



Dubai Aerospace Enterprise (DAE) Ltd

Results for the year ended 31 December 2018

CONFERENCE CALL DETAILS

DAE will host a conference call at 08:30 EST / 13.30 GMT / 17.30 GST on Wednesday 27 February, 2019 to review our results for the year ended 31 December, 2018. The call can be accessed live by dialling (Ireland) +353 (0) 1 246 5638, (UAE) 8000 3570 2653, (U.S.) +1 323-794-2423 or (UK) +44 (0) 330 336 9105 and referencing code 3378207 at least 15 minutes before the start time. Further information can be found on our website <http://www.dubai.aerospace.com>.

RESULTS ANNOUNCEMENT

We present management's discussion and analysis of the financial condition and results of operations for the year ended 31 December, 2018 which should be read in conjunction with the audited consolidated financial statements (the "financial statements") of Dubai Aerospace Enterprise (DAE) Ltd ("DAE") and its subsidiaries (together and hereinafter "we" or "us"). References to "31 December, 2018" are to the year ended 31 December, 2018 and to "31 December, 2017" are to the year ended 31 December, 2017.

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER, 2018

- Profit from operating activities for the year ended 31 December, 2018 was \$783.9 million compared to \$381.6 million for the year ended 31 December, 2017. During the year ended 31 December, 2018 there was an increase in revenue resulting from an increase in the number of revenue generating aircraft in the fleet and gains on disposal of aircraft.
- Profit before tax for the year ended 31 December, 2018 was \$428.8 million compared to \$182.4 million for the year ended 31 December, 2017.
- Adjusted EBITDA increased to \$1,347.7 million for the year ended 31 December, 2018, from \$698.1 million for the year ended 31 December, 2017.
- Total cash and cash resources as at 31 December, 2018 of \$408.8 million represents a decrease of \$315.2 million compared to \$724.0 million as at 31 December, 2017.
- Total assets were \$14,705.2 million as at 31 December, 2018, compared to \$15,383.8 million as at 31 December, 2017.

OPERATIONAL HIGHLIGHTS

- The operational highlights for the year ended 31 December, 2018 and 31 December, 2017 are summarised below:
 - Purchases – we purchased 28 aircraft (2017: 37 aircraft).
 - Sales – we disposed of 26 aircraft (2017: 25 aircraft).
 - Total aircraft in the fleet at 31 December, 2018 was 354 which consists of the following:
 - 312 owned aircraft - includes eight aircraft on finance lease and 16 aircraft classified as held-for-sale ("HFS") (31 December, 2017: 310 which included 11 aircraft on finance lease and one aircraft HFS).
 - 37 managed aircraft - managed on behalf of various third parties (31 December, 2017: 40 aircraft).
 - 5 committed aircraft - The total capital commitment for these aircraft as at 31 December, 2018 was \$125.0 million.
- We closed a total of \$3,750.9 million of borrowings during the year ended 31 December, 2018.

FORWARD-LOOKING STATEMENTS

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.

RESULTS OF OPERATIONS

The following discussion of our results of operations is based on the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position which have been extracted from our financial statements for the year ended 31 December, 2018.

Results of operations (in millions of USD)

	<u>Year ended</u>	
	<u>31 Dec, 2018</u>	<u>31 Dec, 2017</u>
Consolidated statement of comprehensive income data		
Total revenue.....	\$ 1,436.6	\$ 845.8
Gain/(loss) on disposal of aircraft.....	52.1	(14.9)
Expenses		
Depreciation and amortisation.....	(563.8)	(307.1)
General and administrative expenses.....	(90.1)	(80.4)
Cost of providing engineering maintenance services.....	(44.4)	(34.4)
Aircraft maintenance.....	(6.5)	(18.0)
Asset impairment.....	0.0	(9.4)
Profit from operating activities	783.9	381.6
Net finance costs.....	(355.1)	(199.2)
Profit before income tax	428.8	182.4
Income tax expense.....	(55.9)	(9.8)
Profit for the year	372.9	172.6
	<u>As of</u>	
	<u>31 Dec, 2018</u>	<u>31 Dec, 2017</u>
Consolidated statement of financial position data (Extract)		
Total cash and cash resources.....	\$ 408.8	\$ 724.0
Aircraft held-for-lease.....	11,708.2	12,050.3
Assets held-for-sale.....	521.1	11.2
Total assets	14,705.2	15,383.8
Total loans and borrowings.....	9,260.6	10,405.5
Net equity.....	3,524.8	3,162.8
Total liabilities and equity	14,705.2	15,383.8
	<u>Year ended</u>	
	<u>31 Dec, 2018</u>	<u>31 Dec, 2017</u>
Adjusted EBITDA calculation ⁽¹⁾		
Profit for the year	\$ 372.9	\$ 172.6
Add back		
Net finance costs.....	355.1	199.2
Income tax expense.....	55.9	9.8
Asset impairment.....	0.0	9.4
Depreciation and amortisation.....	563.8	307.1
Adjusted EBITDA	1,347.7	698.1
	<u>As of</u>	
	<u>31 Dec, 2018</u>	<u>31 Dec, 2017</u>
Net debt to equity ⁽²⁾	2.57x	3.17x
Total aircraft in the fleet	354	383

(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 ("IFRS"). We use Adjusted EBITDA to assess financial and operating performance and we believe this non-IFRS measure is helpful in identifying trends in our performance. Our method of calculating Adjusted EBITDA may differ from similarly named non-IFRS measures of other companies.

(2) Net debt to equity is calculated by dividing net loans and borrowings less cash and cash equivalents by total equity.

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**

Overview

DAE is a global aerospace company headquartered in Dubai. DAE conducts its activities through two divisions: (i) Aircraft Leasing (DAE Capital) and (ii) Engineering (DAE 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.

Aircraft leasing business (DAE Capital)

We are one of the largest aircraft leasing companies in the world with a total fleet of 354 aircraft at 31 December, 2018. This was made up of 312 owned aircraft (including eight aircraft on finance lease and 16 aircraft HFS) and 37 managed aircraft. In addition, we also have orders for five new, fuel-efficient aircraft from Airbus S.A.S. ("Airbus") and Aerei da Trasporto Regionale ("ATR"), which are due to deliver during the year ended 31 December, 2019. These aircraft are on lease to 109 lessees in 57 countries.

As of 31 December, 2018, the aggregate book value of our owned fleet of \$12,347.0 million includes finance lease receivable and HFS aircraft. The weighted average age of our owned fleet was 6.2 years based on net book value as of 31 December, 2018 (31 December 2017: 5.9 years). As of 31 December, 2018, 89.1% of our leases were subject to fixed lease rates as a percentage of lease revenue.

Our lease portfolio is highly diversified, geographically and by airline, with our top five lessees representing 28.0% of our portfolio based on lease revenue as of 31 December, 2018. Emirates, a related party, is our largest customer contributing 16.2% of lease revenue during the year ended 31 December, 2018.

Analysis by aircraft type for the leasing business

Aircraft Type	Owned Portfolio	Managed Portfolio	Committed Portfolio	Total
A320 family	117	15	3	135
A330-200	16	-	-	16
A330-300	11	-	-	11
A350-900	2	-	-	2
Total Airbus	146	15	3	164
B737 family	85	15	-	100
B737 classics	-	3	-	3
B747-400	3	-	-	3
B757-200	-	1	-	1
B767-300ER	1	3	-	4
B777F	12	-	-	12
B777	3	-	-	3
B787	9	-	-	9
Total Boeing	113	22	-	135
ATR 72-600	53	-	2	55
Total	312	37	5	354
Narrow body	202	34	3	239
Wide body	57	3	-	60
Turboprop	53	-	2	55
Total	312	37	5	354

Year Ended 31 December, 2018 Compared to Year Ended 31 December, 2017

Revenues

	<u>Year ended</u>	
	<u>31 Dec, 2018</u>	<u>31 Dec, 2017</u>
	USD millions	
Lease revenue.....	\$ 1,372.2	\$ 771.1
Maintenance revenue.....	\$ 20.7	\$ 36.4
Amortisation of lease incentive, lease discounts and other lease costs.....	\$ (31.0)	\$ (17.0)
Total lease revenue.....	\$ 1,361.9	\$ 790.5
Engineering maintenance service revenue – Joramco.....	\$ 67.4	\$ 47.7
Other income.....	\$ 7.3	\$ 7.6
Total revenue.....	\$ 1,436.6	\$ 845.8

Total revenue increased to \$1,436.6 million for the year ended 31 December, 2018 from \$845.8 million for the year ended 31 December, 2017 due to the reasons outlined below.

Total lease revenue increased to \$1,361.9 million for the year ended 31 December, 2018 from \$790.5 million for the year ended 31 December, 2017. This increase was due primarily to an increase in lease revenue due to a higher number of revenue generating aircraft in the fleet throughout the year ended 31 December, 2018.

This was offset by lower maintenance revenue which related to a lower release on transitioning aircraft during the year ended 31 December, 2018 compared to the prior period. Amortisation of lease incentive, lease discounts and other lease costs also increased to \$31.0 million for the year ended 31 December, 2018 compared to \$17.0 million for the year ended 31 December, 2017.

Engineering maintenance service revenue – Joramco was \$67.4 million for the year ended 31 December, 2018, compared to \$47.7 million for the year ended 31 December, 2017.

Gain/(loss) on disposal of aircraft

Gain/(loss) on disposal of aircraft increased for the year ended 31 December, 2018 to a gain of \$52.1 million from a loss of \$14.9 million for the year ended 31 December, 2017. During the year ended 31 December, 2018, we sold 26 owned aircraft of which two aircraft were parted out, compared to 25 owned aircraft during the year ended 31 December, 2017. 15 aircraft sold in 2018 related to the portfolio sale of aircraft announced in May, 2018. We also sold six managed aircraft.

Expenses

Expenses for the year ended 31 December, 2018 increased to \$704.8 million compared to \$449.3 million for the year ended 31 December, 2017. This increase was principally due to higher depreciation and amortisation expenses due to the increased number of aircraft in the fleet and increased general and administrative expenses over the year ended 31 December, 2018. This was partially offset by lower aircraft maintenance expense during the year ended 31 December, 2018 compared to the prior period.

