SMBC AVIATION CAPITAL

# Annual Report & Accounts | 2017

Delivery of an Airbus A350 XWB to Asiana Airlines, a first for South Korea and for SMBC Aviation Capital.


unicef

# Contents

Our strategy is to invest in the most modern, technologically advanced aircraft in the world that are most sought after by our airline customers and investors. Through active fleet management, we maintain one of the youngest fleets in the industry when compared with our peers.

We have adopted a relentless approach to risk management, understanding our airlines and their markets.

The support of our Japanese shareholders, Sumitomo Mitsui Financial Group and Sumitomo Corporation sets us apart by giving us the scale to provide one of the broadest product offerings in this industry.

Our consistent disciplined strategy has served us very well, allowing us to deliver consistent returns to our business and shareholders.

# 2017 Highlights

**OUR FLEET**
**670**
owned/managed/committed.

**OUR RATING**
**A-/BBB+**
Fitch & S&P ratings, one of the highest rated lessors in the industry.

**OUR PEOPLE**
**160+**
professionals working worldwide.

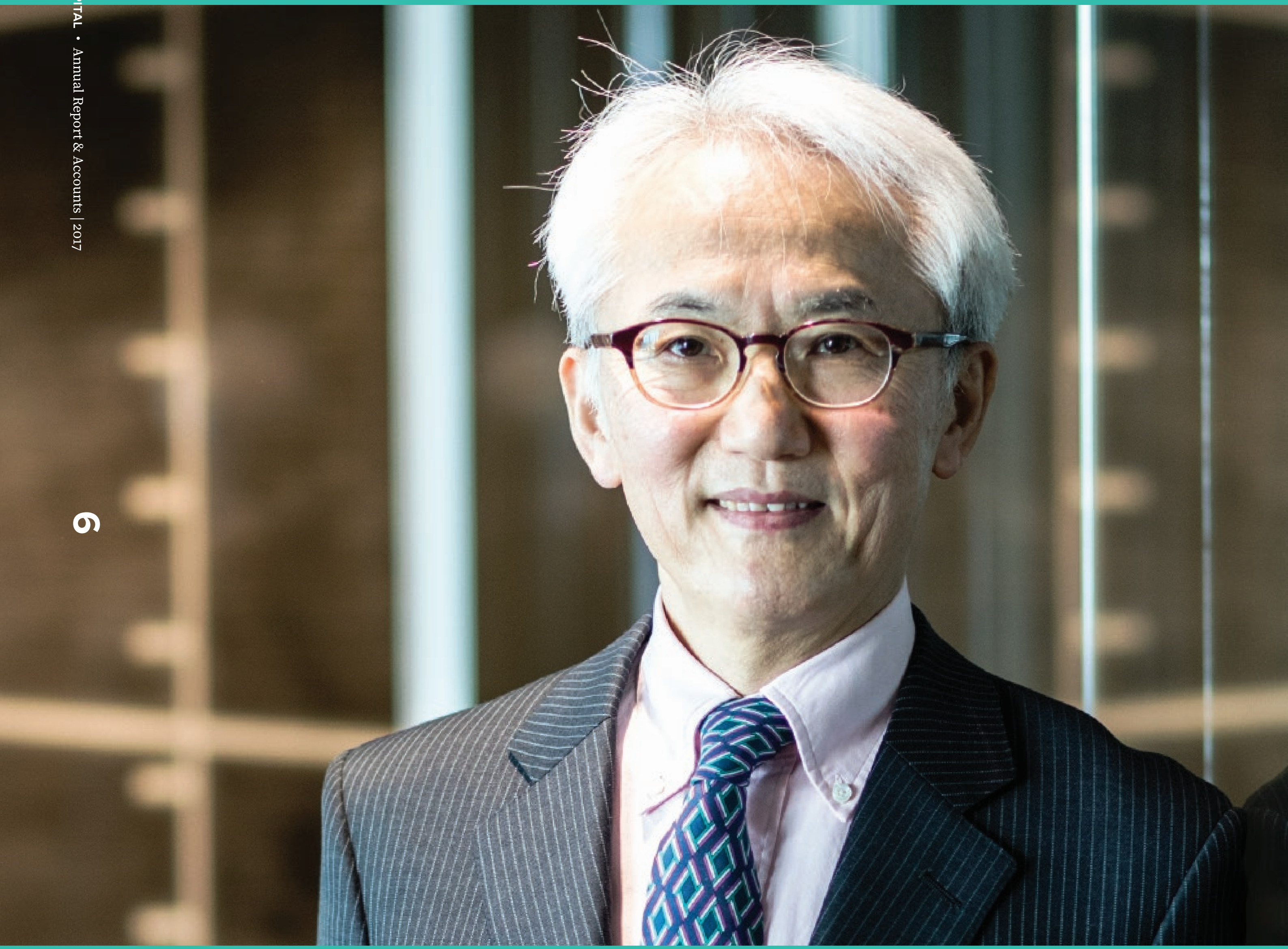
**OUR TRADING**
**335+**
aircraft sold to 85+ third party investors and airlines since inception.

**OUR CUSTOMERS**
**150+**
airline and investor customers in over 50 countries worldwide.

**OUR HISTORY**
**16**
year track record of growth and profitability.

**OUR FLEET**
**4.5**
weighted average age of fleet.

**OUR EXPERIENCE**
**150+**
our senior management team have 150+ years combined experience.



# Chairman's Statement

Shinichi Hayashida
CHAIRMAN

I am delighted to report that once again, we enjoyed a positive year in all aspects of our business. Our continued focus on maintaining our discipline has enabled us to deliver continued profitability while growing our leasing business, with new aircraft being delivered to both existing and new airline customers.

In this, the fifth year since we were acquired by our shareholders Sumitomo Mitsui Financial Group and Sumitomo Corporation, we have mutually benefited from our partnership. SMBC Aviation Capital plays a critical role in SMFG's and Sumitomo Corporation's strategy and our integration has yielded many advantages including the platform to offer innovative financing solutions.

During the year, we continued to transition our portfolio to the most technologically advanced aircraft. While our focus remains on the narrowbody market, there has also been an increase in demand for the newest widebody aircraft, with our first delivery of the A350 XWB since year-end to leading Asian airline, Asiana Airlines of South Korea.

Aircraft have become an investment of choice for many investors who are seeking stable and consistent returns compared with many alternative investments. Two investor seminars, held in Tokyo and Osaka, demonstrated this ongoing appetite and enabled us to further enhance our customer base in Japan. Allied to the wider global demand, we continued to actively trade our aircraft, which helped us to maintain one of the youngest fleets in the industry, by weighted average age.

From a balance sheet perspective, SMBC Aviation Capital also demonstrated considerable strength and enhanced credibility in the marketplace with the launch of our corporate bond programme, which has been highly successful.

Reflecting our proven track record of profitability and our significance to our majority shareholder, Sumitomo Mitsui Financial Group, Fitch Ratings has upgraded SMBC Aviation Capital's credit rating from BBB+ to A- in May 2017. This affirms our position as one of the highest rated lessors in the industry and strengthens the base for further development and expansion of our business.

We are confident that by adopting a rigorous approach to governance, compliance and, most of all, through carefully measured assessments of risk factors at both the macro and micro levels, we can continue to perform well.

On a personal note, I am pleased to welcome two new non-executive directors to our Board, Masaki Tachibana and Yasuyuki Kawasaki. I would like to thank those now departing, Makoto Takashima and Manabu Hosokawa, for the insights and integrity they have brought to our business.

The growth of SMBC Aviation Capital is testimony to the strength of the team and I wish to pay tribute to our employees for another outstanding year of growth. Together, we have further strengthened one of the most robust leasing platforms in the industry which positions us well for further expansion.

# CHIEF EXECUTIVE'S STATEMENT

## OUR AMBITION

Our ambition is to be the leading aircraft leasing company in the world. At 31 March 2017, we owned a fleet of 261 aircraft valued at approximately $10 billion and managed a further 194 aircraft with a value of over $6 billion.

We also have commitments for a further 215 aircraft, including 200 from our direct order book with Boeing and Airbus, which are among the most modern, efficient and in demand aircraft.

We work hard to provide our 100 airline and 85 investor customers in 50 countries around the world with a superior service to enable them to grow and develop their businesses.

Our activity during the year has demonstrated an ongoing commitment to delivering on our strategy, which was executed by an outstanding team of 162 professionals based in 10 global locations. Maintaining our discipline and focus has yielded yet another strong performance, resulting in a total revenue of $1.1 billion and profit before taxation of $312.5 million, with our total assets reaching $10.6 billion. This was driven by solid growth on the leasing side of our business combined with one of our most successful years in aircraft trading in our history.

## FIVE YEARS SINCE OUR ACQUISITION

It is five years since we were acquired by our shareholders, Sumitomo Mitsui Financial Group and Sumitomo Corporation. It is a successful partnership which gives us a distinct competitive advantage by enabling us to provide a broader product offering to our customers.

In addition to providing operating leases, we can harness our shareholders' debt financing and tax equity arrangement capabilities. Working together with our shareholders, we arranged more than $2.2 billion of transactions with airlines on their behalf.

We are in a strong financial position, through the ongoing support from our shareholders and following the establishment of our bond programme in July 2016, which raised $500 million. Since the end of the financial year we have closed a second bond issue, bringing our funding under this programme to $1 billion.

# Chief Executive's Statement

Peter Barrett
CHIEF EXECUTIVE OFFICER

# CHIEF EXECUTIVE'S STATEMENT (continued)

↗ Katie Dillon,
VP Commercial Negotiation.



## OPERATING REVIEW

Our business is driven by demand for air travel, which has doubled every 15 years, a trend we expect to continue. Increasing passenger numbers, especially in the emerging markets of Asia and South America, have resulted in strong underlying demand for new aircraft from our order book which is placed with new and existing customers into 2019 and beyond.

We achieved a solid operating performance, with 106 individual transactions in our owned fleet in the year. We took delivery of 26 aircraft which allowed us to grow our business, renew our fleet and service our customers. We also had a very active year in terms of our existing aircraft portfolio, enhancing customer relationships by successfully completing 45 lease extensions and transitions of aircraft from one operator to another.

We have been the lessor of choice in a number of sale and leaseback transactions and have built new customer relationships with airlines such as SAS, West Air and since year-end, with Philippine Airlines. In addition, our strong relationships with the aircraft manufacturers Boeing and Airbus have enabled us to react quickly to customer needs.

Some of the other highlights during the year included the delivery of seven Boeing B787-8 aircraft which were placed on lease to Air Europa in Spain and South American airline, Avianca. We delivered our first A320neo on sale and leaseback to GoAir in India and also reached agreement for the placement of five A320neo aircraft on sale and leaseback with Scandinavian airline, SAS.

## AIRCRAFT TRADING

Trading aircraft allows us to manage the quality of our portfolio. We benefitted from the current strong appetite from investors to sell 35 aircraft from our owned portfolio, with an average age of 9.8 years, and six from our managed portfolio, making this one of the strongest trading years in our history.

We worked with 21 different investors, 18 of which are new customers, including a variety of pension funds, lessors and other financial investors. This active management enabled us to lower the weighted average of our fleet to just 4.5 years.

## RISK MANAGEMENT

We believe that we have the strongest focus on risk management in the aircraft leasing industry which has been a key factor in our strong performance. Being part of a financial institution ensures that we adopt a discipline and rigour in all of our transactions. Risk management starts with the selection of our portfolio, however, our sophisticated credit risk and technical teams also spend significant time on the ground developing intimate knowledge of our markets and the related operating environment.

↑ Nicolas Clouet, SVP & Regional Manager, Airline Marketing.
← Yu Morikuni from our Transaction Management Team who worked with our team of volunteers to construct a nursery school in Malawi.



## OUR PEOPLE AND OUR PROCESSES

Our people are critical to our success. We take pride in recruiting some of the best industry talent and this year we have added 17 new members to our team, taking our workforce up to 162 people.

Our team has access to the latest in innovative programmes and processes to enable them to continually deliver on all of our objectives. To that end, we have invested significantly in our technology platforms, resulting in faster and better decision making across our business and boosting productivity.

We recognise the importance of cultivating the next generation of talent and our Graduate Recruitment Programme has attracted hundreds of applicants from across the globe. Meanwhile, we continue to support education through our sponsorship of Europe’s first MSc in Aviation Finance at University College Dublin.

## CORPORATE SOCIAL RESPONSIBILITY

We are committed to playing a role in addressing some of the key social issues facing our communities today. Our CSR Committee has funded a number of worthy causes both locally and internationally during the year. We focus on the needs of children and the less fortunate in society who require our support both financially and where our teams can actively volunteer with the charities which we support.

This has included a trip by ten company volunteers to construct a nursery school in Malawi, in addition to supporting a number of Irish charities including the Peter McVerry Trust for homeless families and LauraLynn, Ireland's Children's Hospice.

## THE FUTURE

We expect continued positive momentum in the aviation industry in 2017 and into 2018 as leasing companies continue to play a critical role in funding new deliveries.

We are pleased with our expanding global footprint and believe we can continue to deliver growth, especially in key markets like Asia and South America. Our strategy, when combined with our leading market position and supportive shareholders, ensures that we are well placed for the future.

I would like to thank our customers, our shareholders and our people for their continuing support which enables us to realise our ambition which is to be the leading aircraft leasing company in the world.

# Financial Review

SMBC Aviation Capital has continued its track record of consistent profitability, which is a result of our strategy to maintain a young, modern fleet that generates stable and attractive long-term contracted cash flows.

Barry Flannery
**CHIEF FINANCIAL OFFICER**

## HIGHLIGHTS

REVENUES
**$1.1bn**

PROFIT BEFORE TAXATION
**$312m**

3RD PARTY DEBT[2]/EQUITY
**1.8X**

OPERATING MARGIN[3]
**37.2%**

The year ended 31 March 2017 was a landmark year that saw average aircraft operating lease assets increase by 9% to $9.6 billion, total income increase to $1.1 billion, profit before tax increase to $312 million, and core operating margins increase to 37.2%.

### OPERATING PERFORMANCE

During the current year, we closed 106 transactions. We took delivery of 26 aircraft, including $1 billion in new Airbus A320neo and Boeing B787 technology, bringing the percentage of the newest technology aircraft in our portfolio at 31 March 2017 to 11% by net book value. We also sold 35 aircraft with an average age of 9.8 years, generating profits on sale of $60 million. This activity has enabled the reduction in the weighted average age of our owned fleet at 31 March 2017 to 4.5 years and increase our weighted average lease term remaining to 6.4 years[1]. Our fleet utilisation stood at 99.96% for the period, reflecting the attractiveness of our aircraft to our customer base.

### OVERVIEW OF FINANCIAL PERFORMANCE

Lease revenues increased by $103 million (11.5%) to $1,002 million due to a combination of increased fleet size, increased redelivery compensation on lease expiry and improvements in lease rate factor. Other operating income increased by $13 million (21.9%) to $70 million, as a result of higher profit on disposal of assets (up $9 million to $60 million) and increased management fee income (up $4 million to $10 million).

Driving efficiencies from our operating platform resulted in a reduction in operating expenses of $9 million (7.6%) year on year. There was a significant reduction in impairments year on year driven primarily by the non-recurrence of exceptional credit events in the prior year and no further reduction in liquidity of certain asset types. Depreciation was higher due to a combination of the higher average aircraft asset base and our policy of depreciating to the physical condition of the aircraft after lease end, which offsets the higher lease end compensation received. Finance costs increased by 11.6% to $301 million due to a combination of increased aircraft assets and increased break costs on sales incurred in line with our policy of broadly matching our asset and liability base.

### FUNDING AND LIQUIDITY

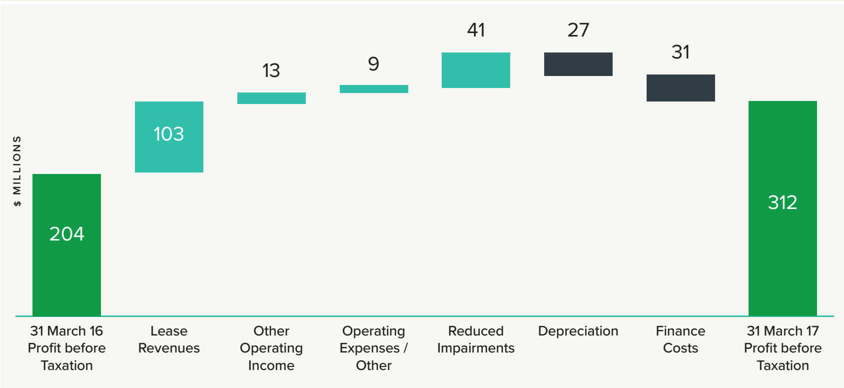
During the year we successfully reduced our debt to equity ratio despite the increase in our asset base through the retention of all earnings in the business. We aim to manage our third party debt to equity to be close to or below our peers, and it measures up well at 1.8x at 31 March 2017.

The year was also marked by our inaugural $500m unsecured corporate bond issuance. This issuance, marks the start of a program which we intend to be the cornerstone of our third party funding strategy going forward. Our low level of encumbrances (secured debt comprising 2.5% of assets), strong liquidity position and ongoing shareholder support continue to position us as one of the highest rated aircraft lessors in the industry, which will further enhance our third party fundraising capability.

Our continued consistent, stable financial performance and robust capital structure provides us with a strong platform from which to build our business for the future.

**MOVEMENT IN PROFIT BEFORE TAXATION**

The growth in profit before taxation was achieved through improvements across all the key areas in the business:




**FOOTNOTES**

[1] Weighted by net book value at 31 March 2017.

