The Emirates Group

Annual Report 2006-2007

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

It was another outstanding year for the group but profits were affected for the third year running by the continuous high price of jet fuel, with oil in August reaching a record US$78 per barrel. We continued with the fuel surcharge but we did not want to pass on the whole amount to our customers and the amount collected covered approximately half of the incremental expense.

For a change, on the other side of the camera

Our profits were softened by the additional costs but Emirates' investments in airport lounges, the popularity of our private suites in the Airbus A340-500 and the new seats in the Boeing 777-300ER, helped to attract an excellent premium mix of First and Business Class passengers which boosted revenue and yield.

Dnata Agencies showed a new resolve with a 37 per cent increase in turnover, despite the problems in Lebanon, new airport security measures and fierce competition. Dnata Airport Operations manfully kept more than 100 airlines operating amidst the massive construction work at Dubai International Airport and their contribution grew by 28 per cent.

The Emirates Group returned its 19th consecutive net profit of US$942 million (Dhs 3.5 billion) and a turnover of US$8.5 billion (Dhs 31.1 billion). Emirates' net profit was US$844 million (Dhs 3.1 billion) while Dnata's net profit was US$98 million (Dhs 360 million). This profit is the highest ever recorded by the group.

All in all, the Emirates Group made a direct contribution of US$4 billion (Dhs 14.5 billion) and another US$5.9 billion (Dhs 21.7 billion) in indirect contribution to the Dubai economy in 2006-07.

As usual, the company was in a buoyant mood, though the airline received disappointing news from Airbus. Our order of 43 A380 super-jumbos will not be delivered until August 2008. We had planned to have 18 in service by that time, so obviously, this will mean a huge dip in our forecasted earnings. I'm happy to report that major, startling changes like this are the challenges upon which Emirates' management seems to thrive and despite this body blow it did not prove to be a knock-out punch and we have sprung back on our feet.

We are now contemplating another exciting year, opening services to Houston, Sao Paulo, Venice and Newcastle.

Since the Airbus announcement, we have been combing the world looking for suitable replacements and have been able to lease, from GECAS, five 777-300ERs, with crew rest, which will now be refitted with our unique seats and inflight entertainment systems.

The show must go on and we will not allow a delay from an aircraft manufacturer to hinder our development and growth.

According to figures regularly published by the *Air Transport World* magazine, Emirates is the eighth largest international carrier in the world and the 15th of all airlines when the giant American domestic carriers are included.

Recently I was looking through an old copy of *Safar*, our company newspaper, dated October 1990. At that time we had a hot air balloon for promotions which we had just flown at Manchester Airport to celebrate our inaugural flight to the north of England. The balloon has long since been retired but the international network continues to grow. In 1990 we had eight aircraft serving 20 destinations and certainly did not

Sheikh Ahmed with CAE Group President, Jeff Roberts

Sheikh Ahmed with Australian Prime Minister, the Hon. John Howard MP

appear on any 'biggest' lists. Today we have 102 aircraft – all wide bodied – serving 89 destinations, with more than 300 international awards to our credit.

Emirates and Dnata have kept in step with the development of Dubai. An unusual but telling measurement which I noted in a local newspaper showed that 16 years ago there were just a handful of coffee shops in Dubai. Today there are no less than 1,125. Of course, the infrastructure in the city and at the airport has grown accordingly.

The Emirates Group itself has been part of Dubai's building programme. We have recently completed our third training college to help maintain the standards of the current and new staff joining the group. In August this year we will move into a brand-new nine-storey headquarters, located near the airport, and we have half-a-dozen other buildings now under construction. But, as I have said many times before, it is the people who make this company tick. While I was writing this introduction we passed the 30,000 mark with staff from more than 100 different countries.

So many of our staff members spend their time involved in charitable and community relations' activities: Masooma Hassan Abdullah raised a substantial amount for charity; Geoff Hucker works with orphans in Ethiopia and Maria Conceicao started the extraordinary Dhaka Project. Not forgetting other staff like Shadi Sherif who saved a child from choking in a busy shopping centre; the Dnata and Emirates divers who picked up one tonne of rubbish from the bottom of Dubai Creek and Khalid Al Jowder for his continuous involvement in activities such as blood donation work, 'The Keep Fit Programme' and 'The Terry Fox Run', together with many supporters. So many of our Cabin Crew, including Pursers Sujee Dedigama, Celine Sequeira and Sebastian Leclercq, spend their annual leave caring for the needy. It's always a problem listing names, there are so many who contribute to good causes. I know I've missed out many of them, including those who deliberately remain anonymous.

In addition, we are always grateful for the support to our own Emirates Airline Foundation, which is

On average the
chairman runs over
1,000 meetings per year

financed by contributions from our passengers and donated Miles from our Skywards members.

A hospitality industry like aviation requires a 24/7 approach to service. We have our own modern clinic and counsellors for staff. But, I am always mindful of the important role of spouses, parents and friends in our year-round operations. They provide support at home, through telephone calls and email, to bolster our spirits after a tough day, share our triumphs and the successfully accomplished missions.

For me, it's a privilege to lead such a multi-national, multi-skilled team. When I chat to our very experienced pilots, see our cabin crew smiling as they undergo rigorous training or watch one of our drivers at the airport manoeuvring a huge aircraft with his 40-tonne pushback and towing tractor, I am reminded that no matter how many millions we invest in the latest equipment, the biggest asset we have will always be our staff.

A thank you, too, to our loyal passengers and cargo customers who have helped us to build this group into a world winner. We never forget that only by maintaining our service standards can we hope to retain their business.

Ahmed bin Saeed Al-Maktoum

Sheikh Ahmed gives hundreds of media interviews annually

Maurice Flanagan CBE, Executive Vice Chairman, Emirates Airline and Group

The Emirates fleet is one of the most fuel-efficient in the industry

I was at the World Economic Forum in Davos in January and was aghast at the global warming hysteria sweeping the place, with airlines being demonised for their alleged 1.4 per cent contribution to global emissions. Airlines are at the heart of the travel and tourism nexus, linking engine and airframe manufacturers, hotels, car hire, tour operators, travel agencies, connected businesses, and the communities which they serve. If the Green extremists, and their cohorts in governments and the media have their way, hundreds of thousands of jobs in the travel and tourism industry will be lost in the years ahead, against a very dodgy maybe, unsupported by any conclusive evidence, and with a tide of evidence now sweeping in the opposite direction.

Dnata and
Emirates staff

By the way, about that 1.4 per cent – the methane exuded by cows in Europe alone far exceeds the 1.4 per cent of global aviation emissions.

There is now a multi-billion dollar industry invested in the myth that the future of the planet is at serious risk through global warming caused by what people do. The Green extremists are impervious to argument, and tend just to quote Al Gore's regrettably persuasive but fundamentally misleading An Inconvenient Truth at you. Have a critical look at that film, which concludes with a forecast of a global temperature rise of 2.5°F by the end of the century. Mr Gore's phony graph, however, has steps on the vertical axis of one hundredths of a degree Fahrenheit, so that the temperature seems to shoot up out of control, instead of creeping along the bottom line as it would if presented honestly. Mr Gore cherry-picks to suit his case, for example, citing less snow on Kilimanjaro, whereas Darjeeling and the mountains of Pakistan are seeing snow for the first time in living memory.

Mr Gore cites a few recent years in which the temperature rose, and ignores the years of global cooling after the Second World War, when more carbon emissions were pumped into the atmosphere than at any time before or since.

Climate changes unpredictably, minute to minute and millennium to millennium. That's the essence of climate – it changes. Don't just believe me about all this. Type 'Global Cooling' in your web browser and note, for example, the recent articles in *The Times of India*, the *Canadian National Post*, the *Daily Telegraph* and the Russian climatology scientists predicting global cooling.

With fuel costs now running at about 30 per cent of a typical airline's total cost, against about 13 per cent a few short years ago, the airlines and manufacturers of airframes and engines could scarcely do more than they are already doing about it. In the years to 2025, airline passenger traffic is forecast to double, but aircraft movements to increase by only 2.8 per cent, as average aircraft size significantly outpaces traffic growth. Fuel burn per passenger will fall correspondingly and the 1.4 per cent of global emissions allegedly generated by the airlines will undoubtedly fall.

That the group once again comfortably increased its turnover and net profit is testament to the leadership of His Highness, our Chairman and Chief Executive, and the enthusiastic dedication of management and staff.

During the year I was particularly gratified to see many of our young UAE nationals being promoted into senior positions within the group, as well as the introduction of the new Emirates High Potential programme to encourage all nationalities to move upward in our unique, multi-cultural organisation.

The awareness of Emirates increases from year to year as our marketing campaigns become even more powerful. The fact that Emirates will be one of the six partners of the FIFA World Cup in 2010 and 2014, 'Fly Emirates' will be on Arsenal's football shirt for the next eight years in the English Premier League, and the Emirates Melbourne Cup horse racing deal running to 2010, shows that Emirates thinks long-term and is confident of the future.

Dnata Airport Operations, Cargo and Agencies, and our group of associated companies all showed good results, nationally and internationally. The Premier Hotels joint venture and Costa franchise with Whitbreads are already well developed and show great promise. Sites have been identified for the hotels, and we are actually launching a Costa coffee outlet in Turkey, whilst continuing to invest in simulators for our joint venture with CAE.

Where do we go from here? As I see all the eager, well-educated young people joining the group and the experience of so many of the original management team, it would not be exaggerating to forecast that within a decade the Emirates Group will be one of the largest and most successful airline groups in the world.

Maurice Flanagan

Maurice Flanagan CBE

Our 'Fly Emirates' cricket team continued its winning ways

Tim Clark, President Emirates Airline

As Sheikh Ahmed has stated, it was another encouraging year for the airline, tracking our strategy of profitable, sustained growth. Passenger fleet numbers grew to 93 aircraft with the addition of 12 Boeing B777-300ERs, taking the fleet size in total to 102 inclusive of the nine freighters.

One of the giant hangars in the new Emirates Engineering Centre

Much of the increase in production (available seat kilometres) was allocated to strengthening those routes which offered the greatest return commensurate with the management's strategy of managing the effects of fuel-cost growth. Nevertheless, among other cities, Nagoya was opened in June, Beijing in September, and Tunis and Bangalore in October.

During the course of the year the airline placed an order for 10 Boeing 747-8F freighters to be delivered between 2010 and 2014. Five additional 777-300ERs were ordered on operating leases from GECAS for delivery toward the end of 2008. This order will take the 777-300ER fleet size to 59 aircraft which, coupled with the existing 777 fleet and freighters, will place Emirates as the largest operator of the 777 by 2010.

Our programme of upgrading the existing 777 fleet continued during this year, with Engineering successfully completing the retrofit of two aircraft. These aircraft are now, to a large extent, fully-aligned with the new 777 deliveries which accommodate the full lie-flat Business Class seats. The popularity of these seats, particularly on the long-haul routes, is improving yields considerably.

Additionally, all Economy Class seats on the eight Airbus A340-300s were replaced with the Weber seat, now a new standard fleetwide.

Our strategy of introducing high quality, premium class lounges to the network continues unabated with nine opening during the year. Passenger reaction has been extremely positive and we now await the opening of Concourse 2 in Dubai to raise the premium lounge product again. We are planning to open ten more of these award-winning lounges during the new financial year.

The delay to the Airbus A380 deliveries by almost two years has caused a significant diminution in our fleet and network expansion and has been the subject of considerable management resource in the latter half of the year. Negotiations on compensation had not concluded by the year end.

The Engineering division successfully relocated to its new centre also at Dubai International Airport, whilst continuing the extremely intensive maintenance and retrofit programme.

Both the passenger and the cargo commercial departments achieved their targets as we continued to attract record numbers of passengers and cargo shipments.

The formation of the Emirates Hotels & Resorts division heralded a new chapter in the airline's development. Building on the success of Al Maha Desert Resort & Spa, two new hotels will be opened in Dubai this new financial year and a five-star hotel is planned for inauguration in 2010.

Tim Clark

The Emirates First Class private suite

Emirates flies
14 times a week
to Japan

Commercial Operations

Emirates' unrelenting progress towards being a global airline saw Commercial Operations opening new services to Bangalore, Beijing, Nagoya and Tunis. In addition, frequency and capacity were increased on many other routes, notably a second daily service to Zurich and Düsseldorf, and a third daily flight to New York, via Hamburg. Emirates also moved into new offices in Paris, Athens, Addis Ababa, Tunis, Khartoum, Riyadh, Al Ain, and Dubai town centre.

The airline's capacity grew by 22.8 per cent, with a seat factor of 76.2 per cent and an average fleet age of 63 months.

In line with IATA's 'Simplifying the Business' initiative, aimed at achieving 100 per cent e-ticketing by all airlines worldwide by the end of 2007, Emirates is well positioned, with 65 per cent of all ticketing transactions already electronic. Emirates first introduced electronic ticketing in 2003, when services were inaugurated on the Trans-Tasman route.

Online sales via www.emirates.com continued to soar, crossing US$325 million (exceeding Dhs 1 billion) in 2006-07, a growth of 79 per cent compared to 2005-06. Internet booking services are now offered in 51 countries and 10 languages.

Earlier in the year, interline online booking was made available in the USA, Canada and South Africa, and special booking facilities for corporate accounts, associations and business development partners were introduced.

Online check-in proved popular with clients and is now offered from 63 cities across the Emirates network. To ensure that customer expectations are continuously exceeded, improving customer service levels remain an ongoing priority, especially in our call centres, reservations and ticketing offices. To this end, the retail and contact centres implemented a new call quality measurement system to enhance customer experience, while the reservation offices introduced an easy and secure direct payment method for customers paying by credit card over the telephone.

The call centre in India is being relocated to a state-of-the-art 43,000 square feet (approximately 4,000 square metre) building, with a capacity to accommodate up to 300 call centre agents. This facility will handle the growth in call volumes from India, as well as out-of-hour calls in the USA and Australia.

Retail outlets are progressively being upgraded, keeping in line with the new retail brand identity, while new Customer Sales and Service training programmes have been introduced. An agreement was signed with Dubai's new telecoms provider, du, enabling calls to be routed from anywhere across the world to our major call centres in Melbourne, Mumbai, Dubai, Manchester and New York.

Network Passenger Sales Development and the

Emirates operates three flights a day to New York

Sponsorship, Promotions and Events sections of Corporate Communications worked closely with the sales force to put together a highly successful FIFA World Cup 2006 promotion, offering free match tickets with each flight booking. Emirates' sponsorship of the McLaren-Mercedes Formula One team in 2006 also resulted in multi-million dirham corporate agreements being signed with many of the racing teams, in addition to creating brand awareness.

The exceptional value-for-money Dubai Stopover programme continued to entice travellers to break their journeys in Dubai, with more than 80,000 packages being sold. In addition, packages were made available to support the Dubai Summer Surprises, Dubai Shopping Festival, Dubai Rugby Sevens, Dubai Desert Classic, Dubai World Cup, new route launches and numerous fairs, conferences and exhibitions.

In South America, a manager for Brazil was appointed to prepare for our new flight to Sao Paulo, to be launched in October 2007.

A second USA destination – Houston, Texas – was also announced to begin in December 2007.

In expectation of the increased business in the USA, a Vice President Sales was appointed.

A worldwide sales conference, entitled 'Raising the Game', with 700 outstation and head office delegates, was held in May 2006. Once again, our sales force, notwithstanding ever-increasing competition, proudly exceeded their passenger revenue target for 2006–07.

Customer Affairs and Service Audit

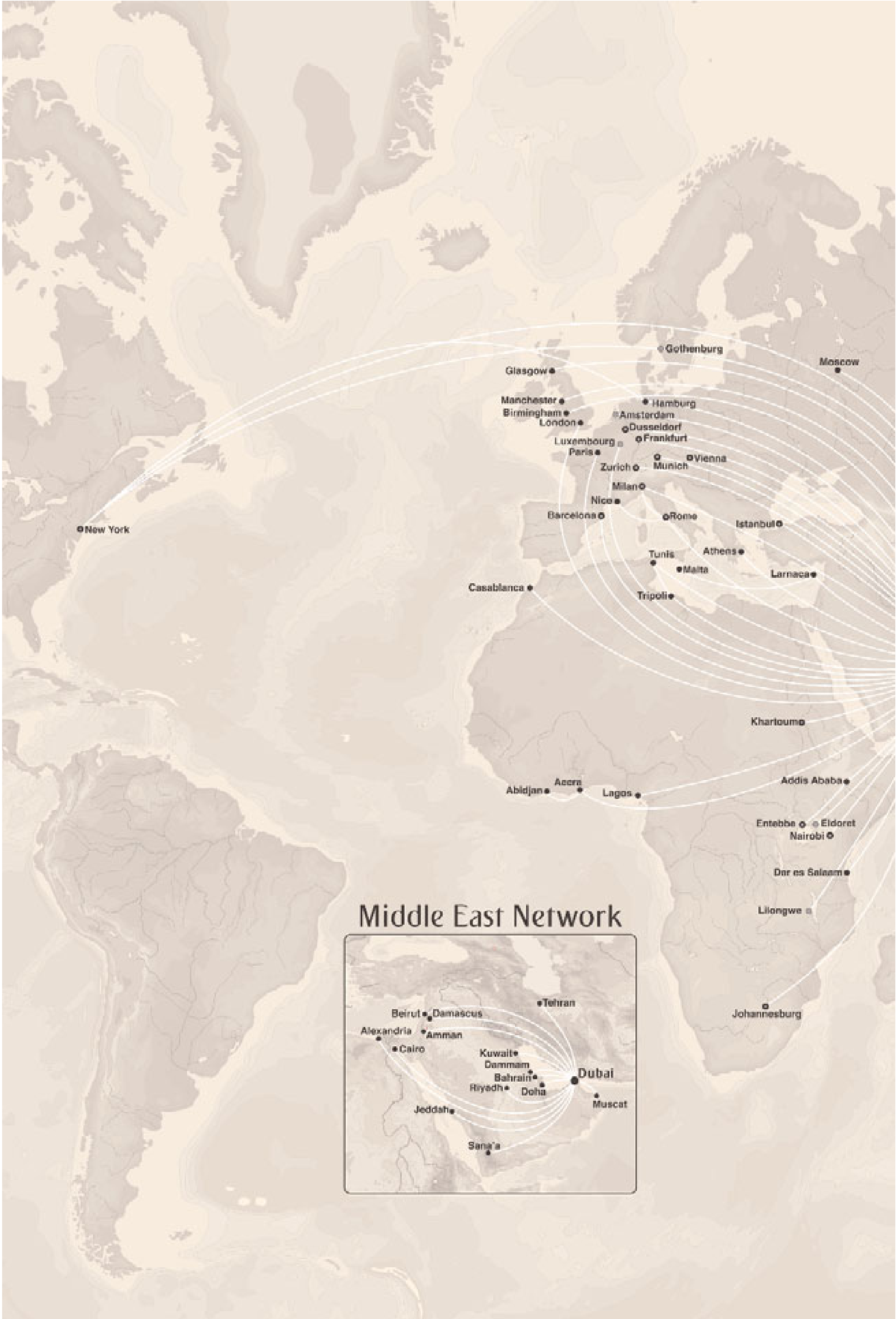
Emirates knows quality is only attained by continuous and uniform high standards, and to ensure these characteristics are maintained in the air and on the ground, we have a team of service audit managers. This year they inspected 500 Emirates flights and our 'Mystery Shoppers' visited eight destinations around the globe, carried out 180 audits on the call centres and looked at all of Emirates' recommended hotels.

In addition, they made sure that our Skywards members were receiving all of the privileges to which they were entitled and made 70 walk-in and call audits to Dnata Agencies' offices and shops. We also checked on our competitors with six audits of other airlines for bench-marking purposes. The convenience of Emirates passengers travelling through Dubai and other airports around the network also came under close scrutiny. A total of 14 stations were audited and there were 10 follow-up calls to other airports. At home, there were seven different inspections made at the base station for Emirates and three for Dnata Airport Services.

Beijing

Ghaith Al Ghaith
Executive Vice President (EVP) Commercial Operations Worldwide

"Our sales force heeded the 'Raising the Game' theme of our annual conference and despite multiple challenges, we surpassed our sales targets and at the same time inaugurated four new destinations during the year."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Bahrain
Riyadh
Doha
Dubai
Muscat
Jeddah
Sana'a

Emirates network links
89 cities in
59 countries

A tricycle saves time in Engineering's spares store

Emirates Engineering

Located at the north side of Dubai International Airport, the new Emirates Engineering Centre is the largest civil aviation maintenance facility in the world, with its eight hangars covering a total area equivalent to 17 soccer fields. The new facility has the capability to house the highest number of Airbus A380s at the same time, in keeping with Emirates' status as the largest customer for the aircraft. Indeed, so cavernous is the facility that staff move around in golf carts!

The Emirates Engineering Centre has proved to be a definitive milestone in the history of Emirates and the future of the aviation industry in the Middle East. A grand relocation of gigantic equipment (pictured above), orchestrated in stages, started from April last year, when the move was made to the new, avant-garde facility. The centre itself became fully operational by the end of the year and is currently running to capacity.

Four of the fully air-conditioned hangars, each 110m x 105m, are allocated for light and three for heavy maintenance. The paint hangar will ensure that Emirates' bright gold livery continues to attract admiration globally, with timely licks for the existing fleet and a full dress-coat of around 400 kilos of paint for the new aircraft.

The centre routinely has three aircraft undergoing 'C' checks, and a fourth line will be added to keep pace with Emirates' growth. A rapid response unit can be launched within two hours to any of 89 global destinations to assist in aircraft repairs and recovery situations. Nine floodlit external parking bays and the engine run up area, when complete, will assist in reducing noise pollution to the surrounding area.

Supporting Emirates' operational needs, the engine shop will soon add Trent 500 and GE90-115 module changes to its capability. In February of this year, crowning this was the successful first test of a GE90 engine at the new engine test cell (pictured above), one of only twelve such facilities around the world.

With the capability to test every engine type in our fleet, it will drastically cut costs, ensure quicker turnaround times and maximise operational efficiency.

Such are the capabilities of the division that, starting from May 2007, the Boeing 777-300 classics will be completely refitted with the new Sky Cruiser seats in First Class, the lie-flat Business Class seats and the latest Economy Class seats, plus the award-winning ice inflight entertainment system. When finished, these aircraft will be as good as new and connecting passengers will have a seamless experience across our fleet.

Emirates Engineering offers carefully-designed apprenticeship programmes for UAE nationals and, later this new financial year, they will also be rolled out to young expatriates in Dubai.

Flight Operations

The rapid and continuous development of the airline has resulted in 339 new pilots being recruited, an increase of over 20 per cent compared to the previous year. This brings the total number of flight deck crew to 1,667, representing more than 75 different nationalities. During the year, the Boeing 777-300ER with crew rest facilities was introduced and is now flying the non-stop Dubai–New York route, with further long-range and ultra-long-range operations planned.

High fuel costs dominated again and new flexible aircraft routings over the southern Indian Ocean achieved fuel savings of one million kilos, with Emirates working closely with AirServices Australia.

The National Cadet Pilot programme for the current year has recruited 40 ab initio cadet pilots. The training consists of three phases:
Phase one: Foundation English and aviation science (25 cadets);
Phase two: Flight training for CPL/ATPL (39 cadets);
Phase three: Simulator and line training for type rating (29 cadets).

In accordance with ICAO policy, Emirates has confirmed that the compulsory retirement age for pilots has been increased to 65 years of age. This brings the carrier in line with major international airlines of the world. Emirates' pilots are continually undergoing rigorous medical checks to confirm their fitness to fly and are among the healthiest staff in the group.

Adel Al Redha
EVP Engineering and Operations
"Looking ahead, besides maintaining and ensuring a high despatch reliability of more than 100 aircraft, and following up the production and testing of the A380, we will be performing major cabin and inflight entertainment upgrades of our Boeing 777-300s and 777-200s fleet inhouse. We will also be preparing for the acceptance, delivery and operation of Emirates' first B777-200LRs."

Network Control – the nerve centre of Emirates' operations

Emirates SkyCargo
Boeing 747-400F

Emirates SkyCargo

Despite an extremely difficult year accentuated by increased competition on the China–European route, Emirates SkyCargo again reported record revenues and tonnage carried.

The division earned revenues of US$1.5 billion (Dhs 5.4 billion) an increase of 19 per cent while tonnage increased by 13.5 per cent to 1,155,894 tonnes.

The contribution to the airline operating revenue was 20 per cent, again one of the highest contributions of any airline in the world with a similar fleet make-up.

SkyCargo continued to plan for the future. In addition to the firm purchase of eight Boeing 777-200F aircraft announced in 2005, a further order for 10 Boeing 747-8F freighters was signed by Sheikh Ahmed at the UK's Farnborough Air Show, with deliveries scheduled between 2008 and 2014.

The immediate capacity requirements will be met by a wet-lease agreement with TNT Airways S.A. for a B747-400ERF commencing operations in May 2007. Another two of the same type will be leased from Guggenheim Aviation, entering service in August 2007 and March 2008.

China continues to be the dominant global export economy with high demand to European, Middle East and African destinations. The directional imbalance in demand is a major factor influencing route profitability with increasing costs and overheads.

The FIFA World Cup 2006 in Germany created a short-term demand for imports from Asia for soccer souvenirs. The Asian Games in Qatar, again, stimulated short-term demand of goods prior to the occasion, to complete the infrastructure and for food imports for participants and spectators during the event.

The UAE and especially Dubai's infrastructure development and economic growth, together with the other GCC countries, continue to stimulate air freight demand.

Dubai is developing as a regional distribution, commercial and communications hub in the construction, leisure, consumer goods, fashion and food stuffs market.

