The Emirates Group

Annual Report 2005-2006

Chairman & Chief Executive Emirates Airline & Group

H. H. Sheikh Ahmed bin Saeed Al-Maktoum
Chairman and Chief Executive, Emirates Airline & Group

It has been another tough year with fuel pressure continuously dampening our vibrant net income production, but I am proud to say we returned our 18th consecutive profit for the airline, with the group returning a net profit of US$762 million (Dhs2.8 billion) on a turnover of US$6.6 billion (Dhs24.3 billion).

Emirates' net profit was US$674 million (Dhs2.5 billion), while Dnata's net profit was US$88 million (Dhs324 million).

Our success was tinged with sadness as Sheikh Maktoum bin Rashid Al-Maktoum, passed away in January. He will be greatly missed by the UAE and Dubai but we know that the new ruler, His Highness Sheikh Mohammed bin Rashid Al-Maktoum will continue to carry out the visionary plans of their father, Sheikh Rashid, to turn Dubai into a major gateway, hub and centre for international businesses and institutions of every kind.

Of course, the location of Emirates and Dnata in Dubai has been the catalyst which has helped to transform them into world-beating companies.

With a 2.5 million population, a thriving tourist industry, commercial businesses reaching out across the globe, Dubai has a GDP which is now growing at an average of 16% per year, higher than the figures for China (growth rate 8.5%), acknowledged to be one of the fastest growing economies in the world.

Recently Dubai was described by the English *Guardian* newspaper as probably, "The most important city on the planet…not just a city at the centre of the Arab world, but an Arab city at the centre of the world."

Emirates' growth has also attracted some superlatives from aviation observers during the year "…the biggest business star of 2005", *Arabian Business magazine*; "An airline with global ambitions takes off", *Wall Street Journal* and "The greatest threat to Asian and European carriers," J.P. Morgan.

I must stress that we have never set out to be a threat to any other airline. We believe in co-operation. We have never copied other airlines, nor imitated any business model, or joined any airline alliance. We have concentrated on trying to provide a superb service for our passengers and cargo customers.

The Emirates Group is more than an airline and no less than 7,067 employees work for Dnata at the Dubai International Airport and in their travel related business. We are also the majority owners of Emirates Flight Catering and other concerns, all which have separate finances, whose results are included in this report.

Yet, as I write this introduction to the annual report, I know from past experience that despite the transparency of the group's results, there will still be competitors who will cry "foul", accusing us of unfair practices to gain market share and to make a profit.

It has been said that we receive free or discounted jet fuel. How I wish we did! We pay the same price as every other carrier and in the last financial year, this represented some 27.2% of our total costs – up from 21.4% in the previous year though we have one of the most sophisticated fuel buying systems in the industry. Even with our fuel surcharges which meet only 41% of the increased fuel cost over the previous year, we paid some US$528 million (Dhs 1.9 billion) more than we had budgeted, such was the volatility in the world's oil markets.

It has also been alleged that my position as President of Dubai Civil Aviation gives Emirates an unfair advantage. Wrong again. There are some 118 airlines serving Dubai

(Left) Sheikh Ahmed catches up on a train in Europe.
(Right) Addressing a press conference in Dubai

in an Open Skies environment and the Government of Dubai welcomes more airlines even though they are competition to Emirates – the arrival of Virgin Atlantic and AerLingus are typical examples of the classy airlines which serve Dubai. And I ensure that Emirates pays full airport service charges to the Department of Civil Aviation, the airport side of which is a business in its own right.

It has been suggested that our sponsorship portfolio is paid for by the government in order to promote Dubai. Incorrect. All our sponsorships worldwide come from the airline's corporate communications budget which is strictly limited to a fixed proportion of revenue. The department concerned regards that proportion as meagre, but happily they have always been able to fight above their weight. Naturally, we are happy that they also promote Dubai in the course of promoting Emirates.

As I travel the world, I cannot recall how many times I have had to explain to journalists that Emirates does not receive any subsidies from the government, unlike many of the European carriers which hypocritically hint that we are receiving hidden government support.

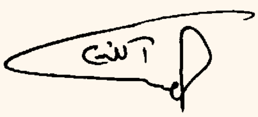
So what is the secret of our success? Why are we making a profit when many airlines are losing money?

Without being facetious, surely someone should ask these other businesses why they are not making a profit. If you read this report, you will discover that our business model is quite simple: we have invested in the latest aircraft and equipment, created superb training facilities, built an IT department which has become so competent that it sells its services to other airlines, and operate a commercial department which despite the ravages of global socio-economic conditions, always finds fresh ways to communicate with our growing client list. Emirates' innovations range from unique in-flight entertainment systems which lead the world, to luxury airport lounges. But, really, when it comes down to the real difference, I always believe it is the Emirates' spirit which tips the scales in our favour ... people like Corey Oliver, and Ryan Black, two Stewards who I presented with the Chairman's Award for demonstrating extraordinary courage and bravery in saving the life of a swimmer on a day off at Dubai's Jumeira beach. Others like Martin Bryant and Peter Whitaker, two Lead Aircraft Mechanics of Emirates Engineering at London Gatwick airport, who received the award for bravery, presence of mind and calmness shown by taking charge of a violent deportee and guiding flight and cabin crew to safety. Also Afzal Bin Mohammad, Loader/Driver from Dnata Airport Services who took immediate action to extinguish a fire on the front wheel of another airline's aircraft.

For me, one of the highlights of the year was signing a contract for 42 Boeing 777s at the Dubai Air Show, an order worth US$9.7 billion (Dhs35.6 billion). Our total commitment to Boeing, past and future, amounts to 100 large aircraft and US$20 billion (Dhs73.5 billion).

Profitability through growth seems to have become a theme of Emirates for the past decade. Emirates is a unique carrier. I don't think any other airline has grown so rapidly and yet still maintained its quality service.

I am fortunate to have an extraordinary workforce of passionate staff – and take this opportunity to thank them for their hard work and determination, not to mention their outstanding ability.



Ahmed bin Saeed Al-Maktoum

Executive Vice Chairman Emirates Airline & Group

Maurice Flanagan CBE
Executive Vice Chairman
Emirates Airline & Group

"Four brutal years" was how the UK's Airline Business magazine described the struggle by carriers to compete in the global aviation industry, with the rise in jet fuel prices seemingly unstoppable. As His Highness has said, although we have some of the best fuel managers in the business, we were US$528 million (Dhs1.9 billion) worse than our pessimistic forecast of fuel costs made at the beginning of the year. "The worst crisis in our history" was how Giovanni Bisignani, (the Director General and CEO of IATA) described the present climate in the commercial aviation industry.

But despite these gloomy circumstances, the group has returned a most satisfactory result with a net profit of US$762 million (Dhs2.8 billion). This result compares very favourably, we believe, with the most efficient of our competitors, giving us a net profit margin of 11.5% - significantly higher than other full-service airlines. At the same time the group has been expanding, the airline achieving these results from a 19% increased capacity, and Dnata operating in a highly competitive market, while opening up new businesses outside the UAE.

As for the global picture, there just may be light at the end of the tunnel. Mr. Bisignani recently declared that he expected the global industry profit to rise to US$7 billion in 2007. That, however, assumes that the oil price steadies at US$52 a barrel, which is perhaps rather optimistic. Emirates' development feeds, and is fed by, the extraordinary growth and dynamism of our home, the emirate of Dubai (See page 23). Emirates' fast and continuous year on year expansion cannot be understood if taken out of its Dubai context, and if account is not taken of Dubai's perfect location as a global hub. Our long haul fleet can connect any two points in the world, with one stop only, in Dubai. Dnata Airport Services had a tough year. Keeping the Dubai International Airport Passenger and Cargo services running smoothly has been a formidable achievement, on an airport where large-scale construction continues night and day (facing page) to increase the airport's passenger capacity from the present 25 million a year to 75 million. In addition 1.3 million tonnes of cargo were handled by Dnata at the airport.

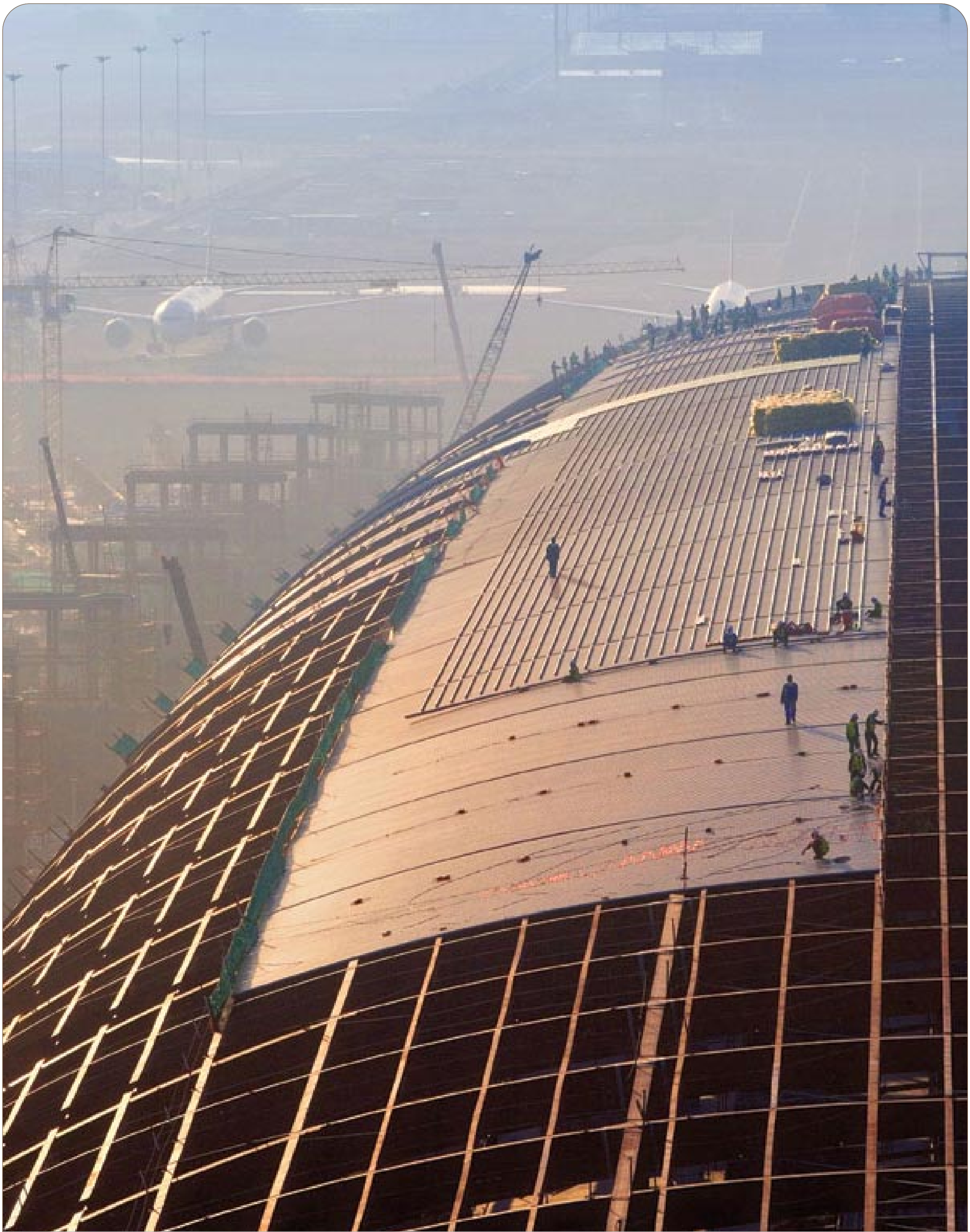
Growth continues at such pace that the 75 million annual passenger capacity will be hit by, at the latest, 2015. The first runway at the new Jebel Ali Airport will be completed next year, and the eventual six-runway airport will have an estimated capacity for a throughput of 145 million passengers a year.

I was particularly pleased during the year to acknowledge the efforts of our young National staff who have seen the successful results of their training as they have progressed through the different departments in Emirates and Dnata, whilst our regular annual batch of young managers on the annual London School of Economics Global Business Consortium have continued to represent us most effectively on the international management scene.

Our internal MBA course, which is run by Emirates and the Bradford University School of Management, continues to produce a steady flow of graduates, 15 this year coming from inside the company and, as a service to the community, 21 from other companies in the region. In the past year we celebrated 20 years of Emirates and 48 years of Dnata and published "The Airline of the Future" commemorating the airline's first twenty years. But the best is yet to come.

A final thanks to all staff for their magnificent contribution to these excellent results.

Maurice Flanagan



Construction in progress on the new concourse

President Emirates Airline

Tim Clark

By the end of the financial year we had a fleet of 91 aircraft, serving 83 destinations carrying 14.5 million passengers and one million tonnes of freight. By 2010 we will have 156 aircraft serving 101 destinations, carrying an estimated 26 million passengers per year. Such is the projected growth of Emirates.

The huge Boeing order consists of a mixture of the luxury Boeing 777-300ER and the 777-200LR, the world's longest range airliner.

This order meant we now have a total of US$33 billion (Dhs121 billion) value of aircraft to be delivered to us in the next eight years, at an average of one per month. As Sheikh Ahmed rightly points out, no other airline in the history of commercial aviation has ever grown so relentlessly and returned a healthy profit, year on year.

In the next financial year we will be taking delivery of our first A380 Airbus, the double-decker aircraft of which we have ordered 45, including two freighters.

Our Airbus will have product features never before seen on a commercial jetliner, plus the revolutionary mini-suites and in-flight entertainment systems which have already taken the industry by storm.

We were grateful during the year that our Chairman and Chief Executive joined us in various locations around the world, including Australia when we launched our new Wolgan Valley environmental-friendly resort and spa, in Seoul for the inaugural, in Hamburg for our route launch and Hamburg HSV soccer sponsorship, and in Thiruvananthapuram when we opened our 6th Indian destination.

Of course, the fuel costs continued to dominate our daily operations but we have not allowed the rising prices to hamper the growth of the airline.
Today an Emirates aircraft takes off and lands somewhere on the globe … every six minutes.

Naturally, we must remain profitable but only by improving customer service. During the year we made major efforts to upgrade our product in the air and on the ground, investing more than US$200 million (Dhs734 million). SkyCruiser lie-flat seats are being installed on First Class on the classic Boeing 777s already in the fleet, the ice 500-channel inflight entertainment system has been introduced on 40% of the fleet and we now have seven award-winning airport lounges, with plans to open 12 more during the next year.

We have improved our Economy Class cuisine and made it more convenient to travel with e-ticketing for all travellers with the ability to book a seat from home.

Competition has increased, not only in the Gulf but in many of our other markets. We will not be slowed down by jealous competitors circulating untruthful allegations and threatening protectionism, for it only encourages us to try even harder to be the best airline on every route we fly – a promise born of the Open Skies of Dubai.

Tim Clark
President Emirates Airline

The new Emirates First and Business Class lounge at London Gatwick Airport

The Airline

New lie-flat SkyCruiser seats were introduced in the Emirates Boeing 777-300ERs

Commercial Operations

Improved customer service in the air and on the ground was the all-pervading driving force behind Commercial during the year. On the ground we opened new First and Business Class travel shops in Dubai and Abu Dhabi which will now be replicated around the network. We also started more self-service check-in desks at Dubai and options for Internet check-in. In addition, Dubai Stopover packages can now be booked on arrival at Dubai International Airport with an Emirates Services Desk in the Arrival Hall. Whilst in the air, there were more First Class lie-flat beds as we accepted the delivery of additional A340-500s with mini-suites and the SkyCruiser seats in the Boeing 777s were again an instant hit with our premium passengers.

Being the fastest growing airline is not just a slogan, it means that every month, on average, another wide bodied aircraft is introduced into the fleet. Commercial's job is to ensure that these new aircraft are employed on routes with strong passenger and cargo demand so that the most modern aircraft in the world are fully utilised.

The UK and India continued to be our main markets, with Emirates operating 91 flights per week to the UK destinations of London Gatwick, London Heathrow, Birmingham, Manchester and Glasgow.

From 31st March 2006, Emirates served seven online destinations in India - Mumbai, Delhi, Cochin, Chennai, Hyderabad, Thiruvananthapuram and Kolkata with a total of 64 flights providing 15,823 seats per week.

Hamburg joined the network on 1st March 2006, our fourth destination in Germany (others are Frankfurt, Munich and Düsseldorf).

In France two additional flights were introduced to Paris which made it a double daily operation. Malta was delinked from the Tripoli service and is now served four times a week via Larnaca with full traffic rights between Cyprus and Malta.

Emirates spread its wings in West Africa with new flights to Abidjan, Côte d'ivoire, to add to the flourishing Lagos and Accra services.

In Australia a second service was started from Perth with four flights per week, in addition to the daily non-stop services to Dubai, while Sydney had four additional flights via Bangkok, making it a double daily operation.

Commercial worked with Corporate Communications to launch new services with plenty of razzmatazz at glamorous road shows for travel agents in Seoul, Alexandria, Cairo and Hamburg.

Special promotional campaigns were launched by Network Passenger Sales Department (NPSD) to optimise sponsorship of the FIFA World Cup 2006.

Ghaith Al Ghaith, Executive Vice President Commercial Operations Worldwide, commented "The Commercial team has worked wonders this year. Faced with overwhelming odds we have still managed to exceed our targets and at the same time opened seven new destinations in Africa, Europe and Asia."

Skywards, the frequent flyer programme of Emirates and SriLankan Airlines, completed five years in May 2005 and is rapidly approaching two million members, growing at an average of 62% per annum.

Skywards E-gate cards were expanded to include Silver cards, not only providing Skywards benefits but

"Improved customer service in the air and on the ground..."

New routes were opened to Abidjan (left) and Hamburg (right)

also quick access through Dubai International Airport's passport control.

The Skywards website was upgraded with enhanced navigation and many new features to help manage member accounts on-line, including automated purchase of miles and automated claiming of missing miles.

During the year new partnerships launched included Korean Airways; Raffles International and Swissotel; InterContinental Hotel; Zam Gems, Sri Lanka; Standard Chartered Bank (co-branded credit card, SriLankan); Radisson SAS/Rezidor Hotels & Resorts; Dubai Autodrome; Marriott Vacation Club International and Taj Hotels & Resorts.

Skywards was voted Programme of the Year in the Asia/Pacific region in the Freddie Awards, considered the Oscars of the frequent flyer world, also winning Best Web Site and Best Members' Communications Asia/Pacific.

Last but not least, Skywards and its members donated an amazing 53 million miles towards disaster relief appeals and to supporting children and the under privileged across the world.

Customer Affairs and Service Audit

As the company grows bigger and bigger, we need to become smaller and smaller in key areas of personalised customer contact in the frontline. This will give Emirates the competitive edge.

With rapid business expansion, Customer Affairs and Service Audit (CASA) activities such as proactive and reactive identification of service failure becomes crucially important, matched by quick corrective action. On-board service inspectors travel regularly across the world to check and keep product and service deliveries on their toes and ensure compliance with company-set service standards.

On the ground other inspectors traverse the Emirates network to conduct checks on airport services in the frontline and behind the frontline.

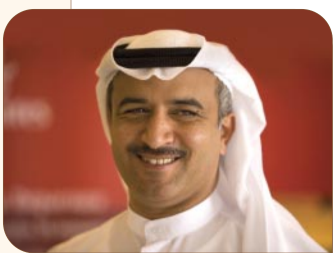
With 14.5 million passengers per year, it is inevitable that mishandling incidents occur from time to time and therefore service recovery to restore lost passenger goodwill continues to be important to support business strategy. Today service recovery activities are encouraged right in the frontline as it is happening.

There is a relentless use of customer feedback to identify any service/product failure so that improvements can be made on the ground and the on-board product is continuously enhanced.

Trends and conclusions based on customer feedback are regularly sent to senior management outlining what our customers say and what remedial action needs to be taken.

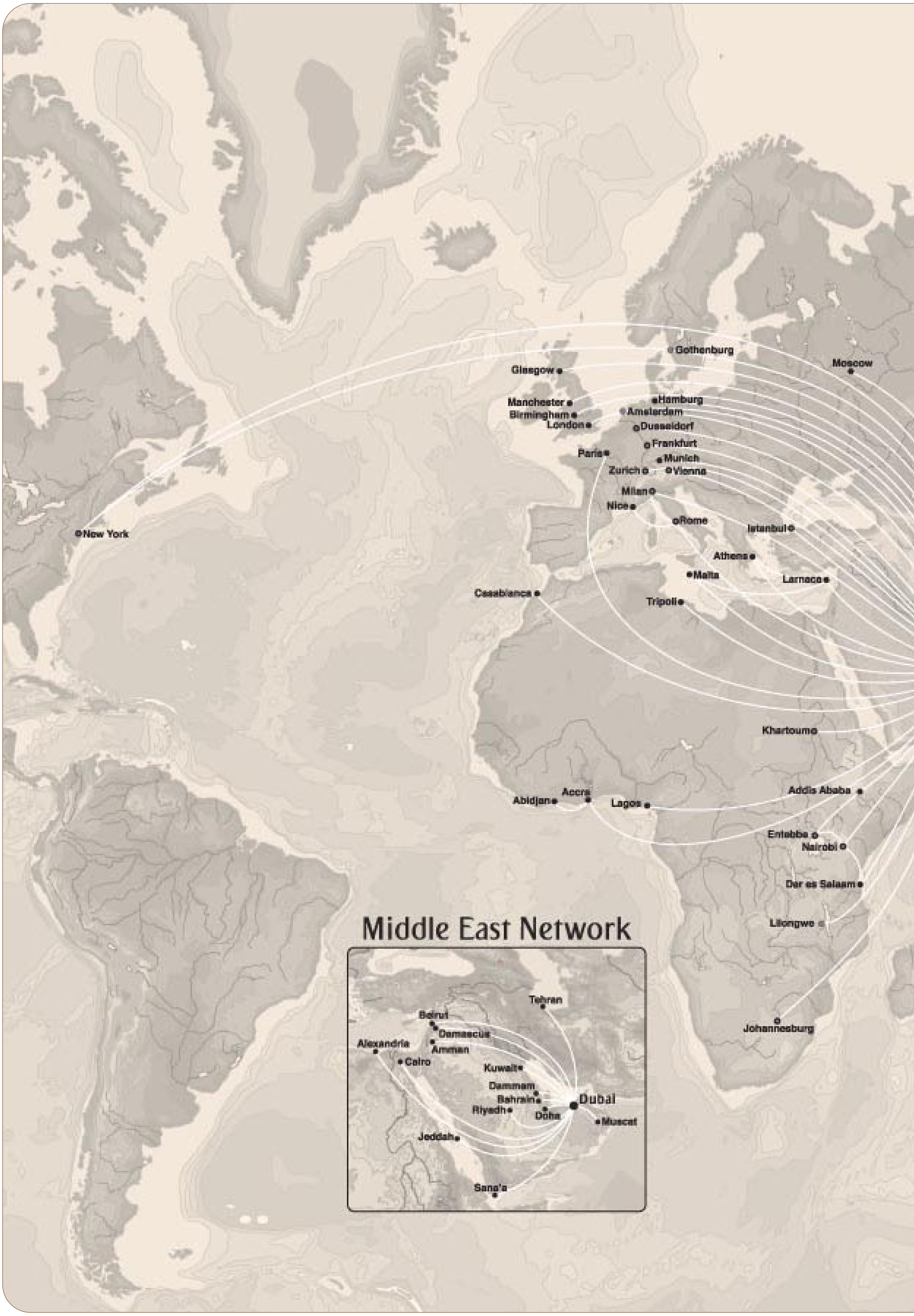
An extremely accurate assessment of the customer experience is gained by Service Audit who try to find any problem before the customer does.

There was a decentralisation of CASA across the key geographical markets of The Americas, UK/Europe, the Indian subcontinent and Australia/New Zealand. This is an important business strategy for it allows Emirates to respond on-the-spot to customer concerns/complaints and to do so in a way that is sensitive to the different cultures.



Ghaith Al Ghaith
Executive Vice President
Commercial Operations
Worldwide

The Airline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Lagos
Entebbe
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Osaka
Shanghai
Taipei
Hong Kong
Manila
Bangkok
Kuala Lumpur
Singapore
Jakarta
Brisbane
Perth
Sydney
Auckland
Melbourne
Christchurch
Passenger Routes
Freighter Routes
Passenger & Freighter Routes

The Airline

New purpose-built hangers for the double-decker Airbus A380 at Dubai International Airport

Emirates Engineering

As with the rest of the group, Emirates Engineering is busy planning for the future while maintaining a fleet of 85 aircraft in mint condition.

Construction of the new Engine Test Cell commenced in June last year and is expected to be commissioned in November 2006. The facility will have the capability of testing all types of current commercial engines, including engines with a thrust of up to 150,000 lbs.

Preparations have also started for the move from the old Emirates maintenance facilities to the new Engineering Centre which will be one of the largest and most modern engineering workshops in the world.

As well as an excellent working environment for the staff, the unit will feature a unique docking system for efficient operations. It will be able to accommodate all current Emirates aircraft and future types yet to be delivered.

As the network widens, Emirates Engineering has ensured a number of stations were resourced to provide line maintenance support.

The department completed its 258th multiple 'C' checks, with 45 carried out in the year.

A landmark achievement was the award of the EASA 21 Organisation Design Approval and JAT 147 Engineering Training Approval. The design approval will provide Engineering with the capability to approve minor in-house modification and the training certification will enable Emirates to provide type training to third parties.

Engineering enhanced its operations with the so-called Lean Initiatives introducing Airplane Health Monitoring, Panasonic Onboard Maintenance Testing for the in-flight entertainment system, real time data collection and Wireless Technology.

Adel Al Redha, Emirates Executive Vice President Engineering and Operations, stated: "Our flight deck crew have been magnificent. We are fortunate to have such a highly skilled and experienced group. Behind the scenes our engineers provided the usual clockwork precision to their tasks, at the same time planning a move to one of the world's largest maintenance centres."

Flight Operations

High fuel costs dominated and a new operating fuel policy was introduced in April 2005 resulting in a reduced fuel burn of 0.4%, a cost saving which also offered environmental benefits.

The new Boeing B777-300ER was accepted and introduced seamlessly into the Emirates fleet.

An IATA Operations and Safety Audit (IOSA) was successfully completed with Emirates listed in July 2005. This will eliminate the need to carry out audits for code-shared agreements.

At Emirates Flight Training facilities, a new B777-300ER Flight Training Device was installed and certified by the GCAA to allow fixed base training to be released from the high level Full Flight Simulators. This will allow Emirates to use its training equipment more cost effectively.

Emirates devices for the financial year 2005/06 have been working continuously with annual average utilisations of 6,000 hours across five training

Some 817,957 tonnes (16% increase) were handled
through the Emirates SkyCargo terminal

(Left) Three Airbus A310 freighters were added to the fleet, (Right) plus two Boeing 747-400F aircraft

devices. This represents 95% load factor based on a capacity of 6,300 training hours per annum.

The A310 Full Flight Simulator generated circa US$2 million (Dhs7.3 million) in 3rd party revenue in 2005/06 and will be playing an important role in training crews for the Emirates A310 freighter operation.

Some 10% of the personnel working in Emirates Flight Training Facilities are now UAE nationals as a result of the implementation of a structured simulator training programme.

Emirates SkyCargo

For the first time, Emirates SkyCargo recorded over a billion dollars worth of revenue and carried a million tonnes of freight. This represented 21% of the total transport revenue, one of the highest contributions of any airline in the world with a similar fleet make-up.

It was a difficult year not only for the airline, but global trade in general was impacted by the high cost of fuel which influenced retail prices and consumer spending.

Highlights included the removal of government quotas in the USA resulting in increased textile exports from China. But this affected manufacturing in Sri Lanka, Bangladesh, Pakistan, Mauritius and Jordan on the Emirates network.

Export demand from China to the Middle East and Europe continued to be strong and this helped to compensate for the slow demand eastwards from Europe.

The on-going development of the Gulf region's infrastructure is stimulating demand for air freight for both the Dubai destination and re-export throughout the GCC and Middle East.

In the beginning of August, torrential monsoon rains over a period of 10 days severely affected operations into Mumbai causing flight cancellations and bringing export activity to a standstill.

In October, a major earthquake in Northern Pakistan decimated the infrastructure. Emirates SkyCargo operated a series of relief flights to Lahore and Islamabad to help alleviate the suffering, carrying medical supplies and goods for worldwide relief organisations.

At Dubai International Airport the redevelopment presented challenges for SkyCargo to protect customers' expectations and service standards. But there are rewards in sight with the building of the 1.2 million-tonne Emirates SkyCargo Mega Terminal progressing well with a scheduled handover expected in the first quarter of 2007.

Some 817,957 tonnes (16% increase) were handled through the Emirates SkyCargo terminal and in March the production peaked at 80,828 tonnes.

During the year two Boeing 747-400F and three A310-300F freighters were added to the fleet. Scheduled freighters are now operated to 26 destinations. In all, SkyCargo carries freight in 91 aircraft (including nine freighters) to 83 destinations.

Equipment upgrades included the delivery of six custom-designed temperature-controlled ULD storage/transportation units to facilitate delivery/cold storage, between the warehouse and the aircraft, without compromising the requirements of temperature-sensitive commodities.

Adel Al Redha
Executive Vice President
Engineering and
Operations

The Airline

Emirates Wolgan Valley Resort & Spa, New South Wales, Australia

The Emirates Skybox, a security container commissioned and developed in conjunction with Transguard and manufacturer BWH Gmbh, was also introduced into exclusive service with SkyCargo. Capable of containing an intact Europallet, the device is used for transporting vulnerable cargo such as electronics, medicines and other sensitive items which can be susceptible to pilferage during the transportation process.

The Dubai Flower Centre, owned and operated by Dubai Cargo Village, is scheduled to commence full commercial operations during the first quarter of the financial year. This will offer opportunities for Emirates to participate in the distribution of flowers and plants from growers who need end-to-end "cool chain management" to major consumer markets through the expanding Emirates network.

The Skylog automated warehouse and inventory control system, developed by Mercator to SkyCargo specifications, was successfully cut-over.

Development and building continues of the automated central cargo reservation and business management application. The system uses next-generation technology consistent with Emirates' objective to leverage technology to enhance logistics efficiency, increase productivity and provide accurate information through seamless communication with customers and service providers. New Generation Skychain is currently undergoing user acceptance testing. It is scheduled for global implementation in September 2006.

SkyCargo participated at the following events - Air Cargo Europe, Munich; the World Air Cargo Event, Dubai and Air Freight Asia, Shanghai.

Again SkyCargo won a bundle of awards: Air Cargo Carrier of the Year 2005 - International Freighting Weekly (IFW) UK; Best Air-Cargo Carrier Middle East - Asian Freight and Supply Chain Award (Asia); Best Airline to the Middle East 2005 - Air Cargo News; Best Airline to the Indian Subcontinent 2005 - Air Cargo News; Best Airline to the Far East 2005 - Air Cargo News; and Quality Awards Italy (Middle East 2004/05) - ANIAMA Italy.

Destination and Leisure Management (D&LM)

Against the backdrop of rising fuel costs, D&LM posted a robust growth in sales to US$256 million (Dhs940 million) - a 17% increase over the previous year. D&LM completed an excellent year's performance by caring for a record number of 318,000 clients. Arabian Adventures had another good year with sales revenue growing to US$137 million (Dhs505 million) with a total number of 219,000 tourists.