[2] Defined as total external financial obligations being the sum of obligations under finance leases, the JBIC Facility, the Ex-IM and European ECA guaranteed loans, other term loans from third parties and the outstanding 2.65% notes due 2021.

[3] Defined as (Lease Revenue less Depreciation less Finance Expense (excluding Break Costs)) / Lease Revenue.

↑ Shinichi Hayashida

↑ Barry Flannery

↑ Peter Barrett



# Biographies

Our experienced senior management team have worked together for 16 years and have developed a disciplined business strategy which enables steady and stable profitability through the cycle.

↑ Brian Harvey

↑ Catharine Ennis

↑ David Swan



**Shinichi Hayashida**
**CHAIRMAN**

Shinichi Hayashida is Chairman of SMBC Aviation Capital and is based in our Dublin headquarters. Mr Hayashida began his career in 1979 when he joined the Sumitomo Bank Limited. In 2012, he assumed the role of advisor to SMFL before moving to Dublin to assume his current role. Mr Hayashida holds a Bachelor of Law from Tokyo University and a Masters of Laws from the University of Pennsylvania.

**Barry Flannery**
**CHIEF FINANCIAL OFFICER**

Barry Flannery is Chief Financial Officer with responsibility for finance, treasury, corporate accounting, taxation and information technology. He joined the company in 1997 and was appointed to the Board of Directors in 2007. Barry holds an honours degree in Psychology and Economics from Trinity College Dublin and is a fellow of the Institute of Chartered Accountants in Ireland.

**David Swan**
**CHIEF OPERATING OFFICER**

David Swan was appointed Chief Operating Officer in 2004, joining the Board of Directors in 2007. With over 25 years' experience in the industry, David is responsible for leading the company's operating platform along with risk and asset management across the business. He holds an honours degree in International Business and Economics from Trinity College Dublin.

**Peter Barrett**
**CHIEF EXECUTIVE OFFICER**

Peter Barrett was appointed Chief Executive Officer in 2004. During this time, he has overseen the continued growth and expansion of the company including its acquisition in 2012. Peter has been active in aircraft leasing and finance for over 25 years, previously with RBS and initially with Guinness Peat Aviation ("GPA"). Peter holds a B.Eng from University College Cork.

**Brian Harvey**
**CHIEF MARKETING OFFICER**

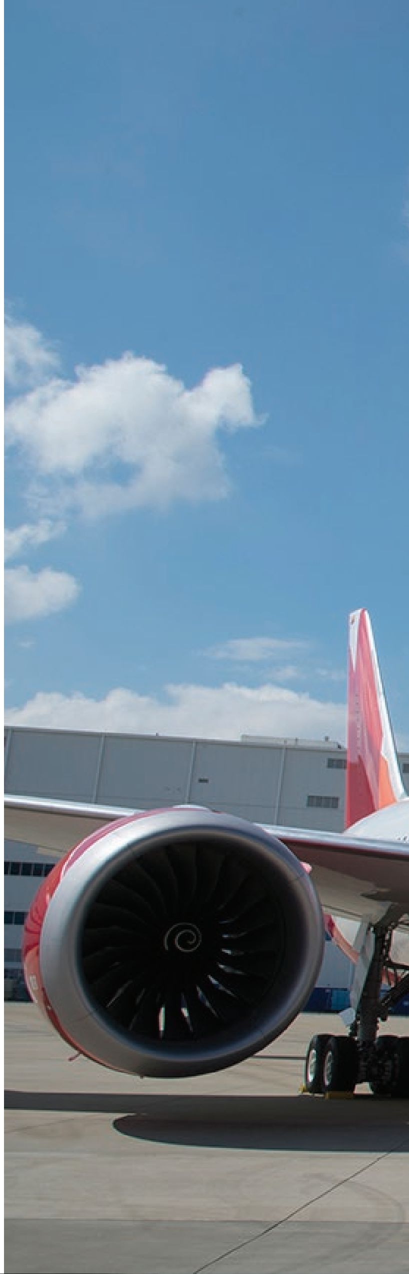
Brian Harvey is Chief Marketing Officer. He joined the company in 2002, assuming the position of Board Director in 2011. He has held a number of important roles within the company including Head of Airline Marketing for the Americas region. He holds a BS in Accounting from Fairfield University in Connecticut.

**Catharine Ennis**
**CHIEF LEGAL OFFICER**

Catharine Ennis joined the company as Chief Legal Officer in 2002, subsequently joining the Board of Directors in 2004 and assuming the role of Company Secretary in 2007. Catharine holds a Bachelor of Civil Law Degree and a Diploma in European Law from University College Dublin.

## AVIANCA

In September 2016 at the Boeing facility in Charleston, USA, we delivered a Dreamliner B787-8 to leading South American airline, Avianca.



This was one of the quickest turnaround times for a deal that we have ever achieved. From agreement to delivery, it was completed in just 16 days, demonstrating our ability to meet the needs of our airline customers in an extremely short timeframe.

At the delivery ceremony, Hernán Rincón, President and CEO of Avianca spoke of the long lasting relationship that Avianca has had with SMBC Aviation Capital for over ten years and that he looks forward to working with us in the future as the airline continues to execute its fleet program.

In total, we have ten aircraft on lease to Avianca including three Boeing B787-8s.


↑ The delivery of a B787-8 to Avianca at the Boeing facility in Seattle.

# Doing Deals Across the Globe

↑ Yan-Ping Cheng,
photographed in Shanghai.

# Our People & Teams

## YAN-PING CHENG

Senior Vice President, Airline Marketing.
Based in Shanghai.

I'm part of the recently expanded team of 16 people, with extensive experience in Airline Marketing. In many respects, we are a bridge between the customer and the rest of the company and for that there is simply no substitute for being on the ground with in-depth local knowledge and relationships.

Our experience is also invaluable in ensuring a really strong customer focus. An important part of our job is to help our colleagues understand why a particular deal needs to happen and to understand the customer's perspective.

Above all, the Airline Marketing team is concerned with relationships, identifying potential new ones and maintaining existing ones.

I cover mainland China, Hong Kong, Taiwan and Macau, dealing with numerous customers and potential customers with whom I need to keep in close contact. Our team also maintains good relationships with the aircraft manufacturers, Boeing and Airbus, so that when we are placing aircraft from our own order book we can provide customers with the support they need.

Our big advantage in China is that we have been in this marketplace since 2001. We have a good reputation for the support we provide—that is why we have so many long-lasting relationships.

## SAS


In December 2016, we completed a sale and leaseback transaction with Scandinavian Airline, SAS, for five Airbus A320neo aircraft. This is our most significant deal with SAS and saw the placement of our first Airbus A320neo in Europe.

This deal of scale was also a new partnership with the airline with the first delivery completed in December 2016 and the second in March 2017. Niklas Hårdänge, Vice President Fleet Management in SAS recognised how pleased the airline was to add these new technologically enhanced aircraft from SMBC Aviation Capital to its fleet in line with its growth objectives.

As of 31 March 2017, SMBC Aviation Capital leased four Airbus A320neo aircraft to its airline customers.


A first A320neo for SAS at the Airbus facility in Hamburg.

# Doing Deals Across the Globe

↑ Rodolphe Demarcq on the aircraft manufacturing line at the Airbus facility in Toulouse.

# Our People & Teams

## RODOLPHE DEMARCQ

Senior Vice President, Technical Asset Management. Based in Toulouse.

My job is to project manage the delivery of new Airbus aircraft in Toulouse and Hamburg on behalf of our airline customers. Every airline has its own specification, its own culture and way of working and we are here to help ensure their deliveries are on time and to the highest standard.



Building an aircraft is a living process. Every aircraft is unique and there can always be unexpected manufacturing or supplier issues; you could say that this is an intrinsic part of the process. I have worked in Toulouse and Hamburg since 1994, including 12 years spent with Airbus, so I have an intimate knowledge of the Airbus company and the entire procurement and manufacturing process and bring this depth of experience to every scenario.

Last year, we delivered 21 new Airbus aircraft to customers as far apart as Northern Europe, China, Japan, India and South America. Each customer has a different way of working and requires a different level of engagement. We are happy to provide the level of support they find most helpful. It is important that I am always here to help at any stage and will always seek to anticipate a customer's needs.

## ASIANA AIRLINES

In April 2017, one of South Korea's and Asia's leading airlines, Asiana Airlines added its first Airbus A350 XWB to its fleet. Executed by SMBC Aviation Capital, this was the first delivery of a six-aircraft A350 sale and leaseback deal which also includes the financing of pre-delivery payments due to the aircraft manufacturer.


The aircraft is the first of its type to be operated by a South Korean airline. Together with Airbus and Asiana, we celebrated the delivery at the Airbus facility in Toulouse.

Mr Soo-Cheon Kim, President and CEO of Asiana Airlines was proud that the delivery began a new chapter in the history of the airline, providing Asiana with operational advantages across its long-haul network. Fabrice Brégier, CEO of Airbus added that Airbus was delighted to deliver the first A350 XWB to Asiana to provide an unrivalled flying experience across Asiana's extensive long haul network.

As a company, we are committed to developing our long standing relationship with Asiana, while also expanding our footprint in the Asia Pacific region which is one of our largest markets.

(l–r): Didier Evrard, Executive Vice President, Head of Programmes, Airbus, Soo Cheon Kim, President and CEO Asiana Airlines, Peter Barrett, CEO of SMBC Aviation Capital, Ewen McDonald, SVP Asia Pacific, Rolls Royce.

# Doing Deals Across the Globe

↑ Chris O'Scannlain,
photographed in New York.

# Our People & Teams

## CHRIS O'SCANNLAIN

Senior Vice President, Credit Risk.
Based in New York.

In many businesses Credit Risk is a desktop task. But not for us. We have to be close to our markets and to our customers. Our team comprises twelve analysts based in four offices worldwide. We provide our colleagues with in-depth analyses of airlines and their markets so that they can make well informed decisions.

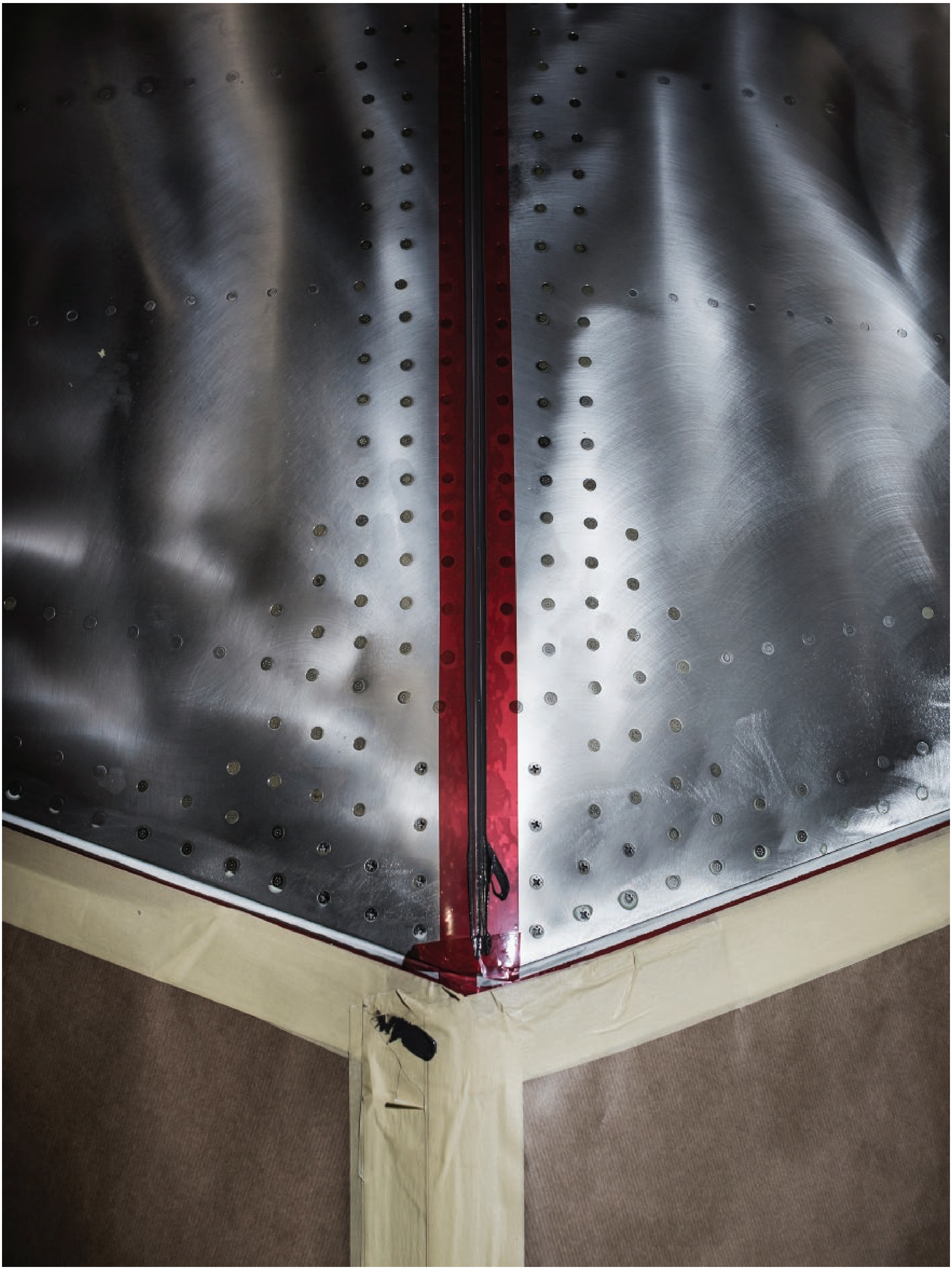
Living and working in the same time zones gives us better access to our customers and to the many macro and sectoral analysts with whom we are in regular contact. We have close relationships within the finance / leasing / aviation ecosystems and we keep our fingers on the pulse by having a presence where the action is.

In the risk function, developing an accurate picture of risks, especially in developing markets, means we can manage them. Our ultimate aim is to ensure we have the right information we need so that we can establish relationships and help airlines, including start-ups, get the aircraft they need.

# Metamorphosis

SMBC Aviation Capital commissioned a young local photographer, Matthew Thompson to work on an original piece. Matthew explored some of the many unseen people and processes involved in the transitioning of an aircraft from one lessee to another, a feature of much of the MRO (Maintenance, Repair and Overhaul) work undertaken in Dublin airport. Within the maintenance and paint facilities, Matthew was drawn to one of our Boeing 737-800 aircraft which had been stripped of its paintwork in advance of being painted with new livery. Matthew took close up photographs which focus on the human interaction with the aircraft. A feature of these photographs are the detail of the swirl of the sander on aluminium skin or a smudge of sealant from one of the many hands that contribute to putting an aircraft into service. The resulting triptych, entitled "Metamorphosis", beautifully captures one of the unseen steps in a complex process involving the team at SMBC Aviation Capital and the many others we work with to deliver a newly transitioned aircraft to our customers.

↓ Matthew Thompson



*Metamorphosis I* (2016)
Matthew Thompson

*Metamorphosis II* (2016)
Matthew Thompson

*Metamorphosis III* (2016)
Matthew Thompson

↑ The “Metamorphosis” triptych in SMBC Aviation Capital's Dublin headquarters.

# Directors' Report and Consolidated Financial Statements 2017

# DIRECTORS AND OTHER INFORMATION

## DIRECTORS

P Barrett (Irish)
C A Ennis (Irish)
B Flannery (Irish)
D Swan (Irish)
B Harvey (American)
S Hayashida (Japanese)
Y Kawamura (Japanese)
M Hosokawa (Japanese)
T Murata (Japanese)
I Sakata (Japanese; appointed 6 April 2016)
Y Kawasaki (Japanese; appointed 28 April 2017)
M Takashima (Japanese; resigned 28 April 2017)
T Tanaka (Japanese; resigned 6 April 2016)

## SECRETARY

C A Ennis

## REGISTERED OFFICE

IFSC House
IFSC
Dublin 1
Ireland

## INDEPENDENT AUDITOR

KPMG
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

## SOLICITORS

Clifford Chance, London
10 Upper Bank Street
London
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United Kingdom

McCann Fitzgerald
Riverside One
Sir John Rogerson's Quay
Dublin 2
Ireland

## BANKS

Sumitomo Mitsui Banking Corporation Europe Limited
99 Queen Victoria Street
London EC4V 4EH
United Kingdom

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, NY10172
USA

# DIRECTORS' REPORT





The Directors present their report and the audited consolidated financial statements of SMBC Aviation Capital Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 March 2017. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the European Union.

## PRINCIPAL ACTIVITIES

The principal business activities of the Group and Company include acting in the capacity of principal, agent or broker, the financing of aircraft, plant, equipment, machinery, engines, vehicles or other modes of transport and their components and parts, by way of loan, hire purchase, lease rental, credit sale or other appropriate methods of finance, and the sale or purchase, ownership, leasing or management or in any other way dealing with aircraft, plant, equipment, machinery, engines, vehicles or other modes of transport and their components parts. The Group and Company also provides financial solutions and brokerage services to the airline and airline related industry in connection with financing and refinancing.

The Group and Company's activities and those of the aircraft industry are undertaken predominantly in US Dollars and this is the functional currency. The consolidated financial statements are therefore presented in US Dollars.

