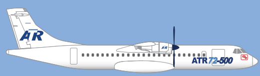
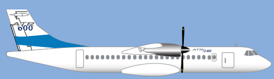
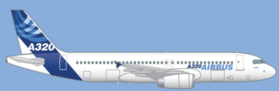
avation PLC

ANNUAL REPORT

2017

OUR FLEET

Aircraft Type		In Operation	Ordered	Options
ATR 72-500		6	-	-
ATR 72-600		13	8	27
Airbus A320-200		3	-	-
Airbus A321-200		8	-	-
Fokker 100		5	-	-
Total		**35**	**8**	**27**

MODEL ATR 72-500 | ATR 72-600

MODEL Airbus A320-200 | Airbus A321-200

MODEL Fokker F100

COMPANY INFORMATION

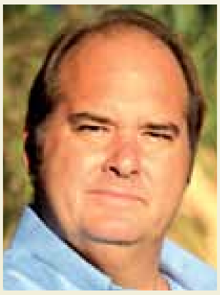
DIRECTORS:	Robert Jeffries Chatfield Roderick Douglas Mahoney Stephen John Fisher Derek Sharples (appointed on 15 November 2016)
COMPANY SECRETARY:	Duncan Gerard Stephen Scott
REGISTERED OFFICE:	5 Fleet Place London EC4M 7RD United Kingdom
PRINCIPAL PLACE OF BUSINESS:	65 Kampong Bahru Road Singapore 169370
AUDITOR:	Kingston Smith LLP Devonshire House 60 Goswell Road London EC1M 7AD United Kingdom
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

TABLE OF CONTENTS

CHAIRMAN'S STATEMENT

OVERVIEW

- Lease revenue increased by 32% to $94.2 million;
- Earnings before interest and tax ("EBIT" or "Operating Profit") grew 32% to $60.2 million;
- Profit before taxation increased by 18% to $21.4 million;
- Total profit after tax increased 16% to $21.3 million;
- Operating cash flows increased 20% to $63.0 million;
- Dividend per share increased by 85% to 6.00 US cents; and
- Earnings per share ("EPS") increased by 6% to 36.3 US cents.



BACKGROUND AND OUTCOME

We are pleased to report record revenue, profit and operating cashflow in the year to 30 June 2017. Avation continues to diversify its aircraft fleet while adding balance sheet scale. Fleet metrics have improved with lease yield rising to 12.8% (2016: 12.3%) while the average age of the fleet has reduced and the average remaining lease term for the aircraft portfolio has increased.

The Company has ended the year with a substantial cash balance, lower leverage and has an improved credit rating, which are features that support the funding of further fleet expansion. Avation aims to grow the aircraft portfolio materially during the coming Financial Year and is currently assessing a number of aircraft for acquisition.

As at 30 June 2017 Avation's fleet comprised 35 aircraft, including seven aircraft on finance leases. Fleet metrics have continued to improve, the weighted average age of the operating fleet (excluding finance leases) is 3.3 years (2016: 4.2 years) and the weighted average remaining lease term is 7.5 years (2016: 6.8 years). Avation has signed a letter of intent to lease three ATR 72 turboprop aircraft for delivery to Mandarin Airlines, one of which is included in the above fleet numbers with two additional aircraft on order for delivery in the latter part of 2017.

Increased scale and containment of costs resulted in increased profitability, with operating profit margin holding steady at 63.9% and total profit after tax increasing 16.3%. Avation is well positioned for continued growth.

INTERIM DIVIDEND

Earnings and profitability of Avation's leasing business have improved. The Board would like to reward ownership and recognise shareholder support as it continues the successful development of the business. Accordingly, the Board has approved an interim dividend increase to 6.00 US cents per share (2016: 3.25 US cents) in respect of the Financial Year. The Company confirms its aim to maintain a progressive dividend policy.

CHAIRMAN'S STATEMENT

OUTLOOK

Avation continues to grow its fleet and lease revenue year on year. Avation has demonstrated the liquidity of key aircraft types at a premium to book value and reduced the concentration of assets with individual airlines. New aircraft have been acquired since the commencement of the 2017 Financial Year while older aircraft have been sold or converted to finance leases. This has resulted in improved fleet age and average remaining lease term metrics.

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

Avation's strategy continues to target growth and diversification of aircraft assets, maintenance of strong average lease age and term metrics and adding new airline customers. Avation will consider acquiring twin aisle aircraft, in addition to single aisle jets and turboprops as part of a strategy to build a diversified portfolio of aircraft. This expanded portfolio allows for the potential to accelerate fleet growth in the future. Twin aisle aircraft may have a risk profile which is more exposed to technology change factors. The Company will seek to mitigate this risk.

Following the completion of the sale of six ATR 72 aircraft during the financial period, Avation has cash reserves and improved leverage to support the acquisition of additional aircraft, including the three ATR 72 aircraft to be delivered to Mandarin Airlines in the latter part of 2017.

Avation's Board of Directors is pleased to deliver another record set of financial results from its aircraft leasing business while executing its strategy of fleet growth and risk mitigation. Avation is in a strong position to deliver diversification during the current Financial Year and to rebuild its fleet after the disposal of six ATR 72 aircraft.

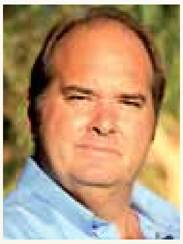
Robert Jeffries Chatfield,

Executive Chairman

Singapore

25 September 2017

BOARD OF DIRECTORS

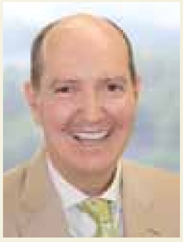


Jeff Chatfield
Executive Chairman

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 recently 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 Operating 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 divisions 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-three 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

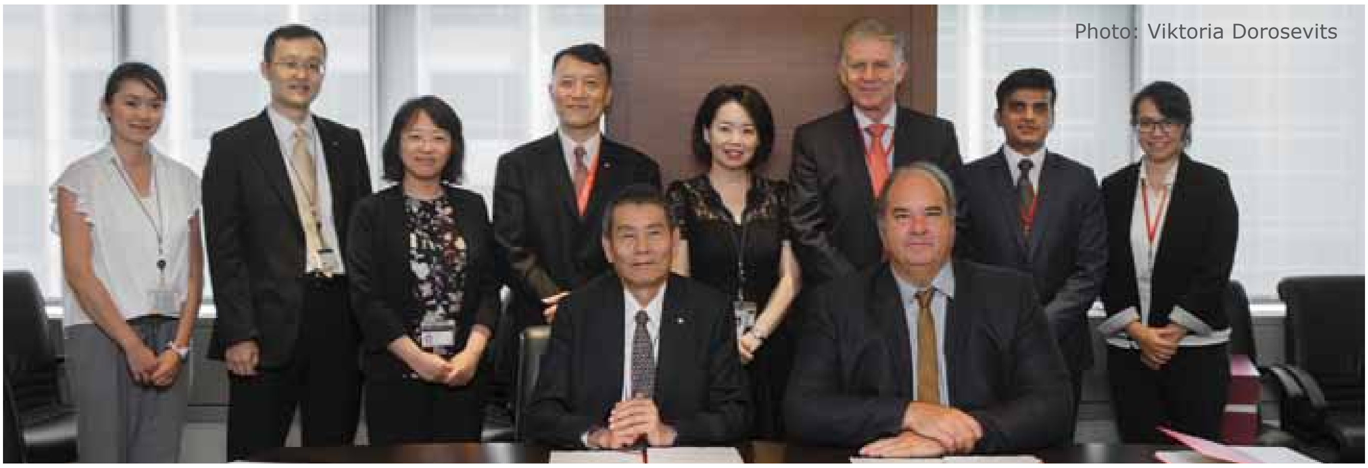


Photo: Viktoria Dorosevits

The Directors present their strategic report for the year ended 30 June 2017.

BUSINESS OVERVIEW

Avation PLC and its subsidiaries ("Avation", the "Group") is a commercial passenger aircraft leasing group managing a fleet of 35 aircraft, as at 30 June 2017, which are leased to airlines globally. Avation's customers include Virgin Australia, Thomas Cook, Condor, Fiji Airways, UNI Air, Air India Regional, Flybe, Air France, Air Berlin and Vietjet Air. The Group's fleet includes Airbus A320 and A321 narrow body 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 8 ATR 72-600s on order from the manufacturer and holds options for a further 27 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 turbo-prop regional aircraft, principally the popular and fuel efficient ATR 72-600 model and b) new and second-hand narrow body jets in particular the popular Airbus A320/A321 family and Boeing 737NG aircraft. The Group will also consider acquiring 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.

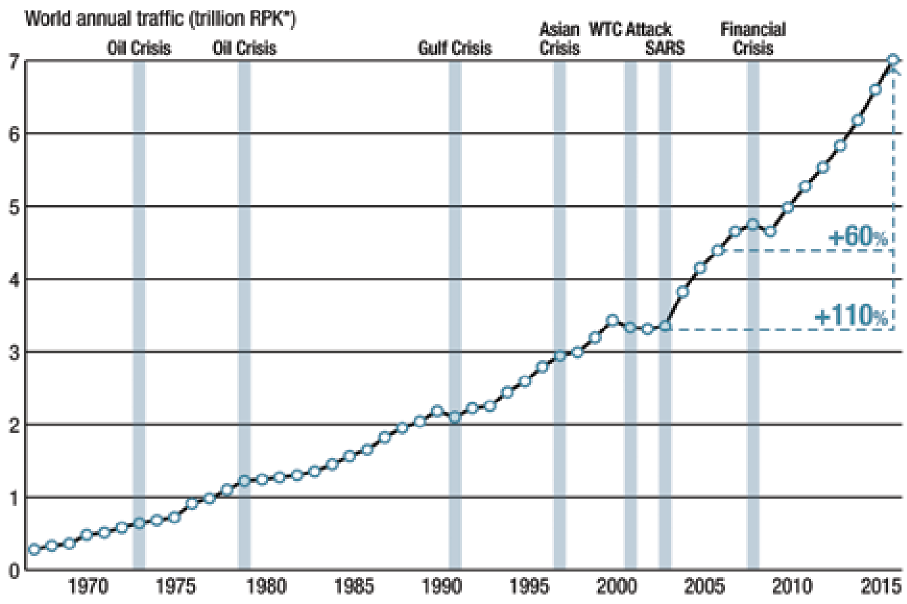
The Group finances the acquisition of new aircraft using internally generated cash flows, senior and junior secured debt finance, the issuance of unsecured notes under its Global Medium Term Note programme and the issuance of new ordinary shares. Debt on older aircraft is re-financed when there is an 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 35 aircraft (as at 30 June 2017) has a weighted average age of 3.3 years and weighted average remaining lease term of 7.5 years with a current customer base of airlines in Australia, Europe and the Asia-Pacific region.

STRATEGIC REPORT



*RPK = Revenue Passenger Kilometres

| Source: ICAO, Airbus GMF 2017

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 41,000 new aircraft are required over the next 20 years; of which 39% are expected to be in Asia-Pacific, 21% in North America, 18% in Europe, and of the total, 72% are expected to be single aisle.[1]

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.

[1] Airbus Global Market Forecast 2017

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.