The phased migration of 1.2 million tonnes of freight per annum through the cargo mega-terminal commenced in April 2007, with full operational hand-over of the centre planned for November 2007.

In this fiscal year, Emirates handled 947,000 tonnes of cargo through the Dubai Hub – 7 per cent exports, 10 per cent imports and 83 per cent in transit – to destinations on the Emirates Network.

Next generation SkyChain – Emirates SkyCargo's integrated reservations and business management application – was successfully commissioned on the 8th September 2006. It is designed to Emirates SkyCargo specifications and built inhouse by Emirates Group IT.

SkyCargo participated in the following trade events:
Inter Modal Cargo Fair, Sao Paulo, Brazil, 26–28 April, 2006;
Air Cargo Forum, Calgary, Canada, 12–14 September, 2006;
Air Cargo India, Mumbai, India, 16–18 November, 2006;

World Air Cargo Event 2007, Dubai, UAE, 27 February-1 March, 2007.

SkyCargo won no fewer than 11 international awards, including *International Freight Weekly*'s 'Air Cargo Carrier of the Year' and *Air Transport World*'s 'Cargo Airline of the Year'.

Destination and Leisure Management

Destination and Leisure Management (D&LM) had another remarkable year with sales crossing the US$314 million mark (Dhs 1 billion). Arabian Adventures and Emirates Holidays cared for a total of 369,000 tourists, representing a 16 per cent increase with a eight per cent increase in yield, despite the competitive market conditions.

The division was in the news with the formation of Emirates Hotels & Resorts, a logical expansion of the luxury hospitality activities, following the success of the Al Maha Desert Resort & Spa. Already its hotel portfolio includes a US$703 million (Dhs 2.6 billion) planned investment.

Congress Solutions International was also launched and many world conferences are in the pipeline for the coming years.

In spite of the shortage of rooms in Dubai, Arabian Adventures played host to 263,000 visitors. The UK was the primary customer contributing 18 per cent with Australia at 15 per cent and Germany at 12 per cent. Australia was the fastest-growing market recording a 72 per cent increase in visitors. A 24-hour centre was set up at Dubai International Airport offering Emirates passengers the opportunity to purchase a hotel stay on arrival as part of the Emirates Dubai Stopover programme.

An unusual event organised by Arabian Adventures in January was the International Press Trail Drive for 120 visiting journalists invited to test drive the Maybach 62S and the Mercedes SLR McLaren 722 luxury cars. Emirates Holidays passed the 247,000 rooms per night milestone with the top destinations being Dubai, Malaysia, Thailand, Germany, UK, Mauritius and Egypt.

News from Emirates Hotels & Resorts shows that Al Maha (pictured above) had its best-ever year, making it one of the most productive small luxury hotels in the world. State and federal approvals for the Emirates Wolgan Valley Resort & Spa in the Blue Mountains, New South Wales, Australia are expected soon. The Emirates Marina Hotel & Residence will be opened in September 2007 and now include a luxury spa, run by Emirates' own Timeless brand. Operations are expected to begin in January 2008 for the 350-room Emirates Green Lakes Serviced Apartments and, finally, ground has been broken for the 70-floor, twin-towered Emirates Park Towers Hotel & Spa planned for inauguration in 2010.

Emirates continued to support the Dubai Desert Conservation Reserve, also working with international conservation organisations to include genetic registrations for the highly-endangered scimitar-horned oryx. 50 Arabian oryx from Al Maha were released into the reserve. In January 2007 a documentary was screened worldwide, produced by the German ARD network, focusing on the endangered saker falcon breeding and release project. This is a fascinating story of the cooperation between His Highness Sheikh Butti bin Maktoum bin Juma Al-Maktoum and Al Maha resulting in the falcons eventually being released back into the wild in central Asia.

Emirates Marina Hotel & Residence

The bronze sculpture 'Mares and foal' by Gill Parker is a feature of the Emirates First Class Lounge at Dubai International Airport

Planning International & Industry Affairs

Boeing delivered 12 777-300ER passenger aircraft to Emirates and at the end of the financial year the total passenger fleet size was 93 aircraft.

To meet the growing demand, in addition to opening new destinations, extra capacity was also added during the year including the second daily service to Düsseldorf; three additional flights to Perth, making it a double daily operation and four extra services to Addis Ababa making it a daily service.

The division's International Affairs department had a busy year with perhaps the most significant agreement being 'The Horizontal Agreement' concluded between the UAE and the European Union where it played an important consultative role.

New air service arrangements were also made with Venezuela, Afghanistan, Oman, and revised agreements concluded with Argentina, France, Italy, Egypt, Bangladesh, South Africa, Indonesia, Australia and Hong Kong.

Industry Affairs continued to represent Emirates at IATA Agency and Services Conferences for passengers and cargo activities.

Key developments for the year were Emirates joining 10 new IATA Billing and Settlement Plans (BSP), including the ones in the Caribbean islands and Brazil. We now participate in 59 BSPs out of the 77 operating worldwide. The airline also joined six new IATA Cargo Accounts Settlement Systems (CASS) this year, including CASS Brazil, and now participates in 32 of the 48 CASSs.

A modern industry travel agency programme was introduced for the Gulf area for accreditation in line with other major countries in the region and around the world. As a result of this, an IATA Agency Programme Joint Council for the Gulf area has been formed comprising representatives from the airline and travel agency communities who are responsible for the development of commercial and financial criteria for IATA accreditation.

The Market Research unit continues to provide support to the various divisions of the group through its inhouse capabilities and global partner agencies.

Projects encompass customer and staff satisfaction tracking, business traveller preferences, advertising brand tracking and web development.

Service Delivery

As the 8,000th cabin crew member joined the team, this year the emphasis has been on the roll-out of two-way mail and intranet communications with worldwide accessibility. All pursers were provided with laptops with the Knowledge-driven Inflight Service (KIS) programme offering much faster feedback compared to the traditional paper-based briefing and voyage reports. KIS strengthens our ability to respond faster to our customers' needs.

Managing a workforce of many thousands and ensuring they are treated as individuals and not a staff number, has been a challenge which we expect the new Paradise crew management system will help meet.

Training, again, was to the fore with more than 200 ab initio courses and some 2,800 trainees graduating in 2006.

Emirates continues to have a multi-national cabin crew with trainees from an average of 21 different countries, graduating each week. We now have more than 100 different nationalities in the company.

It was significant that the 1,000th ab initio course held was attended by some members who participated in the original courses and are still employed in various positions in the group.

Our statistics hint at Emirates' customer care – we delivered 3,000 celebration cakes to make our passengers' experience a very special one and provided close to 1.5 million children's meals. As much as 600 tonnes of catering supplies were distributed across the Emirates catering network, by airfreight or seafreight, to support the management of the galley.

Our inflight service continues to be upgraded and we enhanced the beverage section. A new children's product (pictured above) was launched in January 2007 with a unique set of toys in two must-have bags in five colour combinations; a colourful rucksack on Dubai's outbound flights and a cool bag on inbound.

Airport Services

Big news for Airport Services during 2006 was the opening of nine new exclusive airport lounges across the Emirates network. This brings the total number to 18 world class lounges available to Emirates' First Class, Business Class and eligible Skywards passengers.

Up to now, US$37 million (Dhs 134 million) has been invested and 10 new lounges at a cost of US$13 million (Dhs 49 million) are planned for the next financial year.

Across the network, Airport Services are now using 144 ground handling agencies to help Emirates care for passengers and cargo.

Another headline-making service enhancement was the introduction of complimentary baby strollers (pictured below) in Dubai. These red Emirates baby carriages have proved extremely popular with mothers arriving with toddlers, offering extra convenience to travel from the aircraft to baggage delivery where they can pick up their own pushchairs.

From strollers to touch screen, self-service kiosks at Dubai check-in areas, there has been an overall endeavour to provide a seamless service for all of our passengers.

An additional Business Class lounge has also been opened at Dubai International Airport to cope with the increased flow of our frequent travellers.

The Dubai Airport Development team has moved into new airside offices and are fully engaged with Dubai Civil Aviation, architects and engineers in preparation for the move into the new Emirates Terminal 3 and Concourse 2, expected to open next year.

Dubai Marina

"City of the future." "It will never happen." "They have started too many projects." "They will never finish them."

The doom mongers had a field day as hundreds of cranes descended on Dubai and the projects kept growing. But, many of the high-rise buildings have been completed. The new suburbs are now a permanent part of the city. The various theme cities like Media City, Knowledge Village, and Health City are flourishing. The Palm is nearly finished.

Dubai has become a city of the future, despite the initial disbelief. While it's true that there seems to be a new project announced on a daily basis, in fact it's all very carefully planned and financed.

Recently the Ruler, His Highness Sheikh Mohammed bin Rashid Al Maktoum, who is also the Prime Minister and Vice President of the UAE, announced a new nine-

year economic plan for the emirate which will create a compounded annual growth rate (CAGR) of 11 per cent in GDP to US$108 billion (Dhs 396 billion) by 2015, rising from US$37 billion (Dhs 137 billion) in 2005.

The Dubai Strategic Plan (DSP) 2015 represents a 41 per cent growth in per capita to US$44,000 (Dhs 161,832) by 2015 from US$31,140 in 2005. It will create 882,000 new jobs and bring the total employment to 1.73 million. Sheikh Mohammed commented that the DSP will open a new page in Dubai's history having successfully accomplished the first one. He stated: "I want each and everyone living here to be safe and secure. In 2001 we had laid out some strategic objectives which we have already achieved by 2005." His Highness pointed out that today oil contributes only five per cent of Dubai's total revenue, compared with 54 per cent of GDP in 1975. Such has been the diversification in the past two decades to industries such as tourism, services, media and finance.

Dubai continues to defy all predictions. Burj Dubai, which will become the tallest building in the world, is already one hundred storeys high and rising. Villas have been completed on Palm Jumeirah and hotels are now under construction there. More than 100 skyscrapers cluster around the man-made Dubai Marina, massive motorways have been completed in the area and workers are now busy on the new Dubai Metro train network which will link the airport with the Palm.

All of this means that Emirates and Dnata are in step with the development of their home base and ready to serve the 15 million visitors which are expected to visit Dubai.

As well as tourism, recent figures from Dubai's Department of Economic Development (DED) revealed that there is an explosion in new businesses starting up in Dubai with more than 13,000 private companies being licenced to operate last year alone. In fact, the report by DED and the Switzerland-based International Institute for Management Development showed that the emirate ranked fifth out of 61 countries surveyed for ease of doing business.

Dubai also scored high marks for the adaptability of government policy to change in the economy, ranking third, and in economic performance was ranked sixth of 61 countries surveyed.

Just down the road at Jebel Ali, an urban aviation community to be called Dubai World Central is being developed. It will cover a vast area of 87.5 square miles and will have six parallel runways plus the same number of concourses. World Central will be capable of handling more than 140 million passengers per year and 12 million tonnes of cargo. It is designed to serve Dubai until 2050 and beyond.

Burj Al Arab seen from the Madinat Jumeirah

Gary Chapman, President Group Services and Dnata

Less than two decades ago, Dnata dominated the final results of the group. True, a little airline, with a couple of leased aircraft, had just made a small profit but these figures did not make too much of an impact on the overall bottom line. Today, the tables have turned somewhat and it is Emirates which is earning the major portion of the group's income. Nevertheless, now in its 48th year, it is encouraging to see that Dnata has improved on last year's fortunes and significantly increased its profit.

Dnata's new aircraft pushback and towing vehicle, TBL600

To understand the size and complexity of the Emirates Group one might compare it with a medium-sized town. We have our own colleges and our own medical clinic with 18 doctors and six dentists. We have our own garage with more than 620 vehicles moving 2,500 staff everyday, to and from work, our own catering facilities and a laundry. We have warehouses and huge cargo centres with Dnata Cargo responsible for processing hundreds of thousands of tonnes of freight and an airport operation caring for millions of passengers through the Dubai International Airport. Plus, we have the IT department which not only services Emirates and our associated companies but also sells its software to other airlines.

Linking all these various and diverse facilities together is one of the busiest Human Resources divisions in the world, helping to attract and retain professional people now totalling in excess of 30,000. The quality, experience and know-how of our people are reflected in the many and varied awards which we have won during the year. Be it for Recruitment and Human Resources, Dnata Cargo, Galileo Emirates, Emirates Flight Catering or Emirates Corporate Treasury – each award is significant, for these are for the people behind the scenes who keep the engine running.

The actual awards were 'Best recruiting and staffing organisation of the year' (International recruiting and staffing best in-class awards, RASBIC 2006), 'Best Project – Special Cargo Provider', Middle East Logistics awards, 'Best Worldwide Galileo Distributor', first place 'Air France WAVE programme', 'Award for Excellence' from British Airways and Euromoney's *Airfinance Journal* 'Middle East Deal of the Year'.

Dnata Agencies had a super year as we successfully refocused our efforts on improving, still further, our service standards and strengthening our partnerships. Dnata Airport Operations' revenues were a robust 23 per cent more than last year. Our associated companies income remained very healthy too. MMI and Emirates Flight Catering accounted for the bulk of the profits which were ahead of the previous year.

Our new company Emirates Leisure Retail (ELR) opened more Costa Coffee outlets and we have exciting plans for developing additional restaurants and coffee shops, both in the UAE and around the Gulf. We further cemented our close relationship with Whitbread plc, entering into a joint venture to bring the Premier Travel Inn brand to the region. Three hotels are scheduled to be opened in Dubai in 2008, with others to follow.

At the best of times, a services industry has to be on the look-out for currency changes, economic downturns, security issues, fuel costs, political considerations and the non-availability of equipment. Whilst our Fuel Risk Management programme delivered impressive results for the Emirates Group, all these factors played a role in increasing costs and holding back revenue. As they say, 'the best laid schemes o' mice an' men...' can quickly be thwarted by strikes, demos and governments introducing sudden security measures so severe that they almost close down airports.

But, as Sheikh Ahmed and my colleagues have indicated, we survived, in good shape, thanks to the loyal support of our customers, both passenger and cargo shippers. We wish we could promise a new seamless era. The continued expansion of Dubai International Airport certainly will help, as will the creation of Jebel Ali Airport. But, we know that someone, somewhere in the world will find a way to tax the airlines, their customers and create other obstacles. Nevertheless, as a group, we are confident we have the right organisation and the right people in place to find ways around these yet-to-be conceived situations. We will continue to leverage off our strengths and we will to do so with respect and with integrity.

Gary Chapman

Dnata Cargo's express handling service

New uniforms, same personal service from Dnata

Dnata Airport Operations

As passengers and cargo operators admire the massive construction and expansion work being carried out at Dubai International Airport, behind the scenes Dnata Airport Operations (DAS) have been performing what might be described as 'miracles' to keep the 100-plus airlines serving Dubai unaware of any of the development challenges.

DAS succeeded in handling aircraft movements, eight per cent over the previous year, with an increase of 17 per cent in passenger numbers, 18 per cent in baggage and freight growing by six per cent.

The fact that the ISO 9001, ISO 14001, IATA AHM 804 and AHS 1000 were all renewed is proof, indeed, that service standards were maintained. These have been supported by a soft skills training programme; a new basic ramp safety e-learning programme and the introduction of a dedicated team of safety experts to conduct compliance audits, hazard identification and risk assessments.

All these steps help ensure Dnata consistently operates to internationally recognised standards. Training programmes were also instituted to increase the skills' level of ramp operatives.

A new uniform was designed, using new colours and improved material, and issued to all staff, including those with public contact and the so-called 'blue collar' employees.

For our customers, the popular Marhaba Lounge at Dubai International Airport was refurbished and extended to increase seating capacity to 80.

Dnata Cargo

Dnata Cargo's five terminals handled a record volume of 535,132 tonnes during the fiscal year, an increase of six per cent over the same period last year.

On the customer service front, Dnata Cargo introduced a new service, with frequent meetings to discuss issues leading to implementation of corrective and preventive measures with 38 key airline accounts serviced by 23 key account managers.

Cargo Partners, which now has 34 airlines in its General Sales Agent portfolio, saw members being given awards for top sales during the year from Swiss World Cargo, Gulf Air Cargo and Lufthansa Cargo.

Harnessing new technology, a revolutionary e-commerce web portal, Calogi, is scheduled for launch in 2007 and designed to maintain the highest standard of B2B and B2C customer service and transaction facilities. It is the first of its kind in the air cargo community worldwide.

Dnata Cargo is now on track to complete the final expansion of its Freezone Logistics Centre at Dubai International Airport which will triple output through the complex to 500,000 tonnes of freight per year.

A new era is also being heralded with FreightGate, a generic label to encompass all the cargo terminals.

At the same time, the first terminal at Dubai Logistics City at Dubai World Central, the new airport being constructed at Jebel Ali, is scheduled for completion by the end of 2007.

Dnata Cargo has now adopted the FIFO (First In, First Out) concept at Dubai Airport terminals with a new storage process enabling shipments to leave warehouses in chronological order to optimise facilities and speed cargo to the aircraft.

Elsewhere, the Dubai Flower Centre is supported by Dnata Cargo Chameleon system ensuring efficient transfer of perishable cargo and at Jebel Ali, the Freezone Terminal doubled its volumes with a 97 per cent increase.

Finally, the 'Best Project and Special Cargo Provider' award at the Middle East Logistics Awards was won by Dnata Cargo, a recognition of the innovative projects and services which have benefited Middle East companies using Dubai as the regional link of their international supply chains.

Dnata Agencies

Despite unfavourable circumstances, such as strife in Lebanon, UK airport security issues and the change in market trends, Dnata World Travel (DWT) increased its net sales by 24 per cent compared to last year. DWT expanded its network with a new outlet in Deira City Centre and recorded excellent contributions from sales offices in the Mall of the Emirates, Emirates Group headquarters and Afghanistan. Although a relatively small operation, the unit in Afghanistan, working under extremely difficult conditions, demonstrated its core competence in long-haul travel and posted an excellent yield with its workforce of only three staff. Seven additional outlets will be opened in the coming financial year and DWT plans to provide services for low-cost carriers. Although challenged by online sales of e-tickets, DWT foresees opportunities in holiday travel for government employees, group movements and charter business.

The Hogg Robinson Group (HRG) UAE returned net sales of 28 per cent above last year due to a strategy focusing on selling high-yield products, securing potential multi-national accounts and concentrating on selling super incentive carriers whilst ensuring existing accounts are well looked after.

Ismail Ali Al Banna
EVP Dnata
"Again the conditions during the rebuilding at Dubai International Airport demanded significant efforts from all Dnata staff to enable the 100-plus airlines to remain punctual, but there is light at the end of the tunnel for Terminal 3 and Concourse 2 should be completed during this financial year."

FreightGate heralds new era

Dnata Holidays' managers admire their new brochure

HRG managed to win several national and multi-national accounts, such as Dubai Properties, Nokia Middle East, Dubai World Trade Centre, Credit Suisse, Morgan Stanley, KPMG and Lear Seigler. New implants were opened for six of these new customers. As Regional Managing Partner in the Middle East/West Asia region, HRG (UAE) has recruited new partnerships in Egypt, Lebanon, Qatar and Saudi Arabia.

Dnata Holidays' new management team has a new business strategy 'focus on high-end luxury holiday products' (pictured below), having successfully phased out the Axis Holidays' brand and rebranded the wholesale business as Dnata Holidays. The restructured Dnata Holidays doubled the sales, designing special offers in carefully handpicked five-star hotels to the 25 most popular destinations. There was also a significant investment in technology to strengthen the foundation for future growth selling directly to the customers, through the Holiday Lounge. Dnata Holidays also plans to launch both trade and travel websites in the third quarter of 2007 offering dynamic packages with flights, hotels and land arrangements.

World of Events had another busy year which began with managing the United Nations' meetings attended by 120 national delegations, followed by the International Advertising Association World Congress which attracted 2,000 delegates. World of Events was also involved with the successful launch of Virgin Atlantic in Dubai and the exhibition 'Dubai Stock Lots'. Next year the department will further expand its creative and production business together with the BANK UK as well as partnering a number of international trade show organisers.

Dnata celebrated its 40th anniversary as a general sales agent representing seven carriers – Air India, Pakistan International Airlines, British Airways, Gulf Air, Kuwait Airways, Iran Air and Middle East Airlines. Other airlines which were represented by Dnata included Lufthansa with activities involving the implementation of a branded Lufthansa Holidays brochure; Aer Lingus with familiarisation trips to Dublin for both travel trade and media; Bangladesh Biman extended its GSA territory to include Ras Al Khaimah, and Air Astana hoping this year to expand GSA coverage to other GCC territories.

New airline customers were Seair, an inter-island Philippines carrier which appointed Dnata as its regional GSA. Kingfisher appointed Dnata GSA for Kuwait and territories of UAE (except Dubai) and Al Khayala Airlines, a new airline operating from Dubai to Riyadh and Jeddah in Saudi Arabia.

CIAS

Changi International Airport Services (CIAS) provides a comprehensive range of ground handling services and inflight catering to 20 airline customers at Singapore's Changi International Airport. During the year, CIAS handled 15,509 flights and 322,000 tonnes of cargo. Its catering division provided some 3.7 million meals to passengers in Singapore.

Business volumes have been affected by the decisions of several airlines to discontinue their operations to Singapore and there has been competitive pressure from a third handling agent.

CIAS has maintained its position in a turbulent market by continuing to focus on providing the highest level of service to its customers. In 2006, CIAS succeeded in achieving all of the service standards which are set and measured independently by the Civil Aviation Authority of Singapore. This focus on quality has been appreciated by many airline customers who have given commendations and awards to CIAS.

CIAS also holds a 20 per cent share in Guangzhou Baiyun International Airport Ground Handling Services Company (GAHCO), which provides ground handling services at the Guangzhou Baiyun International Airport in China. GAHCO's business volumes have grown by 18 per cent compared with last year, reflecting the strong growth in the aviation market in China.

Galileo Emirates

Emphasis as usual for Galileo Emirates was to help improve the sales environment for their travel agent partners using the latest internet technology. Galileo Emirates rolled out electronic ticketing on Galileo to all travel agents in the UAE, Bahrain, Oman and Qatar in 2006. The number of e-tickets issued and the percentage they represent of the total number of tickets issued by airlines, reflects the extraordinary pace being experienced in retail travel as passengers embrace this new easy form of travel documentation.

Galileo Emirates partnered as a service provider to offer Resgateway tools to help the partners to sell their products and services online. By introducing Resgateway, Galileo Emirates is offering a one-stop shop to easily create, book, manage, integrate and distribute travel inventory using internet technologies.

Galileo Emirates teamed up with IHI/BUPA & Lifecare International Dubai to provide one of the most comprehensive online medical travel insurance plans available in the market. With airline commissions being reduced, Galileo Emirates realised the constant need to introduce new products that become a source of additional revenue for the travel agent community and their corporate clients. IHI is one such initiative undertaken.

Galileo Emirates launched Galileo Leisure, a Galileo-branded version of the retail booking system offered by Gullivers Travel Associates (GTA) to the travel trade in the UAE. This integrated sales system for selling leisure travel is specifically designed to help travel agents boost profits.

Another enhancement to Galileo Emirates was Web Services, a technology that empowers customers with the ability to create their own customised booking engine. With Web Services, travel agents and their web design companies can quickly create their own booking engine complete with their own business logic. The result is an end-to-end solution blended within the look-and-feel of an agent's website. Web Services also provides an interface into the Galileo system's extensive database.

Galileo Emirates won the 'Best Worldwide Galileo Distributor Award' at the Galileo MasterBlast Awards in Rome.

GAHCO staff in China

The Left Bank at Madinat Jumeirah, Dubai

MMI

2006 was a year of significant change and development for MMI with an investment programme allowing it to refocus efforts on the core business of marketing and distributing beverages. The travel division, MMI Travel, was bought by Dnata Agencies and MMI also sold its consumer business, which provided distribution of FMCG products in the UAE.

Sirocco, a joint venture created in 2005 to manage the sales, marketing and distribution of beverages on a regional basis, has enjoyed a strong performance this year.

The leisure retail division of MMI has grown from a very small base into a very significant business within the past few years. As a result this has been separated by MMI into a new company called Emirates Leisure Retail (ELR).

ELR opened nine new Costa coffee outlets during the year and now 35 operate in the UAE. This number will grow further in the forthcoming year.

ELR also opened a new restaurant, Après, at the Mall of the Emirates which has quickly earned a reputation as one of the leading restaurant-bars in Dubai.

With the continued success of the Left Bank restaurant at the Madinat Jumeirah, ELR has cemented its reputation as one of the region's leading innovators in this market underlined by the plan to launch several new restaurants, including the first Loch Fyne seafood restaurant outside of the UK.

Emirates signed a joint venture agreement with Whitbread plc to introduce the Premier Travel Inn hotel brand to the Middle East. It is the largest hotel brand in the UK and Dubai will be its first overseas market.

Premier Travel Inn's strength is to provide high quality, value-for-money accommodation. PTI Gulf Hotels, has secured the first three sites for the Dubai hotels. The hotels are scheduled to open in 2008 with over 800 rooms.

Oman United Agencies has enjoyed a significant growth in business principally as a result of new hotel openings in Muscat.

The Duty Free Dubai Ports business has also posted a strong growth in 2006, reflecting the continued attraction of Dubai's ports as a destination for shipping.

Emirates-CAE Flight Training

Emirates-CAE Flight Training (ECFT) maintained its successful strategy of making Dubai both a regional and worldwide centre of excellence for both airline and business jet training (pictured right).

ECFT added several more platforms including the world's first FAA and JAA approved Level D Bell 412 Helicopter full flight simulator, and the first Level D Boeing 777 full flight simulator dedicated to third party training outside of the USA.

