









# ANNUAL REPORT



**2018**

## OUR FLEET (As at 21 September 2018)

Aircraft Type		In Operation	Ordered	Options
Boeing B777-300ER		1	-	-
Airbus A330-300		1	-	-
Airbus A321-200		8	-	-
Airbus A320-200		3	-	-
Airbus A220-300		2	-	-
Fokker 100		5	-	-
ATR 72-600		13	6	30
ATR 72-500		6	-	-
<b>Total</b>		<b>39</b>	<b>6</b>	<b>30</b>



**MODEL** Boeing 777-300ER



Airbus A330-300



**MODEL** Airbus A321-200



Airbus A320-200



**MODEL** Airbus A220-300



Fokker F100



**MODEL** ATR 72-600



ATR 72-500

## COMPANY INFORMATION

**DIRECTORS:**

Robert Jeffries Chatfield  
Roderick Douglas Mahoney  
Stephen John Fisher  
Derek Sharples

**COMPANY SECRETARY:**

Duncan Gerard Stephen Scott

**REGISTERED OFFICE:**

5 Fleet Place  
London EC4M 7RD  
United Kingdom

**PRINCIPAL PLACE OF BUSINESS:**

65 Kampong Bahru Road  
Singapore 169370

**AUDITOR:**

Ernst & Young  
EY Building  
Harcourt Centre  
Harcourt Street  
2 Dublin  
Ireland

**SOLICITORS:**

Charles Russell Speechlys LLP  
5 Fleet Place  
London EC4M 7RD  
United Kingdom

**REGISTRAR:**

Computershare Investor Services LLC  
The Pavilions  
Bridgewater Road  
Bristol BS99 6ZZ  
United Kingdom

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## CHAIRMAN'S STATEMENT

### OVERVIEW

- Fleet assets increased by 38% to \$1.030 billion since 30 June 2017;
- Revenue increased by 16% to \$109.1 million;
- Total profit after tax decreased by 5.9% to \$20.0 million;
- Earnings per share ("EPS") decreased by 11% to 32.20 US cents;
- Dividend per share of 7.25 US cents, an increase of 21% year on year; and
- Net asset value per share increased 13% year on year to \$3.64 per share.

### OPERATIONAL HIGHLIGHTS

- Redeployment of the proceeds from sales of aircraft in 2017 supported the acquisition of \$323 million in aircraft;
- Five aircraft added to the fleet, including three new aircraft types;
- An Airbus A320 aircraft was transitioned from Air Berlin to easyJet;
- Six new customers added taking total airline customers to thirteen at 30 June 2018;
- Credit enhancement with upgrades in credit ratings by Standard & Poor's ("S&P") and Fitch Ratings; and
- Extension of debt maturity duration with an issue of \$300 million 6.5% Senior Notes due 2021 under the Company's Global Medium-Term Note programme.



### BUSINESS REVIEW

The performance of Avation showed growth consistent with an increase in fleet assets and record high monthly lease rental collections as at 30 June 2018. The leasing business delivered the highest revenue and profit in the history of the Company

when excluding one-off gains from trading. The Directors are pleased to declare an increased interim dividend of 7.25 US cents per share. Net asset value per share increased to \$3.64.

Avation was successful at redeploying the proceeds generated by sales of aircraft in the previous financial year, adding new aircraft and customers to further

grow the fleet and diversify the revenue base. This included investments in twin-aisle Boeing 777-300ER and Airbus A330-300 aircraft alongside new technology narrow-body Airbus A220-300 aircraft.

Fleet metrics improved with the average age of the fleet reduced to 3.2 years and the average remaining lease term increased to 7.7 years as at 30 June 2018 with no operating leases expiring until 2021.

Added scale and diversification delivered credit enhancement that saw credit rating upgrades from both S&P and Fitch Ratings and also allowed the issuance of \$300 million 6.5% Senior Notes due 2021, which extended debt maturity duration and lowered Avation's average cost of debt compared to the previous financial year.

# CHAIRMAN'S STATEMENT

Avation will continue to focus on growing the fleet and adding new airline customers in the coming financial year. The Company is currently assessing jet aircraft for acquisition, in addition to the scheduled deliveries of new ATR 72 turboprop aircraft from our order book."

## INTERIM DIVIDEND

In order to recognise shareholder ownership as it continues the development of the business, the Board has declared an interim dividend of 7.25 US cents per share in respect of the financial year ended 30 June 2018 (2017: 6.00 US cents), which represents an increase of 21%. The Company confirms its aim to maintain a progressive dividend policy.

## MARKET POSITIONING AND RISK

Avation's strategy is to target growth and diversification by adding new airline customers, while maintaining strong average aircraft age and lease term metrics. Avation focuses on new and relatively new commercial passenger aircraft on long-term leases. Avation is able to supply regional, narrow-body and twin-aisle aircraft to the airline industry.

The Company's business model involves rigorous investment criteria and has a history of delivering consistent profitability while seeking to mitigate the risks associated with the aircraft leasing sector. Avation will typically sell mid-life and older aircraft and redeploy capital to newer assets. This approach is intended to mitigate technology-change risk, operational and financial risk, support sustained growth and deliver long-term shareholder value.

Avation is an active trader of aircraft and from time to time will consider the acquisition or sale of individual or smaller portfolios of aircraft, based on market opportunities and considerations of risk and revenue concentrations.

## OUTLOOK

For the 2019 financial year the Company is focused on growth in the fleet and the addition of new airline customers.

Management believes that the risks associated with its portfolio of aircraft have been reduced during the 2018 financial year through repositioning of the fleet, growth and diversification. Avation has demonstrated that it has the capability to acquire, finance and deliver multiple aircraft transactions demonstrating

the strength of its leasing platform which will support continued future growth.

Management believes that it can attract airline customers, acquire aircraft and obtain the required funding for growth. In addition to operational cash flows, funding is traditionally sourced from capital markets, asset backed bank lending and disposals of selected aircraft. Access to acceptably priced funding is a risk, which is common to all capital-intensive businesses. Specific risks which are inherent to the aircraft leasing industry include, but are not limited to, the creditworthiness of customer airlines, over-production of new aircraft and market saturation, technology-change, residual value risks, competition from other lessors and the risk of impairment of aircraft assets.

In addition to offering fixed rate US Dollar denominated leases, which form the majority of Avation's lease portfolio, the company is also able to offer floating rate and Euro or other currency denominated leases. The ability to offer a variety of financial leasing products provides Avation with an opportunity to attract new customers and to generate value from its aircraft fleet.

Following the issue of \$300 million 6.5% Senior Notes due 2021 under the Company's Global Medium-Term Note programme during the financial period, Avation has repaid some senior and junior debt to unencumber or refinance existing aircraft. This has created balance sheet flexibility which will support the acquisition of additional aircraft, including the two ATR 72 aircraft to be delivered to Danish Air Transport later this year.

Avation's Board of Directors is pleased to deliver solid financial results from its aircraft leasing business while redeploying capital into new fleet additions and improving revenue diversification.



Robert Jeffries Chatfield  
Executive Chairman  
Singapore  
21 September 2018

## BOARD OF DIRECTORS



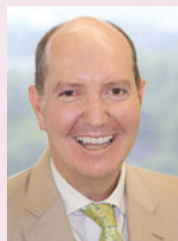
**Jeff Chatfield**  
**Executive Chairman**

Mr Chatfield is the Executive Chairman of Avation PLC and has been instrumental in establishing and growing the Company. Mr Chatfield has a track record of leadership in a variety of profitable and successful businesses. He is a qualified public company director and business executive experienced in the fields of commercial airlines, aircraft leasing and finance, electronic commerce, investment management, radio and TV broadcasting. Mr Chatfield holds both Bachelor's and Master's Degrees in engineering from the University of Western Australia where he graduated top of the class. He has been involved in a number of successful businesses both private and public, the majority of which have been strongly cash flow generative. In the recent past Mr Chatfield was chairman of Skywest Airlines Ltd, a LSE-ASX dual-listed public company sold to Virgin Australia Holdings Ltd. He is a member of the Australian Institute of Company Directors and a fellow of the Singapore Institute of Directors. Mr Chatfield was born in Perth, Australia and is a permanent resident of Singapore.



**Rod Mahoney**  
**Executive Director**

Mr Mahoney is the Chief Commercial Officer and an Executive Director of the Company. Before this executive appointment, he was a fleet planning and aircraft procurement consultant to the Company. He has previously been a project advisor to a variety of Asia-Pacific airlines, suppliers and other aviation businesses, including Virgin Blue and Virgin Australia and also held various senior executive positions at Airbus for 23 years, largely within the sales division covering Europe and Africa, China and the Pacific. He holds a Bachelor of Science Degree in Aeronautical Engineering (BSc. Hons), a Masters in Air Transport (MSc.) and a Masters of Applied Finance (MAppFin). Mr Mahoney holds dual citizenship of the United Kingdom and Australia and resides in Singapore. Mr Mahoney is a graduate member of the Australian Institute of Company Directors and a member of the Singapore Institute of Directors.



**Stephen Fisher PhD**  
**Non-Executive Director**

In addition to his role at Avation PLC, Stephen is Chairman, Principal and Chief Investment Officer of First Degree Global Asset Management Pte. Ltd., a privately owned asset management company in Singapore. First Degree Global Asset Management operates a number of strategies for its clients including a fixed income focused hedge fund.

Stephen has had twenty-six years experience as an investment professional with leading investment management groups in the United States, Asia and Australia. From 2000 to 2011 he was Managing Director and Head of Global Fixed Income Product – Asia Pacific at JPMorgan Asset Management. Stephen held the positions of Australian Head of Capital Markets Research from 1992 - 1996, and Asia Pacific Regional Head of Capital Markets Research at J.P. Morgan Investment Management, Inc. from 1996-1998.

Stephen's particular areas of expertise are in quantitative analysis of fixed income, equities, asset allocation and derivatives. He has advised Central Banks and Sovereign Wealth Funds on their reserves management practice, and his research on investment management issues has been widely published in academic and industry journals.

Stephen has a Master of Science (Finance) and a PhD (Finance) from the WE Simon Graduate School of Business Administration, University of Rochester, New York and a Bachelor of Economics (First Class Honours) from the University of Sydney.



**Derek Sharples**  
**Non-Executive Director**

Mr Sharples recently retired as the Chief Executive Officer of Airbus Helicopters Southeast Asia. Mr Sharples was formerly Corporate Secretary and Head of Legal Affairs at Airbus in Toulouse, France. He has experience as a Director of a Toronto Listed public company and companies in Thailand, Singapore and Indonesia.

Mr Sharples has a Bachelor of Engineering and a Master of Business Administration from the Cranfield School of Management. He is a Fellow of the Royal Aeronautical Society (FRAeS) and holds the military rank of Commander, Royal Navy.

Mr Sharples is a Singapore resident and is a member of the Singapore Institute of Directors. He holds dual British and French Nationalities.



# STRATEGIC REPORT



The Directors present their strategic report for the year ended 30 June 2018.

## BUSINESS OVERVIEW

Avation PLC and its subsidiaries ("Avation", the "Group") is a commercial passenger aircraft leasing group managing a fleet of 38 aircraft, as at 30 June 2018, which are leased to airlines globally. Avation's customers include Virgin Australia, Thomas Cook, Fiji Airways, Mandarin Airlines, Air India Regional, Flybe, Air France, easyJet, Vietjet Air, EVA Air, Philippine Airlines, and airBaltic. The Group's fleet includes Airbus A220, A320 and A321 narrow-body jets, Boeing 777-300ER and Airbus A330-300 twin-aisle jets, ATR 72 twin engine turboprop aircraft and five older Fokker 100 jets.

Avation operates from its headquarters in Singapore where it is tax resident and, since 17 April 2014, a beneficiary of the Singapore Aircraft Leasing Scheme tax incentive.

Avation's management team has extensive experience in the aviation industry and has the expertise to select and acquire aircraft that will achieve strong operational performance for our customers and generate stable returns for our shareholders.

Avation aims to grow its fleet and continue to diversify its customer base in the coming year. The Group has six ATR 72-600 aircraft on order from the manufacturer and holds options for a further 30 aircraft. The Group may also acquire further new and second-hand jet aircraft on an ad-hoc basis. Older aircraft are sold when opportunities arise in order to maintain a low average fleet age.

Avation is listed on the main list of the London Stock Exchange under the ticker symbol LSE: AVAP.

## BUSINESS MODEL

Avation aims to grow its fleet and build long-term shareholder value by focussing on a) new turboprop regional aircraft, principally the popular and fuel-efficient ATR 72-600 model and b) new and second-hand jets in particular the popular Airbus A320/A321 family and Boeing 737 narrow-body jet aircraft. The Group will also consider acquiring additional twin-aisle aircraft in future as part of its strategy to build a diversified portfolio of aircraft. Owning a diversified portfolio of aircraft types is intended to mitigate overall market and residual value risk.

The Group finances the acquisition of new aircraft using internally generated cash flows, senior and junior secured debt finance, the issuance of unsecured notes under its Global Medium-Term Note programme and the issuance of new ordinary shares. Debt on older aircraft is re-financed when there is an opportunity to reduce the Group's overall cost of debt and also to release equity for acquiring new aircraft.

The Board applies prudent financial management principles to manage risk when acquiring aircraft by seeking to match lease and financing duration, using mostly fixed interest rate debt and amortising debt to conservative balloon payments over the terms of the underlying leases.

As the fleet grows, the Group seeks to diversify its customer base as part of its overall credit risk management strategy.

The Avation fleet of 38 aircraft (as at 30 June 2018) has a weighted average age of 3.2 years and weighted average remaining lease term of 7.7 years with a current customer base of airlines in Australia, Europe and the Asia-Pacific region.

# STRATEGIC REPORT

World annual traffic (trillion RPKs)



## MARKETS TRENDS AND FUTURE DEVELOPMENTS

Aircraft leasing is a growth industry which, historically, has taken an increasing share of ownership of the commercial passenger aircraft fleet. Avation expects that the percentage of leased aircraft in the global fleet will remain high in future due to the flexibility that the leasing model provides for airlines and also due to increased access to financial capital for leasing companies.

The aircraft leasing industry also benefits from good long-term fundamentals including growth in global demand for air travel, capital constraints amongst airlines and normal cycles of aircraft replacement.

The world fleet of commercial passenger aircraft is predicted to grow substantially with aircraft traffic expected to double every 15 years. Airbus forecasts that over 37,000 aircraft (replacement and growth) will be required over the next 20 years, of which 43% are expected to be in Asia-Pacific, 19% in Europe, 17% in North America, and of the total, 76% are expected to be single aisle.<sup>1</sup>

Comparatively low interest rates and improved access to capital, including unsecured debt, are supporting the growth plans of established leasing companies and new entrants into the global aircraft leasing market. Many stand-alone aircraft lessors have improved their leverage profile over the last several years and have been able to diversify funding sources.

## PRINCIPAL RISKS AND UNCERTAINTIES

The aircraft leasing sector is highly competitive and Avation is exposed to a number of market related, operational and financial risks. The Group is committed to mitigating business risk through the application of prudent risk management policies. The risks and uncertainties described below are those that the Group has identified as most significant to the business. Avation’s Board of Directors is responsible for managing risk and reviews risk management policies regularly.

### Market related risks:

#### **Exposure to the airline industry**

The Group’s customers are commercial airlines which are financially exposed to the demand for passenger air travel. The financial condition of commercial airlines may weaken due to a number of factors including but not limited to local and global economic conditions, increased competition between airlines, speculative ordering of new aircraft, war, terrorism and natural disasters. If the financial condition of the Group’s airline customers weakens for any reason, the Group may be exposed to increased risks of lessee default and lower lease rates for its aircraft.

#### **Asset value risk**

Fluctuations in the supply and demand for aircraft and aircraft travel may impact values of and lease rates for the Group’s aircraft. Market forces and prevailing economic conditions may change over the economic lives of the Group’s aircraft and could have a positive or negative impact on aircraft valuations.

<sup>1</sup> Airbus Global Market Forecast 2018

# STRATEGIC REPORT

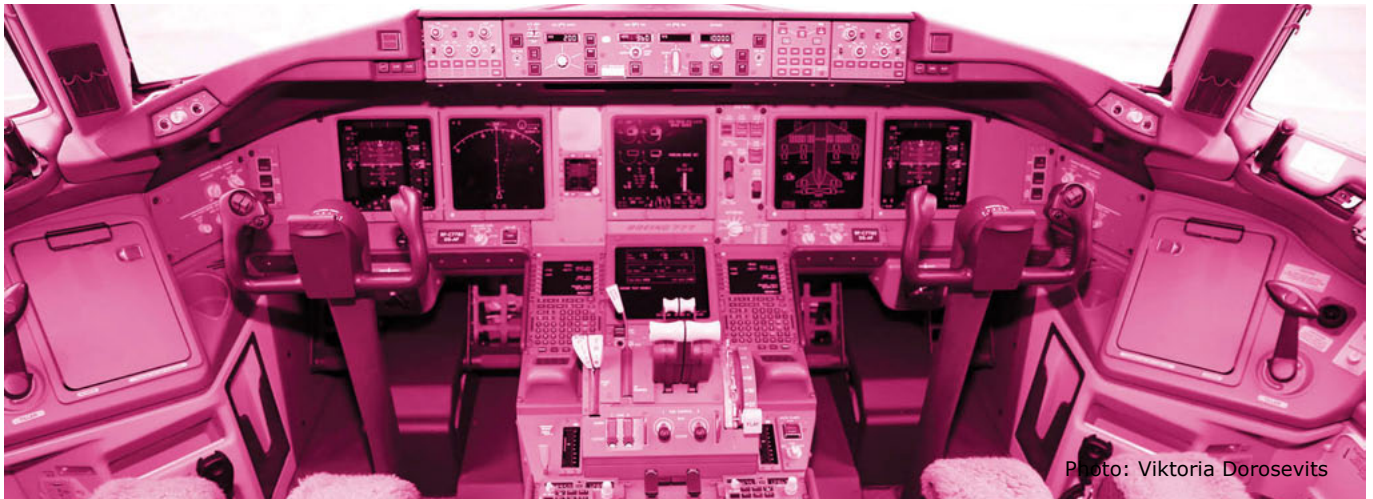


Photo: Viktoria Dorosevits

Advances in aircraft technology may create obsolescence in the fleet before the end of aircrafts' current estimated useful lives. The Group regularly obtains independent third-party valuations for its fleet and may dispose of aircraft in order to reduce its exposure to certain aircraft types. Avation has a policy of investing in popular aircraft types on the basis that asset values and lease rates will be supported by continuing high demand for these aircraft. Avation will consider acquiring additional twin-aisle aircraft, in addition to narrow-body jets and turboprops, as part of its strategy to build a diversified portfolio of aircraft. Twin-aisle aircraft may have a risk profile which is more exposed to technology change factors. The Company will seek to mitigate this risk.