The number one market for Arabian Adventures was again United Kingdom which produced 25% of the total arrivals followed by Germany (16%), Australia (16%) and the Gulf and Middle East (13%).

In the top ten producing markets, the fastest growth was registered from Japan (84%) France (59%) and Australia (55%).

Arabian Adventures' Meetings, Incentives, Conference and Exhibitions (MICE) department handled the star-studded Dubai International Film Festival, providing the entire logistical support for the event. Arabian Adventures MICE team were also involved in a number of car launches: the special reveal of the Volkswagen EOS in Dubai, the launch of the Porsche Cayman in Oman and later the introduction of Porsche's new Cayenne Turbo, one of the Porsche's biggest ever launches with 10 waves of 20 journalists.

Destination & Leisure Management Division's sales grew by 18%

Emirates Marina Serviced Apartments & Spa, in the heart of Dubai's new business and leisure centre

The Airline

Visitors experiencing free-roaming Arabian wildlife at Dubai Desert Conservation Reserve

Congress Solutions Dubai was launched at Arabian Travel Market and will assist the Dubai Convention Bureau in attracting large scale congresses to Dubai.

Emirates Holidays registered strong sales at US$118 million (Dhs435 million) which was 22% better than the previous year. The ten top markets were: UAE, Saudi Arabia, Kuwait, Bahrain, Qatar, Egypt, Iran, Lebanon, Cyprus and Kenya. The markets that showed the biggest growth in figures were India, Russia, Greece, Kenya, Uganda, Jordan, Pakistan, Sudan, Libya, and Qatar.

For Emirates Holidays the top ten destinations were: Dubai, Thailand, Malaysia, UK, Egypt, Mauritius, Singapore, France, Maldives and Turkey.

Emirates Holidays' new product brochure was launched with 400 agents and 40 exhibitors and a guest appearance by legendary footballer Franz Beckenbauer.

Emirates Al Maha Desert Resort & Spa achieved its best ever financial results. The new spa's own Timeless line of luxury treatment products has led the way to the Spa brand which is now expanding into all of the Group's hotels.

The Dubai Desert Conservation Reserve, which the Emirates Group again sponsored, is producing three years of scientific habitat data for the United Nations Environmental Monitoring committee. The Reserve was enjoyed by over 200,000 visitors. Special driver training and controls on desert activities minimised habitat damage and the visitors were able to experience the free-roaming Arabian wildlife released from Al Maha.

When it comes to new projects, Emirates expanded into the hotel industry assisted by the worldwide reputation of Al Maha. Sheikh Ahmed announced the Emirates Wolgan Valley Resort and Spa in the Blue Mountains in New South Wales, Australia, in May last year. This development is a real coup underlining the credibility of Emirates to create environmentally-sensitive designs and world-class wildlife conservation management.

Developments in Dubai included the plan for a 70-floor deluxe city hotel twin towers property with over 20 restaurants and other outlets. This US$490 million (Dhs1.8 billion) project will be one of Dubai's best leisure and business hotel projects.

The enormous pressure on availability of high-standard tourist accommodation in Dubai has persuaded Emirates to enter the important serviced-apartment sector. The Emirates Marina Serviced Apartments & Spa will be complete with gymnasium, spa, restaurants and other hotel facilities. It is due to open in early 2007.

16 aircraft were delivered during the year

(Left) Emirates increased its services to West Africa
(Right) Kolkata's rich handicraft

Planning, International and Industry Affairs

A total of 16 aircraft were delivered to Emirates in the financial year. Eleven B777-300ERs, two A340-500s and three A310-300 freighters, resulting in a fleet of 91 aircraft (82 passenger aircraft and nine freighters).

There was an increase in capacity for all regions of the world. In Europe, Emirates introduced a new daily service to Hamburg, the fourth destination in Germany on 1st March 2006, as well as the fifth daily service to London Heathrow and the second daily service to Birmingham. As a result of the soaring success of our first service to New York we started the second daily service to the Big Apple in November. Both services are showing very healthy load factors.

In East Asia, Emirates commenced daily flights to Seoul, the capital of Korea, as well as a second service to Perth with four flights per week.

On the Subcontinent, Thiruvananthapuram became the sixth on-line destination in India with eight flights per week and Kolkata number 7 with six flights a week.

In the Middle East, Emirates introduced daily services to Alexandria, the second port in Egypt, and services to Kuwait were increased to 18 per week.

In Iran, Emirates switched its operations in Tehran from Mehrabad International Airport to Imam Khomeini International Airport. The airline continued to expand in Africa and Abidjan was added to the network with four weekly flights via Accra with Addis Ababa coming online from April with thrice weekly flights.

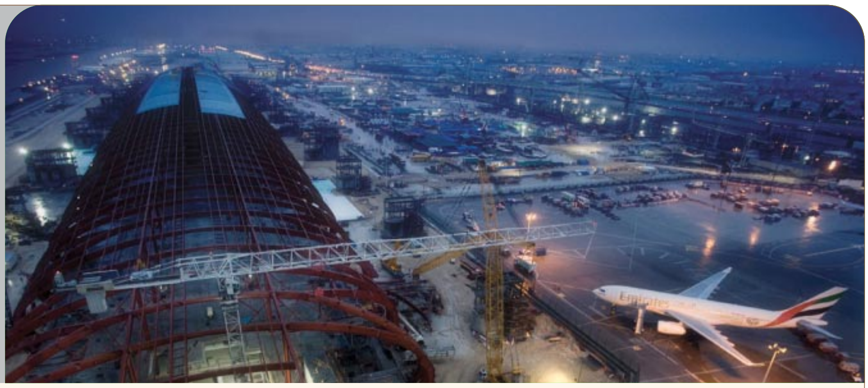
The International Affairs department was extremely active during the year being involved in the completion of air service arrangements in Africa with Niger, Ivory Coast, Benin, Gambia, Mozambique, Rwanda, Burkina Faso and Botswana.

In South America, new air service agreements included Chile, Colombia, Panama, Latvia and Uruguay. Whilst in Europe, traffic rights were negotiated with Latvia, Portugal, Slovenia, Bosnia, Herzegovina, Croatia, Macedonia and Tajikistan.

Emirates joined six Billing and Settlement Plans (BSPs) in Bulgaria, Central West Africa, Portugal, Slovenia, Sri Lanka and Yemen. Emirates now participates in 48 of the 72 operating BSPs worldwide.

During the year Market Research conducted many projects in the area of customer satisfaction, web development, passenger profiling, staff satisfaction/climate surveys, business traveller behaviour, advertising and brand tracking.

The Airline



Around the clock work continues on development of Dubai International Airport

Service Delivery

With new aircraft arriving at an average rate of one per month for the next eight years, it is essential that our recruitment of cabin crew concentrates on quality not quantity. Our strong brand and ideal location in Dubai, enables Emirates to recruit the crème de la crème of men and women candidates from more than 100 different countries.

In the past year we have been receiving 60 new cabin crew recruits every week. We now have more than 6,000 and the massive task of training 1,500 stewards and stewardesses every year.

Looking to the future we are planning a new cabin crew training college (more details are outlined in the Facilities/Project Management section of this report.)

The 'Trolley Dolly' label has always been out-of-date in Emirates where our educational requirements and psychometric testing ensures that we employ well-educated young people. As integral members of a high-tech operation, cabin crew have tablet PCs linked wirelessly to our central information systems using TEMPUS, a telemedicine system to diagnose and help sick passengers and liaise with Medlink. In addition there are defribillators on all flights with staff trained to operate them. Such is our concern for passengers should they fall ill while flying with us. They also ensure passengers are familiar with our state-of-the-art ice in-flight entertainment system.

We never forget the personal touch and again our caring, friendly cabin crew have won accolades for warmth and understanding, helping to add another 30 awards to our collection of 280 trophies.

As well as introducing new meal trays for Economy Class passengers, Service Delivery worked with chefs from Jumeirah Hotels, Dubai, to create delectable meals on board based on their hotel restaurant menus.

The Annual Safety and Emergency Procedures course and examinations were passed by 4,800 crew. In this connection, Service Delivery conducted "Soul of Korea" cultural training programmes to link in with our launch of services to Seoul. We ensured authenticity by flying in university experts from Seoul to work alongside the Emirates training team.

A replica of the A340-500 underfloor crew rest compartment was commissioned for safety training in our training college.

By providing a wider variety of items on board, Duty Free revenue grew by 13%. Our close working relationship with Mont Blanc continued with the launch of the very exclusive Mont Blanc Chronograph, a diamond-encrusted watch with an initial retail price of US$65,000. This is a one-off watch made especially for Emirates with the proceeds from its sale being donated by Mont Blanc to charity.

Airport Services

All-the-way caring service from home to home is one of Emirates' top priorities - and Airport Services' big news was the opening of five more dedicated lounges for our premium passengers. Bringing to seven the number of First and Business Class lounges, Airport Services inaugurated new premises in JFK Airport, New York; London Gatwick Airport; Charles de Gaulle, Paris; Perth and Sydney. A second Business Class lounge was opened in Dubai and the existing lounges completely refurbished. Twelve more lounges are in the planning and design stages for Frankfurt, Munich, Hong Kong, Singapore, Kuala Lumpur, Bangkok, London Heathrow, Birmingham, Düsseldorf, Mumbai, Karachi and Melbourne.

1,500 cabin crew were trained during the year

(Left) 12 self-service check-in kiosks at Dubai International Airport
(Right) Online check-in from home

In Paris the airport operations moved from Terminal 1 to Terminal 2C, a much newer facility and adjacent to the trains.

In Dubai we now have 12 self-service check-in kiosks and will install another 12 next year. Same-day newspapers are now offered at the Dubai premium lounges with Auckland to follow.

Baggage performance has shown a marked improvement. Though the number of bags processed has increased by 15% per annum, mishandled baggage figures show a decreasing trend and complaints were some 2.88 per 10,000, a drop of 50% in the past five years.

An automated handling system (Vxceed) was deployed for the Dubai chauffeur-drive service to confirm assignments, make last-minute changes and monitor driving and billing.

The Dubai Airport Development Group has been working closely with the Department of Civil Aviation on Emirates Terminal 3 and Concourses 2 and 3 and with the new Dubai Metro Authority regarding train services and stations where Emirates will have check-in facilities. The Group includes a civil and construction engineer, baggage systems specialist and several airport design and operational experts.

Dubai

(Right) Dubai Marina's skyscrapers provide a dramatic backdrop to Montgomerie Golf Course. (Left) A new town centre takes shape

Dubai - The City of the Future

The story of Dubai is like a happy ever-after Hollywood mega movie. From a struggling fishing village to a thriving pearling community, then decimated by the demise of the natural pearl in the 1920s, rebuilt by the late Sheikh Rashid bin Saeed Al-Maktoum, a desert leader with incredible vision. He laid the foundations for the emirate becoming the commercial centre of the Gulf, initially by dredging the Creek and encouraging a free market economy. He even introduced Open Skies when he persuaded the first airline to serve Dubai.

Fast forward to the present ruler, and Vice President and Prime Minister of the UAE, HH Sheikh Mohammed bin Rashid Al Maktoum who is creating what has been described as "Mushroom City", the fastest growing city on earth. A drive around Dubai opens the eyes of visitors who then understand why Emirates has more than US$33 billion (Dhs121 billion) worth of aircraft on order and the US$4.5 billion (Dhs 16.5 billion) development of the airport by Dubai Civil Aviation. It has been estimated that Dubai itself is also investing upwards of US$100 billion (Dhs367 billion) in new projects.

Today oil provides only 6% of the emirate's income while tourism represents more than 30% as Dubai prepares for a future without the black gold.

Some of the projects on the way include the world's tallest building, Burj Dubai; the man-made Palm islands, (one nearly ready, one almost ready and a third planned); the massive Dubailand - a leisure park bigger than Monaco; Healthcare City; a new airport at Jebel Ali; Dubai Waterfront (a development larger than Barbados); and the incredible World (300 man-made island shaped like the continents).
Already built and operating are Media City, Knowledge City, Aid City, a plethora of some of the world's largest shopping malls, a ski resort, half a dozen golf courses which stage PGA championship tournaments attracting names like Tiger Woods, Retief Goosen, Ernie Els and major ports like Jebel Ali and Port Rashid which between them are bigger than Rotterdam.

Yet, amidst the hustle and bustle are quiet residential areas, pristine white beaches, fascinating souks, desert reserves with the legendary oryx and a population of welcoming and friendly locals, always ready to share a mint tea, Arabic coffee or even a Starbucks cappuccino ... for this is the Arab city of the 21st century.

A developed residential area in Dubai

President Group Services and Dnata

Gary Chapman

As Emirates continues to create one of the highest profiles in the sky, we should not forget our unsung heroes: the backroom boys and girls who make such a major contribution to the Emirates Group and its outstanding successes.

A rapid expansion in the fleet and routes has meant a similarly rapid increase in employee numbers, testing and stretching our training resources and training facilities. To complement our Training College, the last phase of which was, itself, inaugurated just a few years ago, we are currently building an extension to house our multi-million dollar cabin crew simulators, enabling us to maintain and enhance training. Our Human Resources department has responded with vigour and imagination to the key recruitment challenges we face of fast-increasing employee numbers whilst maintaining the highest standards we set ourselves.

The enormous investment in information technology continues apace. We have developed and implemented major new systems across the Group, such as our new Cargo Management System Chameleon. Our primary headquarters data centre has doubled in size enabling us to increase our resilience and service levels whilst reducing overall costs.

Corporate Treasury successfully raised US$1.1 billion (Dhs4 billion) for the acquisition of ten A340-500; negotiated successfully with Export-Import, USA (Ex-Im) the purchase of two B777-300ERs, and arranged the first-ever aircraft loan with one of China's largest banking corporations. We were awarded Middle East Airport "Deal of the Year" by Euromoney's Air Finance Journal in New York in recognition of Emirates' historic US$550 million (Dhs2 billion) sukuk (Islamic Bond), the first such sukuk raised by an airline.

Our dedicated Jet Fuel Risk Management team has done its best to mitigate the soaring oil prices in a topsy-turvy marketplace and has saved us in excess of US$189 million (Dhs693 million) on fuel costs but this continues to be an area of incredible global volatility; rather like trying to grasp a very slippery eel.

Dnata has had an extremely challenging year. Dnata Airport Services handled more than 200,000 airline movements and improved revenue by 13% whilst Dnata Cargo was responsible for more than 500,000 tonnes of freight passing through its four terminals. It is now expanding the Free Zone Logistics Centre by building a fully-automated cargo handling centre.

Dnata Agencies have shown a modest increase in profit and our organisational restructuring, with regionalisation of our travel business plus our investment in new marketing campaigns augers well for the future. Dnata's state-of-the-art "Holiday Lounge" was opened earlier this year which has allowed us to integrate comprehensive travel services in one easy-access, user-friendly location.

Other companies in the Emirates Group returned record results. MMI continued its successful network expansion of the Costa Coffee franchise and the extraordinary Emirates Flight Catering won industry accolades for Emirates and other carriers serving Dubai International Airport.

Galileo Emirates, the National Distribution Company responsible for Galileo (the Central Reservation System) in many countries throughout the region, once again prospered, successfully overcoming fierce challenges from its competitors. This distinguished performance was justly rewarded by Galileo as its best worldwide distributor for 2005.

Finally, Changi International Airport Services in its first full year under the Dnata umbrella recorded excellent results with its uncompromisingly high standards of customer service winning it top rating with Singapore's Civil Aviation Authority.

Gary Chapman
President Group Services and Dnata

Dnata has been serving Dubai for 48 years

Dnata

The first Airbus A380 at Dubai International Airport is pushed by Dnata's new Douglas T600 Towbarless pushback and towing tractor

Dnata Airport Operations

Faced with the challenge of maintaining quality services while a new airport terminal and concourse are being built at Dubai International Airport, Dnata Airport Operations (DAS) showed remarkable reliability by achieving a 13% increase in revenue.

DAS handled some 203,000 aircraft movements, a rise of 9% over the previous year.

Highlight of the year was the handling of the first A380 to land in Dubai - at the Dubai Air Show 2005, and the use of the new Douglas T600 Towbarless pushback and towing tractor.

Four more customer airlines moved to the iMuse common airport network which allows each airline to access their own reservations systems.

Behind the scenes a new paint shop was commissioned for Ground Support equipment, gaining the ISO14001 certification and being compliant with Dubai Municipality by-laws.

The expanded workshop enables Dnata to build and repair up to 100 Unit Load Devices (ULDs) per day.

Finally, proof of the maintenance of its proven high standards came from FedEx who awarded Dnata the "Ramp Circle of Excellence" for the sixth year in a row.

Ismail Ali Al Banna, Executive Vice President Dnata stated: "It's a Herculean task to keep Dubai International Airport flowing seamlessly as Emirates, the home carrier, expands relentlessly and a multi-million dollar infrastructure is being built there. But our staff's 24/7 dedication to on-time departures provides the synergy to place us on the list of world-class airports."

Dnata Cargo

Dnata Cargo's four terminals handled a combined volume of 503,000 tonnes this fiscal year, up 10% over last year. Imports contributed a major share with 280,000 tonnes, with the export tonnage at 223,000 tonnes. Express Handling Centre recorded a 20% growth, handling 43,000 tonnes.

Harnessing the latest technology, Dnata Cargo implemented its new terminal handling system - DACS+ - enabling it to manage its cargo operations efficiently and profitably. The system enabled Dnata Cargo to achieve minimum lead time between each activity, set new service standards, secure paperless transactions and integrate its RF (Hand Held Terminal) technology into its processes.

Work on CALOGI (Cargo Logistics), a web portal initiated by Dnata Cargo with the support of Mercator, will soon be ready for business for the Dubai cargo community. The only Internet-based portal for a cargo terminal operator in the region, CALOGI will allow shippers to book and manage shipments from their own offices and monitor their operation through the Dnata cargo terminals while reducing transaction costs.

Using the new online system, customers can sign in and book or take delivery of their shipments by accessing Dnata Cargo Terminal handling services through the CALOGI network anytime/anywhere.

In 2005, Dnata Cargo and PWC Logistics, a global provider of end-to-end supply chain solutions, announced the formation of a joint venture company to cater to the growing demand for inter-airport logistics solutions in the Gulf region. The joint venture is poised to meet the remarkable growth in air cargo traffic within the region, with Dubai at the heart of the action, led by the proposed Dubai Logistic City in

Rapid growth in cargo shipments continue at Dnata Cargo's four terminals

(Left) Dnata Cargo was awarded by Red Cross and Red Crescent for its role in aid efforts for tsunami and earthquake victims
(Right) Dnata staff helped to clean Dubai Creek

Jebel Ali and the large scale expansions at the neighbouring airports.

A new phase of expansion at the Freezone Logistics Centre (FLC) is underway to build a fully automated cargo-handling centre with a capacity of 300,000 tonnes per annum. The construction of the US$44 million (Dhs162 million) new terminal is progressing well and is expected to be completed by the end of 2006. It will provide premium services for freighters and offer more than 10,000 square metres of supporting office space for airlines and agents.

The FLC, the economy option terminal, welcomed five new carriers this year: Al-Rais Cargo, Ariana Afghan, Jet Set Cargo, Galaxy Air and Dolphin Air, bringing the number of operators to 48 at its facility in the Dubai Airport Free Zone.

Temperature-sensitive shipments arriving in Dubai are now delivered more quickly and therefore fresher to customers as Dnata Cargo applies express handling standards for all perishable shipment at its cargo terminals in Dubai. This improved service comes at no extra cost to customers. Shippers of perishable commodities can look forward to even faster turnaround times at Dubai's air cargo terminals as Dnata Cargo has introduced thermal blankets, a first in the industry in the region. By express handling perishables, Dnata Cargo can speed up the entire ground handling process from two hours to under an hour.

Cargo Partners, the commercial arm of Dnata Cargo, augmented its Cargo Sales Agent's list with four new carriers: Kurdistan Airways, Georgian Airways, Alitalia and China Southern. Aer Lingus and Iraqi Airways appointed Cargo Partners as their General Sales Agent.

Cargo Partners now has more than 33 airlines under its wing providing sales, stock, station management and marketing services. As the Dubai Government is set to create a free market, Dnata Cargo is gearing up to face the challenge of having to compete on the regional level with adjacent airports and their new facilities.

Dnata Cargo received an accolade from the International Federation of Red Cross and Red Crescent Societies (IFRC) for its role in facilitating and providing humanitarian aid during the tsunami relief efforts and for the victims of the massive earthquake in Pakistan.

Dnata Cargo also received the Environmental Awareness Award from Dubai Cargo Village (DCV). The annual award aims to motivate over 110 airline and cargo agent companies operating in the DCV to adopt the best environment protection methods in their operations, and contribute to a clean and healthy work area within the Cargo Village.

Exponential increase in volumes have prompted frequent expansions of facilities at Dnata Cargo since the 1990s and the new north side expansion is the most recent development. Until this project is completed, handling the current growth will continue to be a challenge.

Ismail Ali Albanna
Executive Vice President
Dnata

Dnata

New Dnata outlet at Mall of the Emirates, Dubai

Dnata Agencies

Despite a very difficult year Dnata Agencies were able to increase revenue by 5% on the previous year.
At the Dnata Travel outlet in the Group Headquarters a new Immigration office was opened to provide customers with services such as the UAE e-Gate Card, a residence visa and residence visa renewal. Another service improvement was the unveiling of the next generation Dnata front office system. At the new Mall of the Emirates, Dnata opened a Travel Shop to expand its network of new retail outlets.

Dnata launched the second phase of its customer-focussed 'Rest Assured' campaign, renewing the brand promise of reliable, quality service to its customers which applied across all its core business operations - Dnata Cargo, Dnata Airport Operations, and Dnata Agencies. There was also a media campaign focussed on creating an awareness of The Holiday Lounge, a new facility that integrates key travel services in one location.

The call centre handled some 100,000 calls per month with a business throughput of approximately US$31 million (Dhs114 million).

BTI UAE returned an impressive 26% increase in sales over the previous year and is the region's number one travel company. Four new major multi-national accounts were won including Showtime, Tetra Pak, Olive Group and Emirates Bank with the total number of BTI implants now numbering 19.

World of Events successfully completed phase one of the 5-year business plan forming BANK UAE with BANK London to provide creative event solutions and production services in the GCC region. The first project was the ASPIRE Academy launch in Doha. Key projects managed in the year included the Pan-Arab African Council of Ophthalmology Congress, which was attended by 2,300 delegates, the regional conference for the Union of International Transportation Providers and the German Tourism Association "DRV" congress.

Outside of Dubai, Dnata Agencies was established in the Kingdom of Saudi Arabia in Al Kobar in the Eastern Province. Dnata Agencies has scored a unique first by opening the first-ever all-ladies 24-hour call centre with the exclusive booking number of 920 000000.

Since its launch over a year ago, Dnata Travel Kuwait has shown a satisfying growth in turnover and expanded its network with four commercial outlets and five implants. Dnata Holidays in Kuwait is now a partner with the emirate's largest bank, The National Bank of Kuwait, with its Credit Card Rewards programme.

The Projects and Planning division also successfully established a dedicated regional office for Royal Jet, UAE's first private charter company, at City Tower 1, Sheikh Zayed Road, Dubai.

Reassurance of the continuation of its high standard was the Dubai Quality Appreciation Award given to Dnata Agencies in 2005 for delivering quality service.

Rest Assured campaign renewed the brand promise

(Left) CIAS handles Air France in Singapore
(Right) CIAS ground staff

CIAS

Changi International Airport Services (CIAS) provides a full range of ground handling services at Singapore's Changi International Airport, including passenger, ramp and cargo handling services. In its first full year since acquisition by Dnata in 2004, CIAS handled over 18,000 flights and 360,000 tonnes of cargo. It also operates a catering unit providing airlines with over 9,000 meals per day.

During the year, CIAS has faced a significant increase in competitive pressure with the introduction of a third handling agent at Changi. The company responded to this by continuing to focus on providing the highest level of service to its customers.

CIAS has embarked on a major capital investment programme, including the opening of The Skyview, a new lounge for premium passengers. The Skyview lounge has seating for over 120 passengers and includes wi-fi work stations and showers.

In 2005, CIAS consistently achieved all of the service standards which are set and measured independently by the Civil Aviation Authority of Singapore. In recognition of this uncompromising focus on customer service, CIAS also received three international awards from its customer airlines - Lufthansa, KLM and Finnair.

To underline the many developments, CIAS announced a re-launch of the brand in August 2005. The new logo reflects Dnata's ownership but the CIAS name has deliberately been retained, in recognition of the strength and reputation of the company in the Singapore market.

For the benefit of clients, synergies between CIAS and Dnata have been implemented, involving operations and costs. An "Exchange of Excellence" programme was also launched to encourage best practices between operations in Singapore and Dubai.

Galileo Emirates

Galileo Emirates made three important signings during the year:

- A joint marketing support agreement with Focus Softnet to distribute and market Focus Fleet Management Solution. This aims to maximise the automation of the existing car rental companies' business in the region, particularly the local firms not linked to a head office system.
- A strategic agreement with TRS Consulting, an independent corporate travel consulting practice, as the preferred external training provider to the Galileo Travel Agency community. This will allow Galileo Emirates to provide on-site travel training.
- The year closed by the signing of an exclusive three-year contract that continues the relationship with and commitment to the Galileo Reservation System.

Galileo Emirates has enhanced the services offered to travel agents deploying Galileo Desktop, enabling them to move to a single-user interface to access content sources outside of the traditional Global Distribution System.

It rolled out Electronic Ticketing (ET) to all travel agents in the UAE, Bahrain, Oman and Qatar. Today, agents can book electronic tickets on all Emirates ET enabled sectors, as well on 18 major carriers in the UAE, eleven carriers in Bahrain, nine carriers in Oman and 10 carriers in Qatar. This represents a major cost saving for all the airlines involved.

Galileo Emirates released BOSS4 (Back Office Sales System) to the market. Developed using the latest Microsoft.NET technologies, among other facilities

Costa Coffee restaurant at Mall of the Emirates

BOSS4 provides agents with more information flow between branches, multi-branching capability, faster processing of data, huge database capacity, performance improvement, multi-decimal functionality, easy search report options and an auto BSP reconciliation module.

For the individual passenger SafarEZ, Galileo Emirates' B2B2C Internet booking engine and travel news gateway for the Middle East was further enhanced.

A customised application for I-mate handheld devices was also developed and launched on the market. 'PocketFlight' provides travellers with real-time access to travel information on their handheld devices via Galileo system's extensive global travel database which comprises information on thousands of hotels, airlines and other travel services. The most popular ticket printing solution from Galileo Emirates - Castaway NewGen - was released bringing a total transformation to the travel agents' offers. It is the region's most powerful Galileo Integrated document printing and manual ticketing solution.

MMI

MMI's performance during 2005 was outstanding with all business segments achieving record turnover. This performance also reflects the unrelenting growth of Dubai as a leisure and business destination and MMI's innovative approach, introducing new products to the market.

MMI Beverages continued to perform strongly, particularly in the hotel segment, where MMI has benefited from higher hotel occupancy rates and successfully developed business with new hotels which are opening in Dubai.

The retail business has also grown significantly. MMI opened two new outlets at Mall of the Emirates and Ibn Battuta Mall. The issuance and renewal of permits is now managed directly by MMI which has resulted in an increase in the number of new permits.

MMI Travel has capitalised on the growth in the region and achieved a 37% increase in sales. More focus by the management team on the leisure segment resulted in a significant contribution to the business.

The inbound travel company, Gulf Ventures, strengthened its position too, doubling profits with its expansion into new markets of Russia and Australia.

The Leisure Retail division's aggressive expansion continues apace with the opening of eight new Costa Coffee outlets. There are now 24 Costa Coffee outlets, in addition to the quick-service restaurants and bars. Restructuring of the management team has helped to enhance the focus on its commitment to quality in all areas of operations.

New restaurants were opened for the successful Seasons brand and the upmarket Left Bank restaurant continued to enjoy high patronage from customers.

In 2005, a joint venture, Sirocco, was launched, which manages the sales, marketing and distribution of beverages on a regional basis.

The loss-making Duty Free Dubai Ports business was acquired in 2004. The business was immediately restored to profitability during 2005 and is projected to continue its healthy growth in 2006.

In Oman, Oman United Agencies (OUA) has had a highly successful year with a growth in profitability. This reflects the growth in hotel occupancy in Oman as well as the efforts of the new management team.

(Left) Seasons restaurant at Mall of the Emirates
(Right) Flight training simulator

OUA launched Gulf Ventures Oman to ensure the company is well positioned to take advantage of the rapidly growing investment in the Omani tourist sector.

OUA also opened its first food and beverage outlet in Oman, "Uptown", which has been well received by Asian and European expatriates alike.

Emirates-CAE Flight Training

Emirates-CAE Flight Training (ECFT), a joint venture between CAE Inc of Canada and Emirates, continued its successful expansion this past year by adding three new platforms to its existing six. Established in July 2001 and with first revenue training commencing in June 2002, ECFT has positioned Dubai as both a regional and worldwide centre of excellence for aviation training.

ECFT, which holds both US FAA and European JAA approvals, now counts over 100 worldwide customers in both the commercial airline and business jet market sectors from the Gulf and Middle East, with a rapidly expanding customer base from Europe, Africa and Asia.

ECFT is also making significant inroads into the rapidly expanding Indian market and made headlines at this year's Dubai Air Show in announcing the signing of several Indian start-up carriers including Kingfisher Airlines for A320 training and Spice Jet for B737 training.

New platforms include a second B737NG/BBJ Full Flight Simulator (FFS) added in April 2005, a second A320 FFS in December 2005 and ECFT's first helicopter simulator, a Bell 412 FFS, which goes into service in February 2006. All simulators are qualified to "Level D", the highest worldwide FFS qualification level. The Bell 412s will be the first commercial helicopter FFS outside North America and Europe.

Emirates Flight Catering Company (LLC)

Emirates Flight Catering Company (EFCC) serves more than 110 international airlines operating from Dubai International Airport, producing all types of cuisine in one of the finest facilities in the world. It was designed from the outset to incorporate the very latest in kitchen technology and is being continuously updated to help ensure that the quality of hygiene and service meet the highest international standards.

A 4,000 workforce of 43 different nationalities produces over 60,000 meals a day working around the clock, delivering 18.5 million meals to 75,500 flights during the year.

The new Emirates Economy Class meal tray

Enhancements have been carried out to the existing facilities to increase capacity and provide additional meals with the construction of additional cold rooms, bakery extension and bonded storage.

The new facility under construction will be the most modern in the world incorporating latest automation systems with a capacity of 90,000 to 115,000 meal trays a day that will be dedicated for the sole use of Emirates. The completion of this project is estimated at a cost of US$120 million (Dhs441 million), and geared to be fully operational by the end of 2006.

Looking to the future, the company will also take delivery in 2006 of seven catering trucks capable of servicing the upper deck of the A380 aircraft. This will bring the total number of hi-loaders in the fleet to 104.

The state-of-the-art food production unit, Food Point, started its operations in June 2005, the only one of its kind between Europe and the Far East.

Emirates Flight Catering employs 43 different nationalities

This 10,000-square-metre centralised food production unit is situated on a 33,000-square-metre site at Dubai Investment Park, built at a cost of US$22 million (Dhs81 million), and has a capacity of 20 million meals per annum, fresh or frozen, bulk or individual packed.