The Group and Company is a member of the Japanese consortium of Sumitomo Mitsui Financial Group ("SMFG") and Sumitomo Corporation ("SC") (the "Consortium"). The annual reports of these entities can be obtained at:
Sumitomo Corporation - http://www.sumitomocorp.co.jp/english/ir/report/annual_report.html
Sumitomo Mitsui Financial Group -http://www.smfg.co.jp/english/investor/financial/latest_statement.html.

## PERFORMANCE AND STRATEGY

The Group and Company's strategy is to own and lease the most modern, efficient and desirable aircraft while working closely and building strong relationships with its airline and investor customers to meet their specific requirements. The Group and Company continues to actively manage the profile of its aircraft portfolio and, as a result, have maintained a young fleet with an average weighted age of 4.5 years as at 31 March 2017 (31 March 2016: 4.7).

At the end of the financial year, the financial position showed total assets of $10,637 million (31 March 2016: $9,922 million). The net book value of property, plant and equipment was $10,142 million at the year-end (31 March 2016: $9,551 million). There was no property, plant and equipment classified as assets held for sale at the end of the year (2016: $nil).

The Directors do not recommend the payment of a dividend (31 March 2016: $nil).

## FINANCING

The Group and Company continues to benefit from its ownership structure noted above, which combines one of the world's largest financial institutions with one of the world's largest trading companies. This brings substantial financial strength and scale to the Group and Company's offering, reflected in the Group and Company's credit rating of A- from Fitch Ratings and BBB+ from Standard & Poor's (31 March 2016: BBB+ from both). Fitch Ratings upgraded the Group and Company credit rating on 11 May 2017 to A- from BBB+. This affirms the Group and Company's position as one of the highest rated aircraft leasing companies in the industry.

In addition to the Group and Company's existing funding from parent group undertakings and third party Japanese financial institutions, the Group successfully closed the sale of $500 million of its 2.65% senior unsecured notes due 2021 through its wholly-owned subsidiary, SMBC Aviation Capital Finance DAC, on 19 July 2016 and has access to a $600 million revolving credit facility with a consortium of five major banks.

## OPERATIONAL

The Group has 96 airline customers in 41 countries. The Group's fleet consists of 670 owned, managed and committed aircraft.

During the year, the Group completed 110 transactions in total. This included roll-off placement of 24 used aircraft which involved significant modification of aircraft, lease placements of 21 new aircraft via sale and leaseback, lease placement of 5 aircraft from its direct order book, 25 lease extensions and 35 aircraft sales.

Furthermore, there were a number of notable achievements which are further evidence of the Group's transition to the most technologically advanced aircraft. The Group took delivery of seven Boeing B787-8 aircraft which were placed on lease with Air Europa and Avianca. The Group also recently committed to three additional Boeing B737-800 aircraft, of which two will go on lease to ANA, and delivered its first A350 to Asiana Airlines, a first also for the airline and the first of its type to be placed in the Korean market. In addition, the Group also took delivery of four Airbus A320neo aircraft including its first A320neo on operating lease to GoAir.

The year under review was also significant because of the strong level of aircraft sales with 35 aircraft sold from the Group's owned portfolio as noted above, making this year one of the most successful years for aircraft sales on record, and in the process adding 19 new investor partners. The Group also had its most active year to date for its JOL and JOLCO business, collaborating with its shareholders to acquire and/or sell aircraft valued at over $2.2 billion for third party Japanese investors.

# DIRECTORS' REPORT
(continued)

Despite a more competitive environment in the Sale and Leaseback market, the Group is optimistic about its growth prospects over the longer term, due to its focus on young and technologically advanced narrow-body aircraft and the continuing demand for these type of aircraft with its customers.

The Group remains positive about the trading environment for aircraft and together with its shareholders is well placed to maximise opportunities in the Japanese market and beyond.

## PEOPLE

The Group has made a number of key additions to its team over the year, resulting in an average number of people in the organisation during the year of 162 (2016: average of 150), consisting of both direct employees and representatives. The quality and commitment of staff in the Group - at all levels of the organisation - has been a key driving factor behind its ongoing growth and success.

## PRINCIPAL RISKS AND UNCERTAINTIES

The airline industry is cyclical and highly competitive. The Group and Company's aircraft are under operating leases where the cost of the aircraft is substantially recovered over the term of the leases. The oversupply of a specific type of aircraft in the market could depress aircraft lease rates and values, which would affect re-lease rates. The supply and demand of aircraft is affected by various cyclical factors including:

- passenger air travel and air cargo demand
- fuel prices
- maintenance costs
- technological innovation and the introduction of a new generation of aircraft types
- government and environmental regulations

For further detail on the principal financial risks and the Group and Company's policy for minimising these financial risks, refer to note 23.

## GOING CONCERN

The Group and Company's business activities, together with the factors likely to affect its future development, performance and position are set out above, along with the financial position of the Group and Company. In addition, also as noted above, note 23 to the financial statements includes: the objectives, policies and processes for managing capital; the financial risk management objectives; details of financial instruments and hedging activities; and the exposures to credit risk and liquidity risk, to the extent that these were in place at 31 March 2017 and the preceding year.

Risks are managed in line with guidance given by the Group's parent companies. Exposure to both interest rate risk and currency risk is minimised by the use of derivatives and fixed rate loans. The current economic conditions create risks and uncertainties associated with the airline industry. However, the Group has considerable long-term contracts with a number of customers. Past experience indicates that airline risk can be managed carefully and successfully.

The Directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis.

## DIRECTORS' COMPLIANCE STATEMENT

The Directors of the Company acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in the Companies Act 2014 (the "2014 Act")) and, as required by section 225 of the 2014 Act, the Directors confirm that:

i. a compliance policy statement setting out the Company's policies with regard to complying with the relevant obligations under the 2014 Act has been prepared;
ii. arrangements and structures have been put in place that they consider sufficient to secure material compliance with the Company's relevant obligations; and
iii. a review of the arrangements and structures has been conducted during the financial year to which this Directors' report relates.

## DIRECTORS AND SECRETARY

The present Directors and Secretary are listed on page 34. The following changes took place during the year:

| Directors | Appointed |
|---|---|
| I Sakata | Appointed 6 April 2016 |
| Y Kawasaki | Appointed 28 April 2017 |

| Directors | Resigned |
|---|---|
| T Tanaka | Resigned 6 April 2016 |
| M Takashima | Resigned 28 April 2017 |

None of the Directors held an interest in the share capital or the loan capital of the Company, or in the shares or loan capital of any of the subsidiary undertakings of the Company.

None of the Directors held an interest of more than 1%, or had options to acquire an interest of more than 1%, in the shares of the parent undertakings of the Company.

## ACCOUNTING RECORDS

The Directors believe that they have complied with the requirements of Section 281 of the Companies Act, 2014 with regard to keeping adequate accounting records by employing accounting personnel with the appropriate expertise and by providing adequate resources to the finance function. The accounting records of the Company are maintained at the Company's registered offices at IFSC House, International Financial Services Centre, Dublin 1, Ireland.

## POLITICAL DONATIONS

The Company did not make any political donations in the year ended 31 March 2017 (2016: $nil).

## AUDIT COMMITTEE

The Board of Directors performs the duties as required by Section 167 of the Companies Act 2014 as an audit committee has not been established yet.

The Company is currently considering the additional requirements of Section 167 of the Companies Act 2014.

## INDEPENDENT AUDITOR

KPMG, Chartered Accountants, have indicated their willingness to continue in office in accordance with Section 383 of the Companies Act 2014.

## RELEVANT AUDIT INFORMATION

The Directors in office at the date of this report have each confirmed that as far as they are aware, there is no relevant audit information of which the Group's auditor is unaware; and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## POST BALANCE SHEET EVENTS

On 28 April 2017, Mr. M. Takashima resigned as Director. On the same day, Mr. Y. Kawasaki was appointed as Director.

On 11 May 2017, Fitch Ratings upgraded SMBC Aviation Capital Limited's and SMBC Aviation Capital Finance DAC's Long-Term Issuer Default Ratings ("IDRs") to 'A-' from 'BBB+' and SMBC Aviation Capital Finance DAC's senior unsecured notes rating to 'A-' from 'BBB+'.

No other significant events affecting the Group and Company have occurred since 31 March 2017, which require adjustment to or disclosure in the Consolidated Financial Statements.

Approved by the Board of Directors and signed on behalf of the Board by:

**P Barrett**
Director
Date: 26 May 2017

**B Flannery**
Director
Date: 26 May 2017

Company Registration No: 270775

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' 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 they have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable law.

Under company law the Directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's profit or loss for that year. In preparing each of the Group and Company 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;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the financial statements of the Group are prepared in accordance with applicable IFRS, as adopted by the EU and comply with the provisions of the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

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

Approved by the Board of Directors and signed on behalf of the Board by:

| | |
|---|---|
| **P Barrett** | **B Flannery** |
| Director | Director |
| Date: 26 May 2017 | Date: 26 May 2017 |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMBC AVIATION CAPITAL LIMITED

We have audited the Group and Company financial statements ("financial statements") of SMBC Aviation Capital Limited for the year ended 31 March 2017 which comprise The Group and Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Company Statements of Cash Flows, the Group and Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards ("IFRS") as adopted by the European Union, and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014. Our audit was conducted in accordance with International Standards on Auditing ("ISAs") (UK & Ireland).

## OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

**1. Our opinion on the financial statements is unmodified**

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 March 2017 and of its profit for the year then ended;
- the Company financial statements gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 March 2017;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2014; and
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

**2. Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below**

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

**3. We have nothing to report in respect of matters on which we are required to report by exception**

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

## BASIS OF OUR REPORT, RESPONSIBILITIES AND RESTRICTIONS ON USE

As explained more fully in the Statement of Directors' Responsibilities set out on page 38, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and ISAs (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMBC AVIATION CAPITAL LIMITED (continued)

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. 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.

**Paul Dobey**
for and on behalf of

**KPMG**
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC, Dublin 1

Date: 26 May 2017

# CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

## for the year ended 31 March 2017

| | Note | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Income** | | | |
| Lease revenue | 2 | 1,002,159 | 899,024 |
| Other revenue | 2 | 18,099 | 17,795 |
| Total revenues | 2 | 1,020,258 | 916,819 |
| Other operating income | 3 | 70,312 | 57,661 |
| | | **1,090,570** | **974,480** |
| **Operating expenses** | | | |
| Depreciation | 10 | (347,736) | (320,967) |
| Impairment | 10/11 | (20,598) | (61,279) |
| Other operating expenses | 4 | (109,252) | (118,027) |
| Net trading income / (expense) | 7 | 398 | (811) |
| **PROFIT FROM OPERATING ACTIVITIES** | | **613,382** | **473,396** |
| Finance costs | | | |
| Interest income | 8 | 33,977 | 37,219 |
| Interest expense | 8 | (315,689) | (292,050) |
| Break losses | 8 | (19,185) | (14,700) |
| **NET FINANCE COSTS** | | **(300,897)** | **(269,531)** |
| **PROFIT BEFORE TAXATION** | | **312,485** | **203,865** |
| Tax expense | 9 | (41,757) | (28,823) |
| **PROFIT FROM CONTINUING OPERATIONS** | | **270,728** | **175,042** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Effective portion of changes in fair value of cash flow hedges | 15 | 50,880 | (30,258) |
| Tax on other comprehensive income | | (6,399) | 3,784 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | **44,481** | **(26,474)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **315,209** | **148,568** |

All income relates to continuing operations. All profits and total comprehensive income for current and preceding financial year are attributable to the owners of the company. The accompanying notes form an integral part of these financial statements.

**P Barrett**
Director

**B Flannery**
Director

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

| | Note | 31 March 2017 $'000 | 31 March 2016 $'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | 10,141,783 | 9,550,921 |
| Goodwill and intangible assets | 11 | 12,558 | 22,017 |
| Derivative financial instruments | 14 | 16,339 | 420 |
| Lease incentive assets | 19 | 95,376 | 69,695 |
| | | 10,266,056 | 9,643,053 |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | 17 | 67,891 | 51,524 |
| Cash and cash equivalents | 18 | 278,393 | 204,737 |
| Derivative financial instruments | 14 | 6 | 235 |
| Lease incentive assets | 19 | 24,165 | 22,449 |
| | | 370,455 | 278,945 |
| **TOTAL ASSETS** | | 10,636,511 | 9,921,998 |
| **EQUITY** | | | |
| Share capital | 25 | 187,513 | 187,513 |
| Other components of equity | 26 | 215,725 | 171,244 |
| Profit and loss account | | 1,383,035 | 1,112,307 |
| **TOTAL EQUITY** | | 1,786,273 | 1,471,064 |
| **NON-CURRENT LIABILITIES** | | | |
| Trade and other payables | 20 | 505,573 | 482,818 |
| Obligations under finance leases | 21 | 227,028 | 286,584 |
| Borrowings | 22 | 6,681,890 | 6,223,833 |
| Deferred tax liabilities | 24 | 294,198 | 259,902 |
| Derivative financial instruments | 14 | 21,320 | 43,799 |
| | | 7,730,009 | 7,296,936 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 20 | 488,812 | 485,983 |
| Obligations under finance leases | 21 | 59,556 | 54,723 |
| Borrowings | 22 | 571,861 | 612,745 |
| Derivative financial instruments | 14 | - | 547 |
| | | 1,120,229 | 1,153,998 |
| **TOTAL LIABILITIES** | | 8,850,238 | 8,450,934 |
| **TOTAL EQUITY AND LIABILITIES** | | 10,636,511 | 9,921,998 |

The accompanying notes form an integral part of these financial statements.

**P Barrett**
Director

**B Flannery**
Director

# COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

| | Note | 31 March 2017 $'000 | 31 March 2016 $'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | 9,582,139 | 9,065,169 |
| Goodwill and intangible assets | 11 | 6,694 | 9,080 |
| Loan receivables | 16 | 70,263 | 90,942 |
| Investment in subsidiaries | 12 | 212,922 | 212,922 |
| Derivative financial instruments | 14 | 16,339 | 420 |
| Lease incentive assets | 19 | 93,545 | 66,555 |
| | | 9,981,902 | 9,445,088 |
| **CURRENT ASSETS** | | | |
| Loan receivables | 16 | 66,442 | 2,444 |
| Trade and other receivables | 17 | 219,034 | 115,000 |
| Cash and cash equivalents | 18 | 227,347 | 151,672 |
| Derivative financial instruments | 14 | 6 | 35 |
| Lease incentive assets | 19 | 23,153 | 20,471 |
| | | 535,982 | 289,822 |
| **TOTAL ASSETS** | | 10,517,884 | 9,734,910 |
| **EQUITY** | | | |
| Share capital | 25 | 187,513 | 187,513 |
| Other components of equity | 26 | 213,782 | 169,532 |
| Profit and loss account | | 1,328,692 | 1,077,316 |
| **TOTAL EQUITY** | | 1,729,987 | 1,434,361 |
| **NON-CURRENT LIABILITIES** | | | |
| Trade and other payables | 20 | 481,631 | 444,444 |
| Obligations under finance leases | 21 | 227,028 | 286,584 |
| Borrowings | 22 | 6,580,856 | 6,055,360 |
| Deferred tax liabilities | 24 | 265,523 | 223,070 |
| Derivative financial instruments | 14 | 21,288 | 43,458 |
| | | 7,576,326 | 7,052,916 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 20 | 433,040 | 470,767 |
| Obligations under finance leases | 21 | 59,556 | 54,723 |
| Borrowings | 22 | 718,975 | 721,596 |
| Derivative financial instruments | 14 | - | 547 |
| | | 1,211,571 | 1,247,633 |
| **TOTAL LIABILITIES** | | 8,787,897 | 8,300,549 |
| **TOTAL EQUITY AND LIABILITIES** | | 10,517,884 | 9,734,910 |

The accompanying notes form an integral part of these financial statements.

