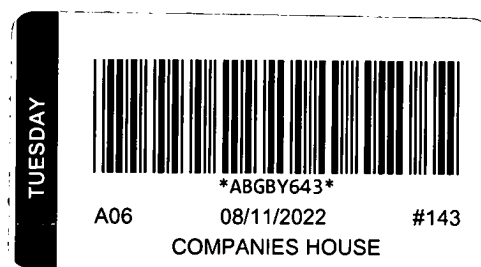


**AVATION PLC**  
**DIRECTORS' REPORT AND**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**30 JUNE 2022**

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



## **AVATION PLC**

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## **AVATION PLC**

### **COMPANY INFORMATION FOR THE YEAR ENDED 30 JUNE 2022**

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<b>DIRECTORS:</b>	Robert Jeffries Chatfield Roderick Douglas Mahoney Stephen John Fisher Derek Sharples
<b>COMPANY SECRETARIES:</b>	Duncan Gerard Stephen Scott Jasmine Siow Fui San
<b>REGISTERED OFFICE:</b>	5 Fleet Place London EC4M 7RD United Kingdom
<b>PRINCIPAL PLACE OF BUSINESS:</b>	65 Kampong Bahru Road Singapore 169370
<b>AUDITOR:</b>	Ernst & Young EY Building Harcourt Centre Harcourt Street 2 Dublin Ireland
<b>SOLICITORS:</b>	Charles Russell Speechlys LLP 5 Fleet Place London EC4M 7RD United Kingdom
<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 2022**

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#### **Overview**

- Profit after tax of \$17.1 million (2021: \$84.9 million loss);
- Earnings per share of 24.7 cents (2021: Loss per share 131.2 cents);
- Net asset value per share increased 63% to £2.68 (2021: £1.64);
- Revenue and other income reduced by 3% to \$116.4 million (2021: \$120.1 million);
- Net indebtedness was reduced by 14% to \$792.9 million (2021: \$922.6 million);
- Unrestricted cash and cash equivalents increased by 41% to \$35.3 million (2021: \$25.1 million), with total cash and bank balances of \$119.2 million (2021: \$122.5 million); and
- Profit before tax (before non-cash loan modification charges) of \$34.9 million (2021: Loss before tax \$120.5 million).

#### **Operational highlights**

- Warehouse loan facility maturity date extended to 30 September 2026;
- Five aircraft were sold during the year, comprising an Airbus A220-300, an Airbus A321-200 and three ATR 72 turboprops;
- Placed one ex-Virgin Australia ATR 72 aircraft on lease;
- Three leases extended including two ATR 72 turboprops and one Airbus A320 jet aircraft;
- Transitioned an Airbus A320 to a new customer;
- Repossessed a Boeing 737-800;
- Philippine Airlines ("PAL") restructuring completed with a Boeing 777-300ER remaining on lease with the airline.

#### **Business review**

In the year ended 30 June 2022 Avation has returned to profitability, increased net asset value per share, maintained liquidity, materially lowered net indebtedness and clearly enunciated its new low CO2 strategy. The Company is well positioned to execute its business strategy as the aviation sector returns to pre-pandemic levels of activity.

The 2022 financial results reflect the end of the pandemic and the return to a high level of utilisation for Avation's aircraft fleet. There has been a significant recent recovery in passenger numbers and the airline industry. The Company is optimistic about a future for the leasing industry characterised by high demand for aircraft as the global fleet builds and transitions to low CO2 technology in the coming years.

Fleet utilisation has improved as unutilised aircraft have been repositioned or sold. The significant impacts of airline insolvencies and the restructuring of some of Avation's customers have mostly been reflected in previous periods and distributions to creditors from these insolvencies are being received.

The Company is seeing increased levels of interest from airlines to buy or lease aircraft at sustainable lease rates, senior lenders willing to lend against aircraft assets and improved utilisation of aircraft. These factors confirm the emergence of the industry from the pandemic.

The Company's strategy will focus on leasing modern, low CO2 emissions, fuel-efficient aircraft in the future. Avation is supportive of the aviation industry's goal of becoming more sustainable through a transition to new technology more fuel-efficient aircraft engines and the use of sustainable aviation fuel to reduce CO2 emissions.

The Company will position itself for a return to growth through opportunistic aircraft trading and deliveries from its orderbook in the post pandemic environment.

## **AVATION PLC**

### **CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2022**

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

Insolvency proceedings impacted two airlines during the period, Virgin Australia and PAL.

##### Virgin Australia

Avation's claim against Virgin Australia has been adjudicated by the Trustee of the Creditors Trust in the sum of AUD101.4 million. Avation was notified of an initial distribution from the Creditors Trust of 5.4 cents in the dollar on 15 September 2022.

A further distribution based on funds withheld by the Trustee is expected. In addition to this distribution further funds may be made available to creditors should Virgin Australia meet performance targets in the financial year ended 30 June 2023. The potential total of these additional distributions is estimated to be in the range of 1.0 - 2.0 cents in the dollar.

##### Philippine Airlines

The PAL restructuring plan became effective on 31 December 2021. Pursuant to the restructuring plan, PAL has retained a Boeing 777-300ER aircraft on lease from Avation. The lease for this aircraft will continue until the original scheduled termination date.

PAL has met its commitments under the restructuring agreement and continues to meet the ongoing lease terms. Avation has received shares in PAL as part of the restructuring arrangement and may seek to realise the value of these shares in the future.

#### **Accounting impact (non-cash) of Bond extension and Warehouse Facility Extension**

In the year ended 30 June 2021 Avation completed a process to extend the maturity date of Avation Capital S.A.'s Senior Notes ("Notes") from May 2021 to October 2026. The extension of the maturity date and other revisions to the terms and conditions of the Notes were accounted for as a substantial modification of the terms of a debt instrument in accordance with IFRS 9 which led to a non-cash gain of \$50.3 million being recognised in the statement of profit or loss in the year ended 30 June 2021.

Under IFRS 9 this gain is required to be amortised over the term of the extension of the Notes. Investors should note that in the current financial year ended 30 June 2022 amortisation of this gain led to a non-cash charge of \$8.8 million being recognised in finance expenses. A further non-cash charge of \$3.5 million was recorded when Avation successfully extended the maturity date of its aircraft warehouse loan facility to 30 September 2026.

#### **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 supports and recognises the transition of the aircraft industry towards aircraft using 100% sustainable aviation fuel to produce low CO2 emissions on a net basis. Low CO2 emissions will advantage airlines in terms of taxes and government imposts and are key to providing a sustainable future for global aviation.

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.

## AVATION PLC

### CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 30 JUNE 2022

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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, government regulations, 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.

#### Outlook

The global aviation industry's emergence from the pandemic continues. The rapid resurgence of passenger numbers has been particularly evident in the period to the date of this announcement. Current trading and collection of arrears remain steady. In the Company's opinion, the recent improvement in travel is due to a combination of the Omicron variant being less severe and high vaccination rates that have allowed governments to drop mask mandates and ease travel restrictions. This trend is evident in regional and domestic travel and is being followed by a recovery in international travel.

Avation's recent focus has necessarily been directed towards maintaining liquidity, re-positioning or sale of unutilised aircraft and reducing leverage. In the six-month period to 30 June 2022 material events that have impacted Avation's financial position include the completion of PAL's restructuring, completion of the sale of three ex-Virgin Australia ATR 72 aircraft and the extension to 30 September 2026 of the Company's warehouse loan facility. The Company will maintain focus on these key elements of the business in the short term. However, given that a significant number of pandemic related issues have been resolved, the Company is optimistic about opportunities in the post pandemic environment.

During the period to the date of this announcement, Avation has developed a sustainable, low emissions aircraft growth strategy. This initiative was supported by the recent release of the new lower emissions PW127XT engine and announcement that future variants of the ATR 72 aircraft will include hybrid technology and use 100% Sustainable Aviation Fuel ("SAF"). In addition, an ATR 72 aircraft has also completed the first 100% SAF commercial flight. The Company's future business strategy will be to focus on leasing modern, low CO2 emissions, fuel-efficient aircraft. We anticipate gradually trading out of older aircraft types and focussing on aircraft types such as the Airbus neo and A220 series in addition to ATR 72 aircraft with the recently announced new generation engines. The Company's portfolio already comprises a significant proportion of Airbus A220 and ATR 72 aircraft showing our commitment to new technology, fuel-efficient aircraft types.

Future ATR 72 deliveries from Avation's orderbook will be powered by the new Pratt and Whitney Canada PW127XT engine which promises 20% lower maintenance costs, extended time on wing, 3% lower fuel consumption and 5% more power compared with the current engine. The manufacturer expects that the PW127XT engine will be certified to operate with 100% SAF from 2025. When using SAF net emissions of CO2 will be reduced by 80%.

Industry data suggests that airlines will require significant numbers 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.

Avation's functional currency is the US Dollar. As at 30 June 2022 the net asset value per share was \$3.27, equivalent to £2.68 based on a GBP:USD exchange rate of 1.22.



Robert Jeffries Chatfield  
Executive Chairman  
Singapore  
3 November 2022

## **AVATION PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022**

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The Directors present their strategic report for the year ended 30 June 2022.

#### **BUSINESS OVERVIEW**

Avation PLC and its subsidiaries ("Avation", the "Group") is a commercial passenger aircraft leasing group managing a fleet of 39 aircraft, as of 30 June 2022. Avation was founded in 2006 and has now been in operation for 16 years. Avation leases aircraft to 17 airline customers spread across 14 countries in Europe and the Asia-Pacific region. Major customers include Vietjet Air, airBaltic, EVA Air and Philippine Airlines. The Group's fleet includes 14 narrow-body jets, two twin-aisle jets and 23 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 April and May 2024. 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 neo, A220 and Boeing 737 MAX 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.

Avation has developed a sustainable, low emissions aircraft growth strategy. This initiative was supported by the recent release of the new lower emissions PW127XT engine and announcement that future variants of the ATR 72 aircraft will include hybrid technology and use 100% Sustainable Aviation Fuel. In addition, an ATR 72 aircraft has also completed the first 100% Sustainable Aviation Fuel commercial flight.

The Company's future business strategy will be to focus on leasing modern, low CO2 emissions, fuel-efficient aircraft. We anticipate gradually trading out of older aircraft types and focussing on aircraft types such as the Airbus A320/A321 neo and A220 series in addition to ATR 72 aircraft with the recently announced new generation engines. The Company's portfolio already comprises a significant proportion of Airbus A220 and ATR 72 aircraft showing our commitment to new technology, fuel-efficient aircraft types.

Future ATR 72 deliveries from Avation's orderbook will be powered by the new Pratt and Whitney Canada PW127XT engine which promises 20% lower maintenance costs, extended time on wing, 3% lower fuel consumption and 5% more power compared with the current engine. The manufacturer expects that the PW127XT engine will be certified to operate with 100% SAF from 2025. When using SAF net emissions of CO2 will be reduced by 80%.

## **AVATION PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022**

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Industry data suggests that airlines will require significant numbers 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.

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 39 aircraft (as of 30 June 2022) has a weighted average age of 5.6 years and weighted average remaining lease term of 5.7 years, serving a diversified customer base of airlines in Europe and the Asia-Pacific region.

#### **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.

The global aviation industry continues to emerge from the COVID-19 pandemic. The rapid resurgence of passenger numbers has been particularly evident in the period to the date of this announcement. Current trading and collection of arrears remain steady. In the Company's opinion, recent improvements in travel demand are due to a combination of the Omicron variant being less severe and high vaccination rates that have allowed governments to drop mask mandates and ease travel restrictions. This trend is evident in regional and domestic travel and is being followed by a recovery in international travel.

Air travel is expected to return to pre COVID-19 levels between 2023 and 2025.

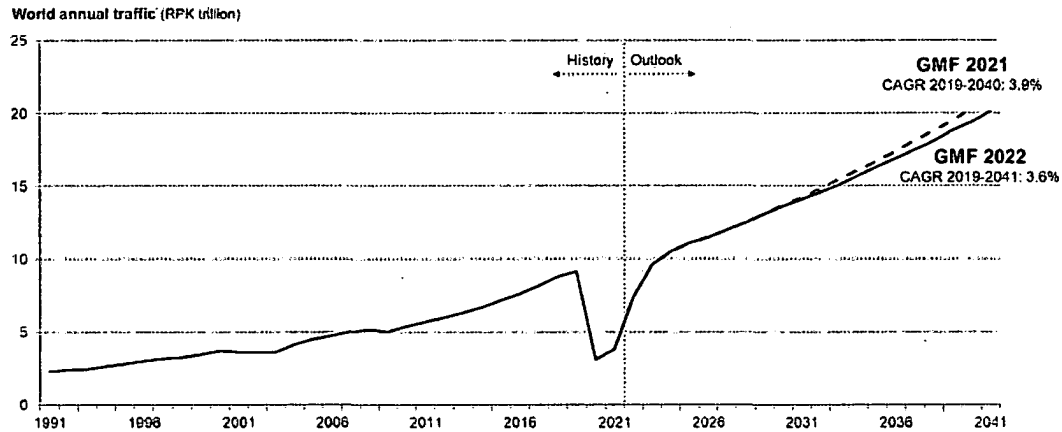
The aircraft leasing industry benefits from good long-term fundamentals including growth in global demand for air travel, capital constraints amongst airlines and normal cycles of aircraft replacement.



## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022

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The world fleet of commercial passenger aircraft is predicted to grow substantially with aircraft traffic expected to double every 15 years. Airbus forecasts that 39,500 aircraft (replacement and growth) will be required over the next 20 years, of which 45% are expected to be in Asia-Pacific, 21% in Europe, 18% in North America, and of the total, 80% are expected to be single aisle. <sup>1</sup>

Around 20% of the current global commercial aircraft fleet are new generation more fuel-efficient types such as the Airbus A220 and A320/A321 neo types. Over the next 20-year period 95% of the global fleet is expected to transition to new generation aircraft types.

Avation expects that this trend will support the company's future strategy of gradually trading out of older aircraft types and focussing on aircraft types such as the Airbus neo and A220 series in addition to ATR 72 aircraft with the recently announced new generation engines.

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<sup>1</sup> Airbus Global Market Forecast 2022

## **AVATION PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022**

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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 2022

#### 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

	2022 US\$'000s	2021 US\$'000s
Revenue	112,232	117,738
Other income	4,152	2,406
Operating profit/(loss)	90,184	(62,714)
Total profit/(loss)	17,127	(84,885)
Net cash from operating activities	54,480	62,285
Total assets	1,217,020	1,282,934
Total equity	227,093	157,010
Basic earnings per share (US cents)	24.65	(131.15)
Dividend per share (US cents)	-	-

Revenue decreased by 4.7% to US\$112.2 million (2021: US\$117.7 million) primarily as a result of change in the fleet and reduced rents receivable following defaults by airlines entering administration.

Other income increased by US\$1.8 million to US\$4.2 million (2021: US\$2.4 million) primarily due to an increase in fees charged for late payments and higher foreign currency exchange gains.

Depreciation decreased by 15.0% to US\$39.3 million (2021: US\$46.3 million) as a consequence of changes to the aircraft fleet and reduced depreciation applied to certain aircraft following impairment charges recorded in the year ended 30 June 2021.

During the current year the Group sold three nine-year-old ATR 72-600 aircraft, a three-year-old Airbus A220-300 aircraft and a nineteen-year-old Airbus A321-200 aircraft recognising total losses on sale of US\$2.4 million (2021: US\$6.9 million).

During the year the Group recognised an unrealised gain on revaluation of aircraft purchase rights of US\$38.3 million (2021: loss of US\$0.2 million). The Group holds 28 (2021: 28) purchase rights for ATR 72-600 aircraft for delivery prior to 30 June 2027.

The group reversed US\$9.2 million of impairment charges booked in prior periods and recorded new impairment charges of US\$15.4 million during the year ended 30 June 2022, resulting in a net impairment charge of US\$6.2 million (2021: US\$87.4 million).

The reversal of prior impairment charges resulted from a general improvement in residual values for aircraft during the year. New impairment charges recorded in the current year primarily result from a US\$9.1 million impairment charges recorded against two narrowbody aircraft which were re-valued following redelivery from leases.

In the prior year the company recognised an impairment loss of US\$28.7 million in relation to a widebody aircraft on lease to Philippine Airlines following the airline's announcement of its intention to restructure

## **AVATION PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022**

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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 and exited administration on 31 December 2021. Impairment losses of US\$28.4 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 in relation to a general softening in residual values for other aircraft.

Administrative expenses were unchanged at US\$9.5 million (2021: US\$9.5 million). Staff costs included within administrative expenses increased by 6.3% to US\$6.8 million (2021: US\$6.4 million), primarily as a result of reinstating the company's cash bonus scheme which was suspended during the COVID-19 pandemic.

The group reversed US\$7.8 million of expected credit losses booked in prior periods and recorded new expected credit losses of US\$5.8 million during the year ended 30 June 2022, resulting in a net reversal of expected credit losses of US\$2.0 million (2021: US\$25.4 million expense). New expected credit losses totalling US\$5.6 million were recorded against receivables from three airlines in default.

Expected credit losses in the year ended 30 June 2021 included US\$12.3 million in relation to receivables from Philippine Airlines, US\$6.2 million in relation to receivables from Virgin Australia and US\$3.1 million in relation to receivables from Vietjet.

Other expenses were US\$5.5 million (2021: US\$4.6 million). Other expenses in the current period include aircraft repossession costs of US\$nil (2021: US\$0.6 million) and maintenance costs of US\$5.5 million (2021: US\$1.1 million) primarily resulting from the default of Virgin Australia. Other expenses in the year ended 30 June 2021 also include US\$2.9 million of pre-delivery payments expensed 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 profit of US\$90.2 million (2021: loss of US\$62.7 million) as a result of the foregoing.

Finance expenses increased by 12.1% to US\$67.5 million (2021: US\$60.2 million) and total interest expense within finance expenses increased to US\$54.0 million (2021: US\$53.5 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\$29.9 million (2021: US\$26.6 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.

In the year ended 30 June 2022 the Group recognised a loss on debt modification of US\$3.5 million derived from the extension of the maturity date of the Group's warehouse loan credit facility to September 2026.

In the year ended 30 June 2021 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\$3.3 million (2021: US\$2.4 million). Finance income includes a fair value gain on financial derivatives of US\$2.5 million in the year ended 30 June 2022 and a gain on repurchases of unsecured notes of US\$1.9 million in the year ended 30 June 2021.

## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022

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\$5.4 million (2021: US\$14.7 million) which includes a net increase in deferred tax liabilities of US\$4.8 million (2021: US\$14.6 million). In the year ended 30 June 2021 a deferred tax liability of US\$12.5 million was recognised in relation to the gain on debt modification of US\$50.3 million discussed above.

Net cash from operating activities decreased by 12.5% to US\$54.5 million (2021: US\$62.3 million) primarily due to lower rental revenue.

Total profit after tax for the financial year was US\$17.1 million (2021: loss of US\$84.9 million).

Basic earnings per share was 24.7 US cents (2021: loss of 131.2 US cents).

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

### FLEET OVERVIEW

Type	1 July 2021	Additions	Disposals	30 June 2022	On order	Purchase rights
ATR 72-500	5	-	-	5	-	-
ATR 72-600	21	-	3	18	2	28
A220-300	6	-	1	5	-	-
A320-200	2	-	-	2	-	-
A321-200	7	-	1	6	-	-
A330-300	1	-	-	1	-	-
B737-800	1	-	-	1	-	-
B777-300ER	1	-	-	1	-	-
<b>Total</b>	<b>44</b>	<b>-</b>	<b>5</b>	<b>39</b>	<b>2</b>	<b>28</b>

The Company sold three nine-year-old ATR 72-600 aircraft, a three-year-old Airbus A220-300 aircraft and a nineteen-year-old Airbus A321-200 aircraft during the year. As of 30 June 2022, the weighted average age of the fleet was 5.6 years (2021: 4.8 years) and the weighted average remaining lease term was 5.7 years (2021: 6.4 years).

The aircraft fleet was valued as of 30 June 2022 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\$6.2 million (2021: US\$87.4 million) and a net positive adjustment of aircraft net book values of US\$17.5 million recognised in the consolidated statement of changes in equity (2021: US\$8.1 million).

Three ATR 72-500 aircraft are classified as leased under finance leases (2021: nil). Three ATR 72-600 aircraft are classified as leased under finance leases (2021: three).

Two ATR 72-600 aircraft and two Airbus A321-200 aircraft are classified as assets held for sale.

## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022

#### DEBT SUMMARY

	2022 US\$'000s	2021 US\$'000s
Loans and borrowings	828,130	947,640
Cash and cash equivalents	35,267	25,067
Net indebtedness	792,863	922,573
Loan to value ratio	68.0%	73.9%
Weighted average cost of secured debt	4.0%	3.9%
Weighted average cost of total debt	5.7%	5.4%

Loans and borrowings and net indebtedness decreased due to loan repayments exceeding additional secured debt issued during the year. The Group drew down a loan of US\$17.5 million under a secured warehouse loan credit facility during the year. A gain on debt modification of US\$50.3 million was recorded in the year ended 30 June 2021 in connection with the extension of the maturity date of the Group's unsecured notes on revised terms in March 2021. In the year ended 30 June 2022 US\$8.8 million of the debt modification gain was amortised and added back to the book value of unsecured notes included in loans and borrowings.

The weighted average cost of secured debt facilities increased to 4.0% as of 30 June 2022 (2021: 3.9%) principally due to the impact on the average of repayments of lower cost debt.

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 5.7% as of 30 June 2022 (2021: 5.4%).

At the end of the financial year, Avation's overall loan to value ratio (defined as total loans and borrowings divided by total assets) was 68.0% (2021: 73.9%) and 90.0% of total debt was at fixed or hedged interest rates (2021: 90.9%). The proportion of unsecured debt to total debt was 35.8% (2021: 29.9%).

In August 2022, S&P Global Ratings revised Avation's issuer rating to B- (CCC+ for unsecured notes) on improving capital structure and liquidity.

The Company's current credit ratings are as follows:

Rating Agency	Corporate Credit Rating	Unsecured Notes Rating
Standard & Poor's	B- (Stable outlook)	CCC+

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.

## **AVATION PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022**

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#### **ENVIRONMENTAL, SOCIAL AND GOVERNANCE**

Avation is committed to environmental responsibility as part of its business strategy. This is achieved by investing in leading-edge designs of commercial aircraft that offer improved fuel efficiency and therefore 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. The most recent additions to the fleet have included 6 latest technology A220-300 aircraft, which provide significantly reduced fuel consumption and emissions in comparison to older aircraft.

As of 30 June 2022, 72% of our overall fleet by number are latest technology ATR and Airbus A220 aircraft.

Avation is a member of the Aviation Working Group (AWG) which has developed 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's Environmental, Social and Governance report is published on the Company's website at: <https://www.avation.net/ESG.html>.

As of 30 June 2022, Avation PLC has an MSCI ESG rating of BB (2021:BB).

#### ***Climate-Related Financial Disclosures***

The Risk Committee makes recommendations to the Board on the principal risks of relevance to the business. Climate-related risks are considered in terms of potential for contribution to these principal risks. The issues considered include both the risk of physical disruption to the business from climate change, and the risks and opportunities as the global economy transitions to significantly lower carbon emissions. In the current period, the Risk Committee has assessed materiality and concluded that climate related risks do not give rise to the level of a principal risk.

The Risk Committee recognises that the financial statements cannot capture all possible future outcomes, as governmental and societal responses to climate change risk are still developing and are interdependent upon each other. Future periods may be impacted by climate risks and certain older technology or less efficient aircraft types may be more susceptible to climate risk than latest technology and more efficient aircraft types. As of 30 June 2022, 28% of Avation's fleet by number are older technology aircraft types.

#### **CORPORATE SOCIAL RESPONSIBILITY**

Avation is committed to the principles of being a good corporate citizen. For the 2022 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 slavery policy
- Whistleblowing policy
- Policy for dealing with Company securities

## AVATION PLC

### STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022

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#### 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 2022 is set out below:

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	Male	Female
Directors of the Company	4	-
Senior managers	4	-
Other employees	10	5

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#### 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 a transaction which would typically take three to five months to complete and therefore such transactions are undertaken on strategic timeframes. Equity released from the sale of aircraft is typically re-invested in financing or re-financing the purchase of aircraft.

##### *The interests of the Group's employees*

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

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

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

###### *Suppliers*

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

###### *Customers*

The Company has seventeen 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



## **AVATION PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2022**

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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.ovation.net/ESG.html](http://www.ovation.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

3 November 2022

## AVATION PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2022

The Directors present their report and financial statements for the year ended 30 June 2022.

#### 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:

	Direct interest		Deemed interest	
	30 June 2022	1 July 2021	30 June 2022	1 July 2021
<b>Ordinary shares of £0.01 each:</b>				
Robert Jeffries Chatfield	1	1	11,995,000	11,995,000
Roderick Douglas Mahoney	856,667	856,667	-	-
Stephen John Fisher	25,000	25,000	-	-
Derek Sharples	50,000	50,000	-	-

## AVATION PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2022

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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	16,224,318	23.35%
Goldman Sachs Securities (Nominees) Limited	5,684,860	8.18%
Lynchwood Nominees Limited	5,475,940	7.88%
Luna Nominees Limited	5,030,000	7.24%
HSBC Global Custody Nominee (UK) Limited	5,014,415	7.22%
HSBC Global Custody Nominee (UK) Limited	5,013,635	7.22%
Pershing Nominees Limited	5,010,089	7.21%
HSBC Global Custody Nominee (UK) Limited	2,092,788	3.01%

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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 2022**

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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 2022 the Company used 32,496 KWh of energy (2021: 28,012 KWh) which was converted to estimated carbon emissions of 13,258 Kg (2021: 11,443 Kg) using a GEF of 0.4080 (2021: 0.4085).

#### **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 31. 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 38.