Cost of providing engineering services - Joramco was \$44.4 million for the year ended 31 December, 2018 compared to \$34.4 million for the year ended 31 December, 2017 due to increased engineering maintenance service revenue during the year ended 31 December, 2018 compared to the prior period.

Net finance costs

Net finance costs increased to \$355.1 million for the year ended 31 December, 2018 from \$199.2 million for the year ended 31 December, 2017. This increase was mainly due to higher interest charged on higher average loan balances. Also included in finance expense were once-off charges relating to a loss on transfer from finance lease receivable and acceleration of amortisation of debt issuance costs due to early repayment of loans. This was offset by increased finance income, which mainly related to interest on notes receivable, gains on financial instruments, interest on bank accounts and short-term investments and movement in fair value of derivatives which was a non-cash item during the year ended 31 December, 2018.

Income tax expense

During the year ended 31 December, 2018, we recorded a tax expense of \$55.9 million compared to \$9.8 million for the year ended 31 December, 2017. The income tax expense for the year ended 31 December 2018 was primarily driven by the corporate tax arising on the group's Irish activities at 12.5%. The group also incurred losses in other jurisdictions, primarily Hungary (\$8.2 million tax effected) which is included in income taxable at other rates. However, based on current taxable income projections these losses have not been recognised.

Profit for the year

Profit for the year ended 31 December, 2018 was \$372.9 million, compared to \$172.6 million for the year ended 31 December, 2017 mainly due to reasons outlined above.

Consolidated Cash Flows

The following table presents our consolidated cash flows for the year ended 31 December, 2018 and the year ended 31 December, 2017. The cash and cash equivalents shown below refer to unrestricted cash.

	<u>Year ended,</u>	
	31 Dec, 2018	31 Dec, 2017
	USD millions	
Consolidated cash flow data		
Net cash generated from operating activities	\$ 1,310.4	\$ 888.6
Net cash used in investing activities	\$ (202.8)	\$ (2,721.2)
Net cash (used in) / generated from financing activities.....	\$ (1,284.5)	\$ 1,722.3
Net decrease in cash and cash equivalents.....	\$ (176.9)	\$ (110.3)
Cash and cash equivalents at the beginning of the period.....	\$ 369.9	\$ 480.2
Cash and cash equivalents	\$ 193.0	\$ 369.9

For the year ended 31 December, 2018, net cash generated from operating activities were \$1,310.4 million, an increase from \$888.6 million for the year ended 31 December, 2017. The increase during the year ended 31 December, 2018 was mainly due to increased operating cash flow generated by an increased number of aircraft in the fleet.

For the year ended 31 December, 2018, net cash used in investing activities was \$202.8 million, compared to \$2,721.2 million for the year ended 31 December, 2017. This movement mainly relates to the acquisition of subsidiary in August 2017 partially offset by higher proceeds from disposal of aircraft and decreased deposits paid for aircraft purchases compared to the prior period.

Net cash used in financing activities for the year ended 31 December, 2018 was \$1,284.5 million compared to the net cash generated from financing activities of \$1,722.3 million for the year ended 31 December, 2017. This was due to increased loan repayments of \$4,471.7 million and bond repurchases of \$397.6 million and lower proceeds of borrowings of \$3,750.9 million during the year ended 31 December, 2018 compared to the prior period.

Our cash and cash equivalents, as at 31 December, 2018 was \$193.0 million, down from \$369.9 million as at 31 December, 2017.

Indebtedness, Liquidity and Capital Resources

Indebtedness

Our third-party indebtedness before debt issuance costs decreased to \$9,359.3 million as at 31 December, 2018 from \$10,505.9 million as at 31 December, 2017. This was primarily due to early repayment of certain loans during the year ended 31 December, 2018. At the end of 2018, our level of unsecured debt had increased to 46% compared to 23% in the prior period. Our total loans and borrowings net of debt issuance costs was \$9,260.6 million at 31 December, 2018. The average cost of debt was 4.4% compared to 4.0% at 31 December, 2017 and the weighted average debt maturity was 5.2 years which was in line with the prior period.

	Collateral aircraft	Year ended 31 Dec, 2018 USD millions
Non-recourse obligations.....	34	\$ 828.2
Recourse obligations (incl ECA, Ex-Im & EDC).....	131	\$ 3,995.0
Senior unsecured notes.....	-	\$ 2,949.2
Revolving credit facilities.....	-	\$ 1,001.6
Unsecured facilities.....	-	\$ 357.1
Term loan 2014.....	<u>9</u>	<u>\$ 228.2</u>
Total indebtedness.....	<u>174</u>	<u>\$ 9,359.3</u>

In addition to the 174 aircraft used as collateral on our secured facilities, 138 aircraft (2017: 55 aircraft) were unencumbered with a total net book value of \$4,694.9 million (2017: net book value: \$1,277.9 million). Further information of the loan facilities can be found in the consolidated financial statements note 18.

In 2018, we received investment grade status from Kroll. S&P upgraded DAE in 2018 to BB+ and Moody's upgraded us to Ba1 in 2018.

During the last quarter of 2018, we issued senior unsecured notes of \$1 billion. In addition, we increased the level of unsecured revolving credit facilities to \$2,365.0 million in 2018 from the US, Europe and the Middle East.

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 revolving credit facilities in aggregate.

Liquidity and Capital Resources

Our total equity increased to \$3,524.8 million as at 31 December, 2018 from \$3,162.8 million as at 31 December, 2017 due to additional profit earned. Our Net Debt to Equity ratio was 2.57:1 times as at 31 December, 2018 compared to 3.17:1 times as at 31 December, 2017.

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.

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Dubai Aerospace Enterprise (DAE) Ltd

**Consolidated financial statements
for the year ended 31 December 2018**

Dubai Aerospace Enterprise (DAE) Ltd

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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 present fairly, in all material respects, the consolidated financial position of Dubai Aerospace Enterprise (DAE) Ltd (the "Company") and its subsidiaries (together the "Group") as at 31 December 2018, 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 profit or loss and other comprehensive income for the year ended 31 December 2018;
- the consolidated statement of financial position as at 31 December 2018;
- 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 and fair presentation of the consolidated financial statements 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.

/s/ PricewaterhouseCoopers
PricewaterhouseCoopers
24 February 2019

Dubai Aerospace Enterprise (DAE) Ltd

Consolidated statement of profit or loss and other comprehensive income

	Note	Year ended 31 December	
		2018 USD'000	2017 USD'000
Revenue	3	1,429,334	838,190
Other income	4	7,277	7,608
Total revenue		<u>1,436,611</u>	<u>845,798</u>
Gain / (loss) on disposal of aircraft		52,088	(14,933)
Expenses			
Depreciation and amortisation		(563,763)	(307,106)
General and administrative expenses	5	(90,044)	(80,386)
Cost of providing engineering maintenance services		(44,408)	(34,383)
Aircraft maintenance		(6,549)	(17,987)
Asset impairment		-	(9,400)
Profit from operating activities		<u>783,935</u>	<u>381,603</u>
Finance income	6	120,616	51,807
Finance expense	6	(475,725)	(250,974)
Net finance costs		<u>(355,109)</u>	<u>(199,167)</u>
Profit before income tax		<u>428,826</u>	<u>182,436</u>
Income tax expense	7	(55,903)	(9,843)
Profit for the year		<u>372,923</u>	<u>172,593</u>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Unrealised (loss) / gain on interest rate hedges		(11,148)	1,751
Amounts reclassified to profit or loss		444	100
Income tax relating to components of other comprehensive income		(131)	-
Total comprehensive income for the year		<u>362,088</u>	<u>174,444</u>
Profit for the year attributable to:			
Equity holders of Dubai Aerospace Enterprise (DAE) Ltd		372,675	174,240
Non-controlling interests		248	(1,647)
		<u>372,923</u>	<u>172,593</u>
Total comprehensive income for the year attributable to:			
Equity holders of Dubai Aerospace Enterprise (DAE) Ltd		361,840	176,091
Non-controlling interests		248	(1,647)
		<u>362,088</u>	<u>174,444</u>

The accompanying notes form an integral part of these consolidated financial statements.

Dubai Aerospace Enterprise (DAE) Ltd

Consolidated statement of financial position

	Note	As at 31 December	
		2018 USD'000	2017 USD'000
ASSETS			
Non-current assets			
Aircraft held-for-lease	8	11,708,173	12,050,320
Property, plant and equipment		91,924	47,378
Deposits for aircraft purchases	9	70,663	638,184
Intangible assets		7,760	9,799
Goodwill	10	44,668	45,821
Finance lease receivables	25	106,735	204,391
Notes receivable	22	1,464,791	1,407,866
Other non-current assets	12	161,031	131,716
		<u>13,655,745</u>	<u>14,535,475</u>
Current assets			
Cash and cash equivalents	14	192,950	369,870
Restricted cash	14	215,802	354,179
Inventories		9,770	8,506
Derivative financial assets	19	16,530	10,778
Trade and other receivables	13	36,223	45,508
Prepayments		5,407	4,388
Finance lease receivables	25	10,966	17,185
Other current assets	12	40,671	26,713
Assets held-for-sale	15	521,104	11,202
		<u>1,049,423</u>	<u>848,329</u>
Total assets		<u>14,705,168</u>	<u>15,383,804</u>
EQUITY AND LIABILITIES			
EQUITY			
Authorised and issued share capital	16	1,927,770	1,927,770
Additional paid-in-capital		517,884	517,884
Treasury shares		(85,000)	(85,000)
Other reserves		(10,329)	506
Retained earnings		1,165,157	792,482
		<u>3,515,482</u>	<u>3,153,642</u>
Non-controlling interests		9,356	9,108
Net equity		<u>3,524,838</u>	<u>3,162,750</u>
LIABILITIES			
Non-current liabilities			
Loans and borrowings	18	8,144,726	8,936,227
Deferred tax liabilities	11	258,783	210,759
Maintenance reserves and security deposits	17	1,125,070	1,186,948
Deferred revenue	21	68,217	68,299
		<u>9,596,796</u>	<u>10,402,233</u>
Current liabilities			
Loans and borrowings	18	1,115,882	1,469,281
Trade and other payables	20	60,599	70,896
Derivative financial liabilities	19	13,370	3,296
Maintenance reserves and security deposits	17	199,332	175,035
Deferred revenue	21	71,834	96,866
Current tax liabilities		1,620	-
Liabilities held-for-sale	15	120,897	3,447
		<u>1,583,534</u>	<u>1,818,821</u>
Total liabilities		<u>11,180,330</u>	<u>12,221,054</u>
Total liabilities and equity		<u>14,705,168</u>	<u>15,383,804</u>

The accompanying notes form an integral part of these consolidated financial statements.

