

NAC Aviation 2 A/S

Stratusvej 12,
7190 Billund
Denmark

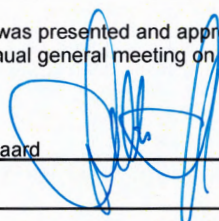
CVR no. 35 48 71 90

Annual report for the period 1 July 2017 – 30 June 2018

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

5 November 2018

Jette Mariann Hulgaard
chairman



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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 NAC Aviation 2 A/S for the financial year 1 July 2017 – 30 June 2018.

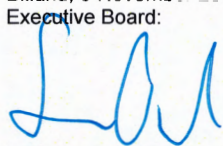
The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 30 June 2018 and of the results of the Company's operations for the financial year 1 July 2017 – 30 June 2018.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Billund, 5 November 2018
Executive Board:

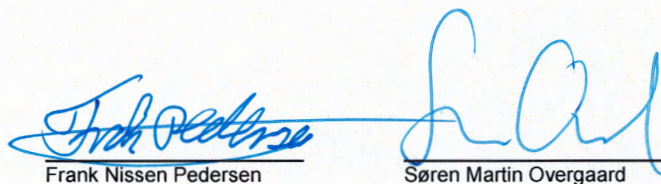


Søren Martin Overgaard
Managing Director

Board of Directors:



Jette Mariann Hulgaard
Chairman



Frank Nissen Pedersen

Søren Martin Overgaard

Independent auditor's report

To the shareholder of NAC Aviation 2 A/S

Opinion

We have audited the financial statements of NAC Aviation 2 A/S for the financial year 1 July 2017 – 30 June 2018 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 30 June 2018 and of the results of the Company's operations for the financial year 1 July 2017 – 30 June 2018 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' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. 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 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

- 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.

Independent auditor's report

- 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.

Kolding, 5 November 2018

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98



Nikolaj Møller Hansen
State Authorised
Public Accountant
mne33220

NAC Aviation 2 A/S
Annual report 2017/18
CVR no. 35 48 71 90

Management's review

Company details

NAC Aviation 2 A/S
Stratusvej 12,
7190 Billund
Denmark

| | |
|--------------------|-------------------|
| CVR no.: | 35 48 71 90 |
| Established: | 23 September 2013 |
| Registered office: | Billund |
| Financial year: | 1 July – 30 June |

Board of Directors

Jette Mariann Hulgaard, Chairman
Frank Nissen Pedersen
Søren Martin Overgaard

Executive Board

Søren Martin Overgaard, Managing Director

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Jupitervej 4
6000 Kolding
Denmark

Management's review

Operating review

Principal activities

The Company's activities are to hire out its portfolio of aircraft under operating leases.

Development in activities and financial position

The Company's activities and financial performance during the financial year were in accordance with expectations. Management considers the loss for the year unsatisfactory.

Events after the balance sheet date

After the end of the financial year, no important events have occurred, which could be expected to influence or alter the conditions of the Company in a material way.

Financial statements 1 July – 30 June

Income statement

| USD | Note | 2017/18 | 2016/17 |
|-----------------------------------------------------------|------|--------------------------|-------------------------|
| Revenue | | 5,434,094 | 15,817,068 |
| Production costs | | <u>-3,610,551</u> | <u>-2,533,040</u> |
| Gross profit | | 1,823,543 | 13,284,028 |
| Distribution costs | | -527,390 | -199,056 |
| Administrative expenses | | <u>-956,702</u> | <u>-4,415,463</u> |
| Operating profit | | 339,451 | 8,669,509 |
| Financial income | 2 | 127,893 | 492,742 |
| Financial expenses | 3 | <u>-2,902,375</u> | <u>-3,189,669</u> |
| Profit/loss before tax | | -2,435,031 | 5,972,582 |
| Tax on profit/loss for the year | 4 | <u>535,706</u> | <u>-1,310,637</u> |
| Profit/loss for the year | | <u><u>-1,899,325</u></u> | <u><u>4,661,945</u></u> |
| Proposed profit appropriation/distribution of loss | | | |
| Retained earnings | | <u><u>-1,899,325</u></u> | <u><u>4,661,945</u></u> |

Financial statements 1 July – 30 June

Balance sheet

| USD | Note | <u>2017/18</u> | <u>2016/17</u> |
|----------------------------------------|------|--------------------------|--------------------------|
| ASSETS | | | |
| Fixed assets | | | |
| Property, plant and equipment | 5 | | |
| Aircraft | | <u>64,015,243</u> | <u>63,292,421</u> |
| | | <u>64,015,243</u> | <u>63,292,421</u> |
| Total fixed assets | | <u>64,015,243</u> | <u>63,292,421</u> |
| Current assets | | | |
| Receivables | | | |
| Trade receivables | | 326,000 | 1,174,467 |
| Receivables from group entities | | 2,598 | 0 |
| Other receivables | | 0 | 2,366 |
| Joint taxation contribution receivable | | <u>2,881,477</u> | <u>1,856,849</u> |
| | | <u>3,210,075</u> | <u>3,033,682</u> |
| Cash | 6 | <u>194,485</u> | <u>549,880</u> |
| Total current assets | | <u>3,404,560</u> | <u>3,583,562</u> |
| TOTAL ASSETS | | <u><u>67,419,803</u></u> | <u><u>66,875,983</u></u> |

