

Abu Dhabi Aviation

Consolidated financial statements

31 December 2016

Principal business address:

P. O. Box 2723

Abu Dhabi

United Arab Emirates

Abu Dhabi Aviation

Consolidated financial statements

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Independent Auditors' Report

To the Shareholders
Abu Dhabi Aviation

Independent Auditors' Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Abu Dhabi Aviation (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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
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(a) Recoverability of aircraft related assets	
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Refer to note 3(m) and note 5 of the consolidated financial statements on page 23 and pages 31 to 34, respectively.

The carrying value of Property and equipment includes AED 2,577 million as of 31 December 2016 relating to aircraft related assets. Significant judgement is applied to conclude if there is any indication that assets are impaired, which could include a notable decline in financial performance and worsened commercial/financial prospects due to economic and other factors, and the extent of impairment, if any.

Impairment of aircraft related assets is assessed by comparing the carrying value to their estimated recoverable amount, being the higher of their estimated fair value less costs of disposal and value in use at individual CGU level. The inherent risks associated with assessing the recoverable amount of aircraft related assets are significant. Management's assessment of recoverable amount applies significant judgement in the determination of cash generating units (CGUs) and estimation of current and future market conditions, projected cash flows and discount rates.

We assessed management's determination of the Group's CGUs based on our understanding of the Group's business. We analysed the Group's internal reporting to assess how earnings are monitored and reported and the implications to CGU identification in accordance with the accounting standards.

Where fair value less costs of disposal are used by management, our audit procedures included examination of fair value less costs of disposal for these aircraft assets (including fixed wing and helicopters) provided by third parties (including valuation specialists and brokers) and assessment of the independence and objectivity of these third parties.

Where value in use calculations are used by management, our audit procedures included challenging management's estimation of the present value of the net cash flows expected to be generated from these assets based on assumptions of their future utilisation, sales pricing and costs. We challenged the appropriateness of estimates for each CGU based on our assessment of the historical accuracy of the Company's estimates in previous periods.



Key audit matter	How our audit addressed the key audit matter
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(b) Revenue recognition

Refer to note 3(c) of the consolidated financial statements on page 19.

The amount of revenue and profit recognised in the year on various contracts with government entities is dependent on customer's acceptance of the services which in certain circumstances are difficult to demonstrate. As the commercial arrangements for acknowledgement of services received can be complex, significant judgement is applied in selecting the accounting basis in each case and the timing of recognition of revenue in the appropriate accounting period.

Our audit procedures to address the risk of material misstatement relating to revenue recognition included assessing and challenging the judgements taken by management by reference to the underlying contract terms and applicable accounting standards. We also challenged the levels of income accrued at the reporting date in relation to unbilled revenue.

Key audit matter	How our audit addressed the key audit matter
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(c) Classification and measurement of assets held for sale

Refer to note 3(j) and note 13 of the consolidated financial statements on page 22 and page 40, respectively.

The Group has classified four aircraft as held for sale as at 31 December 2016. Classification and measurement of assets held for sale requires management to use judgement including whether the aircraft can be sold within twelve months from the reporting date and for how much.

These aircraft are available for immediate sale and the sale is highly probable since the Group is committed to a plan to sell the aircraft.

These aircraft are measured at the lower of their carrying amount and fair value less costs to sell. The valuation for three aircraft is based on the aircraft purchase agreements signed with the counterparties, subject to certain delivery conditions. The fair value of the fourth aircraft is based on a valuation provided by an independent valuer.

Our audit procedures included, amongst others, assessing whether all the criteria for classifying the assets as held for sale as per IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" have been met. Furthermore we verified that the assets are recorded at the lower of their carrying amount and fair value less cost to sell. We assessed the adequacy of disclosures about the assets held for sale.



Key audit matter	How our audit addressed the key audit matter
(d) Carrying value of trade receivables (AED 507 million)	
<i>Refer to note 9 of the consolidated financial statements on page 37.</i>	
<p>The carrying value of receivables, some of which are overdue as set out in note 9 may not be reflective of its recoverable amount as at the reporting date under current economic conditions. Determination of the recoverable amount incorporates significant judgements based on various assumptions including the timing of payment and the amount which may need to be provided in order for the payment to be collected.</p>	<p>Our audit procedures included testing the Group's credit control procedures, including the controls around credit terms, and reviewing the payment history. We tested, on a sample basis, receivable balances that were impaired during the year to determine the reasonableness of judgements made by the Group.</p> <p>We analysed overdue receivables especially those aged over one year which were not provided for by the Group to determine whether there were any indicators of impairment. We inspected arrangements and / or correspondences with external parties and held discussions with management to assess the status of various ongoing projects, including future plans to help us assess the likelihood of recoverability of significant long outstanding receivables.</p> <p>We challenged the appropriateness of the provisions made based on our assessment of the historical accuracy of the Group's estimates. We assessed the appropriateness of related disclosures.</p>
Key audit matter	How our audit addressed the key audit matter
(e) Allowance for obsolete and slow moving Inventories (AED 34 million)	
<i>Refer to note 3(l) and note 4(e) of the consolidated financial statements on page 23 and page 29, respectively.</i>	
<p>The Group held inventories with a carrying value of AED 432 million as of 31 December 2016. As described in note 3 (l) to the consolidated financial statements, inventories are carried at the lower of cost and net realisable value. Inventories include items such as high value spares that may need to be held over many years and may have limited resale value. Management applies significant judgement in determining the appropriate provision against inventory for obsolescence.</p>	<p>Our audit procedures included considering the ageing of the inventory items, the sale/utilisation of inventory in the post reporting period, challenging the assumptions adopted by the Group by assessing the historical accuracy of inventory write-offs booked by the Group and observing inventory counts at certain locations. We also considered the current and forecast macro-economic environment to assess that management's assertions were reasonably supported.</p>



Key audit matter	How our audit addressed the key audit matter
(f) Classification of investments	
<i>Refer to note 4(a) and 4(b) of the consolidated financial statements on page 28 and page 29, respectively.</i>	
As disclosed in note 4 the Company has equity interests in various entities. Management applies significant judgement in determining the appropriate classification of these investments as subsidiaries, associates and joint ventures, based upon an analysis of the Company's ability to exert control, joint-control and significant influence over these entities. These entities are significant to the Group and their classification has a material impact on the Group's consolidated financial statements and therefore considered to be a significant area of audit.	We examined management's assessment of the classification of investments as subsidiaries and joint ventures for reasonableness, based on a review of the underlying documents governing the relationship between the Group and these entities as well as other facts and circumstances that could have a bearing on the relationship.
Other information	
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.	
Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.	
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.	
Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements	
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.	
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.	
Those charged with governance are responsible for overseeing the Group's financial reporting process.	



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i. We have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii. the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii. the Group has maintained proper books of accounts;
- iv. the financial information included in the Chairman's report, in so far as it relates to these consolidated financial statements, is consistent with the books of accounts of the Group;
- v. the Group has not purchased any shares during the financial year ended 31 December 2016;
- vi. note 10 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and
- vii. based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Articles of Association of the Company, which would materially affect its activities or its consolidated financial position as at 31 December 2016.

On behalf of KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No. 968
Abu Dhabi
United Arab Emirates
Date: 13 FEB 2017

Abu Dhabi Aviation

Consolidated statement of financial position as at 31 December

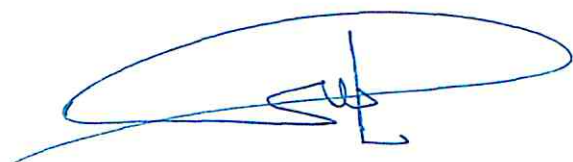
		2016 AED'000	2015 AED'000
	<i>Note</i>		
Assets			
Non-current assets			
Property and equipment	5	2,908,794	2,865,793
Investment properties	6	161,252	181,940
Investments	7	-	15,893
Investment in joint ventures	8	41,015	39,967
Total non-current assets		3,111,061	3,103,593
Current assets			
Inventories		432,105	393,491
Trade receivables	9	507,202	594,702
Prepayments and other current assets	11	240,727	144,019
Cash and deposits with banks	12	417,583	357,019
Assets held for sale	13	94,125	77,634
Total current assets		1,691,742	1,566,865
Total assets		4,802,803	4,670,458
Equity			
Share capital	14	444,787	444,787
Share premium		112,320	112,320
Reserves	15	1,593,381	1,521,531
Retained earnings		416,978	329,807
Equity attributable to owners of the Company		2,567,466	2,408,445
Non-controlling interests	17	228,591	206,802
Total equity		2,796,057	2,615,247
Liabilities			
Non-current liabilities			
Provision for employees' end of service benefits	18	133,831	136,595
Non-current portion of term loans	19	815,008	807,418
Non-current portion of finance lease liabilities	20	116,269	117,332
Non-current portion of deferred income	21	397,202	495,543
Amount due to a related party	10	5,429	11,582
Total non-current liabilities		1,467,739	1,568,470

