# Dubai Aerospace Enterprise (DAE) Ltd

# Results for the year ended 31 December, 2019

**CONFERENCE CALL DETAILS**

DAE will host a conference call at 09.00 EST / 14.00 GMT / 18.00 GST on Wednesday 19th February, 2020 to review our results for the year ended 31 December, 2019. The call can be accessed live by dialling (Ireland) +353 (0) 1 246 5638, (UAE) 8000 3570 2653, (U.S.) +1 646 828 8143 or (UK) +44 (0) 330 336 9105 and referencing code 9337987 at least 15 minutes before the start time. Further information can be found on our website http://www.dubaiaerospace.com.

**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 ANNOUNCEMENT**

We present management's discussion and analysis of the financial condition and results of operations for the year ended 31 December, 2019 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, 2019" are to the year ended 31 December, 2019 and to "31 December, 2018" are to the year ended 31 December, 2018.

**FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER, 2019**

- Operating profit for the year ended 31 December, 2019 was $785.9 million compared to $783.9 million for the year ended 31 December, 2018. During the year ended 31 December, 2019 there was an increase in gain on disposal of aircraft offset by an increase in depreciation and amortisation expense and lower lease revenue.
- Adjusted EBITDA was $1,358.8 million for the year ended 31 December, 2019 increasing from $1,347.7 million for the year ended 31 December, 2018.
- Profit for the year ended 31 December, 2019 was $377.5 million compared to $372.9 million for the year ended 31 December, 2018.
- Total assets were $13,537.1 million year ended 31 December, 2019, compared to $14,705.2 million as at 31 December, 2018.

**OPERATIONAL HIGHLIGHTS**

- The operational highlights for the year ended 31 December, 2019 and 31 December, 2018 are summarised below:
  - Purchases – we purchased 11 aircraft (2018: 28 aircraft).
  - Sales – we disposed of 34 aircraft (2018: 26 aircraft).
  - Total aircraft in the fleet at 31 December, 2019 was 357 which consists of the following:
    - 289 owned aircraft – includes seven aircraft on finance lease and 10 aircraft classified as held-for-sale ("HFS") (31 December, 2018: 312 which included eight aircraft on finance lease and 16 aircraft classified as HFS).
    - 65 managed aircraft - managed on behalf of various third parties (31 December, 2018: 37 aircraft).
    - Three committed aircraft (31 December, 2018: 5 aircraft).
- Available liquidity was $2,403.5 million at 31 December, 2019, increasing from $1,557.9 million as at 31 December, 2018.
- During the year, we received a $1.4 billion investment mandate from one of the world's largest fund managers to source and manage a portfolio of aircraft.

**SUBSEQUENT EVENTS**

- Subsequent to 31 December, 2019, Moody's Investors Service has upgraded the rating of several DAE entities including the senior unsecured rating of DAE Funding LLC (a wholly owned subsidiary of DAE) to Baa3 from Ba2. The outlook is stable.
- In addition, the Notes receivable from certain shareholders with a remaining principal balance of approximately $810 million were fully prepaid in cash in February 2020.

## 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, 2019.

| Results of operations *(in millions of USD)* | Year ended | |
|---|---|---|
| | 31 Dec, 2019 | 31 Dec, 2018 |
| **Consolidated statement of comprehensive income data** | | |
| Total revenue | $ 1,421.3 | $ 1,436.6 |
| Gain on disposal of aircraft | 84.7 | 52.1 |
| **Expenses** | | |
| Depreciation and mortisation | (572.9) | (563.8) |
| General and administrative expenses | (83.8) | (90.1) |
| Cost of providing engineering maintenance services | (52.4) | (44.4) |
| Aircraft maintenance | (11.0) | (6.5) |
| **Operating profit** | **785.9** | **783.9** |
| Net finance costs | (372.3) | (355.1) |
| **Profit before income tax** | **413.6** | **428.8** |
| Income tax expense | (36.1) | (55.9) |
| **Profit for the year** | **377.5** | **372.9** |
| | As of | |
| **Consolidated statement of financial position data (Extract)** | 31 Dec, 2019 | 31 Dec, 2018 |
| Total cash and cash resources | $ 366.0 | $ 408.8 |
| Aircraft held-for-lease | 11,310.0 | 11,708.2 |
| Assets held-for-sale | 293.4 | 521.1 |
| **Total assets** | **13,537.1** | **14,705.2** |
| Total loans and borrowings | 8,295.5 | 9,260.6 |
| Total equity | 3,053.6 | 3,524.8 |
| **Total equity and liabilities** | **13,537.1** | **14,705.2** |
| | Year ended | |
| **Adjusted EBITDA calculation** (1) | 31 Dec, 2019 | 31 Dec, 2018 |
| **Profit for the year** | **$ 377.5** | **$ 372.9** |
| **Add back** | | |
| Net finance costs | 372.3 | 355.1 |
| Income tax expense | 36.1 | 55.9 |
| Depreciation and amortisation | 572.9 | 563.8 |
| **Adjusted EBITDA** | **1,358.8** | **1,347.7** |
| | As of | |
| | 31 Dec, 2019 | 31 Dec, 2018 |
| **Net debt to equity** (2) | **2.64x** | **2.57x** |
| **Total aircraft in the fleet** | **357** | **354** |

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(1) We define Adjusted EBITDA as profit for the applicable period, excluding net finance costs, income tax expense and depreciation and amortisation. 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 consists of an 80% ownership stake in Joramco, a provider of commercial aircraft maintenance, repair and overhaul (MRO) services. DAE is 100% owned, directly and indirectly, by 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. At 31 December, 2019 we had a total fleet of 357 aircraft which was made up of 289 owned aircraft (including seven aircraft on finance lease and 10 aircraft HFS) and 65 managed aircraft. In addition, we also have three new, fuel-efficient aircraft on order from The Boeing Company ("Boeing"), which are due to deliver to our owned fleet in 2020. These aircraft are on lease to 112 lessees in 56 countries. In addition, we have been mandated to source $1.4 billion of aircraft assets on behalf of Navigator Aviation DAC over the coming years.

As of 31 December, 2019, the aggregate book value of our owned fleet of $11,704.9 million includes finance lease receivable and HFS aircraft. As of 31 December, 2019, 93.5% 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 28.7% of our portfolio based on lease revenue as of 31 December, 2019. Emirates, a related party, is our largest customer contributing 14.4% of lease rental income, excluding end of lease compensation, during the year ended 31 December, 2019.

*Analysis by aircraft type for the leasing business*

| Aircraft Type | Owned Portfolio | Managed Portfolio | Committed Portfolio (3) | Total |
|---|---|---|---|---|
| A320 family | 102 | 30 | - | 132 |
| A330-200 | 15 | 1 | - | 16 |
| A330-300 | 9 | 2 | - | 11 |
| A350-900 | 4 | - | - | 4 |
| **Total Airbus** | **130** | **33** | **-** | **163** |
| B737 family | 76 | 24 | - | 100 |
| B737 classics | - | 3 | - | 3 |
| B747-400 | 3 | - | - | 3 |
| B757-200 | - | 1 | - | 1 |
| B767-300ER | - | 2 | - | 2 |
| B777F | 12 | - | 3 | 15 |
| B777 | 3 | - | - | 3 |
| B787 | 12 | - | - | 12 |
| **Total Boeing** | **106** | **30** | **3** | **139** |
| ATR 72-600 | 53 | 2 | - | 55 |
| **Total** | **289** | **65** | **3** | **357** |
| | | | | |
| Narrow body | 178 | 58 | - | 235 |
| Wide body | 58 | 5 | 3 | 67 |
| Turboprop | 53 | 2 | - | 55 |
| **Total** | **289** | **65** | **3** | **357** |

(3) Committed portfolio includes aircraft to be delivered to the owned fleet only.

DAE is committed to maintaining an effective Environment, Social and Governance Framework ("ESG") and this is demonstrated across our business activities. DAE Capital has a young fleet with an average age of 6.0 years. By investing in aircraft with technologically advanced design features, greater fuel efficiency and reduced harmful emissions, we are helping our airline customers reduce their global environmental footprint. Across our business units and office locations, DAE demonstrates its commitment to environmental responsibility with high building energy ratings, use of energy efficient lighting, water conservation initiatives and a continued focus on recycling and reducing waste.

DAE staff are encouraged to communicate using the latest conferencing facilities leading to reduced travel between offices, and to commute to work using public transport, walking or cycling where appropriate to do so. We have a multi-cultural diverse working environment with over 20 nationalities and as at end of 31 December, 2019 our DAE Capital business had a ratio of 58% male employees and 42% female employees. Through our Community Giving initiative we support a number of charities linked to our local offices and encourage staff to engage in physical and mental well-being activities. We maintain a robust corporate governance framework via our internal boards and committees.