Financial statements 1 July – 30 June

Balance sheet

| USD | Note | 2017/18 | 2016/17 |
|------------------------------------------------------|------|-------------------|-------------------|
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Contributed capital | | 90,541 | 90,541 |
| Retained earnings | | <u>6,765,136</u> | <u>8,664,461</u> |
| Total equity | | <u>6,855,677</u> | <u>8,755,002</u> |
| Provisions | | | |
| Provisions for deferred tax | | <u>5,441,623</u> | <u>4,952,702</u> |
| Total provisions | | <u>5,441,623</u> | <u>4,952,702</u> |
| Liabilities other than provisions | | | |
| Non-current liabilities other than provisions | | | |
| | 7 | | |
| Mortgage loans | | 35,624,180 | 39,872,972 |
| Other payables | | 1,178,000 | 1,449,000 |
| Maintenance reserves | | <u>2,630,567</u> | <u>996,032</u> |
| | | <u>39,432,747</u> | <u>42,318,004</u> |
| Current liabilities other than provisions | | | |
| | 7 | | |
| Current portion of non-current liabilities | | 4,300,392 | 4,093,947 |
| Trade payables | | 291,100 | 2,959 |
| Payables to group entities | | 10,656,366 | 6,364,810 |
| Other payables | | 115,898 | 205,945 |
| Deferred income | | <u>326,000</u> | <u>182,614</u> |
| | | <u>15,689,756</u> | <u>10,850,275</u> |
| Total liabilities other than provisions | | <u>55,122,503</u> | <u>53,168,279</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>67,419,803</u> | <u>66,875,983</u> |

Financial statements 1 July – 30 June

Statement of changes in equity

| USD | <u>Contributed capital</u> | <u>Retained earnings</u> | <u>Total</u> |
|-------------------------------------------|--------------------------------|------------------------------|-------------------|
| Equity at 1 July 2017 | 90,541 | 8,664,461 | 8,755,002 |
| Transferred over the distribution of loss | <u>0</u> | <u>-1,899,325</u> | <u>-1,899,325</u> |
| Equity at 30 June 2018 | <u>90,541</u> | <u>6,765,136</u> | <u>6,855,677</u> |

Financial statements 1 July – 30 June

Notes

1 Accounting policies

The annual report of NAC Aviation 2 A/S for 2017/18 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with option from higher reporting classes.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

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 6.43. For the year 2016/17 the DKK/USD exchange rate at the balance sheet date was 6.70.

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.

Income statement

Revenue

Revenue comprises payments made under operating leases and income from the sale of aircraft, and is recognised in the income statement when the transfer of risk to the buyer has taken place and the income can be reliably measured, and it is probable that future economic benefits will flow to the entity.

Revenue is measured at the fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

The Company records supplemental amounts that are not expected to be reimbursed during the lease as lease revenue when the Group has reliable information that it will not be required to make reimbursements of the amounts collected based on utilization and a maintenance forecasting model that estimates the maintenance inflows and outflows through the lease expiration date.

Production costs

Production costs include costs incurred in generating revenue for the year. Such costs include direct and indirect costs for the purchase and maintenance of aircraft.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Distribution costs

Distribution costs include costs incurred in preparation for entering into lease contracts, promotional activities and shipment of aircraft.

Administrative expenses

Administrative expenses include costs incurred for the management and administration of the Company.

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding finance leases, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit/loss for the year

NAC Aviation 2 A/S is jointly taxed with its parent company, Nordic Aviation Capital A/S. The current Danish corporation tax is allocated by the settlement of joint taxation contribution between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carryforwards receive joint taxation contribution from companies that have used these losses to reduce their own taxable profits. The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprises current tax for the year and changes in deferred tax. 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

Property, plant and equipment are recorded at cost. Major improvements and modifications incurred in connection with the acquisition of aircraft that are required for their initial service are capitalised and depreciated over the remaining useful life.

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

- Jet aircraft - 25 years from the date of manufacture assuming an estimated residual value of 15% of the purchase price.
- Turboprop aircraft - 30 years from the date of manufacture assuming an estimated residual value of USD 1 million.
- Furniture and equipment - 3 years from the date of acquisition to an estimated residual value of nil.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

The basis for depreciation is calculated as the residual value of the asset less impairment losses, if any. The residual value is determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued. When the depreciation period or the residual value is changed, the effect on depreciation is recognised prospectively as a change in accounting estimate. Depreciation and impairment are recognised in the income statement.

Aircraft are assessed for recoverability in accordance with IAS 36 - Impairment of Assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Notwithstanding the results of this review, in certain circumstances Management also considers the carrying values of specific aircraft where indicators of a diminution in value have been identified based on aircraft specific sale and technical information.

For the purposes of measuring an impairment loss, each aircraft is tested individually by comparing its carrying amount to the higher of value in use and fair value less cost to sell.

