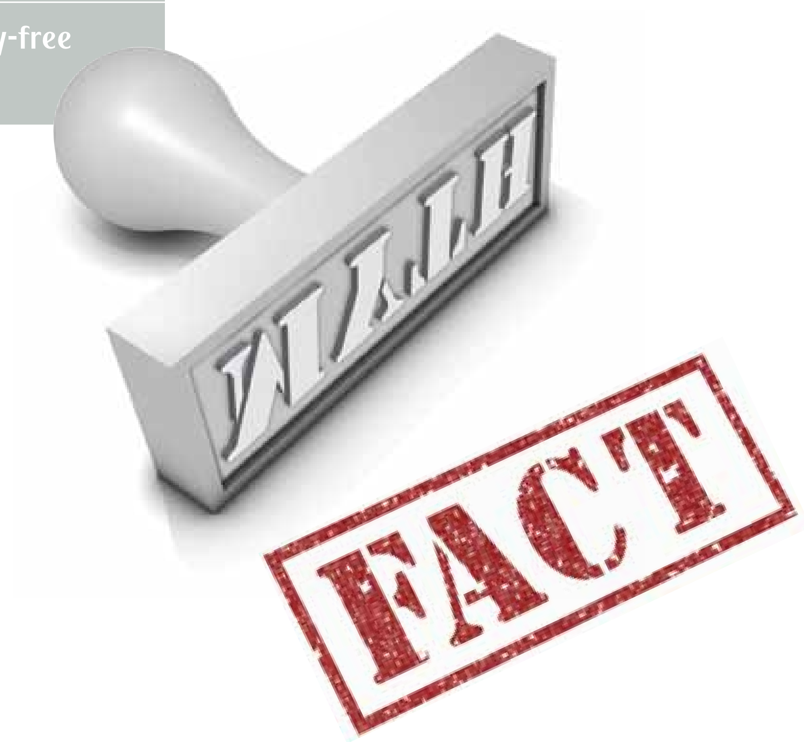
Airlines and subsidy: our position

Emirates

Myth	Airline subsidies are a “Gulf” problem
FACT	Market-distorting subsidies and government support are sadly present in every world region
Myth	Emirates is subsidised
FACT	Completely unsubsidised. We campaign against airline subsidies
Myth	Emirates accesses cheap or free fuel
FACT	False. We buy fuel from BP, Shell and Chevron in Dubai and worldwide at market rates
Myth	US and European airlines received support decades ago but are now subsidy-free
FACT	Bankruptcy protection and government bailouts continue to exist



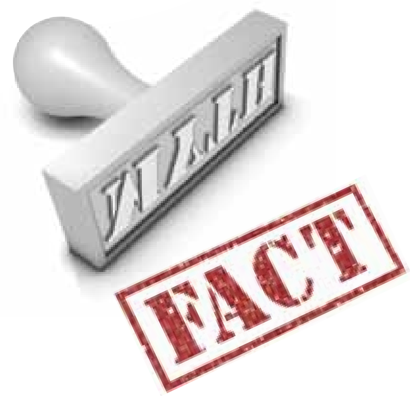
Airlines and subsidy: our position

We understand that despite no evidence, an oft repeated myth can ultimately be accepted as conventional wisdom. In this document you will find our views on subsidy in the airline industry, thorough explanations about Emirates' business model and our response to misrepresentations that have been levelled against us - from claims about subsidised fuel, financial support and staff conditions to environmental regulation and airport charges.

Emirates believes:

- A common set of transparent financial reporting metrics to measure and apply against all international carriers should be determined by IATA and ICAO on what defines a subsidy.
- Governments should not provide injections, borrowings or financing to airlines, regardless of shareholding status.
- All governments should pursue liberalisation and open skies with the objective to end the greatest subsidy of all – aero-political protection.

Tim Clark, President, Emirates Airline



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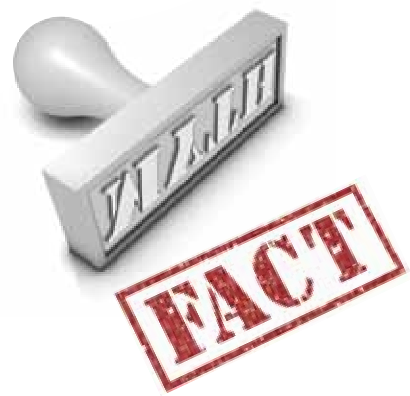
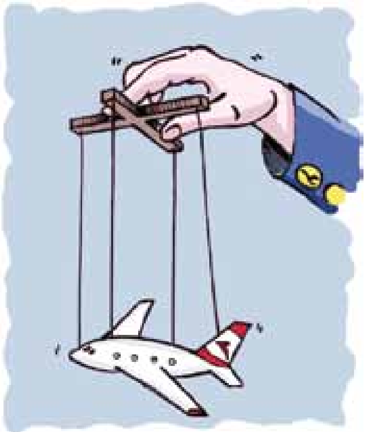




Introduction

Despite the aviation industry's best attempts to reach a self-sustaining, profitable position, airlines and government subsidies have often gone hand in hand.

In the last decade, global carriers lost US$50 billion, a woeful result caused by compounding factors including the events of September 11, high fuel prices, flawed business models, the global financial downturn and, of course, subsidised and propped-up underperforming carriers.

With periods such as these, it is not surprising that some carriers have been unable to service their debts and have sought relief from their governments.

Although Emirates, as a profitable and commercially run carrier, is fundamentally against the practice of airlines receiving state subsidies, we understand that it may take time for the practice to be wholly eliminated from our industry.

Market-distorting subsidies can take many forms. The state-run Korea Development Bank froze 3.76 trillion Korean Won (US$3.3bn) worth of debts from Asiana Airlines in 2010. This is a very clear example of subsidy, as was the €500 million "bride price" given to Austrian Airlines from the Austrian Government, prior to the September 2009 takeover by Lufthansa.

Tax breaks, underwritten war risk insurance and "one time" state-bank loans are forms of subsidy, even if "approved" by governments.

Although not a subsidy per se, Chapter 11 protection in the US also has a significant market effect, by providing a level of protection for airline bankruptcy reorganisation that is seldom found in other markets.

The Star Alliance is the world's largest airline group and 13 of its carriers - nearly half of its membership - have received subsidies and state aid totaling more than €6.8 billion.

One of those subsidies, €800 million paid into the Lufthansa pension fund by the German Government in 1995, was part of a series of European bailouts when national airlines were awarded with financial contributions totaling more than €10 billion. Other beneficiaries included Air France, British Airways, TAP, Olympic Airways, Alitalia and Aer Lingus.

More recently, the debate has shifted to the Middle East, one of several regions witnessing high growth rates for air travel.

As the region has injected new competition into the global aviation landscape, this has induced a cacophony of criticisms, complaints and distortions regarding the issue of subsidy – with the aim of protecting the status quo of some non-Middle Eastern incumbents.

Emirates acknowledges that some airlines in the Middle East are indeed government subsidised, but the criticisms incorrectly paint all carriers in the region with the same brush.

With Emirates being the largest and most visible airline in the region, the criticisms are often leveled at us, even though self-sufficiency and profitability has been in Emirates' DNA since 1985. As you will find in this report, all of our achievements are well-earned, transparently documented and borne out of our efforts to sustainably build our company.

"The charges of unfair competition from the likes of Lufthansa, Air France-KLM and Air Canada fail to stack up. Although it is government-owned, Emirates has been profitable in every year but one since it started. Its fast-growing fleet…is financed conventionally. It pays the same price for fuel as other airlines and the same fees at its home airport." **The Economist**

"At Emirates we see much to be encouraged about: more and more countries recognise that liberal air access has a multiplier effect on their economies and best serves their national interest. Yet there are still cases where some flag carriers or their alliance proxies successfully block new competition, by creating an echo-chamber of repeated false assertions about rivals. We recognise that our success has made us a target and some airlines have been willing to make gross misrepresentations about Emirates and Dubai in order to serve their interests. We have nothing to hide and welcome all discussion on our activities." **Tim Clark, President, Emirates Airline**

Recent airline subsidies

- The European Commission found that financing granted to Hungarian flag carrier Malév between 2007 and 2010 in the context of its privatisation and renationalisation constituted illegal state aid. As a result, in January 2012 the Commission ordered Hungary to recover nearly Ft100 billion (US$406 million) from the airline.

- Alitalia continues to benefit from state aid amounting to €700 million over seven years via a 2008 'Save Alitalia Decree' passed by the Italian Government, which amongst other support mechanisms, imposes an airport tax of €3 per passenger on all airlines serving Italy.

