
W14084

EMIRATES AIRLINE: A BILLION-DOLLAR SUKUK-BOND ISSUE¹

Emir Hrnjić, Harun Kapetanović and David Reeb wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On June 19, 2013, Skytrax consulting agency conferred the “World’s Best Airline” award to Emirates Airline (EA) based on the largest airline passenger-satisfaction survey to date.² While executives of EA received the prestigious accolade, the company’s treasury department focused on preparing a presentation on the next round of financing for the incoming batch of A380 aircraft. A key aspect of EA’s continuing success would be finding creative ways to finance the ongoing stream of new airplanes.

A STRONG START

Founded in March 1985, EA initiated operations with \$10 million³ in start-up capital and two aircraft from Dubai’s royal family.⁴ In the following years, the airline continuously expanded both its fleet and destinations. Emirates began developing flights into Asia, starting with flights to Bangkok, Hong Kong, Manila and Singapore. The company then systematically built market share between South Asia and Europe, providing alternative routes to London, Frankfurt and Paris. Wholly owned by the Government of Dubai and operating as an independent business entity, EA grew in scale and stature through competition with a number of international carriers.

EA doubled in size approximately every four years, quickly becoming one of the largest airlines in the world, with over 60,000 employees, more than 200 aircraft and flights to 140 destinations in more than 70 countries on six continents.⁵ The airline ranked amongst the largest carriers in the world in both revenue and passenger-miles and recorded an annual profit each year from 1988 to 2012. EA also operated four of the world’s 10 longest non-stop commercial flights from Dubai to Dallas, Houston, Los Angeles and San Francisco. The airline had the world’s largest fleets of Airbus A380 and Boeing 777. According to its website, EA served 34 million passengers and carried 1.8 million tons of cargo in fiscal year 2011/12.⁶

Sponsorships formed a vital aspect of the airline’s marketing strategy. “We believe sponsorships are one of the best ways to connect with our passengers,” said EA’s chairman.⁷ In that spirit, on April 15, 2013, EA signed a sponsorship deal with Real Madrid (a well-known Spanish soccer team) in addition to existing sponsorships with Arsenal Football Club in the United Kingdom, Paris Saint Germain Football

Club in France and A.C. Milan in Italy. Beyond the world of soccer, EA had sponsorship agreements with tennis, golf, horse racing, Formula One racing and other major sports and cultural events.⁸

DUBAI, UAE

Dubai and five other Emirates formed the United Arab Emirates (UAE) after gaining independence in 1971.⁹ Voted as the city with the best quality of living in the Middle East in 2012,¹⁰ it earned worldwide recognition for its iconic architectural achievements, such as the world's tallest building (Burj Khalifa), the world's largest man-made island (Palm Jumeirah) and the world's only "seven-star" hotel (Burj al-Arab).

Dubai's early development strategy appeared closer to that of an "entrepôt,"¹¹ similar to Singapore in its early days. When oil was discovered in Dubai in 1963, the emirate's leaders used the oil revenues to spur infrastructure development and invest in schools, hospitals, roads, modern telecommunications, transportation facilities and the largest man-made harbour in the world with a "free zone" around it.¹² In 2013, Dubai's economy appeared well diversified and its main revenues came from trade, tourism, real estate and financial services, while oil revenues accounted for less than 3 per cent of its gross domestic product (GDP).¹³

In line with its strategy of heavy investments into infrastructure, Dubai built International Airport Terminal 3 exclusively for the use of EA at a cost of \$4.5 billion — the largest building in the world by floor space, with over 1.7 million square metres (18.4 million square feet) of space. Dubai developed heralded hotels, world-class entertainment and major sporting events to become a major tourism destination. By 2013, Dubai also became a hub for information technology (IT), media and finance, with industry-specific free zones Dubai Internet City (with IT firms such as Oracle, Microsoft and IBM) and Dubai Media City (with media organizations such as CNN, BBC and Reuters). Dubai International Financial Centre hosted major global financial institutions such as Citibank, Barclays and BNP Paribas as well as NASDAQ Dubai—one of three stock exchanges in the UAE.¹⁴

GLOBAL FINANCIAL CRISIS

Dubai experienced major problems during the global financial crisis of 2009, due to a mismatch between the maturities of its assets and liabilities. Government-related entities (GREs) with aggressive business strategies and fragile cash flows relied on short-term debt, leading to substantive financial difficulties. Arguably, one reason for the reliance on short-term debt stemmed from the nascent development of Dubai's financial markets by global standards, potentially impeding the economic progress of Dubai and the UAE. Once international capital markets tightened as a result of the financial crisis and access to debt refinance was denied, Dubai's economy experienced a major decline. Dubai's crisis looked like a corporate refinancing problem as multiple construction projects were half-finished and firms across sectors started massive layoffs. As a result, Dubai's GREs' debt traded at a deep discount. However, when GREs' obligations became due, Abu Dhabi came to the rescue by providing \$10 billion to the Dubai Financial Stability Fund.

The story of Dubai World, a GRE that owned some of the most prominent corporations in Dubai, exemplified the crisis. On November 25, 2009, Dubai World asked for a restructuring of its debt worth \$26 billion. Dubai World's developer, Nakheel, known for the construction of the Dubai Palm Islands, announced the delay in the repayment of the \$4 billion "sukuk" (Islamic bond).¹⁵ Nakheel's bonds were

soon trading at 45 per cent of their face value. The well-reported \$10 billion bailout, including the direct provision of \$4.1 billion from Abu Dhabi, calmed the markets.

In 2012, Abu Dhabi came to the rescue again when it partly bankrolled the acquisition of a struggling Dubai Bank by Emirates NBD, Dubai's largest bank.¹⁶ As the controlling shareholder, the Dubai government directed Emirates NBD to take over loss-making Islamic lender Dubai Bank, which had been rescued by the emirate's government in 2011. Emirates NBD, whose fourth-quarter results were hit by its exposure to Dubai-linked entities, announced that the UAE finance ministry gave it an eight-year loan of \$762 million at below market rates to facilitate the deal. The support was a further sign that Abu Dhabi would stand by its debt-ridden neighbour.

While Dubai and Abu Dhabi were both part of the UAE, they had very different financial standings. Abu Dhabi had a much stronger credit rating on the back of large oil reserves and substantial wealth managed by its sovereign wealth funds. The biggest contributor to the UAE treasury, Abu Dhabi sat on 10 per cent of global oil reserves and accounted for 90 per cent of the UAE's oil output. Its government practiced a more conservative and less aggressive business approach, resulting in an "AA" credit rating. Dubai did not have credit rating.