**P Barrett**
Director

**B Flannery**
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 March 2017

| | Note | Share Capital $'000 | Other Reserves $'000 | Cash Flow Hedge Reserve $'000 | Profit and loss account $'000 | Total Equity $'000 |
|---|---|---|---|---|---|---|
| **BALANCE AT 1 APRIL 2015** | | 187,513 | 209,453 | (11,735) | 937,265 | 1,322,496 |
| Profit for the period | | - | - | - | 175,042 | 175,042 |
| Cash flow hedge reserve | 26 | - | - | (26,474) | - | (26,474) |
| | | - | - | (26,474) | 175,042 | 148,568 |
| **BALANCE AT 31 MARCH 2016** | | 187,513 | 209,453 | (38,209) | 1,112,307 | 1,471,064 |
| Profit for the period | | - | - | - | 270,728 | 270,728 |
| Cash flow hedge reserve | 26 | - | - | 44,481 | - | 44,481 |
| | | - | - | 44,481 | 270,728 | 315,209 |
| **BALANCE AT 31 MARCH 2017** | | 187,513 | 209,453 | 6,272 | 1,383,035 | 1,786,273 |

The accompanying notes form an integral part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY





as at 31 March 2017

| | Note | Share Capital $'000 | Other Reserves $'000 | Cash Flow Hedge Reserve $'000 | Profit and loss account $'000 | Total Equity $'000 |
|---|---|---|---|---|---|---|
| **BALANCE AT 1 APRIL 2015** | | 187,513 | 207,486 | (11,490) | 922,250 | 1,305,759 |
| Profit for the period | | - | - | - | 155,066 | 155,066 |
| Cash flow hedge reserve | 26 | - | - | (26,464) | - | (26,464) |
| | | - | - | (26,464) | 155,066 | 128,602 |
| **BALANCE AT 31 MARCH 2016** | | 187,513 | 207,486 | (37,954) | 1,077,316 | 1,434,361 |
| Profit for the period | | - | - | - | 251,376 | 251,376 |
| Cash flow hedge reserve | 26 | - | - | 44,250 | - | 44,250 |
| | | - | - | 44,250 | 251,376 | 295,626 |
| **BALANCE AT 31 MARCH 2017** | | 187,513 | 207,486 | 6,296 | 1,328,692 | 1,729,987 |

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

| | Note | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|---|
| **PROFIT BEFORE TAX** | | 312,485 | 203,865 |
| Adjustments for: | | | |
| Depreciation and impairment on property, plant and equipment | | 368,398 | 382,246 |
| Amortisation and impairment of intangible assets | | 5,216 | 6,595 |
| Lease incentive asset amortisation | | 30,804 | 25,466 |
| Interest expense | | 278,740 | 256,005 |
| Movement in fair value of derivatives not in a hedge relationship and other fair value hedges | | (398) | 811 |
| Profit on disposal of assets held under operating leases | | (60,284) | (51,500) |
| **OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL** | | 934,961 | 823,488 |
| (Increase) / decrease in receivables | | (11,965) | 79,177 |
| (Decrease) / increase in payables | | (57,771) | 119,479 |
| **CASH GENERATED BY OPERATIONS** | | 865,225 | 1,022,144 |
| Income taxes paid | | (582) | (5,836) |
| Interest paid | | (281,789) | (262,417) |
| **NET CASH FROM OPERATING ACTIVITIES** | | 582,854 | 753,891 |
| **INVESTING ACTIVITIES** | | | |
| Proceeds on disposal of property, plant and equipment | | 883,398 | 643,785 |
| Purchases of property, plant and equipment | | (1,772,246) | (1,303,558) |
| Purchases of intangible assets | | (49) | (3,844) |
| **NET CASH USED IN INVESTING ACTIVITIES:** | | (888,897) | (663,617) |
| **FINANCING ACTIVITIES** | | | |
| Receipts from / (payments to) restricted cash accounts | | 21,982 | (24,212) |
| Repayment of obligations under finance leases | | (54,723) | (48,081) |
| Proceeds from / (repayment of) indebtedness | | 434,909 | (93,585) |
| **NET CASH FROM / (USED IN) FINANCING ACTIVITIES** | | 402,168 | (165,878) |
| **EFFECT OF EXCHANGE RATE CHANGES ON UNRESTRICTED CASH AND CASH EQUIVALENTS** | | (486) | 269 |
| **NET INCREASE / (DECREASE) IN UNRESTRICTED CASH AND CASH EQUIVALENTS** | | 95,639 | (75,335) |
| **UNRESTRICTED CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD** | | 159,563 | 234,898 |
| **UNRESTRICTED CASH AND CASH EQUIVALENTS AT END OF THE PERIOD** | 18 | 255,202 | 159,563 |
| Unrestricted cash and cash equivalents as above | 18 | 255,202 | 159,563 |
| Restricted cash as reported | 18 | 23,191 | 45,174 |
| Total cash and cash equivalents | 18 | 278,393 | 204,737 |

The accompanying notes form an integral part of these financial statements.

# COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

| | Note | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|---|
| **PROFIT BEFORE TAX** | | 287,508 | 177,683 |
| Adjustments for: | | | |
| Depreciation and impairment on property, plant and equipment | | 351,606 | 376,653 |
| Amortisation and impairment of intangible assets | | 2,435 | 2,799 |
| Lease incentive asset amortisation | | 29,032 | 23,762 |
| Dividend income | | (870) | - |
| Interest expense | | 276,573 | 253,967 |
| Movement in fair value of derivatives not in a hedge relationship and other fair value hedges | | (398) | 811 |
| Profit on disposal of assets held under operating leases | | (52,822) | (53,634) |
| **OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL** | | 893,064 | 782,041 |
| (Increase) / decrease in receivables | | (180,495) | 1,785 |
| (Decrease) / increase in payables | | (29,278) | 123,373 |
| **CASH GENERATED BY OPERATIONS** | | 683,291 | 907,199 |
| Income taxes paid | | (24) | (183) |
| Interest paid | | (275,757) | (256,869) |
| **NET CASH FROM OPERATING ACTIVITIES** | | 407,510 | 650,147 |
| **INVESTING ACTIVITIES** | | | |
| Proceeds on disposal of property, plant and equipment | | 838,472 | 619,660 |
| Purchases of property, plant and equipment | | (1,652,728) | (1,360,464) |
| Purchases of intangible assets | | (49) | (3,844) |
| Dividends received | | 870 | - |
| **NET CASH USED IN FINANCING ACTIVITIES:** | | (813,435) | (744,648) |
| **FINANCING ACTIVITIES** | | | |
| Receipts from / (payments to) restricted cash accounts | | 21,982 | (24,212) |
| Repayment of obligations under finance leases | | (54,723) | (48,081) |
| Proceeds from indebtedness | | 536,700 | 102,825 |
| **NET CASH FROM FINANCING ACTIVITIES** | | 503,959 | 30,532 |
| **EFFECT OF EXCHANGE RATE CHANGES ON UNRESTRICTED CASH AND CASH EQUIVALENTS** | | (376) | 318 |
| **NET INCREASE / (DECREASE) IN UNRESTRICTED CASH AND CASH EQUIVALENTS** | | 97,658 | (63,651) |
| **UNRESTRICTED CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD** | | 106,498 | 170,149 |
| **UNRESTRICTED CASH AND CASH EQUIVALENTS AT END OF THE PERIOD** | 18 | 204,156 | 106,498 |
| Unrestricted cash and cash equivalents as above | 18 | 204,156 | 106,498 |
| Restricted cash as reported | 18 | 23,191 | 45,174 |
| Total cash and cash equivalents | 18 | 227,347 | 151,672 |

The accompanying notes form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 SIGNIFICANT ACCOUNTING POLICIES

SMBC Aviation Capital (the "Company") is a company incorporated and domiciled in Ireland. The address of its registered office is IFSC House, International Financial Services Centre, Dublin 1, Ireland.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS.

### a Basis of preparation

The Consolidated Financial Statements have been prepared under the historical cost convention as modified to include the fair valuation of certain financial instruments. The principal accounting policies are set out below.

The Consolidated Financial Statements of the Company have been prepared in accordance with IFRSs as adopted by the EU. The entity financial statements of the Company have been prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the Companies Act 2014 which permits a company that publishes its Company and Group financial statements together to take advantage of the exemption in Section 304 (2) of the Companies Act 2014, from presenting to its members its Company income statement and related notes that form part of the approved Company Financial Statements.

The Company's functional currency is the US Dollar, being the currency of the primary economic environment in which the Company operates. The presentation currency for the Group and Company is US Dollar. All financial information presented in US Dollar has been rounded to the nearest US Dollar unless otherwise stated.

The accounts, which should be read in conjunction with the Directors' Report, are prepared on a going concern basis and in accordance with IFRS as adopted by the European Union.

### b Estimates and judgements

The preparation of Financial Statements in conformity with IFRS as adopted by the EU requires management to make use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities as at the reporting date and the reported amount of income and expenses during the reported period.

In particular, the judgements and assumptions involved in the Group and Company's accounting policies which have the most significant effect on the amounts recognised in the Financial Statements are as follows:

**Note 10 - Property, Plant and Equipment:**
The material judgements in respect of property, plant and equipment include the identification and subsequent measurement of impairment such as triggers and estimates of cash flow including residual values and discounts rates. Estimates also include the intervals used (currently 5 years) to determine future market values for the purposes of setting depreciation rates for individual aircraft.

**Note 24 - Deferred Tax:**
Deferred tax assets and liabilities are measured using enacted tax laws and based on the rates expected to be in effect in the years in which those temporary differences are expected to reverse. Any change in the tax rates can result in a substantial impact on the tax charge in the consolidated income statement and tax payments.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Although these estimates are based on management's best knowledge of the amount, event or action, actual results may differ from those estimates.

### c Basis of consolidation

The Consolidated Financial Statements include the annual Financial Statements of the Company and all of its subsidiaries, drawn up to 31 March 2017. The Group does not have investments in associates or joint ventures as defined in IFRS.

In applying IFRS 10, the standard introduced a single consolidation model for all entities based on control which requires consolidation where the Company has power over the entity, exposure or rights to returns from involvement with the entity and the ability to use power to affect returns. The financial statements of an entity are included in the Consolidated Financial Statements from the date that this control commences until the date that this control ceases.

The Consolidated Financial Statements have been prepared using uniform accounting policies for transactions and other events in similar circumstances.

**1 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**c Basis of consolidation (continued)**

**Subsidiaries**

A subsidiary is an entity controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are substantive are taken into account. All subsidiaries have coterminous financial year ends. The accounting policies of all subsidiaries are consistent with the policies adopted by the Group. Intragroup transactions, intragroup balances and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the Consolidated Financial Statements. All of the Company's subsidiaries are wholly owned by the Company and, as such, there are no non-controlling interests to present separately in the Consolidated Financial Statements.

**Common control transactions**

Business combinations under common control are accounted for in the consolidated financial statements prospectively from the date the Group obtains the ownership interest. Assets and liabilities are recognised upon consolidation at their carrying amount in the financial statements of the transferor. Assets and liabilities are adjusted, if necessary, to reflect Group accounting policies and any difference between the net assets acquired, based on book values adjusted for accounting policy differences, is reflected in other reserves.

**d Investment in subsidiaries**

Investments in subsidiary undertakings are stated in the Company Statement of Financial Position at cost, less any provision for impairment.

**e Income under finance and operating leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance lease income, which includes the amortisation of the investment in the lease, is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

For past due rentals on all leases, an impairment provision may be established on the basis of management's assessment of collectability and to the extent such past due rentals exceed security deposits. Such provisions for bad debts for lease receivables are expensed through profit or loss and included in operating expenses.

Rentals received, but unearned under lease agreements are recorded as 'Prepaid lease rentals' in trade and other payables.

**f Fee income**

Fee income is recognised by reference to the stage of completion of the service provided.

**g Borrowing costs**

Borrowing costs directly attributable to the acquisition of aircraft not yet delivered are capitalised as part of the aircraft cost. All other borrowing costs are recognised as an expense in the period in which they are incurred.

**h Taxation**

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside the income statement which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the period/year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the reporting date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. 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 they will be recovered. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### i Foreign currency

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the date of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Gains and losses arising on retranslation are included in the profit or loss for the period.

### j Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Assets are depreciated to the Consolidated Statement of Comprehensive Income over their estimated useful economic lives, as follows:

Aircraft for hire under operating leases
– to the next useful economic life ("UEL") point, maximum of 5 years

Office equipment and fixtures & fittings
– 3 to 10 years from date when brought into use

It is the Group and Company's policy to hold aircraft for an average period of 5 years. Because of this, the Group and Company estimates the future market value (residual value) at 5 year intervals which correspond to UEL points.

Aircraft are depreciated to their residual values. Residual values are determined based on estimated values at the end of the useful lives of the aircraft assets.

Estimated residual values based on contractual return conditions of the aircraft are reviewed annually. This review includes the expected maintenance condition of the asset and any excess maintenance reserves expected to be available on maturity of the lease. Where estimated residual values are found to have changed significantly, this is recorded prospectively as a change in estimate and depreciation charges over the remaining useful life are adjusted to take account of the revised estimate.

The carrying amounts of the Group and Company's aircraft are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Impairment losses are recognised in the profit or loss.

Under IAS 39, the Group and Company avail of the own-use exemption in relation to certain capital commitments.

### k Goodwill and impairment

Goodwill is the excess of the fair value of the consideration paid for an acquisition over the Group share of the fair value of the identifiable assets and liabilities acquired. When the fair value of the identifiable assets and liabilities acquired exceeds the cost of a combination the values are reassessed and any remaining gain is recognised immediately in profit or loss. Goodwill is allocated to the groups of cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination. This is the lowest level at which goodwill is monitored for internal management purposes. After initial recognition goodwill is measured at cost less any accumulated impairment losses.

Goodwill is subject to impairment testing on an annual basis, at a consistent time each year and, at any time an impairment indicator is considered to exist. Impairment is determined by comparing the carrying amount to the recoverable amount of the groups of CGUs to which the goodwill relates. The recoverable amount is the greater of fair value less costs to sell, and value-in-use. When the recoverable amount of the groups of CGUs is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a group of CGUs and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the group of CGUs retained.

**k Goodwill and impairment (continued)**

In the year in which a business combination occurs, and the goodwill arising affects the goodwill allocation to CGUs, the groups of CGUs are tested for impairment prior to the end of that year. Impairment losses on goodwill are recognised in profit or loss and are not reversed following recognition.

**l Intangible assets (other than goodwill)**

Intangible assets are initially recognised at cost which is their fair value at the date of acquisition. Subsequently intangible assets are carried at cost less any accumulated amortisation and impairment. Cost is amortised on a straight-line basis over their estimated useful lives which vary from two years to ten years. Carrying values are reviewed for indicators of impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable.

**m Impairment of non-financial assets (other than goodwill)**

Long-term tangible and intangible assets that are subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. When assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date.

**n Pre-delivery payments**

Pre-delivery payments ("PDPs") are recorded in the Statement of Financial Position at cost and are not depreciated. Borrowing costs associated with PDPs and aircraft that are yet to be delivered are capitalised as incurred. As aircraft which are subject to PDPs are delivered, all applicable PDPs and financing costs are re-classified to Property, Plant and Equipment.

**o Non-current assets held for sale**

Non-current assets (or disposals groups comprising assets and liabilities) that are expected to be recovered primarily through a sale transaction rather than through continuing use are classified as held for sale. Assets classified as held for sale must be available for immediate sale in its present condition and the sale must be highly probable. An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

**p Financial instruments**

The Group and Company's financial asset categories are either 'loans and receivables' or 'financial assets at fair value through the profit or loss' or "available for sale assets". Loans and receivables comprise 'finance lease receivables', 'trade and other receivables' and 'cash and cash equivalents' in the Consolidated Statement of Financial Position. Available for sale assets comprise listed shares (equity and preference) and claims to be converted into shares held at fair value with the movement in fair value included within other comprehensive income.

The Group and Company's financial liabilities are categorised as either 'financial liabilities measured at amortised cost' or 'financial liabilities at fair value through the profit or loss'. Financial liabilities measured at amortised cost includes 'borrowings', 'obligations under finance leases' and 'trade and other payables' in the Statement of Financial Position.

The purchase of financial assets is recognised using trade date accounting. The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financials asset and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. All financial assets and liabilities at fair value through the profit or loss are derivative financial instruments classed as 'held for trading' and hedge accounting instruments under IAS 39.

**q Derivatives and hedge accounting**

The Group and Company has entered into various financial instruments (derivatives) to manage foreign exchange and interest rate risk. Derivatives include swaps, forwards and options.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### q Derivatives and hedge accounting (continued)

All derivatives are recognised on the Statement of Financial Position at their fair value (market value). Market 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.

The method of recognising the resulting gain or loss on derivatives depends on whether the derivative is designated as a hedging instrument.

Non-hedging derivatives are classified at fair value through the profit or loss. Gains and losses arising from changes in fair value of a non-hedging derivative are recognised as they arise in the Consolidated Statement of Comprehensive Income under trading income/expense.

The Group and Company designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group and Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationships. The Group and Company makes an assessment both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in cash flows or fair value of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. The Group and Company makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to the profit or loss in the same period as the hedged cash flows affect the profit or loss, and in the same line item in the Consolidated Statement of Comprehensive Income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the profit or loss.

When a derivative is designated as the hedging instrument in a fair value hedge, changes in fair value are recorded in the Consolidated Statement of Comprehensive Income, together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discounted hedge of a forecast transaction the cumulative amount recognised in Other Comprehensive Income from the period when the hedge was effective is reclassified from other comprehensive income to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to the profit or loss as a reclassification adjustment. If the criteria for hedge accounting cease to be met in relation to a fair value hedge, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

**Determination of fair values of derivative financial instruments and financial liabilities in fair value hedge relationships**
Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. The Group and Company's pricing and valuation methods are managed in conjunction with Sumitomo Mitsui Banking Corporation Capital Markets Inc. The current pricing models do not entail material subjectivity because the methodologies utilised do not incorporate significant judgement and the parameters included in the models can be calibrated to actively quoted market prices. Values established from pricing models are adjusted for credit risk and liquidity risk.

**1 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**r Provisions**

A provision is recognised if, as a result of a past event, the Group and Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**s Amounts receivable under finance leases**

A finance lease is recognised when there is a contractual right to the asset's cash flows and derecognised when all contractual rights and obligations expire. Amounts due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Progress payments made prior to the commencement of the primary lease are included at cost together with the amount of any interest charged on such payments.

**t Loans receivable**

Loan receivables are measured on initial recognition at fair value, and subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

**u Cash and cash equivalents**

Cash and cash equivalents comprise of cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**v Restricted cash**

Restricted cash includes cash held by the Group and Company which is ring-fenced or used as security for specific financing arrangements and to which the Group and Company does not have unfettered access.

**w Lease incentive accounting**

A lessor contribution liability is established at the commencement of the lease representing the best estimate of the contractually obligated contribution. In addition, a lease incentive asset is recognised for this amount, and it is amortised over the life of the associated lease as a charge against maintenance income.

Lessor contributions represent contractual obligations on the part of the Group and Company to contribute to the lessee's cost of the next planned major maintenance events, expected to occur during the lease.

