

MASL UK (1) Limited

Company Registration Number 06386342

Directors' Report and Financial Statements
for the financial year ended 31. March 2018



The Company's registered office is:
66 Prescott Street
London
England
E1 8NN
United Kingdom

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MASL UK (1) Limited

2018 Directors' Report and Financial Statements

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MASL UK (1) Limited

Directors' Report **for the financial year ended 31 March 2018**

In accordance with a resolution of the directors (the "Directors") of MASL UK (1) Limited (the "Company"), the Directors submit herewith the financial statements of the Company and report for the financial year ended 31 March 2018.

As the Company meets the qualifying conditions under section 382 of the Companies Act 2006 (the "Act"), the Directors have taken advantage of the exemption provided in sections 414B (as incorporated into the Act by the Strategic Report and Directors' Report Regulations 2013) and 415A of the Act for the preparation of a Strategic Report.

Directors and Secretaries

The Directors who each held office as a Director of the Company throughout the year and until the date of this report, unless disclosed below, were:

Gregg Macalister Walker
Liam James Kavanagh
Stephen Wesley Cook

The Secretary who held office as a Secretary of the Company throughout the year and until the date of this report, unless disclosed otherwise, was:

Carter Backer Winter Trustees Limited

Principal activity

The principal activity of the Company during the financial year ended 31 March 2018 was operating lease in and operating onward leasing of commercial aircraft.

As of the reporting date, the Company leases one aircraft (2017: three aircraft) from another group company under an operating lease. This aircraft is onward leased to an airline operator.

Results

The profit attributable to ordinary equity holders of the Company for the year ended 31 March 2018 was \$70,000 (2017: \$74,000).

Dividends paid or provided for

Dividend of \$172,000 was paid during the financial year (2017: \$nil).

State of affairs

There were no significant changes in the state of affairs of the Company that occurred during the financial year under review not otherwise disclosed in this report.

Events after the reporting date

On 3 August 2018, the ownership of the Company transferred from Macquarie Aircraft Leasing Limited to Macquarie AirFinance Holdings Limited.

At the date of this report, the Directors are not aware of any other matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in the financial year subsequent to 31 March 2018 not otherwise disclosed in this report.

MASL UK (1) Limited

Directors' Report (continued) for the financial year ended 31 March 2018

Likely developments, business strategies and prospects

The Directors believe that no significant changes are expected other than those already disclosed in this report.

Creditor payment policy

It is the Company's policy to agree the terms of payment to creditors at the start of business with that supplier, ensure that suppliers are aware of the terms of payment and to pay in accordance with its contractual and other legal obligations.

Indemnification and insurance of Directors

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The ultimate parent purchased and maintained throughout the financial year Directors' liability insurance in respect of the Company and its Directors.

Financial risk management

Risk is an integral part of the Macquarie Group's businesses. The Company is exposed to a variety of financial risks that include the effects of credit risk, liquidity risk, operational risk, interest rate risk and foreign exchange risk. Additional risks faced by the Company include legal, compliance and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group ("RMG") to ensure appropriate assessment and management of these risks.

As ultimately an indirect subsidiary of Macquarie Group Limited ("MGL"), the Company manages risk within the framework of the overall strategy and risk management structure of the Macquarie Group. RMG is independent of all other areas of the Macquarie Group, reporting directly to the Managing Director and the Board of MGL. The Head of RMG is a member of the Executive Committee of MGL. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board of MGL.

The risks which the Company is exposed to are managed on a globally consolidated basis for MGL as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions.

Credit risk

Credit exposures, approvals and limits are controlled within the Macquarie Group's credit risk framework, as established by the RMG. Credit approvals are processed within this framework and limits are set in accordance with current practices. Daily monitoring occurs using the standard framework, with exposure information fed by the risk management system.

