

ANNUAL REPORT



2020

OUR FLEET (As at 30 June 2020)

Aircraft Type		In Operation	Ordered	Options
Boeing B777-300ER		1	-	-
Airbus A330-300		1	-	-
Airbus A321-200		7	-	-
Airbus A320-200		2	-	-
Airbus A220-300		6	-	-
Boeing B737-800		1	-	-
Fokker 100		2	-	-
ATR 72-600		22	8	25
ATR 72-500		6	-	-
Total		48	8	25



Boeing 777-300ER



Airbus A330-300



Airbus A321-200



Airbus A320-200



Airbus A220-300



Fokker F100



ATR 72-600



ATR 72-500

AVATION PLC
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2020

REGISTERED NUMBER: 05872328 (ENGLAND & WALES)

AVATION PLC

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AVATION PLC

COMPANY INFORMATION FOR THE YEAR ENDED 30 JUNE 2020

DIRECTORS:	Robert Jeffries Chatfield Roderick Douglas Mahoney Stephen John Fisher Derek Sharples
COMPANY SECRETARIES:	Duncan Gerard Stephen Scott Jasmine Siow Fui San
REGISTERED OFFICE:	5 Fleet Place London EC4M 7RD United Kingdom
PRINCIPAL PLACE OF BUSINESS:	65 Kampong Bahru Road Singapore 169370
AUDITOR:	Ernst & Young EY Building Harcourt Centre Harcourt Street 2 Dublin Ireland
SOLICITORS:	Charles Russell Speechlys LLP 5 Fleet Place London EC4M 7RD United Kingdom
REGISTRAR:	Computershare Investor Services PLC The Pavilions Bridgewater Road Bristol BS99 6ZZ United Kingdom

AVATION PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

Overview

- Revenue increased 14% to a record \$135.3 million;
- Unrealised gain on aircraft purchase rights of \$27.1 million recognised;
- Cash and bank balances increased 7% to \$114.6 million;
- Impairment losses of \$35.5 million recognised, reflecting the COVID-19 pandemic, industry and customer disruption;
- Profit before taxation decreased 43% to \$14.6 million, in challenging conditions; and
- Net cash from operating activities increased 20% to \$88.5 million.

Operational highlights

- Two aircraft were repossessed from Thomas Cook and transitioned to VietJet;
- Three new ATR72-600 aircraft were acquired during the year;
- Three Fokker 100 aircraft were transferred to the lessee on completion of finance leases;
- First ever commercial aircraft financed with a Green loan – recognised by Airline Economics as “Deal of the Year for Innovation”; and
- Ongoing management of exposure to Virgin Australia administration with transition of five of 13 aircraft on lease to date.

COVID-19 Strategy

- The Company has implemented a strategy to preserve liquidity and cashflow;
- Short-term rent deferrals totalling approximately \$13.1 million granted to airline customers;
- Loan repayment deferrals totalling approximately \$24.4 million obtained from secured lenders; and
- The Company has elected to temporarily pause capital expenditure and dividends.

Business review

Avation has posted a satisfactory result in a volatile environment. Avation is profitable in a challenging time for both the airline and aircraft leasing sector.

At the outset of the COVID-19 pandemic Avation instituted a programme of support for its airline customers by agreeing to defer payment of a portion of their rent in the short-term. The cashflow impact of this support programme has been mitigated by adjusting the amortisation profiles of related financings with the agreement of lenders. Since the start of the pandemic the Company has also reduced administration costs and has instituted a temporary pause on capital expenditure with the goal of preserving liquidity.

The Company believes that airlines will require significant number of leased aircraft in the post pandemic phase due to the vast number of older aircraft that have been retired and the impact of the pandemic on airline balance sheets, reducing their ability to purchase aircraft directly. This supports the Company strategy of being focussed on relatively new and popular commercial aircraft types.

The Company is fortunate that some of its largest customers are in countries where there has been a brief or manageable impact from the pandemic. We are now observing a return to service of certain customers including VietJet, airBaltic, EVA Air and Mandarin Airlines which combined represent of the order of 60% of Avation's future unearned contracted leasing revenue.

Avation is optimistic about the long-term opportunity for airline travel particularly the turboprop and narrow-body aircraft sectors. The Company will position itself for a return to growth through opportunistic purchases and delivery of its orderbook in a post pandemic environment

AVATION PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

Dividend

The Board declared an interim dividend of 2.1 US cents per share in respect of the six months ended 31 December 2019, which was paid 9 January 2020.

A dividend of 8.5 US cents per share declared in respect of the financial year ended 30 June 2019 was paid on 18 October 2019.

The Company advised in May 2020 that as part of the COVID-19 strategy to preserve liquidity there would be no further dividends for this financial period.

Market Positioning and Risk

Avation's strategy is to target growth and diversification by adding new airline customers, while maintaining a low average aircraft age and long remaining lease term metrics. Avation focuses on new and relatively new commercial passenger aircraft on long-term leases. Avation is capable of owning, managing and leasing turboprop, narrowbody and twin-aisle aircraft and engines.

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

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

Outlook

The Company's continuing focus for the 2021 financial year is to preserve liquidity and maintain cashflow while the pandemic persists and the airline industry is severely impacted.

Management believes that the risks associated with its portfolio of assets have been reduced through the growth and diversification that has been achieved in recent years.

In addition to operational cash flows, funding is traditionally sourced from capital markets, asset-backed bank lending and disposal of selected aircraft. Access to acceptably priced funding is a risk, which is common to all capital-intensive businesses. Specific risks which are inherent to the aircraft leasing industry include, but are not limited to, ongoing pandemic impacts on travel, the creditworthiness of airline customers, over-production of new aircraft and market saturation, technology change, residual value risks, competition from other lessors and the risk of impairment of aircraft assets.



Robert Jeffries Chatfield
Executive Chairman
Singapore
29 October 2020

AVATION PLC

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

The Directors present their strategic report for the year ended 30 June 2020.

BUSINESS OVERVIEW

Avation PLC and its subsidiaries ("Avation", the "Group") is a commercial passenger aircraft leasing group managing a fleet of 48 aircraft, as of 30 June 2020, which are leased to airlines. Avation was founded in 2006 and has now been in operation for 14 years, generating a profit every year. Avation leases aircraft to 18 airline customers spread across 15 countries in Europe and the Asia-Pacific region, as of 30 June 2020. Major customers include Vietjet Air, airBaltic, EVA Air and Philippine Airlines. During the year ended 30 June 2020 Avation added four new airline customers. The Group's fleet includes 18 narrow-body jets, two twin-aisle jets and 28 ATR 72 twin-engine turboprop aircraft. An analysis of the fleet is provided below under "Fleet Overview".

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 ("ALS") tax incentive. On 17 April 2019 Avation was granted a five-year extension to its ALS tax incentive at a reduced 8% tax rate.

Avation's management team has extensive experience in the aviation industry and has the expertise to select, acquire and manage aircraft that have achieved strong operational performance for our customers and generated stable returns for our shareholders. The company maintains in-house commercial, legal, technical and finance teams and operates as a full-service aircraft leasing platform.

Avation aims to grow its fleet and continue to diversify its customer base over the coming years. The Group has eight ATR 72-600 aircraft on order from the manufacturer, four of which are scheduled to be delivered in the coming financial year. The Group also holds purchase rights for a further 25 aircraft. The Group may also acquire additional new and second-hand jet aircraft on an ad-hoc basis. Older aircraft are sold when opportunities arise with the aim of maintaining a low average fleet age.

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

BUSINESS MODEL

Avation aims to grow its fleet and build long-term shareholder value by focussing on a) new turboprop regional aircraft, principally the popular and fuel-efficient ATR 72-600 model and b) new and second-hand jets, in particular the popular Airbus A320/A321, A220 and Boeing 737 families of narrow-body jet aircraft. The Group will also consider acquiring additional twin-aisle aircraft in future as part of its strategy to build a diversified portfolio of aircraft. Owning a diversified portfolio of aircraft types is intended to mitigate overall market and residual value risk. As the fleet grows, the Group seeks to continually diversify its customer base as part of its overall credit risk management strategy.

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. The Group manages debt issuance with the overall aim of achieving the lowest possible overall cost of debt, while maintaining appropriate leverage ratios. Debt on older aircraft may be re-financed when there is an opportunity to reduce the Group's overall cost of debt, and to release equity for investment in new aircraft.

The Board applies prudent financial management principles to manage risk when acquiring aircraft by seeking to match lease and financing in both term and currency. Interest rate risk is managed using mostly fixed or hedged interest rate debt. Secured loans amortise to conservative balloon payments over the terms of the underlying leases.

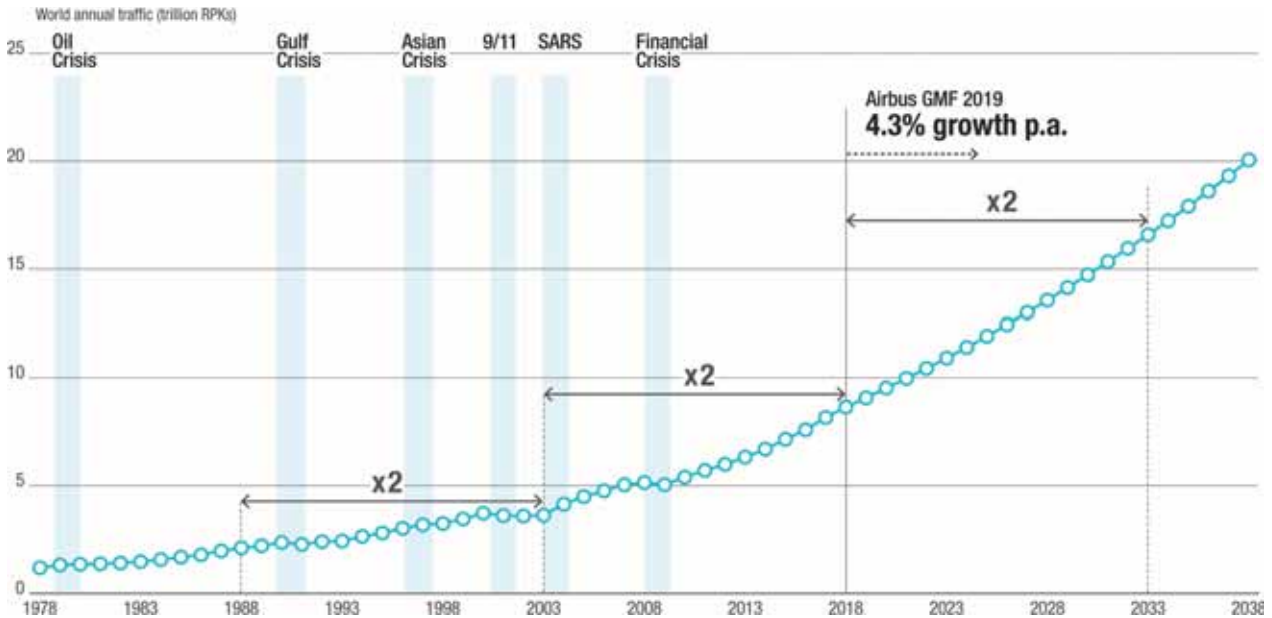
The Avation fleet of 48 aircraft (as of 30 June 2020) has a weighted average age of 4.1 years and weighted average remaining lease term of 6.9 years, serving a diversified customer base of airlines in Europe and the Asia-Pacific region.

AVATION PLC

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

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 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 39,000 aircraft (replacement and growth) will be required over the next 20 years, of which 42% are expected to be in Asia-Pacific, 19% in Europe, 17% in North America, and of the total, 76% are expected to be single aisle. ¹

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

¹ Airbus Global Market Forecast 2019-2038

AVATION PLC

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

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 several factors including but not limited to local and global economic conditions, increased competition between airlines, speculative ordering of new aircraft, war, terrorism, pandemics and natural disasters. If the financial condition of the Group's airline customers weakens for any reason, the Group may be exposed to increased risks of lessee default and lower lease rates for its aircraft.

Asset value risk

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

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

Operational risks:

Economic, legal and political risks

Avation leases aircraft to lessees in many 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 the Group's financial results.

Lessee risks

Avation's airline lessees are responsible for all maintenance and safety checks. The requirements 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 requires that some lessees make maintenance reserve payments in order to ensure that there is adequate funding at all times for proper maintenance of the aircraft.

AVATION PLC

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

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

FINANCIAL REVIEW

	2020	2019
	US\$'000s	US\$'000s
Revenue	135,274	119,055
Other income	1,270	215
Operating profit	70,361	77,165
Total profit	9,716	25,691
Net cash from operating activities	88,506	73,607
Total assets	1,415,584	1,392,750
Total equity	221,022	240,757
Basic earnings per share	15.39 cents	40.26 cents
Dividend per share	10.60 cents	9.25 cents

Revenue increased by 13.6% to US\$135.3 million (2019: US\$119.1 million) primarily as a result of growth in the aircraft fleet.

Other income increased by US\$1.1 million to US\$1.3 million (2019: US\$0.2 million) primarily due to higher foreign currency exchange gains of US\$0.5 million (2019: US\$nil) and the release of a deposit received from an airline which failed to take delivery of aircraft of US\$0.2 million (2019: US\$nil).

Depreciation increased by 13.9% to US\$46.7 million (2019: US\$41.0 million) as a consequence of growth in the aircraft fleet and reductions in the residual value estimates for two widebody aircraft.

Gains on sales of aircraft during the period were US\$3.2 million (2019: US\$10.0 million) and impairment losses were US\$35.5 million (2019: US\$nil).

During the current year, the Group recognised gains on disposal of aircraft of US\$3.2 million (2019: US\$10.0 million) in connection with the inception of finance leases for three aircraft. During the prior year the Group sold two narrow-body aircraft for at prices in excess of 10% above net book value, generating sale profits of US\$8.7 million and also recorded gains of US\$1.0 million on recognition of finance leases for two aircraft.

Impairment losses of US\$6.3 million were recognised in relation to two widebody aircraft following a change in residual value estimates. Impairment losses of US\$18.9 million were recognised in relation to aircraft formerly leased to Virgin Australia who defaulted on leases and filed for administration in April 2020. Impairment losses of US\$9.5 million were incurred on two aircraft formerly leased to Thomas Cook Airlines Limited who defaulted on leases and entered compulsory liquidation in September 2019.

Administrative expenses increased 8.2% to US\$11.9 million (2019: US\$11.0 million) primarily due to increased staff costs of US\$5.9 million (2019: US\$5.2 million) arising from additional headcount associated with managing a larger aircraft fleet. As a percentage of revenue administrative expenses decreased to 8.8% (2019: 9.2%).

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STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

Other expenses were US\$2.4 million (2019: US\$0.2 million). Other expenses in the current period include aircraft repossession costs of US\$1.4 million (2019: US\$nil) resulting from the default of Thomas Cook Airlines and expected credit losses on receivables of US\$0.7 million (2019: US\$0.2 million).

Operating profit decreased 8.8% to US\$70.4 million (2019: US\$77.2 million) as a result of the foregoing.

Finance expenses increased by 3.4% to US\$57.2 million (2019: US\$55.3 million) and total interest expense within finance expenses increased to US\$50.5 million (2019: US\$48.0 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 expense on the unsecured notes issued under the Company's Global Medium-Term Note programme ("GMTN") was US\$22.7 million (2019: US\$21.9 million). During the year the Notes outstanding under the GMTN decreased from US\$350.0 million to US\$349.0 million.

Finance income was US\$1.5 million (2019: US\$3.7 million). The decrease was primarily due to lower break gains resulting from the termination of interest rate swaps of US\$nil (2019: US\$0.2 million) and lower fair value gains on derivative interest rate swap contracts of US\$nil (2019: US\$0.8 million).

Most of the Group's operations are based in Singapore and are included in Singapore's Aircraft Leasing Scheme ("ALS"), benefitting from a concessionary tax rate. Taxation expense for the year was US\$4.9 million (2019: a credit of US\$0.1 million). The tax charge for the year was impacted by a net increase in deferred tax liabilities of US\$4.6 million (2019: a reduction of US\$3.3 million). The reduction in deferred tax liabilities in 2019 primarily arose from renewal of the Group's ALS tax incentive at a reduced 8% tax rate.

Net cash from operating activities increased by 20.2% to US\$88.5 million (2019: US\$73.6 million) primarily due to higher revenue.

Total profit after tax for the financial year decreased 62.3% to US\$9.7 million (2019: US\$25.7 million).

Basic earnings per share decreased by 61.8% to 15.4 US cents (2019: 40.3 US cents).