- Citing concerns over a marketing agreement between Timisoara airport in Romania and Hungarian Wizz Air, the European Commission in May 2011 launched an investigation into non-payment of airport charges amounting to €2.6 million and additional rebates.

- The European Commission has an open investigation into a CZK 2.5 billion loan granted to CSA - Czech Airlines in 2009 by the state-owned entity Osinek a.s., which has recently been expanded to cover other restructuring funding to the airline.

- The Cypriot Government in March 2011 approved a €20 million bailout to Cyprus Airways.

- In November 2011 the European Low Fares Airline Association criticised a €25 million government subsidy to Spanair, bringing the total amount of support from local and regional Spanish governments to €120 million.

- JAL received ¥350 billion of fresh capital in early 2010 from the Japanese Enterprise Turnaround Initiative Corporation (a state-controlled investment fund), and an additional ¥600 billion line of credit from financial institutions including the government-owned Development Bank of Japan.

- In December 2011, the Indian Government finalised plans to provide more than US$11 billion in state support to Air India. This includes coordinating loans from 14 banks worth US$5.7 billion over a 10-year period and US$4.7 billion to fund its fleet acquisition plans. In March 2012, the Indian Government approved a cash injection of US$800 million under the federal budget for 2012/13.

The rhetorical merry-go-round

"The Gulf carriers are able to dump capacity into markets such as Canada and undercut incumbent air carriers such as Air Canada because of the virtually unlimited subsidies and support they receive from their respective governments." **The Impact of Emirates on the Industry - Air Canada website**

Emirates operates its flights on a fully commercial basis, responding to demand and making rational market assessments. Since Air Canada doesn't operate a service from Toronto to Dubai we are the only carrier operating this route and our flights flew 90% full on average in 2011, revealing major capacity constraints. We simply cannot afford to assign aircraft to routes where there is no demand, nor are we in the business of capacity dumping.

"Our competitors are institutionally linked with their governments and regulatory bodies, their airports and service providers.. there are no meaningful competition rules, no consumer-protection rules, as we have in Europe .. we have no choice of ground handler, or catering supplier, where we can only conduct business through an appointed sales agent." **Ulrich Schulte-Strathaus, Secretary General, Association of European Airlines (AEA)**

Emirates believes that Dubai is home to the most liberal competitive environment of them all: completely open access to all 150 carriers serving the emirate under its Open Sky policy. Dubai is clearly being singled out by Mr Schulte-Strathaus, for if he were truly against the practice of single-concessionaire models for ground handling and catering, he would also need to criticise Singapore, South Korea and Japan, amongst many others.

"These airlines are managed without the financial and economic constraints for profitability of an economy open to all players. Profitability, which is an absolute requisite for any private economic player, is of secondary importance for these airlines." **Jean-Cyril Spinetta, Chairman of Air France-KLM**

Mr Spinetta describes the Gulf region in broad terms that distort reality. Dubai has none of the oil wealth of its neighbours, which is why it pioneered service-based companies such as Emirates. As a result, Emirates is unique in the Middle East for having consistently produced profits due to our strong commercial mandate. We have been run in this way since October 1985. There is nothing secondary about profitability for Emirates, which taps international lenders for its financing needs and thus needs to operate on a profitable basis in order to service these loans.

"They expand the hub Dubai regardless of the profitability. Because the only issue that counts is the development of the location. The owner is the lawmaker, the regulator, owns the airline, the airport, controls the ATC and is the fuel supplier. Money does not matter. Moreover, there are no employment laws and no environmental regulations in Dubai. This is similar to the T-shirts made by child labour. …" **Peter Malanik, former CEO, Austrian Airlines**

Money, and profitability, certainly matters for Emirates, like it does for any independently managed company. All of Dubai's aviation firms are run on a commercial mandate and this is why local airport developments were postponed by more than 10 years due to the global financial downturn.

Had Mr Malanik taken the time to examine Emirates' labour and environmental practices, he would have learned that Emirates offers excellent working conditions, with more than 8,600 employees having served 10 years or more at the company, and in excess of 2,100 staff with 20 years or more of service. Emirates also goes above and beyond standard airline practice to spend hundreds of manhours each year detailing our environmental performance. Our three largest fuel suppliers are BP, Shell and Chevron – not the Dubai Government.

Gulf airlines "do not have their own market, and they depend on passengers from other markets. Emirates serves Germany 56 times a week from Dubai, but they do not bring their own guests, they bring passengers from India for example." Gulf airlines also have access to "unlimited resources since - as state owned airlines – they get financed by the respective emirate. Furthermore they are supported by very low costs for the infrastructure and benefit partly from European and US export financing." **Stephan Gemkow, the Chief Financial Officer of Lufthansa**

The economic benefits of airline competition are clear: every new air service boosts employment in the trade, tourism and aviation service sectors, creating additional jobs and opportunities for exports. Emirates believes Lufthansa is trying to push the German Government into a Canada-style protectionist aviation policy, rather than the liberal aviation policies of the US that Germany is more aligned with. Lufthansa omitted that, like Emirates and all airlines, the carriage of transfer passengers is also an important part of its business model. Each year Lufthansa carries hundreds of thousands of Canadian passengers to India via its hub in Frankfurt.

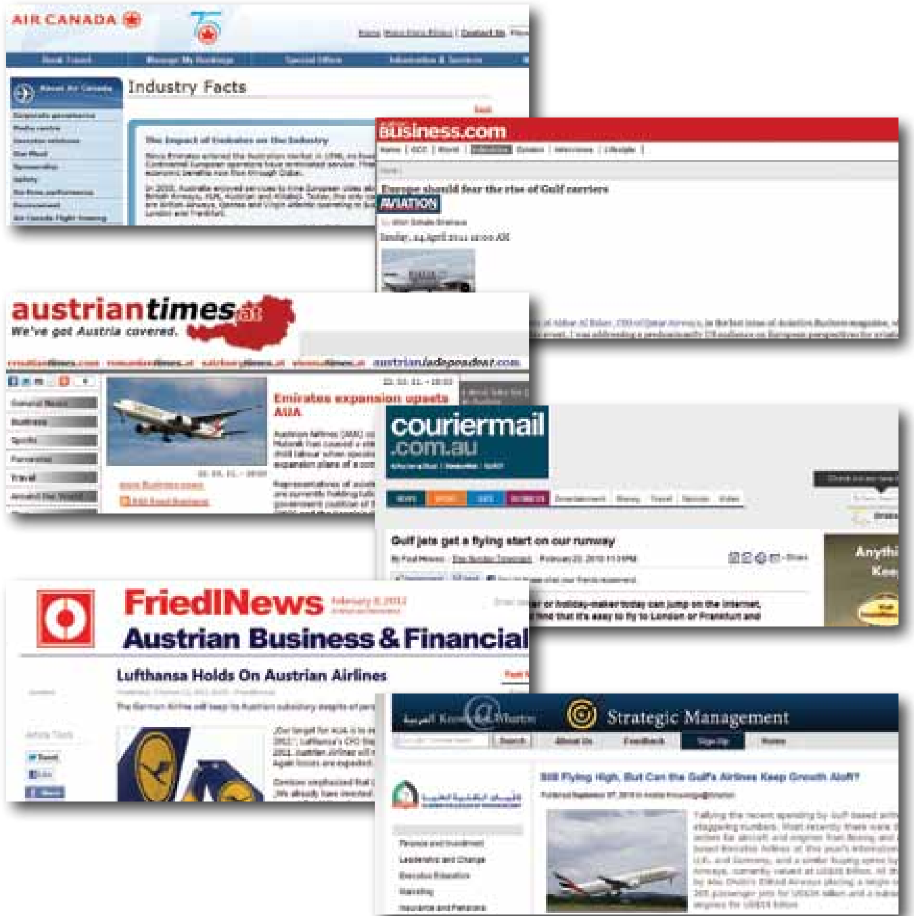
Regarding export credit financing, Emirates agrees that all airlines should be entitled the same access to finance and supported the OECD's February 2011 decision that raised the cost of some forms of capital.

"Gulf-state airlines like Emirates…own the airports in those countries and get a massive saving on landing fees, terminal fees, or airport usage charges in their home state. These same kings, emirs and princes also own a large bulk of the world's oil reserves, which is a great help to the airlines because it allows them to operate with hugely subsidised fuel costs." **Paul Howes, National Secretary Australian Workers' Union**

With oil all around us in the Middle East, our critics have found the perfect lie in accusing us of receiving cheap fuel. But the facts have always been hiding in plain sight: Dubai has extremely limited oil reserves, and only one small-scale jet fuel refinery. Because of this, our primary kerosene suppliers are Western energy firms, which charge commercial prices.

