

Nordic Aviation Capital A/S

Stratusvej 12
DK-7190 Billund

CVR no. 19 39 89 94

Annual report for the period 1 January – 31 December 2022

The annual report was presented and approved at
the Company's annual general meeting on

6 July 2023

Edward James Sheard

Chairman of the annual general meeting

Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	5
Company details	5
Financial highlights	6
Operating review	7
Financial statements 1 January – 31 December	13
Income statement	13
Balance sheet	14
Statement of changes in equity	16
Notes	17

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Nordic Aviation Capital A/S for the financial year 1 January – 31 December 2022.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2022 and of the results of the Company's operations for the financial year 1 January – 31 December 2022.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Billund, 6 July 2023
Executive Board:

Edward James Sheard
Chief Executive Officer

Board of Directors:

Edward James Sheard
Chairman

Martin Anthony Cooke

Paul Philip O'Donnell

Independent auditor's report

To the shareholders of Nordic Aviation Capital A/S

Opinion

We have audited the financial statements of Nordic Aviation Capital A/S for the financial year 1 January – 31 December 2022 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2022 and of the results of the Company's operations for the financial year 1 January – 31 December 2022 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

Independent auditor's report

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Fredericia, 6 July 2023

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Nikolaj Møller Hansen
State Authorised
Public Accountant
mne33220

Michael Lund Siegumfeldt
State Authorised
Public Accountant
mne28662

Nordic Aviation Capital A/S
Annual report 2022
CVR no. 19 39 89 94

Management's review

Company details

Nordic Aviation Capital A/S
Stratusvej 12
7190 Billund
Denmark

Telephone: +4576511200
Fax: +4576511212
Website: www.nac.dk

CVR no.: 19 39 89 94
Established: 26 June 1996
Registered office: Billund
Financial year: 1 January – 31 December

Board of Directors

Edward James Sheard, Chairman
Martin Anthony Cooke
Paul Philip O'Donnell

Executive Board

Edward James Sheard, Chief Executive Officer

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Vesterballevej 27, 2.
7000 Fredericia
Denmark
CVR no. 25 57 81 98

Management's review

Financial highlights

USDm	2022	2021	2020/21	2019/20	2018/19*
Key figures					
Revenue	21	20	34	43	34
Operating profit/loss	61	-104	-7	8	0
Profit/loss from financial income and expenses	30	1	-13	7	8
Profit/loss for the year	111	-102	-40	31	4
Ratios					
Total assets	470	405	511	565	420
Equity	398	287	389	428	398
Investment in property, plant and equipment	0	0	20	54	0
Other key figures					
Average number of full-time employees	50	75	83	86	92

The financial ratios have been calculated as follows:

*The figures for 2018/19 have not been restated to account for the impact of IFRS 16.

Return on equity
$$\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$$

Solvency ratio
$$\frac{\text{Equity ex. non-controlling interests at year-end} \times 100}{\text{Total equity and liabilities at year-end}}$$

Management's review

Operating review

Principal activities

Nordic Aviation Capital A/S' (the Company) activities consist of providing shared services to the other Group members. The services are primarily inventory, building and technical and financial services.

Additionally, the Company has an aircraft on lease with an external customer. In consideration of the volume of transactions with other Group members, the Management review includes Group considerations. Accordingly, the sections below include Company information as well as commentary from the Group annual report for the financial year 2022 January – December ('Group annual report').

The Company's activities are predominantly denominated in US Dollars (USD), and this is the Company's functional currency. The financial statements are presented in USD.

Development in activities and financial position

The Company's income statement for 2022 12m (January to December) shows a gain of USD 111,0m versus a loss of USD 101,6m for the financial period 2021 6m (July to December).

- Revenue has reduced by 46.6% on an annualised basis as a result of the pandemic and a decrease in hangar activities.
- Gross loss has been reduced but remains negative as production costs experience an exceptional increase due to maintenance volume increases post-pandemic, required to bring the fleet to an airworthy condition.
- Administrative expenses show a positive variance of USD 156m. This results from a reduction in staff expenses, due to closure of the hangar and related facilities.
- Other Financial Income contains an exceptional gain due to restructuring gain of circa USD 23,8m.

