Dubai Aviation Corporation (trading as 'flydubai')

Financial statements
for the year ended 31 December 2018

Dubai Aviation Corporation

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Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Dubai Aviation Corporation ("the Company") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Company 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 financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key audit matters	• Accounting for aircraft return and maintenance provisions • Accounting for capitalisation of maintenance payments under operating leases and other operating credits • Lease classification and the related lease accounting treatment adopted • Repayment of sukuk bond

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved

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Our audit approach (continued)

Overview *(continued)*

making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accounting for aircraft return and maintenance provisions The Company operates some of its aircraft under operating lease contracts. Under the terms of certain operating leases, the Company is obliged to maintain the aircraft during the lease term in accordance with a specified maintenance schedule and to return the aircraft at the end of the lease in a specified condition. Accordingly, a provision for maintenance is recorded over the term of the lease in order to reflect the full cost of these end-of-lease contractual obligations (refer to Note 18 of the financial statements). The provision is calculated using a model which incorporates a number of assumptions, requiring significant judgment, including the: • expected timing of the settlement of the liability based on the expected return date of aircraft; • expected cost of the maintenance at the time the heavy maintenance event is estimated to occur; • lifespan of life-limited parts; and • discount rate to be applied to take account of the time value of money.	We obtained the aircraft return and maintenance provision model prepared by management, together with the underlying assumptions. We obtained a sample of the relevant operating lease contracts, including all new contracts for the year ended 31 December 2018, and where applicable, tested management's extraction of the inputs to the model. We tested the completeness of the provision by ensuring that all relevant operating leases were included in the model. We tested the mathematical accuracy of the calculations included within management's model. The following key assumptions were discussed and corroborated with senior management personnel: • the expected return date of aircraft; • the lifespan of life-limited parts; • the expected cost of each maintenance event; and • the discount rate applied to take account of the time value of money.

Our audit approach (continued)

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Accounting for aircraft return and maintenance provisions *(continued)* We focused on this area because of an inherent level of management judgment required in calculating the amount of provision needed as a result of the complex and subjective nature of these assumptions.	We considered the above assumptions through the following specific procedures: • compared the expected maintenance costs with historical actual costs incurred; • life-limited parts assumptions were compared to manufacturer recommended maintenance plans; and • ensured the discount rate applied by management to the future liability was within an acceptable range with reference to the time value of money applicable to the Company and the risks specific to the liability.

Our audit approach (continued)

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Accounting for capitalisation of maintenance payments under operating leases and other operating credits The Company makes payments under certain operating lease agreements towards heavy maintenance ("overhaul") events. Such payments made are attributed to specific components of the aircraft. The costs subsequently incurred in carrying out overhaul events are reimbursed by the lessor against the payments originally made by the Company. To the extent that these payments are expected to be recovered from the lessor, they are capitalised as an advance payment for future maintenance (under capital projects as shown in Note 6) until the date of the overhaul event. The portion of maintenance expense which is not expected to be recovered from the lessor is recognised in the income statement. Certain other operating credits receivable from the manufacturers to mitigate any cost incurred to comply with aircraft return delivery conditions have been released to "Other operating income" in line with the respective charge in the income statement (refer to Note 2.4 for the related accounting policy and to Note 22 for the related accounting disclosures). We have focused on this area since there is significant judgment involved in the interpretation of agreements with manufacturers, and the apportionment of rental payments between the amount capitalised and the amount recorded as an expense. This apportionment is based on the expected recovery from the lessor, with reference to historical trends of recovery against such rentals from lessors for maintenance events.	We obtained management's calculations and tested the assumptions for the apportionment of payments between the amounts expensed and capitalised. We tested a sample of payments made under certain operating lease agreements in the current year and checked the mathematical accuracy of the apportionment based on management's assumptions. We assessed the reasonableness of management's assumptions by comparing them to historical experience of the Company in recovering the amounts capitalised. We obtained the movement schedule of capitalised maintenance payments for each aircraft under the supplemental rent lease arrangement and performed enquiries with the management over the closing balances and expected maintenance events. We tested the manufacturer's credits received by confirming the nature of the credits with reference to third party correspondence from the manufacturer, and through discussions with the senior management personnel responsible for negotiating such credits. We considered the extent of disclosures relating to capitalisation of maintenance payments under operating leases and other operating credits within the financial statements.

Our audit approach (continued)

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Lease classification and the related lease accounting treatment adopted The Company operates aircraft under both finance and operating lease contracts. Under a finance lease the asset and the related liability are recognised in the statement of financial position, with the asset subject to depreciation charges. Whereas for an operating lease only the periodic lease payments are recognised in the income statement as an expense (operating lease rental charge) (see Note 17). In determining the appropriate classification between the two types of lease, IAS 17 - "Leases" is applied by the Company and the substance of the transaction rather than just the legal form is considered. Factors that are considered in determining how a lease contract should be classified and the timing and amount of profit recognised on sale and leaseback transactions include, but are not limited to, the following: • whether the lease transfers ownership of the aircraft to the Company by the end of the lease term; • whether the Company has the option to purchase the aircraft at the price that is sufficiently lower than the fair value on exercise date; • whether the lease term is for the major part of the economic life of the aircraft; • whether the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased aircraft; and • the fair value of the aircraft at the time of sale and leaseback. We focused on this area because the accounting implications for leases are substantially different depending on the classification determined and because of the inherent level of management judgement within the assessment of lease classification.	We evaluated management's assessments of lease classification in accordance with the IFRS in order to determine the appropriate lease classification. We examined lease agreements for new aircraft deliveries during the year to identify, in particular: • whether the lease transfers ownership of the aircraft to the Company by the end of the lease term; • whether the Company has the option to purchase the aircraft at the price that is sufficiently lower than the fair value on exercise date; and • whether the lease term is for the major part of the economic life of the aircraft. We enquired about any variations to existing leases to consider whether previously agreed lease classifications require subsequent adjustment. We undertook independent calculations to assess: • whether the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased aircraft; and • whether the rate of return implicit in the lease is calculated accurately.

Our audit approach (continued)

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Lease classification and the related lease accounting treatment adopted *(continued)* Any change in classification could have a significant impact on the Company's reported financial statements. Refer to Note 2.5 for the related accounting policy, Note 4 for discussion of the associated assumptions and judgements and to Note 17 for the related accounting disclosures.	We considered the adequacy of the disclosures relating to leases within the financial statements.
Repayment of sukuk bond As at 31 December 2018, the Company's current liabilities exceed its current assets by AED 1,754 million, as a result of its Islamic sukuk bonds being repayable on November 2019, and therefore treated as a current liability. Management has carried out an assessment and prepared plans as to the manner in which the sukuk bonds will be settled, including detailed cash flow projections and an updated business plan. Management expects that the financing will be secured via a combination of new financing agreements, replacement Islamic sukuk financing and cash flows from operating activities. We considered this to be a key audit matter because such assessments involve assumptions and judgements which are based on management estimates, analysis of the current market conditions and the Company's expected future financial performance.	Our audit procedures included obtaining and examining management's updated business plan and detailed cash flow projections, covering a period of at least twelve months from approval of the financial statements. We agreed management's assumptions used in the cash flow projections to the business plan and tested the key assumptions to the underlying documentation to determine if the assumptions were reasonably substantiated. We tested the mathematical accuracy and underlying calculations within the projections. We read relevant correspondence, contracts and documents and evaluated the reasonableness of management's estimates and analysis. We reviewed the analyses of the different programs of discretionary operating and capital expenditure prepared by management as potential alternative scenarios available to them to further manage net cash flow, if required. We also considered potential downside/upside scenarios and the resultant impact on the overall liquidity needs of the Company. We involved our valuation specialists, as appropriate, as part of our evaluation.