Avation has one Airbus A320 aircraft on lease to Air Berlin, which announced insolvency on 15 August 2017 and subsequently defaulted under its lease. Avation holds security deposits and substantial maintenance reserves as security for Air Berlin's lease obligations. Avation is liaising with Air Berlin and various third

STRATEGIC REPORT


Photo: Viktoria Dorosevits

parties that have expressed interest in acquiring parts of the Air Berlin business and/or leasing this 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.

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 twin aisle aircraft, in addition to single aisle jets and turboprops, as part of a 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

	2017 US$'000s	2016 US$'000s
Lease revenue	94,173	71,190
Operating profit	60,199	45,573
Total profit	21,257	18,280
Net cash from operating activities	63,020	52,547
Total assets	901,135	831,785
Total equity	195,924	173,608
Basic earnings per share	36.27 cents	34.35 cents
Dividend per share	6.00 cents	3.25 cents

Lease revenue increased by 32.3% to US$94.2 million (2016: US$71.2 million) as a result of changes in the aircraft fleet.

Operating profit increased 32.1% to US$60.2 million (2016: US$45.6 million).

Depreciation increased by 39.2% to US$32.3 million (2016: US$23.2 million) as a consequence of changes in the fleet.

Gains on sales of aircraft during the period were US$5.4 million (2016: US$3.7 million) and impairment losses were nil (2016: US$ 0.9 million). The Group sold three Airbus A321 aircraft and six ATR 72-600 aircraft during the year and also converted operating leases for five Fokker 100 aircraft to finance leases.

Administrative expenses increased 6.6% to US$8.0 million (2016: US$7.6 million). As a percentage of lease revenue administrative expenses decreased to 8.5% (2016: 10.6%). Other expenses were US$0.1 million (2016: US$0.7 million).

Finance expenses increased by 41.5% to US$40.6 million (2016: US$28.7 million) and total interest expense within finance expenses increased to US$37.4 million (2016: US$26.8 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 ("GMTN") was US$8.3 million (2016: US$8.3 million). Finance income was US$1.8 million (2016: US$1.2 million).

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 US$0.1 million (2016: a credit of US$0.2 million). The tax charge for the year was impacted by a reduction in deferred tax provisions resulting from the announcement of a reduction in the concessionary tax rate payable under the Aircraft Leasing Scheme from 10% to 8% effective in 2019. The tax charge in 2016 was impacted by the reversal of an over-provision for deferred taxation.

STRATEGIC REPORT

Operating cash flows increased by 20.0% to US$63.0 million (2016: US$52.5 million). EBITDA, defined as the sum of pre-tax profit from continuing operations, finance expenses and depreciation increased by 34.7% to US$94.3 million (2016: US$70.0 million).

Total profit after tax for the Financial Year increased 16.3% to US$21.3 million (2016: US$18.3 million).

Basic earnings per share increased by 5.6% to 36.3 US cents (2016: 34.4 US cents).

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

FLEET OVERVIEW

Type	1 July 2016	Additions	Disposals	30 June 2017	On order	Options
ATR 72-500	6	-	-	6	-	-
ATR 72-600	18	1	6	13	8	27
A320-200	3	-	-	3	-	-
A321-200	6	5	3	8	-	-
Fokker 100	5	-	-	5	-	-
Total	38	6	9	35	8	27

Four new Airbus A321 and one ATR 72-600 aircraft were added to the fleet during the period, with one new Airbus A321 aircraft acquired and sold immediately after delivery. Two mid-life Airbus A321 and six ATR 72-600 aircraft were sold during the year. As at 30 June 2017 the weighted average age of the fleet was 3.3 years (2016: 4.2 years) and the weighted average remaining lease term was 7.5 years (2016: 6.8 years). As at 30 June 2017, 34 aircraft were utilised on leases to airlines and one aircraft was undergoing modification work prior to its expected delivery to a new airline customer in November 2017.

Five Fokker 100 aircraft with a total net book value of US$12.2 million were removed from property, plant and equipment in the year as a result of converting operating leases to finance leases.

The aircraft fleet was valued as at 30 June 2017 by a third party valuer using lease encumbered basis in accordance with the Group's accounting policy. As the carrying values of the aircraft were found not to differ significantly from lease encumbered values, no revaluation of the fleet was required.

DEBT SUMMARY

	2017	2016
	US$'000s	US$'000s
Loans and borrowings	648,813	615,724
Cash and cash equivalents	87,692	48,267
Net indebtedness	561,121	567,457
Loan to value ratio	72.0%	74.0%
Weighted average cost of secured debt	4.5%	4.3%
Weighted average cost of total debt	5.1%	4.8%

Loans and borrowings increased due to additional secured debt issued to fund fleet acquisitions. Net indebtedness decreased marginally due to an increases in cash balances more than offsetting the increase in loans and borrowings.

The weighted average cost of total debt increased to 5.1% as at 30 June 2017 (2016: 4.8%). The weighted average cost of the Group's secured debt facilities increased to 4.5% as at 30 June 2017 (2016: 4.3%). The overall increase in the Group's cost of debt was principally due to junior secured debt issued to partially fund the acquisition of four Airbus A321 aircraft during the year.

STRATEGIC REPORT

In December 2016, Standard & Poor's Global Ratings advised that Avation's corporate credit rating has been upgraded to 'B+', Outlook Stable from 'B'; the Senior Unsecured Notes rating was raised to 'B' from 'B-'. During the period Japan Credit Rating Agency, Ltd assigned a Foreign Currency Long-term Issuer Rating for Avation of 'BB', Outlook Stable. The Company's current credit ratings are as follows:

Rating Agency	Corporate Credit Rating	Senior Unsecured Notes Rating
Standard and Poor's	B+ outlook stable	B
Fitch Ratings	B+ outlook stable	B+
Egan-Jones Ratings Company	BB	NR
Japan Credit Rating Agency	BB outlook stable	NR

Avation issued an additional US$20.0 million Senior Unsecured Notes under the GMTN at a premium to par value in June 2017. The Board is pleased to report achieving both a ratings upgrade and an improvement in pricing for unsecured debt issued in the year.

At the end of the financial period, Avation's overall loan to value ratio was 72.0% (2016: 74.0%) and 95.1% of total debt was at fixed or hedged interest rates (2016: 91.6%). At the end of the financial period, there was no related party debt other than pursuant to participation in Senior Unsecured Notes issued under the Global Medium Term Note Programme.

The leasing industry in general and Avation in particular operate in a capital-intensive industry benefiting from the current low interest rate environment resulting in low funding costs. 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. The majority of our fleet are modern regional turbo-prop 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 2017 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 2017 is set out below:

	Male	Female
Directors of the Company	4	-
Senior managers	5	-
Other employees	5	6

On behalf of the board

Robert Jeffries Chatfield
Executive Chairman
25 September 2017

DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 30 June 2017.

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 24 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 pages 36 and 38. The Company paid a 6.00 US cents interim dividend on 10 August 2017 and a dividend of 3.25 US cents on 13 October 2016.

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 Guarantor and its shareholders. The policy is a progressive dividend policy, 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 (or subsequent date of appointment) and end of the year, were as follows:

	Direct interest		Deemed interest	
	30 June 2017	1 July 2016 or date of appointment	30 June 2017	1 July 2016 or date of appointment
Ordinary shares of £0.01 each:				
Robert Jeffries Chatfield	1	1	10,705,000	10,405,000
Roderick Douglas Mahoney	300,000	300,000	-	-
Stephen John Fisher	5,000	5,000	-	-
Derek Sharples (appointed on 15 November 2016)	10,000	-	-	-

DIRECTORS' REPORT

Photo: Viktoria Dorosevits

Significant shareholdings

	Ordinary shares	Percentage
Ordinary shares of £0.01 each:		
Goldman Sachs Securities (Nominees) Limited	16,318,788	26.72%
State Street Nominees Limited	5,812,903	9.52%
Chase Nominees Limited	5,666,140	9.28%
Lynchwood Nominees Limited	5,258,085	8.61%
HSBC Global Custody Nominee (UK) Limited	3,775,000	6.18%

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.

DIRECTORS' REPORT

For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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. Estimated direct carbon emissions by the Company totalled 11,527 kilograms for the year ended 30 June 2017.

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 32. 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 33.

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 September 2014. 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, Derek Sharples and Robert Heese (non-Board member); and
- Risk Committee – Derek Sharples, Stephen John Fisher, Iain Cawte (non-Board member), Duncan Scott (non-Board member), Richard Wolanski (non-Board member) and Robert Heese (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 and compliance controls, and risk management procedures are appropriate and suitable to enable the Board to safeguard shareholders' investments and the Company's assets.

DIRECTORS' REPORT

The processes 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

Kingston Smith LLP 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, the Company sold 600 shares held in the treasury. Following the sale the Company no longer owns any of its own shares.

By a resolution passed at the Annual General Meeting held on 15 November 2016 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 £0.50 and not above £2.50 per share, excluding commissions and other related expenses.

Subsequent events

See Note 41 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 33, 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

Photo: Viktoria Dorosevits

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 substantiality unchanged for 2016. 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 32%, total profit increasing 16% and EPS increasing 6%. 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
Salary and benefits	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.	**Operation:** 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. 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. **Framework used to assess performance:** 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.
Bonuses	To incentivise and recognise execution of the business strategy on a semi-annual basis.	**Operation:** 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. **Framework used to assess performance:** 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.
Share Warrants	To incentivise and recognise execution of the business strategy over the long-term.	**Operation:** 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. **Framework used to assess performance:** Same as for bonus.

DIRECTORS' REMUNERATION REPORT

Individual Director's remuneration was as follows:

	Salaries and fees US$'000s	**Bonuses** US$'000s	**Taxable benefits** US$'000s	**Total 2017** US$'000s	**Total 2016** US$'000s
Executive Directors:					
Robert Jeffries Chatfield	496	-	45	541	699
Roderick Douglas Mahoney	292	106	-	398	428
Non-Executive Directors:					
Stephen John Fisher	29	-	-	29	30
Derek Sharples	19	-	-	19	-
	836	**106**	**45**	**987**	**1,157**

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:

	Date of contract	**Unexpired term**	**Notice period**	**Compensation payable on early termination**
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 Directors and senior management of the Group.

Warrants are granted to Directors and senior management 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

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 *	20 Nov2013	110.0p	300,000	-	(300,000)	-
Robert Jeffries Chatfield *	8 Dec 2014	153.0p	450,000	-	-	450,000
Robert Jeffries Chatfield *	16 Nov2015	130.0p	450,000	-	-	450,000
Roderick Douglas Mahoney**	20 Nov 2013	110.0p	300,000	-	(300,000)	-
Roderick Douglas Mahoney	8 Dec 2014	153.0p	400,000	-	(267,000)	133,000
Roderick Douglas Mahoney	16 Nov 2015	130.0p	400,000	-	-	400,000

* Robert Jeffries Chatfield was granted the share warrants via Epsom Assets Limited. For warrants exercised during the year the market price was 210.0p at the date of exercise.

** Roderick Douglas Mahoney was granted the share warrants via Douglas Aviation Pte Ltd. For warrants exercised during the year, the market price was 214.0p at the date of exercise.

The closing market price of the shares subject to warrants at the year-end was 223.5p. The highest and lowest closing market prices during the year were 228.5p and 134.5p.

