period.

14. Commitments

Capital commitments

	1996 Dh'000	1995 Dh'000
Authorised and contracted	6,508	5,079
Authorised but not contracted	77,752	68,795
	84,260	**73,874**
Operational commitments		
Letters of credit	603	

The above were issued in the normal course of business.

15. Cash and cash equivalents

Bank and cash	5,928	34,372
Bank overdrafts	(8,182)	(13,828)
	(2,254)	**20,544**

The EMIRATES Group — subsidiaries & associated companies

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Subsidiaries			
Dnata Travel (UK) Ltd.	100.0	Travel agency	U.K.
Associated companies			
Dubai Express	50.0	Freight clearing & forwarding	U. A. E.
Gerry's-Dnata (Pvt.) Ltd.	50.0	Airport handling services	Pakistan
GCC Aviation Services Company Ltd.	25.0	Investment holding	Channel Islands
Taj Oasis Hotels Private Ltd.	23.3	Hotel development, ownership and operations	India
Taj GCC Air Caterers Private Ltd.	17.5	Airline catering services	India
Chieftain Corporation N. V. (beneficial interest in St. James' Court Hotel, London)	5.8	Investment holdings, hotel ownership and operations	Netherlands Antilles

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