Dubai Aerospace Enterprise (DAE) Ltd

Consolidated statement of cash flows

	Year ended 31 December	
	2018 USD'000	2017 USD'000
Cash flows from operating activities		
Profit for the year	372,923	172,593
Adjustments for:		
Depreciation and amortisation	563,763	307,106
(Gain) / loss on disposal of aircraft	(52,088)	14,933
Movement in fair value of derivatives	(10,813)	(8,875)
Amortisation of fair value discounts and debt issuance costs	56,844	11,654
Net finance cost	309,078	196,388
Asset impairment	-	9,400
Income tax	55,903	9,843
Changes in operating assets and liabilities		
Movement in in trade and other receivables	9,285	(11,691)
Movement in finance lease receivables	103,875	(129,839)
Movement in maintenance reserves and security deposits	(37,581)	71,295
Movement in other assets and liabilities	(60,818)	245,793
Net cash generated from operating activities	1,310,371	888,600
Cash flow from investing activities		
Acquisition of aircraft held-for-lease	(1,028,985)	(1,084,224)
Acquisition of property plant and equipment	(46,099)	(3,862)
Acquisition of subsidiary – net of cash acquired	-	(1,767,853)
Proceeds from disposal of aircraft	964,514	457,253
Interest received	11,265	39,523
Deposits paid for the purchase of aircraft	(103,535)	(362,039)
Net cash used in investing activities	(202,840)	(2,721,202)
Cash flows from financing activities		
Movement in restricted cash	138,377	(274,857)
Purchase of own shares	-	(85,000)
Proceeds from borrowings	3,750,891	4,034,651
Repayment of borrowings	(4,471,741)	(1,715,727)
Debt repurchased	(397,559)	-
Cash interest paid	(261,712)	(179,441)
Debt issuance costs incurred	(42,707)	(57,317)
Net cash (used in) / generated from financing activities	(1,284,451)	1,722,309
Net decrease in cash and cash equivalents	(176,920)	(110,293)
Cash and cash equivalents at the beginning of the year	369,870	480,163
Cash and cash equivalents at the end of the year	192,950	369,870

The cash paid for taxes during the year was USD 5.8 million (2017: USD 11.1 million).

The accompanying notes form an integral part of these consolidated financial statements.

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 Company USD'000	Non- controlling interest USD'000	Total USD'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	<u>1,927,770</u>	<u>517,884</u>	<u>(85,000)</u>	<u>506</u>	<u>792,482</u>	<u>3,153,642</u>	<u>9,108</u>	<u>3,162,750</u>
Profit for the year	-	-	-	-	372,675	372,675	248	372,923
Other comprehensive income	-	-	-	(10,835)	-	(10,835)	-	(10,835)
Total comprehensive income for the year	-	-	-	(10,835)	372,675	361,840	248	362,088
At 31 December 2018	<u><u>1,927,770</u></u>	<u><u>517,884</u></u>	<u><u>(85,000)</u></u>	<u><u>(10,329)</u></u>	<u><u>1,165,157</u></u>	<u><u>3,515,482</u></u>	<u><u>9,356</u></u>	<u><u>3,524,838</u></u>

The accompanying notes form an integral part of these consolidated financial statements.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

1 Corporate information

Dubai Aerospace Enterprise (DAE) Ltd (“DAE or the “Company”) (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 (“DOSA”) are subsidiaries of ICD. ICD, directly and indirectly owns 95.74% of the Company, and is therefore the ultimate parent of the Group. ICD is controlled by the Government of Dubai. The balance of the issued shares is held by the Company as treasury shares.

The Group is made up of two divisions:

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

The operational highlights for the year ended 31 December 2018 (the “year”) are summarised below:

Purchases – the Group purchased 28 aircraft during the year (2017: 37 aircraft).

Sales – the Group disposed of 26 aircraft during the year (2017: 25 aircraft).

The total number of aircraft at 31 December 2018 was 312, including 16 aircraft classified as held-for-sale (31 December 2017: 310 including one aircraft classified as held-for-sale). The Group also manages 37 aircraft on behalf of third parties at 31 December 2018 (31 December 2017: 40 aircraft).

The consolidated financial statements were approved on 24 February 2019 and signed by:

/s/ Firoz Tarapore

Firoz Tarapore
Chief Executive Officer

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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 companies 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 as modified for the valuation of certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

The carrying values of recognised financial instruments that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to reflect changes in the fair value attributable to the risks that are being hedged.

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 2018, the current liabilities of the Group exceeded its current assets by USD 534.1 million. 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 2018.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Company and its subsidiaries. Subsidiaries are entities controlled by the Group.

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.

Thus, the Group controls an investee if and only if the Group has all of the following:

- 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.

Special Purpose Entities (SPEs) are entities that are created to accomplish a well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The above-mentioned circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidated an SPE.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.2 Basis of consolidation (continued)

As of 31 December 2018, the Group had 22 SPEs (2017: 21 entities). These entities included total aircraft carried at USD 530.5 million at 31 December 2018 (2017: USD 1,612.5 million), in the consolidated statement of financial position. These aircraft are funded by unsecured debt of USD 240.1 million (2017: USD 1,115.8 million) which is also included in the consolidated statement of financial position.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's existing and potential voting rights.

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.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holder 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 subsidiaries 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 recognised 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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.2 Basis of consolidation (continued)

Transactions involving entities under common control

Transactions involving entities under common control where the transaction has substance, for transactions involving entities under common control where the transaction does not have any substance, the Group adopts the pooling of interest method. Under the pooling of interest method, the carrying value of assets and liabilities in the books of the transferor (as adjusted for the Group accounting policies), are used to account for these transactions. No goodwill is recognised as a result of the transfer. The only goodwill recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid and the net assets 'acquired' is reflected as "merger reserve" within equity.

A number of factors are considered in evaluating whether the transaction has substance including the following:

- the purpose of the transaction;
- the involvement of outside parties in the transaction, such as non-controlling interests or other third parties;
- whether or not the transactions are conducted at fair values;
- the existing activities of the entities involved in the transaction; and
- whether or not it is bringing entities together into a "reporting entity" that did not exist before.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.3 Changes in accounting policies and disclosures (continued)

The accounting policies adopted are consistent with those of the previous year, except for the adoption of new standards (including IFRS and International Accounting Standards (“IAS”)), amendments to the existing standards and interpretations effective as of 1 January 2018, as explained below. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(a) New and amended standards adopted by the Group

IFRS 9: Financial instruments

The Group adopted IFRS 9 from 1 January 2018. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group’s financial assets including finance lease receivables, notes receivable, trade receivables and cash and cash resources are debt instruments previously classified into the loans and receivables category and were previously measured at amortised cost under IAS 39. The Group assessed that these assets meet the conditions for classification at amortised cost under IFRS 9 since the expected cash flows solely relate to payments of principal and interest (SPPI) and the Group’s business model is to hold and collect contractual cash flows.

Under IFRS 9, the Group is required to revise its impairment methodology applied to its classes of financial assets. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses, as is the case under IAS 39. It applies to trade receivables and other financial assets. The impact of this change is not material.

The interest rate swaps in place as at 31 December 2017 qualified as cash flow hedges. The Group’s risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships were therefore treated as continuing hedges.

There has been no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have such liabilities. The Group also had derivatives, not in hedge relationship. These were accounted for at fair value through profit or loss under IAS 39 and continue to be accounted for at fair value through profit or loss under IFRS 9.

IFRS 15: Revenue from contracts with customers

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 is not material.

All other accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2017.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.3 Changes in accounting policies and disclosures (continued)

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

A number of new standards, amendments to standards and interpretations that have been published are effective for future reporting periods, and have not been applied in preparing these financial statements:

- IFRS 16 Leases.
- IFRIC 23 Uncertainty over Tax Treatments.
- Amendments to IFRS 9 Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards (effective from 1 January 2020).

These are all effective for annual periods beginning on or after 1 January 2019 (unless otherwise noted). The Group has taken the decision not to adopt these standards early. The extent of the impact for future accounting periods is still under review by the Group. The adoption of IFRS 16 will not have any impact on opening equity. The Group expects to recognise a right of use asset and lease liability of approximately USD 20 million. The impact of the remaining standards is not expected to be material.

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.4 Estimates and judgements

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. (2017: 5.3%).

Lease revenue

The Group leases aircraft principally under operating leases, and reports rental income on a straight-line basis over the life of the lease as it is earned. In certain cases, leases provide for additional rentals based on usage, which is recorded as revenue as it is earned under the terms of the lease. The usage is calculated based on hourly usage or cycles operated, depending on the lease agreement. Other leases provide for a lease-end adjustment payment by us, or the lessee, at the end of the lease based on usage of the aircraft and its condition upon return.