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

	2017	2016	2015	2014	2013
Executive Chairman single figure remuneration (US$'000)	541	699	711	638	267
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

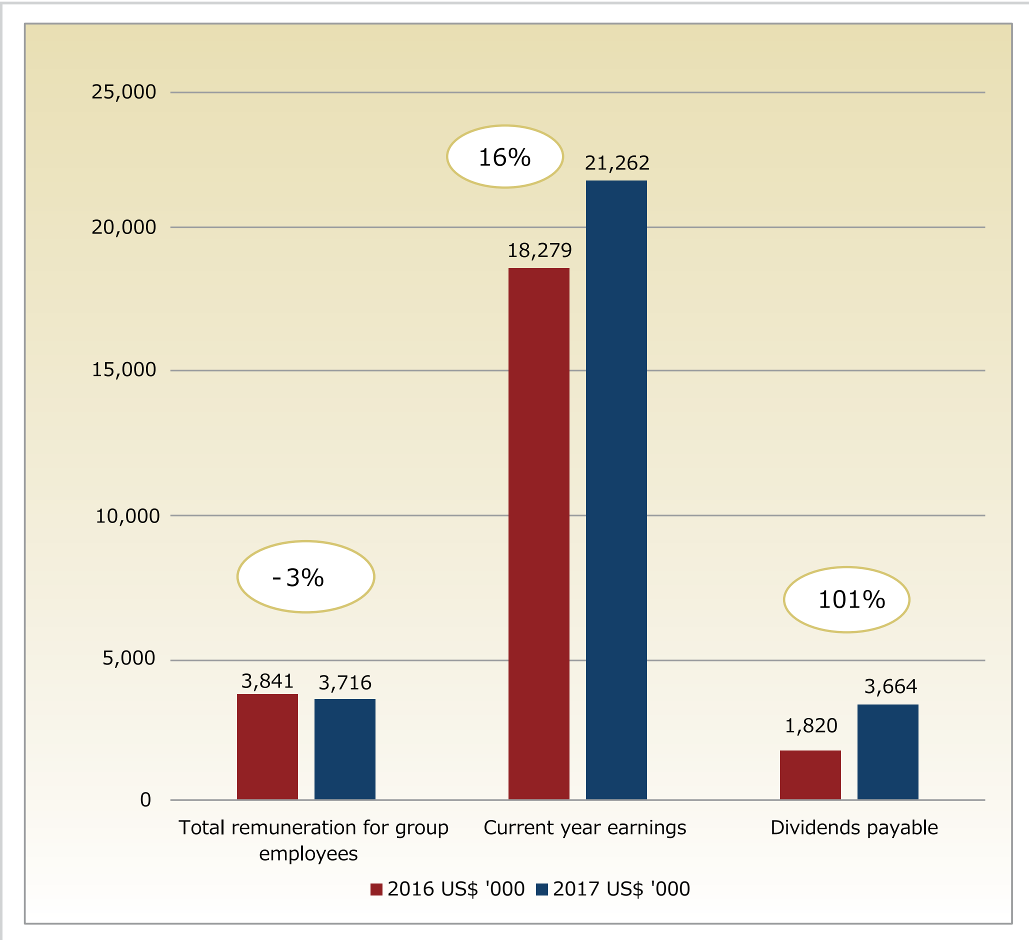
Percentage change in remuneration of Chief Executive Officer

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 2016 to 2017		
	% change in base salary	**% change in annual bonus**	**% change in taxable benefits**
Executive Chairman	(6%)	(100%)	(55%)
All employees	9%	(35%)	(40%)

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 polices are in place for Directors and employees of an equivalent level.

Shareholders' vote on remuneration

	Share Count	% of Total
Votes cast in favour	31,380,797	100.00%
Votes cast against	0	0.00%
Total votes cast in favour or against	31,380,797	100.00%
Votes withheld	5,812,903	

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 2016 was approved at the Annual General Meeting held on 15 November 2016.

On behalf of the Board

Robert Jeffries Chatfield

Executive Chairman

DIRECTORS' RESPONSIBILITIES

Statement of Directors' responsibilities

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, financial position and profit or loss of the Company and of the Group;
- 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 25 September 2017 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

We have audited the financial statements of Avation Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2017 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and notes 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 the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- 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 2017 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 have been properly prepared in accordance with IFRSs as adopted by the European Union and 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.

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 for no purpose other than to draw to the attention of the company's members those matters which we are required to include in an auditor's report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the company and company's members as a body, for our work, for this report, or for the opinions we have formed.

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 financial statements section of our report. We are independent of the group 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 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) we identified, including 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How the scope of our audit responded to the matter</th></tr>
<tr><td>
Aircraft Valuation
The carrying value of aircraft is the most significant figure in the financial statements. The total carrying value of aircraft as set out in note 25 to the financial statements is $744.6m (2016: $724.8m); aircraft carrying value is therefore highly significant as fleet size and age and condition of aircraft influence the group's revenue and borrowings. Carrying value also impacts our audit approach, because, as explained elsewhere in our audit report, materiality is derived from group net assets.
As explained in the group's accounting policies (note 3.g) aircraft are measured at fair value. Fair value is determined on a lease encumbered value basis ('LEV') as this is considered to represent the highest and best use for the leased aircraft. As detailed in note 4, LEV involves significant judgement in respect of the key inputs that determine the value, as follows:
End of lease residual value; and
Discount rates.
Significant judgements compared to prior year
Residual values – Residual values are determined by observing current market prices and inflating these using a market expectation. The inflation rate applied to calculate residual values was 1% (2016: 0%).
Discount rates – Discount rates are unchanged from the prior year; 8.1% for turbo-props and 6.5% for narrow body jets.
Key observations
No aircraft were revalued upwards in the year. Two older narrow body jets sold by the group during the year were impaired prior to sale, reversing previously recognised upwards revaluations.
</td><td>
Each aircraft is individually material to the financial statements, creating a potential significant risk of material misstatement. Therefore our audit work included critically examining the value of each aircraft.
The group engage a firm of independent experts to provide an LEV for each aircraft that wasn't purchased in the period. We assessed the valuer as independent and competent, given their experience and reputation. The valuations were critically examined which included, but was not limited to, considering the following:
Does LEV represent the highest and best use? We concluded that as the group's principal activity was leasing and this is how the group will generate returns from the asset that LEV was an appropriate basis of valuation. Are residual values appropriate? The independent valuer observes current market transactions for used aircraft and these prices are inflated at 1% p.a. We discussed market outlook with the valuer and the valuer's own view of inflation and consider that the rate applied by the group is reasonable. Is the discount rate appropriate? The discount rate compared appeared appropriate compared with the group's cost of capital. The independent valuers confirmed that narrow body aircraft were lower risk than turbo props.
We also reviewed market values achieved on disposals of aircraft with a lease in situ in order to provide further evidence of LEV being an appropriate measure of fair value.
Details of historic cost can be found in note 25.
</td></tr>
</table>

Key audit matter	**How the scope of our audit responded to the matter**
Aircraft options held for trading The Group holds purchase options in respect of 27 ATR 72-600s from the manufacturer. In the previous year management determined that two of these options were clearly in excess of the business's usage requirements and the aircraft acquired under the options would not be taken into the lease fleet and would instead be sold. On that basis management determined that it was appropriate to measure the excess options as fair value through profit and loss financial instruments in accordance with IAS 39. The carrying value of these options is \$3.6m (2016: \$3.0m). Any change in either the fair value of the option or management's intentions on the exercise of the option impacts on the income statement directly. Fair value is determined as the present value of the expected market value of a new unencumbered aircraft at the delivery date less the present value of the contracted purchase price. As detailed in note 4, this involves significant judgement in respect of the key inputs that determine the value, as follows: o Market value on delivery; and o Discount rates. *Significant judgements compared to prior year* o Market values on delivery – Delivery values are determined by observing current market prices and inflating these using a market expectation. The inflation rate applied to calculate residual values was 1.5% (2016: 1.5%). o Discount rates – Discount rates are unchanged from the prior year and consistent with the discount rates used for LEVs; 8.1%. o Options in excess of usage requirements – The same two option aircraft are considered to exceed the group's usage requirements. No new options have been acquired in the year. *Key observations* A \$0.6m increase in the fair value of the purchase options has been recognised in the income statement.	The fair value of purchase options is material to the financial statements and the valuation is impacted by management intentions and future market trends about which we cannot be certain, therefore creating a potential significant risk of material misstatement. The group engage a firm of independent experts to provide estimated market values for each aircraft at the delivery date. We assessed the valuer as independent and competent, given their experience and reputation. The key assumptions were critically examined which included, but was not limited to, considering the following: o Will the two options be taken into the fleet when delivered? Based on documented board decisions and management representations we concluded that the intention of the group is not to bring these option aircraft into the fleet. o Are residual values appropriate? The independent valuer observes current market transactions for new aircraft and these prices are inflated at 1.5% p.a. We discussed market outlook with the valuer and the valuer's own view of inflation and consider that the rate applied by the group is reasonable o Is the discount rate appropriate? The discount rate compared appeared appropriate compared with the group's cost of capital. The discount rate used for the options was the same as that used to calculate LEVs for the same type of aircraft.

Our application of materiality

Calculating materiality for the financial statements is a vital part of the audit process as it is risks of material misstatement that our audit planning needs to identify. We then plan our audit fieldwork to identify material misstatements, whether caused by fraud or error, in order to determine whether the financial statements show a true and fair view.

Misstatements, including omissions or non-disclosure, are considered material to the financial statements if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Based on our professional judgement we determined materiality for the group financial statements as a whole to be $1,828,000.

In determining materiality we applied a multiple of 1% to group net assets. The nature of the business is such that the both revenues and profits are derived directly from the group's physical assets and the majority of the key measures used by shareholders in assessing the performance of the entity relate to its asset base. We therefore considered it appropriate to calculate materiality on a consistent basis. We applied this level of materiality when planning our audit procedures including the level of work to be performed on individual balances and classes of transactions.

An overview of the scope of our audit

Our engagement was for the audit of the group and parent company financial statements of Avation PLC for the year ended 30 June 2017. We tailored the scope of our audit to ensure that we performed sufficient work to enable us to express an opinion on the financial statements as a whole.

The Group's parent company is registered in the United Kingdom but the majority of the operating subsidiaries are located overseas. These subsidiaries are mainly special purpose vehicles set up either to hold aircraft or to lease them externally. The nature of the Group's business, with a relatively small number of high value income generating assets, is such that most of the subsidiaries are material to the group and constitute significant components. All significant components were subject to audit.

We performed group level analytical review procedures on those entities which were not significant components and not subject to audit to identify any indications that further evidence or specific audit work might be required in order to enable us to express our opinion on the group financial statements.

While the audit report on the consolidated financial statements of Avation PLC remains the responsibility of Kingston Smith LLP alone we placed reliance on the work performed by component auditors in relation to certain overseas subsidiaries.

In order that we were able to place reliance on the work performed by the component auditors we were in regular contact with those firms at each stage of the audit – planning, performance and completion.

We held planning discussions with each firm to direct their audit approach to ensure that their work would address key risk issues identified by the primary audit team at group and also entity level and to understand whether there were any additional risk areas identified by the component auditors at entity level. We also advised component auditors of maximum materiality thresholds to be used at entity level. Detailed planning documentation was submitted by each component auditor to the primary team on a consistent basis defined by the primary team.