The Company confirms that there have been no changes to its accounting policies other than the adoption of new IFRS standards and interpretations as set out in the notes to the financial statements.

FLEET OVERVIEW

Type	1 July 2019	Additions	Disposals	30 June 2020	On order	Purchase rights
ATR 72-500	6	-	-	6	-	-
ATR 72-600	19	3	-	22	8	25
A220-300	6	-	-	6	-	-
A320-200	2	-	-	2	-	-
A321-200	7	-	-	7	-	-
A330-300	1	-	-	1	-	-
B737-800	1	-	-	1	-	-
B777-300ER	1	-	-	1	-	-
Fokker 100	5	-	3	2	-	-
Total	48	3	3	48	8	25

AVATION PLC

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

The Company added three new ATR 72-600s to the fleet during the year. Three Fokker 100 aircraft were sold during the year. As of 30 June 2020, the weighted average age of the fleet was 4.1 years (2019: 3.4 years) and the weighted average remaining lease term was 6.9 years (2019: 7.5 years).

The aircraft fleet was valued as of 30 June 2020 by a third-party valuer using lease encumbered basis in accordance with the Group's accounting policy. The revaluation of the fleet resulted in a net negative adjustment of aircraft net book values of US\$5.0 million recognised in the consolidated statement of changes in equity (2019: positive adjustment of US\$8.6 million) and impairment charges of US\$35.5 million (2019: US\$nil).

Two Fokker 100 and five ATR 72-600 aircraft are classified as leased under finance leases.

DEBT SUMMARY

	2020 US\$'000s	2019 US\$'000s
Loans and borrowings	1,071,738	1,078,288
Cash and cash equivalents	35,290	61,689
Net indebtedness	1,036,448	1,016,599
Loan to value ratio	75.7%	77.4%
Weighted average cost of secured debt	3.6%	3.7%
Weighted average cost of total debt	4.5%	4.6%

Loans and borrowings decreased due to loan repayments exceeding additional secured debt issued to fund fleet acquisitions during the year. Net indebtedness increased due to the reduction in cash and cash equivalents exceeding net loan repayments.

The weighted average cost of secured debt facilities decreased to 3.6% as at 30 June 2020 (2019: 3.7%) principally due to the impact of repayments of higher cost loans and new loans issued to fund fleet growth benefiting from a comparatively low interest rate environment.

The weighted average cost of total debt was 4.5% as of 30 June 2020 (2019: 4.6%).

At the end of the financial period, Avation's overall loan to value ratio (defined as total loans and borrowings divided by total assets) was 75.7% (2019: 77.4%) and 90.7% of total debt was at fixed or hedged interest rates (2019: 92.0%). The proportion of unsecured debt to total debt was 32.3% (2019: 32.0%).

AVATION PLC

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

In April 2020 Japan Credit Rating Agency downgraded Avation's issuer rating to B with a negative outlook.

In May 2020, Fitch Ratings downgraded Avation's issuer rating to B (B- for unsecured notes) and placed the rating on watch negative.

In August 2020, S&P Global Ratings downgraded Avation's issuer rating to CCC (CCC- for unsecured notes) and placed the rating on watch negative. The Company's current credit ratings are as follows:

Rating Agency	Corporate Credit Rating	Unsecured Notes Rating
Standard & Poor's	CCC credit watch negative	CCC-
Fitch Ratings	B rating watch negative	B-
Japan Credit Rating Agency	B negative	NR

Aircraft leasing is a capital-intensive industry. Avation manages 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 higher lease rates reflecting the current interest rate environment.

ENVIRONMENT

Avation is committed to environmental responsibility as part of its business strategy. This is achieved by investing in technologically advanced designs of commercial aircraft that offer improved fuel efficiency and lower emissions. A substantial percentage of our fleet are modern regional turboprop aircraft which provide significant environmental benefits over comparable jet aircraft due to their more economical use of fuel and consequently lower carbon dioxide emissions. Recent additions to the fleet have included 6 new technology A200-300 aircraft, which provide significantly reduced fuel consumption and emissions in comparison to older aircraft.

CORPORATE SOCIAL RESPONSIBILITY

Avation is committed to the principles of being a good corporate citizen. For the 2020 financial year 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 of 30 June 2020 is set out below:

	Male	Female
Directors of the Company	4	-
Senior managers	4	-
Other employees	9	6

AVATION PLC

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

SECTION 172(1) STATEMENT

On the following pages we have set out how the Board has acted in a way that promotes the success of the Company for the benefit of its members as a whole, in accordance with the requirements of the Companies (Miscellaneous Reporting) Regulations 2018, whilst having regard to the following matters set out in s.172(1) of the Act. This reporting requirement applies to the Company for the first time this year.

The likely consequences of any decision in the long term

The board is mindful that it should make decisions which are the best for the Company in the long term. The nature of the business of aircraft leasing is long-term, with typical aircraft leases being for ten or twelve years duration for new aircraft. The Company does undertake the trading of aircraft where they have reached a certain age and when market conditions are favourable. However, the transfer of an aircraft with a lease attached to it is a transaction which would typically take three to five months to complete and therefore such transactions are undertaken on strategic time-frames. Equity released from the sale of aircraft is typically re-invested in financing or re-financing the purchase of aircraft.

The interests of the Group's employees

The board actively engages with employees to ensure that staff are kept up to date and informed. The Company has regular management meetings at which typically two of the Company's executive directors are present and which are attended by the majority of the Company's employees.

Throughout the COVID-19 pandemic, staff have received regular communications and updates from the Board to ensure that they are kept up to date and informed in respect of action being taken by the business, and of the impact of the situation on business performance, with management meetings being held on a daily basis.

The need to foster the Group's business relationships with suppliers, customers and others

Suppliers

The Company has long-term relationships with its suppliers which are primarily comprised of commercial lending organisations such as banks and other financial institutions, as well as the manufacturers of aircraft and aircraft engines.

Customers

The Company has eighteen airline customers and maintains close relationships with them, indeed this is inherent in the nature of aircraft leasing. In particular, the Company needs to ensure that its customers are looking after and maintaining the aircraft and are otherwise complying with the terms of the respective aircraft leases.

The impact of the Group's operations on the community and the environment

The board recognises the importance of managing the community impact of the business and minimising any adverse impact of our operations on the environment. The Company carried out a review of its environmental, social and governance (ESG) performance and a copy of this report can be found on the Company's website at: www.avation.net/ESG.html

AVATION PLC

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

The desirability of the Group maintaining a reputation for high standards of business conduct

The board expects the highest standards of conduct throughout the business, both in respect of employees and in respect of its suppliers, advisers and agents. The board receives regular updates in respect of matters of regulatory compliance, and the business has policies, procedures and processes in place in respect of modern slavery, bribery and corruption.

The need to act fairly as between members of the Company

The Company has a single class of ordinary shares so all shareholders are treated equally. Details of how we engage with shareholders can be found in our corporate governance statement in the Directors' Report.

On behalf of the board



Robert Jeffries Chatfield
Executive Chairman

29 October 2020

AVATION PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

The Directors present their report and financial statements for the year ended 30 June 2020.

Principal activities and business review

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

The principal risks and uncertainties affecting the Group's turnover are described in the Strategic Report.

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

Results and dividends

The consolidated statement of profit or loss and the consolidated statement of other comprehensive income for the year are set out on in these financial statements. The Company paid a dividend of 8.50 US cents on 18 October 2019 and a dividend of 2.10 US cents on 9 January 2020.

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

Directors and their interests

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

	Direct interest		Deemed interest	
	30 June 2020	1 July 2019	30 June 2020	1 July 2019
Ordinary shares of £0.01 each:				
Robert Jeffries Chatfield	1	1	11,605,000	11,605,000
Roderick Douglas Mahoney	756,667	700,000	-	-
Stephen John Fisher	5,000	5,000	-	-
Derek Sharples	30,000	10,000	-	-

AVATION PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

Significant shareholdings

	Ordinary shares	Percentage
Ordinary shares of £0.01 each:		
JP Morgan Securities LLC	16,065,318	25.63%
Lynchwood Nominees Limited	5,619,675	8.97%
State Street Nominees Limited	5,516,838	8.80%
Roy Nominees Limited	5,017,735	8.01%
HSBC Global Custody Nominee (UK)	4,394,635	7.01%

Equal Opportunities Policy

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

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

Directors' Insurance

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

Future Developments

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

Financial Instruments

See Note 7 to these financial statements.

AVATION PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

Going Concern

The Directors' assessment of the Group's ability to continue as a going concern is detailed in Note 3(e) to the financial statements. The Note in its entirety is deemed to be incorporated into and form part of the Directors' Report.

Greenhouse Gas Emissions Statement

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

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

In the year ended 30 June 2020 the Company used 40,756 KWh of energy (2019: 41,461 KWh) which was converted to estimated carbon emissions of 17,069 Kg (2019: 17,380 Kg) using a GEF of 0.4188 (2019: 0.4192).

Capital Structure

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

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

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

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regards to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Corporate Governance Statement

The Board is accountable to the shareholders for the good corporate governance of the Group. The principles of corporate governance and a code of best practice are set out in the UK Corporate Governance Code issued in April 2016. The Company is not required to comply with the Code in full 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 consist 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.

AVATION PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

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

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

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

The Board conducts a review of the effectiveness of the Company's systems of internal control and risk management on an annual basis. Following this review, it has concluded that the Company's financial, operational and compliance controls, and risk management procedures are appropriate and suitable to enable the Board to safeguard shareholders' investments and the Company's assets.

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

Statement as to disclosure of information to auditors

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

Auditor

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

Purchase of own shares

During the financial year ended 30 June 2020 the Company bought 1,910,000 treasury shares at prices ranging from 220 pence to 295 pence per share.

During the previous financial year ended 30 June 2019 the Company bought 300,000 treasury shares at prices ranging from 285 pence to 292 pence per share.

By a resolution passed at the Annual General Meeting held on 21 November 2019 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 £2.00 and not above £4.50 and not above a price equal to the higher of (i) 105% of the average of the middle market quotations for the share price for the five business days preceding the buy-back date and (ii) the higher of the price for the last independent share trade and the amount stipulated pursuant to Article 5(6) of the Market Abuse Regulation (EU) No. 596/2014 per share, excluding commissions and other related expenses.

AVATION PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

Subsequent events

See Note 40 to these financial statements.

Information to be included in annual report

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

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

On behalf of the board



Robert Jeffries Chatfield
Executive Chairman

AVATION PLC

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2020

Introduction

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

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

Statement by the Chair of the Remuneration Committee

The Company's remuneration policy remains substantially unchanged for 2020. Key aspects of the policy are to attract and retain executives; be consistent with best practices and to ensure alignment between performance and compensation.

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.

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.	<p>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.</p> <p>Salaries may be adjusted in line with the market and adjustments out of line with the market may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. Salary levels for current incumbents are set out elsewhere in this report.</p> <p>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.</p>

AVATION PLC

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2020

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.

Individual Director's remuneration was as follows:

	Salaries and fees US\$'000s	Bonuses US\$'000s	Taxable benefits US\$'000s	Share warrants US\$'000s	Total 2020 US\$'000s	Total 2019 US\$'000s
Executive Directors:						
Robert Jeffries Chatfield	655	-	51	202	908	803
Roderick Douglas Mahoney	407	224	-	105	736	637
Non-Executive Directors:						
Stephen John Fisher	45	-	-	-	45	45
Derek Sharples	45	-	-	-	45	45
	1,152	224	51	307	1,734	1,530

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.

AVATION PLC

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2020

Service contracts

The employment contracts of the Executive Directors with the Company are terminable by either party with the notice in writing to the other detailed in the table below.

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	1 July 2016	Indefinite	4 months	-
Stephen John Fisher	29 April 2014	Indefinite	1 month	-
Derek Sharples	15 November 2016	Indefinite	1 month	-

Share options and warrants (audited)

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

Warrants are granted to employees of the Group to promote:

- Improvement in the Company's earnings per share;
- Reliable and high quality financial reporting;
- Growth in asset value and profits; and
- Growth in dividends.

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.

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

Vesting period	Proportion of total share options that are exercisable
Before 27 November 2018	0 per cent
On 27 November 2018 and before 27 November 2019	Up to 33 per cent of the grant
On 27 November 2019 and before 27 November 2020	Up to 33 per cent of the grant or up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 27 November 2020 to 31 December 2020	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

AVATION PLC

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2020

Warrants granted to Directors on 5 September 2018 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 6 September 2019	0 per cent
On 6 September 2019 and before 6 September 2020	Up to 33 per cent of the grant
On 6 September 2020 and before 6 September 2021	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 6 September 2021 to 6 October 2021	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 8 March 2019 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 9 March 2020	0 per cent
On 9 March 2020 and before 9 March 2021	Up to 33 per cent of the grant
On 9 March 2021 and before 9 March 2022	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 9 March 2022 to 9 April 2022	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 20 September 2019 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 21 September 2020	0 per cent
On 21 September 2020 and before 21 September 2021	Up to 33 per cent of the grant
On 21 September 2021 and before 21 September 2022	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 21 September 2022 to 21 October 2022	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

AVATION PLC

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2020

Warrants granted to Directors on 21 November 2019 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 22 November 2020	0 per cent
On 22 November 2020 and before 22 November 2021	Up to 33 per cent of the grant
On 22 November 2021 and before 22 November 2022	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 22 November 2022 to 22 December 2022	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

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

Director	Date granted	Warrant price	Balance at beginning of year	Granted during the year	Exercise during the year	Balance at end of year
Robert Jeffries Chatfield *	27 Nov 2017	215.0p	255,000	-	-	255,000
Robert Jeffries Chatfield *	6 Sept 2018	232.0p	760,000	-	-	760,000
Robert Jeffries Chatfield *	8 Mar 2019	294.5p	250,000	-	-	250,000
Robert Jeffries Chatfield *	20 Sept 2019	296.0p	-	450,000	-	450,000
Robert Jeffries Chatfield *	21 Nov 2019	274.5p	-	300,000	-	300,000
Roderick Douglas Mahoney	27 Nov 2017	215.0p	170,000	-	(56,667)	113,333
Roderick Douglas Mahoney	6 Sept 2018	232.0p	450,000	-	-	450,000
Roderick Douglas Mahoney	8 Mar 2019	294.5p	150,000	-	-	150,000
Roderick Douglas Mahoney	20 Sept 2019	296.0p	-	180,000	-	180,000
Roderick Douglas Mahoney	21 Nov 2019	274.5p	-	120,000	-	120,000

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

For warrants exercised by both Directors during the year the market price was 292.5p at the date of exercise. The aggregate amount of gains made by directors on the exercise of the warrants was US\$0.05 million.

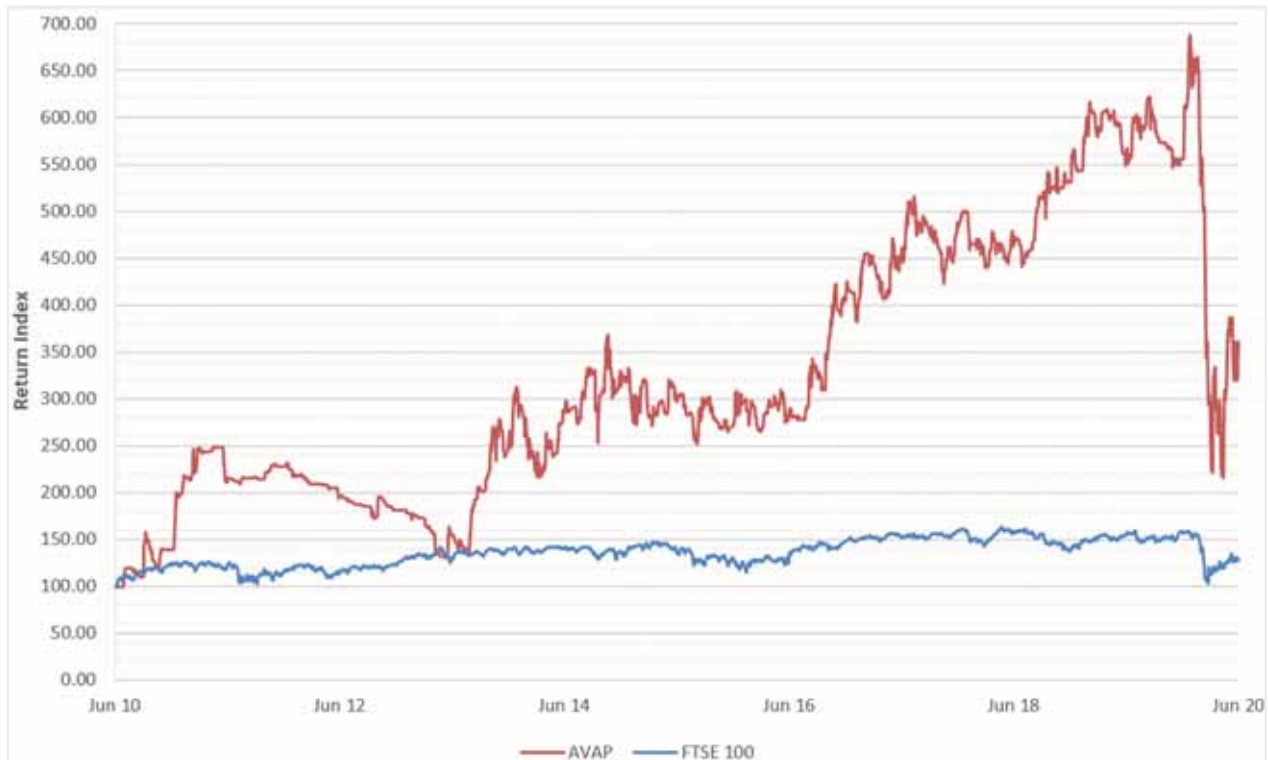
The closing market price of the shares subject to warrants at the year-end was 175.0p. The highest and lowest closing market prices during the year were 333.5p and 105.0p.