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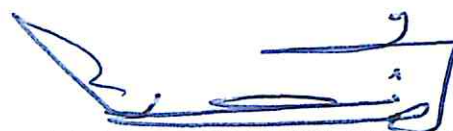
Abu Dhabi Aviation

Consolidated statement of financial position *(continued)* as at 31 December

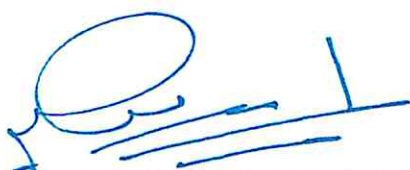
	Note	2016 AED'000	2015 AED'000
Current liabilities			
Trade and other payables	23	94,056	90,425
Accrued expenses and other current liabilities		191,618	198,094
Current portion of term loans	19	145,979	197,261
Current portion of finance lease liabilities	20	1,063	961
Current portion of deferred income	21	52,297	-
Bank overdraft	12	53,994	-
Total current liabilities		539,007	486,741
Total liabilities		2,006,746	2,055,211
Total equity and liabilities		4,802,803	4,670,458



Nader Ahmed Mohammed Al Hammadi
Chairman



Mohamed Ibrahim Al-Mazrouei
General Manager



Ashraf Fahmy
Chief Financial Officer

The notes set out on pages 16 to 54 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 1 to 7.

Abu Dhabi Aviation

Consolidated statement of profit or loss for the year ended 31 December

	Note	2016 AED'000	2015 AED'000
Revenue		1,805,236	2,181,612
Direct operating costs	24	(1,318,908)	(1,628,329)
Gross profit		486,328	553,283
General and administrative expenses	25	(229,660)	(271,497)
Gain on change in fair value of investment properties	6	3,232	9,772
Income from investment properties		5,591	6,409
Property rental expense		(2,049)	(2,172)
Loss on disposal of property and equipment		(1,081)	(10)
Gain on disposal of assets held for sale		-	176
Impairment loss on property and equipment	5	-	(42,815)
Impairment loss on assets held for sale	13	(22,899)	(11,446)
Impairment for obsolete and slow-moving inventories		-	(12,000)
Amortisation of deferred income	21	52,300	51,612
Share of profit of joint ventures		971	1,311
Finance income		3,224	2,522
Finance costs		(27,411)	(25,740)
Other income		11,844	17,942
Profit for the year		280,390	277,347
Profit for the year attributable to:			
Owners of the Company		258,601	267,105
Non-controlling interests	17	21,789	10,242
		280,390	277,347
Basic and diluted earnings per share (AED)	26	0.58	0.60

The notes set out on pages 16 to 54 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 1 to 7.

Abu Dhabi Aviation

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December

	<i>Note</i>	2016 AED'000	2015 AED'000
Profit for the year		280,390	277,347
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Loss on fair valuation of investments at fair value through other comprehensive income	7	(46)	(147)
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences	6	(23,920)	(6,422)
Other comprehensive income for the year		(23,966)	(6,569)
Total comprehensive income for the year		256,424	270,778
Total comprehensive income attributable to:			
Owners of the Company		234,635	260,536
Non-controlling interests		21,789	10,242
		256,424	270,778

The notes set out on pages 16 to 54 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 1 to 7.

Abu Dhabi Aviation

Consolidated statement of changes in equity for the year ended 31 December 2016

	Share capital AED'000	Share premium AED'000	Reserves AED'000	Retained earnings AED'000	Equity attributable to owners of the Company AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 1 January 2016	444,787	112,320	1,521,531	329,807	2,408,445	206,802	2,615,247
Profit for the year	-	-	-	258,601	258,601	21,789	280,390
Other comprehensive income for the year	-	-	(23,966)	-	(23,966)	-	(23,966)
Total comprehensive income	-	-	(23,966)	258,601	234,635	21,789	256,424
Dividends (Note 16)	-	-	-	(75,614)	(75,614)	-	(75,614)
Transfer to legal reserve (Note 15)	-	-	15,386	(15,386)	-	-	-
Transfer to maintenance and fleet replacement reserve	-	-	80,000	(80,000)	-	-	-
Transfer of reserve to retained earnings	-	-	430	(430)	-	-	-
Balance at 31 December 2016	444,787	112,320	1,593,381	416,978	2,567,466	228,591	2,796,057

Continued...

Abu Dhabi Aviation

Consolidated statement of changes in equity *(continued)* for the year ended 31 December 2015

	Share capital AED'000	Share premium AED'000	Reserves AED'000	Retained earnings AED'000	Equity attributable to owners of the Company AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 1 January 2015	444,787	112,320	1,434,163	207,835	2,199,105	213,597	2,412,702
Profit for the year	-	-	-	267,105	267,105	10,242	277,347
Other comprehensive income for the year	-	-	(6,569)	-	(6,569)	-	(6,569)
Total comprehensive income	-	-	(6,569)	267,105	260,536	10,242	270,778
Dividends (Note 16)	-	-	-	(53,374)	(53,374)	-	(53,374)
Transfer to legal reserve (Note 15)	-	-	21,937	(21,937)	-	-	-
Transfer to maintenance and fleet replacement reserve	-	-	52,000	(52,000)	-	-	-
Transfer to insurance reserve	-	-	20,000	(20,000)	-	-	-
Acquisition of shares of a non-controlling shareholder	-	-	-	2,178	2,178	(17,037)	(14,859)
Balance at 31 December 2015	444,787	112,320	1,521,531	329,807	2,408,445	206,802	2,615,247

The notes set out on pages 16 to 54 form an integral part of these consolidated financial statements.

Abu Dhabi Aviation

Consolidated statement of cash flows for the year ended 31 December

	<i>Note</i>	2016 AED'000	2015 AED'000
Cash flows from operating activities			
Profit for the year		280,390	277,347
<i>Adjustments for:</i>			
- Depreciation	5	166,434	212,732
- Loss on write off of property and equipment	5	-	46,162
- Impairment losses on trade receivables	9	38,147	57,067
- Impairment for obsolete and slow moving inventories		(1,125)	12,000
- Recovery of impaired trade receivables	9	(865)	(9,404)
- Impairment loss on property and equipment	5	-	42,815
- Impairment loss on assets held for sale	13	22,899	11,446
- Provision for employees' end of service benefits	18	22,005	21,904
- Amortisation of deferred income	21	(52,300)	(51,612)
- Gain on change in fair value of investment properties	6	(3,232)	(9,772)
- Gain on sale of investment		-	(1,428)
- Loss on disposal of property and equipment		1,081	10
- Gain on disposal of assets held for sale		-	(176)
- Share of profit of joint ventures		(971)	(1,311)
- Finance costs		27,411	25,740
- Finance income		(3,224)	(2,522)
		496,650	630,998
<i>Changes in:</i>			
- Inventories		(37,489)	(53,482)
- Trade receivables		50,218	(246,798)
- Prepayments and other current assets		(96,708)	69,780
- Trade and other payables		3,631	(13,413)
- Accrued expenses and other current liabilities		(6,476)	44,585
Cash generated from operating activities		409,826	431,670
Interest paid		(27,411)	(25,740)
Employees' end of service benefits paid	18	(24,769)	(6,287)
Net cash from operating activities		357,646	399,643

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Consolidated statement of cash flows *(continued)* for the year ended 31 December

	Note	2016 AED'000	2015 AED'000
Cash flows from investing activities			
Acquisition of property and equipment	5	(243,712)	(402,570)
Payments for investment in a joint venture		(77)	-
Payments for investments	7	-	(18,241)
Purchase of Non-controlling interests' share		-	(14,859)
Proceeds from disposal of property and equipment		62	3,427
Proceeds from disposal of assets held for sale		-	18,404
Proceeds from disposal of investments		15,847	76,517
Finance income received		3,224	2,522
Increase in margin deposits		(100)	-
Deposits with maturities over three months	12	(240,875)	-
Net cash used in investing activities		(465,631)	(334,800)
Cash flows from financing activities			
Proceeds from term loans		95,603	239,730
Repayment of term loans		(139,295)	(48,940)
Decrease in due to a related party		(6,153)	(22,088)
Payments for finance lease liabilities		(961)	(912)*
Dividends paid	16	(75,614)	(53,374)
Net cash (used in) / from financing activities		(126,420)	114,416
Net (decrease) / increase in cash and cash equivalents		(234,405)	179,259
Cash and cash equivalents at 1 January		356,033	176,774
Cash and cash equivalents at 31 December	12	121,628	356,033
* Other finance lease repayments are presented within related party cash flows above			
Non-cash transactions:			
Property and equipment granted by Abu Dhabi Government (Note 21)		6,256	-

The notes set out on pages 16 to 54 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 1 to 7.