In addition to producing meals for Emirates Airline, Food Point is focussing on three main market segments: other airlines and airline caterers, hospitality and food service; and the retail and convenience food sector.

A new industrial laundry facility will be located at Dubai Investments Park, adjacent to Food Point, boasting an efficient and integrated design for the most economic operating costs. Covering a total area of 10,500 square metres, the new laundry will be completed by mid-2006 at a total cost of US$12 million (Dhs44 million) with a capacity of 80 tonnes of laundry per day.

New staff accommodation is also under construction at an estimated cost of US$5 million (Dhs18.3 million) to accommodate 1,218 staff. This project is expected to be completed by mid-2006.

During 2005, Emirates Flight Catering relied on the services of industry qualified external consultants to improve and refine the company's Food Safety Management and Traceability system for the Production and Operations departments. This work is essential to comply with airline clients' requirements and the World Food Safety Guidelines.

Emirates Flight Catering Company was audited by international safety consultants. The independent audit covered all units and operational activities and measured the health and safety performance against international 'best practice', resulting in EFCC being awarded 5 stars.

Some 4,834 staff were given training and the Training & Development Department conducted and organised 394 training programmes of 50 different types in various categories such as Hygiene, Safety, Quality, English language, First Aid, Fire Fighting, Human Resources, Management & Supervisory Courses. The total number of direct classroom training hours was 34,501.

Emirates Flight Catering's consistent high standard of catering services won awards from major airline clients including Air France, British Airways, Cathay Pacific Airways and Lufthansa. The company was also selected as "Caterer of the Year" for the Middle East and Africa Region by 'Pax International' readers.

(Left) Oil continued to reach record prices
(Right) Jet fuel represented 27.2% of total costs for Emirates

Jet Fuel Risk Management

Continually rising crude oil prices, and even higher product prices, were the dominating feature during the year. This was caused by strong "investor class" activity in all commodities, a string of natural disasters damaging refineries in the US, and extreme cold in the Far East during the winter. Geo-political factors involving Iran and Nigeria made things worse, but this has been tempered by continued high oil production in all parts of the world.

Record high product crack spreads in the fourth quarter of 2005 were followed by a significant collapse during the first quarter of 2006, which required rapid reaction while managing basis risk. The central focus of the programme was to ensure fuel cost reduction in an environment of extreme price volatility.

Against this bullish backdrop, the possibility of a spread of bird flu required a high degree of caution to protect the programme against a rapid collapse of prices. We continued to manage our price risk within a price range and by using tools that minimise potential damage posed by the possibility of a sudden market collapse.

The combination of quality communication between members of the Emirates Risk Management Committee, and an effective plan, resulted in the reduction of fuel costs by US$189 million (Dhs693 million).

Group

Emirates employs more than 100 nationalities among cabin crew

Human Resources

Recruitment activity levels continued to grow, particularly in operational areas with a rise of more than 50% on the previous year. The online applications and website visitors to www.emirates-groupcareers.com remain extremely strong. There are more than 200,000 unique visitors to the site each month, and some 14,000 individual online candidate applications.

Significant recruitment activity has been scaled up as part of the Dubai Airport new terminal development project (Concourse 2 and Terminal 3) and the resultant growth in Emirates Airport Services.

There has also been a significant increase in cabin crew recruitment now representing up to four intakes a week (60+ candidates) to meet resourcing requirements based on aircraft arrivals and expansion of Emirates' network and services. The Cabin Crew Recruitment team actively recruited from more than 70 cities to select a truly international crew to serve our global mix of passengers.

The expansion in Engineering hangar capacity has meant an increase in engineering recruitment.

The announcement of the group's Hotels & Resorts' project has led to the planning and first-stage recruitment of management staff in preparation for wider growth.

The vast numbers of activity undertaken by Human Resources administration, Recruitment administration and Visa services during the year can be seen below:
Residence and Visit visas - 33,155
Airport passes - 21,636
Duty travel visas - 9,134
Transaction statistics - Health Card - new and renewal - 11,000
Visa Services letters - 37,000
Personnel/dependant details updated - 35,000
Customers catered to through the service centre reception - 140,000

National Recruitment and Development participated in the biggest UAE National Career Fair Event in UAE - UAE Careers 2005 - with a strong corporate presence. It was an outstanding success with more than 1,000 applications received. A total of 400 UAE National trainees were also recruited through various development programmes, including Cadet Pilot, Emirates Engineering In-house/HCT, Graduate Trainee, Dnata Engineering, Cabin Crew and School-Leaver.

More than 100 work-placement and summer training opportunities for UAE National trainees were provided, allowing them to apply the skills and knowledge they acquired during their studies in real working environments across the Group.

A Memorandum of Understanding was signed with Tanmia, the National Human Resources Development and Employment Authority, to train and recruit UAE nationals.

The 'Mustaqbalkom' project continued with UAE nationals in Emirates Airport Services attending development days which provided information on long-term career development and the opportunity to share ideas and questions with Emirates' senior management.

Group Training coordinated a total of 4,800 training and development events attended by more than 35,000 staff and third parties. Online training completed this year also equates to more than 35,000 trainee classroom days, with more than 17,000 Emirates Group employees across the world now using

There are now more than 26,900 staff in the group

(Left) 400 UAE nationals were recruited
(Right) The new look HR service centre at Emirates Group Headquarters

online learning, a 22% increase over last year, with a 84% increase in the number of courses developed in-house for Emirates specific training.

For new arrivals to Emirates, nearly 3,000 staff attended the improved Corporate Induction programme which is a blend of Internet-based modules with a one-day classroom workshop. Feedback has been very positive towards this innovative way of introducing new staff to the culture and values of the Emirates Group.

Human Resource Business Support strengthened leadership/management skills through workshops and coaching support to increase awareness and raise performance levels, as well as developing employee strategies to help retain high performers.

Abdulaziz Al Ali, Executive Vice President Human Resources said: "With our staff comprising more than 100 different nationalities, it is the Emirates' passion and style which is the glue which holds everyone together. Training and more training backs up our extraordinary recruitment as the group continues to expand."

Performance Development

Performance Development works with line departments on strategic and tactical projects that will improve productivity and overall business performance across the group.

On the sales front, Performance Development supported Commercial Operations' implementation of key sales channel management strategies across the entire network, in close collaboration with the Commercial management team.

Working with Finance, Procurement & Logistics and the business, the department started an initiative on Strategic Procurement to help devise future strategies, supplier consolidation, supplier development and unit cost reductions to make these departments more cost-efficient.

Performance Development supported the redesign of key processes in the new Emirates Engineering Centre to improve productivity in this much larger facility.

They also worked with Emirates Commercial to improve processes for the revenue plan, sales incentive management, retail and contact centre revenue-generation, in addition to advising on the benefits of consolidating global handling of customer calls at the Dubai customer contact centre.

Performance Development maintained the long-term manpower planning for the Company to forecast overall staff numbers to 2012.

It continues to drive Project Management knowledge across the Group and there are now 24 Project Management Professionals, one of the highest number within any organisation in the Middle East.

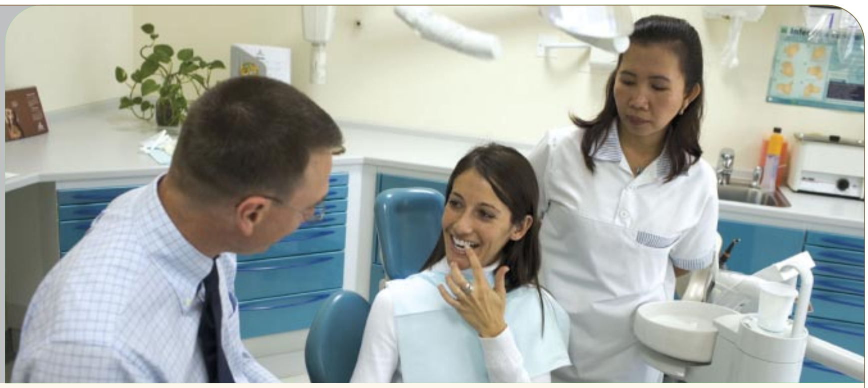
Performance Development continues to assist and guide the business in delivery of large projects, including the re-location of the Engineering facility.

Key initiatives year the eVentures Group (eVG) include myTravelChannel.com and Axis Holdiays.com. eVG has successfully developed a strategic planning workshop which has serviced Galileo Emirates, Emirates SkyCargo and the Training & Development Department.

A 'buddy scheme' has been developed and piloted in

Abdulaziz Al Ali
Executive Vice President
Human Resources

Group



Emirates Medical Clinic is equivalent to a medium-sized hospital in a European town

Airport Services to support new-comers in this dynamic environment. This will help new staff adapt to working life in the 24/7 environment of an airport. Fatigue Management and Safety education has also been introduced.

Finally, the Leadership Foundation programme continues to play a key role in feeding 'talent pools' as a source for future promotions across the Group.

Medical Services

Medical Services saw patient numbers, both employees and dependants with direct access to the Medical Services Clinic for their medical care, increase to 14,200 patients, which would be the capacity requirement of a medium-sized hospital in a European town.

Aviation/Occupational Medicine requirements increased with the doctors completing 4,597 UAE General Civil Aviation Authority medicals, 370 pilot medicals for Aviation Authorities of other countries, and processing 1,929 Medical Information Forms (MEDIFS) for the transport of sick passengers requiring medical assistance or equipment during their flights.

Laboratory and Pharmacy services continued to grow with the increasing patient base. Pharmacy services expansion included a significant increase in the provision of First Aid kits and Medical Kits to our expanding fleet of aircraft. Kits are also supplied to the Dubai Air Wing.

The Emirates Clinic has a professional staff of 15 practising doctors, 19 nurses, six dentists, three hygienists, three psychologists and four welfare assistants.

Central Services

Central Services transferred 1,900 staff to and from the airport per day as against 1,500 the previous year.

Enhanced coverage and new initiatives were implemented to provide an efficient and on-time 24/7 operation in relation to cabin crew and staff transportation. Flight Crew transportation was increased and improved with the purchase of 50 Audi vehicles.

Our chauffeur service recorded a sharp increase in First and Business Class passenger transfers and the daily trips rose to 1,200 from 950 trips last year. Central Services now manages a fleet of 564 cars and buses.

To facilitate the speed and ease of sending couriered FedEx documents and packages, FedEx is planning to develop software to enable staff to book outbound shipments from their desk.

In its support of Skywards there was an increase in fulfillment of Gold packs by 38% and Silver by 35%.

The Emirates Aviation College, Aerospace and Academic Studies

The Emirates Aviation College has gained academic accreditation for three degrees: Bachelor of Aeronautical Engineering, Bachelor of Air Transport Management and Bachelor of Tourism Management. All are four-year degrees accredited by the Ministry of Education.

Air Traffic Control (ATC) and other related aviation courses have been over subscribed resulting in increase in revenues for the ATC unit, with trainees coming from the UAE, Gulf countries as well as from overseas.

Student registration has been excellent this year with 281 students signing up for vocational programmes and 47 for the Bachelor Degrees. ATC trainees have now passed the 200 student mark.

Procurement & Logistics

Procurement and Logistics (P&L) continues to aspire to the vision of world-class procurement within the aviation industry. The department delivers optimum value for money and maximum flexibility within the supply chains established, working within the ethical Code of Conduct and supporting innovation in both product and services.

DNATA Engineering and Mercator are two departments which use specialist applications, namely, Maintenance Management System and Mercator Service Request. Recognising that our present Enterprise Resource Planning system cannot cater to these unique needs, Procurement & Logistics, along with Mercator, have integrated these two software suites with Oracle Purchasing and Inventory to minimise duplication of processes and approvals.

For the Information Technology department, P&L significantly participated in reducing the telecom running costs by negotiating new rate contracts with alternate international service providers.

By outsourcing IT services and support for some of the Emirates' Outstations, P&L helped to reduce and control the operation costs, whilst enhancing Mercator's focus on more important core facilities and services.

The Procurement & Logistics team assisted Corporate Communications in the following areas - Advertising, Promotions, Media Relations, Internet and the Graphic Design Unit.

P&L supported Promotions and Events in a key role in helping to finalise a number of major sponsorships.

P&L has had to react rapidly to meet a rising demand for ground safety equipment. Such is the pace of Emirates fleet development that seven major equipment types needed reordering within the first two years of the contracts' validity. Dnata now has a total of 14 of the 17 major equipment types under five year contracts ranging up to expiry in 2010.

When it comes to General Purchasing, P&L has played a key role in the development of reliable 3rd party logistics providers and freight forwarders.

Over the last year, P&L has designed and implemented a paperless customs process to meet the regulatory requirements of Customs and facilitate import clearance in the most efficient way.

In support of the Emirates Clinic and to meet the needs of an ever expanding staff within the UAE, a further five local Medical Service providers were contracted for periods up to five years to afford Emergency Medical Services after Emirates Clinic's hours of operation.

P&L has also been involved in helping to provide a smarter look and feel for the Emirates' uniforms. For the Dnata uniforms an entire new design, colour and improved material specification have been made.

For the airline, P&L successfully managed the review in conjunction with Service Delivery and the subsequent launch of a newly designed Economy Class meal tray and crockery. Through a competitive tender and ultimate partnership agreement, they were able to draw on supplier's research and development capabilities, coupled with world-class manufacturing techniques, the outcome of which resulted in a greatly enhanced product at no extra cost.

P&L participated in industry initiatives to lower infrastructure costs and were active members of several IATA forums: currently chairing IATA's Airports & Air Traffic Control Working Group and being Area Director for IATA's Commercial Fuels Working Group.

In particular, P&L worked with IATA and other airlines to renegotiate Air Traffic Control charges in European airspace which resulted in substantial savings for the industry.

P&L were also key participants in the teams that successfully launched seven new destinations: Seoul Alexandria, Thiruvananthapuram, Hamburg, Addis Ababa, Kolkata and Abidjan.

Group

For the first time an Emirates Airbus A340-500 aircraft was financed by China Construction Bank Corporation

Finance

Nigel Hopkins, Executive Vice President Service Departments, commented: "Both IT and Finance were important cogs in the wheel of fortune for Emirates and Dubai. More investment in new systems, coupled with an enthusiastic and professional staff, again were important factors in helping the Group to return a healthy profit."

Highlight was Emirates being awarded the Middle East Airport Finance Deal of the Year by Euromoney's Airfinance Journal in New York. The prestigious award was in recognition of Emirates US$550 million (Dhs2 billion) sukuk (Islamic bond), which was the first-ever sukuk by an airline. The proceeds from the sukuk are being used to finance the new headquarters building and the Operations Centre. Emirates was able to achieve a wide geographical spread of investors on the sukuk, with over 40% from Europe/Asia and over half from outside the United Arab Emirates. The sukuk was oversubscribed by more than 50%, a strong vote of investor confidence in Emirates.

The Mandated Lead Manager of the sukuk was Dubai Islamic Bank who were also Joint Book Runners along with HSBC and Standard Chartered Bank. The Joint Lead Managers on the sukuk were National Bank of Abu Dhabi, Gulf International Bank and UBS Investment Bank.

Emirates continued to be a leader in sourcing Islamic funding having raised over US$1 billion to date, including more than US$600 million (Dhs2.2 billion) to finance acquisition of seven aircraft. Islamic financing has become a reliable and sustainable source of funding and will help finance some of the future fleet expansion programme.

Emirates continues to adopt a balanced portfolio strategy to finance aircraft deliveries over the medium to long term. During the year, operating leases were used to finance nine B777-300ERs, four from International Lease Finance Corporation and five from General Electric Capital Aviation Services (GECAS), both US-based highly rated organisations, signalling a strong vote of confidence in Emirates. Emirates has so far financed a number of aircraft on operating leases which has helped in obtaining attractive lease rentals and conserve funding lines to finance future aircraft deliveries.

Emirates raised US$493 million (Dhs1.8 billion) of financing, at an attractive all-in cost, to finance two A340-500 and two B777-300ER aircraft, while three A310 freighters, were funded from internal cash resources. On the A340-500 financing, for the first time ever, an Emirates aircraft was financed by China Construction Bank Corporation, one of the largest banks in China. This has opened up yet another new source of funding for Emirates.

Emirates financed the two B777-300ER aircraft using US EXIM bank support funding. The landmark deal was the first ever use of EXIM support by Emirates and was arranged by Royal Bank of Scotland. This also opened up a new source of financing.

On the currency side, during the year Finance saw the US Dollar strengthen worldwide. Emirates typically hedges around 50% of its net exposure to GBP, Euro and JPY. Following this approach during the previous year Emirates had, on an opportunistic basis, financed six aircraft in GBP and Euros when the US Dollar was much weaker. This along with a balanced portfolio approach helped create a hedge against inflows in these currencies during the current year.

The interest rate side saw the US Fed increase interest rates eight times during the year to take the Fed rate from 2.75% to 4.75%. Emirates has consistently

A new generation crew control system was implemented at Network Control Centre

followed a balanced approach towards managing its interest rate exposure and as of 31 March 2006, around 63% of its exposure was on a fixed basis.

The Group cash generated from operations remained buoyant at US$1.7 billion (Dhs6.4 billion) and the Group cash balance as at 31st March 2006, was robust at US$3 billion (Dhs11 billion). The group will continue to follow a policy of maintaining robust cash balances which will help it to support its growth objectives into the future.

Elsewhere in Finance, we achieved continuous improvements in unit costs through implementing e-solutions and automation while retaining focus on managing financial risks of the business. Of particular note has been:

- The implementation of a Corporate Payment Gateway solution which has resulted in a reduction of costs associated with accepting online payments and providing an architecture that funnels all application web-payment needs to the Group's preferred payment gateway service provider(s);
- A seamless integration of all electronic tickets issued through the internet booking engine and settled by credit card into the revenue accounting system;
- Electronic processing of a station's daily sales report into the revenue accounting system at Head Office with the result that accounting is completed automatically once the rules of processing are satisfied; and
- The establishment of a communication channel across station finance units to focus on and promote best practices, encourage processing efficiencies, share information on and steps to manage financial risks.

Information Systems (IS)

The year saw IT develop, integrate and implement major systems across the Emirates and Dnata business units in line with the agreed IT strategy. Significant advances were made in the area of Passenger Self Service. Internet Check-in, allowing customers to select their own seats, was rolled out in a phased manner from October 2005 to January 2006 and is now available in over 55 stations. Kiosks' usage at Dubai was given a boost as now passengers with baggage can also use the Kiosk Internet Bookings.

Electronic Ticketing automation was in focus with 100% of Emirates flights available for Electronic Ticketing - this is a first in the region. The usage of Electronic Tickets network-wide now exceeds 40% and is growing fast. A very significant development in the Emirates Reservation system saw the introduction of Origin and Destination point of sale control which enhances the capability of Revenue Management.

Emirates Commercial saw the roll-out of significant new systems. 'One Network', the sales force automation solution, and Target.com the revenue target monitoring solution, were deployed globally, providing a secure mobile office and enterprise computing environment for Emirates sales force. Development and implementation of a new system called OnTrack enabled Commercial to standardise agency incentives and corporate deals across the network. A new Yield Analysis tool helped to implement a common approach throughout the company.

Skywards.com, the self-service solution for Skywards members, was redeveloped to improve customer experience. E-gate cards were also implemented for Skywards members.

Emirates Engineering, working with Mercator, took important strategic decisions to replace its current legacy system with ULTRAMAIN. Implementation took off with familiarisation and customisation sessions

Nigel Hopkins
Executive Vice President
Service Departments

Group

and the coming year will see concentrated effort from both teams to ensure timely implementation of the system.

Crew planning and scheduling capability was significantly enhanced with implementation of a suite of systems based around optimisation technology. A new generation crew control system was implemented at Network Control Centre. A new system, Apollo, was launched across Dubai-based users to provide a real-time window for operations. New innovative systems were developed and implemented to assist Flight Operations management analyse and control planned, actual and pilot-requested extra fuel on flights (FuelMon). A new safety management system, Sentinel was developed to enhance collection and analysis of safety information.

Cabin crew personal and operational information, traditionally stored in manual files, was scanned and digitised providing agile access to crew information. Significant progress was made on two strategic and innovative in-house initiatives currently underway in Service Delivery (SD) - Paradise and Knowledge Driven In-flight Services (KIS). In the coming year, whilst Paradise will automate the hire to retire process chain for cabin crew and support SD management's vision for an individualised relationship with its crew workforce, KIS will facilitate a similar personalised touch between cabin crew and the airline's high value passengers through use of state-of-the-art mobile technology and real-time integration with back office systems such as CRIS.

Emirates Airport Services saw the implementation of Airport Activity Control System (AACS) for Hub control. A key strategic initiative by IT and Airport Services was to join the IATA/BAA working group for Radio Frequency Identification (RFID) baggage trial. This group, along with other major stakeholders will focus on live trials across multiple airports and airlines in 2006. IT working with the business ensured smooth 'go live' in new lounges at New York, Paris and London Gatwick. A key focus for the coming year will be the implementation of systems for Dubai International Airport's new Terminal 3 and Mercator has already initiated work to ensure a smooth and timely cut over.

IT and Dnata Airport Services selected a new maintenance management system which will go live within the next few months and dramatically improve the capability to manage technical services equipment. IT implemented iMUSE common usage for many of Dnata's handled carriers. The Airport Activity Control system saw major enhancements offering Dnata users improved monitoring capabilities. The new Marhaba system was a major development for Dnata with Flight Information Display System (FIDS) replacing hand-written signs leading to improved customer service. Another new development for Dnata was the automation of Spot Billing which ensures timely and accurate billing and collection. Improved time recording was achieved with the extended roll-out of Time and Attendance Recording System (TARS) with the system providing data for real time allocation and update of tasks. Mobile applications will be a key focus for the coming year enabling both Emirates Airport Services and Dnata to improve operational performance and increase productivity.

The year also saw significant new systems being introduced for Emirates Sky Cargo. A new Revenue Planning System provided a higher level of automation in the revenue planning exercise for Emirates SkyCargo. Another key initiative was the introduction of SkySales - a global sales force automation solution for Emirates SkyCargo. The most significant development though was the next-generation SkyChain, an integrated cargo reservations, capacity management, pricing and operations system that will replace all the old legacy systems currently in use. Under user acceptance testing, this system represents one of the largest application developments undertaken by the airline industry and has been completely designed and developed in-house by IT.

SkyLog and Dubai Air Cargo System (DACS+) successfully completed a year in production. Multiple new initiatives were launched for Dnata Cargo - a business portal for the cargo industry (Calogi), a cargo GSA solution for Dnata Cargo's Cargo Partners unit and Chameleon for Dubai Flower Centre. For Emirates SkyCargo, IT started work on Radio Frequency Identification usage, automation for Cargo Mega Terminal and SkyDocs for paperless cargo environment.

For Emirates Holidays, Supplier net allowed suppliers to communicate directly with the Ocean system and

Emirates Holidays. An online booking engine for Al Maha went live enabling customers to book online and provide their own accurate personal data. A fleet management system was implemented for Arabian Adventures to manage their growing fleet of vehicles. Arabian Adventures is working closely with IT to introduce a new operational system as it experiences double-digit business growth.

Finance launched a project this year to develop a brand new corporate budgeting and planning system. Major fleet and network expansion of Emirates, as well as business diversification by Dnata, called for a dynamic budgeting system to suit the needs of individual business units. Another strategic project conceived by the airline last year was automation of Direct Operating Costs since these have a major impact on an airline's profitability. Finance-IT team has been busy this year detailing the requirements and design of this complex and challenging system which is planned for delivery by the end of next fiscal year. IT and revenue accounts significantly enhanced Tax Audit capabilities in RAPID, which is an important revenue protection step, ensuring accurate collection of taxes. IT also introduced a new service portal for revenue accounts to facilitate simple, structured and faster processing of stations' requests. To handle continued growth in passenger volumes, IT along with revenue accounts, initiated major developments in RAPID to automate the end-to-end sales processes resulting in improved productivity.

IT working with HR started the roll-out of the Human Resources Management System to outstations with UK being the first one followed by other major outstations. This roll-out is expected to significantly reduce the manual administration effort put in by outstations today. A number of new HR self-service modules were implemented, allowing employees to make claims and apply for vacancies from their desktops. The HR Service Centre was revamped with a battery of self-service kiosks. A Human Resources Interactive Voice Response (HR IVR) system will be introduced in the near future.

The growing need for medical services has meant that the clinic has outgrown the current Medical System and this prompted Mercator and the doctors to look for a system to handle increasing volumes and provide more functionality. The plan is to replace the current system with a world-class Health Information System within a year, capable of handling multiple clinic locations, lab functions and pharmacy. The new system will also provide business intelligence and MIS reports.

Corporate Communications division joined hands with Network Passenger Sales Development (NPSD) and decided to re-engineer Emirates.com to provide web visitors seamless integration to Skywards and various other new features. This project has kicked off with Mercator teams joining hands with agencies like Tridion and Atmosphere to come together and provide a great new website for Emirates. The Media Relations and Promotions section can also look forward to 'AURORA', a new system which tracks spend against budgets on the various events organised and supported by Emirates. It also has a sophisticated module for management of guests at the events.

Enhanced customer service drove the introduction of a new Chauffeur-Drive-Service system. This new scheduling and tracking system, slated to go live shortly, will optimise utilisation of vehicles, tell Central Services where the cars are, SMS the passenger on arrival and will help to manage the increasing F and J class volumes.

Dnata agencies saw IT roll out the next generation Dnata Front office programme which significantly improved the customer experience. It also provided efficiency in handling complex corporate requirements and enhanced cross-selling. The Agency systems were significantly enhanced to aid revenue protection during the "Zero commission policy implementation".

While the exhilarating developments for Emirates Group have always been the prime concern, focus in 2005 was aimed at improving IT capabilities and governance to ensure IT standards and procedures are amongst the best in the industry, and that automation improves IT productivity. IT is implementing SEI-CMMI (Software Engineering Institute's recommended approach) standards and procedures, combined with automation, to improve system development productivity and quality. Combined with new investments in advanced development and delivery tools, such as TIBCO Enterprise Application Integration technology and OctanWave mobility technology, IT will continue to meet Emirates and Dnata's astonishing growth and be among the best airline systems providers in the world.

Group

Technology Services (TS)

During the past year Technology Services has continued to build on its strategy of increasing resilience and service levels while reducing overall unit costs.

Alignment with the IT Infrastructure Library (ITIL) best practice model for Infrastructure Management, has continued with emphasis on five key initiatives primarily in Service Support. These are complemented by a number of key systems management initiatives. HP OpenView has been selected as the Enterprise Management system targeting improvements in early diagnosis and rectification of faults and improved service levels. The implementation is well underway and will be delivered for the first five key services in June 2006. In addition HP was selected as the supplier for Software Distribution and for an upgrade to our Service Desk systems in Mercare.

The focus on full recovery capability, in terms of physical infrastructure, has been maintained. Having doubled the size of the company's primary data centre at the Emirates Group Headquarters and completely refurbished the network and electrical infrastructure, IT has now initiated a complete replacement programme for secondary data centre at MITEC. A totally new data centre will be constructed and fully equipped to take over as the primary data centre. Commissioning of this facility is anticipated in late 2007. In parallel IT has opened an investment programme to provide 100% replication of all hardware and applications across both data centres. This investment reflects the company's commitment to providing non-stop availability of all IT services to meet the increasing business demand for uninterrupted availability in all areas.

Accelerated growth has brought with it increased management challenges which are being addressed through a programme of infrastructure consolidation. All storage has been consolidated into a single Storage Area Network, with investments in Hitachi and IBM storage systems providing increased capacity and reduced unit costs. This storage will provide the backbone for other consolidation initiatives centralising all Dubai messaging services into the data centres. It will also provide enterprise class storage to support the cost reduction programme driven by the migration of key applications to LINUX on Intel, now numbering in excess of 40 servers and set to accelerate further.

Cost reduction strategies have also been a key driver in the global network transformation. A major transition program with SITA has seen a 25% increase in outstation network capacity accompanied by a 25% reduction in costs. The Class of Service concept introduced with this new technology provides the ability to ensure that the most critical applications at outstations will receive priority service on the network.

Service standards improvement in outstations has received particular attention with the appointment of a Regional IT Manager for Europe & North America focussing on the engagement of locally based service providers to improve speed and timeliness of response. Support from Dubai has also been significantly improved with the launch of the automated Service Request System for outstations and a reduction of 25% in fault turnaround times.

Mercator Sales

Mercator Sales continued to power ahead towards achieving its goal of becoming the leading IT service provider to the global airline and aviation industry. The customer base continued to expand dramatically and several large scale, high profile implementations were successfully completed, upholding the Mercator reputation of delivering on time and on schedule.

Mercator's RAPID revenue accounting solution was selected by yet more airlines, breaking into previously untapped territories and consolidating its position in existing markets.

Air Sahara, a fast growing Indian carrier, opted for the solution, further increasing Mercator's share of the burgeoning Indian aviation sector. The Middle East also proved to be a lucrative market for Mercator's financial solutions, with Syrian Arab Airlines and Middle Eastern Airlines choosing RAPID.

In Africa, both South African Airways and Virgin Nigeria opted for the outsourced version of the solution, RAPID Bureau. In Asia, implementation of RAPID was completed at Malaysia Airlines, whilst Singapore-based Valuair added another name to the growing list of bureau customers. And yet another first was scored with Mercator winning a contract for its revenue accounting solution in Eastern Europe, with Tarom becoming a customer.

On the cargo front, the Chameleon cargo ground handling and warehousing solution was successfully installed at the Kuwaiti ground handler NAS, and at the brand new Dubai Flower Centre at Dubai Airport. An innovative web-based ULD management system, Nomad.aero, was also launched and has generated an excellent response, with several major airlines expressing interest.

The development of Skychain, the ground-breaking new generation cargo management solution, continues to make good progress. The solution promises to revolutionise the way business is carried out in the air cargo industry, and Mercator Sales is gearing up to promote this solution which promises to be a future star product.

A landmark deal was signed with Yemenia, the national flag carrier of Yemen. The airline took the strategic decision to outsource all its passenger sales and services IT requirements to Mercator, with the first phase of the multi-million dollar contract covering airline reservations, ticketing, departure control and frequent flyer systems. The second phase will see even more products introduced into all parts of the airline, especially in the financial and cargo areas.

Mercator Sales restructured itself in order to enhance the service offered to customers. The department has become regionally focussed, with three teams each responsible for a defined geographical area. The approach will directly benefit all customers with much more emphasis being put on account management and understanding the needs of both customers and the market in which they operate.

Group

Emirates press advertising supported the FIFA World Cup 2006 sponsorship

Corporate Communications

In the 20th year of the airline Corporate Communications presented a closely integrated marketing mix in its effort to create global awareness of the brand. Emirates is recognised as one of the top five airlines in at least ten major markets and in the coming years it will be the task of Corporate Communications to link these ten nodes into a strong chain of destinations where the word Emirates will automatically be known as a high quality global player.

Advertising: Over 1,200 campaigns, most involving multiple media, were developed last year for key brands in over 80 destinations.

Advertising helped to introduce the Emirates brand in South Korea, Alexandria, Côte d'ivoire, Hamburg, Ethiopia, Thiruvananthapuram, and Kolkata, promoting inbound and outbound traffic via above the line advertising and tactical messages. Network-wide initiatives also ran to promote additional services to Paris, Milan, Australia, UK and double daily New York flights. Pan-national, regional and local media investments activated the 2006 FIFA World Cup sponsorship and exploitation of our other sponsorship properties was stepped up in all markets.