***Year ended 31 December, 2019 Compared to Year ended 31 December, 2018***

| *Revenues* | Year ended | |
|---|---|---|
| | **31 Dec, 2019** | **31 Dec, 2018** |
| | **USD millions** | |
| Lease revenue | $ 1,324.1 | $ 1,372.2 |
| Maintenance revenue | $ 68.3 | $ 20.7 |
| Amortisation of lease incentive, lease discounts and other lease costs | $ (62.3) | $ (31.0) |
| **Total lease revenue** | **$ 1,330.1** | **$ 1,361.9** |
| Engineering maintenance service revenue – Joramco | $ 81.8 | $ 67.4 |
| **Total lease revenue and engineering maintenance service revenue** | **$ 1,411.9** | **$ 1,429.3** |
| Other income | $ 9.4 | $ 7.3 |
| **Total revenue** | **$ 1,421.3** | **$ 1,436.6** |

Total revenue was $1,421.3 million for the year ended 31 December, 2019 compared to $1,436.6 million for the year ended 31 December, 2018 due to the reasons outlined below.

Total lease revenue decreased to $1,330.1 million for the year ended 31 December, 2019 from $1,361.9 million for the year ended 31 December, 2018. This decrease was due primarily to decrease in the number of revenue-generating aircraft in the fleet, increased amortisation of lease incentives and higher bad debt provision, partly offset by increased maintenance revenue which mainly related to end of lease compensation payments, during the year ended 31 December, 2019 compared to the prior period.

Engineering maintenance service revenue - Joramco increased to $81.8 million for the year ended 31 December, 2019, compared to $67.4 million for the year ended 31 December, 2018.

*Gain on disposal of aircraft*

Gain on disposal of aircraft was $84.7 million for the year ended 31 December, 2019 compared to $52.1 million for the year ended 31 December, 2018. During the year ended 31 December, 2019, we sold 34 owned aircraft, compared to 26 owned aircraft during the year ended 31 December, 2018. Of the 34 aircraft sold, 31 aircraft were sold to third parties where management of the aircraft was retained by DAE.

Fluctuations in the gain or loss on disposal of aircraft are not only a function of the number of disposals, but are also dependent on the type and age of aircraft, an accounting adjustment for revenue earned from the economic closing date to the transfer of title to the buyer, as well as the prevailing market trading conditions in the underlying period.

*Expenses*

Expenses for the year ended 31 December, 2019 increased to $720.1 million compared to $704.8 million for the year ended 31 December, 2018. This increase was principally due to higher depreciation and amortisation expenses and higher cost of providing engineering maintenance services, relating to the higher revenue from Joramco. This was partially offset by lower general and administrative expenses for the year ended 31 December, 2019 compared to the prior period.

*Net finance costs*

Net finance costs increased to $372.3 million for the year ended 31 December, 2019 from $355.1 million for the year ended 31 December, 2018.

Finance income decreased by $58.7 million to $61.9 million which related primarily to lower gains on financial instruments and the movement in fair value of derivatives. The movement in the fair value of derivatives during the year ended 31 December, 2019 is now part of other comprehensive income as all derivatives are now in designated hedge relationships. There was also lower interest on notes receivables.

Finance expense decreased by $41.5 million to $434.2 million, primarily due to savings in interest expense which reduced primarily due to the decrease in total loans and borrowings from $9.3 billion as at 31 December, 2018 to $8.3 billion year ended 31, December, 2019.

*Income tax expense*

Our tax charge is primarily driven by tax arising on the group's Irish activities. During the year ended 31 December, 2019, we recorded a tax expense of $36.1 million compared to $55.9 million for the year ended 31 December, 2018. The decrease was primarily due to a reduction in profits attributable to the Group's activities carried out in Ireland during 2019.

*Profit for the year*

Profit for the year ended 31 December, 2019 was $377.5 million compared to $372.9 million for the year ended 31 December, 2018 mainly due to reasons outlined above.

***Consolidated Cash Flows***

The following table presents our consolidated cash flows for the year ended 31 December, 2019 and the year ended 31 December, 2018. The cash and cash equivalents shown below refer to unrestricted cash.

| | Year ended | |
|---|---|---|
| | 31 Dec, 2019 | 31 Dec, 2018 |
| | USD millions | |
| **Consolidated cash flow data** | | |
| Net cash generated from operating activities | $ 1,298.2 | $ 1,310.4 |
| Net cash from / (used in) investing activities | $ 144.5 | $ (202.8) |
| Net cash used in financing activities | $ (1,407.2) | $ (1,284.5) |
| Net increase / (decrease) in cash and cash equivalents | $ 35.5 | $ (176.9) |
| Cash and cash equivalents at the beginning of the period | $ 193.0 | $ 369.9 |
| **Cash and cash equivalents** | **$ 228.5** | **$ 193.0** |

For the year ended 31 December, 2019, net cash generated from operating activities was $1,298.2 million, a decrease from $1,310.4 million for the year ended 31 December, 2018.

For the year ended 31 December, 2019, net cash from investing activities was $144.5 million, compared to outflow of $202.8 million for the year ended 31 December, 2018. This movement mainly relates to lower number of aircraft acquired and cash proceeds received in advance of sale of aircraft offset by increases in deposits paid for aircraft purchases.

Net cash used in financing activities for the year ended 31 December, 2019 was $1,407.2 million compared to $1,284.5 million for the year ended 31 December, 2018. This movement was due to the repurchase of share capital of $107.0 million, higher net financing costs and release of restricted cash offset by a net increase in borrowings drawn down of $156.7 million during the year ended 31 December, 2019 compared to the prior period.

Our cash and cash equivalents for the year ended 31 December, 2019 was $228.5 million up from $193.0 million as at 31 December, 2018. Our total cash and cash resources, which includes restricted cash, was $366.0 million as at 31 December, 2019 which represents a decrease of $42.8 million compared to $408.8 million as at 31 December, 2018.

***Loans and borrowings, Liquidity and Capital Resources***

*Loans and borrowings*

Our total loans and borrowings before debt issuance costs decreased to $8,376.2 million as at year ended 31 December, 2019 from $9,359.3 million as at 31 December, 2018. The decrease was primarily due to the early repayment of certain loans and principal amortisation during the year ended 31 December, 2019. At 31 December, 2019, our level of unsecured debt had increased to 61.6% compared to 46.0% on 31 December, 2018. The average cost of debt was 4.5% which is in line with year-end 2018 and the weighted average debt maturity was 4.6 years compared to 5.2 years at 31 December, 2018.

| | Collateral aircraft | Year ended 31 Dec 2019 USD millions |
|---|---|---|
| **Unsecured facilities:** | | |
| Senior unsecured notes | - | $ 2,857.6 |
| Revolving credit facilities | - | $ 1,132.7 |
| Unsecured facilities (incl. term loans) | - | $ 1,169.4 |
| **Total unsecured facilities** | **-** | **$ 5,159.7** |
| | | |
| **Secured facilities**: | | |
| Recourse obligations (incl. ECA, Ex-Im & EDC) | 97 | $ 2,844.6 |
| Non-recourse obligations | 5 | $ 167.0 |
| Term loan 2014 | 9 | $ 204.9 |
| **Total secured facilities** | **111** | **$ 3,216.5** |
| **Total indebtedness** | **111** | **$ 8,376.2** |

In addition to the 111 aircraft used as collateral on our secured facilities, 178 aircraft (31 December, 2018: 138 aircraft) were unencumbered with a total net book value of $6,803.9 million at 31 December, 2019 (31 December, 2018: net book value: $4,694.9 million). Further information of the loan facilities can be found in the consolidated financial statements note 17.

Our level of unsecured revolving credit facilities at 31 December, 2019 was $3,007.7 million of which $1,875.0 million was available.

In addition, during the year ended 31 December, 2019, we entered into an unsecured term loan facility totalling $300.0 million. As at 31 December, 2019, no amount was drawn from this facility and $300.0 million was available.

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 decreased to $3,053.6 million as at year ended 31 December, 2019 from $3,524.8 million as at 31 December, 2018 due primarily to the repurchase of shares during 2019 offset by total comprehensive income for the period ended 31 December, 2019. Our Net Debt to Equity ratio was 2.64:1 times year ended 31 December, 2019 compared to 2.57:1 times as at 31 December, 2018.

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 2019

## Dubai Aerospace Enterprise (DAE) Ltd

## Consolidated financial statements for the year ended 31 December 2019

*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 2019, 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 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- 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 consolidated 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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*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. 5 of 2018.