## **Operational risks:**

### ***Economic, legal and political risks***

Avation leases aircraft to lessees in different jurisdictions. As such the Group is exposed to economic, legal and political risk in those jurisdictions. Avation's aircraft are subject to operational risks specific to the aviation sector resulting from war, acts of terrorism or the threat of terrorism, and natural disasters. The Group mitigates against these risks by requiring airline lessees to maintain adequate insurance over the aircraft.

### ***Regulatory risks***

Avation's fleet operates in many jurisdictions and complies with tax and other regulatory requirements in those jurisdictions. There is a risk that changing tax and regulatory regimes may have an impact on the business and financial results.

## ***Lessee risks***

Avation's airline lessees are responsible for all maintenance and safety checks. The requirement for each airline lessee to service and maintain the aircraft are set out in the lease agreements. There is a risk that airlines may not properly maintain aircraft which may lead to an impairment of the aircraft's value. In order to mitigate against this risk the Group closely monitors each airline's usage of aircraft and their compliance with agreed maintenance schedules. Avation can require lessees to pay maintenance reserve payments in order to ensure that there is adequate funding at all times for proper maintenance of the aircraft.

## **Financial risks:**

Avation's financial risk management objectives and policies are set out in note 7 to the financial statements and are as follows:

- Airline industry risks
- Credit risk
- Interest rate risk
- Foreign currency risk
- Liquidity risk
- Capital risk

## STRATEGIC REPORT



### FINANCIAL REVIEW

	<b>2018</b>	<b>2017</b>
	US\$'000s	US\$'000s
Revenue	109,053	94,173
Other income	2,777	1,086
Operating profit	58,613	60,199
Total profit	20,000	21,257
Net cash from operating activities	102,696	63,020
Total assets	1,152,205	895,927
Total equity	228,178	195,924
Basic earnings per share	32.20 cents	36.27 cents
Dividend per share	7.25 cents	6.00 cents

Revenue increased by 15.8% to US\$109.1 million (2017: US\$94.2 million) primarily as a result of a one-off recovery of maintenance reserves, following re-possession of an aircraft from Air Berlin who filed for insolvency in August 2017 and subsequently defaulted on a lease, and changes in the aircraft fleet.

Other income increased by 155.7% to US\$2.8 million (2017: US\$ 1.1m) primarily due to a gain derived from the change in fair value of an interest rate swap contract of US\$2.1 million (2017: nil).

Depreciation increased by 6.1% to US\$34.3million (2017: US\$32.3 million) as a consequence of changes in the fleet.

Gains on sales of aircraft during the period were nil (2017: US\$5.4 million) and impairment losses were US\$ 7.1 million (2017: nil). During the previous financial year, the Group sold three Airbus A321 aircraft and six ATR 72-600 aircraft and also converted operating leases for five Fokker 100 aircraft to finance leases. The Group recorded an impairment loss of \$7.1 million in the year on an Airbus A320 aircraft which was re-possessed from Air Berlin.

Administrative expenses increased 26.8% to US\$10.2 million (2017: US\$8.0 million) primarily due to additional headcount, audit, accounting and professional fees associated with a larger aircraft fleet. As a percentage of revenue administrative expenses increased to 9.4% (2017: 8.5%). Other expenses were US\$1.7 million (2017: US\$0.1 million).

Operating profit decreased 2.6% to US\$58.6 million (2017: US\$60.2 million).

Finance expenses increased by 10.3% to US\$44.8 million (2017: US\$40.6 million) and total interest expense within finance expenses increased to US\$42.8 million (2017: US\$37.4 million). The increases in finance expenses and total interest expense were primarily attributable to new debt incurred to finance aircraft acquisitions during the year. Interest on the unsecured notes issued under the Company's Global Medium-Term Note programme

# STRATEGIC REPORT

("GMTN") was US\$14.0 million (2017: US\$8.3 million). During the year the value of Notes outstanding under the GMTN was increased from US\$120.0 million to US\$300.0 million.

Finance income was US\$5.1 million (2017: US\$1.8 million). The increase was primarily due to US\$3.6 million break gains resulting from the termination of interest rate swaps concurrent with early retirements of certain loans during the year.

The majority of the Group's operations are based in Singapore and are included in Singapore's Aircraft Leasing Scheme, benefitting from a concessionary tax rate. Taxation for the year was a credit of US\$1.1 million (2017: US\$0.1 million). The tax charge for the year was impacted by a net reduction of US\$2.3 million in prior years current tax provisions resulting from utilisation of deferred tax assets in Singapore.

Operating cash flows increased by 63.0% to US\$102.7 million (2017: US\$63.0 million).

Total profit after tax for the financial year decreased 5.9% to US\$20.0 million (2017: US\$21.3 million). Basic earnings per share increased by 11.2% to 32.2 US cents (2017: 36.3 US cents).

The Company confirms that there have been no changes to its accounting policies.

## FLEET OVERVIEW

Type	1 July 2017	Additions	Disposals	30 June 2018	On order	Options
ATR 72-500	6	-	-	6	-	-
ATR 72-600	13	2	2	13	6	30
A220-300	-	1	-	1	1	-
A320-200	3	-	-	3	-	-
A321-200	8	-	-	8	-	-
A330-300	-	1	-	1	-	-
B777-300ER	-	1	-	1	-	-
Fokker 100	5	-	-	5	-	-
<b>Total</b>	<b>35</b>	<b>5</b>	<b>2</b>	<b>38</b>	<b>7</b>	<b>30</b>

The Company added a new Airbus A220-300, a new Boeing 777-300ER, two new ATR 72-600s and a second-hand Airbus A330-300 aircraft to the fleet during the year, while two ATR 72-600 aircraft were sold to the lessee under finance leases. As at 30 June 2018 the weighted average age of the fleet was 3.2 years (2017: 3.3 years) and the weighted average remaining lease term was 7.7 years (2017: 7.5 years). As at 30 June 2018, all aircraft were utilised on leases to airlines. Five Fokker 100 aircraft are classified as leased under finance leases.

The aircraft fleet was valued as at 30 June 2018 by a third-party valuer using lease encumbered basis in accordance with the Group's accounting policy. The revaluation of the fleet resulted in a net positive adjustment of aircraft net book values of US\$3.8 million (2017: nil).

## DEBT SUMMARY

	2018 US\$'000s	2017 US\$'000s
Loans and borrowings	868,600	643,605
Cash and cash equivalents	57,950	56,849
<b>Net indebtedness</b>	<b>810,650</b>	<b>586,756</b>
Loan to value ratio	70.4%	65.5%
Weighted average cost of secured debt	4.3%	4.5%
Weighted average cost of total debt	5.0%	5.1%

## STRATEGIC REPORT

Loans and borrowings and net indebtedness increased due to additional secured debt issued to fund fleet acquisitions and the issue of \$300 million 6.5% Senior Notes due 2021 under the GMTN in May 2018. The Company's \$120 million outstanding 2015 series 7.5% Senior Notes due 2020 were fully redeemed in May 2018.

The weighted average cost of secured debt facilities decreased to 4.3% as at 30 June 2018 (2017: 4.5%) principally due to retirements of certain higher cost secured loans following the issuance of \$300 million 6.5% Senior Notes due 2021 under the Company's GMTN in May 2018.

The weighted average cost of total debt was 5.0% at 30 June 2018 (2017: 5.1%).

At the end of the financial period, Avation's overall loan to value ratio was 70.4% (2017: 65.5%) and 94.8% of total debt was at fixed or hedged interest rates (2017: 95.1%). The proportion of unsecured debt to total debt was 33.8% (2017: 18.3%).

In May 2018 both Standard & Poor's Global Ratings and Fitch Ratings advised that Avation's corporate credit ratings had been upgraded. The Company's current credit ratings are as follows:

Rating Agency	Corporate Credit Rating	Unsecured Notes Rating
Standard & Poor's	B+ positive outlook	B
Fitch Ratings	BB- stable outlook	BB-
Japan Credit Ratings Company	BB stable outlook	NR

The leasing industry in general and Avation in particular operate in a capital-intensive industry. In Avation's current portfolio of debt, interest rate risk is managed as outlined in the risk management section of the note 7 in the notes to the financial statements. Any potential future increases in interest rates could impact the level of profitability of any new business the group undertakes although this could be mitigated by new revenues reflecting the current interest rate environment.

### ENVIRONMENT

Avation is committed to environmental responsibility as part of its business strategy. This is achieved by investing in technologically advanced designs of commercial aircraft that offer improved fuel efficiency and lower emissions. A substantial percentage of our fleet are modern regional turboprop aircraft which provide significant environmental benefits over comparable jet aircraft due to their more economical use of fuel and consequently lower carbon dioxide emissions.

### CORPORATE SOCIAL RESPONSIBILITY

Avation is committed to the principles of being a good corporate citizen. For the financial year 2018 the group did not have any material matters to report on social, community and human rights issues.

### EMPLOYEES

A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as at 30 June 2018 is set out below:

	Male	Female
Directors of the Company	4	-
Senior managers	4	-
Other employees	8	7

On behalf of the board



Robert Jeffries Chatfield  
Executive Chairman  
21 September 2018

# DIRECTORS' REPORT



The Directors present their report and financial statements for the year ended 30 June 2018.

## Principal activities and business review

The principal activity of the Group is leasing aircraft. Details of activities carried out by subsidiary companies are set out in Note 23 to these financial statements.

The principal risks and uncertainties affecting the Group's turnover are described in the Strategic Report. The full business review including KPI's can be found in the Strategic Report and in Note 7 to these financial statements. The Group has reviewed the environmental matters in the Strategic Report.

## Results and dividends

The consolidated statement of profit or loss and other comprehensive income for the year is set out on page 36. The Company paid a dividend of 6.00 US cents on 10 August 2017 and a dividend of 3.25 US cents on 13 October 2016. On 5 September 2018 the Directors declared a dividend of 7.25 US cents payable on 18 October 2018.

Avation's dividend policy is, subject to having the reserves to do so and within any restrictions imposed by debt covenants, to declare a dividend if the Board considers that it is in the best long-term interests of the Company and its shareholders. The dividend policy is progressive, in that if reserves are available the dividend shall increase.

## Directors and their interests

The Directors who served the Company during the year together with their interests and deemed interests in the shares of the Company at the beginning and end of the year, were as follows:

	Direct interest		Deemed interest	
	30 June 2018	1 July 2017	30 June 2018	1 July 2017
<b>Ordinary shares of £0.01 each:</b>				
Robert Jeffries Chatfield	1	1	11,155,000	10,705,000
Roderick Douglas Mahoney	433,000	300,000	-	-
Stephen John Fisher	5,000	5,000	-	-
Derek Sharples	10,000	10,000	-	-

## DIRECTORS' REPORT



### Significant shareholdings

	Ordinary shares	Percentage
<b>Ordinary shares of £0.01 each:</b>		
JP Morgan Prime Nominees Limited	16,228,788	25.86%
Chase Nominees Limited	6,116,140	9.75%
State Street Nominees Limited	5,812,903	9.26%
Lynchwood Nominees Limited	4,534,370	7.22%
Roy Nominees Limited	3,775,000	6.01%

### Equal Opportunities Policy

It is the Group's policy to employ individuals with the necessary qualifications without regard to sex, marital status, race, creed, colour, nationality or religion. Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities.

The Group recognises the great importance of the contribution made by all employees and aims to keep them informed of matters affecting them as employees and developments within the Group. Communication and consultation is achieved by a variety of means both within individual companies or branches and on a group-wide basis.

### Directors' Insurance

The Group maintains insurance policies on behalf of all the Directors against liability arising from negligence, breach of duty and breach of trust in relation to the Group.

### Future Developments

In accordance with s414C(11) of the Companies Act 2006, the Directors have chosen to include information about future developments in the Chairman's Statement and Strategic Report.

### Financial Instruments

See Note 7 to these financial statements.

### Going Concern

After making appropriate enquiries and taking into account the matters set out in the Principal Risks and Uncertainties paragraph/section in the Strategic Report, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.



# DIRECTORS' REPORT

## Greenhouse Gas Emissions Statement

Usage of the Company's aircraft is under the control of lessees who are not required to provide emissions data to the Company.

Carbon emissions are estimated by converting the Company's energy usage in kilowatt hours (KWh) into kilograms (Kg) of carbon dioxide emitted using Singapore's Grid Emission Factor (GEF), a measure of the amount of carbon dioxide emitted per kilowatt hour of electrical energy generated in Singapore. Energy usage is based on electricity consumption at the Company's sole office in Singapore.

In the year ended 30 June 2018 the Company used 27,031 KWh of energy (2017: 26,727 KWh) which was converted to estimated carbon emission of 11,331 Kg (2017: 11,527 Kg) using a GEF of 0.4192 (2017: 0.4313).

## Capital Structure

Details of the Company's issued share capital, together with details of the movements therein during the financial year are shown in Note 28. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfers of securities or on voting rights.

Details of employees share option schemes are set out in Note 34.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. With regards to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

## Corporate Governance Statement

The Board is accountable to the shareholders for the good corporate governance of the Group. The principles of corporate governance and a code of best practice are set out in the UK Corporate Governance Code issued in April 2016. The Company is not required to comply in full with the Code nor state any areas with which it does not comply. The Board has adopted policies that it considers to be appropriate for the Company's size and nature.

The Board acts as the administrative, management and supervisory body overseeing the operation of the Group. The Board consists of two Executive Directors (Robert Jeffries Chatfield and Roderick Douglas Mahoney) and two Non-Executive Directors (Stephen John Fisher and Derek Sharples). The Board meets at least six times a year; matters for discussion at formal meetings are clearly laid down and decisions recorded. The Board is responsible for overall corporate strategy; the reviewing and approval of acquisition and divestment opportunities; the approval of significant capital expenditures; the review of budgets; trading performance; and all significant financial and operational issues.

The Company operates the following committees whose members are detailed below:

- Audit Committee - Robert Jeffries Chatfield, Stephen John Fisher and Derek Sharples; and
- Risk Committee - Derek Sharples, Stephen John Fisher, Iain Cawte (non-Board member), Duncan Scott (non-Board member) and Richard Wolanski (non-Board member); and
- Remuneration Committee - Robert Jeffries Chatfield, Roderick Douglas Mahoney, Stephen John Fisher and Derek Sharples

The Board is responsible for identifying and evaluating the major business risks faced by the Company and for determining and monitoring the appropriate course of action to manage these risks. The key risks the Company faces are described in the risk assessment section of this annual report and accounts.

The Board conducts a review of the effectiveness of the Company's systems of internal control and risk management on an annual basis. Following this review, it has concluded that the Company's financial, operational

## DIRECTORS' REPORT

and compliance controls, and risk management procedures are appropriate and suitable to enable the Board to safeguard shareholders' investments and the Company's assets.

The process and systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve the Company's objectives, and can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

### Statement as to disclosure of information to auditors

- So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- They have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditor

Ernst & Young have indicated their willingness to continue in office and in accordance with s489 of the Companies Act 2006. A resolution proposing that they be reappointed as auditors of the Company will be put to the Annual General Meeting.

### Purchase of own shares

During the financial year ended 30 June 2017 the Company sold 600 treasury shares. Following this sale the Company does not own any of its own shares.

By a resolution passed at the Annual General Meeting held on 20 December 2017 the Company's Directors are authorised to buy back shares not exceeding 30 per cent of the total number of shares in issue on that date. Share buy backs may be at market prices but not under £1.00 and not above £3.50 per share, excluding commissions and other related expenses.

### Subsequent events

See Note 40 to these financial statements.

### Information to be included in annual report

In accordance with the UK Financial Conduct Authority's Listing Rules (LR 9.8.4C), the following table provides references to where the information to be included in the annual report and accounts, where applicable, under LR 9.8.4, is set out.

Listing Rule requirement	Reference
Details of any long-term incentive schemes as required by LR 9.4.3 R.	Directors' Remuneration report and Notes to the Financial Statements – Note 34, Share Based Payments
Details of any contract of significance subsisting during the period under review to which the listed company, or one of its subsidiary undertakings, is a party and in which a Director of the listed company is or was materially interested.	Notes to the Financial Statements – Note 8, Related Party Transactions

On behalf of the board



Robert Jeffries Chatfield

Executive Chairman

# DIRECTORS' REMUNERATION REPORT



## Introduction

This report has been prepared in accordance with Schedule 8 of the Large and Medium Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. As required a resolution to approve the Directors' remuneration will be proposed at the forthcoming Annual General Meeting of the Company at which the financial statements will be approved. The vote will have advisory status, will be in respect of the remuneration policy and overall remuneration packages and will not be specific to the individual levels of remuneration.

The information in the Directors' Remuneration Report is not audited, unless specifically stated that the section is subject to audit.

## Statement by the Chair of the Remuneration Committee

The Company's remuneration policy remains substantially unchanged for 2018. Key aspects of the policy are to attract and retain executives; be consistent with best practices and to ensure alignment between performance and compensation. The Company's performance in the current year was in line with expectations with revenue increasing 16%, total profit decreasing 6% and EPS decreasing 11%. After adjusting for exchange rates, remuneration was commensurate with this performance.

## Remuneration (audited)

The components of remuneration are:

- basic salary and benefits determined by the Remuneration Committee which are included in employment agreements and reviewed annually;
- bonuses based upon performance of the Company and the individual concerned; and
- share warrants.

