

NAC Aviation 2 A/S

Stratusvej 12, DK-7190 Billund


CVR no. 35 48 71 90

Annual report

for the year 1 July 2016 - 30 June 2017

Approved at the Company's annual general meeting on

Chairman:



.....





Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	5
Company details	5
Management commentary	6
Financial statements 1 July 2016 - 30 June 2017	7
Income statement	7
Balance sheet	8
Statement of changes in equity	10
Notes to the financial statements	11

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of NAC Aviation 2 A/S for the financial year 1 July 2016 - 30 June 2017.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 30 June 2017 and of the results of the Company's operations for the financial year 1 July 2016 - 30 June 2017.

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

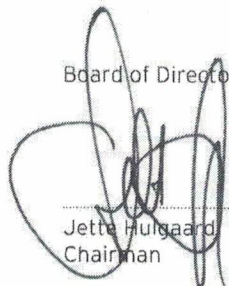
We recommend that the annual report be approved at the annual general meeting.

Billund, 30 November 2017
Executive Board:



Søren M. Overgaard
Managing Director

Board of Directors:



Jette Hulgård
Chairman



Frank Pedersen



Søren M. Overgaard

Independent auditor's report

To the shareholders 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 2016 - 30 June 2017, which comprise an 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 financial position of the Company at 30 June 2017 and of the results of the Company's operations for the financial year 1 July 2016 - 30 June 2017 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 responsibilities 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 as 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 about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the 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 skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the 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.

Independent auditor's report

- ▶ 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 conclusion is 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 note 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 our procedures, 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 Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 30 November 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Jes Lauritzen
State Authorised Public Accountant



Claus Dalager
State Authorised Public Accountant



Management's review

Company details

Name	NAC Aviation 2 A/S
Address, Postal code, City	Stratusvej 12, DK-7190 Billund
CVR no.	35 48 71 90
Established	23 September 2013
Registered office	Billund
Financial year	1 July 2016 - 30 June 2017
Board of Directors	Jette Hulgaard, Chairman Frank Pedersen Søren M. Overgaard
Executive Board	Søren M. Overgaard, Managing Director
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, P.O. Box 330, 8100 Aarhus C, Denmark



Management's review

Business review

The Company's activities consist of hiring out the Company's portfolio of aircraft on operational leasing contracts.

Financial review

The Company's activities and financial development in the financial year are in accordance with expectations. Management considers the profit for the year satisfactory.

Events after the balance sheet date

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

Financial statements 1 July 2016 - 30 June 2017

Income statement

Note	USD	2016/17	2015/16
	Revenue	15,817,068	8,777,844
	Production costs	-2,533,040	-3,608
	Gross margin	13,284,028	8,774,236
	Distribution costs	-199,056	0
	Administrative expenses	-4,415,463	-4,655,205
	Operating profit	8,669,509	4,119,031
	Fair value adjustment of other investment assets	0	-4,564,976
	Profit/loss before net financials	8,669,509	-445,945
2	Financial income	492,742	306,963
3	Financial expenses	-3,189,669	-3,638,794
	Profit/loss before tax	5,972,582	-3,777,776
4	Tax for the year	-1,310,637	1,062,580
	Profit/loss for the year	4,661,945	-2,715,196
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	4,661,945	-2,715,196
		4,661,945	-2,715,196



Financial statements 1 July 2016 - 30 June 2017

Balance sheet

Note	USD	<u>2016/17</u>	<u>2015/16</u>
	ASSETS		
	Fixed assets		
5	Property, plant and equipment		
	Aircraft	63,292,421	63,857,819
		<u>63,292,421</u>	<u>63,857,819</u>
	Total fixed assets	<u>63,292,421</u>	<u>63,857,819</u>
	Non-fixed assets		
	Receivables		
	Trade receivables	1,174,467	2,273,927
	Joint taxation contribution receivable	1,856,849	2,884,960
	Other receivables	2,366	0
		<u>3,033,682</u>	<u>5,158,887</u>
	Cash	<u>549,880</u>	<u>737,649</u>
	Total non-fixed assets	<u>3,583,562</u>	<u>5,896,536</u>
	TOTAL ASSETS	<u><u>66,875,983</u></u>	<u><u>69,754,355</u></u>