Equity in the Company's balance sheet on 31 December 2022 stood at USD 398m against USD 287m on 31st December 2021.

Going concern/outlook

Going concern

The Group's business activities, together with factors likely to affect its future development, performance, and position, are set out above along with the financial position. In addition, Note 19 to the Group financial statements includes the objectives, policies and processes for managing financial risk; details of financial instruments and hedging activities; and the exposure to credit risk and liquidity risk, to the extent these were in place at 31 December 2022.

In response to the unprecedented challenges faced by the Group following the outbreak of the COVID-19 pandemic, the Group, in December 2021, entered a voluntary restructuring process under chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia ("chapter 11"). On 4 May 2022, when the financial statements for the 6-month period ended 31 December were approved, the Directors had identified events and conditions that indicated the existence of a material uncertainty that cast doubt on the Group's ability to emerge successfully from the chapter 11 proceedings.

Management's review

Operating review

The Group was required to satisfy certain conditions precedent to emerge. The conditions precedent generally required the Group to (I) effectuate the restructuring transactions; (II) satisfy the fees, expenses, and other related payables of certain of its creditors and lenders; and (III) remain in compliance with the restructuring support agreement and the plan of reorganization. If the Group did not satisfy the conditions precedent, the Group would not emerge from chapter 11.

The Group satisfied all conditions precedent and successfully emerged from chapter 11 on 1 June 2022. The successful emergence of the Group from the chapter 11 proceedings thereby removed the material uncertainty over the Group's ability to continue as a going concern.

Structural changes on emergence resulted in NAC Aviation 2 A/S and NAC Aviation 3 A/S moving to the NAC 29 DAC group.

The Group is a global leader in regional aircraft leasing and is expanding into larger narrowbody aircraft and leveraging its world class asset management platform. As part of this strategy, the decision was taken to close the Company's hangar and related services in Denmark along with moving to a smaller office building in Vejle. The sale of the building in Billund Denmark is expected to occur in mid-2023.

In June 2020, the Danish tax authorities issued an upward adjustment to the taxable income of the Company for the years 2012-2016. The assessment is subject to a Mutual Agreement Procedure (MAP). The MAP process is expected to conclude within the next few years. In May 2021 SKAT agreed to deferral of the outstanding balance and agreement of receivables from the Danish authorities are used to eliminate the debt from the principal of older debt is repaid first (FIFO). The remaining debt is deferred to end of the MAP process but no later than Q2 2025. In June and July 2022, the Danish Tax Agency agreed to change the company's taxable income based on the MAP agreement. Pursuant to the agreement, the prior transfer pricing regulation was reduced by USD 11.825 million for the Company.

The Company has a large receivable, from NAC DAC. The Company does not plan to call on this at present, unless absolutely required. The Company is considering a dividend payment which would reduce the balance of the receivable.

Outlook

For FY2023, it is expected that results will be sufficiently profitable with a return to a profit range of 5%-10% depending on the mix of services required from the group as a whole and the revenue generated from the aircraft on lease.

Considering the Going Concern assessment made by NAC DAC and after having considered the adequacy of the Company's operating cash flows and borrowing facilities the Directors of the Company are satisfied that the financial statements are prepared on a going concern basis and on the plans the Directors have for the business.

Corporate social responsibility

This section is to cover the disclosure requirements pursuant to section 99a of Danish Financial Statements Act on corporate social responsibility.

2022 was a transformative year for Nordic Aviation Capital (NAC). We restructured our balance sheet, revamped our organization, stabilised our regional aircraft portfolio and began our pivot to growth with a broader scope. Our new strategy is to remain a global leader in regional aircraft leasing and expand into larger narrowbody aircraft by leveraging our worldclass asset management platform.

Amid all these changes, we also formed a multidisciplinary team to develop a robust ESG approach. It is a critical area of focus for our Company and our investors, airline customers, suppliers, employees, local communities and society at large.

For period Jan.-Dec. 2022, we have not identified any substantial CSR risk, but we continue to have a high focus on our environmental impact and on how we as a company can work more sustainable.