At the first time of entering, we won 'Best Marketing Campaign' at the OAG Airline of the Year Awards, for our New York launch campaign. A promotion in India won the MediaCom Communication Award and had the distinction of being short-listed for a Cannes Lion award, the Oscars of the advertising industry. One of our FIFA TV commercials was awarded a Finalist rating at the Golden Awards, Montreux and Emirates was also awarded a Gold World Medal at the 2005 New York Festivals for a SkyCargo direct mail campaign. A worldwide Dubai stopover advertising campaign also won Silver and Bronze accolades in the prestigious Adrian Awards in the US.

A brand hierarchy and identity was developed for the new Emirates Hotels & Resorts division, along with a stunning range of launch advertising, brochures and websites. New flat bed seats in First Class on our B777-300ERs were actively promoted in relevant territories as were other new product introductions such as online services, lounges, chauffeur-drive and further improvements to the ice inflight entertainment system.

Our industry-leading range of sales and service collateral for Emirates, SkyCargo, Dnata, Skywards and Emirates Holidays helps us to stay engaged with key customer groups, whilst always reinforcing the core values of the Emirates Group. We continue to roll out the Emirates Travel Hub retail concept and extend the brand identity across all touch points, including check-in and lounges.

We continue to deploy a networked roster of over 100 advertising agencies. Brand strategy and creative direction is driven in-house, with a genuine partnership of dedicated agency staff providing the eyes and ears of the Emirates brand globally. Regional 'clusters' of agency teams, drawn from the world's six leading marketing services companies, help balance global and local themes. This extended team comprises consultancies, designers, publishers, copywriters, advertising agencies and production houses, involving a total of over 250 staff dedicated full time to the Emirates advertising account.

The web-based brand management tool, EmPower, continues to offer a unique online workplace for the roster of advertising, PR and branding agencies. The system helps to manage administration and reduce overlaps whilst activating knowledge and creative share. EmPower is now a mature online marketplace where Corporate Communications' services and assets are available at broadband speed. Traffic to the site,

Corporate Communications won seven major advertising awards

(Left) A UK advertising campaign highlighting the ice inflight entertainment system
(Right) An advertising campaign promoting Seoul

from internal clients, staff and agencies, has increased 10-fold in two years.

Some exciting media innovations were unveiled in 2005/06. These included the world's first 'snowing billboard' to promote the Emirates Holidays ski product in Dubai and our first 'viral' Internet campaign in the Middle East.

Return on investment and brand health tracking underlies everything we do. We are firmly in the top 5 recalled airlines in our top 10 markets, despite intensifying competition, and are seeing demonstrable growth in key brand attributes and customer affinity towards Emirates brands.

Internet Communications: The Internet Communications team continues to extend all Emirates Group brands online and to support business units in turning on new revenue streams and reducing cost of sale. Traffic to the flagship site, www.emirates.com, averages 500,000 unique visitors per month and almost 40 local variants of the site channel tailored offers and tactical advertising to customers and the travel trade. Sites now exist in English, French, Russian, German, Italian, Japanese, Chinese, Arabic and Korean. A vast range of online branding and advertising techniques were deployed last year for our corporate and tactical communications, including 'viral' marketing, eye blasters, space banners, flash banners and targeted e-mail campaigns. Campaigns to boost awareness and usage of new online services such as booking, special offers, check-in and ticketing have resulted in a step change in online advertising investment, site visits and revenue generation. The Group's recruitment site www.emiratesgroupcareers.com has been a continued success, ensuring all job applications are processed online and hiring costs minimised.

Promotions: Emirates continues to be probably the most high profile sport sponsors in the airline world with its portfolio listing many world famous names. The airline signed with the National Thoroughbred Racing Association of the USA as one of the sponsor of the Breeders Cup and Kentucky Derby and were featured at 35 races with television, advertising and sign boards.

In the soccer world Emirates again made headlines by becoming a marketing partner of the Paris St Germain Football Club plus the main sponsor of the Hamburg HSV Club in the Bundes Liga, Germany. As part of our FIFA World Cup 2006 sponsorship we were prominent at all the games played in the FIFA Confederations Cup at four cities in Germany. To accentuate its FIFA World Cup sponsorship, Emirates became one of the sponsors of fifaworldcup.com which will be one of the most widely used websites during the competition.

emirates.com is being revamped

On the other side of the world in Perth, Australia, Emirates became the new sponsor for the Western Force Team in the Super 14 Championships. We also sponsored the International Cricket Councils' (ICC) Super Series in Melbourne and Sydney which was in addition to the long outstanding ICC Umpires' arrangements.

Emirates signed with the International Rugby Board (IRB) to sponsor the under 19s World Championship which, for the first time, will be held in the Middle East in Dubai in April. From inaugurals in Seoul and Alexandria to the opening of new First and Business Class Lounges at JFK airport, New York and London Gatwick, to sailing off Sweden and Spain with the Emirates Team New Zealand, to Go-Kart and off-shore power boat races in Dubai, golfing in Austria, Malaysia, Hong Kong and Mauritius, Corporate Communications department was constantly on the move.

Group

Sheikh Ahmed announces the sponsorship of Hamburg HSV soccer club at a press conference

Altogether during the year Emirates was involved in 350 events to promote the brand and raise awareness of the airline.

The three retail shops continued to make a good contribution and for the first time we sold our products in a number of Dubai shopping malls which has also proved very successful.

Media Relations: Our graph of Emirates' media coverage during the year peaked in November and December and there were good reasons for this as Sheikh Ahmed announced the biggest-ever order of Boeing 777s at the Dubai Air Show and the public and media saw the Airbus A380 in the full Emirates' livery for the first time.

During the show Emirates Media Relations provided information, news releases and pictures for the 100-odd journalists covering the event and we were rewarded with more than one hour's TV coverage around the world, as well as many column inches in newspapers, magazines and websites.

Corporate Communications is keeping up the pressure of promoting Emirates in all media, be it Internet, Satellite TV, international newspapers, regional magazines or local radio.

On average we recorded 3,700 press clippings per month, with 400 journalists being hosted in Dubai on familiarisation tours.

Major projects included the successful launch of six new destinations and we held more than 30 news conferences, a number of which were chaired by Sheikh Ahmed.

Media Relations now has some 40 PR Agencies around the world (with five new ones added in the year) to support them in spreading the message and helping to build Emirates into a global brand.

Emirates appeared on the front covers of at least 10 magazines, proof of the newsworthiness of the world's fastest growing airline. In the Middle East we again outscored all other carriers when it came to positive coverage.

Media Relations carried out a number of activities for Dnata during the year including media training for senior executives in Dnata Airport and Cargo, particularly those who often face the media.

Promotions were involved in the expansion of Marhaba services, its availability in Terminal 2, launch in Sri Lanka, and the refurbishment of the Special Handling Lounge.

We continued to promote Dnata's Holiday Lounges in Dubai which featured destinations of the month - Britain, New Zealand, Australia, Cyprus and Malaysia, with colourful media launch events including bagpipe music, fearsome Maori dancers, Cypriot dancers balancing drinking glasses on their head and graceful traditional dancers from Malaysia.

There was a rush of activity for World of Events with the announcement of strategic tie-ups with The Bank London and In Time events. Plus their successful management of various large-scale events, including the launch of Aspire academy in Qatar, the DRV German travel agents' congress in Dubai and various milestone regional medical conferences.

Dnata's community efforts, including Clean the Creek, and Clean Mountain campaigns - utilised internal communications to generate staff support and participation. Media activities positioned Dnata as a socially responsible company.

(Left) The gala dinner at the Hamburg launch event (Right) Dubai World Cup - the richest horse race in the world

Media Relations was also included in the launch of the rebranded CIAS, carefully integrating internal awareness with managing media in Singapore. This included a media event in Singapore, gala dinner for partners, staff briefings, and opening of CIAS' new "Skylounge" at Singapore's Changi Airport (in partnership with Cathay Pacific).

Our activities for staff internal awareness included the development of the new SMS Broadcasting System and the launch of a new-look twice-monthly "Safar" newspaper.

Passenger Communications and Visual Services:

This unit makes an important contribution to product development and presentation. The department is responsible for the world-leading ice (information, communications and entertainment) system which is now on over 40% of the fleet. ice now offers over 600 channels of entertainment and we have seen marked improvements in passenger satisfaction as this product has been introduced onto new routes. By the end of the 2006/07 financial year the product will be on about 50% of the fleet.

During the past year, the legacy inflight entertainment systems have been improved to help ensure high levels of passenger satisfaction. More audio channels have been added, including channels in German and Korean, and the number of video games has been increased to 50.

The seatback email and sms service that originally featured on ice equipped aircraft has now been introduced on all A330s, B777s and A340s, with passengers enjoying the ability to communicate during the flight. Demand for seatback telephones continues to grow with slightly over 6,000 calls being connected via satellite each month.

Emirates was pleased to win two Skytrax Awards for inflight entertainment this year - The 2005 Best IFE Award as voted by over a million Skytrax web site visitors, beating Singapore and Virgin to 2nd and 3rd place respectively, as well as the more recent 2006 Inflight Entertainment Excellence award as voted by 3,424 frequent business travellers who make up the Skytrax Business Research Group.

The department is now hard at work developing the next generation system to be introduced in 2007 on Emirates A380s and B777s, which will help maintain Emirates leading position in this field. Inflight TV advertising revenues grew by over 18% in 2005/06, reflecting advertisers' strong attraction to the Emirates brand and growth of Dubai as a major market.

Visual Services met the increasing demand for visual communication to support the business, including commercial, training and promotional requirements. Highlights included aerial filming of the A380 over Dubai and new safety and facilities videos for the entire fleet, together with a broad range of internal communication. The team also managed creative and technical production of new route launch events across the network and the Dubai Airshow Gala Dinner, attended by over 3,500 guests.

The impressive Emirates stand at ITB trade fair in Berlin

Ali Mubarak Al Soori, Divisional Senior Vice President, discusses progress with the site engineer of the new Crew Training College

Facilities/Projects Management

As the Emirates fleet and network expands, extra facilities have to be built to help maintain the surge in the development of the group.

At present there are no less than US$1.4 billion (Dhs5.1 billion) worth of projects in Dubai under design and construction.

The Emirates Crew Training College, located at Al Garhoud by the side of the aircraft-shaped Emirates Aviation College, will be primarily for the training of cabin crew and pilots. The complex consists of three buildings namely Training & Administration, evacuation and car park, joined together as a single structure. The construction of this project started in June 2005 and is expected to be completed by end of September 2006, with operations to start by December 2006.

The Training & Admin building is a seven-storied building consisting mainly of four full flight simulators, of which two are A380 simulators, 13 Cabin Service Trainers, 66 training and briefing rooms, administration floor and a restaurant on the 7th floor. The Evacuations building consists of three evacuation simulators and evacuation pool and there is a car park for 500 cars.

The key challenges faced by the Projects team was to construct this facility on a compact area of land within the limited number of floors permitted by Dubai Municipality and at the same time to meet all the training requirements of Cabin Crew and Flight operations. This was overcome by choosing an innovative structure involving prefabricated steel and pre-cast concrete slabs in order to have an easy and quick completion of the project.

New Emirates Headquarters

The new Emirates Headquarters will be world-class with cutting edge facilities. It is located on the airport road opposite the present Emirates Engineering Centre. The basement with baggage handling, will be connected to the airside by a dedicated tunnel. The basement, ground floor and first floor will accommodate the crew processing facilities with police, immigration and customs. The second floor atrium will be extended to the roof to give natural light to the building. The building will have all modern facilities including auditorium, conference rooms, gymnasium and swimming pool.

All the senior executives of the group will be based in the new headquarters. The building is designed to accommodate growth in staff between 2007 and 2015. It will be connected to Dubai Roads and Transport Authority's metro rail platform through a pedestrian bridge. The construction started in the first quarter of 2005 and is scheduled to be completed by March 2007. The building will be ready for occupation by May 2007.

Emirates Engineering Centre

One of the largest aircraft maintenance centres in the world, it will have the most updated and sophisticated technologies available. There are seven maintenance hangars capable of accommodating A380's, one paint hangar, workshops, stores, office building, gate house and multi-storey car park. Construction commenced in mid 2003 and it will be completed by 31 May 2006. The relocation of the existing facility will immediately follow the take over and is scheduled to be completed by September 2006.

Free Zone Logistic Centre

Construction is progressing well for the new Free Zone Logistic facility for Dnata located at Dubai

(Left) The new Emirates Group Headquarters scheduled to open mid-2007
(Right) The newly opened Emirates lounge at London Gatwick Airport

Airport Free Zone. It is scheduled to be finished by end 2006.

The expansion will cater for the overflow volumes of the present cargo terminal. The centre is designed to provide a capacity of 300,000 tonnes per year and will be fully automated with storage and retrieval Elevated Transfer Vehicles (ETV) and Automated Storage & Retrieval Systems (AS/RS). The centre also includes ULD automated storage system, build up and breakdown station, a moving truck dock, airside dolly docks with tilting interface, storage area for empty bins and ULDs, and empty pallet hoists to the mezzanine floor. The building is also equipped with office blocks and related infrastructure.

Other on-going projects include: a Procurement and Logistics Warehouse at Al-Qusais which will be completed by March 2007; the 10-storey Destination and Leisure Management annex on the Sheikh Zayed Road which will be ready by mid-2007; The Call Centre for Emirates now in the final design stage and likely to be built near Academic City.

Important projects being handled by the Department include the Al Marsa Tower and the 70-storey Twin Tower Luxury Hotel for Emirates, planned for a site near the Sheikh Zayed Road, Dubai.

The Facilities Design and Construction Department, of Facilities Management, handled the following in-station and out-station tasks during the year:

Dubai
The fit-out and refurbishment of 11 retail travel shops for both Emirates and Dnata, a total of 28 office modifications to existing group offices and upgrade of existing First and Business Class airport lounges.

Out-Station
New lounges for premium passengers feature dedicated facilities such as leather seating, flat-screen viewing, business centres fitted with broadband and wireless lan access, fully-fitted kitchens and shower units.

Group Safety

With the increasing scale of operations and size of the Emirates Group, Group Safety is now supported by newly created departmental "Safety Boards" which meet on a quarterly basis with key senior management.

The airline obtained IOSA (IATA Operational Safety Audit) which demonstrated its commitment to achieve an industry-standard safety benchmark, in all facets of the airline's operations. As part of its regular series of annual "Safety Days", Emirates initiated and sponsored a conference on improving the safety of instrument approaches, taking advantage of the latest advances in satellite navigation technology. Experts from all over the world came to Dubai to present a series of papers to an audience of key stakeholders, from the Middle East, Asia, Europe and Africa.

Emirates has been chosen by IATA to be a member of their newly created Safety Group, a small body of senior managers from world renowned airlines selected for their wide-ranging experience, and expert knowledge of airline safety.

Emirates rolled out Mercator's new safety database Sentinel which records safety events and produces trends information as well as allowing the exchange of details via IATA with other airlines.

Group

Part of Group Security's vehicle fleet "pose" with Emirates Boeing 777s

Emirates Group Security

On the regional and international fronts Emirates Group Security (EGS) and associated companies continued to set new standards in aviation security.

The division was awarded the Technology Assets Protection Association (TAPA) certification for all warehouses under its charge in recognition of high standards of security among its Dubai-based cargo operations. Under the TAPA certification, all airport warehouses of the Emirates Group - Dnata, Emirates SkyCargo, Emirates Group Security, and Transguard - have been certified to TAPA Classification A, the highest category. Emirates is the first airline in Middle East to be so certified.

Two of EGS' security trainers were among the first in the United Arab Emirates to be certified by the International Civil Aviation Authority.

Transguard Education's Diploma in Aviation Security Programme saw a 170% growth in student enrolment. Some 249 students attended security-related university programmes and a new course in ground handling was introduced in cooperation with Emirates Aviation College

The security training programme has been granted an unprecedented revalidation for a period of two years by the General Civil Aviation Authority of UAE.

In July 2005, Emirates took over the chairmanship of the American Society for Industrial Security (ASIS) chapter in UAE. ASIS is a renowned global security association.

The United Kingdom Government presented Emirates Group Security with an award for the excellent cooperation of airlines in the Middle East, in particular to the efforts taken in the prevention of illegal immigration.

Transguard continued to attract more new clients for their ATM collections and cash processing services - namely National Bank of Fujeirah, Standard Chartered Bank, National Bank of Abu Dhabi, Lloyds Bank TSB and ARBIFT Bank. To enhance customer service excellence, an ATM Call Centre was established for prompt response to banks. The period under review saw a sharp increase in banknote processing from 450,000 banknotes per day to 700,000 banknotes per day, an increase of 55%.

The valuables cargo department increased services provided to jewellery exhibitions conducted in Hong Kong, Sharjah, Bahrain, Dubai and Abu Dhabi with a total of 127 shipments.

Transguard Valuables Cargo Department received several awards from its customers - "Top Cargo Agent" award and KLM Cargo presenting the "Outstanding Performance" award.

Another highlight was Transguard Valuable Handling being recognized and certified by IATA as a Cargo Agent.

Group Legal

Another busy year for the Legal Department, the highlight of which was Emirates signing for 42 new Boeing 777 aircraft at the 2005 Dubai Airshow. The deal, worth US$9.7 billion (Dhs35.6 billion) at list prices, was one of the single biggest purchases made by the airline.

In addition to this huge one-off deal, the department has also been involved with the ongoing documentation process to facilitate the delivery of 16 additional aircraft to the Emirates fleet, a record number for aircraft deliveries for Emirates in a financial year.

(Left) Transguard attracted more ATM clients.
(Right) Tight security at Emirates SkyCargo terminal.

In addition to the last of Emirates' order of 10 A340-500s being financed through leasing agreements with the National Bank of Dubai and the Emirates Bank Group, the airline also signed a US$265 million (Dhs973 million) financing agreement with the Export-Import Bank (EXIM) of the USA for two Boeing 777-300ER aircraft.

The Legal Department worked closely with international lessors, banks and external counsel on relevant documentation in the lead-up to financing and delivery of these aircraft.

In the summer of 2005, Legal facilitated the successful launch of Emirates' Sukuk bond with a value of US$550 million (Dhs2 billion), the first ever such financing deal for an airline.

Legal also facilitated Emirates' investment to build a luxury conservation resort in Australia's Blue Mountains, the first such hospitality development outside of the UAE.

New European Community regulations have required the implementation of the European Community (EU) Denied Boarding Regulation 261/2004 to which all of Emirates' flights out of Europe are subject. This was successfully implemented in accordance with EU law.

Internal Audit

Internal Audit has improved productivity, enabling speedier, comprehensive audit coverage of the Emirates Group and associated companies by enlarging and enhancing staff skills, plus increasing the use of sophisticated data mining. The department has developed techniques for the continuous monitoring of key risks in every business area. These tools are being transferred to the line, making risk management processes more effective.

Internal Audit is developing unit-level risk models and assisting the business in documenting key processes. In keeping with its well-established consulting role, the department participated in process improvement exercises across the company, particularly in IT governance and risk training.

Nominated to head the International Association of Airline Internal Auditors (IAAIA) for an unprecedented second successive year, the department continues to be in the forefront of global professional bodies such as the Institute of Internal Auditors and the Information Systems Audit and Control Association.

SriLankan Airlines

SriLankan's A340-300

The aftermath effect of the tsunami and sky high fuel prices presented SriLankan Airlines with extremely difficult trading conditions during the past year. Faced with the prospect of reduced visitor arrivals to its main tourism markets of Sri Lanka and the Maldives, the airline re-focussed its schedules to take advantage of the proximity to India using the Colombo gateway. So successful has this strategy been that India is now the number one inbound market for Sri Lanka.

The Air Taxi operation has seen the introduction of scheduled domestic services and the network has been expanded to cover 14 points within the country.

With a number of major maintenance checks completed successfully on its mainline fleet, 3rd party engineering work is being actively sought by the carrier and the prospects appear very encouraging from several Indian start-up airlines. Similarly, a new Training College has been established to cater for the growing demand from external students to gain professional qualifications in commercial aviation subjects.

The SriLankan Airlines' management look forward with renewed optimism that tourist arrivals to Sri Lanka will regain levels achieved in 2004, prior to the tsunami.

Two icons - Dubai's Burj Al Arab hotel and Emirates new A380 super jumbo

Corporate Structure

- **Tim Clark** – President, Emirates Airline
  - **Ghaith Al Ghaith** – Executive Vice President, Commercial Operations Worldwide
    - Scott McMahen – Senior Vice President, Revenue Optimisation
    - Keith Longstaff – Senior Vice President, Commercial Operations - Europe
    - Richard Vaughan – Senior Vice President, Commercial Operations East Asia & Australasia
    - Nigel Page – Senior Vice President, Commercial Operations The Americas
    - Nabil Sultan – Senior Vice President, Commercial Operations West Asia & Indian Ocean
    - Hamad Obaidalla – Senior Vice President, Commercial Operations Gulf, Middle East & Iran
    - Nasser Bin Kherbash – Senior Vice President, Commercial Operations - Africa
  - **Adel Al Redha** – Executive Vice President, Emirates Engineering & Operations
    - Alan Stealey – Divisional Senior Vice President, Flight Operations
    - Iain Lachlan – Senior Vice President, Aircraft Maintenance
    - Andrew Hoad – Senior Vice President, Engineering Support Services
  - Terence Daly – Divisional Senior Vice President, Service Delivery
  - Hans Haensel – Divisional Senior Vice President, Destination & Leisure Management
  - Ram Menon – Divisional Senior Vice President, Emirates SkyCargo
  - Tony Tayeh – Divisional Senior Vice President, Planning, International and Industry Affairs
  - Dale Griffith – Divisional Senior Vice President, Emirates Airport Services
    - Mohammed Matter – Senior Vice President, Airport Services (Dubai)
    - Ahmed Khoory – Senior Vice President, Dubai Airport Development
  - Abdulla Al Hashimi – Divisional Senior Vice President, Group Security
  - Ali Mubarak Al Soori – Divisional Senior Vice President, Chairman's Office, Facilities Management & Procurement & Logistics (Non-Aircraft)
    - Saeed Mohammed – Senior Vice President, Procurement & Logistics (Non-Aircraft)
  - Mohammed A AlKhaja – Senior Vice President, Safety & Standards
    - Tim Jenkins – Senior Vice President, Safety
  - Richard Ng – Senior Vice President, Customer Affairs & Service Audit

- **HH Sheikh Ahmed bin Saeed Al-Maktoum**
  Chairman & Chief Executive
  Emirates Airline & Group
  - **Maurice Flanagan CBE**
    Executive Vice Chairman
    Emirates Airline & Group
    - **Mike Simon**
      Divisional Senior Vice President
      Corporate Communications
    - **Neeraj Kumar**
      Senior Vice President
      Internal Audit
  - **Gary Chapman**
    President
    Group Services & Dnata
    - **Nigel Hopkins**
      Executive Vice President
      Service Departments
      - **Alistair Dunn**
        Senior Vice President
        Legal
      - **Amer Kazim**
        Senior Vice President
        Finance
      - **Riyaz Peermohamed**
        Senior Vice President
        Corporate Treasury
      - **Patrick Naef**
        Senior Vice President
        Information Technology
    - **Abdulaziz Al Ali**
      Executive Vice President
      Human Resources
      - **Cliff Webster**
        Senior Vice President
        Medical Services
      - **Martin Tomlinson**
        Senior Vice President
        Performance Development
      - **Sophia Panayiotou**
        Senior Vice President - Human Resources (Business Support)
      - **Katrina Ciumei**
        Senior Vice President
        Human Resources
        (Remuneration & Benefits)
    - **Khaled Al Kamda**
      Senior Vice President
      Corporate Development
    - **Naz Nizari**
      Senior Vice President
      Galileo Emirates
    - **Stewart Angus**
      Senior Vice President
      Associated Companies-Emirates Group
    - **Iain Andrew**
      Senior Vice President
      Dnata Agencies
    - **Ismail Ali Albanna**
      Executive Vice President
      Dnata
      - **Tom Lewis**
        Senior Vice President
        Dnata Airport Operations
      - **Jean Pierre De Pauw**
        Senior Vice President
        Dnata Cargo
      - **Derek Swan**
        Senior Vice President
        Dnata Airport Projects

Operating statistics - Emirates

	2005-06	2004-05	2003-04	2002-03	2001-02
Consolidated financial statements					
Total revenue (AED'000)	23,066,710	18,130,998	13,286,331	9,709,749	7,274,658
Total expenditure (AED'000)	20,505,384	15,628,282	11,602,094	8,749,606	6,783,795
Operating profit (AED'000)	2,652,291	2,618,789	1,748,756	1,000,511	625,794
Net profit (AED'000)	2,474,999	2,407,385	1,573,511	906,747	468,231
Airline operating statistics					
Performance indicators					
Yield (Fils per RTKM)	202	192	181	169	166
Unit cost (Fils per ATKM)	122	111	107	111	108
Breakeven load factor (%)	60.3	58.0	59.0	65.4	65.1
Fleet					
Number of aircraft	85	69	61	46	38
Average age (months)	61	55	46	36	37
Production					
Destination cities	83	76	73	64	57
Overall capacity (ATKM million)	15,803	13,292	10,207	7,350	5,718
Available seat kilometres (ASKM'000)	82,008,681	68,930,198	54,656,790	41,336,554	32,629,532
Aircraft departures (number)	79,937	72,057	58,763	45,452	38,914
Traffic					
Passengers carried (number)	14,497,536	12,528,761	10,441,345	8,502,894	6,765,113
Passenger seat kilometres (RPKM'000)	62,260,070	51,398,393	40,110,375	31,660,547	24,230,533
Average distance flown per pax (Kms)	4,295	4,102	3,841	3,724	3,582
Passenger seat factor (%)	75.9	74.6	73.4	76.6	74.3
Cargo carried (Kg'000)	1,018,570	838,400	659,816	525,188	400,569
Overall load carried (RTKM million)	10,394	8,649	6,629	5,145	3,908
Overall load factor (%)	65.8	65.1	64.9	70.0	68.3
Employee					
Average employee strength (number)	17,296	15,858	12,804	10,507	8,697
Capacity per employee (ATKM)	913,687	838,202	797,156	699,487	657,513
Load carried per employee (RTKM)	600,921	545,392	517,727	489,627	449,331
Revenue per employee (AED)	1,285,703	1,104,247	993,171	883,632	793,642
Value added per employee (AED)	402,507	382,649	355,197	317,063	286,484

2004-05 figures have been reclassified to conform with the current year's presentation. Figures for financial years prior to 2004-05 have not been amended.

Operating statistics - Dnata

	2005-06	2004-05	2003-04	2002-03	2001-02
Consolidated financial statements					
Total revenue (AED'000)	1,779,827	1,414,031	1,093,948	959,965	820,131
Total expenditure (AED'000)	1,455,439	1,153,624	920,169	818,236	685,364
Operating profit (AED'000)	290,342	240,950	158,628	123,600	112,776
Net profit (AED'000)	324,388	260,407	173,779	141,729	134,767
Average employee strength (number)*	8,412	8,196	7,186	6,253	6,389
Revenue per employee (AED)*	176,059	154,584	150,495	150,956	125,290
Value added per employee (AED)*	139,801	122,141	116,071	112,787	98,133
Airport performance indicators					
Aircraft handled (number)*	101,607	93,004	79,932	69,322	59,994
Passengers handled (number)*	25,648,704	22,389,218	19,130,592	16,452,152	13,805,735
Cargo handled (Kg'000)*	503,382	457,869	405,906	399,193	635,298
Employee					
Average employee strength (number)					
Airport operations*	5,627	5,563	4,601	3,885	3,764
Cargo*	912	894	849	811	1,161
Aircraft handled per employee (number)*	18	17	17	18	16
Passengers handled per employee (number)*	4,558	4,025	4,158	4,235	3,668
Cargo handled per employee (Kgs)*	551,954	512,158	478,099	492,223	547,199

2004-05 figures have been reclassified to conform with the current year's presentation.

*These figures exclude subsidiaries.

Financial statistics

		2005-06	2004-05	% Change
Group				
Total revenue*	AED (million)	24,255.0	19,066.6	27.2
Total costs*	AED (million)	21,369.3	16,303.4	31.1
Operating profit	AED (million)	2,942.6	2,859.7	2.9
Net profit	AED (million)	2,799.4	2,667.8	4.9
Operating margin*	%	12.4	15.2	(2.8) pts
Net margin*	%	11.8	14.2	(2.4) pts
Group liquid funds	AED (million)	10,287.9	8,171.6	25.9
Shareholder's funds	AED (million)	12,241.2	9,088.2	34.7
Return on shareholder's funds	%	26.2	35.3	(9.1) pts
Value added	AED (million)	8,640.0	7,457.7	15.9
Emirates				
Total revenue	AED (million)	23,066.7	18,131.0	27.2
Total costs	AED (million)	20,505.4	15,628.3	31.2
Operating profit	AED (million)	2,652.3	2,618.8	1.3
Net profit	AED (million)	2,475.0	2,407.4	2.8
Operating margin	%	11.7	14.6	(2.9) pts
Net margin	%	10.9	13.4	(2.5) pts
Value added	AED (million)	7,305.0	6,375.9	14.6
Dnata				
Total revenue	AED (million)	1,779.8	1,414.0	25.9
Total costs	AED (million)	1,455.4	1,153.6	26.2
Operating profit	AED (million)	290.3	241.0	20.5
Net profit	AED (million)	324.4	260.4	24.6
Operating margin	%	16.7	17.3	(0.6) pts
Net margin	%	18.7	18.7	0 pts
Value added	AED (million)	1,335.4	1,082.2	23.4

2004-05 figures have been reclassified to conform with the current year's presentation.

*After eliminating inter company transactions of AED 591.5 million in 2005-06 (2004-05: AED 478.5 million), comprising operating income / expense of AED 591.1 million (2004-05: AED 478.1 million) and interest income / expense of AED 0.4 million (2004-05: AED 0.4 million).

The financial year of the Emirates Group is from 1 April to 31 March. Throughout this report all figures are in UAE Dirhams (AED) 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 before rounding in respect of the two financial years.

Income

Group net profit for 2005-06 was AED 2,799 million, recording a 4.9% growth compared with the previous year (2004-05: 2,668 million) which is impressive given the significant increase in costs.

Group operating profit, at AED 2,943 million, was AED 83 million better than last year. The operating margin of 12.4% was 2.8 points lower than last year reflecting costs rising faster than revenue, mainly on account of higher fuel costs for the airline.

Return on shareholder's funds remained noteworthy at 26.2%, albeit lower than the previous year.

Revenue

Total Group revenue in 2005-06 was AED 24,255 million, a considerable increase of AED 5,188 million (27.2%) over the previous year. Group revenue consisted of operating revenue of AED 23,386 million and other income of AED 869 million (2004-05: AED 18,496 million and AED 570 million).

All inter company transactions have been eliminated in computing Group revenue and costs.

Emirates' operating revenue increased by AED 4,656 million (26.4%) to AED 22,275 million reflecting higher capacity and traffic, together with improved yields.

Passenger revenue at AED 16,381 million was 26.1% higher than last year, while cargo and related revenue grew by 29.2% to AED 4,460 million. Passenger and cargo revenue (including courier, mail and excess baggage) constituted 94.3% of Emirates' total operating revenue.

Dnata's operating revenue increased by 25.7% over last year to AED 1,702 million.

