

# NAC Aviation 2 A/S

Stratusvej 12,  
7190 Billund  
Denmark

CVR no. 35 48 71 90

**Annual report for the period 1 July 2019 – 30 June 2020**

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

30 September 2020

  
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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 2019 – 30 June 2020.

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 2020 and of the results of the Company's operations for the financial year 1 July 2019 – 30 June 2020.

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 September 2020  
Executive Board:



Morten Kjærholm Mikkelsen  
Chief Executive Officer

Board of Directors:



Jette Mariann Hulgaard  
Chairman



Frank Nissen Pedersen



Morten Kjærholm Mikkelsen

## 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 2019 – 30 June 2020 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 2020 and of the results of the Company's operations for the financial year 1 July 2019 – 30 June 2020 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.

#### Emphasis of matter regarding matters in the financial statements

We draw attention to note 2 of the financial statements concerning the COVID-19 situation that exists and continues to develop at the date of approval of the financial statements and the related impact on the going concern basis of preparation. The financial statements have been prepared on the going concern basis, and the Directors are of the view that this does not represent a material uncertainty that may cast significant doubt on the ability of the NAC Group to continue as a going concern. The ultimate outcome of the COVID-19 situation cannot presently be foreseen, and therefore the ultimate impact on the entity is unknown.

Our opinion is not modified in respect of this matter.

#### 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.

## Independent auditor's report

### 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.
- 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.



## Independent auditor's report

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, 30 September 2020

**KPMG**

Statsautoriseret Revisionspartnerselskab  
CVR no. 25 57 81 98

A handwritten signature in blue ink, appearing to read 'N. Møller Hansen', is written over a light blue horizontal line.

Nikolaj Møller Hansen  
State Authorised  
Public Accountant  
mne33220

NAC Aviation 2 A/S  
Annual report 2019/20  
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  
Morten Kjærholm Mikkelsen

### Executive Board

Morten Kjærholm Mikkelsen, Chief Executive Officer

### 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. The Company has a portfolio of four aircraft. Three of the companies four aircraft have been redelivered early and lease agreements terminated. These three aircraft are now waiting on new deployment.

In consideration of the volume of transactions with other Group members this management review includes Group considerations. Thus, the sections below include Company information as well as comments from the Group annual report for the financial year 2019/20 ('Group annual report').

The Company's activities are predominantly denominated in US Dollars ("\$\$") and this is the functional currency of the Company. The financial statements are presented in \$.

#### Development in activities and financial position

"Company development in activities and financial position"

The Company's activities are to hire out its portfolio of aircraft under operating leases, this activity continued for the financial year ending 30 June 2020. Three of the Company's aircraft are awaiting redeployment after Covid-19 related early terminations. Management continues to pursue opportunities to increase the profit of the company, and key is redeployment of the redelivered aircraft.

As of 30 June 2020 the Company had receivables from Group members in a total amount of \$0 thousand (\$3,196 thousand at 30 June 2019)

Company total assets was \$58.590 thousand (PY \$65.555 thousand) and equity was \$4.439 thousand (\$5.473 thousand as of 30 June 2019).

The Company delivered revenue of \$7.192 thousand for the year (\$4.390 thousand in 2018/19). The Company's income statement for the year shows loss of \$1.035 thousand (loss of \$1.382 thousand in 2018/19).

On the face of the statement of financial position most debt is recorded as current as of 30 June 2020 since the Group and the Company were not in compliance with certain financial covenants under their financing arrangements.

As the Company forms part of the Scheme of Arrangement entered into by Group on July 22nd this 2020 the management review includes Group considerations.

"Group development in activities and financial position"

2019/20 was off to an excellent start for the Group. It posted its strongest first-half financial performance to date and was on track to deliver its 24th consecutive year of increased profitability. In early 2020, however, COVID-19 began to surface, and what unfolded was the gravest crisis the aviation industry has ever known. The pandemic grounded up to 90% of the global airline fleet and severely disrupted airline operations worldwide.

On the back of the consequent unprecedented depression of demand for air travel, the Group, in common with its peers, encountered a large number of lessees requesting a deferral of their lease payments. The vast majority of lessees asked for a deferral. The Group proactively undertook several processes to counterbalance this fall in revenue. Firstly, the Group's orderbook was reprofiled and cost were reduced. Additionally, the Group's supportive shareholders collectively injected \$60 million of new equity into the business on 22 July 2020. The Group also engaged in constructive discussions with its lenders to standstill on and defer its debt obligations to ensure stability as the aviation market gradually recovers. This required the Group to apply to the High Court in Dublin to launch a Scheme of Arrangement, and on 22 July 2020 it was officially approved by the Court.