**x Obligations under finance leases**

Assets held under finance leases are recognised as assets of the Group and Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease payable obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

**y Maintenance reserves**

All cash maintenance reserves collected under the lease agreements are recognised on the Consolidated Statement of Financial Position. At the end of the lease any excess is taken to revenue. Excess supplemental income from maintenance reserve is only recognised as revenue in the income statement when the Group and Company settles the full obligation in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

**z Pensions**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit or loss as the related service is received from the employee.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**1 SIGNIFICANT ACCOUNTING POLICIES** (continued)

**aa Short term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

**bb Profit from operating activities**

Operating profit is stated before charging or crediting investment income and finance costs.

**cc Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**dd New standards adoption and amendments to IFRS**

The following standards / amendments to standards have been adopted by the Group and Company during the year ended 31 March 2017.

**Annual improvements 2012 - 2014**
This set of amendments impacts four standards:

- IFRS 5, 'Non –current assets held for sale and discontinued operations' regarding methods of disposal;
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts;
- IAS 19, 'Employee benefits' regarding discount rates;
- IAS 34, 'Interim financial reporting' regarding disclosure of information.

The following new standards approved by the IASB will be relevant to the Group and Company, but were not effective at 31 March 2017, and have not been applied in preparing these financial statements:

**IFRS 9 Financial Instruments**
This standard will replace the guidance in IAS 39 and includes requirements on the classification and measurement of financial assets and liabilities. The effective date will be annual periods beginning on or after 1 January 2018.

**IFRS 15 Revenue from Contracts with Customers**
IFRS 15 specifies how and when revenue will be recognised as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The effective date will be annual periods beginning on or after 1 January 2018.

**IFRS 16 Leases**
IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on-balance sheet for lessees. The accounting for lessors will not materially change. The standard replaces IAS 17 'Leases' and related interpretations. The effective date will be annual periods beginning on or after 1 January 2019.

The extent of the impact for future accounting periods is still under review by the Group and Company and the new standards, amendments to standards and interpretations will be applied in the Consolidated Financial Statements from the EU endorsed effective date. These new standards are not expected to have a significant impact on the financial statements of the Group and Company.

## 2 REVENUE

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Operating lease revenue | | |
| Rentals receivable | 954,631 | 866,250 |
| Lease incentive amortisation (note 19) | (30,804) | (25,466) |
| Maintenance income | 78,332 | 58,240 |
| Lease revenue | 1,002,159 | 899,024 |
| Fee income | | |
| Aircraft management fees | 17,926 | 17,561 |
| Other fee income | 173 | 234 |
| Other revenue | 18,099 | 17,795 |
| | 1,020,258 | 916,819 |

Rentals receivables for the year are reported net of a provision for deferred rentals of $3,038,000 (year ended 31 March 2016: $nil).

Included in operating lease revenue above are the following amounts:

| | | |
|---|---|---|
| Contingent rentals | 2,704 | (11,287) |

The contingent element relates to lease rentals that are variable based on market interest rates. The rates can be in the favour of the lessee or the Group depending on the contract and prevailing market rates.

| Total revenue distribution by geographical region: | % | % |
|---|---|---|
| Developed Europe | 27.1 | 27.7 |
| Emerging Asia | 22.3 | 21.8 |
| South America | 20.5 | 16.6 |
| Emerging Europe | 12.3 | 12.4 |
| North America | 7.8 | 9.9 |
| Asia | 5.2 | 6.2 |
| Middle East & Africa | 4.8 | 5.4 |
| | 100.0 | 100.0 |

## 3 OTHER OPERATING INCOME

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Profit on disposal of property, plant and equipment | 60,284 | 51,500 |
| Other operating income | 10,028 | 6,161 |
| | 70,312 | 57,661 |

## 4 OTHER OPERATING EXPENSES

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Administration expenses | (103,972) | (105,132) |
| Amortisation of intangible assets | (5,280) | (6,595) |
| Portfolio management project costs | - | (6,300) |
| | (109,252) | (118,027) |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 5 PROFIT FROM OPERATING ACTIVITIES

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Operating profit has been arrived at after charging/(crediting): | | |
| Depreciation | 347,736 | 320,967 |
| Impairment of assets | 20,598 | 61,279 |
| Negative goodwill realised | 64 | - |
| Bad debt charge | - | - |
| Fees and commissions | 14 | 1 |
| Group service fee | 23,214 | 26,411 |
| Auditor's remuneration | 826 | 1,518 |
| Rent on property | 2,102 | 2,083 |
| Staff costs (note 6) | 73,052 | 74,176 |
| Other operating expenses | 33,258 | 40,249 |
| Foreign exchange loss/(gain) | 1,227 | (121) |
| Auditor's remuneration: | | |
| Audit of the Group accounts | 373 | 421 |
| Other assurance services | 119 | 296 |
| Tax advisory services | 334 | 801 |
| | 826 | 1,518 |
| Of which related to the Company | 746 | 1,414 |

## 6 STAFF COSTS

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Staff costs | 64,738 | 66,396 |
| Social security costs | 5,229 | 4,953 |
| Other pension costs | 3,085 | 2,827 |
| | 73,052 | 74,176 |

No staff costs were capitalised during the year (year ended 31 March 2016: $nil). The average number of people in the organisation during the financial year was 162 (2016: 150), consisting of both direct employees and representatives, of which 37 staff members were dedicated to commercial & strategy functions (2016: 31), 66 to operational (2016: 59) and the remainder to finance, compliance and other support functions.

## 7 NET TRADING INCOME / (EXPENSE)

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Fair value movement on interest rate swaps in qualifying hedging relationships | (18,243) | - |
| Fair value movement on fixed rate borrowings issued in qualifying hedging relationships | 18,667 | - |
| Net income / expense from financial instruments at fair value (note 22) | 424 | - |
| Other net trading expense | (26) | (811) |
| Net trading income / (expense) | 398 | (811) |

The portion of the net income from financial instruments carried at fair value relating to the ineffective portion of the fair value hedges at 31 March 2017 is a charge of $424,000 (year ended 31 March 2016: $nil).

## 8 FINANCE COSTS

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| Finance income: | | |
| Interest income on swaps | 33,796 | 35,752 |
| Interest income on loans to related companies | - | 1,370 |
| Interest income on deposits | 181 | 97 |
| Total interest income | 33,977 | 37,219 |
| Finance costs: | | |
| Interest payable on swaps | (42,404) | (42,894) |
| Interest payable on borrowings | (254,789) | (229,644) |
| Interest payable on security deposits | (54) | (72) |
| Bank charges, guarantee & other fees on borrowings | (18,442) | (19,440) |
| Total interest payable and related charges | (315,689) | (292,050) |
| Net interest payable | (281,712) | (254,831) |
| Break costs related to derivatives and liability management | (19,185) | (14,700) |

## 9 TAXATION

| | Year ended 31 March 2017 $'000 | Year ended 31 March 2016 $'000 |
|---|---|---|
| a ANALYSIS OF TAX CHARGE FOR THE YEAR | | |
| Current tax charge: | | |
| - Current year | 13,860 | 2,148 |
| Deferred tax - origination and reversal of temporary differences: | | |
| - Current year | 27,897 | 26,675 |
| Tax charge | 41,757 | 28,823 |

b FACTORS AFFECTING THE TAX CHARGE FOR THE YEAR

| | 2017 | 2016 |
|---|---|---|
| Profit before tax subject to tax at 12.5% | 290,659 | 179,680 |
| Profit before tax subject to tax at 33.33% | 45 | 323 |
| Profit before tax subject to tax at 25% | 21,781 | 23,862 |
| | 312,485 | 203,865 |
| Tax on profit at the rate of 12.5% (2016: 12.5%) | 36,332 | 22,460 |
| Tax on profit at the rate of 33.33% (2016: 33.33%) | 15 | 108 |
| Tax on profit at the rate of 25% (2016: 25%) | 5,445 | 5,966 |
| Other differences | (150) | (117) |
| Permanent difference - non-taxable income | 110 | - |
| Permanent difference - disallowed expenses | 5 | 406 |
| Tax charge | 41,757 | 28,823 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 10 PROPERTY, PLANT AND EQUIPMENT

| | Group Aircraft for hire under operating leases $'000 | Group Pre-Delivery Payments $'000 | Group Office equipment and fixtures & fittings $'000 | Group Total $'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 April 2015 | 9,762,498 | 744,225 | 4,908 | 10,511,631 |
| Additions | 1,390,775 | 75,320 | 6,208 | 1,472,303 |
| Disposals | (362,463) | (511,191) | (216) | (873,870) |
| At 31 March 2016 | 10,790,810 | 308,354 | 10,900 | 11,110,064 |
| Additions | 1,701,003 | 155,026 | 80 | 1,856,109 |
| Disposals | (1,398,675) | - | (88) | (1,398,763) |
| At 31 March 2017 | 11,093,138 | 463,380 | 10,892 | 11,567,410 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | |
| At 1 April 2015 | 1,277,630 | - | 1,165 | 1,278,795 |
| Charge for the year | 319,245 | - | 1,722 | 320,967 |
| Impairment charge for the year | 61,279 | - | - | 61,279 |
| Disposals | (101,725) | - | (173) | (101,898) |
| At 31 March 2016 | 1,556,429 | - | 2,714 | 1,559,143 |
| Charge for the year | 345,634 | - | 2,102 | 347,736 |
| Impairment charge for the year | 20,662 | - | - | 20,662 |
| Disposals | (501,821) | - | (93) | (501,914) |
| At 31 March 2017 | 1,420,904 | - | 4,723 | 1,425,627 |
| **CARRYING AMOUNT** | | | | |
| Net Book Value at 31 March 2017 | 9,672,234 | 463,380 | 6,169 | 10,141,783 |
| Net Book Value at 31 March 2016 | 9,234,381 | 308,354 | 8,186 | 9,550,921 |

During the year, assets in the Group with a carrying value of $478,947,000 (year ended 31 March 2016: $785,074,000) and average age of 11.2 years (year ended 31 March 2016: 7.5 years) were subject to impairment partly due to a deterioration in the inherent value of these aircraft and an assessment of the value of the leases attached to them, when assessed at discount rates ranging between 5%-6% (year ended 31 March 2016: 5%-6%) depending on the nature of the cash flows assessed, as well as anticipated losses on disposal of specific aircraft at year-end.

The carrying amount before impairment of $499,609,000 (year ended 31 March 2016: $846,353,000) of aircraft was determined to be higher than the value in use of $478,947,000 (year ended 31 March 2016: $785,074,000) and an impairment loss of $20,662,000 (year ended 31 March 2016: $61,279,000) was recognised during the year.

Value in use includes cash flow projections of contracted and estimated lease rentals in line with market participant expectations. Residual values are projected based on management's view of expected return conditions of the aircraft which is based on current or expected lease redelivery conditions.

The total impairment charge for the year of $20,598,000 (year ended 31 March 2016: $61,279,000) is net of an adjustment to goodwill and other intangible assets of $64,000 (year ended 31 March 2016: $nil).

## 10 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Company Aircraft for hire under operating leases $'000 | Company Pre-Delivery Payments $'000 | Company Office equipment and fixtures & fittings $'000 | Company Total $'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 April 2015 | 9,334,394 | 620,202 | 4,400 | 9,958,996 |
| Additions | 1,356,986 | 5,089 | 6,208 | 1,368,283 |
| Disposals | (296,463) | (387,168) | - | (683,631) |
| At 31 March 2016 | 10,394,917 | 238,123 | 10,608 | 10,643,648 |
| Additions | 1,635,864 | 31,486 | 42 | 1,667,392 |
| Disposals | (1,232,352) | - | (88) | (1,232,440) |
| At 31 March 2017 | 10,798,429 | 269,609 | 10,562 | 11,078,600 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | |
| At 1 April 2015 | 1,297,007 | - | 748 | 1,297,755 |
| Charge for the year | 313,693 | - | 1,680 | 315,373 |
| Impairment charge for the year | 61,279 | - | - | 61,279 |
| Disposals | (95,928) | - | - | (95,928) |
| At 31 March 2016 | 1,576,051 | - | 2,428 | 1,578,479 |
| Charge for the year | 331,831 | - | 2,060 | 333,891 |
| Impairment charge for the year | 17,715 | - | - | 17,715 |
| Disposals | (433,536) | - | (88) | (433,624) |
| At 31 March 2017 | 1,492,061 | - | 4,400 | 1,496,461 |
| **CARRYING AMOUNT** | | | | |
| Net Book Value at 31 March 2017 | 9,306,368 | 269,609 | 6,162 | 9,582,139 |
| Net Book Value at 31 March 2016 | 8,818,866 | 238,123 | 8,180 | 9,065,169 |

The carrying amount of assets included in Group and Company above subject to obligations under finance leases is $712,628,000 (31 March 2016: $750,519,000; note 21).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 11 GOODWILL AND INTANGIBLE ASSETS

| | Group Goodwill $'000 | Group Intangible assets $'000 | Group Total $'000 | Company Intangible assets $'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 April 2015 | 2,076 | 33,105 | 35,181 | 9,551 |
| Additions | - | 3,844 | 3,844 | 3,844 |
| At 31 March 2016 | 2,076 | 36,949 | 39,025 | 13,395 |
| Additions | - | 49 | 49 | 49 |
| Disposals | - | (10,971) | (10,971) | - |
| At 31 March 2017 | 2,076 | 26,027 | 28,103 | 13,444 |
| AMORTISATION, IMPAIRMENT AND OTHER ADJUSTMENTS | | | | |
| At 1 April 2015 | - | 10,413 | 10,413 | 1,516 |
| Amortisation for the year | - | 6,595 | 6,595 | 2,799 |
| At 31 March 2016 | - | 17,008 | 17,008 | 4,315 |
| Amortisation for the year | - | 5,280 | 5,280 | 2,435 |
| Adjustment to goodwill during the year | 298 | - | 298 | - |
| Disposals | - | (7,041) | (7,041) | - |
| At 31 March 2017 | 298 | 15,247 | 15,545 | 6,750 |
| TOTAL GOODWILL AND INTANGIBLE ASSETS | | | | |
| At 31 March 2017 | 1,778 | 10,780 | 12,558 | 6,694 |
| At 31 March 2016 | 2,076 | 19,941 | 22,017 | 9,080 |

Amortisation of intangible assets is included in Operating expenses in the statement of comprehensive income.

Amortisation of intangible assets is accelerated upon disposal of the aircraft to which the lease intangible relates. This accelerated amortisation is recognised as part of the profit or loss on disposal as part of operating income (note 3).

## 12 INVESTMENT IN SUBSIDIARIES — COMPANY

| | 31 March 2017 $'000 | 31 March 2016 $'000 |
|---|---|---|
| At cost | 212,922 | 212,922 |

The principal trading subsidiary undertakings, the capital of which consists of ordinary shares, are shown below. All share capital is wholly owned.

| Owned by the Company: | Nature of business: | Country of incorporation: |
|---|---|---|
| SMBC Aviation Capital Ireland Leasing 3 Limited (1) | Leasing | Ireland |
| SMBC Aviation Capital Ireland Leasing 4 Limited (1) | Leasing | Ireland |
| SMBC Aviation Capital Aircraft Holdings B.V. (2) | Leasing | Netherlands |
| SMBC Aviation Capital Netherlands B.V. (2) | Leasing | Netherlands |
| SMBC Aviation Capital Paris Leasing 1 SARL (3) | Leasing | France |
| SMBC Aviation Capital GAL Holdings Limited (4) | Intermediate leasing company | Bermuda |
| SMBC Aviation Capital Finance Designated Activity Company (1) | Debt issuance | Ireland |
| Interest in structured entities: | | |
| Mallorca Aviation Limited (5) | PDP financing company | Cayman Islands |
| Soller Aviation Limited (5) | PDP financing company | Cayman Islands |

Registered addresses of entities above, denoted by reference attached to each entity name:
1) IFSC House, IFSC, Dublin 1, Ireland
2) Strawinskylaan 907, 1077 XX Amsterdam, The Netherlands
3) 29 rue de bassano, 75008 Paris, France
4) Canon's Court, 22 Victoria St, Hamilton HM 12, Bermuda
5) 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands

Movements during the year:

| | |
|---|---|
| At 1 April 2015 | 212,922 |
| Addition during the year | - |
| Subsidiaries dissolved during the year | - |
| At 31 March 2016 | 212,922 |
| Addition during the year | - |
| Subsidiaries dissolved during the year | - |
| At 31 March 2017 | 212,922 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13 FINANCIAL INSTRUMENTS

The carrying value and fair value of the Group's financial assets and liabilities by class and category are summarised below:

| 31 March 2017 | Group Carrying Value $'000 | Group Fair Value $'000 | Company Carrying Value $'000 | Company Fair Value $'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss | | | | |
| Derivative financial instruments | 16,345 | 16,345 | 16,345 | 16,345 |
| Financial assets measured at amortised cost | | | | |
| Loans receivable | - | - | 136,705 | 149,003 |
| Trade and other receivables | 67,891 | 67,891 | 219,034 | 219,034 |
| Cash and cash equivalents | 278,393 | 278,393 | 227,347 | 227,347 |
| Financial assets | 362,629 | 362,629 | 599,431 | 611,729 |
| Financial liabilities at fair value through profit and loss | | | | |
| Derivative financial instruments | 21,320 | 21,320 | 21,288 | 21,288 |
| Borrowings (held for qualifying hedging relationships) | 477,644 | 477,644 | 477,644 | 477,644 |
| Financial liabilities measured at amortised cost: | | | | |
| Obligations under finance leases | 286,584 | 311,537 | 286,584 | 311,537 |
| Trade and other payables | 994,385 | 994,385 | 914,671 | 914,671 |
| Borrowings | 6,776,107 | 7,456,891 | 6,822,187 | 7,318,239 |
| Financial liabilities | 8,556,040 | 9,261,777 | 8,522,374 | 9,043,379 |

| 31 March 2016 | Group Carrying Value $'000 | Group Fair Value $'000 | Company Carrying Value $'000 | Company Fair Value $'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit and loss | | | | |
| Derivative financial instruments | 655 | 655 | 655 | 655 |
| Financial assets measured at amortised cost | | | | |
| Loans receivable | - | - | 93,386 | 110,367 |
| Trade and other receivables | 51,524 | 51,524 | 115,000 | 115,000 |
| Cash and cash equivalents | 204,737 | 204,737 | 151,672 | 151,672 |
| Financial assets | 256,916 | 256,916 | 360,713 | 377,694 |
| Financial liabilities at fair value through profit and loss | | | | |
| Derivative financial instruments | 44,346 | 44,346 | 44,005 | 44,005 |
| Financial liabilities measured at amortised cost: | | | | |
| Obligations under finance leases | 341,307 | 385,385 | 341,307 | 385,385 |
| Trade and other payables | 968,801 | 968,801 | 915,211 | 915,211 |
| Borrowings | 6,836,578 | 7,754,997 | 6,776,956 | 7,791,372 |
| Financial liabilities | 8,191,032 | 9,153,529 | 8,077,479 | 9,135,973 |

Where financial assets and liabilities are designated at fair value through profit and loss as per defined criteria under IAS 39, IFRS require these financial assets to be classified by three levels of hierarchy. IFRS 13 defines each level of hierarchy by the lowest level of input into the valuations as shown below.