Expenditure

Group operating costs at AED 20,874 million were significantly higher by AED 4,913 million (30.8%) over last year.

Total Group expenditure including financing costs and taxation was AED 21,369 million, a rise of AED 5,066 million (31.1%) over last year.

The increase in Emirates' costs came mainly from higher fuel and oil (up AED 2,166 million or 66%), employee expenditure (up AED 553 million or 20.5%), aircraft operating lease costs (up AED 434 million or 23.1%), corporate overheads (up AED 357 million or 37.9%) and sales and marketing costs (up AED 299 million or 15.8%).

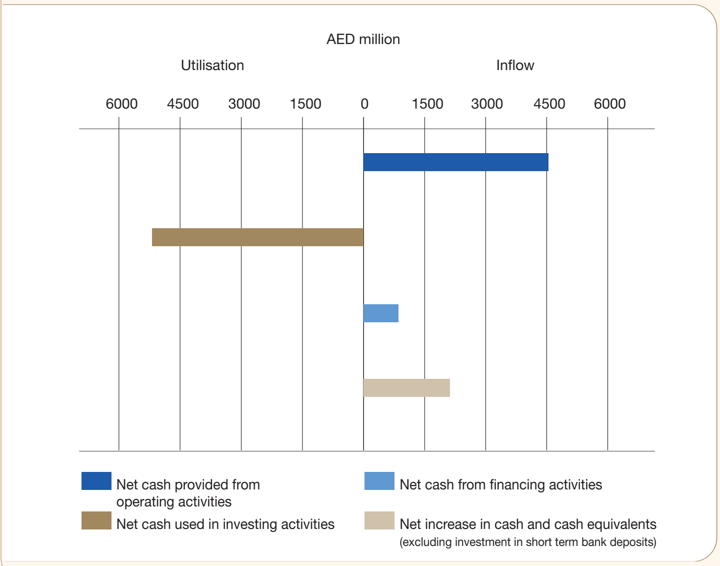
Cash position

Group cash generated from operating activities was AED 4,529 million, an increase of AED 150 million (3.4%). Emirates contributed AED 4,106 million of cash generation from operating activities while Dnata generated AED 423 million.

Group operating cash margin remained healthy at 19.0%, down 4.3 points as compared with the previous year. Emirates' operating cash margin at 18.1% decreased 4.3 points from 22.4% in 2004-05 reflecting the increase in costs.

Group cash generated from operating activities stood at 161.8% of net profit with Emirates' at 165.9% and Dnata's at 130.5%.

Cash flow



Capital expenditure

Group capital expenditure for 2005-06 was AED 4,710 million, 43.6% higher than the previous year's level of AED 3,279 million. Aircraft, spares and spare engines comprised 73% of the total capital spend, including disbursements for aircraft deliveries during the year and progress payments for future deliveries.

Financial position

Group

At 31 March 2006, the Group's cash funds (including held-to-maturity cash investments of AED 662 million) improved by 28.6% to AED 10,960 million (USD 2,986 million). The Group invested surplus funds in a mix of high credit quality bank deposits and diversified structured products. The overall interest income earned yielded an effective rate of 4.3% (2005: 2.4%), reflecting the increase in prevailing rates.

Group shareholder's funds as at 31 March 2006 was AED 12,241 million (USD 3,335 million), up by 34.7% compared to AED 9,088 million (USD 2,476 million) as at 31 March 2005.

Emirates

At 31 March 2006, Emirates' cash position (including held-to-maturity cash investments of AED 533 million) improved by 28.9% to AED 9,732 million (USD 2,652 million). The improvement in cash was recorded after funding capital outflows of AED 2,816 million (USD 767 million) comprising of pre-delivery payments, spare engines, rotables and other capital items and paying dividends to the shareholder of AED 368 million (USD 100 million) during the year. Emirates' cash balance more than adequately covers the benchmark of maintaining cash balances for at least six months debt obligations and lease rentals. The cash position is robust even after considering the repayment of Emirates' first bond issue of AED 1,500 million falling due in July 2006.

Emirates successfully closed its debut USD 550 million Islamic 'sukuk' (bond) in June 2005, with a tenure of seven years. The 'sukuk' was attractively priced at a competitive return to investors. The 'sukuk' achieved yet another new source of funding and a wide geographical spread of investors, with more than 40% of the funds raised from Europe / Asia. The proceeds from the 'sukuk' are being used to finance the new Emirates Group Headquarters building and the new Emirates Engineering Centre, both currently under construction.

During the current financial year, AED 1,809 million (USD 493 million) of aircraft financing was raised at an attractive all-in cost to finance two A340-500 aircraft and two B777-300ER aircraft, while three A310 freighters were funded from internal cash resources. The two B777-300ER aircraft were financed using US Ex-Im bank support for the first time on an Emirates aircraft, opening up a new source of financing. In addition, Emirates used operating leases to finance nine B777-300ERs aircraft at attractive terms, four from International Lease Finance Corporation (ILFC) and five from General Electric Capital Aviation Services (GECAS).

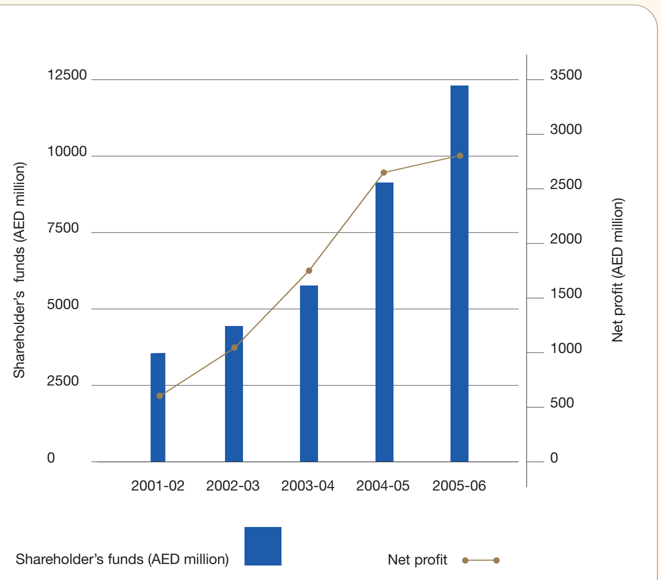
Overall Emirates funding of circa USD 1 billion during the year, excluding the operating leases, came from well diversified sources with 22% coming from commercial funding, 27% from export credit (US Ex-Im) funding and 51% from Islamic funding.

Emirates' cash profit from operations (or EBITDAR) for the year ending 31 March 2006 remained robust at 26.7% of operating revenue or AED 5,944 million, up by AED 632 million (11.9%) from year ending 31 March 2005. EBITDAR for the year equated to more than nineteen months of debt service and lease rentals, including periodic principal and interest payments on aircraft financing and bond issues.

Emirates continued to follow a balanced portfolio approach by hedging around half of its interest rate risk exposures going forward, using appropriate hedging solutions including interest swaps and options. Emirates' borrowings and lease liabilities (net of cash) after including operating leases, as at 31 March 2006, comprised 63% on a fixed interest rate basis with the balance 37% on floating interest rates. A 1% increase in interest rates would increase the interest charges and the operating lease charges (net of interest income) during the next financial year by AED 26 million (2005: AED 22 million). At 31 March 2006, Emirates' borrowings and lease liabilities carried a weighted average interest rate of circa 4.5% (2005: 3.5%).

Emirates proactively managed its currency exposure by using appropriate hedging solutions including currency swaps, options and operating leases denominated in UK Sterling, Euros and Japanese Yen. To-date, Emirates has secured seven aircraft in UK Sterling, eight aircraft in Euros and one aircraft in Japanese Yen on operating leases. The lease rent payments of these aircraft hedge a portion of revenue inflows in UK Sterling, Euros and Japanese Yen. As at 31 March 2006, around 33% of the net annual UK Sterling receipts were hedged, while for Euros and Japanese Yen, the hedging coverage was 16% and 37% respectively.

Shareholder's funds



Emirates' shareholder's funds at 31 March 2006 was AED 10,788 million (USD 2,940 million), up by 35.5% compared to AED 7,962 million (USD 2,169 million) as at 31 March 2005. Emirates' long term borrowings and lease liabilities were AED 9,097 million (USD 2,479 million) at 31 March 2006, a net increase of AED 1,463 million (USD 399 million) over 31 March 2005. At 31 March 2006, Emirates' long term borrowings and lease liabilities (net of cash) / shareholder's funds ratio was 13% (2005: 4%). After including operating leases, the same ratio was 101% (2005: 104%).

Dnata

At 31 March 2006, Dnata's cash position (including held-to-maturity cash investments of AED 129 million) improved by 26.4% to AED 1,228 million (USD 335 million). The improvement in cash was recorded after funding capital outflows of AED 160 million during the year.

Dnata's shareholder's funds at 31 March 2006 was AED 1,453 million (USD 396 million), up by 29.0% compared to AED 1,126 million (USD 307 million) as at 31 March 2005. Dnata's long term debt was AED 252 million (USD 69 million) at 31 March 2006, a net decrease of AED 26 million over previous year's balance reflecting primarily the repayments of loan during the year.

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.

	2005-06 AED'000	2004-05 AED'000	2003-04 AED'000	2002-03 AED'000	2001-02 AED'000
Group operating revenue	23,386,355	18,496,306	13,542,317	9,940,793	7,437,127
Less: Purchase of goods and services	15,615,003	11,608,858	8,336,822	6,139,412	4,568,328
	7,771,352	**6,887,448**	**5,205,495**	**3,801,381**	**2,868,799**
Add: Other operating income	430,154	324,509	285,959	188,835	220,458
Interest income	378,942	191,270	97,925	105,143	98,822
Share of results in associated companies	59,555	54,469	86,643	107,831	58,142
Total value added by the Group	**8,640,003**	**7,457,696**	**5,676,022**	**4,203,190**	**3,246,221**
Distribution of value added:					
To employees - salaries and other employee costs	4,116,576	3,400,725	2,831,320	2,251,121	1,724,489
To overseas governments - Corporation and other taxes	89,418	58,685	16,871	16,996	13,302
To suppliers of capital -					
Dividends	454,479	406,670	329,000	240,000	140,000
Interest	405,998	283,670	217,065	218,217	256,602
Minority interests	-	-	110,726	53,396	22,632
Retained for re-investment and future growth -					
Depreciation and amortisation	1,142,298	951,493	752,750	614,984	626,198
Retained profits	2,431,234	2,356,453	1,418,290	808,476	462,998
Total distribution of value added	**8,640,003**	**7,457,696**	**5,676,022**	**4,203,190**	**3,246,221**

2004-05 figures have been reclassified to conform with the current year's presentation. Figures for financial years prior to 2004-05 have not been amended.

In 2005-06, the total 'value added' of the Group increased by AED 1,182 million (15.9%) to AED 8,640 million (2004-05: AED 7,458 million). The increase came mainly from increased operating revenue (AED 4,890 million) while the cost of purchases of goods and services increased by AED 4,006 million.

Employees received AED 4,117 million (47.6% of the total value added) in the form of salaries and other related costs including a profit share whilst distributions on account of taxation, interest and dividends were AED 950 million (11.0%).

The amount retained in the business for future growth was AED 3,574 million (41.4%).

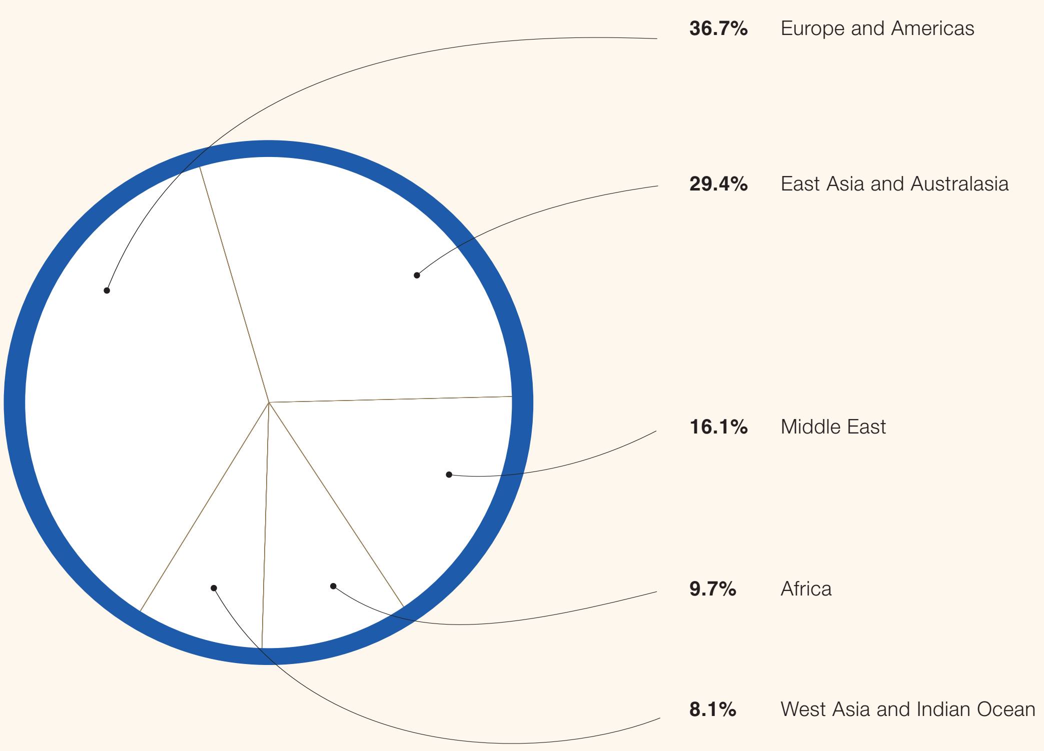
Revenue

	2005-06 AED million	%	2004-05 AED million	%
Passenger	16,381	73.5	12,991	73.7
Cargo	4,135	18.6	3,200	18.2
Courier	277	1.2	203	1.1
Excess baggage	174	0.8	137	0.8
Mail	48	0.2	50	0.3
Transport revenue	**21,015**	**94.3**	**16,581**	**94.1**
Sale of goods	949	4.3	779	4.4
Destination and leisure (see below)	146	0.7	123	0.7
Other	165	0.7	137	0.8
Total operating revenue	**22,275**	**100.0**	**17,620**	**100.0**

2004-05 figures have been reclassified to conform with the current year's presentation.

Destination and leisure revenue reflects the net income after removal of inter company transactions and direct operating costs. Total package sales achieved for 2005-06 were AED 940 million, up 17% on the previous year (2004-05: AED 802.5 million).

Segment revenue



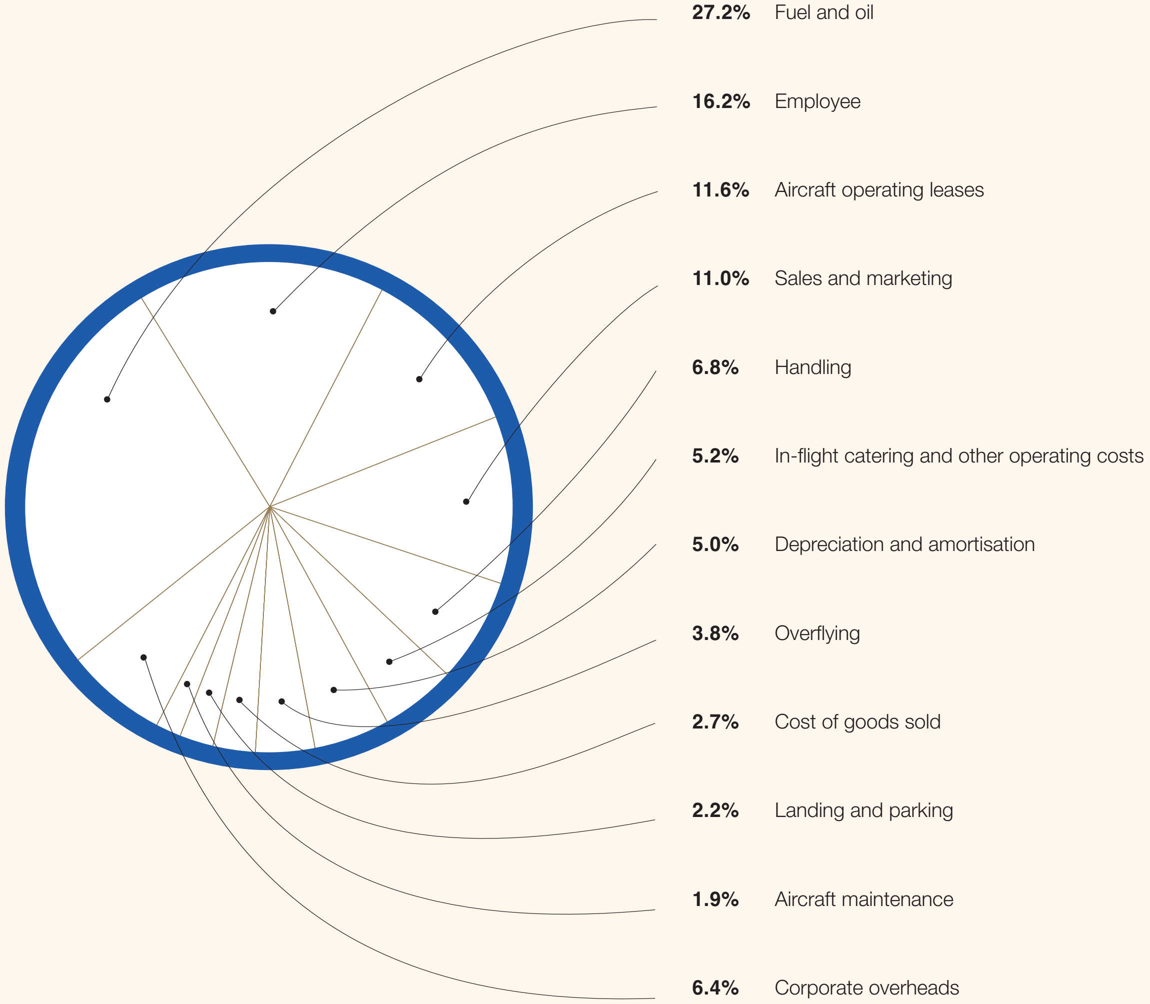
Expenditure

	2005-06 AED million	%	2004-05 AED million	%
Fuel and oil	5,445	27.2	3,279	21.4
Employee (see (a) below)	3,254	16.2	2,701	17.7
Aircraft operating leases	2,312	11.6	1,878	12.3
Sales and marketing	2,196	11.0	1,896	12.4
Handling	1,363	6.8	1,154	7.5
In-flight catering and other operating costs	1,053	5.2	884	5.8
Depreciation	974	4.8	802	5.2
Overflying	765	3.8	673	4.4
Cost of goods sold	542	2.7	407	2.7
Landing and parking	437	2.2	374	2.4
Aircraft maintenance	373	1.9	285	1.9
Amortisation	31	0.2	32	0.2
Corporate overheads	1,276	6.4	925	6.1
Total operating costs (see (b) below)	**20,021**	**100.0**	**15,290**	**100.0**

2004-05 figures have been reclassified to conform with the current year's presentation.

(a) Includes in-house engineering employees.
(b) Excludes financing costs.

Expenditure



Yield, unit cost and breakeven load factor

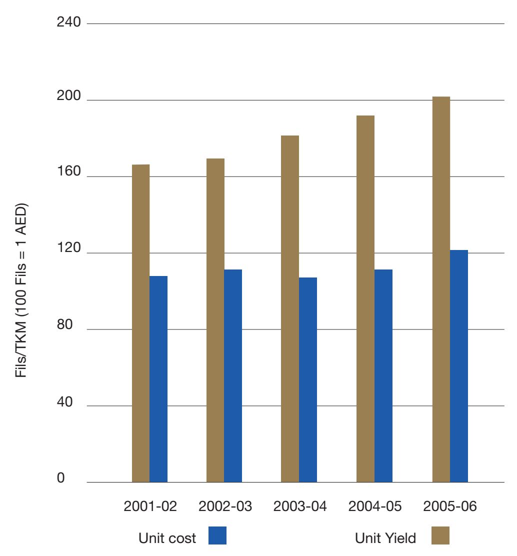
Overall yield increased by 5.5% to 202 fils per tonne-kilometre.

Passenger yield increased 4.1% mainly on account of increase in premium class traffic and the collection of additional fuel surcharges to cover higher fuel cost. Cargo yield increased by 10.8% on account of higher block space revenue, collection of cargo security and fuel surcharges designed to cover higher operating costs.

Unit cost increased by 10.9 fils (9.8%) to 122 fils per capacity tonne-kilometre. The increase is mainly due to fuel costs up by 9.8 fils and corporate overheads up by 1.1 fil.

The breakeven load factor was up marginally to 60.3% from 58.0% last year due to the increase in unit costs.

Yield and unit cost



Capacity, traffic and load factor

Traffic increased by 20.2% to 10,394 million tonne-kilometre, and the capacity increased by 18.9% to 15,803 million tonne-kilometres. Aircraft departures increased by 10.9% to 79,937 while aircraft utilisation remained one of the highest in the industry at 13.6 hours per day.

The increase in traffic came principally from:

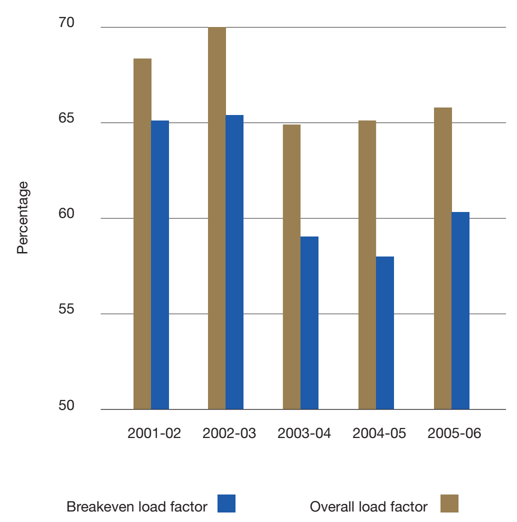
- introduction of new passenger services to Hamburg, Seoul, Alexandria, Thiruvananthapuram, Abidjan, Addis Ababa and Kolkata
- increased frequencies to Australia, United Kingdom, Seychelles, USA, France, Hongkong, Ghana and Nigeria
- increased capacity to existing destinations with bigger aircraft, mainly Dusseldorf, Manila, Glasgow, Manchester, South Africa and Mauritius.

Passenger seat factor at 75.9% increased by 1.3 percentage points over last year despite the increase in capacity. Passengers carried reached 14.5 million in 2005-06, representing an increase of 15.7% over last year.

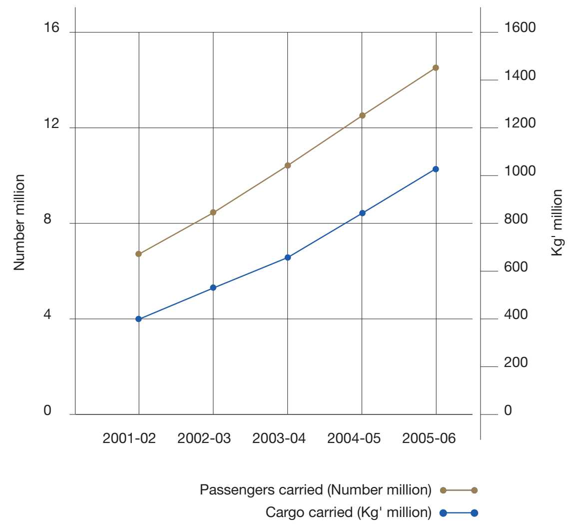
Cargo carried in 2005-06 improved by 21.5% to 1,018,570 tonnes (2004-05: 838,400 tonnes), recording strong growth across the entire network.

Overall load factor increased to 65.8% (2004-05: 65.1%) reflecting the strong passenger and cargo performance.

Overall and breakeven load factor



Pax and cargo carried



Employee strength and productivity

In the year under review, the average workforce rose by 2,169 (10.9%) to 22,125. The average number of employees in the airline grew by 1,438 (9.1%) to 17,296 as a result of the growth in capacity.

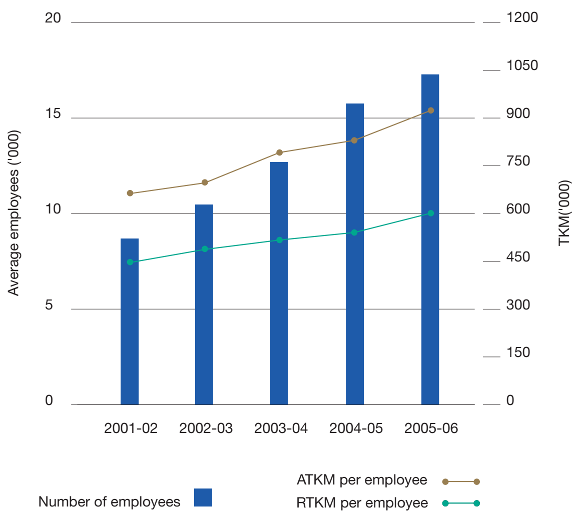
A breakdown of the number of employees by category is shown below:

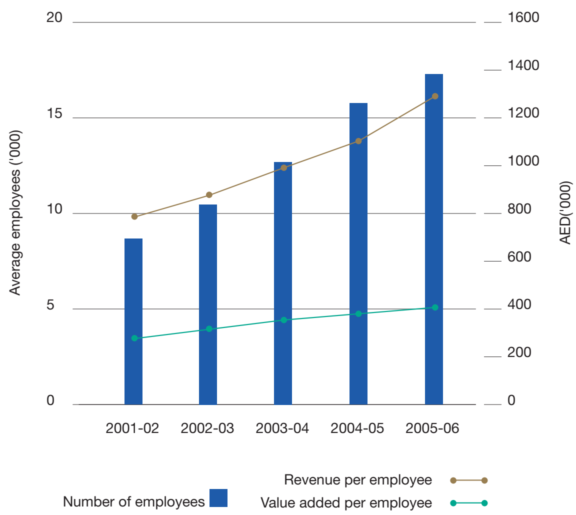
	2005-06	2004-05
UAE		
Cabin crew	5,977	5,612
Flight deck crew	1,253	1,060
Engineering	1,183	1,112
Other	5,729	5,203
	14,142	**12,987**
Overseas stations	3,154	2,871
Total Emirates	**17,296**	**15,858**
Subsidiary companies	**4,829**	**4,098**
Average employee strength	**22,125**	**19,956**

Employee productivity for the airline, measured in terms of revenue per employee was up by 16.4% at AED 1,285,703 compared with AED 1,104,247 in 2004-05.

Value added, which is a measure of wealth created by the airline was AED 6,962 million, up 14.7% on last year (2004-05: AED 6,068 million). This is equivalent to AED 402,507 per employee, up 5.2% over the previous year (2004-05: AED 382,649).

Capacity per airline employee improved for the sixteenth year with a 9.0% increase in ATKM to 913,687 (2004-05: 838,202). In addition, load carried per airline employee increased 10.2% to RTKM 600,921 (2004-05: 545,392).





Fleet information

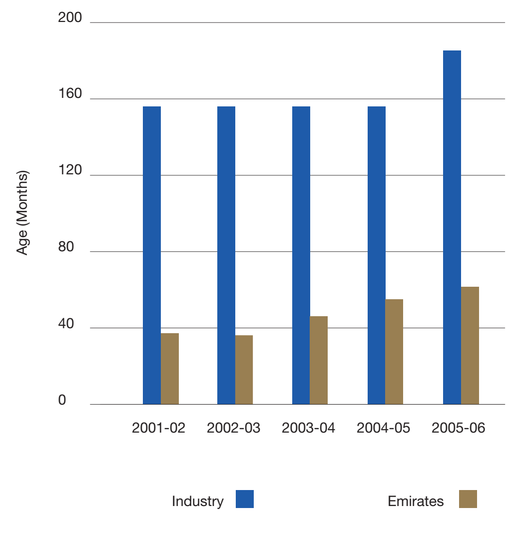
Aircraft	In operation	On firm order	On option
B777-200	9	-	-
B777-300	12	-	-
B777-300ER	13	26	20
A310-300	1	-	-
A310-300F	3	-	-
A330-200	29	-	-
A340-300	8	-	-
A340-500	10	-	-
A340-600	-	10	8
A380-800	-	43	-
B777-200LR	-	10	-
B777-200LRF	-	8	-
Total	**85**	**97**	**28**

Emirates also had six B747 freighters on wet lease for its cargo operations at 31 March 2006.

In addition to the above, Emirates has contracted for fifteen B777-300ER aircraft for delivery between April 2006 and October 2007 from International Lease Finance Corporation (7 units) and General Electric Capital Aviation Services (8 units). Further contracts exist for two A380-800 aircraft for delivery in October and November 2007 and two A340-600 aircraft for delivery in April and May 2008 from ILFC.

Emirates operates one of the youngest fleet in the industry with an average age of 61 months as compared with an industry average of 187 months.

Average fleet age: Emirates and industry

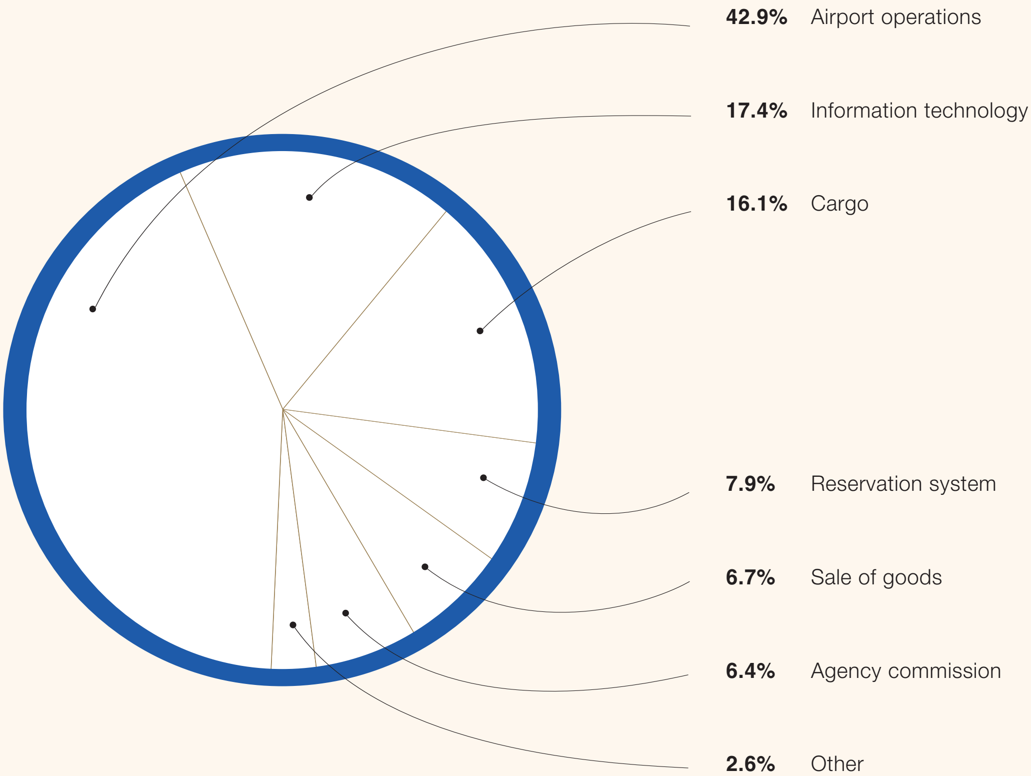


Revenue

	2005-06 AED million	%	2004-05 AED million	%
Airport operations	729	42.9	565	41.7
Information technology	297	17.4	264	19.5
Cargo	274	16.1	243	17.9
Reservation system	135	7.9	110	8.1
Sale of goods	115	6.7	45	3.3
Agency commission	108	6.4	94	6.9
Other	44	2.6	34	2.6
Total operating revenue	**1,702**	**100.0**	**1,355**	**100.0**

2004-05 figures have been reclassified to conform with the current year's presentation.