Our audit approach (continued)

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Repayment of sukuk bond *(continued)* Refer to Note 2 in the financial statements for the related disclosures.	We assessed and discussed with management and those charged with governance the proposed re-financing arrangements. We considered the appropriateness and adequacy of the disclosures relating to the bond repayments in the financial statements.

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

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

Auditor's responsibilities for the audit of the financial statements (continued)

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers
19 February 2019

Jacques Fakhoury

Jacques Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

Dubai Aviation Corporation

Statement of financial position

	Note	As at 31 December 2018 AED'000	2017 AED'000
ASSETS			
Non-current assets			
Property and equipment	6	4,619,573	4,446,300
Intangible assets	7	202,382	186,780
Other receivables	9	134,674	-
		4,956,629	4,633,080
Current assets			
Inventories	8	34,177	24,409
Trade and other receivables	9	942,070	712,308
Term deposits	11	-	180,000
Cash and cash equivalents	11	1,044,014	1,245,353
		2,020,261	2,162,070
Total assets		6,976,890	6,795,150
EQUITY AND LIABILITIES			
Equity			
Capital	12	500,000	500,000
Other reserves	13	224,430	224,430
Retained earnings		290,532	456,914
Total equity		1,014,962	1,181,344
Liabilities			
Non-current liabilities			
Borrowings and lease liabilities	14	1,926,020	3,666,820
Provisions	18	261,367	199,929
		2,187,387	3,866,749
Current liabilities			
Trade and other payables	20	1,545,339	1,569,145
Borrowings and lease liabilities	14	2,229,202	177,912
		3,774,541	1,747,057
Total liabilities		5,961,928	5,613,806
Total equity and liabilities		6,976,890	6,795,150

These financial statements were approved on 19 February 2019 by:

....
Ghaith Al Ghaith
Chief Executive Officer

....
François Oberholzer
Chief Financial Officer

The notes on page 14 to 41 are an integral part of these financial statements.

Dubai Aviation Corporation

Income statement

	Note	Year ended 31 December 2018 AED'000	2017 AED'000
Revenue	21	5,754,458	5,055,990
Other operating income	22	414,126	430,305
Operating costs	23	(6,219,801)	(5,388,371)
Operating (loss) / profit		(51,217)	97,924
Finance income	25	22,923	36,815
Finance costs	26	(123,010)	(90,737)
(Loss) / profit for the year before income tax		(151,304)	44,002
Income tax expense	27	(8,532)	(6,748)
(Loss) / profit for the year		(159,836)	37,254

Dubai Aviation Corporation

Statement of comprehensive income

	Note	Year ended 31 December 2018 AED'000	2017 AED'000
(Loss) / profit for the year		(159,836)	37,254
Other comprehensive loss:			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations		(6,546)	(650)
Items that may be subsequently reclassified to profit or loss			
Cash flow hedges		-	(6,950)
Total comprehensive (loss) / income for the year		(166,382)	29,654

The notes on page 14 to 41 are an integral part of these financial statements.

Dubai Aviation Corporation

Statement of changes in equity

	Note	Capital AED'000	Other reserves AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2017		500,000	231,380	420,310	1,151,690
Profit for the year		-	-	37,254	37,254
Other comprehensive loss		-	(6,950)	(650)	(7,600)
Total comprehensive income for the year		-	(6,950)	36,604	29,654
At 31 December 2017		500,000	224,430	456,914	1,181,344
Loss for the year		-	-	(159,836)	(159,836)
Other comprehensive loss		-	-	(6,546)	(6,546)
Total comprehensive loss for the year		-	-	(166,382)	(166,382)
At 31 December 2018		500,000	224,430	290,532	1,014,962

The notes on page 14 to 41 are an integral part of these financial statements.

Dubai Aviation Corporation

Statement of cash flows

	Note	Year ended 31 December 2018 AED'000	2017 AED'000
Operating activities			
(Loss) / profit before income tax		(151,304)	44,002
Adjustments for:			
Depreciation	6	492,533	308,556
Amortisation	7	35,144	27,462
Provision for post-employment benefits	19	36,968	30,825
Profit on sale of property and equipment	22	(86,874)	(57,102)
Finance income	25	(22,923)	(36,815)
Finance cost	26	123,010	90,737
Operating profit before changes in working capital and payment of employees' end of service benefits		426,554	407,665
Payment of post-employment benefits (including contribution to defined benefit plan)		(36,968)	(31,475)
Income taxes paid		(9,206)	(5,364)
Changes in working capital:			
Inventories		(9,768)	(2,782)
Trade and other receivables (net of interest accrued)		(310,100)	(111,063)
Trade and other payables (net of interest accrued)		26,907	297,293
Net cash generated from operating activities		87,419	554,274
Investing activities			
Purchase of property and equipment (net of capitalised interest and assets acquired under finance lease)	6	(1,621,952)	(851,359)
Purchase of intangible assets	7	(50,746)	(58,493)
Proceeds from sale of property and equipment		1,201,683	312,009
Proceeds from term deposit		180,000	180,000
Interest received		26,156	34,621
Net cash used in investing activities		(264,859)	(383,222)
Financing activities			
Proceeds from borrowing		294,399	-
Repayment of lease liabilities		(180,175)	(117,724)
Interest paid		(138,123)	(97,572)
Net cash used in financing activities		(23,899)	(215,296)
Net decrease in cash and cash equivalents		(201,339)	(44,244)
Cash and cash equivalents at the beginning of the year		1,245,353	1,289,597
Cash and cash equivalents at the end of the year	11	1,044,014	1,245,353

The notes on page 14 to 41 are an integral part of these financial statements.

1 Establishment and operations

Dubai Aviation Corporation ("the company") was incorporated, with limited liability, by an Emiri Decree issued by H.H. Sheikh Mohammed bin Rashid Al-Maktoum on 7 July 2008 and is wholly owned by the Investment Corporation of Dubai ("the parent company"), a Government of Dubai entity. The company commenced commercial operations on 1 June 2009 and is designated as a 'National Carrier of the United Arab Emirates ("UAE")'. The company trades under the name of 'flydubai'. The principal activity of the company is to provide commercial air transportation services.

The registered address of the company is PO Box 353, Dubai, United Arab Emirates.

2 Summary of significant accounting policies

The significant accounting policies adopted by the company in the preparation of these financial statements are set out below. These policies have been consistently applied to all the ongoing periods presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRIC") pronouncements. These financial statements have been prepared under the historical cost convention, unless otherwise stated.

