

# ANNUAL REPORT



2021

**AVATION PLC**  
**DIRECTORS' REPORT AND**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**30 JUNE 2021**

**REGISTERED NUMBER: 05872328 (ENGLAND & WALES)**

# AVATION PLC

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## AVATION PLC

### COMPANY INFORMATION FOR THE YEAR ENDED 30 JUNE 2021

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<b>COMPANY SECRETARIES:</b>	Duncan Gerard Stephen Scott Jasmine Siow Fui San
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<b>REGISTRAR:</b>	Computershare Investor Services PLC The Pavilions Bridgewater Road Bristol BS99 6ZZ United Kingdom

## **AVATION PLC**

### **CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2021**

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#### **Overview**

- Material COVID-19 impacts on financial results, revenue decreased 13% to US\$117.7 million;
- Cash and bank balances increased 7% to US\$122.5 million;
- Net Indebtedness reduced by \$113.9 million (11%) to US\$922.6 million;
- Impairment losses of US\$87.4 million and expected credit losses on receivables of US\$25.4 million recognised for the year, reflecting the COVID-19 disruption to the leasing industry; and
- Loss before taxation of US\$70.2 million.

#### **COVID-19 update**

- Focus on preserving liquidity and cashflow has left the fleet, business and customers substantially intact;
- Rent deferrals totalling US\$25.9 million provided to airline customers;
- Loan repayment deferrals totalling US\$35.2 million obtained from secured lenders;
- Maturity date of Avation Capital S.A. Senior Notes ("Notes") extended to October 2026;
- Administration expenses (cash) decreased by 9% to US\$10.3 million; and
- Capital expenditure and dividends remain temporarily suspended with a return to fleet growth expected in late 2022.

#### **Business review**

The year ended 30 June 2021 has been one of the most challenging in the Company's history. The COVID-19 pandemic persisted throughout the year disrupting airlines, aircraft leasing and aircraft valuations. These challenges have created a significant workload and I would like to thank Avation's employees for their commitment, focus and diligence during the period.

Avation's decision to preserve liquidity and cashflow ensured survival and allowed focus to be directed to maintenance of the business, customers and leasing platform which have been preserved as the impacts of the pandemic recede and air travel returns.

The prolonged impact of the pandemic has resulted in US\$87.4 million in impairments to the value of the fleet and US\$25.4 million for expected credit losses that dominate the financial results. An end to the pandemic appears to be in sight with the rollout of global vaccination programmes supporting a return to growth in passenger numbers. A return of air travel to pre-COVID levels may result in an increase in the value of aircraft that could reverse some of the impairments in future periods.

The recent Chapter 11 filing for voluntary restructuring by Philippine Airlines should lead to a resolution of one of the last remaining lease defaults resulting from the COVID-19 pandemic in Avation's fleet. Avation is set to emerge from the pandemic with a smaller fleet with high levels of utilisation and a long timeframe for repayment of the Company's unsecured Notes following the extension of their maturity until October 2026.

Avation's cash and liquidity position is expected to improve in the coming months through the expected sale of underutilised aircraft and the receipt of distributions to creditors from the restructuring administrations of Virgin Australia and Philippine Airlines. This will have the combined impact of improving operational efficiency and increasing liquidity which can then be used to continue to pay down debt and fund a return to fleet growth planned for late 2022.

## **AVATION PLC**

### **CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2021**

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#### **Airline customers subject to restructuring or insolvency**

Insolvency proceedings are currently ongoing in relation to two airlines, Virgin Australia and Philippine Airlines.

##### Virgin Australia

On 20 April 2020, Virgin Australia entered into voluntary administration. Avation had two Fokker 100 aircraft on finance lease and 11 ATR 72 aircraft on operating lease to Virgin Australia. The two Fokker 100 aircraft were transferred to the lessee at the end of their finance leases in September 2020. Of the 11 ATRs, four have been re-leased at market rates and one has been sold. The aggregate outstanding debt on the remaining six ATR aircraft is \$US\$6.3 million as at today's date.

Avation's claim against Virgin Australia has been adjudicated by the Trustee of the Creditors Trust in the sum of AUD101.4 million. The Company believes that a portion of the sum is a priority claim. The Administrator has advised of an expected pay-out of 9.5-13 cents on the dollar for unsecured claims.

##### Philippine Airlines

On 6 September 2021, Avation advised that Philippine Airlines ("**PAL**") filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in order to complete a prearranged restructuring process. Avation and PAL have agreed terms for PAL to retain the use of a Boeing 777- 300ER aircraft on lease from Avation.

A successful restructuring will ensure that Avation will recommence collecting rent on the aircraft for the first time since early 2020. Under the restructuring, Avation will also be entitled to receive payments relating to utilisation since 1 September 2020 on a power by the hour basis along with a promissory note for a portion of rent outstanding for the period prior to 1 September 2020.

#### **Bond Extension**

During the year Avation completed a process to extend the maturity date of the US\$342.6 million outstanding Notes from May 2021 to October 2026. The Company announced the completion of this process on 26 March 2021. The Notes extension provides stability to the Company's capital structure and will assist the Company to successfully navigate the COVID-19 pandemic.

The extension of the maturity date and other revisions to the terms and conditions of the Notes ("Extension") has been accounted for as a substantial modification of the terms of a debt instrument in accordance with IFRS 9. Under IFRS 9, if the modification to the terms of a debt instrument is substantial the existing liability is extinguished and a new liability is recognised at fair value. The fair value of the Notes at the date of the Extension, based on the quoted open market price of the Notes of 82c/\$, was US\$281.0 million. Total fees and costs incurred in connection with the Extension amounted to US\$11.0 million which includes US\$3.5 million for the fair value of share warrants issued to holders of the Notes. The difference between the extinguished liability and new liability, less fees and costs incurred, has been recognised as a gain of US\$50.3 million in the Statement of profit or loss.

## AVATION PLC

### CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2021

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#### Market Positioning

Avation's long-term 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 that seeks 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 disruption created by the COVID-19 pandemic is expected to recede following the successful rollout of global vaccination programmes that support a return to increased levels of air travel. This trend is already evidenced in regional and domestic travel and we expect will be followed by a recovery in international travel as we move through the remainder of the 2022 financial year.

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 cash administration costs and temporarily suspended capital expenditure.

Avation has consolidated its aircraft fleet and resolved numerous issues that have arisen as a result of the pandemic. The Company is in a position to look forward with cautious optimism to opportunities that will present themselves in a post pandemic environment.

The Company believes that airlines will require significant number of leased aircraft following the pandemic due to the large 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's strategy of focussing on young and popular commercial aircraft.

Funding of asset acquisitions is traditionally sourced from capital markets, asset-backed bank lending, operational cash flows and disposals of selected aircraft. Access to acceptably priced funding is a key factor in aircraft leasing. Specific risks which are inherent in 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  
26 October 2021

## **AVATION PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2021**

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The Directors present their strategic report for the year ended 30 June 2021.

#### **BUSINESS OVERVIEW**

Avation PLC and its subsidiaries ("Avation", the "Group") is a commercial passenger aircraft leasing group managing a fleet of 44 aircraft, as of 30 June 2021. Avation was founded in 2006 and has now been in operation for 15 years. Avation leases aircraft to 18 airline customers spread across 15 countries in Europe and the Asia-Pacific region, as of 30 June 2021. Major customers include Vietjet Air, airBaltic, EVA Air and Philippine Airlines. The Group's fleet includes 16 narrow-body jets, two twin-aisle jets and 26 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 two ATR 72-600 aircraft on order from the manufacturer, which are currently scheduled to be delivered in October and November 2022. The Group also holds purchase rights for a further 28 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's shares are traded on the Standard Segment of the Main Market 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 narrow-body jets, in particular the popular Airbus A320/A321, A220 and Boeing 737 aircraft families. The Group will also consider acquiring additional twin-aisle aircraft 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 are amortised to conservative balloon payments over the terms of the underlying leases.

The Avation fleet of 44 aircraft (as of 30 June 2021) has a weighted average age of 4.8 years and weighted average remaining lease term of 6.4 years, serving a diversified customer base of airlines in Europe and the Asia-Pacific region.



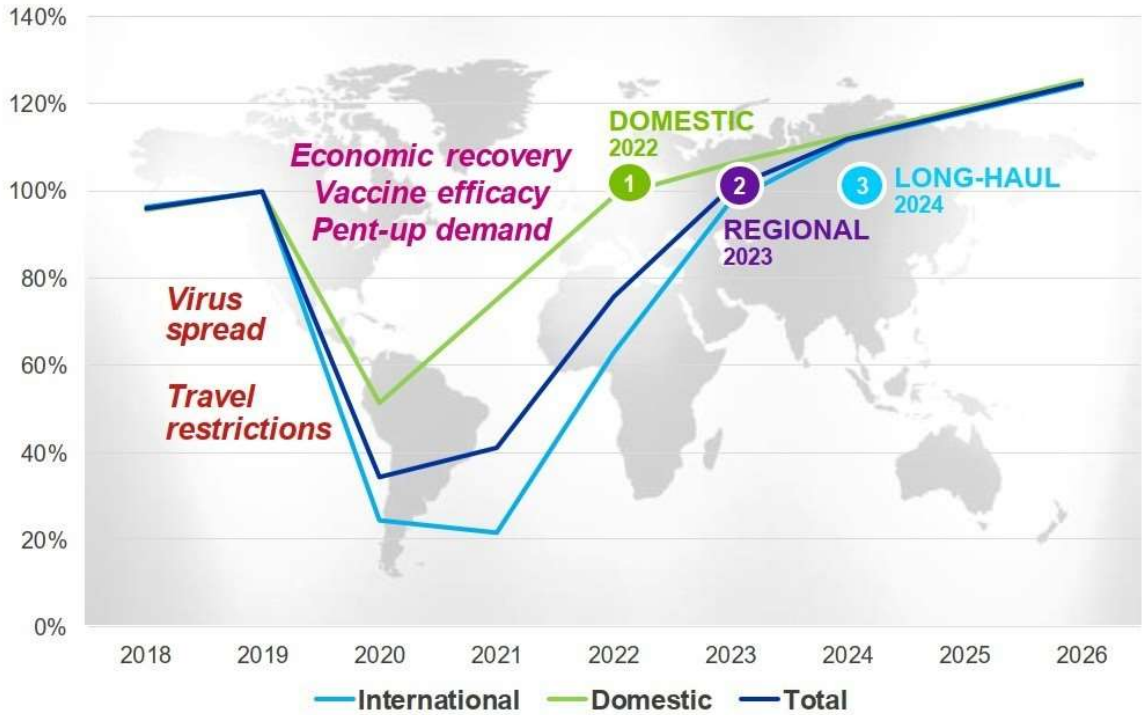
**AVATION PLC**

**STRATEGIC REPORT  
FOR THE YEAR ENDED 30 JUNE 2021**

**MARKET 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.

Air travel is expected to return to pre COVID-19 levels between 2022 and 2024.



SOURCE: Boeing

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. Boeing forecasts that over 43,000 aircraft (replacement and growth) will be required over the next 20 years, of which 41% are expected to be in Asia-Pacific, 20% in Europe, 21% in North America, and of the total, 75% are expected to be single aisle. <sup>1</sup>

Comparatively low interest rates and improved access to capital, including unsecured debt, are supportive of 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.

<sup>1</sup> Boeing Commercial Market Outlook 2021

## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2021

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#### 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 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 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 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 2021

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#### 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

	2021	2020
	US\$'000s	US\$'000s
Revenue	117,738	135,274
Other income	2,406	1,270
Operating (loss)/profit	(62,714)	70,361
Total (loss)/profit	(84,885)	9,716
Net cash from operating activities	62,285	88,506
Total assets	1,282,934	1,415,584
Total equity	157,010	221,022
Basic earnings per share (US cents)	(131.15)	15.39
Dividend per share (US cents)	-	10.60

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Revenue decreased by 13.0% to US\$117.7 million (2020: US\$135.3 million) primarily as a result of lease defaults by airlines entering administration.

Other income increased by US\$1.1 million to US\$2.4 million (2020: US\$1.3 million) primarily due to aircraft purchase option activation fees received of US\$1.2 million (2020: US\$nil).

Depreciation decreased by 0.9% to US\$46.3 million (2020: US\$46.7 million) as a consequence of changes to the aircraft fleet and reduced depreciation applied to certain aircraft following downward revaluations recorded in the six-month period ended 31 December 2020.

Losses on sales of aircraft during the period were US\$6.9 million (2020: gains of US\$3.2 million) and impairment losses were US\$87.4 million (2020: US\$35.5 million).

During the current year the Group sold a nine-year old ATR 72-500 and a one-year-old ATR 72-600 aircraft recognising total losses on sale of US\$6.9 million (2020: US\$nil). During the year, two Fokker 100 aircraft were transferred to the lessee at the end of their finance leases. During the prior year, the Group recognised gains on disposal of aircraft of US\$3.2 million (2021: US\$nil) in connection with the inception of finance leases for three aircraft.

An impairment loss of US\$28.7 million (2020: US\$nil) was recognised in relation to a widebody aircraft on lease to Philippine Airlines following the airline's announcement of its intention to restructure operations under a bankruptcy court process. Philippine Airlines filed a petition for voluntary restructuring under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York on 3 September 2021. Impairment losses of US\$28.4 million (2020: US\$18.9 million) were recognised in relation to 11 aircraft formerly leased to Virgin Australia who defaulted on leases and filed for administration in April 2020. The Group also recorded impairment losses of US\$30.3 million (2020: US\$16.6 million) in relation to a general softening in residual values for other aircraft.

## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2021

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Administrative expenses increased 1.7% to US\$12.1 million (2020: US\$11.9 million) primarily due to increased employee share warrant expenses of US\$1.7 million (2020: US\$0.5 million) arising from repricing certain share warrants and increased volatility associated with Avation's share price. Volatility is a key input in the binomial valuation method used by the Company to value share warrants. As a percentage of revenue, administrative expenses increased to 10.2% (2020: 8.8%).

Expected credit losses on receivables were US\$25.4 million (2020: US\$0.9 million). Expected credit losses include US\$12.3 million (2020: US\$0.1 million) in relation to receivables from Philippine Airlines, US\$6.2 million (2020: US\$0.7 million) in relation to receivables from Virgin Australia and US\$3.1 million (2020: US\$nil million) in relation to receivables from Vietjet.

Other expenses were US\$4.6 million (2020: US\$1.6 million). Other expenses in the current period include aircraft repossession costs of US\$0.6 million (2020: US\$1.4 million) and maintenance costs of \$1.1 million (2020: US\$nil) resulting from the default of Virgin Australia. Other expenses also includes US\$2.9 million of pre-delivery payments expensed (2020: US\$nil) in connection with a restructuring of the Company's contract with Avions de Transport Regional for the supply of ATR 72 aircraft.