Liquidity risk

Liquidity risk is the risk of an entity encountering difficulty in meeting obligations with financial liabilities. The Directors have adopted the risk model used by the Macquarie Group, as approved by RMG. This model is incorporated into the Macquarie Group's risk management systems to enable the Company to manage this risk effectively.

Interest rate risk

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include receivables from other Macquarie Group undertakings which earn a variable rate of interest. Interest bearing liabilities include payables to other Macquarie Group undertakings which also incur a variable rate of interest.

MASL UK (1) Limited

Directors' Report (continued) for the financial year ended 31 March 2018

Foreign exchange risk

The Company has foreign exchange exposures which include amounts receivable from and payable to other Macquarie Group undertakings which are denominated in non-functional currencies. Any material non-functional currency exposures are managed by applying a group wide process of minimising exposure at an individual company level.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "*Reduced Disclosure Framework*", and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from these standards being disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

During the year the directors decided to have all the UK and Irish registered companies audited by the same firm. As a result PricewaterhouseCoopers UK formally resigned as auditors of the Company on 12 July 2018. On 1 October 2018, the Directors of the Company formally appointed PriceWaterhouseCoopers Ireland as the auditors of the Company.

On behalf of the Board


Director
Gregg Walker
Director 14 July 2018


Director
14 July 2018
Liam Kavanagh
Director



Independent auditors' report to the members of MASL UK (1) Limited

Report on the audit of the financial statements

Opinion

In our opinion, MASL UK (1) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2018; the profit and loss account, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.



Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine 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, the directors are 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 unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 (UK) 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Emma Scott (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Auditors
Dublin
14 November 2018

MASL UK (1) Limited

Financial Statements

Profit and loss account for the financial year ended 31 March 2018

| | Note | 2018 \$'000 | 2017 \$'000 |
|--|------|----------------|----------------|
| Turnover | 2 | 11,206 | 10,916 |
| Other operating expenses | 2 | (11,107) | (10,805) |
| Administrative expenses | 2 | (46) | (23) |
| Operating profit | | 53 | 88 |
| Interest receivable and similar income | 3 | 429 | 190 |
| Interest payable and similar charges | 4 | (393) | (186) |
| Net interest income | | 36 | 4 |
| Profit on ordinary activities before taxation | | 89 | 92 |
| Tax on profit on ordinary activities | 6 | (19) | (18) |
| Profit on ordinary activities after taxation | | 70 | 74 |

The above profit and loss account should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

There were no other comprehensive income and expenses other than those included in the results above and therefore no separate statement of comprehensive income has been presented.

MASL UK (1) Limited

Company Registration Number 06386342

Balance sheet as at 31 March 2018

| | Note | 2018 \$'000 | 2017 \$'000 |
|---|------|----------------|----------------|
| Current assets | | | |
| Debtors | 7 | 14,253 | 19,343 |
| Creditors: amounts falling due within one year | 8 | (13,406) | (17,444) |
| Net current assets | | 847 | 1,899 |
| Total assets less current liabilities | | 847 | 1,899 |
| Creditors: amounts falling due after more than one year | 9 | (720) | (1,670) |
| Net assets | | 127 | 229 |
| Capital and reserves | | | |
| Called up share capital | 11 | - | - |
| Profit and loss account | 12 | 127 | 229 |
| Total shareholders' funds | | 127 | 229 |

The above balance sheet should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 14 November 2018 and were signed on its behalf by:



Director

Gregg Walker
Director



Director

Liam Kavanagh
Director

MASL UK (1) Limited

Statement of changes in equity for the financial year ended 31 March 2018

| | Note | Called up share capital presented as equity \$'000 | Profit and loss account \$'000 | Total shareholders' funds \$'000 |
|---|------|--|--------------------------------------|---|
| Balance as at 1 April 2016 | | - | 155 | 155 |
| Profit for the financial year | 12 | - | 74 | 74 |
| Other comprehensive income | | - | - | - |
| Total comprehensive income | | - | 74 | 74 |
| Balance as at 31 March 2017 | | - | 229 | 229 |
| Profit for the financial year | 12 | - | 70 | 70 |
| Other comprehensive income | | - | - | - |
| Total comprehensive income | | - | 70 | 70 |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | |
| Dividend paid | 5,12 | - | (172) | (172) |
| Balance as at 31 March 2018 | | - | 127 | 127 |