AVATION PLC

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2020

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

	2020	2019	2018	2017	2016
Executive Chairman single figure remuneration (US\$'000)	908	803	682	541	699
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.

AVATION PLC

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2020

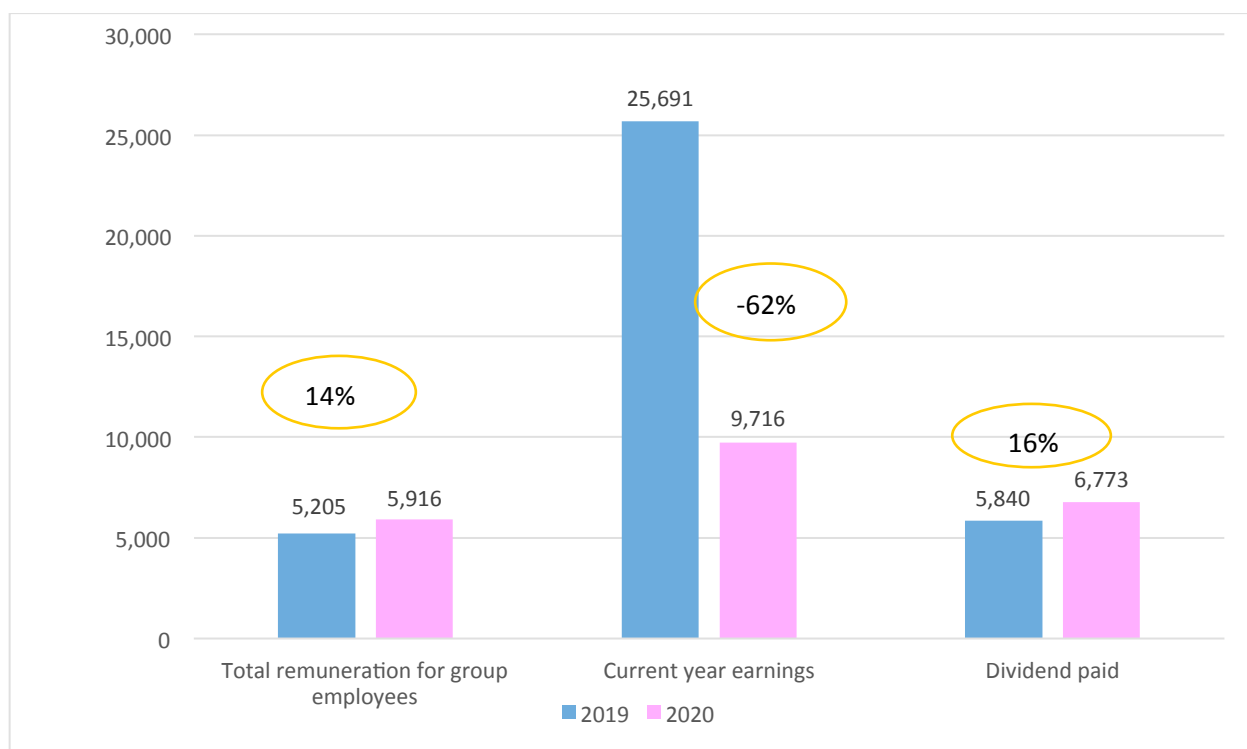
Percentage change in remuneration of Chief Executive Officer

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 2019 to 2020		
	% change in base salary	% change in annual bonus	% change in taxable benefits and share warrants
Executive Chairman	8%	0%	29%
All employees	5%	27%	16%

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:



AVATION PLC

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2020

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 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.

AVATION PLC

DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2020

Statement of consideration of employment conditions elsewhere in the company

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

Shareholders' vote on remuneration

	Share Count	% of vote cast
Votes cast in favour	41,430,639	99.64%
Votes cast against	151,429	0.36%
Total votes cast in favour or against	41,582,068	100.00%
Votes withheld	-	-

Note:

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

The Board as a whole considers the remuneration of the Directors and has not engaged external advisers. The remuneration report for the year ended 30 June 2019 was approved at the Annual General Meeting held on 21 November 2019.

On behalf of the Board



Robert Jeffries Chatfield
Executive Chairman

AVATION PLC

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 29 October 2020 and is signed on its behalf by Robert Jeffries Chatfield.



Robert Jeffries Chatfield
Executive Chairman

AVATION PLC

AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC

Opinion

In our opinion:

- Avation plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

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

Group	Parent company
Consolidated statement of profit and loss for the year then ended	
Consolidated statement of comprehensive income for the year then ended	
Consolidated statement of financial position as at 30 June 2020	Company statement of financial position as at 30 June 2020
Consolidated statement of changes in equity for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Company statement of cash flows for the year then ended
Related notes 1 to 41 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 41 to the financial statements including a summary of significant accounting policies

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

AVATION PLC

AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 3 (e) in the financial statements, which indicates that there is a material uncertainty in relation to the extension or refinancing of the unsecured outstanding notes which fall due to repayment in May 2021. As stated in the Directors' Report, these events or conditions, along with other matters as set forth in Note 3 (e), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In addition to the matter described in the material uncertainty to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none">Valuation of aircraftValuation of aircraft purchase rights
Audit scope	<ul style="list-style-type: none">We performed an audit of the complete financial information of Avation Plc in accordance with the materiality thresholds as set out below.
Materiality	<ul style="list-style-type: none">Overall group materiality of US\$1.2 million which represents 5% of the adjusted profit before tax for the year ended 30 June 2020.

Key audit matters

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

AVATION PLC

**AUDITOR’S REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF AVATION PLC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of Aircraft</p> <p>The carrying value of jet and turboprop aircraft represent the most significant asset in the financial statements of Avation Plc. As at 30 June 2020, the carrying value of aircraft reported is US\$1,056 million (2019: US\$1,225 million) as detailed in Note 19 of the financial statements.</p> <p>As set out within Note 3 (f) and 3 (g) ‘Summary of Significant Accounting Policies’, aircraft are measured at fair value on a Lease Encumbered Value basis (“LEV”). As detailed in Note 4 (b) ‘Critical Accounting Estimates and Judgments’, management need to apply estimation and judgment as part of their fair value assessment of aircraft.</p> <p>For the purposes of determining the valuation, the carrying value of each jet and turboprop is compared to the computed LEV. LEV is determined by discounting the lease income streams associated with the lease and the expected future residual value of the aircraft at the end of the lease adjusted for return conditions at lease termination using the weighted average cost of capital.</p>	<p>We have assessed each aircraft as they are deemed to be individually material to the financial statements.</p> <p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> • Walked through the design effectiveness of key controls around the preparation and review of the LEV model including appropriate governance procedures. • Obtained external aircraft valuation reports validating the calculation of the LEV including residual values. • Assessed and evaluated the key assumptions used (weighted average cost of capital, lease income streams and residual values). • Involved specialists from our valuations and business modelling team to assess the reasonableness of the weighted average cost of capital used in discounting the future cash flows of aircraft in the model. • Assessed the calculations underpinning the LEV model by checking that the data and the assumptions input into the model were in agreement with those that we had evaluated. • Assessed the appropriateness and presentation of disclosures in the financial statements for compliance with the relevant accounting standards. 	<p>Our planned audit procedures were completed without material exception.</p>

AVATION PLC

**AUDITOR’S REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF AVATION PLC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of Aircraft Purchase Rights</p> <p>We have determined that the valuation of aircraft purchase rights represent a significant risk. The fair value of aircraft purchase rights may not be correctly valued and recorded in accordance with IFRS 13.</p> <p>As set out within Note 3 (h) ‘Summary of Significant Accounting Policies’, aircraft purchase rights are measured at fair value to profit or loss. The Group values aircraft purchase rights using the binomial option price model. Critical assumptions made in determining the fair value of the aircraft purchase rights include the market value volatility rates used.</p> <p>During the financial year ended 30 June 2020, the fair value recorded for aircraft purchase rights is US\$27.1 million (2019: US\$Nil).</p>	<p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> • Obtained an understanding of the valuation process, performed a walkthrough of the process and evaluated the design effectiveness of controls related to the risk identified. • Assessed the assumptions used by management and evaluated the appropriateness and accuracy of inputs such as the future market values, volatility and the discount rate; • Involved specialist from our valuation team to assess the reasonableness of the discount rate used in valuation model. • Evaluated the competency and independence of the external appraisers as management experts for the external market appraisals provided. We obtained these external valuation reports to validate the market inputs to the valuation calculation. • Assessed the presentation of disclosures in the financial statements for compliance with the relevant accounting standards. 	<p>Our planned audit procedures were completed without material exception.</p>

AVATION PLC

AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC

An overview of the scope of our audit

Tailoring the scope

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

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US\$1.2 million (2019: US\$1.3 million), which is 5% (2019: 5% of the profit before tax) of the adjusted profit before tax for the year ended 30 June 2020. We believe that profit before tax provides us with a relevant measure used by investors and other stakeholders when assessing the performance of the Group. The profit before tax was adjusted for COVID-19 related charges offset by the gain on recognition of aircraft purchase rights which are deemed to be one-off during the period. The impact of these adjustments was to increase the profit before tax by US\$8.4 million.

We determined materiality for the Parent Company to be US\$1.2 million (2019: US\$238 thousand), which is 0.5% of total assets (2019: 2% of total revenue). The users of the financial statements are concerned with the asset value of the Company. Therefore, we believe that total assets provide us with the most relevant measure used by investors and other stakeholders when assessing the performance of the Company.

During the course of our audit, we reassessed initial materiality and no changes were required.

AVATION PLC

AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2019: 50%) of our planning materiality, namely US\$865 thousand (2019: US\$650 thousand).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US\$58 thousand (2019: US\$64 thousand), which is set at 5% (2019: 5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, including the Chairman's Statement (set out on pages 2-3), Strategic Report (set out on pages 4-12), Directors' Report (set out on pages 13-19), Directors' Remuneration Report (set out on pages 20-28) and Directors' Responsibilities Statement (set out on page 29) 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 this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

AVATION PLC

AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 29, 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.

AVATION PLC

AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Our approach was as follows:

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

AVATION PLC

AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVATION PLC

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management and reviewing key policies.

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

Other matters we are required to address

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

The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the period from our appointment through 30 June 2020.

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

Use of our report

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



John McCormack (Senior statutory auditor)
for and on behalf of Ernst & Young, Statutory Auditor
Dublin
30 October 2020

AVATION PLC

AUDITOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2020

Notes:

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

AVATION PLC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 US\$'000s	2019 US\$'000s
Continuing operations			
Revenue	9	135,274	119,055
Other income	10	1,270	215
		136,544	119,270
Depreciation	19	(46,666)	(41,011)
Gain on disposal of aircraft	19,27	3,230	10,026
Unrealised gain on aircraft purchase rights	25	27,110	-
Impairment loss on aircraft	19,27	(35,524)	-
Administrative expenses	11	(11,913)	(10,954)
Other expenses	12	(2,420)	(166)
Operating profit		70,361	77,165
Finance income	13	1,471	3,722
Finance expenses	14	(57,192)	(55,328)
Profit before taxation	16	14,640	25,559
Taxation	17	(4,924)	132
Profit from continuing operations		9,716	25,691
Profit attributable to:			
Equity holders of the Company		9,714	25,690
Non-controlling interests		2	1
		9,716	25,691
Earnings per share for profit attributable to equity holders of the Company			
<i>Basic earnings per share:</i>	18	15.39 cents	40.26 cents
<i>Diluted earnings per share</i>	18	15.36 cents	40.10 cents

AVATION PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 US\$'000s	2019 US\$'000s
Profit from continuing operations		9,716	25,691
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net loss on cash flow hedge, net of tax	24	(12,947)	(18,009)
		(12,947)	(18,009)
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Revaluation (loss)/gain on property, plant and equipment, net of tax		(4,230)	8,181
Other comprehensive income, net of tax		(17,177)	(9,828)
Total comprehensive income for the year		(7,461)	15,863
Total comprehensive income attributable to:			
Equity holders of the Company		(7,463)	15,862
Non-controlling interests		2	1
		(7,461)	15,863

AVATION PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 US\$'000s	2019 US\$'000s
ASSETS			
Non-current assets			
Property, plant and equipment	19	1,057,901	1,225,324
Trade and other receivables	20	11,601	8,930
Finance lease receivables	21	85,019	37,137
Goodwill	22	1,902	1,902
Derivative financial assets	24	-	363
Aircraft purchase rights	25	27,110	-
		<u>1,183,533</u>	<u>1,273,656</u>
Current assets			
Trade and other receivables	20	18,210	4,425
Finance lease receivables	21	7,988	7,221
Cash and bank balances	26	114,585	107,448
		<u>140,783</u>	<u>119,094</u>
Assets held for sale	27	91,268	-
		<u>232,051</u>	<u>119,094</u>
Total assets		<u>1,415,584</u>	<u>1,392,750</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	28	1,108	1,104
Share premium		57,747	56,912
Treasury shares	28	(7,811)	(1,147)
Merger reserve		6,715	6,715
Asset revaluation reserve		30,162	34,392
Capital reserve		8,876	8,876
Other reserves	29	(24,302)	(11,809)
Retained earnings		148,455	145,644
		<u>220,950</u>	<u>240,687</u>
Equity attributable to equity holders of the parent		<u>220,950</u>	<u>240,687</u>
Non-controlling interests		72	70
		<u>221,022</u>	<u>240,757</u>
Non-current liabilities			
Loans and borrowings	30	534,755	1,005,693
Trade and other payables	31	11,725	16,091
Derivative financial liabilities	24	27,928	10,174
Maintenance reserves	32	57,141	31,325
Deferred tax liabilities	33	698	179
		<u>632,247</u>	<u>1,063,462</u>
Current liabilities			
Loans and borrowings	30	536,983	72,595
Trade and other payables	31	10,155	11,964
Maintenance reserves	32	3,836	1,166
Income tax payables		1,058	2,806
		<u>552,032</u>	<u>88,531</u>
Liabilities directly associated with assets held for sale	27	10,283	-
		<u>562,315</u>	<u>88,531</u>
Total equity and liabilities		<u>1,415,584</u>	<u>1,392,750</u>

Approved by the board and authorised for issue on 29 October 2020



Robert Jeffries Chatfield
Executive Chairman

AVATION PLC

COMPANY STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 US\$'000s	2019 US\$'000s
ASSETS			
Non-current assets			
Property, plant and equipment	19	21,470	37,550
Trade and other receivables	20	136,628	145,604
Investment in subsidiaries	23	12,869	13,492
Aircraft purchase rights	25	27,110	-
		<u>198,077</u>	<u>196,646</u>
Current assets			
Trade and other receivables	20	76,441	64,433
Cash and bank balances	26	1,421	16,634
		<u>77,862</u>	<u>81,067</u>
Total assets		<u>275,939</u>	<u>277,713</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	28	1,108	1,104
Share premium		57,747	56,912
Treasury shares	28	(7,811)	(1,147)
Merger reserve		6,715	6,715
Other reserves	29	(7,789)	(5,133)
Retained earnings		47,875	33,713
Total equity		<u>97,845</u>	<u>92,164</u>
Non-current liabilities			
Loans and borrowings	30	125,779	136,900
Trade and other payables	31	516	200
Derivative financial liabilities	24	7,725	2,817
Deferred tax liabilities	33	2,701	340
		<u>136,721</u>	<u>140,257</u>
Current liabilities			
Loans and borrowings	30	12,717	10,574
Trade and other payables	31	28,656	33,227
Income tax payable		-	1,491
		<u>41,373</u>	<u>45,292</u>
Total equity and liabilities		<u>275,939</u>	<u>277,713</u>

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\$20.9 million (2019: US\$3.49 million).