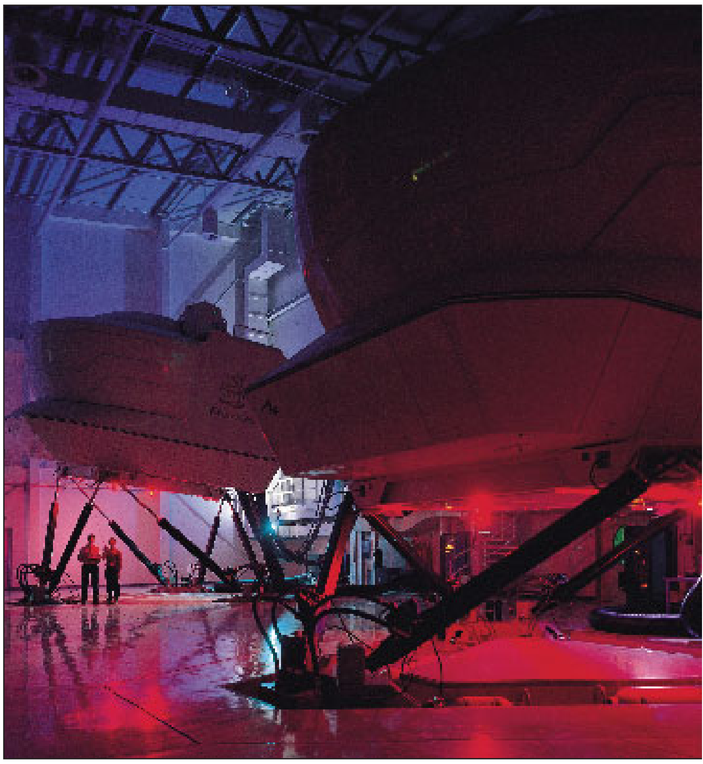
ECFT now has over 150 customers from all corners of the world, from Sweden to Australia, Portugal to China. But the main customer base remains the GCC, Middle East airlines and corporate jet operators, such as Qatar Airways, Etihad, Air Arabia, Oman Air, Dubai Air Wing, Aramco, Royal Jet and Gulf Helicopters.

ECFT has made significant inroads in India's booming airline sector and trains the pilots of almost all new private carriers in India, including Spice Jet, Air India Express, Indigo, Kingfisher, Air Deccan, Air Sahara and Jet Airways.

Significant future expansion is planned in the business aircraft training sector and ECFT is a founding member of the new Middle East Business Aircraft Association (MEBAA). ECFT's latest training platform, the Gulfstream G550, was announced at the MEBAA show by Sheikh Ahmed and CAE Group President, Jeff Roberts.

The Emirates Aviation College, Aerospace and Academic Studies

Emirates Aviation College's student population reached 1,029 in this academic year compared with 655 in 2005-06. The college's five-year business plan hopes to attract a steady growth of student population which is planned to exceed 1,250 for the current fiscal year.



Fresh ideas, fresh ingredients – Emirates Flight Catering

Emirates Flight Catering Company

Emirates Flight Catering (EKFC) specialises in inflight and airport catering services and operates the inflight catering facility at Dubai International Airport.

EKFC provides the catering service requirements to more than 120 international airlines producing a variety of cuisines. It was designed from the outset to incorporate the very latest in kitchen technology and is being continuously updated with the most modern equipment to help ensure that the quality of hygiene and services meet the highest international standards.

A 5,100 strong multi-national workforce of 44 nationalities produces over 63,500 airline meals a day. In 2006, EKFC produced 23.3 million meals and handled over 86,000 flights operating around the clock.

Emirates Flight Catering's new 55,000 square metre facility, dedicated for the sole use of Emirates, is a benchmark for the airline catering industry. It will be the most modern and best of its type in the world, incorporating the latest equipment handling automated systems. The largest of its kind in volume throughput, with a design capacity of 115,000 meal trays a day.

The project is estimated to cost US$120 million and will be fully operational by April 2007.

Another strategic initiative, Food Point, completed by EKFC is a 10,000 square metre food production facility for frozen meals, observing the highest standards of hygiene and food safety, which had its first full year of operation in 2006. This is the only one of its kind between Europe and the Far East. It has a capacity of 20 million meals per year to cater for various airlines requirements and also to produce products for the local and international retail institution and food service market.

This unique production facility is located on a 33,000 square metre site at Dubai Investment Park. Food Point has attracted a number of regional customers in the UAE, Qatar and Saudi Arabia.

Emirates Flight Catering became aware that the growth of Dubai and the expansion of Dubai International Airport, with its 120 airlines, could no longer be served by traditional laundering facilities. Hence, the initiative was taken to build and equip a modern industrial laundry facility, located adjacent to Food Point at the Dubai Investments Park.

The facility called Linencraft, boasts an efficient and integrated design that economises on operating costs. Providing 50 tonnes of laundering and dry cleaning output per day, the laundry will have the capacity to service 80 tonnes per day in the future.

Both Linencraft and Food Point are eco-friendly, incorporating every possible feature to conserve energy and reduce effluent and waste to minimise the impact on the environment.

Catersoft will enhance the computer skills of our people and is expected to provide a number of benefits to EKFC in the short- and medium-term, especially in the areas of productivity improvements and data accuracy. EKFC has also developed an inhouse flight catering solution module which is unique to the industry.

The training and development of staff were given high priority, especially regarding hygiene and food safety systems. Some 9,362 staff were given training in 2006.

Looking to the future, Emirates Flight Catering is now in a stronger position to deliver its services and satisfy the needs and requirements of its many clients and partners. Future plans include:
Refurbishment of existing facilities to optimise utilisation of space and increase insourcing opportunities;
Exploring the acquisition or management of third-party catering facilities in the region;
Considering opportunities in the franchising domain which would add value to our clients and preparing for the Airbus A380 in terms of equipment and know-how.

Emirates Flight Catering's consistent high standard of service was again recognised by awards from major airline clients – first place in the Air France WAVE Worldwide Vendor Evaluation programme and an 'Award for Excellence' from British Airways.

Fuel Risk Management

This year brought dual challenges as we endeavoured to manage our jet fuel cost. The first centred on responding to rapidly rising prices and then, secondly, during the same year, we had to handle the implications of rapidly falling prices.

The objective was to mitigate the impact of higher prices on our fuel cost and then also ensure that our fuel cost was not adversely impacted by the effect of the risk management programme as prices fell. Reflecting back, we were successful in managing our programme between a price range which ensured our net fuel cost remained below market levels.

Additionally, manipulation by the investor class of funds caused extreme volatility that made it essential to adjust our position from time to time. WTI crude prices moved from US$63 a barrel to US$78 a barrel, then down to a low of US$50 a barrel before recovering to circa US$61 a barrel – all in the same year.

Through all of this volatility there still remains tremendous upside risk to fuel prices due to a variety of potentially explosive geopolitical situations. Despite pessimistic views on world oil demand, actual statistics continually point toward robust economic performance and ever-rising demand. We will continue to manage our programme by constantly looking to identify a price range instead of trying to identify a price.

The financial result of our Fuel Risk Management programme for the year was a cost reduction of US$197 million (Dhs 724 million).

Rick Helliwell, VP Recruitment, greets job applicants at the Emirates Group Careers Centre

Human Resources

It was a very challenging year for recruitment with increased competition for talented and skilled people across local and global markets. There was a total of 200,555 online applications to the careers website and some 2.1 million individual visitors. Emirates Group recruitment received recognition through its nomination for the ONREC – Innovative Online Marketing Award – for the corporate category.

A total of 3,000 training and development courses were attended by some 33,000 staff and third parties. Online training now equates to more than 30,000 classroom training days with 25,000 employees across the world using such training, a 32 per cent increase over the previous year.

Emirates continued its involvement with the Global Business Consortium facilitated by the London Business School with its fourth cohort of six vice presidents who had the opportunity to work and network with executives from other prestigious organisations, such as Oracle, Standard Chartered Bank, BT, SKF and Mars.

This year saw the launch of the Emirates High Potential programme with the UK's Cranfield University where 25 of our management staff were enrolled in a strategic executive development programme to enhance their general management capabilities. National Recruitment and Development participated in the biggest-ever UAE National Career Fair in the UAE where more than 3,500 job applications were received.

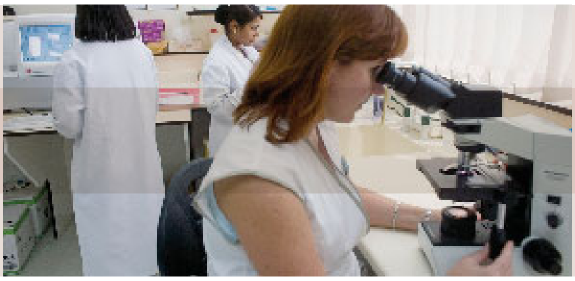
By the end of the financial year 250 UAE national trainees had been recruited through various development programmes, such as Cadet Pilot, EK Engineering, Dnata Engineering, Cabin Crew, Graduate Trainee and School Leavers.

In addition, the group provided 137 work placement and summer training opportunities for UAE national trainees allowing them to apply the skills and knowledge acquired during their study in real working environments.

Throughout the group there is a programme for creating a high performance culture so that employees are motivated and the retention levels are improved and overall profitability is enhanced.

The Human Resources Service Centre set up 40 self-service kiosks in different locations to enable staff to use staff travel facilities.

Duty travel and visit visas resulted in more than 60,000 visas and 50,000 other passes and cards being processed during the year.



Emirates' comprehensive clinic includes its own laboratory and pharmacy

Performance Development

Features of the year include the extensive changes made to the Bright Ideas programme which will be merged with the Mabrouk Awards Scheme.

A new performance indicator process, KPI, has been designed to be linked with the strategic planning approach and implemented during 2007-08.

Performance Development carried out a wide range of significant organisation structure and process reviews across the group, from revising commercial operations in the Americas to working with Customer Affairs and Service Audit on customer-focused services.

Performance Development is also working with Emirates Airport Services on an initiative to improve check-in, boarding, transfer and aircraft stand allocations. This will enhance customer experience and improve on-time performance.

There was a shift from customer relationship management to an emphasis on customer experience with increased focus on data analytics, market research and delivering a customer and business insight to the group.

Performance Development's project support office continues to establish and refine project portfolios across business units and assist the group managers with over 1,000 projects.

Medical Services

With a clinic almost the size of a small hospital, Medical Services saw two departments created as part of the long-term strategic plan, namely the Primary Healthcare/Family Medicine and, Aviation and Occupational Medicine, each headed by a Vice President.

There are now 18 practising doctors, six dentists, 21 nurses and three psychologists on the staff. Medical Services saw an increase in patients to 17,500.

Aviation medicine requirements continued to grow with Aviation Medical Examiners completing 6,400 UAE Civil Aviation Authority medicals and 369 pilot medicals for Civil Aviation Authorities of other countries. In addition doctors participated in 32 GCAA Medical Boards to assess pilot fitness following injury or illness.

A comprehensive new electronic Medical Information System, TrakCare, was introduced to enhance healthcare provision for patients and allow for medical services to operate at remote sites.

The laboratory and pharmacy services continued to expand to match the increasing patient base while an improved Medical Technician Centre came into operation.

The Employee Medical Assistance Centre provided an expanding professional assistance programme to our employees and dependants in Dubai, as well as introducing a global assistance programme at our outstations.

Looking to the future, Medical Services in conjunction with the Department of Health and Medical Services, reached an advanced stage in planning and preparation for emergencies, such as an avian flu pandemic.

Abdulaziz Al Ali
EVP Human Resources
"Our staff numbers passed the 30,000 mark and we continue to be a popular employer with a record number of applications for vacant positions – which in turn meant even more investment in our modern and sophisticated training facilities."

Dr Cliff Webster, SVP Medical Services, with some of his doctors

Central Services

Central Services currently manages 628 vehicles and was responsible for transporting 2,500 staff every day from their residence to the workplace compared with 1,900 the previous year. Some 56 Audi vehicles (pictured above) are completing 500 transfers per day for the flight deck crew involved in operations and training. Our First and Business Class customer transfers increased from 1,200 to 1,400 per day.

There has been an integration of Central Services' inhouse courier system with the FedEx system, which enables staff to send out letters or packages right from their desk, a scheme which also includes self-billing and reconciliation of invoices.

Procurement and Logistics

To achieve the best value for money and a rapid response to an ever-increasing demand for goods and services, Procurement and Logistics (P&L) has worked very closely over the last year with many key departments.

P&L has supported the launch of 11 new passenger and cargo stations, and met a demanding schedule of contract renegotiations across the global network. The portfolio has dramatically grown from US$708 million (Dhs 2.6 billion) in 2002-03 to estimated US$3.3 billion (Dhs 12 billion) during 2006-07, representing 51 per cent of the airline's cost base. The team of more than 40 professionals aims to help departments meet corporate targets to achieve significant unit cost savings.

The Emirates Group maintains a global supply chain that requires constant review to ensure it meets our aim of 'just-in-time' deliveries, along with consistent product availability. The latest initiative includes the use of an outside specialist to undertake an in-depth, holistic review of the worldwide supply chain from which lead-time reductions, product quality improvements and cost efficiencies can be leveraged.

Key strategic achievements during the year included significant reviews with ground handling suppliers at existing stations. For example, in India, P&L has been

The new children's inflight meal

working with Emirates Airport Services, Emirates SkyCargo and external ground handling partners on long-term, sustainable initiatives to improve the customers' experience on the ground. In Bangkok, a ground breaking, long-term agreement was completed with a new handling agent Bangkok Flight Services (BFS) which assisted Emirates in moving smoothly over to the new Suvarnabhumi International Airport, which opened in September 2006. Following a major review of operations at London's Heathrow Airport, P&L took the initiative to change suppliers for passenger, ramp and cargo handling.

Working in support of Service Delivery, P&L has supported the start-up of five new catering stations and completed commercial reviews of a number of existing centres.

Exclusive supply agreements for Service Delivery on a number of key products have resulted in significant improvements in value for money, as well as a greater emphasis on product quality through well-defined key performance indicators.

Emirates continues to be active in price negotiations with airports and air traffic control providers worldwide, both in collaboration with the International Air Transport Association (IATA) and on a bilateral basis. This year P&L has placed particular focus on air traffic control charges levied by Eurocontrol and assisted in industry negotiations in countries as diverse as Australia, Ukraine, Thailand, Korea, Greece and Romania. The department was also actively involved in renegotiating airport landing charges in cities as varied as Seoul, Bangkok and London.

P&L's IT section had several challenges in catering to the customers and supporting their operational requirements. It has introduced leasing as an option for high-value equipment and participated in reducing the telecom running costs by negotiating new rate contracts with alternate international service providers.

IT, also, introduced the vehicle tracking system for the chauffeur-drive service.

P&L worked with Corporate Communications' Advertising and Promotions sections in terms of contracting support, including the new inflight magazine arrangements and various PR and advertising agency contracts.

Finance

Finance made further inroads towards improvements in unit costs through automation and key process optimisation, strong focus on performance management and improvements to financial risk controls.

An Electronic Funds Transfer (EFT) system was introduced which supports the group's objective of an end-to-end solution of receiving and automatically processing electronic invoices from suppliers and then generating e-payments with a minimum of manual effort.

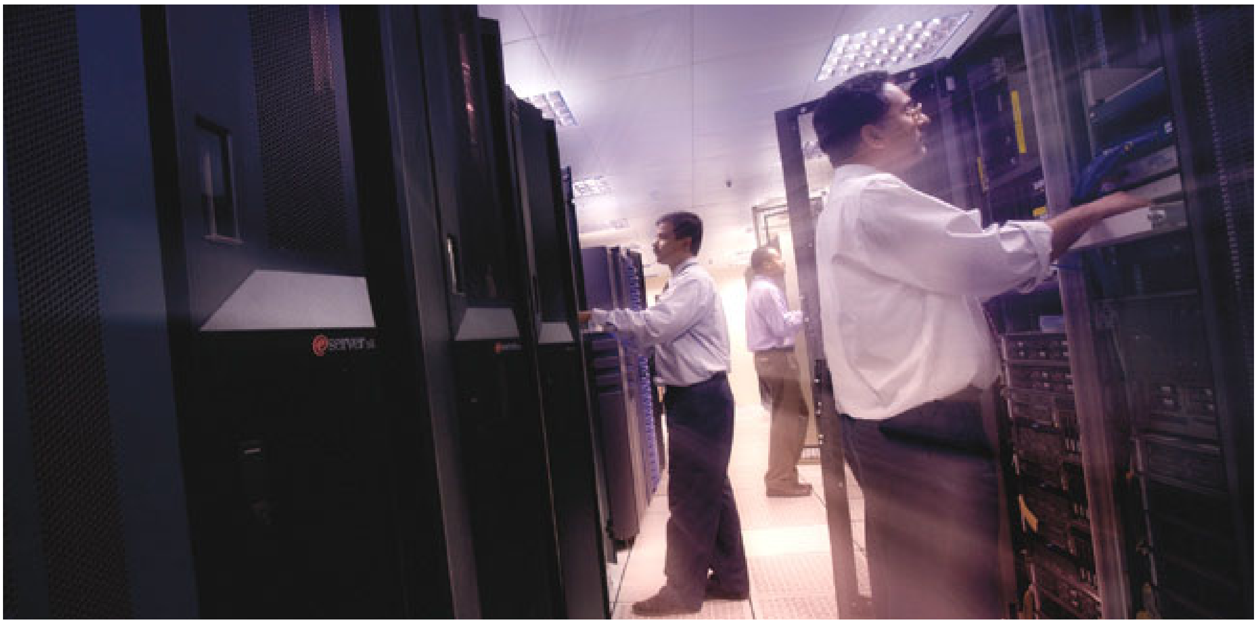
A new corporate budget system was introduced to more than 500 users around the globe to enhance control and efficiency in the budgeting process.

A new Bank Settlement Plan (BSP) reconciliation module has been implemented for Dnata agencies. This helps in reconciling the billing received from the BSP with the transactions submitted by the Global Distribution Systems and the agency locations. This has resulted in faster turnaround in identifying discrepancies, giving better control on the resolution of the discrepancies and automating the accounting.

On the bureau services side, a major Far Eastern carrier went live in the last quarter of the current financial year. This has helped make group revenue a significant player in the revenue accounting outsourcing market and contributes to the effort of the government in making Dubai an outsourcing hub.

Nigel Hopkins
EVP Service Departments

"It was another excellent result for the group given the relentless battle to keep the surging costs under control – while the complete reorganisation of IT augurs well for our future development."



Corporate Treasury

One of the highlights of the year was Emirates being awarded the 'Middle East Deal of the Year' by Euromoney's *Airfinance Journal*. The prestigious award was in recognition of its debut Singapore Dollar Bond issue which raised US$250 million (SGD400 million) and marked Emirates' entry into the Asian capital markets. Close to 85 per cent of the investors came from Singapore, Malaysia and Hong Kong and were offered two tranches, a five year tranche and a ten year tranche. This was the first Singapore Dollar Bond issue by a non-Asian airline in Singapore.

The investor response was a testimony of confidence in Emirates' financial performance and credit quality, evident in our consistent profitability and sound management. The Joint Lead Managers and the Joint Bookrunners were Singapore-based Standard Chartered Bank, DBS Bank Ltd and Citicorp Investment Bank (Singapore) Ltd.

In addition, Emirates made its second successful foray into the regional debt market with its second UAE Dirham denominated bond raising US$500 million (Dhs 1,836 million). The Joint Lead Managers and the Joint Bookrunners were Emirates Financial Services, HSBC Bank Middle East and National Bank of Dubai.

The year also saw the maturity of the debut Dirham denominated bond issued in 2001, which was then the first issue by a UAE corporation and was the first bond to be listed on the Dubai Financial Market. Emirates has an established bond programme with five issues to date and international listing of the bonds at relevant exchanges.

Emirates acquired 10 out of twelve deliveries (all B777-300ERs) during the year through operating leases which were secured at opportune times on very attractive rentals and in line with policy to conserve funding lines to finance future aircraft deliveries. The operating leases were from International Lease Finance Corporation (ILFC) and General Electric Aviations Services (GECAS), both US-based, highly-rated organisations.

Commitment from GECAS to deliver an additional five B777-300ER units on long-term operating leases, signalled a strong vote of confidence in Emirates. The remaining two B777-300ER deliveries during the financial year formed part of the first-ever US Ex-Im Bank funding for Emirates, which opened up yet another important diversified source of funding for the B777-300ER programme.

Group cash balances on 31 March 2007 were robust at US$3.5 billion (Dhs 12.9 billion). The cash generated from operations remained buoyant and the improvement in cash balances is aligned with Emirates' policy of maintaining adequate balances to support its growth objectives into the future. Keeping in line with our twin objectives of maintaining liquidity and very low credit risk, a renewed focus on yield enhancement saw diversification of bank deposits and structured investment products. For the first time, this included the use of longer-term-managed funds.

Emirates continued to target a balanced portfolio towards currency hedging, the aim in principle being to hedge around 50 per cent of exposure to pound sterling, euro and yen, subject always to opportunistic

deals that profit from advantageous markets. The continuing weakening of the US Dollar provided Emirates with further opportunities to actively hedge more of its pound sterling and euro exposure during the year.

On the interest rate front, the market witnessed the Federal Reserve raising US interest rates on a regular basis. Emirates' balanced portfolio approach positioned the company well to benefit from moves in either direction. As at 31 March 2007, the Emirates portfolio was skewed in favour of fixed interest rates, reflecting the structured locking into the low interest rate environment which prevailed over parts of the previous few financial years.

Information Technology (IT)

Emirates Group IT, which now has 1,500 staff, has been completely reorganised in a major operation, aptly named Project Phoenix, to prepare for the challenges of the future.

Sweeping changes have been introduced, including new job descriptions, new managerial positions, and new core processes compliant with IT Infrastructure Library (ITIL) and Capability Maturity Model Integration (CMMI).

The biggest success story of the year undoubtedly was the next generation SkyChain system – an airline cargo management system that has now replaced all legacy systems for Emirates SkyCargo. With over 300 man years of effort, this definitely is one of the largest single Java application development projects in the world.

Fully developed in Dubai by IT, the system will effectively power Emirates SkyCargo's business in the years to come. The project, completed within budget and on time, is an outstanding example of how an Emirates Group business unit, working with its IT team, can successfully meet the biggest challenge. The success and quality of this system quickly became evident when SwissCargo signed up to implement the system within three months of the system going live.

The roll-out of electronic tickets (ET) continued to be a strong focus. Now, more than 65 per cent of all tickets on Emirates worldwide are ET. A notable addition was the enabling of GDS ET which makes it possible to issue Emirates interline e-tickets through travel agents. Approximately 30 interline ET agreements are now in place, as of March 2007, and it is adding a carrier nearly every week. Emirates is well on the way to achieving IATA's 100 per cent ET target by the end of 2007.

Emirates' Route Planning adopted the first phase of a more integrated planning system that draws on a wealth of information from within Emirates and combines this with IATA and Marketing Information Data Transfer (MIDT) information from the industry. This speeds up the analysis of traffic flows, schedules and market share from various perspectives, and provides improved fare and revenue projections – critical to revenue planning and optimisation.

To help achieve revenue plans, tactical planning on an annual and quarterly basis and reviews of commercial activities worldwide have all been automated using OneNetwork, the sales force automation solution. This new workflow-based approach to marketing planning and business development processes helps the stations develop and track comprehensive strategies to support Emirates' commercial objectives. This extends down through the development and approval of the country and customer business plans and activities to the implementation, tracking and review of promotional activities and their rate of return.

New systems have now enabled Emirates Contact Centre managers to obtain real-time revenue contribution, operational performance and call type information down to individual agent levels. This helps them devise new strategies to manage and resource their operations, automate types of call handling, and to drive the sales culture at their call centres. This information has helped the call centre fraternity to consistently and confidently achieve sales successes. This, in conjunction with electronic ticketing, has increased the direct sales of the contact centre staff, as now the end-to-end booking-to-ticketing process can be done by a single agent over the phone.

The comprehensive automation strategy for service delivery continued at a brisk pace with an overall objective of facilitating a personalised relationship with the mobile cabin crew, as well as improving the efficiency of back-office operations. A web-enabled, secure-messaging platform was delivered to the entire cabin crew workforce, along with the launch of a

A purser briefs his crew using the new Knowledge-driven Information Service System (KIS)

crew-centric portal to provide a one-stop-shop for their information needs. In conjunction with the ongoing work on other key IT initiatives, including Paradise, KIS and the training management system, these systems will provide an integrated IT framework in alignment with the agreed automation strategy.

After a thorough evaluation of solutions to replace the current engineering system, Emirates has signed a contract with Ultramain Systems Inc for their aircraft maintenance and logistics system. Since then, the project team has defined the Emirates-specific requirements for cutover. System customisation and implementation is in progress. The system will enable Emirates to meet the maintenance requirements of a much larger aircraft fleet in line with its growth plans.

Voice-over Internet Protocol (VoIP) was introduced into the Emirates Group IT infrastructure with the new, state-of-the-art Emirates Engineering Centre completely running on VoIP telephony for its voice needs. VoIP telephony will continue to be rolled out to all other new facilities as part of the infrastructure strategy and plans.

At Dubai International Airport, significant progress has been made in automating the day of operation (i.e., everything to do with getting an aircraft off the ground). Staff in the operational control centres now have an overall view of airport operations from how check-in is progressing to who is allocated to a task (via the link to the Real Time Control system). They can communicate with operational staff (via alerts to their Tetra radios) and know how the baggage situation is progressing. They can do this across the airport and view it from an Emirates or a ground handler perspective. By integrating systems and automating the precision-timing milestones, Emirates and Dnata can look in one system instead of many.