Revenue

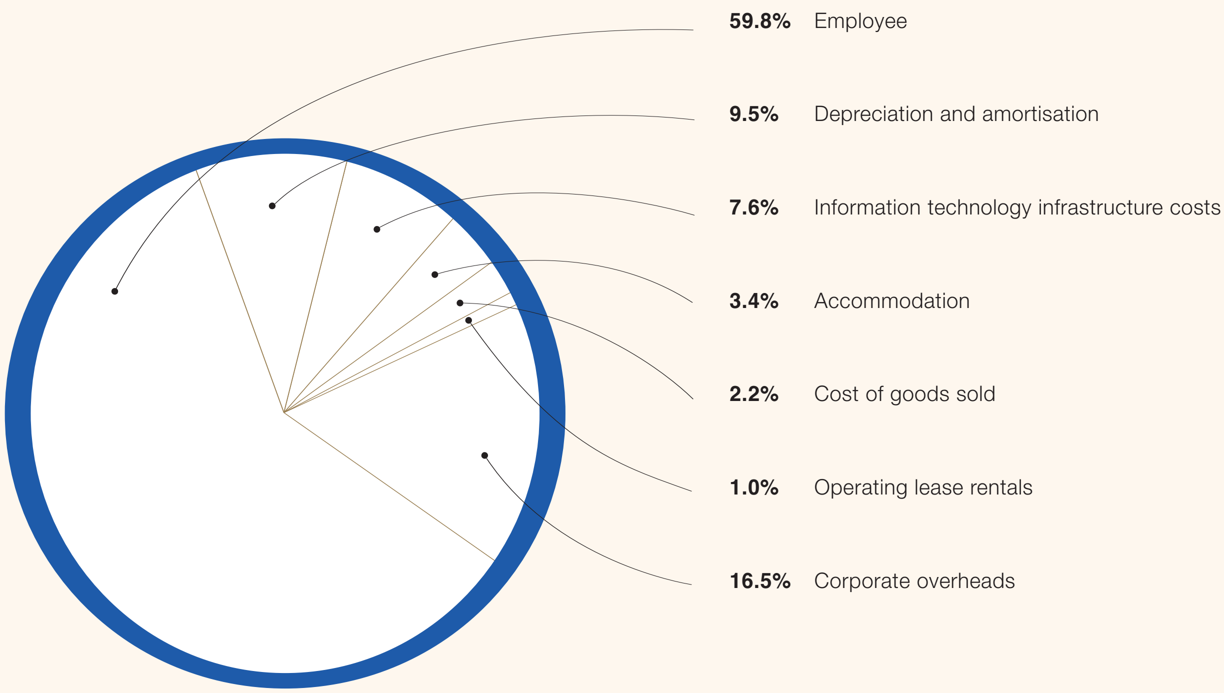


Expenditure

	2005-06 AED million	%	2004-05 AED million	%
Employee	863	59.8	700	60.9
Depreciation and amortisation	137	9.5	118	10.3
Information technology infrastructure costs	109	7.6	98	8.5
Accommodation	49	3.4	45	3.9
Cost of goods sold	32	2.2	13	1.2
Operating lease rentals	14	1.0	7	0.6
Corporate overheads	240	16.5	168	14.6
Total operating costs	**1,444**	**100.0**	**1,149**	**100.0**

2004-05 figures have been reclassified to conform with the current year's presentation.

Expenditure

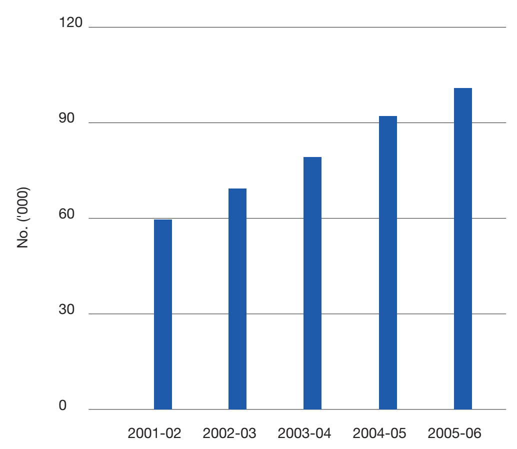


Aircraft, passengers and cargo handled

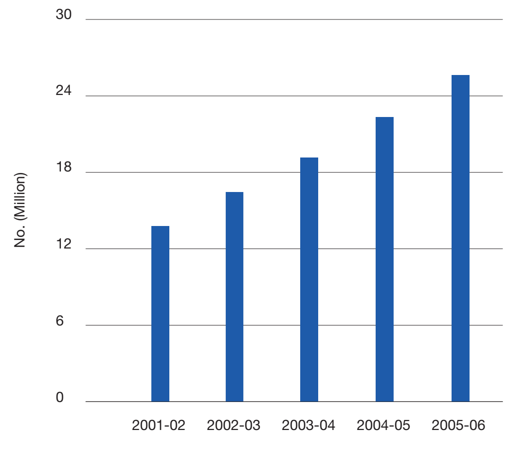
Dubai International Airport maintained its impressive growth on traffic volumes:

- the number of passengers handled were 25.6 million, an increase of 14.6% or 3.3 million over the previous year
- the volume of cargo handled was 503,382 tonnes. This shows a growth of 9.9% as compared with last year's volume of 457,869 tonnes
- Dnata handled 118 (2004-05: 115) scheduled international airlines operating to Dubai International Airport
- the number of aircraft handled during the year increased by 9.3% to 101,607 as compared with 93,004 during 2004-05.

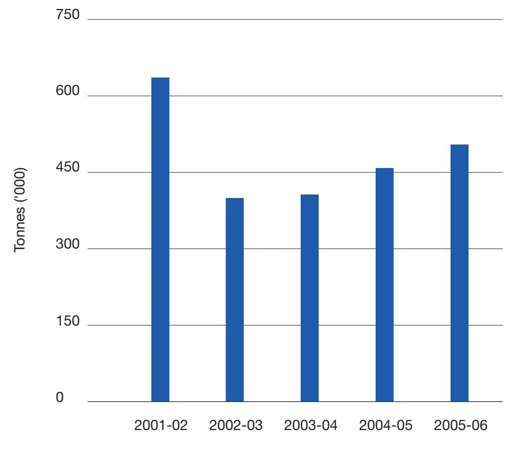
Aircraft handled



Passenger handled



Cargo handled



Employee strength and productivity

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

	2005-06	2004-05
Airport operations	5,627	5,563
Cargo handling	912	894
Dnata agencies	641	580
Other	1,232	1,159
Total Dnata	**8,412**	**8,196**
Subsidiary companies	**1,448**	**1,411**
Average employee strength	**9,860**	**9,607**

During the year under review, the average workforce increased by 253 (2.6%) to 9,860.

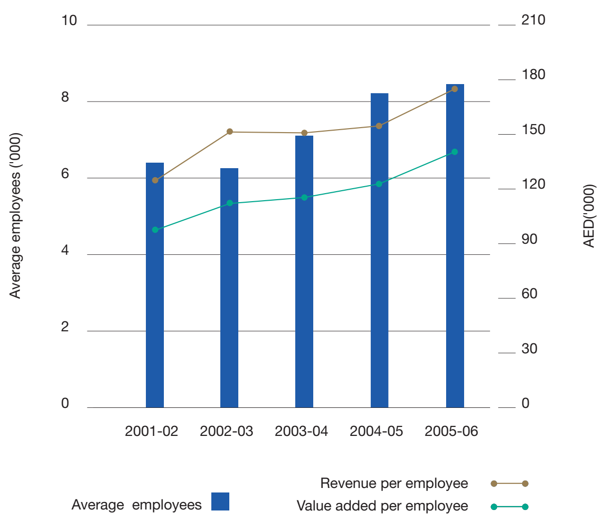
Revenue per employee for Dnata increased by 13.9% to AED 176,059 from AED 154,584 in 2004-05.

Value added which is a measure of wealth created by Dnata during the year, was up by 17.5% to AED 1,176 million (2004-05: AED 1,001 million). This is equivalent to AED 139,801 per employee, an increase of 14.5% over the previous year (2004-05: AED 122,141).

Aircraft handled per airport employee was 18 (2004-05: 17) while passengers handled per airport employee increased by 13.2% to 4,558 (2004-05: 4,025).

Cargo handled per cargo handling employee was 551,954 kgs compared with 512,158 kgs in 2004-05.

Employee strength and productivity



Glossary

Terms

1. ATKM (Available Tonne Kilometre) - Overall capacity measured in tonnes available for carriage of passengers and cargo load multiplied by the distance flown

2. RTKM (Revenue Tonne Kilometre) - Actual traffic load (passenger and cargo) carried measured in terms of tonnes multiplied by the distance flown

3. ASKM (Available Seat Kilometre) - Passenger seat capacity measured in seats available multiplied by the distance flown

4. RPKM (Revenue Passenger Kilometre) - Number of passengers carried multiplied by the distance flown

5. EBITDAR - Operating profit before depreciation, amortization and operating lease rentals

Ratios

1. Passenger Seat factor - RPKM divided by ASKM

2. Overall Load Factor - RTKM divided by ATKM

3. Yield (Fils per RTKM) - Transport revenue earned per RTKM

4. Unit cost (Fils per ATKM) - Transport operating costs incurred per ATKM

5. Breakeven load factor - The load factor at which revenue will equal operating costs

6. Operating margin - Operating profit expressed as a percentage of sum of operating revenue and other operating income

7. Net margin - Profit for the year attributable to Emirates' owner expressed as a percentage of sum of operating revenue and other operating income

8. Return on shareholder's funds - Profit for the year attributable to Emirates' owner expressed as a percentage of average shareholder's funds attributable to Emirates' owner

9. Operating cash margin - Cash generated from operating activities expressed as a percentage of sum of operating revenue and other operating income

Independent auditors' report to the Government of Dubai

We have audited the accompanying consolidated balance sheet of Emirates and its subsidiaries (together referred to as "Emirates") as at 31 March 2006 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements, which include notes 1 to 33, are the responsibility of Emirates' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Emirates as at 31 March 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Chartered Accountants

Dubai
18 April 2006

Consolidated income statement for the year ended 31 March 2006

	Notes	2006 AED'000	2005 AED'000
Revenue	4	22,275,429	17,619,769
Other operating income	5	398,344	288,800
Operating costs	6	(20,021,482)	(15,289,780)
Operating profit		**2,652,291**	**2,618,789**
Finance costs - net	7	(58,364)	(106,565)
Share of results in associated companies	11	55,007	47,276
Profit before income tax		**2,648,934**	**2,559,500**
Income tax expense	8	(87,608)	(56,783)
Profit for the year		**2,561,326**	**2,502,717**
Profit attributable to minority interest		86,327	95,332
Profit attributable to Emirates' owner		**2,474,999**	**2,407,385**

Notes 1 to 33 form an integral part of the consolidated financial statements.

Consolidated balance sheet at 31 March 2006

	Notes	2006 AED'000	2005 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	13,534,875	10,224,259
Intangible assets	10	669,671	419,212
Investment in associated companies	11	268,293	245,696
Available-for-sale financial assets	12	100,179	98,972
Advance lease rentals	13	257,638	217,133
Held-to-maturity investments	12	349,344	220,380
Receivables	14	450,863	59,065
Derivative financial instruments	30	1,387,001	734,502
		17,017,864	**12,219,219**
Current assets			
Inventories	15	479,569	392,126
Trade and other receivables	16	4,154,002	3,215,028
Held-to-maturity investments	12	183,650	-
Derivative financial instruments	30	359,457	563,735
Cash and bank balances	28	9,199,004	7,328,459
		14,375,682	**11,499,348**
Total assets		**31,393,546**	**23,718,567**
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	17	801,214	801,214
Other reserves	18	1,600,145	862,760
Retained earnings		8,387,012	6,298,013
Attributable to Emirates' owner		**10,788,371**	**7,961,987**
Minority interest		130,180	149,703
Total equity		**10,918,551**	**8,111,690**
Non-current liabilities			
Borrowings and lease liabilities	19	9,097,330	7,634,790
Provisions	23	377,176	289,758
Deferred credits	24	795,547	497,895
Trade and other payables	25	125,723	111,448
Derivative financial instruments	30	220,161	392,948
		10,615,937	**8,926,839**
Current liabilities			
Trade and other payables	25	7,454,635	5,957,054
Tax liabilities		103,436	43,980
Borrowings and lease liabilities	19	2,149,224	507,239
Deferred credits	24	151,707	83,763
Derivative financial instruments	30	56	88,002
		9,859,058	**6,680,038**
Total liabilities		**20,474,995**	**15,606,877**
Total equity and liabilities		**31,393,546**	**23,718,567**

The consolidated financial statements were approved on the 18th day of April 2006 and signed by:

Sheikh Ahmed bin Saeed Al-Maktoum
Chairman and Chief Executive

Maurice Flanagan
Executive Vice Chairman

Notes 1 to 33 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 March 2006

	Attributable to Emirates' owner					
	Capital AED'000	**Other reserves** AED'000	**Retained earnings** AED'000	**Total** AED'000	**Minority interest** AED'000	**Total equity** AED'000
1 April 2004 as previously reported	**772,214**	**123,354**	**4,001,778**	**4,897,346**	**115,234**	**5,012,580**
Effect of transitional provision of IAS 39 (Note 12)	-	496	(496)	-	-	-
Effect of transitional provision of IAS 16 (Note 32)	-	-	257,346	257,346	-	257,346
as restated	**772,214**	**123,850**	**4,258,628**	**5,154,692**	**115,234**	**5,269,926**
Currency translation differences (Note 11)	-	(5,155)	-	(5,155)	-	(5,155)
Loss on available-for-sale financial assets (Note 12)	-	(4,396)	-	(4,396)	-	(4,396)
Gain on fair value of cash flow hedges	-	1,189,561	-	1,189,561	2,877	1,192,438
Transferred to income statement	-	(441,100)	-	(441,100)	(2,877)	(443,977)
Net income recognised directly in equity	**-**	**738,910**	**-**	**738,910**	**-**	**738,910**
Profit for the year	-	-	2,407,385	2,407,385	95,332	2,502,717
Total income for the year	**-**	**738,910**	**2,407,385**	**3,146,295**	**95,332**	**3,241,627**
Additions during the year	29,000	-	-	29,000	-	29,000
Acquired from minority interest	-	-	-	-	(22,193)	(22,193)
Dividend	-	-	(368,000)	(368,000)	(38,670)	(406,670)
31 March 2005	**801,214**	**862,760**	**6,298,013**	**7,961,987**	**149,703**	**8,111,690**
Currency translation differences (Note 11)	-	(7,185)	-	(7,185)	-	(7,185)
Gain on fair value of cash flow hedges	-	1,357,937	-	1,357,937	148	1,358,085
Transferred to income statement	-	(613,367)	-	(613,367)	(145)	(613,512)
Net income recognised directly in equity	**-**	**737,385**	**-**	**737,385**	**3**	**737,388**
Profit for the year	-	-	2,474,999	2,474,999	86,327	2,561,326
Total income for the year	**-**	**737,385**	**2,474,999**	**3,212,384**	**86,330**	**3,298,714**
Acquired from minority interest	-	-	-	-	(37,374)	(37,374)
Dividend	-	-	(386,000)	(386,000)	(68,479)	(454,479)
31 March 2006	**801,214**	**1,600,145**	**8,387,012**	**10,788,371**	**130,180**	**10,918,551**

Notes 1 to 33 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 March 2006

	2006 AED'000	2005 AED'000
Operating activities		
Profit for the year before income tax	2,648,934	2,559,500
Adjustments for:		
Depreciation and amortisation (Note 6)	1,005,701	833,665
Finance costs - net (Note 7)	58,364	106,565
Loss on sale of property, plant and equipment and intangibles	36,118	5,292
Share of results in associated companies (Note 11)	(55,007)	(47,276)
Gain on sale of held-for-trading financial asset	-	(2,643)
Provision for impairment of trade receivables	14,335	11,566
Provision for employee benefits (Note 6)	219,441	160,007
Net movement on derivative financial instruments	32,247	23,945
Employee benefit payments	(150,148)	(129,054)
Income tax paid	(28,152)	(25,170)
Change in inventories	(87,443)	(75,282)
Change in receivables and advance lease rentals	(888,021)	(616,064)
Change in payables and deferred credits	1,299,346	1,203,862
Net cash generated from operating activities	**4,105,715**	**4,008,913**
Investing activities		
Proceeds from sale of property, plant and equipment and intangibles	11,795	2,592
Additions to intangibles (Note 10)	(133,331)	(73,617)
Additions to property, plant and equipment (Note 29)	(2,816,039)	(2,526,238)
Investment in an associate (Note 11)	(538)	-
Additional investment in a subsidiary	(188,351)	(66,000)
Acquisition	-	(6,013)
Addition to available-for-sale financial assets (Note 12)	(1,207)	-
Investment in short term bank deposits (Note 28)	(1,936,500)	-
Addition to held-to-maturity investments (Note 12)	(312,614)	(183,650)
Sale of held-for-trading financial assets	-	15,122
Interest income	299,075	178,389
Dividend from associated companies (Note 11)	29,133	21,884
Net cash used in investing activities	**(5,048,577)**	**(2,637,531)**
Financing activities		
Net proceeds from issue of bonds (Note 20)	2,014,676	-
Net loan drawdown (Note 21)	35,995	669,830
Aircraft financing costs	(209,049)	(157,355)
Other finance charges	(77,321)	(84,796)
Net lease liabilities	(461,237)	(604,864)
Capital introduced	-	29,000
Dividend paid	(368,000)	(300,000)
Dividend paid to minority shareholders	(68,479)	(38,670)
Net cash provided by / (used in) financing activities	**866,585**	**(486,855)**
Net (decrease) / increase in cash and cash equivalents	**(76,277)**	**884,527**
Cash and cash equivalents at beginning of year	7,328,459	6,443,932
Cash and cash equivalents at end of year (Note 28)	**7,252,182**	**7,328,459**

Notes 1 to 33 form an integral part of the consolidated financial statements.

1. Establishment and operations

Emirates comprises Emirates, its subsidiaries, associated companies and joint venture. Emirates was incorporated, with limited liability, by an Emiri Decree issued by H. H. Sheikh Maktoum bin Rashid Al-Maktoum on 26 June 1985 and is wholly owned by the Government of Dubai. Emirates commenced commercial operations on 25 October 1985 and is designated as the International Airline of the UAE.

The main activities of Emirates comprise:

- commercial air transportation which includes passenger, cargo and postal carriage services
- wholesale and retail of consumer goods
- in-flight and institutional catering
- hotel operations

2. Summary of significant accounting policies

A summary of the significant accounting policies, which have been applied consistently, is set out below.

Basis of preparation

The consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The consolidated financial statements are prepared under the historical cost convention except for those financial assets and financial liabilities that are measured at fair value as stated in the accounting policies below.

Adoption of new and revised International Financial Reporting Standards

In the current year, Emirates has adopted all of the new and revised standards relevant to its operations which are mandatory for accounting periods commencing on or after 1 January 2005. All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. The adoption has resulted in a change to the accounting policy on property, plant and equipment. The impact of this change is disclosed in Note 32.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to the existing standards have been published that are mandatory for accounting periods commencing on or after 1 January 2006. Management is currently assessing the following standards and interpretations which are likely to have an impact on Emirates' operations:

- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 April 2006)
- IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 April 2007)
- IFRS 7, Financial Instruments: Disclosures (effective from 1 April 2007)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 April 2006)
- IAS 19 (Amendment), Employee Benefits (effective from 1 April 2006)
- IAS 39 (Amendment), The Fair Value Option (effective from 1 April 2006)

Basis of consolidation

Subsidiaries are those entities in which Emirates has an interest of more than one half of the voting rights or otherwise has the power to govern the entity's operating and financial policies. Subsidiaries are consolidated from the date on which control is transferred to Emirates and are no longer consolidated from the date that control ceases. All material inter-company transactions, balances and unrealised gains and losses arising on transactions between Emirates and its subsidiaries are eliminated.

The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of assets given and liabilities assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets including intangible assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Associated companies are those entities in which Emirates has between 20% and 50% of the voting rights, or over which it has significant influence, but which it does not control. Investment in associated companies are accounted for by applying the equity method and includes goodwill (net of accumulated impairment loss, if any) identified on acquisition.

Joint ventures are contractual arrangements which establish joint control. For investments in jointly controlled operations, each venturer individually recognises the assets it controls, liabilities and expenses it incurs and its share of income from the services rendered by the joint operations.

All material unrealised gains and losses arising on transactions between Emirates and its associates and joint ventures are eliminated to the extent of Emirates' interest.

2. Summary of significant accounting policies (continued)

Revenue

Passenger and cargo sales are recognised as revenue when the transportation is provided. Tickets sold but unused are held in the balance sheet under current liabilities as passenger and cargo sales in advance.

Revenue from sale of goods is recognised when risks and rewards of ownership are transferred to the customer and are stated net of discounts and returns. Other revenue is recognised net of discounts when services are rendered.

Interest income is recognised on a time proportion basis using the effective interest method.

Foreign currency translation

Foreign currency transactions are translated into UAE Dirhams (AED), the functional currency, at exchange rates approximating those ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the exchange rates ruling on the balance sheet date. The resultant foreign exchange gains and losses, other than those on qualifying cash flow hedges deferred in equity, are recognised in the income statement.

Translation differences on non-monetary items classified as available-for-sale financial assets are included in the fair value reserves in equity.

Share of results in associated companies are translated into UAE Dirhams at average exchange rates for the year. Translation differences relating to investments in associated companies and subsidiaries are classified as a translation reserve in equity until the disposal of the investment when the translation differences are recognised in the income statement as part of the gain or loss on sale.

Taxation

Taxation is provided for as and when the liability arises except where management is of the firm opinion that exemption from such taxation will ultimately be granted by the relevant authorities in the countries concerned.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost consists of purchase cost, together with any incidental expenses of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow and the cost can be reliably measured. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

Land is not depreciated. Depreciation is calculated on other items of property, plant and equipment so as to write off its cost, less estimated residual values, on a straight-line basis over the estimated useful lives of the assets concerned. The estimated useful lives and residual values are:

Passenger aircraft - new	15 years (residual value 10%)
Freighter aircraft - used	10 years (residual value 10%)
Aircraft engines and parts	5 - 15 years (residual value 0 - 10%)
Buildings	5 - 20 years
Other property, plant and equipment	3 - 15 years or over the lease term

Major overhaul expenditure is depreciated over the period to the next major overhaul.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

Capital projects are stated at cost. When the asset is ready for its intended use, it is transferred from capital projects to the appropriate category under property, plant and equipment and depreciated in accordance with Emirates' policies.

2. Summary of significant accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of the asset until such time the assets are substantially ready for their intended use. Where funds are borrowed specifically for the purpose of obtaining a qualifying asset, any investment income earned on temporary surplus funds is deducted from borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as an expense when incurred.

Manufacturers' credits

Emirates receives credits from manufacturers in connection with the acquisition of certain aircraft and engines. Depending on the nature of credits, these credits are either recorded as a reduction to the cost of the related aircraft and engines or reduced from ongoing operating expenses. Where the aircraft are held under operating leases, these credits are deferred and reduced from the operating lease rentals on a straight-line basis over the period of the related lease as deferred credits.

Finance and operating leases

Where property, plant and equipment have been financed by lease agreements under which substantially all of the risks and rewards of ownership are transferred to Emirates, they are treated as if they had been purchased outright and classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the present value of the minimum lease payments or the fair value of the leased asset. The corresponding lease obligations are included under liabilities. Lease payments are treated as consisting of capital and interest elements. Interest is computed on a time proportion basis at rates specified in the lease agreement. Interest expense together with depreciation on the asset are charged to the income statement.

Leases, where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rental charges, including advance rentals in respect of operating leases, are charged to the income statement on a straight-line basis over the period of the lease.

Profits arising on sale and leaseback transactions resulting in operating leases are recognised in the income statement to the extent that the sale proceeds do not exceed the fair value of the assets concerned. Any excess of sale proceeds over the fair value is deferred and amortised over the lease term. In the case of profits arising on sale and leaseback transactions resulting in finance leases, the excess of sale proceeds over the carrying amount is deferred and amortised over the lease term.

Intangible assets

Intangible assets are capitalised at cost only when future economic benefits are probable. Cost includes purchase price together with any directly attributable expenditure.

When the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

Intangible assets are amortised on a straight-line basis over the estimated useful lives which are:

Service rights	15 years
Computer software	5 years

Goodwill

Goodwill represents the excess of the cost of an acquisition or subsequent exchange transaction over the fair value of the share of the net identifiable assets acquired by Emirates in its subsidiaries at the date of acquisition or subsequent exchange transaction. Goodwill is presented with intangible assets.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash generating units. An impairment loss is recognised when the carrying value of the cash generating unit exceeds its recoverable amount.

2. Summary of significant accounting policies (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intent and ability to hold to maturity are recognised in the balance sheet on the trade date as held-to-maturity investments. Such investments are initially recognised at fair value including transaction costs and carried at amortised cost using the effective interest method. The investments are derecognised when rights to receive cash flows have expired or have been transferred along with substantially all the risks and rewards of ownership.

At each balance sheet date, a review is made for an indication of impairment and where necessary the carrying amount is written down through the income statement to the present value of expected future cash flows, discounted at the effective interest rate, computed at initial recognition.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category are not loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Such investments are initially recognised in the balance sheet on the trade date at fair value including transaction costs. Assets in this category are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date. The investments are derecognised when rights to receive cash flows have expired or have been transferred along with substantially all the risks and rewards of ownership.

Quoted investments are subsequently measured at their fair value based on quoted bid prices.

Unquoted investments in this category are stated at cost less impairment if fair values cannot be reliably measured.

At each balance sheet date a review is made for an indication of impairment. For investments carried at cost, an impairment loss is recognised where necessary by writing down the carrying amount through the income statement to the present value of expected future cash flows discounted at current market rates. For investments measured at fair value, an impairment charge is recognised only when there is a significant and prolonged decline in the fair value of the security below its cost. In such instances, the difference between the acquisition cost and the current fair value, less impairment loss previously recognised is removed from equity and recognised in the income statement.

Unrealised gains and losses arising from changes in the fair value are recognised in the fair value reserves in equity until the investment is sold or impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at fair value including transaction costs and subsequently remeasured at their fair value. Derivatives are designated either as a hedge of the fair value of a recognised asset or liability or of a firm commitment (fair value hedge) or a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge). Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Emirates' criteria to account for a derivative financial instrument as a hedge include:

- formal documentation of the hedging instruments, hedged items, hedging objective, strategy and basis of measuring effectiveness all of which are prepared prior to applying hedge accounting; and
- documentation showing that the hedge effectiveness is assessed on an ongoing basis and is determined to have been highly effective in offsetting the risk of the hedged item throughout the reporting period.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. This accounting treatment is discontinued when the fair value hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the fair value reserve in equity. When the forecasted transaction results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and recognised in profit or loss in the same period during which the asset or liability affects profit or loss. In all other cases, amounts deferred in equity are transferred to the income statement in the period during which the forecasted transaction affects the income statement.

2. Summary of significant accounting policies (continued)

When a cash flow hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time is retained in equity and is ultimately recognised in the income statement when the forecasted transaction occurs. If a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. The gain or loss on the ineffective portion is recognised in the income statement.

Changes in the fair value of certain embedded currency derivatives in non-derivative contracts that do not qualify for cash flow hedge accounting are recognised immediately in the income statement and are disclosed separately in the notes.

Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Cost is determined on the weighted average cost basis with the exception of consumer goods inventory which is determined on a first-in-first-out basis.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment of these receivables. Where there is objective evidence of amounts that are not collectible, a provision is made for the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowing using the effective interest method.

Employee benefits

UAE national employees participate in the UAE government's pension fund to which the employee and Emirates contribute a specified percentage of salary. Contributions to the pension fund, are charged to the income statement in the period in which they fall due.

Senior employees who are based in the UAE participate in a provident fund to which the employee and Emirates contribute a specified percentage of salary. Contributions to the provident fund are charged to the income statement in the period in which they fall due.

End of service benefits for other employees based in the UAE are provided for as per UAE labour law and is based on periods of cumulative service and employees' current basic salary.

End of service benefits for employees based outside the UAE are provided for in accordance with the relevant local regulations.

Frequent flyer programme

Emirates maintains a frequent flyer programme that provides a variety of awards to programme members based on a mileage credit for flights on Emirates and other airlines that participate in the programme. Members can also accrue miles by utilising the services of non-airline programme participants.

Miles accrued through utilising the services of programme partners is paid for by the participating partners and the resulting revenue is recorded as other operating income.

The incremental direct cost of providing free travel as adjusted for estimated redemption rates, is provided for as programme members accrue miles.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise all cash and liquid funds with an original maturity of less than three months net of bank overdrafts.

3. Critical accounting estimates and judgements

In the preparation of the consolidated financial statements, a number of estimates and assumptions have been made relating to the application of accounting policies and reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management believes that the following discussion addresses the accounting policies that require subjective and complex judgements, often as a result of the need to make estimates.

Impairment of aircraft

A decline in the value of aircraft could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of aircraft whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value beyond that which would be expected from the passage of time or normal use
- significant changes in the technology and regulatory environments
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected

In management's judgement, the carrying values of aircraft are not impaired.

Depreciation of property, plant and equipment

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management has reviewed the residual values and useful lives of major items of property, plant and equipment and determined that no adjustment is necessary.

Provision for the frequent flyer programme

The provision is based on miles outstanding valued at the incremental direct cost of providing the service. In arriving at the miles outstanding, an adjustment is made for miles which are not expected to be redeemed based on current trends. Incremental direct costs are arrived at based on the forecasted weighted average cost of the reward mix i.e. redemptions on Emirates services and on non-airline or other member airlines. These estimates are reviewed on an annual basis and the liability suitably adjusted as appropriate. A 5% change in the redemption patterns will impact the provision by AED 6.0 million.