Approved by the board and authorised for issue on 29 October 2020



Robert Jeffries Chatfield
Executive Chairman

AVATION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

Note	Attributable to shareholders of the parent										Non-controlling interest	Total equity
	Share capital	Share premium	Treasury Shares	Merger reserve	Asset revaluation reserve	Capital reserve	Other reserves	Retained earnings	Total			
	US\$'000s	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 2019	1,104	56,912	(1,147)	6,715	34,392	8,876	(11,809)	145,644	240,687	70	240,757	
Effect of adoption of IFRS 16 Leases	5a	-	-	-	-	-	-	(199)	(199)	-	(199)	
As at 1 July 2019 (adjusted)	1,104	56,912	(1,147)	6,715	34,392	8,876	(11,809)	145,445	240,488	70	240,558	
Profit for the period	-	-	-	-	-	-	-	9,714	9,714	2	9,716	
Other comprehensive income	-	-	-	-	(4,230)	-	(12,947)	-	(17,177)	-	(17,177)	
<i>Total comprehensive income</i>	-	-	-	-	(4,230)	-	(12,947)	9,714	(7,463)	2	(7,461)	
Dividends paid	38	-	-	-	-	-	-	(6,773)	(6,773)	-	(6,773)	
Issue of new shares	28	4	835	-	-	-	(69)	-	770	-	770	
Purchase of treasury shares	28	-	-	(6,664)	-	-	-	-	(6,664)	-	(6,664)	
Share warrant expense	-	-	-	-	-	-	592	-	592	-	592	
<i>Total transactions with owners recognised directly in equity</i>	4	835	(6,664)	-	-	-	523	(6,773)	(12,075)	-	(12,075)	
Expiry of share warrants	-	-	-	-	-	-	(69)	69	-	-	-	
<i>Total others</i>	-	-	-	-	-	-	(69)	69	-	-	-	
Balance at 30 June 2020	1,108	57,747	(7,811)	6,715	30,162	8,876	(24,302)	148,455	220,950	72	221,022	

During the year the Company paid total dividends of 10.6 US cents (2019: 9.25 US cents) per share.

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

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

AVATION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

Note	Attributable to shareholders of the parent										Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Merger reserve	Asset revaluation reserve	Capital reserve	Other reserves	Retained earnings	Total			
	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s		
Balance at 1 July 2018	1,080	53,083	-	6,715	27,847	8,876	6,389	124,119	228,109	69	228,178	
Profit for the year	-	-	-	-	-	-	-	25,690	25,690	1	25,691	
Other comprehensive income	-	-	-	-	8,181	-	(18,009)	-	(9,828)	-	(9,828)	
<i>Total comprehensive income</i>	-	-	-	-	<i>8,181</i>	-	<i>(18,009)</i>	<i>25,690</i>	<i>15,862</i>	<i>1</i>	<i>15,863</i>	
Dividend paid	38	-	-	-	-	-	-	(5,840)	(5,840)	-	(5,840)	
Issue of new shares	28	24	3,829	-	-	-	(628)	-	3,225	-	3,225	
Purchase of treasury shares	28	-	-	(1,147)	-	-	-	-	(1,147)	-	(1,147)	
Share warrants expense		-	-	-	-	-	478	-	478	-	478	
<i>Total transactions with owners recognised directly in equity</i>		<i>24</i>	<i>3,829</i>	<i>(1,147)</i>	-	-	<i>(150)</i>	<i>(5,840)</i>	<i>(3,284)</i>	-	<i>(3,284)</i>	
Expiry of share warrants		-	-	-	-	-	(39)	39	-	-	-	
Release of revaluation reserve upon sale of aircraft		-	-	-	-	(1,636)	-	1,636	-	-	-	
<i>Total others</i>		-	-	-	-	<i>(1,636)</i>	<i>(39)</i>	<i>1,675</i>	-	-	-	
Balance at 30 June 2019		1,104	56,912	(1,147)	6,715	34,392	8,876	(11,809)	145,644	70	240,757	

AVATION PLC

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

	Note	Share capital	Share Premium	Treasury shares	Merger reserve	Asset revaluation reserve	Other reserves	Retained earnings	Total
		US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Balance at 1 July 2019		1,104	56,912	(1,147)	6,715	-	(5,133)	33,713	92,164
Effect of adoption of IFRS 16									
Leases		-	-	-	-	-	-	(54)	(54)
As at 1 July 2019 (adjusted)		1,104	56,912	(1,147)	6,715	-	(5,133)	33,659	92,110
Profit for the year		-	-	-	-	-	-	20,920	20,920
Other comprehensive income		-	-	-	-	-	(3,110)	-	(3,110)
<i>Total comprehensive income</i>		-	-	-	-	-	(3,110)	20,920	17,810
Dividend paid	38	-	-	-	-	-	-	(6,773)	(6,773)
Issue of new shares	28	4	835	-	-	-	(69)	-	770
Purchase of treasury shares	28	-	-	(6,664)	-	-	-	-	(6,664)
Share warrants expense		-	-	-	-	-	592	-	592
<i>Total transactions with owners, recognised directly in equity</i>		4	835	(6,664)	-	-	523	(6,773)	(12,075)
Expiry of share warrants		-	-	-	-	-	(69)	69	-
<i>Total others</i>		-	-	-	-	-	(69)	69	-
Balance at 30 June 2020		1,108	57,747	(7,811)	6,715	-	(7,789)	47,875	97,845

During the year the Company paid total dividends of 10.60 US cents (2019: 9.25 US cents) per share.

AVATION PLC

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Note	Share capital	Share Premium	Treasury shares	Merger reserve	Asset revaluation reserve	Other reserves	Retained earnings	Total
		US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Balance at 1 July 2018		1,080	53,083	-	6,715	2,833	733	34,388	98,832
Profit for the year		-	-	-	-	-	-	3,490	3,490
Other comprehensive income		-	-	-	-	(1,197)	(5,677)	-	(6,874)
<i>Total comprehensive income</i>		-	-	-	-	(1,197)	(5,677)	3,490	(3,384)
Dividend paid	38	-	-	-	-	-	-	(5,840)	(5,840)
Issue of new shares	28	24	3,829	-	-	-	(628)	-	3,225
Purchase of treasury shares	28	-	-	(1,147)	-	-	-	-	(1,147)
Share warrants expense		-	-	-	-	-	478	-	478
<i>Total transactions with owners, recognised directly in equity</i>		<i>24</i>	<i>3,829</i>	<i>(1,147)</i>	-	-	<i>(150)</i>	<i>(5,840)</i>	<i>(3,284)</i>
Release of revaluation reserve upon sale of aircraft		-	-	-	-	(1,636)	-	1,636	-
Expiry of share warrants		-	-	-	-	-	(39)	39	-
<i>Total others</i>		-	-	-	-	(1,636)	(39)	1,675	-
Balance at 30 June 2019		1,104	56,912	(1,147)	6,715	-	(5,133)	33,713	92,164

AVATION PLC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 US\$'000s	2019 US\$'000s
Cash flows from operating activities:			
Profit before income tax		14,640	25,559
Adjustments for:			
Amortisation of lease incentive asset	9	524	-
Depreciation expense	19	46,666	41,011
Depreciation of right-of-use assets		217	-
Expected credit loss on receivables and accrued revenue	12	855	166
Finance income	13	(1,471)	(3,722)
Finance expense	14	57,192	55,328
Gain on disposal of aircraft		(3,230)	(10,026)
Interest income from finance leases	9	(3,266)	(1,382)
Impairment loss on aircraft	19,27	35,524	-
Share warrants expense	15	592	478
Unrealised gain on aircraft purchase rights		(27,110)	-
Operating cash flows before working capital changes		121,133	107,412
Movement in working capital:			
Trade and other receivables and finance lease receivables		(5,105)	4,411
Trade and other payables		(5,551)	1,412
Maintenance reserves		28,621	8,947
Cash from operations		139,098	122,182
Finance income received		3,215	2,950
Finance expense paid		(51,712)	(48,579)
Income tax paid		(2,095)	(2,946)
Net cash from operating activities		88,506	73,607
Cash flows from investing activities:			
Purchase of property, plant and equipment		(58,739)	(328,570)
Proceeds from disposal of aircraft		-	70,184
Net cash used in investing activities		(58,739)	(258,386)
Cash flows from financing activities:			
Net proceeds from issuance of ordinary shares		770	3,225
Dividends paid to shareholders	38	(6,773)	(5,840)
Purchase of treasury shares	28	(6,664)	(1,147)
Placement of restricted cash balances		(33,536)	(12,607)
Proceeds from loans and borrowings, net of transactions costs	30	76,561	301,741
Repayment of loans and borrowings	30	(86,524)	(96,854)
Net cash (used in)/from financing activities		(56,166)	188,518
Net (decrease)/increase in cash and cash equivalents		(26,399)	3,739
Cash and cash equivalents at beginning of year	26	61,689	57,950
Cash and cash equivalents at end of year	26	35,290	61,689

AVATION PLC

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 US\$'000s	2019 US\$'000s
Cash flows from operating activities:			
Profit before taxation		24,719	4,113
Adjustments for:			
Dividend income		-	(5,647)
Depreciation expense		44	1,023
Depreciation of right-of-use assets		77	-
Expected credit loss on receivables and accrued revenue		711	-
Finance income		(5,260)	(5,456)
Finance expense		6,535	5,834
Gain on disposal of aircraft		(619)	(3,725)
(Reversal of)/Impairment loss on investment in subsidiary		(885)	1,883
Share warrant expense		592	478
Unrealised gain on aircraft purchase rights		(27,110)	-
Operating cash flows before working capital changes		(1,196)	(1,497)
Movement in working capital:			
Trade and other receivables		(3,791)	(62,570)
Trade and other payables		3,785	(1,890)
Cash used in operations		(1,202)	(65,957)
Finance income received		5,230	7,719
Finance expense paid		(6,041)	(8,064)
Income tax paid		(1,130)	-
Net cash used in operating activities		(3,143)	(66,302)
Cash flows from investing activities:			
Dividends received		-	5,647
Return of capital from a subsidiary		1,508	-
Purchase of property, plant and equipment	19	(21,610)	(57,511)
Proceeds from disposal of aircraft		38,265	36,050
Net cash from/(used in) investing activities		18,163	(15,814)
Cash flows from financing activities:			
Net proceeds from issuance of ordinary shares		770	3,225
Dividends paid to shareholders	38	(6,773)	(5,840)
Purchase of treasury shares	28	(6,664)	(1,147)
Proceeds from loans and borrowings		-	253,823
Repayment of loans and borrowings	30	(17,566)	(154,957)
Net cash (used in)/from financing activities		(30,233)	95,104
Net (decrease)/increase in cash and cash equivalents		(15,213)	12,988
Cash and cash equivalents at beginning of year	26	16,634	3,646
Cash and cash equivalents at end of year	26	1,421	16,634

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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 1.

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

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted by the European Union ("IFRS") and as applied in accordance with Companies Act 2006.

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") as adopted by EU.

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 1.23 (2019: 1.27).

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

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 2020. Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments* is measured at fair value with the changes in fair value recognised in profit or loss. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) **GOING CONCERN**

COVID-19

The COVID-19 pandemic developed rapidly in 2020 causing a significant reduction in air travel and negative impacts on the business models and cash flows of our customer airlines. While it is difficult to predict the extent of the impact from COVID-19, the outbreak and the related decreased demand for aircraft travel is significantly impacting the Group's airline customers, which could lead to their inability to meet their lease payment obligations to the Group, lead to deferrals of lease payments, restructuring and cancellations of lease contracts with the Group which could negatively affect the Group's financial condition, cash flows and results from operating activities.

Further airline insolvencies may occur if the effects of the COVID-19 pandemic on the airline industry continues for an extended period.

The Group reacted to the impact of the COVID-19 pandemic pro-actively by engaging with its airline customers to arrange deferral of certain rental payments in order to provide cash flow relief, while simultaneously engaging with lenders to arrange deferral of certain loan payments to mitigate the reduced rental cash flows from airlines. The Group has entered into rent deferral agreements with 12 airline customers. The rent deferral agreements provide that deferred rents are repaid to the Group over periods of 3-9 months with interest charged on the deferred amounts. The Group has also entered into loan principal payment deferral agreements for 11 loans and the deferred loan principal payments are repayable to lenders over periods of 6-12 months with interest charged on the deferred amounts.

The Group has been re-marketing aircraft previously leased to Virgin Australia and Braathens and as of the date of this report has successfully re-leased five and sold two of these aircraft. The Group continues to market the remaining 8 aircraft for lease or sale.

In addition, the Group has entered into an agreement to finance a previously unencumbered aircraft and has engaged in discussion with Avions de Transport Regional with an intention to cancel or reschedule aircraft orders.

Further actions taken by the Group to mitigate the negative impacts of the COVID-19 pandemic on cash flow include a suspension of dividend payments, a moratorium on capital expenditure and a suspension of the Group's employee cash bonus scheme.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) **GOING CONCERN (continued)**

Debt maturities

The Group has a US\$349.0 million principal amount of unsecured 6.5% notes (the "Notes") outstanding which fall due for repayment in May 2021. As of the date of issuance of this report the Group has not entered into any arrangement to re-finance, exchange or extend the maturity date of the Notes.

The Group has engaged a financial adviser to negotiate with holders of the Notes, with the expectation of securing agreement on appropriate terms to extend the maturity date of the Notes by two or more years. An extension of the maturity date of the Notes requires a resolution at an extraordinary meeting of Noteholders. The formal announcement of the engagement of a financial adviser to assist in this process was made on 19 October 2020.

Due to the current challenging environment, the Directors have considered the impact on the Group, in the context of the Group's use of the going concern basis of preparation at the date of signing of these financial statements by evaluating all cash inflows and outflows of the Company and its subsidiaries, over the coming year under the following assumptions;

- Current unrestricted cash on hand balance available,
- Additional liquidity from available restricted cash and further loan deferrals to be used in funding loan repayments,
- Deferral of all certain contractually committed lease cash inflows;
- Forecasted cash outflows for all contractual debt and lease obligations and selling, general and administrative expenses for the next 12 months

Based on this analysis and all information available at present, the Directors believe that the actions that they have taken and intend to take will ensure that the Group has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the financial statements on a going concern basis of preparation. However, the Directors are of the view that a material uncertainty exists that may cast significant doubt upon the group's ability to continue as a going concern with regard to the group successfully securing agreement on appropriate terms to extend the maturity date of the Notes beyond the current repayment date. The Directors' view is that the process to extend the maturity of the bond can be completed within the timeframe prior to its maturity in May 2021.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

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.

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

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

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

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

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 for non-recurring measurement, such as assets held for sale in discontinued operations.

External valuers are involved for valuation of significant assets, such as aircraft, aircraft purchase options 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, 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 revalued amount. All items of property plant and equipment other than aircraft are measured at cost less any accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. However, these aircraft have been reviewed for impairment.

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

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

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

Narrow-body jets and turboprops	25 years from date of manufacture
Twin-aisle jets	23 years from date of manufacture
Aircraft engines	15 years from date of acquisition
Furniture and equipment	3 years

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

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, estimated scrap values for second hand aircraft and 33% of cost for new aircraft engines.

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) AIRCRAFT PURCHASE RIGHTS** – Aircraft purchase rights to acquire aircraft which the Group held over and above its requirement will be disposed off. The Group values these excess aircraft purchase rights using the Black Scholes model. The aircraft purchase rights are measured at fair value through profit or loss.

- (i) 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.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

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.

(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 expiry of a lease, any shortfall that is identified in the maintenance reserve liabilities for an aircraft as compared to the expected future reimbursement obligations to a lessee, or any surplus, will be charged or released to profit or loss. Upon sale of an aircraft, the maintenance reserve liability for that aircraft which is not transferred to the buyer will be released to profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

- (n) **LEASES**

Group as a lessor

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 profit or loss on a straight-line basis over the lease term. The Group recognises contingent rents when they can be reliably measured.