The concept of self-service check-in has taken off significantly with more than five per cent of all passengers now using online check-in, where available. Passport readers have been added to the self-service kiosks to comply with the ever-growing number of countries requiring passengers' passport data. The number of kiosks deployed has also more than doubled and the first self-service kiosk has been rolled out outside of Dubai in London Heathrow.

Dnata deployed generic 2D bar-coded boarding passes in Dubai's Terminal 2, replacing the traditional ATB boarding passes, thus becoming the first airport in the region to do so. This has led to significant cost reductions in equipment and stationery. Dnata and Emirates have also jointly started the deployment of 2D bar-coded boarding passes in Terminal 1.

The drive to move data and information to staff on the move continued with the delivery of a number of mobility solutions by IT. At the airport, IT has connected wireless scan 'guns' to the Baggage Reconciliation system, allowing staff much more flexibility than the wired predecessor.

IT trialled a PDA for airport supervisors which provides them with the functions required to do their job on the move and only see relevant information to the flight or operation for which they are responsible. The initiative to provide pushback drivers with rugged mobile devices is ongoing. This will enable them to keep the centres up to date on actual progress of the operation.

The new PDA-based system has also gone live for airport dispatchers who can now report up-to-date status of ramp and passenger operations, ensuring that start and finish times are entered as they happen. This has reduced the need for paperwork and has helped to automate the day of operation wherever possible. Emirates catering staff have been provided with PDAs to access their emails remotely as well as access their applications while on the move.

In order to improve internal efficiencies and enhance controls a number of improvements were carried out on the stack of internal IT systems. TRIPS, the staff travel application, was enhanced to become a true B2E (business-to-employee) channel with self-service-driven efficiencies being a key driver. A new corporate budget system was introduced to provide enhanced control and efficiencies in the budgeting process. HR saw the introduction of a new system to increase the efficiency of recruitment and promotions processes.

In support of the Hotels & Resorts division, a property management suite of systems was integrated and implemented this year. This suite of applications will be the standard for automation of property management for all our current and future properties.

Mercator Sales

Mercator, which this year added the 50th customer to its user family, made a breakthrough in the previously-untapped American market. ExpressJet, the Houston-based airline, which provides regional services for Continental, outsourced its passenger revenue accounting to Mercator. This is a highly strategic deal, opening the way for further deals in this lucrative market.

In another breakthrough deal, Mercator won its first external customer for the SkyChain cargo solution. Swiss WorldCargo will replace its existing legacy platform with SkyChain to provide a modern, flexible solution designed to meet their needs for years to come, whilst adhering to the highest possible standards.

RAPID continued to confirm its position as the aviation industry's revenue accounting solution of choice. Mercator achieved another landmark in its history by signing its largest ever contract with Malaysian Airlines (MAS). MAS will now outsource its passenger revenue accounting operation to Mercator, and more than 25 million of its used passenger coupons will be processed in Dubai. In an additional contract, MAS' cargo division, MASkargo, opted for the licence version of the RAPID cargo revenue accounting solution.

Gulf Air selected Mercator's RAPID passenger revenue accounting solution. A major installation was successfully completed for MEA in Lebanon where the Mercator team helped to launch the RAPID system on time and within budget.

Mercator started to provide Oman Air with outsourced passenger revenue accounting services, in conjunction with its partner Adventity.

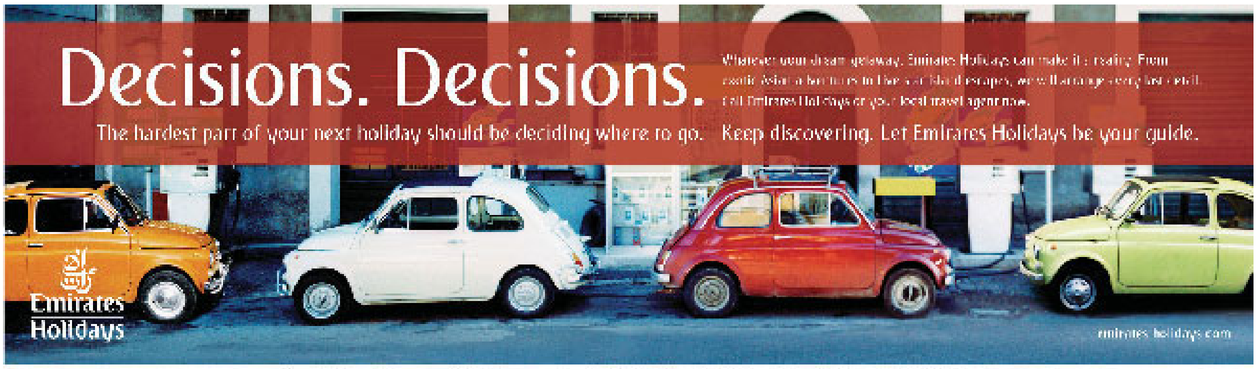
Jat Airways, the national carrier of Serbia, selected multiple Mercator solutions and services.

Cyprus Airways outsourced its passenger revenue accounting operation to Mercator.

Mercator cemented its strong ties with Philippine Airlines (PAL). Already a customer for Mercator's CRIS FFP solution, PAL signed up for RAPID passenger and cargo revenue accounting solutions.

Mercator also completed a major implementation at South African Airways. The RAPID passenger revenue accounting solution is now fully operational at the carrier, helping them to succeed in their current initiative to streamline processes, reduce costs and meet stringent auditor requirements.

Virgin Nigeria has outsourced its frequent flyer and loyalty programme to Mercator. Its FFP programme will now be run by Mercator's specialists in Dubai.



Corporate Communications

Corporate Communications boosted its efforts to achieve global recognition for the Emirates brand while helping to rejuvenate the image of the world-trusted Dnata products. The division continued with its unique mixture of advertising, sponsorship and PR to drive forward and enhance the Emirates brand even further afield, including China and Africa, mounting corporate as well as strategic campaigns systemwide.

Advertising

The Advertising department drives brand identity and core creative development for all group businesses. Over 1,400 campaigns, most involving multiple media, were developed last year in over 100 countries.

A diverse and talented group of brand, digital and advertising agencies, drawn from the world's six leading marketing services companies, work with advertising. Brand strategy and creative direction is devised inhouse, with an active partnership of dedicated agency staff providing the eyes and ears of the Emirates brand globally. Regional 'clusters' of agency teams, supported by Corporate Communications staff, help balance global and local themes. This extended team of over 100 agencies comprises consultancies, designers, publishers, copywriters, ad agencies and production houses, involving a total of over 275 staff dedicated full time to the Emirates advertising account.

The web-based brand management tool, EmPower, was relaunched in early 2007, expanding this unique online workplace for our roster of advertising, PR and branding agencies. EmPower (pictured above right) is now a mature online marketplace where Corporate Communications' services and assets are available at broadband speed. Traffic to the site, from internal clients, staff and agencies, averages 40,000 visits per month and the site is now featured as best practice at digital brand management conferences and in marketing journals.

The award-winning 'Keep discovering' corporate advertising platform was refreshed, providing a surge of new product, destination and tactical advertising material to our agencies and business units. Advertising helped to introduce the Emirates brand in Beijing, Malawi, Cote D'Ivoire, Ethiopia, Tunisia,

Bangalore, Nagoya, Thiruvananthapuram and Kolkata, promoting inbound and outbound traffic. Network-wide initiatives also ran to promote additional services across Europe, Africa, Middle East and Asia as well as the triple daily New York campaign. New flat-bed Business Class seats were actively promoted in relevant territories as were other new product introductions, such as online services, lounges and chauffeur-drive. Pan-national, regional and local media investments supported activation of the 2006 FIFA World Cup sponsorship and exploitation of our other sponsorship properties was stepped up in all markets.

The industry-leading range of sales and service collateral for Emirates Airline, Emirates Hotels & Resorts, Emirates SkyCargo, Dnata, Skywards and Emirates Holidays helps us to stay engaged with key customer groups. The Emirates Travel Hub retail concept continues to roll out and extend the brand identity across other consumer touch points, including the chauffeur-drive product, check-in and lounges. A new children's onboard magazine, was introduced, refreshed and expanded and the existing range of publications were rejigged and expanded. Advertising supported Service Delivery on a host of product innovations, redesigns and brand engagement programmes.

The year 2006-07 saw more 'media firsts'. In Germany, Munich travellers were greeted by life-size Easter Island 'Moai' statues on the baggage belts. In Australia, consumers were given the opportunity to interact with electronic street billboards and vote for their favourite European city, an airline first.

Just as the core businesses and products win awards, so do the advertising campaigns. Emirates won accolades for media concepts at the 2006 Moibus awards in Germany and awards for a Skywards tactical campaign, as well as China route launches at the MENA Cristal Awards in Dubai.

Return on investment and brand health tracking underlies everything advertising does. Emirates is now firmly seen as a quality global airline brand in most markets, and often perceived as the second national carrier. Ongoing brand measurement research across nine markets gave positive results, confirming that the advertising efforts are maximising awareness and creating affinity towards Emirates.

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 2.7 million unique visitors per month and over 60 local variants of the site channel tailored offers and tactical advertising to consumers and trade segments. Sites now exist in English, French, Russian, German, Italian, Japanese, Chinese, Arabic, Korean and Turkish. The first online-only film was created to showcase the inflight entertainment experience and the microsite www.timewillfly.com drove unprecedented response rates of 25 per cent in our major markets.

Promotions

Emirates continued to build its sponsorship portfolio through many sports around the world, including cricket, rugby and golf, but the headline grabbers were the high profile participation in the FIFA World Cup 2006 and the English Premier League.

As one of the partners in the world soccer championship Emirates enjoyed a cumulative TV audience of multibillion viewers in 213 countries generating a media value of approximately US$155 million (Dhs 569 million). Our sponsorship of fifaworldcup.com website also resulted in more mind-boggling statistics with three billion page views. We have now signed an agreement to be one of only six partners for the FIFA World Cup 2010 and 2014. Also in the soccer world, the new Emirates Stadium was opened in London and Arsenal started its first season wearing their 'Fly Emirates' shirts. We signed up with Paris St Germain (PSG) in June to add to our Hamburg FC sponsorship.

We are now the official carrier for the Rugby World Cup which takes place in October/November 2007 in France and signed on as title sponsor of the Scottish final of the International Rugby Board (IRB) Sevens Series. Our Sevens sponsorships include the English and Samoan national sides, the Dubai Sevens, South African Sevens, Edinburgh Sevens and London Sevens.

We bolstered our involvement in golf by securing the Austrian Open, Hong Kong Open, Singapore Masters and Malaysian Open as official airline for three years and signed for four years for the Dubai Desert Classic and Dubai Ladies Masters.

Collingwood Aussie Rules football squad practice in front of Emirates Boeing 777-300 at Melbourne Airport

(far right) Live World Cup soccer matches on TV at many airports, courtesy of Emirates

Many of our passengers are cricket fans and our successful sponsorship continued with the ICC panel of elite umpires and referees (pictured above) where our 'Fly Emirates' could be seen at all the test matches played during the past year. We signed with Cricket Australia for three years which included branding of the Ashes series and sponsored the Australian team in the Cricket World Cup in the Caribbean.

Emirates participated in many of the major horse races, including those in Kentucky and New York, as partner of the National Thoroughbred Racing Association, the Dubai World Cup, the Emirates Melbourne Cup, the Australian Jockey Carnival, York Race Day, Irish Oaks, Gold Coast Turf Club and Emirates Singapore Derby, as well as sponsoring the Godolphin Stable, Dubai.

Emirates Team New Zealand competing in the America's Cup was the airline's first foray into ocean sailing while we also had an exciting season with the McLaren Formula One Motor Racing team. We launched new destinations with road shows and inaugural gala parties in Nagoya, Beijing, Tunis and Bangalore and in exhibitions and fairs in Sao Paulo, Rio de Janeiro and at Arab Travel Market in Dubai, World Travel Market London and ITB Berlin.

The Promotional Support Unit continues to service the network providing giveaways and promotional material. Our retail shops and outlets in Dubai sold more than 70,000 Emirates-branded items.

Media Relations and Internal Awareness

Over the 12-month period, Media Relations achieved media coverage worth over US$50 million (Dhs 183 million) for Emirates Group brands, organising 200 press conferences and media interviews in support of Emirates and Dnata.

Media Relations also hosted some 400 journalists in Dubai, enabling them to experience Emirates' flights, products and services first-hand. In addition, more than 120 reporters from the GCC/Middle East were

Live World Cup soccer on board

hosted on familiarisation trips to promote new and existing destinations. A specially-developed website for journalists to conveniently access information on Emirates Group brands was also launched.

These efforts generated in excess of 31,000 positive news articles for Emirates and Dnata and prominent television coverage on CNN, BBC, CNBC, Al Jazeera, as well as other leading broadcast stations in Europe, Asia and Australia.

The announced delay of the Airbus A380 deliveries also brought a surge of media interest in how Emirates would be impacted. Media Relations worked with senior executives to tackle the flood of media queries, and communicate a consistent and positive positioning for the company.

The unit also conceptualised and implemented media activity around Emirates' portfolio of sports sponsorships. During these events, Media Relations directed its network of 40 Public Relations agencies globally to maximise local media coverage, as well as develop creative ideas to engage the local community for instance through fund-raising for charity during golf pro-am events, and auctioning designer hats for charity during horse-racing events.

During the year, Internal Awareness conducted an audit on staff perceptions and expectations of internal communications, and developed a new strategy to revitalise internal awareness campaigns across the group. *Safar* was made available online on the intranet site, GroupWorld, allowing staff to search archive copies.

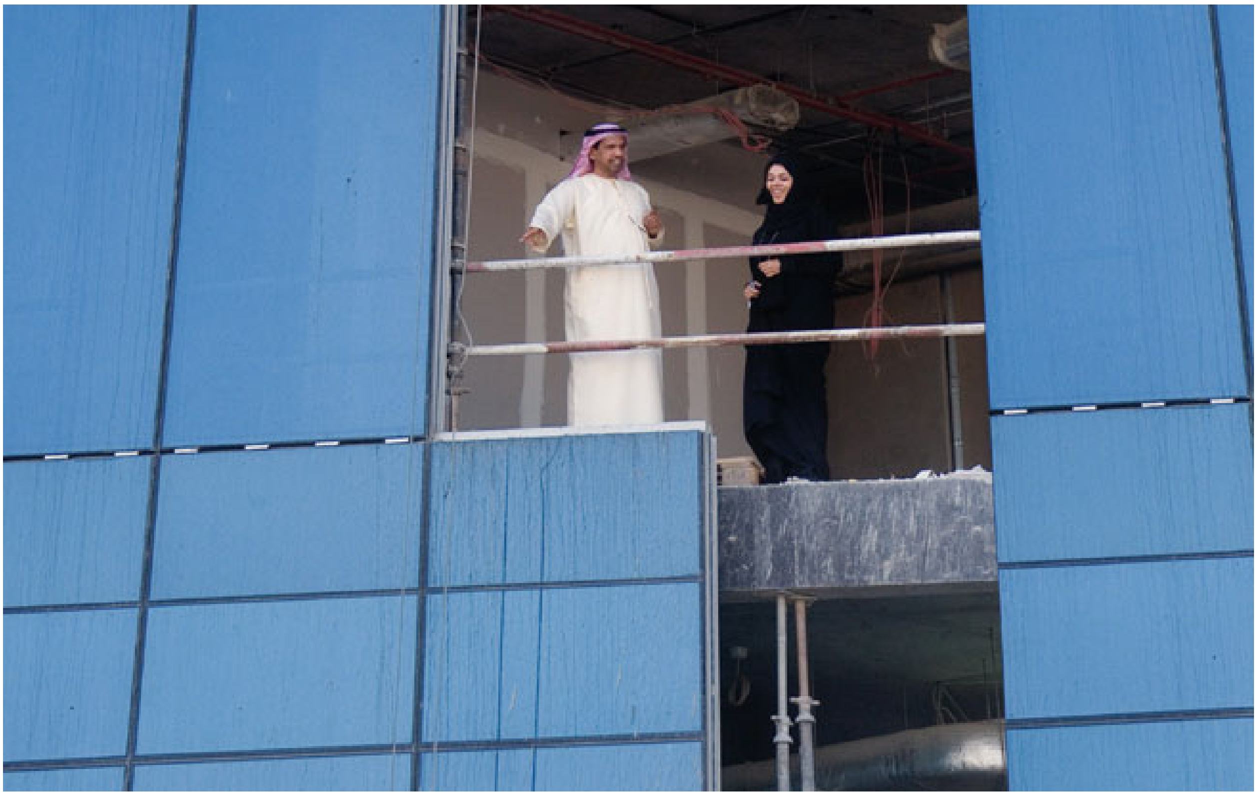
Passenger Communication and Visual Services

Passenger Communication and Visual Services have seen marked improvements in passenger satisfaction as the world-leading ice inflight entertainment system has been introduced on new routes. During 2007-08 all remaining Boeing 777s should be retrofitted with the system. We will also start taking delivery of new 777 aircraft fitted with the next generation IFE system, called the Panasonic eX2. This will further enhance the product offering and passenger experience, offering increased programming choice and better connectivity options. Demand for seatback telephones continues to be strong with over 6,000 calls being connected via satellite each month. Late in 2006 it was announced that Emirates will be the first airline in the world to allow the use of mobile phones inflight, on aircraft equipped with the new AeroMobile system. At the time of printing the certification process was still ongoing but it is hoped that AeroMobile will be in service by mid-2007. The importance of this decision will come into focus over the next year or two as many devices carried by passengers will likely converge, thus increasing the demand for passengers to be allowed to use phones inflight – that are also PDAs or mp3 players.

Emirates was pleased to repeat its 2005 success by winning the 2006 Skytrax Award for inflight entertainment, voted number one by over a million Skytrax web site visitors.

The Visual Services group supported launches at Emirates' new destinations and also produced many corporate training and communication videos. Highlights included managing the staging and content for the Commercial Sales Conference held in May 2006.

Emirates Team New Zealand, on course for the 32nd America's Cup



Ali Mubarak Al Soori (left), DSVP Facilities Management, Procurement/Logistics, with Amani Allauz, Design Manager, inspecting the new corporate headquarters

Facilities/Projects Management

Facilities/Projects Management is the inhouse division responsible for the design and construction of many buildings in Dubai for the group.

Due for completion in August 2007 is the world class nine-storey Emirates Group headquarters (above) which will be linked to Dubai International Airport by a tunnel and to the new metro rail network by a pedestrian bridge. The building will not only provide office accommodation for all the headquarters-based staff but will feature a baggage handling system for cabin crew, a clinic, health facilities for personnel, such as spa and gymnasium, and will house the Network Control System teams.

The following projects are now under construction:

- Cabin Crew accommodation of 700 apartments, Media City – US$86 million (Dhs 315 million);
- Call Centre, Dubai Outsource Zone – US$26 million (Dhs 95 million);
- D&LM offices, Sheikh Zayed Road – US$22 million (Dhs 80 million);
- D&LM Operations Centre, Investment Park – US$11 million (Dhs 40 million);
- Storage warehouse, Ghusais – US$14 million (Dhs 50 million).

Group Safety

The group's continuing focus on keeping safety as a core value in the way we work is underlined by Sheikh Ahmed, describing our Integrated Safety Management System:

"We will protect our customers, staff and assets through a ceaseless commitment to international and all other appropriate safety standards and the adoption of practices which emphasise safety as a paramount personal responsibility."

To ensure that senior management remain aware of key safety issues, during a period of significant growth, the number of departmental safety boards was increased; all facets of the group's business are now supported. The departmental boards meet every quarter to act as a focus for senior management to review individual safety issues, plus any significant trends. Important issues are passed on to the Management Safety Review Committee, chaired by Tim Clark.

IATA stated that in future, continuing membership of IATA will be dependent on successful registration following an independent, biennial safety audit, known as the IATA Operational Safety Audit. In December 2006 Emirates successfully completed its first IOSA renewal, continuing the airline's registration. During the year Emirates hosted a number of industry

safety seminars, including IATA's Cabin Safety working group and 'Partners for Safety' IOSA Seminar, a regional safety initiative which included representatives from developing nations. Focusing primarily on the airline operation, our annual Safety Day was very well attended by over two hundred delegates, from a wide variety of backgrounds. These included invitees from other airlines and aviation entities in the region.

In a continuing effort to remain abreast of industry best-practice and to make a positive contribution to safety strategies in the airline industry, our managers participated in a number of internationally-recognised safety forums. These included the IATA Safety Group, the Flight Safety Foundation International Advisory Committee, the IATA Cabin Safety Group, the Gulf Flight Safety Committee and the IOSA Steering Committee.

This year saw the start of a new project to further reinforce our strong safety culture, with the provision of additional staff and resources to analyse, monitor and promote safety-related information throughout the group. With the significant increase in the inventory of office space, staff accommodation and other business units, priority has been given to producing awareness material, highlighting HSE, fire safety, contractor safety and safe driving, with a number of programmes designed to engage staff, at all levels in remaining alert to risks. Whilst still at an early stage, there are indications that the initiative has begun to make a positive influence in reducing safety incidents.

Emirates Group Security

The international accreditation and training programmes are two measurements which highlight the achievements of any security operation. Both of these elements were to the fore as Emirates Group Security (EGS) again contributed to the Emirates brand with its high standard of quality security services.

Some of the significant achievements of EGS during the period under review are as follows:
It underwent the ISO certification process at the end of January 2007 and has been recommended for certification;
The EGS will be the first aviation security organisation in the Middle East to be ISO 9001:2000 certified and is part of an overall total quality management for the department;

Group Security has also helped Emirates to become the first airline in the Middle East to have ICAO-certified Aviation Security Professional managers.

When it comes to training, Group Security launched an e-Learning programme for outstations and, to date, 1,500 staff members have completed the course. The purpose is to ensure that all the staff members throughout the network are security trained and aware, while optimising resources. The success of the programme can be measured by the support it has received from various government bodies. This outstation programme has now been launched in Dubai.

The commercial training arm of Emirates Group Security, Transguard Education Academy (TEA), has also seen a growth in its diploma programmes, such as Aviation Security Management, with over 250 students enrolled during this period. The relationship between Edith Cowan University and the airline has seen the development of the Ground Handling Diploma, Aviation Security Diploma and the establishment of a Centre of Excellence in Aviation and Security Studies.

Group Security staff deployed at outstations and in Dubai have been internationally-certified as x-ray screeners which enabled all outstation staff to be certified by the relevant government authority.

A number of accolades were gained by Group Security during the year:
• The Canadian Ambassador honoured the division for its role in Canadian border policing;
• Emirates received the prestigious BHERT Award for its collaboration with Edith Cowan University in research and training in the area of security.

Throughout this year Group Security has been subjected to several operational audits. Two audits by the Transport Security Administration (TSA), an audit by the General Civil Aviation Authority (GCAA), an International Air Transport Association IOSA audit and finally the TAPA recertification internal audit in April. All these audits tested both the training and operational aspects of Group Security which passed with flying colours.

Transguard opened a new Cash Management Centre (CMC) located in the Emirates Group Security headquarters. This is the most sophisticated cash

centre in the region, employing state-of-the-art equipment through a partnership with leading global cash managers De La Rue. The CMC is equipped with the biggest cash processing machine in the world the 'De La Rue CPS 1800' (pictured above) which can process up to 1.5 million bank notes per day.

Transguard is currently managing more than 500 ATMs compared with 296 ATMs in December 2005. In 2006-07 new contracts were acquired with National Bank of Abu Dhabi, Dubai Islamic Bank, Lloyds TSB and Abu Dhabi Commercial Bank.

Transguard has signed an agreement with Skywards to reward its customers with Skywards Miles.

Group Legal

Group Legal's behind-the-scenes involvement varied from expanding the trademark portfolio to 53 marks to monitoring the Cricket Australia sponsorship contract. Legal ensured core brand protection of the group's trademarks covered 113 countries and successfully negotiated the purchase of the Mercator trademark from IBM leading to the assignment of the mark to Dnata in 44 countries across the globe.

Legal's activities also included overseeing the Exim Bank financing of four Boeing 777-300ER aircraft, the delivery of 10 777-300ER aircraft from ILFC/GECAS, negotiating the lease documents for additional five 777-300ER aircraft from GECAS, the Singapore Dollar Bond issue of SGD400 million and the Dirham Bond issue of US$500 million (Dhs 1.8 billion).

It will continue its involvement with the Wolgan Valley project dealing with land acquisition and hotel development. The department is also working on the joint venture arrangement which was entered into with Premier Travel Inn, a current project which is valued at US$694,255 (Dhs 255 million). Legal is also involved in the formation of a new joint venture company with CAE to carry out simulator training for third parties with the transfer net value of US$ 160 million (Dhs 587 million).

Internal Audit

The group's Internal Audit department is involved in a strategic realignment process which has been endorsed by senior management. There are three parallel tracks: A standardised approach to risk evaluation which means obtaining a consistent understanding of significant, potentially adverse scenarios; continually monitoring to obtain ongoing, rapid assurance that business processes are being managed effectively; control self-assessment, persuading line managers to take formal responsibility.

By combining the initiatives, it is expected there will be speedier turn-around of audit engagements, risk-focused reporting and company-wide audit coverage.

SriLankan Airlines

As projected, SriLankan Airlines experienced another year of difficult trading conditions, with continuing high fuel prices and a deteriorating security situation in the country, resulting in reduced visitor arrivals. The planned expansion of the use of Colombo as a hub for both passenger and cargo traffic to and from south Asia, saw revenues grow by 9 per cent and 17 per cent respectively over the previous year. Such improvements, however, were not reflected in the bottom line due to the escalating cost of aviation fuel and a drop in yields.

