Dubai Aerospace Enterprise (DAE) Ltd

Results for the year ended 31 December, 2017

CONFERENCE CALL DETAILS

DAE will host a conference call at 09:00 EST / 14:00 GMT / 17.00 GST on Wednesday 11 April, 2018 to review our results for the year ended 31 December, 2017. The call can be accessed live by dialling (Ireland) +353 (0) 1 246 5638, (UAE) 8000 3570 2653, (U.S.) +1 323 794 2551 or (UK) +44 (0) 330 336 9105 and referencing code 329 1397 at least 15 minutes before the start time. Further information can be found on our website http://www.dubaiaerospace.com.

RESULTS ANNOUNCEMENT

We present management's discussion and analysis of the financial condition and results of operations for the year ended 31 December, 2017 which should be read in conjunction with the audited consolidated financial statements (the "financial statements") of Dubai Aerospace Enterprise ("DAE") Ltd and its subsidiaries (together and hereinafter "we" or "us"). References to "31 December, 2017" are to the year ended 31 December, 2017 and to "31 December, 2016" are to the year ended 31 December, 2016.

During the year ended 31 December, 2017, DAE acquired a 100% interest in Carmel Capital, the immediate parent of AWAS Aviation Capital Designated Activity Company ("AWAS"). Results derived from the AWAS business effective from 17 August, 2017 to 31 December, 2017 are included in the financial statements. During the year ended 31 December, 2016, DAE acquired 100% ownership of the entity which owns 80% of Jordan Aircraft Maintenance Limited ("Joramco"), a majority-owned subsidiary, which is an independent provider of aircraft maintenance, repair and overhaul - (MRO) services.

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER, 2017

- Profit from operating activities for the year ended 31 December, 2017 was $381.6 million compared to $253.9 million for the year ended 31 December, 2016. During the year ended 31 December, 2017 there was an increase in revenue resulting from an increase in the number of revenue-generating aircraft in the fleet. This is offset by increased depreciation and amortisation and general and administrative expenses following the acquisitions noted above by DAE.
- Adjusted profit from operating activities was $422.5 million for the year ended 31 December, 2017 compared to $246.1 million for the year ended 31 December, 2016. This increase was due to a higher number of revenue-generating aircraft in the fleet following the acquisition noted above by DAE during the year ended 31 December, 2017.
- Adjusted EBITDA increased to $698.1 million for the year ended 31 December, 2017, from $483.6 million for the year ended 31 December, 2016.
- Total cash and cash resources as at 31 December, 2017 of $724.0 million represents an increase of $164.5 million compared to $559.5 million as at 31 December, 2016.
- Total assets increased to $15,383.8 million as at 31 December, 2017, an increase of $10,151.1 million from $5,232.7 million as at 31 December, 2016. This increase was due to an increased number of aircraft in the fleet following the acquisitions noted above, increased notes receivable and deposits on aircraft purchases during the year ended 31 December, 2017.

OPERATIONAL HIGHLIGHTS

- The operational highlights for the year ended 31 December, 2017 and 31 December, 2016 are summarised below:
  - Purchases – we purchased 37 aircraft (2016: 16 aircraft). As part of the acquisition of AWAS, DAE acquired an additional 211 aircraft.
  - Sales – we disposed of 25 aircraft (2016: none).
  - Total owned aircraft at 31 December, 2017 was 310 which includes 11 aircraft on finance lease and one aircraft classified as held-for-sale ("HFS") (31 December, 2016: 87 which includes five aircraft on finance lease and 21 aircraft classified as HFS).
  - In addition, DAE managed a fleet of 40 aircraft for Diamond Head Aviation and Falcon Aerospace as at 31 December, 2017 (31 December, 2016: none).
- We have 23 aircraft on forward order due to deliver from January, 2018 to June, 2019, of which 20 aircraft are due to deliver during the year ended 31 December 2018. We have commitments to purchase 10 aircraft from airlines due to deliver from April, 2018 to November, 2018. The total capital commitment for these aircraft as at 31 December, 2017 was $1,800.4 million.
- We closed a total of $4,034.7 million of borrowings during the year ended 31 December, 2017, including the $2,300.0 million bonds issued in August, 2017.

RESULTS OF OPERATIONS

The following discussion of our results of operations is based on the consolidated statement of comprehensive income and consolidated statement of financial position which have been extracted from our financial statements for the year ended 31 December, 2017.

Results of Operations *(in millions of USD)*

	Year ended	
	31 Dec, 2017	**31 Dec, 2016**
Consolidated statement of comprehensive income data		
Total revenue	$ 845.8	$ 467.3
Depreciation and amortisation	(307.1)	(172.7)
General and administrative expenses	(80.4)	(24.5)
Cost of providing engineering maintenance services	(34.4)	(10.5)
Aircraft maintenance	(18.0)	(3.0)
Loss on disposal of aircraft	(14.9)	-
Asset impairment	(9.4)	(2.7)
Profit from operating activities	**381.6**	**253.9**
Net finance costs	(199.2)	(106.3)
Income tax expense	(9.8)	(2.9)
Profit from continuing operations	**172.6**	**144.7**
Income from discontinued operations	(0.0)	54.3
Profit for the year	**172.6**	**199.0**
Unrealised gain on interest rate hedges	1.8	0.8
Total comprehensive income for the year	**174.4**	**199.8**
	As of	
Consolidated statement of financial position data	**31 Dec, 2017**	**31 Dec, 2016**
Total cash and cash resources	$ 724.0	$ 559.5
Aircraft held for lease	12,050.3	3,674.0
Held-for-sale assets	11.2	557.7
Total assets	**15,383.8**	**5,232.7**
Total loans and borrowings (before debt issuance costs)	10,505.9	3,082.7
Total equity	3,162.8	1,677.7
Total equity and liabilities	**15,383.8**	**5,232.7**
	Year ended	
	31 Dec, 2017	**31 Dec, 2016**
Adjusted operating profit calculation		
Profit from operating activities	**$ 381.6**	**$ 253.9**
Add back		
Costs related to acquisition of AWAS	17.0	-
Loss on sale of ABS portfolio to Falcon Aerospace (3)	14.5	-
Gain on acquisition of a subsidiary	-	(10.5)
Asset impairment	9.4	2.7
Adjusted profit from operating activities	**422.5**	**246.1**
	Year ended	
Adjusted EBITDA calculation (1)	**31 Dec, 2017**	**31 Dec, 2016**
Profit for the year	**$ 172.6**	**$ 199.0**
Add back		
Net finance costs	199.2	106.3
Income tax expense	9.8	2.9
Asset impairment	9.4	2.7
Depreciation and amortisation	307.1	172.7
Adjusted EBITDA	**698.1**	**483.6**
	As of	
	31 Dec, 2017	**31 Dec, 2016**
Net debt to equity (2)	**3.2x**	**1.6x**
Aircraft in fleet (including managed aircraft)	**350**	**87**

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(1) We define Adjusted EBITDA as profit for the applicable period, excluding net finance costs, income tax expense, depreciation and amortisation and asset impairment. Adjusted EBITDA is not a financial measure calculated under International Financial Reporting Standards as adopted by the European Union ("IFRS-EU"). We use Adjusted EBITDA to assess financial and operating performance and we believe this non-IFRS-EU measure is helpful in identifying trends in our performance. Our method of calculating Adjusted EBITDA may differ from similarly named non-IFRS-EU measures of other companies.

(2) Net debt to equity is calculated by dividing total bank loans before debt issuance costs and cash and cash equivalents by total equity.

(3) Asset-backed Security to Falcon Aerospace ("ABS").

All financial information above has been rounded for presentation purposes. Any percentages are based on unrounded figures.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This presentation contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended. These forward-looking statements relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. We have used the words "anticipate", "assume", "believe", "budget", "continue", "could", "estimate", "expect", "future", "intend", "may", "plan", "potential", "predict", "project", "will" and similar terms and phrases to identify forward-looking statements. Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realised. Some of these expectations may be based upon assumptions or judgements that prove to be incorrect. In addition, our business and operations involve numerous risks and uncertainties, many of which are beyond our control, which could result in our expectations not being realised or otherwise materially affect our financial condition, results of operations and cash flows. Any such forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to vary materially from our future results, performance or achievements, or those of our industry, expressed or implied in such forward-looking statements. All amounts expressed in "$" or "dollars" refer to U.S. dollars.

Overview

DAE is a global aerospace company headquartered in Dubai. DAE conducts its activities through two divisions: (i) Aircraft Leasing and (ii) Engineering. The aircraft leasing division is engaged in acquiring and leasing commercial aircraft to airlines, selling and trading aircraft, and managing aircraft on lease for third-party investors. The engineering division currently consists of an 80% ownership stake in Joramco, a provider of commercial aircraft maintenance, repair and overhaul (MRO) services.

Approximately 96% of DAE is owned by Investment Corporation of Dubai ("ICD"), the investment arm of the Government of Dubai. At the end of June 2017, ICD had assets in excess of $214 billion and equity of $58 billion. ICD also has direct and indirect majority ownership interests in other prominent aviation assets based in Dubai including Emirates Airline, dnata, Dubai Duty Free, and flydubai.

Aircraft leasing business

We are one of the largest aircraft leasing companies in the world with a total owned fleet of 310 aircraft (including 11 aircraft on finance lease and one aircraft classified as HFS) and 40 managed aircraft. In addition to our current fleet, we also have orders for 23 new, fuel-efficient aircraft from Airbus S.A.S. ("Airbus") and Aerei da Trasporto Regionale ("ATR"), of which 20 aircraft are due to deliver during the year ended 31 December, 2018. We also have commitments to purchase 10 aircraft from airlines, which are due to deliver during the year ended 31 December, 2018. These aircraft are on lease to 114 lessees in 56 countries. As of 31 December, 2017 our owned fleet have a book value of $12,050.3 million which excludes HFS and finance lease. The weighted average age of our total owned fleet was 5.9 years based on net book value as of 31 December, 2017 (31 December 2016: 5.4 years). Our aircraft operations are carried out by an experienced team of commercial aviation industry professionals.

Our lease arrangements with airline customers are "net" leases under which lessees are generally responsible for all operating expenses, which customarily include maintenance, fuel, crews, insurance, airport and navigation charges, taxes, licenses and aircraft registration. Our leases are for a fixed term, although in some cases the lessees have early termination or extension rights. Most of our leases require payments to be made monthly in advance, and most of our leases are denominated in U.S. dollars. As of 31 December, 2017, 91.9% of our leases were subject to fixed lease rates as a percentage of lease revenue. We also require our lessees to carry insurance, which is customary in the air transportation industry, with premiums paid by the lessee. Our lessees are generally required to continue to make lease payments under all circumstances, including periods during which the aircraft is not in operation due to maintenance or grounding.

Our lease portfolio is highly diversified, geographically and by airline, with our top five lessees representing 46% of our portfolio based on lease revenue as of 31 December, 2017. Emirates, a related party, is our largest customer contributing 28% of the total lease revenue during the year ended 31 December, 2017. For the 3 months ended 31 December, 2017 Emirates represented 16% of lease revenue for this period. Our leases with airline customers for new aircraft delivered from the manufacturer are generally signed up to 12 months prior to the scheduled aircraft delivery by the manufacturer.

Analysis by aircraft type for leasing business

Aircraft Type	Owned Portfolio	Managed Portfolio	Committed Portfolio	Total FY2017
A320 family	115	15	17	147
A330 family	31	-	-	31
A350-900	3	-	-	3
Total Airbus	**149**	**15**	**17**	**181**
B737 family	88	20	5	113
B747-400F	3	-	-	3
B757/767	2	4	-	6
B777F	12	-	-	12
B777	3	1	-	4
B787	4	-	5	9
Total Boeing	**112**	**25**	**10**	**147**
ATR 72-600	49	-	6	55
Total	**310**	**40**	**33**	**383**
Narrow body	203	36	22	261
Wide body	58	4	5	67
Turboprop	49	-	6	55
Total	**310**	**40**	**33**	**383**

Engineering business

Joramco is a leading commercial aircraft maintenance, repair, and overhaul (MRO) facility based in Jordan and serving a wide range of customers in the Middle East, Europe, Asia, Africa, Russia and other CIS countries.

Year Ended 31 December, 2017 Compared to Year Ended 31 December, 2016

Revenues

Total revenue increased 81.0% to $845.8 million for the year ended 31 December, 2017 from $467.3 million for the year ended 31 December, 2016, driven primarily by an increase in total lease revenue as detailed below.