Management's review

Operating review

NAC Integrity and Codes of Conduct

NAC aims to conduct business with an elevated level of integrity and in an honest, fair and trustworthy manner. The reputation and ethical practices of NAC are core to our business values and practices. The purpose of the NAC Business Code of Conduct and Specific Business Codes of Conduct, together with the compliance policies and procedures, is to provide a framework to ensure NAC and all NAC members act in accordance with the principles of the NAC Integrity Statement. This framework aims to provide a simple, transparent, and concise guide to how NAC and all NAC members can conduct NAC's business in accordance with those standards.

The Codes of Conduct (and policies) cover;

- Business Code of Conduct.
- Anti-Money Laundering.
- Anti-Bribery and Anti-Corruption.
- Sanctions and Export Control.
- Fair Competition and Law.
- Personal Data Protection.
- Conflicts of Interest.
- Information Security and Acceptable Use.
- Diversity and Inclusion.
- Global Whistleblowing.

In 2022, NAC launched a new series of compliance training, and all employee began completing modules as they were launched. NAC also established a third-party, completely anonymous whistleblowing system in 2022.

Climate and environment

NAC follows all mandatory requirements and guidelines regarding climate and environment. We comply with all relevant legislation and monitor the guidelines from EASA and ICAO. We have therefore decided not to have a separate policy regarding climate and environment.

NAC prepared to publish an inaugural ESG report on its website in March 2023. In terms of environmental responsibility, we have decided to go beyond having LEED facilities and recycling to offset the CO2 emissions of our aircraft ferry flights and employee long-haul travel. We have entered arrangements with our engine partners, GE Aerospace and Pratt & Whitney Canada, to buy CORSIA Compliant Carbon Credits from their approved suppliers. We are the first commercial aircraft lessor using their programmes. We have already purchased the required credits from Pratt to offset December 2022 ferry flights for our Pratt powered turboprops.

Management's review

Operating review

Human rights

NAC follows all mandatory requirements and guidelines regarding Human Rights. We comply with all relevant legislation and monitor the guidelines from the UN. We have therefore decided not to have a separate policy regarding Human Rights but consider it a natural part of our values to care for others.

We encourage our team members to think of ways to support Human Rights for all globally.

Anti-Corruption Policy

We are dedicated to act with integrity and to develop our business in a responsible manner. Our Anti-Corruption and Bribery policy is a no-tolerance policy and clearly outlines the acceptable actions about anti-corruption and bribery from our employees, suppliers and third parties.

Corporate compliance is important to NAC, and NAC ensures that its employees and contractors are trained in regulations affecting commercial businesses acting in an international environment. The corporate policies can always be found on NAC's Intranet.

As part of their onboarding program, new joiners will be required to take an e-learning course and tests to make sure they have the needed knowledge and understanding with respect to this policy.

Furthermore, during 2022 the Legal team renewed the compliance training platform, mandating all employees to go through multiple online training programmes for which the participants must pass an exam to complete. This series of training will be completed by all employees every year.

For 2022, no incidents of violation of the company's anti-corruption and bribery policy were recorded.

Bullying and harassment, employee welfare

NAC is committed to providing a safe working environment for its employees with an environment free from bullying and harassment. The Company has in place both informal and formal procedures to deal with the issue of bullying or harassment at work. Policy and procedures are on Corporate Hub, the intranet, and trainings are provided to all staff members.

During 2022, NAC adopted a permanent hybrid working arrangement of three-days in the office and two-days working remotely. By adopting this new way of working post the pandemic, NAC balances employee flexibility with the greater efficiency of face-to-face communication.

In 2023, NAC will relaunch Social Committee, which is volunteer-based team, supported senior executive of NAC to plan and organize employee events, volunteer works, activities to promote diversity.

Management's review

Operating review

Diversity and inclusion

This section is to cover the disclosure requirements pursuant to section 99b of Danish Financial Statement Act, on the underrepresented gender.

NAC is committed to creating an environment which provides for equal opportunities for all staff and potential staff and promotes equality and dignity at work. All persons will be provided with equality of access to employment and encouraged and assisted to achieve their full potential. NAC seeks to apply the principles of equal opportunities at all stages of the employment relationship and is committed to eliminating discrimination or harassment because of "protected characteristics". Protected characteristics include:

- (a) sex/gender.
- (b) race, colour, nationality, ethnic or national origins.
- (c) pregnancy/ family status.
- (d) disability.
- (e) religious beliefs.
- (f) sexual orientation.
- (g) marital and civil partnership status.
- (h) gender re-assignment.
- (i) age.
- (j) social or economic background.
- (k) membership of the travelling community.