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 Unobservable inputs for the asset or liability

**13 FINANCIAL INSTRUMENTS** (continued)

The valuation techniques and significant inputs used in determining the fair values for financial assets and liabilities classified as Level 2 are as follows:

The financial instruments at fair value through profit and loss, being the assets and liabilities shown as above, all fall within Level 2. Fair values are estimated based on a discounted cash flow analysis using observable market inputs.

Cash and cash equivalents - The fair value of cash and cash equivalents is considered to be approximately equal to their carrying amount as the components are highly liquid.

Loan receivables measured at amortised cost all fall within Level 2. Fair values are estimated based on a discounted cash flow analysis using observable market inputs.

Available for sale assets fall within Level 1 as fair values are based on publicly available quoted prices in an active market for identical assets.

Obligations under finance leases and Borrowings fall within Level 2. Fair values are estimated based on a discounted cash flow analysis using observable market inputs.

The remaining financial assets and liabilities measured at amortised cost all fall within Level 2. Fair values are estimated on the basis that the carrying value has been determined to be a good approximation of fair value.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 14 DERIVATIVES AT FAIR VALUE

All derivatives held at the reporting date are with Sumitomo Mitsui Banking Corporation Capital Markets Inc., and are in both US Dollars and Euro. All derivatives entered into are for hedging purposes and are carried at fair value. Those derivatives that do not meet IAS39 hedge accounting criteria are held for economic hedging purposes. The value of derivatives designated as a cash flow hedge relationships is $13,268,000 (2016: $43,691,000). The value of derivatives designated as a fair value hedge relationships is $18,243,000 (2016: $nil). The total amount of the change in fair value estimated in the profit or loss during the period was a $26,000 loss (2016: $811,000 loss) in respect of certain ineffective cashflow hedges and a $424,000 gain (2016: $Nil) in respect of certain ineffective fair values hedges.

| | Group Notional Contract | Group Fair values | | Company Notional Contract | Company Fair values | |
|---|---|---|---|---|---|---|
| As at 31 March 2017 | $'000 | Assets $'000 | Liabilities $'000 | $'000 | Assets $'000 | Liabilities $'000 |
| Derivatives — Non Hedge Accounting | | | | | | |
| Interest rate swaps | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| Derivatives designated as hedging instruments in fair value hedges | | | | | | |
| Interest rate swaps | 500,000 | - | (18,243) | 500,000 | - | (18,243) |
| Derivatives designated as hedging instruments in cash flow hedges | | | | | | |
| Interest rate swaps | 1,184,465 | 16,345 | (3,077) | 1,163,839 | 16,345 | (3,045) |
| Cross currency swaps | - | - | - | - | - | - |
| | 1,684,465 | 16,345 | (21,320) | 1,663,839 | 16,345 | (21,288) |
| Total | 1,684,465 | 16,345 | (21,320) | 1,663,839 | 16,345 | (21,288) |
| As at 31 March 2016 | | | | | | |
| Derivatives — Non Hedge Accounting | | | | | | |
| Interest rate swaps | 33,873 | 26 | - | 33,873 | 26 | - |
| | 33,873 | 26 | - | 33,873 | 26 | - |
| Derivatives designated as hedging instruments in cash flow hedges | | | | | | |
| Interest rate swaps | 1,504,155 | - | (44,187) | 1,481,149 | - | (43,846) |
| Cross currency swaps | 65,510 | 629 | (159) | 65,510 | 629 | (159) |
| | 1,569,665 | 629 | (44,346) | 1,546,659 | 629 | (44,005) |
| Total | 1,603,538 | 655 | (44,346) | 1,580,532 | 655 | (44,005) |

| Summary | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Assets due within one year | 6 | 235 | 6 | 235 |
| Assets due after one year | 16,339 | 420 | 16,339 | 420 |
| Liabilities due within one year | - | (547) | - | (547) |
| Liabilities due after one year | (21,320) | (43,799) | (21,288) | (43,458) |
| Total | (4,975) | (43,691) | (4,943) | (43,350) |

## 15 HEDGE ACCOUNTING

The Group and Company uses interest rate and cross-currency swaps to hedge the foreign currency and interest rate risks arising from receipt of variable interest and foreign currency receivables on leases.

The fair values of derivatives designated as cash flow hedges are as follows:

*Group*

| As at 31 March 2017 | Notional Contract Amount $'000 | Fair values Assets $'000 | Fair values Liabilities $'000 |
|---|---|---|---|
| Derivatives designated as hedging instruments in cash flow hedges | | | |
| Interest rate swaps | 1,184,465 | 16,345 | (3,077) |
| Cross currency swaps | - | - | - |
| | 1,184,465 | 16,345 | (3,077) |
| **As at 31 March 2016** | | | |
| Derivatives designated as hedging instruments in cash flow hedges | | | |
| Interest rate swaps | 1,504,155 | - | (44,187) |
| Cross currency swaps | 65,510 | 629 | (159) |
| | 1,569,665 | 629 | (44,346) |

The time periods in which the hedge cash flows are expected to occur and affect the financial statement of comprehensive income are as follows:

| 31 March 2017 | Less than 1 year $'000 | In the 2nd year $'000 | 3 to 5 years $'000 | Over 5 years $'000 |
|---|---|---|---|---|
| Cash inflows | 34,317 | 38,121 | 96,915 | 57,508 |
| Cash outflows | (51,945) | (41,281) | (97,906) | (42,182) |

During the financial year ended 31 March 2017, $50,880,000 (2016: $30,258,000) was recognised in the Statement of Other Comprehensive Income relating to the effective portion of cash flow hedge. There was no amount recognised as hedge ineffectiveness in the Statement of Other Comprehensive Income (2016: $nil).

*Company*

| As at 31 March 2017 | Notional Contract Amount $'000 | Fair values Assets $'000 | Fair values Liabilities $'000 |
|---|---|---|---|
| Derivatives designated as hedging instruments in cash flow hedges | | | |
| Interest rate swaps | 1,163,839 | 16,345 | (3,045) |
| Cross currency swaps | - | - | - |
| | 1,163,839 | 16,345 | (3,045) |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 15 HEDGE ACCOUNTING (continued)

| As at 31 March 2016 | Notional Contract Amount $'000 | Fair values Assets $'000 | Fair values Liabilities $'000 |
|---|---|---|---|
| Derivatives designated as hedging instruments in cash flow hedges | | | |
| Interest rate swaps | 1,481,149 | - | (43,846) |
| Cross currency swaps | 65,510 | 629 | (159) |
| | 1,546,659 | 629 | (44,005) |

The time periods in which the hedge cash flows are expected to occur and affect the financial statement of comprehensive income are as follows:

| | Less than 1 year $'000 | In the 2nd year $'000 | 3 to 5 years $'000 | Over 5 years $'000 |
|---|---|---|---|---|
| Cash inflows | 33,710 | 37,474 | 96,915 | 57,508 |
| Cash outflows | (51,177) | (40,762) | (97,906) | (42,182) |

During the financial year ended 31 March 2017, $50,571,000 (2016: $30,244,000) was recognised in the Statement of Other Comprehensive Income relating to the effective portion of cash flow hedge. There was no amount recognised as hedge ineffectiveness in the Statement of Comprehensive Income (2016: $nil).

Analysis of effective portion of changes in fair value of cash flow hedges

| | Group Year ended 31 March 2017 $'000 | Group Year ended 31 March 2016 $'000 | Company Year ended 31 March 2017 $'000 | Company Year ended 31 March 2016 $'000 |
|---|---|---|---|---|
| Derivatives in place for the full year | 24,786 | (6,788) | 24,477 | (6,774) |
| Derivatives matured during the year | 29,952 | (301) | 29,952 | (301) |
| Derivatives entered into during the year | (3,858) | (23,169) | (3,858) | (23,169) |
| Effective portion of changes in fair value of cash flow hedges | 50,880 | (30,258) | 50,571 | (30,244) |
| Tax effect | (6,399) | 3,784 | (6,321) | 3,781 |
| | 44,481 | (26,474) | 44,250 | (26,463) |

## 16 LOAN RECEIVABLES

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Amounts due from affiliated undertakings | - | - | 136,705 | 93,386 |
| Current asset | - | - | 66,442 | 2,444 |
| Non-current asset | - | - | 70,263 | 90,942 |
| | - | - | 136,705 | 93,386 |

## 17 TRADE AND OTHER RECEIVABLES

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Trade debtors - net | 8,670 | 7,773 | 8,662 | 6,520 |
| Amounts due from group undertakings | 16,614 | 10,643 | 175,410 | 78,241 |
| Prepayments | 23,929 | 14,456 | 23,851 | 14,337 |
| Other debtors | 18,678 | 18,652 | 11,111 | 15,902 |
| | 67,891 | 51,524 | 219,034 | 115,000 |

Amounts due from group companies in respect of the Company include balances receivable from structured entities which have been utilised as PDP finance vehicles (note 12).

## 18 CASH AND CASH EQUIVALENTS

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Bank account | 18,702 | 17,916 | 18,405 | 17,014 |
| Bank account with parent group undertakings | 251,991 | 139,764 | 201,242 | 97,458 |
| Short-term deposits with parent group undertakings | 7,700 | 47,057 | 7,700 | 37,200 |
| | 278,393 | 204,737 | 227,347 | 151,672 |
| Restricted cash | (23,191) | (45,174) | (23,191) | (45,174) |
| Cash and cash equivalents net of restricted cash | 255,202 | 159,563 | 204,156 | 106,498 |

Included in the table above is restricted cash relating to customer security deposits and a collateral call account for derivatives.

## 19 LEASE INCENTIVE ASSETS

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Lease incentive assets | 92,144 | 76,396 | 87,026 | 72,049 |
| Amortised during the year | (30,804) | (25,466) | (29,032) | (23,763) |
| Additions of lease incentive assets | 71,021 | 41,214 | 70,774 | 38,740 |
| Release of lease incentive assets on disposal of aircraft | (12,820) | - | (12,070) | - |
| | 119,541 | 92,144 | 116,698 | 87,026 |
| Current lease incentive assets (amortising within 12 months) | 24,165 | 22,449 | 23,153 | 20,471 |
| Non-current lease incentive assets (amortising after 12 months) | 95,376 | 69,695 | 93,545 | 66,555 |
| | 119,541 | 92,144 | 116,698 | 87,026 |

The lease incentive assets are amortised over the respective lease terms and recorded as a reduction of lease income (note 2).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 20 TRADE AND OTHER PAYABLES

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Security deposits | 88,033 | 99,895 | 85,410 | 97,302 |
| Maintenance reserve | 469,989 | 504,363 | 432,632 | 466,186 |
| Lessor contributions | 144,916 | 129,255 | 136,897 | 118,519 |
| Prepaid lease rentals and fee income received | 95,667 | 64,948 | 89,617 | 61,782 |
| Trade creditors | 13,682 | 37,850 | 13,222 | 36,693 |
| Accrued interest - third party undertakings | 20,101 | 9,309 | 17,267 | 9,309 |
| Amounts due to parent group undertakings | 47,635 | 40,170 | 38,312 | 44,198 |
| Other creditors | 114,362 | 83,011 | 101,314 | 81,222 |
| | 994,385 | 968,801 | 914,671 | 915,211 |

| | 31 March 2017 $'000 | 31 March 2016 $'000 | 31 March 2017 $'000 | 31 March 2016 $'000 |
|---|---|---|---|---|
| Analysed as: | | | | |
| Non-current trade and other payables (payable after 12 months) | 505,573 | 482,818 | 481,631 | 444,444 |
| Current trade and other payables (payable within 12 months) | 488,812 | 485,983 | 433,040 | 470,767 |
| | 994,385 | 968,801 | 914,671 | 915,211 |

Analysis of Group trade and other payables:

| As at 31 March 2017 | Due < 12 months $'000 | Due > 12 months $'000 | Total $'000 |
|---|---|---|---|
| Security deposits | 6,639 | 81,394 | 88,033 |
| Maintenance reserve | 172,601 | 297,388 | 469,989 |
| Lessor contributions | 29,970 | 114,946 | 144,916 |
| Prepaid lease rentals and fee income received | 95,667 | - | 95,667 |
| Trade creditors | 13,682 | - | 13,682 |
| Accrued interest - third party undertakings | 20,101 | - | 20,101 |
| Amounts due to parent group undertakings | 35,790 | 11,845 | 47,635 |
| Other creditors | 114,362 | - | 114,362 |
| | 488,812 | 505,573 | 994,385 |

| As at 31 March 2016 | Due < 12 months $'000 | Due > 12 months $'000 | Total $'000 |
|---|---|---|---|
| Security deposits | 19,903 | 79,992 | 99,895 |
| Maintenance reserve | 206,321 | 298,042 | 504,363 |
| Lessor contributions | 32,893 | 96,362 | 129,255 |
| Prepaid lease rentals and fee income received | 64,948 | - | 64,948 |
| Trade creditors | 37,850 | - | 37,850 |
| Accrued interest - third party undertakings | 9,309 | - | 9,309 |
| Amounts due to parent group undertakings | 31,748 | 8,422 | 40,170 |
| Other creditors | 83,011 | - | 83,011 |
| | 485,983 | 482,818 | 968,801 |

Security deposits fall due at the end of each respective lease, while maintenance reserves, lessor contributions and amounts due to parent group undertakings which relate to operating leases fall due during the remaining term of each respective lease based on the timing of expected maintenance events.

## 21 OBLIGATIONS UNDER FINANCE LEASES

| Amounts payable under finance leases | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Minimum lease payments: | | | | |
| Within one year | 72,536 | 70,421 | 72,536 | 70,421 |
| In the second to fifth years inclusive | 245,979 | 292,293 | 245,979 | 292,293 |
| After five years | 2,473 | 28,730 | 2,473 | 28,730 |
| | 320,988 | 391,444 | 320,988 | 391,444 |
| Less: future finance charges | (34,404) | (50,137) | (34,404) | (50,137) |
| Present value of lease obligations | 286,584 | 341,307 | 286,584 | 341,307 |
| Present value of minimum lease payments: | | | | |
| Within one year | 59,556 | 54,723 | 59,556 | 54,723 |
| In the second to fifth years inclusive | 224,639 | 258,648 | 224,639 | 258,648 |
| After five years | 2,389 | 27,936 | 2,389 | 27,936 |
| | 286,584 | 341,307 | 286,584 | 341,307 |

Terms, conditions and analysis of Group obligations under finance leases:

| | Average interest rate % | Year of maturity | Due < 12 months $'000 | Due > 12 months $'000 | Total $'000 |
|---|---|---|---|---|---|
| Secured - due to third party undertakings | | | | | |
| Floating rate obligations | - | - | - | - | - |
| Fixed rate obligations | 4.65 | 2021 | 56,834 | 212,650 | 269,484 |
| | | | 56,834 | 212,650 | 269,484 |
| Unsecured - due to parent group undertakings | | | | | |
| Fixed rate obligations | 6.09 | 2022 | 2,722 | 14,378 | 17,100 |
| | | | 59,556 | 227,028 | 286,584 |

| | Average interest rate % | Year of maturity | Due < 12 months $'000 | Due > 12 months $'000 | Total $'000 |
|---|---|---|---|---|---|
| Secured - due to third party undertakings | | | | | |
| Floating rate obligations | 0.96 | 2016 | 5,647 | - | 5,647 |
| Fixed rate obligations | 4.65 | 2021 | 46,458 | 269,483 | 315,941 |
| | | | 52,105 | 269,483 | 321,588 |
| Unsecured - due to parent group undertakings | | | | | |
| Fixed rate obligations | 6.09 | 2022 | 2,618 | 17,101 | 19,719 |
| | | | 54,723 | 286,584 | 341,307 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 22 BORROWINGS

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Loan amounts due to third party undertakings | 2,500,000 | 2,500,000 | 2,500,000 | 2,500,000 |
| Loan amounts due to parent group undertakings | 4,276,107 | 4,336,578 | 4,142,187 | 4,151,956 |
| Loan amounts due to subsidiaries | - | - | 657,644 | 125,000 |
| Debt securities issued in qualifying hedging relationships | 477,644 | - | - | - |
| | 7,253,751 | 6,836,578 | 7,299,831 | 6,776,956 |
| The borrowings are repayable as follows: | | | | |
| On demand or within one year | 571,861 | 612,745 | 718,975 | 721,596 |
| In the second year | 452,761 | 592,297 | 369,145 | 557,470 |
| In the third to fifth year inclusive | 2,336,291 | 1,555,744 | 2,318,966 | 1,436,444 |
| After five years | 3,892,838 | 4,075,792 | 3,892,745 | 4,061,446 |
| | 7,253,751 | 6,836,578 | 7,299,831 | 6,776,956 |
| Less: Amounts due for settlement within 12 months | (571,861) | (612,745) | (718,975) | (721,596) |
| Amounts due for settlement after 12 months | 6,681,890 | 6,223,833 | 6,580,856 | 6,055,360 |

On 19 July 2016, the Group closed the sale of $500 million of its 2.65% senior unsecured notes due 2021 through its wholly-owned subsidiary, SMBC Aviation Capital Finance DAC, fully and unconditionally guaranteed by SMBC Aviation Capital Limited, and the hedged interest rate risk measured at fair value through profit and loss. The debt securities were designated into a qualifying hedge relationship at inception and the Group has determined that it expects the hedge to be highly effective over the life of the hedging instrument. The debt securities are fair valued through profit and loss with respect to the hedged interest rate. The net fair value hedge ineffectiveness charge of $424,000 (note 7; year ended 31 March 2016: $Nil) recognised in the income statement reflects a gain from hedging instruments related to debt securities of $18,243,000 (year ended 31 March 2016: $Nil) partially offsetting a charge from these hedged debt securities of $18,667,000 (year ended 31 March 2016: $Nil).