The Group also recognises maintenance reserves that are not expected to be reimbursed to lessees, as lease revenue, when the Group has reliable information that the lessee will not require reimbursements of additional rentals based on a maintenance forecasting model. This model estimates the maintenance inflows and outflows to lease termination date or for five years, whichever is sooner, for each aircraft.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Revenue

Lease rental

The Group, as a lessor, leases aircraft principally under operating leases and records rental income on a straight-line basis over the life of the lease as it is earned. The Group accounts for lease rental income under lease agreements that include step rent clauses on a straight-line basis over the lease term. In certain cases, lease agreements provide for rentals based on usage. The usage may be calculated based on hourly usage or on the number of cycles operated, depending on the lease contract. The Group accounts for lease rentals under such agreements on a basis that represents the time pattern in which the revenue is earned. For past-due rentals on all leases, an impairment provision may be established on the basis of management's assessment of collectability and to the extent such past-due rentals exceed related security deposits held. Impairment charges are expensed through the consolidated statement of profit or loss and other comprehensive income and included in lease revenue.

Most of the Group's lease contracts require payment in advance. Rentals received, but unearned under these lease agreements, are recorded as deferred revenue.

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 recognises amounts recorded as maintenance advances that are not expected to be reimbursed to lessees as lease revenue.

Engineering maintenance services

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.

Interest income

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

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Property, plant and equipment

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

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:

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, computer equipment and other	3 to 15 years

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 profit or loss and other 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 on a straight-line basis over the estimated useful lives not to exceed 25 years from the date of manufacture, to estimated residual values. Residual values do not exceed 15% of cost. Management reviews the residual value and useful lives annually. If either of these estimates is adjusted, the future depreciation charge is adjusted.

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 income statement.

Major improvements to be performed by the Group pursuant to the lease agreement are accounted for as lease incentives and are amortised against revenue over the term of the lease, assuming no lease renewals. Generally, 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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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 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 aircraft maintenance costs.

Aircraft purchase deposits

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

Intangible assets (excluding goodwill)

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 profit or loss and other 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

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Intangible assets (excluding goodwill) (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.

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. Management reviews the carrying values of the inventory properties at each reporting date.

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 certain of 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 and maintenance reserves received from lessees under the terms of various lease agreements and (ii) a portion of rents collected required to be held for debt repayments.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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 that 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 the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

	Note	Original classification under IAS 39	New classification under IFRS 9
Financial assets			
Cash and cash equivalents	14	Loans and receivables	Amortised cost
Restricted cash	14	Loans and receivables	Amortised cost
Finance lease receivables	25	Loans and receivables	Amortised cost
Trade and other receivables	13	Loans and receivables	Amortised cost
Derivative financial assets	19	FVOCI / FVTPL	FVOCI / FVTPL
Notes receivable	22	Loans and receivables	Amortised cost
Financial liabilities			
Loans and borrowings	18	Other financial liabilities	Amortised cost
Derivative financial liabilities	19	FVOCI / FVTPL	FVOCI / FVTPL
Lessee security deposits	17	Other financial liabilities	Amortised cost
Trade and other payables	20	Other financial liabilities	Amortised cost

Classification of financial assets and liabilities

Initial recognition

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold the financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

Financial instruments (continued)

Classification of financial assets and liabilities (continued)

Financial assets measured at FVOCI

a) Debt instruments

Debt instruments may be classified as at FVOCI, where the contractual cash flows are solely payments of principal and interest on the outstanding principal, and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling the underlying financial assets.

b) Equity instruments

In case of equity instruments which are not held-for-trading or designated at FVTPL, the Group may irrevocably elect to recognise subsequent changes in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets measured at FVTPL

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All other financial assets are classified as measured at FVTPL.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities are classified as held-for-trading if they are incurred for the purpose of repurchasing in the near term.

Financial liabilities, at initial recognition, may be designated at FVTPL if the following criteria are met:

- a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;
- b) the liabilities which are managed, and their performance is evaluated on fair value basis; or
- c) the financial liability contains an embedded derivative that would otherwise need to be separately recorded.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense or recognised in the consolidated statement of profit or loss and other comprehensive income. Adjustments due to own credit risk are recognised in other comprehensive income ("OCI").

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments (continued)

Subsequent measurement and gain or losses

Financial assets at amortised cost:

These assets are subsequently measured at amortised cost using the effective interest rate method (“EIR”). The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit or loss and other comprehensive income.

Financial assets at FVOCI

a) Debt instruments

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment (including reversals) are recognised in the consolidated income statement. Other net gains and losses are recognised in the consolidated statement of other comprehensive income.

b) Equity instruments

These assets are subsequently measured at fair value. Foreign exchange gains or losses are recognised in the consolidated income statement. Dividends are also recognised as income in the consolidated income statement unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in the consolidated statement of other comprehensive income.

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the consolidated statement of profit or loss and other comprehensive income.

Financial liabilities at FVTPL

These liabilities are subsequently measured at fair value and net gains or losses are recognised in the consolidated statement of profit or loss and other comprehensive income. Adjustments due to own credit risk are recognised in OCI.

Financial liabilities at amortised cost

Mainly includes borrowings and lease liabilities, customer deposits, Islamic customer deposits and trade and other payables. After initial recognition, the aforementioned liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income 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 income statement.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments (continued)

Derecognition

Financial assets

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

- a) the rights to receive cash flows from the asset have expired; or
- b) the Group retains the right to receive cash flows from the asset, but assumes an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- c) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Offsetting

Financial assets and financial liabilities are only offset, and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impairment of financial asset

IFRS 9 replaces the ‘incurred loss’ model under IAS 39 with a forward-looking ‘expected credit losses’ (‘ECL’) model. Assessing how changes in economic factors affect ECL requires considerable judgement. ECL are determined on a probability-weighted basis.

The Group recognises loss allowances for ECLs on the following instruments that are not measured at FVTPL:

- financial assets that are debt instruments carried at amortised cost or FVOCI; and,
- lease receivable in the scope of IAS 17;

The Group measures impairment allowances either using the general or simplified approach as considered appropriate.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial asset (continued)

Under the general approach, impairment allowances are measured at an amount equal to 12-month ECL except when there has been a significant increase in credit risk since inception. In such cases, the Group measures impairment allowances at an amount equal to credit loss expected over the life of the financial asset.

Under the simplified approach, impairment allowances are always measured at an amount equal to lifetime ECL.

Lifetime ECL: These losses are the ECL that result from all possible default events over the expected life of a financial instrument, if there is a significant increase in credit risk under simplified approach.

12-month ECL: These losses are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- financial assets that are not credit-impaired: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: measured as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive upon such drawdown; and
- financial guarantee contracts: measured as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Derivative financial instruments and hedging

The Group uses derivative financial instruments as trading investments as well as to hedge its risks associated with interest rate, foreign currency, commodity price fluctuations and also to satisfy the requirements of its customers. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of profit or loss and other comprehensive income.

The Group applies hedge accounting only if all of the following conditions are met:

- There is formal designation and written documentation at the inception of the hedge;
- There is ‘an economic relationship’ between the hedged item and the hedging instrument;
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

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

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or,

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 hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. The documentation also includes the hedge ratio and potential sources of ineffectiveness

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Derivative financial instruments and hedging (continued)

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivative is recognised in OCI within ‘Cash flow hedges – fair value gains/(losses)’. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, then hedge accounting is discontinued prospectively, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

Fair value measurement

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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 (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

Current versus non-current classification

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

- Expected to be realised or intended to sold or consumed in the normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is classified as current when:

- It is expected to be settled in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities, respectively.

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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”), does not have a functional currency of USD. Results 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 profit or loss and other comprehensive income

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

2 Accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

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

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 profit or loss and other comprehensive income. 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.

3 Revenue

	2018 USD'000	2017 USD'000
Lease rental income	1,361,984	790,532
Provision of engineering maintenance services	67,350	47,658
	<u>1,429,334</u>	<u>838,190</u>

Lease rental income from the top five customers represented 28.0% of the lease rental income for the year ended 31 December 2018 (2017: 46.0%). No single customer accounted for more than 16.2% of lease rental income in the year ended 31 December 2018 (2017: 27.7%). 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:

	2018 USD'000	2018 %	2017 USD'000	2017 %
MEASA (Middle East/Africa)	474,067	35	309,286	39
Asia/Pacific	446,975	33	262,059	33
Europe	248,420	18	113,587	14
Americas	192,522	14	105,600	14
Total lease revenue	<u>1,361,984</u>	<u>100</u>	<u>790,532</u>	<u>100</u>

During the year, lease rental income included the release of maintenance reserves totalling USD 20.7 million (2017: USD 36.4 million) which is net of the derecognition of maintenance right assets of USD 43.2 million (2017: USD 53.3 million).

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

3 Revenue (continued)

Lease rental income also includes a charge associated with the amortisation of lease incentive assets of USD 19.9 million (2017: USD 3.1 million) and other lease costs of USD 11.2 million for the year (2017: USD 12.2 million).

Engineering maintenance services revenue of USD 67.4 million (2017: USD 47.7 million) relates to commercial aircraft maintenance, repair and overhaul provided by the Group.

4 Other income

	2018 USD'000	2017 USD'000
Servicer fee income	4,752	2,434
Other income	<u>2,525</u>	<u>5,174</u>
	<u>7,277</u>	<u>7,608</u>

Servicer fee income relates to the management of aircraft fee received from third parties.

Other income relates to settlements received from customers, proceeds from sale of spare parts and release of security deposits.

5 General and administrative expenses

	2018 USD'000	2017 USD'000
Compensation and benefits expenses	50,048	40,750
Legal and professional expenses	23,749	27,422
Office expenses	5,343	5,315
Travel expenses	4,220	2,340
Other expenses	<u>6,684</u>	<u>4,559</u>
	<u>90,044</u>	<u>80,386</u>

The group had 1,160 persons (2017: 1,091 persons) in employment as at 31 December 2018. The average numbers of employees during the year was 1,082 (2017: 1,081).