The network expanded with the introduction of Goa as the 10th destination in India, making SriLankan the largest foreign carrier to India with 95 services per week. Non-stop flights to Jeddah are to commence shortly.

The airline's progress in simplifying the business to reduce cost and improve efficiency has progressed well, with e-tickets making up 40 per cent of issues and all online stations with e-ticket capabilities.

Engineering has undertaken a number of third-party major maintenance checks, including Emirates aircraft, and is looking forward to building upon this profitable side of the business, once the anticipated approvals are obtained from the European Union airworthiness authorities.

SriLankan Catering tripled its capacity with the commissioning of a US$30 million state-of-the-art flight kitchen at Colombo in July 2006.

SriLankan faces another difficult year ahead and unless a solution is found to the ongoing security situation, there may not be a significant improvement in visitor arrivals to Sri Lanka, which will impact negatively on yields and airline profitability.

SriLankan hostesses wearing traditional Kandyian saris

Operating statistics - Emirates

	2006-07	2005-06	2004-05	2003-04	2002-03
Consolidated financial statements					
Total revenue (AED'000)	29,839,618	23,050,927	18,130,998	13,286,331	9,709,749
Total expenditure (AED'000)	26,675,891	20,489,601	15,628,282	11,602,094	8,749,606
Operating profit (AED'000)	3,338,873	2,652,291	2,618,789	1,748,756	1,000,511
Net profit (AED'000)	3,096,416	2,474,999	2,407,385	1,573,511	906,747
Airline operating statistics					
Performance indicators					
Yield (Fils per RTKM)	216	203	192	181	169
Unit cost (Fils per ATKM)	129	122	111	107	111
Breakeven load factor (%)	59.9	60.2	58.0	59.0	65.4
Fleet					
Number of aircraft	96	85	69	61	46
Average age (months)	63	61	55	46	36
Production					
Destination cities	89	83	76	73	64
Overall capacity (ATKM million)	19,414	15,803	13,292	10,207	7,350
Available seat kilometres (ASKM'000)	102,337,180	82,008,681	68,930,198	54,656,790	41,336,554
Aircraft departures (number)	92,158	79,937	72,057	58,763	45,452
Traffic					
Passengers carried (number)	17,544,140	14,497,536	12,528,761	10,441,345	8,502,894
Passenger seat kilometres (RPKM'000)	77,946,590	62,260,070	51,398,393	40,110,375	31,660,547
Average distance flown per pax (Kms)	4,443	4,295	4,102	3,841	3,724
Passenger seat factor (%)	76.2	75.9	74.6	73.4	76.6
Cargo carried (Kg'000)	1,155,894	1,018,570	838,400	659,816	525,188
Overall load carried (RTKM million)	12,643	10,394	8,649	6,629	5,145
Overall load factor (%)	65.1	65.8	65.1	64.9	70.0
Employee					
Average employee strength (number)	20,273	17,296	15,858	12,804	10,507
Capacity per employee (ATKM)	957,628	913,687	838,202	797,156	699,487
Load carried per employee (RTKM)	623,637	600,921	545,392	517,727	489,627
Revenue per employee (AED)	1,431,038	1,284,790	1,104,247	993,171	883,632
Value added per employee (AED)	443,515	398,638	382,649	355,197	317,063

2005-06 figures have been re-classified to conform with the current year presentation. Figures for financial years' prior to 2004-05 have not been amended.

	2006-07	2005-06	2004-05	2003-04	2002-03
Consolidated financial statements					
Total revenue (AED'000)	2,073,652	1,779,827	1,414,031	1,093,948	959,965
Total expenditure (AED'000)	1,713,752	1,455,439	1,153,624	920,169	818,236
Operating profit (AED'000)	295,926	290,342	240,950	158,628	123,600
Net profit (AED'000)	359,900	324,388	260,407	173,779	141,729
Average employee strength (number)*	8,391	8,412	8,196	7,186	6,253
Revenue per employee (AED)*	210,209	176,059	154,584	150,495	150,956
Value added per employee (AED)*	162,414	139,801	122,141	116,071	112,787
Airport performance indicators					
Aircraft handled (number)	109,648	101,607	93,004	79,932	69,322
Passengers handled (number)	30,059,330	25,648,704	22,389,218	19,130,592	16,452,152
Cargo handled (Kg'000)	535,132	503,382	457,869	405,906	399,193
Employee					
Average employee strength (number)					
Airport operations	5,445	5,627	5,563	4,601	3,885
Cargo	948	912	894	849	811
Aircraft handled per employee (number)	20	18	17	17	18
Passengers handled per employee (number)	5,521	4,558	4,025	4,158	4,235
Cargo handled per employee (Kgs)	564,485	551,954	512,158	478,099	492,223

*These figures exclude subsidiaries

Financial statistics

		2006-07	2005-06	% Change
Group				
Total revenue*	AED (million)	31,131.6	24,239.2	28.4
Total expenditure*	AED (million)	27,607.9	21,353.5	29.3
Operating profit	AED (million)	3,634.8	2,942.6	23.5
Net profit	AED (million)	3,456.3	2,799.4	23.5
Operating margin*	%	12.0	12.4	(0.4) pts
Net margin*	%	11.4	11.8	(0.4) pts
Group cash funds	AED (million)	12,901.6	10,949.5	17.8
Shareholder's funds	AED (million)	14,863.6	12,241.2	21.4
Return on shareholder's funds	%	25.5	26.2	(0.7) pts
Value added	AED (million)	10,909.9	8,573.1	27.3
Emirates				
Total revenue	AED (million)	29,839.6	23,050.9	29.5
Total expenditure	AED (million)	26,675.9	20,489.6	30.2
Operating profit	AED (million)	3,338.9	2,652.3	25.9
Net profit	AED (million)	3,096.4	2,475.0	25.1
Operating margin	%	11.4	11.7	(0.3) pts
Net margin	%	10.6	10.9	(0.3) pts
Value added	AED (million)	9,381.5	7,238.0	29.6
Dnata				
Total revenue	AED (million)	2,073.7	1,779.8	16.5
Total expenditure	AED (million)	1,713.8	1,455.4	17.7
Operating profit	AED (million)	295.9	290.3	1.9
Net profit	AED (million)	359.9	324.4	10.9
Operating margin	%	14.8	16.7	(1.9) pts
Net margin	%	18.0	18.7	(0.7) pts
Value added	AED (million)	1,528.7	1,335.4	14.5

2005-06 figures have been re-classified to conform with the current year's presentation.

*After eliminating inter company transactions of AED 781.7 million in 2006-07 (2005-06: AED 591.5 million), comprising operating income/ expense of AED 781.4 million (2005-06: AED 591.1 million) and interest income / expense of AED 0.3 million (2005-06: 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 2006-07 was AED 3,456 million , recording a remarkable 23.5% growth compared over previous year (2005-06: 2,799 million).

Group operating profit, at AED 3,635 million, was AED 692 million better than last year. The operating margin of 12.0% was marginally lower than last year.

Return on shareholder's funds remained impressive at 25.5% compared to 26.2% in the previous year.

Revenue

Total Group revenue in 2006-07 was AED 31,132 million, a considerable increase of AED 6,892 million (28.4%) over the previous year. Group revenue consisted of operating revenue of AED 29,828 million and other income of AED 1,304 million (2005-06: AED 23,418 million and AED 820 million).

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

Emirates operating revenue increased by AED 6,335 million (28.4%) to AED 28,643 million reflecting higher traffic (up by 21.6%) together with improved yields (up by 6.5%).

Passenger revenue at AED 21,677 million was 32.4% higher than last year, while cargo and related revenue grew by 19.4% to AED 5,376 million. Passenger and cargo revenue (including excess baggage, courier and mail) constituted 95.2% of Emirates' total operating revenue.

Dnata's operating revenue increased by 15.5% over last year to AED 1,967 million.

Expenditure

Group operating costs at AED 26,753 million were AED 5,895 million (28.3%) up over last year keeping pace with the increase in Group operating revenue.

Total Group expenditure including financing costs and taxation was AED 27,608 million, a rise of AED 6,254 million or 29.3% over last year.

The increase in Emirates' costs came mainly from higher fuel and oil (up AED 2,080 million or 38.2%), employee expenditure (up AED 837 million or 26.3%), sales and marketing costs (up AED 712 million or 32.4%) and aircraft operating lease costs (up AED 597 million or 25.8%). Excluding fuel costs, the unit cost increase is 3.0 fils per capacity tonne-kilometre.

Cash position

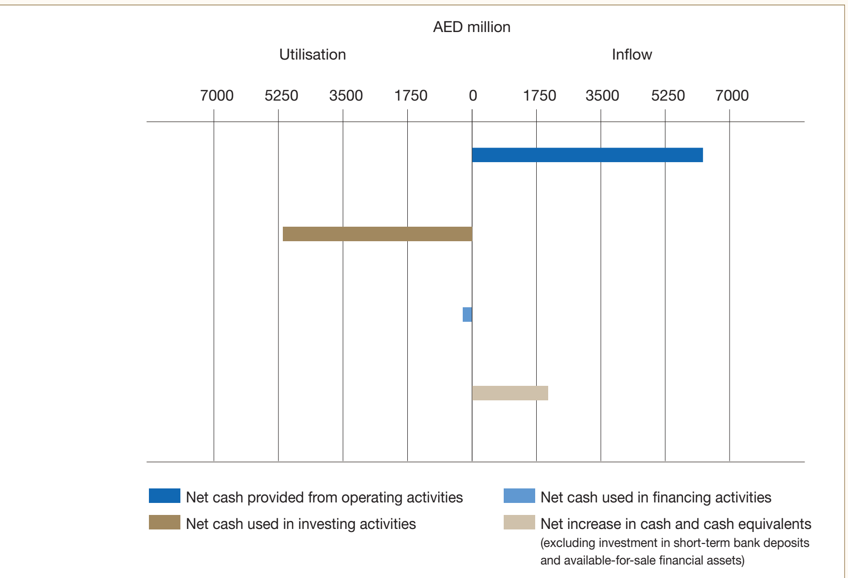
Group cash generated from operating activities was AED 6,296 million, a significant increase of 39% or AED 1,767 million over the previous year. Emirates contributed AED 5,765 million of cash generation from operating activities while Dnata generated AED 531 million.

Group operating cash margin was healthy at 20.7%, up 1.7 points as compared with the previous year. Emirates' operating cash margin at 19.8% also increased 1.7 points from 18.1% in 2005-06.

Group cash generated from operating activities stood at a healthy 182.2% of net profit with Emirates' at 186.2% and Dnata's at 147.7%.

Emirates' cash generated from operating activities covered 60.9% (2005-06: 54.3%) of current liabilities (trade and other payables and income tax liabilities) at 31 March 2007 while Dnata's cash generated from operating activities covered 83.5% (2005-06: 85.7%) of current liabilities at 31 March 2007.

Cash flow



Capital expenditure

Group capital expenditure for 2006-07 was AED 5,759 million, 22.3% higher than the previous year's level of AED 4,710 million. Aircraft, engines and parts comprised 60% of the total capital spend, included disbursements for aircraft deliveries during the year and progress payments for future deliveries.

Financial position

Group

At 31 March 2007, the Group's cash funds (including held to maturity cash investments of AED 535 million and investment in capital guaranteed notes of AED 1,841 million) improved by 17.8 % to AED 12,902 million (USD 3,515 million). The Group invested surplus funds in a mix of high credit quality bank deposits, liquidity funds and diversified structured products. The overall interest income earned yielded an effective rate of 5.6% (2005-06: 4.8%), reflecting the increase in prevailing rates.

Group shareholder's funds at 31 March 2007 was AED 14,864 million (USD 4,050 million), up by 21.4% compared to AED 12,241 million (USD 3,335 million) as at 31 March 2006.

Emirates

At 31 March 2007, Emirates' cash position (including held to maturity cash investments of AED 535 million and investment in capital guaranteed notes of AED 1,841 million) improved by 18.1 % to AED 11,498 million (USD 3,133 million). The improvement in cash was recorded after funding capital outflows of AED 4,183 million (USD 1,140 million) comprising of pre-delivery payments, spare engines, rotables, buildings and other capital items and paying dividends to the shareholder of AED 386 million (USD 105 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.

Emirates successfully closed its debut Singapore Dollar (SGD) bond during the current financial year in June 2006 raising SGD 400 million (circa USD 250 million). The SGD bond was issued in two tranches, one with a 5 year term and the other with a 10 year term, averaging a tenure of seven years. In addition, Emirates issued its second Dirham bond in July 2006 raising AED 1,836 million (USD 500 million), with a tenure of seven years. The year also saw the repayment of Emirates first ever bond issue of AED 1,500 million (USD 408 million) which matured in July 2006.

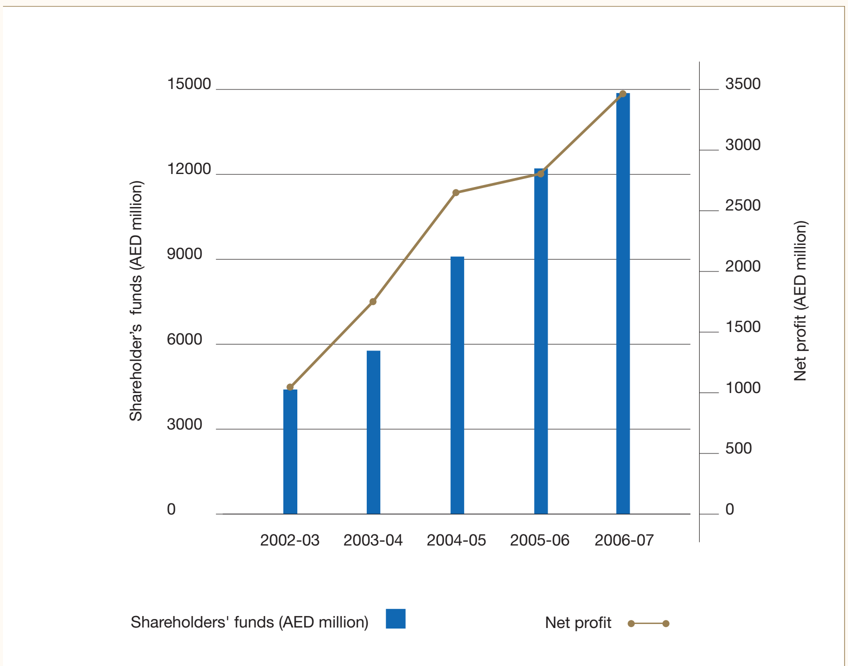
During the financial year under review, two B777-300ER aircraft were funded using US Ex-Im Bank support and this successfully concluded the first ever US Ex-Im Bank aircraft funding commitment for four B777 units of circa USD 500 million. In addition, Emirates used operating leases to finance ten B777-300ERs aircraft at attractive terms, five from International Lease Finance Corporation (ILFC) and five from General Electric Capital Aviation Services (GECAS).

Emirates' cash profit from operations (or EBITDAR) for the year ended 31 March 2007 remained robust at 26.5 % of operating revenue or AED 7,577 million , up by AED 1,633 million (27.5%) compared to year ended 31 March 2006. 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 target a balanced portfolio approach, subject to taking advantage of market movements, of hedging around half of its interest rate and currency 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 2007, comprised 63% on a fixed interest rate basis with the balance 37% on floating interest rates. A one percentage point 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 48 million (2006: AED 26 million). At 31 March 2007, Emirates' borrowings and lease liabilities carried a weighted average interest rate of circa 5.7% (2006: 4.5%).

Emirates proactively managed its currency exposure by using appropriate hedging solutions including currency swaps, options and operating leases denominated in Pound sterling, Euros, Japanese yen and Australian dollars. To-date, Emirates has secured seven aircraft in Pound sterling, six 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 Pound sterling, Euros and Japanese yen. As at 31 March 2007, around 52% of the net annual Pound sterling receipts were hedged, while hedging coverage for Euros and Japanese yen was 26% and 16% respectively.

Shareholder's funds



Emirates' shareholder's funds at 31 March 2007 was AED 13,040 million (USD 3,553 million), up by 20.9% compared to AED 10,788 million (USD 2,940 million) as at 31 March 2006. Emirates' long term borrowings and lease liabilities was AED 12,409 million (USD 3,381 million) at 31 March 2007, a net increase of AED 3,312 million (USD 902 million) over 31 March 2006. At 31 March 2007, Emirates' long term borrowings and lease liabilities (net of cash) / shareholder's funds ratio was 11% (2006 : 13%). After including operating leases, the same ratio was 103% (2006: 101%).

Dnata

At 31 March 2007, Dnata's cash position improved by 14.3% to AED 1,403 million (USD 382 million). The improvement in cash was recorded after funding capital outflows of AED 359 million during the year.

Dnata's shareholder's funds at 31 March 2007 was AED 1,823 million (USD 497 million), up by 25.5% compared to AED 1,453 million (USD 396 million) as at 31 March 2006. Dnata's long term debt was AED 236 million (USD 64 million) at 31 March 2007, a net decrease of AED 16 million over 31 March 2006.

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.

	2006-07 AED'000	2005-06 AED'000	2004-05 AED'000	2003-04 AED'000	2002-03 AED'000
Group operating revenue	29,827,768	23,418,465	18,496,306	13,542,317	9,940,793
Less: Purchase of goods and services	20,221,627	15,666,133	11,608,858	8,336,822	6,139,412
	9,606,141	**7,752,332**	**6,887,448**	**5,205,495**	**3,801,381**
Add: Other operating income	559,919	382,261	324,509	285,959	188,835
Interest income	660,227	378,942	191,270	97,925	105,143
Share of results in associated companies and joint ventures	83,644	59,555	54,469	86,643	107,831
Total value added by the Group	**10,909,931**	**8,573,090**	**7,457,696**	**5,676,022**	**4,203,190**
Distribution of value added:					
To employees - salaries and other employee costs	5,017,307	4,049,662	3,400,725	2,831,320	2,251,121
To overseas governments -					
Corporation and other taxes	163,361	89,418	58,685	16,871	16,996
To suppliers of capital -					
Dividends	431,035	454,479	406,670	329,000	240,000
Interest	691,682	405,998	283,670	217,065	218,217
Minority interests	-	-	-	110,726	53,396
Retained for re-investment and future growth -					
Depreciation and amortisation	1,513,954	1,142,298	951,493	752,750	614,984
Retained profits	3,092,592	2,431,235	2,356,453	1,418,290	808,476
Total distribution of value added	**10,909,931**	**8,573,090**	**7,457,696**	**5,676,022**	**4,203,190**

2005-06 figures have been re-classified to conform with the current year presentation. Figures for financial years' prior to 2004-05 have not been amended.

In 2006-07, the total 'value added' of the Group increased by AED 2,337 million (27.3%) to AED 10,910 million (2005-06: AED 8,573 million). The increase came mainly from the growth in operating revenue (AED 6,409 million) while the cost of purchases of goods and services increased by AED 4,555 million.

Employees received AED 5,017 million (45.9% 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 1,286 million (11.8%).

The amount retained in the business for future growth was AED 4,607 million (42.3%).

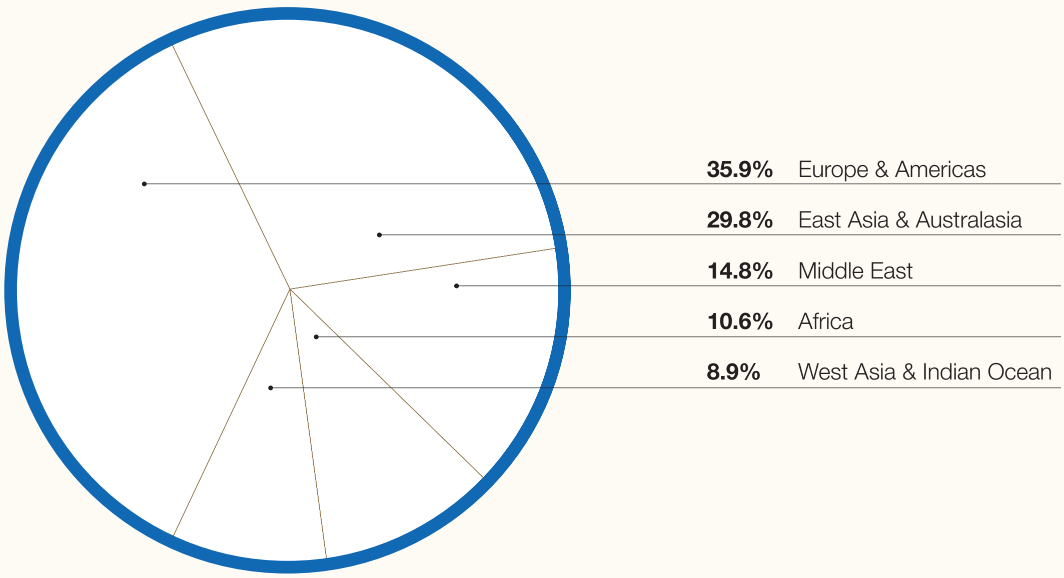
Revenue

	2006-07 AED million	%	2005-06 AED million	%
Passenger	21,677	75.7	16,370	73.4
Cargo	5,047	17.6	4,178	18.7
Courier	264	0.9	277	1.2
Excess baggage	217	0.8	174	0.8
Mail	66	0.2	48	0.2
Transport revenue	**27,271**	**95.2**	**21,047**	**94.3**
Sale of goods	1,019	3.6	949	4.3
Destination and leisure (see below)	183	0.6	147	0.7
Other	170	0.6	165	0.7
Total operating revenue	**28,643**	**100.0**	**22,308**	**100.0**

2005-06 figures have been re-classified 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 2006-07 were AED 1,151 million up 22% on the previous year (2005-06: AED 940 million).

Segment revenue

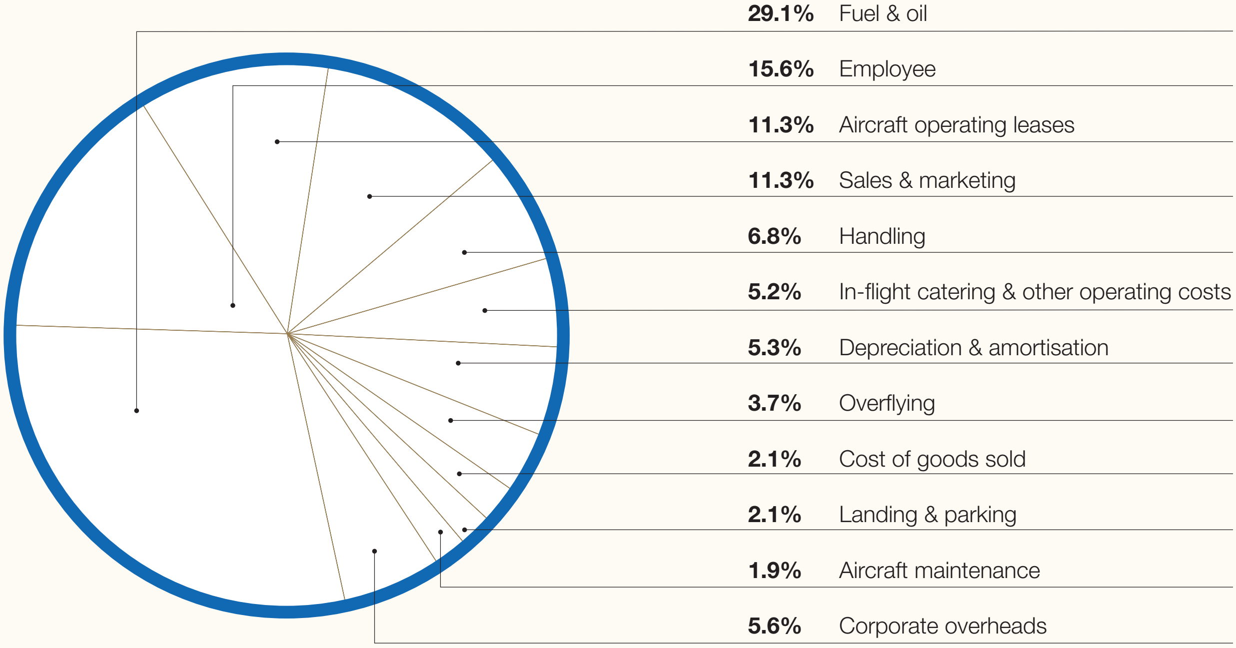


	2006-07 AED million	%	2005-06 AED million	%
Fuel and oil	7,525	29.1	5,445	27.2
Employee (see (a) below)	4,024	15.6	3,187	15.9
Aircraft operating leases	2,909	11.3	2,312	11.6
Sales and marketing	2,907	11.3	2,196	11.0
Handling	1,752	6.8	1,407	7.0
In-flight catering and other operating costs	1,352	5.2	1,053	5.2
Depreciation	1,310	5.1	974	4.8
Overflying	947	3.7	765	3.8
Cost of goods sold	548	2.1	542	2.7
Landing and parking	535	2.1	437	2.2
Aircraft maintenance	500	1.9	373	1.9
Amortisation	42	0.2	31	0.2
Corporate overheads	1,483	5.6	1,284	6.5
Total operating costs (see (b) below)	**25,834**	**100.0**	**20,006**	**100.0**

2005-06 figures have been re-classified to conform with the current year's presentation.