/s/ PricewaterhouseCoopers

**PricewaterhouseCoopers**
18 February 2020

## Dubai Aerospace Enterprise (DAE) Ltd

## Consolidated statement of profit or loss and other comprehensive income

| | Note | Year ended 31 December 2019 USD'000 | 2018 USD'000 |
|---|---|---|---|
| Revenue | 3 | 1,411,880 | 1,429,334 |
| Other income | 4 | 9,427 | 7,277 |
| **Total revenue** | | 1,421,307 | 1,436,611 |
| Gain on disposal of aircraft | | 84,734 | 52,088 |
| **Expenses** | | | |
| Depreciation and amortisation | | (572,915) | (563,763) |
| General and administrative expenses | 5 | (83,997) | (90,044) |
| Cost of providing engineering maintenance services | | (52,352) | (44,408) |
| Aircraft maintenance | | (10,951) | (6,549) |
| **Results from operating activities** | | 785,826 | 783,935 |
| Finance income | 6 | 61,952 | 120,616 |
| Finance expense | 6 | (434,225) | (475,725) |
| **Net finance costs** | | (372,273) | (355,109) |
| **Profit before income tax** | | 413,553 | 428,826 |
| Income tax expense | 7 | (36,073) | (55,903) |
| **Profit for the year** | | 377,480 | 372,923 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Unrealised loss on interest rate hedges | 18 | (45,901) | (11,148) |
| Amounts reclassified to profit or loss | | 570 | 444 |
| Income tax relating to components of other comprehensive income | | 3,602 | (131) |
| **Total comprehensive income for the year** | | 335,751 | 362,088 |
| **Profit for the year attributable to:** | | | |
| Equity holders of Dubai Aerospace Enterprise (DAE) Ltd | | 376,586 | 372,675 |
| Non-controlling interests | | 894 | 248 |
| | | 377,480 | 372,923 |
| **Total comprehensive income for the year attributable to:** | | | |
| Equity holders of Dubai Aerospace Enterprise (DAE) Ltd | | 334,857 | 361,840 |
| Non-controlling interests | | 894 | 248 |
| | | 335,751 | 362,088 |

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 2019 USD'000 | 2018 USD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Aircraft held for lease | 8 | 11,309,997 | 11,708,173 |
| Property, plant and equipment | | 110,023 | 91,924 |
| Deposits for aircraft purchases | 9 | 138,679 | 70,663 |
| Intangible assets | | 6,276 | 7,760 |
| Goodwill | | 44,668 | 44,668 |
| Finance lease receivables | 24 | 91,825 | 106,735 |
| Notes receivable | 21 | 810,375 | 1,464,791 |
| Other non-current assets | 11 | 175,351 | 161,031 |
| Investments | | 35,269 | - |
| | | 12,722,463 | 13,655,745 |
| **Current assets** | | | |
| Cash and cash equivalents | 13 | 228,461 | 192,950 |
| Restricted cash | 13 | 137,525 | 215,802 |
| Inventories | | 10,555 | 9,770 |
| Derivative financial assets | 18 | 1,884 | 16,530 |
| Trade and other receivables | 12 | 69,134 | 36,223 |
| Prepayments | | 6,663 | 5,407 |
| Finance lease receivables | 24 | 9,650 | 10,966 |
| Current tax asset | | 20 | - |
| Other current assets | 11 | 57,315 | 40,671 |
| Assets held-for-sale | 14 | 293,385 | 521,104 |
| | | 814,592 | 1,049,423 |
| **Total assets** | | 13,537,055 | 14,705,168 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Authorised and issued share capital | 15 | 1,927,770 | 1,927,770 |
| Additional paid-in-capital | | 517,884 | 517,884 |
| Treasury shares | | (892,001) | (85,000) |
| Other reserves | | (52,058) | (10,329) |
| Retained earnings | | 1,541,743 | 1,165,157 |
| | | 3,043,338 | 3,515,482 |
| Non-controlling interests | | 10,250 | 9,356 |
| **Net equity** | | 3,053,588 | 3,524,838 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Loans and borrowings | 17 | 7,196,201 | 8,144,726 |
| Deferred tax liabilities | 10 | 289,748 | 258,783 |
| Maintenance reserves and security deposits | 16 | 1,120,650 | 1,125,070 |
| Lease liabilities | 2 | 32,436 | - |
| Deferred revenue | 20 | 54,644 | 68,217 |
| | | 8,693,679 | 9,596,796 |
| **Current liabilities** | | | |
| Loans and borrowings | 17 | 1,099,342 | 1,115,882 |
| Trade and other payables | 19 | 305,757 | 60,599 |
| Derivative financial liabilities | 18 | 44,837 | 13,370 |
| Maintenance reserves and security deposits | 16 | 211,104 | 199,332 |
| Lease liabilities | 2 | 3,312 | - |
| Deferred revenue | 20 | 65,458 | 71,834 |
| Current tax liabilities | | - | 1,620 |
| Liabilities held-for-sale | 14 | 59,978 | 120,897 |
| | | 1,789,788 | 1,583,534 |
| **Total liabilities** | | 10,483,467 | 11,180,330 |
| **Total liabilities and equity** | | 13,537,055 | 14,705,168 |

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 | |
|---|---|---|
| | 2019 | 2018 |
| | USD'000 | USD'000 |
| **Cash flows from operating activities** | | |
| Profit for the year | 377,480 | 372,923 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 572,915 | 563,763 |
| Gain on disposal of aircraft | (84,734) | (52,088) |
| Movement in fair value of derivatives | - | (10,813) |
| Amortisation of fair value discounts and debt issuance costs | 37,349 | 56,844 |
| Net finance cost | 334,924 | 309,078 |
| Income tax | 36,073 | 55,903 |
| Changes in operating assets and liabilities | | |
| Movement in trade and other receivables | (32,911) | 9,285 |
| Movement in finance lease receivables | 16,226 | 103,875 |
| Movement in maintenance reserves and security deposits | 7,352 | (37,581) |
| Movement in other assets and liabilities | 33,499 | (60,818) |
| **Net cash generated from operating activities** | 1,298,173 | 1,310,371 |
| **Cash flow from investing activities** | | |
| Acquisition of aircraft held for lease | (828,862) | (1,028,985) |
| Acquisition of property plant and equipment | (2,636) | (46,099) |
| Proceeds from disposal of aircraft | 858,776 | 964,514 |
| Cash proceeds received in advance of sale of aircraft | 255,608 | - |
| Interest received | 7,982 | 11,265 |
| Deposits paid for the purchase of aircraft | (146,322) | (103,535) |
| **Net cash generated from / (used in) investing activities** | 144,546 | (202,840) |
| **Cash flows from financing activities** | | |
| Movement in restricted cash | 78,277 | 138,377 |
| Repurchase of share capital | (107,000) | - |
| Proceeds from borrowings | 2,969,196 | 3,750,891 |
| Repayment of borrowings | (3,844,236) | (4,471,741) |
| Debt repurchased | (86,634) | (397,559) |
| Cash interest paid | (400,035) | (261,712) |
| Debt issuance costs incurred | (16,776) | (42,707) |
| **Net cash used in financing activities** | (1,407,208) | (1,284,451) |
| **Net increase / (decrease) in cash and cash equivalents** | 35,511 | (176,920) |
| Cash and cash equivalents at the beginning of the year | 192,950 | 369,870 |
| **Cash and cash equivalents at the end of the year** | 228,461 | 192,950 |

The cash paid for taxes during the year was USD 3.2 million (2018: USD 5.8 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 2017** | 1,927,770 | 517,884 | (85,000) | 506 | 792,482 | 3,153,642 | 9,108 | 3,162,750 |
| 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** | 1,927,770 | 517,884 | (85,000) | (10,329) | 1,165,157 | 3,515,482 | 9,356 | 3,524,838 |
| Profit for the year | - | - | - | - | 376,586 | 376,586 | 894 | 377,480 |
| Other comprehensive income | - | - | - | (41,729) | - | (41,729) | - | (41,729) |
| **Total comprehensive income for the year** | - | - | - | (41,729) | 376,586 | 334,857 | 894 | 335,751 |
| Purchase of own shares | - | - | (807,001) | - | - | (807,001) | - | (807,001) |
| **At 31 December 2019** | 1,927,770 | 517,884 | (892,001) | (52,058) | 1,541,743 | 3,043,338 | 10,250 | 3,053,588 |

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 was superseded by DIFC law No. 5 of 2018. 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 and Dubai Silicon Oasis Authority ("DSOA"). ICD Hospitality & Leisure LLC and DSOA are subsidiaries of ICD. ICD directly and indirectly owns 100% of the Company and is therefore the ultimate controlling party of the Group. ICD is controlled by the Government of Dubai.

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. DAE Engineering division consists of an 80% ownership stake in Joramco.

The operational highlights for the year ended 31 December 2019 (the "year") are summarised below:

Purchases – the Group purchased 11 during the year (2018: 28 aircraft).

Sales – the Group disposed of 34 during the year (2018: 26 aircraft).

The total number of aircraft at 31 December 2019 was 289, including 10 aircraft classified as held-for-sale (31 December 2018: 312 including 16 aircraft classified as held-for-sale). The Group also manages 65 aircraft on behalf of third parties at 31 December 2019 (31 December 2018: 37 aircraft).