	Year ended 31 Dec, 2017	31 Dec, 2016
	USD millions	
Lease revenue	$ 771.1	$ 445.0
Maintenance revenue	$ 36.4	$ 21.1
Amortisation of lease associated costs	$ (17.0)	$ (25.9)
Total lease revenue	**$ 790.5**	**$ 440.2**
Engineering maintenance service revenue – Joramco	$ 47.7	$ 15.4
Other income	$ 7.6	$ 11.7
Total revenue	**$ 845.8**	**$ 467.3**

Total lease revenue increased to $790.5 million for the year ended 31 December, 2017 from $440.2 million for the year ended 31 December, 2016. This increase was mainly due to a larger fleet in 2017 compared to the same period in 2016. The major categories that comprise of total lease revenue are outlined below.

Lease revenue increased 73.3% to $771.1 million for the year ended 31 December, 2017 compared to $445.0 million for the year ended 31 December, 2016. This was due primarily to the higher number of owned aircraft in the fleet of 310 aircraft at 31 December, 2017 compared to 87 aircraft at 31 December, 2016 following the acquisition of AWAS. This was partially offset by aircraft sold to Falcon Aerospace as part of the asset backed securitisation ("ABS"). The total revenue resulting from the acquisition of AWAS amounts to $341.6 million from the 17 August, 2017.

Maintenance revenue increased to $36.4 million for the year ended 31 December, 2017, from $21.1 million for the year ended 31 December, 2016. This increase was attributable to a higher release on a higher number of transitioning aircraft during the year ended 31 December, 2017 compared to the prior period. Maintenance revenue for the year ended 31 December, 2017 includes $5.0 million of maintenance timing release. Due to a change in accounting policy in 2017, there was no maintenance timing release for the year ended 31 December, 2016.

Amortisation of lease associated costs during the year decreased to $17.0 million for the year ended 31 December, 2017 compared to $25.9 million for the year ended 31 December, 2016. This decrease primarily relates to lower amount of amortisation of lease incentive assets which is our contribution to future maintenance events during the year ended 31 December, 2017 compared to the prior period. Amortisation of lease associated costs relates to amortisation of maintenance right asset, lease incentive assets and lease discounts.

Engineering maintenance service revenue – Joramco was $47.7 million for the year ended 31 December, 2017, compared to $15.4 million for the year ended 31 December, 2016. This increase was due to Joramco being acquired on 30 September, 2016 and therefore only revenue for the last quarter in 2016 was recorded compared to a full year revenue in 2017.

Other income decreased to $7.6 million for the year ended 31 December, 2017 from $11.7 million for the year ended 31 December, 2016. This reduction was mainly due to a gain on the acquisition of a subsidiary – Joramco of $10.5 million in the prior year. Included in other income was the servicer management fee of $2.4 million for the year ended 31 December, 2017 compared to nil for the year ended 31 December, 2016. This related to the management of the Diamond Head and Falcon Aerospace ABS by DAE. All remaining items relate to non-recurring events.

Expenses

Expenses for the year ended 31 December, 2017 increased to $464.2 million compared to $213.4 million for the year ended 31 December, 2016. This increase was principally due to higher depreciation and amortisation expenses and general and administrative expenses during the year ended 31 December, 2017 compared to the prior period.

Depreciation and amortisation increased for the year ended 31 December, 2017 to $307.1 million from $172.7 million for the year ended 31 December, 2016. This increase was predominately driven by an increase in the number of aircraft in the fleet during the year ended 31 December, 2017 after the acquisition of AWAS and additional depreciation and amortisation following the acquisition of Joramco. This is partly offset by aircraft sold and transferred to held-for-sale.

General and administrative expenses were $80.4 million for the year ended 31 December, 2017 compared to $24.5 million for the year ended 31 December, 2016. This increase was mainly due to higher employee and benefits expenses due to increased number of staff following the acquisitions by DAE. Also, one-off acquisition related costs of $17.0 million occurred during the year ended 31 December, 2017 as a result of the acquisition of AWAS.

Cost of providing engineering maintenance services was $34.4 million for the year ended 31 December, 2017 compared to $10.5 million for the year ended 31 December, 2016. This increase was due to Joramco being acquired on 30 September, 2016 and the expense was only incurred in the last quarter of 2016, compared to a full year in 2017.

Aircraft maintenance expenses increased for the year ended 31 December, 2017 to $18.0 million from $3.0 million for the year ended 31 December, 2016. This was due to higher heavy maintenance expenses and costs associated with transition and repossession of aircraft.

Loss on disposal of aircraft increased for the year ended 31 December, 2017 to $14.9 million from nil for the year ended 31 December, 2016. During the year ended 31 December, 2017, we sold 25 aircraft whilst no sale of aircraft occurred during the year ended 31 December, 2016. Of the 25 aircraft sold in 2017, 21 aircraft related to the sale of an ABS portfolio to Falcon Aerospace and were previously classed within assets held-for-sale. The loss on disposal of aircraft on these aircraft was $14.5 million for the year ended 31 December, 2017. Fluctuations in the gain or loss on disposal of aircraft are not only a function of the number of disposals, but are also dependent on the type and age of aircraft, an accounting adjustment for revenue earned from the economic closing date to the transfer of title to the buyer, as well as the prevailing market trading conditions in the underlying period.

Asset impairment was $9.4 million for the year ended 31 December, 2017 compared to $2.7 million for the year ended 31 December, 2016. This impairment in 2017 was offset by maintenance reserve release recorded within Revenue following transition of the aircraft.

Profit from operating activities

Profit from operating activities was $381.6 million for the year ended 31 December, 2017, compared to $253.9 million for the year ended 31 December, 2016.

Net finance costs

Net finance costs increased to $199.2 million for the year ended 31 December, 2017 from $106.3 million for the year ended 31 December, 2016. This increase was attributable to higher interest charged on higher loan balances which includes the bonds payable and higher financing fee amortisation. This was offset by increased finance income, which mainly related to interest income of $32.8 million, finance lease income of $10.1 million and movement in fair value of derivatives of $8.9 million during the year ended 31 December, 2017.

Income from discontinued operations

Income from discontinued operations was nil for the year ended 31 December, 2017 compared to $54.3 million for the year ended 31 December, 2016. The amount in the prior period related to the release of one-off provisions in respect of obligations of DAE following settlement of retained litigation, which occurred after the sale of DAE's engineering business, DAE US, Inc, and its subsidiaries in 2015.

Profit

Profit after tax for the year ended 31 December, 2017 was $172.6 million, compared to $199.0 million for the year ended 31 December, 2016 mainly due to reasons outlined above. In the year ended 31 December, 2017, we recorded a tax expense of $9.8 million compared to $2.9 million for the year ended 31 December, 2016. The increase in income tax expense is primarily driven by tax arising on the group's Irish activities at 12.5%. US cash taxes crystallised in the period as a result of the divestment of US owned aircraft, which resulted in an unwind of the associated deferred tax liability. A tax benefit arose as a result of losses arising in other jurisdictions, primarily Hungary, however based on current income projections these losses cannot be recognised. The effective tax rate for the year ended 31 December, 2017 was 5.4%, compared to 1.9% for the year ended 31 December, 2016.

Liquidity and Capital Resources

Historically, we have financed our operations through a mixture of equity and debt, comprising of lines of credit and loan facilities. Our third-party indebtedness increased to $10,505.9 million as at 31 December, 2017 from $3,082.7 million as at 31 December, 2016.

Our total equity increased to $3,162.8 million as at 31 December, 2017 from $1,677.7 million as at 31 December, 2016. The total share capital was $1,927.8 million and our additional paid-in capital was $517.9 million as at 31 December, 2017. Our Net Debt to Equity ratio was 3.2:1 times as at 31 December, 2017 compared to 1.6:1 times as at 31 December, 2016.

Total assets increased to $15,383.8 million as at 31 December, 2017, from $5,232.7 million as at 31 December, 2016. This increase was due to an increased number of aircraft in the fleet following the acquisition of AWAS during the year ended 31 December, 2017. DAE has assessed the fair value of the assets acquired and liabilities assumed in the acquisition of AWAS, which resulted in goodwill of $45.8 million, details of which are included in note 10 of the financial statements.

Consolidated Cash Flows

The following table presents our consolidated cash flows for the year ended 31 December, 2017 and the year ended 31 December, 2016, net of cash subject to withdrawal restrictions. The cash and cash equivalents shown below refer to unrestricted cash.

	Year ended,	
	31 Dec, 2017	**31 Dec, 2016**
	USD millions	
Consolidated cash flow data		
Net cash from operating activities ……………………………………	$ 888.6	$ 359.6
Net cash used in investing activities …………………………………	$ (2,721.2)	$ (685.7)
Net cash from financing activities........…………………………….......	$ 1,722.3	$ 2.7
Net decrease in cash and cash equivalents……………………………	$ (110.3)	$ (323.5)
Cash and cash equivalents at the beginning of the period....………….	$ 480.2	$ 803.6
Cash and cash equivalents ....…………………….........	**$ 369.9**	**$ 480.2**

For the year ended 31 December, 2017, cash flows from operating activities were $888.6 million, an increase from $359.6 million for the year ended 31 December, 2016. This increase was mainly due to an increase in working capital and increased depreciation and amortisation costs after the increase in fleet size during the year ended 31 December, 2017 compared to the prior period.

For the year ended 31 December, 2017, net cash used in investing activities was $2,721.2 million, compared to $685.7 million for the year ended 31 December, 2016. This movement mainly relates to the acquisition of AWAS and the acquisition of aircraft from third parties, offset by higher proceeds from the sale of aircraft during the year ended 31 December, 2017 compared to the prior period.

Cash flow from financing activities for the year ended 31 December, 2017 was a net cash inflow of $1,722.3 million compared to $2.7 million for the year ended 31 December, 2016. This movement was primarily due to the issue of bonds totalling $2,300.0 million and an additional debt raised of $1,734.7 million of debt, offset by repayments of $1,715.7 million. Funds were used to finance the acquisition of AWAS during the year ended 31 December, 2017.

Our cash and cash equivalents, net of restricted cash, as at 31 December, 2017 was $369.9 million, down from $480.2 million as at 31 December, 2016.

We expect to meet our contractual payment obligations on future capital expenditures, through a combination of equity, cash flows from operations, commercial debt raising activities, and the utilisation of the revolving credit facilities totalling $785.0 million in aggregate.

Current ECA and other selective non-recourse and recourse financing arrangements require us to hold a minimum of total cash and cash equivalents of $200.0 million, of which $100.0 million must be held as unrestricted cash. Additional cash generated from the underlying leases will be pledged as collateral to the ECA or Ex-Im lenders should these levels be breached. We do not, however, anticipate that this will occur.

We believe that the sources of liquidity mentioned above, together with cash generated from operations, will be sufficient to operate our business and repay our debt maturities for at least the next 12 months.

Indebtedness

	Year ended 31 Dec, 2017 USD millions
Non-recourse obligations	$ 1,909.5
Recourse obligations	$ 4,333.3
Unsecured facility	$ 25.2
Revolving credit facilities	$ 322.7
Lines of credit	$ 96.1
Ex-Im, ECA & EDC	$ 1,190.1
Senior secured notes	$ 2,343.3
Term loan 2014	$ 285.7
Total indebtedness	**$ 10,505.9**

Number of aircraft used as collateral for the following facilities

	Year ended 31 Dec, 2017
Non-recourse obligations	83
Recourse obligations	113
Term loan 2014	10
Ex-Im, ECA & EDC	49
Total	**255**

In addition to the number of aircraft above with a total net book value of $10,772.4 million, 55 aircraft held-for-lease (2016: 7 aircraft) were unencumbered with a total net book value of $1,277.9 million (2016 net book value: $167.3 million). Further information of the loan details of the facilities can be found in the consolidated financial statements note 18.

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Dubai Aerospace Enterprise (DAE) Ltd

Consolidated financial statements for the year ended 31 December 2017

Dubai Aerospace Enterprise (DAE) Ltd

Consolidated financial statements for the year ended 31 December 2017

Independent auditor's report to the shareholders of Dubai Aerospace Enterprise (DAE) Ltd

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Dubai Aerospace Enterprise (DAE) Ltd (the "Company") and its subsidiaries (together the "Group") as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of cash flows for the year then ended; and
- the consolidated statement of changes in equity for the year then ended;
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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Independent auditor's report to the shareholders of Dubai Aerospace Enterprise (DAE) Ltd (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Further, we report that the Company's financial statements have been properly prepared in accordance with the applicable provisions of the Companies Law – DIFC Law No. 2 of 2009, as amended.