## DIRECTORS' REMUNERATION REPORT

Component	Purpose	Operation & framework used to assess performance
<b>Salary and benefits</b>	To provide the core reward for the role at a sufficient level to recruit and retain individuals of the necessary competence to execute the company's business strategy.	<p><b>Operation:</b> Salaries are typically set after considering salary levels in companies of a similar size and complexity, the responsibilities of each individual role, progression within the role, individual performance and an individual's experience. Our overall policy, having had due regard to the factors noted, is normally to target salaries at the market median level.</p> <p>Salaries may be adjusted in line with the market and adjustments out of line with the market may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. Salary levels for current incumbents are set out elsewhere in this report.</p> <p><b>Framework used to assess performance:</b> The remuneration committee considers individual salaries at the appropriate committee meeting each year after having due regard to the factors noted in operating the salary policy. No recovery provisions apply to salary.</p>
<b>Bonuses</b>	To incentivise and recognise execution of the business strategy on a semi-annual basis.	<p><b>Operation:</b> Bonuses are paid in cash twice yearly to Directors based on a target percentage of the employee's basic salary. All bonus payments are at the discretion of the Committee, as shown following this table.</p> <p><b>Framework used to assess performance:</b> The remuneration committee will assess company and individual performance compared to prior year and expectations for the current year. Individual performance will also be assessed against key performance metrics established for each executive. Metrics considered in awarding bonuses include share price appreciation; increase in the Company's earnings per share; reliable and high quality financial reporting; growth in asset value and profits; and dividend growth.</p>
<b>Share Warrants</b>	To incentivise and recognise execution of the business strategy over the long-term.	<p><b>Operation:</b> Each year share warrants and/or performance shares awards may be granted subject to the achievement of performance targets. Awards normally vest over a three-year period.</p> <p><b>Framework used to assess performance:</b> Same as for bonus.</p>

# DIRECTORS' REMUNERATION REPORT

Individual Director's remuneration was as follows:

	<b>Salaries and fees</b> US\$'000s	<b>Bonuses</b> US\$'000s	<b>Taxable benefits</b> US\$'000s	<b>Total 2018</b> US\$'000s	<b>Total 2017</b> US\$'000s
<b>Executive Directors:</b>					
Robert Jeffries Chatfield	558	-	53	611	541
Roderick Douglas Mahoney	345	174	-	519	398
<b>Non-Executive Directors:</b>					
Stephen John Fisher	41	-	-	41	29
Derek Sharples	41	-	-	41	19
	<b>985</b>	<b>174</b>	<b>53</b>	<b>1,212</b>	<b>987</b>

Bonuses are subject to the discretion of the Remuneration Committee and are awarded after assessing company and individual performance compared to prior years and expectations for the current year. Individual performance is also assessed against key performance metrics established for each executive.

Taxable benefits mainly relate to housing expenses.

The information in this part of the Directors' Remuneration Report is subject to audit.

## Service contracts

The employment contracts of the Executive Directors with the Company are terminable by either party with no less than four weeks' notice in writing to the other.

The Directors' service contracts are as follows:

	<b>Date of contract</b>	<b>Unexpired term</b>	<b>Notice period</b>	<b>Compensation payable on early termination</b>
Robert Jeffries Chatfield	29 April 2013	Indefinite	4 months	-
Roderick Douglas Mahoney	16 December 2011	Indefinite	3 months	-
Stephen John Fisher	29 April 2014	Indefinite	1 month	-
Derek Sharples	15 November 2016	Indefinite	1 month	-

## Share options and warrants (audited)

The Group has an ownership-based compensation scheme for employees of the Group. Warrants are granted to employees of the Group to promote:

- improvement in share price;
- improvement in profit; and
- improvement in returns to shareholders.

Each share warrant converts into one ordinary share of Avation PLC on exercise. No amounts are paid or are payable by the recipient on receipt of the warrant. The warrants carry neither rights to dividends nor voting rights. There are no performance conditions that need to be met before warrants can be exercised.

## DIRECTORS' REMUNERATION REPORT



Warrants granted to Directors on 8 December 2014 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 8 December 2015	0 per cent
On 8 December 2015 and before 8 December 2016	Up to 33 per cent of the grant
On 8 December 2016 and before 8 December 2017	Up to 33 per cent of the grant or up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 8 December 2017	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

Warrants granted to Directors on 16 November 2015 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 16 November 2016	0 per cent
On 16 November 2016 and before 16 November 2017	Up to 33 per cent of the grant
On 16 November 2017 and before 16 November 2018	Up to 33 per cent of the grant or up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 16 November 2018	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

# DIRECTORS' REMUNERATION REPORT



Warrants granted to Directors on 27 November 2017 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 27 November 2018	0 per cent
On 27 November 2018 and before 27 November 2019	Up to 33 per cent of the grant
On 27 November 2019 and before 27 November 2020	Up to 33 per cent of the grant or up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 27 November 2020	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

The following share warrants issued to Directors were outstanding at the year-end:

Director	Date granted	Warrant price	Balance at beginning of year	Granted during the year	Exercise during the year	Balance at end of year
Robert Jeffries Chatfield *	8 Dec 2014	153.0p	450,000	-	(450,000)	-
Robert Jeffries Chatfield *	16 Nov 2015	130.0p	450,000	-	-	450,000
Robert Jeffries Chatfield *	27 Nov 2017	215.0p	-	255,000	-	255,000
Roderick Douglas Mahoney	8 Dec 2014	153.0p	133,000	-	(133,000)	-
Roderick Douglas Mahoney	16 Nov 2015	130.0p	400,000	-	-	400,000
Roderick Douglas Mahoney	27 Nov 2017	215.0p	-	170,000	-	170,000

\* Robert Jeffries Chatfield was granted the share warrants and assigned these to Epsom Assets Limited.

For warrants exercised by both Directors during the year the market price was 217.5p at the date of exercise.

The closing market price of the shares subject to warrants at the year-end was 224.5p. The highest and lowest closing market prices during the year were 205.0p and 250.0p.

## DIRECTORS' REMUNERATION REPORT

### Company's performance

The graph below shows the total shareholder return on a holding of shares in the Company as against the average total shareholder return of the companies comprising the FTSE100 index. The FTSE 100 Index was selected because in the opinion of the Board it is the most appropriate for the Company for the purposes of a benchmark.



### Remuneration of Executive Chairman

	2018	2017	2015	2015	2014
Executive Chairman single figure remuneration (US\$'000)	611	541	699	711	638
Annual bonus pay-out (as % of maximum)	-	15%	-	-	-
Long term incentive vesting rates against maximum opportunity %	N/A	N/A	N/A	N/A	N/A

The table above shows the prescribed remuneration data for the Director, Robert Jeffries Chatfield, Executive Chairman undertaking the role of Group Chief Executive Officer during each of the last five financial years.



# DIRECTORS' REMUNERATION REPORT

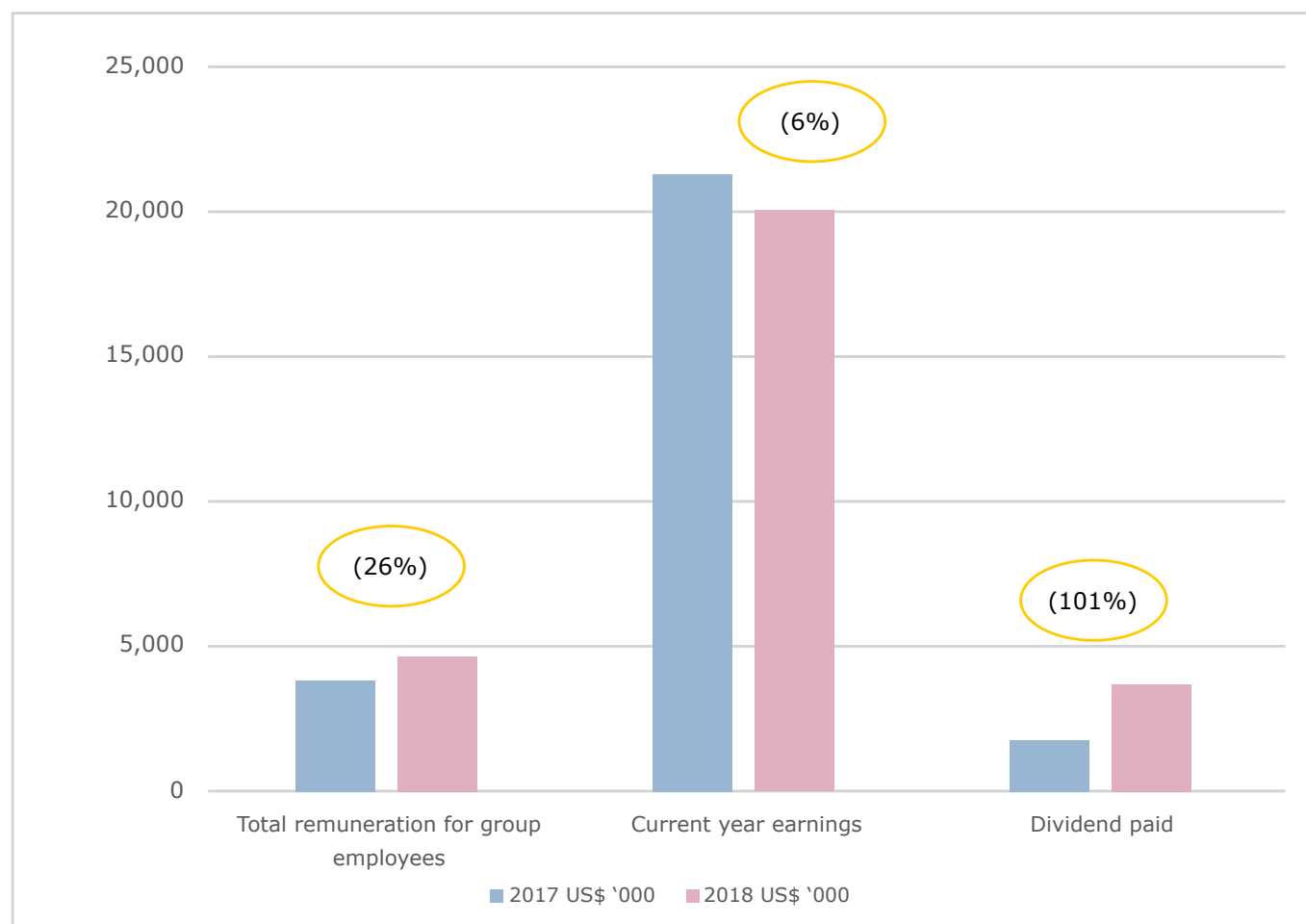
## Percentage change in remuneration of Chief Executive Officer

The table below sets out the percentage change in the remuneration of the Executive Chairman who is undertaking the role of Group Chief Executive Officer compared to that of all employees of the Group.

	Change in remuneration from 2017 to 2018		
	% change in base salary	% change in annual bonus	% change in taxable benefits
Executive Chairman	13%	0%	16%
All employees	6%	55%	52%

## Relative importance of spend on pay

The Chart below displays the relative expenditure of the Company on various matters, as required (in the case of remuneration for group employees and shareholder distributions) by the relevant remuneration regulations:



## **DIRECTORS' REMUNERATION REPORT**



### **Directors' remuneration policy**

The Company applies a policy for Directors' remuneration which is designed to meet the following objectives:

- provide a fair and transparent remuneration policy that is in alignment with shareholders' interests;
- provide both immediate and incentive remuneration that is sufficient to attract and retain executives;
- be consistent with best practice for governance of stock exchange listed companies;
- allow claw-back of incentives from executives should previous performance be found to have led to future adverse circumstances for the Company; and
- ensure alignment between performance and compensation.

The Company targets the following outcomes in applying its policy to ensure alignment of Directors' remuneration and shareholders' interests:

- share price appreciation;
- increase in the Company's earnings per share;
- reliable and high quality financial reporting;
- growth in asset value and profits; and
- dividend growth.

Remuneration of the Company's Executive Directors is comprised of the following components:

- base salary;
- short-term incentives in the form of a cash bonus for linked to performance against individual KPIs; and
- long-term incentives in the form of share warrants and/or performance shares. Remuneration of the Company's Non-Executive Directors is comprised of fixed Directors' Fees.

### **Payments for loss of office**

No provisions are made under the Directors' service contracts for any payments beyond the applicable notice period.

### **Remuneration for the appointment of a new Executive Director**

Base salary levels are set in accordance with the Company's remuneration policy, taking into account the experience and calibre of the individual. Benefits are provided in line with those offered to other employees, with relocation expenses/arrangements provided if necessary. The Company may offer a cash amount on recruitment, payment of which may be deferred, as compensation for the value of benefits a new employee would have received from a former employer.

# DIRECTORS' REMUNERATION REPORT

## Statement of consideration of employment conditions elsewhere in the company

Pay and employment conditions of other employees in the company were taken into account when setting the policy for Directors' remuneration. Similar remuneration policies are in place for Directors and employees of an equivalent level.

## Shareholders' vote on remuneration

	Share Count	% of Total
Votes cast in favour	42,857,490	100.00%
Votes cast against	0	0.00%
Total votes cast in favour or against	42,857,490	100.00%
Votes withheld	0	0.00%

### Note:

The above numbers reflect the proxy vote, whereas at the annual general meeting, votes were taken as a show of hands with a unanimous result in favour.

The Board as a whole considers the remuneration of the Directors and has not engaged external advisers. The remuneration report for the year ended 30 June 2017 was approved at the Annual General Meeting held on 20 December 2017.

On behalf of the Board



Robert Jeffries Chatfield

Executive Chairman

## DIRECTORS' RESPONSIBILITIES

### Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRSs as adopted by the EU.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and the financial performance and cash flows of the Group for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.
- present information, including accounting policies, in a manner that provides relevant reliable, comparable and understandable information.
- provide additional disclosures when compliance with specific IFRSs are insufficient to enable the users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- properly select and apply accounting policies.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Company and of the Group and of the Group's profit for the year;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and of the Group, together with a description of the principal risks and uncertainties that they face; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Group's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 21 September 2018 and is signed on its behalf by Robert Jeffries Chatfield.



Robert Jeffries Chatfield  
Executive Chairman



## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF AVATION PLC

### Opinion

In our opinion:

- Avation plc’s group financial statements and parent company financial statements (the “financial statements”) give a true and fair view of the state of the group’s and of the parent company’s affairs as at 30 June 2018 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Avation plc which comprise:

Group	Parent company
Consolidated statement of profit and loss and other comprehensive income for the year then ended	
Consolidated statement of financial position as at 30 June 2018	Company statement of financial position as at 30 June 2018
Consolidated statement of changes in equity for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Company statement of cash flows for the year then ended
Related notes 1 to 41 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 41 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and; as regards to the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed



**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF AVATION PLC**

public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or the parent company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Overview of our audit approach**

Key audit matters	<ul style="list-style-type: none"> <li>• Valuation of aircraft</li> <li>• Valuation of warrants</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>• We performed an audit of the complete financial information of Avation Plc in accordance with the materiality thresholds as set out below.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall group materiality of \$946 thousand which represents 5% of the profit before tax for year ended 30 June 2018.</li> </ul>

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC**

<b>Risk</b>	<b>Our response to the risk</b>	<b>Key observations communicated to the Audit Committee</b>
<p><b>Aircraft Valuation</b></p> <p>The carrying value of jets and turboprops represents the most significant asset in the financial statements of Avation Plc. As at 30 June 2018, the carrying value of aircraft reported is \$981.1 million (2017: \$744.6 million) as detailed in Note 19 of the financial statements.</p> <p>As set out within Note 3 (f) and 3 (g) 'Summary of Significant Accounting Policies', aircraft are measured at fair value on a Lease Encumbered Value basis ("LEV"). As detailed in Note 4 'Critical Accounting Estimates and Judgments', management need to apply estimation and judgment as part of their fair value assessment of aircraft.</p> <p>For the purposes of determining the valuation, the carrying value of each jet and turboprop is compared to the computed LEV. LEV is determined as the discounted value of a jet or turboprop on lease given a specified lease payment stream and estimated future residual value adjusted for return conditions at lease termination</p>	<p>We have assessed each aircraft as they are deemed to be individually material to the financial statements.</p> <p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> <li>• Walked through the design and operating effectiveness of key controls around the preparation and review of the LEV model including appropriate governance procedures and management review.</li> <li>• Obtained external aircraft valuation reports validating the calculation of the LEV including residual values.</li> <li>• Validated and challenged the key assumptions used (weighted average cost of capital, lease payment streams and residual values).</li> <li>• Engaged specialists from our valuations and business modelling team to assess the reasonableness of the weighted average cost of capital used in discounting the future cash flows of aircraft in the model.</li> <li>• Assessed the calculations underpinning the LEV model by checking that the data and the assumptions input into the model were in agreement with those that we had evaluated.</li> <li>• Assessed the appropriateness and presentation of disclosures in the financial statements with relevant accounting standards.</li> </ul>	<p>Our planned audit procedures were completed without material exception.</p>

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC**

<b>Risk</b>	<b>Our response to the risk</b>	<b>Key observations communicated to the Audit Committee</b>
<p><b>Valuation of Warrants</b></p> <p>We have determined that the valuation of warrants represents a risk due to the number of assumptions used in the calculation and the related estimation.</p> <p>As set out within Note 3 (I) 'Summary of Significant Accounting Policies', the cost of warrants issued in favour of employees is recognised as an employee benefit expense in the statement of profit or loss.</p> <p>During the financial year ended 30 June 2018, \$394 thousand (2017: \$220 thousand) has been recognised as an employee benefit expense in relation to warrants.</p>	<p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> <li>• Walked through the design and operating effectiveness of key controls around the preparation and review of the warrant valuation process including appropriate governance procedures and management review.</li> <li>• Engaged specialists from financial accounting advisory team to independently value warrants issued and the appropriateness of the related model.</li> <li>• Assessed the reasonableness of non-market estimates including exit rates to approximate the expected number of warrants to vest.</li> <li>• Obtained grant deed and exercise notices to validate the details on the warrants register.</li> <li>• Assessed the calculations underpinning the warrants valuation model by checking that the data and the assumptions input into the model were in agreement with those that we had evaluated.</li> </ul>	<p>Our planned audit procedures were completed without material exception.</p>

**An overview of the scope of our audit**

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.





## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

### **Responsibilities of directors**

As explained more fully in the statement of directors' responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC**

### **Auditor's responsibilities for the audit of the financial statements**

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

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are:
  - Companies Act 2006
  - Financial Reporting Council (FRC)
  - Tax Legislation (governed by HM Revenue and Customs and Inland Revenue Authority of Singapore)
- We understood how Avation plc is complying with those frameworks holding discussions with general counsel, external counsel and service providers. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, including the Chief Executive Officer, Chief Financial Officer, Audit Committee members and General Counsel.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management and reviewing key policies.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Other matters we are required to address**

- We were appointed by the company on 20 December 2017 to audit the financial statements for the year ended 30 June 2018 and subsequent financial periods



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC

The period of total uninterrupted engagement including previous renewals and reappointments is 1 year, covering the period from our appointment through 30 June 2018.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the audit results report to the audit committee

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

John McCormack (Senior statutory auditor)  
for and on behalf of Ernst & Young, Statutory Auditor  
Dublin  
21 September 2018

### Notes:

1. The maintenance and integrity of the Avation plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## AVATION PLC

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 US\$'000s	2017 US\$'000s
<b>Continuing operations</b>			
Revenue	9	109,053	94,173
Other income	10	2,777	1,086
		111,830	95,259
Depreciation	19	(34,284)	(32,300)
Gain on disposal of aircraft		-	5,357
Impairment loss on aircraft	19	(7,080)	-
Administrative expenses	11	(10,202)	(8,046)
Other expenses	12	(1,651)	(71)
Operating profit		58,613	60,199
Finance income	13	5,117	1,790
Finance expenses	14	(44,815)	(40,626)
Profit before taxation	16	18,915	21,363
Taxation	17	1,085	(106)
<b>Profit from continuing operations</b>		<b>20,000</b>	<b>21,257</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Currency translation differences arising on consolidation		27	-
Fair value gain on derivative financial instruments		5,239	2,804
		5,266	2,804
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Revaluation gain/impairment on property, plant and equipment, net of tax		3,355	(5,568)
Other comprehensive income, net of tax		8,621	(2,764)
<b>Total comprehensive income for the year</b>		<b>28,621</b>	<b>18,493</b>
Profit attributable to:			
Equity holders of the Company		19,992	21,262
Non-controlling interests		8	(5)
		<b>20,000</b>	<b>21,257</b>
Total comprehensive income attributable to:			
Equity holders of the Company		28,613	18,509
Non-controlling interests		8	(16)
		<b>28,621</b>	<b>18,493</b>
<b>Earnings per share for profit attributable to equity holders of the Company</b>			
<i>Basic earnings per share:</i>	18	32.20 cents	36.27 cents
<i>Diluted earnings per share</i>	18	31.84 cents	35.68 cents

# AVATION PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 US\$'000s	2017 US\$'000s
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19	981,176	744,731
Trade and other receivables	20	6,790	5,190
Finance lease receivables	21	5,529	8,728
Goodwill	22	1,902	1,902
Derivative financial instruments	24	7,848	2,372
		1,003,245	762,923
<b>Current assets</b>			
Trade and other receivables	20	3,914	5,031
Finance lease receivables	21	3,199	36,641
Options held for trading	25	2,000	3,640
Cash and bank balances	26	91,102	87,692
		100,215	133,004
Assets held for sale	27	48,745	-
		148,960	133,004
<b>Total assets</b>		<b>1,152,205</b>	<b>895,927</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	28	1,080	1,058
Share premium		53,083	48,365
Treasury shares	28	-	-
Merger reserve		6,715	6,715
Asset revaluation reserve		27,847	24,492
Capital reserve		8,876	8,876
Other reserves	29	6,389	801
Retained earnings		124,119	105,556
<b>Equity attributable to equity holders of the parent</b>		228,109	195,863
Non-controlling interests		69	61
<b>Total equity</b>		228,178	195,924
<b>Non-current liabilities</b>			
Loans and borrowings	30	796,896	550,561
Trade and other payables	31	12,397	11,480
Derivative financial instruments	24	-	1,901
Maintenance reserves	32	22,504	20,813
Deferred tax liabilities	33	2,988	3,318
		834,785	588,073
<b>Current liabilities</b>			
Loans and borrowings	30	71,704	93,044
Trade and other payables	31	13,390	14,920
Maintenance reserves	32	1,040	451
Income tax payables		2,608	3,515
		88,742	111,930
Liabilities directly associated with assets held for sale	27	500	-
		89,242	111,930
<b>Total equity and liabilities</b>		<b>1,152,205</b>	<b>895,927</b>

Approved by the board and authorised for issue on 21 September 2018



Robert Jeffries Chatfield  
Executive Chairman

# AVATION PLC

## COMPANY STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 US\$'000s	2017 US\$'000s
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19	14,829	15,919
Trade and other receivables	20	54,737	4,698
Investment in subsidiaries	23	15,375	15,375
Derivative financial instruments	24	2,036	-
		86,977	35,992
<b>Current assets</b>			
Trade and other receivables	20	93,817	82,734
Options held for trading	25	2,000	3,640
Cash and bank balances	26	3,646	3,046
		99,463	89,420
<b>Total assets</b>		<b>186,440</b>	<b>125,412</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	28	1,080	1,058
Share premium		53,083	48,365
Treasury shares	28	-	-
Merger reserve		6,715	6,715
Asset revaluation reserve		2,833	2,862
Other reserves	29	733	411
Retained earnings		34,388	30,897
<b>Total equity</b>		98,832	90,308
<b>Non-current liabilities</b>			
Loans and borrowings	30	48,309	-
Trade and other payables	31	150	250
Deferred tax liabilities	33	1,453	1,814
		49,912	2,064
<b>Current liabilities</b>			
Loans and borrowings	30	3,068	7,362
Trade and other payables	31	34,628	25,678
		37,696	33,040
<b>Total equity and liabilities</b>		<b>186,440</b>	<b>125,412</b>

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to present the Company statement of profit or loss and other comprehensive income. The Company's profit for the year was US\$4.92 million (2017: US\$6.08 million).

Approved by the board and authorised for issue on 21 September 2018



Robert Jeffries Chatfield  
Executive Chairman

## AVATION PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

Note	Attributable to shareholders of the parent										
	Share capital	Share premium	Treasury shares	Merger reserve	Asset revaluation reserve	Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Balance at 1 July 2017	1,058	48,365	-	6,715	24,492	8,876	801	105,556	195,863	61	195,924
Profit for the year	-	-	-	-	-	-	-	19,992	19,992	8	20,000
Other comprehensive income	-	-	-	-	3,355	-	5,266	-	8,621	-	8,621
<i>Total comprehensive income</i>	-	-	-	-	3,355	-	5,266	19,992	28,613	8	28,621
Issue of new shares	22	3,564	-	-	-	-	(348)	-	3,238	-	3,238
Warrants expired	-	-	-	-	-	-	(18)	18	-	-	-
Warrants expense	-	1,154	-	-	-	-	688	(1,447)	395	-	395
<i>Total transactions with owners recognised directly in equity</i>	22	4,718	-	-	-	-	322	(1,429)	3,633	-	3,633
<b>Balance at 30 June 2018</b>	<b>1,080</b>	<b>53,083</b>	<b>-</b>	<b>6,715</b>	<b>27,847</b>	<b>8,876</b>	<b>6,389</b>	<b>124,119</b>	<b>228,109</b>	<b>69</b>	<b>228,178</b>

During the year the Company paid a dividend of 6.00 US cents (2017: 3.25 US cents) per share.

Other reserves consists of capital redemption reserve, warrant reserve, fair value reserve and foreign currency translation reserve.

The merger reserve arose on acquisition of additional shares of the Company's subsidiary Capital Lease Aviation Limited through the allotment of ordinary shares in the year ended 30 June 2015. The merger reserve represents the difference between the fair value and the nominal value of the shares issued by the Company.

AVATION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2017

Note	Attributable to shareholders of the parent										
	Share capital US\$'000s	Share premium US\$'000s	Treasury shares US\$'000s	Merger reserve US\$'000s	Asset revaluation reserve US\$'000s	Capital reserve US\$'000s	Other reserves US\$'000s	Retained earnings US\$'000s	Total US\$'000s	Non-controlling interest US\$'000s	Total equity US\$'000s
Balance at 1 July 2016	993	38,925	(1)	6,715	41,142	8,876	(1,814)	78,679	173,515	93	173,608
Profit for the year	-	-	-	-	-	-	-	21,262	21,262	(5)	21,257
Other comprehensive income	-	-	-	-	(5,557)	-	2,804	-	(2,753)	(11)	(2,764)
<i>Total comprehensive income</i>	-	-	-	-	(5,557)	-	2,804	21,262	18,509	(16)	18,493
Dividend paid during the year	-	-	-	-	-	-	-	(1,820)	(1,820)	-	(1,820)
Dividend payable	-	-	-	-	-	-	-	(3,664)	(3,664)	-	(3,664)
Re-issue of treasury shares	-	-	1	-	-	-	-	-	1	-	1
Issue of new shares	65	9,725	-	-	-	-	(403)	-	9,387	-	9,387
Share issue expenses	-	(285)	-	-	-	-	-	-	(285)	-	(285)
Transfer of asset revaluation surplus upon sale of aircraft	-	-	-	-	(11,093)	-	-	11,093	-	-	-
Dividend paid to non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	-	(16)	(16)
Warrants expired	-	-	-	-	-	-	(6)	6	-	-	-
Warrants expense	-	-	-	-	-	-	220	-	220	-	220
<i>Total transactions with owners recognised directly in equity</i>	65	9,440	1	-	(11,093)	-	(189)	5,615	3,839	(16)	3,823
<b>Balance at 30 June 2017</b>	<b>1,058</b>	<b>48,365</b>	<b>-</b>	<b>6,715</b>	<b>24,492</b>	<b>8,876</b>	<b>801</b>	<b>105,556</b>	<b>195,863</b>	<b>61</b>	<b>195,924</b>



AVATION PLC

COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2018

Note	Share capital US\$'000s	Shares Premium US\$'000s	Treasury shares US\$'000s	Merger reserve US\$'000s	Asset revaluation reserve US\$'000s	Other reserves US\$'000s	Retained earnings US\$'000s	Total US\$'000s
<b>Balance at 1 July 2017</b>	<b>1,058</b>	<b>48,365</b>	-	<b>6,715</b>	<b>2,862</b>	<b>411</b>	<b>30,897</b>	<b>90,308</b>
Profit for the year	-	-	-	-	-	-	4,920	4,920
Other comprehensive income	-	-	-	-	(29)	-	-	(29)
<i>Total comprehensive income</i>	-	-	-	-	(29)	-	4,920	4,891
Issue of new shares	22	3,564	-	-	-	(348)	-	3,238
Warrants expired	-	-	-	-	-	(18)	18	-
Warrants expense	-	1,154	-	-	-	688	(1,447)	395
<i>Total transactions with owners, recognised directly in equity</i>	22	4,718	-	-	-	322	(1,429)	3,633
<b>Balance at 30 June 2018</b>	<b>1,080</b>	<b>53,083</b>	-	<b>6,715</b>	<b>2,833</b>	<b>733</b>	<b>34,388</b>	<b>98,832</b>

During the year the Company paid a dividend of 6.00 US cents (2017: 3.25 US cents) per share.

**AVATION PLC**

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2017**

Note	Share capital	Share premium	Treasury shares	Merger reserve	Asset revaluation reserve	Other reserves	Retained earnings	Total
	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Balance at 1 July 2016</b>	<b>993</b>	<b>38,925</b>	<b>(1)</b>	<b>6,715</b>	<b>3,448</b>	<b>600</b>	<b>30,293</b>	<b>80,973</b>
Profit for the year	-	-	-	-	-	-	6,082	6,082
Other comprehensive income	-	-	-	-	(586)	-	-	(586)
<i>Total comprehensive income</i>	-	-	-	-	(586)	-	6,082	5,496
Dividend paid	38	-	-	-	-	-	(1,820)	(1,820)
Dividend payable	38	-	-	-	-	-	(3,664)	(3,664)
Re-issue of treasury shares	28	-	1	-	-	-	-	1
Issue of new shares	28	9,725	-	-	-	(403)	-	9,387
Share issue expenses	-	(285)	-	-	-	-	-	(285)
Warrants expired	-	-	-	-	-	(6)	6	-
Warrants expense	-	-	-	-	-	220	-	220
<i>Total transactions with owners, recognised directly in equity</i>	65	9,440	1	-	-	(189)	(5,478)	3,839
<b>Balance at 30 June 2017</b>	<b>1,058</b>	<b>48,365</b>	<b>-</b>	<b>6,715</b>	<b>2,862</b>	<b>411</b>	<b>30,897</b>	<b>90,308</b>

## AVATION PLC

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 US\$'000s	2017 US\$'000s
<b>Cash flows from operating activities:</b>			
Profit before income tax		18,915	21,363
Adjustments for:			
Depreciation expense		34,284	32,300
Warrants expense	15	394	220
Impairment loss on aircraft	19	7,080	-
Impairment loss on trade receivables	12	-	41
Amortisation of loan insurance premium	14	1,078	1,078
Amortisation of interest expense on non-current deposits	14	349	924
Non-trade receivables written off	12	-	30
Gain on disposal of aircraft		-	(5,357)
Gain on disposal of subsidiary	10	(1)	-
Fair value loss/(gain) on options held for trading	12,10	1,640	(600)
Fair value gain on derivatives	10	(2,138)	(54)
Finance income from discounting non-current deposits to fair value	13	(359)	(929)
Interest income	13	(1,147)	(861)
Interest expense	14	42,782	37,396
Operating cash flows before working capital changes		102,877	85,551
Movement in working capital:			
Trade and other receivables and finance lease receivables		36,143	5,034
Trade and other payables		2,320	(1,269)
Maintenance reserves		2,280	10,501
Cash from operations		143,620	99,817
Interest received		1,163	846
Interest paid		(41,541)	(36,922)
Income tax paid		(546)	(721)
<b>Net cash from operating activities</b>		<b>102,696</b>	<b>63,020</b>
<b>Cash flows from investing activities:</b>			
Cash inflow from disposal of subsidiary	10	1	-
Purchase of property, plant and equipment		(322,804)	(275,665)
Proceeds from disposal of aircraft		-	211,714
<b>Net cash used in investing activities</b>		<b>(322,803)</b>	<b>(63,951)</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of ordinary shares		3,238	9,102
Dividends paid to shareholders		(3,664)	(1,820)
Proceeds from sale of treasury shares		-	1
Dividend paid to non-controlling interest of a subsidiary		-	(16)
Placement of restricted cash balances		(2,309)	(9,249)
Proceeds from loans and borrowings, net of transactions costs		600,627	236,243
Repayment of loans and borrowings		(376,711)	(203,154)
<b>Net cash from financing activities</b>		<b>221,181</b>	<b>31,107</b>
Effects of exchange rates on cash and cash equivalents		27	-
<b>Net increase in cash and cash equivalents</b>		<b>1,101</b>	<b>30,176</b>
Cash and cash equivalents at beginning of year	26	56,849	26,673
<b>Cash and cash equivalents at end of year</b>	26	<b>57,950</b>	<b>56,849</b>

## AVATION PLC

### COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	2018 US\$'000s	2017 US\$'000s
<b>Cash flows from operating activities:</b>		
Profit before taxation	4,565	6,878
Adjustments for:		
Dividend income	(7,001)	(6,584)
Depreciation expense	1,062	1,088
Interest income	(3,284)	(1,568)
Interest expense	4,015	1,410
Fair value loss/(gain) on options held for trading	1,640	(600)
Fair value gain on derivatives	(2,036)	-
Warrant expense	394	220
Operating cash flows before working capital changes	(645)	844
Movement in working capital:		
Trade and other receivables and prepayments	(60,125)	(28,205)
Trade and other payables	1,710	(7,027)
Cash used in operations	(59,060)	(34,388)
Interest received	316	384
Interest paid	(325)	(792)
<b>Net cash used in operating activities</b>	<b>(59,069)</b>	<b>(34,796)</b>
<b>Cash flows from investing activities:</b>		
Dividends received	7,001	6,584
Purchase of property, plant and equipment	(6)	(7)
<b>Net cash from investing activities</b>	<b>6,995</b>	<b>6,577</b>
<b>Cash flows from financing activities:</b>		
Net proceeds from issuance of ordinary shares	3,238	9,102
Dividends paid to shareholders	(3,664)	(1,820)
Proceeds from sale of treasury shares	-	1
Proceeds from loans and borrowings	108,464	17,908
Repayment of loans and borrowings	(55,364)	(1,592)
<b>Net cash from financing activities</b>	<b>52,674</b>	<b>23,599</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>600</b>	<b>(4,620)</b>
Cash and cash equivalents at beginning of year	26 3,046	7,666
<b>Cash and cash equivalents at end of year</b>	<b>26 3,646</b>	<b>3,046</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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### 1 GENERAL

Avation PLC is a public limited company incorporated in England and Wales under the Companies Act 2006 (Registration Number 05872328) and is listed as a Standard Listing on the London Stock Exchange. The address of the registered office is given on page 4.

As disclosed in the Directors' Report, the Group's principal activity is aircraft leasing. Details of the activities of subsidiary companies are set out in Note 23 to these financial statements.

### 2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted by the European Union ("IFRS").

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) **BASIS OF PREPARATION** – The financial statements have been prepared in accordance with IFRS including standards and interpretations issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a going concern basis and have been prepared in accordance with the historical cost convention, as modified by the revaluation of certain assets and liabilities.

The financial statements are presented in United States Dollars and all values are rounded to the nearest thousand (US\$'000s). The year-end exchange rate for Pounds Sterling to United States Dollars is 1.321 (2017: 1.300).

The preparation of financial statements in conformity with IFRS requires the use of significant accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The accounting policies set out below have been applied consistently throughout the financial period presented in these financial statements and have been applied consistently by the Company and its subsidiaries, unless otherwise disclosed.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- (b) **BASIS OF CONSOLIDATION** - The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2018. Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

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

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

Investments in subsidiaries are stated at cost less impairment in the Company's separate financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in profit or loss.