Where the Group transfers substantially all the risks and rewards of ownership of an asset, the lease is classified as a finance lease. Lease receipts are apportioned between finance income and reduction of the finance lease receivable so as to achieve a constant rate of interest on the remaining balance of the asset. Finance income is credited to revenue.

For sales-type leases, the Group recognises the difference between the net book value of the aircraft and the net finance lease receivables as a gain or loss on sale of aircraft, less any initial direct costs. The unearned income is recognised as finance lease interest income within revenue over the lease term in a manner that produces a constant rate of return on the finance lease receivables.

Under the terms of certain lease agreements, lessees are required to make maintenance contributions to the Group. At the end of a lease, when we are able to determine the amount, if any, by which maintenance contributions received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement, the excess is recognised as maintenance revenue. End of lease compensation payments made to the Group are recognised as revenue when a reliable estimate of the expected compensation amount can be determined. The Group does not recognise end of lease compensation as revenue if there is a reasonable expectation that the lessee will extend the existing lease agreement rather than returning the aircraft at the end of the current lease period.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) **LEASES (continued)**

Group as a lessee

Prior to the adoption of IFRS 16, leases were either classified as operating or finance leases. Payments made in respect of operating leases were charged to the income statement on a straight-line basis over the duration of the lease. Finance leases were recognised on the balance sheet with depreciation and interest being charged to the income statement.

On transition to IFRS 16, the Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) **Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

The Group's lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

The Group's right-of-use assets are included in trade and other receivables.

ii) **Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) **LEASES (continued)**

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in trade and other payables.

iii) **Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value.

Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(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.

(p) **REVENUE RECOGNITION** – The Group as lessor, leases aircraft principally under both operating leases and finance leases. Revenue which is not derived from leases is measured as follows:

(i) 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.

(ii) Dividend income from investments is recognised when the company's right to receive payment have been established.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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 tax resident in Singapore.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) **FINANCIAL INSTRUMENTS**

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value thought profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value thought OCI, it needs to give rise to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flow, selling the financial assets or both.

All purchases and sales of financial assets are recognised or derecognised on the trade date which is the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) FINANCIAL INSTRUMENTS (continued)

(i) Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- And
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost are cash and bank balances, trade and other receivables and finance lease receivables.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Group's financial assets at fair value through profit or loss are options held for trading and derivative financial assets.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for financial assets is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) FINANCIAL INSTRUMENTS (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value, minus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

(ii) Financial liabilities at amortised cost

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (u) **IMPAIRMENT OF FINANCIAL ASSETS** - The Group recognises an allowance for expected credit losses ("ECLs") for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Loss allowances of the Group are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

(i) Simplified approach

The Group applies the simplified approach to provide for ECLs for all trade receivables. The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

The Group established a provision matrix based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(ii) General approach

The Group applies the general approach to provide for ECLs on finance lease receivables and all other financial assets not held at fair value through profit or loss. Under the general approach, the loss allowance is measured at an amount equal to 12-month ECLs at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

For the purpose of recognition of an allowance for ECL, the Group considers a financial asset to be in default:

- when the lessee does not pay the amounts due under its lease agreements to the Group in excess of the security deposit or the value of the collateral; or
- in the case where the financial asset is not secured, when the financial asset is more than 90 days past due.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) **CASH AND BANK BALANCES** - Cash and bank balances comprise cash and cash equivalents and restricted cash.

- Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value.
- Restricted cash balances comprise bank balances which are pledged as security for certain loan obligations.

(w) **TRADE AND OTHER PAYABLES** – Liabilities for trade and other payables which are normally settled within 30 to 60 days credit terms, are initially carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

(x) **LOANS AND BORROWINGS** - Interest-bearing loans from banks and financial institutions are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see above).

- Modification of loans – The Group assesses whether the new terms of modified third party loans results in a modification of contractual cash flows substantially different to the original terms. In making this assessment, the Group considers, among others, significant changes in the interest rate. If the terms are substantially different, the Group derecognises the original financial liability and recognises a new financial liability at fair value and recalculates a new effective interest rate for the liability. If the terms are not substantially different, the modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the liability recalculated by discounting the modified cash flows at the original effective interest rate and recognises a modification gain or loss in profit or loss. The present value of the modified cash flow of the financial liability is subsequently amortised using the effective interest rate method over the remaining life of the loan and recorded as part of finance income in the consolidated statement of profit or loss.

(y) **SHARE CAPITAL, SHARE ISSUANCE EXPENSES AND TREASURY SHARES** - Proceeds from issuance of ordinary shares in excess of the par value are recognised in share premium in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted from share premium.

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (z) **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 hedged 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.

Hedging relationships designated under IAS 39 Financial Instruments that were still existing as at 30 June 2018 are treated as continuing hedges and hedge documentation was aligned accordingly to the requirements of IFRS 9 Financial Instruments.

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.

- (aa) **SEGMENTAL REPORTING** - Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors who are responsible for allocating resources and assessing performance of the operating segment. The Group's principal activity is aircraft leasing and therefore only has one reportable segment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

The carrying amount of the property, plant and equipment at the end of the reporting period is disclosed in Note 19.

(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. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in projected lease rental and maintenance payments, residual values, economic conditions, technology, airline demand for a particular aircraft type and other factors.

The carrying amount of the property, plant and equipment -aircraft at the end of the reporting period is disclosed in Note 19.

(c) Impairment of financial assets

The Group follows the guidance of IFRS 9 Financial Instruments in determining when a financial asset is impaired, and this requires judgement on the correlation between historical observed default rates and ECLs. The Group's methodology for calculating ECLs is set out in Note 7.

The carrying amount of financial assets at the end of the reporting period is disclosed in Note 6.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) **Fair value estimation for aircraft purchase rights**

The Group values aircraft purchase rights using the binomial option price model. Critical assumptions made in determining the fair value of the aircraft purchase rights include the market value volatility rates used.

The carrying amount of aircraft purchase rights at the end of the reporting period is disclosed in Note 25.

(e) **Income taxes and deferred income taxes**

a. 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 was taxed at a concessionary rate of 10%. Qualifying income during the period 17 April 2014 to 16 April 2019 was taxed at the concessionary rate subject to meeting the terms and conditions of the incentive.

On 26 April 2019, Avation Group (S) Pte. Ltd. and its subsidiaries were awarded another 5-year Aircraft Leasing Scheme incentive, where income from the leasing of aircraft and aircraft engines and qualifying activities will be taxed at a concessionary rate of 8%. The effective date is 17 April 2019. Accordingly, qualifying income derived from the period 17 April 2019 to 16 April 2024 will be taxed at the 8% concessionary rate subject to meeting the terms and conditions of the incentive. Management's judgement is required in the application of the concessionary tax rate of 8% in determining the carrying amount of deferred tax asset and liability for temporary differences that are expected to realised or settled beyond 16 April 2024.

b. Deferred tax assets are recognised for all unabsorbed capital allowances and unutilised tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

5 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

(a) Standards and interpretations adopted during the year

The Group has adopted all new standards that have come into effect during the year ended 30 June 2020. The adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company except as set out below:

IFRS 16 Leases

The Group adopted IFRS 16 Leases on 1 July 2019. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group has lease contracts for offices as lessee. Before the adoption of IFRS 16, the Group classified these leases as operating leases.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for lease contracts for offices previously classified as operating leases. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the weighted average of cost of debt of the Group of 4.6% at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The lease liabilities as of 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

	US\$'000s
Operating lease commitments as of 30 June 2019	1,278
Weighted average of cost of debt as of 1 July 2019	4.6%
Discounted operating lease commitments and lease liabilities as of 1 July 2019	1,144

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

5 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

The effect of adoption IFRS 16 as of 1 July 2019 (increase/(decrease) is, as follows:

	US\$'000s
Assets:	
Right-of-use assets	945
Total assets	945
Liabilities:	
Lease liabilities	1,144
Total liabilities	1,144
Total adjustment on equity:	
Retained earnings	(199)
	(199)

(b) New standards and interpretations not yet adopted

The Group has not adopted the following new or amended standards and interpretations which are relevant to the Group that have been issued but are not yet effective:

Description	Effective date (period beginning)
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	1 January 2020
Amendments to IFRS 3: Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Amendments to IFRS 16: Covid-19 Related Rent Concessions	1 June 2020
Interest Rate Benchmark Reform — Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Not yet endorsed for use in the EU.)	1 January 2021
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IAS 16: Property, Plant and Equipment, Proceeds before Intended Use	1 January 2022
AIP (2018-2020 cycle): IFRS 9 Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	1 January 2022
Amendments to IFRS 3: Reference to the Conceptual Framework	1 January 2022
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or joint venture	No effective date

Based on a preliminary assessment using currently available information, the Group does not expect the adoption of the above standards to have a material impact on the financial statements in the period of initial application. These preliminary assessments may be subject to changes arising from ongoing analyses when the Group adopts the standards. The Group plans to adopt the above standards on the effective date.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

6 FAIR VALUE MEASUREMENT

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

The fair value of the maintenance reserves is not disclosed in the table below as the timing and cost of the maintenance reserves cannot be determined with certainty in advance and hence the fair value of the maintenance reserve cannot be measured.

Group	2020		2019	
	Carrying amount US\$'000s	Fair value US\$'000s	Carrying amount US\$'000s	Fair value US\$'000s
Financial assets:				
Finance lease receivables – non-current	85,019	82,631	37,137	35,661
Derivative financial assets	-	-	363	363
Financial liabilities:				
Deposits collected – non-current	9,185	8,639	13,979	13,273
Loans and borrowings other than unsecured notes – non-current	534,755	502,534	660,727	644,726
Unsecured notes	346,656	261,143	344,966	358,327
Derivative financial liabilities	27,928	27,928	10,174	10,174

Company	2020		2019	
	Carrying amount US\$'000s	Fair value US\$'000s	Carrying amount US\$'000s	Fair value US\$'000s
Financial liabilities:				
Deposits collected – non-current	300	300	200	200
Loans and borrowings - non-current	125,779	120,144	136,900	132,497
Derivative financial liabilities	7,725	7,725	2,817	2,817

The fair values (other than the unsecured notes and derivative financial assets and liabilities) above are estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the end of the reporting period.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

6 FAIR VALUE MEASUREMENT (continued)

The fair value of the unsecured notes are based on level 1 quoted prices (unadjusted) in active market that the Group can access at measurement date.

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.

Non-financial assets measured at fair value:

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Fair value measurement using significant unobservable inputs:				
Aircraft	1,055,970	1,225,285	19,566	37,547
Aircraft purchase rights	27,110	-	27,110	-

Aircraft were valued at 30 June 2020 and 30 June 2019. Refer to Note 19 for the details on the valuation technique and significant inputs used in the valuation.

Information about significant unobservable inputs used in Level 3 fair value measurements

The following table shows the information about the fair value measurements using unobservable inputs (Level 3):

Description	Valuation techniques	Unobservable inputs	Range (weighted average) 2020	Range (weighted average) 2019
Aircraft	Lease-encumbered basis	Discount rates	5.50% to 8.00% for Jet (6.56%) 5.50% to 9.00% for Turboprops (6.23%)	5.75% to 7.75% for Jet (6.80%) 6.00% to 9.25% for Turboprops (7.17%)
Aircraft purchase rights	Black Scholes model	Volatility rates	5.63% to 8.50% (6.13%)	Not applicable

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

6 FAIR VALUE MEASUREMENT (continued)

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	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Financial assets measured at amortised cost:				
Cash and bank balances	114,585	107,448	1,421	16,634
Trade and other receivables	19,800	12,616	212,624	209,927
Finance lease receivables	93,007	44,358	-	-
	227,392	164,422	214,045	226,561
Financial liabilities measured at amortised cost:				
Trade and other payables	15,282	19,324	29,172	33,427
Loans and borrowings	1,071,738	1,078,288	138,496	147,474
Maintenance reserves	60,977	32,491	-	-
	1,147,997	1,130,103	167,668	180,901
Derivative used for hedging:				
Derivative financial assets	-	363	-	-
Derivative financial liabilities	(27,928)	(10,174)	(7,725)	(2,817)
Fair value through profit or loss:				
Aircraft purchase rights	27,110	-	27,110	-

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

6 FAIR VALUE MEASUREMENT (continued)

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

Group				
	2019	Cash flows	Non-cash/ other	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Loans and borrowings:				
Current	72,595	(67,935)	185,667	190,327
Non-current	660,727	58,735	(184,707)	534,755
Unsecured notes:				
Current	-	-	346,656	346,656
Non-current	344,966	(763)	(344,203)	-
	1,078,288	(9,963)	3,413	1,071,738

Group				
	2018	Cash flows	Non-cash/ other	2019
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Loans and borrowings:				
Current	71,704	(47,371)	48,262	72,595
Non-current	503,374	203,314	(45,961)	660,727
Unsecured notes:				
Non-current	293,522	48,944	2,500	344,966
	868,600	204,887	4,801	1,078,288

Company				
	2019	Cash flows	Non-cash/ other	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Loans and borrowings:				
Current	10,574	(9,457)	11,600	12,717
Non-current	136,900	-	(11,121)	125,779
Interest bearing payable due to subsidiaries	29,984	(8,109)	-	21,875
	177,458	(17,566)	479	160,371

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

6 FAIR VALUE MEASUREMENT (continued)

Company	2018	Cash flows	Non-cash/ other	2019
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Loans and borrowings:				
Current	3,068	3,896	3,610	10,574
Non-current	48,309	91,979	(3,388)	136,900
Interest bearing payable due to subsidiaries	26,993	2,991	-	29,984
	<u>78,370</u>	<u>98,866</u>	<u>222</u>	<u>177,458</u>

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

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, equipment failure and this year, Covid-19 pandemic. 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.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

(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		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Asia-Pacific	7,201	3,743	3	36
Europe	494	4	102	4
	<u>7,695</u>	<u>3,747</u>	<u>105</u>	<u>40</u>

For trade receivables, the Group has applied the simplified approach and has calculated ECLs based on lifetime expected losses. The Group has established a provision matrix based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Trade receivables that are neither past due nor impaired amounting to US\$1.5 million (2019: US\$1.1 million) are substantially due from companies with a good payment track record.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

(b) Credit risk (continued)

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 and interest bearing receivable. An allowance for expected credit losses of US\$0.2 million (2019: US\$0.2 million) has been provided in relation to trade receivables past due and impaired of US\$1.9 million (2019: US\$2.7 million). An allowance for expected credit losses of US\$0.7 million (2019: US\$Nil) has been provided in relation to interest bearing receivable.

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

	Group	
	2020 US\$'000s	2019 US\$'000s
Past due less than 3 months	1,897	157
Past due 3 to 6 months	1,794	-
Past due over 6 months	832	35
	4,523	192

Bank deposits that are neither past due or impaired are mainly deposits with banks with strong credit-ratings from international credit-rating agencies. While cash and bank balances are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Other receivables from subsidiaries are low in default credit risk as these subsidiaries are financially sound and with good payment track record.

For finance lease receivables, the Group applied the general approach under the standard. The Group's finance lease receivables are considered to have low credit risk and the loss allowance recognised during the period was therefore limited to 12 months expected credit losses on non-secured amounts. The loss allowance for finance lease receivables are recognised in profit or loss and reduces carrying amount of the finance lease receivables. As the value of aircraft that secures the Group's finance lease receivables exceeds the value of the finance lease receivables, the Group has not recognised any loss allowance in respect of its finance lease receivables during the year ended 30 June 2020 (2019: US\$nil).

(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 2020, 90.7% (2019: 92.0%) of the Group's loans and borrowings are at fixed or hedged interest rates. The interest rate risk is not material and therefore no sensitivity analysis presented.

The interest rates and repayment terms for financial assets and financial liabilities are disclosed in the respective notes to the financial statements as of 30 June 2020.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

(d) Foreign currency risk

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

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

The Group's foreign currency exposure is as follows:

Group	Cash and bank balances US\$'000s	Other financial assets US\$'000s	Other financial liabilities US\$'000s	Net currency exposure US\$'000s
2020:				
Pound sterling	82	21	(78)	25
Australian dollars	-	1,503	(9)	1,494
Euro	6,109	56,931	(47,873)	15,167
Singapore dollar	232	121	(533)	(180)
	6,423	58,576	(48,493)	16,506
2019:				
Pound sterling	66	62	(53)	75
Euro	5,307	30,389	(27,753)	7,943
Singapore dollar	245	29	(493)	(219)
	5,618	30,480	(28,299)	7,799
Company	Cash and bank balances US\$'000s	Other financial assets US\$'000s	Other financial liabilities US\$'000s	Net currency exposure US\$'000s
2020:				
Pound sterling	38	20	(47)	11
Australian dollars	-	-	(4)	(4)
Euro	-	53,835	(54,014)	(179)
Singapore dollar	78	31	(28)	81
	116	53,886	(54,093)	(91)
2019:				
Pound sterling	30	62	(19)	73
Euro	-	57,666	(57,825)	(159)
Singapore dollar	57	24	(47)	34
	87	57,752	(57,891)	(52)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

**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% (2019: 10%) with all other variables including tax rate being held constant:

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Foreign currency:				
Pound sterling	3	7	1	7
Australian dollars	149	-	-	-
Euro	1,517	794	(18)	(16)
Singapore dollar	(18)	(22)	8	3

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

The Group entered into Euro denominated lease agreements for aircraft and subsequently arranged Euro denominated financing and cross-currency swap contracts in order to hedge exposure to foreign exchange risk associated with Euro denominated lease revenue by offsetting Euro cash inflows and outflows over the lease term. See note 24.