4. Revenue

	2006 AED'000	2005 AED'000
Services		
Passenger	16,381,274	12,990,911
Cargo	4,134,985	3,199,643
Courier	277,297	202,836
Excess baggage	173,810	137,015
Destination and leisure	146,718	123,148
Hotel operations	79,754	62,304
Training	69,217	58,240
Mail	47,515	50,126
Licensed engineering income	15,897	16,144
	21,326,467	**16,840,367**
Sale of goods	**948,962**	**779,402**
	22,275,429	**17,619,769**

Segment information
Primary reporting format - geographical segments

	Middle East AED'000	Europe and Americas AED'000	East Asia and Australasia AED'000	West Asia and Indian Ocean AED'000	Africa AED'000	Total AED'000
2006						
Segment revenue	3,641,943	8,329,356	6,659,707	1,847,523	2,195,244	22,673,773
Segment results	1,807,366	2,279,874	1,418,547	571,216	653,616	6,730,619
Unallocated costs						(4,078,328)
Operating profit						**2,652,291**
Finance costs - net	(58,364)	-	-	-	-	(58,364)
Share of results in associated companies	55,007	-	-	-	-	55,007
Income tax expense	(12,127)	-	(65,229)	-	(10,252)	(87,608)
Profit for the year						**2,561,326**
2005						
Segment revenue	2,957,563	6,551,473	4,968,470	1,747,580	1,683,483	17,908,569
Segment results	1,501,413	1,961,874	1,260,749	565,847	592,243	5,882,126
Unallocated costs						(3,263,337)
Operating profit						**2,618,789**
Finance costs - net	(106,565)	-	-	-	-	(106,565)
Share of results in associated companies	47,276	-	-	-	-	47,276
Income tax expense	(11,803)	-	(42,256)	-	(2,724)	(56,783)
Profit for the year						**2,502,717**

4. Revenue (continued)

Transport revenue is allocated to the segments based on turnover by destination. Revenue from inbound and outbound airline operations between UAE and the overseas point are attributed to the geographical area in which the respective overseas points are located. The Middle East segment also includes other operating income and other revenue streams since it is the principal segment in which services are rendered. Costs not directly attributable to geographical segments are shown as unallocated.

The major revenue earning asset is the aircraft fleet which is registered in the UAE. Since the aircraft fleet is deployed flexibly across the Emirates' route network, there is no suitable basis of allocating such assets and the related depreciation and liabilities to geographical segments. Other non-cash items are primarily related to the Middle East segment.

Secondary reporting format - business segments

	Airline related		Consumer		
	Passenger AED'000	**Cargo** AED'000	**goods** AED'000	**Other** AED'000	**Total** AED'000
2006					
Segment revenue	17,465,679	4,459,797	641,498	106,799	22,673,773
Total assets	30,528,725	270,562	381,390	212,869	31,393,546
Capital expenditure and intangible assets	4,445,007	215,488	17,267	1,302	4,679,064
2005					
Segment revenue	13,850,123	3,452,605	519,719	86,122	17,908,569
Total assets	23,069,162	62,492	358,499	228,414	23,718,567
Capital expenditure and intangible assets	3,048,275	62,492	8,267	46,084	3,165,118

5. Other operating income

Other operating income includes an amount of AED 126.4 million (2005: AED 113.2 million) being collections from ancillary services provided in relation to transportation of passengers and cargo.

6. Operating costs

	2006 AED'000	**2005** AED'000
Fuel and oil	5,445,152	3,279,107
Employee (see (a) over)	3,254,022	2,700,992
Aircraft operating leases (see (b) over)	2,312,168	1,878,249
Sales and marketing	2,195,381	1,896,421
Handling (see (c) over)	1,363,012	1,153,834
In-flight catering and other operating costs	1,052,878	884,191
Depreciation (Note 9)	974,355	801,708
Overflying (see (c) over)	765,349	672,641
Cost of goods sold	541,846	406,706
Landing and parking (see (c) over)	436,904	374,116
Aircraft maintenance	373,401	284,626
Amortisation (Note 10)	31,346	31,957
Corporate overheads (see (d) over)	1,275,668	925,232
	20,021,482	**15,289,780**

6. Operating costs (continued)

(a) Employee costs include AED 219.4 million (2005: AED 160.0 million) in respect of employee benefits and AED 134.6 million (2005: AED 90.0 million) in respect of an employee profit share scheme.

(b) Aircraft operating lease charges include AED 1,710.9 million (2005: AED 1,361.8 million) in respect of sixty aircraft (2005: fifty) and AED 601.3 million (2005: AED 516.4 million) in respect of the wet lease of freighter aircraft.

(c) A detailed review of direct operating cost accruals is performed each year. This review necessitated an adjustment to the accruals for landing, handling and overflying costs resulting in a release of excess accruals made in prior years amounting to AED 12.8 million (2005: AED 26.4 million).

(d) Corporate overheads include a net foreign exchange loss of AED 95.6 million (2005: AED 11.0 million), which includes a net currency loss on derivative instruments amounting to AED 31.3 million.

7. Finance costs - net

	2006 AED'000	**2005** AED'000
Aircraft financing costs	(237,353)	(190,628)
Interest charges	(158,941)	(91,091)
Interest income	337,930	175,154
	(58,364)	**(106,565)**

Net financing costs of AED 42.0 million (2005: Nil) were capitalised during the year (Note 9).

Interest charges include interest on bonds (Note 20) of AED 152.9 million (2005: AED 87.1 million). The total interest income before impact of derivative financial instruments was AED 337.3 million (2005: AED 147.5 million).

8. Income tax expense

Emirates has secured tax exemptions by virtue of double taxation agreements and airline reciprocal arrangements in most of the jurisdictions in which it operates. Therefore, income tax expense relates only to certain overseas stations where Emirates is subject to income tax. Hence providing information on effective tax rates is not meaningful.

9. Property, plant and equipment

	Aircraft AED'000	Aircraft engines and parts AED'000	Land and buildings AED'000	Other property, plant and equipment AED'000	Capital projects AED'000	Total AED'000
Cost						
1 April 2004						
as previously reported	5,880,291	1,607,273	926,068	1,120,874	1,095,485	10,629,991
Effect of transitional provision of IAS 16 (Note 32)	-	-	-	302,595	-	302,595
as restated	5,880,291	1,607,273	926,068	1,423,469	1,095,485	10,932,586
Additions	-	141,706	83,368	242,296	2,573,633	3,041,003
Acquisitions	-	-	-	354	-	354
Transfers from capital projects	475,745	286,605	54,876	264,287	(1,081,513)	-
Disposals	(11,870)	(12,103)	(208)	(46,403)	-	(70,584)
31 March 2005	**6,344,166**	**2,023,481**	**1,064,104**	**1,884,003**	**2,587,605**	**13,903,359**
Depreciation						
1 April 2004						
as previously reported	1,590,333	401,923	327,026	522,389	-	2,841,671
Effect of transitional provision of IAS 16 (Note 32)	-	-	-	98,421	-	98,421
as restated	1,590,333	401,923	327,026	620,810	-	2,940,092
Charge for the year	380,587	95,025	55,964	270,132	-	801,708
Disposals	(11,870)	(4,419)	(60)	(46,351)	-	(62,700)
31 March 2005	**1,959,050**	**492,529**	**382,930**	**844,591**	**-**	**3,679,100**
Net book amount						
31 March 2005	**4,385,116**	**1,530,952**	**681,174**	**1,039,412**	**2,587,605**	**10,224,259**
Cost						
1 April 2005	6,344,166	2,023,481	1,064,104	1,884,003	2,587,605	13,903,359
Additions	7,564	44,267	6,587	513,943	3,822,395	4,394,756
Transfers from capital projects	1,864,219	166,058	91,722	259,619	(2,445,993)	(64,375)
Disposals	(25,850)	(55,939)	(5,756)	(97,588)	(3,130)	(188,263)
31 March 2006	**8,190,099**	**2,177,867**	**1,156,657**	**2,559,977**	**3,960,877**	**18,045,477**
Depreciation						
1 April 2005	1,959,050	492,529	382,930	844,591	-	3,679,100
Charge for the year	416,874	134,211	53,913	369,357	-	974,355
Disposals	(25,850)	(20,249)	(658)	(96,096)	-	(142,853)
31 March 2006	**2,350,074**	**606,491**	**436,185**	**1,117,852**	**-**	**4,510,602**
Net book amount						
31 March 2006	**5,840,025**	**1,571,376**	**720,472**	**1,442,125**	**3,960,877**	**13,534,875**

9. Property, plant and equipment (continued)

The net book amount of property, plant and equipment includes AED 5,415.7 million (2005: AED 4,131.6 million) in respect of aircraft and AED 182.9 million (2005: AED 85.5 million) in respect of aircraft engines held under finance leases (Note 22).

The net book amount of land and buildings, aircraft and aircraft engines includes an amount of AED 661.7 million (2005: AED 722.4 million) in respect of assets provided as security against term loans (Note 21).

No depreciation is charged on land carried at AED 59.7 million (2005: AED 59.7 million), the title for which will be transferred to Emirates on final payment.

Property, plant and equipment includes capitalised interest amounting to AED 42.0 million (2005: AED Nil).

Capital projects include pre-delivery payments of AED 1,672.4 million (2005: AED 1,376.5 million) in respect of aircraft (Note 26) due for delivery between 2006 and 2013. During the year, an amount of AED 64.4 million was transferred out of capital projects to advance lease rentals.

During the year, repairable aircraft parts were reclassified from inventory to aircraft engines and parts to better reflect the pattern in which the benefits are expected to be consumed. Accordingly, the increase in property, plant and equipment at 1 April 2005 amounted to AED 208.3 million and the comparative figure at 1 April 2004 was AED 172.6 million.

Depreciation on repairable aircraft parts is aligned with the depreciation policy on aircraft and the related charge in the current year amounted to AED 20.9 million.

10. Intangible assets

	Goodwill AED'000	Service rights AED'000	Computer software AED'000	Total AED'000
Cost				
1 April 2004	214,842	47,680	122,921	385,443
Additions	50,498	35,107	38,510	124,115
31 March 2005	**265,340**	**82,787**	**161,431**	**509,558**
Amortisation and impairment				
1 April 2004	-	-	58,389	58,389
Amortisation for the year	-	4,185	21,034	25,219
Impairment charge	6,738	-	-	6,738
31 March 2005	**6,738**	**4,185**	**79,423**	**90,346**
Net book amount				
31 March 2005	**258,602**	**78,602**	**82,008**	**419,212**
Cost				
1 April 2005	265,340	82,787	161,431	509,558
Additions	150,977	79,546	53,785	284,308
Disposals	-	-	(4,433)	(4,433)
31 March 2006	**416,317**	**162,333**	**210,783**	**789,433**
Amortisation and impairment				
1 April 2005	6,738	4,185	79,423	90,346
Amortisation for the year	-	7,396	23,950	31,346
Disposals	-	-	(1,930)	(1,930)
31 March 2006	**6,738**	**11,581**	**101,443**	**119,762**
Net book amount				
31 March 2006	**409,579**	**150,752**	**109,340**	**669,671**

Computer software includes an amount of AED 55.2 million (2005: AED 23.2 million) in respect of projects under implementation.

For the purpose of testing goodwill for impairment, the goodwill is allocated to the consumer goods (AED 191.4 million) and catering services (AED 218.1 million) cash generating units. The recoverable amount for the cash generating unit has been determined on the basis of value-in-use calculations.

The key assumptions used in the value-in-use calculations for both cash generating units include a risk adjusted discount rate, historical gross margins of 20% and growth rates based on management's expectations for market development. Cash flow projections for both cash generating units are based on forecasts approved by management covering a three year period and a discount rate of 12%. Cash flows for both cash generating units beyond the three year period have been extrapolated using a steady 4% growth rate. The growth rate does not exceed the long term average growth rate for the markets in which the cash generating units operate.

11. Investment in subsidiaries, associated companies and joint ventures

Principal subsidiaries

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Maritime & Mercantile International L.L.C.	68.7	Wholesale and retail of consumer goods	UAE
Emirates Hotel L.L.C.	100.0	Hotel operations	UAE
Emirates Flight Catering Company L.L.C.	72.4	Catering services to airlines	UAE

During the year, Emirates invested a further 17.7% in Emirates Flight Catering Company L.L.C. (also refer Note 10). There were no other changes in ownership during the year.

Principal associated companies

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
SriLankan Airlines Limited	43.6	Air transportation, aircraft handling and catering	Sri Lanka

Joint venture

The joint venture with CAE Inc. provides flight simulator training in the UAE. The joint venture has been set up as a jointly controlled operation.

Movement of investment in associated companies

	2006 AED'000	2005 AED'000
Balance brought forward / as previously reported	**245,696**	**172,287**
Effect of transitional provision of IAS 16 (Note 32)	-	53,172
Balance brought forward / as restated	**245,696**	**225,459**
Investment during the year	538	-
Share of results	55,007	47,276
Other equity movement	3,370	-
Dividends received	(29,133)	(21,884)
Translation difference (Note 18)	(7,185)	(5,155)
Balance carried forward	**268,293**	**245,696**

11. Investment in subsidiaries, associated companies and joint ventures (continued)

The investment in associated companies includes goodwill of AED 31.3 million (2005: AED 31.3 million). Investment during the year represents an investment made by a subsidiary.

The financial statements of SriLankan Airlines Limited have been drawn for a twelve month period ended 31 January 2006 to comply with the accelerated reporting timetable of Emirates. For the purpose of applying equity method of accounting and disclosures, the financial statements as drawn above have been used, and appropriate adjustments have been made, where necessary, for the effect of significant events between these dates and 31 March 2006.

Summarised financial information in respect of associated companies is set out below:

	2006 AED'000	2005 AED'000
Total assets	1,609,553	1,595,910
Total liabilities	1,073,322	1,107,355
Net assets	536,231	488,555
Revenue	2,539,671	2,189,829
Profit for the year	114,388	107,180

12. Other investments

(a) Available-for-sale financial assets

	2006 AED'000	2005 AED'000
Quoted	96,100	96,100
Unquoted	4,079	2,872
	100,179	**98,972**

The quoted investment represents Government of Dubai bonds, the effective interest rate on which was 3.11% (2005: 3.11%) per annum. At 31 March 2005, the investment was classified as held-for-trading with a carrying value of AED 96.1 million. In accordance with the transitional provisions of IAS 39, this investment has been re-classified into this category with the cumulative change in the fair value being recognised in a fair value reserve in equity. Opening retained earnings at 1 April 2004 have been decreased by AED 0.5 million and the effect of this reclassification has been tabulated below.

	2006 AED'000	2005 AED'000
Decrease in available-for-sale financial assets (Note 18)	-	(4,396)
Increase in profit before income tax	-	4,396

Unquoted investments represent depository certificates without fixed maturity in SITA Inc.. The investment does not carry any voting rights and transfer is restricted. Therefore, the investment is measured at cost as the fair value cannot be reliably measured.

12. Other investments (continued)

(b) Held-to-maturity investments

	2006 AED'000	2005 AED'000
Deposits with financial institutions:		
Current	183,650	-
Non-current	349,344	220,380
	532,994	**220,380**
The maturity dates fall into the following periods:		
Within one year	183,650	-
Between one and two years	136,730	183,650
Between two and three years	212,614	36,730

The effective interest rate was 4.89% (2005: 2.37%) per annum.

The carrying amounts of the investments approximate their fair value.

13. Advance lease rentals

	2006 AED'000	2005 AED'000
Balance brought forward	**239,186**	**184,924**
Additions / transfers during the year	72,307	72,477
Charge for the year	(25,906)	(18,215)
Balance carried forward	**285,587**	**239,186**
Advance lease rentals will be charged to the income statement as follows:		
Within one year (Note 16)	**27,949**	**22,053**
Total over one year	**257,638**	**217,133**

Advance lease rentals are not refundable in the event of the related lease being terminated prior to its expiry.

14. Receivables

	2006 AED'000	2005 AED'000
Related parties (Note 31)	2,166	2,265
Other receivables	448,697	56,800
	450,863	**59,065**
The amounts are due as follows:		
Between 2 and 5 years	412,590	59,065
After 5 years	38,273	-
	450,863	**59,065**

The carrying amounts of the receivables approximate their fair value.

15. Inventories

	2006 AED'000	2005 AED'000
Engineering	207,550	182,853
In-flight consumables	140,433	101,772
Consumer goods	85,495	72,452
Other	46,091	35,049
	479,569	**392,126**

16. Trade and other receivables

	2006 AED'000	2005 AED'000
Trade receivables	1,797,143	1,644,767
Related parties (Note 31)	23,630	15,126
Prepayments and deposits	876,043	499,403
Advance lease rentals (Note 13)	27,949	22,053
Operating lease deposits	717,981	685,601
Other receivables	1,162,119	407,143
	4,604,865	**3,274,093**
Less: Receivables over one year (Note 14)	(450,863)	(59,065)
	4,154,002	**3,215,028**

Impairment charge on trade and other receivables recognised in the income statement during the year amounted to AED 14.3 million (2005: AED 11.6 million). This charge is included in operating costs.

The effective interest rate on operating lease deposits was 3.73% (2005: 3.49%) per annum.

17. Capital

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

18. Other reserves

	Fair value reserve			
	Hedging instruments AED'000	**Other** AED'000	**Translation reserve** AED'000	**Total** AED'000
1 April 2004 as previously reported	**136,360**	**-**	**(13,006)**	**123,354**
Effect of transitional provision of IAS 39 (Note 12)	-	496	-	496
as restated	**136,360**	**496**	**(13,006)**	**123,850**
Currency translation differences (Note 11)	-	-	(5,155)	(5,155)
Loss on available-for-sale financial assets (Note 12)	-	(4,396)	-	(4,396)
Gain on fair value of cash flow hedges: -excluding associated companies	1,189,561	-	-	1,189,561
Transferred to income statement	(441,100)	-	-	(441,100)
31 March 2005	**884,821**	**(3,900)**	**(18,161)**	**862,760**
Currency translation differences (Note 11)	-	-	(7,185)	(7,185)
Gain on fair value of cash flow hedges: -excluding associated companies	1,354,590	-	-	1,354,590
-associated companies	3,347	-	-	3,347
Transferred to income statement	(613,367)	-	-	(613,367)
31 March 2006	**1,629,391**	**(3,900)**	**(25,346)**	**1,600,145**

19. Borrowings and lease liabilities

	2006 AED'000	2005 AED'000
Non-current		
Bonds (Note 20)	3,845,810	3,327,878
Term loans (Note 21)	765,661	731,563
Lease liabilities (Note 22)	4,485,859	3,575,349
	9,097,330	**7,634,790**
Current		
Bonds (Note 20)	1,499,689	-
Term loans (Note 21)	55,402	53,505
Lease liabilities (Note 22)	583,811	453,734
Bank overdrafts (Note 28)	10,322	-
	2,149,224	**507,239**

20. Bonds

	Rate	Maturity	2006 AED'000	2005 AED'000
USD Certificates	LIBOR + 75bps	June 2012	2,020,150	-
USD Floating rate notes	LIBOR + 80bps	March 2011	1,836,500	1,836,500
AED Floating rate notes	EBOR + 70bps	July 2006	1,500,000	1,500,000
			5,356,650	**3,336,500**
Less: Unamortised transaction costs			(11,151)	(8,622)
			5,345,499	**3,327,878**
Bonds are repayable as follows:				
Within one year (Note 19)			**1,499,689**	**-**
Total over one year (Note 19)			**3,845,810**	**3,327,878**

EBOR is the UAE interbank offered rate.

Contractual repricing dates are set at six month intervals.

USD certificates represent the proceeds raised from an Islamic 'sukuk' (bond) issue to finance the construction of certain buildings. The periodic distribution amounts, being the returns to sukuk holders, is based on six month LIBOR plus 75bps, except in the first year in which it is based on one year LIBOR plus 75bps.

The bonds maturing in March 2011 may be redeemed earlier at principal amounts plus accrued interest on the interest payment date in March 2009 by Emirates or the holders of more than 50% of the bonds then outstanding.

The carrying amounts of the bonds approximate their fair value.

21. Term loans

	2006 AED'000	2005 AED'000
Balance brought forward	**785,068**	**114,544**
Acquisitions	-	694
Additions during the year	111,000	690,524
Repayments during the year	(75,005)	(20,694)
Balance carried forward	**821,063**	**785,068**
Loans are repayable as follows:		
Within one year (Note 19)	**55,402**	**53,505**
Between 2 and 5 years	633,176	527,082
After 5 years	132,485	204,481
Total over one year (Note 19)	**765,661**	**731,563**

Contractual repricing dates are based on six month LIBOR. Term loans are secured on buildings, aircraft and aircraft engines.

The carrying amounts of the term loans approximate their fair value.

22. Lease liabilities

Finance leases

	2006 AED'000	2005 AED'000
Gross lease liabilities:		
Within one year	844,815	624,731
Between 2 and 5 years	3,571,095	3,153,447
After 5 years	2,428,174	1,486,361
	6,844,084	**5,264,539**
Future interest	(1,537,759)	(1,011,502)
Term deposits	(236,655)	(223,954)
Net lease liabilities	**5,069,670**	**4,029,083**
Net lease liabilities are repayable as follows:		
Within one year (Note 19)	**583,811**	**453,734**
Between 2 and 5 years	2,546,482	2,307,403
After 5 years	1,939,377	1,267,946
Total over one year (Note 19)	**4,485,859**	**3,575,349**

The lease liabilities are secured on the related aircraft and aircraft engines. In the event of these finance leases being terminated prior to their expiry, penalties are payable. Had these leases been cancelled at 31 March 2006, the penalties would have been AED 144.6 million (2005: AED 235.6 million).

The carrying amount of net lease liabilities approximate their fair value.

22. Lease liabilities (continued)

Operating leases

Future minimum lease payments are as follows:

	2006 AED'000	2005 AED'000
Aircraft fleet	17,991,060	14,936,397
Other	1,148,132	720,516
	19,139,192	**15,656,913**
Within one year	2,262,445	1,825,724
Between 2 and 5 years	9,266,758	7,908,262
After 5 years	7,609,989	5,922,927
	19,139,192	**15,656,913**

In the event of aircraft leases being terminated prior to their expiry, penalties are payable. Had these leases been cancelled at 31 March 2006, the penalties would have been AED 479.3 million (2005: AED 473.9 million).

Emirates is entitled to extend certain aircraft leases for a further period of one to three years at the end of the initial lease period. Further, Emirates is entitled to purchase twenty five of the sixty aircraft under these leases.

In addition, Emirates has nineteen Airbus / Boeing aircraft contracted on operating lease for delivery between April 2006 and May 2008.

23. Provisions

	End of service benefits AED'000	Frequent flyer programme AED'000	Total AED'000
Balance brought forward	**248,569**	**41,189**	**289,758**
Charge for the year	86,406	40,242	126,648
Payments made / benefits utilised during the year	(17,113)	(22,117)	(39,230)
Balance carried forward	**317,862**	**59,314**	**377,176**

The end of service benefit provision relates to employees who do not participate in the provident fund or the UAE government's pension fund.

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 March 2006, in respect of employees' end of service benefits payable under the relevant local regulations. The assessment assumed expected salary increases averaging 5% and a discount rate of 6% per annum. The present values of the obligations at 31 March 2006, using the actuarial assumptions as set out above, were not materially different from the provision computed in accordance with relevant local regulations.

24. Deferred credits

	2006 AED'000	2005 AED'000
Balance brought forward	**581,658**	**572,585**
Net additions during the year	449,663	87,407
Recognised during the year	(84,067)	(78,334)
Balance carried forward	**947,254**	**581,658**
Deferred credits will be recognised as follows:		
Within one year	**151,707**	**83,763**
Total over one year	**795,547**	**497,895**

25. Trade and other payables

	2006 AED'000	2005 AED'000
Trade payables and accruals	4,207,996	3,463,053
Related parties (Note 31)	2,186	4,521
Passenger and cargo sales in advance	2,984,176	2,232,928
Dividend payable	386,000	368,000
	7,580,358	**6,068,502**
Less: Payables over one year	125,723	111,448
	7,454,635	**5,957,054**

26. Commitments

Capital commitments

	2006 AED'000	2005 AED'000
Authorised and contracted:		
Aircraft fleet	66,326,688	44,349,807
Non-aircraft	1,179,731	2,169,198
Jointly controlled operation	3,122	79,220
	67,509,541	**46,598,225**
Authorised but not contracted:		
Non-aircraft	4,487,854	2,112,169
Jointly controlled operation	9,972	19,143
	4,497,826	**2,131,312**
	72,007,367	**48,729,537**

26. Commitments (continued)

Commitments have been entered into for the purchase of aircraft for delivery as follows (Note 9):

Financial year	Aircraft
2006 - 2007	2
Beyond 2006 - 2007	95

In addition, options are held on eight Airbus and twenty Boeing aircraft.

Operational commitments

	2006 AED'000	2005 AED'000
Letters of credit issued by bankers in the normal course of business	510,216	285,337
Sales and marketing	814,003	883,013

27. Guarantees

	2006 AED'000	2005 AED'000
Performance bonds provided by bankers in the normal course of business	37,108	27,725

28. Cash and cash equivalents

	2006 AED'000	2005 AED'000
Short term bank deposits and liquid funds	8,830,290	6,970,502
Cash and bank	368,714	357,957
Cash and bank balances	**9,199,004**	**7,328,459**
Bank overdrafts (Note 19)	(10,322)	-
	9,188,682	**7,328,459**
Less: Short term bank deposits over 3 months	(1,936,500)	-
	7,252,182	**7,328,459**

Short term bank deposits and liquid funds earned an effective interest rate of 4.34% (2005: 2.05%) per annum.

29. Analysis of capital expenditure

For the purposes of the consolidated statement of cash flows, capital expenditure is analysed as follows:

	2006 AED'000	2005 AED'000
Payments for property, plant and equipment	4,317,863	2,991,744
Less: Assets acquired under finance leases	(1,501,824)	(465,506)
Capital expenditure	**2,816,039**	**2,526,238**

30. Financial instruments

(i) Interest rate risk

Emirates is exposed to interest rate fluctuations on the international financial market with respect to interest cost on its long term debt obligations and interest income on its cash surpluses.

The long term debt portfolio of Emirates has a combination of fixed and floating rate debt and lease liabilities. Emirates proactively manages interest rate exposure by using interest rate swaps and options as appropriate. A 1% increase in interest rates relating to the debt and operating lease liabilities will increase the charge to the income statement in the next financial year by AED 99.6 million (2005: AED 92.1 million). The effective interest rate per annum on aircraft related financing and term loans, bonds and bank overdraft was 4.43% (2005: 4.19%), 4.62% (2005: 2.61%) and 5.50% (2005: Nil) respectively.

Emirates earns interest income on its cash surpluses. Emirates closely monitors interest rate trends and the related impact on interest income and manages interest rate exposure by entering into interest rate swaps and options.

Description	Term	AED'000
Cash flow hedge		
2006		
Interest rate swap asset	2006-2015	50,732
Interest rate swap liability	2006-2015	(4,374)
2005		
Interest rate swap liability	2005-2015	(67,241)

The notional principal amounts of the outstanding contracts at 31 March 2006 were AED 1,273.4 million (2005: AED 866.8 million).

The full fair value of the derivative instrument is classified as non-current if the remaining maturity of the hedged item is more than 12 months.

(ii) Currency risk

Emirates is exposed to exchange rate fluctuations between the US Dollar and other currencies which are generated from its revenue earning activities. Long term debt obligations are mainly denominated in UAE Dirhams, the functional currency or in US Dollars to which the UAE Dirham is pegged. Emirates closely monitors currency rate trends and the related impact on revenues. Emirates proactively manages its currency exposure by using currency swaps, forwards and options, as appropriate, and matching foreign currency inflows and outflows.

Exchange rate hedges

Description	Term	AED'000
Cash flow hedge		
2006		
Currency swap and forward asset	2006-2017	116,081
Currency swap liability	2006	(56)
Currency swap liability	2006-2011	(183,248)
2005		
Currency swap asset	2005	46
Currency swap liability	2005-2012	(325,707)
Embedded derivatives		
2006		
Derivative asset	2006-2016	60,258
Derivative liability	2006-2015	(32,539)

30. Financial instruments (continued)

The notional principal amounts of the outstanding contracts at 31 March 2006 were AED 3,270.4 million (2005: AED 1,511.5 million).

Inflows on account of terminated currency derivatives amounting to AED 15.8 million (2005: AED 18.5 million) will enter into the determination of profit between 2006 and 2011.

A letter of credit for AED 21.9 million (2005: AED 148.2 million) has been placed as a collateral against the liability.

The full fair value of the derivative instrument is classified as non-current if the remaining maturity of the hedged item is more than 12 months.

(iii) Fuel price risk

The airline industry is exposed to fluctuations in the price of jet fuel. Emirates closely monitors the actual cost of fuel against forecasted cost. Emirates utilises commodity futures and options to achieve a level of control over jet fuel costs so that profitability is not adversely affected. As a general principle, not more than the forecasted fuel consumption is hedged with percentage of cover being significantly higher in the near term than in latter periods.

Fuel price hedges

Description	**Term**	AED'000
Cash flow hedge		
2006		
Futures and options asset	2006-2007	359,457
Futures and options asset	2007-2010	1,159,930
2005		
Futures and options asset	2005-2006	563,689
Futures and options asset	2006-2010	734,502
Futures and options liability	2005-2006	(88,002)

The notional principal amounts of the outstanding contracts at 31 March 2006 were AED 11,817.8 million (2005: AED 7,048.9 million).

Inflows on account of terminated derivatives amounting to AED 98.1 million will enter into the determination of profit between 2006 and 2008.

A letter of credit for AED 734.6 million has been received as a collateral against the asset. In the event of the asset turning into a liability with the counter party, a letter of credit for AED 367.3 million has been pledged as a collateral.

(iv) Credit risk

There are no significant concentrations of credit risk other than on derivative counterparties where transactions are limited to financial institutions possessing high credit quality and hence the risk of default is low.

The sale of passenger and cargo transportation is largely achieved through International Air Transport Association (IATA) approved sales agents. The credit risk of such sales agents is relatively small owing to a broad diversification.

Cash surpluses are maintained with financial institutions possessing investment grade or higher credit quality. 14.7% (2005: 12.9%) of cash and bank balances and held-to-maturity investments are held with a financial institution under common control.

(v) Liquidity risk

Emirates proactively manages cash surpluses using a combination of short and long term investment programmes that ensure adequate liquidity to meet its short and long term obligations.

31. Related party transactions

	2006 AED'000	2005 AED'000
The following transactions were carried out with related parties:		
(i) Sale / purchase of goods and services		
Sale		
Services rendered - associated companies	**94,408**	**92,560**
Purchase		
Purchase of goods - associated companies	73,034	17,567
Purchase of goods - companies under common control	797,460	357,046
Services received - companies under common control	557,011	478,053
	1,427,505	**852,666**
(ii) Year end balances arising from sale / purchase of goods and / or services		
Receivables from related parties (Note 16)		
Associated companies	**19,904**	**11,931**
Payables to related parties (Note 25)		
Associated companies	-	1,583
Companies under common control	2,186	2,938
	2,186	**4,521**

The amounts outstanding at year end are unsecured and will be settled in cash. No guarantees have been given or received. No impairment charge has been recognised during the year in respect of amounts owed by related parties.

(iii) Compensation to key management personnel

	2006 AED'000	2005 AED'000
Salaries and short term employee benefits	64,029	45,499
Post-employment benefits	14,755	4,026
Termination benefits	-	597
Other long term benefits	-	27
	78,784	**50,149**
(iv) Loans and advances to key management personnel		
Balance brought forward	**3,195**	**870**
Additions during the year	2,583	3,761
Repayments during the year	(2,052)	(1,436)
Balance carried forward	**3,726**	**3,195**
Receivable within one year (Note 16)	**1,560**	**930**
Receivable over one year (Note 14)	**2,166**	**2,265**

Loans and advances are interest free except for advances amounting to AED 0.4 million (2005: AED 0.7 million) which carries an interest rate of 7.3% (2005: 7.3%) per annum and are repayable over 36 months. Emirates has the right to recover outstanding loans and advances against the final dues payable to the employees.