The consolidated financial statements were approved on 18 February 2020 and signed by:

/s/ Firoz Tarapore

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Firoz Tarapore
Chief Executive Officer

## 2 Accounting policies

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to 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 thousands, except when otherwise indicated.

As at 31 December 2019, the current liabilities of the Group exceeded its current assets by USD 975.2 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 2019.

### 2.2 Basis of consolidation

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

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 consolidates an SPE.

# 2 Accounting policies (continued)

## 2.2 Basis of consolidation (continued)

As of 31 December 2019, the Group had 26 SPEs (2018: 22 entities). These entities included aircraft with a book value of USD 445.5 million at 31 December 2019 (2018: USD 530.5 million), in the consolidated statement of financial position. These aircraft are funded by unsecured debt of USD 207.9 million (2018: USD 240.1 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.

# 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.

# 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 2019, 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 16: Leases

The Group has adopted IFRS 16 "Leases", from 1 January 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions of IFRS 16.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases of office buildings and land which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.3%.

For leases of buildings previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are applied from 1 January 2019.

| | USD'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 27,716 |
| Discounted using the weighted average incremental borrowing rate at the date of initial application | 21,116 |
| Less: short-term leases recognised on a straight-line basis as expense | (737) |
| | **20,379** |
| Add: finance lease liabilities recognised as at 31 December 2018 | 17,765 |
| **Lease liabilities recognised as at 1 January 2019** | **38,144** |

| | 31 December 2019 USD'000 | 1 January 2019 USD'000 |
|---|---|---|
| Non-current lease liabilities | 32,436 | 35,437 |
| Current lease liabilities | 3,312 | 2,707 |
| **Total** | **35,748** | **38,144** |

The associated right-of-use assets for property and land leases were measured at the amount equal to the lease liability and have been recognised within Property, plant and equipment.

# 2 Accounting policies (continued)

## 2.3 Changes in accounting policies and disclosures (continued)

### *(a) New and amended standards adopted by the Group (continued)*

IFRS 16: Leases (continued)

The recognised right-of-use assets relate to the following:

| | USD’000 |
|---|---|
| Property leases | 17,505 |
| Land lease | 2,874 |
| **Right-of-use assets recognised as at 1 January 2019** | **20,379** |
| Add: Property leases classified as finance leases as at 31 December 2018 | 30,360 |
| **Right-of-use assets recognised as at 1 January 2019** | **50,739** |

| | 31 December 2019 USD’000 | 1 January 2019 USD’000 |
|---|---|---|
| **Right-of-use assets** | **45,824** | **50,739** |

In applying IFRS 16 for the first time, the Group has applied the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. The contracts entered into before the transition date the Group relied on the assessment made applying IAS 17.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

# 2 Accounting policies (continued)

## 2.3 Changes in accounting policies and disclosures (continued)

### *(a) New and amended standards adopted by the Group (continued)*

There are a number of other changes to IFRS which became effective for the Group during the financial period but did not result in material changes to the financial statements. The following standards also became effective for period beginning after 1 January 2019:

- Amendments to IFRS 9: Prepayment features with negative compensation and modification of financial liabilities.
- Amendments to IAS 28: Long term interests in associates and joint ventures.
- Amendments to IAS 19: Plan amendment curtailment or settlement.
- IFRIC 23: Uncertainty over income tax treatment.
- Annual improvements to IFRSs 2015 – 2017 Cycle – various standards.

All other accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2018.

### *(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 17 Insurance contracts (effective on or after 1 January 2021).
- Amendments to IFRS 3 Definition of a business.
- Amendments to IAS 1 and IAS 8 on the definition of material.
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform.

These are all effective for annual periods beginning on or after 1 January 2020 (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, however the impact 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.

# 2 Accounting policies (continued)

## 2.4 Estimates and judgements (continued)

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

*Aircraft held for lease*

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

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

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

The factors considered in estimating the future cash flows are impacted by changes in contracted lease rates, estimated residual values, economic conditions, technology and airline demand for particular aircraft types. These estimated cash flows are discounted at 4.5% per annum, which management believe is appropriate for each individual aircraft assessed (2018: 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 the Group, 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.

## 2 Accounting policies (continued)

### 2.5 Summary of significant accounting policies

**Revenue**

*Lease income*

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 reserves 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.

# 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 |
| Right-of-use assets | Lease term |

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 of 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.

Maintenance right assets 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.

Maintenance right assets 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 during the term of the lease, the amount will be derecognised and any related maintenance reserves will be released and the net amount recorded within lease income in the consolidated statement of profit or loss and other comprehensive income.

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.

# 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 as 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 component of the aircraft held for lease 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 within depreciation and amortisation.

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.

# 2 Accounting policies (continued)

## 2.5 Summary of significant accounting policies (continued)

**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).

**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.

**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.

# 2 Accounting policies (continued)

## 2.5 Summary of significant accounting policies (continued)

**Financial instruments**

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

**Classification of financial assets and financial liabilities**

The following table shows the measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities.

| | Note | Classification |
|---|---|---|
| ***Financial assets*** | | |
| Cash and cash equivalents | 13 | Amortised cost |
| Restricted cash | 13 | Amortised cost |
| Finance lease receivables | 24 | Amortised cost |
| Trade and other receivables | 12 | Amortised cost |
| Derivative financial assets | 18 | FVOCI |
| Notes receivable | 21 | Amortised cost |
| Investments | | Amortised cost / FVTPL |
| ***Financial liabilities*** | | |
| Loans and borrowings | 17 | Amortised cost |
| Derivative financial liabilities | 18 | FVOCI |
| Lessee security deposits | 16 | Amortised cost |
| Trade and other payables | 19 | Amortised cost |

*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.

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.

# 2 Accounting policies (continued)

## 2.5 Summary of significant accounting policies (continued)

**Financial instruments (continued)**

***Classification of financial assets and liabilities (continued)***

*Financial assets measured at FVOCI*

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 and 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”).

## 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.

## 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 assets***

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.

## 2 Accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

**Financial instruments (continued)**

***Impairment of financial assets (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.

## 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.

# 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.

# 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.

**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 be 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.

## 2 Accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

**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.

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.

## 2 Accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

**Taxes (continued)**

*(b) Deferred tax* (continued)

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.

**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.

*(a) Group as lessor*

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.

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*

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

## 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.

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.

# 2 Accounting policies (continued)

## 2.5 Summary of significant accounting policies (continued)

**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.

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

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Lease rental income | 1,330,126 | 1,361,984 |
| Provision of engineering maintenance services | 81,754 | 67,350 |
| | 1,411,880 | 1,429,334 |

Lease rental income from the top five customers represented 28.7% of the lease rental income for the year ended 31 December 2019 (2018: 28.0%). No single customer accounted for more than 14.4% of lease rental income, excluding end of lease compensation, in the year ended 31 December 2019 (2018: 16.2%). 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:

| | 2019<br>USD'000 | 2019<br>% | 2018<br>USD'000 | 2018<br>% |
|---|---|---|---|---|
| MEASA (Middle East/Africa/South Asia) | 548,127 | 41 | 474,067 | 35 |
| Asia/Pacific | 377,156 | 28 | 446,975 | 33 |
| Europe | 222,664 | 17 | 248,420 | 18 |
| Americas | 182,179 | 14 | 192,522 | 14 |
| Total lease revenue | 1,330,126 | 100 | 1,361,984 | 100 |

Lease rental income includes the release of maintenance reserves totalling USD 68.3 million (2018: USD 20.7 million) which is net of the derecognition of maintenance right assets of USD 20.2 million (2018: USD 43.2 million).

Lease rental income also includes a net charge associated with the amortisation of lease incentive assets of USD 50.5 million (2018: USD 19.9 million) and other lease costs of USD 11.8 million for the year (2018: USD 11.2 million).

Engineering maintenance services revenue of USD 81.8 million (2018: USD 67.4 million) relates to commercial aircraft maintenance, repair and overhaul provided by the Group.

## 4 Other income

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Servicer fee income | 6,096 | 4,752 |
| Other income | 3,331 | 2,525 |
| | 9,427 | 7,277 |

Servicer fee income relates to the management of aircraft on behalf of third parties.

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

## 5 General and administrative expenses

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Compensation and benefits expenses | 50,871 | 50,048 |
| Legal and professional expenses | 19,732 | 23,749 |
| Office expenses | 1,802 | 5,343 |
| Travel expenses | 3,872 | 4,220 |
| Other expenses | 7,720 | 6,684 |
| | 83,997 | 90,044 |

DAE Capital had 141 persons (2018: 147 persons) in employment as at 31 December 2019. The average numbers of employees during the year was 144 (2018: 142).

DAE Engineering had 1,066 persons (2018: 1,013 persons) in employment as at 31 December 2019. The average numbers of employees during the year was 1,008 (2018: 940).