As well as treating people with dignity and respect, the Company strives to create a supportive environment in which all employees can reach their full potential regardless of differences in experience or education.

Gender diversity

NAC is dedicated to maintaining a work environment where diversity and equal opportunities are available to all employees. We continuously strive to enhance diversity and mitigate gender underrepresentation.

In 2022, 41% of new team hires were female, which augmented the percentage of our female employees in the total workforce to 36%, seven percentage points higher than in 2021 as the NAC group. NAC has recently focussed on promoting diversity.

We plan to replace an existing director with a female candidate in 2023, which will allow Nordic Aviation Capital A/S to achieve its gender distribution goal for directors in 2023.

Gender composition of the Board of Directors and other Management levels

Board of Directors

Under Danish legislation, NAC sets an objective to ensure the necessary development of the gender composition on the Board of Directors. Following adjustments in the Board of Directors in midst of the restructuring process, Nordic Aviation Capital A/S has three directors which are all male. We elected directors from the Restructuring Committee at that time, with the outcome that all were male directors. Our goal is that no gender should account for less than 33% of the members. We will plan to replace an existing director with a female candidate in 2023, which will bring Nordic Aviation Capital A/S at an achievement of the goal for distribution in the directors in 2023.

Other Management Layer

Management's review

Operating review

When referring to the Executive Management, we are addressing other management levels. NAC's Executive Management team consists of 10 members of which one is also a board member and had 20% female representation in 2022. During 2022, no changes were made in the Executive Management. We seek to take onboard one new female Executive Management member in 2023 and aim to reach equal distribution by 2026 at the latest.

Talent development

As NAC emerged from Chapter 11 it will be in a position now to invest further in Training and Development. During 2022, a substantial number of NAC employees were promoted to a higher level or given larger job responsibilities. Members learned and developed from their jobs. In 2022, NAC signed up for International Aviation Women's Association membership, where we will assist our female employees' career development. In 2023, NAC has introduced a next-level learning portal, Precipio, to further provide opportunities of learning to all team members, helping them perform better in their current roles and be ready for their next role in NAC.

Work environment

To attract and retain the best talent available, NAC is open to hire people in their hometown even if NAC does not have an existing office in that location. NAC's Executive Leadership Team are a case in point of this flexible remote teamworking ethos, with the 10 of them being based in six different countries around the globe.

Data ethics

This section is to cover the disclosure requirements pursuant to section 99d of Danish Financial Statements Act on Data Ethics.

NAC is committed to international compliance with Personal Data protection laws, including Danish legislation, respecting individual privacy. Ensuring Personal Data protection is the foundation of a trustworthy business relationship and the reputation of NAC as an attractive employer.

In 2022, NAC published a Personal Data Privacy policy and a Code of Conduct, providing training to all staff members.

For the period Jan.-Dec. 2022, we have not identified any substantial data privacy-related risks, and we continue to have a high focus on this area.

Events after the balance sheet date

No significant events have occurred after the balance sheet date.

Moreover, reference is made to note 2, in which the Company's financial situation is described in further detail.

Financial statements 1 January – 31 December

Income statement

USD'000	Note	1/1 2022 - 31/12 2022	1/7 2021 - 31/12 2021
Revenue	4	21,088	19,756
Production costs	5	-23,919	-32,117
Gross loss		-2,831	-12,361
Administrative expenses	5	64,023	-92,011
Operating profit/loss		61,192	-104,372
Other operating income	6	14,621	0
Profit/loss before financial income and expenses		75,813	-104,372
Other financial income	7	36,350	5,431
Other financial expenses	8	-6,921	-4,151
Profit/loss before tax		105,242	-103,092
Tax on profit/loss for the year	9	5,975	1,456
Profit/loss for the year	10	111,217	-101,636