PricewaterhouseCoopers
25 March 2018

/s/ Douglas O'Mahony

Douglas O'Mahony
Registered Auditor Number 834
Dubai, United Arab Emirates

Dubai Aerospace Enterprise (DAE) Ltd

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2017 USD'000	2016 USD'000
Revenue	3	838,190	455,565
Other operating income	4	7,608	11,722
Expenses			
Depreciation and amortisation		(307,106)	(172,681)
General and administrative expenses	5	(80,386)	(24,592)
Cost of providing engineering maintenance services		(34,383)	(10,479)
Aircraft maintenance		(17,987)	(2,992)
Loss on disposal of aircraft		(14,933)	-
Asset impairment		(9,400)	(2,655)
Profit from operating activities		381,603	253,888
Finance income	6	51,807	18,002
Finance expense	6	(250,974)	(124,345)
Net finance costs		(199,167)	(106,343)
Profit from continuing operations before income tax		182,436	147,545
Income tax expense	7	(9,843)	(2,863)
Profit from continuing operations		172,593	144,682
Income from discontinued operations		-	54,326
Profit for the year		172,593	199,008
Other comprehensive income			
Items that may be reclassified to profit or loss			
Unrealised gain on interest rate hedges		1,851	755
Total comprehensive income for the year		174,444	199,763
Profit for the year attributable to:			
Equity holders of Dubai Aerospace Enterprise (DAE) Ltd		174,240	198,633
Non-controlling interests		(1,647)	375
		172,593	199,008
Total comprehensive income for the year attributable to:			
Equity holders of Dubai Aerospace Enterprise (DAE) Ltd		176,091	199,388
Non-controlling interests		(1,647)	375
		174,444	199,763

The notes on pages 7 to 60 form an integral part of these financial statements.

Dubai Aerospace Enterprise (DAE) Ltd

Consolidated statement of financial position

	Note	As at 31 December 2017 USD'000	2016 USD'000
ASSETS			
Non-current assets			
Aircraft held for lease	8	12,050,320	3,673,994
Property, plant and equipment		47,378	47,132
Deposits for aircraft purchases	9	638,184	16,675
Intangible assets		9,799	12,762
Deferred tax assets	11	-	842
Finance lease receivables	29	204,391	86,184
Notes receivable	24	1,407,866	-
Goodwill	10	45,821	-
Other non-current assets	12	131,716	97,361
		14,535,475	3,934,950
Current assets			
Trade and other receivables	13	45,508	16,202
Loans receivable	26	-	121,201
Inventories		8,506	8,111
Cash and cash equivalents	14	369,870	480,163
Restricted cash	14	354,179	79,322
Prepayments		4,388	3,858
Finance lease receivables	29	17,185	5,553
Derivative financial assets	19	10,778	1,326
Other current assets		26,713	24,350
Assets held-for-sale	15	11,202	557,671
		848,329	1,297,757
Total assets		15,383,804	5,232,707
EQUITY AND LIABILITIES			
EQUITY	16		
Authorised and issued share capital		1,927,770	1,050,000
Retained earnings		792,482	618,663
Additional paid-in-capital		517,884	-
Treasury shares		(85,000)	-
Other reserves		506	(1,766)
		3,153,642	1,666,897
Non-controlling interests		9,108	10,755
Total equity		3,162,750	1,677,652
LIABILITIES			
Non-current liabilities			
Loans and borrowings	18	8,921,763	2,221,919
Maintenance reserves and security deposits	17	1,186,948	137,960
Deferred tax liabilities	11	210,759	15,300
Employees' end of service benefits	21	1,372	1,091
Deferred revenue	23	68,299	79,235
Other long term liabilities		1,292	601
		10,390,433	2,456,106
Current liabilities			
Loans and borrowings	18	1,483,745	806,114
Trade and other payables	22	68,232	34,029
Deferred revenue	23	96,866	45,869
Maintenance reserves and security deposits	17	175,035	58,369
Derivative financial liabilities	19	3,296	1,176
Liabilities held-for-sale	15	3,447	153,392
		1,830,621	1,098,949
Total liabilities		12,221,054	3,555,055
Total liabilities and equity		15,383,804	5,232,707

The notes on pages 7 to 60 form an integral part of these financial statements.

Dubai Aerospace Enterprise (DAE) Ltd

Consolidated statement of cash flows

	Year ended 31 December	
	2017	**2016**
	USD'000	**USD'000**
Cash flows from operating activities		
Profit before income tax from continuing operations	182,436	147,545
Income before tax from discontinued operations	-	54,326
Adjustments for:		
Depreciation and amortisation	307,106	172,681
Gain on acquisition of subsidiary	-	(10,533)
Loss on disposal of aircraft	14,933	-
Movement in value of derivatives	(8,875)	-
Amortisation of loan upfront fees	11,654	11,132
Net finance cost	196,388	94,848
Impairment of assets	9,400	2,655
Income tax	(9,843)	-
Change in working capital	185,401	(113,095)
Net cash generated from operating activities	888,600	359,559
Cash flow from investing activities		
Acquisition of aircraft held for lease	(1,084,224)	(654,152)
Acquisition of property plant and equipment	(3,862)	(716)
Acquisition of subsidiary – net of cash acquired	(1,767,853)	(27,600)
Proceeds from disposal of aircraft	457,253	-
Interest received	39,523	13,404
Deposits paid for the purchase of aircraft	(362,039)	(16,625)
Net cash used in investing activities	(2,721,202)	(685,689)
Cash flows from financing activities		
Movement in restricted cash	(274,857)	-
Purchase of own shares	(85,000)	-
Proceeds from borrowings and long term debt	4,034,651	547,030
Repayment of borrowings and long term debt	(1,715,727)	(321,482)
Payments of finance lease liability	-	(597)
Net financing costs	(179,441)	(113,213)
Debt issue costs	(57,317)	(4,067)
Dividend paid	-	(105,000)
Net cash generated from financing activities	1,722,309	2,671
Net decrease in cash and cash equivalents	(110,293)	(323,459)
Cash and cash equivalents at beginning of the period	480,163	803,622
Cash and cash equivalents at the end of the period	369,870	480,163

The cash paid for taxes during the year was USD 11.1 million (2016: USD 2.5 million).

Dubai Aerospace Enterprise (DAE) Ltd

Consolidated statement of changes in equity

	Share capital USD'000	Additional paid in capital USD'000	Treasury shares USD'000	Other reserves USD'000	Retained earnings USD'000	Attributable to the equity holders of the Parent USD'000	Non-controlling interest USD'000	Total USD'000
At 1 January 2016	1,050,000	-	-	(2,521)	525,030	1,572,509	-	1,572,509
Profit for the year	-	-	-	-	198,633	198,633	375	199,008
Other comprehensive income	-	-	-	755	-	755	-	755
Total comprehensive income for the year	-	-	-	755	198,633	199,388	375	199,763
Effect of deconsolidation of acquired subsidiaries	-	-	-	-	-	-	10,380	10,380
Dividends declared and paid (note 33)	-	-	-	-	(105,000)	(105,000)	-	(105,000)
At 31 December 2016	1,050,000	-	-	(1,766)	618,663	1,666,897	10,755	1,677,652
Profit for the year	-	-	-	-	174,240	174,240	(1,647)	172,593
Other comprehensive income	-	-	-	1,851	-	1,851	-	1,851
Total comprehensive income for the year	-	-	-	1,851	174,240	176,091	(1,647)	174,444
Transfer to other reserves	-	-	-	421	(421)	-	-	-
Additional issuance of share capital	877,770	517,884	-	-	-	1,395,654	-	1,395,654
Purchase of own shares	-	-	(85,000)			(85,000)		(85,000)
At 31 December 2017	1,927,770	517,884	(85,000)	506	792,482	3,153,642	9,108	3,162,750

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements for the year ended 31 December 2017

1 Corporate information

Dubai Aerospace Enterprise (DAE) Ltd ("the Company" or "Parent") (the Company and its subsidiaries are together referred to as "the Group") is the parent company of the Group. The Company is limited by shares and was incorporated on 19 April 2006 in the Dubai International Financial Centre (DIFC) under the Companies Law, DIFC law No. 2 of 2004 which is superseded by DIFC law No. 2 of 2009. The Company's registered office is at Precinct 4, Level 3, Gate Precinct Building, DIFC, PO Box 506592, Dubai, United Arab Emirates.

The Company is privately owned by Investment Corporation of Dubai ("ICD"), ICD Hospitality & Leisure LLC, Dubai Silicon Oasis Authority and Emaar Properties PJSC. ICD Hospitality & Leisure LLC and Dubai Silicon Oasis Authority are subsidiaries of ICD. ICD, directly and indirectly owns 95.74% of the Company, and is therefore, the ultimate controlling party of the Group. ICD is controlled by the Government of Dubai. The balance of issued shares are held by the Company as treasury shares.

On 17 August 2017, DAE acquired 100% of Carmel Capital (direct owner of AWAS Aviation Capital Designated Activity Company ("AACDAC")). Carmel Capital and AACDAC, are together referred to as "AWAS", whose primary business is the leasing of commercial aircraft.

DAE is made up of two divisions as follows:

(a) DAE Capital - a provider of aircraft leasing and financing services to the global aviation industry.
(b) DAE Engineering - a provider of commercial maintenance, repair and overhaul services.

The operational highlights for the year ended 31 December 2017 (the "year") are summarized below:

Purchases – the Group purchased 37 aircraft during the year (2016: 16 aircraft). In addition, as a result of the acquisition of AWAS during the year ended 31 December 2017, the Group acquired a further 211 aircraft.

Sales – the Group disposed of 25 aircraft during the year (2016: nil).

The total number of aircraft at 31 December 2017 was 310, including one aircraft classified as held-for-sale (31 December 2016: 87 including 21 aircraft classified as held-for-sale). The Group also managed 40 aircraft as at 31 December 2017 (31 December 2016: nil).

At 31 December 2017, the Group had agreements for the sale of one aircraft which met the criteria of IFRS 5 to be classified as held-for-sale (31 December 2016: 21 aircraft). See note 15 for details of assets held-for-sale.

The consolidated financial statements were approved 25 March 2018 and signed by:

/s/ Firoz Tarapore

Firoz Tarapore
Chief Executive Officer

2 Accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to entities reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under the historical cost basis except for the revaluation of certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements have been presented in US Dollars (USD), which is the functional currency of the Group, and all values are rounded to the nearest thousand, except when otherwise indicated.

As at 31 December 2017, the current liabilities of the Group exceeded its current assets by USD 1,240 million (after considering restricted cash and unearned revenue balances). The shortfall will be met by a combination of the operating cash flows of the Group, new and existing credit facilities and other cash management initiatives. As such, the Directors are of the opinion that the going concern basis is appropriate for the financial statements for the year ended 31 December 2017.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and each of the entities that it controls (as explained in note 1) as at 31 December 2017.

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2 Accounting policies (continued)

2.2 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries and entities controlled by the Group are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiaries are 100% owned either directly or indirectly by the Company, except for Joramco, which is 80% owned by a wholly-owned subsidiary, and are therefore, consolidated in these financial statements.

The Group is also principally involved with structured entities for the purpose of purchasing aircraft and obtaining financing secured by such aircraft. Management assessed that the Group controls these structured entities and as such these entities are consolidated in the Group's financial statements.

Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the Group controls the structured entity.

As of 31 December 2017, the Group had 21 structured entities (2016: 11 entities). The structured entities included total aircraft carried at USD 1,612.5 million at 31 December 2017 (2016: USD 1,465.1 million), in the consolidated statement of financial position. The aircraft serve as collateral for the structured entities' long term borrowings of USD 1,115.8 million (2016: USD 911.8 million) which are also included in the consolidated statement of financial position.

2 Accounting policies (continued)

2.3 Changes in accounting policies and disclosures (continued)

The accounting policies used by the Group are consistent with those used in the previous year, except for the adoption of the new and amended International Accounting Standards (IAS) and IFRS during the year. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of each new standard or amendment are described below:

(a) New and amended standards adopted by the Group

There are no new standards, amendments or interpretations that are effective for the financial year commencing on 1 January 2017 that had a material impact on the Group's consolidated financial statements.

(b) New standards, amendments and interpretations not yet adopted

Certain new standards, amendments and interpretations have been published that are not mandatory for the year ended 31 December 2017 and have not been early adopted by the Group. Management is currently assessing the following standards and amendments which are not expected to have a material impact on the Group's consolidated financial statements:

- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses.
- IFRS 15, 'Revenue from contracts with customers' (effective from 1 January 2018);
- IFRS 9, 'Financial instruments' (effective from 1 January 2018);
- IFRS 16, 'Leases' (effective from 1 January 2019)

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group's consolidated financial statements.

IFRS 9 replaces provisions of IAS 39 that relates to the recognition, classification and measurement of financial assets and liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. There is no impact on the group's equity arising from reclassification of financial assets and liabilities. The financial assets and liabilities are expected to be carried at amortised cost. Under the standard, the group is required to revise its impairment methodology applied to its class of financial assets. For trade, notes and finance lease receivables, the company will apply the simplified approach to providing for expected credit losses prescribed by IFRS 9 which requires the use of lifetime expected loss provisions for all the receivables. The impact will not be material.