The preparation of the financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) New and amended standards not yet adopted

Certain new standards and amendments to existing standards have been published that are not mandatory for the periods ending 31 December 2018 have not been early adopted by the company. Management is currently assessing the following standards and amendments, of which only IFRS 16 has a significant impact on the company's financial statements:

- IFRS 16, 'Leases' (effective from 1 January 2019);
- IFRS 9 (Amendments), 'Financial Instruments' (effective from 1 January 2019); and
- IAS 19 (Amendments), 'Employee Benefits' (effective from 1 January 2019).

The company has assessed the expected impact of IFRS 9 (Amendments), 'Financial Instruments' and IAS 19 (Amendments), 'Employee Benefits'. The amendments are not expected to have a material impact on the company's financial statements.

IFRS 16 removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability (the obligation to pay rentals). An optional exemption exists for short-term and low value leases. The standard has a significant impact on the financial statements of the company considering the number of aircraft and other operating leases. For instance, the income statement will be impacted because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating lease charges will be replaced with interest and depreciation expenses. These changes will affect key ratios such as profit margin, operating margin, EBITDA margin etc. Further, operating cash flows will be higher as cash payments for the principal portion of the lease liability will be classified within financing activities.

As at 31 December 2018, the company has non-cancellable operating lease commitments of AED 2.7 billion. As at 31 December 2018, the company's right-of-use assets arising from the application of IFRS 16 can range from 1.9 billion to AED 2.3 billion and the related lease liability to be recognised for the future

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

payments on these commitments can range from AED 2.2 billion to AED 2.3 billion, depending on the final transition approach adopted.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company's financial statements. Refer to Note 30 for the effect of the adoption of new standards.

The company as at 31 December 2018 had net current liabilities of AED 1,754 million (2017: net current assets of AED 415 million). The net current liability position is as a result of its Islamic sukuk bonds being repayable on November 2019, and therefore being treated as a current liability. Management has carried out an assessment and prepared plans as to the manner in which the sukuk bonds will be settled, including detailed cash flow projections, covering a period of twelve months from the approval of these financial statements, and an updated business plan. Management expects that the financing will be secured via a combination of new financing arrangements, replacement Islamic sukuk financing and cash flows from operating activities. Accordingly, these financial statements have been prepared on a going concern basis.

2.2 Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Historical cost consists of purchase cost, together with any incidental expenses on acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. Repairs and maintenance are charged to the income statement during the period in which they are incurred. However, repairs and maintenance of a significant nature, such as overhaul and heavy maintenance expenditure, which help to increase the useful life of the asset, are depreciated over the period starting from the incurrence of the initial cost to the next such maintenance activity or end of the lease period, if earlier.

Depreciation is calculated on property and equipment so as to allocate its cost, less estimated residual value, on a straight line basis over the estimated useful life of the asset concerned. The estimated useful lives and residual values are as follows:

Aircraft	23 years (residual value 10%)
Aircraft engines and other parts	15 - 23 years (residual value 10%)
Leasehold improvements	5 years or over the lease term, if shorter
Furniture, fixtures and other equipment	3-5 years
Motor vehicles	4-8 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount and is reviewed at each reporting date for possible reversal of the impairment loss.

Capital projects are stated at cost. When the asset is ready for its intended use, it is transferred from capital projects to the appropriate category under property and equipment and depreciated in accordance with the company's policies.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.3 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets are added to the cost of the assets, until such time the assets are substantially ready for their intended use. Where funds are specifically borrowed for the purpose of obtaining a qualifying asset, any investment income earned on temporary surplus funds is deducted from borrowing costs eligible for capitalisation. In the case of general borrowings, a capitalisation rate, which is the weighted average rate of general borrowing costs, is applied to the expenditure on qualifying assets and included in the cost of the asset. All other borrowing costs are charged to the income statement in the period in which they are incurred.

2.4 Manufacturers' credits

As per the contractual terms and conditions with the manufacturers, the company receives credits from them in connection with the acquisition of certain aircraft and engines. Depending on their nature, these credits are either recorded as a reduction in the cost of the related aircraft and / or engine or reduced from the ongoing operating expenses or recognised in other operating income where the value of the credit can be reliably estimated and it is probable that economic benefits will flow to the company, as the case may be.

2.5 Leases

Leases where a significant portion of risks and rewards of ownership are transferred to the company are classified as finance leases (Note 4). Finance leases are capitalised at the commencement of the lease at the lower of the present value of minimum lease payments and the fair value of the leased asset. The corresponding lease obligations are included under liabilities. Lease payments are treated as comprising of principal and interest elements. The interest element is charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property and equipment acquired under finance leases are depreciated in accordance with the company's policies.

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease rental charges, including advance rentals, if any, on such leases, are charged to the income statement on a straight-line basis over the period of the lease.

Gains and losses arising on sale and leaseback transaction resulting in an operating lease and where the sale price is at fair value, are recognised immediately in the income statement. Where the sale price is below fair value, any gains and losses are immediately recognised in the income statement, except where the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. Where the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. In the case of profits arising on sale and leaseback transactions resulting in finance leases, the excess of sale proceeds over the carrying amount is deferred and amortised over the lease term.

Lease classification is made at the inception of the lease. Lease classification is changed only if, at any time during the lease, the parties to the lease agreement agree to change the provisions of the lease in a way that it would have been classified differently at inception had the changed terms been in effect at that time. The revised agreement is considered as a new agreement and accounted for prospectively over the remaining term of the lease.

2 Summary of significant accounting policies (continued)

2.6 Intangible assets

Intangible assets are capitalised at cost only when future economic benefits are probable and can be estimated reliably. Cost includes purchase price together with any directly attributable expenditure. In the case of internally developed computer software, development expenditure is capitalised if costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable, and there exists an intent and ability to complete the development and to use or sell the asset.

When the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount and is reviewed at each reporting date for possible reversal of the impairment loss.

Intangible assets are amortised on a straight-line basis over their estimated useful lives which are:

Computer software and licences	3-10 years

2.7 Impairment of non-financial assets

Assets that are subject to depreciation / amortisation 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 fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are designated either as a hedge of the fair value of a recognised asset or liability or of a firm commitment (fair value hedge) or a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge). Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The company also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transaction are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the statement of comprehensive income, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The accounting treatment is discontinued when the fair value hedging instrument expires or sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting.

2 Summary of significant accounting policies (continued)

2.8 Derivative financial instruments (continued)

(b) Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in statement of comprehensive income.

The gain or loss relating to the ineffective portion is recognised immediately in the income statement. For forecasted transaction results, amounts accumulated in equity are reclassified to statement of comprehensive income in the periods when the hedged item affects the profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

2.9 Financial assets

(a) Classification

The company classifies its financial assets as 'Amortised cost' or 'Fair value through profit and loss (FVTPL)'. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition. The company's amortised cost assets comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

Fair value through profit and loss (FVTPL)

Fair value through profit and loss are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

Derivative financial instruments

Refer Note 2.8 above.