"… it is very difficult to understand how Emirates could be profitable at their current rate of expansion without some form of government financial support" **Shakeel Adam, Athena Aviation**

Emirates receives no financial support from the Government of Dubai. Our financial books are published annually and audited by PwC. We repeatedly urge those who claim Emirates receives financial support from the Government of Dubai to consult these audited annual reports, which we have published for nearly two decades.



Government ownership and support

Airlines have long been seen as key elements of a modern functioning economy based on global trade and interconnectivity. As a result, national airlines, known as "flag carriers" were afforded measures of support from their governments.

The past few decades have seen many airlines privatised, although many flag carriers are still owned by the state. As this document explains, most of the biggest privately run airlines in Europe have turned to their governments for subsidies and bailouts to the tune of several billion euros in total.

Air France, for example, was given three capital injections between 1991 and 1994 from the French Government totalling €3.8 billion. Just a year later, the German Government stepped in to support Lufthansa with €800 million to plug a gap in the national airline's pension fund.

The story of Emirates is far different. We are owned by the Government of Dubai through its commercial investment arm, the Investment Corporation of Dubai (ICD), which has holdings in finance, transport, energy and real estate.

In 1985 Emirates received US$10 million from the Government of Dubai in start-up seed capital and US$88 million invested in infrastructure, which included two Boeing 727 aircraft and the Emirates Training College building. This has been more than repaid by dividend payments to the Government of Dubai, which have totalled US$2.3 billion to date. The Dubai Government and the management of Emirates have consistently made it clear that Emirates is required to be self-sustainable and profitable.

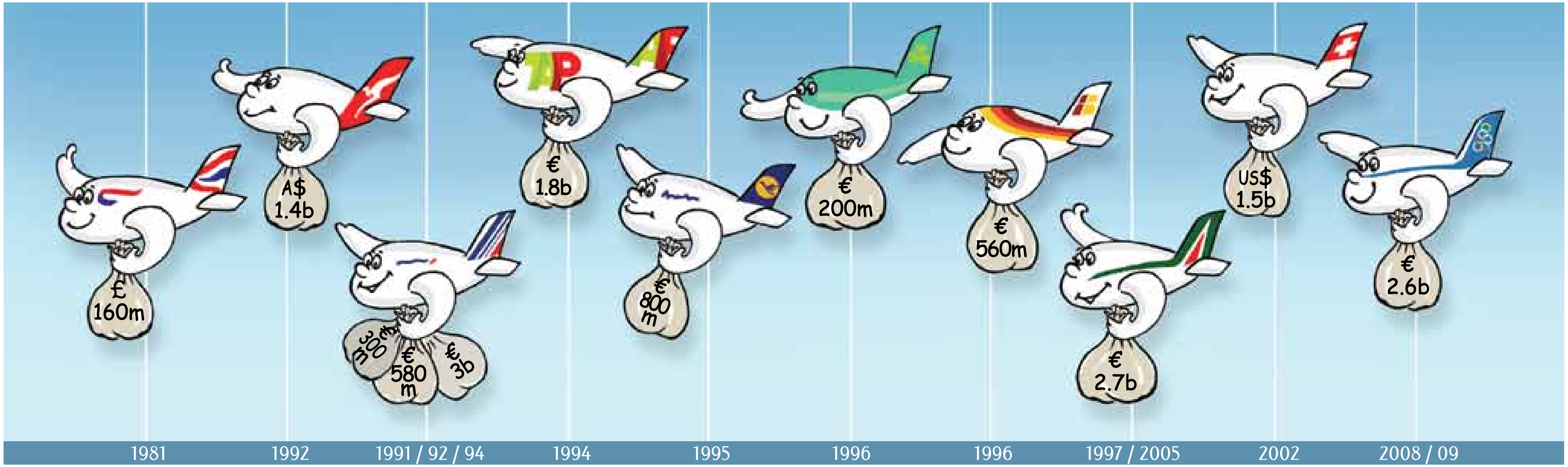
Dubai's corporate model has its origins in the city's historic position as an entrepôt, which has free trade and competitive open markets at its core. Whilst there is a close relationship between the government and many of Dubai's strategic commercial entities, Dubai is at its essence driven by commercial entrepreneurial principles.

Each commercial entity is an independent company with its own profit targets and operational autonomy, including Emirates and Dubai Airports. These corporate structures were pioneered by Singapore, and replicated by similar approaches throughout Asia, such as China, Hong Kong and Taiwan. Singapore's success has provided inspiration for many governments in the Middle East hoping to spur growth.

Although state ownership is an issue that foreign airlines often use to criticise Emirates, European Union (EU) law and the statements of the European Commission make it clear there is no preference for public versus private ownership, as long as neither receives competition-distorting subsidies or is favoured by legislation.

The business centres of Singapore, Hong Kong and Dubai all began as trading hubs.

State support: a history lesson



Many airlines – Lufthansa and Air France among them – have received cash injections from their governments in tough times or pre-privatisation. Here is a list of some of the biggest bailouts.

Aer Lingus	€200 million Irish Government capital injection in 1996.
Air France	€300 million and €580 million French Government capital injections in 1991 and 1992. €3 billion French Government capital injection in 1994.
Alitalia	€1.5 billion and €1.2 billion Italian Government capital injections in 1997 and 2005.
British Airways	£160 million UK Government debt write-off pre-privatisation in 1981.
Iberia	€560 million Spanish Government capital injection in 1996.
Lufthansa	€800 million German Government contribution to Lufthansa pension fund in 1995.
Olympic Airways	€2.6 billion Greek Government accumulated debt write-off in 2008/09.
Qantas	A$1.4 billion Australia Government debt write-off in 1992.
TAP	€1.8 billion package of Portuguese Government aid measures in 1994.
Swiss	US$1.5 billion state aid in 2002.

Does an airline need to be publicly-traded in order to be "transparent"?

In the modern aero-political debate, much attention is given to state-owned airlines and their level of transparency. Some of Emirates' rivals, such as Lufthansa, have accused us of being somehow secretly subsidised. Although they have not offered any proof to back up their accusations, they and others use the fact that we are not publicly traded to suggest that we may be hiding something.

While Emirates is not publicly traded, the issue is irrelevant because Emirates has published audited financial reports for nearly two decades. These reports are all fully accessible on the internet at ekgroup.com. The annual report is also available in printed format.

Emirates financial statements are prepared consistently in accordance with International Financial reporting standards (IFRS), which is used by companies in more than 100 countries. The role of IFRS is to deliver a single set of high quality global accounting standards.

Our audit is conducted by PwC in accordance with International Standards of Auditing (ISA) issued by the International Federation of Accountants (IFAC). Over 125 countries use or are in the process of adopting the ISA. Thus our audit is completed to the same rigor as numerous publicly listed companies.

PwC subjects Emirates to the exact same level of scrutiny as it does its other global clients, which for example includes Lufthansa and many other international airlines.

Due to the external financing of more than US$26 billion Emirates has secured in the past 15 years, PwC has classified Emirates as a "high-profile client". As such, it has added an extra layer of oversight, conducting a separate review in the UK every three years that takes more than one month to conclude.

The PwC audit completed in accordance with ISA also requires compliance with IFAC's International Standard on Quality Control (ISQC) where ethical as well as engagement and quality review standards are specified.

Other forms of Emirates disclosure are made to stock exchanges, since some of our international financing comes from bonds listed on the Singapore and London stock exchanges. To fulfil related disclosure requirements, Emirates is required to regularly file audited financial reports to each.

As a sign of our highly transparent business approach, Emirates was awarded "Excellence in Financial Reporting" within the MENA region from the Institute of Chartered Accountants of England and Wales in December 2011 due to the quality of Emirates' annual reports.