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

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

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

- (e) **GOING CONCERN** - The financial statements have been prepared on a going concern basis. The Directors have reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- (f) **FAIR VALUE MEASUREMENT** – The Group measures financial instruments, such as derivatives, and non-financial assets, such as aircraft and aircraft purchase options in excess of the Group’s usage requirements at fair values at each reporting date. The fair values of debt instruments are not considered to be materially different from their amortised cost.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

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

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

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

In the case of aircraft, unless otherwise disclosed, the assets are valued using lease encumbered value (“LEV”). Under such a valuation, which reflects highest and best use given the fact that the aircraft are held for use in a leasing business, the income streams associated with the lease and the expected future market value of the aircraft at the end of the lease are discounted to current values. The valuers prepare their valuation report based on the market for second hand aircraft, which is active, known and measurable.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) FAIR VALUE MEASUREMENT (continued)**

The Group's management determines the policies and procedures for both recurring fair value measurement, such as aircraft, aircraft purchase options and unquoted available for sale ("AFS") financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved for valuation of significant assets, such as aircraft, aircraft purchase options and AFS financial assets, and significant liabilities, such as contingent consideration.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents so far as possible.

Management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

- (g) PROPERTY, PLANT AND EQUIPMENT** – All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, aircraft are stated in the statement of financial position at their fair value. All items of property plant and equipment other than aircraft are measured at cost less any accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. However, these aircraft have been reviewed for impairment.

Any revaluation increase arising on the revaluation of such aircraft is credited to the assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such aircraft is charged to profit or loss to the extent that it exceeds the balance, if any, held in the assets revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued aircraft is charged to profit or loss. On the subsequent sale or retirement of a revalued aircraft, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings.

Depreciation is charged so as to write off the cost or valuation of assets less residual values, over their estimated useful lives, using the straight-line method, on the following bases:

Narrow-body jets and turboprops	25 years from date of manufacture
Twin-aisle jets	23 years from date of manufacture
Furniture and equipment	3 years

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) PROPERTY, PLANT AND EQUIPMENT (continued)**

Residual values, useful lives and depreciation methods are revised and adjusted if appropriate, at each reporting date. Residual values are based on 15% of cost for new aircraft and estimated scrap values for second hand aircraft.

Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**(h) NON-CURRENT ASSETS HELD FOR SALE** – Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal) group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**(i) IMPAIRMENT OF NON-FINANCIAL ASSETS** - At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows expected to be generated by the asset are 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. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such costs can be identified, an appropriate valuation model is used.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)**

Impairment losses are recognised in profit or loss to the extent that they do not reverse a previous upwards revaluation. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

Impairment losses are recognised as an immediate expense. However, the impairment loss shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

**(j) PROVISIONS** - Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

**(k) MAINTENANCE RESERVES** - Normal maintenance and repairs, airframe and engine overhauls, and compliance with return conditions of the aircraft placed on operating leases are provided by and paid for by the lessees. Certain lease agreements require the lessees to make maintenance reserve contributions to the Group which subsequently can be drawn on to pay for certain maintenance events carried out. These maintenance reserve balances are accounted for as liabilities. Upon expiry of a lease, any shortfall that is identified in the maintenance reserve liabilities for an aircraft as compared to the expected future reimbursement obligations to a lessee, or any surplus, will be charged or released to profit or loss. Upon sale of an aircraft, the maintenance reserve liability for that aircraft which is not transferred to the buyer will be released to profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- (l) **SHARE-BASED PAYMENTS** – The Group operates an equity-settled share-based compensation plan. The value of the employee services received in exchange for the grant of warrants is recognised as an expense in profit or loss with a corresponding increase in the warrant reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the warrants granted on the date of the grant using the binomial option pricing model method. Non-market vesting conditions are included in the estimation of the number of shares under warrants that are expected to become exercisable on the vesting date. At the end of each reporting period, the Group revises its estimates of the number of shares under warrants that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the profit or loss, with a corresponding adjustment to the warrant reserve over the remaining vesting period.

When the warrants are exercised, the proceeds received and the related balance previously recognised in the warrant reserve are credited to share capital and share premium accounts when new shares are issued to the employees.

- (m) **LEASES** – The Group leases aircraft to airlines under operating leases. Leases of aircraft where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in the profit or loss on a straight-line basis over the lease term. The Group recognises contingent rents when they can be reliably measured.

The Group leases aircraft for use in the business. Where the Group bears substantially all the risk and rewards of ownership of the item, the lease is classified as a finance lease and the item is capitalised within the appropriate class of property, plant and equipment at the lower of the fair value of the leased item and the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to obtain a constant rate on the finance balance outstanding. The outstanding capital element of the lease payments are included within current and long-term payables as appropriate; the interest element of the lease payments is charged to profit or loss over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

- (n) **BORROWING COSTS** - Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- (o) **REVENUE RECOGNITION** – Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.
- (i) Aircraft lease rental revenue is recognised in the profit or loss on a straight-line basis over the terms of the lease. Lease incentives granted are recognised as a reduction of the total rental income.
  - (ii) The Group recognises aircraft finance leases at the inception of the lease term at the fair value of the leased asset or if lower, at the present value of the minimum lease payments. Lease receipts are apportioned between finance income and reduction of the lease asset so as to achieve a constant rate of interest on the remaining balance of the asset. Finance income is credited directly to profit or loss.
  - (iii) The Group recognises revenue for estimated end of lease compensation payments receivable in future periods only when it is able to make a reliable estimate of the expected compensation amount. The Group does not recognise end of lease compensation as revenue if there is reasonable expectation that the lessee will extend the existing lease agreement rather than returning the aircraft at the end of the current lease period.
  - (iv) 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.
  - (v) Sales of goods are recognised when goods are delivered and title has passed.
  - (vi) Dividend income from investments is recognised when the shareholders' right to receive payment have been established.
- (p) **CONTINGENCIES** – A contingent liability is:
- (i) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
  - (ii) a present obligation that arises from past events but is not recognised because:
    - i. It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - ii. The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(q) **TAXATION** - Taxation expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the financial period. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The Company is Singapore resident for tax purposes.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- (r) **FOREIGN CURRENCIES** - The Group's consolidated financial statements and Company financial statements are presented in United States dollars. The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency) and United States Dollars is the functional currency of most Group entities, including the parent company.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in United States dollars using exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

- (s) **FINANCIAL INSTRUMENTS** - Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.
- (i) **Trade and other receivables** - Trade and other receivables are measured at fair value upon initial recognition, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(s) **FINANCIAL INSTRUMENTS (continued)**

- (ii) **Cash and bank balances** - Cash and bank balances comprise cash at bank and on hand and call deposits which are subject to an insignificant risk of changes in value. Restricted cash balances comprise bank balances which are pledged as security for certain loan obligations.
- (iii) **Loans and borrowings** - Interest-bearing loans from banks and financial institutions are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above). Insurance premiums paid to export credit agencies independent of the lending bank or financial institution are not considered to constitute transaction costs and are accounted for separately.
- (iv) **Trade and other payables** - Trade payables are stated at their original invoiced value, as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.
- (v) **Equity instruments** - Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

- (t) **DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING** - The Group uses derivative financial instruments such as interest rate swap contracts to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at fair value.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly into profit or loss. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedged item or transaction, the hedging instrument, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's (or transaction's) cash flows attributable to the hedge risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows, and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they are designated.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(t) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING (continued)**

Derivatives are classified as fair value through profit or loss unless they qualify for hedge accounting. Derivatives which meet the criteria for hedge accounting are accounted for as cash flow hedges.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the fair value reserve, while the ineffective portion is recognised in profit or loss.

Amounts taken to the fair value reserve are transferred to profit or loss when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. If the hedged item is a non-financial asset or liability, the amounts taken to the fair value reserve are transferred to the initial carrying amount of the non-financial asset or liability.

**(u) IMPAIRMENT OF FINANCIAL ASSETS** - The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

**(v) SEGMENTAL REPORTING** - Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors who are responsible for allocating resources and assessing performance of the operating segment.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and assumptions concerning the future are made in the preparation of financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses and disclosures made. They are assessed on an ongoing basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(a) Impairment and review of residual value of property, plant and equipment – aircraft**

The Group periodically evaluates its aircraft for impairment and also reviews the residual value of the aircraft. Management exercises significant judgement in determining whether there is any indication that any aircraft may have been impaired or changes in residual value. This exercise involves management to consider both internal and external sources of information which include but are not limited to: observable indications that the value of the aircraft has declined during the period significantly more than would be expected as a result of the passage of time or normal use; significant adverse changes in the expected usage of the aircraft, technological or aviation environment that have taken place or will take place in the near future; significant increase in market interest rates; evidence of obsolescence or physical damage of the aircraft and worse than expected economic performance of the aircraft.

**(b) Revaluation of property, plant and equipment – aircraft**

The Group periodically revalues its aircraft using lease encumbered value ("LEV"). Under such a valuation, which reflects highest and best use given the fact that the aircraft are held for use in a leasing business, the income streams associated with the lease and the expected future market value of the aircraft at the end of the lease are discounted to current values. Critical assumptions made in determining LEV are the discount rate applied to cashflows associated with the lease and the expected future value of aircraft at the end of the lease.

**(c) Impairment of loans and receivables**

At the end of each reporting period the Group assesses whether there is any objective evidence that a financial asset is impaired. The Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments to determine whether there is objective evidence of impairment.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar risk characteristics.

**(d) Fair value estimation on options held for trading**

The Group holds options to acquire aircraft. Management periodically assesses the Group's future fleet requirements and will identify options in excess of requirements as held for trading. The Group values options held for trading as the expected market value of the relevant aircraft based on its estimated delivery date less the Group's estimated contract price to acquire the aircraft, discounted to present value. Critical assumptions made in determining the fair value of these options include the discount rate of 8.1%, an inflation rate of 1.5% per annum used to estimate the future contract price for the aircraft and the expected open market future value of the aircraft at delivery.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

(e) **Income taxes**

- (i) Commencing 17 April 2014, Avation Group (S) Pte Ltd ("AGS") and its subsidiaries were awarded a 5-year Aircraft Leasing Scheme incentive ("ALS") by the Singapore Economic Development Board, whereby income from the leasing of aircraft and aircraft engines and qualifying activities will be taxed at a concessionary rate of 10%. Qualifying income during the period 17 April 2014 to 16 April 2019 will be taxed at the concessionary rate subject to meeting the terms and conditions of the incentive.

It was announced in Singapore Budget 2017 that the concessionary tax rate on income tax under the ALS incentive will be streamlined to a single rate of 8% for new or renewal incentive awards approved on or after 1 April 2017. As management is of the view that the ALS will be renewed beyond 16 April 2019, management has applied the concessionary tax rate of 8% in determining the carrying amount of deferred tax asset and liability for temporary differences that are expected to be realised or settled beyond 16 April 2019.

- (ii) The Group is subject to income taxes in different jurisdictions where it operates. Significant judgment is required in determining capital allowances and the deductibility of certain expenses relevant to the estimation of the provision for income taxes.

(f) **Consolidation of special purpose entity ("SPE")** – Avation Airframe Holdings Pte. Ltd.

Although the ultimate shareholder of the SPE is a trust, the Directors of Avation PLC consider that they have the power to, and in practice, control the day to day activities of the SPE. Furthermore, Avation PLC is entitled to the benefits and is exposed to the risks of the activities of the SPE, which are consistent with the operations of the Group, and are conducted on behalf of the Group according to the Group's specific business needs. Accordingly the SPE is consolidated as a subsidiary in these financial statements.

The Group would cease to control the SPE in the event of a "Relevant Event" as defined in the financing agreement, for example, a delay in payment of interest. Were this to occur consolidation would cease at that point although the Group has no intention, or anticipation, that any such event will occur.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**5 NEW STANDARDS AND INTERPRETATIONS NOT APPLIED AND STANDARDS IN EFFECT IN 2018**

**(a) Standards and interpretations adopted during the year**

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017:

- (i) IAS 7 Statement of Cash Flows: Disclosure initiative
- (ii) IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- (iii) Annual Improvements Cycle – 2012-2016
- (iv) IFRS 15 Revenue from Contracts with Customers
- (v) IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations
- (vi) IFRS 9 Financial Instruments

The nature and effects of the changes are explained below.

**(i) IAS 7 Statement of Cash Flows: Disclosure initiative**

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments do not have any impact on the Group.

**(ii) IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amounts. These amendments do not have any impact on the Group.

**(iii) Annual Improvements Cycle – 2012-2016 Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure**

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

These amendments have had no significant impact on the Group's financial statements at 30 June 2018.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**5 NEW STANDARDS AND INTERPRETATIONS NOT APPLIED AND STANDARDS IN EFFECT IN 2018 (continued)**

**(iv) IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group has assessed the impact of the new standard and there is no impact on its Statement of Financial Position or equity on applying IFRS 15.

**(v) IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations**

IFRIC 22 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

**(vi) IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has assessed the impact of the new standard and there is no significant impact on its Statement of Financial Position or equity on applying IFRS 9.

**(a) Classification and measurement**

The Group has assessed the impact and there is no significant impact on its Statement of Financial Position or equity on applying the classification and measurement requirements of IFRS 9.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**5 NEW STANDARDS AND INTERPRETATIONS NOT APPLIED AND STANDARDS IN EFFECT IN 2018 (continued)**

**(b) Impairment**

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has assessed the impact and there is no significant impact on its Statement of Financial Position or equity on applying the impairment requirements of IFRS 9.

**(c) Hedge accounting**

The Group has assessed the impact and there is no significant impact on its Statement of Financial Position or equity on applying the hedge accounting requirements of IFRS 9.

**(b) New standards and interpretations not yet adopted**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The standards listed below are those which may have an impact on the Group. The Group intends to adopt these standards, if applicable, when they become effective.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will assess the impact of the new standard when it becomes effective.

**(ii) IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces 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. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**5 NEW STANDARDS AND INTERPRETATIONS NOT APPLIED AND STANDARDS IN EFFECT IN 2018 (continued)**

**(ii) IFRS 16 Leases (continued)**

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group plans to adopt the new standard on the required effective date using the modified retrospective method. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its financial statements.

**(iii) IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 6 FAIR VALUE MEASUREMENT

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than a forced or liquidation sale.

The carrying amounts of cash and bank balances, trade and other receivables, finance lease receivables – current, trade and other payables – current and loans and borrowings – current are a reasonable approximation of fair value either due to their short-term nature or because the interest rate charged closely approximates market interest rates or that the financial instruments have been discounted to their fair value at a current pre-tax interest rate.

Group	2018		2017	
	Carrying amount US\$'000s	Fair value US\$'000s	Carrying amount US\$'000s	Fair value US\$'000s
<b>Financial assets:</b>				
Finance lease receivables – non-current	5,529	5,197	8,728	8,551
<b>Financial liabilities:</b>				
Deposits collected – non-current	10,338	10,119	9,321	9,054
Loans and borrowings other than unsecured notes – non-current	503,374	505,916	432,672	423,169
Unsecured notes	293,522	301,899	117,889	121,328
Company				
	2018		2017	
	Carrying amount US\$'000s	Fair value US\$'000s	Carrying amount US\$'000s	Fair value US\$'000s
<b>Financial liabilities:</b>				
Deposits collected – non-current	150	150	250	250
Loans and borrowings – non-current	48,309	48,031	-	-

The fair values (other than the unsecured notes) above are estimated by discounting expected future cash flows at market incremental leading rate for similar types of lending, borrowing or leasing arrangements at the end of the reporting period. The fair value of the unsecured notes are based on level 1 quoted prices (unadjusted) in active market that the Group can access at measurement date.



# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 6 FAIR VALUE MEASUREMENT (CONTINUED)

#### Non-financial assets measured at fair value:

	Group		Company	
	2018 US\$'000s	2017 US\$'000s	2018 US\$'000s	2017 US\$'000s
<b>Fair value measurement using significant unobservable inputs:</b>				
Aircraft	981,122	744,624	14,818	15,879

Aircraft were valued at 30 June 2018 and 30 June 2017. Refer to Note 19 for the details on the valuation technique and significant inputs used in the valuation.

#### Classification of financial instruments:

A comparison by category of carrying amounts of all the Group and Company's financial instruments that are carried in the financial statements which are considered to equate to fair value is set out below.

	Group		Company	
	2018 US\$'000s	2017 US\$'000s	2018 US\$'000s	2017 US\$'000s
<b>Loans and receivables:</b>				
Cash and bank balances	91,102	87,692	3,646	3,046
Trade and other receivables	9,619	9,261	148,308	87,281
Finance lease receivables	8,728	45,369	-	-
	<b>109,449</b>	<b>142,322</b>	<b>151,954</b>	<b>90,327</b>
<b>Financial liabilities measured at amortised cost:</b>				
Trade and other payables	15,943	17,938	34,705	25,829
Loans and borrowings	868,600	643,605	51,377	7,362
	<b>884,543</b>	<b>661,543</b>	<b>86,082</b>	<b>33,191</b>
<b>Derivative used for hedging:</b>				
Derivative financial instruments, asset	7,848	2,372	2,036	-
Derivative financial instruments, (liability)	-	(1,901)	-	-
<b>Fair value through profit or loss:</b>				
Options held for trading	2,000	3,640	2,000	3,640

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 6 FAIR VALUE MEASUREMENT (CONTINUED)

A reconciliation of liabilities arising from financing activities is as follows:

Group	2017	Cash flows	Non-cash/ other	2018
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Loans and borrowings:</b>				
Current	93,044	(107,978)	86,638	71,704
Non-current	432,672	156,261	(85,559)	503,374
<b>Unsecured notes:</b>				
Non-current	117,889	175,633	-	293,522
	643,605	223,916	1,079	868,600

The 'other' column includes the amortisation of loan insurance premium and reclassification of non-current portion of loans and borrowings due to passage of time.