(b) Recognition and measurement

Financial assets at amortised cost are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The company assesses, at each reporting date, whether there is objective evidence that financial assets are impaired (refer Note 2.11 for a detailed note on impairment of financial assets). The company assesses on a forward looking basis the expected credit losses associated with financial assets carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

2.10 Offsetting financial instruments

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

2 Summary of significant accounting policies (continued)

2.11 Impairment of financial assets

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Significant difficulties of the issuer of the financial asset, probability that the issuer will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the financial assets are impaired. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate. The amount of the provision is charged to the income statement.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

The company also assesses the expected credit loss which may arise on individual financial assets based on the requirements of IFRS 9. The expected credit loss is estimated using the simplified approach for all receivables which are recognised in accordance with IFRS 15. For all other receivables, the company uses the general approach and has accumulated provision which would be sufficient enough considering the prevailing credit risk on these financial assets.

2.12 Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Cost is determined on the weighted average cost basis.

2.13 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash-in-hand and balances in current accounts and term deposits with original maturity of three months or less. Deposits with maturity more than three months are classified as term deposits.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies (continued)

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of borrowing using the effective interest method. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.17 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Provision for maintenance represents the estimate of the incremental cost to meet the contractual return conditions on certain aircraft held under operating leases, over the corresponding lease period.

Provisions are measured at the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.18 Retirement benefit obligations

The company participates in various end of service benefit plans which are classified either as defined contribution or defined benefit plans.

A defined contribution plan is a pension scheme under which the company pays fixed contribution and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to settle the benefits relating to the employee’s service in the current and prior periods. Contribution to the pension fund are charged to the income statement in the period in which they fall due.

A defined benefit plan is a plan which is not a defined contribution plan. The liability recognised in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high quality corporate bonds that have terms of maturity approximating to the estimated term of the post-employment benefit obligations.

Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognised in equity through the statement of comprehensive income in the period in which they arise.

2.19 Frequent flyer programme

The company participates in a frequent flyer programme that provides a variety of awards to programme members based on a points credit for flights operated by the airline. The frequent flyer programme is managed by an outsourced company. Members can also accrue points by utilising the services of non-airline programme participants.

Costs payable to the outsourced company associated for the issuance of points is charged to the income statement. Redemption revenue is recognised in the income statement at the rate agreed with the outsourced company only when the company fulfills its obligation by supplying free or discounted goods or services on redemption of the points accrued. Any difference in the rate agreed and the ticket value is charged to the income statement immediately on the acceptance of booking.

2 Summary of significant accounting policies (continued)

2.20 Revenue

Revenue comprises the invoiced value of airline services, net of discounts and airport taxes, plus ancillary revenue.

Passenger, baggage and cargo sales are recognised as revenue when the transportation is provided, and all performance obligations related to the services are satisfied. Unearned revenue represents flight seats sold but not yet flown and is included under 'trade and other payables' as 'passenger and cargo sales in advance'. Unused flight documents are recognised as revenue based on their terms and conditions and historical trends. In-flight sales are recorded net of discounts and returns, when the performance obligation related to such sale is satisfied which is achieved mainly on the transfer of ownership to the customer.

Ancillary revenue comprises of income earned from services sold on behalf of partners, booking fees, visa transaction fees and others. Revenue is recognised when the flight to which it relates departs. In case of ancillary revenue which is non-refundable or where the company acts as an agent on behalf of the customer, revenue is recognised at the time of booking of tickets or provision of related services.

2.21 Taxation

The tax expense for the year comprises current and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company operates and generates taxable income. Management provides for tax as and when the liability arises except where management is of the firm opinion that exemption from such taxation has been granted, or will ultimately be granted, by the relevant authorities in the countries concerned.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the end of reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.22 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into AED, the functional currency, using the exchange rates prevailing at the date of the transaction, or a rate that approximates the actual rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the exchange rates prevailing on the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

3 Financial risk management

3.1 Financial risk factors

The company's activities expose it to a variety of financial risks which involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Major types of risks are market risk, credit risk and liquidity risk.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk – currency risk, cash flow and fair value interest rate risk and fuel price risk.

(i) Currency risk

The company does not have a significant foreign currency exposure since the majority of its transactions are either denominated in AED or US Dollar to which the AED is currently pegged. Liabilities in other currencies are not significant and are largely offset by the balance in bank accounts in the respective currency as well as by way of natural hedge between foreign currency inflows and outflows. Senior management monitors currency positions on a regular basis.

(ii) Cash flow and fair value interest rate risk

The company is exposed to the effects of fluctuations in the prevailing levels of interest rates on borrowings and short-term deposits. Exposure arises from interest rate fluctuations in the international financial market with respect to interest cost on its long-term debt obligations and interest income on its short-term deposits. The key reference rates affecting the interest costs are EIBOR and LIBOR. The company analyses its interest rate exposure on a dynamic basis. Borrowings taken at variable interest rates expose the company to cash flow interest rate risk and borrowings taken at fixed rates expose the company to fair value interest rate risk.

At 31 December 2018, if interest rate on borrowings taken at variable rates had been 1% higher or lower with all other variables held constant, the profit for the year would have been lower or higher by AED 19.0 million (2017: AED 16.5 million), respectively.

(iii) Fuel price risk

The company is exposed to volatility in the price of jet fuel. However, management monitors the trend on a regular basis and the fuel uplifts are done in a manner that optimises the fuel cost. In addition, the company manages the price risk utilising commodity future contracts.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The company is exposed to credit risk in relation to its monetary assets, mainly trade receivables and bank balances. The company has policies in place to minimise its exposure to credit risk. Banking transactions are limited to branches of reputed local and international banks.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The company has a formal procedure for monitoring and follow-up of trade receivables. For passenger tickets sold through internet and call centres, payments are collected in advance through credit cards and collection partners.

The company also sells passenger tickets through travel agents, who are required to pay a deposit equivalent to the amount of passenger tickets they wish to book. Management also assesses the credit standing of the travel agents by taking into account their financial position, reputation and other factors.

A portion of the sale of passenger transportation is achieved through International Air Transport Association (IATA) accredited sales agents. All IATA agents have to meet minimum financial criteria applicable to their country of operation to remain accredited. Adherence to the financial criteria is monitored on an ongoing basis by IATA through their Agency Programme. The credit risk associated with such sales agents is relatively small owing to a broad diversification.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan, and a failure to make contractual payments for a period of greater than 180 days past due. Impairments losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The table below represents an analysis of the bank balances and term deposits by reputable rating agencies by designation at the reporting date.

	2018 AED'000	**2017 AED'000**
'BBB' or above	1,011,001	1,167,010
Not rated	30,258	256,688

Management views that the balance maintained with the banks and financial institutions with no formal rating to be high credit qualified financial institutions. As at the reporting date, approximately 86.9% (2017: 96.4%) of the cash and bank balances are held with companies under common control and associated companies. Management has performed an impairment assessment on the bank balances and term deposits based on a twelve month expected credit loss model. There is no significant expected credit loss against bank balances and term deposits.