## 6 Finance income and expense

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Interest on notes receivable | 45,585 | 50,629 |
| Gains on financial instruments | 2,495 | 41,578 |
| Movement in fair value of derivatives | - | 10,813 |
| Interest on bank accounts and short term investments | 5,658 | 8,717 |
| Interest from investments | 2,311 | - |
| Finance lease income | 5,903 | 8,730 |
| Net foreign exchange gain | - | 149 |
| Total finance income | 61,952 | 120,616 |
| | | |
| Interest on bank borrowings | (391,637) | (417,986) |
| Amortisation of debt issuance costs | (34,785) | (34,300) |
| Loss on transfer from finance lease receivable | - | (15,565) |
| Provision for finance lease receivable | - | (4,390) |
| Other charges | (6,502) | (3,484) |
| Lease expense | (870) | - |
| Net foreign exchange loss | (431) | - |
| Total finance expense | (434,225) | (475,725) |
| | | |
| Net finance cost | (372,273) | (355,109) |

Gains on financial instruments 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 loss under the same finance lease agreements of USD 4.4 million.

## 7 Income tax expense

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| **Current tax** | | |
| Current period | 1,610 | 6,332 |
| Adjustment for prior periods | (86) | 1,727 |
| **Total current tax expense** | 1,524 | 8,059 |
| | | |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 33,903 | 47,373 |
| Adjustments for prior periods | 646 | 471 |
| **Total deferred tax expense** | 34,549 | 47,844 |
| | | |
| **Total income tax expense** | 36,073 | 55,903 |

**Reconciliation of effective tax rate**

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Profit for the year | 377,480 | 372,923 |
| Income tax expense | 36,073 | 55,903 |
| Profit excluding income tax | 413,553 | 428,826 |
| | | |
| Income subject to tax in United Arab Emirates – 0% | - | - |
| Income subject to tax in Ireland – 12.5% | 36,576 | 48,034 |
| Income taxable at other rates | (6,231) | (5,476) |
| Impact of tax losses not recognised | 1,170 | 10,620 |
| Interest not deductible | 5,272 | - |
| Other permanent differences | (1,197) | 527 |
| Adjustment to previous periods taxation | 483 | 2,198 |
| Total income tax expense | 36,073 | 55,903 |

The income tax expense for the year ended 31 December 2019 was primarily driven by the tax arising on the group's Irish activities at 12.5%. The Group also incurred losses in other jurisdictions which is included in income taxable at other rates. However, based on current taxable income projections, a portion of these losses have not been recognised. The interest not deductible amount of USD 5.3 million relates to a restriction on interest deductions under Hungarian thin capitalisation rules. The 2018 equivalent amount was USD 5.5 million and was presented within tax losses not recognised in the year ended 31 December 2018.

## 8 Aircraft held for lease

| | Aircraft and engines USD'000 | Maintenance right asset USD'000 | Lease discount USD'000 | Total USD'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| 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 |
| Additions | 884,501 | - | - | 884,501 |
| Transfers | 64,747 | (64,747) | - | - |
| Transfers to assets held-for-sale | (974,434) | (97,806) | 6,632 | (1,065,608) |
| Derecognition | (6,002) | (26,169) | 777 | (31,394) |
| Disposals | (72,461) | - | - | (72,461) |
| **At 31 December 2019** | 11,940,028 | 635,416 | (27,180) | 12,548,264 |
| | | | | |
| **Depreciation** | | | | |
| At 31 December 2017 | 1,017,995 | 25,256 | (1,903) | 1,041,348 |
| Charge 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 |
| Charge for the year | 514,975 | 43,317 | (6,349) | 551,943 |
| Transfers to assets held-for-sale | (398,496) | (15,040) | 2,794 | (410,742) |
| Derecognition | (6,002) | (5,940) | 777 | (11,165) |
| Disposals | (16,822) | - | - | (16,822) |
| **At 31 December 2019** | 1,158,659 | 90,761 | (11,153) | 1,238,267 |
| | | | | |
| **Net book value** | | | | |
| **At 31 December 2018** | 10,978,673 | 755,714 | (26,214) | 11,708,173 |
| **At 31 December 2019** | 10,781,369 | 544,655 | (16,027) | 11,309,997 |

As of 31 December 2019, the Group owned 289 aircraft including 10 aircraft held-for-sale (2018: 312 aircraft including 16 aircraft held-for-sale), within this the Group had 282 aircraft held for lease on an operating basis (2018: 304 aircraft) and seven under finance lease (2018: 8 aircraft). During the year ended 31 December 2019, the Group sold 34 aircraft (2018: 26 aircraft (including two aircraft which were parted out)) and purchased 11 aircraft in the year (2018: 28 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 24.

During the year ended 31 December 2019, the Group derecognised USD 20.2 million (2018: USD 43.2 million) of maintenance right assets related to aircraft which were redelivered to the Group during the year. An amount of USD 31.3 million has been recognised as maintenance income in relation to these aircraft (2018: USD 39.2 million). These amounts are netted within revenue in the consolidated statement of profit or loss and other comprehensive income.

The Group's obligations under certain if 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 17.

## 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 cash flows 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 2019 (2018: nil).

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 4.5% (2018: 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 2019.

## 9 Deposits for aircraft purchases

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| At 1 January | 70,663 | 638,184 |
| Payments during the year | 146,322 | 103,535 |
| Transferred to assets held-for-sale | - | (15,091) |
| Transferred to aircraft held for lease | (78,306) | (655,965) |
| At 31 December | 138,679 | 70,663 |

Deposits for aircraft purchases 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 11 aircraft during the year (2018: 28 aircraft) for which the total amount of aircraft purchase deposits reclassified to aircraft held for lease amounted to USD 78.3 million (2018: USD 656.0 million).

## 10 Deferred tax

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

| *In thousands of USD* | **Ireland 2019** | **United States 2019** | **Other 2019** | **Net 2019** |
|---|---|---|---|---|
| Property, plant and equipment | (513,693) | (4,307) | - | (518,000) |
| Employee entitlements | - | 420 | - | 420 |
| Purchase price adjustments | (32,715) | - | - | (32,715) |
| Other | 87 | 59 | - | 146 |
| Trade losses | 260,401 | - | - | 260,401 |
| Net tax liabilities | (285,920) | (3,828) | - | (289,748) |

| *In thousands of USD* | **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) |
| Intangibles | - | 3 | - | 3 |
| Trade losses | 310,810 | 269 | - | 311,079 |
| Net tax liabilities | (253,737) | (5,046) | - | (258,783) |

At 31 December 2019, the Group had an unrecognised deferred tax asset of USD 20.9 million primarily in respect of Irish tax losses of USD 3.8 million, Hungarian tax losses of USD 8.8 million and US tax losses of USD 7.5 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.

## 10 Deferred tax (continued)

The Group files income tax returns in Ireland, the US and various states and foreign jurisdictions. The periods from 31 December 2015 to 31 December 2018 remain open to examination by the Irish Revenue authorities. The period from 31 December 2011 to 31 December 2018 remain open to examination by the US Internal Revenue Service and state authorities.

## 11 Other assets

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| **Non-current assets** | | |
| Lease acquisition costs | 50,213 | 61,678 |
| Lease incentives | 125,138 | 99,353 |
| | 175,351 | 161,031 |

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| **Current assets** | | |
| Lease acquisition costs | 12,248 | 13,079 |
| Lease incentives | 44,647 | 23,944 |
| Other assets | 420 | 3,648 |
| | 57,315 | 40,671 |

Included in lease acquisition costs is an amount of USD 40.2 million (2018: USD 48.9 million) incurred in respect of lease agreements entered into with a company under common control.

## 12 Trade and other receivables

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Trade receivables | 83,217 | 47,654 |
| Less: allowances for impairment | (14,474) | (11,737) |
| Trade receivables, net | 68,743 | 35,917 |
| Other receivables | 391 | 306 |
| | 69,134 | 36,223 |

Movement in the allowance for impairment is as follows:

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| At 1 January | 11,737 | 35,728 |
| Allowances for impairment | 9,479 | 8,181 |
| Written off / offset* | (6,742) | (32,172) |
| At 31 December | 14,474 | 11,737 |

*During the year ended 31 December 2018, receivables of USD 30.6 million were fully offset against the allowance for impairment.

## 12 Trade and other receivables (continued)

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

| | 2019 USD'000 | 2019 % | 2018 USD'000 | 2018 % |
|---|---|---|---|---|
| MEASA (Middle East/Africa/South Asia) | 31,736 | 38 | 26,886 | 56 |
| Europe | 23,571 | 28 | 13,952 | 30 |
| Asia/Pacific | 16,138 | 20 | 6,816 | 14 |
| Americas | 11,772 | 14 | - | - |
| Total | 83,217 | 100 | 47,654 | 100 |

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

| | | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | **Total** | **Neither past due nor impaired** | **<30 days** | **30-60 days** | **60-90 days** | **90-360 days** | **>360 days** |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **2019** | 68,743 | 13,672 | 16,227 | 17,324 | 7,339 | 10,256 | 3,925 |
| **2018** | 35,917 | 4,434 | 3,932 | 11,710 | 9,129 | 3,851 | 2,861 |

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 16.