Financial statements 1 July 2016 - 30 June 2017

Balance sheet

Note	USD	2016/17	2015/16
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	90,541	90,541
	Retained earnings	8,664,461	4,002,516
	Total equity	<u>8,755,002</u>	<u>4,093,057</u>
	Provisions		
	Deferred tax	4,952,702	2,566,039
	Total provisions	<u>4,952,702</u>	<u>2,566,039</u>
	Liabilities other than provisions		
6	Non-current liabilities other than provisions		
	Mortgage debt	39,872,972	43,915,587
	Other payables	1,449,000	2,220,000
	Maintenance reserves	996,032	7,151,208
		<u>42,318,004</u>	<u>53,286,795</u>
	Current liabilities other than provisions		
6	Current portion of long-term liabilities	4,093,947	3,897,412
	Trade payables	2,959	0
	Payables to group entities	6,364,810	5,057,437
	Other payables	205,945	133,615
	Deferred income	182,614	720,000
		<u>10,850,275</u>	<u>9,808,464</u>
	Total liabilities other than provisions	<u>53,168,279</u>	<u>63,095,259</u>
	TOTAL EQUITY AND LIABILITIES	<u><u>66,875,983</u></u>	<u><u>69,754,355</u></u>

- 1 Accounting policies
- 7 Contractual obligations and contingencies, etc.
- 8 Collateral
- 9 Related parties

Financial statements 1 July 2016 - 30 June 2017

Statement of changes in equity

USD	Share capital	Retained earnings	Total
Equity at 1 July 2015	90,541	9,848,106	9,938,647
Changes in accounting policies	0	-3,130,394	-3,130,394
Adjusted equity at 1 July 2015	90,541	6,717,712	6,808,253
Transfer through appropriation of loss	0	-2,715,196	-2,715,196
Equity at 1 July 2016	90,541	4,002,516	4,093,057
Transfer through appropriation of profit	0	4,661,945	4,661,945
Equity at 30 June 2017	90,541	8,664,461	8,755,002

The Company's share capital has remained unchanged since the establishment of the Company.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies

The annual report of NAC Aviation 2 A/S for 2016/17 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

Changes in accounting policies

Effective 1 July 2016 the Company has implemented act no. 738 of 1 June 2015 with amendments to the Danish Financial Statements Act. The implementation of the amendment act means that the Company can no longer regard aircraft as investment assets measured at fair value with value adjustments recognised in the income statement. Aircraft is now recorded at cost with depreciation over their estimated useful lives. For aircraft the fair value at 30 June 2016 is used as the new cost in line with the transitional rule in the amendment act. Comparative figures have not been restated. Reference is made to further description of accounting policies regarding aircraft below. It has not been possible to assess the impact of the new accounting policies regarding aircraft for the year 2016/17.

Besides the above change in accounting policies, the implementation has no impact in terms of value on the income statement or the balance sheet in the financial year, nor on the comparative figures. The amendment act has solely implied new or changed presentation and disclosure requirements, which have been incorporated in the financial statements.

In order to provide more reliable information, the Company has changed its accounting policies in 2016/17 regarding maintenance reserves. Until now, the Company has recorded supplemental amounts as well as maintenance claims in the income statements. From 2016/17, 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.

Supplemental amounts that are not expected to be reimbursed during the lease are recorded as lease revenue when the Company 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.

Due to the application of the new accounting policy, the opening balance of each affected account has been adjusted as if the new accounting policy had always been applied.

For the year 2015/16, the change in accounting policy meant that revenue decreased by USD 3,612 thousand, equity decreased by USD 5,948 thousand, maintenance reserves increased by USD 7,151 thousand and deferred tax decreased by USD 1,573 thousand.

For the year 2016/17, the change in accounting policy means that revenue increased by USD 6,155 thousand, equity decreased by USD 10,749 thousand, maintenance reserves increased by USD 996 thousand and deferred tax decreased by USD 219 thousand.