The maximum exposure to credit risk is represented by the carrying amount of the financial assets in the statement of financial position.

(c) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with financial liabilities when they fall due and to replace funds when they are withdrawn. Senior management monitors the liquidity on day to day basis and in line with rolling forecasts of cash flows. The liquidity levels maintained are tracked against internal set benchmarks. The company has access to unutilised but committed stand-by credit lines with banks to tide over any unforeseen short term fluctuations in

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

liquidity. Projected long term funding requirements are raised through diversified sources and commitments secured well in advance of the requirements.

Summarised below in the table is the maturity profile of financial liabilities based on the remaining period at the reporting date to the contract maturity period. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 1 year AED'000	2 – 5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2018				
Borrowings and lease liabilities	2,375,958	1,175,168	1,083,358	4,634,484
Trade and other payables *(excluding passenger and cargo sales in advance and advances from agents)*	1,105,424	-	-	1,105,424
Provision for maintenance costs	9,047	208,077	99,515	316,639
	3,490,429	1,383,245	1,182,873	6,056,547
At 31 December 2017				
Borrowings and lease liabilities	305,691	2,848,619	1,157,048	4,311,358
Trade and other payables *(excluding passenger and cargo sales in advance and advances from agents)*	1,095,331	-	-	1,095,331
Provision for maintenance costs	-	147,918	101,208	249,126
	1,401,022	2,996,537	1,258,256	5,655,815

3 Financial risk management (continued)

3.2 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide adequate returns to its owners and to maintain an optimal capital structure to reduce the cost of capital.

The company monitors capital on the basis of the net debt to total capital ratio. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and bank balances including term deposit. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The net debt to total capital at the reporting date was as below:

	2018 AED'000	2017 AED'000
Borrowings and lease liabilities (Note 14)	4,155,222	3,844,732
Cash and bank balances	(1,044,014)	(1,425,353)
Net debt	3,111,208	2,419,379
Total equity	1,014,962	1,181,344
Total capital	4,126,170	3,600,723

Net debt to total capital ratio is 75.4% (2017: 67.2%). The increase in net debt to total capital ratio during 2018 is mainly due to the increase in borrowings to finance the delivery of new aircraft.

3.3 Fair value estimation

The fair values of the company's financial assets and liabilities approximate to their carrying values as at the reporting date. The levels of fair value hierarchy are disclosed in Note 29.

4 Critical accounting estimates and judgements

In the preparation of the financial statements, a number of estimates and associated assumptions have been made relating to the application of accounting policies and reported amount of assets, liabilities, incomes and expenses. The estimates and associated assumptions are assessed on an on-going basis and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following discussion addresses the accounting policies that require subjective and complex judgements, often as a result of the need to make estimates.

4 Critical accounting estimates and judgements (continued)

Useful life of assets and residual value

Management assigns useful lives and residual values to property and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances and prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Where management determines that the useful life of an asset group or residual value of the asset requires amendment, the net book amount in excess of the residual value is depreciated over the revised remaining useful life (Note 6).

Provision for maintenance costs and manufacturers' credits

Management exercises a significant level of judgement in arriving at estimates for the costs to be incurred and charged to the income statement, under its contractual obligations to maintain aircraft as per operating lease arrangements with lessors. These cost estimates include, but not limited to, the estimated future costs of major airframe checks, engine shop visits, planned utilisation of the aircraft and the remaining lease period. For certain aircraft under operating leases, the company pays supplemental rent to meet the future maintenance costs. A portion of the rent is capitalised as an advance to the extent expected to be recovered from lessor and the remaining expensed as maintenance costs. Management exercises certain level of judgement in arriving at estimates for the amount to be recovered considering the historical trends of recovery against such rentals from lessors for maintenance events.

Certain manufacturers' credits are receivable under agreements to offset any cost incurred to comply with aircraft return delivery conditions. Where appropriate, management has made the judgement based on the nature of credit to release such credits to other operating income consistent with the accounting policy set out in Note 2.4. (Note 22).

Valuation of defined benefit obligations

The present value of the defined benefit obligation is determined on actuarial basis using various assumptions that may differ from actual developments in the future. These assumptions include the determination of the discount rate and expected salary increases which are reviewed at each reporting date. Due to the complexities involved in the valuation and its long-term nature, defined benefit obligations are sensitive to changes in these assumptions (Note 19).

Finance and operating leases

A lease is classified as a finance lease when substantially all the risks and rewards of ownership are transferred to the company. In determining the appropriate classification, the substance of the transaction rather than the form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset (Note 17). Where the company enters into the sale and leaseback transactions for aircraft, the timing and amount of profit recognised on these transactions is subject to the fair value of the aircraft at the time of sale. Judgement is required to estimate the fair value due to diversity of inputs in the determination of aircraft value (Note 22).

5. Segment information

The airline business unit, which provides commercial air transportation including passenger and cargo services, is the only operating segment. Resource allocation decisions are made by flydubai's leadership team for the benefit of the airline business unit as a whole, rather than for individual routes or revenue streams within the business unit. The operating segment is reported in a manner consistent with the internal reporting provided to the key decision makers. Performance of the business unit is assessed based on the net profit or loss and is measured consistently with profit or loss for the full year.

Geographical information

	2018 AED'000	**2017 AED'000**
Revenue from external customers		
Russia, Commonwealth of Independent States (CIS) & Europe	1,736,005	1,244,440
Gulf Cooperation Council (GCC)	1,486,033	1,415,950
Indian Subcontinent	1,296,861	1,361,865
Middle East & Africa	1,235,559	1,033,735
	5,754,458	5,055,990

Revenue from inbound and outbound airline operations between the UAE and overseas points are attributed to the geographical area in which respective overseas points are located. Revenue from other streams are reported based upon the geographical area in which sales are made or services rendered. No single external customer contributes 10% or more of the company's revenues.

The major revenue earning asset is the aircraft fleet, which is registered in the UAE. Since the aircraft fleet is deployed flexibly across the company's network providing information on non-current assets by geographical area is not considered meaningful.

6 Property and equipment

	Aircraft AED'000	Aircraft engines and other parts AED'000	Land AED'000	Leasehold improvements AED'000	Furniture, fixtures and other equipment AED'000	Motor vehicles AED'000	Capital projects AED'000	Total AED'000
Cost								
At 1 January 2017	1,784,950	712,495	224,430	37,597	44,120	14,299	797,710	3,615,601
Additions	-	32,350	-	3,515	6,311	5,381	1,976,033	2,023,590
Transfer from capital projects	652,729	234,872	-	-	-	1,587	(889,188)	-
Disposals / write offs	(290,074)	(188,396)	-	-	-	(1,076)	-	(479,546)
At 31 December 2017	2,147,605	791,321	224,430	41,112	50,431	20,191	1,884,555	5,159,645
Additions	-	17,495	-	783	1,059	2,093	1,759,186	1,780,616
Transfers from capital projects	2,046,138	444,420	-	-	-	-	(2,490,558)	-
Disposals / write offs	(1,114,180)	(329,348)	-	-	(1,089)	(876)	-	(1,445,493)
At 31 December 2018	3,079,563	923,888	224,430	41,895	50,401	21,408	1,153,183	5,494,768
Accumulated depreciation								
At 1 January 2017	194,902	341,222	-	19,302	21,511	4,222	-	581,159
Charge for the year (Note 23)	69,946	220,890	-	7,271	7,641	2,808	-	308,556
Disposals / write offs	-	(175,308)	-	-	-	(1,062)	-	(176,370)
At 31 December 2017	264,848	386,804	-	26,573	29,152	5,968	-	713,345
Charge for the year (Note 23)	112,468	363,080	-	6,343	7,354	3,288	-	492,533
Disposals / write offs	-	(328,718)	-	-	(1,089)	(876)	-	(330,683)
At 31 December 2018	377,316	421,166	-	32,916	35,417	8,380	-	875,195
Net book amount								
At 31 December 2018	2,702,247	502,722	224,430	8,979	14,984	13,028	1,153,183	4,619,573
At 31 December 2017	1,882,757	404,517	224,430	14,539	21,279	14,223	1,884,555	4,446,300