(e) **Liquidity risk**

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

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

(e) Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

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

Group	One year or less US\$'000s	One to five years US\$'000s	Over five years US\$'000s	Total US\$'000s
2020:				
Financial liabilities:				
Trade and other payables	1,207	3,767	8,394	13,368
Loans and borrowings	608,966	384,308	217,738	1,211,012
Maintenance reserves	3,836	57,141	-	60,977
	614,009	445,216	226,132	1,285,357
2019:				
Financial liabilities:				
Trade and other payables	849	7,550	9,021	17,420
Loans and borrowings	125,702	832,463	327,494	1,285,659
Maintenance reserves	1,166	31,325	-	32,491
	127,717	871,338	336,515	1,335,570

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

(e) Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations:

Company	One year or less US\$'000s	One to five years US\$'000s	Over five years US\$'000s	Total US\$'000s
2020:				
Financial liabilities:				
Trade and other payables	28,511	530	-	29,041
Loans and borrowings	18,187	128,521	-	146,708
	46,698	129,051		175,749
2019:				
Financial liabilities:				
Trade and other payables	33,081	200	-	33,281
Loans and borrowings	15,757	145,327	-	161,084
	48,838	145,527	-	194,365

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

(f) Capital risk

For the purpose of the Group's capital management, capital includes debt and equity items such as issued capital, share premium and all other equity reserves attributable to the equity holders of the parent.

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 indebtedness divided by total assets. Net indebtedness is calculated as loans and borrowings less unrestricted cash and bank balances.

The Group calculates its gearing ratio on the basis of net indebtedness divided by total assets.

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Net indebtedness	1,036,448	1,016,599	137,075	130,840
Total assets	1,415,584	1,392,750	275,939	277,713
Gearing ratio:	73.2%	73.0%	49.7%	47.1%

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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	
	2020	2019	2020	2019
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Key management:				
Short-term employee benefits	3,174	2,883	753	642

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

	Group	
	2020	2019
	US\$'000s	US\$'000s
Aggregate emoluments	908	803

The Directors do not receive any pension contribution from the Company.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

8 RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions:

	Group		Company	
	2020	2019	2020	2019
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Entities controlled by key management personnel (including Directors):				
Lease liability paid	(286)	(292)	(98)	(111)
Consulting fee paid	(376)	(417)	(376)	(417)
Service fee received	104	6	-	-

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

	Company	
	2020	2019
	US\$'000s	US\$'000s
Sale of aircraft	38,298	19,964
Dividend income	-	5,647
Interest income	5,222	4,308
Rental income	-	1,527
Return of capital	1,508	-
Interest expense	(1,127)	(1,271)
Lease termination fee	-	(174)

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

9 REVENUE

	Group	
	2020 US\$'000s	2019 US\$'000s
Lease rental revenue	127,140	117,673
Less: amortisation of lease incentive asset	(524)	-
	126,616	117,673
Interest income on finance leases	3,266	1,382
Deposits released revenue	3,774	-
Maintenance reserves revenue	1,618	-
	135,274	119,055

The deposits released revenue relates to security deposits released from insolvent airline customers that defaulted on lease payments.

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

Geographical analysis

	Europe US\$'000s	Asia Pacific US\$'000s	Total US\$'000s
	2020	34,537	100,737
2019	31,385	87,670	119,055

During the year ended 30 June 2020, five customers individually represented more than 5% of the Group's total revenue (2019: six) of which four are based in Asia-Pacific (2019: four) and one is based in Europe (2019: two). The largest customer, who is based in Asia-Pacific, accounts for US\$26.2 million or 19.3% of the Group's total revenue (2019: US\$26.4 million or 22.2%).

10 OTHER INCOME

	Group	
	2020 US\$'000s	2019 US\$'000s
Deposit released	193	-
Foreign currency exchange gain	539	29
Others	538	186
	1,270	215

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

11 ADMINISTRATIVE EXPENSES

	Group	
	2020	2019
	US\$'000s	US\$'000s
Staff costs (note 15)	5,916	5,205
Other administrative expenses	5,997	5,749
	11,913	10,954

12 OTHER EXPENSES

	Group	
	2020	2019
	US\$'000s	US\$'000s
Aircraft repossession expenses	1,375	-
Expected credit loss on receivables and accrued revenue	855	166
Others	190	-
	2,420	166

Aircraft repossession expenses arose due to an insolvent airline customer that defaulted on its lease payments.

13 FINANCE INCOME

	Group	
	2020	2019
	US\$'000s	US\$'000s
Interest income from financial institutions	697	1,099
Interest income from non-financial institutions	15	317
Interest rate swap break gains	-	174
Fair value gain on derivatives	-	819
Finance income from discounting non-current deposits to fair value	480	753
Gain on early cancellation of unsecured note	237	-
Lease modification gain	42	-
Loan modification gain	-	370
Others	-	190
	1,471	3,722

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

13 FINANCE INCOME (continued)

Interest rate swap break gains arose from the termination of interest rate swap contracts concurrently with early repayments of loans and borrowings.

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

The gain on early cancellation of unsecured note arose when the Group repurchased its unsecured notes through the market at a price of 76.25 per cent.

14 FINANCE EXPENSES

	Group	
	2020 US\$'000s	2019 US\$'000s
Interest expense on borrowings	27,730	26,116
Interest expense on unsecured notes	22,745	21,851
Amortisation of loan transaction cost	5,281	5,640
Amortisation of interest expense on non-current deposits	438	771
Finance charges on early full repayment of borrowings	357	166
Others	641	784
	57,192	55,328

15 STAFF COSTS

	Group	
	2020 US\$'000s	2019 US\$'000s
Salaries and fees	4,367	3,965
Bonuses	783	588
Defined contribution plans	123	121
Benefits	51	53
Warrants expense	592	478
	5,916	5,205

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

15 STAFF COSTS (continued)

The average number of Directors of the Company for the year is 4 (2019: 4). The average number of other employees for the year is 19 (2019: 19) and in the following departments:

	Group	
	2020	2019
Administrative	3	3
Commercial	4	5
Finance	5	5
Legal	4	4
Technical	3	2
	19	19

16 PROFIT BEFORE TAXATION

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

	Group	
	2020 US\$'000s	2019 US\$'000s
Depreciation of property, plant and equipment	46,666	41,011
Foreign currency exchange (gain)	(539)	(29)
Audit fees:		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	292	273
Fees payable to the Company's auditor and their associates for audits of the Company's subsidiaries' annual accounts	279	233
Total audit fees	571	506
Auditors' remuneration for non-audit services:		
- Tax compliance services	128	105
- All other assurance services	168	142
Total fees for non-audit services	296	247

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

17 TAXATION

	Group	
	2020 US\$'000s	2019 US\$'000s
<i>From continuing operations</i>		
Current tax expense:		
- Singapore	3	1,491
- Overseas	686	978
(Over)/Under provision in prior years current tax expense:		
- Singapore	(369)	(16)
- Overseas	27	691
Deferred tax expense:		
- Singapore	3,005	(5,074)
- Overseas	(67)	1,476
(Over)/Under provision in prior years deferred tax expense:		
- Singapore	1,639	322
- Overseas	-	-
Income tax expense/(credit)	4,924	(132)

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	
	2020 US\$'000s	2019 US\$'000s
Profit before income tax	14,640	25,559
Tax calculated at 17% (2019: 17%)	2,489	4,345
Effects of:		
(Over)/under provision in prior years current tax expense		
- Singapore	(369)	(16)
- Overseas	27	691
Under provision in prior years deferred tax expense:		
- Singapore	1,639	322
- Overseas	-	-
Non-deductible items	1,165	1,809
Income not subject to tax	(862)	(394)
Different tax rates of other countries	560	1,736
Deferred tax asset not recognised	66	540
Utilisation of deferred tax asset not recognised	(1,264)	(2,370)
Effect of concessionary tax rate at 8% (2019 : 10% and 8%)	1,483	(1,953)
Effect of tax exemption and tax relief	(9)	(12)
Deferred tax asset recognised	-	(4,830)
Others	(1)	-
Income tax expense/(credit)	4,924	(132)

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

17 TAXATION (continued)

The Group has unutilised tax losses of approximately US\$0.9 million (2019: US\$3.5 million) and unabsorbed capital allowances of approximately US\$41.5 million (2019: US\$26.9 million) that are available for offset against future taxable profits, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these unutilised losses and capital allowances is subject to the agreement of tax authorities and compliance with certain provisions of tax legislation of the countries in which the Group operates.

18 EARNINGS PER SHARE

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

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

	Company	
	2020	2019
	US\$'000s	US\$'000s
Net profit attributable to equity holders of the company	9,714	25,690
Weighted average number of ordinary shares ('000s)	63,121	63,818
Basic earnings per share	15.39 cents	40.26 cents

(b) Diluted earnings per share

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

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

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

	Company	
	2020	2019
	US\$'000s	US\$'000s
Net profit attributable to equity holders of the company	9,714	25,690
Weighted average number of ordinary shares ('000s)	63,121	63,818
Adjustment for warrants ('000s)	131	253
Weighted average number of ordinary shares ('000s)	63,252	64,071
Diluted earnings per share	15.36 cents	40.10 cents

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

19 PROPERTY, PLANT AND EQUIPMENT

Group	Furniture and equipment US\$'000s	Aircraft engine US\$'000	Jet aircraft US\$'000s	Turboprop aircraft US\$'000s	Total US\$'000s
2020:					
<i>Cost or valuation:</i>					
At beginning of year	80	-	916,534	450,439	1,367,053
Additions	12	1,940	-	57,737	59,689
Reclassified as held under finance leases	-	-	-	(57,047)	(57,047)
Reclassified as asset held for sale	-	-	(106,124)	-	(106,124)
Impairment recognised in equity	-	-	4,339	(9,330)	(4,991)
At end of year	92	1,940	814,749	441,799	1,258,580
Representing:					
At cost	92	1,940	-	-	2,032
At valuation	-	-	814,749	441,799	1,256,548
	92	1,940	814,749	441,799	1,258,580
<i>Accumulated depreciation and impairment:</i>					
At beginning of year	41	-	73,065	68,623	141,729
Depreciation expense	19	41	31,928	14,678	46,666
Reclassified as asset held for sale	-	-	(16,189)	-	(16,189)
Impairment loss	-	-	8,738	19,735	28,473
At end of year	60	41	97,542	103,036	200,679
<i>Net book value:</i>					
At beginning of year	39	-	843,469	381,816	1,225,324
At end of year	32	1,899	717,207	338,763	1,057,901

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

19 PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Furniture and equipment US\$'000s	Jet aircraft US\$'000s	Turboprop aircraft US\$'000s	Total US\$'000s
2019:				
<i>Cost or valuation:</i>				
At beginning of year	346	713,142	374,876	1,088,364
Additions	8	211,548	117,014	328,570
Disposals/written-off	(274)	(18,624)	-	(18,898)
Reclassified as held under finance leases	-	-	(39,631)	(39,631)
Revaluation recognised in equity	-	10,468	(1,820)	8,648
At end of the year	80	916,534	450,439	1,367,053
Representing:				
At cost	80	-	-	80
At valuation	-	916,534	450,439	1,366,973
	80	916,534	450,439	1,367,053
<i>Accumulated depreciation and impairment:</i>				
At beginning of year	292	51,341	55,555	107,188
Depreciation expense	23	27,920	13,068	41,011
Disposals/written-off	(274)	(6,196)	-	(6,470)
At end of the year	41	73,065	68,623	141,729
<i>Net book value:</i>				
At beginning of the year	54	661,801	319,321	981,176
At end of the year	39	843,469	381,816	1,225,324

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

19 PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Furniture and equipment US\$'000	Aircraft engine US\$'000s	Turboprop aircraft US\$'000s	Total US\$'000s
2020				
<i>Cost or valuation:</i>				
At beginning of year	18	-	37,547	37,565
Additions	5	1,940	19,665	21,610
Disposal/written-off	-	-	(37,646)	(37,646)
At end of the year	23	1,940	19,566	21,529
Representing:				
At cost	23	1,940	-	1,963
At valuation	-	-	19,566	19,566
	23	1,940	19,566	21,529
<i>Accumulated depreciation and impairment:</i>				
At beginning of year	15	-	-	15
Depreciation expense	4	40	-	44
At end of the year	19	40	-	59
<i>Net book value:</i>				
At beginning of the year	3	-	37,547	37,550
At end of the year	4	1,900	19,566	21,470

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

19 PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Furniture and equipment US\$'000	Jet aircraft US\$'000s	Turboprop aircraft US\$'000s	Total US\$'000s
2019				
<i>Cost or valuation:</i>				
At beginning of year	202	19,915	-	20,117
Additions	-	-	57,511	57,511
Disposal/written-off	(184)	(18,473)	(19,964)	(38,621)
Impairment recognised in equity	-	(1,442)	-	(1,442)
At end of the year	18	-	37,547	37,565
Representing:				
At cost	18	-	-	18
At valuation	-	-	37,547	37,547
	18	-	37,547	37,565
<i>Accumulated depreciation and impairment:</i>				
At beginning of year	191	5,097	-	5,288
Depreciation expense	8	1,015	-	1,023
Disposal/written-off	(184)	(6,112)	-	(6,296)
At end of the year	15	-	-	15
<i>Net book value:</i>				
At beginning of the year	11	14,818	-	14,829
At end of the year	3	-	37,547	37,550

Assets pledged as security

The Group's aircraft with carrying values of US\$1,083.6 million (2019: US\$1,122.0 million) are mortgaged to secure the Group's borrowings (Note 30).

Additions and Disposals

During the year, the Group acquired 3 turboprop aircraft and 1 aircraft engine. 3 turboprop aircraft were reclassified as held under finance leases. A gain on transfer of the aircraft to finance lease of US\$3.2 million was recorded and included within the gain on disposal of aircraft.

During the year, 2 jet aircraft were reclassified as held for sale.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

19 PROPERTY, PLANT AND EQUIPMENT (continued)

Valuation

The Group's aircraft were valued in June 2020 by independent valuers on a lease-encumbered value 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 ranging from 5.50% to 8.00% (2019: 5.75% to 7.75%) per annum for jet aircraft and 5.50% to 9.00% (2019: 6.00% to 9.25%) per annum for turboprop aircraft. Different discount rates are considered appropriate for different aircraft based on their respective risk profiles.

During the year, a downward revaluation of US\$0.9 million to equity and an impairment loss of US\$2.5 million was recognised to write down the book value of 2 jet aircraft to their fair value prior to reclassification as held for sale.

A downward revaluation of US\$4.1 million to equity and an impairment loss of US\$25.9 million was recognised during the year.

During the previous year, one aircraft was damaged while undergoing maintenance. The affected aircraft has been revalued downward by the estimated diminution in value resulting from the damage. The lessee is responsible for maintenance and repair of the aircraft. The Group has submitted a claim against the lessee for compensation for the estimated loss in value of the aircraft resulting from the damage. The lessee is disputing the claim and at the current date no agreement has been reached to settle the claim.

Changes in accounting estimates of residual values of aircraft

During the year, the Group revised the residual values of its old technology widebody aircraft from base market value to soft market value to reflect the likely decrease in future residual values for old technology widebody aircraft with effect from 1 July 2019. The effect of this change is an increase in depreciation expense of approximately US\$1.7 million for the year ended 30 June 2020.