The residual values, useful lives and depreciation methods are revised and adjusted if appropriate, at each reporting date. Residual value of aircraft is based on their estimated scrap value for turboprop aircraft and an assumed residual value of jet aircraft.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight-line basis over the expected useful life.

The estimated useful lives are as follows:

| | |
|----------|-------------|
| Aircraft | 25-30 years |
|----------|-------------|

Costs necessary to re-lease aircraft are depreciated over the lease period.

The gain or loss arising on the disposal of aircraft is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit and loss and other comprehensive income.

The gain or loss arising on disposal or retirement of other items of property, plant and equipment is recognised under revenue.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Equity

Dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Income taxes

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. Deferred tax is measured in accordance with the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

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 revenue in the following year.

Maintenance reserves

In many aircraft operating lease contracts, the lessee has the obligation to make periodic payments which are calculated based on the utilisation of airframes, engines and other major life-limited components (supplemental amounts). In such contracts, upon the lessee presenting invoices evidencing the completion of qualifying maintenance on the aircraft, the Group reimburses the lessee for the cost of the maintenance up to a maximum of the supplemental amounts received with respect to such work unless otherwise indicated in the lease contract.

Upon the acquisition of aircraft with a lease contract, the liability is recorded at fair value and is subsequently reassessed in line with the Group's maintenance forecasting model.

Such maintenance reserves received in cash from lessees are recognised as maintenance liabilities in the balance sheet in recognition of the contractual commitment to either refund such receipts or to hold them for future scheduled maintenance work to be performed thereafter.

Financial statements 1 July – 30 June

Notes

| USD | <u>2017/18</u> | <u>2016/17</u> |
|----------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------------------|
| 2 Financial income | | |
| Other financial income | 2,978 | 275,030 |
| Exchange adjustments | <u>124,915</u> | <u>217,712</u> |
| | <u><u>127,893</u></u> | <u><u>492,742</u></u> |
| 3 Financial expenses | | |
| Interest expense to group entities | 718,277 | 788,518 |
| Other interest expenses | 2,183,409 | 2,400,630 |
| Other financial expenses | <u>689</u> | <u>521</u> |
| | <u><u>2,902,375</u></u> | <u><u>3,189,669</u></u> |
| 4 Tax on profit/loss for the year | | |
| Joint taxation contribution | -1,024,627 | -1,078,340 |
| Deferred tax for the year | 488,921 | 2,392,308 |
| Adjustment of deferred tax concerning previous year | <u>0</u> | <u>-3,331</u> |
| | <u><u>-535,706</u></u> | <u><u>1,310,637</u></u> |
| 5 Property, plant and equipment | | |
| USD | | <u>Aircraft</u> |
| Cost at 1 July 2017 | | 71,423,036 |
| Additions for the year | | <u>3,317,285</u> |
| Cost at 30 June 2018 | | <u>74,740,321</u> |
| Depreciation and impairment losses at 1 July 2017 | | -8,130,615 |
| Depreciation for the year | | <u>-2,594,463</u> |
| Depreciation and impairment losses at 30 June 2018 | | <u>-10,725,078</u> |
| Carrying amount at 30 June 2018 | | <u><u>64,015,243</u></u> |
| 6 Cash | | |
| The Company has a bank account registered as a deed account. The bank deposit amounts to USD 171 thousand (2016/17: USD 175 thousand). | | |

Financial statements 1 July – 30 June

Notes

7 Non-current liabilities other than provisions

| USD | Total debt at 30/6 2018 | Repayment, first year | Long-term portion | Outstanding debt after five years |
|----------------------|----------------------------|--------------------------|----------------------|-----------------------------------------|
| Mortgage debt | 39,924,572 | 4,300,392 | 35,624,180 | 16,544,817 |
| Other payables | 1,178,000 | 0 | 1,178,000 | 0 |
| Maintenance reserves | 2,630,567 | 0 | 2,630,567 | 0 |
| | <u>43,733,139</u> | <u>4,300,392</u> | <u>39,432,747</u> | <u>16,544,817</u> |

8 Contractual obligations, contingencies, etc.

Other contingent liabilities

The Company is jointly taxed with its parent company, Nordic Aviation Capital A/S, which acts as management company, and together with other jointly taxed group entities, the Company has joint and several liability for the payment of income taxes as well as withholding taxes on interest, royalties and dividends.

9 Collateral

Aircraft with a carrying amount of USD 64,015 thousand at 30 June 2018 has been provided as collateral for aircraft financing of USD 39,925 thousand.

10 Related party disclosures

NAC Aviation 2 A/S' related parties comprise the following:

Control

NAC Aviation 2 A/S, Stratusvej 12, 7190 Billund, Denmark.

Nordic Aviation Capital A/S, Stratusvej 12, 7190 Billund, Denmark, holds the majority of the contributed capital in the Company.

NAC Aviation 2 A/S is part of the consolidated financial statements of Nordic Aviation Capital Designated Activity Company, Bedford Place, Henry Street, Limerick City, Ireland, which is the smallest group, in which the Company is included as a subsidiary.

The consolidated financial statements of Nordic Aviation Capital Designated Activity Company can be obtained by contacting the companies at the addresses above.