The above statement of changes in equity should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

MASL UK (1) Limited

Notes to the financial statements for the financial year ended 31 March 2018

Note 1. Summary of significant accounting policies

The Company is a private company limited by shares and is incorporated and domiciled in the United Kingdom (the "UK"). The address of its registered office is 66 Prescott Street, London, England, E1 8NN, United Kingdom.

i) Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101") and the Companies Act 2006 (the "Act") as applicable to companies using FRS 101.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of European Union ("EU") adopted International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention.

The Company is a qualifying entity for the purposes of FRS 101. Note 17 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The principal accounting policies adopted in the preparation of these financial statements and that of the previous financial year are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

In accordance with FRS 101 the Company has availed of an exemption from the following requirements of IFRS:

- the requirements of IFRS 7 'Financial Instruments: Disclosures';
- the requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- the requirements of International Accounting Standards ("IAS") 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- the requirements of paragraphs 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(v) of IAS 1 (reconciliation of shares outstanding);
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) and 135(c) of IAS 36 'Impairment of Assets';
- the requirements of paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation); and
- the requirements of IAS 24 to disclose related party transactions entered into between two or more members of a group where both parties to the transaction are wholly owned within the group.

ii) Critical accounting estimates and significant judgements

The preparation of the financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Company and the financial statements, such as recognition and measurement of supplemental rent income and expenses, and maintenance reserves (Notes 1(v), 1(x), 10).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Notes to the financial statements (continued)
for the financial year ended 31 March 2018

Note 1. Summary of significant accounting policies (continued)

iii) Critical accounting estimates and significant judgements (continued)

Management believes the estimates used in preparing the financial statements are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

iiii) Foreign currency translations

Functional and presentation currency

Items included in the financial statements of foreign operations are measured using the currency of the primary economic environment in which the foreign operation operates (the "functional currency"). The Company's financial statements are presented in United States Dollars ("US\$") (the "presentation currency"), which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

iv) Revenue and expense recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for each major revenue stream as follows:

Turnover

Turnover for the year comprises operating sublease income and supplemental rent income.

(a) Operating sublease income

Operating sublease income consists of rental payments received in exchange for the lease of aircraft. A lease is classified as an operating lease where it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease income under fixed and floating rate leases is recorded as revenue on an accrual and straight-line basis, assuming no future changes in interest rates, over the non-cancellable term of the lease. If applicable, the contingent rent component, which is comprised of the variable rent for floating rate leases is based on future changes in the interest rates and is recognised through an increase or decrease in the rental of flight equipment revenue in the financial period when the change occurs.

The Company currently has a fixed rent lease income on its aircraft.

All rental amounts received but unearned under the lease agreements are recorded as deferred income in creditors: amounts falling due within one year on the balance sheet until earned.

Past-due rentals are recognised on the basis of management's assessment of whether future economic benefit will flow to the entity. No revenues are recognised from a lease when future economic benefit is not reasonably assured. Estimating whether future economic benefit will flow to the entity requires some level of subjectivity and judgement. Future economic benefit is evaluated based on factors such as the lessee's credit rating, payment performance, financial condition, requests for modifications of lease terms and conditions as well as security deposits received from the lessee. When rent collections are in doubt, a provision is recorded against the related receivable.

(b) Supplemental rent income

In all cases the lessees are responsible for maintenance and repairs, including major maintenance events ("MMEs") over the term of the lease.