During the performance of the audit we communicated regularly with component auditors to monitor their progress and to ensure that we were informed of any difficulty or area of concern, disagreement or subjectivity as soon as it was identified. We also visited the component auditors in Singapore based on the financial significance of the Singapore based entities to the group as a whole.

Our approach in respect of key audit matters is set out above.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
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 this 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 the 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 where 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 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 directors' responsibilities statement set out on page 24, 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's and the 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.

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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK) we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Other matters which we are required to address

We were first appointed by the board to audit the financial statements for the group on 7 November 2007 when the group listed on the PLUS market. The group subsequently listed on the standard list of the London Stock Exchange for in the year ended 30 June 2010. We were most recently reappointed as auditors to the group on 15 November 2016. Our total uninterrupted period of engagement is 10 years, covering the period from 7 November 2007 to the present.

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 our audit.

Our audit opinion is consistent with the additional report to the audit committee.

25 September 2017

Mark Twum-Ampofo (Senior Statutory Auditor)
For and on behalf of Kingston Smith LLP, Statutory Auditor

Devonshire House
60 Goswell Road
London
EC1M 7AD

AVATION PLC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 US$'000s	2016 US$'000s
Continuing operations			
Revenue	9	94,173	71,190
Other income	10	1,086	3,045
		95,259	74,235
Depreciation	25	(32,300)	(23,201)
Gain on disposal of aircraft		5,357	3,660
Impairment loss on aircraft		-	(902)
Administrative expenses	11	(8,046)	(7,550)
Other expenses	12	(71)	(669)
Operating profit		60,199	45,573
Finance income	13	1,790	1,202
Finance expenses	14	(40,626)	(28,706)
Profit before taxation	16	21,363	18,069
Taxation	17	(106)	202
Profit from continuing operations		**21,257**	**18,271**
Discontinued operations			
Profit from discontinued operations	18	-	9
Total profit		**21,257**	**18,280**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences arising on consolidation		-	(6)
Fair value gain/(loss) on derivative financial instruments		2,804	(2,158)
		2,804	(2,164)
Items that may not be reclassified subsequently to profit or loss:			
Impairment/revaluation gain on property, plant and equipment, net of tax		(5,568)	30,987
Other comprehensive income, net of tax		(2,764)	28,823
Total comprehensive income for the year		**18,493**	**47,103**
Profit attributable to:			
Equity holders of the Company		21,262	18,279
Non-controlling interests		(5)	1
		21,257	**18,280**
Total comprehensive income attributable to:			
Equity holders of the Company		18,509	47,098
Non-controlling interests		(16)	5
		18,493	**47,103**

AVATION PLC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

		2017	2016
		US$'000s	US$'000s
Earnings per share for profit from continuing and discontinued operations attributable to equity holders of the Company			
Basic earnings per share:			
From continuing operations	19	36.27 cents	34.33 cents
From total operations		36.27 cents	34.35 cents
Diluted earnings per share:			
From continuing operations	19	35.68 cents	34.13 cents
From total operations		35.68 cents	34.15 cents

AVATION PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 US$'000s	2016 US$'000s
ASSETS:			
Current assets:			
Cash and cash equivalents	20	87,692	48,267
Trade and other receivables	21	6,109	5,631
Finance lease receivables	22	36,641	3,032
Options held for trading	23	3,640	3,040
Total current assets		134,082	59,970
Non-current assets:			
Trade and other receivables	21	9,320	11,304
Finance lease receivables	22	8,728	33,627
Property, plant and equipment	25	744,731	724,982
Goodwill	26	1,902	1,902
Derivative financial instruments	30	2,372	-
Total non-current assets		767,053	771,815
Total assets		**901,135**	**831,785**
LIABILITIES AND EQUITY:			
Current liabilities:			
Trade and other payables	27	14,920	10,065
Provision for taxation		3,515	1,029
Loans and borrowings	28	94,122	72,423
Maintenance reserves	29	451	7,440
Total current liabilities		113,008	90,957
Non-current liabilities:			
Trade and other payables	27	11,480	13,471
Loans and borrowings	28	554,691	543,301
Derivative financial instruments	30	1,901	2,387
Deferred tax liabilities	31	3,318	4,738
Maintenance reserves	29	20,813	3,323
Total non-current liabilities		592,203	567,220
Equity attributable to shareholders:			
Share capital	32	1,058	993
Treasury shares	32	-	(1)
Share premium		48,365	38,925
Merger reserve		6,715	6,715
Asset revaluation reserve		24,492	41,142
Capital reserve		8,876	8,876
Other reserves	34	801	(1,814)
Retained earnings		105,556	78,679
		195,863	173,515
Non-controlling interest		61	93
Total equity		195,924	173,608
Total liabilities and equity		**901,135**	**831,785**

Approved by the board and authorised for issue on 25 September 2017

Robert Jeffries Chatfield
Executive Chairman

AVATION PLC

COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		US$'000s	US$'000s
ASSETS:			
Current assets:			
Cash and cash equivalents	20	3,046	7,666
Trade and other receivables	21	82,734	52,476
Options held for trading	23	3,640	3,040
Total current assets		89,420	63,182
Non-current assets:			
Trade and other receivables	21	4,698	5,567
Investment in subsidiaries	24	15,375	15,375
Property, plant and equipment	25	15,919	17,000
Total non-current assets		35,992	37,942
Total assets		**125,412**	**101,124**
LIABILITIES AND EQUITY:			
Current liabilities:			
Trade and other payables	27	25,678	9,359
Loans and borrowings	28	7,362	1,592
Total current liabilities		33,040	10,951
Non-current liabilities:			
Trade and other payables	27	250	1,406
Loans and borrowings	28	-	7,362
Deferred tax liabilities	31	1,814	432
Total non-current liabilities		2,064	9,200
Equity attributable to shareholders:			
Share capital	32	1,058	993
Treasury shares	32	-	(1)
Share premium		48,365	38,925
Merger reserve		6,715	6,715
Asset revaluation reserve		2,862	3,448
Other reserves	34	411	600
Retained earnings		30,897	30,293
Total equity		90,308	80,973
Total liabilities and equity		**125,412**	**101,124**

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$6.08 million (2016: US$16.68 million).

Approved by the board and authorised for issue on 25 September 2017

Robert Jeffries Chatfield
Executive Chairman

AVATION PLC

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

		Attributable to shareholders of the parent										
	Note	Share capital	Treasury shares	Share premium	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 2016		993	(1)	38,925	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)
Total comprehensive income		-	-	-	-	(5,557)	-	2,804	21,262	18,509	(16)	18,493
Dividend paid during the year	39	-	-	-	-	-	-	-	(1,820)	(1,820)	-	(1,820)
Dividend payable	39								(3,664)	(3,664)	-	(3,664)
Re-issue of treasury shares	32	-	1	-	-	-	-	-	-	1	-	1
Issue of new shares	32	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)
Warrant expired		-	-	-	-	-	-	(6)	6	-	-	-
Warrants expense		-	-	-	-	-	-	220	-	220	-	220
Total transactions with owners recognised directly in equity		65	1	9,440	-	(11,093)	-	(189)	5,615	3,839	(16)	3,823
Balance at 30 June 2017		**1,058**	**-**	**48,365**	**6,715**	**24,492**	**8,876**	**801**	**105,556**	**195,863**	**61**	**195,924**

During the year the Company paid a dividend of 3.25 US cents (2016: 3.00 US cents) per share.

During the year, the Directors approved the payment of a dividend of 6.00 US cents per share that was paid on 10 August 2017.

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 PLC 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 2016

		Attributable to shareholders of the parent										
	Note	**Share capital**	**Treasury shares**	**Share premium**	**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 2015		991	(682)	38,692	6,715	10,159	8,459	50	62,363	126,747	1,457	128,204
Profit for the year		-	-	-	-	-	-	-	18,279	18,279	1	18,280
Other comprehensive income		-	-	-	-	30,983	-	(2,164)	-	28,819	4	28,823
Total comprehensive income		-	-	-	-	30,983	-	(2,164)	18,279	47,098	5	47,103
Dividend paid	39	-	-	-	-	-	-	-	(1,656)	(1,656)	-	(1,656)
Purchase of treasury shares	32	-	(7,936)	-	-	-	-	-	-	(7,936)	-	(7,936)
Re-issue of treasury shares	32	-	8,617	-	-	-	-	-	(307)	8,310	-	8,310
Treasury shares of a subsidiary		-	-	-	-	-	882	-	-	882	2	884
Issue of new shares	32	2	-	233		-	-	(39)	-	196	-	196
Warrants expense		-	-	-	-	-	-	339	-	339	-	339
Change in ownership interest in a subsidiary		-	-	-	-	-	(465)	-	-	(465)	(1,371)	(1,836)
Total transactions with owners recognised directly in equity		2	681	233	-	-	417	300	(1,963)	(330)	(1,369)	(1,699)
Balance at 30 June 2016		**993**	**(1)**	**38,925**	**6,715**	**41,142**	**8,876**	**(1,814)**	**78,679**	**173,515**	**93**	**173,608**

AVATION PLC

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

	Note	Share capital	Treasury shares	Share premium	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
Balance at 1 July 2016		**993**	**(1)**	**38,925**	**6,715**	**3,448**	**600**	**30,293**	**80,973**
Profit for the year		-	-	-	-	-	-	6,082	6,082
Other comprehensive income		-	-	-	-	(586)	-	-	(586)
Total comprehensive income		-	-	-	-	*(586)*	-	*6,082*	*5,496*
Dividend paid	39	-	-	-	-	-	-	(1,820)	(1,820)
Dividend payable	39							(3,664)	(3,664)
Re-issue of treasury shares	32	-	1	-	-	-	-	-	1
Issue of new shares	32	65	-	9,725	-	-	(403)	-	9,387
Share issue expenses		-	-	(285)	-	-	-	-	(285)
Warrants lapsed/cancelled		-	-	-	-	-	(6)	6	-
Warrants expense		-	-	-	-	-	220	-	220
Total transactions with owners, recognised directly in equity		*65*	*1*	*9,440*	-	-	*(189)*	*(5,478)*	*3,839*
Balance at 30 June 2017		**1,058**	**-**	**48,365**	**6,715**	**2,862**	**411**	**30,897**	**90,308**

During the year the Company paid a dividend of 3.25 US cents (2016: 3.00 US cents) per share.

During the year, the Directors approved the payment of a dividend of 6.00 US cents per share that was paid on 10 August 2017.