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2022	31/12 2021
ASSETS			
Fixed assets			
Property, plant and equipment	11		
Buildings		636	14,825
Fixtures and fittings, tools and equipment		0	84
Aircraft		2,029	2,290
		<u>2,665</u>	<u>17,199</u>
Investments	12		
Equity investments in group entities		<u>73</u>	<u>73</u>
Total fixed assets		<u>2,738</u>	<u>17,272</u>
Current assets			
Inventories			
Consumables		<u>2,163</u>	<u>1,046</u>
Receivables			
Trade receivables		325	17
Receivables from group entities		463,383	384,998
Other receivables		731	416
Prepayments	13	<u>0</u>	<u>343</u>
		<u>464,439</u>	<u>385,774</u>
Cash at bank and in hand		<u>335</u>	<u>1,301</u>
Total current assets		<u>466,937</u>	<u>388,121</u>
TOTAL ASSETS		<u><u>469,675</u></u>	<u><u>405,393</u></u>

Financial statements 1 January – 31 December

Balance sheet

USD'000	Note	31/12 2022	31/12 2021
EQUITY AND LIABILITIES			
Equity			
Contributed capital	14	747	747
Retained earnings		<u>397,429</u>	<u>286,212</u>
Total equity		<u>398,176</u>	<u>286,959</u>
Provisions			
Provisions for deferred tax		<u>398</u>	<u>0</u>
Total provisions		<u>398</u>	<u>0</u>
Liabilities other than provisions			
Non-current liabilities other than provisions			
	15		
Lease obligations		0	15,510
Corporation tax		<u>62,480</u>	<u>74,096</u>
		<u>62,480</u>	<u>89,606</u>
Current liabilities other than provisions			
	15		
Current portion of non-current liabilities		716	23,591
Trade payables		179	205
Payables to group entities		297	0
Corporation tax		3,380	0
Other payables		3,917	5,032
Deferred income		<u>132</u>	<u>0</u>
		<u>8,621</u>	<u>28,828</u>
Total liabilities other than provisions		<u>71,101</u>	<u>118,434</u>
TOTAL EQUITY AND LIABILITIES		<u><u>469,675</u></u>	<u><u>405,393</u></u>

Financial statements 1 January – 31 December

Statement of changes in equity

USD'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2022	747	286,212	286,959
Transferred over the profit appropriation	0	111,217	111,217
Equity at 31 December 2022	747	397,429	398,176

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Nordic Aviation Capital A/S for 2022 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act with opt-in from higher reporting classes.

Due to a change in financial year in the NAC Group, the Company has changed its financial year accordingly. The year 1 January to 31 December 2022 comprises 12 months. The comparative figures comprise the six-month period from 1 July to 31 December 2021.

Omission of consolidated financial statements

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of Nordic Aviation Capital A/S and group entities are included in the consolidated financial statements of Nordic Aviation Capital Designated Activity Company, Ireland, Registered number 567526.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of Nordic Aviation Capital Designated Activity Company, Ireland, Registered number 567526.

Reporting currency

The financial statements are presented in USD as the Company's most significant transactions are settled in USD. At the balance sheet date, the DKK/USD exchange rate was 6.97. For the year 2021 July-December, the DKK/USD exchange rate at the balance sheet date was 6.66.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost and subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are recognised as other receivables and other payables, respectively.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Income statement

Revenue

The Company leases aircraft principally under operating leases and records rental income on a straightline basis over the life of the lease as it is earned. In some cases, lease agreements provide for rentals based on aircraft usage which may be calculated based on hours or on cycles operated. The Company accounts for lease rentals under such agreements on a basis that represents the time pattern in which revenue is earned.

Most of the Company's lease contracts require lease payments to be paid in advance. Additional payments are paid in arrears. Rentals received but unearned at the reporting date are recorded as deferred income.

Generally, lease contracts require a lessee to redeliver aircraft in specified maintenance condition (normal wear and tear excepted), with reference to major life-limited components of the aircraft. To the extent that such components are redelivered in a different condition than specified, there is generally an end-of-lease compensation adjustment for the monetary difference. Amounts received or paid as part of these redelivery adjustments are recorded as lease rental income on lease termination. The Company recognises amounts recorded as maintenance payments that are not expected to be reimbursed to lessees as revenue.