The Group recognised an operating loss of US\$62.7 million (2020: profit US\$70.4 million) as a result of the foregoing.

Finance expenses increased by 5.2% to US\$60.2 million (2020: US\$57.2 million) and total interest expense within finance expenses increased to US\$53.5 million (2020: US\$50.5 million). The increases in finance expenses and total interest expense were primarily attributable to a revised interest rate applied to the Group's unsecured notes following an extension of the maturity date on revised terms concluded on 25 March 2021. Interest expense on the unsecured notes issued under the Company's Global Medium-Term Note programme ("GMTN") was US\$26.6 million (2020: US\$22.7 million). The interest rate applicable to the notes was revised to either 6.5% cash and 2.5% payable in kind or 8.25% payable in cash only from 25 March 2021. The choice of interest rate is at the option of the Company at each semi-annual coupon payment date.

The Group recognised a gain on debt modification of US\$50.3 million derived from the extension of the maturity date of the Group's unsecured notes on revised terms. Under IFRS accounting rules the extension was recorded as the extinguishment of the existing unsecured notes liability of US\$342.3 million and the recognition of a new liability at fair value estimated to be US\$281.0 million. Transaction costs of US\$7.5 million and share warrants expense of US\$3.5 million were also accounted for as components of the net gain on debt modification.

Finance income was US\$2.4 million (2020: US\$1.5 million). There were also higher gains resulting from repurchases of unsecured notes of US\$1.9 million (2020: US\$0.2 million) and lower interest income of US\$0.1 million (2020: US\$0.7 million) included in finance income.

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\$14.7 million (2020: US\$4.9 million) which includes a net increase in deferred tax liabilities of US\$14.6 million (2020: US\$4.6 million). A deferred tax liability of US\$12.5 million has been recognised in relation to the gain on debt modification of US\$50.3 million discussed above.

Net cash from operating activities decreased by 29.6% to US\$62.3 million (2020: US\$88.5 million) primarily due to lower rental receipts.

Total loss after tax for the financial year was US\$84.9 million (2020: profit of US\$9.7 million).

Basic earnings per share was a loss of 131.2 US cents (2020: profit of 15.4 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.

## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2021

#### FLEET OVERVIEW

Type	1 July 2020	Additions	Disposals	30 June 2021	On order	Purchase rights
ATR 72-500	6	-	1	5	-	-
ATR 72-600	22	-	1	21	2	28
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	2	-	2	-	-	-
<b>Total</b>	<b>48</b>	<b>-</b>	<b>4</b>	<b>44</b>	<b>2</b>	<b>28</b>

The Company sold a nine-year old ATR 72-500 and a one-year-old ATR 72-600 aircraft and two Fokker 100 aircraft during the year. As of 30 June 2021, the weighted average age of the fleet was 4.8 years (2020: 4.1 years) and the weighted average remaining lease term was 6.4 years (2020: 6.9 years).

The aircraft fleet was valued as of 30 June 2021 by a third-party valuer using lease encumbered basis in accordance with the Group's accounting policy. The revaluation of the fleet resulted in impairment charges of US\$87.4 million (2020: US\$35.5 million) and a net positive adjustment of aircraft net book values of US\$8.1 million recognised in the consolidated statement of changes in equity (2020: negative adjustment of US\$5.0 million).

Three ATR 72-600 aircraft are classified as leased under finance leases.

Three ATR 72-600, one Airbus A220-300 and one Airbus A321-200 aircraft are classified as assets held for sale.

#### DEBT SUMMARY

	2021 US\$'000s	2020 US\$'000s
Loans and borrowings	947,640	1,071,738
Cash and cash equivalents	25,067	35,290
Net indebtedness	922,573	1,036,448
Loan to value ratio	73.9%	75.7%
Weighted average cost of secured debt	3.9%	3.6%
Weighted average cost of total debt	5.4%	4.5%

Loans and borrowings and net indebtedness decreased due to loan repayments and a gain on debt modification exceeding additional secured debt issued during the year. The Group drew down a loan of US\$12.0 million under a secured warehouse loan credit facility during the year. A gain on debt modification of US\$50.3 million was recorded in connection with the extension of the maturity date of the Group's unsecured notes on revised terms in March 2021.

## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2021

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The weighted average cost of secured debt facilities increased to 3.9% as of 30 June 2021 (2020: 3.6%) principally due to an increased interest rate margin applied to a US\$143.8 million warehouse credit facility with effect from December 2020.

The cost of unsecured notes is based on revised interest rate terms in effect since 25 March 2021 which give the Group the option of paying either 6.5% cash and 2.5% payment in kind or 8.25% all cash coupons at each semi-annual coupon payment date.

The weighted average cost of total debt was 5.4% as of 30 June 2021 (2020: 4.5%).

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 73.9% (2020: 75.7%) and 90.9% of total debt was at fixed or hedged interest rates (2020: 90.7%). The proportion of unsecured debt to total debt was 29.9% (2020: 32.3%).

In March 2021, S&P Global Ratings revised Avation's issuer rating to CCC (CCC- for unsecured notes) following the extension to the maturity date for the Group's unsecured notes.

Credit ratings issued by Japan Credit Rating Agency and Fitch Ratings were withdrawn during the year at the Company's request.

The Company's current credit ratings are as follows:

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Rating Agency	Corporate Credit Rating	Unsecured Notes Rating
Standard & Poor's	CCC (Developing)	CCC-

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Aircraft leasing is a capital-intensive industry. Avation manages interest rate risk 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.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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 A220-300 aircraft, which provide significantly reduced fuel consumption and emissions in comparison to older aircraft.

As of 30 June 2021, 73% of our overall fleet by number are newer technology or lower carbon emission ATR and Airbus A220 aircraft. In the last 3 years, 93% of our total capital expenditure was for ATR and Airbus aircraft types.

In the year ended 30 June 2021, we worked as members of the Aviation Working Group (AWG) on the development of the aviation industry Aircraft Carbon Calculator, aimed at monitoring the carbon emissions of aircraft fleets. The AWG Aircraft Carbon Calculator provides an industry standard methodology for calculating and comparing aircraft carbon dioxide emissions. Use of the Aircraft Carbon Calculator will provide meaningful information and assist in monitoring and reporting of aircraft emissions.

## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2021

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#### CORPORATE SOCIAL RESPONSIBILITY

Avation is committed to the principles of being a good corporate citizen. For the 2021 financial year the group did not have any material matters to report on social, community and human rights issues.

#### CORPORATE ETHICS AND BEHAVIOUR

Avation operates the following policies governing corporate ethics and behaviour:

- Anti-bribery policy
- Gifts and entertaining policy
- Modern salary policy
- Whistleblowing policy
- Policy for dealing with Company securities

#### 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 2021 is set out below:

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

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#### ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT AND RATING

Avation's Environmental, Social and Governance report is updated regularly and is published on the Company's website at: <https://www.avation.net/ESG.html>.

As of 30 June 2021, Avation PLC has an MSCI ESG rating of BB (2020:B).

#### 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.

##### ***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 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.

## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2021

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#### ***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](http://www.avation.net/ESG.html)

#### ***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

26 October 2021



## AVATION PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2021

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The Directors present their report and financial statements for the year ended 30 June 2021.

#### 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 did not declare and pay any dividend during the year.

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:

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	Direct interest		Deemed interest	
	30 June 2021	1 July 2020	30 June 2021	1 July 2020
<b>Ordinary shares of £0.01 each:</b>				
Robert Jeffries Chatfield	1	1	11,995,000	11,605,000
Roderick Douglas Mahoney	856,667	756,667	-	-
Stephen John Fisher	25,000	5,000	-	-
Derek Sharples	50,000	30,000	-	-

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## AVATION PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2021

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#### Significant shareholdings

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	Ordinary shares	Percentage
<b>Ordinary shares of £0.01 each:</b>		
JP Morgan Securities LLC	16,065,318	23.12%
Lynchwood Nominees Limited	5,475,940	7.88%
Pershing Nominees Limited	5,032,361	7.24%
Luna Nominees Limited	5,017,735	7.22%
HSBC Global Custody Nominee (UK) Limited	5,013,635	7.22%
State Street Nominees Limited	4,980,021	7.17%
HSBC Global Custody Nominee (UK) Limited	4,828,635	6.95%
HSBC Global Custody Nominee (UK) Limited	2,141,380	3.08%

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#### 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.

#### 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 2021**

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#### **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 2021 the Company used 28,012 KWh of energy (2020: 40,756 KWh) which was converted to estimated carbon emissions of 11,443 Kg (2020: 17,069 Kg) using a GEF of 0.4085 (2020: 0.4188).

#### **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 30. 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 37.

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 2021**

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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 2021, the Company did not buy any treasury shares.

During the previous 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.

By a resolution passed at the Annual General Meeting held on 23 December 2020, the Company's Directors are authorised to buy back shares not exceeding 30 per cent of the total number of shares in issue on that date. Share buy backs may be at market prices but not under £0.75 and not above £3.50 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 2021

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#### Subsequent events

See Note 43 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 37 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 2021

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#### 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 2021. 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
<b>Salary and benefits</b>	To provide the core reward for the role at a sufficient level to recruit and retain individuals of the necessary competence to execute the company's business strategy.	<p><b>Operation:</b> Salaries are typically set after considering salary levels in companies of a similar size and complexity, the responsibilities of each individual role, progression within the role, individual performance and an individual's experience. Our overall policy, having had due regard to the factors noted, is normally to target salaries at the market median level.</p> <p>Salaries may be adjusted in line with the market and adjustments out of line with the market may be awarded in certain circumstances such as where there is a change in responsibility, progression in the role, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. Salary levels for current incumbents are set out elsewhere in this report.</p> <p><b>Framework used to assess performance:</b> The remuneration committee considers individual salaries at the appropriate committee meeting each year after having due regard to the factors noted in operating the salary policy. No recovery provisions apply to salary.</p>

## AVATION PLC

### DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2021

**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:

	<b>Salaries and fees</b>	<b>Bonuses</b>	<b>Taxable benefits</b>	<b>Share warrants</b>	<b>Total 2021</b>	<b>Total 2020</b>
	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Executive Directors:</b>						
Robert Jeffries Chatfield	718	-	86	590	1,394	908
Roderick Douglas Mahoney	455	107	-	345	907	736
<b>Non-Executive Directors:</b>						
Stephen John Fisher	45	-	-	-	45	45
Derek Sharples	45	-	-	-	45	45
	<b>1,263</b>	<b>107</b>	<b>86</b>	<b>935</b>	<b>2,391</b>	<b>1,734</b>

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

Taxable benefits mainly relate to housing expenses, medical expenses and private car 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 2021

#### 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:

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

#### Share 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 5 September 2018 have a 3-year vesting schedule with details as follows:

<b>Vesting period</b>	<b>Proportion of total share options that are exercisable</b>
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 exercise price for the warrants granted on 5 September 2018 was re-priced on 23 December 2020 from 232 pence to 130 pence.



## AVATION PLC

### DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2021

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Warrants granted to Directors on 8 March 2019 have a 3-year vesting schedule with details as follows:

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<b>Vesting period</b>	<b>Proportion of total share options that are exercisable</b>
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

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

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<b>Vesting period</b>	<b>Proportion of total share options that are exercisable</b>
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

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

---

<b>Vesting period</b>	<b>Proportion of total share options that are exercisable</b>
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

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## AVATION PLC

### DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2021

Warrants granted to Directors on 23 December 2020 have a 3-year vesting schedule with details as follows:

Vesting period	Proportion of total share options that are exercisable
Before 23 December 2021	0 per cent
On 23 December 2021 and before 23 December 2022	Up to 33 per cent of the grant
On 23 December 2022 and before 23 December 2023	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 23 December 2023 to 23 January 2024	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 (re-priced)	Warrant price (re-priced)	Balance at beginning of year	Granted during the year	Expired during the year	Balance at end of year
Robert Jeffries Chatfield *	27 Nov 2017	215.0p	255,000	-	(255,000)	-
Robert Jeffries Chatfield *	5 Sep 2018 (23 Dec 2020)	232.0p (130.0p)	760,000	-	-	760,000
Robert Jeffries Chatfield *	8 Mar 2019	294.5p	250,000	-	-	250,000
Robert Jeffries Chatfield *	20 Sep 2019	296.0p	450,000	-	-	450,000
Robert Jeffries Chatfield *	21 Nov 2019	274.5p	300,000	-	-	300,000
Robert Jeffries Chatfield *	23 Dec 2020	130.0p	-	1,200,000	-	1,200,000
Roderick Douglas Mahoney	27 Nov 2017	215.0p	113,333	-	(113,333)	-
Roderick Douglas Mahoney	5 Sep 2018 (23 Dec 2020)	232.0p (130.0p)	450,000	-	-	450,000
Roderick Douglas Mahoney	8 Mar 2019	294.5p	150,000	-	-	150,000
Roderick Douglas Mahoney	20 Sep 2019	296.0p	180,000	-	-	180,000
Roderick Douglas Mahoney	21 Nov 2019	274.5p	120,000	-	-	120,000
Roderick Douglas Mahoney	23 Dec 2020	130.0p	-	750,000	-	750,000

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

The closing market price of the shares subject to warrants at the year-end was 95.0 pence. The highest and lowest closing market prices during the year were 170.0 pence and 90.0 pence.