MASL UK (1) Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2018

Note 1. Summary of significant accounting policies (continued)

iv) Revenue and expense recognition (continued)

(b) Supplemental rent income (continued)

Under certain leases the Company requires lessees to make regular additional rent payments based on aircraft utilisation. These payments are calculated on the basis of flight hours, flight cycles or at an agreed rate specified in the lease. These payments are recorded as Supplemental rent revenue. In these situations, the Company is obliged to reimburse the lessee for the cost of MMEs (up to the amount of supplemental rent paid).

In some cases, usually after the first lease has ended, the Company offers an incentive to the next lessee by committing to contribute to lessee's cost for the next planned MMEs for the major aircraft components over and above supplemental rent paid by that lessee. These lessor contributions reflect the prior lessee's utilisation of the relevant components in respect of which the lessor has usually received payment under the terms of the previous lease. These contributions are recorded as an operating lease incentive to the new lessee and recorded on a straight line basis over the lease term as contra-revenue in Supplemental rent with a corresponding entry in maintenance reserve liability.

In certain circumstances, the Company agrees to an alternative mechanism to compensate the lessor for the usage of the aircraft. Under an end of lease compensation mechanism ("EoL Compensation" mechanism), the lessor agrees to defer the receipt of the lessee's compensation for the use of the aircraft until the end of lease. The compensation is typically calculated on the basis of the condition of each major component at the end of the lease relative to the commencement of the lease. If each major component is returned in better condition, the lessor would typically make a payment to the lessee. If each major component is returned to the lessor in worse condition, the lessee is required to make a payment to the lessor. Such payment will be calculated on the basis of condition measured by hours, number of cycles or calendar time at an agreed rate specified in the lease agreement. EoL Compensation is estimated and recognised over the lease term as supplemental rent or contra supplemental rent.

For all of the above scenarios, the Company estimates the total payments toward the cost of MMEs or EoL Compensation expected to be received or paid over the lease term at the beginning of each new lease or whenever there is a change in lease terms. The Company regularly reviews these estimates, and adjustments are made accordingly. The estimates are determined based on quantitative and qualitative information including aircraft utilisation, area of operation, and costs and timing of MMEs. Where applicable management relies on specialists, aircraft manufactures and operators data to assist in determining the inputs for these estimates. The evaluation also considers the costs and timing of any MMEs which occur during the financial year for the affected or similar aircraft types, lease activity and any other factors affecting the MMEs and EoL Compensation.

Interest income/expense

Interest income/expense is brought to account using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

Expenses

Expenses are brought to account on an accrual basis and, if not paid at the end of the reporting period, are reflected on the balance sheet as a payable.

Other operating expenses

Other operating expenses comprise of operating lease expense, supplemental rent expense and other expenses.

MASL UK (1) Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2018

Note 1. Summary of significant accounting policies (continued)

iv) Revenue and expense recognition (continued)

(a) Operating lease expense

Operating lease expense consists of rental payments under leases of aircraft. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease rental expense under fixed and floating rate leases are recorded as expense on an accrual and straight-line basis, assuming no future changes in interest rates, over non-cancellable term of the lease. If applicable, the contingent rent component, which is comprised of the variable rent for floating rate leases is based on future changes in the interest rates and is recognised through an increase or decrease in rental expense in the financial period when the change occurs.

The Company currently has a fixed rent lease expense on its aircraft.

All rental out payments paid in advance are included within debtors in the balance sheet until incurred.

(b) Supplemental rent expense

The Company pays supplemental rent to the head lessor and this is recognised as an expense when payable. Under the terms of the head lease agreement, the head lessor is obligated to make payments to the Company (as lessee) in respect of maintenance reserves to enable the Company as lessee to comply with its obligations to the third party lessee under the lease out arrangement. Such expected payments by the head lessor to the Company are recorded as an adjustment to the supplemental rent expense with a corresponding balance to related party receivable.