AVATION PLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Share capital	Treasury shares	Share premium	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
Balance at 1 July 2015		**991**	**(682)**	**38,692**	**6,715**	**2,873**	**300**	**15,579**	**64,468**
Profit for the year		-	-	-	-	-	-	16,677	16,677
Other comprehensive income		-	-	-	-	575	-	-	575
Total comprehensive income		-	-	-	-	575	-	16,677	17,252
Dividend paid	39	-	-	-	-	-	-	(1,656)	(1,656)
Purchase of treasury shares	32	-	(7,936)		-	-	-	-	(7,936)
Re-issue of treasury shares	32	-	8,617	-	-	-	-	(307)	8,310
Increase of new shares	32	2	-	233	-	-	(39)	-	196
Warrants expense		-	-	-	-	-	339	-	339
Total transactions with owners, recognised directly in equity		*2*	681	*233*	-	-	*300*	*(1,963)*	*(747)*
Balance at 30 June 2016		**993**	**(1)**	**38,925**	**6,715**	**3,448**	**600**	**30,293**	**80,973**

AVATION PLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 US$'000s	2016 US$'000s
Cash flows from operating activities:			
Profit before taxation from continuing operations		21,363	18,069
Profit before taxation from discontinued operations		-	9
Profit before income tax		21,363	18,078
Adjustments for:			
Depreciation expense		32,300	23,201
Warrants expense	15	220	339
Impairment loss on aircraft		-	902
Impairment loss on trade receivables	12	41	7
Impairment loss on goodwill	12	-	482
Amortisation of loan insurance premium	14	1,078	1,078
Amortisation of interest expense on non-current deposits	14	924	376
Non-trade receivables written off	12	30	-
Gain on disposal of aircraft		(5,357)	(3,660)
Gain on disposal of assets held for sale		-	(25)
Fair value gain on options held for trading	10	(600)	(2,940)
Fair value gain on derivatives	10	(54)	-
Finance income from discounting non-current deposits to fair value	13	(929)	(393)
Interest income	13	(861)	(809)
Interest expense	14	37,396	26,811
Operating cash flows before working capital changes		85,551	63,447
Movement in working capital:			
Trade and other receivables and finance lease receivables		5,034	3,798
Trade and other payables		(1,269)	1,226
Maintenance reserves		10,501	9,938
Cash from operations		99,817	78,409
Interest received		846	809
Interest paid		(36,922)	(26,034)
Income tax paid		(721)	(637)
Net cash from operating activities		**63,020**	**52,547**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(275,665)	(323,222)
Purchase of options held for trading		-	(100)
Proceeds from disposal of aircraft		211,714	24,755
Proceeds from disposal of assets held for sale		-	55
Purchase of additional shares in a subsidiary from non-controlling interest		-	(22)
Repurchase of a subsidiary's treasury shares		-	(884)
Net cash used in investing activities		**(63,951)**	**(299,418)**
Cash flows from financing activities:			
Net proceeds from issuance of ordinary shares		9,102	196
Dividends paid to shareholders		(1,820)	(1,656)
Repurchase of treasury shares		-	(7,936)
Proceeds from sale of treasury shares		1	8,310
Dividend paid to non-controlling interest of a subsidiary		(16)	(46)
Proceeds from loans and borrowings, net of transactions costs		236,243	233,869
Repayment of loans and borrowings		(203,154)	(46,240)
Net cash from financing activities		**40,356**	**186,497**
Effects of exchange rates on cash and cash equivalents		-	(6)
Net increase/(decrease) in cash and cash equivalents		**39,425**	**(60,380)**
Cash and cash equivalents at beginning of year		48,267	108,647
Cash and cash equivalents at end of year		**87,692**	**48,267**

AVATION PLC

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	2017 US$'000s	2016 US$'000s
Cash flows from operating activities:		
Profit before taxation	6,878	16,618
Adjustments for:		
Dividend income	(6,584)	(14,810)
Depreciation expense	1,088	1,034
Interest income	(1,568)	(1,087)
Interest expense	1,410	1,115
Fair value gain on options held for trading	(600)	(2,940)
Warrant expense	220	339
Operating cash flows before working capital changes	844	269
Movement in working capital:		
Trade and other receivables and prepayments	(28,205)	(2,529)
Trade and other payables	(7,027)	(7,869)
Cash used in operations	(34,388)	(10,129)
Interest received	384	358
Interest paid	(792)	(1,081)
Net cash used in operating activities	**(34,796)**	**(10,852)**
Cash flows from investing activities:		
Dividends received	6,584	17,724
Purchase of property, plant and equipment	(7)	(23)
Purchase of options held for trading	-	(100)
Investment in subsidiaries	-	(22)
Net cash from investing activities	**6,577**	**17,579**
Cash flows from financing activities:		
Net proceeds from issuance of ordinary shares	9,102	196
Dividends paid to owner of company	(1,820)	(1,656)
Repurchase of treasury shares	-	(7,936)
Re-issue of treasury shares	1	8,310
Proceeds from loans and borrowings	17,908	4,081
Repayment of loans and borrowings	(1,592)	(3,546)
Net cash from/(used in) financing activities	**23,599**	**(551)**
Net (decrease)/increase in cash and cash equivalents	**(4,620)**	**6,176**
Cash and cash equivalents at beginning of year	7,666	1,490
Cash and cash equivalents at end of year	**3,046**	**7,666**

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 24 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 1.300.

The preparation of financial statements in conformity with IFRS requires the use of 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.

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 2017. 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.

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

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 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.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

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 changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

(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.

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.

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:

Jets	25 years from date of manufacture
Turbo props	25 years from date of manufacture
Furniture and equipment	3 years

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.

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) **JOINTLY CONTROLLED ASSETS** – A jointly controlled asset involves joint control and ownership by the Group and other venturers of assets contributed to or acquired. The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or used of its share of the joint venture’s output, together with its share of the expense incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

(k) **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.

(l) **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 termination of the lease, any unutilised maintenance reserve balance will be released to profit and loss or continued to be retained as reserves for drawdown by the follow-on operator. Upon sale of the aircraft, any unutilised maintenance reserve balance held in respect of historic operation of the aircraft that are required to maintain the aircraft to the required standards by a follow-on operator are provided as a charge to profit and loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) **SHARE-BASED PAYMENTS** – The cost of share based payment arrangements whereby employees receive remuneration in the form of warrants, is recognised as an employee benefit expense in profit or loss. The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value at date of grant. The assumption underlying the number of warrants expected to vest are subsequently adjusted for the effects of non-market based vesting conditions prevailing at the reporting date. Fair value is measured by the use of the Black-Scholes method and is based on a reasonable expectation of the extent to which performance criteria will be met.

(n) **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.

(o) **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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) **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 an integral part of the total rental income.

(ii) 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.

(iii) 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.

(iv) Sales of goods are recognised when goods are delivered and title has passed.

(v) Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

(vi) Licence fees received are recognised over the life of the licence agreement. Ongoing royalties and commissions pursuant to the licence agreement are recognised as earned.

(q) **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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) **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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) **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.

(t) **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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) FINANCIAL INSTRUMENTS (continued)

(ii) **Cash and cash equivalents** - Cash and cash equivalents comprise cash at bank and on hand and call deposits which are subject to an insignificant risk of changes in value.

(iii) **Financial liabilities and equity** - Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(iv) **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.

(v) **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.

(vi) **Equity instruments** - Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(u) **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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) **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.

(v) **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.

(w) **SEGMENTAL REPORTING** - Operating segments are reported in a manner consistent with the internal reporting provided to the executive chairman who is responsible for allocating resources and assessing performance of operating segments.

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 of property, plant and equipment – aircraft

The Group periodically evaluates its aircraft for impairment. Factors that would indicate potential impairment would include, but not be limited to, significant decreases in the market value of aircraft or, a significant change in an aircraft's physical condition or cash-flow associated with the use 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.

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.

5 NEW STANDARDS AND INTERPRETATIONS NOT APPLIED AND STANDARDS IN EFFECT IN 2017

(a) New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements.

The Group intends to apply these standards and interpretations when they become effective.

International Accounting Standards (IAS/IFRS)	Effective Date (accounting periods commencing after)
Amendments to IAS 7 Statement of cash flows	1 January 2017
Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses	1 January 2017
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
Amendments to IFRS 2 Classification and measurements of share-Based payment transactions	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associates or joint venture	To be determined

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Group in future periods. IFRS 16 does not substantially change the accounting for lessors whilst the Group's operating lease commitments (as set out in note 36) are immaterial. IFRS 9 is not expected to change the accounting treatment for the financial instruments that the Group holds. IFRS 15 is not expected to cause any material change to the Group financial statements as currently all of the Group's income is outside the scope of that standard. Beyond this, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed. It is anticipated that the other IFRS and IFRIC interpretations are not relevant for the Group's activities.

(b) Standards in effect in 2017

The Group has adopted all new standards that have come into effect during the year.

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 cash equivalents, trade and other receivables, trade and other payables and loans and borrowings 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.

Non-financial assets measured at fair value:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Fair value measurement using significant unobservable inputs:				
Aircraft	744,624	724,800	15,879	16,904

Aircraft were valued at 30 June 2017 and 30 June 2016. Refer to Note 25 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	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Loans and receivables:				
Cash and cash equivalents	87,692	48,267	3,046	7,666
Trade and other receivables	9,261	9,647	87,281	57,907
Finance lease receivables	45,369	36,659	-	-
	142,322	**94,573**	**90,327**	**65,573**
Financial liabilities measured at amortised cost:				
Trade and other payables	17,938	15,219	25,829	10,666
Loans and borrowings	648,813	615,724	7,362	8,954
Maintenance reserves	21,264	10,763	-	-
	688,015	**641,706**	**33,191**	**19,620**
Derivative used for hedging:				
Derivative financial instruments- asset	2,372	-	-	-
Derivative financial instruments- (liability)	(1,901)	(2,387)	-	-
Fair value through profit or loss:				
Options held for trading	3,640	3,040	3,640	3,040

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:

	Group	
	2017	**2016**
	US$'000s	US$'000s
Asia Pacific	1,669	2,355
Europe	1,010	1,304
	2,679	**3,659**

The Group's concentration of customers is disclosed in Note 37.

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$1.76 million (2016: US$2.76 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:

	Group	
	2017	**2016**
	US$'000s	US$'000s
Past due less than 3 months	816	828
Past due 3 to 6 months	59	-
Past due over 6 months	46	69
	921	**897**

(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 2017, 95% (2016: 92%) 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 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.

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 cash equivalents US$'000s	Trade and other receivables US$'000s	Other financial liabilities US$'000s	Net currency exposure US$'000s
2017:				
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)
	446	**119**	**(675)**	**(110)**
2016:				
Pound sterling	245	2	(86)	161
Australian dollar	16	91	(101)	6
Euro	23	23	(91)	(45)
Swiss Franc	-	6	(16)	(10)
Singapore dollar	335	1	(432)	(96)
	619	**123**	**(726)**	**16**

Company	Cash and cash equivalents US$'000s	Trade and other receivables US$'000s	Other financial liabilities US$'000s	Net currency exposure US$'000s
2017:				
Pound sterling	16	21	(95)	(58)
Australian dollar	-	-	(5)	(5)
Euro	-	-	-	-
Singapore dollar	189	25	(22)	192
	205	**46**	**(122)**	**129**
2016:				
Pound sterling	183	1	(60)	124
Australian dollar	-	-	(10)	(10)
Euro	-	-	-	-
Singapore dollar	55	-	(19)	36
	238	**1**	**(89)**	**150**

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% (2016: 10%) with all other variables including tax rate being held constant:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Foreign currency:				
Pound sterling	(5)	16	(6)	12
Australian dollar	-	-	-	(1)
Euro	2	(5)	-	-
Swiss Franc	-	(1)	-	-
Singapore dollar	(8)	(10)	19	4

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

(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.