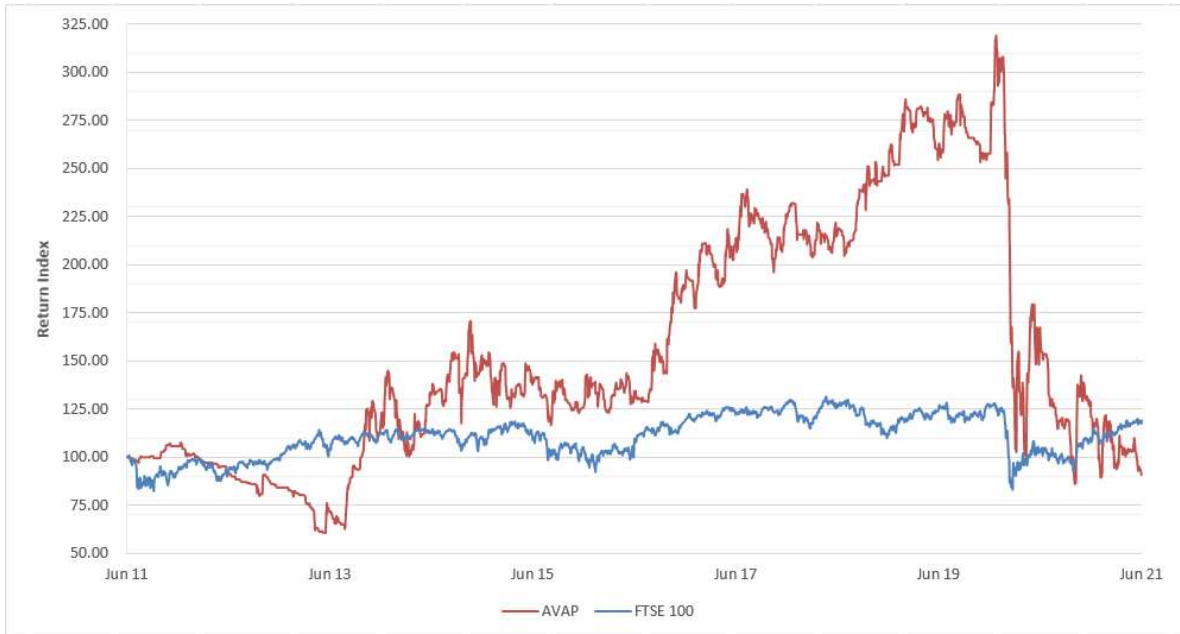
# AVATION PLC

## DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2021

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### 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.



## AVATION PLC

### DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2021

#### Remuneration of Executive Chairman

	2021	2020	2019	2018	2017
Executive Chairman single figure remuneration (US\$'000)	1,394	908	803	682	541
Annual bonus pay-out (as % of maximum)	-	-	-	-	15%

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.

#### Percentage change in remuneration of Chief Executive Officer and annual percentage change in remuneration for directors and employees

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 and directors compared to that of all employees of the Group.

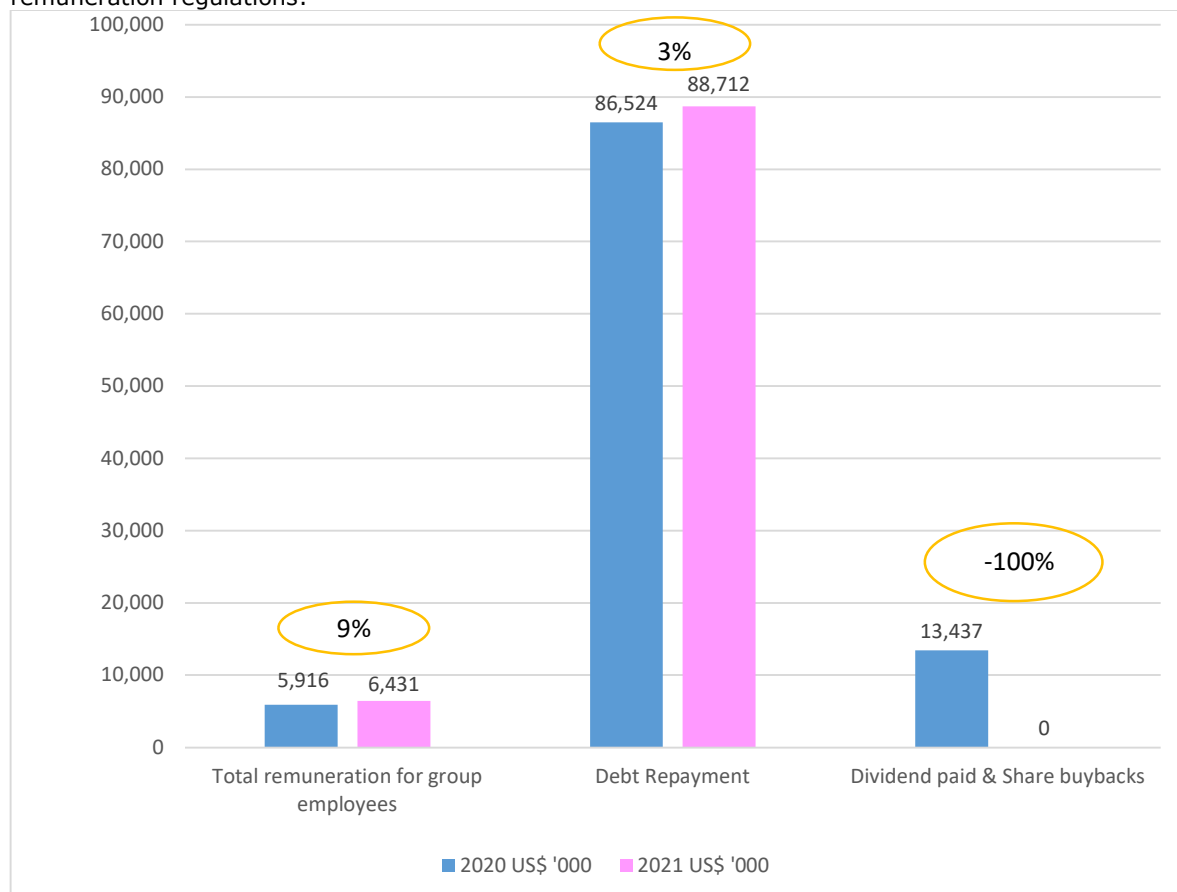
	Base salary and fees	Bonus	Taxable benefits	Warrants expense
Executive Chairman: Robert Jeffries Chatfield	10%	0%	69%	192%
Executive Director: Douglas Roderick Mahoney	12%	-52%	0%	229%
Non-executive Director: Stephen Fisher	0%	0%	0%	0%
Non-executive Director: Derek Sharples	0%	0%	0%	0%
All employees	-2%	-71%	69%	191%

## AVATION PLC

### DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2021

#### 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 2021**

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#### **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 key performance indicators; 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.

## AVATION PLC

### DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2021

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#### 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

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	Share Count	% of vote cast
Votes cast in favour	36,287,974	75.81%
Votes cast against	11,579,769	24.19%
Total votes cast in favour or against	47,867,743	100.00%
Votes withheld	5,270	-

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 2020 was approved at the Annual General Meeting held on 23 December 2020.

On behalf of the Board



Robert Jeffries Chatfield  
Executive Chairman

## **AVATION PLC**

### **DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 30 JUNE 2021**

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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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ("IFRSs") adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and have also chosen to prepare the Parent Company financial statements under IFRSs adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

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 the 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 adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union 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.



## **AVATION PLC**

### **DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 30 JUNE 2021**

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We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, 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 26 October 2021 and is signed on its behalf by Robert Jeffries Chatfield.



Robert Jeffries Chatfield  
Executive Chairman

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

### Opinion

In our opinion:

- Avation plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2021 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

<b>Group</b>	<b>Parent company</b>
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 2021	Company statement of financial position as at 30 June 2021
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 44 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 44 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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the group financial statements International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and as regards to the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

## **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.

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of the going concern assessment process and engaged with management to ensure all key factors were considered in their assessment.
- We obtained management's going concern assessment, including their covenant assessment and cashflow analysis and forecast for a period of 12 months from the expected date of signing of the financial statements.
- We reviewed the sources of cash inflows available to the Group and the various scenario analyses performed by management. We noted that in management's most stressed scenario, management's forecasted minimum cash requirement would still be generated by the Group.
- We have considered the assumptions included in the cashflow analysis prepared, including management assessment for the potential impact of Covid-19. We considered the appropriateness of the methods used within the cashflow analysis and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriate.
- We have further stressed managements' sensitivities downwards in order to test the resilience of the Group's business under more pessimistic scenarios.
- We have reviewed the appropriateness of the disclosures made by management as detailed under Note 3 (e) of the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue. Going concern has also been determined to be a key audit matter.



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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

### Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"><li>• Valuation of aircraft</li><li>• Valuation of aircraft purchase rights</li><li>• Expected Credit Loss (ECL) on Trade receivables</li></ul>
Audit scope	<ul style="list-style-type: none"><li>• We performed an audit of the complete financial information of Avation Plc in accordance with the materiality thresholds as set out below.</li></ul>
Materiality	<ul style="list-style-type: none"><li>• Overall group materiality of US\$1.57 million which represents 1% of the total equity for the year ended 30 June 2021.</li></ul>

### Key audit matters

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

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Valuation of Aircraft</b></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 2021, the carrying value of aircraft reported is US\$961.47 million (2020: US\$1,055.97 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"> <li>• Walked through the design effectiveness of key controls around the preparation and review of the LEV model including appropriate governance procedures.</li> <li>• Obtained external aircraft valuation reports validating the calculation of the LEV including residual values.</li> <li>• Assessed and evaluated the key assumptions used (weighted average cost of capital, lease income streams and residual values).</li> <li>• 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.</li> <li>• Assessed the calculations underpinning the LEV model by checking that the data and the assumptions input into the model were in agreement with those that we had evaluated.</li> <li>• Assessed the appropriateness and presentation of disclosures in the financial statements for compliance with the relevant accounting standards.</li> </ul>	<p>Our planned audit procedures were completed without material exception.</p>

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Valuation of Aircraft Purchase Rights</b></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 through profit or loss. The Group values aircraft purchase rights using the Black Scholes 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 2021, the fair value recorded for aircraft purchase rights is US\$26.96 million (2020: US\$27.11 million) as detailed in Note 25 of the financial statements.</p>	<p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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;</li> <li>• Involved specialist from our valuation team to assess the reasonableness of the valuation model.</li> <li>• 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.</li> <li>• Assessed the presentation of disclosures in the financial statements for compliance with the relevant accounting standards.</li> </ul>	<p>Our procedures were completed without material exception. There were no material items highlighted to the Group Audit Committee.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Expected credit loss (ECL) on Trade Receivables</b></p> <p>We have determined that expected credit loss on lease receivables represents a significant risk because there is a high volume of rent deferrals during 2021 arising from the COVID-19 pandemic and its effect on the industry. The allowance for expected credit losses may not be adequately recognised during the financial year.</p> <p>As set out within Note 3 (u) ‘Summary of Significant Accounting Policies’, 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.</p> <p>As of 30 June 2021, the provision for ECL recorded is US\$25.91 million (2020: US\$ 1.02 million) as detailed in Note 20 of the financial statements.</p>	<p>In obtaining sufficient audit evidence we:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the process for assessing the credit profile of airlines and the expected credit loss model.</li> <li>• Performed a walkthrough of the process and evaluated the design effectiveness of controls identified.</li> <li>• Obtained management's assessment of the ECL and their evaluation of the risks associated with each airline customer.</li> <li>• Reviewed the security deposits held and lease receivables balances in relation to each lessee and to recalculate the exposure at default and loss given default.</li> <li>• Independently checked the credit rating of relevant lessees and validated management's inputs</li> <li>• Evaluated management's overall approach in conjunction with the guidance of IFRS 9 for reasonableness.</li> <li>• Assessed the appropriateness and presentation of disclosure in the financial statements for compliance with the relevant accounting standards.</li> </ul>	<p>Our procedures were completed without material exception. There were no material items highlighted to the Group Audit Committee.</p>



## **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\$1.57 million (2020: US\$1.2 million), which is 1% (2020: 5% of the profit before tax) of the equity for the year ended 30 June 2021. The Group incurred a loss during the period, hence we have revisited the materiality basis. The users of the financial statements are concerned with the liquidity and/or solvency position of the company. Therefore, we believe that total equity provides us with the most relevant measure used by investors and other stakeholders when assessing the performance of the Company.

We determined materiality for the Parent Company to be US\$1.5 million (2020: US\$1.2 million), which is 0.5% of total assets (2020: 0.5% of total assets).

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

#### **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 50% (2020: 75%) of our planning materiality, namely US\$785 thousand (2020: US\$865 thousand).





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

### **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\$78.5 thousand (2020: US\$58 thousand), which is set at 5% (2020: 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 2-4), Strategic Report (set out on pages 5-13), Directors' Report (set out on pages 14-18), Directors' Remuneration Report (set out on pages 19-28) and Directors' Responsibilities Statement (set out on page 29-30) 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.

### **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.



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

### **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.

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.

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

Our approach was as follows:

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

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

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

### 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 4 years, covering the period from our appointment through 30 June 2021.

- 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  
26 October 2021

#### 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 2021

	Note	2021 US\$'000s	2020 US\$'000s
<b>Continuing operations</b>			
Revenue	9	117,738	135,274
Other income	10	2,406	1,270
		120,144	136,544
Depreciation	19	(46,332)	(46,666)
(Loss)/gain on disposal of aircraft	19	(6,948)	3,230
Unrealised(loss)/gain on aircraft purchase rights	25	(150)	27,110
Impairment loss on aircraft	19,29	(87,394)	(35,524)
Expected credit losses	20,21	(25,428)	-
Administrative expenses	11	(12,046)	(11,913)
Other expenses	12	(4,560)	(2,420)
Operating (loss)/profit		(62,714)	70,361
Gain on debt modification	33	50,270	-
Finance income	13	2,441	1,471
Finance expenses	14	(60,218)	(57,192)
(Loss)/profit before taxation	16	(70,221)	14,640
Taxation	17	(14,664)	(4,924)
<b>(Loss)/profit from continuing operations</b>		<b>(84,885)</b>	<b>9,716</b>
 (Loss)/profit attributable to:			
Shareholders of Avation PLC		(84,886)	9,714
Non-controlling interests		1	2
		<b>(84,885)</b>	<b>9,716</b>
 <b>Earnings per share for (loss)/profit attributable to shareholders of Avation PLC</b>			
<i>Basic earnings per share (US cents)</i>	18	(131.15)	15.39
<i>Diluted earnings per share (US cents)</i>	18	(131.15)	15.36

## AVATION PLC

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

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	Note	2021 US\$'000s	2020 US\$'000s
<b>(Loss)/profit from continuing operations</b>		<b>(84,885)</b>	<b>9,716</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net gain/(loss) on cash flow hedge, net of tax	24	1,686	(12,947)
		1,686	(12,947)
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Revaluation gain/(loss) on property, plant and equipment, net of tax	31	7,440	(4,230)
Other comprehensive income, net of tax		9,126	(17,177)
<b>Total comprehensive loss for the year</b>		<b>(75,759)</b>	<b>(7,461)</b>
Total comprehensive loss attributable to:			
Shareholders of Avation PLC		(75,760)	(7,463)
Non-controlling interests		1	2
		<b>(75,759)</b>	<b>(7,461)</b>