All borrowings are unsecured, interest-bearing at market related interest rates determined by each facility's respective term, collateral and counterparty.

The amount of borrowing costs that were capitalised to the cost of aircraft in the year in the Group and Company was $8,859,000 (year ended 31 March 2016: $8,903,000; note 10). The rate at which borrowing costs are capitalised is determined by the appropriate associated funding and is adjusted on an ongoing basis.

Terms, conditions and analysis of Group borrowings before impact of derivatives:

| As at 31 March 2017 | Average interest rate % | Year of maturity | Due < 12 months $'000 | Due > 12 months $'000 | Total $'000 |
|---|---|---|---|---|---|
| Floating rate borrowings | | | | | |
| Loan amounts due to third party undertakings | 2.36 | 2020-2027 | 200,000 | 2,300,000 | 2,500,000 |
| Loan amount due to parent group undertakings | 3.78 | 2019-2028 | 9,133 | 426,149 | 435,282 |
| | | | 209,133 | 2,726,149 | 2,935,282 |
| Fixed rate borrowings | | | | | |
| Loan amount due to parent group undertakings | 4.68 | 2017-2028 | 362,728 | 3,478,097 | 3,840,825 |
| Debt securities issued in qualifying hedging relationships | 2.65 | 2021 | - | 477,644 | 477,644 |
| | | | 571,861 | 6,681,890 | 7,253,751 |

## 22 BORROWINGS (continued)

Terms, conditions and analysis of Group borrowings before impact of derivatives - continued:

| As at 31 March 2016 | Average interest rate % | Year of maturity | Due < 12 months $'000 | Due > 12 months $'000 | Total $'000 |
|---|---|---|---|---|---|
| Floating rate borrowings | | | | | |
| Loan amounts due to third party undertakings | 1.60 | 2020-2027 | 200,000 | 2,300,000 | 2,500,000 |
| Loan amount due to parent group undertakings | 3.32 | 2019-2028 | 7,931 | 296,332 | 304,263 |
| | | | 207,931 | 2,596,332 | 2,804,263 |
| Fixed rate borrowings | | | | | |
| Loan amount due to parent group undertakings | 4.72 | 2016-2028 | 404,814 | 3,627,501 | 4,032,315 |
| | | | 612,745 | 6,223,833 | 6,836,578 |

## 23 FINANCIAL RISK MANAGEMENT

**Risk Management Framework**

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's and the Company's risk management framework. The Board of Directors in conjunction with the Aviation Capital Department ("ACD") on behalf of the Consortium develops and monitors the Group's and the Company's risk management policies which are established to identify and analyse the risks faced by the Group and the Company, which include:

a Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group and the Company minimises cash flow currency risk by ensuring its leases and associated financing are in the same currency, or entering into currency swaps or forwards over the life of the lease. Accounting volatility arises from fair value through profit or loss movements where these derivatives, entered into as an economic hedge, do not qualify for hedge accounting under IAS 39. The Group and the Company have no currency swaps in place at year-end as the remaining contracts matured during the current year.

All financial instruments are in US dollars with the exception of the following: certain bank accounts held in Euro and Sterling, certain derivatives denominated in Euro as well as certain receivables and payables in Euro and Sterling. Information on the currency derivatives is provided in note 14.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 23 FINANCIAL RISK MANAGEMENT (continued)

a Currency Risk (continued)

The carrying amounts of other currency denominated monetary assets and liabilities are as follows:

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Euro assets | 16,339 | 15,357 | 15,461 | 14,049 |
| Sterling assets | 198 | 202 | 198 | 202 |
| Japanese yen assets | 652 | 364 | 652 | 364 |
| Swiss franc assets | 5 | 5 | 5 | 5 |
| Euro liabilities | (11,975) | (12,979) | (14,602) | (16,052) |
| Sterling liabilities | 36 | (31) | 36 | (31) |
| Japanese yen liabilities | (546) | (293) | (546) | (293) |
| Australian dollar liabilities | (23) | (23) | (23) | (23) |
| Swiss franc liabilities | (16) | (16) | (16) | (16) |
| Canadian dollar liabilities | (8) | (8) | (8) | (8) |

At 31 March 2017, if the foreign currency, on the balances disclosed above, weakened/strengthened against the US dollar by 5% with all other variables held constant, the underlying post-tax profit for the Group for the year would have been $235,451 lower/higher, and for the Company would have been $60,137 lower/higher, mainly as a result of foreign exchange gains/losses on retranslation of EUR denominated loans.

b Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's and Company's policy is to minimise cash flow interest rate risk when entering into leasing transactions by the use of appropriate matched funding, including the use of derivative financial instruments. Accounting volatility arises from fair value through profit or loss movements where these derivatives, entered into as an economic hedge, do not qualify for hedge accounting under IAS 39.

At the end of the reporting period the interest rate profile of the Group's and Company's interest-bearing financial instruments was as follows:

Interest rate risk:

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Financial assets | | | | |
| - variable rate | 23,191 | 45,174 | 23,191 | 45,174 |
| - fixed rate | - | 9,857 | 136,705 | 93,386 |
| - non-interest bearing | 339,438 | 201,885 | 439,535 | 222,153 |
| Total Financial Assets | 362,629 | 256,916 | 599,431 | 360,713 |
| Financial liabilities | | | | |
| - variable rate | 2,935,282 | 2,655,329 | 2,914,656 | 2,757,323 |
| - fixed rate | 4,604,856 | 4,522,556 | 4,671,759 | 4,360,940 |
| - non-interest bearing | 1,015,902 | 1,013,147 | 935,959 | 959,216 |
| Total Financial Liabilities | 8,556,040 | 8,191,032 | 8,522,374 | 8,077,479 |

## 23 FINANCIAL RISK MANAGEMENT (continued)

b Interest Rate Risk (continued)

The Group and Company manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. At 31 March 2017, if interest rates on financial assets or liabilities with variable interest rates shifted by 10bps, the underlying post-tax profit for the year would have been $1,340,000 lower/higher; other components of equity would have been $2,596,000 lower/ higher as a result of a decrease/increase in the fair value of cash flow hedge reserve.

c Liquidity Risk

Liquidity risk is the risk that the Group and Company will not be able to meet its financial obligations as they fall due. The Group's and Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. Any maturity mis-match within the overall long-term structure of the Group's and Company's assets and liabilities is managed to ensure that term asset commitments may be funded on an economic basis over their life. The short-term maturity structure of the Group's and Company's liabilities and assets is managed on a daily basis to ensure that all cash flow obligations can be met as they arise.

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| | Group Carrying value 31 March 2017 $'000 | Group Contracted cashflows 31 March 2017 $'000 | Group Carrying value 31 March 2016 $'000 | Group Contracted cashflows 31 March 2016 $'000 |
|---|---|---|---|---|
| Trade and other payables | 994,385 | 994,385 | 968,801 | 968,801 |
| Obligations under finance leases | 286,584 | 320,988 | 341,307 | 391,444 |
| Borrowings | 7,253,751 | 8,920,755 | 6,836,578 | 8,568,673 |
| Currency swaps | - | - | 159 | - |
| Interest rate swaps | 21,320 | 233,313 | 44,187 | 122,173 |
| | 8,556,040 | 10,469,441 | 8,191,032 | 10,051,091 |

| 31 March 2017 | Group Less than 1 year $'000 | Group 1 to 2 years years $'000 | Group 3 to 5 years $'000 | Group Over 5 years $'000 |
|---|---|---|---|---|
| Non-derivative financial instruments | | | | |
| Trade and other payables | (488,812) | (65,249) | (238,919) | (201,405) |
| Obligations under finance leases | (72,536) | (72,747) | (173,233) | (2,472) |
| Borrowings | (815,599) | (685,539) | (3,001,014) | (4,418,603) |
| Total non-derivative financial instruments outflows | (1,376,947) | (823,535) | (3,413,166) | (4,622,480) |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 23 FINANCIAL RISK MANAGEMENT (continued)

c Liquidity Risk (continued)

| | Group Less than 1 year $'000 | Group 1 to 2 years $'000 | Group 3 to 5 years $'000 | Group Over 5 years $'000 |
|---|---|---|---|---|
| Derivative financial instruments (gross) | | | | |
| *Currency Swaps* | | | | |
| Gross Settled - Inflow | - | - | - | - |
| Gross Settled - Outflow | - | - | - | - |
| *Interest Rate Swaps* | | | | |
| Net Settled - inflow | - | - | - | 15,326 |
| Net Settled - outflow | (17,628) | (3,160) | (991) | - |
| Total Outflows | (1,394,575) | (826,695) | (3,414,157) | (4,607,154) |

| 31 March 2016 | Group Less than 1 year $'000 | Group 1 to 2 years $'000 | Group 3 to 5 years $'000 | Group Over 5 years $'000 |
|---|---|---|---|---|
| Non-derivative financial instruments | | | | |
| Trade and other payables | (485,984) | (147,443) | (179,472) | (155,903) |
| Obligations under finance leases | (70,421) | (72,536) | (219,757) | (28,730) |
| Borrowings | (837,367) | (824,513) | (2,189,830) | (4,716,963) |
| Total non-derivative financial instruments outflows | (1,393,772) | (1,044,492) | (2,589,059) | (4,901,596) |
| Derivative financial instruments (gross) | | | | |
| *Currency Swaps* | | | | |
| Gross Settled - Inflow | 13,640 | 2,440 | - | - |
| Gross Settled - Outflow | (13,097) | (2,517) | - | - |
| *Interest Rate Swaps* | | | | |
| *Net Settled - inflow* | - | - | 10,805 | 5,747 |
| Net Settled - outflow | (9,713) | (2,062) | - | - |
| Total Outflows | (1,402,942) | (1,046,631) | (2,578,254) | (4,895,849) |

It is not expected that the cash flows in the maturity analysis could occur significantly earlier than shown above.

| | Company Carrying value 31 March 2017 $'000 | Company Contracted cashflows 31 March 2017 $'000 | Company Carrying value 31 March 2016 $'000 | Company Contracted cashflows 31 March 2016 $'000 |
|---|---|---|---|---|
| Trade and other payables | 914,671 | 914,671 | 915,211 | 915,211 |
| Obligations under finance leases | 286,584 | 320,988 | 341,307 | 391,444 |
| Borrowings | 7,299,831 | 8,217,570 | 6,776,956 | 8,490,250 |
| Currency swaps | - | - | 159 | - |
| Interest rate swaps | 21,288 | 232,026 | 43,846 | 120,085 |
| | 8,522,374 | 9,685,255 | 8,077,479 | 9,916,990 |

## 23 FINANCIAL RISK MANAGEMENT (continued)

c Liquidity Risk (continued)

| 31 March 2017 | Company Less than 1 year $'000 | Company 1 to 2 years years $'000 | Company 3 to 5 years $'000 | Company Over 5 years $'000 |
|---|---|---|---|---|
| Non-derivative Financial Instruments | | | | |
| Trade and other payables | (433,040) | (61,214) | (230,859) | (189,559) |
| Obligations under finance leases | (72,536) | (72,747) | (173,233) | (2,472) |
| Borrowings | (763,951) | (586,183) | (2,448,926) | (4,418,510) |
| Total Non-derivative Financial Instruments Outflows | (1,269,527) | (720,144) | (2,853,018) | (4,610,541) |
| Derivative Financial Instruments (gross) | | | | |
| *Currency Swaps* | | | | |
| Gross Settled - Inflow | - | - | - | - |
| Gross Settled - Outflow | - | - | - | - |
| *Interest Rate Swaps* | | | | |
| Net Settled - inflow | - | - | - | 15,326 |
| Net Settled - outflow | (17,467) | (3,288) | (991) | - |
| Total Outflows | (1,286,994) | (723,432) | (2,854,009) | (4,595,215) |

| 31 March 2016 | Company Less than 1 year $'000 | Company 1 to 2 years years $'000 | Company 3 to 5 years $'000 | Company Over 5 years $'000 |
|---|---|---|---|---|
| Non-derivative Financial Instruments | | | | |
| Trade and other payables | (470,767) | (129,512) | (163,912) | (151,019) |
| Obligations under finance leases | (70,421) | (72,536) | (219,757) | (28,730) |
| Borrowings | (940,948) | (782,840) | (2,064,000) | (4,702,462) |
| Total Non-derivative Financial Instruments Outflows | (1,482,136) | (984,888) | (2,447,669) | (4,882,211) |
| Derivative Financial Instruments (gross) | | | | |
| *Currency Swaps* | | | | |
| Gross Settled - Inflow | 13,640 | 2,440 | - | - |
| Gross Settled - Outflow | (13,097) | (2,517) | - | - |
| *Interest Rate Swaps* | | | | |
| Net Settled - inflow | - | - | 10,514 | 5,747 |
| Net Settled - outflow | (9,702) | (2,304) | - | - |
| Total Outflows | (1,491,295) | (987,269) | (2,437,155) | (4,876,464) |

It is not expected that the cash flows in the maturity analysis could occur significantly earlier than shown above.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 23 FINANCIAL RISK MANAGEMENT (continued)

d Credit Risk

Credit risk is the risk arising from the possibility that the Group and Company will incur losses from the failure of counterparties to meet their obligations. Credit risk is managed with oversight from the Aircraft Credit Department ("ACCD") to enable the Group and Company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved risk appetite on a portfolio basis. The key principles of credit risk management set out in the Framework include:

- Approval of credit exposure must be granted prior to any advance or extension of credit.
- An appropriate credit risk assessment of the customer and related credit facilities must be undertaken prior to approval of credit exposure. This must include an assessment of, amongst others, the purpose of the credit and sources of repayment, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return.
- Credit risk authority must be specifically granted in writing to all individuals involved in the granting of credit approval, whether this is exercised personally or collectively as part of a credit committee. These individuals must act independently and with balanced commercial judgement in exercising credit authority.
- Where credit authority is exercised personally, the individual must not have any responsibility or accountability for business revenue origination.
- All credit exposures, once approved, must be effectively monitored and managed and reviewed periodically against approved guidelines. Review occurs at least annually, with lower quality exposures being subject to a greater frequency of analysis and assessment.
- Customers with emerging credit problems must be identified early and classified accordingly. Remedial actions must be implemented promptly to minimise the potential loss to the Company and consideration given whether to transfer customers with credit problems to a specialised problem management or recovery unit.
- Portfolio analysis and reporting must be used to identify and manage credit risk concentrations and credit risk quality.

The Group's principal financial assets that give rise to credit exposure are trade and other receivables ($42 million) and bank accounts ($278 million; including $260 million with group companies). The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

At 31 March 2017, the Group's significant cash and deposit counterparties were:

| | $'000 |
|---|---|
| SMBC (credit rating A (S&P)) | 259,691 |
| Wells Fargo (Credit rating AA- (S&P)) | 15,491 |
| Citibank (Credit rating A+ (S&P)) | 3,211 |
| | 278,393 |

Credit risk with respect to trade receivables is generally mitigated due to the number of lessees and their dispersal across different geographical areas. At the financial year end March 2017, the Group was exposed to trade debtors of $8,670,000 (2016: $7,773,000) and held a bad debt provision against these for $nil (2016: $nil). A number of leases were restructured during the year, which resulted in a provision for deferred rentals of $3,038,000 (2016: $nil). At 31 March 2017 the Group held Letters of Credit of $311,680,000 (2016: $264,950,000).