GLOBAL HUB FOR ISLAMIC FINANCE

Dubai became an international hub for Islamic finance. Its Islamic finance industry comprised a diversified network of service providers to include commercial banking, asset management, Shari'ah consulting, insurance, endowments, etc. In 2013, Islamic assets were growing at 15 per cent per annum and represented about 16.7 per cent of market share.¹⁷ Unlike some other jurisdictions, Dubai stayed away from the more traditional path of industry development with strong government intervention and support via regulatory and fiscal incentives; Dubai invested into institutional development instead. Still, its Islamic finance industry flourished and recorded impressive growth and diversification rates.

In 2013, Dubai made public its plans to become a global capital of the Islamic economy by developing a more comprehensive and holistic Islamic economic ecosystem.¹⁸ This reflected a new paradigm in Islamic finance that aimed at integration into wider economic development as opposed to more narrow convergence with conventional financial solutions.

AIRLINE INDUSTRY

Studies by Oxford Economics quantified the significant economic impact that aviation generated across major markets in the Middle East.¹⁹ For example, in the UAE in 2009, aviation directly contributed 141,000 jobs (4.5 per cent of employment) and made a value-added contribution to GDP of \$10 billion (3.5 per cent of GDP). Moreover, forecasts indicated that aviation's contribution to the region's GDP would increase by 6.3 per cent per annum in real terms with creation of an additional 294,000 jobs across the Middle East by 2030. The projected growth rate for international traffic in the Middle East was 7.9 per cent — higher than any other region in the world.

With huge losses for European airlines and growth in the Asia-Pacific region, airline industry power shifted towards the Middle East.²⁰ For instance, Turkish Airlines, well situated between Europe, Asia and Africa, continued to aggressively expand its operations. Other Middle Eastern Airlines such as Etihad and Qatar followed suit.

However, not everyone was impressed with the expansion of these airlines. Lufthansa chief executive officer Christoph Franz was the most vocal opponent of Emirates, Etihad Airways and Qatar Airways, criticizing them for being state-owned, government-subsidized and reliant on unfair advantages such as access to export financing, low or no taxes and cheap labour. Emirates quickly responded to these accusations. According to its report, the company was completely unsubsidized and, in fact, campaigned against airline subsidies.²¹ It had been buying fuel from BP, Shell and Chevron in Dubai and worldwide at market rates.

GROWTH

EA announced plans to acquire 30 more Airbus A380s, in addition to the 34 the company had in service and the 56 on order. With these purchases, the EA fleet would contain 120 of the largest commercial planes available (at about \$390 million per plane).

The Airbus A380 was the world's largest passenger airliner, providing 49 per cent more floor space than the next-largest airliner as well as seating for 525 people in a typical three-class cabin layout over a range of up to 15,700 kilometres (almost 10,000 miles).²² Airlines could customize A380 aircraft with various features. For instance, EA included shower spas in its first-class area, along with the two lounges on the upper deck.²³ Other airlines had comparable innovations: Qantas offered a lounge area, Air France introduced a digital gallery and Singapore Airlines' first-class suites offered standalone beds (i.e., not converted from seats).²⁴

FINANCING GROWTH

On March 11, 2013, EA announced plans to issue a 10-year amortizing Islamic bond, known as a sukuk. The sukuk, maturing in 2023, had an amortizing structure with an average weighted life of five years.²⁵ In other words, the sukuk gradually would reduce the value of the bond over a period of time; hence, the full amount would be paid before the final maturity date. Lead arrangers released initial profit rate guidance at a spread ranging between 300 basis points to 350 basis points relative to five-year mid-swaps.²⁶ In February of 2013, EA's \$750 million amortizing bond received a muted response due to weak market sentiment at the time.²⁷

The government-owned airline picked Citigroup and Standard Chartered as global lead managers. Other joint lead underwriters for the proposed sale were Abu Dhabi Commercial Bank, Abu Dhabi Islamic Bank, Dubai Islamic Bank and Emirates NBD Capital.²⁸

ISLAMIC FINANCE

The Islamic economic model emerged in the 1970s, after which, the growth and popularity of Islamic bonds was exponential. The primary tenets of Islamic law and finance encouraged risk sharing rather than risk shifting and prohibited interest and speculation. Islamic banking assets with commercial banks surpassed the \$1.5 trillion mark in 2012, and estimates projected the industry to hit between \$2 trillion and \$3 trillion by 2015.²⁹ Furthermore, Asian countries were increasingly using Islamic finance to fund infrastructure projects. The Asian Development Bank estimated that Asian countries would need more than \$8 trillion of infrastructure investment between 2010 and 2020.³⁰

In the 2000's, Islamic finance emerged as a mainstream component in many parts of the global finance industry. Conventional finance powerhouses such as Citigroup, Deutsche Bank and JP Morgan established "Islamic windows" that offered retail and corporate banking services. Mutual funds created by major financial institutions, such as HSBC, UBS and UOB, offered wealth-management services in accordance with Islamic principles. At the same time, there was a major global expansion of Islamic real estate investment trusts, Islamic insurance and Islamic project financing, as well as financial institutions specialized in housing and consumer banking. The introduction of Islamic equity market indices, such as the Dow Jones Islamic Market and the Islamic Bonds League tables, contributed to the visibility and globalization of the industry. Islamic finance had made a strong foray into the Western world as well. Along with the growth of the Islamic financial sector, numerous innovations had resulted in well-structured and competitive Islamic products and services.

ISLAMIC BONDS

Typically, firms issued bonds to raise debt finance and the bondholder received interest that was paid before dividends and a principal at the end of the contract. However, interest was prohibited under Islamic law. Instead, Islamic investment certificates (i.e., Islamic bonds or sukuk) were linked to an underlying asset so that a sukuk holder was entitled to proceeds of the performance of the underlying asset or business activity. In other words, a sukuk holder would participate in the business activity of the company issuing the sukuk and had a right to profits resulting from that activity (but, at the same time, was equally bound to bear its share of any losses).