Abu Dhabi Aviation

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

1 Legal status and principal activities

Abu Dhabi Aviation (the “Company”) is a national shareholding company incorporated in Abu Dhabi, United Arab Emirates by the Decrees and Laws No. 3, No. 10, No. 8, No. 9 and No. 11 of the years 1982, 1985, 1999, 2003 and 2004, respectively. The Company’s shares are listed on the Abu Dhabi Securities Exchange.

The Company and its subsidiaries (together referred to as the “Group”) have been established to own and operate helicopters and fixed wing aircraft both within and outside the United Arab Emirates and to undertake charter, commercial, air cargo and other related services. The Company has its registered office at P.O. Box 2723, Abu Dhabi, UAE.

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and applicable requirements of the laws of the UAE.

UAE Federal Law No. (2) of 2015 being the Commercial Companies Law (“UAE Companies Law of 2015”) was issued on 1 April 2015 to come into force on 1 July 2015 repealing the old UAE Federal Law No. (8) of 1984 (as amended). Companies are mandated to comply with the UAE Companies Law of 2015 by 30 June 2017.

(b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for investments and investment properties, which are carried at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams (“AED”), which is the Company’s functional and presentational currency. All values are rounded to the nearest AED thousand, except when otherwise indicated.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements are described in Note 4.

Abu Dhabi Aviation

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

3 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements except for the new standards and interpretations that became applicable and were adopted during the year.

New standards and interpretations adopted:

During the year new standards, amendments to standards and interpretations have become effective for the period and have been applied in preparing these consolidated financial statements. These amendments are listed below:

- *Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)*
- *Annual improvements to IFRSs 2012-2014 cycle – various standards*
- *Disclosure initiative (amendments to IAS 1)*

Adoption of these amendments does not have a material impact on the consolidated financial statements of the Group.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Abu Dhabi Aviation

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

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The consolidated financial statements incorporate the financial position and performance of the Company and its subsidiaries as disclosed below.

Name of subsidiary	<u>Ownership interest</u>		Country of incorporation	Principal activities
	31 December 2016	31 December 2015		
Maximus Air L.L.C.	100%	100%	UAE	Air cargo
Royal Jet L.L.C.	50%	50%	UAE	Commercial air and transportation services
Herbal Hill Gardens Limited	100%	100%	Gibraltar	Investment property ownership
ADA Real Estate Management and General Maintenance L.L.C.	100%	100%	UAE	Real estate and facilities
Maximus Airlines L.L.C.	100%	100%	Ukraine	Air cargo services
ADA International Real Estate L.L.C. ¹	100%	-	UAE	Real estate lease and management services
Abu Dhabi Aviation Training Centre L.L.C. ²	100%	-	UAE	Aviation training

¹The Group has established ADA International Real Estate L.L.C. to undertake real estate lease and management services together with real estate purchase and sale brokerage.

²The Group has established Abu Dhabi Aviation Training Centre L.L.C. to undertake aviation training.

Abu Dhabi Aviation

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

3 Significant accounting policies (*continued*)

(b) *Investment in joint ventures*

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Losses of a joint venture in excess of the Group's interest in that joint venture (which includes any long term interests that, in substance, form part of the Group's net investment in joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of a joint venture.

Where an entity in the Group transacts with a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture.

(c) *Revenue*

Rendering of services

The Group is involved in providing aviation services, as well as performing related services. The Group recognises revenue when the services are provided and the amount of the revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

The Group recognises revenue from rendering of services when the services are rendered to the client, measured at the fair value of the consideration received or receivable, net of discounts.

Revenue from providing commercial air transportation is recognised in the period when such services are rendered and accepted by the customers and no significant uncertainties remain regarding the recovery of the consideration due or the associated costs.

Revenue from third party maintenance contracts is recognised at the contracted rates as labour hours are rendered and direct expenses are incurred.

(d) *Leases*

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

Abu Dhabi Aviation

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

3 Significant accounting policies (continued)

(d) Leases (continued)

Leased assets

Leases of property and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's consolidated statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(e) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(f) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into AED at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into AED at the exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

Abu Dhabi Aviation

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

3 Significant accounting policies (*continued*)

(g) *Borrowing costs*

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(h) *Government grants*

Non-monetary government grants are recognised at nominal value where there is reasonable assurance that the asset will be received and the Group will comply with any attached conditions, where applicable. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Deferred income relating to Maximus Air L.L.C. is recognised at the nominal value of shares that was granted to the Company. Deferred income is amortised on the basis of the agreed legal duration of the related investment of 25 years.

Deferred income relating to property and equipment granted by the Abu Dhabi Government to Royal Jet L.L.C. is recognised at the nominal value of the assets. Deferred income is amortised on the basis of the estimated useful life of the asset.

(i) *Property and equipment*

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. The cost of replacing part of an item of property and equipment including major inspections and overhauls is recognised in the carrying amount of the related asset if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The remaining carrying amount of replaced parts is derecognised simultaneously. Major inspections and overhaul are capitalised as a separate component of property and equipment and are amortised over the period to the next major overhaul.

Abu Dhabi Aviation

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

3 Significant accounting policies (continued)

(i) Property and equipment (continued)

Depreciation

Depreciation is calculated on a straight-line basis so as to write off the cost of assets over their estimated useful lives, after allowing for estimated residual value. The estimated useful lives of the Group's property and equipment are disclosed in Note 5.

Residual value is the net amount which the Group expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Depreciation of operational property and equipment commences with the commercial use of the asset. Surpluses arising on revaluation are transferred to a revaluation reserve. This reserve is released to distributable reserves when assets are sold or disposed of.

Capital work in progress

Property and equipment in the course of construction are treated as capital work in progress and carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

(j) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, employee benefit assets or investment property which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

(k) Investment properties

Investment properties are initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment properties that were previously classified as property and equipment are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Abu Dhabi Aviation

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

3 Significant accounting policies (*continued*)

(l) *Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle wherein the cost of inventories includes the invoiced cost, freight expenses, duties and other expenses incurred in bringing the inventories to their present condition and location. Allowance is made in the accounts for obsolete and slow-moving items based on management's judgement.

(m) *Impairment of non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their 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 asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) *Financial assets*

The Group had early adopted IFRS 9, 'Financial Instruments: Classification and measurement' in 2009 in advance of its effective date. The Group had chosen 31 December 2009 as its date of initial application (i.e. the date on which the Group had assessed its existing financial assets) as this was the first reporting period end since the Standard was issued on 12 December 2009. The Group has also adopted amendments to classification and measurement of financial instruments issued as part of IFRS 9 (2014).

Abu Dhabi Aviation

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

3 Significant accounting policies (*continued*)

(n) *Financial assets (continued)*

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the contract. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value. The Group subsequently measures financial assets either at amortised cost or fair value.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfer the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Classification of financial assets

On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group had the following financial assets as at 31 December 2016: 'cash and cash equivalents', 'loans and receivables' and financial assets at fair value through other comprehensive income (FVTOCI).

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks in current accounts and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant changes in value.

Loans and receivables

Trade receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Abu Dhabi Aviation

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

3 Significant accounting policies (continued)

(n) Financial assets (continued)

Financial assets measured at fair value

Financial assets other than those classified as financial assets measured at amortised cost are subsequently measured at fair value with all changes in fair value recognised in profit or loss.

However, for investments in equity instruments that are not held-for-trading, at initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at Fair value through other comprehensive income (FVTOCI). Investments in equity instruments at FVTOCI, are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in the 'other income' line item in the profit or loss.