Company	2017	Cash flows	Non-cash/ other	2018
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Loans and borrowings:</b>				
Current	7,362	(4,294)	-	3,068
Non-current	-	48,309	-	48,309
Interest bearing payable due to subsidiaries	17,908	9,085	-	26,993
	25,270	53,100	-	78,370

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

**7 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's activities expose it to a number of market related, operational and financial risks. Risk is mitigated through the application of prudent risk management policies. The risks described below are those that the Group has identified as the most significant risks to the business. The Directors are responsible for managing risk and review risk management policies regularly.

The Group utilises derivative financial instruments as part of its overall risk management strategy.

**(a) Airline Industry Risks**

The Group faces risks specific to the aviation sector including war, terrorism and equipment failure. These exposures are managed through the requirement for the airlines that lease the Group's assets to maintain insurance, adequate maintenance policies and/or contribute to a maintenance reserve for the major maintenance on each aircraft.

**(b) Credit risk**

Credit risk refers to the risk that debtors will default on their obligations to repay amounts owing to the Group.

The Group has adopted a prudent credit policy towards extending credit terms to customers and in monitoring those credit terms. This includes assessing customers' credit standing and periodic reviews of their financial status to determine appropriate credit limits. The Group generally requires its customers to pay rentals in advance and provide collateral in the form of cash or letters of credit as security deposits for leases.

The maximum exposure to credit risk in the event that counterparties fail to perform their obligations in relation to each class of financial assets is the carrying amount of those assets as stated in the statement of financial position.

The maximum exposure to credit risk for trade receivables at the reporting date by geographical area is:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	US\$'000s	US\$'000s
Asia-Pacific	2,980	1,669
Europe	109	1,010
	<b>3,089</b>	<b>2,679</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

**7 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES  
(continued)**

**(b) Credit risk (continued)**

- (i) Financial assets that are neither past due nor impaired

Financial assets that are neither past due nor impaired are comprised of bank deposits and trade receivables. Bank deposits that are neither past due or impaired are mainly deposits with banks with strong credit-ratings from international credit-rating agencies. Trade receivables that are neither past due nor impaired amounting to US\$1.39 million (2017: US\$1.76 million) are substantially due from companies with a good payment track record.

- (ii) Financial assets that are past due and/or impaired

There is no class of financial assets that are past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	<b>Group</b>	
	<b>2018</b> US\$'000s	<b>2017</b> US\$'000s
Past due less than 3 months	1,325	816
Past due 3 to 6 months	210	59
Past due over 6 months	167	46
	<b>1,702</b>	<b>921</b>

**(c) Interest rate risk**

The Group is exposed to interest rate risk through the impact of interest rate changes on floating rate interest bearing liabilities and assets.

The Group seeks to reduce its exposure to interest rate risk by fixing interest rates on the majority of its loans and borrowings. As at 30 June 2018, 95% (2017: 95%) of the Group's loans and borrowings are at fixed rates.

The interest rates and repayment terms for financial assets and financial liabilities are disclosed in the respective notes to the financial statements.

**(d) Foreign currency risk**

Foreign currency risk arises from transactions and cash balances that are not denominated in the Group's functional currency. The Group's foreign currency exposures arose mainly from movements in the exchange rate for Singapore Dollars and Euro against the United States Dollar.

The Group aims to mitigate foreign currency risk by holding the majority of its cash balances in United States Dollars. From time to time the Group utilises forward foreign currency contracts to hedge its exposure to specific currency risks.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 7 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (d) Foreign currency risk (continued)

The Group's foreign currency exposure is as follows:

Group	Cash and bank balances US\$'000s	Trade and other receivables US\$'000s	Other financial liabilities US\$'000s	Net currency exposure US\$'000s
<b>2018:</b>				
Pound sterling	34	16	(112)	(62)
Australian dollar	-	-	(5)	(5)
Euro	826	180	(29,339)	(28,333)
Singapore dollar	317	57	(533)	(159)
	<b>1,177</b>	<b>253</b>	<b>(29,989)</b>	<b>(28,559)</b>
<b>2017:</b>				
Pound sterling	43	23	(114)	(48)
Australian dollar	-	-	(5)	(5)
Euro	49	31	(63)	17
Swiss Franc	-	5	-	5
Singapore dollar	354	60	(493)	(79)
	<b>446</b>	<b>119</b>	<b>(675)</b>	<b>(110)</b>
<b>Company</b>	<b>Cash and bank balances US\$'000s</b>	<b>Trade and other receivables US\$'000s</b>	<b>Other financial liabilities US\$'000s</b>	<b>Net currency exposure US\$'000s</b>
<b>2018:</b>				
Pound sterling	22	16	(112)	(74)
Australian dollar	-	-	(5)	(5)
Euro	-	-	(184)	(184)
Singapore dollar	44	25	(19)	50
	<b>66</b>	<b>41</b>	<b>(320)</b>	<b>(213)</b>
<b>2017:</b>				
Pound sterling	16	21	(95)	(58)
Australian dollar	-	-	(5)	(5)
Euro	-	-	-	-
Singapore dollar	189	25	(22)	192
	<b>205</b>	<b>46</b>	<b>(122)</b>	<b>129</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

**7 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES  
(continued)**

**(d) Foreign currency risk (continued)**

The table below illustrates the effect on total profit and total equity that would result from a strengthening of foreign currencies against the United States Dollar by 10% (2017: 10%) with all other variables including tax rate being held constant:

	Group		Company	
	2018	2017	2018	2017
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Foreign currency:</b>				
Pound sterling	(6)	(5)	(7)	(6)
Euro	(2,833)	2	(18)	-
Singapore dollar	(16)	(8)	5	19

A weakening of the respective currencies by 10% against the United States Dollar would have an equal and opposite effect.

The Group entered into a Euro denominated lease agreement for an aircraft and subsequently arranged Euro denominated financing in order to hedge the exposure to foreign exchange risk associated with the Euro denominated lease revenue.

**(e) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group monitors and maintains a level of cash and cash equivalents that management deems adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Short-term funding is obtained from loan facilities.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 7 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (e) Liquidity risk (continued)

*Analysis of financial instruments by remaining contractual maturities*

The table below summarises the maturity profile of the Group's financial assets and non-derivative liabilities at the end of the reporting period based on contractual undiscounted repayment obligations:

Group	One year or less US\$'000s	One to five years US\$'000s	Over five years US\$'000s	Total US\$'000s
<b>2018:</b>				
<b>Financial assets:</b>				
Cash and bank balances	91,102	-	-	91,102
Trade and other receivables	3,191	6,428	-	9,619
Finance lease receivable	3,636	5,707	-	9,343
Total undiscounted financial assets	97,929	12,135	-	110,064
<b>Financial liabilities:</b>				
Trade and other payables	1,447	6,974	8,241	16,662
Loans and borrowings	119,012	681,633	274,177	1,074,822
Total undiscounted financial liabilities	120,459	688,607	282,418	1,091,484
<b>Total net undiscounted financial liabilities</b>	<b>(22,530)</b>	<b>(676,472)</b>	<b>(282,418)</b>	<b>(981,420)</b>
<b>2017:</b>				
<b>Financial assets:</b>				
Cash and bank balances	87,692	-	-	87,692
Trade and other receivables	4,563	4,698	-	9,261
Finance lease receivable	37,386	9,344	-	46,730
Total undiscounted financial assets	129,641	14,042	-	143,683
<b>Financial liabilities:</b>				
Trade and other payables	8,623	4,302	7,588	20,513
Loans and borrowings	124,084	416,487	256,528	797,099
Total undiscounted financial liabilities	132,707	420,789	264,116	817,612
<b>Total net undiscounted financial liabilities</b>	<b>(3,066)</b>	<b>(406,747)</b>	<b>(264,116)</b>	<b>(673,929)</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 7 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### (e) Liquidity risk (continued)

Company	One year or less US\$'000s	One to five years US\$'000s	Over five years US\$'000s	Total US\$'000s
<b>2018:</b>				
<b>Financial assets:</b>				
Cash and bank balances	3,646	-	-	3,646
Trade and other receivables	93,571	54,737	-	148,308
Total undiscounted financial assets	97,217	54,737	-	151,954
<b>Financial liabilities:</b>				
Trade and other payables	34,483	150	-	34,633
Loans and borrowings	5,267	52,303	-	57,570
Total undiscounted financial liabilities	39,750	52,453	-	92,203
<b>Total net undiscounted financial assets</b>	<b>57,467</b>	<b>2,284</b>	<b>-</b>	<b>59,751</b>
<b>2017:</b>				
<b>Financial assets:</b>				
Cash and bank balances	3,046	-	-	3,046
Trade and other receivables	82,583	4,698	-	87,281
Total undiscounted financial assets	85,629	4,698	-	90,327
<b>Financial liabilities:</b>				
Trade and other payables	25,579	250	-	25,829
Loans and borrowings	7,362	-	-	7,362
Total undiscounted financial liabilities	32,941	250	-	33,191
<b>Total net undiscounted financial assets</b>	<b>52,688</b>	<b>4,448</b>	<b>-</b>	<b>57,136</b>



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 7 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### (f) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain a suitable capital structure so as to fund growth and maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payments, return capital to shareholders, issue new shares, buy back issued shares, incur new borrowings or sell assets to reduce borrowings.

Management monitors capital based on a gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings less cash and bank balances.

	Group		Company	
	2018 US\$'000s	2017 US\$'000s	2018 US\$'000s	2017 US\$'000s
<b>Current:</b>				
Net debt	777,498	555,913	47,731	4,316
Total equity	228,178	195,924	98,832	90,308
<b>Total capital</b>	<b>1,005,676</b>	<b>751,837</b>	<b>146,563</b>	<b>94,624</b>
<b>Gearing ratio:</b>	77%	74%	33%	5%

The Group is in compliance with all externally imposed capital requirements for the years ended 30 June 2018 and 30 June 2017.

##### (g) Fair value of financial assets and financial liabilities

The fair values of financial assets and financial liabilities reported in the statement of financial position approximate the carrying amounts of those assets and liabilities.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 8 RELATED PARTY TRANSACTIONS

In addition to related party information disclosed elsewhere in these financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties.

(a) **Remuneration of key management personnel**

The remuneration of Directors and key management includes fees, salary, bonus, commission and other emoluments (including benefits-in-kind) based on the cost incurred by the Company and the Group, and where the Company or Group did not incur any costs, the value of the benefits. Key management remuneration is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Key management:</b>				
Short-term employee benefits	2,515	2,007	441	381

The amount above includes remuneration in respect of the highest paid Director as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	US\$'000s	US\$'000s
Aggregate emoluments	611	541

No contributions were made on behalf of any Directors to money purchase pension schemes.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 8 RELATED PARTY TRANSACTIONS (continued)

(b) **Significant related party transactions:**

	Group		Company	
	2018 US\$'000s	2017 US\$'000s	2018 US\$'000s	2017 US\$'000s
<b>Entities controlled by key management personnel (including Directors):</b>				
Rental expenses paid	(209)	(213)	(103)	(119)
Consulting fee paid	(250)	(193)	(250)	(163)
Interest expense	(373)	(424)	-	(15)
Sale of dormant subsidiary	5	-	-	-
<b>Directors</b>				
Interest expense	(14)	(44)	-	(29)

(c) **Significant transactions between the Company and its subsidiaries:**

	Company	
	2018 US\$'000s	2017 US\$'000s
Commission income	-	960
Dividend income	7,001	6,584
Interest income	3,284	1,568
Management and service fee income	-	44
Rental income	2,024	2,088
Interest expense	(1,663)	(997)

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 9 REVENUE

	Group	
	2018 US\$'000s	2017 US\$'000s
Lease rental revenue	97,581	92,414
Maintenance reserves released	10,491	-
End of lease return compensation	981	1,759
	<b>109,053</b>	<b>94,173</b>

The maintenance reserves revenue relates to the recovery of maintenance reserve from an insolvent airline customer that defaulted on its lease payments. See Note 32.

End of lease return compensation represents contingent rents as set out in the revenue recognition accounting policy.

#### Geographical analysis

	Europe	Asia Pacific	Total
	US\$'000s	US\$'000s	US\$'000s
2018	34,777	74,276	109,053
2017	33,620	60,553	94,173

During the year, certain customers accounted for more than 10% of the Group's total revenues. There is one customer based in the Asia Pacific geographical area that accounts for US\$26.5 million (2017: US\$34.8 million), 24.3% (2017: 37%) of the Group's total revenues from continuing operations.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 10 OTHER INCOME

	Group	
	2018 US\$'000s	2017 US\$'000s
Finance lease conversion fee	-	325
Fair value gain on options held for trading	-	600
Fair value gain on derivatives	2,138	54
Foreign currency exchange gain	261	35
Sale of aircraft parts	216	-
Gain on disposal of subsidiary	1	-
Others	161	72
	<b>2,777</b>	<b>1,086</b>

The fair value gain on derivatives arose from the mark-to-market gains on the ineffective hedge portion of the interest rate swap contracts.

At of 30 June 2018, the Group disposed of a 100% owned subsidiary, MSN 429 Limited on 30 June 2018 for a cash consideration of US\$5,025.

The aggregate cash inflows arising from the disposal of MSN 429 Limited were:

	US\$'000
Cash	4
Identifiable net assets disposed	4
Gain on disposal	1
Cash proceeds from disposal	5
Less : cash and cash equivalents in subsidiary disposed	(4)
Net cash inflow on disposal	1

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 11 ADMINISTRATIVE EXPENSES

	Group	
	2018 US\$'000s	2017 US\$'000s
Staff costs (note 15)	4,699	3,716
Other administrative expenses	5,503	4,330
	<b>10,202</b>	<b>8,046</b>

#### 12 OTHER EXPENSES

	Group	
	2018 US\$'000s	2017 US\$'000s
Fair value loss on options held for trading	1,640	-
Impairment loss on trade receivables	-	41
Non-trade receivables written off	-	30
Others	11	-
	<b>1,651</b>	<b>71</b>

#### 13 FINANCE INCOME

	Group	
	2018 US\$'000s	2017 US\$'000s
Interest income from financial institutions	413	25
Interest income from finance lease	734	836
Interest rate swap break gain	3,611	-
Finance income from discounting non-current deposits to fair value	359	929
	<b>5,117</b>	<b>1,790</b>

Interest rate swap break gain relates to the gain arising from the termination of the interest rate swap contracts concurrently with early repayments of loans and borrowings.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 14 FINANCE EXPENSES

	Group	
	2018 US\$'000s	2017 US\$'000s
Interest expense on borrowings	28,798	29,079
Interest expense on unsecured notes	13,984	8,317
Amortisation of loan insurance premium	1,078	1,078
Amortisation of interest expense on non-current deposits	349	924
Finance charges on early full repayment of borrowings	120	914
Others	486	314
	<b>44,815</b>	<b>40,626</b>

### 15 STAFF COSTS

	Group	
	2018 US\$'000s	2017 US\$'000s
Salaries and fees	3,532	3,001
Bonuses	627	367
Defined contribution plans	93	83
Benefits	53	45
Warrants expense	394	220
	<b>4,699</b>	<b>3,716</b>

The average number of Directors of the Company for the year is 4 (2017: 4). The average number of other employees for the year is 18 (2017: 16).

### 16 PROFIT BEFORE TAXATION

Profit before taxation for the year is stated after charging/(crediting) the following:

	Group	
	2018 US\$'000s	2017 US\$'000s
Depreciation of property, plant and equipment	34,284	32,300
Foreign currency exchange/(gain)	(216)	(35)
Audit fees:		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	202	85
Fees payable to the Company's auditor and their associates for audits of the Company's subsidiaries' annual accounts	298	13
Total audit fees	<b>500</b>	<b>98</b>
Auditors' remuneration for non-audit services:		
- Tax compliance services	145	-
- All other assurance services	693	-
Total fees for non-audit services	<b>838</b>	<b>-</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 17 TAXATION

	Group	
	2018 US\$'000s	2017 US\$'000s
<i>From continuing operations</i>		
Current tax expense:		
- Singapore	85	1,350
- Overseas	490	1,810
(Over)/Under provision in prior years current tax expense:		
- Singapore	(2,279)	(2)
- Overseas	1,009	8
Deferred tax expense:		
- Singapore	(464)	(686)
- Overseas	(261)	(936)
Over provision in prior years deferred tax expense:		
- Singapore	-	(1,479)
Withholding tax	335	41
<b>Income tax (credit)/expense</b>	<b>(1,085)</b>	<b>106</b>

Income tax differs from the amount of income tax expense determined by applying the Singapore tax rate of 17% to profit before income tax as a result of the following differences:

	Group	
	2018 US\$'000s	2017 US\$'000s
Profit before income tax	18,915	21,363
Tax calculated at 17% (2017: 17%)	3,215	3,632
Effects of:		
(Over)/under provision in prior years current tax expense		
- Singapore	(2,279)	(2)
- Overseas	1,009	8
Over provision in prior years deferred tax expense:		
- Singapore	-	(1,479)
Non-deductible items	937	2,593
Income not subject to tax	(171)	(1,511)
Different tax rates of other countries	(556)	113
Deferred tax asset not recognised	51	-
Utilisation of deferred tax asset not recognised	(2,362)	-
Effect of concessionary tax rate at 10%	(1,262)	(2,005)
Effect of concessionary tax rate at 8%	-	(1,234)
Effect of tax exemption and tax relief	(31)	(52)
Withholding tax	335	41
Others	29	2
	<b>(1,085)</b>	<b>106</b>



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 18 EARNINGS PER SHARE

##### (a) Basic earnings per share ("EPS")

EPS is calculated by dividing total profit attributable to members of the Company by the weighted average number of ordinary shares in issue during the year.

	Company	
	2018 US\$'000s	2017 US\$'000s
Net profit attributable to equity holders of the company	19,992	21,262
Weighted average number of ordinary shares ('000s)	62,089	58,626
Basic earnings per share	32.20 cents	36.27 cents

##### (b) Diluted earnings per share

For the purpose of calculating diluted earnings per share, total profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares; warrants.

For warrants, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share option less the number of shares that could have been issued at fair value (determined as the Company's average share price for the year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration.