The main features of Islamic bonds were the following:

- Islamic securities must neither directly nor indirectly include interest payments.
- Income from securities would include profit- and loss-sharing components and not simply comprise interest.
- Islamic securities cannot be structured as a company's general obligation and, hence, may not be strictly regarded as fixed-income instruments. In the case of asset-based structures, sukuk bonds resemble conventional securitization structures.
- Sukuk structures must not be based on sale of debt, which is prohibited by Islamic law. Sale of debt or discounting gives rise to interest payments.³¹
- Islamic securities must directly relate to the purpose of financing with real underlying assets and/or business activity on which the transaction is based.
- The securities should not be based on speculation nor include excessive uncertainty.
- Sukuk structure and documentation must be approved by a committee composed of Islamic scholars.
- Transparency and clarity of rights and obligations is a mandatory aspect of all legal documents.³²

Comparatively, bonds were treated as senior to sukuk and bondholders' rights were better protected.³³ Also, bonds were tradable in conventional markets, whereas not all sukuk were tradable (depending on the type of sukuk).

As with conventional bond issuance, issuing sukuk followed the same process and the same role for investment banks. A key decision in engaging lead managers was whether they would underwrite the issue or act on a best-effort basis. Underwriting implied guaranteed placement of any remaining portion of the issue by the underwriting bank. On the other hand, in best-effort engagement the lead manager (or book runner) would build the book of offers from the investors. A book runner typically provided price guidance and a pricing range of the issue, and collected offers from the investors at different price points.

Once the book of orders was built, the lead manager would price the issue — typically as a spread to key benchmarks such as U.S. bonds or mid-swaps. Subsequently, the issue would be allocated to investors based on issuer placement strategy.

TRENDS IN ISLAMIC BONDS' ISSUANCE

Islamic bonds emerged as a significant asset class in international markets. Importantly, sukuk bonds allowed conventional and Islamic investors to access significant liquidity pools available in Gulf Cooperation Council countries³⁴ without compromising risk-return objectives. Furthermore, major exchanges such as London, Luxembourg, Dubai and Kuala Lumpur expanded offering of Islamic bonds, which further added transparency and credibility to any sukuk issues and ensured investors' confidence. Sukuk bonds on the Dubai Mercantile Exchange primarily consisted of “ijara,” (sale and lease back) “murabaha” (cost-plus financing) and “musharaka” (partnership) types (see Exhibit 1).

Following the Dubai crisis in 2009, sukuk issuance strongly rebounded, with \$52 billion in 2010, \$84 billion in 2011 and \$131 billion in 2012.³⁵ Based on growth forecast in 2013, Ernst & Young estimated that the market demand for sukuk (for liquidity management purposes of Islamic financial institutions) would outstrip sukuk supply by at least \$221 billion by 2015 (see Exhibit 2). Corporate sukuk represented roughly half of the total global sukuk issuance from 2001 to 2010; the other half consisted of sovereign and quasi-sovereign issues. More recently, corporate sukuk share fell to 19 per cent between 2011 and 2013.³⁶

Islamic bonds quickly expanded in the West as well. For example, the German state of Saxony-Anhalt issued €100 million (\$138.23 million) in sukuk in 2004, tapping into global Islamic capital markets. In 2013, the U.K. government was contemplating issuing sovereign sukuk.³⁷

THE BILLION-DOLLAR SUKUK ISSUE

In June 2012, Emirates Airline repaid a \$550 million sukuk bond used to finance plane purchases in 2005. In February and March of 2013, EA raised \$1.75 billion from issuing Islamic and conventional bonds; by March 2014, the company needed to raise around \$5 billion in order to pay for its existing aircraft orders.

The sale of 10-year amortizing Islamic bonds at a profit rate of 3.875 per cent accounted for \$1 billion of EA's funds raised in early 2013. The remaining \$750 million came from 12-year amortizing regular bonds at a coupon of 4.5 per cent. Islamic bonds due on March 19, 2023 were issued at the offer price of 99.331. Interestingly, the yield curve at issuance suggested these bonds should have similar rates, yet the sukuk bonds yielded 48.6 basis point lower profits than the yield on the regular bonds. This lower financing cost might have been one of the key reasons for issuing sukuk bonds (see Exhibits 3 to 6).

FINANCIAL AND RISK CHARACTERISTICS

Exhibits 7 to 10 provide basic data about Emirates' financial situation.

EA was exposed to fluctuations in jet fuel costs, but the hedging activity during the fiscal year ending on March 31, 2012 was not significant. It was also exposed to fluctuations in currency exchange. Debt obligations were mostly in AED (UAE dirhams) or US\$, to which the AED was pegged. A small portion of debt obligation was in Singapore dollars, which was pegged to a basket of currencies (including US\$).

Finally, there was exposure to fluctuations in prevailing interest rates, with the key reference rates being London Interbank Offered Rate (LIBOR), Emirates IBOR and Singapore IBOR.

In 2013, Dubai government international bonds denominated in US\$ expiring in 2015, with the coupon rate of 6.7 per cent and modified duration of 2.31 years, were yielding 2.34 per cent. Yields on similar bonds with longer maturities were used to plot a yield curve (see Exhibit 11). The characteristics and yields of selected bonds and sukuk selling in Middle East and North Africa region were also compiled by Emirates NBD (see Exhibit 12).

How should EA finance the next set of planes? Analysts were conflicted as to the best alternative. Some favoured repeating the sukuk issue, some appeared focused on exploring other types of sukuk bonds and others leaned toward conventional financing arrangements. The EA treasury department faced a difficult decision in determining the best way to finance these new planes.

EXHIBIT 1: SUKUK TYPES

Ijara is comparable to lease finance. Under this concept, the bank makes available to the customer the use of assets or equipment such as plant or motor vehicles for a fixed period and price. Ijara specifications include following:

- the use of the leased asset must be specified in the contract
- the lessor (the bank) is liable for the maintenance of the underlying assets
- the lessee is held responsible for maintaining the asset in proper order.

An Islamic lease is similar to an operating lease but the redemption features may be structured like a finance lease.

Murabaha is a form of trade credit or loan (a.k.a. cost-plus financing). The key distinction between a murabaha and a classic loan is that in a conventional loan, the bank lends the money to the borrower to buy the product, while in murabaha, the bank will buy and take actual physical ownership of the asset. The asset is then resold to the 'borrower' or 'buyer' for agreed mark-up, but the buyer is allowed to pay the bank over a set number of installments. The period of the repayments could be extended but there are no late payment penalties. The contract does not allow for early payment discounts.