Impairment of non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

For financial assets measured at amortised cost the Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

Abu Dhabi Aviation

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

3 Significant accounting policies (continued)

(n) Financial assets (continued)

Impairment of non-derivative financial assets (continued)

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(o) Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities comprise trade and other payables, accrued expenses and other current liabilities, due to a related party, term loans, finance lease liabilities and other non-current liability, which are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except, for short-term liabilities when the recognition of interest would be immaterial.

(p) Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Abu Dhabi Aviation

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

3 Significant accounting policies (continued)

(q) Employee benefits

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the reporting period. Provision is also made for the full amount of end of service benefit due to eligible non-UAE. national employees in accordance with the UAE. Labour Law, for their period of service up to the consolidated statement of financial position date. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefit is disclosed as a non-current liability.

Pension contributions are made in respect of UAE national employees to Abu Dhabi Retirement Pensions and Benefits Fund in accordance with the UAE. Federal Law No. (2) of 2000. Such contributions are charged to the profit or loss during the employees' period of service.

(r) New standards and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

(i) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

(iii) IFRS-9 Financial instruments

The International Accounting Standards Board has decided to replace IAS 39 Financial Instruments over a period of time and in three phases:

Phase 1: Classification and measurement of financial assets and financial liabilities.

Phase 2: Impairment methodology.

Phase 3: Hedge accounting.

Recognition and Measurement:

The early adoption of the standard continues to be permitted. Given the nature of the Group's operations, this standard is not expected to have a significant impact on the Group's consolidated financial statement. The Group, however, has already early adopted part of Phase 1 "Classification and measurement of financial assets" as explained in Note 3 (n).

Abu Dhabi Aviation

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

3 Significant accounting policies (continued)

(r) New standards and interpretations issued but not yet effective (continued)

(iii) IFRS-9 Financial instruments (continued)

Recognition and Measurement (continued)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. IFRS 9 (2014) introduces a new expected credit loss model for calculating impairment on financial assets.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

(iv) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

(v) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The Group is currently assessing the impact from the adoption of the above new and amended standards on its consolidated financial position and performance.

4 Use of estimates and judgements

While applying the accounting policies as stated in Note 3, management of the Group has made certain judgements, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

(a) Joint venture

As describe in Note 8, AgustaWestland Aviation Services L.L.C. (AWAS) is a joint venture of the Company and Agusta SpA. Although the Company owns a 70% ownership interest in AWAS, the Company does not have control or significant influence over AWAS as it is contractually agreed with Agusta SpA that the relevant activities of AWAS require unanimous consent of the parties sharing control. AWAS is a limited liability company whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there are no contractual arrangements or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, AWAS is classified as a joint venture of the Company.

Abu Dhabi Aviation

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

4 Use of estimates and judgements (continued)

(b) *Subsidiary*

The Company has a 50% ownership interest in Royal Jet LLC, with the other 50% owned by Presidential Flight Authority. Royal Jet LLC is accounted for as a subsidiary of the Group on the basis that the group is able to exert control over this entity as a result of majority Board representation and its reliance on the Company for technical support and operations.

(c) *Classification of properties*

In the process of classifying properties, management has made various judgements. Judgement is needed to determine whether a property qualifies as an investment property, property and equipment and/or asset held for sale. The Group develops criteria so that it can exercise that judgement consistently in accordance with the definitions of investment property, property and equipment and asset held for sale. In making its judgement, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16, IAS 40 and IFRS 5, in particular, the intended usage of property as determined by management.

(d) *Allowance for impairment losses on trade receivables and accrued income*

Management has estimated the recoverability of trade receivables balances and has considered the allowance required for impaired receivables. Management has estimated the allowance for impairment losses on trade receivables based on future cash flows estimated at the end of reporting period. Allowance for impairment losses on trade receivables at 31 December 2016 is AED 101.2 million (2015: AED 67.1 million).

(e) *Allowance for obsolete and slow moving inventories*

Management has estimated the recoverability of inventory balances which relates to spare parts and rotables (finished goods) and has considered the allowance required for inventory obsolescence based on the current economic environment and past obsolescence history. Allowance for impairment of obsolete and slow-moving inventories as at 31 December 2016 is AED 34.1 million (2015: AED 35.2 million).

(f) *Useful lives of property and equipment*

The Group determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of assets and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge is adjusted where management believes that the useful lives differ from the previous estimates.

In 2015 management reviewed the residual values and estimated useful lives of the Company's fixed wing aircraft, AW139, Bell 412 and Bell 212 fleet in accordance with IAS 16 Property, Plant and Equipment and had determined that residual values of certain aircraft should be reduced from 50% to 45% residual values.

The effect of this reassessment, assuming the assets are held until the end of their estimated useful lives, is the increase in depreciation expense in the current financial year and for the next two years, by the following amounts:

	AED'000
2017	9,020
2018	9,020

Abu Dhabi Aviation

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

4 Use of estimates and judgements (continued)

(g) *Amortisation of deferred income relating to Maximus Air L.L.C.*

In determining the appropriate basis for recognising deferred income relating to the grant, the management has considered the requirements of IAS 20 Government Grants and the purpose and requirements of the grant based on binding arrangements entered into with the Abu Dhabi Government, related instructions and transfer of legal ownership of assets to the Group. The directors are satisfied that after considering the above criteria, the agreed legal duration of the investment of 25 years is an appropriate basis for the recognition of the related deferred income.

(h) *Impairment of property and equipment and capital work in progress*

Properties classified under property and equipment and capital work in progress are assessed for impairment by comparing the carrying value to their estimated recoverable amount, being the higher of their estimated fair value less costs of disposal and value in use at individual CGU level. Impairment loss recognised on property and equipment for the year ended 31 December 2016 amounted to AED nil (2015: AED 42.8 million). Details of the impairment loss are set out in Note 5 to the financial statements.

(i) *Fair value of investment properties*

The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation methods. Such estimations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

(j) *Impairment of investment in joint venture*

Management regularly reviews its investment in joint ventures for indicators of impairment. This determination of whether investment in joint ventures is impaired, entails management's evaluation of the investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and into the foreseeable future. The difference between the estimated recoverable amount and the carrying value of investment is recognised as an expense in profit or loss. Management is satisfied that no impairment is required on its investment in joint ventures (Note 8) and its receivables from joint ventures.

(k) *Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group's Audit Committee.

Abu Dhabi Aviation

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

4 Use of estimates and judgements (continued)

(k) Measurement of fair values (continued)

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the relevant notes.

5 Property and equipment

The following estimated useful lives are used for the depreciation of property and equipment:

Commercial aircraft, rotatable parts and repairables	20 years
Cargo aircraft and spare engines	25 years
Fixed wing aircraft	15 years
Helicopters and major rotables	10-15 years
Fixed wing spares	15 years
Motor vehicles	4 years
Ground equipment	5 years
Furniture and office equipment	4-5 years
Housing complex	30 years
Buildings	25 years
Commercial aircraft facility leasehold improvements	3 years
Fixtures and fittings	10 years
Main rotor yokes	5,000 - 10,000 hours
Main rotor blades	4,000 hours

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

5 Property and equipment (continued)

	Buildings AED'000	Commercial aircraft facility leasehold improvements AED'000	Helicopters, aircraft and major rotables AED'000	Cargo aircraft building AED'000	Cargo aircraft and spares AED'000	Commercial aircraft AED'000	Commercial aircraft rotable parts and repairables AED'000	Furniture and fittings AED'000	Others AED'000	Capital work in progress AED'000	Total AED'000
Cost											
Balance at 1 Jan 2015	210,724	12,064	1,813,379	15,017	256,744	970,310	18,622	16,329	286,990	398,996	3,999,175
Additions	-	10	19,124	-	15,808	190	1,968	115	31,284	334,071	402,570
Disposals	-	-	(660)	-	(22,963)	-	-	-	(3,775)	-	(27,398)
Transfers	-	-	85,131	-	-	167,764	-	-	9,827	(262,722)	-
Transfer to assets held for sale (Note 13)	-	-	-	-	-	(168,515)	-	-	(16,105)	-	(184,620)
Write off	-	-	-	-	(89,592)	-	-	-	(3,460)	(4,429)	(97,481)
Balance at 31 Dec 2015	210,724	12,074	1,916,974	15,017	159,997	969,749	20,590	16,444	304,761	465,916	4,092,246
Balance at 1 Jan 2016	210,724	12,074	1,916,974	15,017	159,997	969,749	20,590	16,444	304,761	465,916	4,092,246
Additions	-	-	16,375	-	-	-	2,700	-	12,127	218,766	249,968
Disposals	-	-	(7,388)	-	-	-	-	-	(766)	-	(8,154)
Transfers	-	1,010	-	-	-	578,586	-	-	15,186	(594,782)	-
Transfer to assets held for sale (Note 13)	-	-	-	-	-	(144,862)	(9,738)	-	(7,705)	-	(162,305)
Balance at 31 Dec 2016	210,724	13,084	1,925,961	15,017	159,997	1,403,473	13,552	16,444	323,603	89,900	4,171,755

Continued...