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 July 2018. 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 2022**

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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 2022, the Company did not buy any treasury shares.

By a resolution passed at the Annual General Meeting held on 1 December 2021, 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 exceeding 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 (as in force in the United Kingdom pursuant to the European Union (Withdrawal) Act 2018), and in any case, not exceeding £3.00 per share, excluding brokerage, commissions and other related expenses.

## AVATION PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2022

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#### Subsequent events

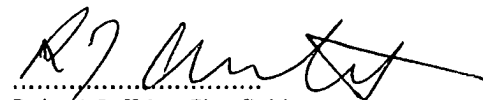
See Note 43 to these financial statements.

#### 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 38 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 2022

#### 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 2022. 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></p> <p>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></p> <p>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 2022

**Bonuses** To incentivise and recognise execution of the business strategy on a semi-annual basis.

**Operation:**

Bonuses are paid in cash twice yearly to Directors based on a target percentage of the employee's basic salary. All bonus payments are at the discretion of the Committee, as shown following this table.

**Framework used to assess performance:**

The remuneration committee will assess company and individual performance compared to prior year and expectations for the current year. Individual performance will also be assessed against key performance metrics established for each executive. Metrics considered in awarding bonuses include share price appreciation; increase in the Company's earnings per share; reliable and high quality financial reporting; growth in asset value and profits; and dividend growth.

**Share Warrants** To incentivise and recognise execution of the business strategy over the long-term.

**Operation:**

Each year share warrants and/or performance shares awards may be granted subject to the achievement of performance targets. Awards normally vest over a three-year period.

**Framework used to assess performance:**

Same as for bonus.

Individual Director's remuneration was as follows:

	Salaries and fees US\$'000s	Bonuses US\$'000s	Taxable benefits US\$'000s	Share warrants US\$'000s	Total 2022 US\$'000s	Total 2021 US\$'000s
<b>Executive Directors:</b>						
Robert Jeffries Chatfield	711	-	70	443	1,224	1,394
Roderick Douglas Mahoney	388	220	-	269	877	907
<b>Non-Executive Directors:</b>						
Stephen John Fisher	45	-	-	-	45	45
Derek Sharples	45	-	-	-	45	45
	<b>1,189</b>	<b>220</b>	<b>70</b>	<b>712</b>	<b>2,191</b>	<b>2,391</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 2022

#### Service contracts

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

The Directors' service contracts are as follows:

	Date of contract	Unexpired term	Notice period	Compensation payable on early termination
Robert Jeffries Chatfield	29 April 2013	Indefinite	4 months	-
Roderick Douglas Mahoney	21 February 2022	Indefinite	2 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:

Vesting period	Proportion of total share options that are exercisable
Before 6 September 2019	0 per cent
On 6 September 2019 and before 6 September 2020	Up to 33 per cent of the grant
On 6 September 2020 and before 6 September 2021	Up to 33 per cent of the grant or up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 6 September 2021 to 6 October 2021	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

The 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 2022

Warrants granted to Directors on 8 March 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 9 March 2020	0 per cent
On 9 March 2020 and before 9 March 2021	Up to 33 per cent of the grant
On 9 March 2021 and before 9 March 2022	Up to 33 per cent of the grant or up to 66 per cent of the grant if warrants were not exercised after the first vesting year
On 9 March 2022 to 9 April 2022	Balance or 100 per cent of the grant if warrants were not exercised after the first and second vesting years

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

<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

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

## AVATION PLC

### DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2022

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 *	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	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 75.0 pence. The highest and lowest closing market prices during the year were 110.0 pence and 61.5 pence.

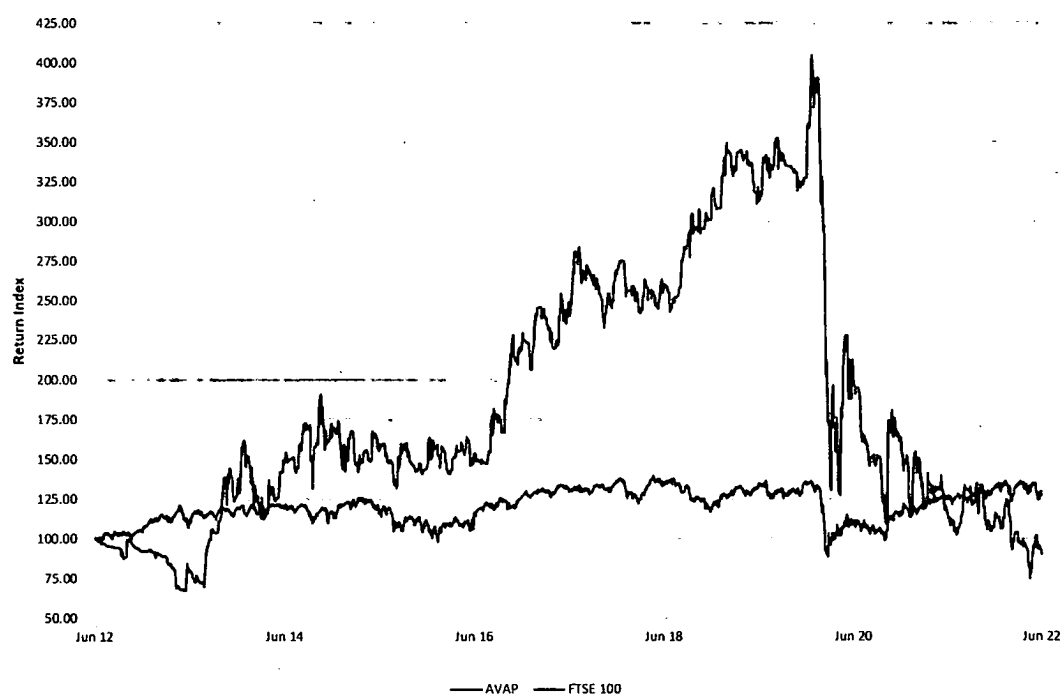
## AVATION PLC

### DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2022

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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 2022

#### Remuneration of Executive Chairman

	2022	2021	2020	2019	2018
Executive Chairman single figure remuneration (US\$'000)	1,224	1,394	908	803	682
Annual bonus pay-out (as % of maximum)	-	-	-	-	-

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.

Change in remuneration from 2021 to 2022	Base salary and fees	Bonus	Taxable benefits	Warrants expense
Executive Chairman: Robert Jeffries Chatfield	-1%	0%	-18%	-25%
Executive Director: Douglas Roderick Mahoney	-15%	105%	0%	-22%
Non-executive Director: Stephen Fisher	0%	0%	0%	0%
Non-executive Director: Derek Sharples	0%	0%	0%	0%
All employees	2%	254%	-18%	-17%

Change in remuneration from 2020 to 2021	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

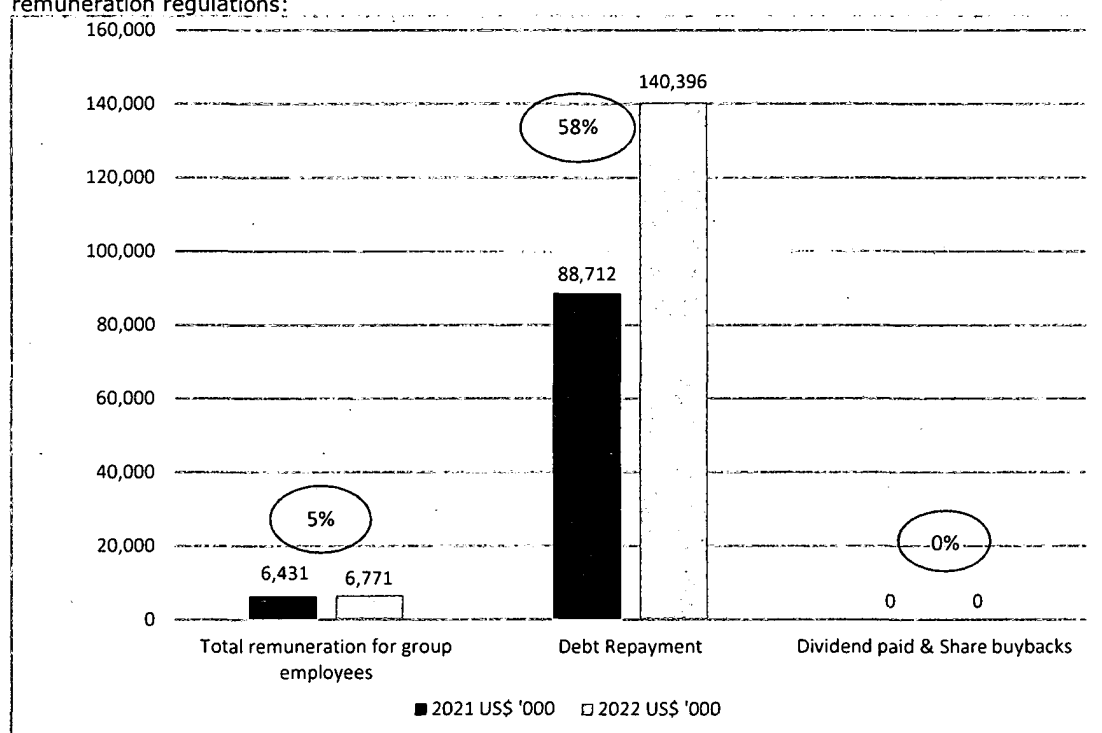
### DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2022

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

Change in remuneration from 2019 to 2020	Base salary and fees	Bonus	Taxable benefits	Warrants expense
Executive Chairman: Robert Jeffries Chatfield	8%	0%	-3%	41%
Executive Director: Douglas Roderick Mahoney	9%	28%	0%	17%
Non-executive Director: Stephen Fisher	0%	0%	0%	0%
Non-executive Director: Derek Sharples	0%	0%	0%	0%
All employees	10%	33%	-3%	24%

#### 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 2022**

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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 2022

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

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

#### Shareholders' vote on remuneration

	Share Count	% of vote cast
Votes cast in favour	31,432,495	89.58%
Votes cast against	3,654,964	10.42%
Total votes cast in favour or against	35,087,459	100%
Votes withheld	10,800	-

#### Note:

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 2021 was approved at the Annual General Meeting held on 1 December 2021.

On behalf of the Board

  
Robert Jeffries Chatfield  
Executive Chairman



## **AVATION PLC**

### **DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 30 JUNE 2022**

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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 Company and Group financial statements in accordance with UK-adopted International Accounting Standards ("IFRSs") in conformity with the requirements of the Companies Act 2006.

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 the specific requirements in IFRSs adopted 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 2022**

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We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs in conformity with the Companies Act 2006, 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 3 November 2022 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 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards 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:

Group	Parent company
Consolidated statement of profit and loss for the year then ended	
Consolidated statement of comprehensive income for the year then ended	
Consolidated statement of financial position as at 30 June 2022	Company statement of financial position as at 30 June 2022
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 UK adopted international accounting standards 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 (CONTINUED)**

### **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 statements 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.

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.

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

### 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 and other 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\$2.27 million which represents 1% of the total equity as of 30 June 2022.</li> </ul>

### 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.

#### Climate Change

There has been increasing interest from stakeholders as to how climate change will impact companies. The Group has determined that the most significant future impacts from climate change on its operations will be the risk of disruptions to its business and the risks and opportunities as the global economy transitions to lower carbon emissions. These are explained on page 13 in the strategic report, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

#### 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 (CONTINUED)**

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Valuation of Aircraft (2022: US\$813.89 million, 2021: US\$961.47 million)</b></p> <p><i>Refer to the Accounting policies (page 54); and Note 19 of the Consolidated Financial Statements (page 98)</i></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 2022, the carrying value of aircraft reported is US\$813.89 million (2021: US\$961.47 million) as detailed in Note 19 of the financial statements.</p> <p>As set out within Notes 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 an appropriate discount rate.</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>• Obtained an understanding of the process for the valuation of aircraft on an LEV basis and performed a walkthrough of the process, including controls over the inputs and assumptions of calculation, and evaluated the design of controls in relation to the identified risk.</li> <li>• Assessed and evaluated the key assumptions used (discount rate, lease income streams and residual values).</li> <li>• Involved specialists from our valuations and business modelling team to assess the reasonableness of the discount rates used in discounting the future cash flows of aircraft in the model.</li> <li>• Evaluated the independence and competence of experts engaged by management in valuing the lease encumbered values in accordance with the requirements of auditing standards. We obtained external aircraft valuation reports validating the calculation of the LEV including residual values.</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 (CONTINUED)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Valuation of Aircraft Purchase Rights (2022: US\$65.28 million, 2021: US\$26.96 million)</b></p> <p><i>Refer to the Accounting policies (page 54); and Note 25 of the Consolidated Financial Statements (page 113)</i></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, <i>Fair Value Measurement</i>.</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 2022, the fair value recorded for aircraft purchase rights is US\$65.28 million (2021: US\$26.96 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 aircraft purchase rights 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 competence 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>

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Expected credit loss (ECL) on Trade and Other Receivables (2022: US\$11.34 million, 2021: US\$25.91 million)</b></p> <p><i>Refer to the Accounting policies (page 54); and Note 20 of the Consolidated Financial Statements (page 104)</i></p> <p>We have determined that expected credit loss on trade and other receivables represents a significant risk because there is a high volume of rent deferrals in 2021 and 2022 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 2022, the provision for ECL recorded is US\$11.34 million (2021: US\$ 25.91 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 and letters of credit held for each lessee, which were treated as credit enhancements in determining the net exposure at 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 (CONTINUED)

### 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\$2.3 million (2021: US\$1.6 million), which is 1% (2021: 1% of the equity) of the equity as at 30 June 2022. The users of the financial statements are concerned with the liquidity and/or solvency position of the Group. 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 Group.