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

Expenditure



Yield, unit cost and breakeven load factor

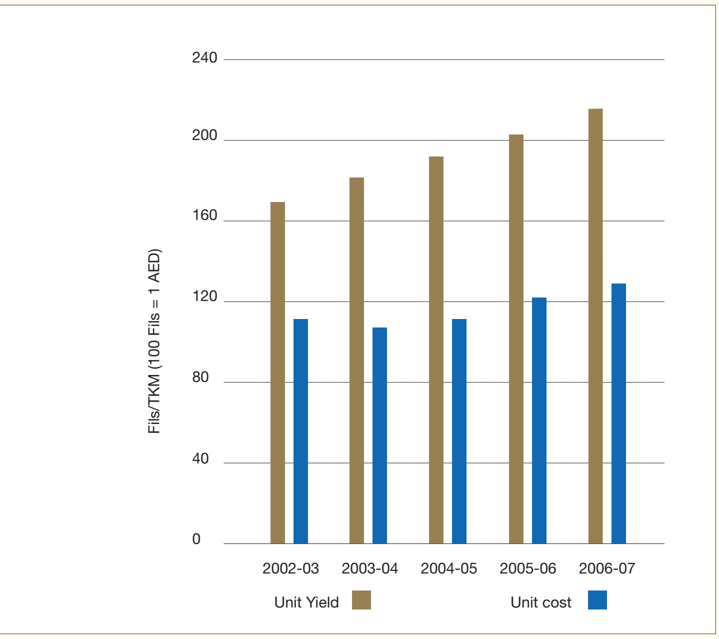
Overall yield increased by 6.5% to 216 fils per tonne-kilometre.

Passenger yield increased 5.8% mainly on account of increase in premium class traffic and the positive impact of fares from improvement in price, fuel and insurance surcharge included as part of fares and favourable currency movements. Freight yield increased by 3.3% on account of higher collection of cargo security and fuel surcharges designed to partly offset higher fuel cost.

Unit cost increased by 7.3 fils (6%) to 129 fils per capacity tonne-kilometre. The increase is mainly due to higher fuel costs by 4.3 fils and other operating expenses by 3.0 fils.

The breakeven load factor improved to 59.9% from 60.2% last year, due to overall unit yield increase being greater than unit cost increase.

Yield and unit cost



Traffic increased by 21.6% to 12,643 million tonne-kilometre, and the capacity increased by 22.8% to 19,414 million tonne-kilometre. Aircraft departures increased by 15.3% to 92,158 while aircraft utilisation remained one of the highest in the industry at 13.7 hours per day.

The increase in traffic came principally from:

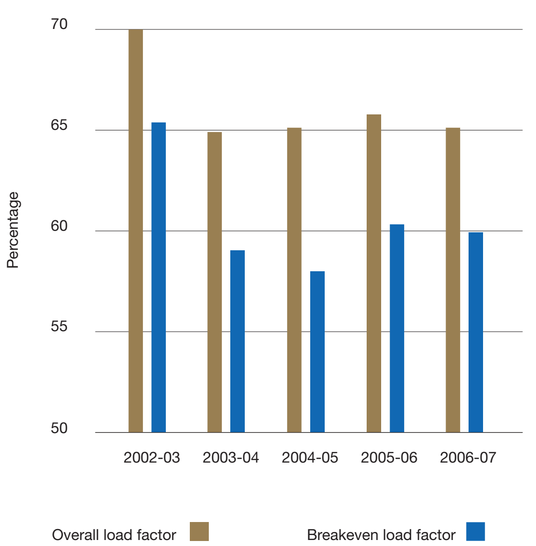
- introduction of new passenger services to Nagoya, Beijing, Bangalore and Tunis and freighter services to Eldoret, Luxemburg and Barcelona
- increased frequencies to Düsseldorf, Athens, Zurich, Kuala Lumpur, Perth, New York, Hong Kong, Dhaka, Khartoum and Cairo
- increased capacity to existing destinations with larger capacity aircraft, mainly Munich, Manila, Johannesburg, Shanghai, Vienna and Glasgow.

Passengers carried reached 17.5 million in 2006-07, representing a increase of 21% over last year, while passenger seat factor remained at 76.2% (2005-06: 75.9%) despite the increase in capacity.

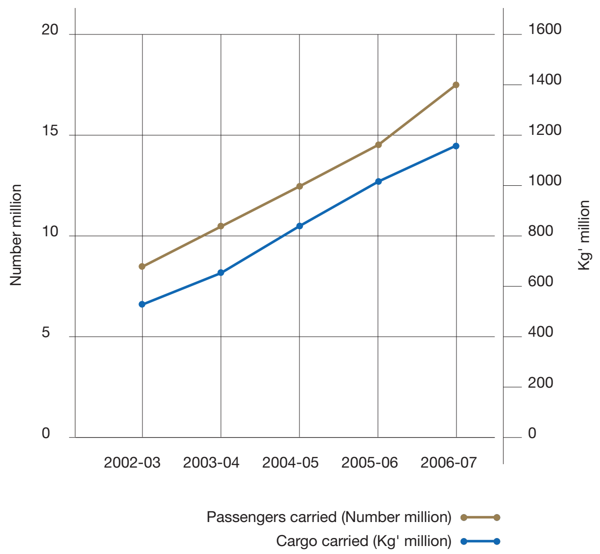
Cargo carried in 2006-07 improved by 13.5% to 1,155,894 tonnes (2005-06: 1,018,570 tonnes), recording a healthy growth across the entire network.

The overall load factor at 65.1% was marginally lower than the previous year on account of the increase in capacity.

Overall and breakeven load factor



Pax and cargo carried



Employee strength and productivity

In the year under review, the average workforce rose by 4,103 (18.5%) to 26,228. The average number of employees in the airline grew by 2,977 (17.2%) to 20,273 as a result of the significant growth in capacity.

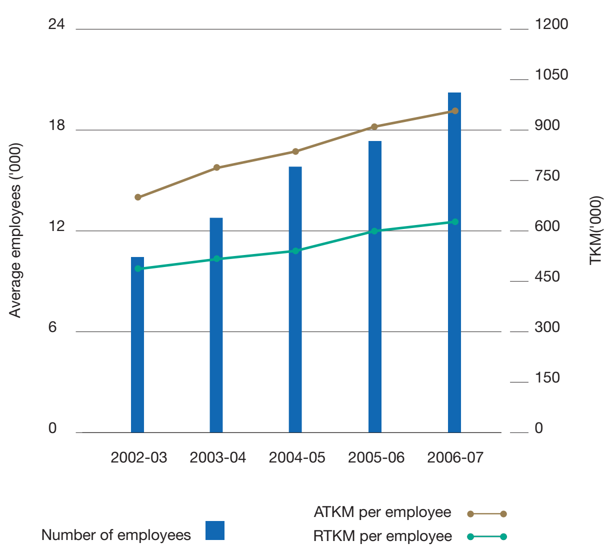
A breakdown of the average number of employees by category is shown below:

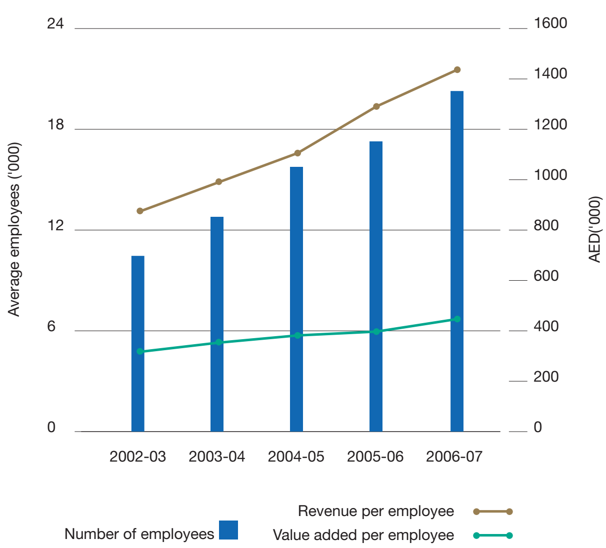
	2006-07	2005-06
UAE		
Cabin crew	7,499	5,977
Flight deck crew	1,528	1,253
Engineering	1,438	1,183
Other	6,409	5,729
	16,874	**14,142**
Overseas stations	3,399	3,154
Total Emirates	**20,273**	**17,296**
Subsidiary companies	**5,955**	**4,829**
Average employee strength	**26,228**	**22,125**

Employee productivity for the airline, measured in terms of revenue per employee was up by 11.3% to AED 1,431,038 compared with AED 1,284,790 in 2005-06.

Value added, which is a measure of wealth created by the airline was AED 8,991 million up 30.4% over last year (2005-06: AED 6,894 million). This is equivalent to AED 443,515 per employee, up 11.2% over the previous year (2005-06: AED 398,638).

Capacity per airline employee improved for the seventeenth year with a 4.8% increase in ATKM to 957,628 (2005-06: 913,687). In addition, load carried per airline employee increased 3.8% to RTKM 623,637 (2005-06: 600,921).





At 31 March 2007:

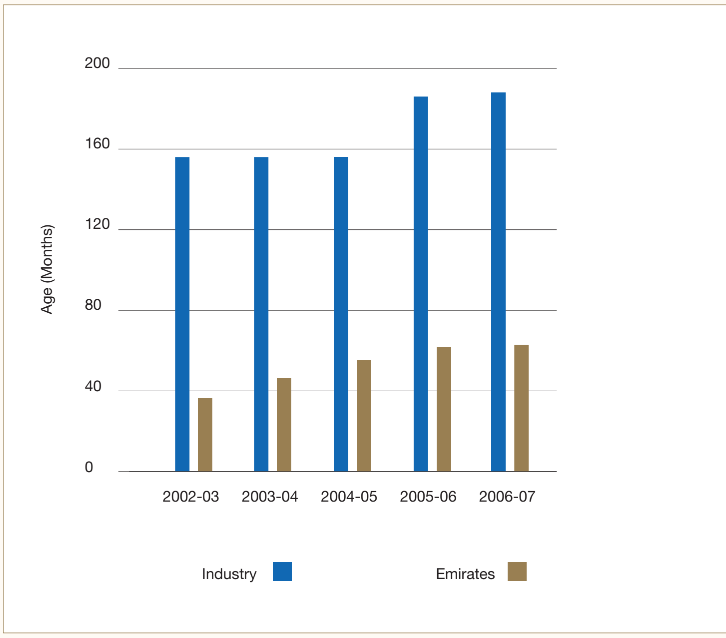
Aircraft	In operation	On firm order	On option
B777-200	9	-	-
B777-300	12	-	-
B777-300ER	25	24	20
A310-300F	3	-	-
A330-200	29	-	-
A340-300	8	-	-
A340-500	10	-	-
A380-800	-	43	-
B777-200LR	-	10	-
B777-200LRF	-	8	-
B747-800F	-	10	10
Total	**96**	**95**	**30**

Emirates also had six B747 freighters on wet lease for its cargo operations at 31 March 2007. Further contract exists for a B747-400ERF on wet lease for delivery in May 2007.

In addition to the above, Emirates has contracted for ten B777-300ER aircraft for delivery between April 2007 and December 2008 from International Lease Finance Corporation (2 units) and GE Commercial Aviation Services (8 units). Further contracts exist for two B747-400ERF aircraft for delivery in July 2007 and February 2008.

Emirates operates one of the youngest fleet in the industry with an average age of 63 months compared with an industry average of 188 months.

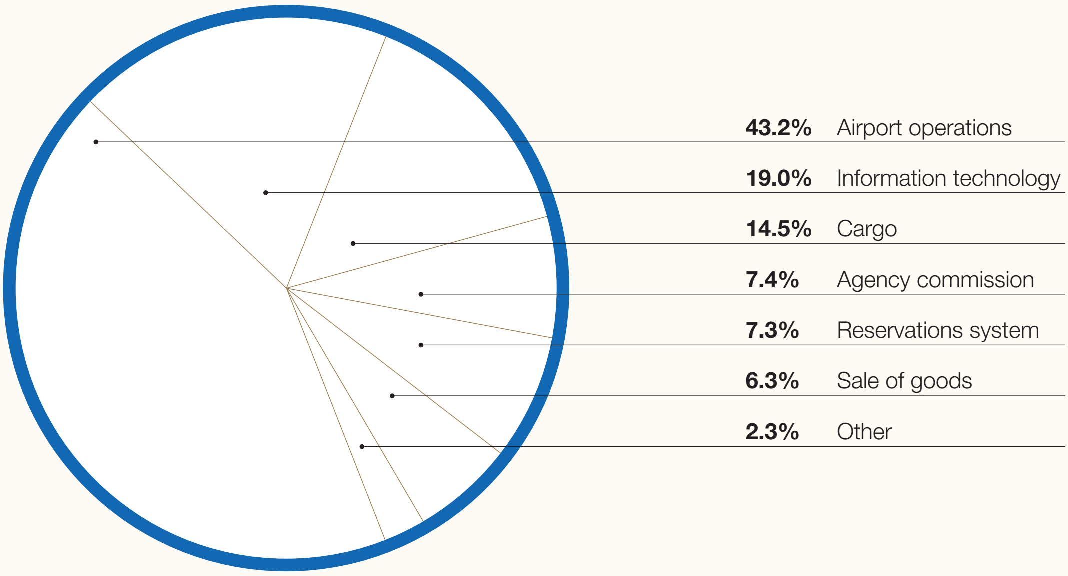
Average fleet age: Emirates and industry



Revenue

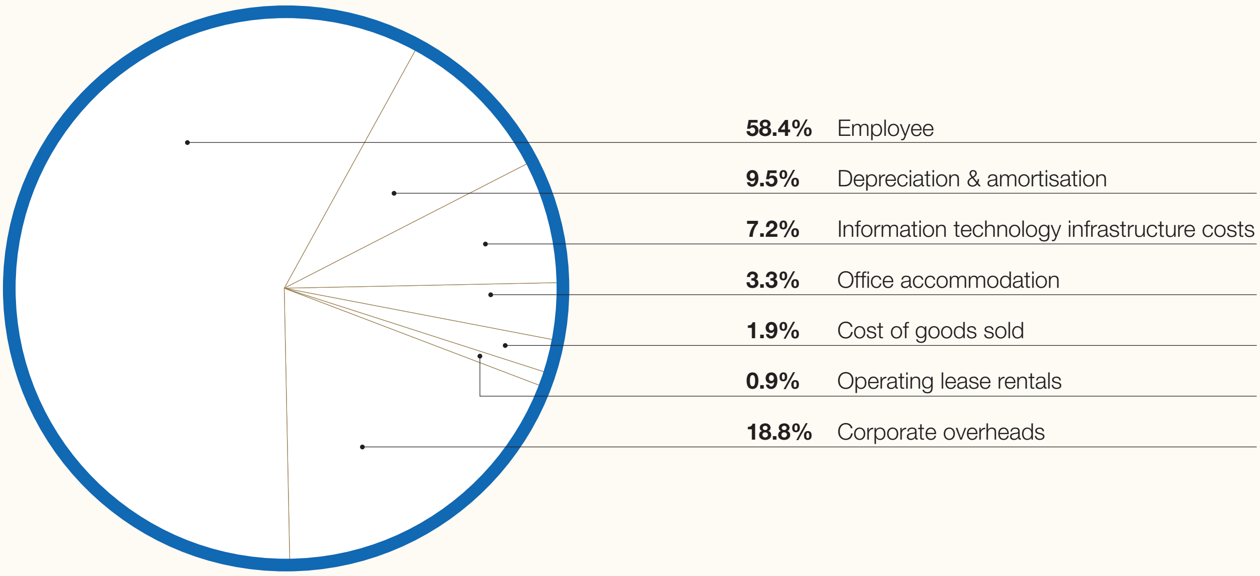
	2006-07 AED million	%	2005-06 AED million	%
Airport operations	849	43.2	729	42.9
Information technology	374	19.0	297	17.4
Cargo	285	14.5	274	16.1
Agency commission	145	7.4	108	6.4
Reservations system	144	7.3	135	7.9
Sale of goods	125	6.3	115	6.7
Other	45	2.3	44	2.6
Total operating revenue	**1,967**	**100.0**	**1,702**	**100.0**

Revenue



	2006-07 AED million	%	2005-06 AED million	%
Employee	993	58.4	863	59.8
Depreciation and amortisation	162	9.5	137	9.5
Information technology infrastructure costs	123	7.2	109	7.6
Office accommodation	56	3.3	49	3.4
Cost of goods sold	33	1.9	32	2.2
Operating lease rentals	14	0.9	14	1.0
Corporate overheads	319	18.8	240	16.5
Total operating costs	**1,700**	**100.0**	**1,444**	**100.0**

Expenditure

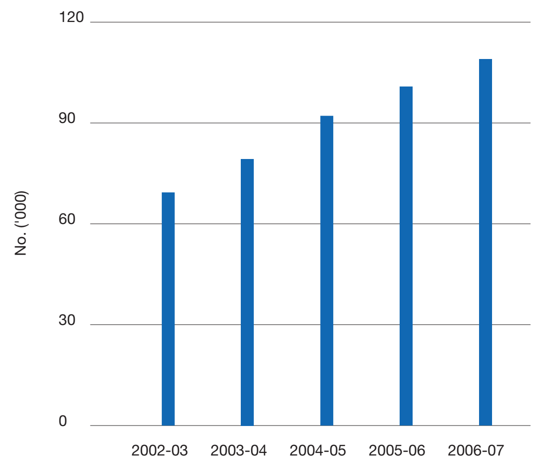


Aircraft, passengers and cargo handled

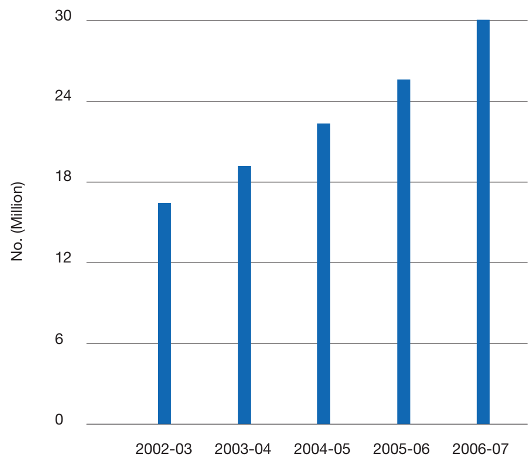
Dubai International Airport maintained its impressive growth on traffic volumes:

- the number of passengers handled were 30 million, an increase of 17% or 4.4 million over the previous year
- the volume of cargo handled was 535,132 tonnes. This reflects a growth of 6% as compared with last year's volume of 503,382 tonnes
- Dnata handled 120 (2005-06:118) scheduled international airlines operating to Dubai International Airport
- the number of aircraft handled during the year increased by 7.9% to 109,648 as compared with 101,607 during 2005-06.

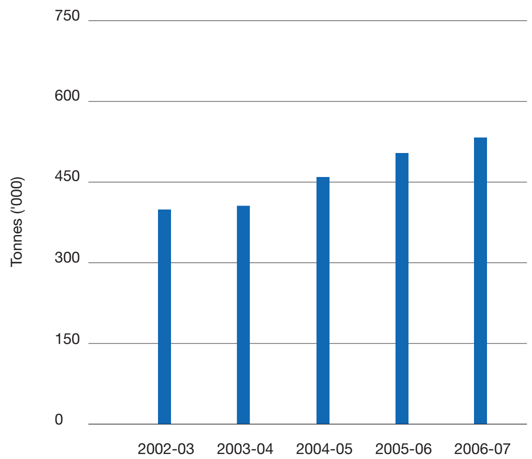
Aircraft handled



Passengers handled



Cargo handled



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

	2006-07	2005-06
Airport operations	5,445	5,627
Cargo handling	948	912
Dnata agencies	667	641
Other	1,331	1,232
Total Dnata	**8,391**	**8,412**
Subsidiary companies	**1,441**	**1,448**
Average employee strength	**9,832**	**9,860**

During the year under review, there was a small drop in average headcount against previous year reflecting productivity improvements and flexible resourcing.

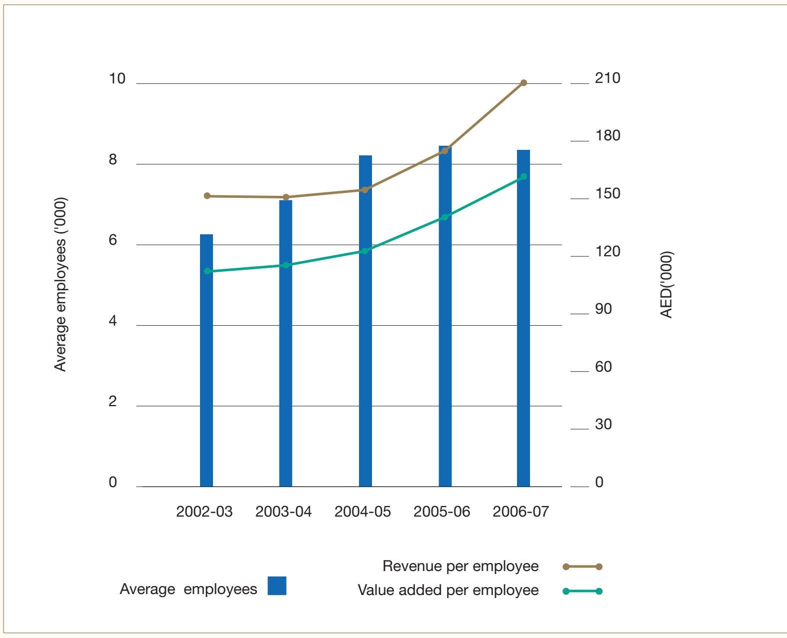
Revenue per employee for Dnata increased by 19.4% to AED 210,209 from AED 176,059 in 2005-06.

Value added which is a measure of wealth created by Dnata during the year, was up by 15.9% to AED 1,363 million (2005-06: AED 1,176 million). This is equivalent to AED 162,414 per employee an increase of 16.2% over the previous year (2005-06: AED 139,801).

Aircraft handled per airport employee was 20 (2005-06: 18) while passengers handled per airport employee increased by 21% to 5,520 (2005-06: 4,558).

Cargo handled per cargo handling employee was 564,485 kgs compared with 551,954 kgs in 2005-06.

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 expressed as a percentage of sum of operating revenue and other operating income

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

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

Report on the financial statements

We have audited the accompanying consolidated financial statements of Emirates and its subsidiaries (together referred to as "Emirates"), which comprise the consolidated balance sheet as of 31 March 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Emirates as of 31 March 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Chartered Accountants

Dubai
16 April 2007

Consolidated income statement for the year ended 31 March 2007

	Notes	2007 AED'000	2006 AED'000
Revenue	4	28,642,701	22,307,539
Other operating income	5	530,420	350,451
Operating costs	6	(25,834,248)	(20,005,699)
Operating profit		**3,338,873**	**2,652,291**
Finance costs - net	7	(87,790)	(58,364)
Share of results in associated companies and joint ventures	11	75,225	55,007
Profit before income tax		**3,326,308**	**2,648,934**
Income tax expense	8	(162,581)	(87,608)
Profit for the year		**3,163,727**	**2,561,326**
Profit attributable to minority interest		67,311	86,327
Profit attributable to Emirates' Owner		**3,096,416**	**2,474,999**

Notes 1 to 34 form an integral part of the consolidated financial statements.

Consolidated balance sheet
at 31 March 2007

	Notes	2007 AED'000	2006 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	17,173,958	13,534,875
Intangible assets	10	841,394	669,671
Investment in associated companies and joint ventures	11	435,344	268,293
Advance lease rentals	12	230,955	257,638
Available-for-sale financial assets	13	1,940,619	100,179
Held-to-maturity investments	13	397,811	349,344
Loans and receivables	14	341,228	450,863
Derivative financial instruments	31	1,168,779	1,387,001
		22,530,088	**17,017,864**
Current assets			
Inventories	15	541,124	479,569
Trade and other receivables	16	5,420,320	4,154,002
Held-to-maturity investments	13	136,730	183,650
Derivative financial instruments	31	206,617	359,457
Cash and bank balances	29	9,123,245	9,199,004
		15,428,036	**14,375,682**
Total assets		**37,958,124**	**31,393,546**
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	17	801,214	801,214
Other reserves	18	1,155,717	1,600,145
Retained earnings		11,083,428	8,387,012
Attributable to Emirates' Owner		**13,040,359**	**10,788,371**
Minority interest		129,599	130,180
Total equity		**13,169,958**	**10,918,551**
Non-current liabilities			
Borrowings and lease liabilities	19	12,409,330	9,097,330
Provisions	23	454,372	377,176
Deferred credits	24	700,634	795,547
Deferred tax liabilities	25	50,642	-
Trade and other payables	26	84,191	125,723
Derivative financial instruments	31	510,841	220,161
		14,210,010	**10,615,937**
Current liabilities			
Trade and other payables	26	9,303,772	7,454,635
Income tax liabilities		158,926	103,436
Borrowings and lease liabilities	19	929,129	2,149,224
Deferred credits	24	177,825	151,707
Derivative financial instruments	31	8,504	56
		10,578,156	**9,859,058**
Total liabilities		**24,788,166**	**20,474,995**
Total equity and liabilities		**37,958,124**	**31,393,546**

The consolidated financial statements were approved on the 16th day of April 2007 and signed by:

Sheikh Ahmed bin Saeed Al-Maktoum
Chairman and Chief Executive

Maurice Flanagan
Executive Vice Chairman

Notes 1 to 34 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 March 2007

	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 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)
Net 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 direct movement 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 net 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**
Currency translation differences	-	(11,753)	-	(11,753)	-	(11,753)
Loss on available-for-sale financial assets (Note 13)	-	(23,728)	-	(23,728)	-	(23,728)
Net gain / (loss) on fair value of cash flow hedges	-	327,686	-	327,686	(53)	327,633
Transferred to income statement	-	(736,633)	-	(736,633)	-	(736,633)
Net direct movement in equity	**-**	**(444,428)**	**-**	**(444,428)**	**(53)**	**(444,481)**
Profit for the year	-	-	3,096,416	3,096,416	67,311	3,163,727
Total net income for the year	**-**	**(444,428)**	**3,096,416**	**2,651,988**	**67,258**	**2,719,246**
Acquired from minority interest	-	-	-	-	(36,804)	(36,804)
Dividend	-	-	(400,000)	(400,000)	(31,035)	(431,035)
31 March 2007	**801,214**	**1,155,717**	**11,083,428**	**13,040,359**	**129,599**	**13,169,958**

Notes 1 to 34 form an integral part of the consolidated financial statements.