## Management's review

### Operating review

In light of these unprecedented challenges the Group delivered a net loss of \$639.1 million for the year (PY a net profit of \$143.2 million).

On the face of the Group statements of financial position, most debt is recorded as current as of 30 June 2020 since the Group was not in compliance with certain financial covenants under its financing arrangements. As part of the Scheme of Arrangement this was waived ensuring no default was continuing as of 30 June 2020.

Both the Company and the Group's financial performances are significantly impacted by the COVID-19 pandemic. The virus continues to spread around the globe. Consequently, authorities maintain widespread travel restrictions. The pandemic is expected to have a material impact on the aviation industry, and by extension the aircraft leasing sector. The Company and Group continue to monitor the impact of COVID-19 on the activities of the Company and Group as the situation develops and facts become clearer, noting that risk at group level has the potential to impact any of the Group subsidiaries.

### Going concern/outlook

#### "Company"

The Company is primarily renting aircraft to external customers utilizing operating leases. The Company is impacted by the position of the Nordic Aviation Capital DAC group and on other group companies to supply necessary services to support the leasing of aircraft. Consequently, in assessing the going concern of the Company, it is important to consider the going concern assessment of the Group. Further details of the Nordic Aviation Capital DAC going concern assessment is outlined in the Group annual report, which is available on the Group corporate webpage.

#### "Group"

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 20 of the Group annual report 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 30 June 2020.

The Group has in its going concern assessment considered the impact of COVID-19 on the aviation industry and the Group. COVID-19 has had a significant impact on airlines and aircraft lessors. This impact has been felt through an unprecedented reduction in the use of aircraft and a significant increase in the level of deferral requests and airlines unable to make scheduled rent payments. As of yet there is no cure to COVID-19 and therefore making an assessment of future cashflows is an extremely subjective and judgmental area.

In making this assessment, the Group formulated a number of scenarios which are based on three key elements in relation to the future cashflows of the Group, namely the debt and interest repayments, the commitments to purchase new aircraft and the collection of rental and other contractual cashflows.

In assessing the debt and interest repayments of the Group, the Group has entered into a Scheme of Arrangement on 22 July 2020 pursuant to which no payment of interest is to be made until 31 December 2020, all principal amortization payments (except the final maturity payments) are deferred for 9 months from the date on which they were previously scheduled to fall due, and final maturity payments are deferred for 12 months from the date on which they were previously scheduled to fall due. Further details of this Scheme are outlined in Note 16 of the Group annual report. This has the effect of ensuring that cashflows are conserved for use within the business and no defaults on loans or covenants will apply in this period where it is expected that the worst effect of COVID-19 would be felt. In addition, the Group has received an equity injection of \$60 million from its shareholders on 22 July 2020.

## Management's review

### Operating review

The Group engaged with aircraft manufacturers to secure flexibility and reprofiling of the timing of aircraft purchase commitments. While subject to final documentation, the Group is satisfied to include the deferred schedules of payments within the going concern period as it best reflects its understanding of the current negotiations, which may be subject to change. This assumption has meant that as of 30 June 2020 the Group had capital commitments of \$245 million for the next 12 months in relation to acquisition of aircraft.

Assessing the level of cashflow collections is the most subjective and judgmental area of the cashflow forecast. The Group's assessment of the level of cashflow collections reflects the unprecedented nature of the situation as it is unclear when a cure for COVID-19 will be available and when air travel will recover. In assessing future cashflow collections the Group have looked at recent trends in collections, the financial strength of our lessees to make payments, including any government and shareholder support that may have been committed to or received by lessees, and also reviewed market data around expected recovery profiles for air travel. As outlined above, whilst the Group has used its best estimate of cashflow collections based on information available to it, the impact that COVID-19 will have on air travel and the duration of this impact remains uncertain.

In light of the above assessment and key areas of uncertainty, the Group having considered the adequacy of the its funding, borrowing facilities and operating cash flows, for at least the next 12 months is satisfied that its financial statements for the financial year 2019/20 were prepared on a going concern basis based on the future plans that the Group has for its business.

The estimated cashflows involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from forecasted cashflows.

"Conclusion"

In light of the going concern assessment made by Nordic Aviation Capital DAC, and after having considered the adequacy of the Company's operating cash flows and borrowing facilities, for at least the next twelve months, the Directors of the Company are satisfied that the financial statements are prepared on a going concern basis based on the future plans that the Directors have for the business.

### Events after the balance sheet date

"Company events after the balance sheet date"

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

As a member of the Nordic Aviation Capital DAC group, the Company is also subject to group funding availability and benefits from the support and a financial guarantee from its parent.

The continued support of the parent is paramount to the going concern basis of preparation and to this end the Company has received a letter of support from the parent which means that the outstanding liabilities will not be required to be repaid unless there is available cash and the parent will continue to provide support to the Company for the foreseeable future as required.