## 13 Cash and cash resources

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Cash and cash equivalents | 228,461 | 192,950 |
| Restricted cash | 137,525 | 215,802 |
| | 365,986 | 408,752 |

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.

## 14 Held-for-sale

At 31 December 2019, the Group had agreements for the sale of 10 aircraft which met the requirement to be classified as held-for-sale (31 December 2018: 16 aircraft and one forward order). Included in the above is one aircraft on which loss on transfer to held-for-sale of USD 4.8 million was recognised within gain on sale. Subsequent to 31 December 2019, this aircraft was sold and maintenance income of USD 10.8 million was received which offset the loss recognised in 2019.

| | 2019 | 2018 |
|---|---|---|
| | USD'000 | USD'000 |
| **Assets classified as held-for-sale** | | |
| Aircraft held for lease | 293,385 | 506,013 |
| Deposits for aircraft purchases | - | 15,091 |
| | 293,385 | 521,104 |
| | | |
| **Liabilities classified as held-for-sale** | | |
| Maintenance reserves and security deposits | 59,978 | 120,897 |

## 15 Share capital and reserves

| | 2019 | 2018 |
|---|---|---|
| | USD'000 | USD'000 |
| Authorised, issued and paid-up capital | 1,927,770 | 1,927,770 |
| Additional paid-in capital | 517,884 | 517,884 |
| Treasury shares | (892,001) | (85,000) |
| Other reserves | (52,058) | (10,329) |
| Retained earnings | 1,541,743 | 1,165,157 |
| Attributable to equity holders of the Company | 3,043,338 | 3,515,482 |
| Non-controlling interests | 10,250 | 9,356 |
| Total equity | 3,053,588 | 3,524,838 |

The authorised and issued share capital of the Company at 31 December 2019 comprised of 1,927,770 ordinary shares of USD 1,000 par value each (2018: 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 18.

In March 2019 and December 2019, the Group repurchased ordinary shares held by ICD Hospitality & Leisure LLC and Dubai Silicon Oasis Authority for USD 700.0 million. These shares are reported within equity as treasury shares in the consolidated statement of financial position.

In June 2019, the Group repurchased ordinary shares held by Emaar Properties PJSC for USD 107.0 million. These shares are reported within equity as treasury shares in the consolidated statement of financial position.

## 16 Maintenance reserves and security deposits

| **Non-current** | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Maintenance reserves | 946,241 | 926,112 |
| Security deposits | 174,409 | 198,958 |
| Total | 1,120,650 | 1,125,070 |

| **Current** | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Maintenance reserves | 198,179 | 194,144 |
| Security deposits | 12,925 | 5,188 |
| Total | 211,104 | 199,332 |

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| **Maintenance reserves** | | |
| At 1 January | 1,120,256 | 1,143,937 |
| Additions | 425,383 | 457,190 |
| Reimbursed | (193,304) | (232,170) |
| Released | (161,344) | (134,533) |
| Reclassified to liabilities held for sale | (46,571) | (114,168) |
| At 31 December | 1,144,420 | 1,120,256 |
| **Security deposits** | | |
| At 1 January | 204,146 | 218,046 |
| Additions | 51,068 | 34,184 |
| Repaid | (54,473) | (41,355) |
| Reclassified to liabilities held for sale | (13,407) | (6,729) |
| At 31 December | 187,334 | 204,146 |

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.

## 17 Loans and borrowings

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

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Principal | 8,314,728 | 9,296,731 |
| Accrued and unpaid interest | 60,283 | 65,937 |
| Fair value hedge adjustment | 1,223 | (3,359) |
| Total bank loans | 8,376,234 | 9,359,309 |
| Debt issuance costs | (80,691) | (98,701) |
| Net loans and borrowings | 8,295,543 | 9,260,608 |

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| **Non-current liabilities** | | |
| Bank loans | 7,262,702 | 8,217,583 |
| Debt issuance costs | (66,501) | (72,857) |
| Non-current loans and borrowings | 7,196,201 | 8,144,726 |
| | | |
| **Current liabilities** | | |
| Bank loans | 1,113,532 | 1,141,726 |
| Debt issuance costs | (14,190) | (25,844) |
| Current loans and borrowings | 1,099,342 | 1,115,882 |

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

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| At 1 January | 9,359,309 | 10,505,851 |
| Loan drawdowns | 2,969,196 | 3,750,891 |
| Loan repayments | (3,844,236) | (4,471,741) |
| Debt repurchased | (86,634) | (397,559) |
| Amortisation of fair value discounts | (2,564) | (22,544) |
| Movement in fair value hedge adjustment | 4,582 | (1,694) |
| Movement in accrued interest | (5,654) | (3,342) |
| Finance lease reclassification* | (17,765) | - |
| Revaluation of loans | - | (553) |
| At 31 December | 8,376,234 | 9,359,309 |

* As a result of the adoption of IFRS 16, the Group reclassified finance lease liabilities from loans and borrowings to lease liabilities.

## 17 Loans and borrowings (continued)

Terms and conditions of outstanding loans after the impact of derivatives at 31 December 2019 is as follows:

| | Average nominal interest rate % | Year of maturity | 2019 USD'000 |
|---|---|---|---|
| **Floating rate loans:** | | | |
| Unsecured facilities | 3.83 | 2020-2030 | 1,169,438 |
| Revolving credit facilities | 3.56 | 2022-2024 | 1,132,663 |
| Recourse obligations (including ECA, Ex-Im & EDC) | 4.53 | 2020-2030 | 984,409 |
| Non-recourse obligations | 4.38 | 2023-2025 | 104,226 |
| **Fixed rate loans:** | | | |
| Senior unsecured notes | 4.89 | 2020-2024 | 2,857,552 |
| Recourse obligations (including ECA, Ex-Im & EDC) | 4.08 | 2021-2030 | 1,860,258 |
| Secured term loan | 4.87 | 2021 | 204,900 |
| Non-recourse obligations | 2.30 | 2025-2026 | 62,788 |
| Total interest bearing liabilities | | | 8,376,234 |

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:** | | | |
| Unsecured facilities | 4.65 | 2021-2026 | 357,129 |
| Revolving credit facilities | 4.32 | 2019-2024 | 1,001,631 |
| Recourse obligations (including ECA, Ex-Im & EDC) | 4.71 | 2019-2030 | 1,668,956 |
| Non-recourse obligations | 4.27 | 2019-2025 | 420,694 |
| **Fixed rate loans:** | | | |
| Senior unsecured notes | 4.88 | 2020-2024 | 2,949,242 |
| Recourse obligations (including ECA, Ex-Im & EDC) | 3.95 | 2019-2030 | 2,326,002 |
| Secured term loan | 4.87 | 2021 | 228,106 |
| Non-recourse obligations | 3.71 | 2019-2026 | 407,549 |
| Total interest bearing liabilities | | | 9,359,309 |

## 17 Loans and borrowings (continued)

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

| | 2019 | 2018 |
|---|---|---|
| **Facility:** | | |
| Non-recourse obligations | 5 | 34 |
| Recourse obligations (including ECA, Ex-Im & EDC) | 97 | 131 |
| Term Loan 2014 | 9 | 9 |
| Total | 111 | 174 |

In addition to the number of aircraft above with a total net book value of USD 4,799.5 million (2018: USD 7,534.3 million), 178 aircraft (2018: 138 aircraft) were unencumbered with a total net book value of USD 6,905.4 million (2018: USD 4,812.7 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 amount of loans for each of the financial years subsequent to 31 December 2019 are as follows.

| *In thousands of USD* | Principal cash flows | | Contractual cash flows* | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Due within one year | 1,055,296 | 1,093,782 | 1,406,137 | 1,497,158 |
| Due within one and five years | 5,819,463 | 5,279,196 | 6,691,218 | 6,401,117 |
| Due after five years | 1,439,969 | 2,923,753 | 1,607,678 | 3,215,932 |
| Total | 8,314,728 | 9,296,731 | 9,705,033 | 11,114,207 |

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

**Non-recourse obligations:**
As of 31 December 2019, five aircraft (2018: 34 aircraft) were being financed on a non-recourse basis. These facilities contain provisions that require the payment of principal and interest throughout the term of the loans. The interest rates on the loans are based on fixed rates of between 0.54% and 4.54% and 1 or 3 month LIBOR plus margins ranging from 1.55% to 2.60%.