The Company also accrues the expected EoL Compensation payments it expects to pay to or receive from the head lessor at the end of the lease. Under the head lessor agreement, the Company will pay to, or receive from, the head lessor an amount based on the relative condition of each component at the end of the lease relative to the condition at the commencement of the lease. The accrued amount is based on an estimate made by the Company which is continually revised and updated as necessary.

v) Taxation

The principles of the balance sheet method of tax effect accounting have been adopted whereby the income tax expense for the financial year is the tax payable on the current year's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax basis of assets and liabilities and their carrying amounts in the financial statements and unused tax losses.

vi) Financial assets

Loans and receivables

Included within debtors are loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes amounts due from related parties, and amounts due from customers for contractual lease revenues, supplemental rent or services performed in the ordinary course of business. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost.

vii) Impairment

Loans and receivables

All receivables are subject to regular review and assessment for possible impairment. Provisions for impairment are recognised based on an incurred loss model and re-assessed at each balance sheet date. A provision for impairment is recognised when there is objective evidence of impairment, and is calculated based on the present value of expected future cash flows, discounted using the original effective interest rate.

MASL UK (1) Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2018

Note 1. Summary of significant accounting policies (continued)

vii) Impairment (continued)

Loans and receivables (continued)

If, in a subsequent year, the amount of impairment losses decrease and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment losses are reversed through the profit and loss account to the extent of the impairment earlier recognised. Bad debts are written off in the year in which they are identified.

viii) Financial liabilities

Financial liabilities includes amounts due to related parties which are initially recognised at fair value net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit and loss account over the period of the borrowing using the effective interest method.

ix) Maintenance reserves

Lessees are responsible for aircraft maintenance during the lease.

In some cases the Company reimburses or pays the lessee for qualifying MMEs performed (collectively termed as "lessor contributions"). This applies primarily when the lessee is paying monthly supplemental rent. The payments could be a reimbursement of the cash previously collected or part of the lease incentive offered to the lessee. In other situations, the Company has EoL Compensation arrangements and expects to pay or receive a payment at the end of the lease depending on the relative condition of the major components.

At the beginning and throughout the term of each lease, the Company estimates the maintenance liability for MMEs which are expected to occur during the lease and accrues for this over the same term with a corresponding contra-revenue entry in supplemental rent.

Under EoL arrangements, the Company accrues the expected lessee's compensation for the use of the aircraft over the term of the lease as a *maintenance reserve receivable with a corresponding entry in supplemental rent or contra supplemental rent* and agrees to defer the receipt of this compensation until the lease end.

The lessee has the obligation to make periodic payments which are calculated with reference to the utilisation of airframes, engines and other major life-limited components during the lease. Upon lessee presentation of the invoices evidencing the completions of the qualifying work on the aircraft, the Company reimburses the lessee for the work, up to a maximum of the supplemental rent amounts received with respect to such work.

The Company records supplemental amounts as maintenance reserves. Amounts not expected to be reimbursed during the lease are recorded as lease revenue when the Company has reliable information that the lessee will not seek reimbursement of maintenance reserves based on the maintenance forecasting model.

In some cases, instead of paying reserves as described above, the lessee can provide a letter of credit for the benefit of the Company.

Under Lease in Lease Out ("LILO") arrangements, where the lessee pays monthly supplemental reserves a maintenance reserve liability is recognised and accrued over the life of the lease. In respect of the lease in arrangement with the head lessor there is a corresponding related party receivable balance from the head lessor. Under EoL arrangements, the total expected EoL Compensation due to or receivable from the lessee is accrued over the life of the lease as a maintenance reserve asset or liability (depending on the expected relative condition of the major components compared with the condition at the inception of the lease). In respect of the lease in arrangement with the head lessor there is a corresponding maintenance reserve liability or asset which is presented as a related party payable or receivable.

MASL UK (1) Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2018

Note 1. Summary of significant accounting policies (continued)

ix) Maintenance reserves (continued)

The Company entered into arrangements where the third party maintenance reserve obligations are assumed by Macquarie Bank Limited ("MBL") under a defeasance arrangement, in return for which the Company agrees to reimburse MBL for any payments arising in respect of such maintenance reserve obligations.

x) Security deposits

Security deposits consist of deposits paid by the lessees to ensure lessee compliance during a lease term. They can be in the form of cash or letters of credit. The cash deposits are refundable to the lessee at the successful completion of a lease.