With regard to aircraft purchase commitments, the Company has no capital commitments for the next twelve months in relation to aircraft acquisitions.

"Group events after the balance sheet date"

As referenced above, the High Court in Dublin officially approved the Scheme of Arrangement under the Irish Companies Act on 22 July 2020. The Scheme of Arrangement deferred loan obligations and waived certain loan covenants ensuring no default was continuing at 30 June 2020. The event has not resulted in any adjustments to the audited statement of financial position. However, the Scheme of Arrangement provided the Group with a waiver of certain covenants and therefore an unaudited adjusted pro forma consolidated statement of financial position and adjusted relevant notes reflecting the Scheme of Arrangement have been disclosed in the Group annual report under Supplemental unaudited information.

## **Management's review**

### **Operating review**

The Group's shareholders demonstrated their continued support and injected additional equity of \$60 million on 22 July 2020.

Besides above no events have occurred after the balance sheet date to this date that would influence the assessment of the annual report in any substantial way.

## Financial statements 1 July – 30 June

### Income statement

USD	Note	2019/20	2018/19
<b>Revenue</b>		7,191,916	4,390,243
Production costs		<u>-4,523,910</u>	<u>-2,496,673</u>
<b>Gross profit</b>		2,668,006	1,893,570
Distribution costs		-751,168	0
Administrative expenses		<u>-779,735</u>	<u>-576,465</u>
<b>Operating profit</b>		1,137,103	1,317,105
Financial income	3	32,804	31,676
Financial expenses	4	<u>-2,496,072</u>	<u>-3,120,906</u>
<b>Profit/loss before tax</b>		-1,326,165	-1,772,125
Tax on profit/loss for the year	5	<u>291,690</u>	<u>389,868</u>
<b>Profit/loss for the year</b>		<u><u>-1,034,475</u></u>	<u><u>-1,382,257</u></u>
<b>Proposed distribution of loss</b>			
Retained earnings		<u><u>-1,034,475</u></u>	<u><u>-1,382,257</u></u>

## Financial statements 1 July – 30 June

### Balance sheet

USD	Note	<u>30/6 2020</u>	<u>30/6 2019</u>
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Property, plant and equipment</b>			
Aircraft	6	<u>57,412,805</u>	<u>61,170,473</u>
<b>Total fixed assets</b>		<u>57,412,805</u>	<u>61,170,473</u>
<b>Current assets</b>			
<b>Receivables</b>			
Receivables from group entities		0	3,196,240
Other receivables		0	25
Corporation tax		1,045,611	697,496
Prepayments		<u>128,215</u>	<u>286,910</u>
		<u>1,173,826</u>	<u>4,180,671</u>
<b>Cash at bank and in hand</b>	7	<u>3,244</u>	<u>203,520</u>
<b>Total current assets</b>		<u>1,177,070</u>	<u>4,384,191</u>
<b>TOTAL ASSETS</b>		<u><u>58,589,875</u></u>	<u><u>65,554,664</u></u>

## Financial statements 1 July – 30 June

### Balance sheet

USD	Note	30/6 2020	30/6 2019
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Contributed capital		90,541	90,541
Retained earnings		4,348,404	5,382,879
<b>Total equity</b>		<u>4,438,945</u>	<u>5,473,420</u>
<b>Provisions</b>			
Provisions for deferred tax		6,818,852	6,063,955
<b>Total provisions</b>		<u>6,818,852</u>	<u>6,063,955</u>
<b>Liabilities other than provisions</b>			
<b>Non-current liabilities other than provisions</b>			
	8		
Mortgage loans		0	31,205,893
Other payables		500,000	898,000
Maintenance reserves		0	2,412,587
		<u>500,000</u>	<u>34,516,480</u>
<b>Current liabilities other than provisions</b>			
	8		
Current portion of non-current liabilities		0	4,695,063
Mortgage loans		31,205,892	0
Payables to group entities		15,506,305	14,688,507
Other payables		119,881	117,239
		<u>46,832,078</u>	<u>19,500,809</u>
<b>Total liabilities other than provisions</b>		<u>47,332,078</u>	<u>54,017,289</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>58,589,875</u></u>	<u><u>65,554,664</u></u>

## Financial statements 1 July – 30 June

### Statement of changes in equity

USD	Contributed capital	Retained earnings	Total
Equity at 1 July 2019	90,541	5,382,879	5,473,420
Transferred over the distribution of loss	0	-1,034,475	-1,034,475
<b>Equity at 30 June 2020</b>	<b>90,541</b>	<b>4,348,404</b>	<b>4,438,945</b>

## Financial statements 1 July – 30 June

### Notes

#### 1 Accounting policies

The annual report of NAC Aviation 2 A/S for 2019/20 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with opt-in 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 6.66. For the year 2018/19, the DKK/USD exchange rate at the balance sheet date was 6.56.