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

5 Property and equipment (continued)

	Buildings AED'000	Commercial aircraft facility improvements AED'000	Helicopters, aircraft and major rotables AED'000	Cargo aircraft building AED'000	Cargo aircraft and spares AED'000	Commercial aircraft AED'000	Commercial aircraft rotable parts and repairables AED'000	Furniture and fittings AED'000	Others AED'000	Capital work in progress AED'000	Total AED'000
Accumulated depreciation and impairment											
Balance at 1 Jan 2015	63,219	10,566	515,668	3,605	114,212	221,187	7,462	16,166	189,641	-	1,141,726
Charge for the year	7,430	535	77,485	601	24,017	73,253	581	62	28,768	-	212,732
Eliminated on disposals	-	-	(660)	-	(19,917)	-	-	-	(3,384)	-	(23,961)
Impairment	-	-	42,815	-	-	-	-	-	-	-	42,815
Write off	-	-	-	-	(51,319)	-	-	-	-	-	(51,319)
Transfer to assets held for sale (Note 13)	-	-	-	-	-	(84,208)	-	-	(11,332)	-	(95,540)
Balance at 31 Dec 2015	70,649	11,101	635,308	4,206	66,993	210,232	8,043	16,228	203,693	-	1,226,453
Balance at 1 Jan 2016	70,649	11,101	635,308	4,206	66,993	210,232	8,043	16,228	203,693	-	1,226,453
Charge for the year	7,894	291	54,822	600	6,848	65,532	721	75	29,651	-	166,434
Eliminated on disposals	-	-	(6,547)	-	-	-	-	-	(464)	-	(7,011)
Transfer to assets held for sale (Note 13)	-	-	-	-	-	(108,032)	(8,040)	-	(6,843)	-	(122,915)
Balance at 31 Dec 2016	78,543	11,392	683,583	4,806	73,841	167,732	724	16,303	226,037	-	1,262,961
Carrying amount											
At 31 Dec 2015	140,075	973	1,281,666	10,811	93,004	759,517	12,547	216	101,068	465,916	2,865,793
At 31 Dec 2016	132,181	1,692	1,242,378	10,211	86,156	1,235,741	12,828	141	97,566	89,900	2,908,794

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

5 Property and equipment *(continued)*

- As at 31 December 1992, certain helicopters and major rotables were fully depreciated. Consequently, during 1993, management revalued helicopters and major rotables to market value on the basis of industry quotations. The helicopter revaluations were based on the "Official Helicopter Blue Book" and a valuation report prepared by Nash Helicopter Associates Limited. The major rotables revaluations were based on original cost and valuations performed by Canadian Gas Turbines. The carrying value and accumulated depreciation were adjusted to reflect this revaluation. As at 31 December 2016, the net carrying value of the revalued helicopters and major rotables are AED 20.5 million (2015: AED 20.5 million).
- In 2011, the Group entered into a finance lease arrangement which resulted in the recognition of a residential complex at the present value of the related minimum lease payments amounting to AED 127 million (Note 20).
- During 2015 the Group carried out a review of the recoverable amount of certain helicopters. The review led to the recognition of an impairment loss of AED 42.8 million, which had been recognised in profit or loss. The Group also estimated the fair value less costs to sell of the aircraft, which was based on the recent market prices of similar assets. The fair value less costs to sell was higher than the value in use and hence the recoverable amount of the relevant asset had been determined on the basis of its fair market value less estimated costs to sell.
- In the current year the Group has reclassified certain commercial aircraft and related components to assets classified as held for sale with a net carrying amount of AED 39.4 million.
- Certain property and equipment with a carrying amount of AED 1,446 million (2015: AED 744 million) are mortgaged in the name of the lending banks.
- Capital work in progress mainly pertains to the construction of the training centre and payments made for the purchase of a simulator.
- During the current year the Group has received a helicopter (AW 109) from the Government as a grant.
- Property and equipment is operated from the Group's base in the UAE.

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

6 Investment properties

Investment properties represent investment in a property of Royal Jet L.L.C. located in Khalifa City, Abu Dhabi and a property of the Company located in London, United Kingdom. Property in London is registered in the name of Herbal Hill Gardens Limited, a company incorporated in Gibraltar for the purpose of owning the investment property and wholly owned by the Group.

	2016 AED'000	2015 AED'000
Balance at 1 January	181,940	178,590
Increase in fair value - Khalifa City property	-	2,700
Increase in fair value - London property	3,232	7,072
Net foreign currency exchange difference	(23,920)	(6,422)
Balance at 31 December	161,252	181,940

The fair value of the investment properties is arrived at on the basis of valuations carried out by independent valuers not connected with the Group. The valuers are members of a professional valuers' association, with appropriate qualifications and recent experience in the valuation of properties at the relevant locations.

The fair value was derived using the market comparable approach based on recent market prices without any significant adjustments being made to the market observable data. As at 31 December 2016, all of the Group's investment properties were grouped in Level 2.

7 Investments

The Group's investments at the end of the reporting date are detailed below:

	2016 AED'000	2015 AED'000
Financial assets at fair value through other Comprehensive income	-	15,893
Balance at 1 January	15,893	72,888
Purchase of investments	-	18,241
Disposal of investments	(15,847)	(75,089)
Decrease in fair value / loss on sale	(46)	(147)
Balance at 31 December	-	15,893

The Group's investments in securities represent UAE listed securities

Managed funds	-	15,893
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Abu Dhabi Aviation

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

8 Investment in joint ventures

The Group has a 70% equity shareholding with equal voting power in AgustaWestland Aviation Services L.L.C. (AWAS), a joint venture established in the Emirate of Abu Dhabi, UAE as a limited liability company. AWAS is engaged to undertake repairs, overhaul, customisation, modification and upgrading of helicopters; and sale of helicopter spare parts and accessories.

During the period the Group has set up a joint venture, ADA Millennium Consulting L.L.C., in the Emirate of Abu Dhabi, UAE as a limited liability company. The Group has invested AED 0.07 million (2015: AED nil) in the joint venture and owns 51% shareholding and the remaining 49% shareholding is held by JCBA Limited. ADA Millennium Consulting L.L.C. provides advisory and implementation consultancy services to aviation, manufacturing, hospitality, oil and gas and private equity sectors.

The following table summarises the financial information of the joint ventures and also reconciles the summarised financial information to the carrying amount of the Group's interest in the joint ventures.

	2016 AED'000	2015 AED'000
Total assets	99,482	97,580
Total liabilities	(41,311)	(40,484)
Net assets	58,171	57,096
Revenue	73,417	63,417
Profit for the year	1,746	1,873

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2016 AED'000	2015 AED'000
Net assets	58,171	57,096
Carrying amount of interest in joint venture	41,015	39,967

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

9 Trade receivables

	2016 AED'000	2015 AED'000
Trade receivables	564,729	646,308
Due from related parties (Note 10)	43,676	15,508
	<u>608,405</u>	<u>661,816</u>
Less: Allowance for impairment losses recognised	(101,203)	(67,114)
	<u>507,202</u>	<u>594,702</u>

The movement in allowance for impairment losses recognised on trade receivables is as follows:

	2016 AED'000	2015 AED'000
Balance at 1 January	67,114	19,688
Charge for the year	38,147	57,067
Write off	(3,193)	(237)
Recovery	(865)	(9,404)
Balance at 31 December	<u>101,203</u>	<u>67,114</u>

The average credit period on services is 30 days. No interest is charged on trade and other receivables. During the year, additional specific allowances for impairment losses were identified for customer receivables based on future cash flows estimated at the end of reporting period. Trade receivable balances past due are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

Included in the Group's trade receivables and related party balances are past due debtors with a carrying amount after allowance for impairment losses of AED 392.3 million (2015: AED 439.1 million) mostly due from Government related entities. The Group has not made a provision for the remaining balance as there has not been a significant change in credit quality and management believes that the amounts are recoverable.