IFRS 15 replaces provisions of IAS 18 that relates to the recognition, measurement and disclosure of revenue. The impact on the company's financial statements arising from the change in the recognition and measurement of revenue is not significant as the company recognises revenue from its leases under IAS 17, 'Leases'. The impact of IFRS 15 on revenue from providing engineering maintenance services will not be material.

2 Accounting policies (continued)

2.4 Estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Aircraft held for lease

In accounting for aircraft held for lease, the Group make estimates about the expected useful lives, the fair value of acquired leases and the estimated residual value of aircraft. In estimating useful lives, fair value of leases and residual values of aircraft, the Group relies upon actual industry experience, supported by estimates received from independent appraisers, for the same or similar aircraft types and considering the Group's anticipated utilisation of the aircraft.

In accordance with IAS 36 – Impairment of Assets, the Group's aircraft that are to be held and used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the aircraft may not be recoverable. An impairment review involves consideration as to whether the carrying value of an aircraft is not recoverable and is in excess of its fair value. In such circumstances an impairment charge is recognised as a write down of the carrying value of the aircraft to the higher of value in use and fair value less cost to sell. The fair value less cost to sell is based on current market values from independent appraisers.

The calculation of value in use requires the use of judgement in the assessment of estimated future cash flows associated with the aircraft and its eventual disposition. Future cash flows are assumed to occur under the current market conditions and assume adequate time for a sale between a willing buyer and a willing seller. Expected future lease rates beyond the period of any contracted rentals are based upon all relevant information available, including the existing lease and current and projected rates for similar aircraft.

The factors considered in estimating the future cash flows are impacted by changes in contracted lease rates, estimated residual values, economic conditions, technology and airline demand for particular aircraft types. These estimated cash flows are discounted at 5.3% per annum, which management believe is appropriate for each individual aircraft assessed. (2016: 5.3%). Further details on the impairment review performed in the year is outlined in note 18.

Purchase price accounting

In order to account for the acquisition of AWAS on 17 August 2017, the Group measured the assets acquired and liabilities assumed at fair value in accordance with the guidance issued under IFRS 3, 'Business Combinations'. The methodology used in determining these fair values is outlined in note 10.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances are measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Revenue recognition

In general, the Group's operating lease rentals are recognised on a straight-line basis over the term of the lease. The Group will neither recognise revenue nor record a receivable from a customer when collectability is not reasonably assured. Group management determines whether customers should be placed on a non-accrual status based on factors such as the lessee's credit rating, payment performance, financial condition and requests for modifications of lease terms and conditions as well as security received from the lessee in the form of guarantees and/or letters of credit. Once a customer is on non-accrual status, revenue is recognised when cash payments are received. Estimating whether collectability is reasonably assured requires some level of subjectivity and judgment as it is based primarily on the extent to which amounts outstanding exceed the value of security held, the financial strength and condition of the lessee and the current economic conditions of the lessee's operating environment.

Revenue from the provision of engineering maintenance services is recognised in proportion to stage of completion of the transaction at the reporting date. The stage of completion is assessed based on surveys of work completed.

In certain contracts, the lessee is required to re-deliver the aircraft in a specified maintenance condition (normal wear and tear excepted), with reference to major life-limited components of the aircraft. To the extent that such components are re-delivered in a different condition than specified, there is normally an end-of-lease compensation adjustment for the difference at re-delivery. Amounts received as part of these re-delivery adjustments are recorded as lease rental income at lease termination.

The Group also recognises maintenance reserves that are not expected to be reimbursed to lessees, as lease revenue, during the lease term when the Group has reliable information that the lessee will not require reimbursements of additional rentals based on a maintenance forecasting model. Where amounts not expected to be reimbursed are not certain revenue is recognised at the end of the lease.

Interest income is recognised as the interest accrues using the effective interest rate (EIR) method.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets or for leased assets, the term of the lease, as follows:

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Leased hangars	45 years
Buildings	20 to 40 years
Leasehold improvements – the shorter of economic life or term of the lease	5 to 10 years
Furniture and fittings	5 to 10 years
Machinery and computer equipment	3 to 15 years

Capital work-in-progress is stated at cost. When ready for intended use, capital work-in-progress is transferred to property, plant and equipment and depreciated in accordance with the Group's policy.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated statement of comprehensive income as the expense is incurred.

Aircraft held for lease

Aircraft held for lease are stated at cost net of accumulated depreciation and impairment losses, if any. Aircraft held for lease are depreciated using the straight-line method over useful lives not to exceed 25 years from the date of manufacture, to estimated residual values. Residual values do not exceed 15% of cost and management reviews the residual value and useful lives annually. If either of these estimates is adjusted, the future depreciation charge would be adjusted in accordance with IAS 16, 'Property, Plant and Equipment'.

The maintenance right asset presented as a component of aircraft held for lease represents the value of the difference between the contractual right under the acquired leases to receive the aircraft in a specified maintenance condition at the end of the lease and the actual physical condition of the aircraft at the date of acquisition. The maintenance right asset will be amortised over the remaining useful life of the aircraft. Once the related maintenance work is performed, the unamortised amount will then be capitalised on to the aircraft. If the work is not performed, the amount will be disposed of and any related maintenance reserves will be utilised against the amount recorded in the consolidated statement of comprehensive income.

Major improvements to be performed by the Group pursuant to the lease agreement are accounted for as lease incentives as part of other non-current assets and are amortised against revenue over the term of the lease, assuming no lease renewals. Lessee specific modifications to the aircraft are capitalised and also amortised against revenue over the term of the lease. Lessees are required to provide for repairs, scheduled maintenance and overhauls during the lease term and to be compliant with return conditions of flight equipment at lease termination.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Aircraft held for lease (continued)

Major improvements and modifications incurred for an aircraft that is off-lease are capitalised and depreciated over the remaining life of the aircraft held for lease when these increase the future economic benefit of the related aircraft. Miscellaneous repairs are expensed when incurred.

At the time of an aircraft acquisition, the Group evaluates whether the lease acquired with the aircraft is at fair market value by comparing the contractual lease rates to the range of current lease rates of similar aircraft. A lease premium is recognised when it is determined that the acquired lease's terms are above market value; lease discounts are recognised when it is determined that the acquired lease's terms are below fair market value. Lease premiums and discounts are capitalised as a portion of the aircraft held-for-lease value and are amortised as rental revenue on a straight line basis over the lease term.

Expenditures incurred to transition an aircraft from one lessee to another due to either lease termination or bankruptcies are expensed as incurred as aircraft transition costs.

Aircraft purchase deposits

Aircraft purchase deposits represent the progress payments, with various aircraft manufacturers.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset, based on the following useful lives:

Customer relationships	4 years
Lease agreements	13.5 years
Backlogs	15 months
Software	3 to 5 years

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and depreciation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, where impairment has previously been recorded are reviewed for indicators of reversal of the impairment at each reporting date.

Inventories

The Group values its inventory at standard cost using weighted average method, and states its inventories at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Restricted cash

Under the Group's debt arrangements, payments received from lessees serve as collateral to the lenders and are thus subject to withdrawal restrictions. The Group's restricted cash consists primarily of (i) security deposits received from lessees under the terms of various lease agreements and (ii) a portion of rents collected required to be held for debt repayments.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Dividend distribution

Dividends to the Company's shareholders are recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the shareholders.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable than an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Financial instruments

(a) Financial assets

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group does not hold any financial assets which are recorded at fair value through profit or loss, held-to-maturity investments or available for sale financial assets. All financial assets are initially recognised at fair value including transaction costs and carried at amortised cost using the effective interest method.

Subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in other operating income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in general and administrative expenses in the consolidated statement of comprehensive income.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets carried at amortised cost (continued)

The amount of any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of comprehensive income. Interest income (recorded as other operating income in the consolidated statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings including derivative financial instruments and maintenance reserves and security deposits.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group's financial liabilities at fair value through profit or loss are comprised of its interest rate derivative bifurcated from its term loan agreement.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments (continued)

Fair value measurement

The Group measures financial instruments, such as, derivatives, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy as described in note 30.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The fair value of interest rate swap contracts is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market based inputs including interest rates, foreign-exchange rates, and implied volatilities. The Group considers the inputs in the fair value measurements for its derivative financial instruments in the context of the fair value hierarchy established under the amendment to IFRS 7, 'Financial Instruments: Disclosures', which distinguishes between market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions (unobservable inputs classified within Level 3 of the hierarchy) as explained in note 30.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Current versus non-current classification

The Group presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset or a liability is classified as current when it is:

- Expected to be realised / settled or intended to be sold or consumed in the normal operating cycle; or
- Held primarily for the purpose of trading; or
- Expected to be realised / due to be settled within twelve months after the reporting period.

Cash and cash equivalents are classified as current unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Financial liabilities are classified as current unless there is an unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other assets / liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Taxes

(a) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

(b) Deferred tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside consolidated statement of comprehensive income is recognised outside the consolidated statement of comprehensive income. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate on the Group’s net investment outstanding in respect of the leases.

(b) Group as lessee

When the Group leases an asset from an external party and has substantially all the risks and rewards of ownership, the lease is classified as a finance lease. Minimum lease payments made under finance leases are apportioned between the finance expense and a reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Security deposits

Security deposits represent cash received from the lessee as security in accordance with the lease agreement. The deposits are repayable to the lessees on the expiration/termination of the lease agreements subject to satisfactory compliance of the lease agreement by the lessee.

Maintenance reserves

Maintenance reserves comprise of maintenance advances, lessor contributions, repossession provisions, re-lease provisions and heavy maintenance provisions. In many aircraft operating lease contracts, the lessee has the obligation to make periodic payments which are calculated with reference to the utilisation of airframes, engines and other major life-limited components during the lease (supplemental amounts). In such contracts, upon lessee presentation of invoices evidencing the completion of qualifying work on the aircraft, the Group reimburses the lessee for the work, up to a maximum of the supplemental amounts received with respect to such work.

The Group also recognises maintenance reserves that are not expected to be reimbursed to lessees, as lease revenue, during the lease term when the Group has reliable information that the lessee will not require reimbursements of additional rentals based on a maintenance forecasting model. Where amounts not expected to be reimbursed are not certain revenue is recognised at the end of the lease.

When aircraft are sold the portion of the accrued liability not specifically assigned to the buyer is derecognised from the consolidated statement of financial position as part of the gain or loss on disposal of the aircraft.

Lessor contributions

At the beginning of each new lease subsequent to the first lease on a new aircraft, lessor contributions representing contractual obligations on the part of the Group to contribute to the lessee’s cost of the next planned major maintenance event, expected to occur during the lease, are established. The Group regularly reviews the level of lessor contributions to cover its contractual obligations under current lease contracts and makes adjustments as necessary.

Lessor contributions represent a lease incentive and are recorded as a charge against lease rental income over the life of the associated lease.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Maintenance reserves (continued)

Lessor contributions (continued)

Lessor contributions in respect of end of lease adjustments are recognised when the group believes it is probable that it will be required to reimburse amounts to a lessee and the amount can be reasonably estimated.

Foreign currencies

The functional currency of the company and its subsidiaries is USD. The financial statements of one foreign subsidiary, Jordan Aircraft Maintenance Limited ("Joramco"), which does not have a functional currency of USD are translated into USD at current rates, except that revenues and expenses are translated at average current rates during each reporting period. Joramco's financial statements are presented in Jordanian Dinar (JOD), which is pegged to USD, and thus, did not result in foreign currency translation adjustment in the consolidated financial statements.

Monetary assets and liabilities denominated in foreign currencies are remeasured in the functional currency at the exchange rates in effect as of the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are remeasured in the functional currency at the exchange rate in effect at the date of the transaction. All gains and losses from the remeasurement of assets and liabilities denominated in currencies other than the respective functional currencies are included in the consolidated statement of comprehensive income.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

Insurance proceeds

Insurance proceeds are collected on business interruption and property insurance policies. When losses are sustained in one accounting period and the amounts to be recovered are collected in a subsequent accounting period, management uses estimates and judgment to determine the amounts that are probable of recovery. Insurance proceeds related to business interruption insurance recoveries to replace lost income are recognised when proceeds have been received and are reported in net earnings in the consolidated statements of cash flows as an operating activity.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as interest rate swaps to manage the financial risks associated with the underlying business activities and the financing of those activities. Such derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Derivative financial instruments may be designated at inception as fair value, cash flow or net investment hedges if appropriate. Derivatives are carried as financial assets when their fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

(a) Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated statement of comprehensive income as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated statement of comprehensive income as finance costs.

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

(a) Fair value hedges (continued)

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

(b) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cumulative changes in fair value, while any ineffective portion is recognised immediately in the consolidated statement of comprehensive income as general and administrative expenses.

The Group uses interest rate swaps as hedges of its exposure to interest rate movements. The ineffective portion relating to these cash flow hedges is recognised in general and administrative expenses.

Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

3 Revenue

	2017 USD'000	2016 USD'000
Lease rentals	790,532	440,135
Provision of engineering maintenance services	47,658	15,430
	838,190	455,565

Lease rental income from the top five customers represented 46% of the lease rental income for the year ended 31 December 2017 (2016: 81%). No single customer accounted for more than 28% of lease rental income in the year ended 31 December 2017 (2016: 57%). Lease rental income is derived mainly from leasing commercial jet aircraft to various operators around the world. The distribution of lease rental income by the operator's geographic region is as follows:

	2017 USD'000	2017 %	2016 USD'000	2016 %
MEASA (Middle East/Africa)	309,286	39	265,552	60
Asia/Pacific	262,059	33	98,101	22
Europe	113,587	14	30,481	7
Americas	105,600	14	46,001	11
Total lease revenue	790,532	100	440,135	100

During the year ended 31 December 2017, rental income relating to the net release of maintenance reserves and their associated maintenance right asset was USD 36.4 million (2016: USD 6.5 million). Lease revenue also includes a charge associated with the amortisation of lease incentive assets of USD 3.1 million (2016: USD 10.2 million). In addition, lease revenue includes a net credit associated with the amortisation of lease discounts of USD 1.7 million (2016: USD 2.5 million). Further, end of lease rentals recognised was nil (2016: USD 14.6 million).

Engineering maintenance services revenue of USD 47.7 million (2016: USD 15.4 million) relates to commercial aircraft maintenance, repair and overhaul.

4 Other operating income

	2017 USD'000	2016 USD'000
Gain on acquisition of a subsidiary (note 10)	-	10,533
Servicer management fees	2,434	-
Others	5,174	1,189
	7,608	11,722

5 General and administrative expenses

	2017 USD'000	2016 USD'000
Compensation and benefits expense	40,750	13,410
Legal and professional fees	27,422	7,349
Office expenses	5,315	2,264
Travel expenses	2,340	916
Others	4,559	653
	80,386	24,592

The group had 1,091 persons (2016: 953) in employment as at 31 December 2017. The average numbers of employees during the year was 1,081 (2016: 943).

6 Finance income and expense

	2017 USD'000	2016 USD'000
Interest on bank accounts and short term investments	7,978	13,175
Interest on shareholder and other notes receivable	24,805	1,276
Movement in fair value of derivatives	8,875	-
Finance lease income	10,149	3,551
Total finance income	51,807	18,002
Interest on bank borrowings*	(236,697)	(109,696)
Amortisation of loan upfront fees	(11,654)	(11,132)
Net foreign exchange loss	(126)	-
Other bank charges	(2,497)	(3,517)
Total finance expense	(250,974)	(124,345)
	(199,167)	(106,343)

* Included in this balance are the net gains of USD 1.2 million (2016: net gains of USD 1.2 million) on interest rate swaps derivatives, the value of which is disclosed in note 18.

7 Income tax expense

	2017 USD'000	2016 USD'000
Current tax		
Current period	10,331	2,906
Adjustment for prior periods	(13)	-
Total current tax expense	10,318	2,906
Deferred tax		
Origination and reversal of temporary differences	(186)	(43)
Adjustments for prior periods	(289)	-
Total deferred tax credit	(475)	(43)
Total income tax expense	9,843	2,863

Reconciliation of effective tax rate

	2017 USD'000	2016 USD'000
Profit for the period	172,593	199,008
Income subject to tax in United Arab Emirates – 0% (2016: 0%)	-	-
Income subject to tax in Ireland – 12.5%	15,232	-
Income subject to tax in the US	9,825	-
Income taxable at other rates	(3,957)	2,863
Impact of tax losses not recognised	3,989	
Unwind of deferred tax liability	(15,051)	-
Other permanent differences	107	-
Adjustment to previous periods taxation	(302)	-
Income tax expense	9,843	2,863

8 Aircraft held for lease

Cost	**Aircraft and engines** USD'000	**Maintenance right asset** USD'000	**Lease discount** USD'000	**Total** USD'000
At 31 December 2015	4,756,362	-	-	4,756,362
Additions	666,953	-	-	666,953
Reclassified as assets held for sale	(826,922)	-	-	(826,922)
Disposals	(72,042)	-	-	(72,042)
At 31 December 2016	4,524,351	-	-	4,524,351
Acquisition through business combination	6,568,988	1,172,940	(34,682)	7,707,246
Additions	1,175,529	-	-	1,175,529
Transfers	51,273	(51,273)	-	-
Derecognition	-	(53,348)	-	(53,348)
Disposals	(262,110)	-	-	(262,110)
At 31 December 2017	12,058,031	1,068,319	(34,682)	13,091,668
Accumulated depreciation and amortisation				
At 31 December 2015	946,364	-	-	946,364
Charge for the period	170,589	-	-	170,589
Disposals	(269,251)	-	-	(269,251)
Impairment charge for the year	2,655	-	-	2,655
At 31 December 2016	850,357	-	-	850,357
Charge / (credit) for the period	274,751	25,256	(1,903)	298,104
Disposals	(116,513)	-	-	(116,513)
Impairment charge for the year	9,400	-	-	9,400
At 31 December 2017	1,017,995	25,256	(1,903)	1,041,348
Net book value				
At 31 December 2016	3,673,994	-	-	3,673,994
At 31 December 2017	11,040,036	1,043,063	(32,779)	12,050,320

As of 31 December 2017, the Group owned 310 aircraft including one aircraft held-for-sale (2016: 87 aircraft including 21 aircraft held-for-sale), within this the Group had 299 aircraft held for lease on an operating basis (2016: 82 aircraft) and 11 under finance lease (2016: 5 aircraft). During the year ended 31 December 2017, the Group sold 25 aircraft of which 23 were previously recognised as held-for-sale (2016: nil). The Group purchased 37 aircraft in the year (2016: 16 aircraft). In addition, as a result of business combination during the year ended 31 December 2017, the Group acquired 211 aircraft.

During the year, the Group derecognised USD 53.3 million of maintenance right assets in relation to eight aircraft which were redelivered to the Group during year ended 31 December 2017 (2016: USD Nil relating to zero aircraft). An amount of USD 48.0 million has been recognised as maintenance reserve release revenue in relation to these eight aircraft (2016: USD Nil relating to zero aircraft). These amounts are netted in the consolidated statement of comprehensive income.

8 Aircraft held for lease (continued)

As of 31 December 2017, the Group had agreements for the sale of one aircraft which met the criteria of IFRS 5 to be classified as held-for-sale (2016: 21 aircraft). See note 15 for details of assets held-for sale.

The Group's obligations under its secured bank loans are secured by charges over, amongst other things, the Group's aircraft and related assets, details of which are included in note 18.

Impairment of aircraft held for lease

The Group evaluates aircraft held for lease for impairment where circumstances indicate and at each reporting date where there is an indication that an asset may be impaired. Where an impairment indicator exists, the Group will assess whether the aircraft is subject to an impairment loss. The impairment loss is measured as the excess of the carrying amount of the impaired asset over its recoverable amount. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The value in use represents the present value of cash expected to be received from the aircraft in the future, including its expected residual value discounted at a rate commensurate with the associated risk. Future cash flows are assumed to occur under the expected market conditions and assume adequate time for a sale between a willing buyer and a willing seller. Expected future lease rates are based on all relevant information available, including the existing lease, current contracted rates for similar aircraft, appraisal data and industry trends. Residual value assumptions generally reflect an aircraft's book residual, except where more recent industry information indicates a different value is appropriate.

Based on the Group's analysis, there is a USD 9.4 million net impairment loss on aircraft held for lease for the year ended 31 December 2017 (2016: USD 2.7 million). This is offset by a maintenance reserve release following transition of the aircraft for USD 9.4m which is released to lease revenue.

The key assumptions and judgments adopted are:

- The discount rate applied to forecast cash flows which is the Group's WACC of 5.3%
- Estimates relating to the period between lease rentals and the value of future, non-contracted lease rentals which are assessed against published rates for each aircraft)
- Assumed resale value at the end of the aircraft's life
- Assumed future lease rates (which are assessed against published rates for each aircraft)

A sensitivity analysis was performed to determine the potential impact of the below movements in the various risk variables;

- 1% increase/decrease in the discount rate to determine the Group's WACC
- 10% increase/decrease in the future rental income earning capacity of each aircraft
- 10% increase/decrease in the resale value of aircraft at end of its useful life

None of the above movements in risk variables would have resulted in a material impact on the impairment charge for the year ended 31 December 2017.

9 Aircraft purchase deposits

	2017 USD'000	2016 USD'000
At 1 January	16,675	13,577
Additions	362,039	16,625
Acquired through business combination	350,775	-
Transferred to aircraft held for lease	(91,305)	(13,527)
At 31 December	638,184	16,675

Aircraft purchase deposits represent payments made by the Group for the purchase of aircraft in accordance with the payment schedules as per the purchase agreements.

In connection with these purchase agreements, the Group took delivery of 12 aircraft during the year (2016: nine aircraft) for which the total amount of aircraft purchase deposits reclassified to aircraft held for lease amounted to USD 91.3 million (2016: USD 13.5 million).

10 Business combination

On 17 August 2017, the group acquired 100% of AWAS whose primary business is the leasing of commercial aircraft.

The Group has assessed the fair value of the assets acquired and liabilities assumed in the acquisition which resulted in goodwill of USD 45.8 million.

The following table summarises management's assessment of the fair value of the major assets acquired and liabilities assumed at the acquisition date.

Fair value of assets and liabilities acquired on 17 August 2017:	USD'000
Aircraft and engines	6,568,988
Maintenance right asset	1,172,940
Cash and cash equivalents	455,419
Deposit for aircraft purchases	350,775
Trade and other receivables	17,615
Loans and borrowings	(5,046,867)
Maintenance reserves and security deposits	(1,094,359)
Deferred tax liability	(199,092)
Lease discount	(34,682)
Other assets and liabilities	(13,286)
Estimate of fair value of net assets required	2,177,451
Fair value of consideration	2,223,272
Goodwill	45,821

10 Business combination (continued)

Revenue and profit contribution

Revenue included in the statement of comprehensive income contributed by the acquiree since 17 August 2017 was USD 341.6 million. The acquiree also contributed net income of USD 100.1 million over the same period.

Had the acquisition occurred on 1 January 2017, management estimates the Group's consolidated revenue from leases would have been USD 1.4 billion and the groups consolidated profit for the year would have been USD 0.3 billion.

Acquisition-related costs

Costs related to the acquisition of AWAS of USD 17.0 million are included in legal and professional fees within general and administrative expenses in the consolidated statement of comprehensive income and in operating cash flows in the statement of cash flows.

Application of acquisition method of accounting

The Group applied the acquisition method of accounting and measured the identifiable assets acquired and the liabilities assumed at fair value at the closing date. The fair value measurement of each major asset acquired and liability assumed is as follows;

Aircraft held for lease

Aircraft and engines – the Group determined the fair value of acquired aircraft held for lease as of the closing date using the maintenance adjusted current market values obtained from independent appraisers and in certain cases management made specific judgements for aircraft.

Maintenance right asset – the fair value of the maintenance right asset was measured at the value of the difference between the contractual rights under the acquired leases to receive the aircraft in a specified maintenance condition at the end of the leases and adjusted for any end of lease cash compensation at lease expiry, and the actual physical condition of the aircraft at the date of acquisition using maintenance adjusted market values from independent appraisers and in certain cases management made specific judgements for aircraft.

Lease discount – the fair value of the lease discount was determined at the present value of the expected cash flows calculated as the difference between contractual rent payments, adjusted for the credit risk of the lessee, and the rent payments that the aircraft could generate over the remaining lease term based on current market rates from an independent appraiser.

Maintenance reserves – the fair value of maintenance reserves relating to pre-acquisition usage is determined by calculating the present value of expected cash outflows during the lease term consisting of expected reimbursements of maintenance reserves at the time of the forecasted maintenance event. Present value is calculated using relevant US treasury rates plus the risk inherit in the liability (based on forecasted dated of maintenance event).

10 Business combination (continued)

Security deposits – the fair value of acquired security deposits was determined by measuring the present value of expected cash outflows during the remaining lease term using relevant US treasury rates (based on security deposit maturity) that reflect the time value of money.

Loans and borrowings – the fair value of loans and borrowings was estimated using quoted market prices where available. The fair value of certain loans and borrowings without quoted market prices was estimated using discounted cash flows analyses based on current market prices for similar type debt instruments.

Deferred tax assets and liabilities – The identifiable assets acquired and liabilities assumed in a business combination are, with limited exceptions, recognised at their fair value at the acquisition date. The tax bases of individual assets and liabilities in a non-taxable transaction (i.e. a share acquisition) is likely to stay the same as the acquiree's pre-acquisition tax base. Temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combinations or are affected differently and thus re-measurement for book purposes to acquisition date at fair value will create an additional temporary difference. The applicable tax rate(s) used to measure deferred taxes were determined based on the relevant rate(s) in the jurisdictions where the acquired assets are recovered and assumed liabilities are settled.