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

6 Finance income and expense

	2018 USD'000	2017 USD'000
Interest on notes receivable	50,629	18,508
Interest on loans receivable	-	5,008
Gains on financial instruments	41,578	-
Movement in fair value of derivatives	10,813	8,875
Interest on bank accounts and short term investments	8,717	9,267
Finance lease income	8,730	10,149
Net foreign exchange gain	149	-
Total finance income	<u>120,616</u>	<u>51,807</u>
Interest on bank borrowings	(417,986)	(236,697)
Amortisation of debt issuance costs	(34,300)	(11,654)
Net foreign exchange loss	-	(126)
Loss on transfer from finance lease receivable	(15,565)	-
Provision for finance lease receivable	(4,390)	-
Other charges	(3,484)	(2,497)
Total finance expense	<u>(475,725)</u>	<u>(250,974)</u>
Net finance cost	<u>(355,109)</u>	<u>(199,167)</u>

Gains on financial instruments during the year relate to gains on the repurchase of senior unsecured notes and breakage gains on the early repayment of certain loans during the year.

During the year ended 31 December 2018, the Group transferred three aircraft from finance lease receivables to aircraft held-for-lease incurring a loss on transfer of USD 15.6 million. In addition, the Group recognised a provision for amounts due under the same finance lease agreements of USD 4.4 million.

Amortisation of debt issuance costs during the year ended 31 December 2018, also includes a charge of USD 14.0 million relating to acceleration of debt issuance costs amortisation on the early repayment and restructuring of certain facilities.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

7 Income tax expense

	2018 USD'000	2017 USD'000
Current tax		
Current period	6,332	10,331
Adjustment for prior periods	1,727	(13)
Total current tax expense	<u>8,059</u>	<u>10,318</u>
Deferred tax		
Origination and reversal of temporary differences	47,373	(186)
Adjustments for prior periods	471	(289)
Total deferred tax credit	<u>47,844</u>	<u>(475)</u>
Total income tax expense	<u>55,903</u>	<u>9,843</u>

Reconciliation of effective tax rate

	2018 USD'000	2017 USD'000
Profit for the year	372,923	172,593
Income tax expense	55,903	9,843
Profit excluding income tax	<u>428,826</u>	<u>182,436</u>
Income subject to tax in United Arab Emirates – 0%	-	-
Income subject to tax in Ireland – 12.5%	48,034	15,232
Income taxable at other rates	(5,476)	5,868
Impact of tax losses not recognised	10,620	3,989
Unwind of deferred tax liability	-	(15,051)
Other permanent differences	527	107
Adjustment to previous periods taxation	2,198	(302)
Total income tax expense	<u>55,903</u>	<u>9,843</u>

The income tax expense for the year ended 31 December 2018 was primarily driven by the tax arising on the group's Irish activities at 12.5%. The Group also incurred losses in other jurisdictions, primarily Hungary (USD 8.2 million tax effected) which is included in income taxable at other rates. However, based on current taxable income projections these losses have not been recognised.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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 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
Additions	1,663,672	-	-	1,663,672
Transfers	84,235	(84,235)	-	-
Transfers to assets held-for-sale	(1,335,309)	(90,778)	364	(1,425,723)
Transfer from finance lease receivable	57,900	-	-	57,900
Derecognition	-	(49,188)	(597)	(49,785)
Disposals	(484,852)	(19,980)	326	(504,506)
At 31 December 2018	12,043,677	824,138	(34,589)	12,833,226
Depreciation				
At 31 December 2016	850,357	-	-	850,357
Charge / (credit) for the year	274,751	25,256	(1,903)	298,104
Disposals	(116,513)	-	-	(116,513)
Impairment charge	9,400	-	-	9,400
At 31 December 2017	1,017,995	25,256	(1,903)	1,041,348
Charge / (credit) for the year	496,964	57,195	(5,707)	548,452
Transfers to assets held-for-sale	(277,436)	(6,239)	(390)	(284,065)
Derecognition	-	(6,036)	(597)	(6,633)
Disposals	(172,519)	(1,752)	222	(174,049)
At 31 December 2018	1,065,004	68,424	(8,375)	1,125,053
Net book value				
At 31 December 2017	11,040,036	1,043,063	(32,779)	12,050,320
At 31 December 2018	10,978,673	755,714	(26,214)	11,708,173

As of 31 December 2018, the Group owned 312 aircraft including 16 aircraft held-for-sale (2017: 310 aircraft including one aircraft held-for-sale), within this the Group had 304 aircraft held-for-lease on an operating basis (2017: 299 aircraft) and eight under finance lease (2017: 11 aircraft). During the year ended 31 December 2018, the Group sold 26 (including two aircraft which were parted out) (2017: 25 aircraft) and purchased 28 aircraft in the year (2017: 37 aircraft). During the year ended 31 December 2018, the Group transferred three aircraft from finance lease receivable to aircraft held-for-lease, for further details see note 25.

During the year ended 31 December 2018, the Group derecognised USD 43.2 million (2017: USD 53.3 million) of maintenance right assets related to aircraft which were redelivered to the Group during the year. An amount of USD 39.2 million has been recognised as maintenance income in relation to these aircraft (2017: USD 48.0 million). These amounts are netted within revenue in the consolidated statement of profit or loss and other comprehensive income.

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

8 Aircraft held-for-lease (continued)

Impairment of aircraft held-for-lease

The Group evaluates aircraft held-for-lease for impairment where circumstances indicate and at each reporting date 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 charge. The impairment charge 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 cashflows expected to be received from the aircraft in the future, including its expected residual value. 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.

Based on the Group's analysis, no impairment charge was recognised for the year ended 31 December 2018 (2017: USD 9.4 million).

The key assumptions and judgments associated with the Group's impairment review are:

1. The discount rate applied to forecast cash flows which is based on the Group's WACC of 5.3%;
2. Estimates relating to the period between lease rentals and the value of future, non-contracted lease rentals;
3. Assumed residual value at the end of the aircraft's life;
4. Assumed future lease rates which are assessed against appraiser rates for each aircraft.

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

- 0.5% increase/decrease in the discount rate to determine the Group's WACC
- 10% increase/decrease in the future rental income of each aircraft
- 10% increase/decrease in the residual 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 2018.

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Notes to the consolidated financial statements

9 Aircraft purchase deposits

	2018 USD'000	2017 USD'000
At 1 January	638,184	16,675
Payments during the year	103,535	362,039
Transferred to assets held-for-sale	(15,091)	-
Acquired through business combination	-	350,775
Transferred to aircraft held-for-lease	(655,965)	(91,305)
At 31 December	<u>70,663</u>	<u>638,184</u>

Aircraft purchase deposits represent payments made by the Group for the purchase of aircraft in accordance with payment schedules set out in the relevant purchase agreements.

In connection with these purchase agreements, the Group took delivery of 28 aircraft during the year (2017: 12 aircraft) for which the total amount of aircraft purchase deposits reclassified to aircraft held-for-lease amounted to USD 656.0 million (2017: USD 91.3 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. Subsequently, goodwill was reduced to USD 44.7 million following adjustment to consideration.

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	<u>2,177,451</u>
Fair value of consideration	<u>2,223,272</u>
Goodwill	<u>45,821</u>

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

10 Business combination (continued)

Revenue and profit contribution

Revenue included in the statement of profit or loss and other comprehensive income contributed by AWAS from 17 August 2017 to 31 December 2017 was USD 341.6 million. AWAS 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 Group's 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 for the year ended 31 December 2017.

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 inherent in the liability (based on forecasted dated of maintenance event).

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

11 Deferred taxes

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

<i>In thousands of USD</i>	Ireland 2018	United States 2018	Other 2018	Net 2018
Property, plant and equipment	(535,434)	(5,351)	-	(540,785)
Employee entitlements	-	460	-	460
Purchase price adjustments	(29,113)	(427)	-	(29,540)
Other	-	3	-	3
Trade losses	310,810	269	-	311,079
Net tax assets/ (liabilities)	<u>(253,737)</u>	<u>(5,046)</u>	<u>-</u>	<u>(258,783)</u>

<i>In thousands of USD</i>	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)	<u>(206,679)</u>	<u>(4,852)</u>	<u>772</u>	<u>(210,759)</u>

At 31 December 2018, the Group had an unrecognised deferred tax asset of USD 19.8 million primarily in respect of Irish tax losses of USD 3.5 million, Hungarian tax losses of USD 8.6 million and US tax losses of USD 7.7 million. 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 at various dates beginning 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 2014 to 31 December 2017 remain open to examination by the Irish Revenue authorities. The period from 31 December 2012 to 31 December 2017 remain open to examination by the US Internal Revenue Service and state authorities.

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Notes to the consolidated financial statements

12 Other assets

	2018 USD'000	2017 USD'000
Non-current assets		
Lease acquisition costs	61,678	98,286
Lease incentives	99,353	21,056
Interest on notes receivable	-	6,296
Other assets	-	6,078
	<u>161,031</u>	<u>131,716</u>
	2018 USD'000	2017 USD'000
Current assets		
Lease acquisition costs	13,079	12,863
Lease incentives	23,944	6,788
Other assets	3,648	7,062
	<u>40,671</u>	<u>26,713</u>

As at 31 December 2018, interest on notes receivable are capitalised within notes receivable, see note 22.

Included in lease acquisition costs is an amount of USD 48.9 million (2017: USD 54.1 million) incurred in respect of lease agreements entered into with a company under common control.

13 Trade and other receivables

	2018 USD'000	2017 USD'000
Trade receivables	47,654	73,309
Less: allowances for impairment	<u>(11,737)</u>	<u>(35,728)</u>
Trade receivables, net	35,917	37,581
Other receivables	<u>306</u>	<u>7,927</u>
	<u>36,223</u>	<u>45,508</u>

Movement in the allowance for impairment is as follows:

	2018 USD'000	2017 USD'000
At 1 January	35,728	33,440
Allowances for impairment	8,181	2,288
Written off / offset	<u>(32,172)</u>	<u>-</u>
At 31 December	<u>11,737</u>	<u>35,728</u>

During the year ended 31 December 2018, the Group's receivables from an airline of USD 30.6 million were fully offset against the allowance for doubtful debt.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

13 Trade and other receivables (continued)

The exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2018 USD'000	2018 %	2017 USD'000	2017 %
MEASA (Middle East/Africa)	26,886	56	49,300	67
Europe	13,952	30	11,504	16
Asia/Pacific	6,816	14	9,741	13
Americas	-	-	2,764	4
Total	47,654	100	73,309	100

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

	Total USD'000	Neither past due nor impaired USD'000	Past due but not impaired				
			<30 days USD'000	30-60 days USD'000	60-90 days USD'000	90-360 days USD'000	>360 days USD'000
2018	<u>35,917</u>	<u>4,434</u>	<u>3,932</u>	<u>11,710</u>	<u>9,129</u>	<u>3,851</u>	<u>2,861</u>
2017	<u>37,581</u>	<u>13,802</u>	<u>13,287</u>	<u>4,305</u>	<u>1,618</u>	<u>2,310</u>	<u>2,259</u>

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable.