Ageing of trade receivables and due from related parties

	2016 AED'000	2015 AED'000
Not past due	114,930	155,568
Due for 31 to 90 days	145,527	218,729
Due for 91 to 180 days	120,081	98,506
Due for more than 180 days	227,867	189,013
	<u>608,405</u>	<u>661,816</u>

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

10 Related parties

The Group, in the ordinary course of business, enters into transactions, at agreed terms and conditions, with "related parties" as defined in IAS 24 Related Party Disclosures. Related parties comprise of the Group's shareholders, directors, senior management and businesses controlled by them and their families or over which they exercise significant management influence as well as key management personnel.

The Group's significant related party services provided transactions and balances are as follows:

Transactions and balances with related parties through Royal Jet L.L.C.

	2016 AED'000	2015 AED'000
Services provided	113,632	119,467
Amounts due from related parties	10,946	9,540
Amounts due to related parties	13,751	30,262

Transactions and balances with related parties through Maximus Air L.L.C.

	2016 AED'000	2015 AED'000
Services provided	7,897	-
Amounts due from related parties	7,897	-

Transactions and balances with related parties through the Company

	2016 AED'000	2015 AED'000
Services provided	93,661	116,761
Amounts due from related parties	24,833	5,968
Amounts due to related parties	6,905	13,529

Total transactions and balances with related parties

	2016 AED'000	2015 AED'000
Services provided	215,190	236,228
Amounts due from related parties (Note 9)	43,676	15,508
Amounts due to related parties	20,656	43,791

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

10 Related parties (continued)

(a) Finance lease liability

The finance lease between the Group and a related party was entered into for the purpose of financing 70% of the cost of a commercial aircraft for a period of 15 years from the date of delivery of the aircraft.

	2016 AED'000	2015 AED'000
Due to a related party		
Finance lease liability (Note 20)		
Presidential Flight Authority	11,582	17,371
Less: non-current portion of finance lease liability	(5,429)	(11,582)
Due to a related party – current portion (Note 23)	<u>6,153</u>	<u>5,789</u>

(b) Transactions with related parties

Transactions with related parties during the year were as follows:

	2016 AED'000	2015 AED'000
Finance cost on finance lease of aircraft	285	843
Key management compensation		
Salaries and other short-term employee benefits	17,070	14,338
Directors' fees (Note 25)	8,840	6,984
Provision for employees' end of service benefits	1,007	760

11 Prepayments and other current assets

	2016 AED'000	2015 AED'000
Prepayments	8,353	11,572
Deposits and advances	73,324	69,954
Other receivables and accrued income	159,050	62,493
	<u>240,727</u>	<u>144,019</u>

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

12 Cash and deposits with banks

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	2016 AED'000	2015 AED'000
Cash on hand	3,032	1,682
Bank current accounts	173,676	283,432
Deposits	240,875	71,905
Cash and deposits with banks in the consolidated statement of financial position	417,583	357,019
Less: margin deposit	(1,086)	(986)
Less: bank overdrafts used for cash management purposes	(53,994)	-
Less: deposits with maturities over three months	(240,875)	-
Cash and cash equivalents in the consolidated statement of cash flows	121,628	356,033

Bank balances and cash include an amount of AED 11 million (2015: AED 9.1 million) held in foreign banks abroad and the remaining balance is held within the UAE.

13 Assets held for sale

As at 31 December 2016, management is committed to sell four aircraft and these aircraft have been accordingly presented as held for sale. These transactions are expected to be finalised in the next twelve months.

During 2015 management had classified an aircraft with a net carrying value of AED 89 million as held for sale and impairment amounting to AED 11.4 million was recognised on the reclassification of the aircraft and the remaining net realisable value of AED 77.6 million was presented as assets held for sale as at 31 December 2015. During 2016 a further impairment of AED 13.8 million has been recognised against this aircraft.

During 2016 management has classified three additional aircraft with a net carrying value of AED 39.4 million as held for sale and an impairment of AED 9.1 million was recognised on the reclassification of the aircraft and the remaining net realisable value of AED 30.3 million is presented as assets held for sale as at 31 December 2016.

14 Share capital

The share capital structure is as follows:

	2016 AED'000	2015 AED'000
Issued and fully paid:		
444,787,000 shares of AED 1 each (2015: 444,787,000 shares of AED 1 each)	444,787	444,787

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

15 Reserves

	Revaluation reserve AED'000	Translation reserve AED'000	Fleet replacement reserve AED'000	Insurance reserve AED'000	Legal reserve AED'000	Investment revaluation reserve AED'000	General reserve AED'000	Other reserves AED'000	Total AED'000
Balance at 1 Jan 2015	28,219	(3,434)	640,686	397,769	213,214	(237)	102,586	55,360	1,434,163
Foreign currency translation differences	-	(6,422)	-	-	-	-	-	-	(6,422)
Loss arising on fair value of investments at FVTOCI	-	-	-	-	-	(147)	-	-	(147)
Transfer to legal reserve	-	-	-	-	9,180	-	-	12,757	21,937
Transfer to maintenance and fleet replacement reserve	-	-	52,000	-	-	-	-	-	52,000
Transfer to insurance reserve	-	-	-	20,000	-	-	-	-	20,000
Balance at 31 Dec 2015	28,219	(9,856)	692,686	417,769	222,394	(384)	102,586	68,117	1,521,531
Balance at 1 Jan 2016	28,219	(9,856)	692,686	417,769	222,394	(384)	102,586	68,117	1,521,531
Foreign currency translation differences	-	(23,920)	-	-	-	-	-	-	(23,920)
Loss arising on fair value of investments at FVTOCI	-	-	-	-	-	(46)	-	-	(46)
Transfer to legal reserve	-	-	-	-	-	-	-	15,386	15,386
Transfer to maintenance and fleet replacement reserve	-	-	80,000	-	-	-	-	-	80,000
Transfer of reserve to retained earning	-	-	-	-	-	430	-	-	430
Balance at 31 Dec 2016	28,219	(33,776)	772,686	417,769	222,394	-	102,586	83,503	1,593,381

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

15 Reserves (continued)

(a) Revaluation reserve

As at 1 January 1993, on the basis of industry quotations, the Group revalued part of its fleet of helicopters and major rotables (Note 5). A similar revaluation was performed on 1 January 1988. The revaluation reserve represents the surplus over net book value arising from the revaluations.

(b) Translation reserve

The translation reserve consists of exchange differences arising on the translation of non-monetary assets and liabilities denominated in foreign currencies.

(c) Fleet replacement reserve

The fleet replacement reserve consists of amounts appropriated from profits, which in the opinion of the Board of Directors are required to ensure that sufficient reserves exist to replace the existing fleet of helicopters when necessary.

(d) Insurance reserve

The insurance reserve consists of amounts appropriated from profits, which in the opinion of the Board of Directors are required to enable the Group to provide for a portion of the insurance cover in respect of its helicopter fleet and fixed wing aircraft.

(e) Legal reserve

The Articles of Association of the Company require 10% of the annual profit to be transferred to a legal reserve until such reserve amounts to 50% of the share capital of the Company. In addition, the subsidiaries are required in accordance with the UAE Federal Law No. (2) of 2015 concerning Commercial Companies and the subsidiaries' Articles of Association, to transfer 10% of the subsidiaries' profit to an undistributable statutory reserve, until such reserve equals 50% of paid up capital of the subsidiaries. This reserve is not available for distribution. The Group's legal reserve represents the Company's legal reserve computed on the basis disclosed above in addition to the Group's share of legal reserve of subsidiaries. The Company has not made any transfers to the legal reserve since the reserve is now equal to 50% of the paid up capital of the Company.

The statutory reserves of the subsidiaries have been transferred to the restricted reserve as these amounts are not available for distribution.

(f) Investment revaluation reserve

Investment revaluation reserve represents gains and losses arising from changes in fair value of FVTOCI investments. This reserve has been reclassified to retained earnings upon disposal of the investments.

(g) General reserve

Transfers to and from the general reserve are made in accordance with the decision of the Board of Directors and approved by the shareholders.

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

16 Dividend

The Board of Directors in its meeting held on 13 February 2017 proposed cash dividend of AED 0.17 per ordinary share (17% of par value) amounting to AED 75.6 million (2015: AED 0.17 per ordinary share, 17% of par value and amounting to AED 75.6 million). The Board of Directors will request approval of the shareholders of the cash dividends at the annual general assembly meeting to be held in 2017.