We determined materiality for the Parent Company to be US\$1.7 million (2021: US\$1.5 million), which is 0.5% of total assets (2021: 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% (2021: 50%) of our planning materiality, namely US\$1.1 million (2021: US\$785 thousand). We have set performance materiality at this percentage due to our expectations of a higher likelihood of misstatements in the current year.

#### 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\$113 thousand (2021: US\$79 thousand), which is set at 5% (2021: 5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

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 5-15), Directors' Report (set out on pages 16-20), Directors' Remuneration Report (set out on pages 21-30) and Directors' Responsibilities Statement (set out on page 31-32) 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 (CONTINUED)**

### **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 pages 31-32, 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 (CONTINUED)**

### **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
  - 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 (CONTINUED)

### 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 5 years, covering the period from our appointment through 30 June 2022.

- 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  
03 November 2022

#### 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 2022

	Note	2022 US\$'000s	2021 US\$'000s
<b>Continuing operations</b>			
Revenue	9	112,232	117,738
Other income	10	4,152	2,406
		<u>116,384</u>	<u>120,144</u>
Depreciation	19	(39,304)	(46,332)
Loss on disposal of aircraft and aircraft engine	19	(2,396)	(6,948)
Unrealised gain/(loss) on aircraft purchase rights	25	38,320	(150)
Impairment loss on aircraft	19,30	(6,158)	(87,394)
Expected credit losses	20,21	1,980	(25,428)
Administrative expenses	11	(9,465)	(9,485)
Legal and professional fees	11	(3,698)	(2,561)
Other expenses	12	(5,479)	(4,560)
Operating profit/(loss)		<u>90,184</u>	<u>(62,714)</u>
(Loss)/gain on debt modification	34	(3,545)	50,270
Finance income	13	3,344	2,441
Finance expenses	14	(67,481)	(60,218)
Profit/(loss) before taxation	16	<u>22,502</u>	<u>(70,221)</u>
Taxation	17	(5,375)	(14,664)
<b>Profit/(loss) from continuing operations</b>		<u><b>17,127</b></u>	<u><b>(84,885)</b></u>
Profit/(loss) attributable to:			
Shareholders of Avation PLC		17,126	(84,886)
Non-controlling interests		<u>1</u>	<u>1</u>
		<u><b>17,127</b></u>	<u><b>(84,885)</b></u>
<b>Earnings per share for profit/(loss) attributable to shareholders of Avation PLC</b>			
Basic earnings per share (US cents)	18	24.65	(131.15)
Diluted earnings per share (US cents)	18	<u>24.65</u>	<u>(131.15)</u>

## AVATION PLC

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

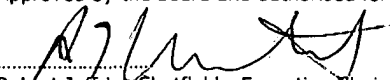
	Note	2022 US\$'000s	2021 US\$'000s
<b>Profit/(loss) from continuing operations</b>		<b>17,127</b>	<b>(84,885)</b>
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net gain on cash flow hedge, net of tax	24	35,387	1,686
		35,387	1,686
<i>Items that may not be reclassified subsequently to profit or loss:</i>			
Revaluation gain on property, plant and equipment, net of tax	32	16,209	7,440
Other comprehensive income, net of tax		51,596	9,126
<b>Total comprehensive income/(loss) for the year</b>		<b>68,723</b>	<b>(75,759)</b>
Total comprehensive income/(loss) attributable to:			
Shareholders of Avation PLC		68,722	(75,760)
Non-controlling interests		1	1
		<b>68,723</b>	<b>(75,759)</b>

# AVATION PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 US\$'000s	2021 US\$'000s
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19	813,908	963,304
Finance lease receivables	21	55,208	45,836
Trade and other receivables	20	19,388	8,857
Derivative financial assets	24	5,920	-
Aircraft purchase rights	25	65,280	26,960
Lease incentive assets	28	310	6,661
Goodwill	22	1,902	1,902
		<b>961,916</b>	<b>1,053,520</b>
<b>Current assets</b>			
Finance lease receivables	21	5,624	4,154
Trade and other receivables	20	13,202	35,112
Investment in equity, fair value through profit or loss	26	3,715	-
Lease incentive assets	28	137	1,377
Cash and bank balances	29	119,171	122,471
		<b>141,849</b>	<b>163,114</b>
Assets held for sale	30	113,255	66,300
		<b>255,104</b>	<b>229,414</b>
<b>Total assets</b>		<b>1,217,020</b>	<b>1,282,934</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	31	1,203	1,203
Share premium		67,681	67,681
Treasury shares	31	(7,811)	(7,811)
Merger reserve		6,715	6,715
Asset revaluation reserve	32	51,730	37,602
Capital reserve		8,876	8,876
Other reserves	33	14,174	(21,382)
Retained earnings		84,519	64,058
<b>Equity attributable to shareholders of Avation PLC</b>		<b>227,087</b>	<b>156,942</b>
Non-controlling interests		6	68
<b>Total equity</b>		<b>227,093</b>	<b>157,010</b>
<b>Non-current liabilities</b>			
Loans and borrowings	34	764,230	505,018
Trade and other payables	35	18,274	16,472
Derivative financial liabilities	24	1,055	20,161
Maintenance reserves	36	75,131	89,279
Deferred tax liabilities	37	25,437	17,138
		<b>884,127</b>	<b>648,068</b>
<b>Current liabilities</b>			
Loans and borrowings	34	63,900	442,622
Trade and other payables	35	15,940	16,449
Maintenance reserves	36	10,156	12,202
Income tax payable		658	666
		<b>90,654</b>	<b>471,939</b>
Liabilities directly associated with assets held for sale	30	15,146	5,917
		<b>105,800</b>	<b>477,856</b>
<b>Total equity and liabilities</b>		<b>1,217,020</b>	<b>1,282,934</b>

Approved by the board and authorised for issue on 3 November 2022

  
Robert Jeffries Chatfield - Executive Chairman



# AVATION PLC

## COMPANY STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 US\$'000s	2021 US\$'000s
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19	-	1,814
Trade and other receivables	20	100,238	8,380
Derivative financial assets	24	1,281	-
Investment in debt instrument, fair value through profit or loss	27	5,925	6,089
Investment in subsidiaries	23	3,328	14,147
Aircraft purchase rights	25	65,280	26,960
		<u>176,052</u>	<u>57,390</u>
<b>Current assets</b>			
Trade and other receivables	20	145,491	231,369
Cash and bank balances	29	9,709	5,513
		<u>155,200</u>	<u>236,882</u>
<b>Total assets</b>		<b><u>331,252</u></b>	<b><u>294,272</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	31	1,203	1,203
Share premium		67,681	67,681
Treasury shares	31	(7,811)	(7,811)
Merger reserve		6,715	6,715
Other reserves	33	1,089	(4,050)
Retained earnings		<u>70,849</u>	<u>33,061</u>
<b>Total equity</b>		<b><u>139,726</u></b>	<b><u>96,799</u></b>
<b>Non-current liabilities</b>			
Loans and borrowings	34	113,086	-
Trade and other payables	35	33,061	123
Derivative financial liabilities	24	1,055	8,202
Deferred tax liabilities	37	9,680	2,720
		<u>156,882</u>	<u>11,045</u>
<b>Current liabilities</b>			
Loans and borrowings	34	16,353	143,600
Trade and other payables	35	18,291	42,828
		<u>34,644</u>	<u>186,428</u>
<b>Total equity and liabilities</b>		<b><u>331,252</u></b>	<b><u>294,272</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 profit for the year was US\$36.5 million (2021: US\$15.3 million loss).

Approved by the board and authorised for issue on 3 November 2022

  
Robert Jeffries Chatfield  
Executive Chairman

# AVATION PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

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	US\$'000s
<b>Balance at 1 July 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>
Profit for the year	-	-	-	-	-	-	-	17,126	17,126	1	17,127
Other comprehensive income	-	-	-	-	16,209	-	35,387	-	51,596	-	51,596
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,209</b>	<b>-</b>	<b>35,387</b>	<b>17,126</b>	<b>68,722</b>	<b>1</b>	<b>68,723</b>
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(63)	(63)
Share warrant expense	-	-	-	-	-	-	1,423	-	1,423	-	1,423
<b>Total transactions with owners recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,423</b>	<b>-</b>	<b>1,423</b>	<b>(63)</b>	<b>1,360</b>
Release of revaluation reserve upon sale of aircraft	-	-	-	-	(2,081)	-	-	2,081	-	-	-
Expiry of share warrants	-	-	-	-	-	-	(1,254)	1,254	-	-	-
<b>Total others</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,081)</b>	<b>-</b>	<b>(1,254)</b>	<b>3,335</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 30 June 2022</b>	<b>1,203</b>	<b>67,681</b>	<b>(7,811)</b>	<b>6,715</b>	<b>51,730</b>	<b>8,876</b>	<b>14,174</b>	<b>84,519</b>	<b>227,087</b>	<b>6</b>	<b>227,093</b>

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 2021

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	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>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>
Loss for the year	-	-	-	-	-	-	-	(84,886)	(84,886)	1	(84,885)
Other comprehensive income	-	-	-	-	7,440	-	1,686	-	9,126	-	9,126
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,440</b>	<b>-</b>	<b>1,686</b>	<b>(84,886)</b>	<b>(75,760)</b>	<b>1</b>	<b>(75,759)</b>
Issue of new shares	31 95	9,934	-	-	-	-	-	-	10,029	-	10,029
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(5)	(5)
Share warrant expense	33 -	-	-	-	-	-	1,723	-	1,723	-	1,723
<b>Total transactions with owners recognised directly in equity</b>	<b>95</b>	<b>9,934</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,723</b>	<b>-</b>	<b>11,752</b>	<b>(5)</b>	<b>11,747</b>
Expiry of share warrants	33 -	-	-	-	-	-	(489)	489	-	-	-
<b>Total others</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(489)</b>	<b>489</b>	<b>-</b>	<b>-</b>	<b>-</b>
<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>

**AVATION PLC**

**COMPANY STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2022**

	Note	Share capital US\$'000s	Share Premium US\$'000s	Treasury shares US\$'000s	Merger reserve US\$'000s	Other reserves US\$'000s	Retained earnings US\$'000s	Total US\$'000s
<b>Balance at 1 July 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>
Profit for the year		-	-	-	-	-	36,534	36,534
Other comprehensive income		-	-	-	-	4,970	-	4,970
<i>Total comprehensive income</i>		-	-	-	-	4,970	36,534	41,504
Share warrants expense	33	-	-	-	-	1,423	-	1,423
<i>Total transactions with owners, recognised directly in equity</i>		-	-	-	-	1,423	-	1,423
Expiry of share warrants	33	-	-	-	-	(1,254)	1,254	-
<i>Total others</i>		-	-	-	-	(1,254)	1,254	-
<b>Balance at 30 June 2022</b>		<b>1,203</b>	<b>67,681</b>	<b>(7,811)</b>	<b>6,715</b>	<b>1,089</b>	<b>70,849</b>	<b>139,726</b>

**AVATION PLC**

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

	Note	Share capital US\$'000s	Share Premium US\$'000s	Treasury shares US\$'000s	Merger reserve US\$'000s	Other reserves US\$'000s	Retained earnings US\$'000s	Total 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	31	95	9,934	-	-	-	-	10,029
Share warrants expense	33	-	-	-	-	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>1,723</i>	<i>-</i>	<i>11,752</i>
Expiry of share warrants	33	-	-	-	-	(489)	489	-
<i>Total others</i>		<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(489)</i>	<i>489</i>	<i>-</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>(4,050)</b>	<b>33,061</b>	<b>96,799</b>