Diluted earnings per share attributable to equity holders of the Company is calculated as follows:

	Company	
	2018 US\$'000s	2017 US\$'000s
Net profit attributable to equity holders of the company	19,992	21,262
Weighted average number of ordinary shares ('000s)	62,089	58,626
Adjustment for warrants ('000s)	698	966
Weighted average number of ordinary shares ('000s)	62,787	59,592
Diluted earnings per share	31.84 cents	35.68 cents

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 19 PROPERTY, PLANT AND EQUIPMENT

Group	Furniture and equipment US\$'000s	Jets US\$'000s	Turbo props US\$'000s	Total US\$'000s
<b>2018:</b>				
<i>Cost or valuation:</i>				
At beginning of year	432	476,170	336,594	813,196
Additions	19	283,975	38,810	322,804
Disposals/written-off	(105)	-	-	(105)
Reclassified as assets held for sale	-	(51,281)	-	(51,281)
Revaluation recognised in equity	-	4,278	(528)	3,750
<b>At end of the year</b>	<b>346</b>	<b>713,142</b>	<b>374,876</b>	<b>1,088,364</b>
Representing:				
At cost	346	-	-	346
At valuation	-	713,142	374,876	1,088,018
	<b>346</b>	<b>713,142</b>	<b>374,876</b>	<b>1,088,364</b>
<i>Accumulated depreciation and impairment:</i>				
At beginning of year	325	25,088	43,052	68,465
Depreciation expense	72	21,709	12,503	34,284
Disposals/written-off	(105)	-	-	(105)
Reclassified as assets held for sale	-	(2,536)	-	(2,536)
Impairment loss	-	7,080	-	7,080
<b>At end of the year</b>	<b>292</b>	<b>51,341</b>	<b>55,555</b>	<b>107,188</b>
<i>Net book value:</i>				
<b>At beginning of the year</b>	<b>107</b>	<b>451,082</b>	<b>293,542</b>	<b>744,731</b>
<b>At end of the year</b>	<b>54</b>	<b>661,801</b>	<b>319,321</b>	<b>981,176</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 19 PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Furniture and equipment US\$'000s	Jets US\$'000s	Turbo props US\$'000s	Total US\$'000s
<b>2017:</b>				
<i>Cost or valuation:</i>				
At beginning of year	388	382,565	435,215	818,168
Additions	47	256,791	18,827	275,665
Disposals/written-off	(3)	(126,916)	(117,448)	(244,367)
Reclassified as held under finance leases	-	(32,383)	-	(32,383)
Impairment recognised in equity	-	(3,887)	-	(3,887)
<b>At end of the year</b>	<b>432</b>	<b>476,170</b>	<b>336,594</b>	<b>813,196</b>
Representing:				
At cost	432	-	-	432
At valuation	-	476,170	336,594	812,764
	<b>432</b>	<b>476,170</b>	<b>336,594</b>	<b>813,196</b>
<i>Accumulated depreciation and impairment:</i>				
At beginning of year	206	55,845	37,135	93,186
Depreciation expense	122	17,008	15,170	32,300
Disposals/written-off	(3)	(27,609)	(9,253)	(36,865)
Reclassified as held under finance leases	-	(20,156)	-	(20,156)
<b>At end of the year</b>	<b>325</b>	<b>25,088</b>	<b>43,052</b>	<b>68,465</b>
<i>Net book value:</i>				
<b>At beginning of the year</b>	<b>182</b>	<b>326,720</b>	<b>398,080</b>	<b>724,982</b>
<b>At end of the year</b>	<b>107</b>	<b>451,082</b>	<b>293,542</b>	<b>744,731</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 19 PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Furniture and equipment US\$'000s	Jets US\$'000s	Total US\$'000s
<b>2018</b>			
<i>Cost or valuation:</i>			
At beginning of year	196	19,949	20,145
Additions	6	-	6
Impairment recognised in equity	-	(34)	(34)
<b>At end of the year</b>	<b>202</b>	<b>19,915</b>	<b>20,117</b>
Representing:			
At cost	202	-	202
At valuation	-	19,915	19,915
	<b>202</b>	<b>19,915</b>	<b>20,117</b>
<i>Accumulated depreciation and impairment:</i>			
At beginning of year	156	4,070	4,226
Depreciation expense	35	1,027	1,062
<b>At end of the year</b>	<b>191</b>	<b>5,097</b>	<b>5,288</b>
<i>Net book value:</i>			
<b>At beginning of the year</b>	<b>40</b>	<b>15,879</b>	<b>15,919</b>
<b>At end of the year</b>	<b>11</b>	<b>14,818</b>	<b>14,829</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 19 PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Furniture and equipment US\$'000s	Jets US\$'000s	Total US\$'000s
<b>2017:</b>			
<i>Cost or valuation:</i>			
At beginning of year	189	19,949	20,138
Additions	7	-	7
<b>At end of the year</b>	<b>196</b>	<b>19,949</b>	<b>20,145</b>
Representing:			
At cost	196	-	196
At valuation	-	19,949	19,949
	<b>196</b>	<b>19,949</b>	<b>20,145</b>
<i>Accumulated depreciation and impairment:</i>			
At beginning of year	93	3,045	3,138
Depreciation expense	63	1,025	1,088
<b>At end of the year</b>	<b>156</b>	<b>4,070</b>	<b>4,226</b>
<i>Net book value:</i>			
<b>At beginning of the year</b>	<b>96</b>	<b>16,904</b>	<b>17,000</b>
<b>At end of the year</b>	<b>40</b>	<b>15,879</b>	<b>15,919</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 19 PROPERTY, PLANT AND EQUIPMENT (continued)

##### Assets pledged as security

The Group's aircraft with carrying values of US\$925.42 million (2017: US\$725.86 million) are mortgaged to secure the Group's borrowings (Note 30).

##### Additions and Disposals

During the year, the Group acquired 3 Jet aircraft and 2 Turboprop aircraft. Aircraft with a net book value of US\$48.7 million were reclassified to assets held for sale.

##### Valuation

The Group's aircraft were valued in June 2018 by independent valuers on lease-encumbered basis ('LEV'). LEV takes into account the current lease arrangements for the aircraft and estimated residual values at the end of the lease. These amounts have been discounted to present value using discount rates of 6.5% per annum for Jet aircraft and 8.1% per annum for Turboprop aircraft. Different discount rates are considered appropriate for different aircraft based on their respective risk profiles.

During the year, an impairment loss of US\$7.1 million was recognised to write down the book value of an aircraft to its fair value. The aircraft was repossessed from an insolvent airline and leased to a new customer under a new lease with different terms and duration.

During the previous year, two aircraft were revalued downward prior to the sale of the aircraft using discounted cash flow methodology based on the value specified in the sales agreement and the present value of the remaining lease payments.

If the aircraft were measured using the cost model, the carrying amounts would be as follows:

Group	2018		2017	
	Jets	Turbo props	Jets	Turbo props
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Cost	704,181	352,475	471,487	313,665
Accumulated depreciation and impairment	(51,586)	(53,232)	(25,903)	(42,041)
<b>Net book value</b>	<b>652,595</b>	<b>299,243</b>	<b>445,584</b>	<b>271,624</b>

Company	2018		2017	
	Jets	Turbo props	Jets	Turbo props
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Cost	16,561	-	16,561	-
Accumulated depreciation and impairment	(4,036)	-	(3,257)	-
<b>Net book value</b>	<b>12,525</b>	<b>-</b>	<b>13,304</b>	<b>-</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 19 PROPERTY, PLANT AND EQUIPMENT (continued)

#### Geographical analysis

2018	Europe US\$'000s	Asia Pacific US\$'000s	Total US\$'000s
Capital expenditure	36,544	286,260	322,804
Net book value - aircraft	242,772	738,350	981,122
2017	Europe US\$'000s	Asia Pacific US\$'000s	Total US\$'000s
Capital expenditure	-	275,665	275,665
Net book value - aircraft	222,039	522,585	744,624

### 20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 US\$'000s	2017 US\$'000s	2018 US\$'000s	2017 US\$'000s
<b>Current:</b>				
Trade receivables	3,130	2,720	160	175
Less:				
Impairment loss on trade receivables	(41)	(41)	-	-
	3,089	2,679	160	175
Other receivables:				
- subsidiaries	-	-	90,138	80,126
- related parties	5	-	-	-
- third parties	49	1,813	16	21
Interest receivables:				
- subsidiaries	-	-	3,232	2,236
- third parties	-	16	-	-
Deposits	48	55	25	25
Prepaid expenses	723	468	246	151
	<b>3,914</b>	<b>5,031</b>	<b>93,817</b>	<b>82,734</b>
<b>Non-current:</b>				
Other receivables:				
- subsidiaries	-	-	48,309	-
Deposits for aircraft	6,428	4,698	6,428	4,698
Prepaid expenses	362	492	-	-
	<b>6,790</b>	<b>5,190</b>	<b>54,737</b>	<b>4,698</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 20 TRADE AND OTHER RECEIVABLES (CONTINUED)

Other receivables from subsidiaries includes interest bearing receivables of US\$75.37 million (2017: US\$23.40 million). The receivables are unsecured and repayable upon demand. Interest is charged at 3.0% to 6.0% (2017: 5.5% to 6.0%) per annum.

The average credit period generally granted to customers is 30 to 60 days. Rent for leased aircraft is due in advance in accordance with the leases.

Trade and other receivables denominated in foreign currencies are as follows:

	Group		Company	
	2018 US\$'000s	2017 US\$'000s	2018 US\$'000s	2017 US\$'000s
Pound sterling	16	23	16	21
Euro	180	31	-	-
Swiss Franc	-	5	-	-
Singapore dollar	57	60	25	25

#### 21 FINANCE LEASE RECEIVABLES

During the previous year, a third party who leased 5 aircraft from the Group agreed to acquire the aircraft at the end of their lease terms. As a result the leases for these aircraft have been reclassified as finance leases. The leases have a remaining term of approximately 1.5 to 2.5 years.

Finance lease receivables do not include any contingent rents or residual value guarantees.

Future minimum lease payments receivable under finance are as follows:

Group	2018		2017	
	Minimum lease payments US\$'000s	Present value of payments US\$'000s	Minimum lease payments US\$'000s	Present value of payments US\$'000s
Within one year	3,636	3,199	37,386	36,641
Later than one year but not more than five years	5,707	5,529	9,344	8,728
<b>Total minimum lease payments</b>	<b>9,343</b>	<b>8,728</b>	<b>46,730</b>	<b>45,369</b>
Less: amounts representing interest income	(615)	-	(1,361)	-
<b>Present value of minimum lease payments</b>	<b>8,728</b>	<b>8,728</b>	<b>45,369</b>	<b>45,369</b>



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 22 GOODWILL

	Group	
	2018 US\$'000s	2017 US\$'000s
Cost:		
<b>At beginning and end of the year</b>	<b>2,384</b>	<b>2,384</b>
Accumulated amortisation and impairment:		
<b>At beginning and end of the year</b>	<b>482</b>	<b>482</b>
Net carrying amount:		
<b>At beginning and end of the year</b>	<b>1,902</b>	<b>1,902</b>

#### *Impairment test of goodwill*

Goodwill is allocated to the cash generating unit ("CGU") of the Group which is in the aircraft leasing business.

The recoverable amount of the CGU has been determined based on value-in-use calculations. Cash flow projections used in the value-in-use calculations were based on financial budgets approved by management covering a two-year period.

Key assumptions used for value-in-use calculations:

	2018 %	2017 %
Average cash flow growth rate	2.0	2.0
Terminal growth rate	2.0	2.0
Discount rate	10.0	10.0

Management determined cash flow growth based on past performance and its expectations of market development. The terminal growth rate of 2% that was used to extrapolate cash flows beyond the budget period did not exceed the long term average growth rate for the business in which the CGU operates. Management has estimated that the recoverable amount of CGU is US\$241.9 million (2017: US\$174.4 million).

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 23 INVESTMENT IN SUBSIDIARIES

	Company	
	2018 US\$'000s	2017 US\$'000s
Unquoted equity shares, at cost	15,375	15,375

In the opinion of management there is no impairment of the value of investments in subsidiaries.

Details of subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	Ownership interest	
			2018 %	2017 %
<i>Held directly by the Company:</i>				
Avation.net Inc	United States	Procurement	99.96	99.96
Avation Capital S.A.	Luxembourg	Financing	100.00	100.00
Capital Lease Aviation Limited	United Kingdom	Aircraft leasing	99.68	99.68
MSN429 Leaseco Limited	United Kingdom	Aircraft leasing	100.00	100.00
Avation Group (S) Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) Limited	+ Ireland	Aircraft leasing	-	100.00
AVAP Leasing (Asia) Limited	Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) II Limited	Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) III Limited	Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) IV Limited	Ireland	Aircraft leasing	100.00	100.00
<i>Held by Capital Lease Aviation Limited:</i>				
Capital Lease Malta Ltd.	(a) Malta	Aircraft leasing	99.68	99.68
Capital Lease Aviation (S) Pte. Ltd.	+ Singapore	Aircraft leasing	-	99.68
Capital MSN 4033 Limited	Ireland	Aircraft leasing	99.68	99.68
Capital MSN 4033 II Limited	Ireland	Aircraft leasing	99.68	-
<i>Held by Avation Eastern Fleet Pte. Ltd.:</i>				
Airframe Leasing (S) Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
<i>Held by Avation Eastern Fleet II Pte. Ltd.:</i>				
Airframe Leasing (S) II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
<i>Held by Avation Eastern Fleet III Pte. Ltd.:</i>				
Airframe Leasing (S) III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
<i>Held by Avation Eastern Fleet IV Pte. Ltd.:</i>				
Airframe Leasing (S) IV Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
<i>Held by MSN 429 Leaseco Limited:</i>				
MSN 429 Limited	++ United Kingdom	Aircraft leasing	-	100.00
<i>Held by F100 Fleet Pte. Ltd.:</i>				
F100 Leasing Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 23 INVESTMENT IN SUBSIDIARIES (continued)

Name of entity	Country of incorporation	Principal activities	Ownership interest	
			2018 %	2017 %
<i>Held by Avation Group (S) Pte. Ltd.:</i>				
Avation Eastern Fleet Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Eastern Fleet II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Eastern Fleet III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Eastern Fleet IV Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Pacific Leasing Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Pacific Leasing II Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
Avation Taiwan Leasing Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Taiwan Leasing II Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
Avation Taiwan Leasing III Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
Avation Taiwan Leasing IV Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
AVAP Leasing (Europe) II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) IV Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) VI Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
MSN 429 (S) Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
F100 Fleet Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
MSN 1607 Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Trading Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Trading II Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
Avation Asia Fleet Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Asia Fleet II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Asia Fleet III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
MSN 1922 Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Denmark Leasing Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
Avation Capital II Pte. Ltd.	Singapore	Aircraft leasing	100.00	-

All companies as at 30 June 2018 are audited by member firms of Ernst & Young except for the following:

(a) Audited by Nexia BT, Malta

+ Dissolved during the year.

++ Disposed during the year.

For all non-controlling interests, voting rights not controlled by group are equivalent to ownership interests.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 24 DERIVATIVE FINANCIAL INSTRUMENTS

Group	Contract/ notional amount		Fair value	
	2018	2017	2018	2017
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Interest rate swap – non-current asset	310,755	96,829	7,848	2,372
Interest rate swap – non-current liability	-	87,014	-	1,901

Company	Contract/ notional amount		Fair value	
	2018	2017	2018	2017
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Interest rate swap – non-current asset	96,750	-	2,036	-
Interest rate swap – non-current liability	-	-	-	-

The Group pays fixed rates of interest of 1.57% to 2.63% per annum and receives floating rate interest equal to 3-month LIBOR under the interest rate swap contracts. The swap contracts mature between 23 September 2021 and 22 December 2028.

The fair value of the derivative financial instruments is determined by reference to marked-to-market values provided by counterparties. The fair value measurement of all derivative financial instruments under the Group is classified under Level 2 of the fair value hierarchy, for which inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) are included as inputs for the determination of fair value.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 25 OPTIONS HELD FOR TRADING

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	US\$'000s	US\$'000s
Options to purchase aircraft, at fair value	2,000	3,640

#### 26 CASH AND BANK BALANCES

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Unrestricted	57,950	56,849	3,646	3,046
Restricted	33,152	30,843	-	-
<b>Cash at bank and on hand</b>	<b>91,102</b>	<b>87,692</b>	<b>3,646</b>	<b>3,046</b>

The Group's restricted cash and bank balances have been pledged as security for certain loan obligations.

The rate of interest for cash on interest earning accounts is approximately 0.01% to 1.08% (2017: 0.01% to 1.08%) per annum.

In the consolidated statement of cash flows, cash and cash equivalents comprises unrestricted cash and bank balances.

Cash and bank balances denominated in foreign currencies are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Pound sterling	34	43	22	16
Euro	826	49	-	-
Singapore dollar	317	354	44	189

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 27 ASSETS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE

As at 30 June 2018, the Group's aircraft which met the criteria to be classified as assets held for sale and the associated liabilities were as follows:

	Group	
	2018 US\$'000	2017 US\$'000s
<b>Assets held for sale:</b>		
Property, plant and equipment - aircraft		
At beginning of year	-	-
Additions	48,745	-
<b>At end of year</b>	<b>48,745</b>	<b>-</b>
<b>Liabilities directly associated with assets held for sale:</b>		
<b>Deposits collected</b>	<b>500</b>	<b>-</b>

The Group has entered into a letter of intent to sell the aircraft currently classified as an asset held for sale to a third party buyer subsequent to the year end. The buyer paid a deposit in August 2018 and the sale is expected to complete by December 2018.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 28 SHARE CAPITAL AND TREASURY SHARES

#### (a) Share capital

	2018		2017	
	No of shares	US\$'000s	No of shares	US\$'000s
Allotted, called up and fully paid Ordinary shares of 1 penny each:				
At beginning of the year	61,071,246	1,058	55,785,227	993
Issue of shares	1,689,000	22	5,286,019	65
<b>At end of the year</b>	<b>62,760,246</b>	<b>1,080</b>	<b>61,071,246</b>	<b>1,058</b>

During the year, the Company issued 1,689,000 ordinary shares of 1 penny at prices ranging 130p to 153p following the exercise of warrants by warrant holders raising total gross proceeds of US\$3.29m.