The table below outline the effect of these changes in estimate on the current financial year depreciation charge and subsequent years:

	30 Jun 2020	30 Jun 2021	30 Jun 2022	30 Jun 2023	30 Jun 2024 onwards
	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Increase in depreciation charge	1,781	1,781	1,781	1,781	28,068

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

19 PROPERTY, PLANT AND EQUIPMENT (continued)

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

Group	2020		2019	
	Jets US\$'000s	Turbo props US\$'000s	Jets US\$'000s	Turbo props US\$'000s
Cost	792,891	430,267	776,330	552,544
Accumulated depreciation and impairment	(97,291)	(99,149)	(58,706)	(81,504)
Net book value	695,600	331,118	717,624	471,040

Company	2020		2019	
	Jets US\$'000s	Turbo props US\$'000s	Jets US\$'000s	Turbo props US\$'000s
Cost	-	19,566	-	37,547
Accumulated depreciation and impairment	-	-	-	-
Net book value	-	19,566	-	37,547

Geographical analysis

2020	Europe	Asia	Total
	US\$'000s	Pacific US\$'000s	US\$'000s
Capital expenditure	59,583	106	59,689
Net book value – aircraft and aircraft engines	331,651	726,218	1,057,869

2019	Europe	Asia	Total
	US\$'000s	Pacific US\$'000s	US\$'000s
Capital expenditure	223,058	105,512	328,570
Net book value – aircraft	415,139	810,146	1,225,285

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Current:				
Trade receivables	7,900	3,954	137	40
Less:				
Allowance for estimated credit loss for trade receivables	(205)	(207)	(32)	-
	7,695	3,747	105	40
Accrued revenue	8,522	-	-	-
Less:				
Allowance for expected credit loss for accrued revenue	(137)	-	-	-
	8,385	-	-	-
Other receivables:				
– subsidiaries	-	-	74,796	64,052
– third parties	1,922	106	1,826	62
Less:				
Allowance for estimated credit loss for other receivables	(670)	-	(670)	-
	1,252	106	75,952	64,114
Interest receivables:				
– subsidiaries	-	-	160	145
– third parties	217	12	15	-
Less:				
Allowance for estimated credit loss for interest receivables	(9)	-	(9)	-
	208	12	166	145
Deposits	46	47	23	24
Prepaid expenses	624	513	195	110
	18,210	4,425	76,441	64,433
Non-current:				
Other receivables:				
– subsidiaries	-	-	125,779	136,900
Deposits for aircraft	10,599	8,704	10,599	8,704
Prepaid expenses	279	226	-	-
Right of use assets	723	-	250	-
	11,601	8,930	136,628	145,604

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

20 TRADE AND OTHER RECEIVABLES (continued)

Accrued revenue represents deferred lease receivables from customers with whom the Group has agreed to defer lease payments for a short term period in view of Covid-19 pandemic.

Other receivables from subsidiaries includes interest bearing receivables of US\$141.1 million (2019: US\$150.0 million). Current receivables from subsidiaries are unsecured and repayable upon demand. Interest is charged at 4.0% to 6.0% (2019: 4.0% to 6.0%) per annum.

Other receivables from third parties include interest bearing receivables of US\$1.7 million (2019: US\$Nil). Interest is charged at 1.0% to 6.0% (2019: Nil%) 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.

The movement in allowance for expected loss for receivables and accrued revenue are set out below:

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
At beginning of year	207	41	-	-
Provision for expected credit loss	855	166	32	-
Written off	(41)	-	-	-
At end of year	1,021	207	32	-

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

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Pound sterling	21	62	20	62
Euro	2,902	4	53,835	57,666
Singapore dollar	121	29	31	24

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

21 FINANCE LEASE RECEIVABLES

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

Future minimum lease payments receivable under finance leases are as follows:

Group	2020		2019	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Within one year	11,126	7,988	8,440	7,221
One to two years	8,785	6,167	3,906	2,951
Two to three years	8,785	6,443	3,314	2,449
Three to four years	8,785	6,728	3,314	2,538
Four to five years	62,546	57,545	3,314	2,628
Later than five years	8,185	8,136	28,534	26,571
Total minimum lease payments	108,212	93,007	50,822	44,358
Less: amounts representing interest income	(15,205)	-	(6,464)	-
Present value of minimum lease payments	93,007	93,007	44,358	44,358

Finance lease receivables denominated in foreign currencies are as follows:

	Group	
	2020 US\$'000s	2019 US\$'000s
Australian dollars	1,503	-
Euro	54,029	30,385

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

22 GOODWILL

	Group	
	2020 US\$'000s	2019 US\$'000s
Cost:		
At beginning and end of the year	2,384	2,384
Allowance for impairment:		
At beginning and end of the year	482	482
Net carrying amount:		
At beginning and end of the year	1,902	1,902

Impairment test of goodwill

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

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

Key assumptions used for value-in-use calculations:

	2020 %	2019 %
Average cash flow growth rate	2.0	2.0
Terminal growth rate	2.0	2.0
Discount rate	6.0	10.0

Management determined cash flow growth based on past performance and its expectations of market development. The terminal growth rate of 2% that was used to extrapolate cash flows beyond the budget period did not exceed the long term average growth rate for the business in which the CGU operates. Management has estimated that the recoverable amount of the CGU is US\$267.6 million (2019: US\$276.5 million).

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

23 INVESTMENT IN SUBSIDIARIES

	Company	
	2020 US\$'000s	2019 US\$'000s
Unquoted equity shares, at cost		
At beginning of year	15,375	15,375
Written-off	(2,506)	-
At end of year	12,869	15,375
Less: allowance for impairment loss:		
At beginning of year	1,883	-
(Reversal of)/charge for the year	(885)	1,883
Written-off	(998)	-
At end of year	-	1,883
Net investment in subsidiaries	12,869	13,492

Impairment of US\$1.9 million recognised during the previous year relates to a subsidiary, Avation.net Inc, which was impaired to the recoverable amount based on the net tangible assets of the subsidiary.

During the year, Avation.net Inc was dissolved and there was a return in equity investment of US\$1.5 million which resulted in the impairment loss recognised in the previous year of US\$0.9 million being written back to profit or loss.

Details of subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	Ownership interest		
			2020 %	2019 %	
<i>Held directly by the Company:</i>					
Avation.net Inc	+	United States	Procurement	-	99.96
Avation Capital S.A.		Luxembourg	Financing	100.00	100.00
Capital Lease Aviation Limited		United Kingdom	Aircraft leasing	99.68	99.68
MSN429 Leaseco Limited	+	United Kingdom	Aircraft leasing	-	100.00
Avation Group (S) Pte. Ltd.		Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) Limited		Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) II Limited		Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) III Limited		Ireland	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) IV Limited		Ireland	Aircraft leasing	100.00	100.00
<i>Held by Capital Lease Aviation Limited:</i>					
Capital Lease Malta Ltd.	(a)	Malta	Aircraft leasing	99.68	99.68
Capital MSN 4033 Limited		Ireland	Aircraft leasing	99.68	99.68
Capital MSN 4033 II Limited		Ireland	Aircraft leasing	99.68	99.68
<i>Held by Avation Eastern Fleet Pte. Ltd.:</i>					
Airframe Leasing (S) Pte. Ltd.		Singapore	Aircraft leasing	100.00	100.00
<i>Held by Avation Eastern Fleet II Pte. Ltd.:</i>					
Airframe Leasing (S) II Pte. Ltd.		Singapore	Aircraft leasing	100.00	100.00
<i>Held by Avation Eastern Fleet III Pte. Ltd.:</i>					
Airframe Leasing (S) III Pte. Ltd.		Singapore	Aircraft leasing	100.00	100.00

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

23 INVESTMENT IN SUBSIDIARIES (continued)

Name of entity	Country of incorporation	Principal activities	Ownership interest	
			2020 %	2019 %
<i>Held by Avation Group (S) Pte. Ltd.:</i>				
Avation Eastern Fleet Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Eastern Fleet II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Eastern Fleet III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Eastern Fleet IV Pte. Ltd.	+ Singapore	Aircraft leasing	-	100.00
Avation Pacific Leasing Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Pacific Leasing II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Taiwan Leasing Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Taiwan Leasing II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Taiwan Leasing III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) IV Pte. Ltd.	+ Singapore	Aircraft leasing	-	100.00
AVAP Leasing (Europe) VI Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) VII Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Europe) VIII Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
AVAP Leasing (Europe) IX Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
F100 Fleet Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
MSN 1607 Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Trading Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Trading II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Trading III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Asia Fleet Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Asia Fleet II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Asia Fleet III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
MSN 1922 Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Denmark Leasing Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Avation Capital II Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Leasing (Asia) VI Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Leasing Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Leasing II Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
AVAP Aircraft Leasing III Pte. Ltd.	Singapore	Aircraft leasing	100.00	-
AVAP Aircraft Leasing IV Pte. Ltd.	Singapore	Aircraft leasing	100.00	-

All companies as at 30 June 2020 are audited by member firms of Ernst & Young except for the following:

(a) Audited by Nexia BT, Malta

+ Dissolved during the year.

The registered office address of the Companies incorporated in the following countries are as follows:

Ireland - 32 Molesworth Street, Dublin 2 D02 Y512, Ireland.

Luxembourg - 46A, Avenue J. F. Kennedy, L-1855 Luxembourg.

Malta - Office 2, Suite 2, The Penthouse Capital, Business Centre, Entrance C, Triq taz-Zwejt, San Gwann SGN 3000, Malta.

Singapore -65 Kampong Bahru Road, Singapore 169370.

United Kingdom - 5 Fleet Place, London EC4M 7RD, United Kingdom.

United States - Corporation Trust Centre, 1209 Orange Street, Wilmington, Delaware 19801, USA.

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

24 DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Group	Contract/ notional amount		Fair value	
	2020	2019	2020	2019
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Non-current asset				
Interest rate swap	-	63,185	-	363
Non-current liability				
Interest rate swap	304,507	267,118	(27,458)	(10,117)
Cross-currency interest rate swap	4,000	4,000	(470)	(57)
	308,507	271,118	(27,928)	(10,174)

Company	Contract/ notional amount		Fair value	
	2020	2019	2020	2019
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Non-current liability				
Interest rate swap – non-current liability	83,750	90,250	(7,725)	(2,817)

Hedge accounting has been applied for interest rate swap contracts and cross-currency interest rate swap contracts which have been designated as cash flow hedges.

The Group pays fixed rates of interest of 1.0% to 2.6% per annum and receives floating rate interest equal to 1-month to 3-month LIBOR under the interest rate swap contracts.

The Group pays fixed rates of interest of 3.1% to 4.9% per annum and receives floating interest equal to 3-month LIBOR under the cross-currency interest rate swap contracts.

The swap contracts mature between 23 September 2021 and 21 November 2030.

Changes in the fair value of these interest rate swap and cross-currency interest rate swap contracts are recognised in the fair value reserve. The net fair value loss net of tax of US\$14.8 million (2019: loss of US\$18.5 million) on these derivative financial instruments was recognised in the fair value reserve for the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

24 DERIVATIVE FINANCIAL ASSETS/LIABILITIES (continued)

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.

The Group has also designated certain Euro denominated loans as cash flow hedges of foreign currency exchange risk derived from Euro denominated leases. Unrealised foreign exchange gains and losses arising on Euro denominated loans designated as cash flow hedges are recognised in the foreign currency hedge reserve. Unrealised foreign exchange gains and losses recorded in the foreign currency hedging reserve are systematically re-cycled through profit or loss over the remaining term of the related loan on a straight-line basis.

The Group determine the hedging relationship between the hedging instruments and the hedged item on a number of criteria including the reference interest rates, tenors, repricing dates and maturities and to notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method. In these hedge relationships, the main sources of ineffectiveness are:

- Differences in the pricing dates between the swaps and the borrowings
- Differences in the timing of the cash flows of the hedged items and the hedging requirements
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and the hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

During the year 30 June 2020, the effect of the cash flow hedge in the consolidated statement of profit or loss and consolidated statement of other comprehensive income was as follows:

Group	Total hedging gain/(loss) recognised in OCI	Amount reclassified from OCI to profit or (loss)	Line item in the statement of profit or loss
	US\$'000s	US\$'000s	
Interest rate swap	(14,403)	(1,735)	Finance expense
Cross currency swap	(413)	(155)	Finance expense
Foreign currency hedge	1,869	452	Other income
	(12,947)	(1,438)	

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

24 DERIVATIVE FINANCIAL ASSETS/LIABILITIES (continued)

During the year 30 June 2019, the effect of the cash flow hedge in the consolidated statement of profit or loss and consolidated statement of other comprehensive income was as follows:

Group	Total hedging gain/(loss) recognised in OCI US\$'000s	Amount reclassified from OCI to profit or (loss) US\$'000s	Line item in the statement of profit or loss
Interest rate swap	(18,421)	-	-
Cross currency swap	(57)	-	-
Foreign currency hedge	469	132	Other income
	(18,009)	132	

25 AIRCRAFT PURCHASE RIGHTS

	Group and Company 2020 US\$'000s	2019 US\$'000s
Aircraft purchase rights, at fair value	27,110	-

Prior to 31 December 2019, the Group held aircraft purchase rights for the purpose of acquiring aircraft for its fleet. Aircraft purchase rights were accounted for as non-financial assets at amortised cost.

With effect from 31 December 2019, the Group adopted a new business model for aircraft purchase rights and determined that it would seek to dispose of excess aircraft purchase rights over and above its requirement to acquire additional aircraft for its fleet. To reflect this change, the Group now accounts for aircraft purchase rights through profit or loss. Disclosures about the fair value measurement of aircraft purchase rights at fair value are included in Note 6.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

26 CASH AND BANK BALANCES

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Fixed deposits	10,067	6,700	-	5,000
Other cash and bank balances	104,518	100,748	1,421	11,634
Total cash and bank balances	114,585	107,448	1,421	16,634
Less : restricted	(79,295)	(45,759)	-	-
Cash and cash equivalents	35,290	61,689	1,421	16,634

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

The rate of interest for cash on interest earning accounts is approximately 0.01% to 2.60% (2019: 0.01% to 2.60%) per annum.

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

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Pound sterling	82	66	38	30
Euro	6,109	5,307	-	-
Singapore dollar	232	245	78	57

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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

The Group's aircraft which met the criteria to be classified as assets held for sale and the associated liabilities were as follows:

	Group	
	2020	2019
	US\$'000	US\$'000s
Assets held for sale:		
Property, plant and equipment - aircraft		
At beginning of year	-	48,745
Additions	89,935	-
Impairment loss	(7,051)	-
Disposals	-	(48,745)
At end of year	82,884	-
Lease incentive asset	8,384	-
	91,268	-
Liabilities directly associated with assets held for sale:		
Deposit collected	1,240	-
Lessor maintenance contribution	8,908	-
Maintenance reserves	135	-
	10,283	-

An impairment loss of US\$7.0 million was recognised to write down the book value of 2 jet aircraft classified as held for sale to current market value during the year.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

28 SHARE CAPITAL AND TREASURY SHARES

(a) Share capital

	2020		2019	
	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	64,609,939	1,104	62,760,246	1,080
Issue of shares	270,003	4	1,849,693	24
At end of the year	64,879,942	1,108	64,609,939	1,104

During the year, the Company issued 270,003 ordinary shares of 1 penny each at 215p to 232p following the exercise of warrants by warrant holders raising total gross proceeds of US\$0.8 million.

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

(b) Treasury shares

	2020		2019	
	No of shares	US\$'000s	No of shares	US\$'000s
At beginning of the year	300,000	1,147	-	-
Acquired during the year	1,910,000	6,664	300,000	1,147
At end of the year	2,210,000	7,811	300,000	1,147

(c) Net asset value per share

	2020	2019
Net asset value per share (US\$) ⁽¹⁾	\$3.53	\$3.74
Net asset value per share (GBP) ⁽²⁾	£2.86	£2.95

⁽¹⁾ Net asset value per share is total equity divided by the total number of shares in issue excluding treasury shares at period end.