# AVATION PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 US\$'000s	2021 US\$'000s
<b>Cash flows from operating activities:</b>			
Profit/(loss) before income tax		22,502	(70,221)
Adjustments for:			
Amortisation of lease incentive asset	9	1,383	2,069
Depreciation expense	19	39,304	46,332
Depreciation of right-of-use assets		218	215
Expected credit losses	20,21	(1,980)	25,428
Finance income	13	(3,344)	(2,441)
Finance expense	14	67,481	60,218
Loss/(gain) on debt modification	34	3,545	(50,270)
Loss on disposal of aircraft and aircraft engine		2,396	6,948
Interest income from finance leases	9	(2,918)	(2,364)
Impairment loss on aircraft	19,30	6,158	87,394
Pre-delivery payments expensed	12	-	2,850
Share warrants expense	15	1,423	1,723
Unrealised (gain)/loss on aircraft purchase rights	25	(38,320)	150
Operating cash flows before working capital changes		97,848	108,031
Movement in working capital:			
Trade and other receivables and finance lease receivables		12,923	(40,757)
Trade and other payables		1,562	8,390
Maintenance reserves		(7,124)	34,879
Cash from operations		105,209	110,543
Finance income received		1,581	2,172
Finance expense paid		(51,700)	(49,935)
Income tax paid		(610)	(495)
<b>Net cash from operating activities</b>		<b>54,480</b>	<b>62,285</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	19	(17)	(104)
Proceeds from disposal of aircraft and aircraft engine		65,636	20,187
<b>Net cash from investing activities</b>		<b>65,619</b>	<b>20,083</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of ordinary shares		-	10,029
Dividend paid to non-controlling interest of a subsidiary		(63)	(5)
Decrease/(increase) of restricted cash balances		13,500	(18,109)
Proceeds from loans and borrowings, net of transactions costs	34	17,060	11,747
Repayment of loans and borrowings	34	(140,396)	(88,712)
Transaction costs for modification of unsecured notes		-	(7,541)
<b>Net cash used in financing activities</b>		<b>(109,899)</b>	<b>(92,591)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>10,200</b>	<b>(10,223)</b>
Cash and cash equivalents at beginning of year	29	25,067	35,290
<b>Cash and cash equivalents at end of year</b>	29	<b>35,267</b>	<b>25,067</b>

## AVATION PLC

### COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 US\$'000s	2021 US\$'000s
<b>Cash flows from operating activities:</b>			
Profit/(loss) before taxation		42,476	(16,029)
Adjustments for:			
Dividend income		(8,941)	(1,214)
Depreciation expense	19	87	90
Depreciation of right-of-use assets		74	74
Expected credit losses	20	354	381
Fair value loss/(gain) on investment in debt instrument	27	164	(841)
Finance income		(10,719)	(7,451)
Gain on receivables modification		(3,517)	-
Finance expense		11,224	12,941
Loss on debt modification		3,545	-
Loss on disposal of aircraft and aircraft engine		452	4,105
Impairment loss on aircraft	19	-	1,838
Pre-delivery payments expensed		-	2,850
Share warrant expense		1,423	1,723
Unrealised (gain)/loss on aircraft purchase rights	25	(38,320)	150
Operating cash flows before working capital changes		(1,698)	(1,383)
Movement in working capital:			
Trade and other receivables		(8,429)	(5,606)
Trade and other payables		2,420	6,020
Cash used in operations		(7,707)	(969)
Finance income received		7,644	6,004
Finance expense paid		(10,961)	(7,489)
Income tax paid		-	233
<b>Net cash used in operating activities</b>		<b>(11,024)</b>	<b>(2,221)</b>
<b>Cash flows from investing activities:</b>			
Dividends received		8,941	1,214
Return of capital from a subsidiary		10,819	-
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)
Proceeds from disposal of aircraft and aircraft engine		1,275	13,727
<b>Net cash from/(used in) investing activities</b>		<b>21,035</b>	<b>(11,457)</b>
<b>Cash flows from financing activities:</b>			
Net proceeds from issuance of ordinary shares		-	10,029
Proceeds from loans and borrowings		41,268	31,515
Repayment of loans and borrowings		(47,083)	(23,774)
<b>Net cash (used in)/from financing activities</b>		<b>(5,815)</b>	<b>17,770</b>
<b>Net increase in cash and cash equivalents</b>		<b>4,196</b>	<b>4,092</b>
Cash and cash equivalents at beginning of year	29	5,513	1,421
<b>Cash and cash equivalents at end of year</b>	29	<b>9,709</b>	<b>5,513</b>

## **AVATION PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022**

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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 UK-adopted International Accounting Standards ("IFRSs") in conformity with the requirements of the Companies Act 2006.

#### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PREPARATION** – The financial statements have been prepared in accordance with UK-adopted International Accounting Standards ("IFRSs") in conformity with the requirements of the Companies Act 2006.

- (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) unless otherwise indicated. The year-end exchange rate for Pounds Sterling to United States Dollars is 1.22 (2021: 1.38).

The preparation of financial statements in conformity with UK-adopted International Accounting Standards ("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.



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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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 2022. 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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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 2022

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

##### (e) GOING CONCERN

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

The COVID-19 outbreak and the related decreased demand for air travel significantly impacted the Group's airline customers, leading to the inability of certain airlines to meet their lease payment obligations to the Group. This 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.

The Group engaged 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. Most of the Group's customers have now repaid amounts due under rent deferral arrangements. An amount of US\$25.9 million due from one major customer has been converted into an interest bearing loan with repayment by 24 equal monthly instalments starting from January 2023.

In addition, the Group restructured its orderbook with Avions de Transport Regional which now comprises only two firm orders for ATR 72-600 aircraft to be delivered in 2024

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 or sold 11 of these aircraft. The Group continues to market the remaining 2 aircraft for lease or sale.

###### ***Russia's invasion of Ukraine***

Russia's invasion of Ukraine in February 2022, followed by the effective seizure of aircraft leased to Russian airlines, has created instability in global aviation markets. Global energy prices have increased dramatically since the invasion including the price of jet fuel which has increased by more than 50% since the start of the year. Insurance rates for aircraft are also expected to increase dramatically for this year's renewals due to losses incurred by insurers and a general increase in risk.

Increased costs will impact airlines' cash flows and operating results at a time when many of them are still recovering from the impacts of the COVID-19 pandemic.

While the Group has not been directly affected by the events in Ukraine, having no aircraft leased to Russian or Ukrainian airlines, the impact of higher fuel, insurance and other costs may negatively impact the Group's customers.

###### ***Going concern basis of accounting***

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,
- Projected collections of receivable balances and contracted asset sales,
- Forecasted cash outflows for all contractual debt and lease obligations and selling, general and administrative expenses for the next 12 months,

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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

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

- Sensitivity of cash flows to changes in base assumptions around rent collection rates and other significant factors.

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, investment in equity 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 2022

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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 2022

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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 2022

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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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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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.



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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#### 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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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 Consolidated 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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#### 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 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. 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 2022

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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 2022

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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 2022

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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

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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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, investment in equity 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 2022

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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.



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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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 2022

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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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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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 measured at and 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 2022

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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.

##### 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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

The Group periodically evaluates its aircraft for impairment and also reviews the residual value of the aircraft. Management exercises significant judgement in determining whether there is any indication that any aircraft may have been impaired or 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 2022

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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 2022

#### 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 2022. 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 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 adoption of this standard did not have any material effect on the financial performance or position of the Group and the Company. The Group expects that its LIBOR related exposures that primarily relate to derivatives financial instruments as per Note 24 will be replaced by a benchmark exposure on an economically equivalent basis as such the effect of the transition will not be material.

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

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

Description	Effective date (period beginning)
Amendments to 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
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
Lease liability in a Sale and Leaseback Amendments to IFRS 16	1 January 2024
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	No earlier than 1 January 2024
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or joint venture	Postponed indefinitely

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 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 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.

#### 6 FAIR VALUE MEASUREMENT

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

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

The fair value of 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	2022		2021	
	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	55,208	53,979	45,836	45,290
Derivative financial assets	5,920	5,920	-	-
Investment in equity, fair value through profit or loss	3,715	3,715	-	-
<b>Financial liabilities:</b>				
Deposits collected – non-current	13,692	12,893	13,897	12,742
Loans and borrowings other than unsecured notes – non-current	468,030	436,864	221,765	210,465
Unsecured notes	296,200	275,893	283,253	283,536
Derivative financial liabilities	1,055	1,055	20,161	20,161



# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 6 FAIR VALUE MEASUREMENT (continued)

Company	2022		2021	
	Carrying amount US\$'000s	Fair value US\$'000s	Carrying amount US\$'000s	Fair value US\$'000s
<b>Financial assets:</b>				
Derivative financial assets	1,281	1,281	-	-
<b>Financial liabilities:</b>				
Loans and borrowings - non-current	113,086	105,161	-	-
Derivative financial liabilities	1,055	1,055	8,202	8,202

The fair values (other than for unsecured notes, investment in debt instrument, fair value through profit and loss 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.

#### Assets measured at fair value classified under level 3:

	Group		Company	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
<b>Fair value measurement using significant unobservable inputs:</b>				
Aircraft	813,885	961,474	-	-
Aircraft purchase rights	65,280	26,960	65,280	26,960
Investment in equity, fair value through profit or loss	3,715	3,715	-	-

Aircraft were revalued at 30 June 2022 and 30 June 2021. 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 2022

### 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) 2022	Range (weighted average) 2021	Sensitivity of the input to fair value
Aircraft	Lease-encumbered basis	Discount rates	5.50% to 7.00% for Jets (6.04%)  5.50% to 8.00% for Turboprops (6.31%)	5.50% to 8.00% for Jets (6.13%)  5.50% to 8.00% for Turboprops (6.50%)	Jet 5% (2021 : 5%) increase in the discount rates will result in a decrease in fair value by US\$8.6 million (2021 : decrease of US\$9.9 million)  5% (2021 : 5%) increase in the inflation rate will result in an increase in fair value by US\$2.7 million (2021 : increase of US\$15.1 million)  Turboprops 5% (2021 : 5%) increase in the discount rates will result in a decrease in fair value by US\$2.8 million (2021 : decrease of US\$2.5 million)  5% (2021 : 5%) increase in the inflation rate will result in an increase in fair value by US\$0.8 million (2021 : increase of US\$6.1 million)
Aircraft purchase rights	Black Scholes model	Volatility rates	2.91%	5.63%	5% (2021 : 5%) increase in the volatility rates will result in an increase in fair value by US\$0.1 million (2021: US\$0.9 million)

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 6 FAIR VALUE MEASUREMENT (continued)

Information about significant unobservable inputs used in level 3 fair value measurements. (continued)

Description	Valuation techniques	Unobservable inputs	Range (weighted average) 2022	Range (weighted average) 2021	Sensitivity of the input to fair value
Investment in equity, fair value through profit or loss	Market approach	Discount for lack of marketability	25.00%	Nil	5% (2021 : nil) increase in the discount for lack of marketability will result in a decrease in fair value by US\$0.06 million (2021:nil)

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

Group				
	2021 US\$'000s	Cash flows US\$'000s	Non-cash/ other US\$'000s	2022 US\$'000s
<b>Loans and borrowings:</b>				
Current	442,622	(97,292)	(281,430)	63,900
Non-current	221,765	(26,044)	272,309	468,030
<b>Unsecured notes:</b>				
Non-current	283,253	-	12,947	296,200
	<u>947,640</u>	<u>(123,336)</u>	<u>3,826</u>	<u>828,130</u>
Group				
	2020 US\$'000s	Cash flows * US\$'000s	Non-cash/ other US\$'000s	2021 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
	<u>1,071,738</u>	<u>(84,506)</u>	<u>(39,592)</u>	<u>947,640</u>

\* includes the transaction costs for modification of unsecured notes

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 6 FAIR VALUE MEASUREMENT (continued)

Company	2021 US\$'000s	Cash flows US\$'000s	Non-cash/ other US\$'000s	2022 US\$'000s
<b>Loans and borrowings (Note 34):</b>				
Current	143,600	(11,918)	(115,329)	16,353
Non-current	-	-	113,086	113,086
<b>Trade and other payables (Note 35):</b>				
Interest bearing payable due to subsidiaries	28,147	6,103	-	34,250
	171,747	(5,815)	(2,243)	163,689

Company	2020 US\$'000s	Cash flows US\$'000s	Non-cash/ other US\$'000s	2021 US\$'000s
<b>Loans and borrowings (Note 34):</b>				
Current	12,717	1,469	129,414	143,600
Non-current	125,779	-	(125,779)	-
<b>Trade and other payables (Note 35):</b>				
Interest bearing payable due to subsidiaries	21,875	6,272	-	28,147
	160,371	7,741	3,635	171,747

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.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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

##### (b) Credit risk

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

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

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

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

	Group		Company	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
Asia-Pacific	3,663	20,218	18	165
Europe	13	417	4	4
	3,676	20,635	22	169

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\$0.2 million (2021: US\$0.5 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\$8.7 million (2021: US\$23.0 million) has been provided in relation to trade receivables past due and impaired of US\$9.9 million (2021: US\$41.9 million). An allowance for expected credit losses of US\$2.8 million (2021: US\$1.0 million) has been provided in relation to interest bearing receivables.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 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	
	2022 US\$'000s	2021 US\$'000s
Past due less than 3 months	1,503	681
Past due 3 to 6 months	594	-
Past due over 6 months	237	331
	<b>2,334</b>	<b>1,012</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\$1.9 million in respect of its finance lease receivables during the year ended 30 June 2022 (2021: US\$0.1 million).