**Recourse obligations (including ECA, Ex-Im & EDC):**
As of 31 December 2019, 97 aircraft (2018: 131 aircraft) were financed on a full recourse basis (including loans guaranteed by the ECA (Export Credit Agencies), EX-IM (Export-Import Bank of the United States) and EDC (Export Development Canada) on standard export credit agency supported financing terms). The loans amortise over their lives of between 1 and 11 years remaining and bear interest at a fixed rate between 2.00% and 9.25%, or 1 or 3 month LIBOR, EIBOR or MIDSWAP plus margins ranging from 1.47% to 2.90%.

## 17 Loans and borrowings (continued)

**Secured term loan:**
The secured term loan 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 2019, nine aircraft were financed with the proceeds of Term Loan 2014 (2018: 9 aircraft).

**Senior unsecured notes:**
In August 2017, the Group issued USD 500.0 million of 4.00% senior unsecured notes due 2020, USD 800.0 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 500.0 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 2019, the Group repurchased USD 86.6 million of senior unsecured notes (2018: USD 397.6 million).

**Unsecured facilities:**
The Group has access to unsecured credit facilities totalling USD 1,169.4 million (2018: USD 356.5 million) which include two term loans and pre-delivery payment facility. These have maturity dates ranging from 2021 to 2030 and bear interest of 1 or 3 month LIBOR plus margins ranging from 1.25% to 2.25%.

During the year ended 31 December 2019, the Group entered into two new unsecured term loan facilities totalling USD 600.0 million which have maturity ranging from 2023 to 2026 and bear interest of 1 or 3 month LIBOR plus margins ranging from 1.70% to 1.85%. As at 31 December 2019 interest accrued were USD 1.1 million.

During the year ended 31 December 2019, the Group entered into an unsecured pre-delivery payment (PDP) facility totalling USD 139.6 million which matures in 2022. As at 31 December 2019 interest accrued were USD 0.4 million.

In addition, during the year ended 31 December 2019, the Group entered into an unsecured term loan facility totalling USD 300 million which matures in 2025. The facility bears interest of 1 month LIBOR plus margin of 1.75%. As at 31 December 2019 no balance was drawn from this facility and USD 300.0 million was available.

**Revolving credit facilities:**
The Group has access to five unsecured revolving credit facilities totalling USD 3,005.0 million (2018: USD 2,365.0 million) which can be drawn until maturity which ranges from 2022 to 2024.

The Revolving credit facilities accrue interest at LIBOR plus margins ranging from 1.20% to 2.10%. As at 31 December 2019 USD 1,132.7 million (2018: USD 1,001.6 million) was drawn from these facilities and USD 1,875.0 million was available (2018: USD 1,365.0 million).

## 18 Derivative financial instruments

The Group has the following derivative financial instruments:

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| *Current assets* | | |
| Interest rate swaps – cash flow hedges | 672 | 16,530 |
| Interest rate swaps – fair value hedges | 1,212 | - |
| | 1,884 | 16,530 |

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| *Current liabilities* | | |
| Interest rate swaps – cash flow hedges | 44,837 | 10,059 |
| Interest rate swaps – fair value hedges | - | 3,311 |
| | 44,837 | 13,370 |

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 2019 and 2018 all derivatives are in designated hedge relationships.

The Group has amortising interest rate swaps with an aggregate current notional of USD 1.3 billion (2018: 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 2.16% (2018: 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 23.

**Derivatives not in designated hedge relationships**

At 31 December 2019, the Group has no derivatives which are not in designated hedge relationships and recognised no gain or loss in the statement of profit or loss and other comprehensive income related to interest rate swap contracts. During the year ended 31 December 2018, the Group recognised a gain of USD 10.8 million 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.

## 18 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 0.6 million (2018: charge of USD 0.4 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 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 1,127,984 | 672 | (44,837) | Derivative financial assets | (50,636) | N/A | N/A | 54,054 |
| **Fair value hedges** | | | | | | | | |
| Interest rate risk | 150,435 | 1,212 | - | Derivative financial liabilities | 4,523 | (150,435) | 1,223 | N/A |
| | 1,278,419 | 1,884 | (44,837) | | | | | |

## 18 Derivative financial instruments (continued)

**Derivatives in designated hedge relationships (continued)**

*Effect on financial position and performance (continued)*

| | 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 |
| | 1,420,704 | 16,530 | (13,370) | | | | | |

*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 |
|---|---|
| At 31 December 2017 | 506 |
| Changes in fair value | (11,148) |
| Amounts reclassified to profit or loss | 444 |
| Tax movements during the year | (131) |
| At 31 December 2018 | (10,329) |
| Changes in fair value | (45,901) |
| Amounts reclassified to profit or loss | 570 |
| Tax movements during the year | 3,602 |
| At 31 December 2019 | (52,058) |

## 18 Derivative financial instruments (continued)

**Derivatives in designated hedge relationships (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 2019, the sensitivity to interest rates was as follows:

| **Interest rate swap**<br>**Risk variable** | **Change in risk variable** | **Change in value as of 31 December 2019** | **Impact on consolidated statement of comprehensive income for the year** | **Impact on consolidated comprehensive income for the year** |
|---|---|---|---|---|
| | | USD’000 | USD’000 | USD’000 |
| 3 month USD-LIBOR-BBA | +50bps | 26,025 | - | 25,025 |
| 3 month USD-LIBOR-BBA | -50bps | (27,020) | - | (27,020) |

As of 31 December 2018, the sensitivity to interest rates was as follows:

| **Interest rate swap**<br>**Risk variable** | **Change in risk variable** | **Change in value as of 31 December 2018** | **Impact on consolidated statement of comprehensive income for the year** | **Impact on consolidated comprehensive income for the year** |
|---|---|---|---|---|
| | | USD’000 | USD’000 | USD’000 |
| 3 month USD-LIBOR-BBA | +50bps | 26,775 | - | 26,775 |
| 3 month USD-LIBOR-BBA | -50bps | (27,805) | - | (27,805) |

## 19 Trade and other payables

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Trade payables | 9,255 | 14,081 |
| Employees benefits | 18,308 | 18,943 |
| Other accrued liabilities | 22,586 | 27,575 |
| Advance from customer | 255,608 | - |
| | 305,757 | 60,599 |

The advance from customer balance are sales proceeds related to the sale of a portfolio of aircraft of USD 255.6 million which were received prior to the completion of sale. The Group will release this liability to the consolidated statement of profit or loss and other comprehensive income once the sale is completed as part of gain or loss on sale.

## 20 Deferred revenue

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Due within one year | 65,458 | 71,834 |
| Due after one year | 54,644 | 68,217 |
| | 120,102 | 140,051 |

Included in deferred revenue is unearned lease rentals received from a company under common control of USD 67.1 million (2018: USD 83.0 million). Of this amount USD 8.5 million (2018: USD 15.6 million) is included in current liabilities and USD 58.6 million (2018: USD 67.5 million) is included in non-current liabilities.

## 21 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 226.3 million (2018: USD 213.1 million) being aircraft lease rentals including release of maintenance reserves, from companies under common control.
- The Group also provided engineering maintenance services to companies under common control amounting to USD 4.3 million (2018: USD 4.5 million).
- Finance income on the bank balances with companies under common control for the year amounts to USD 0.2 million (2018: USD 0.4 million).
- Finance income on notes receivable from shareholders during the year amounts to USD 45.6 million (2018: USD 50.6 million).
- Finance expense for the year in respect of loans from related companies under common control amounts to USD 51.8 million (2018: USD 61.2 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:**

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Salaries and other benefits | 8,333 | 7,866 |

## 21 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:

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Cash and cash resources | 34,306 | 46,649 |
| Trade receivables | 728 | 361 |
| Notes receivable* | 810,375 | 1,464,791 |
| Net derivative liability | (26,848) | (5,812) |
| Loans and borrowings | (1,067,742) | (948,351) |
| Security deposits | - | (16,567) |

* 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 2019 was USD 106.0 million and USD 3.6 million respectively (2018: USD 69.1 million and USD 6.5 million). During the year ended 31 December 2019, USD 694.9 million of principal and USD 5.1 million of accrued interest was repaid.

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 deferred revenue are disclosed in notes 11 and 20, respectively.

*(c)* DAE Engineering consists of 80% ownership stake in Joramco, a provider of commercial aircraft maintenance, repair and overhaul services which is based in Jordan. The remaining 20% is owned by a third party and is reflected within equity as non-controlling interest. As at 31 December 2019 non-controlling interest was USD 10.2 million (2018: USD 9.4 million). Total revenue for the year ended 31 December 2019 was USD 81.8 million (2018: USD 67.4 million). As at 31 December total assets were USD 95.7 million (2018: USD 84.0 million) and total equity was USD 49.4 million (2018: USD 45.1 million).

## 22 Commitments and contingent liabilities

*(a) Capital commitments*

At 31 December 2019 the Group had committed to purchase three new freighter aircraft from Boeing, scheduled to deliver in 2020.

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 2019 is USD 486.0 million (2018: USD 125.0 million).