The Company entered into arrangements where the third party security deposit obligations are assumed by MBL under a defeasance arrangement in return for which the Company agrees to reimburse MBL for any payments arising in respect of such security deposit obligations.

xi) Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously.

xii) Called up share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

xiii) Comparatives

Where necessary, comparative information has been reclassified to conform with changes in presentation in the current year.

In accordance with the requirements of FRS101 the Company considers if any prior period accounting errors are material to the users of the financial statements and if so will, to the extent practicable, correct a material prior period error retrospectively in the first financial statements authorised for issue after its discovery. For errors that are not considered to be material the Company will consider on a case by case basis if retrospective adjustment will be made or if the error should be corrected in the current period.

MASL UK (1) Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2018

| | 2018 \$'000 | 2017 \$'000 |
|---|-----------------|-----------------|
| Note 2. Profit on ordinary activities before taxation | | |
| Turnover | | |
| Operating sublease income | 8,332 | 8,624 |
| Supplemental rent income, net ¹ | 2,874 | 2,292 |
| Total turnover | 11,206 | 10,916 |
| Other operating expenses | | |
| Operating lease expense | (8,234) | (8,519) |
| Supplemental rent expense, net ² | (2,874) | (2,292) |
| Other income | 1 | 6 |
| Total other operating expenses | (11,107) | (10,805) |
| Administrative expenses | | |
| Auditors' remuneration ³ | (23) | (23) |
| Legal fees | (19) | - |
| Other expenses | (4) | - |
| Total administrative expenses | (46) | (23) |
| ¹ Supplemental rent income, net | | |
| Supplemental rent income on Maintenance Reserves ("MR") leases | 4,773 | 4,501 |
| Accruals for expected maintenance events | (1,899) | (2,209) |
| Total supplemental rent income, net | 2,874 | 2,292 |
| ² Supplemental rent expense, net | | |
| Supplemental rent expense on MR leases | (4,773) | (4,501) |
| Accruals for expected maintenance events | 1,899 | 2,209 |
| Total supplemental rent expense, net | (2,874) | (2,292) |
| ³ Auditors' remuneration (excluding VAT and including expenses) to the Statutory Audit Firm, PricewaterhouseCoopers Ireland of \$6,000 (2017: \$9,000 to PricewaterhouseCoopers UK) is in relation to the statutory audit of the financial statements. There are no other fees paid or payable by the Company to the Statutory Audit firm in the current or prior years. | | |
| The Company had no employees and staff costs during the year (2017: \$nil). | | |
| Note 3. Interest receivable and similar income | | |
| Interest receivable from other Macquarie Group undertakings | 429 | 190 |
| Total interest receivable and similar income | 429 | 190 |
| Note 4. Interest payable and similar charges | | |
| Interest payable to other Macquarie Group undertakings | (370) | (186) |
| Interest payable to external parties | (23) | - |
| Total interest payable and similar charges | (393) | (186) |
| Note 5. Dividend paid | | |
| Interim dividend paid (Note 12) | (172) | - |
| Total dividend paid | (172) | - |

MASL UK (1) Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2018

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Note 6. Tax on profit on ordinary activities | | |
| (i) Analysis of tax charge for the year: | | |
| Current tax: | | |
| UK corporation tax at 19% (2017: 20%) | (19) | (18) |
| Total current tax | (19) | (18) |
| Tax on profit on ordinary activities | (19) | (18) |

(ii) Reconciliation of income tax expense to tax charged at standard rate:

Factors affecting tax charge for the year:

The taxation charge for the year ended 31 March 2018 is higher than (2017: equal to) the standard rate of corporation tax in the UK of 19% (2017: 20%).