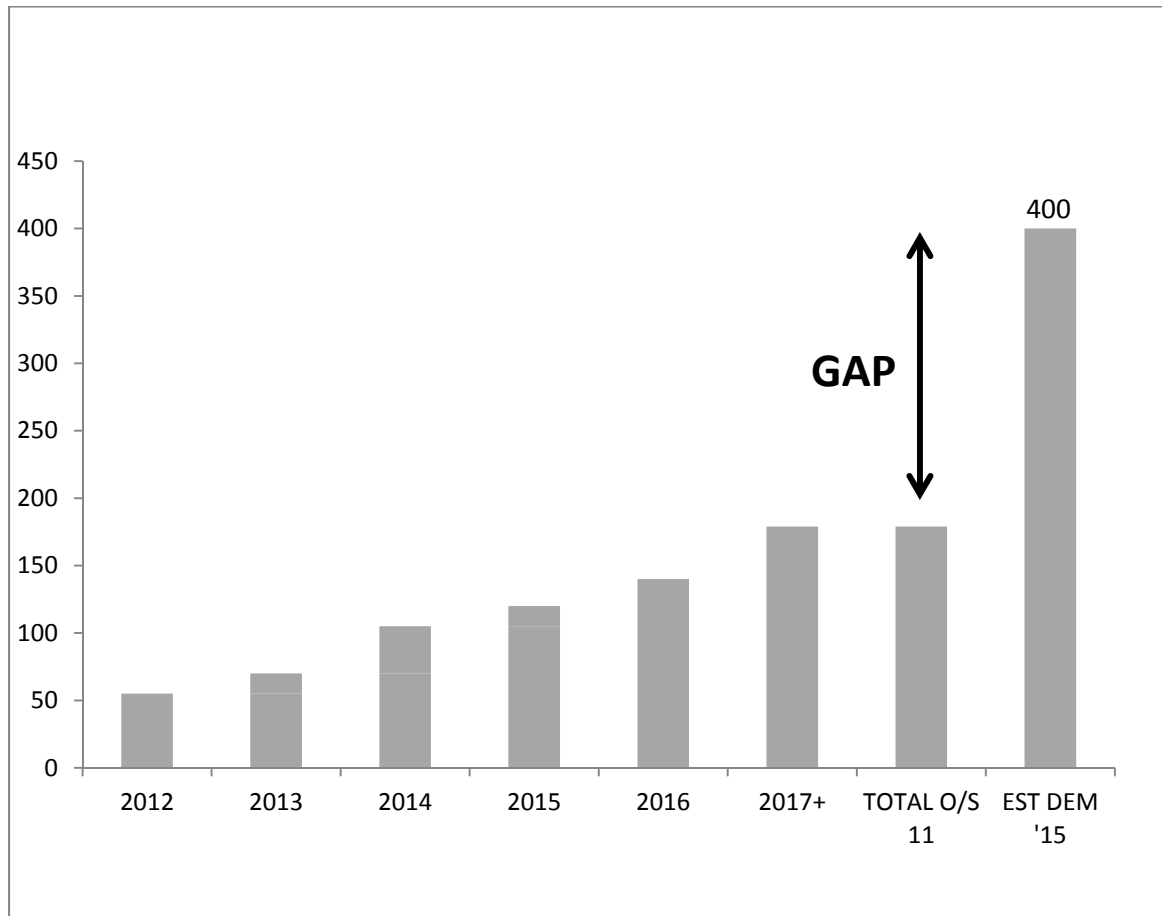
Musharaka (partnership) is an agreement in which two or more parties (for example an Islamic bank and its clients) agree to contribute to the capital of the partnership to establish a new project or share in an existing one. Musharaka could be constant (i.e., the partners' shares in the capital remain constant throughout the period as specified in the musharaka contract) or diminishing (i.e., the Islamic bank agrees to transfer its share gradually to the other partner, so that the Islamic bank's share diminishes and the other partner's share increases until the latter becomes the sole proprietor of the venture). Musharaka partners share profit and loss.

Mudaraba is an equity-based partnership arrangement in which one partner provides capital (the rab al-maal) and the other provides managerial skills (the mudarib). Mudaraba sukus are very useful if the issuer does not have tangible assets to back sukuk issuance. The investor in the sukuk is effectively the rab- al-maal, whereas the issuer is the mudarib. Profits are shared in accordance to pre-agreed ratio whereas losses are born only by the rab-al-maal, save for cases of gross negligence on the part of mudarib.