	2007 AED'000	2006 AED'000
Operating activities		
Profit for the year before income tax	3,326,308	2,648,934
Adjustments for:		
Depreciation and amortisation (Note 6)	1,351,754	1,005,701
Finance costs - net (Note 7)	87,790	58,364
Loss on sale of property, plant and equipment	1,081	36,118
Profit on sale of business units (Note 33)	(34,028)	-
Share of results in associated companies and joint ventures (Note 11)	(75,225)	(55,007)
Provision for impairment of trade receivables (Note 16)	8,747	14,335
Provision for employee benefits (Note 6)	246,592	219,441
Net movement on derivative financial instruments	386,990	32,247
Employee benefit payments	(191,550)	(150,148)
Income tax paid	(56,449)	(28,152)
Change in inventories (Note 15)	(61,555)	(87,443)
Change in receivables and advance lease rentals	(936,541)	(888,021)
Change in payables and deferred credits	1,710,965	1,299,346
Net cash generated from operating activities	**5,764,879**	**4,105,715**
Investing activities		
Proceeds from sale of property, plant and equipment	2,985	11,795
Proceeds from sale of business units (Note 33)	41,204	-
Additions to intangible assets (Note 10)	(70,420)	(133,331)
Additions to property, plant and equipment (Note 30)	(4,183,134)	(2,816,039)
Investment in associated companies and joint ventures	(10,865)	(538)
Additional investment in a subsidiary	(187,154)	(188,351)
Addition to available-for-sale financial assets (Note 13)	(1,836,500)	(1,207)
Movement in short term bank deposits (Note 29)	883,690	(1,936,500)
Net purchase of held-to-maturity investments (Note 13)	(1,547)	(312,614)
Interest income	540,681	299,075
Dividend from associated companies (Note 11)	72,289	29,133
Net cash used in investing activities	**(4,748,771)**	**(5,048,577)**
Financing activities		
Net proceeds from issue / repayment of bonds (Note 20)	1,246,562	2,014,676
Net loan drawdown (Note 21)	250,108	35,995
Aircraft financing costs	(325,687)	(209,049)
Other finance charges	(358,738)	(77,321)
Net lease liabilities	(592,936)	(461,237)
Dividend paid	(386,000)	(368,000)
Dividend paid to minority shareholders	(31,035)	(68,479)
Net cash (used in) / provided by financing activities	**(197,726)**	**866,585**
Net increase / (decrease) in cash and cash equivalents	**818,382**	**(76,277)**
Cash and cash equivalents at beginning of year	7,252,182	7,328,459
Effects of exchange rate changes	(129)	-
Cash and cash equivalents at end of year (Note 29)	**8,070,435**	**7,252,182**

Notes 1 to 34 form an integral part of the consolidated financial statements.

1. Establishment and operations

Emirates comprises Emirates and its subsidiaries. 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.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted

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

- IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)
- IFRS 7, Financial Instruments: Disclosures (effective from 1 January 2007)
- IFRS 8, Operating segments (effective from 1 January 2009)
- IFRIC 9, Reassessment of Embedded Derivatives (effective from 1 June 2006)

Basis of consolidation

Subsidiaries are those entities (including special purpose 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 de-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 incurred or 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. Investment in jointly controlled entities are accounted for by applying the equity method.

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 (which includes courier and mail) 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 a fair value reserve in equity.

Income statements and cash flows of subsidiaries are translated into UAE Dirhams at average exchange rates for the year and their assets and liabilities are translated at the exchange rates ruling on the balance sheet date. The resulting exchange differences are recognised in the translation reserve in equity.

Share of results in associated companies and joint ventures are translated into UAE Dirhams at average exchange rates for the year. Translation differences relating to investments in associated companies and joint ventures are classified as a translation reserve in equity. When the investment in subsidiaries, associated companies or joint ventures are disposed of, the translation differences held in equity 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.

Deferred income tax

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 consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2. Summary of significant accounting policies (continued)

Major overhaul expenditure is depreciated over the shorter of the period to the next major overhaul or lease term or useful life of the asset concerned.

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 and is reviewed at each balance sheet date for possible reversal of the impairment loss.

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.

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 incidental to ownership are transferred to Emirates, they are 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. The interest element is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Property, plant and equipment acquired under finance leases are depreciated in accordance with Emirates' policies.

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 and is reviewed at each balance sheet date for possible reversal of the impairment loss.

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

Service rights	15 years
Computer software	5 years

2. Summary of significant accounting policies (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets acquired by Emirates in its subsidiaries at the date of acquisition. In the case of a subsequent exchange transaction where control is already established, goodwill is calculated with reference to the net asset value at the date of 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 that are expected to benefit from the business combination in which the goodwill arose. An impairment loss is recognised when the carrying value of the cash generating unit exceeds its recoverable amount. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as 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 of 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 fair value or at cost less impairment when fair values cannot be reliably measured.

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.

At each balance sheet date an assessment is made whether there is any objective evidence of impairment. In such instances, the cumulative loss - measured as 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.

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, an assessment is made whether there is any objective evidence of impairment. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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, an assessment is made whether there is any objective evidence of impairment. 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.

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.

2. Summary of significant accounting policies (continued)

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 and are presented in the same line item as the gains and losses from hedged items.

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.

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 original 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.

2. Summary of significant accounting policies (continued)

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.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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 associated 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 assessed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following discussion addresses the accounting policies that require subjective and complex judgements, often as a result of the need to make estimates.

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 8.2 million.

Taxation

Income tax liabilities are not provided for when management is of the firm opinion that exemption from income tax will ultimately be granted by the relevant authorities in the concerned jurisdictions. In making its judgement, management considers the status of discussions with the relevant authorities in different countries, the existence of reciprocal exemptions or of a memorandum of understanding. The resolution of issues is not always within the control of management and is often dependant upon external parties. When, due to a change in circumstances, it is unlikely that a tax exemption will be obtained, the income tax liability is fully provided for on a conservative basis till a resolution is reached or the final tax outcome is determined.

4. Revenue

	2007 AED'000	2006 AED'000
Services		
Passenger	21,677,143	16,370,146
Cargo	5,046,888	4,178,223
Courier	263,485	277,297
Excess baggage	217,153	173,810
Destination and leisure	182,953	146,718
Hotel operations	91,467	79,754
Mail	65,992	47,515
Training	62,900	69,217
Licensed engineering income	15,558	15,897
	27,623,539	**21,358,577**
Sale of goods	**1,019,162**	**948,962**
	28,642,701	**22,307,539**

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
2007						
Segment revenue	4,314,841	10,461,633	8,695,324	2,621,045	3,080,278	29,173,121
Segment results	2,243,110	2,611,223	2,025,709	728,691	860,342	8,469,075
Unallocated costs						(5,130,202)
Operating profit						**3,338,873**
Finance costs - net	(87,790)	-	-	-	-	(87,790)
Share of results in associated companies and joint ventures	75,225	-	-	-	-	75,225
Income tax expense	(15,475)	-	(136,598)	(73)	(10,435)	(162,581)
Profit for the year						**3,163,727**
2006						
Segment revenue	3,594,449	8,345,469	6,671,300	1,848,755	2,198,017	22,657,990
Segment results	1,753,579	2,277,526	1,419,765	567,568	653,159	6,671,597
Unallocated costs						(4,019,306)
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**

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 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	**Cargo**	**goods**	**Other**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
2007					
Segment revenue	23,082,581	5,376,365	583,231	130,944	29,173,121
Total assets	36,911,918	417,303	424,887	204,016	37,958,124
Capital expenditure and intangible assets	5,378,554	144,931	13,324	1,977	5,538,786
2006					
Segment revenue	17,406,658	4,503,035	641,498	106,799	22,657,990
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

5. Other operating income

Other operating income includes an amount of AED 108.5 million (2006: AED 78.5 million) being collections from ancillary services provided in relation to transportation of passengers and cargo and a net foreign exchange gain of AED 99.9 million (2006: Nil).

6. Operating costs

	2007 AED'000	**2006** AED'000
Fuel and oil	7,525,311	5,445,152
Employee (see (a) over)	4,024,328	3,187,108
Aircraft operating leases (see (b) over)	2,909,181	2,312,168
Sales and marketing	2,907,483	2,195,381
Handling (see (c) over)	1,751,697	1,406,250
In-flight catering and other operating costs	1,351,580	1,052,878
Depreciation (Note 9)	1,309,883	974,355
Overflying (see (c) over)	947,168	765,349
Cost of goods sold	547,927	541,846
Landing and parking (see (c) over)	534,754	436,904
Aircraft maintenance	499,630	373,401
Amortisation (Note 10)	41,871	31,346
Corporate overheads (see (d) over)	1,483,435	1,283,561
	25,834,248	**20,005,699**

6. Operating costs (continued)

(a) Employee costs include AED 246.6 million (2006: AED 219.4 million) in respect of post-employment benefits and AED 156.7 million (2006: AED 134.6 million) in respect of an employee profit share scheme.

(b) Aircraft operating lease charges include AED 2,260.0 million (2006: AED 1,710.9 million) in respect of seventy aircraft (2006: sixty) and AED 649.2 million (2006: AED 601.3 million) in respect of the wet leases 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 and parking, handling and overflying costs resulting in a release of excess accruals made in prior years amounting to AED 8.1 million (2006: AED 12.8 million).

(d) Corporate overheads includes non-aircraft operating lease rentals, amounting to AED 131.4 million (2006: AED 93.9 million). In the previous year, a net foreign exchange loss of AED 36.6 million was included in corporate overheads.

7. Finance costs - net

	2007 AED'000	**2006** AED'000
Aircraft financing costs	(337,025)	(237,353)
Interest charges	(342,037)	(158,941)
Interest income	591,272	337,930
	(87,790)	**(58,364)**

Net financing costs of AED 44.0 million (2006: AED 42.0 million) were capitalised during the year (Note 9).

Interest charges include interest on bonds (Note 20) of AED 330.6 million (2006: AED 152.9 million). The total interest income before the impact of derivative financial instruments was AED 590.7 million (2006: AED 337.3 million).

8. Income tax expense

The components of income tax expense are:

	2007 AED'000	**2006** AED'000
Current tax	(111,939)	(87,608)
Deferred tax expense (Note 25)	(50,642)	-
	(162,581)	**(87,608)**

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 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**
Cost						
1 April 2006	8,190,099	2,177,867	1,156,657	2,559,977	3,960,877	18,045,477
Additions	-	231,289	7,939	567,504	4,511,284	5,318,016
Currency translation differences	-	-	-	199	735	934
Transfers from capital projects	1,195,640	130,754	1,715,970	294,090	(3,336,454)	-
Disposals	(240,743)	(27,273)	(816)	(408,214)	(28,664)	(705,710)
31 March 2007	**9,144,996**	**2,512,637**	**2,879,750**	**3,013,556**	**5,107,778**	**22,658,717**
Depreciation						
1 April 2006	2,350,074	606,491	436,185	1,117,852	-	4,510,602
Charge for the year	533,787	153,869	125,693	496,534	-	1,309,883
Currency translation differences	-	-	-	79	-	79
Disposals	(163,094)	(15,789)	(702)	(156,220)	-	(335,805)
31 March 2007	**2,720,767**	**744,571**	**561,176**	**1,458,245**	**-**	**5,484,759**
Net book amount						
31 March 2007	**6,424,229**	**1,768,066**	**2,318,574**	**1,555,311**	**5,107,778**	**17,173,958**

9. Property, plant and equipment (continued)

The net book amount of property, plant and equipment includes AED 6,115.8 million (2006: AED 5,415.7 million) in respect of aircraft and AED 297.2 million (2006: AED 182.9 million) in respect of aircraft engines held under finance leases (Note 22).

The net book amount of land and buildings, aircraft and aircraft engines and parts includes an amount of AED 600.6 million (2006: AED 661.7 million) in respect of assets provided as security against term loans (Note 21).

No depreciation is charged on land carried at AED 64.5 million (2006: AED 59.7 million).

Property, plant and equipment includes capitalised interest amounting to AED 44.0 million (2006: AED 42.0 million).

Capital projects include pre-delivery payments of AED 2,568.9 million (2006: AED 1,672.4 million) in respect of aircraft (Note 27) due for delivery between 2007 and 2014. During the previous year, an amount of AED 64.4 million was transferred out of capital projects to advance lease rentals.

10. Intangible assets

	Goodwill AED'000	Service rights AED'000	Computer software AED'000	Total AED'000
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**
Cost				
1 April 2006	416,317	162,333	210,783	789,433
Additions	150,350	-	70,420	220,770
Disposals (Note 33)	(7,176)	-	-	(7,176)
31 March 2007	**559,491**	**162,333**	**281,203**	**1,003,027**
Amortisation and impairment				
1 April 2006	6,738	11,581	101,443	119,762
Amortisation for the year	-	10,815	31,056	41,871
31 March 2007	**6,738**	**22,396**	**132,499**	**161,633**
Net book amount				
31 March 2007	**552,753**	**139,937**	**148,704**	**841,394**

Computer software includes an amount of AED 56.2 million (2006: AED 55.2 million) in respect of projects under implementation.

For the purpose of testing goodwill for impairment, goodwill amounting to AED 184.3 million (2006: AED 191.4 million) is allocated to the consumer goods and AED 368.5 million (2006: AED 218.1 million) is allocated to the catering services cash generating unit. 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% per annum. Cash flows for both cash generating units beyond the three year period have been extrapolated using a 4% growth rate per annum. 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 Leisure Retail L.L.C.	68.7	Food and beverage operations	UAE
Emirates Leisure Retail Holding L.L.C.	100.0	Holding company	UAE
Emirates Hotel L.L.C.	100.0	Hotel operations	UAE
Emirates Hotel (Australia) Pty Ltd.	100.0	Hotel operations	Australia
Emirates Flight Catering Company L.L.C.	90.0	Catering services to airlines	UAE

During the year, Emirates invested a further 17.6 % in Emirates Flight Catering Company L.L.C. (also refer Note 10) while Emirates Leisure Retail L.L.C. and Emirates Leisure Retail Holding L.L.C. were incorporated 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 ventures

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Emirates-CAE Flight Training L.L.C.	50.0	Flight simulator training	UAE
PTI Gulf Hotels L.L.C.	51.0	Hotel operations	UAE

Tangible assets in the jointly controlled operation with CAE Inc. were transferred during the year to a newly created jointly controlled entity. Property, plant and equipment valued at AED 288.2 million was transferred to Emirates-CAE Flight Training L.L.C., AED 196.4 million as capital contributed and AED 91.8 million as a loan instrument (Note 32).

PTI Gulf Hotels L.L.C. was incorporated during the year. The entity is subject to joint control and is therefore accounted for as a jointly controlled entity.

Movement of investment in associated companies and joint ventures

	2007 AED'000	2006 AED'000
Balance brought forward	**268,293**	**245,696**
Investment during the year	207,235	538
Share of results	75,225	55,007
Other equity movement	(30,639)	3,370
Dividends received	(72,289)	(29,133)
Translation difference	(12,481)	(7,185)
Balance carried forward	**435,344**	**268,293**

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

The carrying value of the investment in associated companies amounted to AED 224.1 million (2006: AED 268.3 million) and the share of results amounted to AED 69.6 million (2006: AED 55.0 million). The investment in associated companies includes goodwill of AED 31.3 million (2006: AED 31.3 million).

The financial statements of SriLankan Airlines Limited have been drawn for a twelve month period ended 31 January 2007 to comply with the accelerated reporting timetable of Emirates. For the purpose of applying the 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 1 February 2007 and 31 March 2007.

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

	2007 AED'000	**2006** AED'000
Total assets	1,482,460	1,609,553
Total liabilities	1,046,624	1,073,322
Net assets	435,836	536,231
Revenue	2,769,112	2,539,671
Profit for the year	144,981	114,388

Summarised financial information in respect of Emirates' share in jointly controlled entities is set out below:

	2007 AED'000
Non-current assets	286,918
Current assets	79,486
Non-current liabilities	116,363
Current liabilities	38,837
Total income	34,909
Total expense	29,238

12. Advance lease rentals

	2007 AED'000	**2006** AED'000
Balance brought forward	**285,587**	**239,186**
Additions / transfers during the year	-	72,307
Charge for the year	(26,811)	(25,906)
Balance carried forward	**258,776**	**285,587**
Advance lease rentals will be charged to the income statement as follows:		
Within one year (Note 16)	**27,821**	**27,949**
Total over one year	**230,955**	**257,638**

Advance lease rentals are non-refundable in the event of the related lease being terminated prior to its expiry.

13. Other investments

(a) Available-for-sale financial assets

	2007 AED'000	2006 AED'000
Quoted	96,000	96,100
Unquoted	1,844,619	4,079
	1,940,619	**100,179**

The quoted investment represents Government of Dubai bonds, the effective interest rate earned was 3.11% (2006: 3.11%) per annum.

Unquoted investments include:

	2007 AED'000	2006 AED'000
Capital guaranteed notes	1,840,540	-
Depository certificates	4,079	4,079
	1,844,619	**4,079**

Capital guaranteed notes are carried at fair value, the effective interest rate earned was 5.37% per annum.

Depository certificates represent an investment in SITA Inc. and are without fixed maturity. 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.

(b) Held-to-maturity investments

	2007 AED'000	2006 AED'000
Deposits with financial institutions:		
Current	136,730	183,650
Non-current	397,811	349,344
	534,541	**532,994**
The maturity dates fall into the following periods:		
Within one year	136,730	183,650
Between 1 and 2 years	397,811	136,730
Between 2 and 3 years	-	212,614

The effective interest rate earned was 5.63% (2006: 4.89%) per annum.

The carrying amounts of the investments approximate their fair value.

14. Loans and receivables

Related parties (Note 32)	68,171	2,166
Other receivables	273,057	448,697
	341,228	**450,863**
The amounts are due as follows:		
Between 2 and 5 years	331,883	412,590
After 5 years	9,345	38,273
	341,228	**450,863**

The carrying amounts of the loans and receivables approximate their fair value.

15. Inventories

	2007 AED'000	2006 AED'000
Engineering	241,944	207,550
In-flight consumables	177,532	140,433
Consumer goods	65,749	85,495
Other	55,899	46,091
	541,124	**479,569**

16. Trade and other receivables

	2007 AED'000	2006 AED'000
Trade receivables	2,260,030	1,797,143
Related parties (Note 32)	150,621	23,630
Prepayments and deposits	1,231,053	876,043
Advance lease rentals (Note 12)	27,821	27,949
Operating lease deposits	738,992	717,981
Other receivables	1,353,031	1,162,119
	5,761,548	**4,604,865**
Less: Receivables over one year (Note 14)	(341,228)	(450,863)
	5,420,320	**4,154,002**

An impairment charge on trade and other receivables recognised in the income statement during the year amounted to AED 8.7 million (2006: AED 14.3 million). This charge is included in operating costs.

The effective interest rate earned on operating lease deposits was 3.74% (2006: 3.73%) 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 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**
Currency translation differences	-	-	(11,753)	(11,753)
Loss on available-for-sale financial assets (Note 13)	-	(23,728)	-	(23,728)
Gain / (loss) on fair value of cash flow hedges:				
-excluding associated companies	358,302	-	-	358,302
-associated companies	(30,616)	-	-	(30,616)
Transferred to income statement	(736,633)	-	-	(736,633)
31 March 2007	**1,220,444**	**(27,628)**	**(37,099)**	**1,155,717**

19. Borrowings and lease liabilities

	2007 AED'000	2006 AED'000
Non-current		
Bonds (Note 20)	6,644,763	3,845,810
Term loans (Note 21)	951,588	765,661
Lease liabilities (Note 22)	4,812,979	4,485,859
	12,409,330	**9,097,330**
Current		
Bonds (Note 20)	-	1,499,689
Term loans (Note 21)	119,583	55,402
Lease liabilities (Note 22)	809,546	583,811
Bank overdrafts (Note 29)	-	10,322
	929,129	**2,149,224**

20. Bonds

	2007 AED'000	2006 AED'000
Bonds are denominated in the following currencies:		
UAE Dirhams	1,836,500	1,500,000
Singapore Dollars	968,172	-
US Dollars	3,856,650	3,856,650
	6,661,322	**5,356,650**
Less: Transaction costs	(16,559)	(11,151)
	6,644,763	**5,345,499**
Bonds are repayable as follows:		
Within one year	-	1,499,689
Between 2 and 5 years	2,435,257	1,830,515
After 5 years	4,209,506	2,015,295

Contractual repricing dates are set at six month intervals except for bonds denominated in Singapore Dollars amounting to AED 484.1 million (2006: Nil) which carry a fixed interest rate over its term.

USD bonds carried at AED 1,836.5 million (2006: AED 1,836.5 million) 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.

USD bonds carried at AED 2,020.2 million (2006: AED 2,020.2 million) 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, are based on the six month LIBOR plus 75bps, except in the first year in which they were based on one year LIBOR plus 75bps.

The carrying amounts of the bonds approximate their fair value other than Singapore Dollar fixed rate bonds carried at AED 484.1 million, the fair value of which was AED 502.9 million based on listed prices.

21. Term loans

	2007 AED'000	2006 AED'000
Balance brought forward	**821,063**	**785,068**
Additions during the year	324,510	111,000
Repayments during the year	(74,402)	(75,005)
Balance carried forward	**1,071,171**	**821,063**
Loans are repayable as follows:		
Within one year (Note 19)	**119,583**	**55,402**
Between 2 and 5 years	770,064	633,176
After 5 years	181,524	132,485
Total over one year (Note 19)	**951,588**	**765,661**

Contractual repricing dates are set at six month intervals. Term loans amounting to AED 635.7 million (2006: AED 710.1 million) are secured on land and buildings, aircraft and aircraft engines and parts.

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

22. Lease liabilities

Finance leases

	2007 AED'000	2006 AED'000
Gross lease liabilities:		
Within one year	1,264,430	844,815
Between 2 and 5 years	3,718,387	3,571,095
After 5 years	2,649,630	2,428,174
	7,632,447	**6,844,084**
Future interest	(1,759,249)	(1,537,759)
Term deposits	(250,673)	(236,655)
Net lease liabilities	**5,622,525**	**5,069,670**
Net lease liabilities are repayable as follows:		
Within one year (Note 19)	**809,546**	**583,811**
Between 2 and 5 years	2,707,465	2,546,482
After 5 years	2,105,514	1,939,377
Total over one year (Note 19)	**4,812,979**	**4,485,859**

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 2007, the penalties would have been AED 155.2 million (2006: AED 144.6 million).

The fair value of net lease liabilities amounts to AED 5,625.5 million (2006: AED 5,071.9 million). The fair value is determined by discounting projected cash flows using the interest rate yield curve applicable to different maturities adjusted for contractual pricing.

22. Lease liabilities (continued)

Operating leases

Future minimum lease payments are as follows:

	2007 AED'000	2006 AED'000
Aircraft fleet	22,573,297	17,991,060
Other	2,668,839	1,148,132
	25,242,136	**19,139,192**
Within one year	2,947,347	2,262,445
Between 2 and 5 years	11,606,738	9,266,758
After 5 years	10,688,051	7,609,989
	25,242,136	**19,139,192**

In the event of aircraft leases being terminated prior to their expiry, penalties are payable. Had these leases been cancelled at 31 March 2007, the penalties would have been AED 489.0 million (2006: AED 479.3 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 seventy (2006: twenty five of sixty) aircraft under these leases.

In addition, Emirates has twelve Boeing aircraft contracted on operating leases for delivery between April 2007 and December 2008.

23. Provisions

	End of service benefits AED'000	Frequent flyer programme AED'000	Total AED'000
Balance brought forward	**317,862**	**59,314**	**377,176**
Charge for the year	86,479	55,753	142,232
Payments made / benefits utilised during the year	(31,437)	(33,599)	(65,036)
Balance carried forward	**372,904**	**81,468**	**454,372**

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 2007, 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 2007 were computed using the actuarial assumptions set out above.

24. Deferred credits

	2007 AED'000	2006 AED'000
Balance brought forward	**947,254**	**581,658**
Net additions during the year	91,209	449,663
Recognised during the year	(160,004)	(84,067)
Balance carried forward	**878,459**	**947,254**
Deferred credits will be recognised as follows:		
Within one year	**177,825**	**151,707**
Total over one year	**700,634**	**795,547**

25. Deferred tax liabilities

The movement in the deferred tax account during the year is as follows:

	2007 AED'000
Charge for the year	50,642
Balance carried forward	**50,642**

The charge for the year is on account of accelerated tax depreciation.