Cash and cash equivalents and restricted cash - Both the cash and cash equivalents and the restricted cash balances were recognised at their carrying value as there was no variance between carrying value and fair value.

Deposits for aircraft purchases - Deposits for aircrafts were recognised at carrying value as there was deemed to be no variance between carrying value and fair value.

Prior period

On 30 September 2016, the Group acquired 100% ownership of an entity which owns 80% equity of an independent provider of airframe maintenance, repair and overhaul services in Jordan.

The Group made an assessment of the fair value of the assets acquired and liabilities assumed in the acquisition, which resulted in a gain on acquisition of a subsidiary of USD 10.5 million and was recognised in the consolidated statement of comprehensive income (see note 4).

The following table summarises management's assessment of the fair value of the major assets acquired and liabilities assumed at the acquisition date:

10 Business combination (continued)

Fair value recognised on acquisition	USD'000
Assets	
Property and equipment	47,640
Intangible assets	13,508
Liabilities	
Long term liabilities	15,817

The non-controlling interest recognised at the acquisition date of USD 10.4 million was measured based on the proportionate share of the fair value of the net identifiable assets acquired.

Revenue included in the consolidated statement of comprehensive income for the year ended 31 December 2016 contributed by the acquiree since 30 September 2016 was USD 15.4 million (note 3). The acquiree also contributed net income of USD 1.9 million over the same period.

11 Deferred taxes

Consolidated deferred tax assets and liabilities are attributable to the following:

In thousands of USD	**Ireland 2017**	**United States 2017**	**Other 2017**	**Net 2017**
Property, plant and equipment	(518,734)	(6,027)	-	(524,761)
Employee entitlements	-	431	-	431
Purchase price adjustments	(12,913)	-	-	(12,913)
Intangibles	-	71	-	71
Trade losses	324,968	673	772	326,413
Net tax assets/ (liabilities)	(206,679)	(4,852)	772	(210,759)

In thousands of USD	**Ireland 2016**	**United States 2016**	**Other 2016**	**Net 2016**
Property, plant and equipment	-	(39,708)	-	(39,708)
Employee entitlements	-	88	-	88
Purchase price adjustments	-	80	-	80
Intangibles	-	462	-	462
Trade losses	-	24,620	-	24,620
Net tax assets / (liabilities)	-	(14,458)	-	(14,458)

11 Deferred taxes (continued)

At 31 December 2017, the Group had an unrecognised deferred tax asset of USD 13.7 million primarily in respect of Irish, Hungarian and US tax losses. The Group is allowed to carry forward any Irish tax losses for an indefinite period to be offset against income of the same trade, Hungarian tax losses are set to expire in December 2022 after a period of 5 years, and US Federal tax losses are set to expire at various dates beginning in the fiscal year 30 November 2028.

The Group files income tax returns in Ireland, the US and various states and foreign jurisdictions. The periods from 31 December 2013 to 31 December 2017 remain open to examination by the Irish Revenue authorities. The period from 31 December 2014 to 31 December 2017 remain open to examination by the US Internal Revenue Service and state authorities.

12 Other non-current assets

	2017 USD'000	2016 USD'000
Lease acquisition costs, net	98,286	75,998
Lease incentives, net	21,056	18,605
Interest on notes receivable	6,296	-
Other assets	6,078	2,758
	131,716	97,361

Included in lease acquisition costs is an amount of USD 54.1 million (2016: USD 61.1 million) incurred in respect of lease agreements entered into with a company under common control.

13 Trade and other receivables

Trade and other receivables consist of the following:

	2017 USD'000	2016 USD'000
Trade receivables	73,309	47,137
Less: allowances for doubtful accounts	(35,728)	(33,440)
Trade receivables, net	37,581	13,697
Other receivables	7,927	2,505
	45,508	16,202

Other receivables include amounts due from sub-lease contracts.

13 Trade and other receivables (continued)

Movement in the allowance for doubtful accounts is as follows:

	2017 USD’000	2016 USD’000
At 1 January	33,440	30,588
Allowances for doubtful accounts	2,288	60
Acquired through business combination	-	2,792
At 31 December	35,728	33,440

As at 31 December, the ageing of unimpaired trade receivables is as follows:

			Past due but not impaired				
	Total	**Neither past due nor impaired**	**<30 days**	**30-60 days**	**60-90 days**	**90-360 days**	**>360 days**
	USD’000	USD’000	USD’000	USD’000	USD’000	USD’000	USD’000
2017	37,581	13,802	13,287	4,305	1,618	2,310	2,259
2016	13,697	5,619	3,408	464	637	554	3,015

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables.

Other classes within trade and other receivables do not contain impaired assets

14 Cash and cash resources

	2017 USD’000	2016 USD’000
Cash and cash equivalents	369,870	480,163
Restricted cash	354,179	79,322
	724,049	559,485

Cash and cash resources subject to withdrawal restrictions represent balances securing the Group’s obligation under third party credit facilities. Certain amounts received from lessees in respect of aircraft subject to certain funding arrangements are required to be held in segregated accounts to support, amongst other things, certain maintenance related payments including major airframe overhauls, engine overhauls, engine life limited parts replacements, auxiliary power units overhauls and landing gear overhauls, as well as interest and principal payments on the related debt facility.

15 Held-for-sale

At 31 December 2017, the Group had agreements for the sale of one aircraft which met the requirement to be classified as held-for-sale (31 December 2016: 21 aircraft). During the year ended 31 December 2017 the Group sold 21 aircraft previously classified as held-for-sale.

	2017 USD'000	2016 USD'000
Assets classified as held-for-sale		
Aircraft held for lease	11,202	557,671
Liabilities classified as held-for-sale		
Maintenance reserves and security deposits	3,447	153,392

16 Share capital and reserves

	2017 USD'000	2016 USD'000
Authorised, issued and paid-up capital	1,927,770	1,050,000
Additional paid-in capital	517,884	-
Retained earnings	792,482	618,663
Treasury shares	(85,000)	-
Other reserves	506	(1,766)
Attributable to equity holders of DAE	3,153,642	1,666,897
Non-controlling interests	9,108	10,755
Total equity	3,162,750	1,677,652

The authorised and issued share capital of the Company at 31 December 2017 comprised of 1,927,770 ordinary shares of USD 1,000 par value each (31 December 2016: 1,050,000 shares of USD 1,000 par value each).

During the year ended 31 December 2017, the Company increased its authorised share capital to USD 1,927,770,000 and issued 756,170 shares to ICD Hospitality and Leisure LLC and 121,610 shares to Dubai Silicon Oasis Authority (DSOA) for USD 1,590 per share. The additional amount obtained above par value (USD 590 per share on the 877,770 shares issued totals USD 517.9 million) has been reported as additional paid-in capital in the consolidated statement of financial position. The Group also issued notes receivable to the same parties for USD 1,395.7 million, settled net of the shares issued, representing a significant non-cash transaction.

In addition, in August 2017, DAE purchased for USD 85 million the shares held by Dubai International Capital LLC (DIC). These shares are reported within equity as treasury shares in the statement of financial position.

The movement in retained earnings is the profit generated by the Group during the year net of transfer to other reserves.

The movement in other reserves contains the movement in fair value reserves during the year.

17 Maintenance reserves and security deposits

	2017 USD'000	2016 USD'000
Maintenance reserves		
At 1 January	148,679	242,813
Additions	231,075	67,202
Acquisitions through business combinations	927,171	-
Reimbursed / paid	(73,239)	-
Released	(89,749)	(21,181)
Reclassified as liabilities held for sale	-	(140,155)
At 31 December	1,143,937	148,679
Security deposits		
At 1 January	47,650	45,152
Additions	38,021	18,772
Acquisitions through business combinations	167,188	-
Disbursements	(34,813)	(3,038)
Reclassified as liabilities held for sale	-	(13,236)
At 31 December	218,046	47,650
Maintenance reserves and security deposits	1,361,983	196,329

18 Loans and borrowings

Loans and borrowings, net of issuance costs, consists of the following:

	2017 USD'000	2016 USD'000
Bank loans (repayable by instalment)		
Principal	10,438,237	3,071,668
Accrued and unpaid interest	69,279	7,732
Fair value discounts	(1,665)	3,313
Total bank loans	10,505,851	3,082,713
Debt issuance costs	(100,343)	(54,680)
Net loans and borrowings	10,405,508	3,028,033

18 Loans and borrowings (continued)

	2017 USD'000	2016 USD'000
Non-current liabilities		
Bank loans	9,020,020	2,268,831
Debt issuance costs	(98,257)	(46,912)
Non-current loans and borrowings	8,921,763	2,221,919
Current liabilities		
Bank loans	1,485,831	813,882
Debt issuance costs	(2,086)	(7,768)
Current loans and borrowings	1,483,745	806,114

The movement of loans and borrowings, excluding debt issuance costs is summarised as below:

	2017 USD'000	2016 USD'000
At 1 January	3,082,713	2,824,633
Loans obtained during the year	4,034,651	547,030
Acquisition through business combination (note 10)	5,046,867	31,255
Amortisation of fair value discounts	(4,200)	(391)
Interest accrued but not paid	61,547	1,668
Repayment during the year	(1,715,727)	(321,482)
At 31 December	10,505,851	3,082,713

18 Loans and borrowings (continued)

Terms and conditions of outstanding loans before the impact of derivatives at 31 December 2017 is as follows:

	Average nominal interest rate %	Year of maturity	2017 USD'000
Floating rate loans:			
Non-recourse obligations	3.57	2018-2029	831,985
Recourse obligations	3.10	2018-2029	1,995,476
Unsecured facility	3.58	2018	25,154
Revolving credit facilities	3.46	2019-2021	322,730
Lines of credit	LIBOR+ 2.10/2.25	2018-2019	96,145
Ex-Im, ECA & EDC	2.29	2023-2025	341,690
Fixed rate loans:			
Non-recourse obligations	4.14	2018-2028	1,077,472
Senior unsecured notes	4.52	2020-2024	2,343,283
Recourse obligations	4.31	2019-2029	2,337,775
Term loan 2014	4.87	2021	285,744
Ex-Im, ECA & EDC	2.99	2019-2029	848,397
Total interest bearing liabilities			10,505,851

Terms and conditions of outstanding loans at before the impact of derivatives at 31 December 2016 is as follows:

	Average nominal interest rate %	Year of maturity	2016 USD'000
Floating rate loans:			
Recourse obligations	3.49	2017-2024	590,775
Revolving credit facilities	4.5	2018	100,584
Ex-Im / EDC	1.83	2017- 2027	81,784
Fixed rate loans:			
Recourse obligations	4.53	2019-2022	1,750,345
Ex-Im / EDC	2.74	2019-2026	559,225
Total interest bearing liabilities			3,082,713

18 Loans and borrowings (continued)

Number of aircraft used as collateral for the following facilities

	2017	2016
Facility:		
Non-recourse obligations	83	-
Recourse	113	57
Term Loan 2014	10	-
Ex-Im, ECA & EDC	49	23
Total	255	80

In addition to the number of aircraft above with a total net book value of USD 10,772.4 million (2016 net book value: USD 3,506.7 million), 55 aircraft held for lease (2016: 7 aircraft) were unencumbered with a total net book value of USD 1,277.9 million (2016 net book value: USD 167.3 million).

All these facilities contain various customary financial and non-financial loan covenants including:

- Financial information obligations;
- Limitations on activities which would negatively impact concentration limits such as regional location of lessees and types of aircraft in the portfolio; and
- Loan to value covenants.

The aggregate principal repayment amounts of loans for each of the financial years subsequent to 31 December 2017 are as follows.

In thousands of USD	Principal cash flows		Contractual cash flows*	
	2017	**2016**	**2017**	**2016**
Due within one year	1,380,236	806,150	1,791,363	876,269
Due within one and five years	5,357,605	1,025,794	6,802,138	1,339,335
Due after five years	3,700,396	1,239,724	4,105,264	1,412,865
Total	10,438,237	3,071,668	12,698,765	3,628,469

*Contractual cash flows include both scheduled payments of principal and interest after the impact of derivatives.

Non-recourse obligations:

As of 31 December 2017, 83 aircraft (2016: 0 aircraft) were being financed on a non-recourse basis. All of the loans contain provisions that require the payment of principal and interest throughout the terms of the loans. The interest rates on the loans are based on fixed rates of between 0.54% and 7.38% and 1, 3 or 6 month LIBOR plus margins ranging from 55 bps to 375 bps.

Senior unsecured notes:

In August 2017, the Group issued USD 500 million of 4.00% senior unsecured notes due 2020, USD 800 million of 4.50% senior unsecured notes due 2022, and USD 1,000 million of 5.00% senior unsecured notes due 2024. The Notes are fully and unconditionally guaranteed by DAE.