Periods prior to 2015/16 have been adjusted through retained earnings and maintenance reserves liabilities.

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 6.70. For the year 2015/16 the DKK/USD exchange rate at the balance sheet date was 6.52.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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 at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and 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 at 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 lease expiration date.

Production costs

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

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 management and administration of the Company.

Depreciation

The item comprises depreciation of property, plant and equipment.

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 expected useful lives of the assets are as follows:

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

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

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses comprise interest income and expense, realised and unrealised 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

NAC Aviation 2 A/S is taxed jointly with the 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 to get the aircraft ready for 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 date of manufacture assuming an estimated residual value of 15% of purchase price
- ▶ Turboprop aircraft - 30 years from date of manufacture assuming an estimated residual value of USD 1 million
- ▶ Furniture and equipment - 3 years from date of acquisition to an estimated residual value of nil

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 changing the depreciation period or the residual value, the effect on the 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.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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 based on an individual assessment of receivables.

Equity

Proposed 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.

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. Where different tax rules can be applied to determine the tax base, deferred tax is measured based on Management's planned use of the asset or settlement of the liability, respectively. 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; 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 and jurisdiction.

Liabilities

Loans from banks and loans from group enterprises are recognised at the date of borrowing at the net proceeds received less transaction costs incurred. In subsequent periods, the loans are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement during the term of the loan.

Other liabilities are measured at net realisable value.

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

1 Accounting policies (continued)

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 utilization 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 an 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 2016 - 30 June 2017

Notes to the financial statements

USD	2016/17	2015/16		
2 Financial income				
Other interest income	275,030	306,897		
Exchange adjustments	217,712	66		
	<u>492,742</u>	<u>306,963</u>		
3 Financial expenses				
Interest expenses, group entities	788,518	1,035,978		
Other interest expenses	2,400,630	2,601,785		
Other financial expenses	521	1,031		
	<u>3,189,669</u>	<u>3,638,794</u>		
4 Tax for the year				
Estimated tax charge for the year	-1,078,340	-780,823		
Deferred tax adjustments in the year	2,392,308	-50,288		
Tax adjustments, prior years	-3,331	0		
Change in tax rate	0	-231,469		
	<u>1,310,637</u>	<u>-1,062,580</u>		
5 Property, plant and equipment				
USD		Aircraft		
Cost at 1 July 2016		69,701,142		
Additions in the year		1,721,894		
Cost at 30 June 2017		<u>71,423,036</u>		
Impairment losses and depreciation at 1 July 2016		5,843,323		
Depreciation in the year		2,287,292		
Impairment losses and depreciation at 30 June 2017		<u>8,130,615</u>		
Carrying amount at 30 June 2017		<u>63,292,421</u>		
6 Non-current liabilities other than provisions				
USD	Total debt at 30/6 2017	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Mortgage debt	43,966,919	4,093,947	39,872,972	21,780,484
Other payables	1,449,000	0	1,449,000	0
Maintenance reserves	996,032	0	996,032	0
	<u>46,411,951</u>	<u>4,093,947</u>	<u>42,318,004</u>	<u>21,780,484</u>

Financial statements 1 July 2016 - 30 June 2017

Notes to the financial statements

7 Contingent liabilities and other financial obligations

Other contingent liabilities

The Company is jointly taxed with its parent, 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 payment of income taxes as well as withholding taxes on interest, royalties and dividends.

8 Collateral

Aircraft with a carrying amount of USD 63,292 thousand at 30 June 2017 has been provided as collateral for aircraft financing, USD 43,967 thousand.

9 Related parties

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

Parties exercising control

Related party	Domicile	Basis for control
Nordic Aviation Capital A/S	Stratusvej 12, DK-7190 Billund	Holds the majority of the share capital

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Nordic Aviation Capital Designated Activity Company	Bedford Place, Henry Street, Limerick City, Ireland	Available at the Company's address

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

Name	Domicile
Nordic Aviation Capital A/S	Stratusvej 12 DK-7190 Billund