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:

7 FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Liquidity risk (continued)

Group	**One year or less** US$'000s	**One to five years** US$'000s	**Over five years** US$'000s	**Total** US$'000s
2017:				
Financial assets:				
Cash and cash equivalents	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
Financial liabilities:				
Trade and other payables	8,623	4,302	7,588	20,513
Loans and borrowings	124,084	416,487	256,528	797,099
Maintenance reserves	451	13,133	7,680	21,264
Total undiscounted financial liabilities	133,158	433,922	271,796	838,876
Total net undiscounted financial liabilities	**(3,517)**	**(419,880)**	**(271,796)**	**(695,193)**
2016:				
Financial assets:				
Cash and cash equivalents	48,267	-	-	48,267
Trade and other receivables	4,080	5,567	-	9,647
Finance lease receivable	3,600	33,600	-	37,200
Total undiscounted financial assets	55,947	39,167	-	95,114
Financial liabilities:				
Trade and other payables	3,497	2,831	11,061	17,389
Loans and borrowings	98,203	405,312	182,402	685,917
Maintenance reserves	7,440	3,323	-	10,763
Total undiscounted financial liabilities	109,140	411,466	193,463	714,069
Total net undiscounted financial liabilities	**(53,193)**	**(372,299)**	**(193,463)**	**(618,955)**

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
2017:				
Financial assets:				
Cash and cash equivalents	3,046	-	-	3,046
Trade and other receivables	82,583	4,698	-	87,281
Total undiscounted financial assets	85,629	4,698	-	90,327
Financial liabilities:				
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
Total net undiscounted financial assets/(liabilities)	**52,688**	**4,448**	**-**	**57,136**
2016:				
Financial assets:				
Cash and cash equivalents	7,666	-	-	7,666
Trade and other receivables	52,340	5,567	-	57,907
Total undiscounted financial assets	60,006	5,567	-	65,573
Financial liabilities:				
Trade and other payables	9,260	1,406	-	10,666
Loans and borrowings	1,993	7,660	-	9,653
Total undiscounted financial liabilities	11,253	9,066	-	20,319
Total net undiscounted financial assets/(liabilities)	**48,753**	**(3,499)**	**-**	**45,254**

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 cash equivalents.

	Group		**Company**	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Current:				
Net debt	561,121	567,457	4,316	1,288
Total equity	195,924	173,608	90,308	80,973
Total capital	**757,045**	**741,065**	**94,624**	**82,261**
Gearing ratio:	74%	77%	5%	2%

The Group is in compliance with all externally imposed capital requirements for the years ended 30 June 2017 and 30 June 2016.

(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.

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:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Key management:				
Short-term employee benefits	2,007	1,985	381	439

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

	Group	
	2017	**2016**
	US$'000s	US$'000s
Aggregate emoluments	541	699

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

8 RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Entities controlled by key management personnel (including Directors):				
Rental expenses paid	(213)	(217)	(119)	(119)
Consulting fee paid	(193)	(107)	(163)	(107)
Service fee paid	-	(15)	-	(15)
Interest expense	(424)	(506)	(15)	(74)
Directors				
Interest expense	(44)	(9)	(29)	-

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

	Company	
	2017	**2016**
	US$'000s	US$'000s
Commission income	960	105
Dividend income	6,584	14,428
Interest income	1,568	1,087
Management and service fee income	44	759
Rental income	2,088	2,088
Interest expense	(997)	(596)

9 REVENUE

	Group	
	2017	**2016**
	US$'000s	US$'000s
Lease rental revenue	92,414	71,190
End of lease return compensation	1,759	-
	94,173	**71,190**

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

10 OTHER INCOME

	Group	
	2017	**2016**
	US$'000s	US$'000s
Finance lease conversion fee	325	-
Fair value gain on options held for trading	600	2,940
Fair value gain on derivatives	54	-
Foreign currency exchange gain	35	-
Others	72	105
	1,086	**3,045**

11 ADMINISTRATIVE EXPENSES

	Group	
	2017	**2016**
	US$'000s	US$'000s
Staff costs (note 15)	3,716	3,841
Other administrative expenses	4,330	3,709
	8,046	**7,550**

12 OTHER EXPENSES

	Group	
	2017	**2016**
	US$'000s	US$'000s
Foreign currency exchange loss	-	47
Impairment loss on trade receivables	41	7
Impairment loss on goodwill	-	482
Non-trade receivables written off	30	-
Others	-	133
	71	**669**

13 FINANCE INCOME

	Group	
	2017	**2016**
	US$'000s	US$'000s
Interest income	861	809
Finance income from discounting non-current deposits to fair value	929	393
	1,790	**1,202**

14 FINANCE EXPENSES

	Group	
	2017	**2016**
	US$'000s	US$'000s
Interest expense on borrowings	29,079	18,546
Interest expense on unsecured 7.5% notes	8,317	8,265
Amortisation of loan insurance premium	1,078	1,078
Amortisation of interest expense on non-current deposits	924	376
Finance charges on early full repayment on borrowings	914	-
Others	314	441
	40,626	**28,706**

15 STAFF COSTS

	Group	
	2017	**2016**
	US$'000s	US$'000s
Wages and salaries	3,496	3,502
Warrants expense	220	339
	3,716	**3,841**

The average number of Directors of the Company for the year is 4 (2016: 3). The average number of other employees for the year is 16 (2016: 16).

16 PROFIT BEFORE TAXATION

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

	Group	
	2017	**2016**
	US$'000s	US$'000s
Depreciation of property, plant and equipment	32,300	23,201
Foreign currency exchange (gain)/loss	(35)	47
Audit fees:		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	85	65
Fees payable to the Company's auditor and their associates for audits of the Company's subsidiaries' annual accounts	13	34
Total audit fees	**98**	**99**
Auditors' remuneration for non-audit services:		
- Tax compliance services	-	5
Total fees for non-audit services	**-**	**5**

17 TAXATION

	Group	
	2017	**2016**
	US$'000s	US$'000s
From continuing operations		
Current tax expense:		
- Singapore	1,350	1,018
- Overseas	1,810	188
(Over)/Under provision in prior years current tax expense:		
- Singapore	(2)	(31)
- Overseas	8	56
Deferred tax expense:		
- Singapore	(686)	(349)
- Overseas	(936)	(466)
Over provision in prior years deferred tax expense:		
- Singapore	(1,479)	(622)
Withholding tax	41	4
	106	**(202)**

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	
	2017	**2016**
	US$'000s	US$'000s
Profit before income tax		
- continuing operations	21,363	18,069
- discontinued operations (Note 18)	-	9
	21,363	18,078
Tax calculated at 17% (2016: 17%)	3,632	3,073
Effects of:		
(Over)/under provision in prior years current tax expense		
- Singapore	(2)	(31)
- Overseas	8	56
Over provision in prior years deferred tax expense:		
- Singapore	(1,479)	(622)
Non-deductible items	2,593	1,492
Income not subject to tax	(1,511)	(1,971)
Different tax rates of other countries	113	223
Effect of concessionary tax rate at 10%	(2,005)	(2,417)
Effect of concessionary tax rate at 8%	(1,234)	-
Effect of tax exemption and tax relief	(52)	(89)
Withholding tax	41	4
Others	2	80
	106	**(202)**

18 DISCONTINUED OPERATIONS

Discontinued operations are derived from the cessation of the Group's leasing operations in North America in 2015.

(a) Results of discontinued operations

	Group	
	2017	**2016**
	US$'000s	US$'000s
Revenue	-	25
Expenses	-	(16)
Profit before tax from discontinued operations	-	9
Taxation	-	-
Profit after tax from discontinued operations	**-**	**9**

(b) Cash flows from discontinued operations

	Group	
	2017	**2016**
	US$'000s	US$'000s
Operating cash/(outflow) inflows	-	(16)
Investing cash inflows	-	55
Total cash inflows	**-**	**39**

(c) Earnings per share from discontinued operations

	Group	
	2017	**2016**
Profit per share from discontinued operation attributable to equity owners of the Company (cents per share)		
Basic	-	0.02 cents
Diluted	-	0.02 cents

19 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	
	2017	**2016**
	US$’000s	US$’000s
Total profit attributable to equity holders of the company		
- Continuing operations	21,262	18,270
- Discontinued operations	-	9
	21,262	18,279
Weighted average number of ordinary shares (‘000s)	58,626	53,208
Basic earnings per share:		
- Continuing operations	36.27 cents	34.33 cents
- Discontinued operations	-	0.02 cents
	36.27 cents	34.35 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.

19 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share (continued)

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

	Company	
	2017	**2016**
	US$'000s	US$'000s
Total profit attributable to equity holders of the company		
- Continuing operations	21,262	18,270
- Discontinued operations	-	9
- Total operations	21,262	18,279
Weighted average number of ordinary shares ('000s)	58,626	53,208
Adjustment for warrants ('000s)	966	314
Weighted average number of ordinary shares ('000s)	59,592	53,522
Diluted earnings per share:		
- Continuing operations	35.68 cents	34.13 cents
- Discontinued operations	-	0.02 cents
- Total operations	35.68 cents	34.15 cents

20 CASH AND CASH EQUIVALENTS

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Cash at bank and on hand	87,692	48,267	3,046	7,666

The rate of interest for cash on interest earning accounts is approximately 0.01% to 1.08% (2016: 0.01% to 0.10%) per annum.

Cash and cash equivalents denominated in foreign currencies are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Pounds sterling	43	245	16	183
Australian dollar	-	16	-	-
Euro	49	23	-	-
Singapore dollar	354	335	189	55

21 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017	2016	2017	2016
	US$'000s	US$'000s	US$'000s	US$'000s
Current:				
Trade receivables	2,720	3,666	175	15
Less:				
Impairment loss on trade receivables	(41)	(7)	-	-
	2,679	3,659	175	15
Other receivables:				
– subsidiaries	-	-	80,126	51,019
– third parties	1,813	391	21	255
Interest receivables:				
– subsidiaries	-	-	2,236	1,051
– third parties	16	-	-	-
Deposits	55	30	25	-
Prepaid expenses	468	469	151	136
Prepaid loan premiums	1,078	1,082	-	-
	6,109	**5,631**	**82,734**	**52,476**
Non-current:				
Deposits for aircraft	4,698	5,567	4,698	5,567
Prepaid expenses	492	529	-	-
Prepaid loan premiums	4,130	5,208	-	-
	9,320	**11,304**	**4,698**	**5,567**

Other receivables from subsidiaries includes interest bearing receivables of US$23.40 million (2016: US$24.96 million). The receivables are unsecured and repayable upon demand. Interest is charged at 5.5% to 6.0% (2016: 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	
	2017	2016	2017	2016
	US$'000s	US$'000s	US$'000s	US$'000s
Pound sterling	23	2	21	1
Australian dollar	-	91	-	-
Euro	31	23	-	-
Swiss Franc	5	6	-	-
Singapore dollar	60	1	25	-

22 FINANCE LEASE RECEIVABLES

During the year, a third party who leases 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 2.5 to 3.5 years.

Finance lease receivables also include amounts from leases reclassified in the previous year with an approximate remaining term of 0.5 years. Finance lease receivables do not include any contingent rents or residual value guarantees.