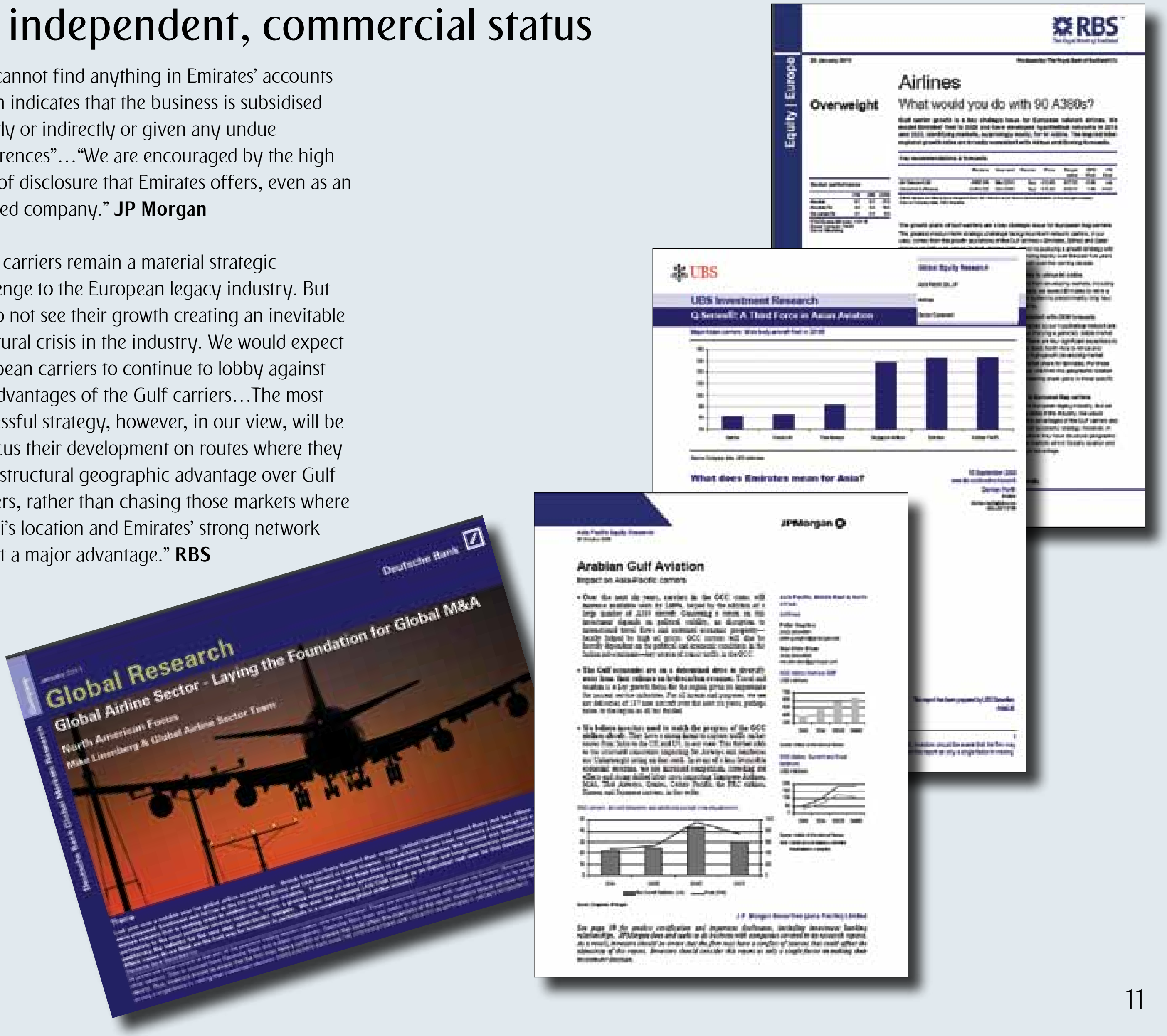
Analysts confirm Emirates' independent, commercial status

"The main criticism leveled at Emirates by rivals is that it benefits from indirect government subsidies in the form of cheaper fuel, very low landing fees and cheap aircraft financing. The fact is that Emirates pays market rate for fuel and that only around 20% of its fleet is financed through export credit agencies such as the US Export-Import Bank. It is true that landing fees are low at Dubai compared to other hubs but the legacy carriers in Europe also enjoy a significant advantage having inherited around half the valuable slots at their respective hub airports. The main cost advantage of Emirates comes from higher employee productivity." **Deutsche Bank**

"An overview of the audited financial accounts contains no material surprises once one gets used to seeing consistent profits at an airline… Emirates' key competitive advantage is its relative youth (the fleet and the company), the location and efficiency of the Dubai hub, and strong management." **UBS**

"We cannot find anything in Emirates' accounts which indicates that the business is subsidised directly or indirectly or given any undue preferences"…"We are encouraged by the high level of disclosure that Emirates offers, even as an unlisted company." **JP Morgan**

"Gulf carriers remain a material strategic challenge to the European legacy industry. But we do not see their growth creating an inevitable structural crisis in the industry. We would expect European carriers to continue to lobby against the advantages of the Gulf carriers…The most successful strategy, however, in our view, will be to focus their development on routes where they have structural geographic advantage over Gulf carriers, rather than chasing those markets where Dubai's location and Emirates' strong network give it a major advantage." **RBS**



Fair Competition

Fair competition in international air services is a central concern for governments and airlines. In every Air Services Agreement (government-to-government agreements that regulate all international air traffic) there is a clause similar to the one below:

"There shall be a fair and equal opportunity for the designated airlines of both [sides] to operate …."

The point of this clause is to ensure that each airline faces the same conditions as others, so that there is no unfair competition. It is important to realise that 'fair' in this context does not mean 'equal'. There is no requirement for equality in air services: while this was the case many years ago, when prices, the number of seats and even meals were regulated, it is no longer true.

Rather, a 'fair and equal opportunity to compete' simply means that there must be non-discriminatory treatment of all carriers. Different countries have different rules in place with regard to many things, such as advertising, taxes and consumer protection. There is no obligation that countries harmonise their laws. What the 'fair and equal' clause means is that those rules should apply to all carriers doing business there and not just to some. Equal treatment is not 'unfair' just because the rules are different from another country.

In recent times concern regarding fair competition in international air services has focused on the issue of subsidy. The EU has strict rules in place about the grant of subsidies to ailing business, because a grant given to one business can affect all other businesses in the same industry. It is unfair in the Single Market for one state to bail out an airline when airlines from other states cannot be given the same grant. Concern about the effect of state aid to non-EU airlines led to Regulation 868, which allows the Commission to take action where a subsidised foreign carrier is seriously threatening the airlines of the European Community. The EU and its Member States, as well as countries such as the US and Canada, have asked for provisions on the treatment of subsidies to be included in Air Services Agreements with third countries.

Emirates has no issue with fair competition clauses per se, and some third country proposals to date seem fair and reasonable. But other third country clauses are clearly a sham: a political exercise proposing the absurd and impossible so that any reasonable rejection of biased terms can be painted as demonstration of guilt.

Star Alliance and state support

Certain Star Alliance carriers often make references to subsidies supposedly received by Emirates. Let's examine the level of support that these carriers received:

The Lufthansa Group	
Lufthansa	€800 million
Austrian	€700 million
Brussels Airlines	€125 million
Swiss	€1.5 billion
Total	**€3.125 billion**

Airline	Government funding/support
Adria Airways	Lost €3.2 million in 2008 and €13.9 million in 2009 - both absorbed by the Slovenian Government. €50 million capital injection from the state approved in September 2011.
Air Canada	CA$250 million loan from the government-owned Export Development Corporation in 2009, of which CA$100 million was from a special cabinet-controlled EDC account.
Air New Zealand	NZ$885 million capital injection in 2001.
Asiana	Debt of KRW3.76 trillion to state-owned Korea Development Bank was frozen in January 2010.
Austrian Airlines	€500 million in state aid from the Austrian Government to cancel debts prior to September 2009 takeover by Lufthansa – on the back of a €200 million loan from the Austrian Government.
Brussels Airlines	Loan of €125 million to SN Airholding (stakeholder in SN Brussels Airlines) granted from Federal Investment Company in 2002.
Croatia Airlines	195 million Croatian Kuna in state aid between 2007 and 2009.
Lufthansa	€800 million German Government contribution to Lufthansa pension fund in 1995.
SAS	Sought a new capital injection of SEK4-5 billion in 2010, half of which came from the Governments of Sweden, Norway and Denmark - following a similar injection in 2009 from the same sources.
South African Airways	ZAR1.5 billion loan from the State in 2009/10 in exchange for shares, following a ZAR3 billion loan from the State in 2008.
Spanair	€120 million in loans and capital increases from the Catalan Government in 2010/11.
Swiss	US$1.5 billion state aid in 2002 (equivalent to €1.5 billion).
Thai Airways	THB23 billion loan from four Thai banks in 2008/2009, including one state-owned institution.

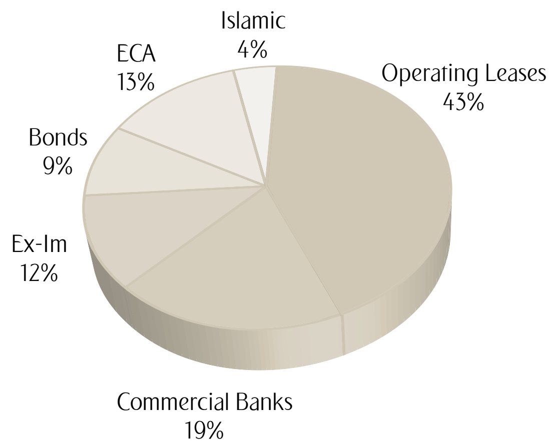
Sources of finance

Emirates has always raised funds on a commercial basis. No financing has been obtained from Investment Corporation of Dubai (ICD) or the Government of Dubai. Unlike some airlines in the Gulf region who benefit from sovereign debt guarantees, the Dubai Government does not act as guarantor for any of Emirates' loans.