Other revenue comprises group fee from group entities.

Production costs

Production costs comprise costs, including depreciation, amortisation, wages and salaries, incurred to generate revenue for the year. Such costs include direct costs of acquisition/value adjustments (regarding aircraft recognised as current assets) and maintenance of aircraft.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for management and administration of the Group, including expenses for administrative staff, Management, office premises, office expenses and amortisation/depreciation of assets used for administrative purposes.

Other operating income

Other operating income comprises items secondary to the activities of the entity, including gains on the disposal of equity investments in group entities.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial reporting period. The items comprise interest income and expenses, e.g. from group entities and associates, declared dividends from other securities and investments, financial expenses relating to finance leases, realised and unrealised capital gains and losses relating to other securities and investments, exchange gains and losses and amortisation of financial assets and liabilities, gain related to debt restructuring.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Tax on profit/loss for the year

The Company is subject to the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. The subsidiaries are included in the joint taxation from the date on which they are included in the consolidated financial statements and up to the date on which they are excluded from the consolidation.

The Company is the administrative company for the joint taxation and accordingly settles all payments of corporation tax to the tax authorities.

On payment of joint taxation contributions, current Danish corporation tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have used the losses to reduce their own taxable profit.

Tax for the year comprises current corporation tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Balance sheet

Property, plant and equipment

Buildings, aircraft and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Buildings	22 years
Aircraft	25-30 years
Fixtures and fittings, tools and equipment	5 years

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

The useful life and residual value are reassessed annually. Changes are accounted for as accounting estimates, and the effect on depreciation is recognised prospectively.

Depreciation is recognised in the income statement as production costs and administrative expenses, respectively.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Prepayments for property, plant and equipment, comprise payments regarding future acquisitions of aircraft.

Equity investments in group entities

Dividends from equity investments in group entities and associates measured at cost are recognised as income in the Parent Company's income statement in the financial year when the dividends are declared.

In case of indication of impairment, an impairment test is conducted. Indication of impairment exists if distributed dividend exceeds profit for the year or if the carrying amount of equity investments exceeds the consolidated carrying amounts of the net assets in the subsidiary.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Impairment of fixed assets

The carrying amount of property, plant and equipment as well as equity investments in group entities is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Leases

When entering into a contract, the Company assesses whether the contract is a lease or contains a lease component. A lease is defined as a contract or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When assessing whether a contract contains a lease component, it must be considered whether, during the period of use, the lessee has the right to substantially all economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

The Company recognises a right-of-use asset and a lease liability at the commencement date.

Lease liabilities recognised as "Credit institutions and interest-bearing liabilities" are initially measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance of depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss is recognised on an individual basis.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis. The portfolios are primarily based on the debtors' registered offices and credit rating in accordance with the Company's credit risk management policy. The objective indicators used in relation to portfolios are determined on the basis of historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments comprise the prepayment of costs incurred relating to subsequent financial years.

Cash at bank and in hand

Cash comprises bank deposits.

Equity

Dividends

The expected dividend payment for the year is disclosed as a separate item under equity.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprises payments received regarding income in subsequent years.

Segment information

The allocation of revenue to activities and geographical markets is disclosed where these activities and markets differ significantly with regard to the organisation of the sale of goods and services.

Financial statements 1 January – 31 December

Notes

2 Financial restructuring

The Group successfully completed the financial restructuring process on 1 June 2022, and completed a comprehensive restructuring of its capital by entering a modification of its pre-emergence debt and related liabilities.

In response to the unprecedented challenges faced by the Group following the outbreak of the COVID-19 pandemic, the Group, in December 2021, entered a voluntary restructuring process under chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia ("chapter 11"). On 4 May 2022, when the financial statements for the 6 month period ended 31 December were approved, the Directors had identified events and conditions that indicated the existence of a material uncertainty that cast doubt on the Group's ability to emerge successfully from the chapter 11 proceedings. The Group was required to satisfy certain conditions precedent to emerge. The conditions precedent generally required the Group to (I) effectuate the restructuring transactions; (II) satisfy the fees, expenses, and other related payables of certain of its creditors and lenders; and (III) remain in compliance with the restructuring support agreement and the plan of reorganization. If the Group did not satisfy the conditions precedent, the Group would not emerge from chapter 11.