6 Property and equipment (continued)

a. In 2016, the Government of Dubai transferred land to the company in their capacity as ultimate owner. The land is proposed to be used for office premises and other purposes in the normal course of business. The land has been recognised as an asset under ‘Property and equipment’ with the corresponding credit to ‘Capital reserve’ within ‘Equity’ (Note 13). The land has been recorded at its fair value of AED 224 million which was determined by an independent qualified appraiser. The land has been placed under mortgage for the term loan obtained for the construction of headquarter building (Note 16).

b. Capital projects includes an amount of AED 119.8 million (2017: Nil) incurred for the construction of headquarter buildings which has been mortgaged as security for term loan (Note 16).

c. There are pre-delivery payments of AED 1,079.0 million (2017: AED 942.2 million) in respect of aircraft due for delivery between 2019 and 2029 (Note 28). Out of this, AED 288.9 million (2017: AED 231.4 million) are classified as ‘other receivables’ (Note 9) and balance AED 790.1 million (2017: AED 710.8 million) are included above in the capital projects. In addition, capital projects includes an amount of AED 76.3 million (2017: AED 204.2 million) relating to supplemental rent for certain aircraft under operating leases.

d. Additions to property and equipment include capitalised interest amounting to AED 21.6 million (2017: AED 11.5 million) using a weighted average capitalisation rate of 3.9% (2017: 3.8%).

e. The net book amount of property and equipment includes AED 2,496.0 million (2017: AED 1,668.0 million) in respect of sixteen aircraft (2017: eleven) and two spare engines (2017: two) held under finance leases.

f. Transfers from capital projects amounting to AED 1,114.2 million (2017: AED 290.0 million) during the year pertain to aircraft which were subsequently sold and leased back on operating leases.

7 Intangible assets

	Computer software and licences AED’000
Cost	
At 1 January 2017	210,164
Additions	58,493
At 31 December 2017	268,657
Additions	50,746
At 31 December 2018	319,403
Accumulated amortisation	
At 1 January 2017	54,415
Charge for the year (Note 23)	27,462
At 31 December 2017	81,877
Charge for the year (Note 23)	35,144
At 31 December 2018	117,021
Net book amount	
31 December 2018	202,382
31 December 2017	186,780

Computer software includes an amount of AED 39.9 million (2017: AED 56.1 million) in respect of projects under implementation.

8 Inventories

	2018 AED'000	2017 AED'000
Engineering	28,369	18,892
In-flight consumables	5,808	5,517
	34,177	24,409

The cost of inventories recognised as an expense and included in 'operating costs' amounted to AED 114.6 million (2017: AED 101.4 million).

9 Trade and other receivables

	2018 AED'000	2017 AED'000
Trade receivables	218,886	176,935
Pre-delivery payments (Note 6.c)	288,968	231,399
Prepayments and other deposits	86,188	84,409
Related parties (Note 10)	29,060	14,109
Advances to suppliers	7,077	5,970
Operating lease deposits	2,901	349
Other receivables	443,664	199,137
	1,076,744	712,308
Less: - Non-current portion	(134,674)	-
	942,070	712,308

As of 31 December 2018, trade receivables amounting to AED 0.9 million (2017: AED 0.8 million) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2018 AED'000	2017 AED'000
3 – 6 months	181	316
Beyond 6 months	715	499
	896	815

The other classes within trade and other receivables do not contain impaired assets. The company holds guarantees and other collaterals for part of trade receivables as at the reporting date. The company has applied IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2018. The historical loss rates are adjusted to reflect current and forward-looking information on the macroeconomic factors affecting the ability of customers to settle the receivables. The loss rate is also adjusted for the effect of credit risk management policies. The company holds guarantees and other collaterals for part of trade receivables as at the reporting date. Refer to Note 3.1(b). On that basis, the loss allowance as at 31 December 2018 was determined as follows:

9 Trade and other receivables (continued)

	2018 AED'000
Expected loss rate	0.02%
Gross carrying amount – trade receivables (within 6 months)	218,207
Loss allowance	36

Due from related parties and other receivables arise from transactions in the normal course of business. The expected credit loss is not material for these classes of financial assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The carrying amount of the company's trade and other receivables are primarily denominated in United Arab Emirates Dirhams ("AED") or US Dollar, to which the AED is pegged.

10 Transactions and balances with related parties

Related parties include companies under common control and ownership, the owner and key management personnel of the company and companies over which they exercise significant management influence.

During the year, the company entered into the following significant transactions with related parties on an arm's length basis.

(a) Transactions with companies under common control

The company transacts with companies controlled by its parent in the normal course of business.

	2018 AED'000	2017 AED'000
Sales	-	4,884
Purchase of goods	1,078,150	737,547
Purchase of services	300,351	304,168
Finance income	22,132	31,871

The company 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, water and airport services. These transactions are carried out on an arm's length basis.

	2018 AED'000	2017 AED'000
(b) Compensation to key management personnel		
- Salaries	11,175	12,195
- End of service benefits	276	280
- Other short term benefits	304	221
	11,755	12,696

10 Transactions and balances with related parties (continued)

(c) Balances with related parties

	2018 AED'000	2017 AED'000
Amounts due from companies under common control (Note 9)	29,060	14,109
Amounts due to companies under common control (Note 20)	208,318	236,582

The amounts due from / to related parties are unsecured, non-interest bearing, fully performing and repayable on demand.

11 Cash and bank balances

	2018 AED'000	2017 AED'000
Cash in hand	1,522	2,084
Cash at bank	347,204	202,981
Term deposits	695,288	1,220,288
	1,044,014	1,425,353
Term deposit – over 3 months	-	(180,000)
Cash and cash equivalents	1,044,014	1,245,353

Term deposits earned an effective interest rate of 3.11% per annum (2017: 2.52% per annum).

12 Capital

Capital represents the permanent capital of the company.