## AVATION PLC

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 US\$'000s	2020 US\$'000s
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19	963,304	1,057,901
Finance lease receivables	21	45,836	85,019
Trade and other receivables	20	8,857	11,601
Aircraft purchase rights	25	26,960	27,110
Lease incentive assets	26	6,661	-
Goodwill	22	1,902	1,902
		<u>1,053,520</u>	<u>1,183,533</u>
<b>Current assets</b>			
Finance lease receivables	21	4,154	7,988
Trade and other receivables	20	35,112	18,210
Lease incentive assets	26	1,377	-
Cash and bank balances	28	122,471	114,585
		<u>163,114</u>	<u>140,783</u>
Assets held for sale	29	66,300	91,268
		<u>229,414</u>	<u>232,051</u>
<b>Total assets</b>		<b><u>1,282,934</u></b>	<b><u>1,415,584</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	30	1,203	1,108
Share premium		67,681	57,747
Treasury shares	30	(7,811)	(7,811)
Merger reserve		6,715	6,715
Asset revaluation reserve	31	37,602	30,162
Capital reserve		8,876	8,876
Other reserves	32	(21,382)	(24,302)
Retained earnings		64,058	148,455
<b>Equity attributable to shareholders of Avation PLC</b>		<u>156,942</u>	<u>220,950</u>
Non-controlling interests		68	72
<b>Total equity</b>		<u>157,010</u>	<u>221,022</u>
<b>Non-current liabilities</b>			
Loans and borrowings	33	505,018	534,755
Trade and other payables	34	16,472	11,725
Derivative financial liabilities	24	20,161	27,928
Maintenance reserves	35	89,279	57,141
Deferred tax liabilities	36	17,138	698
		<u>648,068</u>	<u>632,247</u>
<b>Current liabilities</b>			
Loans and borrowings	33	442,622	536,983
Trade and other payables	34	16,449	10,155
Maintenance reserves	35	12,202	3,836
Income tax payable		666	1,058
		<u>471,939</u>	<u>552,032</u>
Liabilities directly associated with assets held for sale	29	5,917	10,283
		<u>477,856</u>	<u>562,315</u>
<b>Total equity and liabilities</b>		<b><u>1,282,934</u></b>	<b><u>1,415,584</u></b>

Approved by the board and authorised for issue on 26 October 2021



Robert Jeffries Chatfield  
Executive Chairman

## AVATION PLC

### COMPANY STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 US\$'000s	2020 US\$'000s
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19	1,814	21,470
Trade and other receivables	20	8,380	136,628
Investment in debt instrument, fair value through profit or loss	27	6,089	-
Investment in subsidiaries	23	14,147	12,869
Aircraft purchase rights	25	26,960	27,110
		<u>57,390</u>	<u>198,077</u>
<b>Current assets</b>			
Trade and other receivables	20	231,369	76,441
Cash and bank balances	28	5,513	1,421
		<u>236,882</u>	<u>77,862</u>
<b>Total assets</b>		<b><u>294,272</u></b>	<b><u>275,939</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	30	1,203	1,108
Share premium		67,681	57,747
Treasury shares	30	(7,811)	(7,811)
Merger reserve		6,715	6,715
Other reserves	32	(4,050)	(7,789)
Retained earnings		33,061	47,875
<b>Total equity</b>		<u>96,799</u>	<u>97,845</u>
<b>Non-current liabilities</b>			
Loans and borrowings	33	-	125,779
Trade and other payables	34	123	516
Derivative financial liabilities	24	8,202	7,725
Deferred tax liabilities	36	2,720	2,701
		<u>11,045</u>	<u>136,721</u>
<b>Current liabilities</b>			
Loans and borrowings	33	143,600	12,717
Trade and other payables	34	42,828	28,656
Income tax payable		-	-
		<u>186,428</u>	<u>41,373</u>
<b>Total equity and liabilities</b>		<b><u>294,272</u></b>	<b><u>275,939</u></b>

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to present the Company statement of profit or loss and other comprehensive income. The Company's loss for the year was US\$15.3 million (2020: US\$20.9 million profit).

Approved by the board and authorised for issue on 26 October 2021



Robert Jeffries Chatfield  
Executive Chairman



## AVATION PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

Note	Attributable to shareholders of Avation PLC										
	Share capital	Share premium	Treasury Shares	Merger reserve	Asset revaluation reserve	Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Balance at 1 July 2020</b>	1,108	57,747	(7,811)	6,715	30,162	8,876	(24,302)	148,455	220,950	72	221,022
Loss for the period	-	-	-	-	-	-	-	(84,886)	(84,886)	1	(84,885)
Other comprehensive income	-	-	-	-	7,440	-	1,686	-	9,126	-	9,126
<i>Total comprehensive income</i>	-	-	-	-	<i>7,440</i>	-	<i>1,686</i>	<i>(84,886)</i>	<i>(75,760)</i>	<i>1</i>	<i>(75,759)</i>
Issue of new shares	30	95	9,934	-	-	-	-	-	10,029	-	10,029
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(5)	(5)
Share warrant expense	-	-	-	-	-	-	1,723	-	1,723	-	1,723
<i>Total transactions with owners recognised directly in equity</i>	-	<i>95</i>	<i>9,934</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1,723</i>	<i>-</i>	<i>11,752</i>	<i>(5)</i>	<i>11,747</i>
Expiry of share warrants	-	-	-	-	-	-	(489)	489	-	-	-
<i>Total others</i>	-	-	-	-	-	-	<i>(489)</i>	<i>489</i>	-	-	-
<b>Balance at 30 June 2021</b>	<b>1,203</b>	<b>67,681</b>	<b>(7,811)</b>	<b>6,715</b>	<b>37,602</b>	<b>8,876</b>	<b>(21,382)</b>	<b>64,058</b>	<b>156,942</b>	<b>68</b>	<b>157,010</b>

During the previous year the Company paid total dividends of 10.6 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 2020

Note	Attributable to shareholders of Avation PLC										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		
<b>Balance at 1 July 2019</b>	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	-	-	-	-	-	-	-	(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	41	-	-	-	-	-	-	(6,773)	(6,773)	-	(6,773)	
Issue of new shares	30	4	835	-	-	-	(69)	-	770	-	770	
Purchase of treasury shares	30	-	-	(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	-	-	-	
<b>Balance at 30 June 2020</b>	<b>1,108</b>	<b>57,747</b>	<b>(7,811)</b>	<b>6,715</b>	<b>30,162</b>	<b>8,876</b>	<b>(24,302)</b>	<b>148,455</b>	<b>220,950</b>	<b>72</b>	<b>221,022</b>	

## AVATION PLC

### COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	Note	Share capital	Share Premium	Treasury shares	Merger reserve	Asset revaluation reserve	Other reserves	Retained earnings	Total
		US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Balance at 1 July 2020</b>		<b>1,108</b>	<b>57,747</b>	<b>(7,811)</b>	<b>6,715</b>	-	<b>(7,789)</b>	<b>47,875</b>	<b>97,845</b>
Loss for the year		-	-	-	-	-	-	(15,303)	(15,303)
Other comprehensive income		-	-	-	-	-	2,505	-	2,505
<i>Total comprehensive income</i>		-	-	-	-	-	2,505	(15,303)	(12,798)
Issue of new shares	30	95	9,934	-	-	-	-	-	10,029
Share warrants expense		-	-	-	-	-	1,723	-	1,723
<i>Total transactions with owners, recognised directly in equity</i>		95	9,934	-	-	-	1,723	-	11,752
Expiry of share warrants		-	-	-	-	-	(489)	489	-
<i>Total others</i>		-	-	-	-	-	(489)	489	-
<b>Balance at 30 June 2021</b>		<b>1,203</b>	<b>67,681</b>	<b>(7,811)</b>	<b>6,715</b>	-	<b>(4,050)</b>	<b>33,061</b>	<b>96,799</b>

During the previous year the Company paid total dividends of 10.6 US cents per share.

## 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
<b>Balance at 1 July 2019</b>		<b>1,104</b>	<b>56,912</b>	<b>(1,147)</b>	<b>6,715</b>	-	<b>(5,133)</b>	<b>33,713</b>	<b>92,164</b>
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 loss		-	-	-	-	-	(3,110)	-	(3,110)
<i>Total comprehensive income</i>		-	-	-	-	-	<i>(3,110)</i>	<i>20,920</i>	<i>17,810</i>
Dividend paid	41	-	-	-	-	-	-	(6,773)	(6,773)
Issue of new shares	30	4	835	-	-	-	(69)	-	770
Purchase of treasury shares	30	-	-	(6,664)	-	-	-	-	(6,664)
Share warrants expense		-	-	-	-	-	592	-	592
<i>Total transactions with owners, recognised directly in equity</i>		<i>4</i>	<i>835</i>	<i>(6,664)</i>	<i>-</i>	<i>-</i>	<i>523</i>	<i>(6,773)</i>	<i>(12,075)</i>
Expiry of share warrants		-	-	-	-	-	(69)	69	-
<i>Total others</i>		<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(69)</i>	<i>69</i>	<i>-</i>
<b>Balance at 30 June 2020</b>		<b>1,108</b>	<b>57,747</b>	<b>(7,811)</b>	<b>6,715</b>	-	<b>(7,789)</b>	<b>47,875</b>	<b>97,845</b>

## AVATION PLC

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 US\$'000s	2020 US\$'000s
<b>Cash flows from operating activities:</b>			
(Loss)/profit before income tax		(70,221)	14,640
Adjustments for:			
Amortisation of lease incentive asset	9	2,069	524
Depreciation expense	19	46,332	46,666
Depreciation of right-of-use assets		215	217
Expected credit losses	20,21	25,428	855
Finance income	13	(2,441)	(1,471)
Finance expense	14	60,218	57,192
Gain on debt modification	33	(50,270)	-
Loss/(gain) on disposal of aircraft		6,948	(3,230)
Interest income from finance leases	9	(2,364)	(3,266)
Impairment loss on aircraft	19,29	87,394	35,524
Pre-delivery payments expensed	12	2,850	-
Share warrants expense	15	1,723	592
Unrealised loss/(gain) on aircraft purchase rights	25	150	(27,110)
Operating cash flows before working capital changes		108,031	121,133
Movement in working capital:			
Trade and other receivables and finance lease receivables		(40,757)	(5,105)
Trade and other payables		8,390	(5,551)
Maintenance reserves		34,879	28,621
Cash from operations		110,543	139,098
Finance income received		2,172	3,215
Finance expense paid		(49,935)	(51,712)
Income tax paid		(495)	(2,095)
<b>Net cash from operating activities</b>		<b>62,285</b>	<b>88,506</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	19	(104)	(58,739)
Proceeds from disposal of aircraft		20,187	-
<b>Net cash from/(used in) investing activities</b>		<b>20,083</b>	<b>(58,739)</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of ordinary shares		10,029	770
Dividends paid to shareholders	41	-	(6,773)
Dividend paid to non-controlling interest of a subsidiary		(5)	-
Purchase of treasury shares	30	-	(6,664)
Placement of restricted cash balances		(18,109)	(33,536)
Proceeds from loans and borrowings, net of transactions costs	33	11,747	76,561
Repayment of loans and borrowings	33	(88,712)	(86,524)
Transaction costs for modification of unsecured notes		(7,541)	-
<b>Net cash used in financing activities</b>		<b>(92,591)</b>	<b>(56,166)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(10,223)</b>	<b>(26,399)</b>
Cash and cash equivalents at beginning of year	28	35,290	61,689
<b>Cash and cash equivalents at end of year</b>	28	<b>25,067</b>	<b>35,290</b>

# AVATION PLC

## COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 US\$'000s	2020 US\$'000s
<b>Cash flows from operating activities:</b>			
(Loss)/profit before taxation		(16,029)	24,719
Adjustments for:			
Dividend income		(1,214)	-
Depreciation expense	19	90	44
Depreciation of right-of-use assets		74	77
Expected credit losses	20	381	711
Fair value gain on investment in debt instrument	27	(841)	-
Finance income		(7,451)	(5,260)
Finance expense		12,941	6,535
Loss/(gain) on disposal of aircraft		4,105	(619)
Impairment loss on aircraft	19	1,838	-
Pre-delivery payments expensed		2,850	-
Reversal of Impairment losses on investment in subsidiary		-	(885)
Share warrant expense		1,723	592
Unrealised loss/(gain) on aircraft purchase rights	25	150	(27,110)
Operating cash flows before working capital changes		(1,383)	(1,196)
Movement in working capital:			
Trade and other receivables		(5,606)	(3,791)
Trade and other payables		6,020	3,785
Cash used in operations		(969)	(1,202)
Finance income received		6,004	5,230
Finance expense paid		(7,489)	(6,041)
Income tax paid		233	(1,130)
<b>Net cash used in operating activities</b>		<b>(2,221)</b>	<b>(3,143)</b>
<b>Cash flows from investing activities:</b>			
Dividends received		1,214	-
Return of capital from a subsidiary		-	1,508
Loans to subsidiary		(19,768)	-
Transfer of a subsidiary	23	(1,278)	-
Investment in debt instrument, fair value through profit or loss	27	(5,248)	-
Purchase of property, plant and equipment	19	(104)	(21,610)
Proceeds from disposal of aircraft		13,727	38,265
<b>Net cash (used in)/from investing activities</b>		<b>(11,457)</b>	<b>18,163</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of ordinary shares		10,029	770
Dividends paid to shareholders	41	-	(6,773)
Purchase of treasury shares	30	-	(6,664)
Proceeds from loans and borrowings		31,515	-
Repayment of loans and borrowings		(23,774)	(17,566)
<b>Net cash from/(used in) financing activities</b>		<b>17,770</b>	<b>(30,233)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4,092</b>	<b>(15,213)</b>
Cash and cash equivalents at beginning of year	28	1,421	16,634
<b>Cash and cash equivalents at end of year</b>	28	<b>5,513</b>	<b>1,421</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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### 1 GENERAL

Avation PLC is a public limited company incorporated in England and Wales under the Companies Act 2006 (Registration Number 05872328) and its shares are traded on the Standard Segment of the Main Market of 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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ("IFRSs") adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PREPARATION** – The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ("IFRSs") adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

- (a) 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 1.38 (2020: 1.23).

The preparation of financial statements in conformity with IFRSs 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 by the Company and its subsidiaries, unless otherwise disclosed.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

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

- (b) **BASIS OF CONSOLIDATION** - The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, together the Group as at 30 June 2021. 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 control 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 shareholders of Avation PLC 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 2021**

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

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

When the Group acquires a business, it assesses the 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

##### (e) GOING CONCERN

###### ***Covid-19:***

Since the first quarter of 2020 the COVID-19 pandemic has caused a significant reduction in air travel and negative impacts on the business models and cash flows of our customer airlines. The COVID-19 outbreak and the related decreased demand for air travel has significantly impacted the Group's airline customers, leading to the inability of certain airlines to meet their lease payment obligations to the Group. This has led to deferrals of lease payments, restructuring and cancellations of lease contracts with the Group, negatively affecting the Group's financial condition, cash flows and results from operating activities.