⁽²⁾ Based on GBP:US\$ exchange rate as at 30 June 2020 of 1.23 (30 June 2019 : 1.27)

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

29 OTHER RESERVES

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Capital redemption reserve	12	12	12	12
Warrant reserve	986	532	986	532
Fair value reserve	(27,638)	(12,822)	(8,787)	(5,677)
Foreign currency hedge reserve	2,338	469	-	-
	(24,302)	(11,809)	(7,789)	(5,133)

Movements in other reserves are as follows:

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
<i>Warrant reserve:</i>				
At the beginning the year	532	721	532	721
Employee share warrant scheme:				
- Value of employee services	592	478	592	478
- Issue of shares	(69)	(628)	(69)	(628)
- Expired	(69)	(39)	(69)	(39)
At end of the year	986	532	986	532
<i>Fair value reserve:</i>				
At the beginning the year	(12,822)	5,656	(5,677)	-
Effective portion of changes in fair value	(16,706)	(18,478)	(3,733)	(5,677)
Net change in fair value reclassified to profit or loss	1,890	-	623	-
At end of the year	(27,638)	(12,822)	(8,787)	(5,677)
<i>Foreign currency hedge reserve:</i>				
At the beginning the year	469	-	-	-
Effective portion of changes in fair value	2,321	601	-	-
Net change in fair value reclassified to profit or loss	(452)	(132)	-	-
At end of the year	2,338	469	-	-

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

30 LOANS AND BORROWINGS

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Secured borrowings	725,082	733,322	138,496	147,474
Unsecured notes (a)	346,656	344,966	-	-
	1,071,738	1,078,288	138,496	147,474
Less: current portion of borrowings	(536,983)	(72,595)	(12,717)	(10,574)
	534,755	1,005,693	125,779	136,900

	Maturity		Weighted average interest rate per annum	
	2020 US\$'000s	2019 US\$'000s	2020 %	2019 %
Secured borrowings	2021-2031	2020-2031	2021-2031	2020-2031
Unsecured notes (a)	2021	2021	2021	2021

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.

Secured borrowings are subject to certain covenants that give lenders the right to demand repayment if breached. The Group was in breach of a covenant to maintain a minimum ratio of tangible net worth to net debt of at least 2.3:10 as at 30 June 2020. The Group subsequently obtained a waiver of the breach of this covenant on 21 October 2020. The carrying value of borrowings subject to this covenant of US\$119.4 million has been classified as a current liability as at 30 June 2020.

Borrowing costs capitalised into loans and borrowings amounted to US\$1.4 million (2019: US\$3.0 million). The rate used to determine the amount of borrowing costs for capitalisation was 5.1% (2019: 5.1%) per annum.

During the year, the Group increased its secured borrowings by US\$76.6 million (2019: US\$158.2 million) to fund aircraft acquisitions.

During the year, the Group repaid US\$86.8 million (2019: US\$96.9 million) of its secured borrowings.

During the previous year, the Group recognised a day-one gain of US\$0.4 million related to a current debt modification.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

30 LOANS AND BORROWINGS (continued)

Secured Loans and borrowings denominated in foreign currencies are as follows:

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Euro	200,108	193,105	53,831	57,666

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

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

During the year, the Group repurchased US\$1 million (2019:US\$nil) unsecured notes through the market at a price of 76.25 per cent.

During the previous year, the Group issued US\$50 million 6.5% Senior Notes due 2021 under the Programme.

31 TRADE AND OTHER PAYABLES

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Current:				
Trade payables	230	92	129	36
Other payables:				
- subsidiaries	-	-	27,972	32,781
- third parties	119	162	118	75
Deferred lease income	297	427	-	-
Lease liability	250	-	84	-
Revenue received in advance	4,412	6,192	-	-
Accrued expenses	4,847	5,091	353	335
	10,155	11,964	28,656	33,227
Non-current:				
Deposits collected	9,185	13,979	300	200
Deferred lease income	1,889	2,112	-	-
Lease liability	651	-	216	-
	11,725	16,091	516	200

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

31 TRADE AND OTHER PAYABLES (continued)

Other payables due to subsidiaries includes interest bearing payables of US\$21.9 million (2019: US\$30.0 million) which are unsecured, payable upon demand and bear interest at 8.2% (2019: 8.2%) per annum.

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	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Pound sterling	78	53	47	19
Australian dollar	9	-	4	-
Euro	3,687	2,809	183	159
Singapore dollar	533	493	28	47

32 MAINTENANCE RESERVES

	Group	
	2020 US\$'000s	2019 US\$'000s
Current	3,836	1,166
Non-current	57,141	31,325
Total maintenance reserves	60,977	32,491

	Group	
	2020 US\$'000s	2019 US\$'000s
At beginning of year	32,491	23,544
Contributions	34,503	15,413
Utilisations	(4,399)	(1,558)
Released to profit or loss	(1,618)	-
Transfer to buyer upon sale of aircraft	-	(4,908)
At end of the year	60,977	32,491

During the year, maintenance reserve of US\$1.6 million were released to profit or loss as revenue following recovery from insolvent airline customers that defaulted on.

The Group also holds letters of credit for US\$27.0 million (2019: US\$38.8 million) as security for lessees' obligations under operating leases for the maintenance of aircraft.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

33 DEFERRED TAX LIABILITIES

Recognised deferred tax liabilities are attributable to the following:

	Group		Company	
	2020 US\$'000s	2019 US\$'000s	2020 US\$'000s	2019 US\$'000s
Property, plant and equipment	4,239	179	4,500	340
Tax losses carried forward	(244)	-	-	-
Cash flow hedge	(3,297)	-	(1,799)	-
	698	179	2,701	340

Movements in temporary differences are as follows:

Group	Property, plant and equipment US\$'000s	Tax losses carried forward US\$'000s	Cash flow hedge US\$'000s	Total US\$'000s
2020				
At beginning of the year	179	-	-	179
Recognised in profit or loss	4,821	(244)	-	4,577
Recognised in equity	(761)	-	(3,297)	(4,058)
At end of the year	4,239	(244)	(3,297)	698
2019				
At beginning of the year	4,286	(1,298)	-	2,988
Recognised in profit or loss	(4,574)	1,298	-	(3,276)
Recognised in equity	467	-	-	467
At end of the year	179	-	-	179
Company				
2020				
At beginning of the year		340	-	340
- Recognised in profit or loss		4,160	-	4,160
- Recognised in equity		-	(1,799)	(1,799)
At end of the year		4,500	(1,799)	2,701
2019				
At beginning of the year		1,453	-	1,453
- Recognised in profit or loss		(868)	-	(868)
- Recognised in equity		(245)	-	(245)
At end of the year		340	-	340

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

34 SHARE BASED PAYMENTS

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

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

Warrants are granted to employees of the Group to promote:

- Improvement in share price;
- Improvement in the Company's earnings per share;
- Reliable and high quality financial reporting;
- Growth in asset value and profits; and
- Growth in dividends.

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:

	2020		2019	
	No.	WAEP	No.	WAEP
Outstanding at beginning of the year	3,709,997	242.5p	2,651,690	159.8p
- Granted	1,925,000	287.4p	3,158,000	248.3p
- Exercised	(270,003)	228.2p	(1,849,693)	135.9p
- Expired	(217,999)	259.6p	(250,000)	227.8p
Outstanding at end of the year	5,146,995	259.3p	3,709,997	242.5p
Exercisable at end of the year	1,128,673	241.0p	155,335	215.0p

The weighted average fair value of warrants granted during the year was 22 pence (2019: 20 pence). The charge recognised in profit or loss in respect of share based payments is US\$0.6 million (2019: US\$0.5 million).

During the year, 270,003 warrants were exercised (2019: 1,849,693).

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	
			2020	2019
27 November 2017	27 Nov 2020	215.0p	615,330	721,997
5 September 2018	6 Oct 2021	232.0p	1,906,665	2,170,000
8 March 2019	9 Apr 2022	294.5p	780,000	818,000
20 September 2019	21 Oct 2022	296.0p	1,107,000	-
21 November 2019	22 Dec 2022	274.5p	738,000	-

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

34 SHARE BASED PAYMENTS (continued)

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

Vesting period	Proportion of total share options that are exercisable
Before 27 November 2018	0 per cent
On 27 November 2018 and before 27 November 2019	Up to 33 per cent of the grant
On 27 November 2019 and before 27 November 2020	Up to 33 per cent of the grant or up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 27 November 2020 to 31 December 2020	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

The warrants granted on 5 September 2018 have a 3-year vesting schedule and the details are as follows:

Vesting period	Proportion of total share options that are exercisable
Before 6 September 2019	0 per cent
On 6 September 2019 and before 6 September 2020	Up to 33 per cent of the grant
On 6 September 2020 and before 6 September 2021	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 6 September 2021 to 6 October 2021	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 March 2019 have a 3-year vesting schedule and the details are as follows:

Vesting period	Proportion of total share options that are exercisable
Before 9 March 2020	0 per cent
On 9 March 2020 and before 9 March 2021	Up to 33 per cent of the grant
On 9 March 2021 and before 9 March 2022	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 9 March 2022 to 9 April 2022	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

34 SHARE-BASED PAYMENTS (continued)

Warrants granted to Directors on 20 September 2019 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 21 September 2020	0 per cent
On 21 September 2020 and before 21 September 2021	Up to 33 per cent of the grant
On 21 September 2021 and before 21 September 2022	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 21 September 2022 to 21 October 2022	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 21 November 2019 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 22 November 2020	0 per cent
On 22 November 2020 and before 22 November 2021	Up to 33 per cent of the grant
On 22 November 2021 and before 22 November 2022	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 22 November 2022 to 22 December 2022	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

34 SHARE-BASED PAYMENTS (continued)

	Warrant series granted on 21 November 2019	Warrant series granted on 20 September 2019	Warrant series granted on 8 March 2019
Inputs into the model:			
Grant date share price	274.5 pence	296.0 pence	294.5 pence
Exercise price	274.5 pence	296.0 pence	294.5 pence
Expected volatility	15%	18%	17%
Warrant life	3 years	3 years	3 years
Dividend yield	3.11%	3.11%	2.45%
Risk free interest rate	0.53% to 0.58%	0.46% to 0.53%	0.75% to 0.79%

	Warrant series granted on 5 September 2018	Warrant series granted on 27 November 2017
Inputs into the model:		
Grant date share price	232.0 pence	215.0 pence
Exercise price	232.0 pence	215.0 pence
Expected volatility	16%	25% to 28%
Warrant life	3 years	3 years
Dividend yield	2.45%	1.91%
Risk free interest rate	0.74% to 0.79%	0.83% to 0.93%

35 CAPITAL COMMITMENTS

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

	Group	
	2020 US\$'000s	2019 US\$'000s
Property, plant and equipment	155,140	169,034

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

As at the year end, the Group has commitments to purchase eight ATR 72-600 aircraft from the manufacturer with expected delivery dates over a three-year period.

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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	
	2020 US\$'000s	2019 US\$'000s
Within one year	112,258	132,112
One to two years	98,713	132,265
Two to three years	94,549	117,605
Three to four years	93,134	98,733
Four to five years	90,308	92,638
Later than five years	265,039	337,207
	<u>754,001</u>	<u>910,560</u>

The Group holds cash deposits of US\$12.7 million (2019: US\$16.2 million) and letters of credit for US\$8.7 million (2019: US\$10.4 million) as security for lessees' obligations under operating leases.

37 CONTINGENT LIABILITIES

	Company	
	2020 US\$'000s	2019 US\$'000s
Guarantees	<u>1,071,738</u>	<u>1,078,288</u>

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

AVATION PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

38 DIVIDENDS

	2020	2019
	US\$'000s	US\$'000s
<i>Paid during the year:</i>		
<i>Dividends on ordinary shares</i>		
- First interim exempt (one-tier) dividend for 8.50 US cents (2019: 7.25 US cents) per share	5,454	4,550
- Second interim exempt (one-tier) dividend for 2.10 US cents (2019: 2.00 US cents) per share	1,319	1,290
	6,773	5,840

Dividends are recognised as liabilities when they are approved for payment.

39 ULTIMATE HOLDING COMPANY

No party controls the Company.

40 SUBSEQUENT EVENTS

On 10 July 2020, the Company repurchased US\$1,000,000 of Avation Capital S.A. 6.5% Senior Notes due 2021 through the market at a price equal to 76 per cent of face value.

On 5 August 2020, the Company repurchased US\$2,434,000 of Avation Capital S.A. 6.5% Senior Notes due 2021 through the market at a price equal to 71 per cent of face value.

On 11 August 2020, the Company repurchased US\$1,609,000 of Avation Capital S.A. 6.5% Senior Notes due 2021 through the market at a price equal to 71 per cent of face value.

On 27 August 2020, the Company entered into a 5-year lease agreement for an ATR72-500 aircraft with an Asian airline. The aircraft was subsequently delivered to the airline on 9 October 2020.

On 17 September 2020, the Company transferred title to two Fokker 100 aircraft to the lessee on completion of their finance leases.

41 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company and the consolidated financial statements of the Group for the year ended 30 June 2020 were authorised for issue by the Board of Directors on 29 October 2020.



COPENHAGEN



FIJI



JAKARTA



HANOI



GLASGOW



LONDON



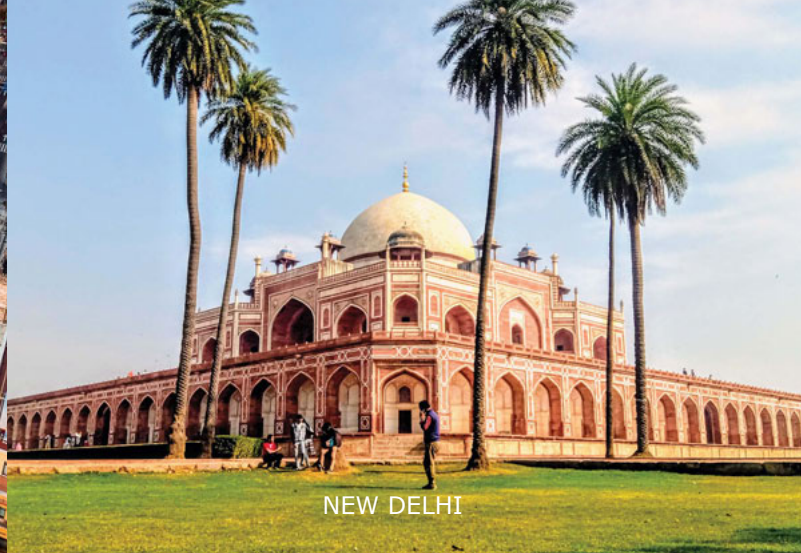
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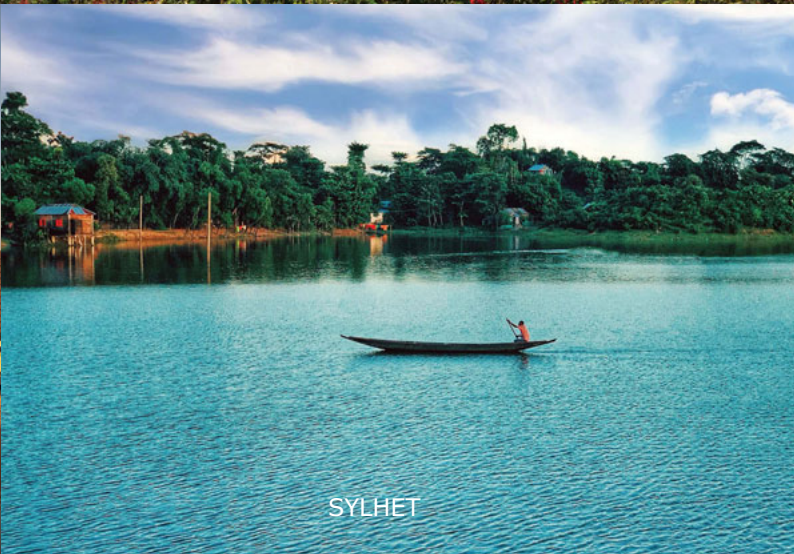
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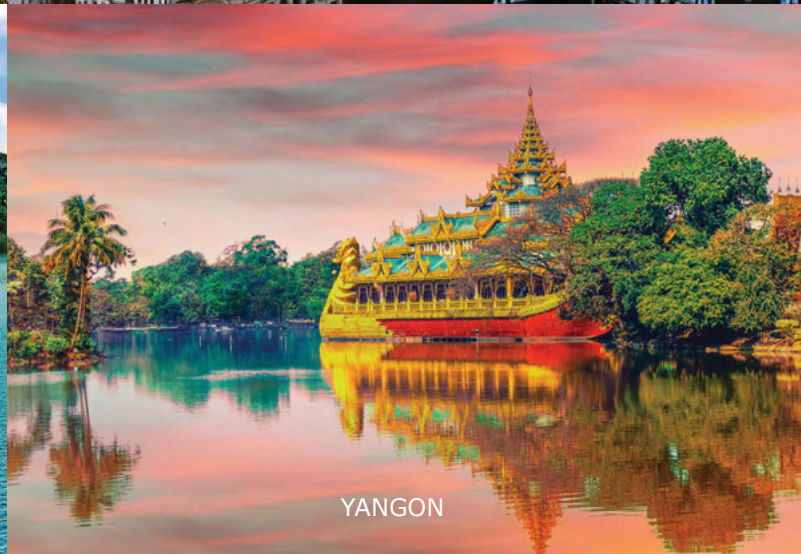
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