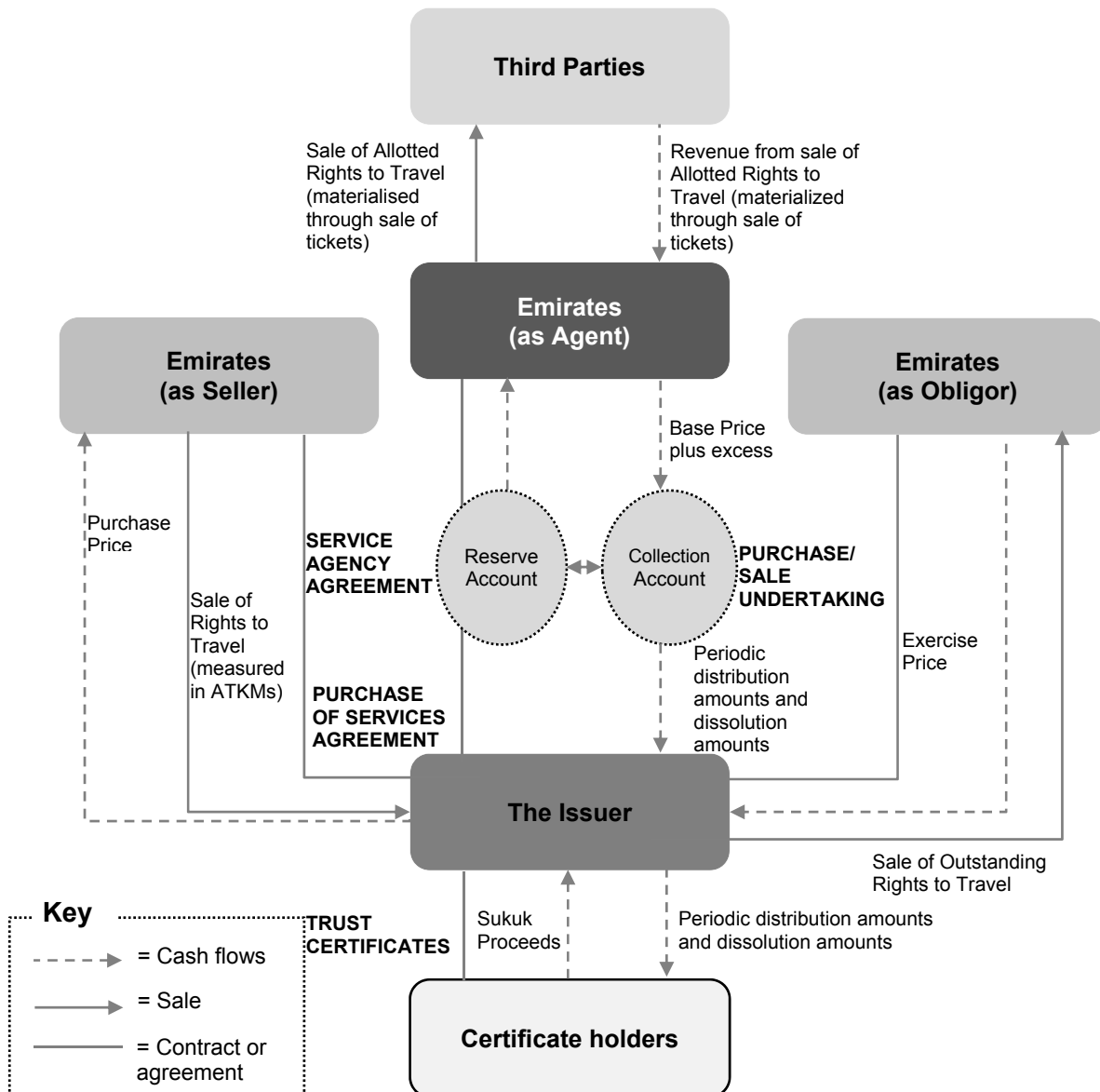
Wakala is an agreement whereby the principal appoints an agent (wakeel) to invest funds into a pool of investments. The wakeel manages the investments on behalf of the principal in order to generate profit. The portfolio of assets may comprise different Shari'ah-compliant assets including equities, other sukuk or even derivative products. However, at least 30 per cent of the assets should comprise tangible assets. The principal can receive only agreed-upon profit, while any excess profit will be kept by the wakeel as a performance fee. Sukuk al-wakala are rather infrequent in the market.

Source: Dubai International Financial Centre Sukuk Guidebook, 2009.

**EXHIBIT 2: SUKUK SUPPLY AND DEMAND
OUTSTANDING SUKUK MATURITY PROFILE AND ESTIMATED DEMAND BY ISLAMIC BANKS**



Source: IFIS, Standard & Poor's, Bloomberg, ThomsonReuters, EY Analysis.

EXHIBIT 3: SIMPLIFIED STRUCTURE DIAGRAM AND CASH FLOWS

Source: Emirates Airline Sukuk Prospectus.

EXHIBIT 4: KEY TERMS SUMMARY

	Regular Bonds Key terms	Sukuk Key Terms
Obligor	Emirates	Emirates
Issue Ratings	Not Rated	Not Rated
Ranking	Senior Unsecured	Senior Unsecured
Principal Amount	US\$750 million	US\$1 billion
Issue Date	February 6, 2013	March 12, 2013
Final Maturity Date	February 6, 2025	March 19, 2023
Coupon	4.50% per annum	3.875%
Issue Price	99.941%	99.331%
Yield	4.51%	4.024%
Listing	Irish Stock Exchange	Nasdaq Dubai
Global Coordinators	Citigroup and Standard Chartered Bank	Citigroup and Standard Chartered Bank
Joint Lead Managers	Citigroup, Deutsche Bank, Emirates NBD Capital Limited, J.P. Morgan, Morgan Stanley, Standard Chartered Bank	Citigroup, Abu Dhabi Commercial Bank, Abu Dhabi Islamic Bank, Dubai Islamic Bank, Emirates NBD, Standard Chartered Bank

Source: Emirates Airline Sukuk Prospectus and Bloomberg.

EXHIBIT 5: INVESTOR DISTRIBUTION BY TYPE



Note: Regular bond is on the left, sukuk on the right.
Source: Bloomberg.

EXHIBIT 6: INVESTOR DISTRIBUTION BY GEOGRAPHY

Note: Regular bond is on the left, sukuk on the right.
Source: Bloomberg.

EXHIBIT 7: CONSOLIDATED INCOME STATEMENT

	Year ended 31 March		
	2012	2011	2010
	<i>(AED millions, audited)</i>		
Revenue	61,508	52,945	42,477
Other operating income	779	1,286	978
Operating costs	(60,474)	(48,788)	(39,890)
Operating profit	1,813	5,443	3,565
Other gains and losses	—	(4)	48
Finance income	414	521	330
Finance costs	(657)	(506)	(355)
Share of results in associated companies and joint ventures	103	91	77
Profit before income tax	1,673	5,545	3,665
Income tax expense	(53)	(78)	(50)
Profit for the year	1,620	5,467	3,615
Profit attributable to non-controlling interest	118	92	77
Profit attributable to Emirates' owner	1,502	5,375	3,538

Source: Emirates Airline Sukuk Prospectus.

EXHIBIT 8: CONSOLIDATED CASH FLOW STATEMENT

	As of and for the year ended 31 March		
	2012	2011	2010
	<i>(AED millions, audited)</i>		
Net cash generated from operating activities	8,107	11,004	8,328
Net cash used in investing activities	(10,566)	(5,092)	(577)
Net cash used in financing activities.....	(201)	(5,046)	(2,982)
Net (decrease)/increase in cash and cash equivalents	(2,660)	866	4,769
Cash and cash equivalents at start of the year	10,187	9,322	4,547
Effects of exchange rate changes.....	—	(1)	6
Cash and cash equivalents at end of the year	7,527	10,187	9,322

Source: Emirates Airline Sukuk Prospectus.

EXHIBIT 9: CONSOLIDATED STATEMENT OF FINANCIAL POSITION**Consolidated Statements of Financial Position**

The following table shows the Group's consolidated statement of financial position as of 30 September 2012 and 31 March 2012, 2011 and 2010, respectively.