##### (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 2022, 90.0% (2021: 90.9%) 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 2022.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 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>2022:</b>				
Pound sterling	150	20	(208)	(38)
Australian dollar	12	132	(1,059)	(915)
Euro	6,298	21,657	(37,581)	(9,626)
Singapore dollar	278	126	(570)	(166)
	<b>6,738</b>	<b>21,935</b>	<b>(39,418)</b>	<b>(10,745)</b>
<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>
Company	Cash and bank balances US\$'000s	Other financial assets US\$'000s	Other financial liabilities US\$'000s	Net currency exposure US\$'000s
<b>2022:</b>				
Pound sterling	97	20	(159)	(42)
Australian dollar	-	2	(7)	(5)
Euro	-	43,210	(43,124)	86
Singapore dollar	47	53	(20)	80
	<b>144</b>	<b>43,285</b>	<b>(43,310)</b>	<b>119</b>
<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>

**AVATION PLC****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022****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% (2021: 10%) with all other variables including tax rate being held constant:

	Group		Company	
	2022	2021	2022	2021
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Foreign currency:</b>				
Pound sterling	(4)	12	(4)	10
Australian dollar	(92)	11	(1)	-
Euro	(963)	(1,460)	9	36
Singapore dollar	(17)	(24)	8	3

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

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

**(e) Liquidity risk**

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



# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 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>2022:</b>				
<b>Financial liabilities:</b>				
Trade and other payables	3,814	3,163	14,752	21,729
Loans and borrowings*	107,263	862,571	136,867	1,106,701
Maintenance reserves	10,156	75,131	-	85,287
	<b>121,233</b>	<b>940,865</b>	<b>151,619</b>	<b>1,213,717</b>
<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
	<b>496,615</b>	<b>351,954</b>	<b>501,623</b>	<b>1,350,192</b>

\* The maturity profile on loans and borrowings include maturity analysis of derivative financial liabilities.

Refer to Note 34 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 2022

### 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>2022:</b>				
<b>Financial liabilities:</b>				
Trade and other payables	20,786	41,677	-	62,463
Loans and borrowings	21,340	124,472	-	145,812
	42,126	166,149	-	208,275
<b>2021:</b>				
<b>Financial liabilities:</b>				
Trade and other payables	41,935	128	-	42,063
Loans and borrowings	149,161	-	-	149,161
	191,096	128	-	191,224

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 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	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
Net indebtedness	792,863	922,573	119,730	138,087
Total assets	1,217,020	1,282,934	331,252	294,272
<b>Gearing ratio:</b>	<b>65.1%</b>	<b>71.9%</b>	<b>36.1%</b>	<b>46.9%</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 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	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
<b>Key management:</b>				
Short-term employee benefits	4,172	4,179	1,074	1,227

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

	Group	
	2022 US\$'000s	2021 US\$'000s
Aggregate emoluments	1,224	1,394

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 2022

### 8 RELATED PARTY TRANSACTIONS (continued)

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

	Group		Company	
	2022	2021	2022	2021
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Entities controlled by key management personnel (including Directors):</b>				
Lease liability paid	(290)	(269)	(97)	(90)
Consulting fee expense	(223)	(265)	(223)	(265)
Maintenance services	(376)	(39)	-	-
Service fee income	106	102	-	-

During the period, a director of the company has purchased US\$0.2 million (2021: US\$nil) in aggregate nominal value of Avation Capital S.A. 8.25% senior notes due 2026 issued under the global medium term note programme. The notes were purchased through the market at a price of 83 per cent of nominal value.

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

	Company	
	2022	2021
	US\$'000s	US\$'000s
Sale of aircraft	-	13,727
Dividend income	8,941	1,214
Interest income	8,210	7,331
Gain on receivables modification	3,517	-
Management fee income	1,457	1,378
Return of capital	10,819	-
Interest expense	(3,060)	(2,983)
Transfer of a subsidiary	-	(1,278)

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 9 REVENUE

	Group	
	2022	2021
	US\$'000s	US\$'000s
Lease rental revenue	93,352	116,405
Less: amortisation of lease incentive asset	(1,383)	(2,069)
	91,969	114,336
Interest income on finance leases	2,918	2,364
Deposits released revenue	-	822
Maintenance reserves revenue	13,207	216
End of lease return compensation revenue	4,138	-
	<b>112,232</b>	<b>117,738</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 airline customers and upon sale of aircraft. See Notes 30 and 36.

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

#### Geographical analysis

	Group	
	2022	2021
	US\$'000s	US\$'000s
Europe	35,341	35,358
Asia Pacific	76,891	82,380
	<b>112,232</b>	<b>117,738</b>

During the year ended 30 June 2022, five customers individually represented more than 5% of the Group's total revenue (2021: five) of which four are based in Asia-Pacific (2021: four) and one is based in Europe (2021: one). The largest customer, who is based in Asia-Pacific, accounts for US\$25.4 million or 22.6% of the Group's total revenue (2021: US\$25.7 million or 21.8%).

**AVATION PLC****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022****10 OTHER INCOME**

	<b>Group</b>	
	<b>2022</b>	<b>2021</b>
	<b>US\$'000s</b>	<b>US\$'000s</b>
Aircraft purchase option activation fee	-	1,182
Aircraft late delivery compensation	540	-
Deposit released	200	-
Fees for late payment	1,940	547
Foreign currency exchange gain	1,018	338
Others	454	339
	<b>4,152</b>	<b>2,406</b>

During the year, the Group recognised US\$0.2 million (2021: nil) of deposit released due to forfeiture of reservation deposits for aircraft lease as other income.

**11 ADMINISTRATIVE EXPENSES**

	<b>Group</b>	
	<b>2022</b>	<b>2021</b>
	<b>US\$'000s</b>	<b>US\$'000s</b>
Staff costs (note 15)	6,771	6,431
Other administrative expenses	2,694	3,054
	<b>9,465</b>	<b>9,485</b>

Legal and professional fees of US\$2.6 million were included within administrative expenses in the statement of profit or loss for the year ended 30 June 2021.

Legal and professional fees of US\$3.7 million are disclosed as a separate line item in the statement of profit or loss for the year ended 30 June 2022 and the comparative figures have been changed to conform presentation.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 12 OTHER EXPENSES

	Group	
	2022	2021
	US\$'000s	US\$'000s
Aircraft repossession expenses	-	641
Aircraft maintenance expenses	5,479	1,069
Pre-delivery payments expensed	-	2,850
	<b>5,479</b>	<b>4,560</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 previous year in connection with a reduction in and re-scheduling of the Company's orders for ATR 72-600 aircraft.

#### 13 FINANCE INCOME

	Group	
	2022	2021
	US\$'000s	US\$'000s
Interest income from financial institutions	-	4
Interest income from non-financial institutions	281	119
Fair value gain on financial derivatives	2,492	-
Finance income from discounting non-current deposits to fair value	571	445
Gain on repurchases of unsecured note	-	1,873
	<b>3,344</b>	<b>2,441</b>

During the previous year, 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.

#### 14 FINANCE EXPENSES

	Group	
	2022	2021
	US\$'000s	US\$'000s
Interest expense on borrowings	24,062	26,937
Interest expense on unsecured notes	29,913	26,582
Amortisation of loan transaction cost	2,226	5,109
Amortisation of IFRS 9 gain on debt modification of the unsecured notes	8,805	-
Amortisation of interest expense on non-current deposits	539	414
Finance charges on early full repayment of borrowings	731	19
Others	1,205	1,157
	<b>67,481</b>	<b>60,218</b>

Amortisation of IFRS 9 gain on debt modification of unsecured notes of US\$8.8 million (2021: nil) relates to the gain on debt modification of the unsecured notes in 2021 which was amortised as part of the effective interest rate method.



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 15 STAFF COSTS

	Group	
	2022	2021
	US\$'000s	US\$'000s
Salaries and fees	4,320	4,292
Bonuses	814	230
Defined contribution plans	144	100
Benefits	70	86
Warrants expense	1,423	1,723
	<b>6,771</b>	<b>6,431</b>

The average number of Directors of the Company for the year is 4 (2021: 4). The average number of other employees for the year is 19 (2021: 19) and in the following departments:

	Group	
	2022	2021
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	
	2022	2021
	US\$'000s	US\$'000s
Depreciation of property, plant and equipment	39,304	46,332
Foreign currency exchange (gain)	(1,018)	(338)
Audit fees:		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	281	338
Fees payable to the Company's auditor and their associates for audits of the Company's subsidiaries' annual accounts	285	318
Total audit fees	<b>566</b>	<b>656</b>
Auditors' remuneration for non-audit services:		
- Tax compliance services	-	-
- All other assurance services	-	-
Total fees for non-audit services	<b>-</b>	<b>-</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 17 TAXATION

	Group	
	2022	2021
	US\$'000s	US\$'000s
<i>From continuing operations</i>		
Current tax expense:		
- Singapore	-	6
- Overseas	892	708
Overprovision in prior years current tax expense:		
- Singapore	(3)	(233)
- Overseas	(287)	(378)
Deferred tax expense:		
- Singapore	7,985	1,570
- Overseas	(2,805)	12,999
(Over)/under provision in prior years deferred tax expense:		
- Singapore	(435)	76
- Overseas	28	(84)
<b>Income tax expense</b>	<b>5,375</b>	<b>14,664</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	
	2022	2021
	US\$'000s	US\$'000s
Profit/(loss) before income tax	22,502	(70,221)
Tax calculated at 17% (2021: 17%)	3,825	(11,937)
Effects of:		
Overprovision in prior years current tax expense		
- Singapore	(3)	(233)
- Overseas	(287)	(378)
(Over)/under provision in prior years deferred tax expense:		
- Singapore	(435)	76
- Overseas	28	(84)
Non-deductible items	3,818	3,888
Income not subject to tax	(2,214)	(325)
Different tax rates of other countries	1,603	9,028
Deferred tax asset not recognised	1,081	7,686
Utilisation of deferred tax asset not recognised	(1,033)	(65)
Effect of concessionary tax rate at 8%	(968)	6,942
Effect of tax exemption and tax relief	-	(2)
Others	(40)	68
<b>Income tax expense</b>	<b>5,375</b>	<b>14,664</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 17 TAXATION (continued)

The Group has unutilised tax losses of approximately US\$15.6 million (2021: US\$7.9 million) and unabsorbed capital allowances of approximately US\$114.6 million (2021: US\$114.6 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	
	2022 US\$'000s	2021 US\$'000s
Net profit/(loss) attributable to shareholders of Avation PLC	17,126	(84,886)
Weighted average number of ordinary shares ('000s)	69,488	64,725
Basic earnings per share (US cents)	24.65	(131.15)

##### (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	
	2022 US\$'000s	2021 US\$'000s
Net profit/(loss) attributable to shareholders of Avation PLC	17,126	(84,886)
Weighted average number of ordinary shares ('000s)	69,488	64,725
Adjustment for warrants ('000s)	-	-
Weighted average number of ordinary shares ('000s)	69,488	64,725
Diluted earnings per share (US cents)	24.65	(131.15)

The warrants are anti-dilutive for the years ended 30 June 2021 and 30 June 2022.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 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>2022:</b>					
<i>Cost or valuation:</i>					
At beginning of year	74	1,940	868,253	390,322	1,260,589
Additions	17	-	-	-	17
Disposal	-	(1,940)	-	-	(1,940)
Reclassified as held under finance lease	-	-	-	(53,344)	(53,344)
Reclassified as asset held for sale	-	-	(106,124)	(38,874)	(144,998)
Revaluation recognised in equity	-	-	9,730	7,819	17,549
<b>At end of year</b>	<b>91</b>	<b>-</b>	<b>771,859</b>	<b>305,923</b>	<b>1,077,873</b>
<i>Representing:</i>					
At cost	91	-	-	-	91
At valuation	-	-	771,859	305,923	1,077,782
	<b>91</b>	<b>-</b>	<b>771,859</b>	<b>305,923</b>	<b>1,077,873</b>
<i>Accumulated depreciation and impairment:</i>					
At beginning of year	56	128	179,219	117,882	297,285
Depreciation expense	12	85	28,956	10,251	39,304
Disposal	-	(213)	-	-	(213)
Reclassified as held under finance lease	-	-	-	(33,071)	(33,071)
Reclassified as asset held for sale	-	-	(28,124)	(16,374)	(44,498)
Impairment loss	-	-	2,764	2,394	5,158
<b>At end of year</b>	<b>68</b>	<b>-</b>	<b>182,815</b>	<b>81,082</b>	<b>263,965</b>
<i>Net book value:</i>					
<b>At beginning of year</b>	<b>18</b>	<b>1,812</b>	<b>689,034</b>	<b>272,440</b>	<b>963,304</b>
<b>At end of year</b>	<b>23</b>	<b>-</b>	<b>589,044</b>	<b>224,841</b>	<b>813,908</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 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>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>
<i>Representing:</i>					
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 2022

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

Company	Furniture and equipment US\$'000	Aircraft engine US\$'000s	Turboprop aircraft US\$'000s	Total US\$'000s
<b>2022</b>				
<i>Cost or valuation:</i>				
At beginning of year	5	1,940	-	1,945
Disposal		(1,940)	-	(1,940)
<b>At end of the year</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>5</b>
<i>Representing:</i>				
At cost	5	-	-	5
At valuation	-	-	-	-
	<b>5</b>	<b>-</b>	<b>-</b>	<b>5</b>
<i>Accumulated depreciation and impairment:</i>				
At beginning of year	3	128	-	131
Depreciation expense	2	85	-	87
Disposal	-	(213)	-	(213)
<b>At end of the year</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>5</b>
<i>Net book value:</i>				
<b>At beginning of the year</b>	<b>2</b>	<b>1,812</b>	<b>-</b>	<b>1,814</b>
<b>At end of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 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>
<i>Representing:</i>				
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 2022

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

##### Assets pledged as security

The Group's aircraft with carrying values of US\$879.5 million (2021: US\$939.7 million) are mortgaged to secure the Group's borrowings (Note 34).