Since the start of the pandemic Avation's customers Virgin Australia, Braathens and Philippine Airlines have entered into formal administration or bankruptcy proceedings, resulting in losses and reduced lease revenue. Other airlines have failed to make timely payments of rent leading to heightened levels of arrears and an increase in expected credit losses.

Further airline insolvencies may occur if the effects of the COVID-19 pandemic on the airline industry continue 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 entered into rent deferral agreements with 12 airline customers. Rent deferral agreements stipulate that deferred rents are repayable to the Group over periods of 3-9 months with interest charged on deferred amounts. The Group also entered into loan principal payment deferral agreements for 11 loans with the deferred loan principal payments repayable to lenders over periods of 6-12 months, with interest charged on the deferred amounts.

The Group has been re-marketing 13 aircraft previously leased to Virgin Australia and as of the date of this report has successfully re-leased four and sold three of these aircraft. The Group continues to market the remaining 6 aircraft for lease or sale.

In addition, the Group has entered into an agreement to restructure its contract with Avions de Transport Regional to cancel or reschedule aircraft orders that were due to deliver in 2020 and 2021. As a result of this arrangement Avation's orderbook for ATR 72 aircraft has been reduced from 8 to 2 aircraft.

Further actions taken by the Group to mitigate the negative impacts of the COVID-19 pandemic on cash flow include a temporary suspension of dividend payments and a moratorium on capital expenditure until 2022.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

##### (e) GOING CONCERN (continued)

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 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

In addition, the directors have considered the maturity profiles of all loans and borrowings and have evaluated the Group's compliance with financial and non-financial covenants. 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.

- (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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

##### (f) FAIR VALUE MEASUREMENT (continued)

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.

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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

- (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 asset 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

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 until they are disposed of or retired.

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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

- (h) **AIRCRAFT PURCHASE RIGHTS** – Purchase rights to acquire aircraft which are over and above the Group's requirement for use in the leasing business will be disposed of. The Group values these excess aircraft purchase rights using the Black Scholes model. 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 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 2021**

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

(j) **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.

**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 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. At lease inception or modification date, the Group reviews all necessary criteria to determine proper lease classification. 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 recognise 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 2021**

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

(n) **LEASES (continued)**

**Lease maintenance contribution**

Some of the Group's leases contain provisions which may require the Company to pay a portion of the lessee's costs for heavy maintenance, overhaul, or replacement of certain high-value components. The Group records liabilities for contractual obligations to contribute to the lessee's cost of major maintenance events expected to occur during the lease. The Group regularly reviews the level of these contractual obligations under current lease contracts and makes adjustments as necessary. Lessor maintenance contributions represents a lease incentive and are recorded as a charge against lease rental income over the life of the associated lease on a straight-line basis. When aircraft are sold the portion of the accrued liability not specifically assigned to the buyer is derecognised from the Consolidate Statement of Financial Position as part of the gain or loss on disposal of the aircraft.

**Group as a lessee**

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.

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.

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

(n) **LEASES (continued)**

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.

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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

(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 has been established.

(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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

(r) **TAXATION (continued)**

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.

- (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 Avation PLC.

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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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#### 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 through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through 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 2021**

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**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 investment in debt instrument.

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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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#### 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 de-recognition 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 2021**

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**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.



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The Group will recognise an allowance for ECL based on the historical observed default rates, current credit rating of the customers, forecasted economic conditions to assess the amount of ECL allowance required
  - Financial assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 90 days past due or where the trade receivables were in excess of the security packages held by the Group.
  - in the case where the financial asset is not secured, when the financial asset is more than 90 days past due.
- (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 profit or loss when the liabilities are derecognised as well as through the amortisation process.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

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

- (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 expense 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.

- (z) **DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING** – The Group uses derivative financial instruments such as interest rate swap contracts and cross currency 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (z) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING (continued)

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.

##### Cash flow hedges

Hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. 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.

If the hedged future cashflows are no longer expected to occur, amounts previously recognised in hedging reserve are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in hedging reserve remain in other comprehensive income until the future cash flows occur, if the hedged future cash flows are still expected to occur.

- (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 there is only one reportable segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

**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 if there are any indications of 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 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 the 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 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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

The Group values aircraft purchase rights using the Black Scholes pricing model. Critical assumptions made in determining the fair value of the aircraft purchase rights include the assumed volatility of market prices.

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 assets and liabilities for temporary differences that are expected to be 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 to 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 Holding 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 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 2021. The adoption of these standards did not have any material effect on the financial performance or position of the Group and the Company.

##### ***Interest Rate Benchmark Reform – Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7***

The amendments provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The Group has availed the reliefs and therefore the adoption of this standard did not have any material effect on the financial performance or position of the Group and the Company.

Refer to Note 24 for details on Group's financial derivatives that will be affected by IBOR reform as financial instruments transition to risk free rates. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Group manages through hedging relationships.

##### (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)
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
Amendment to IFRS 16 – Covid 19 rent related concession beyond 30 June 2021	1 April 2021
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 IAS 1: Classification of Liabilities as Current or Non-current	1 January 2023
Amendment to IAS 8 – Definition of Accounting Estimates	1 January 2023
Amendment to IAS 1 and IFRS Practise statement 2 - Disclosure of accounting policies	1 January 2023
Amendment to IAS 12 -Deferred tax related to assets and liabilities arising from single transaction	1 January 2023
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or joint venture	No effective date

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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#### 5 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

Based on a preliminary assessment using currently available information, the Group does not expect the adoption of the above standards including Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 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.

##### ***Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Group intends to use the practical expedients in future periods if they become applicable. The Group does not expect these amendments to have a material impact on the financial statements.

#### 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 6 FAIR VALUE MEASUREMENT (continued)

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

Group	2021		2020	
	Carrying amount US\$'000s	Fair value US\$'000s	Carrying amount US\$'000s	Fair value US\$'000s
<b>Financial assets:</b>				
Finance lease receivables – non-current	45,836	45,290	85,019	82,631
<b>Financial liabilities:</b>				
Deposits collected – non-current	13,897	12,742	9,185	8,639
Loans and borrowings other than unsecured notes – non-current	221,765	210,465	534,755	502,534
Unsecured notes	283,253	283,536	346,656	261,143
Derivative financial liabilities	20,161	20,161	27,928	27,928
<hr/>				
Company	2021		2020	
	Carrying amount US\$'000s	Fair value US\$'000s	Carrying amount US\$'000s	Fair value US\$'000s
<b>Financial liabilities:</b>				
Deposits collected – non-current	-	-	300	300
Loans and borrowings - non-current	-	-	125,779	120,144
Derivative financial liabilities	8,202	8,202	7,725	7,725



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 6 FAIR VALUE MEASUREMENT (continued)

The fair values (other than for unsecured notes and derivative financial 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, which is classified under level 2 of the fair value hierarchy

The fair value of the unsecured notes is based on level 1 quoted prices (unadjusted) in an active market that the Group can access at the 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 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	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Fair value measurement using significant unobservable inputs:</b>				
Aircraft	961,474	1,055,970	-	19,566
Aircraft purchase rights	26,960	27,110	26,960	27,110

Aircraft were revalued at 30 June 2021 and 30 June 2020. Refer to Note 19 for the details on the valuation technique and significant inputs used in the valuation.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 6 FAIR VALUE MEASUREMENT (continued)

##### Information about significant unobservable inputs used in level 3 fair value measurements

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

Description	Valuation techniques	Unobservable inputs	Range (weighted average) 2021	Range (weighted average) 2020	Sensitivity of the input to fair value
Aircraft	Lease-encumbered basis	Discount rates	5.50% to 8.00% for Jets (6.13%)  5.50% to 8.00% for Turboprops (6.50%)	5.50% to 8.00% for Jets (6.56%)  5.50% to 9.00% for Turboprops (6.23%)	Jet 5% (2020 : 5%) increase in the discount rates will result in a decrease in fair value by US\$9.9 million (2020 : decrease of US\$10.8 million)  Turboprops 5% (2020 : 5%) increase in the discount rates will result in a decrease in fair value by US\$2.5 million (2020 : decrease of US\$2.7 million)
Aircraft purchase rights	Black Scholes model	Volatility rates	5.63%	5.63% to 8.50% (6.13%)	5% (2020 : 5%) increase in the volatility rates will result in an increase in fair value by US\$0.9 million (2020: US\$0.8 million)

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 6 FAIR VALUE MEASUREMENT (continued)

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

Group	2020	Cash flows	Non-cash/ other	2021
	US\$'000s	* US\$'000s	US\$'000s	US\$'000s
<b>Loans and borrowings:</b>				
Current	190,327	(51,513)	303,808	442,622
Non-current	534,755	(20,967)	(292,023)	221,765
<b>Unsecured notes:</b>				
Current	346,656	(12,026)	(334,630)	-
Non-current	-	-	283,253	283,253
	1,071,738	(84,506)	(39,592)	947,640

\* includes the transaction costs for modification of unsecured notes

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

Company	2020	Cash flows	Non-cash/ other	2021
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Loans and borrowings (Note 33):</b>				
Current	12,717	1,469	129,414	143,600
Non-current	125,779	-	(125,779)	-
<b>Trade and other payables (Note 34):</b>				
Interest bearing payable due to subsidiaries	21,875	6,272	-	28,147
	160,371	7,741	3,635	171,747

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 6 FAIR VALUE MEASUREMENT (continued)

Company	2019 US\$'000s	Cash flows US\$'000s	Non-cash/ other US\$'000s	2020 US\$'000s
<b>Loans and borrowings (Note 33):</b>				
Current	10,574	(9,457)	11,600	12,717
Non-current	136,900	-	(11,121)	125,779
<b>Trade and other payables (Note 34):</b>				
Interest bearing payable due to subsidiaries	29,984	(8,109)	-	21,875
	177,458	(17,566)	479	160,371

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 the 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 events for each aircraft.

##### (b) Credit risk

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

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

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

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

##### (c) Credit risk (continued)

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

	Group		Company	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Asia-Pacific	20,218	7,201	165	3
Europe	417	494	4	102
	<u>20,635</u>	<u>7,695</u>	<u>169</u>	<u>105</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\$0.5 million (2020: US\$1.5 million) are substantially due from companies with a good payment track record.

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 receivables. An allowance for expected credit losses of US\$23.0 million (2020: US\$0.2 million) has been provided in relation to trade receivables past due and impaired of US\$41.9 million (2020: US\$1.9 million). An allowance for expected credit losses of US\$1.0 million (2020: US\$0.7 million) has been provided in relation to interest bearing receivables.

During the year, the Group has increased expected credit loss provision by US\$25.4 million to reflect the increased credit risk due to COVID-19 pandemic.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

##### (b) Credit risk (continued)

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

	Group	
	2021 US\$'000s	2020 US\$'000s
Past due less than 3 months	681	1,897
Past due 3 to 6 months	-	1,794
Past due over 6 months	331	832
	<b>1,012</b>	<b>4,523</b>

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 records.

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 reduce carrying amounts 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 recognised a loss allowance of US\$0.1 million in respect of its finance lease receivables during the year ended 30 June 2021 (2020: 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 2021, 90.9% (2020: 90.7%) of the Group's loans and borrowings are at fixed or hedged interest rates. Interest rate risk is not material and therefore no sensitivity analysis presented.

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 2021.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### 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 Euros 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
<b>2021:</b>				
Pound sterling	210	64	(150)	124
Australian dollar	-	188	(78)	110
Euro	7,088	26,745	(48,428)	(14,595)
Singapore dollar	238	91	(572)	(243)
	<b>7,536</b>	<b>27,088</b>	<b>(49,228)</b>	<b>(14,604)</b>
<b>2020:</b>				
Pound sterling	82	21	(78)	25
Australian dollar	-	1,503	(9)	1,494
Euro	6,109	56,931	(47,873)	15,167
Singapore dollar	232	121	(533)	(180)
	<b>6,423</b>	<b>58,576</b>	<b>(48,493)</b>	<b>16,506</b>
Company	Cash and bank balances US\$'000s	Other financial assets US\$'000s	Other financial liabilities US\$'000s	Net currency exposure US\$'000s
<b>2021:</b>				
Pound sterling	191	23	(118)	96
Australian dollar	-	2	-	2
Euro	-	52,503	(52,142)	361
Singapore dollar	33	24	(28)	29
	<b>224</b>	<b>52,552</b>	<b>(52,288)</b>	<b>488</b>
<b>2020:</b>				
Pound sterling	38	20	(47)	11
Australian dollar	-	-	(4)	(4)
Euro	-	53,835	(54,014)	(179)
Singapore dollar	78	31	(28)	81
	<b>116</b>	<b>53,886</b>	<b>(54,093)</b>	<b>(91)</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 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% (2020: 10%) with all other variables including tax rate being held constant:

	Group		Company	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Foreign currency:</b>				
Pound sterling	12	3	10	1
Australian dollar	11	149	-	-
Euro	(1,460)	1,517	36	(18)
Singapore dollar	(24)	(18)	3	8

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 2021

#### 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
<b>2021:</b>				
<b>Financial liabilities:</b>				
Trade and other payables	3,497	5,438	11,375	20,310
Loans and borrowings	480,916	257,237	490,248	1,228,401
Maintenance reserves	12,202	89,279	-	101,481
	496,615	351,954	501,623	1,350,192
<b>2020:</b>				
<b>Financial liabilities:</b>				
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

Refer to Note 33 for details on the loans and borrowings classified as current liability as due to covenant breaches.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 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
<b>2021:</b>				
<b>Financial liabilities:</b>				
Trade and other payables	1,114	128	-	1,242
Loans and borrowings	149,161	-	-	149,161
	<u>150,275</u>	<u>128</u>	<u>-</u>	<u>150,403</u>
<b>2020:</b>				
<b>Financial liabilities:</b>				
Trade and other payables	28,511	530	-	29,041
Loans and borrowings	18,187	128,521	-	146,708
	<u>46,698</u>	<u>129,051</u>	<u>-</u>	<u>175,749</u>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 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	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Net indebtedness	922,573	1,036,448	138,087	137,075
Total assets	1,282,934	1,415,584	294,272	275,939
<b>Gearing ratio:</b>	71.9%	73.2%	46.9%	49.7%

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 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	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Key management:</b>				
Short-term employee benefits	4,179	3,174	1,227	753

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

	Group	
	2021	2020
	US\$'000s	US\$'000s
Aggregate emoluments	1,394	908

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

Refer to Directors' remuneration report for details.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### 8 RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions:

	Group		Company	
	2021 US\$'000s	2020 US\$'000s	2021 US\$'000s	2020 US\$'000s
<b>Entities controlled by key management personnel (including Directors):</b>				
Lease liability paid	(269)	(286)	(90)	(98)
Consulting fee expense	(265)	(376)	(265)	(376)
Maintenance services	(39)	-	-	-
Service fee income	102	104	-	-

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

	Company	
	2021 US\$'000s	2020 US\$'000s
Sale of aircraft	13,727	38,298
Dividend income	1,214	-
Interest income	7,331	5,222
Management fee income	1,378	1,625
Return of capital	-	1,508
Interest expense	(2,983)	(1,127)
Transfer of a subsidiary	(1,278)	-

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 9 REVENUE

	Group	
	2021	2020
	US\$'000s	US\$'000s
Lease rental revenue	116,405	127,140
Less: amortisation of lease incentive asset	(2,069)	(524)
	114,336	126,616
Interest income on finance leases	2,364	3,266
Deposits released revenue	822	3,774
Maintenance reserves revenue	216	1,618
	<b>117,738</b>	<b>135,274</b>

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

Maintenance reserves revenue relates to the recovery of maintenance reserve from insolvent airline customers that defaulted on lease payments. See Note 35.