18 Loans and borrowings (continued)

Recourse obligations:

As of 31 December 2017, 113 aircraft (2016: 57 aircraft) were financed on a full recourse basis. The loans amortise over their lives of between 1 and 12 years remaining and bear interest at a fixed rate between 2.50% and 6.00%, or 1, 3 or 6 month LIBOR. EIBOR or MIDSWAP plus margins ranging from 160 bps to 311 bps.

Revolving credit facilities:

The Group has access to four full recourse unsecured revolving credit facilities totalling USD 785.0 million (2016: USD 100.0 million) which can be drawn from a period of three to four years from the effective date of the individual facility. The maturity dates range from 2018 to 2021.

The Revolving Credit Facilities accrue interest at LIBOR plus margins ranging from 2.10% to 2.35%. As at 31 December 2017 USD 322.7 million (2016: USD 100.0 million) was drawn from these facilities.

Lines of credit:

As of 31 December 2017, the Group had in place two pre-delivery payment (“PDP”) facilities (31 December 2016: nil) in the amount of USD 96.1 million (31 December 2016: USD nil) to which the applicable PDP lenders provide facilities to be used in funding pre-delivery payments for aircraft the Group has ordered. The facilities are secured by security assignments of the buyer’s right under the related purchase agreements to purchase the aircraft which are subject to the financing. The PDP facilities bear interest at floating rates based on 3 month LIBOR plus margins ranging from 210 bps to 225 bps. The Group’s PDP facilities have been utilised to cover 13 aircraft purchases (31 December 2016: nil). As is typical for such facilities, interest accrues on the outstanding balance of each such loan until repayment of the concerned loan with the repayment being due on the date of delivery of the concerned aircraft.

Term loan 2014:

There is a term loan credit agreement that carries a fixed rate of interest of 4.87% and matures in 2021. The term loan requires periodic payments of principal plus interest and amortises to a bullet repayment in October 2021. As of 31 December 2017, 10 aircraft were financed with the proceeds of Term Loan 2014 (2016: nil aircraft). The amount drawn down at 31 December 2017 was USD 285.7 million.

EX-IM, ECA EDC backed facilities

As of 31 December 2017, 49 aircraft (2016: 23 aircraft) were financed with the proceeds of loans guaranteed by the EX-IM (Export-Import Bank of the United States), ECA (Export Credit Agencies) and EDC (Export Development Canada) on standard export credit agency supported financing terms whereby the subject loans are amortized monthly or quarterly over the period of up to 12 years remaining, with interest accruing at fixed rates of between 2.6% and 4.5%, and floating rates of 3 month LIBOR plus margins up to 275 bps.

19 Derivative financial instruments

The Group holds derivative financial instruments designated as cash flow and fair value hedges for the purpose of hedging the risks of certain identifiable and forecasted transactions. In general, the types of risks hedged are those relating to the variability of future earnings cash flows and fair value of the loans caused by movements in interest rates. The Group documents its risk management strategy and hedge effectiveness at the inception of and during the term of each cash flow and fair value hedge. The Group, in the normal course of business, enters into interest rate swaps to hedge its transactions. The purpose of the swaps is to hedge the future cash flow impacts from changes in fair value of the benchmark interest rates related to the Group's variable-rate debt and exposure to changes in the fair value of a recognised fixed-rate debt. During the year ended 31 December 2017, the Group had four interest rate swaps that were designated as cash flow hedges at year end. The Group also held at year end two interest rate reverse swaps that were designated as fair value hedges during the period. The Group had no derivatives designated as hedges of net investments in foreign operations.

Cash flow hedges

The Group's interest rate swaps designated as cash flow hedges are used to protect against variability in future interest cash flows on liabilities which bear interest at variable rates.

Gains and losses are initially recognised directly in other comprehensive income (previously referred to as the cash flow hedging reserve in shareholders' equity), and are transferred to the consolidated statement of comprehensive income when the forecast cash flows affect the consolidated profit or loss.

As of 31 December 2017, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of USD 1.3 million (2016: USD 0.1 million).

During the year to 31 December 2017, the Group reclassified out of the cumulative changes in fair value account into the consolidated profit and loss account an amount of USD 1.2 million (2016: USD 1.0 million) as an increase to finance costs.

Fair value hedges

The Group's interest rate swaps designated as fair value hedges are used to protect against variability in fair value of liabilities which bear interest at fixed rates.

As of 31 December 2017, the fair values of outstanding derivatives designated as fair value hedges of fixed rate borrowings were assets of USD 0.2 million and liabilities of USD 1.7 million (2016: assets of USD 1.4 million and liabilities of USD 0.9 million).

The total loss for the year on derivatives designated in fair value hedges amounted to USD 1.8 million. (2016: USD 1.9 million gain). Total gain for the year arising from the adjustment to the fair value of the hedged fixed rate borrowings attributable to interest rate risk amounted to USD 5.0 million (2016: USD 0.4 million loss).

Derivatives not in hedge relationships

The Group's also holds interest rate swaps not held in designated hedge relationships. The Group uses derivative financial instruments, principally interest rate swaps and caps, to manage interest rate risks and achieve the desired profile of borrowings. The fair value of the interest rate swaps at 31 December 2017 was assets of USD 9.3 million and labilities of USD 1.6 million.

19 Derivative financial instruments (continued)

Cash flow hedges (continued)

Sensitivity analysis

The Group recognises that movements in certain risk variables (such as interest rates or foreign exchange rates) might affect the value of its derivatives and also the amounts recorded in its consolidated statement of comprehensive income and its consolidated statement of comprehensive income for the period. Therefore, the Group has assessed:

- what would be reasonably possible changes in the risk variables at the reporting date and
- the effects on profit and loss and equity if such changes in the risk variables were to occur

The following table considers "shocks" to forward interest rate curves of +/- 50 basis points. If these shocks were to occur, the impact on the consolidated statement of comprehensive income for each category of financial instrument held at the reporting date is shown below:

The impact of the modelled interest rate shocks on our fair value hedge accounting relationships is excluded from this analysis as an offsetting hedge accounting adjustment would be made to the hedged item.

As of 31 December 2017, the sensitivity to interest rates was as follows:

Interest rate swap

Risk variable	**Change in risk variable**	**Change in value as of 31 December 2017** USD'000	**Impact on consolidated statement of comprehensive income for the year** USD'000	**Impact on consolidated comprehensive income for the year** USD'000
3 month USD-LIBOR-BBA	50 bps	3,532	-	3,532
3 month USD-LIBOR-BBA	-50 bps	(3,687)	-	(3,687)

As of 31 December 2016, the sensitivity to interest rates was as follows:

Interest rate swap

Risk variable	**Change in risk variable**	**Change in value as of 31 December 2016** USD'000	**Impact on consolidated statement of comprehensive income for the year** USD'000	**Impact on consolidated comprehensive income for the year** USD'000
3 month USD-LIBOR-BBA	50 bps	605	-	605
3 month USD-LIBOR-BBA	-50 bps	(619)	-	(619)

20 Operating lease commitments

Operating lease commitments – Group as a lessee

The Group leases offices under non-cancellable operating leases having initial terms of more than one year.

The future minimum payments under operating leases were as follows:

	2017 USD'000	2016 USD'000
Within one year	3,321	986
After one year but not more than five years	10,447	3,128
More than five years	16,592	3,937
Total	30,360	8,051

The Group's rental expense on operating leases was USD 2.1 million for the year (2016: USD 0.9 million).

21 Employees' end of service benefits

Movements in the provision recognised in the consolidated statement of financial position for end of service benefits to employees of the Group are as follows:

	2017 USD'000	2016 USD'000
At 1 January	1,091	907
Provisions during the year	281	238
Payments during the year	-	(54)
At 31 December	1,372	1,091

22 Trade and other payables

	2017 USD'000	2016 USD'000
Accounts payable - trade	6,808	3,361
Other accrued liabilities	61,424	30,668
	68,232	34,029

23 Deferred revenue

	2017 USD'000	2016 USD'000
Due within one year	96,866	45,869
Due after one year	68,299	79,235
	165,165	125,104

Included in unearned revenue is unearned lease rentals received from companies under common control of USD 92.5 million (2016: USD 103.4 million). Of this amount, USD 24.2 million (2016: USD 24.2 million) is included in current liabilities and USD 68.3 million (2016: USD 79.2 million) is included in non-current liabilities.

24 Related party transactions

For the purpose of these consolidated financial statements, parties are considered to be related to the Group, if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control and the key management personnel of the Group. Related parties may be individuals or other entities.

(a) Transactions with related parties included in the consolidated statement of comprehensive income are as follows:

- During the year, the Group received an amount of USD 230.2 million (2016: USD 244.1 million) being aircraft lease rentals from companies under common control (Emirates and flydubai). The total number of aircraft leased to companies under common control was 14 as of 31 December 2017 (2016: 12 aircraft). The Group also recognised end of lease income of USD nil (2016: USD 14.5 million) from companies under common control.
- The Group also provided engineering maintenance services to companies under common control amounting to USD 4.6 million (2016: USD 2.1 million).
- Finance income on the bank balances and fixed deposits with companies under common control for the year amounts to USD 5.9 million (2016: USD 13.2 million).
- Finance income on notes receivable from shareholders during the year amounts to USD 18.5 million (2016: nil).
- Finance expense for the year in respect of loans from related companies under common control amounts to USD 38.2 million (2016: USD 29.1 million).
- The Group also uses a number of Government controlled public entities for its operations in Dubai, where these entities are the sole providers of the relevant services. This includes the supply of electricity and water.

24 Related party transactions (continued)

Compensation of key management personnel for the year:

	2017 USD'000	2016 USD'000
Salaries and other benefits	5,631	5,508

(b) Amounts due (to) and due from entities subject to common control and shareholders, included in the consolidated statement of financial position are as follows:

	2017 USD'000	2016 USD'000
Cash and cash resources	160,987	466,486
Accrued interest receivable	6,545	1,951
Accounts receivable	856	668
Notes receivable*	1,407,866	-
Net derivative asset	(226)	150
Long term debt	(1,098,181)	(770,417)
Security deposits	(16,567)	(16,567)
Accrued interest payable	(3,025)	(3,316)

* During the year ended 31 December 2017, DAE, acting as lender, entered into an intercompany loan agreement with its shareholders (ICD Hospitality and Leisure LLC and DSOA). The amount lent to shareholders under the agreement was USD 1,395.7 million and loan maturity is 2022. Interest is calculated at the rate of 3.5% annually on the amount of the loan outstanding starting on the effective date. Interest capitalized and accrued as at 31 December 2017 was USD 12.2 million and USD 6.3 million respectively.

Amounts related to transactions with companies under common control for lease acquisition costs and unearned revenue are disclosed in notes 12 and 23 respectively.

25 Commitments and contingent liabilities

(a) Capital commitments

At 31 December 2017 the Group had committed to purchase 23 new aircraft from Airbus and ATR, scheduled to deliver from 2018 through to 2019.

The Directors anticipate that a portion of the aggregate purchase price for the purchase of aircraft will be funded by incurring additional debt. The exact amount of the indebtedness to be incurred will depend upon the actual purchase price of the aircraft, which can vary due to a number of factors, including inflation, and the percentage of the purchase price of the aircraft which must be financed.

In addition, the Group is committed to the purchase of 10 aircraft from airlines.

The total capital commitment at 31 December 2017 is USD 1,800.4 million (2016: USD 836.0 million).

25 Commitments and contingent liabilities (continued)

(b) Contingent liability

A contingent loss exists at 31 December 2017 in relation to unpaid Eurocontrol charges incurred by operators of the Group's aircraft.

Eurocontrol's Central Route Charges Office bills and collects charges from users of en-route services on behalf of Eurocontrol Member States pursuant to a Multilateral Agreement ("the Agreement"). The Agreement, which came into force on 1 January 1986, stipulates that the party liable for the payment of Eurocontrol charges is the operator of the aircraft at the time the relevant flight was performed. If the identity of the operator is unknown and the owner fails to prove that another party is the operator, then the owner will be treated as the operator.

The Agreement provides that where a debtor has not paid the amount due, measures may be taken by Eurocontrol to enforce recovery. The measures available to Eurocontrol are subject to national law in each of the Eurocontrol Member States and in some jurisdictions include the ability to arrest and detain an aircraft pending recovery of unpaid charges. The Group as owner of the aircraft may become liable for Eurocontrol costs in the event that an operator defaults on their Eurocontrol obligations.

No accrual has been made at 31 December 2017 (2016: nil) in relation to contingent liabilities pertaining to Eurocontrol charges as any potential liability is not considered probable at this time, and the amount of any potential liability cannot be reasonably estimated.