##### Additions and Disposals

During the year, the Group sold one aircraft engine, three turboprop aircraft and two jet aircraft. The five aircraft sold were classified as held for sale as of 30 June 2021. During the previous year, the Group sold two turboprop aircraft.

A loss of US\$1.4 million (2021: US\$6.9 million) on the sale of the aircraft and aircraft engine was recorded and included within the loss on disposal of aircraft and aircraft engine.

During the year, three turboprop aircraft were reclassified to assets held under finance leases. A loss on transfer of the aircraft to finance leases of US\$1.0 million was recorded and included within the loss on disposal of aircraft and aircraft engine.

During the previous 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, two turboprop aircraft and two jet aircraft were reclassified as held for sale.

During the previous year, three turboprop aircraft and two jet aircraft were reclassified as held for sale.

##### Valuation

The Group's aircraft were valued in June 2022 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 7.00% (2021: 5.50% to 8.00%) per annum for jet aircraft and 5.50% to 8.00% (2021: 5.50% to 8.00%) per annum for turboprop aircraft. Different discount rates are considered appropriate for different aircraft based on their respective risk profiles. Significant airline customer failures and uncertainty created by the pandemic followed by rapid recovery in global air travel and improvements in airline credit worthiness have led to impairment losses and its reversals during the years ended 30 June 2021 and 30 June 2022 respectively.

During the year, a reversal of impairment losses of US\$2.0 million was recognised to adjust the book values of two turboprop aircraft and two jet aircraft to their fair value prior to reclassification as held for sale.

During the previous 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.

During the year, an upward revaluation of US\$17.5 million was recorded in equity and impairment losses of US\$7.2 million were recognised in the statement of profit or loss in relation to aircraft which remain part of the fleet.

During the previous year, 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 in relation to aircraft which remain part of the fleet.

During the previous year, an impairment loss of US\$2.3 million was recognised prior to the sale of two turboprop aircraft.



# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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

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

Group	2022		2021	
	Jets US\$'000s	Turbo props US\$'000s	Jets US\$'000s	Turbo props US\$'000s
Cost	723,469	286,983	829,593	379,201
Accumulated depreciation and impairment	(170,115)	(78,974)	(167,355)	(117,691)
<b>Net book value</b>	<b>553,354</b>	<b>208,009</b>	<b>662,238</b>	<b>261,510</b>

Company	2022		2021	
	Jets US\$'000s	Turbo props US\$'000s	Jets US\$'000s	Turbo props US\$'000s
Cost	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-
<b>Net book value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Geographical analysis

2022	Europe US\$'000s	Asia Pacific US\$'000s	Total US\$'000s
Capital expenditure	-	17	17
Net book value – aircraft	250,659	563,226	813,885

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

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 20 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2022	2021	2022	2021
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Current:</b>				
Trade receivables	12,354	43,401	628	233
Less:				
Allowance for expected credit losses	(8,678)	(22,766)	(606)	(64)
	3,676	20,635	22	169
Accrued revenue	3,491	13,935	-	-
Less:				
Allowance for expected credit losses	(374)	(2,055)	-	-
	3,117	11,880	-	-
Other receivables:				
- subsidiaries	-	-	142,453	228,120
- third parties	6,335	2,607	1,440	2,237
Less:				
Allowance for expected credit losses	(910)	(892)	(815)	(892)
	5,425	1,715	143,078	229,465
Interest receivables:				
- subsidiaries	-	-	2,228	1,517
- third parties	1,759	468	29	105
Less:				
Allowance for expected credit losses	(1,373)	(101)	(25)	(39)
	386	367	2,232	1,583
Deposits	48	49	25	26
Prepaid expenses	550	466	134	126
	<b>13,202</b>	<b>35,112</b>	<b>145,491</b>	<b>231,369</b>
<b>Non-current:</b>				
Other receivables:				
- subsidiaries	-	-	92,389	-
- third parties	11,343	559	-	559
Less:				
Allowance for expected credit losses	-	(97)	-	(97)
	11,343	462	92,389	462
Deposits for aircraft	7,749	7,749	7,749	7,749
Prepaid expenses	-	143	-	-
Right of use assets	296	503	100	169
	<b>19,388</b>	<b>8,857</b>	<b>100,238</b>	<b>8,380</b>

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 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\$127.5 million (2021: US\$155.0 million). Current receivables from subsidiaries are unsecured and repayable upon demand. Interest is charged at 4.0% to 6.0% (2021: 4.0% to 6.0%) per annum.

Other receivables from third parties include interest bearing receivables of US\$16.3 million (2021: US\$2.6 million). Interest is charged at 5.0% to 6.0% (2021: 5.0% 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	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
At beginning of year	25,911	1,021	1,092	711
(Reversal)/provision for expected credit losses	(3,742)	25,338	354	381
Written off	(10,788)	(448)	-	-
Reclassified to assets held for sale	(46)	-	-	-
At end of year	11,335	25,911	1,446	1,092

During the year, the Group has written off US\$10.8 million of receivables mainly due to reaching agreements with customers on debt restructuring plans.

As at 30 June 2022, other receivables with net realisable value of US\$6.5 million (2021 : US\$nil) has been reclassified as part of assets held for sale. The expected credit loss expense recognised as part of these receivables amounted to US\$0.1 million. Please refer to Note 30.

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

	Group		Company	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
Pound sterling	20	64	20	23
Australian dollar	132	188	2	2
Euro	356	73	43,210	52,503
Singapore dollar	126	91	53	24

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 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	2022		2021	
	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	11,729	7,476	6,465	4,244
Less:				
Allowance for expected credit losses	(1,852)	(1,852)	(90)	(90)
	9,877	5,624	6,375	4,154
One to two years	7,695	5,306	5,681	4,024
Two to three years	31,565	29,044	5,681	4,218
Three to four years	10,615	9,763	31,419	29,458
Four to five years	11,357	11,095	8,185	8,136
Later than five years	-	-	-	-
<b>Total minimum lease payments</b>	<b>71,109</b>	<b>60,832</b>	<b>57,341</b>	<b>49,990</b>
Less: amounts representing interest income	(10,277)	-	(7,351)	-
<b>Present value of minimum lease payments</b>	<b>60,832</b>	<b>60,832</b>	<b>49,990</b>	<b>49,990</b>

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

	Group	
	2022 US\$'000	2021 US\$'000s
At beginning of year	90	-
Provision for expected credit losses	1,762	90
At end of year	1,852	90

Finance lease receivables denominated in foreign currencies are as follows:

	Group	
	2022 US\$'000s	2021 US\$'000s
Euro	21,301	26,672

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 22 GOODWILL

	Group	
	2022	2021
	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:

	2022	2021
	%	%
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\$207.2 million (2021: US\$240.4 million).

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

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 23 INVESTMENT IN SUBSIDIARIES

	Company	
	2022 US\$'000s	2021 US\$'000s
<b>Unquoted equity shares, at cost</b>		
At beginning of year	14,147	12,869
Additions	-	1,278
Return of capital	(10,819)	-
At end of year	3,328	14,147

During the year, the Company's subsidiary, Capital Lease Aviation Limited, distributed a dividend and returned US\$10.8 million to the Company.

During the previous year, the Company transferred Capital MSN 4033 II Limited from its subsidiary, Capital Lease Aviation Limited to the Company. The Company assessed that the investments in subsidiaries as of 30 June 2022 are not impaired (2021: not impaired)

Details of subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	Ownership interest	
			2022 %	2021 %
<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	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
<i>Held by Avation Eastern Fleet Pte. Ltd.:</i>				
Airframe Leasing (S) Pte. Ltd.	Singapore	Aircraft leasing	100.00	100.00
Airframe Leasing (S) II Pte. Ltd. (b)	Singapore	Aircraft leasing	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 2022

#### 23 INVESTMENT IN SUBSIDIARIES (continued)

Name of entity	Country of incorporation	Principal activities	Ownership interest	
			2022	2021
			%	%
<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 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
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

(a) In the process of being struck off

(b) During the year, Airframe Leasing (S) II Pte. Ltd. issued shares to Avation Eastern Fleet Pte. Ltd. The share issuance resulted in Avation Eastern Fleet Pte. Ltd. becoming the immediate holding company.

All companies as at 30 June 2022 are audited by member firms of Ernst & Young except for the following:

(a) Audited by Moore, Malta

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 2022

### 24 DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Group	Contract/ notional amount		Fair value	
	2022	2021	2022	2021
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Derivative financial assets</b>				
Interest rate swap	248,384	-	5,470	-
Cross-currency interest rate swap	4,000	-	450	-
	<b>252,384</b>	<b>-</b>	<b>5,920</b>	<b>-</b>
<b>Derivative financial liabilities</b>				
Interest rate swap	-	279,884	-	16,427
Cross-currency interest rate swap	-	4,000	-	240
Warrants	-	-	1,055	3,494
	<b>-</b>	<b>283,884</b>	<b>1,055</b>	<b>20,161</b>

Company	Contract/ notional amount		Fair value	
	2022	2021	2022	2021
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Derivative financial assets</b>				
Interest rate swap	<b>70,750</b>	<b>-</b>	<b>1,281</b>	<b>-</b>
<b>Derivative financial liabilities</b>				
Interest rate swap	-	77,250	-	4,708
Warrants	-	-	1,055	3,494
	<b>-</b>	<b>77,250</b>	<b>1,055</b>	<b>8,202</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 or 1-month SOFR 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 December 2023 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\$20.5 million (2021: gain of US\$10.1 million) on these derivative financial instruments was recognised in the fair value reserve for the year.



## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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#### 24 DERIVATIVE FINANCIAL ASSETS/LIABILITIES (continued)

The fair value of the derivative financial instruments is determined by reference to marked-to-market values provided by counterparties. The fair value measurement of all derivative financial instruments 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 2022

### 24 DERIVATIVE FINANCIAL ASSETS/LIABILITIES (continued)

During the year 30 June 2022, the effect of the cash flow hedge in the consolidated statement of profit or loss and consolidated statement of other comprehensive income was as follows:

Group	Total hedging gain/(loss) recognised in OCI, net of tax US\$'000s	Amount reclassified from OCI to profit or (loss) US\$'000s	Line item in the statement of profit or loss
Interest rate swap	19,804	(5,371)	Finance expense
Cross currency swap	691	(159)	Finance expense
Foreign currency hedge	14,892	140	Other income
	<u>35,387</u>	<u>(5,390)</u>	

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:

Group	Total hedging gain/(loss) recognised in OCI, net of tax US\$'000s	Amount reclassified from OCI to profit or (loss) US\$'000s	Line item in the statement of profit or loss
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>	

The warrants consist of 5,857,408 (2021: 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 2022

#### 25 AIRCRAFT PURCHASE RIGHTS

	Group and Company	
	2022	2021
	US\$'000s	US\$'000s
<b>Aircraft purchase rights, at fair value:</b>		
At beginning of year	26,960	27,110
Unrealised gain/(loss)	38,320	(150)
At end of year	65,280	26,960

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 INVESTMENT IN EQUITY, FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2022	2021
	US\$'000s	US\$'000s
<b>Non-listed equity, at fair value</b>		
At beginning of year	-	-
Additions	3,715	-
At end of year	3,715	-

The Group received 8,014,602 (2021: NIL) ordinary shares from an airline customer as part of the airline's restructuring plan to compensate and offset the amount due to the Group.

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

	Company	
	2022	2021
	US\$'000s	US\$'000s
<b>Listed debt instrument, at fair value</b>		
At beginning of year	6,089	-
Additions	-	5,248
Fair value (loss)/gain	(164)	841
At end of year	5,925	6,089

The Company holds 7,475,842 units (2021: 7,358,000 units) of its subsidiary, Avation Capital SA's 8.25% unsecured notes as of 30 June 2022.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 28 LEASE INCENTIVE ASSETS

	Group	
	2022 US\$'000s	2021 US\$'000s
Current	137	1,377
Non-current	310	6,661
	<b>447</b>	<b>8,038</b>
At beginning of year	8,038	-
Additions	-	1,723
Transfer (to)/from asset held for sale	(6,208)	8,384
Amortisation to profit or loss	(1,383)	(2,069)
At end of year	<b>447</b>	<b>8,038</b>

#### 29 CASH AND BANK BALANCES

	Group		Company	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
Cash and bank balances	119,171	122,471	9,709	5,513
Less : restricted	(83,904)	(97,404)	-	-
<b>Cash and cash equivalents</b>	<b>35,267</b>	<b>25,067</b>	<b>9,709</b>	<b>5,513</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 0.25% (2021: 0.01% to 0.33%) per annum.