	As of 30 September	As of 31 March		
	2012	2012	2011	2010
	<i>(AED millions, unaudited)</i>	<i>(AED millions, audited)</i>		
ASSETS				
Non-current assets				
Property, plant and equipment	52,362	49,198	39,848	33,753
Intangible assets	910	902	901	927
Investments in associated companies and joint ventures	465	430	386	461
Advance lease rentals.....	499	370	384	233
Loans and other receivables.....	750	917	1,704	1,432
Derivative financial instruments.....	62	69	—	64
Deferred income tax assets	7	10	—	—
Total non-current assets.....	55,055	51,896	43,223	36,870
Current assets				
Inventories	1,587	1,469	1,290	1,084
Trade and other receivables	8,974	8,126	6,481	7,008
Derivative financial instruments.....	1	8	123	74
Short term bank deposits.....	8,657	8,055	3,777	1,176
Cash and cash equivalents	4,514	7,532	10,196	9,335
Total current assets.....	23,733	25,190	21,867	18,677
Total assets.....	78,788	77,086	65,090	55,547

EXHIBIT 9 (CONTINUED)

	As of 30 September	As of 31 March		
	2012	2012	2011	2010
	(AED millions, unaudited)	(AED millions, audited)		
EQUITY AND LIABILITIES				
Capital and reserves				
Capital.....	801	801	801	801
Retained earnings.....	22,960	21,256	20,370	16,794
Other reserves.....	(1,102)	(833)	(565)	(321)
Attributable to Emirates' owner.....	22,659	21,224	20,606	17,274
Non-controlling interests	262	242	207	201
Total equity	22,921	21,466	20,813	17,475
Non-current liabilities				
Borrowing and lease liabilities	27,023	26,843	20,502	16,753
Provisions.....	1,555	1,350	479	364
Deferred revenue.....	1,244	1,074	930	1,483
Deferred credits.....	323	350	401	460
Deferred income tax liability	—	—	2	4
Trade and other payables	—	—	31	21
Derivative financial instruments.....	1,214	957	642	467
Total non-current liabilities.....	31,359	30,574	22,987	19,552
Current liabilities				
Trade and other payables	19,154	19,882	17,551	15,475
Income tax liability	27	36	22	19
Borrowings and lease liabilities.....	4,158	4,037	2,728	2,852
Deferred revenue.....	1,018	915	792	—
Deferred credits.....	110	136	136	162
Derivative financial instruments.....	41	40	61	12
Total current liabilities.....	24,508	25,046	21,290	18,520
Total liabilities.....	55,867	55,620	44,277	38,072
Total equity and liabilities	78,788	77,086	65,090	55,547

Source: Emirates Airline Sukuk Prospectus.

EXHIBIT 10: INDUSTRY RELEVANT DATA

	As of and for the year ended 31 March		
	2012	2011	2010
<i>(AED millions, except where otherwise stated, unaudited)</i>			
EBITDAR ⁽¹⁾	10,735	13,437	10,638
Total borrowings and lease liabilities	30,880	23,230	19,605
Less: cash assets ⁽²⁾	(15,587)	(13,973)	(10,511)
Net debt	15,293	9,257	9,094
Capital expenditure	13,644	12,238	8,053
Operating margin ⁽³⁾ (%)	2.9	10.0	8.2
Profit margin ⁽⁴⁾ (%)	2.4	9.9	8.1
Return on shareholder's funds ⁽⁵⁾ (%)	7.2	28.4	21.6
EBITDAR margin ⁽⁶⁾ (%)	17.2	24.8	24.5
Cash assets to revenue and other operating income ⁽⁷⁾ (%)	25.0	25.8	24.2
Net debt to equity ratio ⁽⁸⁾ (%)	71.2	44.5	52.0
Net debt (including aircraft operating leases) to equity ratio ⁽⁹⁾ (%)	162.1	127.6	158.5
Net debt (including aircraft operating leases) to EBITDAR ⁽¹⁰⁾ (%)	324.1	197.6	260.3
Revenue per employee (<i>AED thousands</i>) ⁽¹¹⁾	1,796	1,738	1,459
Airline operating statistics			
Aircraft (<i>number</i>)	169	148	142
Average fleet age (<i>months</i>)	77	77	69
Destination cities (<i>number</i>)	122	111	102
Aircraft departures (<i>number</i>)	142,129	133,772	123,055
Passengers carried (<i>millions</i>)	34.0	31.4	27.5
Passenger seat kilometres (<i>RPKM million</i>)	160,446	146,134	126,273
Cargo carried (<i>thousand tonnes</i>)	1,796	1,767	1,580
Overall load carried (<i>RTKM million</i>)	23,672	22,078	19,063
Overall capacity (<i>ATKM million</i>)	35,467	32,057	28,526
Overall load factor ⁽¹²⁾ (%)	66.7	68.9	66.8
Breakeven load factor ⁽¹³⁾ (%)	65.9	63.6	64.4
Unit costs (<i>fls per ATKM</i>)	166	147	136
Unit costs (excluding jet fuel) (<i>fls per ATKM</i>)	97	95	94
Overall yield ⁽¹⁴⁾ (<i>fls per RTKM</i>)	251	232	213

Notes:

- (1) EBITDAR calculated as operating profit before depreciation, amortisation and aircraft operating lease rentals. See "Presentation of Certain Financial and Other Information — Non-GAAP measures — EBITDAR" for further information on EBITDAR.
- (2) Cash assets calculated as the sum of short-term bank deposits, cash and cash equivalents and other cash investments classified into other categories of financial assets.
- (3) Operating margin calculated as operating profit divided by the sum of revenue and other operating income.
- (4) Profit margin calculated as profit attributable to Emirates' owner expressed as a percentage of the sum of revenue and other operating income.
- (5) Return on shareholder's funds calculated as profit attributable to Emirates' owner divided by the shareholder's funds. "Shareholder's funds" means the average of opening and closing equity attributable to Emirates' owner.
- (6) EBITDAR margin calculated as EBITDAR expressed as a percentage of the sum of revenue and other operating income.
- (7) Cash assets to revenue and other operating income calculated as cash assets divided by revenue and other operating income.
- (8) Net debt to equity ratio calculated as total borrowings and lease liabilities net of cash assets divided by equity.
- (9) Net debt (including aircraft operating leases) to equity ratio calculated as total borrowings and lease liabilities (including aircraft operating leases) net of cash assets divided by equity.
- (10) Net debt (including aircraft operating leases) to EBITDAR calculated as total borrowings and lease liabilities (including aircraft operating leases) net of cash assets divided by the EBITDAR.
- (11) Revenue per employee calculated as airline revenue divided by the average airline employee strength.
- (12) Overall load factor calculated as RTKM (revenue tonne kilometre) divided by ATKM (available tonne kilometre).
- (13) Breakeven load factor calculated as the overall load factor at which revenue (airline only) will equal operating costs (airline only).
- (14) Overall yield calculated as revenue (airline only) earned per RTKM and expressed in fls per RTKM.