Emirates has raised a total of US$26 billion over the last 15 years for financing aircraft and other corporate finance requirements. Emirates finances its aircraft through a wide range of sources, including operating leases, European/US Export Credit Agencies (ECAs) and commercial asset-backed debt as well as non-conventional sources such as Islamic funding and equity from Japanese, German and other investors (as part of tax-based cross border leveraged leases). Our lenders hail from around the globe including firms like Citibank of the US, France's Credit Agricole and Sumitomo Mitsubishi of Japan.

Recent debate on export finance credits and the 'home country rule' was hijacked by some of Emirates' detractors in both Europe and the US, who argued that Emirates' limited use of export credits, which fund around 25% of its fleet, constituted a market-distorting subsidy. One such falsehood involved a comparison between Emirates and Delta Air Lines. The allegation was that credit available to Delta for financing 27 Boeing aircraft was priced unfairly high. This was a flawed comparison, since the transaction in question was for older jets dating back to 1999 and 2000 – thus a completely different asset and lending risk assessment. In addition, Delta's risk profile was vastly different than Emirates at the time, having recently emerged from US Chapter 11 bankruptcy protection, when it eliminated jobs, cut costs and restructured its fleet.

US$26 billion financed over last 15 years



It is untrue that American carriers are barred from accessing attractive financing rates. Delta's competitor, Continental, in March 2012 raised $892 million at an all-in interest rate of 4.38%. American Airlines raised $726 million in September 2011, albeit at a higher interest rate, despite filing for bankruptcy two months later.

The Organisation for Economic Co-operation and Development (OECD), with an eye on the US and European jobs supported by such exports, concluded an Aircraft Sector Understanding (ASU) agreement in February 2011. This rejected calls for targeted caps on export finance borrowing but did raise the cost of some forms of capital.

In December 2011, Air France successfully concluded financing for one A380 with export credit backing.

The myth of the "Gulf Carriers"

It fits the objectives of some to classify the carriers in the Gulf as one unit - as if policies, governments, businesses and individuals are all alike across this diverse region. The rationale is simple: rival airlines use the term "Gulf airlines" in lobbying efforts as part of a wider strategy to serve their protectionist interests.

Many in the media repeat this description, thereby boosting the impact of this pejorative lobbying, which ranges from seeking support from their governments against new competition or opposing other liberalising policy measures.

The Gulf region is not a single entity. Dubai has almost no hydrocarbon reserves while the situation is vastly different in oil wealthy Saudi Arabia, Qatar and Abu Dhabi. So why would the airlines from these areas all be the same?

In truth, there are more than 35 separate airlines in the Middle East which compete against each other and against carriers based in other regions. In the Gulf there are 15 airlines, including a growing number focused on budget travel.

Emirates is proud of the features that set it apart in the Middle East and internationally: profitability, transparency, and sustainability. It is the most profitable airline in the region, competing with carriers that are loss-making and subsidised. In our 2010/11 financial year Emirates Airline posted a profit of US$1.5 billion.

In 2010/11 we also experienced consistently high load factors, which averaged 80%. High demand for our services was present across our network including trans-Tasman services between Australia and New Zealand, which averaged 75.1% load factors - despite some of our detractors misreading Australian government traffic data and suggesting we were guilty of capacity dumping and operating flights only half-full.

With its issuance of audited financial and environmental statements, Emirates is also the most transparent.

Since its founding in 1985, Emirates' development has been the most measured among the region's large long-haul carriers. What Emirates accomplished gradually over the first 20 years in operation, in terms of fleet size and routes, other airlines have done in less than half that time, as a result of massive, growth-at-all-costs strategies.

Rather than receive state subsidy, as is often incorrectly claimed, Emirates is fully independent and instead disburses a portion of its annual profits to its main shareholder, the state-owned Investment Corporation of Dubai. These dividends have totalled US$2.3 billion over the past 25 years.

Emirates also operates in an open skies environment in Dubai, where it competes against 150 foreign carriers, as well as flying in highly competitive markets around the world, receiving no protection against competition.

Airline arbitrage: varying cost bases around the world

As nations become interdependent in the globalised economy, airlines from different regions are engaging more and more in direct competition. In the political debates over fair competition, some airlines have complained that their rivals enjoy lower operating costs.

This is an undeniable fact of life. Emirates does enjoy some advantages when it competes against airlines in Europe and North America, which are subject to higher labour costs.

However, Emirates itself is at a disadvantage compared with Singapore Airlines, which has lower relative labour costs and can also take advantage of Singapore's status as a jet fuel refining hub, where the price of a barrel of jet fuel is the lowest in the world.

This is a commercial reality. Emirates has no qualms about this and is happy to compete in this operating environment.

There is nothing nefarious about Emirates' cost base. It does not receive cost exemptions for its operations in Dubai and pays for its main headquarters, engineering facilities and other corporate overheads. These costs are accounted for in its annual audited financial statements.

There is no arrangement to use Dubai Government buildings or other properties free of charge.

European airlines have attempted to use Emirates' cost base as proof that it "exploits" labour from neighbouring nations, such as from the Indian Subcontinent. Nothing could be farther from the truth: out of the 11,000 Indian nationals working for Emirates, a significant percentage have received long-service awards. In total, more than 8,600 current staff have served for 10 years or longer and in excess of 2,100 have been with the company for 20 years or more. Emirates receives on average 25,000 new employment applications each month.

Many are attracted to Emirates' profit sharing plan for staff, which has been in place since 1996 and has paid a total of US$653 million to its staff. Emirates has consistently delivered profits for the past two decades and allows our employees to share in the windfall through this profit sharing plan. Unlike other airlines, our profit sharing scheme applies to all staff, rather than just senior managers (which has averaged five weeks' pay for all staff each year between 1996 and 2011).

This and other factors help explain why Emirates has enjoyed extremely high staff retention rates.

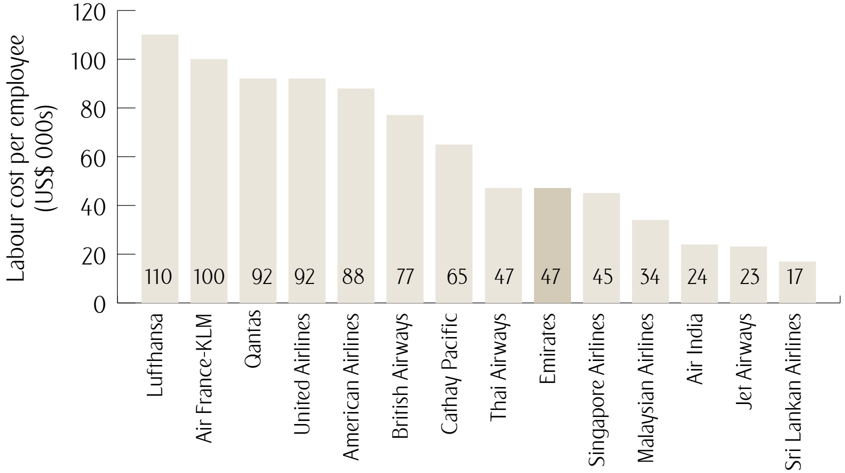
Like all airlines, Emirates' highest proportion of operating costs is represented by fuel (34.4% of total in 2010/11), with employee costs second at 16%.

Emirates also incurs costs on services that many other airlines do not provide. It pays the cost of expatriate employee benefits such as accommodation, children's education and dedicated company healthcare for management, pilots, engineers and other staff - which total more than US$500 million each year.

The following chart, showing average labour cost per employee for Emirates and 13 other airlines, highlights the cost disparities between airlines based in Europe, North America, the Middle East and Asia.

Whereas labour costs averaged US$94,575 per employee for the five airlines from Europe and North America, labour costs averaged around half of this amount (US$49,510) for the remaining eight airlines[1]. Even Cathay Pacific, which has a relatively high labour cost for an Asian airline, has labour costs around a third lower than the average for the five European and North American carriers.