The majority of the Groups exposure to credit risk relates to the leasing of aircraft. The recovery of trade receivables is highly dependent upon the financial strength of the commercial aviation industry. The expected credit loss ("ECL") associated with the trade receivables balance is based on a 24 month historic loss rate applied to the net exposure after cash deposits. Specific additional provisions are recognised where evidence of actual lessee distress is available. Details of deposits held as collateral are disclosed in note 17 and note 24.

14 Cash and cash resources

	2018 USD'000	2017 USD'000
Cash and cash equivalents	192,950	369,870
Restricted cash	<u>215,802</u>	<u>354,179</u>
	<u>408,752</u>	<u>724,049</u>

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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

15 Held-for-sale

At 31 December 2018, the Group had agreements for the sale of 16 aircraft and one forward order which met the requirement to be classified as held-for-sale (31 December 2017: one aircraft).

	2018 USD'000	2017 USD'000
Assets classified as held-for-sale		
Aircraft held-for-lease	506,013	11,202
Deposits for aircraft purchases	15,091	-
	<u>521,104</u>	<u>11,202</u>
Liabilities classified as held-for-sale		
Maintenance reserves and security deposits	<u>120,897</u>	<u>3,447</u>

16 Share capital and reserves

	2018 USD'000	2017 USD'000
Authorised, issued and paid-up capital	1,927,770	1,927,770
Additional paid-in capital	517,884	517,884
Retained earnings	1,165,157	792,482
Treasury shares	(85,000)	(85,000)
Other reserves	(10,329)	506
Attributable to equity holders of the Company	<u>3,515,482</u>	<u>3,153,642</u>
Non-controlling interests	9,356	9,108
Total equity	<u>3,524,838</u>	<u>3,162,750</u>

The authorised and issued share capital of the Company at 31 December 2018 comprised of 1,927,770 ordinary shares of USD 1,000 par value each (2017: 1,927,770 ordinary shares of USD 1,000 par value each).

The movement in retained earnings relates to the profit generated by the Group during the year.

The movement in other reserves contains the movement in hedging reserves during the year. Detail of movement in hedging reserves are included in note 19.

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17 Maintenance reserves and security deposits

Non-current maintenance reserves and security deposits

	2018 USD'000	2017 USD'000
Maintenance reserves	926,112	982,428
Security deposits	198,958	204,520
Total	<u>1,125,070</u>	<u>1,186,948</u>

Current maintenance reserves and security deposits

	2018 USD'000	2017 USD'000
Maintenance reserves	194,144	161,509
Security deposits	5,188	13,526
Total	<u>199,332</u>	<u>175,035</u>

	2018 USD'000	2017 USD'000
Maintenance reserves		
At 1 January	1,143,937	148,679
Additions	457,190	231,075
Acquisitions through business combinations	-	927,171
Reimbursed / paid	(232,170)	(73,239)
Released	(134,533)	(89,749)
Reclassified to liabilities held-for-sale	(114,168)	-
At 31 December	<u>1,120,256</u>	<u>1,143,937</u>

Security deposits

At 1 January	218,046	47,650
Additions	34,184	38,021
Acquisitions through business combinations	-	167,188
Repaid	(41,355)	(34,813)
Reclassified to liabilities held-for-sale	(6,729)	-
At 31 December	<u>204,146</u>	<u>218,046</u>
Maintenance reserves and security deposits	<u>1,324,402</u>	<u>1,361,983</u>

Security deposits relate to cash security received from lessees as collateral. Security deposits are refundable at the end of the contract lease period after all lease obligations have been met by the lessee.

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Notes to the consolidated financial statements

18 Loans and borrowings

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

	2018 USD'000	2017 USD'000
Principal	9,296,731	10,438,237
Accrued and unpaid interest	65,937	69,279
Fair value hedge adjustment	(3,359)	(1,665)
Total bank loans	<u>9,359,309</u>	<u>10,505,851</u>
Debt issuance costs	<u>(98,701)</u>	<u>(100,343)</u>
Net loans and borrowings	<u>9,260,608</u>	<u>10,405,508</u>
	2018 USD'000	2017 USD'000
Non-current liabilities		
Bank loans	8,217,583	9,020,020
Debt issuance costs	<u>(72,857)</u>	<u>(83,793)</u>
Non-current loans and borrowings	<u>8,144,726</u>	<u>8,936,227</u>
Current liabilities	-	-
Bank loans	1,141,726	1,485,831
Debt issuance costs	<u>(25,844)</u>	<u>(16,550)</u>
Current loans and borrowings	<u>1,115,882</u>	<u>1,469,281</u>

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

	2018 USD'000	2017 USD'000
At 1 January	10,505,851	3,082,713
Loan drawdowns	3,750,891	4,034,651
Acquisitions through business combination	-	5,046,867
Loan repayments	(4,471,741)	(1,712,764)
Debt repurchased	(397,559)	-
Amortisation of fair value discounts	(22,544)	(2,963)
Movement in fair value hedge adjustment	(1,694)	(4,200)
Movement in accrued interest	(3,342)	61,547
Revaluation of loans	(553)	-
At 31 December	<u>9,359,309</u>	<u>10,505,851</u>

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

18 Loans and borrowings (continued)

Terms and conditions of outstanding loans after the impact of derivatives at 31 December 2018 is as follows:

	Average nominal interest rate %	Year of maturity	2018 USD'000
Floating rate loans:			
Non-recourse obligations	4.3	2019-2025	420,694
Recourse obligations (including ECA, Ex-Im & EDC)	4.7	2019-2030	1,668,956
Unsecured facilities	4.6	2021-2026	357,129
Revolving credit facilities	4.3	2019-2024	1,001,631
Fixed rate loans:			
Non-recourse obligations	3.7	2019-2026	407,549
Senior unsecured notes	4.9	2020-2024	2,949,242
Recourse obligations (including ECA, Ex-Im & EDC)	3.9	2019-2030	2,326,002
Term loan 2014	4.9	2021	228,106
Total interest bearing liabilities			9,359,309

Terms and conditions of outstanding loans after 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	3.6	2018-2029	831,985
Recourse obligations (including ECA, Ex-Im & EDC)	3.0	2018-2029	2,337,166
Unsecured facilities	3.6	2018	25,154
Revolving credit facilities	3.5	2019-2021	322,730
Lines of credit	LIBOR+ 2.1/2.2	2018-2019	96,145
Fixed rate loans:			
Non-recourse obligations	4.1	2018-2028	1,077,472
Senior unsecured notes	4.5	2020-2024	2,343,283
Recourse obligations (including ECA, Ex-Im & EDC)	3.9	2019-2029	3,186,172
Term loan 2014	4.9	2021	285,744
Total interest bearing liabilities			10,505,851

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Notes to the consolidated financial statements

18 Loans and borrowings (continued)

The number of aircraft used as collateral for the Group's facilities are as follows:

	2018	2017
Facility:		
Non-recourse obligations	34	83
Recourse obligations (including ECA, Ex-Im & EDC)	131	162
Term Loan 2014	9	10
Total	<u>174</u>	<u>255</u>

In addition to the number of aircraft above with a total net book value of USD 7,013.3 million (2017: USD 10,772.4 million), 138 aircraft held-for-lease (2017: 55 aircraft) were unencumbered with a total net book value of USD 4,694.9 million (2017: USD 1,277.9 million).

Certain 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 and contractual repayment amounts of loans for each of the financial years subsequent to 31 December 2018 are as follows.

<i>In thousands of USD</i>	<u>Principal cash flows</u>		<u>Contractual cash flows</u>	
	2018	2017	2018	2017
Due within one year	1,093,782	1,380,236	1,497,158	1,791,363
Due within one and five years	5,279,196	5,357,605	6,401,117	6,802,138
Due after five years	2,923,753	3,700,396	3,215,932	4,105,264
Total	<u>9,296,731</u>	<u>10,438,237</u>	<u>11,114,207</u>	<u>12,698,765</u>

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

Non-recourse obligations:

As of 31 December 2018, 34 aircraft (2017: 83 aircraft) were being financed on a non-recourse basis. These facilities 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 4.67% and 1 or 3 month LIBOR plus margins ranging from 90 bps to 260 bps.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

18 Loans and borrowings (continued)

Recourse obligations (including ECA, Ex-Im & EDC):

As of 31 December 2018, 131 aircraft (2017: 162 aircraft) were financed on a full recourse basis (including 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). The loans amortise over their lives of between 1 and 12 years remaining and bear interest at a fixed rate between 1.28% and 9.25%, or 1 or 3 month LIBOR. EIBOR or MIDSWAP plus margins ranging from 40 bps to 311 bps.

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 2018, nine aircraft were financed with the proceeds of Term Loan 2014 (2017: 10 aircraft). The amount drawn down at 31 December 2018 was USD 228.1 million (2017: USD 285.7 million).

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. In November 2018, the Group issued USD 500 million of 5.25% senior unsecured notes due 2021 and USD 5.75% senior unsecured notes due 2023. There is no scheduled amortisation until maturity. During 2018, the Group repurchased USD 397.6 million of senior unsecured notes.

Unsecured facilities:

The Group has access to a credit facility which is unsecured totalling USD 356.5 million which has maturity dates ranging from 2021 to 2026 and bear interest of 1 month LIBOR plus a margin of 2.25%. As at 31 December 2018 interest accrued was USD 0.6 million.