17 Non-controlling interests

	2016 AED'000	2015 AED'000
Balance at 1 January	206,802	213,597
Share of profit for the year	21,789	10,242
Purchase of shares from NCI	-	(17,037)
Balance at 31 December	228,591	206,802

18 Provision for employees' end of service benefits

The movement in provision for employees' end of service benefits is as follows:

	2016 AED'000	2015 AED'000
Balance at 1 January	136,595	120,978
Charge for the year	22,005	21,904
Payments made during the year	(24,769)	(6,287)
Balance at 31 December	133,831	136,595

19 Term loans

	2016 AED'000	2015 AED'000
Current portion of term loans	145,979	197,261
Non-current portion of term loans	815,008	807,418
Total term loans	960,987	1,004,679

The movement in term loans is as follows:

	2016 AED'000	2015 AED'000
Balance at 1 January	1,004,679	813,889
Drawdown during the year	95,603	239,730
Repayments during the year	(139,295)	(48,940)
Balance at 31 December	960,987	1,004,679

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

19 Term loans (continued)

AED 1.3 billion term loan

In 2007, a loan facility was obtained by the Group from a local bank for AED 1.3 billion to finance the acquisition of new aircraft and related assets. There was no additional drawdown during 2016. The facility is secured by a negative pledge by the mortgage over the aircraft. In 2013, the Group agreed with the local bank on amendments of term of the loan agreement. Interest rate on the loan was amended to 3 months EIBOR plus 1.75% per annum and loan shall be repaid in 12 semi-annual installments (principal and interest) of AED 51.3 million effective 30 June 2013. The final repayment date shall be 31 December 2018. During 2014, the Group agreed with the local bank to further amend the interest rate on the loan to 3 months EIBOR plus 1.5%. Also, during 2014, the Group had deferred the second semi-annual installment payment amounting to AED 51.3 million.

During 2015, the Group agreed with the local bank on another amendment of the term loan agreement. Effective 29 January 2015, the term loan shall be repaid in 7 semi -annual installments (principal and interest) of AED 51.3 million starting on 31 December 2015. As at 31 December 2016, the outstanding balance of the term loan amounted to AED 281.9 million (2015: AED 375.9 million).

AED 129.3 million term loan of Royal Jet LLC

This term loan from a local bank for AED 129.3 million (USD 35.2 million) was obtained to finance the acquisition of an aircraft. Repayment is scheduled over a period of 10 years starting July 2007 by equal monthly installments. The interest is calculated by reference to one month LIBOR plus 75 basis points per annum. As at 31 December 2016, the outstanding balance of the term loan amounted to AED 6.5 million (2015: AED 19.4 million).

AED 20.6 million term loan of Royal Jet LLC

A term loan from a local bank was obtained for AED 20.6 million (USD 5.6 million) to finance the acquisition of a commercial aircraft. The loan is repayable in 32 equal quarterly installments. The interest is calculated by reference to three month LIBOR plus 1.4% per annum. As at 31 December 2016, the outstanding balance of the term loan amounted to AED 14.9 million (2015: AED 17.4 million).

AED 297.7 million term loans of Royal Jet LLC

Two term loans from a local bank for AED 297.7 million (USD 81 million) were obtained to finance the acquisition of two commercial aircraft. The loans are repayable in 40 equal quarterly installments. The interest is calculated by reference to three month LIBOR plus 1.75% per annum. As at 31 December 2016, the outstanding balance of the term loan amounted to AED 234.4 million (2015: AED 264.1 million).

AED 429.2 million term loan of Royal Jet LLC

A term loan from a local bank for AED 429.2 million (USD 116.8 million) was obtained to finance the acquisition of commercial aircraft. The loan is repayable in 40 equal quarterly installments. The first principal repayment will start from 6 months from the date of delivery of aircraft(s) or 30 June 2017 whichever is earlier. The interest is calculated by reference to three month LIBOR plus 1.3% per annum.

As at 31 December 2016, the outstanding balance of the term loan amounted to AED 423.3 million (2015: AED 327.7 million).

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

20 Finance lease liabilities

	2016 AED'000	2015 AED'000
Aircraft finance lease (Note 10)	11,582	17,371
Residential complex finance lease	117,332	118,293
Total finance lease liabilities	128,914	135,664
Less: Non-current portion of finance lease liabilities	(121,698)	(128,914)
Current portion of finance lease liabilities	7,216	6,750
Included in the consolidated statement of financial position as:		
Current portion of finance lease liabilities	1,063	961
Due to related parties (Note 23)	6,153	5,789
	7,216	6,750
Non-current portion of finance lease liabilities	116,269	117,332
Due to a related party (Note 10)	5,429	11,582
	121,698	128,914

Interest rate on the aircraft finance lease is 6 months LIBOR plus 0.75%.

Amounts payable under finance leases:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Less than one year	16,648	16,325	9,432	9,575	7,216	6,750
Between one and five years	46,508	52,906	35,914	36,560	10,594	16,346
More than five years	214,750	225,000	103,646	112,433	111,104	112,567
	277,906	294,231	148,992	158,568	128,914	135,663

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

21 Deferred income

	2016 AED'000	2015 AED'000
Balance at 1 January	495,543	547,155
Grant received during the year	6,256	-
Amortisation of deferred income	(52,300)	(51,612)
Balance at 31 December	449,499	495,543
Included in the consolidated statement of financial position as:		
Current portion of deferred income	52,297	-
Non-current portion of deferred income	397,202	495,543
Total deferred income	449,499	495,543

During 2014, the Presidential Flight Authority, a related party, transferred 5 commercial aircraft to the Group pursuant to a grant effective from 1 January 2014. The deferred income relating to the aircraft is recognised at the nominal value of the asset amounting to AED 489.1 million. Previously, these commercial aircraft were under operating lease.

During 2016 the Group received a helicopter (AW 109) from the Government of Abu Dhabi as a grant.

During 2016 deferred income of AED 52.3 million was recognised to profit or loss to match the costs for which they are intended to compensate on a systematic basis.

22 Other non-current liability

In 2011, the Company entered into a Heads of Agreement (HOA) with Aerospace Holding Company L.L.C. (AHC) to establish a joint arrangement for the provision of advanced synthetic pilot training. During 2011, AHC's related party, International Flight Academy (Horizon) L.L.C. entered into an agreement with CAE Inc. (the "Supplier") for the purchase of simulators ("the Purchase Agreement") to be used for the establishment of the joint venture between the Company and AHC (the "Project"). On 21 November 2013, the Company entered into an Amendment and Novation Agreement with the Supplier and International Flight Academy (Horizon) L.L.C. to release and discharge International Flight Academy (Horizon) L.L.C. from the Purchase Agreement and include the Company as the new party to the Purchase Agreement.

On 30 December 2013, the Company entered into an agreement with International Flight Academy (Horizon) L.L.C. for the settlement of amounts relating to the transfer of the Project to the Company (the "Settlement Agreement"). The Settlement Agreement required that the Company pay AED 16.9 million to International Flight Academy (Horizon) L.L.C. by 1 January 2015 and AED 16.9 million by 1 January 2016. During 2015 payment amounting to AED 16.9 million had been made and the balance is classified as a current liability.

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

23 Trade and other payables

	2016 AED'000	2015 AED'000
Trade payables	78,829	58,216
Due to related parties (Note 10)	15,227	32,209
	<u>94,056</u>	<u>90,425</u>

The average credit period for purchases of goods and services is 30 days. The Group has risk management policies in place to ensure that all payables are paid within the credit period. Amounts due to related parties include AED 6.2 million (2015: AED 5.8 million) pertaining to Royal Jet L.L.C.'s finance lease liabilities.

24 Direct operating costs

	2016 AED'000	2015 AED'000
Operating and maintenance costs	659,709	930,176
Staff costs	388,779	386,336
Depreciation	151,954	196,718
Other expenses	118,466	115,099
	<u>1,318,908</u>	<u>1,628,329</u>

25 General and administrative expenses

	2016 AED'000	2015 AED'000
Staff costs	117,679	127,139
Depreciation	14,480	16,014
Licensing and professional fees	9,118	8,713
Impairment losses recognised on trade receivables	38,147	57,067
Directors' fee (Note 10)	8,840	6,984
Others	41,396	55,580
	<u>229,660</u>	<u>271,497</u>

26 Basic and diluted earnings per share

Earnings per share amounts are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of shares outstanding during the year. The following reflects the income and share data used in the earnings per share computations:

	2016 AED'000	2015 AED'000
Profit attributable to owners of the Company	258,601	267,105
Weighted average number of shares in issue	444,787	444,787
Earnings per share (AED)	<u>0.58</u>	<u>0.60</u>

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

26 Basic and diluted earnings per share (*continued*)

The Group does not have potentially dilutive shares and accordingly, diluted earnings per share is equal to basic earnings per share.