13 Other reserves

	Capital reserve AED'000	Hedging reserve AED'000	Total AED'000
At 1 January 2017	224,430	6,950	231,380
Net movements in cash flow hedges	-	(6,950)	(6,950)
At 31 December 2017	224,430	-	224,430
Other movements	-	-	-
At 31 December 2018	224,430	-	224,430

14 Borrowings and lease liabilities

	2018 AED'000	2017 AED'000
Non-current		
Bond (Note 15)	-	1,833,459
Term loans (Note 16)	94,399	-
Lease liabilities (Note 17)	1,831,621	1,833,361
	1,926,020	3,666,820
Current		
Bond (Note 15)	1,835,057	-
Term loans (Note 16)	200,000	-
Lease liabilities (Note 17)	194,145	177,912
	2,229,202	177,912
	4,155,222	3,844,732

All borrowings and lease liabilities are denominated in United Arab Emirates Dirhams ("AED") or US Dollar, which is pegged to AED. The effective interest rate on lease liabilities was 3.58% per annum (2017: 2.98% per annum) and on the bond was 3.77% per annum (2017: 3.77% per annum).

15 Bond

In 2014, the company raised an amount of AED 1,836.5 million from Islamic 'sukuk' bond issued at par and the net proceeds were used for general corporate purposes. The bond bears a fixed interest rate and is repayable in full on 26 November 2019.

	2018 AED'000	2017 AED'000
Proceeds	1,836,500	1,836,500
Transaction costs	(1,443)	(3,044)
	1,835,057	1,833,459

The fair value of the bond proceeds amounted to AED 1,832.9 million (2017: 1,851.1 million). The fair value of the bond with fixed interest rate is based on listed prices and falls into level 1 of the fair value hierarchy (Note 29).

16 Term loans

In July 2018, the company has secured a syndicated sharia compliant financing facility of AED 595 million for the construction of headquarter buildings on the plot of land received from the shareholder (Note 6). The loan is secured on the land and building under development. The facility bears interest rate of 3 months EIBOR plus a margin and is repayable in twenty-eight quarterly instalments from 30 November 2021.

16 Term loans (continued)

In December 2018, the company has obtained an unsecured revolving term loan facility for 6 months. The loan bears interest at 3 months EIBOR plus a margin and is repayable in three months.

	2018 AED'000
Disbursement for the year	294,399
Transaction costs	(250)
	294,149
Non-current	94,399
Current	200,000
	294,399

The carrying amounts of the term loan approximate to their fair values. The fair value of the term loan falls into level 2 of the fair value hierarchy (Note 29).

17 Lease liabilities

	2018 AED'000	2017 AED'000
Finance leases		
Gross lease liabilities:		
Within one year	272,369	236,345
Between 2 and 5 years	1,080,769	948,552
After 5 years	1,083,358	1,157,047
	2,436,496	2,341,944
Future interest	(410,730)	(330,671)
Present value of finance lease liabilities	2,025,766	2,011,273
The present value of finance leases liabilities is repayable as follows:		
Within one year (Note 14)	194,145	177,912
Between 2 and 5 years	848,261	768,897
After 5 years	983,360	1,064,464
	2,025,766	2,011,273

Lease liabilities are secured on the related aircraft and spare engines (Note 6). The carrying amounts of the lease liabilities approximate to their fair values. The fair value of the lease liabilities falls into level 2 of the fair value hierarchy (Note 29).

Operating leases

The future minimum lease payments under non-cancellable operating leases of aircraft and spare engines are as follows:

17 Lease liabilities (continued)

	2018 AED'000	2017 AED'000
Within one year	649,387	664,341
Between 2 and 5 years	1,572,444	1,562,510
After 5 years	441,723	239,598
	2,663,554	2,466,449

18 Provisions

	2018 AED'000	2017 AED'000
Provision for maintenance costs	260,882	199,108
Retirement benefit obligations (Note 19)	485	821
	261,367	199,929

Movement in provision for maintenance costs is as follows:

	2018	2017
At 1 January	199,108	147,754
Charge for the year	51,818	43,966
Unwinding of discount	9,955	7,388
At 31 December	260,881	199,108

19 Retirement benefit obligations

(i) Defined benefit plan

All employees based in the UAE participate in a defined benefit provident fund scheme and the company has transferred the entire end of service benefits for employees into a trustee administered scheme and accumulate along with returns earned on investment. The fund comprises a diverse mix of managed funds.

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2018 and 2017 in respect of employees' end of service benefits payable under the UAE labour law. Under this method, an assessment has been made of the employee's expected service life with the company and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 4.1% (2017: 2.70%) for the assessment of the obligations. The present values of defined benefit obligations at 31 December 2018 were computed using the actuarial assumptions set out above.

The liabilities recognised in the statement of financial position are:

	2018 AED'000	2017 AED'000
Present value of defined benefit obligations	136,131	112,952
Less: Fair value of plan assets	(135,646)	(112,131)
Liability recognised in statement of financial position	485	821

19 Retirement benefit obligations (continued)

(i) Defined benefit plan (continued)

Benefits receivable under the provident fund scheme are subject to vesting rules, which are dependent upon a participating employee's length of service If at the time an employee leaves employment, the accumulated vested amount, including investment returns, is less than the end of service benefits that would have been payable to that employee under local regulations, the company pays the shortfall amount directly to the employee. However, if the accumulated vested amount exceeds the end of service benefits that would have been payable to an employee under relevant local regulations, the employee receives either seventy-five or one hundred percent of their fund balance depending on their length of service. Vested assets of the scheme are not available to the company or its creditors in any circumstance. The liability of AED 485 thousand (2017: AED 821 thousand) represents the amount that will not be settled from plan assets and is calculated as the excess of the present value of the defined obligation for an individual employee over the fair value of the employee’s plan assets at the end of the reporting period.

The movement in the fair value of the plan assets is as follows:

	2018 AED’000	2017 AED’000
At 1 January	112,131	88,123
Contributions received	34,383	34,443
Benefits paid	(10,112)	(10,212)
Change in fair value	(756)	(223)
At 31 December	135,646	112,131

(ii) Defined contribution plans

The company pays fixed contributions to certain defined contribution plans and has no legal or constructive obligation to pay further contribution to settle the benefits relating to employees in service in the current and prior periods.

The total amount recognised in the income statement is as follows:

	2018 AED’000	2017 AED’000
Defined benefit plan		
Contributions expensed	34,383	29,165
Net change in the present value of defined benefit obligations over plan assets	116	(582)
	34,499	28,583
Defined contribution plans		
Contribution expensed	2,469	2,242
	2,469	2,242
Recognised in the income statement (Note 24)	36,968	30,825

19 Retirement benefit obligations (continued)

The sensitivity of defined benefit scheme to changes in the principal assumptions is set out below:

Assumption	Change	Effect on funded scheme AED'000
Discount rate		
	+ 1%	(9,881)
	-1%	11,416
Expected salary increases		
	+ 1%	12,161
	-1%	(10,701)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. In calculating the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period.