26 Loans receivable

In 2016, a loan facility was entered into by the Group whereby it advanced funds to a third party borrower to be applied in connection with payment to an aircraft manufacturer for amounts due pertaining to pre-delivery payments. During the year ended 31 December 2017, the Group purchased certain aircraft by way of a purchase agreement assignment by the borrower. In relation to this, the borrower assigned the right to benefit from pre-delivery payments for these aircraft to the Group and as a result, a total of USD 122.3 million was reclassified from loan receivables to aircraft held for lease (2016: nil). Other movements in loan receivables pertain to amortisation of loan fees of USD 1.1 million (2016: USD 0.3 million).

27 Guarantees

The Group issues letters of credit, performance bonds, bid bonds or guarantees in the ordinary course of its business. These instruments are generally issued in conjunction with contracts or other business requirements. The total of these instruments outstanding at 31 December 2017 was approximately USD 0.6 million (2016: USD 0.9 million).

28 Risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's objective in using derivatives is to manage its exposure to interest rate movements and to add stability to interest expense. To accomplish this objective, the Group primarily uses interest rate swaps as part of its cash flow hedging strategy. The interest rate swaps are designated as cash flow hedges and are used by the Group to limit its exposure to changes in interest rates on its existing variable rate debt.

(a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group's loan receivables are interest-bearing, hence are exposed to interest rate risk.

The Group's interest rate risk also arises from long term debt. Long term debt issued at variable rates expose the Group to cash flow interest rate risk. Long term debt issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting debt from floating rates to fixed rates. Generally, the Group raises long term debt at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

As of 31 December 2017, the fair values of non-current outstanding derivatives designated as cash flow hedges of forecast transactions were liabilities of USD 1.3 million (2016: USD 0.1 million). Whereas, the fair values of non-current outstanding derivatives designated as fair value hedges of forecast transactions were liabilities of USD 0.2 million and assets of USD 1.7 million (2016: liabilities of USD 1.1 million and assets of USD 1.3 million).

At 31 December 2017, if interest rates on debt had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been USD 14.1 million lower/higher (2016: USD 7.7 million lower/higher), mainly as a result of higher/lower interest expense on floating rate debt, including the effect of the interest rate swap.

Interest rate risk related to interest rate derivatives is explained in note 20 to these consolidated financial statements.

Unrealised gains of USD 0.7 million during the year ended 31 December 2017 (2016: USD 0.2 million gain) for derivatives designated as cash flow hedges are separately presented within the consolidated statement of comprehensive income. Loss on hedge ineffectiveness was recognised amounting to USD 1.8 million for the year ended 31 December 2017 (2016: USD 1.5 million).

28 Risk management (continued)

(a) Interest rate risk **(**continued)

Amounts reported in the consolidated statement of comprehensive income related to derivatives will be reclassified to 'finance costs' when interest payments are made on the Group's variable-rate long term debt. For the year ended 31 December 2017, USD 1.0 million of interest expense was reclassified out of equity into 'finance costs' (2016: USD 1.0 million).

(b) Credit risk

Financial instruments which potentially subject the Group to concentrations of credit risk consist principally of accounts receivable, cash and cash equivalents, and derivatives.

The Group has established strict counterparty credit guidelines and enters into transactions only with financial institutions of investment grade or better. The Group monitors counterparty exposures on a regular basis and reviews for any downgrades in counterparty credit risk. The table below presents an analysis of short term bank deposits and bank balances by rating agency designation at the end of the reporting period based on Moody's ratings or its equivalent for the Group's main banking relationships:

Rating	2017 USD'000	2016 USD'000
A1 to A2	595,784	213,805
Ba1 to Ba2	40,876	338,838
Unrated	87,389	6,842
	724,049	559,485

In addition to the above cash balances, the notes receivable are from shareholders without a formal credit rating.

As of 31 December 2017, DAE Capital's receivables from Kingfisher Airlines (contributing 41% to the Group's total gross accounts receivables (2016: 97%) are fully provided within the allowance for doubtful debts. In 2013, the Group terminated the aircraft leases with Kingfisher Airlines and legal action was taken to recover the amounts due. Judgement was obtained in the Group's favour. Enforcement proceedings are in progress (along with multiple third party claims) in the Indian courts.

The risk associated with the Group's cash and cash equivalents is nominal due to the fact that these amounts are placed with large commercial financial institutions.

The counterparties to the Group's derivatives are major financial institutions. The Group could be exposed to loss in the event of non-performance by the counterparty. However, credit ratings and concentration of risk of the financial institutions are monitored on a continuing basis and present no significant credit risk to the Group.

28 Risk management (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, and the availability of funding through an adequate amount of committed credit facilities to reduce the risk that an entity would be unable to meet financial commitments.

The Group's principal exposure to liquidity risk arises from its long term debt obligations and the table below analyses the Group's long term debt into relevant maturity groupings based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The contractual projected interest over the loan term is based on the floating interest rates at 31 December 2017.

	Less than 1 year USD'000	**1 to 5 years** USD'000	**> 5 years** USD'000	**Total** USD'000
31 December 2017				
Long term debt	1,788,267	6,318,203	4,572,420	12,678,890
31 December 2016				
Long term debt	876,369	1,356,628	1,398,884	3,631,881

The Group also manages liquidity risk through its cash on hand and revolving credit facility which has availability of USD 169.4 million as of 31 December 2017 (2016: USD nil million).

(d) Currency risk

The Group has a minimum exposure to foreign exchange risk as the majority of transactions are denominated in US Dollars.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard the entity's ability to continue as a going concern and to provide a return to equity holders commensurate with the level of business and financial risk. The Group strives to maintain capital adequacy in each of its divisions or subsidiaries consistent with the averages for the industry in which the division or subsidiary operates. The Group makes appropriate adjustments to the capital structure in light of changing economic and market conditions and the risk characteristics of the underlying assets.

Capital comprises share capital, retained earnings and cumulative changes in fair value, and is measured at USD 3,150.0 million as at 31 December 2017 (2016: USD 1,666.9 million).

(f) Financial covenants

Under the terms of the major borrowing facilities, the Group is required to comply with certain financial covenants such as compliance to a minimum net worth.

The Group has complied with these covenants throughout the reporting period.

29 Leases

Operating leases

At 31 December 2017, the Group owns 310 aircraft (2016: 87 aircraft) aircraft. During the year, the Group received lease payments on aircraft under non-cancellable operating leases expiring from 2017 to 2029. Future minimum annual rentals to be received under the leases at 31 December 2017 are as follows:

2017	USD'000
Not later than one year	1,266,286
Later than one year and not later than five years	3,973,160
Later than 5 years	2,256,400
	7,495,846

2016	USD'000
Not later than one year	437,744
Later than one year and not later than five years	1,459,307
Later than 5 years	1,105,703
	3,002,754

During the term of most leases, lessees pay an additional amount based on usage to fund the estimated costs of scheduled major maintenance of the airframe and engines. These amounts are accounted for as maintenance reserves and are disclosed under note 16.

Finance leases

Group as lessor

The total net investment in finance leases included in the consolidated statement of financial position represents total lease payments receivable in relation to 11 aircraft (2016: 5 aircraft), net of finance charges related to future accounting periods. Finance charges are allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

29 Leases (continued)

Finance leases (continued)

Group as lessor (continued)

	2017 USD'000	2016 USD'000
Finance leases – gross receivables	265,174	130,311
Unearned finance lease	(60,783)	(44,127)
Total non-current receivables	204,391	86,184
Finance leases – gross receivables	17,447	5,553
Unearned finance lease	(262)	-
Total current receivables	17,185	5,553

Receivables from finance leases

	2017		2016	
	Minimum payments USD'000	**Present value of payments** USD'000	**Minimum payments** USD'000	**Present value of payments** USD'000
Within one year	28,667	17,185	12,148	5,553
After one year but not more than five years	113,901	87,100	47,905	25,946
More than five years	140,053	117,291	75,810	60,237
Total	282,621	221,576	135,863	91,736
Less: unearned finance income	(61,045)	-	(44,127)	-
	221,576	221,576	91,736	91,736

Group as lessee

The Group has a leased a plot of land on which a subsidiary's facility is located and the various buildings which make up the facility thereon under finance lease agreement. The lease runs for an initial duration of 25 years, with an option to renew the lease after that date. Lease payments (excluding contingent rentals) are fixed. The Group has estimated the fair value of the finance lease as the present value of the minimum lease payments discounted at 8% being the subsidiary's borrowing interest rate. On 30 August 2016, the subsidiary agreed with the bank to decrease the borrowing interest rate from 8% to be 6% effective from 1 August 2016. The fair value of the lease does not include the present value of future contingent rentals which are directly charged to the consolidated statement of comprehensive income as part of the rent expense as incurred. The finance lease liability is classified under long term debt in the consolidated statement of financial position.

The minimum lease payments that are due under the lease within one year is USD 2.2 million, USD 9.0 million after one year but not more than five years and USD 17.6 million after five years

30 Financial instruments

The Group utilises financial instruments to reduce exposures to market risks throughout its business. Equity, borrowings and cash and cash resources are used to finance the Group's operations.

The main risks attaching to the Group's financial instruments are disclosed in note 28
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The accounting policies for the financial instruments have been applied to the line items below:

	2017 USD'000	2016 USD'000
Loans and receivables		
Cash and cash equivalents	369,870	480,163
Restricted cash	354,179	79,322
Derivative financial assets	10,778	1,326
Trade and other receivables	45,508	16,202
Notes receivable	1,407,866	-
Finance lease receivable	221,576	86,184
	2,409,777	663,197
Financial liabilities		
Trade and other payables	68,232	34,029
Loans and borrowings	10,405,508	3,028,033
Maintenance reserves and security deposits	1,361,983	196,329
Derivative financial liabilities	3,296	1,176
	11,839,019	3,259,567

31 Fair values of financial instruments

The estimated fair values of financial instruments approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties. The fair values are based on estimates using present value and other valuation techniques that are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2:other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3:techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

31 Fair values of financial instruments (continued)

As at year end, the Group held the following financial instruments measured at fair value:

	31 December 2017 USD'000	**Level 1** USD'000	**Level 2** USD'000	**Level 3** USD'000
Derivative financial instruments designated as cash flow hedges (included under current assets)	1,339	-	1,339	-
Derivative financial instruments designated as fair value hedges (included under current liabilities)	3,296	-	3,296	-
Derivative financial instruments designated as fair value hedges (included under current assets)	9,439	-	9,439	-

	31 December 2016 USD'000	**Level 1** USD'000	**Level 2** USD'000	**Level 3** USD'000
Derivative financial instruments designated as cash flow hedges (included under current liabilities)	67	-	67	-
Derivative financial instruments designated as fair value hedges (included under current liabilities)	1,109	-	1,109	-
Derivative financial instruments designated as fair value hedges (included under current assets)	1,326	-	1,326	-

For cash and bank balances, trade and other receivables, accounts payable and other accrued liabilities, the fair value approximates the carrying value due to the short maturity periods of these financial instruments. For long term debt, the fair value is based on published price quotations in an active market or, where not available, on published price quotations in an active market of comparable debt issued by other companies (Level 2). The fair values of financial instruments of the Group are not materially different from their carrying values.

There were no transfers into or out of the level 2 category during the year.

32 Discontinued operations

Income from discontinued operations for the year ended 31 December 2016 relates to the release of provisions in respect of obligations of the Group following settlement of litigation of a disposed subsidiary.

33 Dividends

During the year, the shareholders approved the distribution of cash dividends amounting to USD nil (2016: USD 105 million – USD 100 per share).

34 Subsequent events

There were no significant events subsequent to 31 December 2017.

35 Prior period figures

Amounts for the previous year have been reclassified to conform to the current period's presentation. Additional comparative statements of financial position and statements of comprehensive income have not been presented as the amounts relate to reclassifications only and there is no change to the net equity or profit for the year ended 31 December 2016. Significant amounts reclassified relate to:

1) Finance lease receivables being shown as a separate line item in current and non-current assets whereas they were previously disclosed as a component of other non-current assets (USD 86.2 million) and trade and other receivables (USD 5.6 million). This only impacts presentation within the prior year consolidated statement of financial position.

2) The Group has reconsidered whether amounts previously disclosed as discontinued operations in the year ended 31 December 2016 in relation to the disposal of 21 aircraft meet the criteria for disclosure as a discontinued operation and concluded that the results relating to these 21 aircraft should have been shown as continuing operations. The following amounts have been reclassified and there is no net impact on the overall statement of comprehensive income for the year ended 31 December 2016.

   Total amount reclassified as discontinued operations in 2016 is USD 19.8 million as summarised below:

Lease revenue	67,505
Depreciation	(28,275)
Finance costs	(13,728)
General and administrative expenses	(3,203)
Income before taxes	22,299
Income tax expense	(2,542)
Income for the year from discontinued operations	19,757