The Group satisfied all conditions precedent and successfully emerged from chapter 11 on 1 June 2022. The successful emergence of the Group from the chapter 11 proceedings thereby removed the material uncertainty over the Group's ability to continue as a going concern.

3 Special items

Special items comprise significant costs of a special nature in relation to the Company's usual income-generating operating activities. Special items also comprise costs related to impairment of PDP (Classified as property, plant and equipment in progress), investments and receivables.

As mentioned in the Management's review, profit/loss was affected by impairment of land and buildings and receivables. This matter deviates from Management's assessment of what is part of the Company's operating activities.

Special items, including their recognition in the income statement, are specified as follows:

USD'000	1/1 2022 - 31/12 2022	1/7 2021 - 31/12 2021
Production costs:		
Impairment of PDP	0	-6,725
Impairment of aircraft	0	-20,021
Impairment of land and buildings	-14,357	0
	<u>-14,357</u>	<u>-26,746</u>
Administrative expenses:		
Impairment of receivables	<u>74,410</u>	<u>-74,602</u>
Financial income:		
Debt restructuring gain	<u>23,851,824</u>	<u>0</u>

Financial statements 1 January – 31 December

Notes

USD'000	1/1 2022 - 31/12 2022	1/7 2021 - 31/12 2021
4 Segment information		
Lease income	360	180
Engine reserve	504	110
Workshop sales	182	101
Other income & Group Fee	20,042	19,365
	<u>21,088</u>	<u>19,756</u>
Break-down of revenue by geographical segments		
Europe	20,219	19,428
South and Central America	866	328
North America	3	0
	<u>21,088</u>	<u>19,756</u>
5 Staff costs and incentive schemes		
Wages and salaries	9,235	9,028
Pensions	154	140
Other social security costs	49	26
	<u>9,443</u>	<u>9,194</u>
Average number of full-time employees	<u>50</u>	<u>75</u>
Staff costs are recognised in the financial statements as follows:		
Production	3,347	1,683
Administration	6,096	7,511
	<u>9,443</u>	<u>9,194</u>
Staff costs include remuneration of the Company's Executive Board and Board of Directors, USD 209 thousand.		
6 Other operating income		
Other operating income includes gain on right of use assets liability.		
USD'000	1/1 2022 - 31/12 2022	1/7 2021 - 31/12 2021
7 Other financial income		
Interest income from group entities	30,686	746
Other financial income	2	13
Exchange rate adjustments	5,662	4,672
	<u>36,350</u>	<u>5,431</u>

Financial statements 1 January – 31 December

Notes

USD'000	1/1 2022 - 31/12 2022	1/7 2021 - 31/12 2021			
8 Other financial expenses					
Other financial expenses	6,921	4,151			
	6,921	4,151			
9 Tax on profit/loss for the year					
Current tax for the year	1,924	-1,456			
Deferred tax for the year	398	0			
Adjustment of tax concerning previous years	-8,297	0			
	-5,975	-1,456			
10 Proposed profit appropriation/distribution of loss					
Retained earnings	111,217	-101,636			
11 Property, plant and equipment					
USD'000	Land and buildings	Fixtures and fittings, tools and equipment	Aircraft	Property, plant and equipment under construction	Total
Cost at 1 January 2022	16,656	2,300	36,813	14,741	70,510
Additions for the year	923	0	0	0	923
Disposals for the year	0	-82	0	0	-82
Cost at 31 December 2022	17,579	2,218	36,813	14,741	71,351
Depreciation and impairment losses at 1 January 2022	-1,831	-2,216	-34,523	-14,741	-53,311
Impairment losses for the year	-14,357	0	0	0	-14,357
Depreciation for the year	-755	-15	-261	0	-1,031
Reversed depreciation and impairment losses on assets sold	0	13	0	0	13
Depreciation and impairment losses at 31 December 2022	-16,943	-2,218	-34,784	-14,741	-68,686
Carrying amount at 31 December 2022	636	0	2,029	0	2,665
Assets held under finance leases	636	0	0	0	0