Revolving credit facilities:

The Group has access to five unsecured revolving credit facilities totalling USD 2,365 million (2017: USD 785.0 million) which can be drawn until maturity which ranges from 2019 to 2024.

The Revolving credit facilities accrue interest at LIBOR plus margins ranging from 1.20% to 2.15%. As at 31 December 2018 USD 1,001.6 million (2017: USD 322.7 million) was drawn from these facilities.

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19 Derivative financial instruments

The Group has the following derivative financial instruments:

	2018 USD'000	2017 USD'000
<i>Current assets</i>		
Interest rate swaps – cash flow hedges	16,530	1,339
Interest rate swaps – fair value hedges	-	178
Interest rate swaps – not in hedge relationship	-	9,261
	<u>16,530</u>	<u>10,778</u>
	2018 USD'000	2017 USD'000
<i>Current liabilities</i>		
Interest rate swaps – cash flow hedges	10,059	-
Interest rate swaps – fair value hedges	3,311	1,744
Interest rate swaps – not in hedge relationship	-	1,552
	<u>13,370</u>	<u>3,296</u>

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held-for-trading' for accounting purposes and are accounted for at fair value through consolidated statement of profit or loss and other comprehensive income. At 31 December 2018 all derivatives are in designated hedge relationships. Derivatives are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

The Group has amortising interest rate swaps with an aggregate current notional of USD 1.4 billion and maturities ranging from September 2020 to July 2030. The weighted average strike rate on the fixed leg of these instruments is 2.48%.

The Group's accounting policy for its cash flow hedges is set out in note 2. Further information about the Group's risk management strategy, fair value measurement and derivatives used by the group is provided in note 24.

Derivatives not in designated hedge relationships

At 31 December 2018, the Group has no derivatives which are not in designated hedge relationships. During the year there was a gain of USD 10.8 million on fair value of derivatives disclosed in note 6 (2017: gain of USD 8.9 million) was recognised in the statement of profit or loss and other comprehensive income related to certain interest rate swap contracts which were previously not in designated hedge relationships.

Dubai Aerospace Enterprise (DAE) Ltd

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19 Derivative financial instruments (continued)

Derivatives in designated hedge relationships

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans.

A net charge was recognised within interest expense of USD 0.4 million (2017: charge of USD 1.8 million) related to hedge ineffectiveness.

Effect on financial position and performance

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

	31 December 2018							
	Nominal amounts of the hedging instrument	Carrying value of the hedging instrument		Line item in statement of financial position	Change in fair value used for calculating hedge ineffectiveness	Carrying amount hedged item	Accumulated fair value adjustment to hedged amount	Cash flow hedge reserve
		Assets	Liabilities					
Cash flow hedges								
Interest rate risk	1,244,664	16,530	(10,059)	Derivative financial assets	14,795	N/A	N/A	10,198
Fair value hedges								
Interest rate risk	176,040	-	(3,311)	Derivative financial liabilities	1,746	(176,040)	3,359	N/A
	<u>1,420,704</u>	<u>16,530</u>	<u>(13,370)</u>					

Dubai Aerospace Enterprise (DAE) Ltd

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19 Derivative financial instruments (continued)

Derivatives in designated hedge relationships (continued)

Hedge ineffectiveness (continued)

	31 December 2017							
	Nominal amounts of the hedging instrument	Carrying value of the hedging instrument		Line item in statement of financial position	Change in fair value used for calculating hedge ineffectiveness	Carrying amount hedged item	Accumulated fair value adjustment to hedged amount	Cash flow hedge reserve
		Assets	Liabilities					
Cash flow hedges								
Interest rate risk	123,921	1,339	-	Derivative financial assets	-	N/A	N/A	(85)
Fair value hedges								
Interest rate risk	281,658	178	(1,744)	Derivative financial liabilities	-	(201,646)	1,664	N/A
	<u>405,579</u>	<u>1,517</u>	<u>(1,744)</u>					

Movement in hedge reserve

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting.

	Total hedge reserve USD'000
Balance at 31 December 2016	(1,766)
Changes in fair value	2,172
Amounts reclassified to profit or loss	100
Tax movements during the year	-
Balance at 31 December 2017	506
Changes in fair value	(11,148)
Amounts reclassified to profit or loss	444
Tax movements during the year	(131)
Balance at 31 December 2018	(10,329)

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Notes to the consolidated financial statements

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 profit or loss and other 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 2018, the sensitivity to interest rates was as follows:

Interest rate swap

Risk variable	Change in risk variable	Change in value as of 31 December 2018 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	50bps	26,775	-	26,775
3 month USD-LIBOR-BBA	50bps	(27,805)	-	(27,805)

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)

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20 Trade and other payables

	2018 USD'000	2017 USD'000
Trade payables	14,081	11,891
Employees benefits	18,943	11,901
Other accrued liabilities	27,575	47,104
	<u>60,599</u>	<u>70,896</u>

21 Deferred revenue

	2018 USD'000	2017 USD'000
Due within one year	71,834	96,866
Due after one year	68,217	68,299
	<u>140,051</u>	<u>165,165</u>

Included in deferred revenue is unearned lease rentals received from a company under common control of USD 83.0 million (2017: USD 92.5 million). Of this amount, USD 15.6 million (2017: USD 24.2 million) is included in current liabilities and USD 67.5 million (2017: USD 68.3 million) is included in non-current liabilities.

Dubai Aerospace Enterprise (DAE) Ltd

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22 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 profit or loss and other comprehensive income are as follows:

- During the year, the Group received an amount of USD 213.1 million (2017: USD 230.2 million) being aircraft lease rentals, net of release of maintenance reserves, from companies under common control.
- The Group also provided engineering maintenance services to companies under common control amounting to USD 4.5 million (2017: USD 4.6 million).
- Finance income on the bank balances with companies under common control for the year amounts to USD 0.4 million (2017: USD 5.9 million).
- Finance income on notes receivable from shareholders during the year amounts to USD 50.6 million (2017: USD 18.5 million).
- Finance expense for the year in respect of loans from related companies under common control amounts to USD 61.2 million (2017: USD 38.2 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.

Compensation of key management personnel for the year:

	2018 USD'000	2017 USD'000
Salaries and other benefits	<u>7,866</u>	<u>5,631</u>

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

22 Related party transactions (continued)

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

	2018 USD'000	2017 USD'000
Cash and cash resources	46,649	160,987
Accrued interest receivable	-	6,545
Accounts receivable	361	856
Notes receivable	1,464,791	1,407,866
Net derivative liability	(5,812)	(226)
Loans and borrowings	(948,351)	(1,101,206)
Security deposits	(16,567)	(16,567)

As at 31 December 2018, interest on notes receivable is capitalised within notes receivable.

During the year ended 31 December 2017, the Group, acting as lender, entered into an intercompany loan agreement with its shareholders (ICD Hospitality & 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 capitalised and accrued as at 31 December 2018 was USD 69.1 million and USD 6.5 million respectively (2017: USD 12.2 million and USD 6.3 million).

No expected credit loss has been recognised on the notes receivable as the credit risk is deemed nominal due to the sovereign ownership of the Group's parent.

Amounts related to transactions with companies under common control for lease acquisition costs and unearned revenue are disclosed in notes 12 and 21 respectively.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

23 Commitments and contingent liabilities

(a) *Capital commitments*

At 31 December 2018 the Group had committed to purchase five new aircraft from Airbus and ATR, scheduled to deliver in 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.

The total capital commitment at 31 December 2018 is USD 125.0 million (2017: USD 1,800.4 million).

(b) *Contingent liability*

A contingent loss exists at 31 December 2018 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 2018 (2017: 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.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

24 Financial instruments – fair values and risk management

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 Group uses derivative financial instruments, principally interest rate swaps and caps, to manage interest rate risks and achieve the desired profile of borrowings.

The effect of initially applying IFRS 9 on the Group's financial instruments is described in Note 2. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

(a) Accounting classification and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Fair value – hedging instruments 2018 USD'000	Financial assets at amortised cost 2018 USD'000	Other financial liabilities 2018 USD'000	Fair value 2018 USD'000
Financial assets measured at fair value				
Interest rate swaps used for hedging	16,530	-	-	16,530
	16,530	-	-	16,530
Financial assets not measured at fair value				
Notes receivable	-	1,464,791	-	1,464,791
Cash and cash equivalents	-	192,950	-	-
Restricted cash	-	215,802	-	-
Trade and other receivables	-	36,223	-	-
Finance lease receivable	-	117,701	-	117,701
	-	2,027,467	-	1,582,492
Financial liabilities measured at fair value				
Interest rate swaps used for hedging	13,370	-	-	13,370
	13,370	-	-	13,370
Financial liabilities not measured at fair value				
Loans and borrowings	-	-	9,260,608	9,207,528
Maintenance reserves and security deposits	-	-	1,324,402	-
Trade and other payables	-	-	59,514	-
	-	-	10,644,524	9,207,528

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Notes to the consolidated financial statements

24 Financial instruments – fair values and risk management (continued)

(a) Accounting classification and fair value (continued)

The following table presents the Group's financial assets and liabilities and the associated fair value. Derivative financial assets and liabilities are carried in the statement of financial position at fair value, all others are carried at amortised cost.

	Fair value 2018 USD'000	Fair Value Level		
		Level 1 USD'000	Level 2 USD'000	Level 3 USD'000
Interest rate swaps used for hedging	16,530	-	16,530	-
Notes receivable	1,464,791	-	1,464,791	-
Finance lease receivable	117,701	-	117,701	-
	1,599,022	-	1,599,022	-
Interest rate swaps used for hedging	13,370	-	13,370	-
Loans and borrowings	9,207,528	-	9,207,528	-
	9,220,898	-	9,220,898	-

There were no transfers between levels during the year. The different levels have been defined as follows:

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial instruments that are not traded in an active market is determined by using other valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Group's valuation technique is discounted cashflows using market rates allowing for credit risk and broker quotes for derivatives.

(b) Risk management

The Group's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group audit committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

24 Financial instruments – fair values and risk management (continued)

(b) Risk management (continued)

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including foreign exchange risk and interest rate 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 provide certainty 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 variable rate debt.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, finance lease receivables and notes receivable. The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

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.