#### 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 losses 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 specific aircraft 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 a straight-line basis over the expected useful life.

The estimated useful lives are as follows:

Aircraft	25-30 years
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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.

#### 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.

#### Cash at bank and in hand

Cash comprise bank deposits.

#### 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.

##### 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

#### 2 Basis of preparation

In their going concern assessment, the Directors have considered the impact of COVID-19 on the aviation industry and the NAC Group. COVID-19 has had a significant impact on airlines and aircraft lessors. This impact has been felt through an unprecedented reduction in the use of aircraft and a significant increase in the level of deferral requests and airlines unable to make scheduled rent payments. As of yet, there is no cure to COVID-19, and therefore making an assessment of future cash flows is an extremely subjective and judgmental area.

In assessing debt and interest repayments of the NAC Group, the NAC Group entered into a Scheme of Arrangement on 22 July 2020 pursuant to which no payment of interest is to be made until 31 December 2020, all principal amortisation payments (except the final maturity payments) are deferred for nine months from the date on which they were previously scheduled to fall due, and final maturity payments are deferred for 12 months from the date on which they were previously scheduled to fall due. This has the effect of ensuring that cash flows are conserved for use within the business, and no defaults on loans or covenants will be evidenced in this period when we expect the worst effect of COVID-19 to be felt. In addition, the NAC Group received an equity injection of USD 60 million from its shareholders on 22 July 2020.

Assessing the level of cash flow collections is the most subjective and judgmental area of the cash flow forecast. The NAC Group's assessment of the level of cash flow collections reflects the unprecedented nature of the situation as it is unclear when a cure for COVID-19 will be available and when air travel will recover. In assessing future cash flow collections, we have looked at recent trends in collections, the financial strength of our lessees to make payments, including any government and shareholder support that may have been committed to or received by lessees, and also reviewed market data around expected recovery profiles for air travel. As outlined above, whilst the NAC Group has used its best estimate of cash flow collections based on information available, the impact that COVID-19 will have on air travel and the duration of this impact remains uncertain.

In light of the above assessment and key areas of uncertainty, the Directors having considered the adequacy of the NAC Group's funding, borrowing facilities and operating cash flows, for at least the next 12 months, are satisfied that the financial statements are prepared on a going concern basis based on the future plans that the Directors have for the business.

The estimated cash flows involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from forecast cash flows.

## Financial statements 1 July – 30 June

### Notes

USD	<u>2019/20</u>	<u>2018/19</u>
<b>3 Financial income</b>		
Other financial income	21,947	19,169
Exchange adjustments	<u>10,857</u>	<u>12,507</u>
	<u>32,804</u>	<u>31,676</u>
<b>4 Financial expenses</b>		
Interest expense to group entities	665,195	1,094,310
Other interest expenses	<u>1,830,877</u>	<u>2,026,596</u>
	<u>2,496,072</u>	<u>3,120,906</u>
<b>5 Tax on profit/loss for the year</b>		
Joint taxation contribution	1,045,611	697,496
Deferred tax for the year	-753,921	-622,332
Adjustment of deferred tax concerning previous years	<u>0</u>	<u>314,704</u>
	<u>291,690</u>	<u>389,868</u>
<b>6 Property, plant and equipment</b>		
USD		<u>Aircraft</u>
Cost at 1 July 2019		74,247,385
Additions for the year		<u>105,735</u>
Cost at 30 June 2020		74,353,120
Depreciation and impairment losses at 1 July 2019		-13,076,911
Depreciation for the year		<u>-3,863,404</u>
Depreciation and impairment losses at 30 June 2020		-16,940,315
Carrying amount at 30 June 2020		<u>57,412,805</u>
<b>7 Cash at bank and in hand</b>		
The Company has a bank account registered as a deed account. The bank deposit amounts to USD 0 thousand (2018/19: USD 181 thousand).		

## Financial statements 1 July – 30 June

### Notes

#### 8 Non-current liabilities other than provisions

USD	Total debt at 30/6 2020	Outstanding debt after five years
Other payables	500,000	0
	<u>500,000</u>	<u>0</u>

#### 9 Contractual obligations, contingencies, etc.

##### Other contingent liabilities

The Company is jointly taxed with its Parent Company, Nordic Aviation Capital A/S, which serves 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.

#### 10 Mortgages and collateral

Aircraft with a carrying amount of USD 57,413 thousand at 30 June 2020 has been provided as collateral for aircraft financing of USD 31,206 thousand.

#### 11 Related party disclosures

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

##### Control

Nordic Aviation Capital 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, 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.