| | | |
|---|-------------|-------------|
| Profit on ordinary activities before taxation | 89 | 92 |
| Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%) | (17) | (18) |
| Effects of: | | |
| Others | (2) | - |
| Tax on profit on ordinary activities | (19) | (18) |

Note 7. Debtors

Amounts falling due within one year

Amounts owed by other Macquarie Group undertakings for:

| | | |
|---|---------------|---------------|
| Maintenance reserves receivable (Note 10) | 280 | 8,845 |
| Other receivables ¹ | 13,209 | 8,726 |
| Total amounts owed by other Macquarie Group undertakings | 13,489 | 17,571 |
| Prepayments and accrued income | 44 | 73 |
| Maintenance reserves received in advance | - | 18 |
| Trade debtors | - | 11 |
| | 13,533 | 17,673 |

Amounts falling due after more than one year

Amounts owed by other Macquarie Group undertakings for:

| | | |
|---|---------------|---------------|
| Security deposits receivable ² | 720 | 1,670 |
| Total debtors | 14,253 | 19,343 |

¹Other receivables included within amounts owed by other Macquarie Group undertakings are unsecured and have no fixed date of repayment. The Company derives interest on intercompany balances to group undertakings at market rates and at 31 March 2018 the rate applied was LIBOR plus 1.36% (2017: LIBOR plus 1.53%).

²Security deposits are interest free and are receivable from the head lessors at the successful completion of the lease term expiring March 2020.

Note 8. Creditors: amounts falling due within one year

Amounts owed to other Macquarie Group undertakings for:

| | | |
|---|---------------|---------------|
| Maintenance reserves payable ¹ (Note 10) | 280 | 8,845 |
| Maintenance reserves advance payable (Note 10) | - | 18 |
| Other payables ² | 13,084 | 7,930 |
| Total amounts owed to other Macquarie Group undertakings | 13,364 | 16,793 |
| Deferred income | 41 | 637 |
| Taxation | 1 | 14 |
| Total creditors: amounts falling due within one year | 13,406 | 17,444 |

MASL UK (1) Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2018

| | 2018 | 2017 |
|--|--------|--------|
| | \$'000 | \$'000 |

Note 8. Creditors: amounts falling due within one year (continued)

¹The Company entered into arrangements where the third party maintenance reserve obligations are assumed by MBL under a defeasance arrangement in return for which the Company agrees to reimburse MBL for any payments arising in respect of such maintenance reserve obligations.

²Other payables included within amounts owed to other Macquarie Group undertakings are unsecured and have no fixed date of repayment. The Company incurs interest on amounts owed to other Macquarie Group undertakings at market rates and at 31 March 2018 the rate applied was LIBOR plus 1.36% (2017: LIBOR plus 1.53%).

Note 9. Creditors: amounts falling due after more than one year

Amounts owed to other Macquarie Group undertakings for:

| | | |
|--|------------|--------------|
| Security deposits ¹ | 720 | 1,670 |
| Total creditors: amounts falling due after more than one year | 720 | 1,670 |

¹Security deposits are interest free and refundable to the lessee at the successful completion of the lease term expiring March 2020. The Company entered into arrangements where the third party security deposit obligations are assumed by MBL under a defeasance arrangement in return for which the Company agrees to reimburse MBL for any payments arising in respect of such security deposit obligations.

Note 10. Maintenance reserves

| | | |
|---|------------|--------------|
| Balance at the beginning of the financial year | 8,827 | 6,168 |
| Transfer of balance during the year | (10,325) | - |
| Accruals for expected maintenance events | 1,899 | 2,209 |
| Adjustments for claims and other | (121) | 450 |
| Balance at the end of the financial year | 280 | 8,827 |

| | 2018 | 2017 | 2018 | 2017 |
|--|-----------|-----------|--------|--------|
| | Number of | Number of | \$'000 | \$'000 |
| | shares | shares | | |