#### Geographical analysis

	Group	
	2021	2020
	US\$'000s	US\$'000s
Europe	35,358	34,537
Asia Pacific	82,380	100,737
	<b>117,738</b>	<b>135,274</b>

During the year ended 30 June 2021, five customers individually represented more than 5% of the Group's total revenue (2020: five) of which four are based in Asia-Pacific (2020: four) and one is based in Europe (2020: one). The largest customer, who is based in Asia-Pacific, accounts for US\$25.7 million or 21.8% of the Group's total revenue (2020: US\$26.2 million or 19.3%).

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 10 OTHER INCOME

	Group	
	2021	2020
	US\$'000s	US\$'000s
Aircraft purchase option activation fee	1,182	-
Deposit released	-	193
Fees for late payment	547	-
Foreign currency exchange gain	338	539
Others	339	538
	<b>2,406</b>	<b>1,270</b>

#### 11 ADMINISTRATIVE EXPENSES

	Group	
	2021	2020
	US\$'000s	US\$'000s
Staff costs (note 15)	6,431	5,916
Other administrative expenses	5,615	5,997
	<b>12,046</b>	<b>11,913</b>

#### 12 OTHER EXPENSES

	Group	
	2021	2020
	US\$'000s	US\$'000s
Aircraft repossession expenses	641	1,375
Aircraft maintenance expenses	1,069	-
Expected credit losses	-	855
Pre-delivery payments expensed	2,850	-
Others	-	190
	<b>4,560</b>	<b>2,420</b>

Aircraft repossession expenses were incurred due to insolvent airline customers that defaulted on their lease payments.

Pre-delivery payments with a value of US\$2.9 million were expensed during the year in connection with a reduction in and re-scheduling of the Company's orders for ATR 72-600 aircraft.

Expected credit losses are recorded on a separate line as at 30 June 2021 due to material amount.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 13 FINANCE INCOME

	Group	
	2021	2020
	US\$'000s	US\$'000s
Interest income from financial institutions	4	697
Interest income from non-financial institutions	119	15
Finance income from discounting non-current deposits to fair value	445	480
Gain on repurchases of unsecured note	1,873	237
Lease modification gain	-	42
	<b>2,441</b>	<b>1,471</b>

The gain on repurchases of unsecured note arose when the Group repurchased its unsecured notes through the market at prices ranging from 65.0 cents to 76.0 cents (2020: 76.25 cents).

#### 14 FINANCE EXPENSES

	Group	
	2021	2020
	US\$'000s	US\$'000s
Interest expense on borrowings	26,937	27,730
Interest expense on unsecured notes	26,582	22,745
Amortisation of loan transaction cost	5,109	5,281
Amortisation of interest expense on non-current deposits	414	438
Finance charges on early full repayment of borrowings	19	357
Others	1,157	641
	<b>60,218</b>	<b>57,192</b>



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 15 STAFF COSTS

	Group	
	2021	2020
	US\$'000s	US\$'000s
Salaries and fees	4,292	4,367
Bonuses	230	783
Defined contribution plans	100	123
Benefits	86	51
Warrants expense	1,723	592
	<b>6,431</b>	<b>5,916</b>

The average number of Directors of the Company for the year is 4 (2020: 4). The average number of other employees for the year is 19 (2020: 19) and in the following departments:

	Group	
	2021	2020
Administrative	3	3
Commercial	4	4
Finance	5	5
Legal	4	4
Technical	3	3
	<b>19</b>	<b>19</b>

#### 16 PROFIT BEFORE TAXATION

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

	Group	
	2021	2020
	US\$'000s	US\$'000s
Depreciation of property, plant and equipment	46,332	46,666
Foreign currency exchange (gain)	(338)	(539)
Audit fees:		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	338	292
Fees payable to the Company's auditor and their associates for audits of the Company's subsidiaries' annual accounts	318	279
Total audit fees	<b>656</b>	<b>571</b>
Auditors' remuneration for non-audit services:		
- Tax compliance services	-	128
- All other assurance services	-	168
Total fees for non-audit services	-	<b>296</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 17 TAXATION

	Group	
	2021 US\$'000s	2020 US\$'000s
<i>From continuing operations</i>		
Current tax expense:		
- Singapore	6	3
- Overseas	708	686
(Over)/under provision in prior years current tax expense:		
- Singapore	(233)	(369)
- Overseas	(378)	27
Deferred tax expense:		
- Singapore	1,570	3,005
- Overseas	12,999	(67)
Under provision in prior years deferred tax expense:		
- Singapore	76	1,639
- Overseas	(84)	-
<b>Income tax expense</b>	<b>14,664</b>	<b>4,924</b>

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

	Group	
	2021 US\$'000s	2020 US\$'000s
(Loss)/Profit before income tax	(70,221)	14,640
Tax calculated at 17% (2020: 17%)	(11,937)	2,489
Effects of:		
(Over)/under provision in prior years current tax expense		
- Singapore	(233)	(369)
- Overseas	(378)	27
Under provision in prior years deferred tax expense:		
- Singapore	76	1,639
- Overseas	(84)	-
Non-deductible items	3,888	1,165
Income not subject to tax	(325)	(862)
Different tax rates of other countries	9,028	560
Deferred tax asset not recognised	7,686	66
Utilisation of deferred tax asset not recognised	(65)	(1,264)
Effect of concessionary tax rate at 8%	6,942	1,483
Effect of tax exemption and tax relief	(2)	(9)
Others	68	(1)
<b>Income tax expense</b>	<b>14,664</b>	<b>4,924</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 17 TAXATION (continued)

The Group has unutilised tax losses of approximately US\$7.9 million (2020: US\$0.9 million) and unabsorbed capital allowances of approximately US\$114.6 million (2020: US\$41.5 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 shareholders of Avation PLC by the weighted average number of ordinary shares in issue during the year.

	Company	
	2021 US\$'000s	2020 US\$'000s
Net (loss)/profit attributable to shareholders of Avation PLC	(84,886)	9,714
Weighted average number of ordinary shares ('000s)	64,725	63,121
Basic earnings per share	(131.15)cents	15.39 cents

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

For the purpose of calculating diluted earnings per share, total profit attributable to shareholders of Avation PLC 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 shareholders of Avation PLC is calculated as follows:

	Company	
	2021 US\$'000s	2020 US\$'000s
Net (loss)/profit attributable to shareholders of Avation PLC	(84,886)	9,714
Weighted average number of ordinary shares ('000s)	64,725	63,121
Adjustment for warrants ('000s)	-	131
Weighted average number of ordinary shares ('000s)	64,725	63,252
Diluted earnings per share	(131.15)cents	15.36 cents

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### 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
<b>2021:</b>					
<i>Cost or valuation:</i>					
At beginning of year	92	1,940	814,749	441,799	1,258,580
Additions	-	-	-	104	104
Reclassified from held under finance leases	-	-	-	41,433	41,433
Reclassified from asset held for sale	-	-	106,124	-	106,124
Disposal/written off	(18)	-	-	(38,326)	(38,344)
Reclassified as asset held for sale	-	-	(60,894)	(54,557)	(115,451)
Revaluation recognised in equity	-	-	8,274	(131)	8,143
<b>At end of year</b>	<b>74</b>	<b>1,940</b>	<b>868,253</b>	<b>390,322</b>	<b>1,260,589</b>
Representing:					
At cost	74	1,940	-	-	2,014
At valuation	-	-	868,253	390,322	1,258,575
	<b>74</b>	<b>1,940</b>	<b>868,253</b>	<b>390,322</b>	<b>1,260,589</b>
<i>Accumulated depreciation and impairment:</i>					
At beginning of year	60	41	97,542	103,036	200,679
Depreciation expense	14	87	32,219	14,012	46,332
Reclassified from asset held for sale	-	-	23,240	-	23,240
Disposal/written off	(18)	-	-	(11,191)	(11,209)
Reclassified as asset held for sale	-	-	(19,594)	(29,557)	(49,151)
Impairment loss	-	-	45,812	41,582	87,394
<b>At end of year</b>	<b>56</b>	<b>128</b>	<b>179,219</b>	<b>117,882</b>	<b>297,285</b>
<i>Net book value:</i>					
<b>At beginning of year</b>	<b>32</b>	<b>1,899</b>	<b>717,207</b>	<b>338,763</b>	<b>1,057,901</b>
<b>At end of year</b>	<b>18</b>	<b>1,812</b>	<b>689,034</b>	<b>272,440</b>	<b>963,304</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

Group	Furniture and equipment US\$'000s	Aircraft engine US\$'000	Jet aircraft US\$'000s	Turboprop aircraft US\$'000s	Total US\$'000s
<b>2020:</b>					
<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)
Revaluation recognised in equity	-	-	4,339	(9,330)	(4,991)
<b>At end of year</b>	<b>92</b>	<b>1,940</b>	<b>814,749</b>	<b>441,799</b>	<b>1,258,580</b>
Representing:					
At cost	92	1,940	-	-	2,032
At valuation	-	-	814,749	441,799	1,256,548
	<b>92</b>	<b>1,940</b>	<b>814,749</b>	<b>441,799</b>	<b>1,258,580</b>
<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
<b>At end of year</b>	<b>60</b>	<b>41</b>	<b>97,542</b>	<b>103,036</b>	<b>200,679</b>
<i>Net book value:</i>					
<b>At beginning of year</b>	<b>39</b>	<b>-</b>	<b>843,469</b>	<b>381,816</b>	<b>1,225,324</b>
<b>At end of year</b>	<b>32</b>	<b>1,899</b>	<b>717,207</b>	<b>338,763</b>	<b>1,057,901</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

Company	Furniture and equipment US\$'000	Aircraft engine US\$'000s	Turboprop aircraft US\$'000s	Total US\$'000s
<b>2021</b>				
<i>Cost or valuation:</i>				
At beginning of year	23	1,940	19,566	21,529
Additions	-	-	104	104
Disposal/written-off	(18)	-	(19,670)	(19,688)
<b>At end of the year</b>	<b>5</b>	<b>1,940</b>	<b>-</b>	<b>1,945</b>
Representing:				
At cost	5	1,940	-	1,945
At valuation	-	-	-	-
	<b>5</b>	<b>1,940</b>	<b>-</b>	<b>1,945</b>
<i>Accumulated depreciation and impairment:</i>				
At beginning of year	19	40	-	59
Depreciation expense	2	88	-	90
Disposal/written-off	(18)	-	(1,838)	(1,856)
Impairment loss	-	-	1,838	1,838
<b>At end of the year</b>	<b>3</b>	<b>128</b>	<b>-</b>	<b>131</b>
<i>Net book value:</i>				
<b>At beginning of the year</b>	<b>4</b>	<b>1,900</b>	<b>19,566</b>	<b>21,470</b>
<b>At end of the year</b>	<b>2</b>	<b>1,812</b>	<b>-</b>	<b>1,814</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

##### Assets pledged as security

The Group's aircraft with carrying values of US\$939.7 million (2020: US\$1,083.6 million) are mortgaged to secure the Group's borrowings (Note 33).

##### Additions and Disposals

During the year, the Group transferred in two jet aircraft from assets held for sale and two turboprop aircraft from finance leases to property, plant and equipment.

During the year, the Group sold two turboprop aircraft. Three turboprop aircraft and two jet aircraft were reclassified as held for sale.

##### Valuation

The Group's aircraft were valued in June 2021 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% (2020: 5.50% to 8.00%) per annum for jet aircraft and 5.50% to 8.00% (2020: 5.50% to 9.00%) per annum for turboprop aircraft. Different discount rates are considered appropriate for different aircraft based on their respective risk profiles.

During the year, an upward revaluation of US\$0.6 million to equity and an impairment loss of US\$15.6 million was recognised to adjust the book values of three turboprop aircraft and one jet aircraft to their fair value prior to reclassification as held for sale.

An impairment loss of US\$2.3 million was recognised during the year prior to the sale of two turboprop aircraft.

In addition, an upward revaluation of US\$7.5 million was recorded in equity and impairment losses of US\$69.5 million were recognised in the statement of profit or loss during the year in relation to aircraft which remain part of the fleet.



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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

Group	2021		2020	
	Jets US\$'000s	Turbo props US\$'000s	Jets US\$'000s	Turbo props US\$'000s
Cost	829,593	379,201	792,891	430,267
Accumulated depreciation and impairment	(167,355)	(117,691)	(97,291)	(99,149)
<b>Net book value</b>	<b>662,238</b>	<b>261,510</b>	<b>695,600</b>	<b>331,118</b>

Company	2021		2020	
	Jets US\$'000s	Turbo props US\$'000s	Jets US\$'000s	Turbo props US\$'000s
Cost	-	-	-	19,566
Accumulated depreciation and impairment	-	-	-	-
<b>Net book value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,566</b>

#### Geographical analysis

2021	Europe	Asia	Total
	US\$'000s	Pacific US\$'000s	US\$'000s
Capital expenditure	104	-	104
Net book value – aircraft and aircraft engines	291,913	671,373	963,286

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

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2021 US\$'000s	2020 US\$'000s	2021 US\$'000s	2020 US\$'000s
<b>Current:</b>				
Trade receivables	43,401	7,900	233	137
Less:				
Allowance for expected credit losses	(22,766)	(205)	(64)	(32)
	20,635	7,695	169	105
Accrued revenue	13,935	8,522	-	-
Less:				
Allowance for expected credit losses	(2,055)	(137)	-	-
	11,880	8,385	-	-
Other receivables:				
- subsidiaries	-	-	228,120	74,796
- third parties	2,607	1,922	2,237	1,826
Less:				
Allowance for expected credit losses	(892)	(670)	(892)	(670)
	1,715	1,252	229,465	75,952
Interest receivables:				
- subsidiaries	-	-	1,517	160
- third parties	468	217	105	15
Less:				
Allowance for expected credit losses	(101)	(9)	(39)	(9)
	367	208	1,583	166
Deposits	49	46	26	23
Prepaid expenses	466	624	126	195
	<b>35,112</b>	<b>18,210</b>	<b>231,369</b>	<b>76,441</b>
<b>Non-current:</b>				
Other receivables:				
- subsidiaries	-	-	-	125,779
- third parties	559	-	559	-
Less:				
Allowance for expected credit losses	(97)	-	(97)	-
	462	-	462	-
Deposits for aircraft	7,749	10,599	7,749	10,599
Prepaid expenses	143	279	-	-
Right of use assets	503	723	169	250
	<b>8,857</b>	<b>11,601</b>	<b>8,380</b>	<b>136,628</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 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\$155.0 million (2020: US\$141.1 million). Current receivables from subsidiaries are unsecured and repayable upon demand. Interest is charged at 4.0% to 6.0% (2020: 4.0% to 6.0%) per annum.