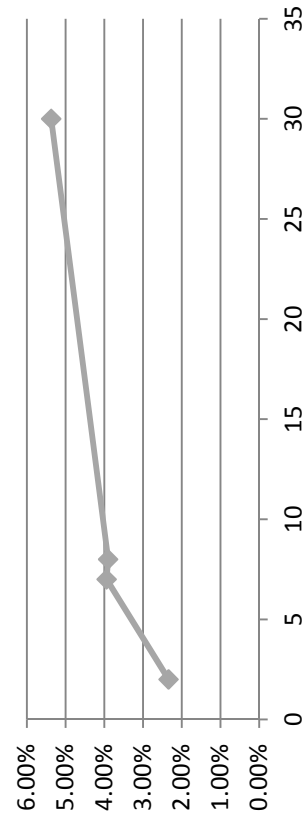
Source: Emirates Airline Sukuk Prospectus.

EXHIBIT 11: YIELD CURVE: DUBAI GOVERNMENT INTERNATIONAL BONDS

MENA Bonds and Sukuk List	3-Apr-13 Type	CCY	S&P	Moodys	Coupon	Coupon Type	Freq	Yield %	Purchase Price	Maturity	Floater Spread	Modified Duration	Issue size
Dubai Govt Int'l Bonds		USD	-	-	6.7	Fixed	2	2.34	110.5	10/5/2015	NR	2.31	500
Dubai Govt Int'l Bonds		USD	-	-	7.75	Fixed	2	3.94	124.5	10/5/2020	NR	5.89	750
Dubai Govt Int'l Bonds		USD	-	-	5.59	Fixed	2	3.9	111.75	6/22/2021	NR	6.56	500
Dubai Govt Int'l Bonds	Sukuk Al Ijara	USD	-	-	5.25	Fixed	2	5.37	98.25	1/30/2043	NR	14.67	500

Yield Curve

Dubai govt bonds %



Source: www.emiratesnbd.com/assets/cms/docs/privateBanking/MenaBonds_SukukList/PBISA030413MBS3044.pdf, accessed October 10, 2013.

EXHIBIT 12: MENA BONDS AND SUKUK LIST

MENA Bonds and Sukuk List	3-Apr-13	CCY	S&P	Moody's	Coupon	Coupon	Type	Yield %	Purchase Price	Maturity	Floater Spread	Modified Duration	Issue Size(M)
Abu Dhabi Commerc Bnk		USD	A-	A2 /*-	1.39		Floating	1.95	98.28	5/9/2016	110	0.08	400
Abu Dhabi National Energy	Sukuk Al Ijara	USD	A-	A3	3.63		Fixed	3.47	101.25	1/12/2023	NR	8.08	1,250
ADIB Capital Invest 1 LT	Sukuk Al Ijara	USD	-	-	6.38		Variable	6.04	107.18	-	NR	4.55	1,000
Atlantic Finance Ltd		USD	B+	B3 /*+	10.75		Step Cpn	3.57	107.91	5/27/2014	NR	1.05	1,250
Bahrain Mumtalakat Hldng		USD	BBB	-	5		Fixed	2.5	105.39	6/30/2015	NR	2.08	750
BBK		USD	-	Baa2	4.5		Fixed	2.76	104.26	10/28/2015	NR	2.36	500
CBQ Finance Ltd		USD	BBB+	A2 /*-	7.5		Fixed	3.41	124	11/18/2019	NR	5.26	600
Dolphin Energy Ltd	Asset Backed	USD	-	A1	5.89		Fixed	3.36	114	6/15/2019	NR	5.17	1,250
DP World Ltd		USD	NR	Baa3	6.85		Fixed	5.73	114.63	7/2/2037	NR	12.34	1,750
Dubai DOF Sukuk Ltd	Sukuk Al Ijara	USD	-	-	3.88		Fixed	3.94	99.5	1/30/2023	NR	8.03	750
EIB Sukuk Ltd		USD	-	Baa1	4.72		Fixed	3.09	105.75	1/18/2017	-	3.43	500
Emaar Sukuk Ltd		USD	BB	B1	8.5		Fixed	3.58	115.25	8/3/2016	-	2.9	500

EXHIBIT 12 (CONTINUED)

MENA Bonds and Sukuk list	3-Apr-13												
Name	Type	CCY	S&P	Moody's	Coupon	Coupon	Type	Yield %	Purchase Price	Maturity	Floater Spread	Modified Duration	Issue Size(M)
EA		USD	-	-	5.13		Fixed	3.2	105.75	6/8/2016	NR	2.87	1,000
EA	Sukuk Al Ijara	USD	-	-	4.5		Fixed	4.61	99	2/6/2025	NR	9	750
Investcorp SA	Sukuk Al Ijara	USD	-	Ba2	8.25		Fixed	6.56	106.58	11/1/2017	NR	3.67	250
Kuwait Projects Co		USD	BBB-	Baa3	9.38		Fixed	4.65	128.83	7/15/2020	NR	5.45	500
Nakilat INC		USD	AA-	Aa3	6.07		Fixed	4.47	121.5	12/31/2033	NR	12.45	850
QIB Sukuk Funding Ltd	Sukuk Al Ijara	USD	-	A3	2.69		Fixed	2.6	100.38	10/18/2017	NR	4.18	700
Qtel International Fin		USD	A	A2	5		Fixed	3.95	110.25	10/19/2025	NR	9.25	750
RAS Laffan LNG II		USD	A	Aa3	5.3		Fixed	3.59	111.1	9/30/2020	NR	6.23	1,400
Dubai Holding Comm OP		EUR	NR	B2	4.75		Fixed	3.54	100.94	1/30/2014	-	0.79	750
Dubai Holding Comm OP		GBP	NR	B2	6		Fixed	5.48	101.73	2/1/2017	-	3.31	500
IPIC Gmtn Ltd	Sukuk Al Ijara	EUR	AA	Aa3	3.63		Fixed	3.1	104.51	5/30/2023	NR	8.33	850
Sabic Capital I BV		EUR	A+	A1	4.5		Fixed	0	102.89	11/28/2013	-	0.64	750
Taqi Abu Dhabi Natl Ener		EUR	A-	A3	4.38		Fixed	0.48	102.16	10/28/2013	-	0.55	750

Source: www.emiratesnbd.com/assets/cms/docs/privateBanking/MenaBonds_SukukList/PBISA030413MBS3044.pdf, accessed October 10, 2013.