20 Trade and other payables

	2018 AED'000	2017 AED'000
Trade payables	184,758	80,311
Accruals	496,404	549,963
Passenger and cargo sales in advance	366,534	392,212
Related parties (Note 10)	208,318	236,582
Advances and deposits	65,162	65,063
Deferred revenue	-	14,528
Income tax payable	1,337	2,010
Other payables	222,826	228,476
	1,545,339	1,569,145

Deferred revenue relates to the frequent flyer programme and represents the fair value of outstanding award credits. From 1 August 2018, the company has discontinued its loyalty programme and participates in a loyalty programme which is outsourced to another company (Note 2.19). The deferred liability due to the members for the award credits accumulated were settled in the form of vouchers for equivalent value or the points were transferred to the new programme based on the option confirmed by the members.

	2018 AED'000	2017 AED'000
At 1 January	14,528	1,501
Accrual during the year	7,288	14,564
Redemption during the year	(21,816)	(1,537)
At 31 December	-	14,528

21 Revenue

	2018 AED'000	2017 AED'000
Passenger	5,215,678	4,455,583
Cargo	141,271	131,245
Baggage	85,424	109,059
In-flight sales	69,640	97,715
Others	242,445	262,388
	5,754,458	5,055,990

The company derives revenue from the transfer of services over time. Revenue is earned from the airline business and for the geographical segment information, refer Note 5.

22 Other operating income

	2018 AED'000	2017 AED'000
Profit on sale of property and equipment	86,874	57,102
Income from sub-lease	-	51,922
Others	327,252	321,281
	414,126	430,305

Others include an amount of AED 216.5 million (2017: 209.8 million) for aircraft related operating credits and AED 110.8 million (2017: AED 111.5 million) related to income from ancillary services and activities incidental to the operations.

23 Operating costs

	2018 AED'000	2017 AED'000
Fuel costs	1,850,702	1,356,869
Direct operating costs	1,151,774	1,131,917
Staff costs (Note 24)	1,208,227	1,086,902
Aircraft operating lease costs	682,888	703,516
Sales & marketing	279,572	295,937
Corporate costs	276,869	270,597
Aircraft maintenance costs	242,092	206,615
Depreciation (Note 6)	492,533	308,556
Amortisation (Note 7)	35,144	27,462
	6,219,801	5,388,371

24 Staff costs

Salaries	1,085,073	985,591
Post-employment benefits (Note 19)	36,968	30,825
Other benefits	86,186	70,486
	1,208,227	1,086,902

25 Finance income

	2018 AED'000	2017 AED'000
Interest income	22,923	36,815

26 Finance costs

	2018 AED'000	2017 AED'000
Aircraft financing costs	69,468	31,331
Interest expense	53,542	59,406
	123,010	90,737

Finance costs are net of capitalised interest amounting to AED 21.6 million (2017: AED 11.5 million).

27 Income tax expense

	2018 AED'000	2017 AED'000
Current income tax expense	8,532	6,748

Income tax expense relates only to certain countries where the company is subject to income tax. Hence providing information on effective tax rates is not meaningful.

28 Contingencies and commitments

(a) Capital commitments

Capital commitments

	2018 AED'000	2017 AED'000
Authorised and contracted:		
Aircraft fleet	123,086,600	125,109,070
Non-aircraft	432,800	41,048
	123,519,400	125,150,118

Commitments have been entered into for delivery of Boeing 737 MAX aircraft as follows:

Financial year	Boeing 737 MAX Number of aircraft
2019	7
2020	13
2021 and beyond	218

28 Contingencies and commitments (continued)

	2018 AED'000	2017 AED'000
(b) Guarantees		
Performance bonds, guarantees and letters of credit provided by bankers in the normal course of business	199,934	195,905

29 Financial instruments

The accounting policies for financial instruments have been applied to the line items below:

	2018 AED'000	2017 AED'000
Financial assets		
Financial assets at amortised cost		
Trade and other receivables (excluding prepayments and advance to suppliers)	994,108	635,186
Term deposit	-	180,000
Cash and cash equivalents	1,044,014	1,245,353
	2,038,122	2,060,539
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables (excluding passenger and cargo sales in advance and advances from agents)	1,123,955	1,145,798
Borrowings and lease liabilities	4,155,222	3,844,732
	5,279,177	4,990,530

Financial instruments held at fair value by level of hierarchy

The levels of fair value hierarchy are defined as follows:

Level 1: Measurement is made by using quoted prices (unadjusted) from active market;
Level 2: Measurement is made by means of valuation with parameters derived directly or indirectly from observable market data; and
Level 3: Measurement is made by means of valuation methods with parameters not based exclusively on observable market data.
Trade and other receivable fall into Level 3 of the fair value hierarchy.

30 Changes in accounting policies

(a) IFRS 9 Financial instruments – Impact of adoption

IFRS 9 replaces provisions of IAS 39 that relates to the recognition, classification and measurement of financial assets and liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as *IFRS 7 Financial instruments: Disclosures.*

30 Changes in accounting policies (continued)

(a) IFRS 9 Financial instruments – Impact of adoption (continued)

(i) Classification and measurement of financial instruments

There is no impact of the change due to adoption of the standard on the classification and measurement of financial instruments as at 31 December 2018. There is no material impact on the company's equity arising from reclassification of financial assets and liabilities.

(ii) Impairment of financial instruments

The company's financial assets are subject to the new expected credit loss model of IFRS 9. The company was required to revise its impairment methodology applied to the above class of financial assets. For trade receivables, the company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9 which requires the use of lifetime expected loss provision for all the receivables. There is no material impact on impairment of financial instruments arising from the adoption of IFRS 9.

(b) IFRS 15 Revenue from contracts with customers – Impact of adoption

IFRS 15 replaces provisions of IAS 18 that relates to the recognition, measurement and disclosure of revenue. The impact on the company's financial statements arising from the change in the recognition and measurement of revenue is explained below:

(i) Revenue from passenger, baggage and cargo sales

Passenger, baggage and cargo sales are recognised to revenue when the transportation is provided. Revenue earned from charges levied for cancellation and modification of bookings are recognised to revenue immediately on sale as these fees are non-refundable and appropriate change in fare is collected from passengers in case of concerned event. Unused flight documents are recognised as revenue based on their terms and conditions and historical trends. In-flight sales are recorded net of discounts and returns, when the control is transferred to the customer. There is no material impact on the financial statements due to the application of IFRS 15 with respect to the revenue from passenger, baggage and cargo sales.

(ii) Revenue from ancillary services

Ancillary revenue comprises of income earned from services sold on behalf of partners, booking fees, visa transaction fees and others. As per IFRS 15, revenue can be recognised when the flight to which it relates departs. This is in line with the previous recognition practices of the company.

(iii) Revenue from frequent flyer programme

As at the beginning of the year, the company operated a frequent flyer programme that provides a variety of awards to programme members based on a points credit for flights operated by the airline. Members can also accrue points by utilising the services of non-airline programme participants. Revenue associated with the issuance of points is deferred as a liability until the points are redeemed. Redemption revenue is measured based on the management's estimate of the fair value of the expected rewards for which the points will be redeemed. Management has decided to adopt the adjusted market assessment approach to derive the fair value of expected rewards. As of 1 January 2018, there is no change in the deferred liability recognised in the books arising from the application of IFRS 15.