Note 11. Called up share capital presented as equity

Ordinary share capital

Opening balance of fully paid ordinary shares of
GBP 1 each¹

| | | | | |
|--|---|---|---|---|
| | 1 | 1 | - | - |
|--|---|---|---|---|

**Closing balance of fully paid ordinary shares
presented as equity**

| | | | | |
|--|---|---|---|---|
| | - | - | - | - |
|--|---|---|---|---|

¹Represents share capital equivalent of \$2.05 (2017: \$2.05).

| | 2018 | 2017 |
|--|--------|--------|
| | \$'000 | \$'000 |

Note 12. Profit and loss account

| | | |
|--|------------|------------|
| Balance at the beginning of the financial year | 229 | 155 |
| Profit attributable to the ordinary equity holders of MASL UK (1) Limited | 70 | 74 |
| Dividend Paid (Note 5) | (172) | - |
| Balance at the end of the financial year | 127 | 229 |

MASL UK (1) Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2018

| | 2018 | 2017 |
|--|--------|--------|
| | \$'000 | \$'000 |

Note 13. Operating lease receivables and commitments

Operating leases rental receivables - Company as lessor

The Company leases out aircraft under non-cancellable operating leases. The lease arrangements do not have renewal or purchase options and escalation clauses.

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

| | | |
|--|--------------|---------------|
| Not later than one year | 2,945 | 8,625 |
| Later than one year and no later than five years | 2,708 | 5,874 |
| Later than five years | - | - |
| Total | 5,653 | 14,499 |

Operating lease commitments - Company as lessee

The Company leases aircraft under non-cancellable operating leases. The lease arrangements do not have renewal or purchase options and escalation clauses.

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

| | | |
|--|--------------|---------------|
| Not later than one year | 2,939 | 8,523 |
| Later than one year and no later than five years | 2,702 | 5,850 |
| Later than five years | - | - |
| Total | 5,641 | 14,373 |

Note 14. Related party information

As 100% of the voting rights of the Company are controlled within the group headed by MGL, incorporated in Australia, the Company has taken advantage of the exemption contained in FRS 101 and has therefore not disclosed transactions or balances with wholly owned entities which form part of the Macquarie Group. The consolidated financial statements of MGL, within which the Company is included, can be obtained from the address given in Note 17.

The Company does not have any related party transactions or balances other than those with entities which form part of the Macquarie Group as mentioned above.

Note 15. Directors' remuneration

During the financial year ended 31 March 2018 and 31 March 2017, all Directors were employed by, and received all emoluments from, other Macquarie Group undertakings. The Directors perform directors' duties for multiple entities in the Macquarie Group, as well as their employment duties within Macquarie Group businesses. Consequently, allocating their employment compensation accurately across all these duties would not be feasible. Accordingly, no separate remuneration has been disclosed.

Note 16. Contingent liabilities and commitments

Other than the operating lease commitments disclosed in Note 13, the Company had no commitments or contingent liabilities which are individually material or a category of commitments or contingent liabilities which are material.

MASL UK (1) Limited

Notes to the financial statements (continued) for the financial year ended 31 March 2018

Note 17. Ultimate holding company

As of the reporting date, the immediate parent company of the Company is Macquarie Aircraft Leasing Limited.

The ultimate parent company and controlling party of the Company is MGL. The largest group to consolidate these financial statements is MGL, a company incorporated in Australia. The smallest group to consolidate these financial statements is MBL, a company incorporated in Australia. Copies of the consolidated financial statements for MGL and MBL can be obtained from the Company Secretary, Level 6, 50 Martin Place, Sydney, New South Wales, 2000, Australia.

Note 18. Events after the reporting date

On 3 August 2018, the ownership of the Company transferred from Macquarie Aircraft Leasing Limited to Macquarie AirFinance Holdings Limited.

There were no other material events subsequent to 31 March 2018 that have not been reflected in the financial statements.

Note 19. Approval of financial statements

The Directors approved the financial statements on 14 November 2018.