Financial statements 1 January – 31 December

Notes

12 Investments

USD'000	Equity investments in group entities
Cost at 1 January 2022	20,937
Disposals for the year	-14,126
Cost at 31 December 2022	6,811
Revaluations at 1 January 2022	-20,864
Reversal of impairment of sold assets	14,126
Revaluations 31 December 2022	-6,738
Carrying amount at 31 December 2022	73

Name	Legal form	Domicile	Equity USD'000	Profit/loss for the year USD'000
Subsidiaries:				
Nordic Aviation Financing	ApS	Billund	6,133	197
NAC Aviation 3	Ltd	Ireland	-9,706	-15,654
NAC Aviation 4	Ltd	Ireland	81,607	-11,816
NAC Aviation 6	Ltd	Ireland	2,258	-74
NAC Aviation 10	Ltd	Ireland	-34,753	-45,338
NAC Aviation 11	Ltd	Ireland	-1,880	-7,832
NAC Aviation 16	Ltd	Ireland	750	-48
NAC Aviation 17	Ltd	Ireland	-27,092	-47
NAC Aviation 18	Ltd	Ireland	-10,213	-14,870
NAC Aviation 20	Ltd	Ireland	-33,296	-43,163
NAC Aviation 21	Ltd	Ireland	-14,160	-5,917
NAC Aviation 22	Ltd	Ireland	3,561	-444
NAC Aviation 23	Ltd	Ireland	-101,582	-92,144
NAC Aviation 27	Ltd	Ireland	-73,821	-63,850
Nordic Aviation Contractor	Ltd	Ireland	17,167	-22,982
NK Leasing	Ltd	Ireland	-5,992	-21,804
Nordic Aviation Capital Pte	Ltd	Singapore	2,471	586
Nordic Aviation Financing One Pte	Ltd	Singapore	-8,512	-14,287
NAC Aviation France 1	Ltd	France	78	-418
NAC Aviation France 5	Ltd	France	-265	-375
NAC Aviation France 6	Ltd	France	176	-321
NAC Aviation Cyprus 1	Ltd	Cyprus	713	-1,753
NAC Aviation Cyprus 3	Ltd	Cyprus	-70	-6

Financial statements 1 January – 31 December

Notes

Merlano	Ltd	Cyprus	-404	-29
NAC Aviation UK 2	Ltd	United Kingdom	50	-44

The figures for the entities in Denmark, France and Cyprus are based on the last published annual reports for the year 1 July - 31 December 2021.

The figures for the entities in United Kingdom, Ireland and Singapore are based on the last published annual reports for the year 1 July 2020 - 31 December 2021.

13 Prepayments

Prepayments are costs related to the financial year 2023 such as insurance, bonus, etc.

14 Equity

Contributed capital consists of 4,500 shares of a nominal value of DKK 1000 each.

All shares rank equally.

15 Non-current liabilities other than provisions

USD'000	31/12 2022	31/12 2021
Deposits		
0-1 years	0	80
1-5 years	80	0
	<u>80</u>	<u>80</u>
Lease obligations:		
0-1 years	636	23,511
1-5 years	0	1,952
>5 years	0	13,557
	<u>636</u>	<u>39,020</u>
Other payables, including taxes payable:		
1-5 years	64,059	74,096
	<u>64,059</u>	<u>74,096</u>
Total liabilities other than provisions	<u><u>64,775</u></u>	<u><u>113,196</u></u>

Financial statements 1 January – 31 December

Notes

16 Related party disclosures

Nordic Aviation Capital A/S' related parties comprise the following:

Control

Nordic Aviation Capital Designated Activity Company, Gardens International, Henry Street, Limerick, Ireland.

Nordic Aviation Capital Designated Activity Company holds the majority of the contributed capital in the Company.

Nordic Aviation Capital A/S is part of the consolidated financial statements of Nordic Aviation Capital Designated Activity Company, Ireland, which is both the smallest and largest Group, in which the Company is included as a subsidiary.

The consolidated financial statements of Nordic Aviation Capital Designated Activity Company can be obtained at the address above.

Related party transactions

In accordance with section 98 c(7) of the Danish Financial Statements Act, the Company has not disclosed any related party transactions as they were conducted on an arm's length basis.