## 23 FINANCIAL RISK MANAGEMENT (continued)

d Credit Risk (continued)

The amounts presented in the Statement of Financial Position are net of allowances for doubtful receivables and gross of collateral held.

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The table below provides an analysis of the age of financial assets that are past due at the end of the reporting period but not impaired and an analysis of financial assets that are individually determined to be impaired as at the end of the reporting period.

| 31 March 2017 | Group Less than one month $'000 | Group One to two months $'000 | Group More than two months $'000 | Company Less than one month $'000 | Company One to two months $'000 | Company More than two months $'000 |
|---|---|---|---|---|---|---|
| Amounts past due but not impaired | | | | | | |
| Lease receivables | 7,612 | 467 | 591 | 7,604 | 467 | 591 |
| Amounts deemed to be Impaired | | | | | | |
| Lease receivables | - | - | - | - | - | - |
| 31 March 2016 | | | | | | |
| Amounts past due but not impaired | | | | | | |
| Lease receivables | 6,598 | 680 | 495 | 5,871 | 154 | 495 |
| Amounts deemed to be Impaired | | | | | | |
| Lease receivables | - | - | - | - | - | - |

Based on counterparty payment history the Company considers all the above financial assets to be of good credit quality.

Impairment Losses

| | Group $'000 | Company $'000 |
|---|---|---|
| The movement in the provision for bad debts in respect of lease receivables is as follows: | | |
| Balance at 1 April 2015 | - | - |
| Provision for bad debts | - | - |
| Balance at 31 March 2016 | - | - |
| Provision for bad debts | - | - |
| Balance at 31 March 2017 | - | - |

e Capital Management

The Group and Company is a member of a group with regulatory disciplines over the use of its capital. Although the Group and Company itself is not regulated it aims to maintain capital resources commensurate with the nature, scale and risk profile of its business. It regards its capital as the total equity as shown on the Statement of Financial Position.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 24 DEFERRED TAX

| | Group $'000 | Company $'000 |
|---|---|---|
| Movements during the year: | | |
| At 1 April 2015 | 236,997 | 204,234 |
| Charge to income from continuing operations | 26,675 | 22,616 |
| Charge to other comprehensive income | (3,784) | (3,780) |
| Reclassification to current tax | 14 | - |
| At 31 March 2016 | 259,902 | 223,070 |
| Charge to income from continuing operations | 27,897 | 36,132 |
| Charge to other comprehensive income | 6,399 | 6,321 |
| At 31 March 2017 | 294,198 | 265,523 |

Full provision has been made for the potential amount of deferred taxation shown below:

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Accelerated capital allowances on assets financed, less carried forward tax losses | 294,198 | 259,902 | 265,523 | 223,070 |
| | 294,198 | 259,902 | 265,523 | 223,070 |

## 25 SHARE CAPITAL

| | 31 March 2017 $ | 31 March 2016 $ |
|---|---|---|
| Ordinary shares of $1 | | |
| Authorised: | 245,000,000 | 245,000,000 |
| Issued, called up and fully paid: | 187,512,770 | 187,512,770 |
| | Number of shares | |
| Authorised: | 245,000,000 | 245,000,000 |
| Issued, called up and fully paid: | 187,512,770 | 187,512,770 |

The Company has one class of ordinary voting shares which carry no right to fixed income.

## 26 OTHER COMPONENTS OF EQUITY

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Capital contribution | 207,486 | 207,486 | 207,486 | 207,486 |
| Other reserve | 1,967 | 1,967 | - | - |
| Cash flow hedge reserve | 6,272 | (38,209) | 6,296 | (37,954) |
| Total other reserves | 215,725 | 171,244 | 213,782 | 169,532 |

In May 2012, the Company's then immediate parent company, International Aviation Management (CI) Limited, irrevocably waived and forgave debt of $207,486,000 in the form of a capital contribution. The contribution was made absolutely and RBS retained no rights, titles or interest whatsoever in the contribution other than the rights it held as the shareholder.

As described in note 1 c, for newly acquired subsidiaries, the group adjusts the carrying value of assets and liabilities to reflect the Group's accounting policies. At 31 March 2013, the Group acquired a new subsidiary (SMBC Aviation Capital Aircraft Holdings B.V.) as part of a common control transaction. The impact of harmonising the Group's accounting policies was that the maintenance reserves of SMBC Aviation Capital Aircraft Holdings B.V. were reduced by $2.633m at 31 March 2013, with a related increase in deferred tax liabilities of $0.658m. The difference, a net amount of $1.967m being a transaction with shareholder, was reflected in the other reserve.

## 27 OPERATING LEASE ARRANGEMENTS

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

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| Within one year | 995,444 | 938,967 | 961,792 | 895,160 |
| In the second to fifth years inclusive | 3,691,647 | 3,422,063 | 3,661,287 | 3,336,247 |
| After five years | 2,944,727 | 3,109,208 | 2,944,727 | 3,105,067 |
| | 7,631,818 | 7,470,238 | 7,567,806 | 7,336,474 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)



## 28 RELATED PARTIES

The Consolidated Financial Statements include the Financial Statements of the Company and its subsidiaries as documented in the accounting policy note 1c. A listing of the Company's subsidiaries is included in note 12. Transactions to and from, together with outstanding payables and receivables to and from, subsidiaries are eliminated in the preparation of the consolidated financial information in accordance with IAS 27, Consolidated and Separate Financial Statements.

The Group and Company's ultimate parent companies are Sumitomo Mitsui Financial Group (66%) and Sumitomo Corporation (34%). The table below provides a list of any outstanding balances at year end and any transactions entered into during the financial year with the parent companies and its subsidiaries. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions.

| Transactions with parent companies: | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| **Sumitomo Mitsui Finance and Leasing Co., Ltd** | | | | |
| Transactions during the period: | | | | |
| Fee income | 3,409 | 2,669 | 3,409 | 2,669 |
| Interest expense | 4,394 | 5,684 | - | - |
| Operating expenses | 5,147 | 494 | 3,775 | 494 |
| Balances at period end: | | | | |
| Borrowings | 78,169 | 106,857 | - | - |
| Sundry debtors | - | 675 | - | 870 |
| Other creditors | 2,120 | - | 2,000 | - |
| Transactions with associate companies: | | | | |
| **Aviation Management Co., Ltd.** | | | | |
| Transactions during the period: | | | | |
| Fee income | 569 | 1,541 | 239 | 1,211 |
| Balances at period end: | | | | |
| Sundry debtors | - | 273 | - | 250 |
| **JRI America, Inc.** | | | | |
| Transactions during the period: | | | | |
| Operating expenses | - | - | - | - |
| Balances at period end: | | | | |
| Other creditors | 1,789 | 2,601 | 1,789 | 2,601 |
| **SMBC Aviation Capital (UK) Limited** | | | | |
| Transactions during the period: | | | | |
| Lease rental income | 5,465 | 5,494 | 5,465 | 5,494 |
| Fee income | 3,226 | 4,740 | 3,226 | 4,740 |
| Interest Income | - | 1,370 | - | 1,370 |
| Balances at period end: | | | | |
| Amounts due to / (from) group undertakings | (822) | 1,520 | (822) | 1,520 |
| **SMBC Aviation Capital Australia Leasing** | | | | |
| Transactions during the period: | | | | |
| Fee income | 484 | 45 | 484 | 45 |
| Balances at period end: | | | | |
| Amounts due from group undertakings | 5 | 109 | 5 | 109 |

## 28 RELATED PARTIES (continued)

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| **SMBC Capital Markets Inc.** | | | | |
| Transactions during the period: | | | | |
| Fee expense | 20 | 110 | 20 | 107 |
| Gain / (loss) on derivative fair value | 18,269 | 811 | 18,269 | 811 |
| Interest expense | 9,578 | 12,560 | 9,442 | 12,268 |
| Balances at period end: | | | | |
| Cash | 7,700 | 37,200 | 7,700 | 37,200 |
| Amounts due to group undertakings | 43 | 231 | 43 | 223 |
| Derivative Financial Instruments | 7,623 | 48,914 | 7,621 | 48,907 |
| **SMBC Trust Bank** | | | | |
| Transactions during the period: | | | | |
| Interest expense | 5,496 | - | 5,496 | - |
| Balances at period end: | | | | |
| Borrowings | 414,656 | - | 414,656 | - |
| Amounts due to group undertakings | 1,660 | - | 1,660 | - |
| **SMBC Europe Limited** | | | | |
| Transactions during the period: | | | | |
| Fee income | 2,396 | 1,581 | 2,396 | 1,581 |
| Interest income | 9 | 37 | 6 | 14 |
| Operating (income) / expenses | (106) | 815 | (107) | 815 |
| Balances at period end: | | | | |
| Cash | 72,069 | 108,544 | 33,813 | 57,696 |
| Sundry Creditors | - | 980 | - | 982 |
| **SMBC (Japan)** | | | | |
| Transactions during the period: | | | | |
| Operating expenses | 21,894 | 24,186 | 21,894 | 24,186 |
| Balances at period end: | | | | |
| Amounts due to group undertakings | 9,625 | 10,618 | 9,625 | 10,618 |
| **SMBC (New York)** | | | | |
| Transactions during the period: | | | | |
| Interest expense | 202,331 | 201,739 | 202,088 | 201,400 |
| Balances at period end: | | | | |
| Borrowings | 3,717,353 | 4,147,632 | 3,717,353 | 4,134,678 |
| Cash | 179,922 | 41,077 | 167,428 | 39,762 |
| Amounts due to group undertakings | 6,646 | 9,697 | 6,646 | 9,677 |
| **SMBC (Paris)** | | | | |
| Transactions during the period: | | | | |
| Interest expense | 1,159 | 1,320 | 1,159 | 1,320 |
| Balances at period end: | | | | |
| Obligations under Finance Leases | 2,722 | 2,618 | 2,722 | 2,618 |
| Non-current liabilities | 14,491 | 17,231 | 14,491 | 17,231 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 28 RELATED PARTIES (continued)

| | Group 31 March 2017 $'000 | Group 31 March 2016 $'000 | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|---|---|
| **SMFL (China) Co., Ltd.** | | | | |
| Transactions during the period: | | | | |
| Operating expenses | 730 | 883 | 730 | 883 |
| Balances at period end: | | | | |
| Other Creditors | 287 | 158 | 287 | 158 |
| **SMFL (Hong Kong) Limited.** | | | | |
| Transactions during the period: | | | | |
| Operating expenses | 1,775 | 1,384 | 1,775 | 1,384 |
| Balances at period end: | | | | |
| Other Creditors | 36 | 149 | 36 | 149 |
| **SMFL (Singapore) Pte. Ltd.** | | | | |
| Transactions during the period: | | | | |
| Operating expenses | 1,034 | 859 | 1,034 | 859 |
| Balances at period end: | | | | |
| Other Creditors | 249 | 205 | 249 | 205 |
| **SMBC Aviation Capital Japan Co., Ltd.** | | | | |
| Transactions during the period: | | | | |
| Fee income | 144 | 2,591 | 144 | 2,591 |
| Balances at period end: | | | | |
| Amounts due (from) / to group undertakings | (36) | (36) | (36) | (36) |
| **SMBC Aviation Capital Labuan Leasing 1 Limited** | | | | |
| Transactions during the period: | | | | |
| Lease rental income | 7,362 | 9,619 | 7,362 | 9,619 |
| Balances at period end: | | | | |
| Amounts due (from) / to group undertakings | - | (1,559) | - | (1,559) |

| Transactions with subsidiaries | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|
| **SMBC Aviation Capital Ireland Leasing 3 Limited** | | |
| Transactions during the period: | | |
| Fee income | 60 | 34 |
| Interest income | 3,596 | 2,815 |
| Balances at period end: | | |
| Amounts due from group undertakings | 73,555 | 71,577 |
| **SMBC Aviation Capital Ireland Leasing 4 Limited** | | |
| Transactions during the period: | | |
| Fee income | 333 | 42 |
| Interest income | 699 | 617 |
| Balances at period end: | | |
| Amounts due from group undertakings | 65,049 | 19,566 |

## 28 RELATED PARTIES (continued)

| | Company 31 March 2017 $'000 | Company 31 March 2016 $'000 |
|---|---|---|
| **SMBC Aviation Capital Netherlands B.V.** | | |
| Transactions during the period: | | |
| Fee income | 1,480 | 333 |
| Fee expense | 2,308 | 2,831 |
| Interest expense | 3 | - |
| Balances at period end: | | |
| Amounts due to / (from) group undertakings | 31,241 | 1,887 |
| **SMBC Aviation Capital Paris Leasing 1 SARL** | | |
| Transactions during the period: | | |
| Fee expense | - | - |
| Lease rental income | - | 20,438 |
| Balances at period end: | | |
| Amounts due from group undertakings | - | - |
| **SMBC Aviation Capital Aircraft Holdings B.V.** | | |
| Transactions during the period: | | |
| Interest expense | 3,289 | 1,778 |
| Fee income | 1,176 | 1,578 |
| Balances at period end: | | |
| Amounts due to / (from) group undertakings | 150,303 | 127,729 |
| **Mallorca Aviation Limited** | | |
| Transactions during the period: | | |
| Interest income | 3,094 | 908 |
| Balances at period end: | | |
| Amounts due from group undertakings | 160,366 | 67,286 |
| **Soller Aviation Limited** | | |
| Transactions during the period: | | |
| Interest income | 464 | - |
| Balances at period end: | | |
| Amounts due from group undertakings | 33,405 | 2,995 |
| **SMBC Aviation Capital Finance Designated Activity Company** | | |
| Transactions during the period: | | |
| Fee expense | 8 | - |
| Interest expense | 9,963 | - |
| Balances at period end: | | |
| Amounts due to group undertakings | 499,145 | - |

On 19 July 2016, the Group closed the sale of $500 million of its 2.65% senior unsecured notes due 2021 through its wholly-owned subsidiary, SMBC Aviation Capital Finance DAC, fully and unconditionally guaranteed by SMBC Aviation Capital Limited. The impact on borrowings is set out in note 22.

The amounts outstanding are unsecured and will be settled in cash. No other guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 28 RELATED PARTIES (continued)

Key management personnel include directors (executive and non-executive), members of the Executive Committee and the Company Secretary. The compensation paid or payable to key management is shown below:

| | 31 March 2017 $'000 | 31 March 2016 $'000 |
|---|---|---|
| Salaries and other short-term employee benefits | 10,047 | 9,583 |
| Post-employment benefits | 380 | 377 |
| Other long-term benefits | 10,504 | 18,915 |
| Total | 20,931 | 28,875 |

## 29 CAPITAL COMMITMENTS

During 2015, the Group placed firm orders with Airbus and Boeing. The Airbus order consists of 110 A320neo aircraft and 5 A321ceo aircraft, while the Boeing order consists of 90 Boeing 737 MAX 8 aircraft. The Group also has other capital commitments totalling $1.7 billion (31 March 2016: $1.4 billion).

The combined remaining purchase commitment for orders total $24.7 billion and delivery dates are currently scheduled between 2017 and 2022. These commitments are based upon fixed price agreements with the manufacturers, an element of which are adjusted for inflation and include price escalation formulas, but are also subject to agreed price concessions where applicable. As a result, the effective purchase price of each aircraft will be lower than the combined purchase commitment disclosed above.

The Group also has a commitment to future rentals of office premises of $12.3 million to March 2024.

## 30 CONTINGENT LIABILITIES

The Group and Company had no contingent liability at 31 March 2017 (31 March 2016: $nil).

## 31 SUBSEQUENT EVENTS

On 28 April 2017, Mr. M. Takashima resigned as Director. On the same day, Mr. Y. Kawasaki was appointed as Director.

On 11 May 2017, Fitch Ratings upgraded SMBC Aviation Capital Limited's and SMBC Aviation Capital Finance DAC's Long-Term Issuer Default Ratings ("IDRs") to 'A-' from 'BBB+' and SMBC Aviation Capital Finance DAC's senior unsecured notes rating to 'A-' from 'BBB+'.

No other significant events affecting the Group and Company have occurred since 31 March 2017, which require adjustment to or disclosure in the Consolidated Financial Statements.

## 32 APPROVAL OF FINANCIAL STATEMENTS

The Directors approved these Financial Statements on 26 May 2017.

# ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ACCD | Aircraft Credit Department |
| ACD | Aviation Capital Department |
| ceo | Current engine option |
| CGU | Cash generating unit |
| Companies Act/ The Act | Companies Act 2014 |
| Company | SMBC Aviation Capital Limited |
| Consortium | SMFG and SC |
| CSR | Corporate Social Responsibility |
| EU | European Union |
| Financial Statements | The Group and Company financial statements |
| Group | SMBC Aviation Capital Limited and its subsidiaries |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| IFSC | International Financial Services Centre |
| ISA | International Standard on Auditing |
| IT | Information technology |
| JOLCO | Japanese operating lease with call option |
| Managed entities | SMBC Aviation Capital (UK) Limited & subsidiary and SMBC Aviation Capital Australia Leasing PTY Limited |
| MSN | Manufacturers Serial Number |
| neo | New engine option |
| OEM | Original equipment manufacturer |
| PDP | Pre-delivery payment |
| S&P | Standard & Poor's |
| SC | Sumitomo Corporation |
| SMBC | Sumitomo Mitsui Banking Corporation |
| SMFG | Sumitomo Mitsui Financial Group |
| Structured entity | PDP financing company |
| UEL | Useful economic life |

# NOTES

SMBC AVIATION CAPITAL

SMBC Aviation Capital
IFSC House
IFSC, Dublin 1
Ireland

smbc.aero