The holders of ordinary shares (except for treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

#### (b) Treasury shares

	2018		2017	
	No of treasury shares	US\$'000s	No of treasury shares	US\$'000s
At beginning of the year	-	-	600	1
Acquired during the year	-	-	-	-
Re-issued during the year	-	-	(600)	(1)
<b>At end of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### (c) Net asset value per share

	2018	2017
Net asset value per share (US\$) <sup>(1)</sup>	\$3.64	\$3.21
Net asset value per share (GBP) <sup>(2)</sup>	£2.76	£2.47

<sup>(1)</sup> Net asset value per share is total equity divided by the total number of shares in issue at period end.

<sup>(2)</sup> Based on GBP:US\$ exchange rate as at 30 June 2018 of 1.321 (30 June 2017 : 1.300).

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 28 SHARE CAPITAL AND TREASURY SHARES

#### (a) Share capital

	2018		2017	
	No of shares	US\$'000s	No of shares	US\$'000s
Allotted, called up and fully paid Ordinary shares of 1 penny each:				
At beginning of the year	61,071,246	1,058	55,785,227	993
Issue of shares	1,689,000	22	5,286,019	65
<b>At end of the year</b>	<b>62,760,246</b>	<b>1,080</b>	<b>61,071,246</b>	<b>1,058</b>

During the year, the Company issued 1,689,000 ordinary shares of 1 penny at prices ranging 130p to 153p following the exercise of warrants by warrant holders raising total gross proceeds of US\$3.29m.

The holders of ordinary shares (except for treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

#### (b) Treasury shares

	2018		2017	
	No of treasury shares	US\$'000s	No of treasury shares	US\$'000s
At beginning of the year	-	-	600	1
Acquired during the year	-	-	-	-
Re-issued during the year	-	-	(600)	(1)
<b>At end of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### (c) Net asset value per share

	2018	2017
Net asset value per share (US\$) <sup>(1)</sup>	\$3.64	\$3.21
Net asset value per share (GBP) <sup>(2)</sup>	£2.76	£2.47

<sup>(1)</sup> Net asset value per share is total equity divided by the total number of shares in issue at period end.

<sup>(2)</sup> Based on GBP:US\$ exchange rate as at 30 June 2018 of 1.321 (30 June 2017 : 1.300).



# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 29 OTHER RESERVES

	Group		Company	
	2018 US\$'000s	2017 US\$'000s	2018 US\$'000s	2017 US\$'000s
Capital redemption reserve	12	12	12	12
Warrant reserve	721	399	721	399
Fair value reserve	5,656	417	-	-
Foreign currency translation reserve	-	(27)	-	-
	<b>6,389</b>	<b>801</b>	<b>733</b>	<b>411</b>

Movements in other reserves are as follows:

	Group		Company	
	2018 US\$'000s	2017 US\$'000s	2018 US\$'000s	2017 US\$'000s
<i>Warrant reserve:</i>				
At the beginning the year	399	588	399	588
Employee share warrant scheme:				
- Value of employee services	688	220	688	220
- Issue of shares	(348)	(403)	(348)	(403)
- Expired	(18)	(6)	(18)	(6)
<b>At end of the year</b>	<b>721</b>	<b>399</b>	<b>721</b>	<b>399</b>
<i>Fair value reserve:</i>				
At the beginning the year	417	(2,387)	-	-
Fair value gain	5,239	2,804	-	-
<b>At end of the year</b>	<b>5,656</b>	<b>417</b>	<b>-</b>	<b>-</b>
<i>Foreign currency translation reserve:</i>				
At the beginning the year	(27)	(27)	-	-
Transfer to profit or loss	27	-	-	-
<b>At end of the year</b>	<b>-</b>	<b>(27)</b>	<b>-</b>	<b>-</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 30 LOANS AND BORROWINGS

	Group		Company	
	2018	2017	2018	2017
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Secured borrowings	555,787	502,301	51,377	7,362
Junior secured borrowings	19,291	23,415	-	-
Unsecured notes (a)	293,522	117,889	-	-
	<b>868,600</b>	<b>643,605</b>	<b>51,377</b>	<b>7,362</b>
Less: current portion of borrowings	(71,704)	(93,044)	(3,068)	(7,362)
	<b>796,896</b>	<b>550,561</b>	<b>48,309</b>	<b>-</b>

	Maturity		Weighted average interest rate per annum	
	2018	2017	2018	2017
	US\$'000s	US\$'000s	%	%
Secured borrowings	2018-2028	2017-2028	4.2%	4.5%
Junior secured borrowings	2020-2023	2020-2023	6.7%	6.7%
Unsecured notes (a)	2021	2020	6.5%	7.5%

Secured borrowings are secured by first ranking mortgages over the relevant aircraft, security assignments of the Group's rights under leases and other contractual agreements relating to the aircraft, charges over bank accounts in which lease payments relating to the aircraft are received and charges over the issued share capital of certain subsidiaries.

Junior secured borrowings are secured by second ranking aircraft mortgages, security assignments and charges over bank accounts.

Borrowing costs capitalised into loans and borrowings amounted to US\$9.72 million (2017: US\$4.38 million). The rate used to determine the amount of borrowing costs for capitalisation was 5.8% (2017: 6.2%) per annum.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 30 LOANS AND BORROWINGS (continued)

- (a) In May 2015, the Company through its wholly-owned subsidiaries, Avation Capital S.A. and Avation Group (S) Pte. Ltd. (together, "the Issuers") established a US\$500 million global medium term note programme (the "Programme") guaranteed by the Company.

Under the Programme, the Issuers may from time to time issue Notes (the "Notes") denominated in any currency as agreed. All Notes issued under the Programme are listed on the Singapore Stock Exchange ("SGX").

In May 2015, the Issuers issued US\$100 million 7.5% Senior Notes due 2020 under the Programme.

In May 2017, the Issuers issued US\$20 million 7.5% Senior Notes due 2020 under the Programme.

Entities over which a Director has significant influence held US\$5.45 million of the May 2015 series of the 7.5% Senior Notes due 2020 as at 30 June 2017. The Notes were fully redeemed during the year.

A Director of the Company held US\$0.2 million of the May 2015 series of the 7.5% Senior Notes due 2020 as at 30 June 2017. The Notes were fully redeemed during the year.

During the year, the Issuers issued US\$30 million 7.5% Senior Notes due 2020 and US\$300 million 6.5% Senior Notes due 2021 under the Programme.

The Group fully redeemed US\$150 million 7.5% Senior Notes due 2020 during the year.

Loans and borrowings denominated in foreign currencies are as follows:

	Group		Company	
	2018	2017	2018	2017
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Euro	28,638	-	-	-

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 31 TRADE AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Current:</b>				
Trade payables	741	372	335	18
Other payables:				
- subsidiaries	-	-	31,379	20,892
- third parties	31	33	31	31
Dividend payable	-	3,664	-	3,664
Deposits collected	-	1,094	-	-
Deferred lease income	376	356	-	-
Revenue received in advance	7,409	5,947	73	99
Accrued expenses	4,833	3,454	2,810	974
	<b>13,390</b>	<b>14,920</b>	<b>34,628</b>	<b>25,678</b>
<b>Non-current:</b>				
Deposits collected	10,338	9,321	150	250
Deferred lease income	2,059	2,159	-	-
	<b>12,397</b>	<b>11,480</b>	<b>150</b>	<b>250</b>

Amounts due to subsidiaries are unsecured, interest free and without fixed repayment terms unless otherwise stated.

Other payables due to subsidiaries includes interest bearing payables of US\$26.99 million (2017: US\$17.91 million) which are unsecured, payable upon demand and bear interest at 8.2% to 9.3% (2017: 9.3%) per annum. Accrued expenses includes interest payable to subsidiaries of US\$2.52 million (2017: US\$0.86 million).

The average credit period taken to settle non-related party trade payables is approximately 30 to 60 days.

Deposits collected are security deposits collected from customers in respect of aircraft lease commitments, and have been discounted to present value at a current pre-tax rate that reflect the risks specific to these deposits. Deposits will be refunded at the end of the respective lease term.

Trade and other payables denominated in foreign currencies are as follows:

	Group		Company	
	2018	2017	2018	2017
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Pound sterling	112	114	112	95
Australian dollar	5	5	5	5
Euro	701	63	184	-
Singapore dollar	533	493	19	22

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 32 MAINTENANCE RESERVES

	Group	
	2018 US\$'000s	2017 US\$'000s
Current	1,040	451
Non-current	22,504	20,813
<b>Total maintenance reserves</b>	<b>23,544</b>	<b>21,264</b>

	Group	
	2018 US\$'000s	2017 US\$'000s
At beginning of year	21,264	10,763
Contributions	13,193	10,668
Utilisations	(422)	(167)
Released to profit or loss	(10,491)	-
<b>At end of the year</b>	<b>23,544</b>	<b>21,264</b>

During the financial year, maintenance reserves of US\$10.49 million were released to profit or loss as revenue due to the recovery of maintenance reserve from an insolvent airline customer that defaulted on its lease payments. See Note 9.

The Group also holds letters of credit for US\$21.33 million (2017: US\$16.82 million) as security for lessees' obligations under operating leases for the maintenance of aircraft.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

**33 DEFERRED TAX LIABILITIES**

Recognised deferred tax liabilities are attributable to the following:

	Group		Company	
	2018 US\$'000s	2017 US\$'000s	2018 US\$'000s	2017 US\$'000s
Property, plant and equipment	4,286	4,168	1,453	1,814
Tax losses carried forward	(1,298)	(850)	-	-
	<b>2,988</b>	<b>3,318</b>	<b>1,453</b>	<b>1,814</b>

Movements in temporary differences are as follows:

Group	Property, plant and equipment US\$'000s	Tax losses carried forward US\$'000s	Total US\$'000s
<b>2018</b>			
At beginning of the year	4,168	(850)	3,318
Recognised in profit or loss	(277)	(448)	(725)
Recognised in equity	395	-	395
<b>At end of the year</b>	<b>4,286</b>	<b>(1,298)</b>	<b>2,988</b>
<b>2017</b>			
At beginning of the year	5,700	(962)	4,738
Recognised in profit or loss	(3,213)	112	(3,101)
Recognised in equity	1,681	-	1,681
<b>At end of the year</b>	<b>4,168</b>	<b>(850)</b>	<b>3,318</b>
Company	Property, plant and equipment US\$'000s	Other items US\$'000s	Total US\$'000s
<b>2018</b>			
At beginning of the year	1,814	-	1,814
- Recognised in profit or loss	(355)	-	(355)
- Recognised in equity	(6)	-	(6)
<b>At end of the year</b>	<b>1,453</b>	<b>-</b>	<b>1,453</b>
<b>2017</b>			
At beginning of the year	432	-	432
- Recognised in profit or loss	796	-	796
- Recognised in equity	586	-	586
<b>At end of the year</b>	<b>1,814</b>	<b>-</b>	<b>1,814</b>

The Group has unutilised tax losses of approximately US\$2.26 million (2017: US\$0.05 million) and unabsorbed capital allowances of approximately US\$102.94 million (2017: US\$117.05 million) that are available for offset against future taxable profits, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these unutilised losses and capital allowances is subject to the agreement of tax authorities and compliance with certain provisions of tax legislation of the countries in which the Group operates.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 34 SHARE BASED PAYMENTS

The Group has an ownership-based compensation scheme for all employees of the Group.

Each share warrant converts into one ordinary share of Avation PLC on exercise. No amounts are paid or are payable by the recipient on receipt of the warrant. The warrants carry neither rights to dividends nor voting rights.

Warrants are granted to all employees of the Group to promote:

- Improvement in share price
- Improvement in profit
- Improvement in returns to shareholders

#### *Movement in warrants during the year*

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, warrants during the year:

	<b>2018</b>		<b>2017</b>	
	No.	WAEP	No.	WAEP
Outstanding at beginning of the year	3,581,190	136.3p	5,948,500	133.9p
- Granted	1,000,000	215.0p	-	-
- Exercised	(1,689,000)	142.9p	(2,342,310)	129.0p
- Expired	(240,500)	157.9p	(25,000)	153.0p
<b>Outstanding at end of the year</b>	<b>2,651,690</b>	<b>159.8p</b>	<b>3,581,190</b>	<b>136.3p</b>
<b>Exercisable at end of the year</b>	<b>951,190</b>	<b>130.0p</b>	<b>1,138,690</b>	<b>136.1p</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 34 SHARE BASED PAYMENTS (continued)

The weighted average fair value of warrants granted during the year was 33 pence (2017: NIL). The charge recognised in profit or loss in respect of share based payments is US\$0.4 million (2017: US\$0.2 million).

During the year, 1,689,000 warrants were exercised (2017: 2,342,310).

Warrants outstanding at the end of the year have the following expiry date and exercise price:

Warrant series granted on	Expiry date	Exercise price	Number of warrants	
			2018	2017
8 December 2014	9 Dec 2017	153.0p	-	982,500
16 November 2015	16 Nov 2018	130.0p	1,721,690	2,598,690
27 November 2017	27 Nov 2020	215.0p	930,000	-

The warrants granted on 8 December 2014 have a 3-year vesting schedule and the details are as follows:

Vesting period	Warrant series signed on 8 December 2014
Before 8 December 2015	0 per cent
On 8 December 2015 and before 8 December 2016	Up to 33 per cent of the grant
On 8 December 2016 and before 8 December 2017	Up to 33 per cent of the grant <b>or</b> up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 8 December 2017	Balance <b>or</b> 100 per cent of the grant if warrants were not exercised after the first and second vesting years

The warrants granted on 16 November 2015 have a 3-year vesting schedule and the details are as follows:

Vesting period	Warrant series signed on 16 November 2015
Before 16 November 2016	0 per cent
On 16 November 2016 and before 16 November 2017	Up to 33 per cent of the grant
On 16 November 2017 and before 16 November 2018	Up to 33 per cent of the grant <b>or</b> up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 16 November 2018	Balance <b>or</b> 100 per cent of the grant if warrants were not exercised after the first and second vesting years



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 34 SHARE-BASED PAYMENTS (continued)

The warrants granted on 27 November 2017 have a 3-year vesting schedule and the details are as follows:

Vesting period	Warrant series signed on 27 November 2017
Before 27 November 2018	0 per cent
On 27 November 2018 and before 27 November 2019	Up to 33 per cent of the grant
On 27 November 2019 and before 27 November 2020	Up to 33 per cent of the grant <b>or</b> up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 27 November 2020	Balance <b>or</b> 100 per cent of the grant if warrants were not exercised after the first and second vesting years

The warrants were valued using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the previous nine months.

	Warrant series granted on 27 November 2017	Warrant series granted on 16 November 2015	Warrant series granted on 8 December 2014
Inputs into the model:			
Grant date share price	215.0 pence	130.0 pence	153.5 pence
Exercise price	215.0 pence	130.0 pence	153.0 pence
Expected volatility	25% to 28%	20%	20%
Warrant life	3 years	3 years	3 years
Dividend yield	1.91%	1.01%	0.73%
Risk free interest rate	0.83% to 0.93%	0.35%	0.35%

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 35 CAPITAL COMMITMENTS

Capital expenditure contracted for at the reporting date but not recognised in the financial statements is as follows:

	Group	
	2018 US\$'000s	2017 US\$'000s
Property, plant and equipment	115,013	147,890

The above capital commitments represent amounts due under contracts entered into by the Group to purchase aircraft. The company has paid deposits towards the cost of these aircraft which are included in trade and other receivables.

As at the year end, the Group has commitments to purchase six ATR 72-600 aircraft from the manufacturer with expected delivery dates over a 1 year period ending in June 2019. Two of these aircraft are due to be delivered before the end of the calendar year 2018. Subsequent to the date of this report, the Group has signed lease agreements for these aircraft. See note 40.

#### 36 OPERATING LEASE COMMITMENTS

The Group leases out aircraft under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	Group	
	2018 US\$'000s	2017 US\$'000s
Within one year	112,860	81,161
In the second to fifth years inclusive	410,312	289,033
More than five years	382,083	245,822

The Group holds cash deposits of US\$13.19 million (2017: US\$12.74 million) and letters of credit for US\$8.04 million (2017: US\$4.05 million) as security for lessees' obligations under operating leases.

#### 37 CONTINGENT LIABILITIES

##### Guarantees

	Company	
	2018 US\$'000s	2017 US\$'000s
Guarantees	868,600	643,605

The maximum estimated amount that the Company could become liable for under guarantees is as shown above.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

#### 38 DIVIDENDS

	2018 US\$'000s	2017 US\$'000s
<b>Declared/paid during the year:</b>		
<i>Dividends on ordinary shares</i>		
- Interim exempt (one-tier) dividend for 6.00 US cents (2017: 3.25 US cents) per share paid during the year	3,664	1,820
- Interim exempt (one-tier) dividend for Nil US cents (2017:6.00 US cents) per share declared	-	3,664

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

#### 39 ULTIMATE HOLDING COMPANY

No party controls the Company.

#### 40 SUBSEQUENT EVENTS

On 19 July 2018 the Group acquired and leased a second new Airbus A220-300 aircraft to airBaltic, the Latvian hybrid carrier, for a term of 12 years.

On 18 August 2018, the Group signed leases with Danish Air Transport A/S for the supply of two new ATR 72-600 aircraft for a term of 12 years.

On 5 September 2018, the Directors of the Company declared a 7.25 US Cents interim dividend for the financial year ended 30 June 2018.

On 6 September 2018, 2,335,000 warrants were granted at an exercise price of 232 pence per share to the directors and employees of the Group.

#### 41 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company and the consolidated financial statements of the Group for the year ended 30 June 2018 were authorised for issue by the Board of Directors on 21 September 2018.

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Airbus A220-300 aircraft at production facility (Photo: CC BY 2.0 Kārlis Dambrāns)

# ANNUAL REPORT 2018

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**avation** PLC

65 Kampong Bahru Road  
Singapore 169370  
[www.ovation.net](http://www.ovation.net)

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Index:	Reuters/BBG LSE	AVAP.LN AVAP
FTSE Sector:	Industrial Transportation	
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