32. Effect of transitional provision of IAS 16

In accordance with IAS 16, Property, Plant and Equipment, effective for accounting periods commencing on or after 1 January 2005, expenditure on major overhaul is capitalised and depreciated over the period to the next major overhaul. Previously, expenditure on major overhauls which did not result in an improvement to the asset were treated as repairs and maintenance and expensed as incurred. The change in accounting policy has been accounted for retrospectively as required by IAS 16 and IAS 8, and comparative figures for 2005 restated. Opening retained earnings at 1 April 2004 has been increased by AED 257.3 million and the opening investment in associated companies at 1 April 2004 has been increased by AED 53.2 million (Note 11), which are the amounts of adjustment relating to periods prior to that date. The effect of the change in accounting policy is tabulated below.

	2006 AED'000	**2005** AED'000
Increase in property, plant and equipment	356,792	176,649
Increase in depreciation charge	190,945	126,748
(Decrease) / increase in share of results in associated companies	(11,346)	13,517
Increase in profit before income tax	154,501	63,418

33. Comparatives

The following comparative figures have been reclassified to conform with the current year's presentation so that they appropriately reflect the nature of the balances:

- Current and non-current distinction has been made for trade and other receivables and advance lease rentals amounting to AED 81.1 million and for trade and other payables and deferred credits amounting to AED 195.2 million to reflect the actual recovery and settlement patterns.
- Certain corporate overhead costs amounting to AED 450.7 million have been regrouped into handling, in-flight catering and other operating costs to more appropriately reflect the nature of expenses.
- Cargo revenue amounting to AED 91.2 million has been regrouped as revenue from courier services to more appropriately reflect the nature of service provided.
- An amount of AED 177.5 million has been reclassified from trade and other payables to trade and other receivables to reflect the amounts on a gross basis.

Independent auditors' report to the Government of Dubai

Dnata

We have audited the accompanying consolidated balance sheet of Dnata and its subsidiaries (together referred to as "Dnata") as at 31 March 2006 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements, including notes 1 to 25, are the responsibility of Dnata's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Dnata as at 31 March 2006 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Chartered Accountants

Dubai
18 April 2006

Consolidated income statement for the year ended 31 March 2006

	Notes	2006 AED'000	2005 AED'000
Revenue	4	1,702,092	1,354,590
Other operating income		31,810	35,709
Operating costs	5	(1,443,560)	(1,149,349)
Operating profit		**290,342**	**240,950**
Finance income - net	6	31,308	14,166
Share of results in associated companies and joint venture	10	4,548	7,193
Profit before income tax		**326,198**	**262,309**
Income tax expense	7	(1,810)	(1,902)
Profit for the year		**324,388**	**260,407**

Notes 1 to 25 form an integral part of the consolidated financial statements.

Consolidated balance sheet at 31 March 2006

	Notes	2006 AED'000	2005 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	599,972	558,657
Intangible assets	9	187,048	182,358
Investment in associated companies and joint venture	10	38,965	34,300
Held-to-maturity investment	13	-	128,555
Loans	23	6,526	3,690
Advance lease rentals	11	26,812	27,467
Deferred tax assets	17	3,268	-
		862,591	**935,027**
Current assets			
Inventories		17,868	15,111
Trade and other receivables	12	333,933	282,869
Held-to-maturity investment	13	128,555	-
Cash and cash equivalents	22	1,099,267	843,115
		1,579,623	**1,141,095**
Total assets		**2,442,214**	**2,076,122**
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	14	62,615	62,615
Reserves		1,390,219	1,063,644
Total equity		**1,452,834**	**1,126,259**
Non-current liabilities			
End of service benefit provision	15	162,140	152,007
Term loan	16	252,037	278,397
Deferred tax liabilities	17	49,356	49,642
		463,533	**480,046**
Current liabilities			
Trade and other payables	18	480,916	428,176
Term loan	16	31,711	31,133
Tax liabilities		13,220	10,508
		525,847	**469,817**
Total liabilities		**989,380**	**949,863**
Total equity and liabilities		**2,442,214**	**2,076,122**

The consolidated financial statements were approved on the 18th day of April 2006 and signed by:

Sheikh Ahmed bin Saeed Al-Maktoum
Chairman and Chief Executive

Maurice Flanagan
Executive Vice Chairman

Notes 1 to 25 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 March 2006

	Capital AED'000	**Capital reserve** AED'000	**Translation reserve** AED'000	**Retained earnings** AED'000	**Total equity** AED'000
1 April 2004	**62,615**	**-**	**(3,614)**	**807,322**	**866,323**
Profit for the year	-	-	-	260,407	260,407
Currency translation differences	-	-	(471)	-	(471)
31 March 2005	**62,615**	**-**	**(4,085)**	**1,067,729**	**1,126,259**
Profit for the year	-	-	-	324,388	324,388
Other equity movement	-	832	33	(820)	45
Currency translation differences	-	-	2,142	-	2,142
31 March 2006	**62,615**	**832**	**(1,910)**	**1,391,297**	**1,452,834**

Capital reserve represents share of non-distributable reserve of an associated company.

Notes 1 to 25 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 March 2006

	2006 AED'000	2005 AED'000
Operating activities		
Profit for the year before income tax	326,198	262,309
Adjustments for:		
Depreciation and amortisation (Note 5)	136,597	117,828
Finance income - net (Note 6)	(31,308)	(14,166)
Share of results in associated companies and joint venture (Note 10)	(4,548)	(7,193)
Profit on sale of assets	(9,650)	(1,433)
Provision for impairment of trade receivables (Note 12)	1,305	2,751
Provision for employee benefits	57,811	38,502
Employee benefit payments	(47,681)	(22,459)
Income tax paid	(3,733)	(838)
Change in inventories	(2,668)	282
Change in receivables and advance lease rentals	(47,695)	(47,788)
Change in trade and other payables	48,609	42,048
Net cash generated from operating activities	**423,237**	**369,843**
Investing activities		
Purchase of property, plant and equipment	(159,694)	(142,413)
Additions to intangible assets	(21,754)	(21,936)
Proceeds from sale of assets	19,125	4,451
Investment in associated companies and joint venture (Note 10)	(5,106)	(1,037)
Finance income - net	29,612	13,244
Dividend received from associated companies (Note 10)	5,242	8,628
Held-to-maturity investment (Note 13)	-	(128,555)
Loans (Note 23)	(5,626)	(3,637)
Acquisition of a subsidiary	-	(367,014)
Net cash used in investing activities	**(138,201)**	**(638,269)**
Financing activities		
Repayment of loan (Note 16)	(30,928)	-
Dividend paid	-	(29,000)
Term loan (Note 16)	-	309,530
Net cash (used in) / provided by financing activities	**(30,928)**	**280,530**
Net increase in cash and cash equivalents	**254,108**	**12,104**
Cash and cash equivalents at beginning of year	843,115	833,714
Effects of exchange rate changes	2,044	(2,703)
Cash and cash equivalents at end of year (Note 22)	**1,099,267**	**843,115**

Notes 1 to 25 form an integral part of the consolidated financial statements.

1. Establishment and operations

Dnata comprises Dnata, its subsidiaries, associated companies and joint venture. Dnata was incorporated in the emirate of Dubai, UAE with limited liability, under an Emiri Decree issued by H.H. Sheikh Maktoum bin Rashid Al-Maktoum on 4 April 1987. On that date, the total assets and liabilities of Dubai National Air Travel Agency were transferred to Dnata, with effect from 1 April 1987, for nil consideration. Dnata is wholly owned by the Government of Dubai.

The main activities of Dnata comprise:

- aircraft handling and engineering services
- handling services for export and import cargo
- information technology services
- representing airlines as their general sales agent
- travel agency and other travel related services
- inflight and institutional catering

2. Summary of significant accounting policies

A summary of the significant accounting policies, which have been applied consistently, is set out below.

Basis of preparation

The consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards. The consolidated financial statements are prepared under the historical cost convention.

Adoption of new and revised International Financial Reporting Standards

In the current year, Dnata has adopted all of the new and revised standards relevant to its operations which are mandatory for accounting periods commencing on or after 1 January 2005. All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. The adoption has not resulted in a substantial change to the accounting policies.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods commencing on or after 1 January 2006. Management is currently assessing the following standards and interpretations which are likely to have an impact on Dnata's operations:

- IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 April 2007)
- IFRS 7, Financial Instruments: Disclosures (effective from 1 April 2007)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 April 2006)
- IAS 19 (Amendment), Employee Benefits (effective from 1 April 2006)

Basis of consolidation

Subsidiaries are those entities in which Dnata has an interest of more than one half of the voting rights or otherwise has the power to govern the entity's operating and financial policies. Subsidiaries are consolidated from the date on which control is transferred to Dnata and are no longer consolidated from the date on which control ceases. All material inter-company transactions, balances and unrealised gains and losses arising on transactions between Dnata and its subsidiaries are eliminated.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of assets given and liabilities assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets including intangible assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date.

Associated companies are those entities in which Dnata has between 20% and 50% of the voting rights, or over which it has significant influence, but which it does not control. Investment in associated companies are accounted for by applying the equity method and includes goodwill (net of accumulated impairment loss, if any) identified on acquisition.

Joint ventures are contractual arrangements which establish joint control. Investment in jointly controlled entities are accounted for by applying the equity method and includes goodwill (net of accumulated impairment loss) on acquisition.

All material unrealised gains and losses arising on transactions between Dnata and its associated companies and joint ventures are eliminated to the extent of Dnata's interest.

2. Summary of significant accounting policies (continued)

Revenue

Revenue from services other than from information technology services is stated net of value-added taxes, rebates and discounts, and is recognised on the performance of services.

Revenue from information technology services is recognised as services are rendered for time-and-material contracts and as per the percentage-of-completion method with reference to the stage of completion for software implementation services.

Revenue from sale of goods is recognised when the risks and rewards of ownership are transferred to the customer and is stated net of discounts.

Interest income is recognised on a time proportion basis using the effective interest method.

Foreign currency translation

Foreign currency transactions are translated into UAE Dirhams (AED), the functional currency, at exchange rates approximating those ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the exchange rates ruling on the balance sheet date. The resultant foreign exchange gains and losses are recognised in the income statement.

Income statements and cash flows of subsidiaries are translated into UAE Dirhams at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on the balance sheet date. Share of results in associated companies are translated into UAE Dirhams at average exchange rates for the year.

Translation differences relating to investments in associated companies and subsidiaries are classified as a translation reserve in equity until the disposal of the investment when the translation differences are recognised in the income statement as part of the gain or loss on sale.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost consists of purchase cost, together with any incidental expenses of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow and the cost can be reliably measured. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation is calculated so as to write off the cost of property, plant and equipment on a straight line basis over the estimated useful life of the assets concerned. The estimated useful lives are:

Buildings	5 - 20 years
Leasehold property	over the remaining term of the lease
Airport plant and equipment	5 - 10 years
Office equipment and furniture	3 - 5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the carrying amount of property, plant and equipment is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

Capital projects are stated at cost. When the asset is ready for its intended use, it is transferred from capital projects to the appropriate category under property, plant and equipment and depreciated in accordance with Dnata's policies.

2. Summary of significant accounting policies (continued)

Intangible assets

Intangible assets are capitalised at cost only when future economic benefits are probable. Cost includes purchase price together with any directly attributable expenditure.

When the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

Intangible assets are amortised on a straight-line basis over the estimated useful lives, which are:

Contractual rights	over the term of the rights
Computer software	5 years

Goodwill

Goodwill represents the excess of the cost of an acquisition or subsequent exchange transactions over the fair value of the share of the identifiable net assets acquired by Dnata in its subsidiaries at the date of acquisition or subsequent exchange transactions. Goodwill is presented with intangible assets.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash generating units. An impairment loss is recognised when the carrying value of the cash generating unit exceeds its recoverable amount.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intent and ability to hold to maturity are recognised in the balance sheet on the trade date as held-to-maturity investments. Such investments are initially recognised at fair value including transaction costs and carried at amortised cost using the effective interest method. The investments are derecognised when rights to receive cash flows have expired or have been transferred along with substantially all the risks and rewards of ownership.

At each balance sheet date a review is made for an indication of impairment and where necessary the carrying amount is written down through the income statement to the present value of expected future cash flows, discounted at the effective interest rate, computed at initial recognition.

Operating leases

Leases, where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rental charges, including advance rentals in respect of operating leases, are charged to the income statement on a straight-line basis over the period of the lease.

Inventories

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

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment of these receivables. Where there is objective evidence of amounts that are not collectible, a provision is made for the difference between the carrying amount and the present value of estimated future cash flows discounted at the effective interest rate.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowing using the effective interest rate method.

2. Summary of significant accounting policies (continued)

Employee benefits

UAE national employees participate in the UAE government's pension fund to which the employee and Dnata contribute a specified percentage of salary. Contributions to the pension fund are charged to the income statement in the period in which they fall due.

Senior employees who are based in the UAE participate in a provident fund to which the employee and Dnata contribute a specified percentage of salary. Contributions to the provident fund are charged to the income statement in the period in which they fall due.

End of service benefits for other employees based in the UAE are provided for as per UAE labour law and are based on periods of cumulative service and employee's current basic salary.

End of service benefits for employees based outside the UAE are provided for in accordance with the relevant local regulations.

Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted in the jurisdiction of the individual companies by the balance sheet date and are expected to apply when the related deferred income tax liability is settled or the deferred tax asset is realised.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise all cash and liquid funds with an original maturity of less than three months, net of bank overdrafts.

3. Critical accounting estimates and judgements

In the preparation of the consolidated financial statements, a number of estimates and assumptions have been made relating to the application of accounting policies and reported amounts of assets and liabilities and income and expense. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management believes that the following discussion addresses the accounting policies that require subjective and complex judgements, often as a result of the need to make estimates.

Impairment of property, plant and equipment and intangible assets (excluding goodwill)

Management assesses the impairment of property, plant and equipment and intangible assets (excluding goodwill) whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could trigger an impairment review include the following:

- significant decline in an asset's market value beyond that which would be expected from the passage of time or normal use
- significant changes in the use of an asset or the strategy of the operation to which the asset belongs
- significant changes in the technology and regulatory environments
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected

In management's judgement, the carrying amount of the property, plant and equipment and intangible assets are not impaired.

Impairment of goodwill

Goodwill arises in business combinations. It is not amortised, but is tested annually for impairment. Management reviews, on a regular basis, the performance of cash generating units. Goodwill is allocated to one or more appropriate cash generating units and any impairment is determined by comparing the carrying value of the cash generating unit with its recoverable amount. When an impairment charge is necessary, it is first applied to goodwill. Management has determined that goodwill is not impaired as the recoverable amount of the cash generating unit is significantly higher than its carrying value.

Depreciation of property, plant and equipment

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management has reviewed the residual value and useful lives of major items of property, plant and equipment and determined that no adjustment is necessary.

4. Revenue

	2006 AED'000	2005 AED'000
Services		
Airport operations	729,565	564,528
Information technology	296,748	264,474
Cargo	273,901	242,877
Reservations system	134,603	109,633
Agency commission	108,229	93,506
Other	44,216	34,220
	1,587,262	**1,309,238**
Sale of goods	**114,830**	**45,352**
	1,702,092	**1,354,590**

5. Operating costs

	2006 AED'000	2005 AED'000
Employee (see below)	862,554	699,733
Depreciation and amortisation	136,597	117,828
Information technology infrastructure costs	109,013	97,938
Office accommodation	49,489	45,227
Cost of goods sold	31,887	13,345
Operating lease rentals	14,039	7,463
Corporate overheads	239,981	167,815
	1,443,560	**1,149,349**

Employee costs include AED 57.8 million (2005: AED 38.5 million) in respect of employee benefits and AED 33.0 million (2005: AED 22.6 million) in respect of an employee profit share scheme.

6. Finance income - net

	2006 AED'000	2005 AED'000
Interest income	41,377	16,539
Interest charges	(10,069)	(2,373)
	31,308	**14,166**

7. Income tax expense

The components of income tax expense are:

	2006 AED'000	2005 AED'000
Current tax	6,338	1,670
Deferred tax (credit) / expense (Note 17)	(4,528)	232
	1,810	**1,902**

Income tax relates to subsidiary companies which are subject to tax.

8. Property, plant and equipment

	Buildings and leasehold property AED'000	Airport plant and equipment AED'000	Office equipment and furniture AED'000	Motor vehicles AED'000	Capital projects AED'000	Total AED'000
Cost						
1 April 2004	75,395	278,306	458,317	15,477	12	827,507
Additions	951	51,709	54,665	2,299	32,789	142,413
Acquisition	231,816	21,317	665	-	1,469	255,267
Currency translation differences	1,618	149	5	-	10	1,782
Transfer from capital projects	7,320	1,657	2,368	-	(11,345)	-
Disposals	(7)	(11,753)	(16,842)	(1,093)	-	(29,695)
31 March 2005	**317,093**	**341,385**	**499,178**	**16,683**	**22,935**	**1,197,274**
Depreciation						
1 April 2004	35,792	159,681	354,716	9,731	-	559,920
Charge for the year	9,823	40,743	52,729	2,121	-	105,416
Disposals	(7)	(11,457)	(14,198)	(1,057)	-	(26,719)
31 March 2005	**45,608**	**188,967**	**393,247**	**10,795**	**-**	**638,617**
Net book amount 31 March 2005	**271,485**	**152,418**	**105,931**	**5,888**	**22,935**	**558,657**
Cost						
1 April 2005	317,093	341,385	499,178	16,683	22,935	1,197,274
Additions	839	44,355	49,177	4,193	61,450	160,014
Currency translation differences	4,333	(143)	32	19	47	4,288
Transfer from capital projects	3,658	4,308	5,215	-	(13,181)	-
Disposals	(1,230)	(22,183)	(13,422)	(1,738)	-	(38,573)
31 March 2006	**324,693**	**367,722**	**540,180**	**19,157**	**71,251**	**1,323,003**
Depreciation						
1 April 2005	45,608	188,967	393,247	10,795	-	638,617
Charge for the year	16,922	50,787	51,740	2,054	-	121,503
Currency translation differences	464	179	23	31	-	697
Disposals	(1,214)	(21,793)	(13,091)	(1,688)	-	(37,786)
31 March 2006	**61,780**	**218,140**	**431,919**	**11,192**	**-**	**723,031**
Net book amount 31 March 2006	**262,913**	**149,582**	**108,261**	**7,965**	**71,251**	**599,972**

9. Intangible assets

	Goodwill AED'000	Computer software AED'000	Contractual rights AED'000	Total AED'000
Cost				
1 April 2004	-	53,128	-	53,128
Additions	-	21,936	-	21,936
Acquisition	70,852	1,601	76,096	148,549
Currency translation differences	494	11	531	1,036
Disposals	-	(142)	-	(142)
31 March 2005	**71,346**	**76,534**	**76,627**	**224,507**
Amortisation				
1 April 2004	-	29,837	-	29,837
Charge for the year	-	8,868	3,544	12,412
Disposals	-	(100)	-	(100)
31 March 2005	-	**38,605**	**3,544**	**42,149**
Net book amount 31 March 2005	**71,346**	**37,929**	**73,083**	**182,358**
Cost				
1 April 2005	71,346	76,534	76,627	224,507
Additions	-	21,795	-	21,795
Adjustments	4,143	-	-	4,143
Currency translation differences	1,325	(54)	1,422	2,693
Disposals	-	(8,638)	-	(8,638)
31 March 2006	**76,814**	**89,637**	**78,049**	**244,500**
Amortisation				
1 April 2005	-	38,605	3,544	42,149
Charge for the year	-	8,056	7,038	15,094
Currency translation differences	-	(3)	245	242
Disposals	-	(33)	-	(33)
31 March 2006	-	**46,625**	**10,827**	**57,452**
Net book amount 31 March 2006	**76,814**	**43,012**	**67,222**	**187,048**

Computer software includes an amount of AED 18.7 million (2005: AED 9.4 million) in respect of projects under implementation. The adjustment to goodwill results from a revision to the liabilities recognised on acquisition.

For the purpose of testing goodwill for impairment, the entire goodwill is allocated to the airport services cash generating unit based in Singapore. The recoverable amount for the cash generating unit has been determined on the basis of value in use calculations.

9. Intangible assets (continued)

The key assumptions used in the value in use calculations include a risk adjusted discount rate, historical net margin of 15% and growth rates based on management's expectations for market development. Cash flow projections are based on forecasts approved by management covering a five year period and a discount rate of 10%. Cash flows beyond the five year period have been extrapolated using a steady 4% growth rate. This growth rate does not exceed the long term average growth rate for the market in which the cash generating unit operates.

10. Investment in subsidiaries, associated companies and joint venture

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Principal subsidiaries			
Dnata Travel (UK) Ltd.	100	Travel agency	UK
Dnata Inc.	100	Aircraft handling services	Philippines
Kedma Holdings Pte Ltd.	100	Investment company	Singapore
Changi International Airport Services Pte Ltd.	100	Aircraft handling and catering services	Singapore
Principal associated companies			
Dubai Express L.L.C.	50	Freight clearing and forwarding	UAE
Gerry's Dnata (Private) Ltd.	50	Aircraft handling services	Pakistan
Safiran Dnata Airport Services PJSC	49	Ground handling services	Iran
Emirates Loyalty Company L.L.C.	40	Customer loyalty programme	UAE
Dnata Arabian Airport Services Co. Ltd.	50	Aircraft handling services	Sudan
Joint venture			
Dnata-PWC Airport Logistics	50	Logistics services	UAE

The investment in the joint venture was made during the year.

There were no other changes in ownership during the year.

Movement of investment in associated companies and joint venture

	2006 AED'000	2005 AED'000
Balance brought forward	**34,300**	**22,585**
Acquisition	-	12,504
Investment during the year	5,106	1,037
Share of results	4,548	7,193
Dividend received	(5,242)	(8,628)
Currency translation differences	253	(391)
Balance carried forward	**38,965**	**34,300**

The carrying value of the investment in associated companies amounted to AED 38.5 million (2005: AED 34.3 million) and the share of results amounted to AED 4.5 million (2005: AED 7.2 million). Losses in Emirates Loyalty Company L.L.C. amounting to AED 0.5 million (2005: AED Nil) have not been recognised as the share of losses exceeds Dnata's interest in the associate.

10. Investment in subsidiaries, associated companies and joint venture (continued)

Summarised financial information in respect of associated companies is set out below:

	2006 AED'000	2005 AED'000
Total assets	198,110	163,783
Total liabilities	83,621	54,363
Net assets	114,489	109,420
Revenue	148,245	96,806
Profit for the year	7,728	13,697

Summarised financial information in respect of Dnata's share in the joint venture is set out below:

	2006 AED'000	2005 AED'000
Non-current assets	242	
Current assets	140	
Current liabilities	210	
Total income	1,555	
Total expenses	1,465	

11. Advance lease rentals

	2006 AED'000	2005 AED'000
Balance brought forward	**27,467**	**-**
Acquisition	-	28,039
Currency translation differences	482	-
Charge for the year	(1,137)	(572)
Balance carried forward	**26,812**	**27,467**

12. Trade and other receivables

	2006 AED'000	2005 AED'000
Trade receivables	220,620	178,965
Prepayments and deposits	27,123	21,475
Related parties (Note 23)	23,435	14,921
Other	62,755	67,508
	333,933	**282,869**

Impairment charge on trade and other receivables recognised in the income statement during the year amounted to AED 1.3 million (2005: AED 2.8 million). This charge is included in operating costs.

13. Held-to-maturity investment

Held-to-maturity investment represents a floating rate US dollar bank deposit with Abu Dhabi Commercial Bank maturing in May 2006. The effective interest rate during the year was 3.86% (2005: 2.35%) per annum.

14. Capital

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

15. End of service benefit provision

	2006 AED'000
Balance brought forward	**152,007**
Charge for the year	36,195
Payments during the year	(26,062)
Balance carried forward	**162,140**

The end of service benefit provision relates to employees who do not participate in the provident fund or the UAE government's pension fund.

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 March 2006, in respect of employees' end of service benefits payable under the relevant local regulations. The assessment assumed expected salary increases averaging 5% and a discount rate of 6% per annum. The present values of the obligations at 31 March 2006, using the actuarial assumptions as set out above, were not materially different from the provision computed in accordance with relevant local regulations.

16. Term loan

	2006 AED'000	2005 AED'000
Balance brought forward	**311,328**	**-**
Raised during the year	-	311,328
Repayments during the year	(30,928)	-
Currency translation differences	4,997	-
	285,397	**311,328**
Unamortised transaction costs	(1,649)	(1,798)
Balance carried forward	**283,748**	**309,530**
The loan is repayable as follows:		
Within one year	**31,711**	**31,133**
Between 2 and 5 years	126,843	123,732
After 5 years	125,194	154,665
Total over one year	**252,037**	**278,397**

The term loan is secured by a charge on the shares of Changi International Airport Services (International) Pte Ltd. (a subsidiary of Kedma Holding Pte Ltd.) and Changi International Airport Services Pte Ltd. in addition to a corporate guarantee provided by Dnata.

Contractual repricing dates are based on six month Singapore offer rate. The effective interest rate on the loan was 3.27% per annum (2005: 1.67%). The carrying amount of the term loan approximates its fair value.

17. Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same income tax authority. The offset amounts are as follows:

	2006 AED'000	2005 AED'000
Deferred tax assets	3,268	-
Deferred tax liabilities	(49,356)	(49,642)
	(46,088)	**(49,642)**

The movement in the deferred tax account is as follows:

	2006 AED'000	2005 AED'000
Balance brought forward	**(49,642)**	**-**
Acquisition	-	(49,410)
Currency translation differences	(974)	-
Credited / (charged) to the income statement	4,528	(232)
Balance carried forward	**(46,088)**	**(49,642)**

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax liabilities

	Property, plant and equipment AED'000	Intangible assets AED'000	Total AED'000
Acquisition	(35,651)	(15,325)	(50,976)
(Charged) / credited to the income statement	(645)	709	64
31 March 2005	**(36,296)**	**(14,616)**	**(50,912)**
Currency translation differences	(670)	(236)	(906)
Credited to the income statement	78	1,408	1,486
31 March 2006	**(36,888)**	**(13,444)**	**(50,332)**

Deferred tax assets

	Impairment of receivables AED'000	Provisions AED'000	Tax losses AED'000	Total AED'000
Acquisition	765	801	-	1,566
(Charged) / credited to the income statement	(316)	20	-	(296)
31 March 2005	**449**	**821**	**-**	**1,270**
Currency translation differences	(3)	18	(83)	(68)
(Charged) / credited to the income statement	(446)	137	3,351	3,042
31 March 2006	**-**	**976**	**3,268**	**4,244**

18. Trade and other payables

	2006 AED'000	2005 AED'000
Trade payables and accruals	324,636	290,720
Related parties (Note 23)	3,455	5,626
Employee leave pay	37,414	31,645
Airlines	115,411	100,185
	480,916	**428,176**

19. Operating leases

Future minimum lease payments are as follows:

Less than 1 year	6,129	5,964
Between 2 and 5 years	18,743	20,250
After 5 years	54,610	57,782
	79,482	**83,996**

20. Capital commitments

Authorised and contracted	120,027	65,220
Authorised but not contracted	365,923	314,694
	485,950	**379,914**

21. Guarantees

Guarantees provided by Dnata's bankers in the normal course of business	**66,463**	**50,474**

22. Cash and cash equivalents

Short term bank deposits and liquid funds	1,000,746	734,416
Cash and bank	98,521	108,699
	1,099,267	**843,115**

Short term bank deposits and liquid funds yield an effective interest rate of 3.90% (2005: 1.67%) per annum.

23. Related party transactions

The following transactions were carried out with related parties:

Trading transactions

	2006 AED'000	2005 AED'000
(i) Sale / purchase of goods and services		
Sale		
Sale of goods - Associated companies	155	138
Sale of goods - Companies under common control	34,155	-
Services rendered - Associated companies	12,152	13,611
Services rendered - Companies under common control	544,940	476,657
	591,402	**490,406**
Purchase		
Services received - Associated companies	**188**	**366**
(ii) Year end balances arising from sale / purchase of goods and / or services		
Receivables from related parties (Note 12)		
Associates	8,847	3,773
Companies under common control	11,234	10,584
	20,081	**14,357**
Payables to related parties (Note 18)		
Companies under common control	**3,455**	**5,626**

The amounts outstanding at year end are unsecured and will be settled in cash. No guarantees have been given or received. No impairment charge has been recognised during the year in respect of amounts owed by related parties.

Other transactions

(i) Sale of assets

	2006 AED'000	2005 AED'000
Sale of assets - Associated companies	5,431	2,637
Sale of assets - Joint venture	8,265	-
	13,696	**2,637**
(ii) Compensation to key management personnel		
Salaries and short-term employee benefits	19,507	12,953
Post-employment benefits	1,768	917
Termination benefits	574	101
	21,849	**13,971**

23. Related party transactions (continued)

(iii) Loans to associated companies

	2006 AED'000	2005 AED'000
Balance brought forward	**3,637**	**-**
Loans advanced during the year	5,883	3,637
Balance carried forward	**9,520**	**3,637**
Within one year (Note 12)	**3,324**	**352**
Total over one year	**6,196**	**3,285**

In respect of an interest free loan of AED 1 million to an associated company, a loss of AED 0.9 million had been recognised in the income statement during the previous year by applying the equity method of accounting. The cumulative losses recognised at 31 March 2006 amount to AED 1 million.

The other loan of AED 8.5 million carries an interest rate of 3 months Libor plus 300 bps and is secured by a charge over all assets.

(iv) Loans and advances to key management personnel

	2006 AED'000	2005 AED'000
Balance brought forward	**617**	**50**
Additions during the year	-	717
Repayment during the year	(257)	(150)
Balance carried forward	**360**	**617**
Within one year (Note 12)	**30**	**212**
Total over one year	**330**	**405**

Loans and advances to key management personnel are interest free and are repayable monthly over 36 months. Dnata has the right to recover outstanding loans and advances against the final dues payable to the employees.

24. Financial instruments

Dnata has limited exposure to financial risks by virtue of the nature of its operations. The relevant areas and the extent of risk related to financial instruments are discussed below.

(i) Credit risk

There are no significant concentrations of credit risk. Policies are in place to ensure that sales are made to customers with an appropriate credit history failing which an appropriate level of security is obtained. Credit limits are also imposed to cap exposure to a customer.

Cash surpluses are maintained with financial institutions possessing investment grade or higher credit quality. 23.54% (2005: 23.06%) of cash and bank balances are held with a financial institution under common control.

24. Financial instruments (continued)

(ii) Interest rate risk

Dnata's interest rate risk arises from it's long term borrowing. The term loan is taken at variable interest rates. No hedging cover exists due to the stable interest rate environment that exists in the country where the loan is contracted.

(iii) Currency risk

Dnata is exposed to exchange rate fluctuations on its long term debt obligation denominated in Singapore Dollar. Cash flows from the Singapore operation are adequate to meet the repayment schedule.

(iv) Liquidity risk

Dnata's income and operating cash flows are substantial and adequate to meet its growth plans including capital expenditure. Commercial borrowing is availed to finance large acquisitions.

25. Comparatives

The following comparative figures have been reclassified to conform with the current year presentation so that they more appropriately reflect the nature of the balances:

- IT infrastructure costs amounting to AED 97.9 million have been segregated from corporate overheads and presented separately under operating costs to more appropriately reflect the nature of the costs.

- An amount of AED 14.0 million has been reclassified from corporate overheads to employee costs to more appropriately reflect the nature of the costs.