Labour cost per employee, financial year ending 2010



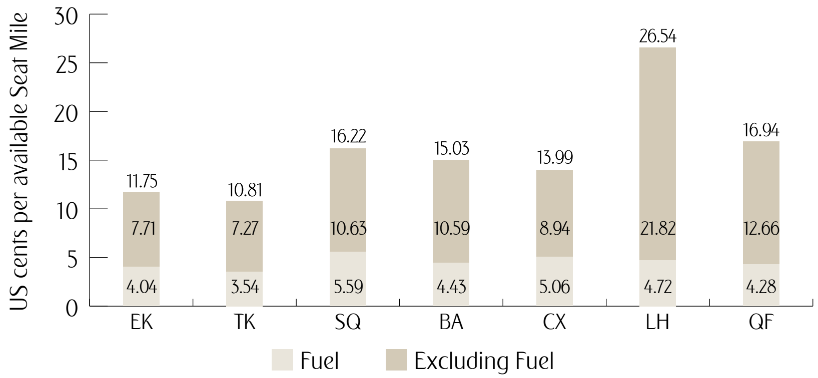
Source: Oxford Economics, airline annual reports

Geography plays a central role in any cost comparisons, reflecting lower wage costs in non-European and US markets. Emirates and Singapore Airlines have very similar labour costs at US$47,000 and US$45,000 respectively, reflecting similar business models and a shared reliance on recruiting staff from abroad on expatriate packages. Singapore Airlines even has a very similar profit sharing plan to that of Emirates.

Despite enjoying a lower cost base than in Europe and North America, Emirates also has a skilled workforce with productivity rates higher than the industry average.

Emirates' unit cost of US 11.75c per seat mile is comparable to its peer airlines such as Singapore Airlines and Cathay Pacific.

Unit Cost Comparison 2010-2011



Source: Published financial reports

[1] These are weighted averages across the airlines (using employment as weights), to reflect differences in the size of the various airlines.

Landing fees, charges and suppliers

Emirates pays the full published landing charges at its main operational base, Dubai International Airport - as do the over 150 other airlines that fly to and from Dubai. Emirates pays the same airport handling fees to dnata (an Emirates Group company and the ground-handling agent at Dubai International airport) as would a similar high volume airline customer. Emirates pays the same standard over-flight charges across its network as applied to other airlines and is subject to the standard customs duties and government charges both in the UAE and elsewhere.

This does not stop rival airlines from casting aspersions about Emirates' landing costs. As the Globe and Mail summed up in February 2011: "Seeking to protect their Frankfurt hub, the two partners (Lufthansa and Air Canada) allege that Emirates receives subsidies from the Dubai Government in the form of cheap landing fees at Dubai International Airport, an accusation that Emirates hotly disputes."

In fact, data collected by the International Air Transport Association shows that Dubai International offers competitive prices for landing charges and other fees. In comparison against international hubs based in the Middle East, Asia and Europe, Dubai International ranked as the fifth costliest airport, more expensive than charges in Beijing, Kuala Lumpur and Doha.

Separately, a study compiled by Oxford Economics in June 2011, titled "Explaining Dubai's Aviation Model" found that overall charging at Dubai International Airport was both highly competitive and commercially based - with Dubai being close to the average when looking at airport charges at the world's largest airports.

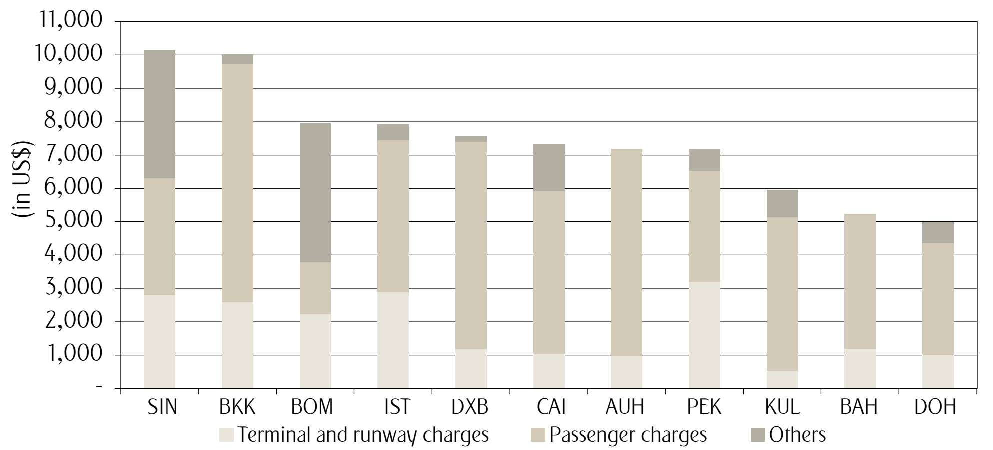
Paul Griffiths, the Chief Executive of Dubai Airports, was recently quoted describing the commercial strategy for Dubai International to be "competitive on aeronautical costs in order to attract more airlines and more passengers", which he said in turn boosts non-aeronautical revenues.

"Because of this, Emirates pays the same competitive rates as everyone else," Griffiths noted. "This approach also recognises and captures the broader economic value of aviation far better than the legacy models being used in more mature markets where regulation and taxation have conspired to hike costs and cripple growth."

"Aviation's growth is driving wider economic benefits in terms of increased employment and tourism to the emirate," he added.

Oxford concluded that the charges at most airports in Dubai's peer group are very similar. There are 11 airports in this group, including Dubai International, which charge less than US$35 per passenger. The highest airport charge among the 96 largest airports in the world is at London Heathrow where they amount to US$126 per passenger.

Airport charges at Dubai International and 10 other international airports*



Source: IATA

*B777-300 August 2011

Airport infrastructure

Airports around the world are funded in widely differing ways, with a variety of ownership structures and relationships to the 'home' carrier and respective national governments. Dubai International Airport is part of Dubai Airports, a Dubai Government-owned entity that has responsibility for all aspects of airport development in Dubai.

It is not uncommon for governments or state-controlled entities around the world to help finance expansion of airport infrastructure, viewing them as key drivers for economic growth and essential for connectivity to the global economy.

Some 78% of Europe's airports were publicly-owned and a further 13% had some element of public partnership, according to a 2010 study by ACI, the international association of the worlds' airports. In addition, a 2007 ICAO report noted that 70% of the more than 600 international airports were publicly owned.

Following the Second World War, Australia embarked on a major programme to build and finance airports across the country, which were held in government hands for a half century until recent privatisation efforts.

The four runways at Paris Charles de Gaulle were built by Aéroports de Paris, which was wholly owned by the French Government for 22 years until its privatisation in 2006. The French federal and regional governments still, however, retain significant stakes in the company.

Vienna Airport was government held for 50 years until its partial privatisation in the 1990s; it is now 50% state controlled.

A similar history is found at Munich and Frankfurt. Frankfurt Airport (Fraport) is now 51% controlled by the German regional and city government (with Lufthansa owning 10%, and private investors holding the rest). For the first five decades of its existence, however, it was fully government owned.

Lufthansa is an example of European carriers making loud claims about airport ownership in Dubai and the Gulf, despite themselves continuing to benefit from state-funding of airports. In April 2011, the European Commission opened an investigation into Leipzig-Halle airport, which received €225 million in funding for infrastructure from its state owners, making charges lower than would be the case if the airport had to fund the improvements at market rates. Lufthansa, operating around 30% of all flights from the airport, has benefitted the most from this public funding.

Nor is it unusual for an airline or its alliance grouping to have dedicated use of facilities at a home airport - British Airways at London Heathrow's Terminal 5, Air France at Paris Charles de Gaulle and Lufthansa at Munich Terminal 2 (which it jointly financed) are notable examples. Even governments that claim to be out of the airport business, like Canada, are not immune from funding airport projects. For example, since 2006, Canada's federal government has set aside CA$65 million for projects at Quebec City's airport.

While Emirates is a major carrier at Dubai International Airport, it is also worthwhile looking at some of the world's other large hub airports and how home carriers and respective alliances stack up in terms of market shares and the amount of competition faced.