Other receivables from third parties include interest bearing receivables of US\$2.6 million (2020: US\$1.7 million). Interest is charged at 5.0% to 6.0% (2020: 1.0% to 6.0%) per annum.

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

The movement in allowance for expected losses are set out below:

	Group		Company	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
At beginning of year	1,021	207	711	-
Provision for expected credit losses	25,338	855	381	711
Written off	(448)	(41)	-	-
At end of year	25,911	1,021	1,092	711

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

	Group		Company	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Pound sterling	64	21	23	20
Australian dollar	188	-	2	-
Euro	73	2,902	52,503	53,835
Singapore dollar	91	121	24	31

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 21 FINANCE LEASE RECEIVABLES

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

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

Group	2021		2020	
	Minimum lease payments US\$'000s	Present value of payments US\$'000s	Minimum lease payments US\$'000s	Present value of payments US\$'000s
Within one year	6,465	4,244	11,126	7,988
Less:				
Allowance for expected credit losses	(90)	(90)	-	-
	6,375	4,154	11,126	7,988
One to two years	5,681	4,024	8,785	6,167
Two to three years	5,681	4,218	8,785	6,443
Three to four years	31,419	29,458	8,785	6,728
Four to five years	8,185	8,136	62,546	57,545
Later than five years	-	-	8,185	8,136
<b>Total minimum lease payments</b>	<b>57,341</b>	<b>49,990</b>	<b>108,212</b>	<b>93,007</b>
Less: amounts representing interest income	(7,351)	-	(15,205)	-
<b>Present value of minimum lease payments</b>	<b>49,990</b>	<b>49,990</b>	<b>93,007</b>	<b>93,007</b>

The movement in allowance for expected losses are set out below:

	Group	
	2021 US\$'000	2020 US\$'000s
At beginning of year	-	-
Provision for expected credit losses	90	-
At end of year	90	-

Finance lease receivables denominated in foreign currencies are as follows:

	Group	
	2021 US\$'000s	2020 US\$'000s
Australian dollar	-	1,503
Euro	26,672	54,029

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 22 GOODWILL

	Group	
	2021	2020
	US\$'000s	US\$'000s
Cost:		
<b>At beginning and end of the year</b>	<b>2,384</b>	<b>2,384</b>
Allowance for impairment:		
<b>At beginning and end of the year</b>	<b>482</b>	<b>482</b>
Net carrying amount:		
<b>At beginning and end of the year</b>	<b>1,902</b>	<b>1,902</b>

#### *Impairment test of goodwill*

Goodwill is allocated to the cash generating unit ("CGU") of the Group which is 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:

	2021	2020
	%	%
Average cash flow growth rate	2.0	2.0
Terminal growth rate	2.0	2.0
Discount rate	6.0	6.0

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\$240.4 million (2020: US\$267.6 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 2021

#### 23 INVESTMENT IN SUBSIDIARIES

	Company	
	2021	2020
	US\$'000s	US\$'000s
<b>Unquoted equity shares, at cost</b>		
At beginning of year	12,869	15,375
Additions	1,278	-
Written-off	-	(2,506)
At end of year	14,147	12,869
<b>Less: allowance for impairment loss:</b>		
At beginning of year	-	1,883
Reversal of impairment loss for the year	-	(885)
Written-off	-	(998)
At end of year	-	-
Net investment in subsidiaries	14,147	12,869

During the year, the Company transferred Capital MSN 4033 II Limited from its subsidiary, Capital Lease Aviation Limited to the Company.

During the previous 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	
			2021 %	2020 %
<i>Held directly by the Company:</i>				
Avation Capital S.A.	Luxembourg	Financing	100.00	100.00
Capital Lease Aviation Limited	United Kingdom	Aircraft leasing	99.68	99.68
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
Capital MSN 4033 II Limited	Ireland	Aircraft leasing	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
<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 2021

#### 23 INVESTMENT IN SUBSIDIARIES (continued)

Name of entity	Country of incorporation	Principal activities	Ownership interest	
			2021	2020
			%	%
<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 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
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) 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	100.00
AVAP Leasing (Europe) IX Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
F100 Fleet Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
MSN 1607 Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Trading Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Trading II Pte. Ltd.	Singapore	Aircraft leasing	100.00	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
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	100.00
AVAP Aircraft Leasing III Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
AVAP Aircraft Leasing IV Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00

All companies as at 30 June 2021 are audited by member firms of Ernst & Young except for the following:

(a) Audited by Moore, 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 - 15, Level 2 Corporate Suites, Naxxar, Birkirkara, BKR 9048, Malta.

Singapore - 65 Kampong Bahru Road, Singapore 169370.

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

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

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 24 DERIVATIVE FINANCIAL LIABILITIES

Group	Contract/ notional amount		Fair value	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Interest rate swap	279,884	304,507	16,427	27,458
Cross-currency interest rate swap	4,000	4,000	240	470
Warrants	-	-	3,494	-
	<b>283,884</b>	<b>308,507</b>	<b>20,161</b>	<b>27,928</b>

Company	Contract/ notional amount		Fair value	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Interest rate swap	77,250	83,750	4,708	7,725
Warrants	-	-	3,494	-
	<b>77,250</b>	<b>83,750</b>	<b>8,202</b>	<b>7,725</b>

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 determines the economic relationship between the finance lease income, loans and borrowings and the derivative by matching the critical terms of the hedging instrument with the terms of the hedged item. The hedge ratio (the ratio between notional amount of the derivative financial instrument to the amount of the finance lease income and loans and borrowings being hedged) is determined to be 1:1. There were no expected sources of ineffectiveness on the Group's hedges as the critical terms of the derivative match exactly with the terms of the hedged item.

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 26 January 2026 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 gain net of tax of US\$10.1 million (2020: loss of US\$14.8 million) on these derivative financial instruments was recognised in the fair value reserve for the year.



**24 DERIVATIVE FINANCIAL 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 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 entered into Euro denominated lease agreements which create exposure to variability in cash flows due movements in the EUR:USD exchange rate. To hedge its exposure to variable cash flows resulting from changes in EUR:USD spot rates, the Group has arranged Euro denominated financing which reduces overall exposure to variable cash flows to the extent that lease receipts and debt service cashflows are matched. The Group is making use of a non-derivative hedging instrument and has designated the cash flows with respect to the loan interest and principal repayment (hedging instrument) against a specific portion of the lease receivable (hedged item).

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

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 24 DERIVATIVE FINANCIAL LIABILITIES (continued)

During the year 30 June 2021, 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:

<b>Group</b>	<b>Total hedging gain/(loss) recognised in OCI, net of tax</b> US\$'000s	<b>Amount reclassified from OCI to profit or (loss)</b> US\$'000s	<b>Line item in the statement of profit or loss</b>
Interest rate swap	9,854	(5,913)	Finance expense
Cross currency swap	230	(168)	Finance expense
Foreign currency hedge	(8,398)	(732)	Other income
	<u>1,686</u>	<u>(6,813)</u>	

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:

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

The warrants consist of 6,000,000 warrants granted to the holder of the unsecured notes to subscribe for ordinary shares of the Company exercisable to 31 October 2026 at a price of 114.5 pence per share (including cashless exercise option).

The warrants were valued using a binomial option pricing model. 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 2021

#### 25 AIRCRAFT PURCHASE RIGHTS

	Group and Company	
	2021	2020
	US\$'000s	US\$'000s
<b>Aircraft purchase rights, at fair value:</b>		
At beginning of year	27,110	-
Unrealised (loss)/gain	(150)	27,110
At end of year	26,960	27,110

The Group has determined that it would seek to dispose of excess aircraft purchase rights over and above its requirement to acquire additional aircraft for its fleet. The Group accounts for aircraft purchase rights at fair value through profit or loss. Disclosures about the fair value measurement of aircraft purchase rights at fair value are included in Note 6.

#### 26 LEASE INCENTIVE ASSETS

	Group	
	2021	2020
	US\$'000s	US\$'000s
Current	1,377	-
Non-current	6,661	-
	8,038	-
At beginning of year	-	-
Additions	1,723	-
Transfer from asset held for sale	8,384	-
Amortisation to profit or loss	(2,069)	-
At end of year	8,038	-

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 27 INVESTMENT IN DEBT INSTRUMENT, FAIR VALUE THROUGH PROFIT OR LOSS

	Company	
	2021	2020
	US\$'000s	US\$'000s
<b>Listed debt instrument, at fair value</b>		
At beginning of year	-	-
Additions	5,248	-
Fair value gain	841	-
At end of year	6,089	-

The Company holds 7,358,000 units of its subsidiary, Avation Capital SA's 8.25% unsecured notes as of 30 June 2021.

#### 28 CASH AND BANK BALANCES

	Group		Company	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Fixed deposits	-	10,067	-	-
Other cash and bank balances	122,471	104,518	5,513	1,421
<b>Total cash and bank balances</b>	122,471	114,585	5,513	1,421
Less : restricted	(97,404)	(79,295)	-	-
<b>Cash and cash equivalents</b>	<b>25,067</b>	<b>35,290</b>	<b>5,513</b>	<b>1,421</b>

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

The rate of interest for cash on interest earning accounts is approximately 0.01% to 0.33% (2020: 0.01% to 2.60%) per annum.

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

	Group		Company	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Pound sterling	210	82	191	38
Euro	7,088	6,109	-	-
Singapore dollar	238	232	33	78

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 29 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	
	2021 US\$'000	2020 US\$'000s
<b>Assets held for sale:</b>		
Property, plant and equipment - aircraft		
At beginning of year	82,884	-
Additions	66,300	89,935
Impairment loss	-	(7,051)
Transfer to property, plant and equipment	(82,884)	-
At end of year	<b>66,300</b>	82,884
Lease incentive asset	-	8,384
	<b>66,300</b>	<b>91,268</b>
<b>Liabilities directly associated with assets held for sale:</b>		
Deposit collected	776	1,240
Lessor maintenance contribution	-	8,908
Maintenance reserves	5,141	135
	<b>5,917</b>	<b>10,283</b>

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 previous year.

#### 30 SHARE CAPITAL AND TREASURY SHARES

##### (a) Share capital

	2021		2020	
	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	64,879,942	1,108	64,609,939	1,104
Issue of shares	6,818,182	95	270,003	4
<b>At end of the year</b>	<b>71,698,124</b>	<b>1,203</b>	<b>64,879,942</b>	<b>1,108</b>

During the year, the Company issued 6,818,182 ordinary shares of 1 penny each at 110 pence by private placement and subscriptions raising total gross proceeds of US\$10.5 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 30 SHARE CAPITAL AND TREASURY SHARES (continued)

##### (b) Treasury shares

	2021		2020	
	No of shares	US\$'000s	No of shares	US\$'000s
At beginning of the year	2,210,000	7,811	300,000	1,147
Acquired during the year	-	-	1,910,000	6,664
<b>At end of the year</b>	<b>2,210,000</b>	<b>7,811</b>	<b>2,210,000</b>	<b>7,811</b>

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

	2021	2020
Net asset value per share (US\$) <sup>(1)</sup>	\$2.26	\$3.53
Net asset value per share (GBP) <sup>(2)</sup>	£1.64	£2.86

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

<sup>(2)</sup> Based on GBP:US\$ exchange rate as at 30 June 2021 of 1.38 (30 June 2020 : 1.23)

#### 31 ASSET REVALUATION RESERVE

	Group	
	2021 US\$'000s	2020 US\$'000s
At beginning of year	30,162	34,392
Revaluation gain/(loss)	8,143	(4,991)
Deferred tax (charge)/credit	(703)	761
At end of year	37,602	30,162

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### 32 OTHER RESERVES

	Group		Company	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Capital redemption reserve	12	12	12	12
Warrant reserve	2,220	986	2,220	986
Fair value reserve	(17,554)	(27,638)	(6,282)	(8,787)
Foreign currency hedge reserve	(6,060)	2,338	-	-
	<b>(21,382)</b>	<b>(24,302)</b>	<b>(4,050)</b>	<b>(7,789)</b>

Movements in other reserves are as follows:

	Group		Company	
	2021	2020	2021	2020
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<i>Warrant reserve:</i>				
At the beginning the year	986	532	986	532
Employee share warrant scheme:				
- Value of employee services	1,723	592	1,723	592
- Issue of shares	-	(69)	-	(69)
- Expired	(489)	(69)	(489)	(69)
<b>At end of the year</b>	<b>2,220</b>	<b>986</b>	<b>2,220</b>	<b>986</b>
<i>Fair value reserve:</i>				
At the beginning the year	(27,638)	(12,822)	(8,787)	(5,677)
Effective portion of changes in fair value	4,003	(16,706)	707	(3,733)
Net change in fair value reclassified to profit or loss	6,081	1,890	1,798	623
<b>At end of the year</b>	<b>(17,554)</b>	<b>(27,638)</b>	<b>(6,282)</b>	<b>(8,787)</b>
<i>Foreign currency hedge reserve:</i>				
At the beginning the year	2,338	469	-	-
Effective portion of changes in fair value	(9,130)	2,321	-	-
Net change in fair value reclassified to profit or loss	732	(452)	-	-
<b>At end of the year</b>	<b>(6,060)</b>	<b>2,338</b>	<b>-</b>	<b>-</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 33 LOANS AND BORROWINGS

	Group		Company	
	2021 US\$'000s	2020 US\$'000s	2021 US\$'000s	2020 US\$'000s
Secured borrowings	664,387	725,082	143,600	138,496
Unsecured notes (a)	283,253	346,656	-	-
	<b>947,640</b>	<b>1,071,738</b>	<b>143,600</b>	<b>138,496</b>
Less: current portion of borrowings	(442,622)	(536,983)	(143,600)	(12,717)
	<b>505,018</b>	<b>534,755</b>	<b>-</b>	<b>125,779</b>

	Maturity		Weighted average interest rate per annum	
	2021 US\$'000s	2020 US\$'000s	2021 %	2020 %
Secured borrowings	2022-2031	2021-2031	3.9%	3.6%
Unsecured notes (a)	2026	2021	8.25%	6.5%

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

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 total equity to net debt of at least 20% of total assets and another covenant to maintain a minimum ratio of tangible net worth to net debt of at least 23% as at 30 June 2021. The Group subsequently obtained waivers of the breach of these covenants on 16 July 2021 and 8 September 2021. The carrying value of borrowings subject to these covenants of US\$240.4 million (2020:US\$119.4 million) has been classified as a current liability as at 30 June 2021.