*(b) Contingent liability*

A contingent loss exists at 31 December 2019 and 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 if an operator defaults on their Eurocontrol obligations.

No accrual has been made at 31 December 2019 (2018: 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.

## 23 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.

*(a) Accounting classification and fair values*

The following tables 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 2019 USD'000 | Financial assets at amortised cost 2019 USD'000 | Financial assets at FVTPL 2019 USD'000 | Other financial liabilities 2019 USD'000 | Fair value 2019 USD'000 |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | | |
| Interest rate swaps used for hedging | 1,884 | - | - | - | 1,884 |
| Investments | - | - | 32,708 | - | 32,708 |
| | 1,884 | - | 32,708 | - | 34,592 |
| **Financial assets not measured at fair value** | | | | | |
| Notes receivable | - | 810,375 | - | - | 810,375 |
| Cash and cash equivalents | - | 228,461 | - | - | - |
| Restricted cash | - | 137,525 | - | - | - |
| Trade and other receivables | - | 69,134 | - | - | - |
| Finance lease receivable | - | 101,475 | - | - | 101,475 |
| Investments | - | 2,561 | - | - | 2,561 |
| | - | 1,349,531 | - | - | 914,411 |
| **Financial liabilities measured at fair value** | | | | | |
| Interest rate swaps used for hedging | 44,837 | - | - | - | 44,837 |
| | 44,837 | - | - | - | 44,837 |
| **Financial liabilities not measured at fair value** | | | | | |
| Loans and borrowings | - | - | - | 8,295,543 | 8,402,275 |
| Maintenance reserves and security deposits | - | - | - | 1,331,754 | - |
| Trade and other payables | - | - | - | 50,149 | - |
| | - | - | - | 9,677,446 | 8,402,275 |

## 23 Financial instruments – fair values and risk management (continued)

*(a) Accounting classification and fair value (continued)*

| | 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 | - | - | 60,599 | - |
| | - | - | 10,645,609 | 9,207,528 |

The following tables 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 | Fair value level | | |
|---|---|---|---|---|
| | 2019 USD'000 | Level 1 USD'000 | Level 2 USD'000 | Level 3 USD'000 |
| Interest rate swaps used for hedging | 1,884 | - | 1,884 | - |
| Notes receivable | 810,375 | - | 810,375 | - |
| Finance lease receivable | 101,475 | - | 101,475 | - |
| Investments | 35,269 | | 35,269 | |
| | 949,003 | - | 949,003 | - |
| | | | | |
| Interest rate swaps used for hedging | 44,837 | - | 44,837 | - |
| Loans and borrowings | 8,402,275 | - | 8,402,275 | - |
| | 8,447,112 | - | 8,447,112 | - |

## 23 Financial instruments – fair values and risk management (continued)

*(a) Accounting classification and fair value (continued)*

| | Fair value | Fair value level | | |
|---|---|---|---|---|
| | 2018 | Level 1 | Level 2 | Level 3 |
| | USD'000 | USD'000 | USD'000 | 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.

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.

## 23 Financial instruments – fair values and risk management (continued)

*(b) Risk management (continued)*

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 were as follows:

| | 2019 | 2018 |
|---|---|---|
| | USD'000 | USD'000 |
| Trade receivables | 14,474 | 11,737 |
| | 14,474 | 11,737 |

*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.

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.

## 23 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)*
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 tittle 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 2019, the Group's gross trade receivables balance was USD 83.2 million with an allowance for impairment of USD 14.5 million recognised. See further details in note 12.

*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 | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Aa1 to A3 | 352,797 | 357,663 |
| Baa1 to B3 | 858 | 29,557 |
| Unrated | 12,331 | 21,532 |
| | 365,986 | 408,752 |

*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.

## 23 Financial instruments – fair values and risk management (continued)

*(b) Risk management (continued)*

*(i) Credit risk (continued)*

*Notes receivable*
The Group is subject to the credit risk associated with notes receivable from its parent. The balance outstanding at 31 December 2019 was USD 810.4 million (2018: USD 1,464.8 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 | 2019 USD'000 | 2018 USD'000 |
|---|---|---|---|
| Cash and cash equivalents | 13 | 228,461 | 192,950 |
| Restricted cash | 13 | 137,525 | 215,802 |
| Finance lease receivables | 24 | 101,475 | 117,701 |
| Trade and other receivables | 12 | 69,134 | 36,223 |
| Derivative financial assets | 18 | 1,884 | 16,530 |
| Notes receivable | 21 | 810,375 | 1,464,791 |
| Total | | 1,348,854 | 2,043,997 |

*(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 primarily 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.

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.

## 23 Financial instruments – fair values and risk management (continued)

*(b) Risk management (continued)*

*(ii) Market risk (continued)*

*Interest rate risk (continued)*

As of 31 December 2019, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of USD 0.7 million (2018: USD 16.5 million) and liabilities of USD 44.8 million (2018: USD 10.1 million).

The fair values of outstanding derivatives designated as fair value hedges of forecast transactions were assets of USD 1.2 million (2018: liabilities of USD 3.3 million).

At 31 December 2019, 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 24.8 million lower/higher (2018: USD 21.0 million lower/higher), mainly as a result of higher/lower interest expense on floating rate debt, including the effect of the interest rate swaps.

Interest rate risk related to interest rate derivatives is explained in note 18 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 2019 of USD 228.5 million (2018: USD 193.0 million). Additionally, the Group has accessed to a number of revolving credit facilities which have availability of USD 1,875.0 million as of 31 December 2019 (2018: USD 1,365.0 million).

The Group's principal exposure to liquidity risk arises from its long-term debt obligations and the table disclose in note 17 to these consolidated financial statements 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.

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.

## 23 Financial instruments – fair values and risk management (continued)

*(b) Risk management (continued)*

*(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 3,053.6 million as at 31 December 2019 (2018: USD 3,524.8 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.

## 24 Leases

**Operating leases - Group as a lessor**

At 31 December 2018, the Group owns 289 aircraft (2018: 312 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 2019 are as follows:

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Not later than one year | 1,221,005 | 1,324,670 |
| Later than one year and not later than five years | 3,935,188 | 4,279,751 |
| Later than 5 years | 2,199,792 | 2,450,365 |
| Total | 7,355,985 | 8,054,786 |

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.

## 24 Leases (continued)

**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 seven aircraft (2018: 8 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.

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| Finance leases – gross receivables | 118,354 | 138,633 |
| Unearned finance lease | (26,529) | (31,898) |
| Total non-current receivables | 91,825 | 106,735 |
| | | |
| Finance leases – gross receivables | 16,180 | 18,360 |
| Unearned finance lease | (6,530) | (7,394) |
| Total current receivables | 9,650 | 10,966 |

**Receivables from finance leases**

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Minimum payments**<br>USD'000 | **Present value of payments**<br>USD'000 | **Minimum payments**<br>USD'000 | **Present value of payments**<br>USD'000 |
| Within one year | 16,180 | 9,650 | 18,360 | 10,966 |
| After one year but not more than five years | 64,930 | 44,877 | 70,440 | 47,447 |
| More than five years | 53,424 | 46,948 | 68,193 | 59,288 |
| Total | 134,534 | 101,475 | 156,993 | 117,701 |
| Less: unearned finance income | (33,059) | - | (39,292) | - |
| | 101,475 | 101,475 | 117,701 | 117,701 |

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.

## 25 Subsequent events

Subsequent to 31 December 2019, there were following events:

*(1)* Subsequent to 31 December 2019, Moody's Investors Service has upgraded the rating of several DAE entities including the senior unsecured rating of DAE Funding LLC (a wholly owned subsidiary of DAE) to Baa3 from Ba2. The outlook is stable.

*(2)* In addition, on 28 August 2019, the Dubai International Financial Centre (DIFC) issued the DIFC Employment Law No. 2 of 2019. In terms of the new requirements which will be effective as from 1 February 2020, employers will be required to make mandatory monthly contributions to DIFC's default Qualifying Scheme or an alternative regulated Scheme, as opposed to paying a lump sum 'gratuity payment' to an employee at the end of their employment. Effective from 1 February 2020, the law requires the Company to make the first contribution to the new scheme.

It is understood that under the new requirements the Company will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. However, this requirement will only be for benefits earned after 1 February 2020.

In terms of previous benefits accrued prior to 1 February 2020, the DIFC law provided the Company with numerous options which include settlement of the balance, transferring the balance or retaining the status quo. The Company is yet to decide on how it will settle or manage balances accrued under the previous scheme as at 31 December 2019. The viability of each option would need to be carefully considered and depending on the option selected this could have an accounting impact on the financial statements in 2020.

*(3)* In addition, in February 2020, the Notes receivable from certain shareholders with a remaining principal balance of approximately USD 810.0 million were fully prepaid in cash.

There were no other significant events subsequent to 31 December 2019.