Top 20	Airport	International passengers - 12 months ending Dec 2011 - in millions	Home carrier share of international flight departures - Apr 2012	Lead alliance share of international flight departures - Apr 2012	Total alliance share of international flight departures - Apr 2012	Number of international carriers - Apr 2012
1	London Heathrow	64.69	British Airways - 43%	oneworld - 48%	83%	91
2	Paris Charles de Gaulle	55.67	Air France - 54%	SkyTeam - 62%	80%	104
3	Hong Kong International	52.75	Cathay Pacific - 29%	oneworld - 31%	57%	92
4	Dubai International Airport	50.19	Emirates - 46%	Star - 4%	8%	150
5	Amsterdam Schiphol	49.68	KLM - 57%	SkyTeam - 67%	79%	93
6	Frankfurt International Airport	49.48	Lufthansa - 61%	Star - 76%	86%	107
7	Singapore Changi Airport	45.43	Singapore Airlines - 35%*	Star - 30%	41%	70
8	Bangkok Suvarnabhumi International	35.01	Thai Airways - 28%	Star - 36%	53%	93
9	Incheon International Airport	34.54	Korean Airlines - 33%	SkyTeam - 46%	84%	61
10	Madrid Barajas	32.45	Iberia - 40%	oneworld - 45%	72%	70
11	London Gatwick	29.92	British Airways - 18%	oneworld - 18%	23%	38
12	Munich Airport International	27.88	Lufthansa - 63%	Star - 75%	84%	72
13	Narita International Airport	26.33	Japan Airlines - 17%	Star - 38%	88%	63
14	Kuala Lumpur International	25.92	Malaysia Airlines - 28%	SkyTeam - 5%	11%	54
15	Fiumicino Airport (Rome)	24.45	Alitalia - 28%	SkyTeam - 38%	63%	94
16	New York John F Kennedy	24.16	Delta Air Lines - 18%	oneworld - 28%	64%	75
17	Istanbul Atatürk Airport	23.83	Turkish Airlines - 73%	Star - 78%	85%	64
18	Zurich Airport	23.63	Swiss - 54%	Star - 67%	77%	66
19	Taiwan Taoyuan International Airport	23.14	China Airlines - 28%	SkyTeam - 39%	58%	44
20	Barcelona Airport	21.66	Iberia - 9%	Star - 18%	42%	66

* Silk Air included

Source: ACI, OAG, FG Pro and Dubai Airports (international carriers include cargo and charter operators)

Airlines serving Dubai

Open competition and free markets lay at the heart of Dubai's status as a trading hub. Every day, Emirates goes head to head with more than 150 rival airlines serving Dubai International Airport.

✈ ACG Air
Cargo Germany
✈ Aeroflot ✈
Aerologic ✈ Aerosvit
Airlines ✈ African
Express Airways ✈ Air
Algerie ✈ Air Almaty ✈
Air Arabia ✈ Air Astana ✈
Air Baltic ✈ Air Berlin ✈ Air
Bucharest ✈ Air China ✈ Air
Finland ✈ Air France ✈ Air
India ✈ Air India Express ✈ Air
Transport International ✈ Airblue
✈ Aircompany Scat ✈ Alitalia ✈
Al-Naser Airlines ✈ Ariana Afghan ✈
Ark Airways ✈ Armavia Avia Company ✈
Atlas Air ✈ Austrian Airlines ✈ Azerbaijan Airlines
✈ Bahrain Air ✈ Biman Bangladesh ✈
✈ British Airways ✈ Cargoitalia ✈ Cargolux Airlines Intl
✈ Cargolux Italia ✈ Caspian Airlines ✈ Cathay Pacific ✈ China Airlines ✈
China Eastern Airlines ✈ China Southern ✈ Condor ✈ Coyne Airways ✈ Daallo Airlines ✈ Delta Airlines Inc. ✈ DHL International E.C. ✈
Donavia ✈ Donbass Aero Airlines ✈ Eastern Skyjets ✈ Egypt Air ✈ Emirates ✈ EPL Fzco ✈ Eritrean Airlines ✈ Ethiopian Airlines ✈ Etihad Airways ✈ Euro-Asia Air Intl ✈ Expo Aviation ✈
Falcon Express Cargo Airlines ✈ Fars Air Qeshm ✈ Federal Express ✈ Felix Airways ✈ Finnair ✈ Fly Dubai ✈ Free Bird Airlines ✈ Garuda Indonesia ✈ Georgian Airways ✈ Global Jet ✈ GMG
Airlines ✈ Gryphon Airlines ✈ Gulf Air ✈ Hainan Airlines Co ✈ Indigo Air ✈ Investavia ✈ Iran Air ✈ Iran Aseman Airlines ✈ Iranian Air Transport Naft ✈ Iraqi Airways ✈ Jade Cargo International
✈ Jazeera Airways ✈ Jet Airways ✈ Jubba Airways ✈ Kam Air ✈ Kenya Airways ✈ Kingfisher Airlines Limited ✈ Kish Airline ✈ KLM ✈ Korean Air ✈ Kuban Airlines ✈ Kuwait Airways ✈
Kyrgyzstan Air Company ✈ Latcharter Airlines ✈ Lufthansa ✈ M.E.A ✈ Mahan Air ✈ Malaysian ✈ Martinair ✈ Mihin Lanka ✈ Nasair ✈ National Air Cargo ✈ National Air Services (NAS) ✈
National Airline ✈ Neos ✈ Nepal Airlines Corporation ✈ Norwegian Air Shuttle ✈ Oman Air ✈ Orenburg Airlines ✈ Pakistan Intl ✈ Qatar Airways ✈ Romanian Air ✈ Royal Brunei Air
✈ Royal Jordanian ✈ Rus Aviation LLC ✈ Rwandair Express ✈ Safi Airways ✈ Saudi Arabian Airlines ✈ Shaheen Air Intl
✈ Siberia Airlines ✈ Silk Way Airlines ✈ Singapore Airlines ✈ Somon Air
✈ SriLankan Airlines ✈ Starlight Airlines ✈ Sudan Airways
✈ Swiss Intl Air Lines ✈ Syrian Arab Air ✈ TAAG Angola
Airlines ✈ Taban Airlines ✈ Taimyr Airlines ✈ Thai
Airways Int ✈ Thomas Cook Airlines
Sk ✈ TNT Airways ✈ Transaero
Airline ✈ Travel Svcs A.S. ✈ Tui
Airlines - Arkefly ✈ Tunis Air ✈
Turkish Airlines ✈ Turkmenistan
Airlines ✈ Ukraine Intl Airlines
✈ United Airlines ✈ United
Airways (BD) ✈ United
Nations Organization ✈
United Parcel Service ✈
Ural Airlines ✈
Uzbekistan Airways ✈
Vim Airlines ✈
Virgin Atlantic ✈
Yemenia Yemen Air

Source: Dubai Airports and dnata

Oil

It is undeniable that many Middle East governments are oil-rich. But myths about Emirates' access to free or discounted oil fall flat on their face. Dubai has extremely limited oil resources, forcing it to innovate into other fields and opening the way for foreign fuel suppliers to dominate at Dubai International.

As CNN once aptly put it, "Dubai is a story of survival - how one small city running out of oil saved itself with a mixture of tourism, commercialism, and pizzazz."

As a result, Emirates' fuel costs are wholly comparable with those of other major long-haul carriers. In 2010/11 fuel accounted for 34.4% (US$4.6 billion) of Emirates' total operating costs - up by over 40% on the previous year.

Many countries in the Gulf are blessed with abundant oil reserves, making it easy to offer below-market rates for jet fuel. Saudi Arabian Airlines for example enjoys favourable fuel prices.

But Dubai was not blessed with oil, which in turn forced it to create a service-based economy, leading to the establishment of globally competitive firms such as Emirates, dnata (with operations in 38 countries) and DP World, the world's third largest ports operator.

Emirates procures its fuel at market rates from multiple suppliers at all airports to which it operates, including Dubai International Airport.

The majority of Emirates' fuel is sourced from BP, Shell and Chevron given there is minimal jet fuel refining capacity in Dubai.

Outside of Dubai, Emirates' main fuel suppliers are also Exxonmobil, BP, Shell and Chevron.

Emirates recently wrote to Shell, BP and Chevron asking them to verify the company's credentials as fully commercial clients with contracts on par with their other airline clients around the world.

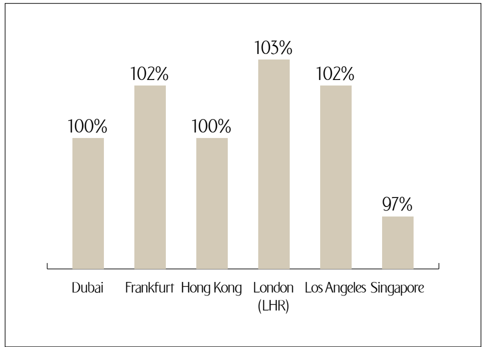
Chevron - "…happy to confirm that our present contract and all our previous contracts covering jet fuel supply to Emirates Airline at Dubai have all been negotiated and agreed with the same considerations as for those jet fuel contracts with our other airline customers…with no free fuel and with no economic subsidy."

BP - "…have been a supplier of jet fuel to Emirates at Dubai since 1985 through a commercial fuel supply contract which is competitively tendered periodically."