Borrowing costs capitalised into loans and borrowings amounted to US\$0.3 million (2020: US\$1.4 million). The rate used to determine the amount of borrowing costs for capitalisation was 2.1% (2020: 5.1%) per annum.

During the year, the Group increased its secured borrowings by US\$11.7 million (2020 :US\$76.6 million) to fund its business operations.

During the year, the Group repaid US\$88.7 million (2020:US\$86.8 million) of its secured borrowings.



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 33 LOANS AND BORROWINGS (continued)

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

	Group		Company	
	2021 US\$'000s	2020 US\$'000s	2021 US\$'000s	2020 US\$'000s
Euro	192,225	200,108	51,327	53,831

- (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 Company repurchased US\$6.4 million (2020:US\$1 million) unsecured notes through the market at prices ranging from 65.0 cents to 76.0 cents (2020: 76.25 cent).

During the year, the Company reached agreement with the holders of its unsecured notes for a maturity extension and the following are the key terms of the extension:

- Maturity extension of the notes from 15 May 2021 to 31 October 2026;
- Cash coupon of 6.5% with, at the Company's option, an additional 2.5% payment in kind coupon or an additional 1.75% cash coupon;
- Early bird consent fee of up to 75bps; late consent fee of 25bps
- Bondholders receive 6,000,000 warrants to subscribe for ordinary shares exercisable to 31 October 2026 at a price of 114.5 pence per share (including cashless exercise option);
- The notes are callable at any time during their 5.5 year remaining duration, with the call premium decreasing to par during year 5; and
- A general strengthening of the Notes' covenants and the granting of additional guarantees and security.

The maturity extension of the unsecured note resulted in a gain on debt modification of US\$50.3 million.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 34 TRADE AND OTHER PAYABLES

	Group		Company	
	2021 US\$'000s	2020 US\$'000s	2021 US\$'000s	2020 US\$'000s
<b>Current:</b>				
Trade payables	676	230	439	129
Other payables:				
- subsidiaries	-	-	40,822	27,972
- third parties	608	119	998	118
Deposits collected	1,031	-	200	-
Deferred lease income	354	297	-	-
Lease liability	264	250	87	84
Revenue received in advance	5,908	4,412	-	-
Accrued expenses	7,608	4,847	282	353
	<b>16,449</b>	<b>10,155</b>	<b>42,828</b>	<b>28,656</b>
<b>Non-current:</b>				
Deposits collected	13,897	9,185	-	300
Deferred lease income	2,194	1,889	-	-
Lease liability	381	651	123	216
	<b>16,472</b>	<b>11,725</b>	<b>123</b>	<b>516</b>

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

Other payables due to subsidiaries includes interest bearing payables of US\$28.1 million (2020: US\$21.9 million) which are unsecured, payable upon demand and bear interest at 5.8% to 8.2% (2020: 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	
	2021 US\$'000s	2020 US\$'000s	2021 US\$'000s	2020 US\$'000s
Pound sterling	150	78	118	47
Australian dollar	78	9	-	4
Euro	4,956	3,687	815	183
Singapore dollar	572	533	28	28

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 35 MAINTENANCE RESERVES

	Group	
	2021 US\$'000s	2020 US\$'000s
Current:		
Maintenance reserves	12,202	3,836
Non-current:		
Maintenance reserves	77,846	57,141
Maintenance lease contribution	11,433	-
	89,279	57,141
<b>Total maintenance reserves</b>	<b>101,481</b>	<b>60,977</b>
	Group	
	2021 US\$'000s	2020 US\$'000s
At beginning of year	60,977	32,491
Contributions	38,937	34,503
Utilisations	(4,644)	(4,399)
Released to profit or loss	(216)	(1,618)
Transfer from liabilities directly associated with assets held for sale	135	-
Transfer to liabilities directly associated with assets held for sale	(5,141)	-
<b>At end of the year</b>	<b>90,048</b>	<b>60,977</b>

During the year, maintenance reserves of US\$0.2 million (2020: US\$1.6 million) were released to profit or loss as revenue following recovery from insolvent airline customers that defaulted on.

Maintenance lease contribution represents the contractual obligations of the Group to contribute to the lessee's costs for aircraft maintenance.

The Group also holds letters of credit for US\$4.7 million (2020: US\$27.0 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 2021

#### 36 DEFERRED TAX LIABILITIES

Recognised deferred tax liabilities are attributable to the following:

	Group		Company	
	2021 US\$'000s	2020 US\$'000s	2021 US\$'000s	2020 US\$'000s
Property, plant and equipment	6,756	4,239	4,006	4,500
Tax losses carried forward	-	(244)	-	-
Gain on debt modification	12,503	-	-	-
Cash flow hedge	(2,121)	(3,297)	(1,286)	(1,799)
	<b>17,138</b>	<b>698</b>	<b>2,720</b>	<b>2,701</b>

Movements in temporary differences are as follows:

Group	Property, plant and equipment US\$'000s	Tax losses carried forward US\$'000s	Gain on debt modification US\$'000s	Cash flow hedge US\$'000s	Total US\$'000s
<b>2021</b>					
At beginning of the year	4,239	(244)	-	(3,297)	698
Recognised in profit or loss	1,814	244	12,503	-	14,561
Recognised in equity	703	-	-	1,176	1,879
<b>At end of the year</b>	<b>6,756</b>	<b>-</b>	<b>12,503</b>	<b>(2,121)</b>	<b>17,138</b>
<b>2020</b>					
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)
<b>At end of the year</b>	<b>4,239</b>	<b>(244)</b>	<b>-</b>	<b>(3,297)</b>	<b>698</b>
<b>Company</b>					
			Property, plant and equipment US\$'000s	Cash flow hedge US\$'000s	Total US\$'000s
<b>2021</b>					
At beginning of the year			4,500	(1,799)	2,701
- Recognised in profit or loss			(494)	-	(494)
- Recognised in equity			-	513	513
<b>At end of the year</b>			<b>4,006</b>	<b>(1,286)</b>	<b>2,720</b>
<b>2020</b>					
At beginning of the year			340	-	340
- Recognised in profit or loss			4,160	-	4,160
- Recognised in equity			-	(1,799)	(1,799)
<b>At end of the year</b>			<b>4,500</b>	<b>(1,799)</b>	<b>2,701</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 37 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:

	2021		2020	
	No.	WAEP	No.	WAEP
Outstanding at beginning of the year	5,146,995	221.5p*	3,709,997	242.5p
- Granted	3,950,000	130.0p	1,925,000	287.4p
- Exercised	-	-	(270,003)	228.2p
- Expired	(1,010,330)	200.8p	(217,999)	259.6p
<b>Outstanding at end of the year</b>	<b>8,086,665</b>	<b>179.4p</b>	<b>5,146,995</b>	<b>259.3p</b>
<b>Exercisable at end of the year</b>	<b>2,221,682</b>	<b>208.0p</b>	<b>1,128,673</b>	<b>241.0p</b>

\*The beginning WAEP for the outstanding warrants is re-adjusted due to re-pricing of warrants on 23 December 2020 for warrants granted on 5 September 2018 from exercise price of 232 pence to 130 pence.

The weighted average fair value of warrants granted during the year was 59 pence (2020: 22 pence). The charge recognised in profit or loss in respect of share based payments is US\$1.7 million (2020: US\$0.6 million), which includes US\$0.5 million in relation to re-pricing of warrants on 23 December 2020.

During the year, no warrants were exercised (2020: 270,003).

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	
			2021	2020
5 September 2018	6 Oct 2021	130.0p	1,806,665	1,906,665
8 March 2019	9 Apr 2022	294.5p	730,000	780,000
20 September 2019	21 Oct 2022	296.0p	1,065,000	1,107,000
21 November 2019	22 Dec 2022	274.5p	710,000	738,000
23 December 2020	23 Jan 2024	130.0p	3,775,000	-

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 37 SHARE BASED PAYMENTS (continued)

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

<b>Vesting period</b>	<b>Proportion of total share options that are exercisable</b>
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 <b>or</b> 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 <b>or</b> 100 per cent of the grant if warrants were not exercised after the first and second vesting years

The exercise price for the warrants granted on 5 September 2018 was re-priced on 23 December 2020 from 232 pence to 130 pence.

The warrants granted on 8 March 2019 have a 3-year vesting schedule and the details are as follows:

<b>Vesting period</b>	<b>Proportion of total share options that are exercisable</b>
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 <b>or</b> 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 <b>or</b> 100 per cent of the grant if warrants were not exercised after the first and second vesting years

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

<b>Vesting period</b>	<b>Proportion of total share options that are exercisable</b>
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 <b>or</b> 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 <b>or</b> 100 per cent of the grant if warrants were not exercised after the first and second vesting years

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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

<b>Vesting period</b>	<b>Proportion of total share options that are exercisable</b>
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 <b>or</b> 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 <b>or</b> 100 per cent of the grant if warrants were not exercised after the first and second vesting years

Warrants granted on 23 December 2020 have a 3-year vesting schedule with details as follows:

<b>Vesting period</b>	<b>Proportion of total share options that are exercisable</b>
Before 23 December 2021	0 per cent
On 23 December 2021 and before 23 December 2022	Up to 33 per cent of the grant
On 23 December 2022 and before 23 December 2023	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 23 December 2023 to 23 January 2024	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 2021

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

	Warrant series granted on 23 December 2020	Warrant series granted on 21 November 2019	Warrant series granted on 20 September 2019
Inputs into the model:			
Grant date share price	132.5 pence	274.5 pence	296.0 pence
Exercise price	130.0 pence	274.5 pence	296.0 pence
Expected volatility	77%	15%	18%
Warrant life	3 years	3 years	3 years
Dividend yield	0.90%	3.11%	3.11%
Risk free interest rate	-0.08% to -0.06%	0.53% to 0.58%	0.46% to 0.53%

	Warrant series granted on 8 March 2019	Warrant series granted on 5 September 2018 (Re-priced on 23 December 2020)
Inputs into the model:		
Grant date share price	294.5 pence	232.0 pence
Re-priced share price	-	132.5 pence
Exercise price	294.5 pence	130.0 pence
Expected volatility	17%	77%
Warrant life	3 years	0.79 years
Dividend yield	2.45%	0.90%
Risk free interest rate	0.75% to 0.79%	-0.08% to -0.06%

#### 38 CAPITAL COMMITMENTS

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

	Group	
	2021 US\$'000s	2020 US\$'000s
Property, plant and equipment	31,230	155,140

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 two ATR 72-600 aircraft from the manufacturer with expected delivery dates in 2022.



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 39 OPERATING LEASE COMMITMENTS

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

	Group	
	2021 US\$'000s	2020 US\$'000s
Within one year	96,276	112,258
One to two years	98,390	98,713
Two to three years	92,114	94,549
Three to four years	90,276	93,134
Four to five years	84,134	90,308
Later than five years	206,678	265,039
	<u>667,868</u>	<u>754,001</u>

Philippine Airlines Inc. ("PAL") filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code on 3 September 2021. The table above includes future rentals receivable under an amended lease agreement that will be legally binding from the date that PAL completes its restructuring under Chapter 11 of the U.S. Bankruptcy Code. The Bankruptcy Court has approved certain payments to be made during the period of reorganisation and PAL commenced paying rent in accordance with the amended lease with effect from 3 September 2021. We have included rentals receivable under the amended lease agreement in order to provide more relevant information. Future lease rentals receivable under the original lease agreement with PAL were US\$67.9 million as at 30 June 2021 compared to US\$39.6 million receivable under the amended lease agreement.

The table above excludes US\$6.8 million future rentals receivable under a lease agreement which the Company agreed to terminate on 23 July 2021.

The Group holds cash deposits of US\$17.3 million (2020: US\$12.7 million) and letters of credit for US\$3.3 million (2020: US\$8.7 million) as security for lessees' obligations under operating leases.

#### 40 CONTINGENT LIABILITIES

	Company	
	2021 US\$'000s	2020 US\$'000s
Guarantees	<u>1,014,784</u>	<u>1,071,738</u>

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

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### 41 DIVIDENDS

	2021	2020
	US\$'000s	US\$'000s
<b><i>Paid during the year:</i></b>		
<i>Dividends on ordinary shares</i>		
- First interim exempt (one-tier) dividend for Nil US cents (2020: 8.50 US cents) per share	-	5,454
- Second interim exempt (one-tier) dividend for Nil US cents (2020:2.10 US cents) per share	-	1,319
	-	6,773

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

#### 42 ULTIMATE HOLDING COMPANY

No party controls the Company.

#### 43 SUBSEQUENT EVENTS

On 16 August 2021, the Group signed five year leases for three ATR 72-500 aircraft with an Australian airline. Two of the new leases are follow-on leases for aircraft that are already operating with the airline and the third is a new lease.

On 25 August 2021, the Group entered into an agreement for the sale, at a price that realises a gain, of an Airbus A220-300 aircraft. The sale has been completed on 19 October 2021.

On 6 September 2021, the Group announced that its customer Philippine Airlines ("PAL") has filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in order to complete a pre-arranged restructuring process. The Group and PAL have agreed terms for PAL to retain the use of a Boeing 777-300 ER aircraft on lease from the Group.

On 7 September 2021, the Group repaid the outstanding export credit agency insured loans associated with the eight ATR 72 aircraft that were previously on lease to Virgin Australia Airlines.

On 12 October 2021, the Group has delivered an ATR 72-500 aircraft to the Australian airline as previously announced on 16 August 2021.

#### 44 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company and the consolidated financial statements of the Group for the year ended 30 June 2021 were authorised for issue by the Board of Directors on 26 October 2021.

# ANNUAL REPORT 2021

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