Impairment losses on financial assets recognised in profit or loss were as follows:

	2018 USD'000	2017 USD'000
Trade receivables	<u>11,737</u>	<u>35,728</u>
	<u>11,737</u>	<u>35,728</u>

Trade and other receivables and finance lease receivables

The value of trade receivables and other receivables is highly dependent upon the financial strength of the commercial aviation industry as described in the asset risk section. Defaults by one or more of the Group's major customers could have a material adverse effect on our cash flow and earnings and our ability to meet our debt obligations.

The Group is subject to the credit risk of its lessees as to collection of rental payments under its operating leases and finance lease receivables. The effective monitoring and controlling of airline customer credit risk is a competency of a dedicated Risk Management team. Notwithstanding the fact that Group operates in one sector, concentration of credit risk is limited due to the fact that the customer base is large and geographically diverse.

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Notes to the consolidated financial statements

24 Financial instruments – fair values and risk management (continued)

(b) Risk management (continued)

(i) Credit risk (continued)

Trade and other receivables and finance lease receivables (continued)

Creditworthiness of each new customer is assessed, and the Group seeks security deposits in the form of cash or letter of credits to mitigate overall financial exposure to its lessees. The Group utilises an internal credit rating system to assess credit risk. Internal credit ratings are aligned to Standard & Poor's ratings. The assessment process considers qualitative and quantitative information about the customer such as business activities, senior management team, financial fitness, resources and performance, and business risks, to the extent that this information is publicly available or otherwise disclosed to the Group.

The Group's trade receivables and finance lease receivables are secured by cash security deposits, letters of credits and maintenance reserves that the Group holds on behalf of its customers, these amounts represent collateral against amounts due from customers.

In the case of finance lease receivables, the Group retains legal title to the underlying leased aircraft which acts as further collateral for the finance lease receivables in addition to cash security deposits, letters of credits and maintenance reserves that the Group holds.

As of 31 December 2018, the Group's gross trade receivables balance was USD 47.7 million with an allowance for impairment of USD 11.7 million recognised. See further details in note 13.

Cash and cash equivalents

The Group holds significant cash balances. The cash balances are held with bank and financial institution counterparties. The Group invests in counterparties with a rating lower than A3 / P-1 (Moody's) on an exception basis only. The Group typically does not enter into deposits with a duration of more than three months. In addition, the deposit amount placed by the Group with an individual institution typically does not exceed USD 75.0 million.

Credit risk is managed by limiting the aggregate amount and duration of exposure to any one counterparty. 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 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	2018 USD'000	2017 USD'000
A1 to A2	357,663	595,784
Ba1 to Ba2	29,557	40,876
Unrated	21,532	87,389
	<u>408,752</u>	<u>724,049</u>

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

24 Financial instruments – fair values and risk management (continued)

(b) Risk management (continued)

(i) Credit risk (continued)

Derivatives

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.

Notes receivable

The Group is subject to the credit risk associated with notes receivable from its parent. The balance outstanding at 31 December 2018 was USD 1,464.8 million (2017: USD 1,407.9 million). The Group could be exposed to loss in the event of non-performance. While the Group's shareholder does not have formal credit rating the credit risk is deemed nominal due to the sovereign ownership of the Group's parent.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure before security. The maximum exposure to credit risk at the reporting date was:

	Note	2018 USD'000	2017 USD'000
Cash and cash equivalents	14	192,950	369,870
Restricted cash	14	215,802	354,179
Finance lease receivables	25	117,701	221,576
Trade and other receivables	13	36,223	45,508
Derivative financial assets	19	16,530	10,778
Notes receivable	22	1,464,791	1,407,866
Total		<u>2,043,997</u>	<u>2,409,777</u>

(ii) Market risk

Foreign exchange risk

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

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 interest rate risk arises from loans and borrowings issued at variable rates expose the Group to cash flow interest rate risk. Loans and borrowings issued at fixed rates expose the Group to fair value interest rate risk, however such loans and borrowings are carried at amortised cost.

Dubai Aerospace Enterprise (DAE) Ltd

Notes to the consolidated financial statements

24 Financial instruments – fair values and risk management (continued)

(b) *Risk management (continued)*

(ii) *Market risk (continued)*

Interest rate risk (continued)

The Group manages its cash flow interest rate risk by matching lease payments to floating exposure where possible 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 2018, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of USD 16.5 million and liabilities of USD 10.1 million (2017: USD 1.3 million).

The fair values of outstanding derivatives designated as fair value hedges of forecast transactions were liabilities of USD 3.3 million (2017: assets of USD 1.7 million and liabilities of USD 0.2 million).

At 31 December 2018, 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 21.0 lower/higher (2017: USD 14.1 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 19 to these consolidated financial statements.

(iii) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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 has cash and cash equivalents on hand at 31 December 2018 of USD 193.0 million (2017: USD 369.9 million). Additionally, the Group has access to a number of revolving credit facilities which have availability of USD 1,365.0 million as of 31 December 2018 (2017: USD 169.4 million).

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Notes to the consolidated financial statements

24 Financial instruments – fair values and risk management (continued)

(b) *Risk management (continued)*

(iii) *Liquidity risk (continued)*

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 maturity groupings based on the contractual maturity profile at the reporting 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.

	Less than 1 year USD'000	1 to 5 years USD'000	> 5 years USD'000	Total USD'000
31 December 2018				
Loans and borrowings	<u>1,497,158</u>	<u>6,401,117</u>	<u>3,215,932</u>	<u>11,114,207</u>
31 December 2017				
Loans and borrowings	<u>1,788,267</u>	<u>6,318,203</u>	<u>4,572,420</u>	<u>12,678,890</u>

If the Group cannot meet its obligations or if it breaches certain covenants under the various debt arrangements, it may be subject to contract breach damages suits, it may be required to restrict or apply all cash flows from aircraft pledged as collateral for certain debt facilities to meet principal and interest payments, and / or to paydown such debt facilities on an accelerated basis.

(iv) *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group'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 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 3,524.8 million as at 31 December 2018 (2017: USD 3,162.8 million).

(v) *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.

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Notes to the consolidated financial statements

25 Leases

Operating leases

Group as a lessor

At 31 December 2018, the Group owns 312 aircraft (2017: 310 aircraft) aircraft. During the year, the Group received lease payments on aircraft under non-cancellable operating leases expiring from 2019 to 2033. Future minimum annual rentals to be received under the leases at 31 December 2018 are as follows:

	2018 USD'000	2017 USD'000
Not later than one year	1,324,670	1,266,286
Later than one year and not later than five years	4,279,751	3,973,160
Later than 5 years	2,450,365	2,256,400
Total	<u>8,054,786</u>	<u>7,495,846</u>

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.

Group as a lessee - operating lease commitments

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

The future minimum payments under operating leases were as follows:

	2018 USD'000	2017 USD'000
Within one year	3,343	3,321
After one year but not more than five years	9,910	10,447
More than five years	14,463	16,592
Total	<u>27,716</u>	<u>30,360</u>

The Group's rental expense incurred under operating leases was USD 3.6 million for the year (2017: USD 2.1 million).

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Notes to the consolidated financial statements

25 Leases

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 eight aircraft (2017: 11 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.

	2018 USD'000	2017 USD'000
Finance leases – gross receivables	138,633	265,174
Unearned finance lease	<u>(31,898)</u>	<u>(60,783)</u>
Total non-current receivables	<u>106,735</u>	<u>204,391</u>
Finance leases – gross receivables	18,360	17,447
Unearned finance lease	<u>(7,394)</u>	<u>(262)</u>
Total current receivables	<u>10,966</u>	<u>17,185</u>

Receivables from finance leases

	2018		2017	
	Minimum payments USD'000	Present value of payments USD'000	Minimum payments USD'000	Present value of payments USD'000
Within one year	18,360	10,966	28,667	17,185
After one year but not more than five years	70,440	47,447	113,901	87,100
More than five years	<u>68,193</u>	<u>59,288</u>	<u>140,053</u>	<u>117,291</u>
Total	156,993	117,701	282,621	221,576
Less: unearned finance income	<u>(39,292)</u>	<u>-</u>	<u>(61,045)</u>	<u>-</u>
	<u>117,701</u>	<u>117,701</u>	<u>221,576</u>	<u>221,576</u>

During the year ended 31 December 2018, the Group transferred three aircraft from finance lease receivables to aircraft held-for-lease, for further details see note 6.

The expected credit loss of the Group's finance lease receivables is assessed based on historic loss rates and the carrying value of the finance lease receivable net of collateral held. No material expected credit loss has been recognised on the Group's finance lease receivables.

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Notes to the consolidated financial statements

25 Leases

Finance leases (continued)

Group as lessee

The Group has 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. 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 profit or loss and other comprehensive income as part of the rent expense as incurred. The finance lease liability of USD 17.8 million is classified under loans and borrowings in the consolidated statement of financial position.

The minimum lease payments that are due under the lease within one year is USD 1.0 million, USD 5.0 million after one year but not more than five years and USD 11.8 million after five years.

26 Prior period figures

Certain immaterial amounts for the previous year have been reclassified to conform to current period's presentation.

- Within note 18 (Loans and borrowings), the Group reclassified USD 14.4 million of debt issuance costs at 31 December 2017 between non-current and current liabilities.
- Within note 20 (Trade and other payables), the Group now show employees' end of service benefits and other long-term liabilities. These were previously shown as separate items within liabilities section in the consolidated statement of financial position.
- Within note 6, note 7, note 18 and note 20 certain comparative figures have been reclassified, where necessary to conform to current year presentation.
- The consolidated statement of cash flows for the year ended 31 December 2018 commences with profit after tax. For the year ended 31 December 2017 this was profit before tax. Prior period balances have been reclassified to conform to the current year presentation.
- Changes in working capital within the consolidated statement of cash flows has been expanded and the movement by component presented. The prior period has been reclassified to reflect this.

27 Subsequent events

There were no significant events subsequent to 31 December 2018.