Shell - "Our contract with Emirates Airline is the result of a fair negotiation process in line with the negotiations that we have with other major customers…and the items invoiced are similar in type to those charged to our other customers…"

The following chart shows fuel prices paid by Emirates at major airports around the world relative to the price paid in Dubai, along with analysis of comparative fuel costs. Almost half of all fuel uplifted by Emirates is done so at airports outside of Dubai on its network.

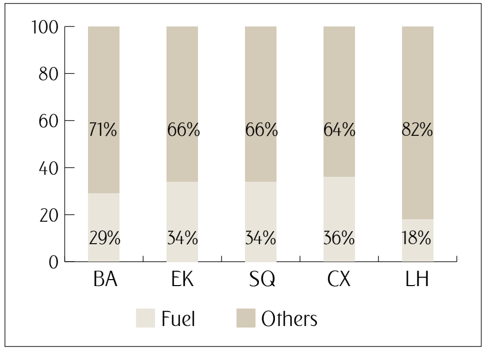
Relative fuel prices paid by Emirates in 2010/11



Source: Emirates

In line with market prices, Emirates' fuel cost per ATKM* increased by 25.7% between 2009/10 and 2010/11 and comprises a significant 34% of its operating cost in 2010/11, up from 27% in 2005/06.

Airline unit cost break-up – fuel as a percentage of unit cost

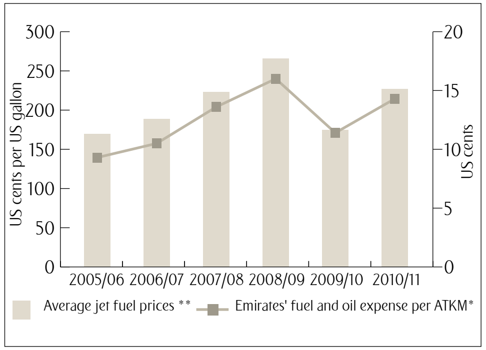


Source: Published financial reports

Analysis of the audited accounts for the last financial year reveals that, in percentage terms, Emirates' fuel bill is in line with what other major international carriers pay for fuel per annum.

Like many other airlines operating on a fully commercial basis, Emirates has not been immune to the challenges posed by volatility in oil prices during the last decade. In the last financial year more than one in every three dollars spent across the company was on fuel. The following table provides evidence of the direct influence and close relationship between average jet fuel prices and Emirates' expenditure on fuel and oil.

Emirates' fuel and oil expense per ATKM vs average jet fuel prices



*ATKM (Available tonne-kilometres) – overall capacity measured in tonnes available for carriage of passengers/cargo load multiplied by the distance flown

**Source: Energy Information Administration

A transparent full disclosure of Emirates' subsidiaries

Emirates Flight Catering (EKFC) - which is 90% owned by Emirates and 10% by Dubai Airports Corporation is a stand-alone commercial entity serving all foreign carriers at Dubai International Airport.

This is very similar to the situation at many airports in Europe, where single-source catering contracts were common for many decades.

Competition was gradually brought in to European airports and this is also the case with the UAE economy. In December 2011, a draft law allowing 100% foreign ownership of companies outside of free zones passed through the legislative process, promising far more competition across all industries, including aviation.

In addition, while some of Emirates' rivals may complain publicly about the ownership of EKFC, the catering provider is recognised internationally for its competitive prices and consistently high quality of service. For example, British Airways awarded EKFC its "Partners in Excellence" award in 2001, 2003 and 2005, Delta Air Lines named it the Catering Unit of the Year in 2009, while Air France, Lufthansa and Singapore Airlines awarded it similar accolades.

Doing business in Dubai

International airlines, by their very nature, will inevitably encounter different rules and regulations on each new route that they operate. The bilateral agreements regulating air transport between countries usually include 'doing business' provisions for airlines, but in all cases these rights are exercised in conformity with applicable national rules.

Importantly, bilateral agreements do not attempt to harmonise company establishment laws, labour rules or other domestic legislation, since these are outside the competency of aeronautical authorities. Just as for any other company, each airline must examine the regulatory environment in a prospective market to determine whether it is willing and able to meet the necessary obligations to do business. Rules within the UAE, for example, on the establishment of companies have not stopped 150 international airlines from operating to Dubai or from selecting a local agency to act as a ticketing outlet to passengers. Within the Dubai Airport Free Zone over 1,100 companies operate - including global firms like Audi Volkswagen and Panasonic - all of whom access Dubai's market through distributors.

In addition, the UAE companies law, which was approved in December 2011, will allow companies to exist with 100% foreign ownership outside of free zones. This should greatly diversify the competitive landscape of the Dubai economy.

Taxes

Some competitors and a few governments raise the issue of Emirates not paying corporate tax in Dubai; a fiscal policy setting consistent across the Gulf region and in many other parts of the world. American Airlines famously moved from New York to Texas in 1979 to secure lower taxes. And of course the 150 foreign airlines operating out of Dubai do not pay corporate taxes on their Dubai-based operations and profits.

The more important element of any tax debate is the commercial reality of actual profitability and what taxes pay for and how they are collected. Airlines have to be profitable to pay taxes. Hence in 2009-10, a large number of airlines in Europe did not pay tax. Furthermore, in most countries there is the ability to carry losses forward to reduce future tax paid if profitability returns. So in many cases over the past decade, airlines have paid no effective tax at all to their governments. Consider also that through consolidation, a handful of the dominant and giant airline multinationals can capture the losses of acquired entities in their balance sheets to reduce their taxation positions in their domiciled states.

The bigger point is why taxes are paid and what they are used for, namely the provision of social benefits. In Emirates' case, a pilot is paid a package of which some 20% to 30% of additional benefits, due to the need to attract skilled expatriates, are met by the employer. In this regard, there is a reasonable (albeit hypothetical) comparison to be made: If an Air Canada pilot is paid $100, of which $30 is 'lost' (paid) in tax, equally an Emirates pilot is paid $70 in addition to which Emirates pays an additional $30 to provide his family's healthcare, housing, transportation, education and pension needs (it is also why we attract so many highly-skilled Canadian pilots).

Emirates fully supports the efforts of the wider airline industry to reduce unfair and unnecessary taxation, to allow carriers to build up sustainable and profitable businesses.

Emirates villas at Dubai Silicon Oasis

Environment

The issue of environmental taxes and emissions charges are increasingly drawn in to the discussion about subsidy in the aviation industry. Emirates is opposed to the EU's unilateral approach to reducing carbon emissions, namely the application of the EU Emissions Trading Scheme (EU ETS) to international aviation as from 1 January 2012. Nonetheless, it has complied with the necessary legal requirements to date.

It has been claimed that the EU ETS would create regional distortion by pushing passengers to fly via non-EU destinations to avoid paying additional ETS-related charges, with the example of Dubai being often used to argue the case.

However, following a series of impact studies, the European Commission concluded that the aviation industry is "not considered to be at risk of carbon leakage".

Nonetheless, some European airlines have in recent times called on the European Commission for 'additional emissions allowances' to protect them against 'carbon leakage'. This is essentially a request for back-door subsidies.

Emirates itself will be subject to the EU ETS for all of its over 30,000 annual flights to/from Europe, and the cost of compliance for the company is estimated at tens of millions of Euros in 2012 and hundreds of millions of Euros over the first eight years of the programme through to 2020.

More broadly, Emirates strongly believes it is appropriate that all (or a significant portion) of funds raised by the EU ETS as well as other existing 'environmental taxes' in the UK, Austria and Germany, should go back into improving aviation efficiency, specifically for climate change and aviation emissions reduction projects. They should not go into general revenue of governments.

Estimated top 10 purchasers of EU aviation allowances
Lufthansa
British Airways
Air France
Iberia
Ryanair
Emirates
Singapore Airlines
KLM
Delta Airlines
Virgin Atlantic

Source: RDC Aviation

Emirates' Wolgan Valley Resort and Spa in Australia

Conclusion

Subsidy is an unpalatable reality. Whether state sanctioned or permitted under another label, governments around the world have often been ready and able to intervene in stabilising industries of national importance. This is especially so in this time of global economic crisis, when financial bailouts and state intervention by governments are employed to prop up economies.

Emirates' view is that subsidies are an affront to what we stand for and what we strive to build for our company. We unequivocally disapprove of subsidies, but recognise they do happen in our industry.

We reaffirm our commitment to open and transparent operations, free of subsidy.

Emirates welcomes a fact based debate on state aid and hopes this applies to all industry participants. Vocal rival carriers, which themselves have benefitted from governmental support, are peddling self-serving falsehoods when they allege that Emirates is somehow at an advantage.