ENDNOTES

- ¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Emirates Airline or any of its employees.
- ² www.worldairlineawards.com, accessed October 10, 2013.
- ³ All figures are in US\$ unless otherwise indicated.
- ⁴ www.emirates.com, accessed October 10, 2013.
- ⁵ *Ibid.*, accessed January 26, 2014.
- ⁶ *Ibid.*, accessed October 10, 2013.
- ⁷ *Ibid.*
- ⁸ *Ibid.*, accessed January 26, 2014.
- ⁹ Founding Emirates were Dubai, Abu Dhabi, Sharjah, Ajman, Fujairah and Umm Al Quwain. Ras Al Khaima joined in 1972. www.government.ae/, accessed January 26, 2014.
- ¹⁰ 2014 Quality of Living Worldwide City Rankings – Mercer Survey, www.mercer.com/press-releases/quality-of-living-report-2014, accessed March 31, 2014.
- ¹¹ An entrepôt is a trading post where merchandise can be imported and exported without paying import duties, often at a profit. www.economywatch.com/world_economy/dubai, accessed January 26, 2014.
- ¹² This free zone included 100 per cent foreign ownership, exemption from corporate tax for fifty years, no personal income tax, no import or export duties, no restriction on currency, and easy labour recruitment; www.uaefreezones.com/fz_jebel_ali.html, accessed January 26, 2014.
- ¹³ Dubai Statistics Centre, www.dsc.gov.ae/en/pages/home.aspx, accessed March 31, 2014.
- ¹⁴ www.zawya.com/story/Dubai_International_Financial_Centre_grows_6_in_first_half_2012-ZAWYA20120909082249/, accessed January 26, 2014.
- ¹⁵ Dubai World Asks for Debt “Standstill,” *Financial Times*, November 25, 2009. Technically, the word “sukuk” is plural in Arabic. However, we adopt the terminology used in business press and use it for singular and plural. Also, we will use “sukuk,” “sukuk bond(s)” and “Islamic bond(s)” interchangeably throughout the case.
- ¹⁶ “Abu Dhabi Helps Dubai Again with Bank Bailout,” *Reuters*, February 15, 2012.
- ¹⁷ The World Islamic Banking Competitiveness Report 2012-2013, Ernst & Young, http://emergingmarkets.ey.com/wp-content/uploads/downloads/2013/05/EY_IBCR13.pdf, accessed March 31, 2014.
- ¹⁸ Dubai Aims To Be Hub of Islamic Banking, *The National*, January 9, 2013.
- ¹⁹ Regional and Group Analysis / Middle East, “Air Transport Supports 2.7 Million Jobs and \$129 billion in GDP in the Middle East,” http://aviationbenefitsbeyondborders.org/sites/aviationbenefitsbeyondborders.org/files/pdfs/REGIONAL_ANALYSIS_ABBB_MiddleEast1.pdf, accessed March 31, 2014.
- ²⁰ Jens Flottau, Adrian Schofield, Bradley Perrett, “Airline Industry Power Shifts Toward Middle East,” *Aviation Week & Space Technology*, June 18, 2012.
- ²¹ “Airlines and Subsidy: Our position,” Emirates, www.emirates.com/, accessed March 31, 2014.
- ²² www.airbus.com/aircraftfamilies/passengeraircraft/a380family/performance/, accessed on December 11, 2013.
- ²³ www.emirates.com/sg/english/flying/our_fleet/emirates_a380/emirates_a380.aspx, accessed on December 11, 2013.
- ²⁴ www.busesstraveller.com/news/airbus-a380-the-layouts, accessed on December 11, 2013.
- ²⁵ Rachna Uppal, “Emirates Airline Eyes 10-year Amortizing Sukuk Issue This Week,” *Reuters*, March 11, 2013.
- ²⁶ *Ibid.*
- ²⁷ *Ibid.*
- ²⁸ Emirates Airline Sukuk Prospectus, March 14, 2013, www.dfsa.ae/Documents/Regulatory%20Announcement%202013/Takeoff_Emirates%20USD%201%20billion%20sukuk%20issue%2014.03.2013.pdf, accessed March 31, 2014.
- ²⁹ The Ernst and Young World Islamic Banking Competitiveness Report; Standard and Poor’s estimates, http://emergingmarkets.ey.com/wp-content/uploads/downloads/2013/05/EY_IBCR13.pdf, accessed March 31, 2014, accessed March 31, 2014.
- ³⁰ Asian Development Bank Institute, *Infrastructure for Asian Development and Integration*, www.neaef.org/public/neaef/files/documents/publications_pdf/young_leaders/5th/Detert%20Neal.pdf, accessed March 31, 2014.
- ³¹ A notable exception is Malaysia, which allows sukuk structures that are based on sale of debt. Saiful Azhar Rosly and Mahmood M Sanusi, “The Application of Bai-al-Inah and Bai-al-Dayn in Malaysian Islamic Bonds: An Islamic Analysis,” *International Journal of Islamic Financial Services*, Vol. 1 No.2, July-September 1999.
- ³² Rodney Wilson, “Overview of the Sukuk Market,” *Islamic Bonds: Your Guide to Issuing, Structuring and Investing in Sukuk*, edited by Nathif J. Adam and Abdulkader Thomas, Euromoney Books, London, U.K., 2004, pp. 3 – 15.
- ³³ Thomson Reuters, “Zawya Sukuk Perceptions and Forecast Study,” December 2012.
- ³⁴ Gulf Cooperation Council includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE; www.britannica.com/EBchecked/topic/249154/Gulf-Cooperation-Council-GCC, accessed January 26, 2014.
- ³⁵ “Sukuk Report,” *International Islamic Financial Market*, 3rd Edition, May 28, 2013.
- ³⁶ *Ibid.*
- ³⁷ Bernardo Vizcaino, Britain aims to be first Western country to issue sovereign Islamic bond, *Reuters*, October 29, 2013.