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

	Group		Company	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
Pound sterling	150	210	97	191
Australian dollar	12	-	-	-
Euro	6,298	7,088	-	-
Singapore dollar	278	238	47	33

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 30 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	
	2022 US\$'000	2021 US\$'000s
<b>Assets held for sale:</b>		
Property, plant and equipment - aircraft		
At beginning of year	66,300	82,884
Additions	100,500	66,300
Impairment loss	(1,000)	-
Disposal	(65,300)	-
Transfer to property, plant and equipment	-	(82,884)
At end of year	<b>100,500</b>	<b>66,300</b>
Other receivables	6,547	-
Lease incentive asset	6,208	-
	<b>113,255</b>	<b>66,300</b>
<b>Liabilities directly associated with assets held for sale:</b>		
Deposit collected	935	776
Lessor maintenance contribution	8,769	-
Maintenance reserves	5,442	5,141
	<b>15,146</b>	<b>5,917</b>

During the year, an impairment loss of US\$1.0 million was recognised to write down the book value of 3 turboprop aircraft classified as held for sale in the previous year to current market value prior to the sale.

Maintenance reserves of US\$1.8 million (2021: US\$nil) were released to profit or loss as revenue following the sale of the aircraft.

Other receivables of US\$6.5 million (2021: US\$nil) is interest bearing. Interest is charged at 5.5% (2021: Nil) per annum.

During the period, the board of directors decided to sell two turboprop aircraft and two jet aircraft. The sales of aircraft are expected to be completed within a year from reporting date. The aircraft were measured at fair value less cost to sell at the date of transfer to assets held for sale.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 31 SHARE CAPITAL AND TREASURY SHARES

#### (a) Share capital

	2022		2021	
	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	71,698,124	1,203	64,879,942	1,108
Issue of shares	-	-	6,818,182	95
<b>At end of the year</b>	<b>71,698,124</b>	<b>1,203</b>	<b>71,698,124</b>	<b>1,203</b>

During the previous 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.

#### (b) Treasury shares

	2022		2021	
	No of shares	US\$'000s	No of shares	US\$'000s
<b>At beginning and 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

	2022	2021
Net asset value per share (US\$) <sup>(1)</sup>	\$3.27	\$2.26
Net asset value per share (GBP) <sup>(2)</sup>	£2.68	£1.64

<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 2022 of 1.22 (30 June 2021 : 1.38)

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 32 ASSET REVALUATION RESERVE

	Group	
	2022 US\$'000s	2021 US\$'000s
At beginning of year	37,602	30,162
Revaluation gain	17,549	8,143
Deferred tax (charge)/credit	(1,340)	(703)
Release of revaluation reserve upon sale of aircraft	(2,081)	-
At end of year	51,730	37,602

### 33 OTHER RESERVES

	Group		Company	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
Capital redemption reserve	12	12	12	12
Warrant reserve	2,389	2,220	2,389	2,220
Fair value reserve	2,941	(17,554)	(1,312)	(6,282)
Foreign currency hedge reserve	8,832	(6,060)	-	-
	<b>14,174</b>	<b>(21,382)</b>	<b>1,089</b>	<b>(4,050)</b>

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 33 OTHER RESERVES (continued)

Movements in other reserves are as follows:

	Group		Company	
	2022	2021	2022	2021
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<i>Warrant reserve:</i>				
At the beginning the year	2,220	986	2,220	986
Employee share warrant scheme:				
- Value of employee services	1,423	1,723	1,423	1,723
- Issue of shares	-	-	-	-
- Expired	(1,254)	(489)	(1,254)	(489)
<b>At end of the year</b>	<b>2,389</b>	<b>2,220</b>	<b>2,389</b>	<b>2,220</b>
<i>Fair value reserve:</i>				
At the beginning the year	(17,554)	(27,638)	(6,282)	(8,787)
Effective portion of changes in fair value	14,965	4,003	3,380	707
Net change in fair value reclassified to profit or loss	5,530	6,081	1,590	1,798
<b>At end of the year</b>	<b>2,941</b>	<b>(17,554)</b>	<b>(1,312)</b>	<b>(6,282)</b>
<i>Foreign currency hedge reserve:</i>				
At the beginning the year	(6,060)	2,338	-	-
Effective portion of changes in fair value	15,032	(9,130)	-	-
Net change in fair value reclassified to profit or loss	(140)	732	-	-
<b>At end of the year</b>	<b>8,832</b>	<b>(6,060)</b>	<b>-</b>	<b>-</b>



# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 34 LOANS AND BORROWINGS

	Group		Company	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
Secured borrowings	531,930	664,387	129,439	143,600
Unsecured notes (a)	296,200	283,253	-	-
	<b>828,130</b>	<b>947,640</b>	<b>129,439</b>	<b>143,600</b>
Less: current portion of borrowings	(63,900)	(442,622)	(16,353)	(143,600)
	<b>764,230</b>	<b>505,018</b>	<b>113,086</b>	<b>-</b>

	Maturity		Weighted average interest rate per annum	
	2022 US\$'000s	2021 US\$'000s	2022 %	2021 %
Secured borrowings	2023-2031	2022-2031	4.0%	3.9%
Unsecured notes (a)	2026	2026	8.25%	8.25%

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 has been classified as a current liability as at 30 June 2021. The Group satisfied the loan covenant and there is no breach as at 30 June 2022.

The Group incurred transaction costs and upfront fees of US\$0.4 million during the year (2021: US\$0.3 million) that are capitalised into loans and borrowings.

During the year, the Group increased its secured borrowings by US\$17.1 million (2021: US\$11.7 million) to fund its business operations.

During the year, the Group repaid US\$140.4 million (2021: US\$88.7 million) of its secured borrowings.

During the year, the Group extended the maturity date of the loans due on August 2022 to September 2026. A loss on debt modification of US\$3.5 million was recognised in the statement of profit or loss during the year.

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 34 LOANS AND BORROWINGS (continued)

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

	Group		Company	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
Euro	136,469	192,225	42,854	51,327

- (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 previous year, the Company repurchased US\$6.4 million unsecured notes through the market at prices ranging from 65.0 cents to 76.0 cents.

During the previous 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 in the previous year.

# AVATION PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

### 35 TRADE AND OTHER PAYABLES

	Group		Company	
	2022	2021	2022	2021
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
<b>Current:</b>				
Trade payables	2,218	676	191	439
Other payables:				
- subsidiaries	-	-	17,354	40,822
- third parties	276	608	251	998
Deposits collected	1,120	1,031	120	200
Deferred lease income	607	354	-	-
Lease liability	284	264	94	87
Revenue received in advance	4,584	5,908	-	-
Accrued expenses	6,851	7,608	281	282
	<b>15,940</b>	<b>16,449</b>	<b>18,291</b>	<b>42,828</b>
<b>Non-current:</b>				
Other payables:				
- subsidiaries	-	-	32,329	-
Deposits collected	13,692	13,897	-	-
Deferred lease income	3,776	2,194	-	-
Lease liability	106	381	32	123
Accrued expenses	700	-	700	-
	<b>18,274</b>	<b>16,472</b>	<b>33,061</b>	<b>123</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\$34.3 million (2021: US\$28.1 million) which are unsecured, payable upon demand and bear interest at 5.8% to 8.2% (2021: 5.8% to 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	
	2022	2021	2022	2021
	US\$'000s	US\$'000s	US\$'000s	US\$'000s
Pound sterling	208	150	159	118
Australian dollar	1,059	78	7	-
Euro	3,621	4,956	270	815
Singapore dollar	570	572	20	28

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 36 MAINTENANCE RESERVES

	Group	
	2022 US\$'000s	2021 US\$'000s
Current:		
Maintenance reserves	10,156	12,202
Non-current:		
Maintenance reserves	72,607	77,846
Maintenance lease contribution	2,524	11,433
	75,131	89,279
<b>Total maintenance reserves</b>	<b>85,287</b>	<b>101,481</b>
	Group	
	2022 US\$'000s	2021 US\$'000s
At beginning of year	90,048	60,977
Contributions	13,109	38,937
Utilisations	(3,590)	(4,644)
Released to profit or loss	(11,362)	(216)
Transfer from liabilities directly associated with assets held for sale	-	135
Transfer to liabilities directly associated with assets held for sale	(5,442)	(5,141)
<b>At end of the year</b>	<b>82,763</b>	<b>90,048</b>

During the year, maintenance reserves of US\$11.4 million (2021: US\$0.2 million) were released to profit or loss as revenue following recovery from airline customers.

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\$13.7 million (2021: US\$4.7 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 2022

#### 37 DEFERRED TAX LIABILITIES

Recognised deferred tax liabilities are attributable to the following:

	Group		Company	
	2022 US\$'000s	2021 US\$'000s	2022 US\$'000s	2021 US\$'000s
Property, plant and equipment	15,874	6,756	9,948	4,006
Tax losses carried forward	-	-	-	-
Gain on debt modification	9,498	12,503	-	-
Cash flow hedge	65	(2,121)	(268)	(1,286)
	<b>25,437</b>	<b>17,138</b>	<b>9,680</b>	<b>2,720</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>2022</b>					
At beginning of the year	6,756	-	12,503	(2,121)	17,138
Recognised in profit or loss	7,778	-	(3,005)	-	4,773
Recognised in equity	1,340	-	-	2,186	3,526
<b>At end of the year</b>	<b>15,874</b>	<b>-</b>	<b>9,498</b>	<b>65</b>	<b>25,437</b>
<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>Company</b>	<b>Property, plant and equipment US\$'000s</b>	<b>Cash flow hedge US\$'000s</b>	<b>Total US\$'000s</b>		
<b>2022</b>					
At beginning of the year	4,006	(1,286)	2,720		
- Recognised in profit or loss	5,942	-	5,942		
- Recognised in equity	-	1,018	1,018		
<b>At end of the year</b>	<b>9,948</b>	<b>(268)</b>	<b>9,680</b>		
<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>		

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 38 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:

	2022		2021	
	No.	WAEP	No.	WAEP
Outstanding at beginning of the year	8,086,665	179.4p	5,146,995	221.5p*
- Granted	-	-	3,950,000	130.0p
- Exercised	-	-	-	-
- Expired	(2,606,665)	177.3p	(1,010,330)	200.8p
<b>Outstanding at end of the year</b>	<b>5,480,000</b>	<b>180.4p</b>	<b>8,086,665</b>	<b>179.4p</b>
<b>Exercisable at end of the year</b>	<b>2,411,677</b>	<b>206.4p</b>	<b>2,221,682</b>	<b>208.0p</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 nil (2021: 59 pence). The charge recognised in profit or loss in respect of share based payments is US\$1.4 million (2021: US\$1.7 million).

During the year, no warrants were exercised (2021: Nil).

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	
			2022	2021
5 September 2018	6 Oct 2021	130.0p	-	1,806,665
8 March 2019	9 Apr 2022	294.5p	-	730,000
20 September 2019	21 Oct 2022	296.0p	1,053,000	1,065,000
21 November 2019	22 Dec 2022	274.5p	702,000	710,000
23 December 2020	23 Jan 2024	130.0p	3,725,000	3,775,000

## AVATION PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

#### 38 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 2022****38 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 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

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 2022

#### 38 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%

#### 39 CAPITAL COMMITMENTS

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

	Group	
	2022 US\$'000s	2021 US\$'000s
Property, plant and equipment	31,230	31,230

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 2024.

**AVATION PLC****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022****40 OPERATING LEASE COMMITMENTS**

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

	<b>Group</b>	
	<b>2022</b> US\$'000s	<b>2021</b> US\$'000s
Within one year	86,929	96,276
One to two years	88,669	98,390
Two to three years	86,070	92,114
Three to four years	77,313	90,276
Four to five years	64,371	84,134
Later than five years	112,713	206,678
	<b>516,065</b>	<b>667,868</b>

The Group holds cash deposits of US\$19.9 million (2021: US\$17.3 million) and letters of credit for US\$3.0 million (2021: US\$3.3 million) as security for lessees' obligations under operating leases.

**41 CONTINGENT LIABILITIES**

	<b>Company</b>	
	<b>2022</b> US\$'000s	<b>2021</b> US\$'000s
Guarantees	<b>881,256</b>	<b>1,014,784</b>

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 2022**

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#### **42 ULTIMATE HOLDING COMPANY**

No party controls the Company.

#### **43 SUBSEQUENT EVENTS**

On 11 July 2022, the Group has repurchased US\$4,392,889 Avation Capital S.A. Senior PIK Toggle Notes due 2026 issued under Avation's global medium term note programme. The notes were acquired a price equal to 75 US cents of face value.

On 8 August 2022, the Company repurchased 100,000 ordinary shares through the market at a price of 77.2 pence per share and will be held in treasury.

#### **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 2022 were authorised for issue by the Board of Directors on 3 November 2022.