Future minimum lease payments receivable under finance are as follows:

	2017		2016	
Group	**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	37,386	36,641	3,600	3,032
Later than one year but not more than five years	9,344	8,728	33,600	33,627
Total minimum lease payments	**46,730**	**45,369**	**37,200**	**36,659**
Less: amounts representing interest income	(1,361)	-	(541)	-
Present value of minimum lease payments	**45,369**	**45,369**	**36,659**	**36,659**

23 OPTIONS HELD FOR TRADING

	Group and Company	
	2017 US$'000s	**2016** US$'000s
Options to purchase aircraft, at fair value	3,640	3,040

24 INVESTMENT IN SUBSIDIARIES

	Company	
	2017	**2016**
	US$'000s	US$'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 2017** %	**2016** %
Held directly by the Company:					
Avation.net Inc	(f)	United States	Procurement	99.96	99.96
Avation Capital S.A.	(b)	Luxembourg	Financing	100.00	100.00
Capital Lease Aviation Limited	(a)	United Kingdom	Aircraft leasing	99.68	99.68
MSN429 Leaseco Limited	(f)	United Kingdom	Aircraft leasing	100.00	100.00
Avation Group (S) Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) Limited	(f)	Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) Limited	(e)	Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) II Limited	(e)	Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) III Limited	(e)	Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) IV Limited	(e)	Ireland	Aircraft leasing	100.00	100.00
Held by Capital Lease Aviation Limited:					
Capital Lease Malta Ltd.	(c)	Malta	Aircraft leasing	99.68	99.68
Capital Lease Aviation (S) Pte. Ltd.	(f)	Singapore	Aircraft leasing	99.68	99.68
Capital MSN 4033 Limited	(e)	Ireland	Aircraft leasing	99.68	99.68
Held by Avation Eastern Fleet Pte. Ltd.:					
Airframe Leasing (S) Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Held by Avation Eastern Fleet II Pte. Ltd.:					
Airframe Leasing (S) II Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Held by Avation Eastern Fleet III Pte. Ltd.:					
Airframe Leasing (S) III Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Held by Avation Eastern Fleet IV Pte. Ltd.:					
Airframe Leasing (S) IV Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Held by MSN 429 Leaseco Limited:					
MSN 429 Limited	(f)	United Kingdom	Aircraft leasing	100.00	100.00
Held by F100 Fleet Pte. Ltd.:					
F100 Leasing Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00

24 INVESTMENT IN SUBSIDIARIES (continued)

Name of entity		Country of incorporation	Principal activities	Ownership interest 2017 %	Ownership interest 2016 %
Held by Avation Group (S) Pte. Ltd.:					
Avation Eastern Fleet Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Avation Eastern Fleet II Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Avation Eastern Fleet III Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Avation Eastern Fleet IV Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Avation Pacific Leasing Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Avation Taiwan Leasing Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) II Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) III Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
MSN 429 (S) Pte. Ltd.	(f)	Singapore	Aircraft leasing	100.00	100.00
F100 Fleet Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
MSN 1607 Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Trading Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) IV Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Avation Leasing (China) Pte. Ltd.	(g)	Singapore	Aircraft leasing	-	100.00
AVAP Leasing Holding Pte. Ltd.	(g)	Singapore	Aircraft leasing	-	100.00
Avation Asia Fleet Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00
Avation Asia Fleet II Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	-
Avation Asia Fleet III Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	-
MSN 1922 Pte. Ltd.	(d)	Singapore	Aircraft leasing	100.00	100.00

(a) Audited by Kingston Smith LLP, London, United Kingdom
(b) Audited by Artemis Audit and Advisory, Luxembourg
(c) Audited by Nexia BT, Malta
(d) Audited by Ernst & Young LLP, Singapore
(e) Audited by KSi Faulkner Orr, Dublin, Ireland
(f) Audited by Kingston Smith LLP, London, United Kingdom for consolidation purposes.
(g) Dissolved during the year.

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

25 PROPERTY, PLANT AND EQUIPMENT

Group	Furniture and equipment	Jets	Turbo-props	Total
	US$'000s	US$'000s	US$'000s	US$'000s
2017:				
Cost or valuation:				
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)
At end of the year	**432**	**476,170**	**336,594**	**813,196**
Representing:				
At cost	432	-	-	432
At valuation	-	476,170	336,594	812,764
	432	**476,170**	**336,594**	**813,196**
Accumulated depreciation and impairment:				
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)
At end of the year	**325**	**25,088**	**43,052**	**68,465**
Net book value:				
At beginning of the year	**182**	**326,720**	**398,080**	**724,982**
At end of the year	**107**	**451,082**	**293,542**	**744,731**

25 PROPERTY, PLANT AND EQUIPMENT (continued)

Group	**Furniture and equipment** US$'000s	**Jets** US$'000s	**Turbo-props** US$'000s	**Total** US$'000s
2016:				
Cost or valuation:				
At beginning of year	357	163,040	344,492	507,889
Additions	31	226,914	115,877	342,822
Disposals/written-off	-	(7,999)	(19,258)	(27,257)
Reclassified as held under finance leases	-	-	(35,601)	(35,601)
Revaluations	-	610	29,705	30,315
At end of the year	**388**	**382,565**	**435,215**	**818,168**
Representing:				
At cost	388	-	-	388
At valuation	-	382,565	435,215	817,780
	388	**382,565**	**435,215**	**818,168**
Accumulated depreciation and impairment:				
At beginning of year	88	47,875	25,847	73,810
Depreciation expense – continuing operations	118	9,704	13,379	23,201
Disposals/written-off	-	(2,636)	-	(2,636)
Reclassified as held under finance leases	-	-	(2,091)	(2,091)
Impairment loss	-	902	-	902
At end of the year	**206**	**55,845**	**37,135**	**93,186**
Net book value:				
At beginning of the year	**269**	**115,165**	**318,645**	**434,079**
At end of the year	**182**	**326,720**	**398,080**	**724,982**

25 PROPERTY, PLANT AND EQUIPMENT (continued)

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

25 PROPERTY, PLANT AND EQUIPMENT (continued)

Company	**Furniture and equipment**	**Jets**	**Total**
	US$'000s	US$'000s	US$'000s
2016:			
Cost or valuation:			
At beginning of year	166	19,374	19,540
Additions	23	-	23
Revaluations	-	575	575
At end of the year	**189**	**19,949**	**20,138**
Representing:			
At cost	189	-	189
At valuation	-	19,949	19,949
	189	**19,949**	**20,138**
Accumulated depreciation and impairment:			
At beginning of year	35	2,069	2,104
Depreciation expense	58	976	1,034
At end of the year	**93**	**3,045**	**3,138**
Net book value:			
At beginning of the year	**131**	**17,305**	**17,436**
At end of the year	**96**	**16,904**	**17,000**

25 PROPERTY, PLANT AND EQUIPMENT (continued)

Assets pledged as security

The Group's aircraft with carrying values of US$725.86 million (2016: US$724.80 million) are mortgaged to secure the Group's borrowings (Note 28).

Valuation

The Group's aircraft were valued in June 2017 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% and 8.1% per annum. Different discount rates are considered appropriate for different aircraft based on their respective risk profiles. Management estimates that a change of 1% in the discount rate used would increase/decrease the total LEV of the fleet by US$23.7 million.

During the 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.

An impairment loss of US$0.9 million was recognised during the previous year to write down the book value of a 24 year old aircraft to LEV.

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

	2017		**2016**	
Group	**Jets**	**Turbo-props**	**Jets**	**Turbo-props**
	US$'000s	US$'000s	US$'000s	US$'000s
Cost	471,487	313,665	363,011	405,510
Accumulated depreciation and impairment	(25,903)	(42,041)	(44,031)	(37,135)
Net book value	**445,584**	**271,624**	**318,980**	**368,375**

	2017		**2016**	
Company	**Jets**	**Turbo-props**	**Jets**	**Turbo-props**
	US$'000s	US$'000s	US$'000s	US$'000s
Cost	16,561	-	16,561	-
Accumulated depreciation and impairment	(3,257)	-	(2,479)	-
Net book value	**13,304**	**-**	**14,082**	**-**

26 GOODWILL

	Group	
	2017	**2016**
	US$'000s	US$'000s
Cost:		
At beginning and end of the year	**2,384**	**2,384**
Accumulated amortisation and impairment:		
At beginning of the year	482	-
Impairment loss	-	482
At end of the year	**482**	**482**
Net carrying amount:		
At beginning of the year	**1,902**	**2,384**
At end of the year	**1,902**	**1,902**

Impairment test of goodwill

Goodwill is allocated to the cash generating unit ("CGU") Avation.net Inc. which is in the procurement 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:

	2017	**2016**
	%	%
Average cash flow growth rate	2.0	2.0
Terminal growth rate	2.0	2.0
Discount rate	7.0	7.0

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$1.90 million (2016: US$1.90 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.

27 TRADE AND OTHER PAYABLES

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Current:				
Trade payables	372	535	18	167
Other payables:				
- subsidiaries	-	-	20,892	8,714
- third parties	33	31	31	31
Dividend payable	3,664	-	3,664	-
Deposits collected	1,094	-	-	-
Deferred lease income	356	365	-	-
Revenue received in advance	5,947	6,203	99	99
Accrued expenses	3,454	2,931	974	348
	14,920	**10,065**	**25,678**	**9,359**
Non-current:				
Deposits collected	9,321	11,722	250	1,406
Deferred lease income	2,159	1,749	-	-
	11,480	**13,471**	**250**	**1,406**

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$17.91 million (2016: US$4.08 million) which are unsecured, payable upon demand and bear interest at 9.3% (2016: 5.5% to 6.0%) per annum. Accrued expenses includes interest payable to subsidiaries of US$0.86 million (2016: US$0.26 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	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Pound sterling	114	86	95	60
Australian dollar	5	101	5	10
Euro	63	91	-	-
Swiss Franc	-	16	-	-
Singapore dollar	493	432	22	19

28 LOANS AND BORROWINGS

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Secured borrowings	507,509	510,640	7,362	8,954
Junior secured borrowings	23,415	8,017	-	-
Unsecured 7.5% notes due 2020 (a)	117,889	97,067	-	-
	648,813	**615,724**	**7,362**	**8,954**
Less: current portion of borrowings	(94,122)	(72,423)	(7,362)	(1,592)
	554,691	**543,301**	**-**	**7,362**

	Maturity		Weighted average interest rate per annum	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	%	%
Secured borrowings	2017-2028	2016-2028	4.5%	4.3%
Junior secured borrowings	2020-2023	2020-2024	6.7%	6.3%
Unsecured 7.5% notes due 2020 (a)	2020	2020	7.5%	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.

28 LOANS AND BORROWINGS (continue)

(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.

In May 2015, the Issuers issued US$100 million unsecured Notes with a fixed coupon rate of 7.5% per annum and a tenor of 5 years repayable in May 2020 under the Programme. The Notes are listed on the Singapore Exchange (SGX).

In May 2017, the Issuers issued US$20 million unsecured Notes with a fixed coupon rate of 7.5% per annum and a tenor of 3 years repayable in May 2020 under the Programme. The Notes are listed on the Singapore Exchange (SGX).

Entities over which a Director has significant influence hold US$5.45 million (2016: US$5.45 million) of the May 2015 series of the Unsecured Notes as at 30 June 2017.

A Director of the Company holds US$0.2 million (2016: US$0.2 million) of the May 2015 series of the Unsecured Notes as at 30 June 2017.

The carrying amounts of borrowings approximate fair value.