27 Granted plots of land

Future economic benefits established

In prior years, the Abu Dhabi Government had granted the Company two plots of land located in Khalifa City, Abu Dhabi.

The granted plots of land located in Khalifa City, Abu Dhabi had been identified and will be used for the purpose of construction of a training center and accordingly, has been recorded as property and equipment at nominal value at AED 1.

28 Financial instruments – Risk management and fair values

(a) *Capital risk management*

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from 2013. The capital structure of the Group consists of debt, which includes the term loans, cash and bank balances and equity comprising share capital, reserves and retained earnings.

The gearing ratio, determined as net debt to equity, at the year-end was as follows:

	2016 AED'000	2015 AED'000
Debt (i)	960,987	1,004,679
Cash and cash equivalents (Note 12)	(362,503)	(356,033)
Net debt	598,484	648,646
Equity (ii)	2,567,466	2,408,445
Net debt to equity ratio	23%	27%

(i) Debt is defined as long and short term loans (Note 19).

(ii) Equity includes all capital and reserves of the equity owners of the Company.

(b) *Financial risk management*

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

28 Financial instruments – Risk management and fair values (continued)

(b) Financial risk management (continued)

(i) Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables and bank balances.

The Group has adopted a policy of only dealing with creditworthy counterparties, however significant revenue is generated by dealing with entities related to oil operating companies and government related entities in the UAE, for whom the credit risk is assessed to be low. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific non-related counterparties, and continually assessing the creditworthiness of such non-related counterparties. Balances with banks are assessed to have low credit risk of default since these banks are highly regulated by the Central Bank.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Trade receivables from oil operating companies and government related entities in the UAE is AED 48.03 million (2015: AED 46.8 million) and AED 373.2 million (2015: AED 491.5 million) which represents 7.9% (2015: 7.1%) and 61.3% (2015: 74.3%) respectively of the total trade receivables at the end of reporting period. Included in the trade receivables balance at the end of the year is an amount of AED 43.68 million (2015: AED 15.5 million) due from related parties.

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

28 Financial instruments – Risk management and fair values (continued)

(b) Financial risk management (continued)

(ii) Credit risk (continued)

As at 31 December 2016, maximum exposure to credit risk was as follows:

	2016 AED'000	2015 AED'000
Trade receivables	507,202	594,702
Cash and cash equivalents	414,551	355,337
	<u>921,753</u>	<u>950,039</u>

(iii) Liquidity risk

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

The table below summarises the maturity profile of the Group's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the end of reporting period to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the liabilities at the end of reporting period based on contractual repayment arrangements was as follows:

	Effective Interest rate	Total AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	After 5 years AED'000
2016						
Non-interest bearing instruments		333,515	333,515	-	-	-
Variable interest rate instruments	Note 19 and 20	1,326,740	32,952	180,695	574,446	538,647
		<u>1,660,255</u>	<u>366,467</u>	<u>180,695</u>	<u>574,446</u>	<u>538,647</u>
2015						
Non-interest bearing instruments		282,730	282,730	-	-	-
Variable interest rate instruments	Note 19 and 20	1,342,410	21,113	151,042	645,557	524,698
		<u>1,625,140</u>	<u>303,843</u>	<u>151,042</u>	<u>645,557</u>	<u>524,698</u>

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

28 Financial instruments – Risk management and fair values (continued)

(b) Financial risk management (continued)

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group does not have significant exposure to currency risk as most of its assets are denominated in UAE Dirhams or in US Dollars, the former being pegged to the US Dollar.

Equity price risk

The Group is exposed to equity price risks arising from equity investments. The Group monitors the risk of change in equity prices by sensitivity analysis taking 15% change due to the volatile nature of the market in which the securities are listed.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 15% higher/lower, the Group's other comprehensive income would increase/decrease as follows:

	2016 AED'000	2015 AED'000
FVTOCI Investments	-	2,384

Interest rate risk

Interest rate risk primarily arises from the possibility that changes in interest rates will affect the net finance cost of the Group. The Group is exposed to fair value interest rate risk on bank borrowings at variable interest rates.

If interest rates had been 50 basis points higher/lower throughout the year and all other variables were held constant, the Group's net profit and equity for the year ended 31 December 2016 would decrease/increase by approximately AED 4.8 million (2015: AED 5.1 million).

The Group's sensitivity to interest rates has increased in line with the increase in interest bearing debt instruments.

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

28 Financial instruments – Risk management and fair values (continued)

(c) Fair value of financial instruments

Fair value of the Group's financial instruments that are measured at fair value on a recurring basis

Management provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value into Levels 1 to 3 based on the degree to which fair value is observable.

As at 31 December 2016, all of the Group's financial assets that are stated at fair value are grouped in Level 1.

There were no transfers between Level 1 and 2 during the year.

	31 December 2016		31 December 2015	
	Carrying amounts AED'000	Fair Value AED'000	Carrying amounts AED'000	Fair value AED'000
Assets carried at fair value				
Financial assets at fair value through other comprehensive income (FVTOCI)	-	-	15,893	15,893

Fair value of the Group's financial instruments that are not measured at fair value but fair value disclosures are required

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements approximate their fair values.

	31 December 2016		31 December 2015	
	Carrying amounts AED'000	Fair Value AED'000	Carrying amounts AED'000	Fair value AED'000
Liabilities carried at amortised cost				
Term loans	960,987	1,006,938	1,004,679	1,052,719
Finance lease liabilities	128,914	131,131	135,664	137,997

As at 31 December 2016, all of the Group's financial liabilities fair value disclosure above are grouped under Level 3 and have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

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

29 Contingent liabilities

As at 31 December 2016, the Group had outstanding contingent liabilities in respect of letters of guarantee amounting to AED 137.4 million (2015: AED 140 million).

30 Commitments

Capital commitments

As at 31 December 2016, the Group had estimated commitments for the acquisition of property and equipment of AED 59.2 million (2015: AED 108.4 million).

Operating commitments

The Group is committed to pay annual maintenance fees of AED 750,000 over the lease term of the related residential complex which is included as part of due in less than one year.

	2016 AED'000	2015 AED'000
Due in less than one year	2,276	750
Later than one but not later than five years	3,000	3,000
Later than five years	14,250	15,000
	<u>19,526</u>	<u>18,750</u>

31 Segment information

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 *Operating Segments*. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For operating purposes, the Group is organised into four major business segments:

- (i) Helicopter and Fixed Wing Operations, which provides charter flights and third party maintenance;
- (ii) Commercial Aircraft Operations, which provides commercial air transportation and aircraft management;
- (iii) Air Cargo, which provides air cargo services to local and international customers using its fleet of aircrafts and chartered aircraft; and
- (iv) Investments, which involves the management of the Group's investment portfolio.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

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

31 Segment information (continued)

Information regarding these segments for the year ended 31 December is presented below:

	Helicopter and fixed wing operations AED'000	Commercial aircraft operations AED'000	Air cargo AED'000	Investments AED'000	Eliminations AED'000	Group AED'000
2016						
Revenue	791,732	497,418	523,343	-	(7,257)	1,805,236
Profit for the year	122,932	43,578	110,338	3,542	-	280,390
2015						
Revenue	888,405	460,922	835,842	-	(3,557)	2,181,612
Profit for the year	146,271	20,484	106,355	4,237	-	277,347

The segment assets and liabilities at 31 December were as follows:

2016						
Assets	3,009,069	1,587,182	609,769	161,252	(564,469)	4,802,803
Liabilities	801,779	1,171,946	53,136	-	(20,115)	2,006,746
2015						
Assets	2,999,395	1,524,995	510,106	197,833	(561,871)	4,670,458
Liabilities	839,734	1,153,337	79,046	-	(16,906)	2,055,211

The Group operates primarily from its base in the United Arab Emirates and accordingly no further geographical analysis of revenues, profit, fair value gains, assets and liabilities is given.

32 Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

33 Approval of consolidated financial statements

The consolidated financial statements were approved by management and authorised for issue by the Board of Directors on 13 February 2017.