26. Trade and other payables

	2007 AED'000	2006 AED'000
Trade payables and accruals	5,199,273	4,158,735
Related parties (Note 32)	39,375	2,186
Passenger and cargo sales in advance	3,749,315	3,033,437
Dividend payable	400,000	386,000
	9,387,963	**7,580,358**
Less: Payables over one year	(84,191)	(125,723)
	9,303,772	**7,454,635**

27. Commitments

Capital commitments

	2007 AED'000	2006 AED'000
Authorised and contracted:		
Aircraft fleet	66,487,872	66,326,688
Non-aircraft	1,187,670	1,179,731
Joint ventures	28,157	3,122
	67,703,699	**67,509,541**
Authorised but not contracted:		
Non-aircraft	6,180,006	4,487,854
Joint ventures	-	9,972
	6,180,006	**4,497,826**
	73,883,705	**72,007,367**

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

Financial year	**Aircraft**
2007 - 2008	6
Beyond 2007 - 2008	89

In addition, options are held on thirty Boeing aircraft.

Operational commitments

	2007 AED'000	2006 AED'000
Letters of credit issued by bankers in the normal course of business	997,844	510,216
Sales and marketing	1,540,027	814,003

28. Guarantees

	2007 AED'000	2006 AED'000
Performance bonds provided by bankers in the normal course of business	32,023	37,108

29. Cash and cash equivalents

	2007 AED'000	2006 AED'000
Short term bank deposits and liquid funds	8,494,854	8,830,290
Cash and bank	628,391	368,714
Cash and bank balances	**9,123,245**	**9,199,004**
Bank overdrafts (Note 19)	-	(10,322)
	9,123,245	**9,188,682**
Less: Short term bank deposits over 3 months	(1,052,810)	(1,936,500)
	8,070,435	**7,252,182**

Cash and bank balances earned an effective interest rate of 5.61% (2006: 4.34%) per annum.

30. Analysis of capital expenditure

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

	2007 AED'000	2006 AED'000
Payments for property, plant and equipment	5,283,112	4,317,863
Less: Assets acquired under finance leases	(1,099,978)	(1,501,824)
Cash outflow on capital expenditure	**4,183,134**	**2,816,039**

31. Financial instruments

(i) Interest rate risk

Emirates is exposed to interest rate fluctuations in 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 117.5 million (2006: AED 99.6 million). The effective interest rates per annum on aircraft related financing and term loans, bonds and bank overdrafts were 5.29% (2006: 4.43%), 6.11% (2006: 4.62%) and Nil (2006: 5.50%) 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.

31. Financial instruments (continued)

Description	Term	AED'000
Cash flow hedge		
2007		
Interest rate swap asset	2007-2015	29,095
Interest rate swap liability	2007-2015	(3,833)
2006		
Interest rate swap asset	2006-2015	50,732
Interest rate swap liability	2006-2015	(4,374)

The notional principal amounts of the outstanding contracts at 31 March 2007 were AED 1,168.9 million (2006: AED 1,273.4 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 UAE Dirham 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		
2007		
Currency swap and forward asset	2007-2017	19,705
Currency swap liability	2007-2008	(8,504)
Currency swap liability	2007-2017	(477,959)
2006		
Currency swap and forward asset	2006-2017	116,081
Currency swap liability	2006	(56)
Currency swap liability	2006-2011	(183,248)
Embedded derivatives		
2007		
Derivative asset	2007-2016	54,270
Derivative liability	2007-2015	(29,049)
2006		
Derivative asset	2006-2016	60,258
Derivative liability	2006-2015	(32,539)

The notional principal amounts of the outstanding contracts at 31 March 2007 were AED 4,694.5 million (2006: AED 3,270.4 million).

31. Financial instruments (continued)

Inflows on account of terminated currency derivatives amounting to AED 12.6 million (2006: AED 15.8 million) will enter into the determination of profit between 2007 and 2011.

A letter of credit for AED 129.3 million (2006: AED 21.9 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		
2007		
Futures and options asset	2007-2008	206,617
Futures and options asset	2008-2011	1,065,709
2006		
Futures and options asset	2006-2007	359,457
Futures and options asset	2007-2010	1,159,930

The notional principal amounts of the outstanding contracts at 31 March 2007 were AED 14,086 million (2006: AED 11,817.8 million).

Inflows on account of terminated derivatives amounting to AED 441.2 million will enter into the determination of profit between 2007 and 2009 (2006: AED 98.1 million between 2006 and 2008).

In the event of the asset turning into a liability with the counter party, a letter of credit for AED 734.6 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 associated with such sales agents is relatively small owing to a broad diversification.

Cash surpluses, held-to-maturity investments and available-for-sale financial assets are maintained with financial institutions possessing investment grade or higher credit quality. 13.6% (2006: 14.7%) 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.

32. Related party transactions

The following transactions were carried out with related parties:

	2007 AED'000	2006 AED'000
Trading transactions		
(i) Sale / purchase of goods and services		
Sale		
Services rendered - associated companies	94,229	94,408
Services rendered - joint ventures	9,212	-
Services rendered - companies under common control	27,878	24,415
	131,319	**118,823**
Purchase		
Purchase of goods - associated companies	98,038	73,034
Purchase of goods - companies under common control	1,229,712	797,460
Services received - companies under common control	741,462	581,426
	2,069,212	**1,451,920**
(ii) Year end balances arising from sale / purchase of goods and / or services		
Receivables from related parties (Note 16)		
Associated companies	14,089	19,904
Joint ventures	5,610	-
Companies under common control	36,427	-
	56,126	**19,904**
Payables to related parties (Note 26)		
Associated companies	25,611	-
Companies under common control	13,764	2,186
	39,375	**2,186**

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

	2007 AED'000	2006 AED'000
(i) Sale of business unit	**10,556**	**-**
(ii) Compensation to key management personnel		
Salaries and short term employee benefits	74,284	64,029
Post-employment benefits	7,862	14,755
Termination benefits	377	-
	82,523	**78,784**

32. Related party transactions (continued)

(iii) Loans to a joint venture

	2007 AED'000
Extended during the year	91,825
Balance carried forward	**91,825**
Receivable within one year (Note 16)	**24,793**
Receivable over one year (Note 14)	**67,032**

The effective interest rate on the loan was 6.42% per annum.

(iv) Loans and advances to key management personnel

	2007 AED'000	2006 AED'000
Balance brought forward	**3,726**	**3,195**
Additions during the year	3,760	2,583
Repayments during the year	(4,816)	(2,052)
Balance carried forward	**2,670**	**3,726**
Receivable within one year (Note 16)	**1,531**	**1,560**
Receivable over one year (Note 14)	**1,139**	**2,166**

Loans and advances are interest free except for advances amounting to AED 0.2 million (2006: AED 0.4 million) which carry an interest rate of 7.3% (2006: 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.

33. Disposal of business units

Certain business units in subsidiary companies were disposed off during the year. No net assets were transferred. Details of goodwill derecognised and the consideration received are as follows:

	2007 AED'000
Goodwill derecognised (Note 10)	7,176
Profit on sale of business units	34,028
Total disposal consideration	41,204

34. 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:

- loss on certain currency derivatives amounting to AED 59.0 million has been regrouped from operating costs to revenue to more appropriately reflect the nature of the risk hedged
- other operating income amounting to AED 47.9 million has been regrouped under revenue to more appropriately reflect the nature of the transaction
- an amount of AED 43.2 million has been reclassified from operating costs to revenue to reflect amounts on a gross basis.

Report on the financial statements

We have audited the accompanying consolidated financial statements of Dnata and its subsidiaries (together, referred to as "Dnata"), which comprise the consolidated balance sheet as of 31 March 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Dnata as of 31 March 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Chartered Accountants

Dubai
16 April 2007

Consolidated income statement for the year ended 31 March 2007

	Notes	2007 AED'000	2006 AED'000
Revenue	4	1,966,511	1,702,092
Other operating income		29,499	31,810
Operating costs	5	(1,700,084)	(1,443,560)
Operating profit		**295,926**	**290,342**
Finance income - net	6	56,335	31,308
Share of results in associated companies and joint ventures	10	8,419	4,548
Profit before income tax		**360,680**	**326,198**
Income tax expense	7	(780)	(1,810)
Profit for the year		**359,900**	**324,388**

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

	Notes	2007 AED'000	2006 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	832,500	599,972
Intangible assets	9	203,445	187,048
Investment in associated companies and joint ventures	10	38,998	38,965
Loans to related parties	23	1,446	6,526
Advance lease rentals	11	27,407	26,812
Deferred tax assets	17	3,680	3,268
		1,107,476	**862,591**
Current assets			
Inventories		17,539	17,868
Trade and other receivables	12	424,911	333,933
Held-to-maturity investment	13	-	128,555
Cash and bank balances	22	1,403,318	1,099,267
		1,845,768	**1,579,623**
Total assets		**2,953,244**	**2,442,214**
EQUITY AND LIABILITIES			
Capital and reserves			
Capital	14	62,615	62,615
Reserves		1,760,585	1,390,219
Total equity		**1,823,200**	**1,452,834**
Non-current liabilities			
End of service benefit provision	15	179,927	162,140
Term loan	16	235,924	252,037
Deferred tax liabilities	17	43,847	49,356
		459,698	**463,533**
Current liabilities			
Trade and other payables	18	625,550	480,916
Term loan	16	33,597	31,711
Income tax liabilities		11,199	13,220
		670,346	**525,847**
Total liabilities		**1,130,044**	**989,380**
Total equity and liabilities		**2,953,244**	**2,442,214**

The consolidated financial statements were approved on the 16th day of April 2007 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 2007

	Capital AED'000	Capital reserve AED'000	Translation reserve AED'000	Retained earnings AED'000	Total equity AED'000
1 April 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**
Profit for the year	-	-	-	359,900	359,900
Other equity movement	-	92	-	-	92
Currency translation differences	-	-	10,374	-	10,374
31 March 2007	**62,615**	**924**	**8,464**	**1,751,197**	**1,823,200**

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

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

	2007 AED'000	2006 AED'000
Operating activities		
Profit for the year before income tax	360,680	326,198
Adjustments for:		
Depreciation and amortisation (Note 5)	162,200	136,597
Finance income - net (Note 6)	(56,335)	(31,308)
Amortisation of advance lease rentals (Note 11)	1,207	1,137
Share of results in associated companies and joint ventures (Note 10)	(8,419)	(4,548)
Profit on sale of property, plant and equipment	(288)	(9,650)
Profit on sale of an associate	(1,983)	-
Provision for impairment of trade receivables (Note 12)	4,650	1,305
Impairment of loan to a related party (Note 23)	5,930	-
Provision for employee benefits (Note 5)	58,826	57,811
Employee benefit payments	(41,004)	(47,681)
Income tax paid	(12,237)	(3,733)
Change in inventories	625	(2,668)
Change in trade and other receivables	(81,457)	(48,832)
Change in trade and other payables	139,016	48,609
Net cash generated from operating activities	**531,411**	**423,237**
Investing activities		
Purchase of property, plant and equipment (Note 8)	(358,682)	(159,694)
Additions to intangible assets (Note 9)	(12,031)	(21,754)
Proceeds from sale of property, plant and equipment	1,095	19,125
Investment in associated companies and joint ventures (Note 10)	(2,636)	(5,106)
Finance income	62,821	39,169
Dividend received from associated companies	5,000	5,242
Investment in short term bank deposit (Note 22)	(183,650)	-
Held-to-maturity investment (Note 13)	128,555	-
Acquisition of a subsidiary (Note 25)	(15,366)	-
Loans to related parties (Note 23)	(317)	(5,626)
Proceeds from sale of an associate	1,983	-
Net cash used in investing activities	**(373,228)**	**(128,644)**
Financing activities		
Repayment of loan (Note 16)	(32,837)	(30,928)
Finance cost	(12,733)	(9,557)
Net cash used in financing activities	**(45,570)**	**(40,485)**
Net increase in cash and cash equivalents	**112,613**	**254,108**
Cash and cash equivalents at beginning of year	1,099,267	843,115
Effects of exchange rate changes	7,788	2,044
Cash and cash equivalents at end of year (Note 22)	**1,219,668**	**1,099,267**

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

1. Establishment and operations

Dnata comprises Dnata and its subsidiaries. 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.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted

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

- IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)
- IFRS 7, Financial Instruments: Disclosures (effective from 1 January 2007)

Basis of consolidation

Subsidiaries are those entities in which Dnata has an interest of more than one half of the voting rights and / or 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 incurred or 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, if any) identified 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 rate 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 assets and liabilities are translated at the exchange rates ruling on the balance sheet date. Share of results in associated companies and joint ventures are translated into UAE Dirhams at average exchange rates for the year.

Translation differences relating to investments in associated companies, joint ventures 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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 and is reviewed at each balance sheet date for possible reversal of the impairment charges.

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 and is reviewed at each balance sheet date for possible reversal of the impairment loss.

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

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the identifiable net assets acquired by Dnata in its subsidiaries at the date of acquisition. 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 that are expected to benefit from the business combination in which the goodwill arose. An impairment loss is recognised when the carrying value of the cash generating unit exceeds its recoverable amount. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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 rate 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 rate 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.

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.

2. Summary of significant accounting policies (continued)

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.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

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 associated 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 assessed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 that indicates that the economic performance of an 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.

3. Critical accounting estimates and judgements (continued)

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

	2007 AED'000	2006 AED'000
Services		
Airport operations	849,408	729,565
Information technology	373,750	296,748
Cargo	285,394	273,901
Agency commission	144,768	108,229
Reservations system	143,552	134,603
Other	44,910	44,216
	1,841,782	**1,587,262**
Sale of goods	**124,729**	**114,830**
	1,966,511	**1,702,092**

5. Operating costs

	2007 AED'000	2006 AED'000
Employee (see below)	992,979	862,554
Depreciation and amortisation	162,200	136,597
Information technology infrastructure costs	122,801	109,013
Office accommodation	55,933	49,489
Cost of goods sold	32,883	31,887
Operating lease rentals	14,504	14,039
Corporate overheads	318,784	239,981
	1,700,084	**1,443,560**

Employee costs include AED 58.8 million (2006: AED 57.8 million) in respect of post-employment benefits and AED 33.3 million (2006: AED 33.0 million) in respect of an employee profit share scheme.

6. Finance income - net

	2007 AED'000	2006 AED'000
Interest income	69,223	41,377
Interest charges	(12,888)	(10,069)
	56,335	**31,308**

7. Income tax expense

The components of income tax expense are:

	2007 AED'000	2006 AED'000
Current tax	9,398	6,338
Deferred tax credit (Note 17)	(8,618)	(4,528)
	780	**1,810**

Income tax relates to subsidiary companies which are subject to tax.

Deferred tax credit includes a credit of AED 4.8 million (2006: Nil) on account of change in tax rate.

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 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**
Cost						
1 April 2006	324,693	367,722	540,180	19,157	71,251	1,323,003
Additions	572	87,700	125,945	4,345	140,120	358,682
Currency translation differences	16,522	2,354	123	40	249	19,288
Transfer from capital projects	166,472	-	1,761	-	(168,233)	-
Disposals	(722)	(14,916)	(7,071)	(1,017)	-	(23,726)
31 March 2007	**507,537**	**442,860**	**660,938**	**22,525**	**43,387**	**1,677,247**
Depreciation						
1 April 2006	61,780	218,140	431,919	11,192	-	723,031
Charge for the year	18,720	59,647	60,617	3,072	-	142,056
Currency translation differences	1,761	758	35	25	-	2,579
Disposals	(722)	(14,407)	(6,804)	(986)	-	(22,919)
31 March 2007	**81,539**	**264,138**	**485,767**	**13,303**	**-**	**844,747**
Net book amount 31 March 2007	**425,998**	**178,722**	**175,171**	**9,222**	**43,387**	**832,500**

9. Intangible assets

	Goodwill AED'000	Computer software AED'000	Customer relationships AED'000	Contractual rights AED'000	Total AED'000
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**
Cost					
1 April 2006	76,814	89,637	-	78,049	244,500
Additions	-	12,031	-	-	12,031
Acquisition (Note 25)	3,067	-	11,586	-	14,653
Currency translation differences	5,271	434	-	5,355	11,060
31 March 2007	**85,152**	**102,102**	**11,586**	**83,404**	**282,244**
Amortisation					
1 April 2006	-	46,625	-	10,827	57,452
Charge for the year	-	11,508	1,159	7,477	20,144
Currency translation differences	-	221	-	982	1,203
31 March 2007	**-**	**58,354**	**1,159**	**19,286**	**78,799**
Net book amount 31 March 2007	**85,152**	**43,748**	**10,427**	**64,118**	**203,445**

Computer software includes an amount of AED 10.2 million (2006: AED 18.7 million) in respect of projects under implementation. The adjustment to goodwill in the previous year resulted from a revision to the liabilities recognised on acquisition.

9. Intangible assets (continued)

For the purpose of testing goodwill for impairment, goodwill amounting to AED 82.1 million 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.

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 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.

Goodwill allocated to the travel agency cash generating unit amounts to AED 3.1 million and is not significant in comparison to the total carrying amount of goodwill (AED 85.2 million). Further, due to the profitability of this business unit, management is of the opinion that goodwill is not impaired.

10. Investment in subsidiaries, associated companies and joint ventures

	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
MMI Travel L.L.C.	100	Travel agency	UAE
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
Joint ventures			
Dnata-PWC Airport Logistics	50	Logistics services	UAE
Dnata Saudi Travel Agency	33	Travel agency	Saudi Arabia

The investments in MMI Travel L.L.C. and Dnata Saudi Travel Agency were made during the year. The investment in Emirates Loyalty Company L.L.C. carried at nil value, was disposed during the year.

There were no other changes in ownership during the year.

Movement of investment in associated companies and joint ventures

	2007 AED'000	2006 AED'000
Balance brought forward	**38,965**	**34,300**
Acquisition (Note 25)	713	-
Investment during the year	2,636	5,106
Share of results	8,419	4,548
Dividend recognised	(12,000)	(5,242)
Currency translation differences	265	253
Balance carried forward	**38,998**	**38,965**

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

The carrying value of the investment in associated companies amounted to AED 39.1 million (2006: AED 38.5 million) and the share of results amounted to AED 12.2 million (2006: AED 4.5 million).

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

	2007 AED'000	2006 AED'000
Total assets	271,164	198,110
Total liabilities	145,964	83,621
Net assets	125,200	114,489
Revenue	158,650	148,245
Profit for the year	25,077	7,728

Summarised financial information in respect of Dnata's share in joint ventures are set out below:

	2007 AED'000	2006 AED'000
Non-current assets	3,298	242
Current assets	3,660	140
Non-current liabilities	1,563	-
Current liabilities	5,475	210
Total income	5,251	1,555
Total expenses	9,037	1,465

11. Advance lease rentals

	2007 AED'000	2006 AED'000
Balance brought forward	**26,812**	**27,467**
Currency translation differences	1,802	482
Charge for the year	(1,207)	(1,137)
Balance carried forward	**27,407**	**26,812**

12. Trade and other receivables

	2007 AED'000	2006 AED'000
Trade receivables	292,499	220,620
Prepayments and deposits	36,182	27,123
Related parties (Note 23)	31,916	23,435
Other	64,314	62,755
	424,911	**333,933**

Impairment charge on trade and other receivables recognised in the income statement during the year amounted to AED 4.7 million (2006: AED 1.3 million). This charge is included in operating costs.

13. Held-to-maturity investment

Held-to-maturity investment in the previous year represents a floating rate US dollar bank deposit with Abu Dhabi Commercial Bank which matured in May 2006. The effective interest rate during the year was 4.0% (2006: 3.86%) per annum.

14. Capital

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

15. End of service benefit provision

	2007 AED'000
Balance brought forward	**162,140**
Charge for the year	36,290
Payments during the year	(18,503)
Balance carried forward	**179,927**

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 2007, 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 2007 were computed using the actuarial assumptions set out above.

16. Term loan

	2007 AED'000	2006 AED'000
Balance brought forward	**285,397**	**311,328**
Repayments during the year	(32,837)	(30,928)
Currency translation differences	18,528	4,997
	271,088	**285,397**
Unamortised transaction costs	(1,567)	(1,649)
Balance carried forward	**269,521**	**283,748**
The loan is repayable as follows:		
Within one year	**33,597**	**31,711**
Between 2 and 5 years	134,761	126,843
After 5 years	101,163	125,194
Total over one year	**235,924**	**252,037**

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 set at six month intervals. The effective interest rate on the loan was 4.49% per annum (2006: 3.27%). 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:

	2007 AED'000	2006 AED'000
Deferred tax assets	3,680	3,268
Deferred tax liabilities	(43,847)	(49,356)
	(40,167)	**(46,088)**

The movement in the deferred tax account is as follows:

	2007 AED'000	2006 AED'000
Balance brought forward	**(46,088)**	**(49,642)**
Currency translation differences	(2,697)	(974)
Credited to the income statement	8,618	4,528
Balance carried forward	**(40,167)**	**(46,088)**

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
1 April 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)**
Currency translation differences	(2,338)	(833)	(3,171)
Credited to the income statement	6,035	2,738	8,773
31 March 2007	**(33,191)**	**(11,539)**	**(44,730)**

Deferred tax assets

	Impairment of receivables AED'000	Provisions AED'000	Tax losses AED'000	Total AED'000
1 April 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**
Currency translation differences	-	62	412	474
Charged to the income statement	-	(155)	-	(155)
31 March 2007	**-**	**883**	**3,680**	**4,563**

18. Trade and other payables

	2007 AED'000	2006 AED'000
Trade payables and accruals	405,716	324,636
Related parties (Note 23)	36,481	3,455
Employee leave pay	44,609	37,414
Airlines	138,744	115,411
	625,550	**480,916**

19. Operating leases

Future minimum lease payments under non-cancellable operating leases are as follows:

Less than 1 year	6,509	6,129
Between 2 and 5 years	18,233	18,743
After 5 years	53,661	54,610
	78,403	**79,482**

20. Capital commitments

Authorised and contracted	59,378	120,027
Authorised but not contracted	331,195	365,923
	390,573	**485,950**

21. Guarantees

Guarantees provided by Dnata's bankers in the normal course of business	**73,780**	**66,463**

22. Cash and cash equivalents

Short term bank deposits and liquid funds	1,327,666	1,000,746
Cash and bank	75,652	98,521
Cash and bank balances	**1,403,318**	**1,099,267**
Less: Short term bank deposit over 3 months	(183,650)	-
	1,219,668	**1,099,267**

Short term bank deposits and liquid funds yield an effective interest rate of 5.34% (2006: 3.90%) per annum.

23. Related party transactions

The following transactions were carried out with related parties:

Trading transactions

	2007 AED'000	2006 AED'000
(i) Sale / purchase of goods and services		
Sale		
Sale of goods - Associated companies	48	155
Sale of goods - Companies under common control	39,982	34,155
Services rendered - Associated companies	18,090	12,152
Services rendered - Companies under common control	741,462	569,355
	799,582	**615,817**
Purchase		
Purchase of goods - Companies under common control	1,822	-
Services received - Associated companies	543	188
Services received - Companies under common control	27,878	24,415
	30,243	**24,603**
(ii) Year end balances arising from sale / purchase of goods and / or services		
Receivables from related parties (Note 12)		
Associated companies	15,331	8,847
Companies under common control	13,764	11,234
	29,095	**20,081**
Payables to related parties (Note 18)		
Associated companies	54	-
Companies under common control	36,427	3,455
	36,481	**3,455**

The amounts outstanding at year end are unsecured and will be settled in cash. No guarantees have been given or received. An impairment charge of AED 2.58 million (2006: Nil) has been recognised during the year in respect of amounts owed by an associate.

Other transactions

	2007 AED'000	2006 AED'000
(i) Sale of assets		
Sale of assets - Associated companies	-	5,431
Sale of assets - Joint venture	-	8,265
	-	**13,696**
(ii) Acquisition		
Acquisition of a business	**10,556**	**-**

23. Related party transactions (continued)

(iii) Compensation to key management personnel

	2007 AED'000	2006 AED'000
Salaries and short-term employee benefits	22,222	19,507
Post-employment benefits	2,033	1,768
Termination benefits	-	574
	24,255	**21,849**

(iv) Loans to associated companies

	2007 AED'000	2006 AED'000
Balance brought forward	**9,520**	**3,637**
Loans advanced during the year	1,409	5,883
Repayments	(1,000)	-
Impairment provision	(5,930)	-
Balance carried forward	**3,999**	**9,520**
Within one year (Note 12)	**2,590**	**3,324**
Total over one year	**1,409**	**6,196**

(v) Loans and advances to key management personnel

	2007 AED'000	2006 AED'000
Balance brought forward	**360**	**617**
Additions during the year	229	-
Repayment during the year	(321)	(257)
Balance carried forward	**268**	**360**
Within one year (Note 12)	**231**	**30**
Total over one year	**37**	**330**

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. 3.12% (2006: 23.54%) of cash and bank balances are held with a financial institution under common control.

(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.

24. Financial instruments (continued)

(iii) Currency risk

Dnata is exposed to exchange rate fluctuations on its long term debt obligation denominated in Singapore Dollars. 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. Business combinations

On 1 October 2006 Dnata acquired 100% of the shares in MMI Travel L.L.C.. The acquired business contributed revenues of AED 9.5 million and net profit of AED 3.7 million from the acquisition date to 31 March 2007.

The assets and liabilities arising from the acquisition are as follows:

	Recognised on acquisition AED'000	**Acquiree's carrying amount** AED'000
Cash and cash equivalents	345	345
Investment in associated company	713	713
Intangible assets (Note 9)	11,586	-
Fair value of assets acquired	**12,644**	**1,058**
Goodwill (Note 9)	3,067	
Total puchase consideration	15,711	
Less: Cash and cash equivalents acquired	(345)	
Cash outflow on acquisition	**15,366**	

Cash outflow on acquisition includes AED 10.6 million paid to a related party (Note 23).

The goodwill is attributable to the synergies expected to arise from the acquisition.