29 MAINTENANCE RESERVES

	Group	
	2017	**2016**
	US$’000s	US$’000s
Current	451	7,440
Non-current	20,813	3,323
Total maintenance reserves	**21,264**	**10,763**

	Group	
	2017	**2016**
	US$’000s	US$’000s
At beginning of year	10,763	825
Transfer from sellers	-	8,552
Contributions	10,668	1,386
Utilisations	(167)	-
At end of the year	**21,264**	**10,763**

The Group also holds letters of credit for US$16.82 million (2016: US$14.10 million) as security for lessees’ obligations under operating leases for the maintenance of aircraft.

30 DERIVATIVE FINANCIAL INSTRUMENTS

Group	Contract/ notional amount 2017 US$'000s	2016 US$'000s	Fair value 2017 US$'000s	2016 US$'000s
Interest rate swap – non-current asset	96,829	-	2,372	-
Interest rate swap – non-current liability	87,014	54,010	1,901	2,387

The Group pays fixed rates of interest of 1.73% 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.

31 DEFERRED TAX LIABILITIES

Recognised deferred tax liabilities are attributable to the following:

	Group 2017 US$'000s	2016 US$'000s	Company 2017 US$'000s	2016 US$'000s
Property, plant and equipment	4,168	5,700	1,814	432
Tax losses carried forward	(850)	(962)	-	-
	3,318	**4,738**	**1,814**	**432**

Movements in temporary differences are as follows:

Group	Property, plant and equipment US$'000s	Tax losses carried forward US$'000s	Total US$'000s
2017			
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
At end of the year	**4,168**	**(850)**	**3,318**
2016			
At beginning of the year	6,847	-	6,847
Recognised in profit or loss	(475)	(962)	(1,437)
Recognised in equity	(672)	-	(672)
At end of the year	**5,700**	**(962)**	**4,738**

31 DEFERRED TAX LIABILITIES (continued)

Company	Property, plant and equipment US$'000s	Other items US$'000s	Total US$'000s
2017			
At beginning of the year	432	-	432
- Recognised in profit or loss	796	-	796
- Recognised in equity	586	-	586
At end of the year	**1,814**	**-**	**1,814**
2016			
At beginning of the year	493	-	493
- Recognised in profit or loss	(61)	-	(61)
At end of the year	**432**	**-**	**432**

32 SHARE CAPITAL AND TREASURY SHARES

(a) Share capital

	2017		2016	
	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	55,785,227	993	55,663,727	991
Issue of shares	5,286,019	65	121,500	2
At end of the year	**61,071,246**	**1,058**	**55,785,227**	**993**

During the year, the Company issued 2,943,709 ordinary shares of 1 penny each at a price of 155p through private placement and 2,342,310 ordinary shares of 1 penny at prices ranging 110p to 153p following the exercise of warrants by warrant holders raising total gross proceeds of US$9.39m.

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.

32 SHARE CAPITAL AND TREASURY SHARES (continued)

(b) Treasury shares

	2017		2016	
	No of treasury shares	US$'000s	No of treasury shares	US$'000s
At beginning of the year	600	1	450,000	682
Acquired during the year	-	-	3,750,600	7,936
Re-issued during the year	(600)	(1)	(4,200,000)	(8,617)
At end of the year	**-**	**-**	**600**	**1**

During the year, the Company re-issued 600 treasury shares for 205p.

33 SHARE BASED PAYMENTS

The Group has an ownership-based compensation scheme for Directors and senior management.

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 the Directors and senior management 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:

	2017		2016	
	No.	WAEP	No.	WAEP
Outstanding at beginning of the year	5,948,500	133.9p	3,420,000	136.0p
- Granted	-	-	3,000,000	130.0p
- Exercised	(2,342,310)	129.0p	(121,500)	110.0p
- Lapsed/cancelled	(25,000)	153.0p	(350,000)	130.0p
Outstanding at end of the year	**3,581,190**	**136.3p**	**5,948,500**	**133.9p**
Exercisable at end of the year	**1,138,690**	**136.1p**	**1,433,500**	**130.5p**

33 SHARE BASED PAYMENTS (continued)

The weighted average fair value of warrants granted during the year was NIL (2016: 11.82 pence). The charge recognised in profit or loss in respect of share based payments is US$0.2 million (2016: US$0.3 million).

During the year, 2,342,310 warrants were exercised (2016: 121,500).

All warrants are settled in cash.

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 2017	2016
20 November 2013	21 Nov 2016	110.0p	-	1,248,500
8 December 2014	9 Dec 2017	153.0p	982,500	2,050,000
16 November 2015	16 Nov 2018	130.0p	2,598,690	2,650,000

The warrants granted on 20 November 2013 have a 3 year vesting schedule and the details are as follows:

Vesting period	Warrant series signed on 20 November 2013
Before 20 November 2014	0 per cent
On 20 November 2014 and before 20 November 2015	Up to 33 per cent of the grant
On 20 November 2015 and before 20 November 2016	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 20 November 2016	Balance **or** 100 per cent of the grant if warrants were not exercised after the first and second vesting years

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 **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

33 SHARE-BASED PAYMENTS (continued)

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 **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

The warrants were priced using the Black-Scholes 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 16 November 2015	**Warrant series granted on 8 December 2014**	**Warrant series granted on 20 November 2013**
Inputs into the model:			
Grant date share price	130.0 pence	153.5 pence	123.0 pence
Exercise price	130.0 pence	153.0 pence	110.0 pence
Expected volatility	20%	20%	20%
Warrant life	3 years	3 years	3 years
Dividend yield	1.01%	0.73%	1.01%
Risk free interest rate	0.35%	0.35%	0.35%

34 OTHER RESERVES

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Capital redemption reserve	12	12	12	12
Warrant reserve	399	588	399	588
Fair value reserve	417	(2,387)	-	-
Foreign currency translation reserve	(27)	(27)	-	-
	801	**(1,814)**	**411**	**600**

Movements in other reserves are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	US$'000s	US$'000s	US$'000s	US$'000s
Warrant reserve:				
At the beginning the year	588	288	588	288
Employee share warrant scheme:				
- Value of employee services	220	339	220	339
- Issue of shares	(403)	(39)	(403)	(39)
- Expired	(6)	-	(6)	-
At end of the year	**399**	**588**	**399**	**588**
Fair value reserve:				
At the beginning the year	(2,387)	(229)	-	-
Fair value gain/(loss)	2,804	(2,158)	-	-
At end of the year	**417**	**(2,387)**	**-**	**-**
Foreign currency translation reserve:				
At the beginning the year	(27)	(21)	-	-
Currency translation differences arising from consolidation of foreign subsidiaries	-	(6)	-	-
At end of the year	**(27)**	**(27)**	**-**	**-**

35 CAPITAL COMMITMENTS

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

	Group	
	2017	**2016**
	US$'000s	US$'000s
Property, plant and equipment	147,890	327,955

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.

Included in the above are commitments to purchase eight ATR 72-600 aircraft from the manufacturer with expected delivery dates over a three-year period ending in June 2019. Two of these aircraft are due to be delivered before the end of the calendar year 2017. Subsequent to the date of this report, the Group has signed lease agreements for these aircraft. See note 41.

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	
	2017	**2016**
	US$'000s	US$'000s
Within one year	81,161	84,182
In the second to fifth years inclusive	289,033	313,268
More than five years	245,822	240,947

The Group holds cash deposits of US$12.74 million (2016: US$12.80 million) and letters of credit for US$4.05 million (2016: US$4.70 million) as security for lessees' obligations under operating leases.

37 SEGMENT INFORMATION

Management has determined the operating segments based on reports reviewed by the Executive Chairman ("Chief Operating Decision Maker" or "CODM") that are used to make strategic decisions.

The CODM considers the business from a business segment perspective. Management manages and monitors the business in 2 primary business areas: aircraft leasing and business procurement.

(a) Segment reporting policy

A segment is a distinguishable component of the Group within a particular economic environment (geographical segment) and to a particular industry (business segment) which is subject to risks and rewards that are different from those of other segments.

Business segments are based on the Group's management and internal reporting structure. In presenting information on the basis of business segments, segment revenue and segment assets are based on the nature of the products or services provided by the Group while information for geographical segments is based on the geographical areas where customers are located.

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mostly comprised of corporate assets and liabilities or profit or losses items that are not directly attributable to a segment or those that cannot be allocated on a reasonable basis. Common expenses were allocated based on revenue.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year.

(b) Business segments

During the year ended 30 June 2017, the Group was organised into two main business segments which are aircraft leasing and business procurement.

Other Group operations mainly comprise investment holding which does not constitute a separate reportable segment. There are no inter-segment transactions recorded during the financial period.

The business procurement segment does not meet the quantitative thresholds and is not separately disclosed.

37 SEGMENT INFORMATION (continued)

(c) Geographical analysis

2017	Europe US$'000s	Asia Pacific US$'000s	Total US$'000s
Revenue from continuing activities	33,620	60,553	94,173
Capital expenditure	-	275,665	275,665
Net book value - aircraft	222,039	522,585	744,624
Total assets	358,580	542,555	901,135

2016	Europe US$'000s	Asia Pacific US$'000s	Total US$'000s
Revenue from continuing activities	22,030	49,160	71,190
Capital expenditure and valuation movements	293,912	79,225	373,137
Net book value - aircraft	341,765	383,035	724,800
Total assets	370,708	461,077	831,785

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$34.8 million (2016: US$37.7 million), 37% (2016: 53%) of the Group's total revenues from continuing operations.

38 CONTINGENT LIABILITIES

Guarantees

	Group	
	2017	2016
	US$'000s	US$'000s
Guarantees	648,813	615,724

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

39 DIVIDENDS

	2017 US$'000s	2016 US$'000s
Declared/paid during the year:		
Dividends on ordinary shares		
- Interim exempt (one-tier) dividend for 3.25 US cents (2016: 3.00 US cents) per share paid during the year	1,820	1,656
- Interim exempt (one-tier) dividend for 6.00 US cents per share declared	3,664	-

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

40 ULTIMATE HOLDING COMPANY

No party controls the Company.

41 SUBSEQUENT EVENTS

On 17 July 2017 the Group announced the allotment of 357,000 fully paid new ordinary shares represent 0.58 per cent of the enlarged share capital of the Company pursuant to the exercise of 2015 series employee share warrants at a price of 130 pence per share.

On 22 August 2017, the Group signed a new lease for a mid life Airbus A321 which will commence on expiry of its existing lease in mid 2018. The aircraft will transition to another European Airline for a term of 72 months at typical commercial rates for a mid life aircraft.

On 11 September 2017, the Group entered into an agreement to lease three ATR 72-600 on a long term basis aircraft to an Asian Airline.

The Group has one Airbus A320 aircraft on lease to Air Berlin, which announced insolvency on 15 August 2017 and subsequently defaulted under its lease. The Group holds security deposits and substantial maintenance reserves as security for Air Berlin's lease obligations. The Group is liaising with Air Berlin and various third parties that have expressed interest in acquiring parts of the Air Berlin business and/or leasing this aircraft.

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company and the consolidated financial statements of the Group for the year ended 30 June 2017 were authorised for issue by the Board of Directors on 25 September 2017.


avation PLC
Annual Report 2017

ATR 72-600 aircraft at production facility

ANNUAL REPORT **2017**

avation PLC

65 Kampong Bahru Road
Singapore 169370
www.avation.net

London Stock Exchange
LISTED
STANDARD
SHARES

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