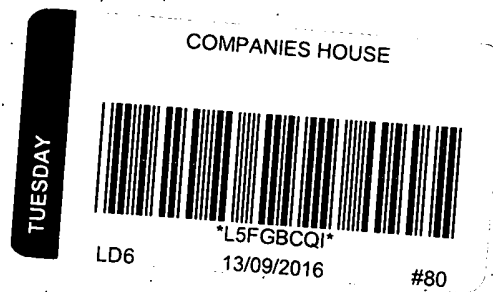


Company No. 8093037

**EAF LEASING UK 1 LIMITED**

**Directors' Report and Financial Statements**

**for the year ended 31 December 2015**



**Directors' Report and Financial Statements**

**for the year ended 31 December 2015**

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## EAFL LEASING UK 1 LIMITED

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### Directors and other information

**Directors** Ashok Fangoo  
Sunil Masson  
Nicholas Bland (appointed on 27 May 2015)  
Mahen Beejadhursingh Surnam (resigned on 1 May 2015)  
Alan Booth (appointed on 1 May 2015 and resigned on 27 May 2015)

**Secretary** Sunil Masson

**Registered office** Winchester House  
Mailstop 428  
1 Great Winchester Street  
London  
EC2N 2DB  
United Kingdom

**Independent auditor** KPMG  
Chartered Accountants  
1 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

**Banker** Wells Fargo Bank, N.A.  
One Plantation Place  
30 Fenchurch Street  
London EC3M 3BD  
United Kingdom

**Corporate administrator** Deutsche Bank AG  
Winchester House  
MailStop 429  
1 Great Winchester Street  
London  
EC2N 2DB  
United Kingdom

**Arranger** Avolon Aerospace Leasing Limited  
The Oval, Building 1  
Shelbourne Road  
Ballsbridge  
Dublin 4, Ireland

**Directors' report**

The directors present their report and the audited financial statements of EAF Leasing UK 1 Limited, (the "Company") for the year ended 31 December 2015.

**Incorporation and principal activity**

The Company was incorporated in the United Kingdom on 1 June 2012 as a private limited company and GBP 1 ordinary share was issued at par and unpaid on that date. The Company changed its name from Avolon Aerospace UK 4 Limited to EAF Leasing UK 1 Limited on 16 October 2013. On 17 October 2013, Avolon Aerospace Leasing Limited transferred the shares held to Emerald Aviation Finance Limited.

The principal activity of the Company is the leasing of two Embraer E190-AR aircraft bearing manufacturer's serial numbers 19000312 and 19000321 respectively (the "Aircraft"), under operating leases, to VB LeaseCo Pty Ltd (the "Lessee"). The Company commenced trading on 26 June 2012. The proceeds from the leases were previously used to pay Avolon Aerospace AOE 43 Limited (the "Owner") under the Head Lease Agreement. As from 17 October 2013, the Owner changed to Emerald Aviation AOE 7 Limited.

**Results and dividends**

The Statement of profit or loss and other comprehensive income for the year is set out on page 7.

The directors do not recommend the payment of dividend for the year under review (2014: USD nil).

**Going concern**

The Company has as its only obligation the monthly lease payments under the operating leases of the Aircraft to Emerald Aviation Finance Limited (the "Owner"). The ability of the Company to meet its obligations under the leases will depend upon the proceeds from the lease received from VB LeaseCo Pty Ltd (the "Lessee") under the "Lease Agreement".

The Company's financial statements have been prepared on a going concern basis. The directors have considered and continue to monitor the status of the Company as a going concern.

**Strategic report**

As the Company qualifies as a small company under the Companies Act 2006, the Company is exempt from the requirement to prepare the strategic report as permitted by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

**Subsequent events**

There are no significant post balance sheet events up to the date of approval of these financial statements.

**Key performance indicators ('KPIs')**

The key performance indicator of the business is considered to be the operating lease income derived from the leasing of two Embraer E190-AR aircraft bearing manufacturer's serial numbers 19000312 and 19000321 respectively (the "Aircraft"), under operating leases, to VB LeaseCo Pty Ltd (the "Lessee"). The profit for the year to 31 December 2015 of USD 82,150 (2014: USD 67,796) was significantly attributable to the operating lease income derived from the leasing of two Embraer E190-AR aircraft.

**Financial Risk Management**

The primary risks arising from the Company's financial instruments are credit risk, liquidity risk and operational risk. The principal natures of these risks are summarised below.

The ultimate parent company, Avolon Holdings Limited ("AHL"), has formed a number of sub-committees comprising both directors and management to appropriately monitor and evaluate the key risks of the business of the Company. These risks are:

**Credit risk**

There is a risk that the counterparties to the lease contracts will default on their liability exposing the Company to credit risk. The Company has limited credit risk since its contractual obligations in respect of lease payments are subject to lease receipts from the counterparty and the performance of the Lessee is guaranteed by Virgin Blue Airlines Pty Limited (the "Guarantor") in accordance with the 'Deed of Guarantee'. Also, the parent company, Emerald Aviation Finance Limited, has a dedicated risk management team in place which reviews the credit risk of its counterparts, as a group.

Each new lessee is assessed prior to the Company entering into commitments and the assessment is considered by the Company's Board as part of the investment approval decision. In addition, the Company's leases contain credit risk protection in the form of letter of credit deposits. Credit risk is monitored and managed by the business on an on-going basis, with regular review of credit performance and receivable monitoring.

**Directors' report (continued)**

**Financial Risk Management (continued)**

Credit risk (continued)

The Company also has significant cash balances included in its financial assets and these deposits give rise to credit risk on amounts due from counterparties. Before placing cash with any bank, the Company has due consideration to both investment return and credit risk. Although all of its cash balance is held with only one bank, the concentration risk is deemed insignificant given the credit rating of Wells Fargo Bank N.A.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the financing policy of the Company is such that the maturity profile of the Company's obligations are matched to the profile of its revenue thereby reducing the Company's liquidity risk.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the financing policy of the Company is such that the maturity profile of the Company's obligations are matched to the profile of its revenue thereby reducing the Company's liquidity risk.

If the Company cannot meet its obligations, it may be required to restrict all cash inflows to meet its financial obligations and may even be unable to continue to operate on a going concern basis. Based on all information available, the directors believe that the Company has sufficient liquidity to meet its obligations as they fall due and that it continues to be appropriate to prepare the financial statements on a going concern basis of preparation.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks are inherent in all business activity.

The Company was incorporated with the purpose of engaging in those activities outlined in the preceding paragraphs. All administration functions have been outsourced by the Company to Deutsche Bank AG London who has an operational risk management function that assist and advise line management on specific operational risks.

**Statement of disclosure of information to auditors**

The directors confirm that:

- so far as they are aware, there is no relevant information of which the Company's auditors are unaware of; and
- each director has taken all the steps that they ought to have taken as directors 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**

The auditors, KPMG Chartered Accountants, have indicated they will continue in office as auditor and a resolution to re-appoint them will be proposed at the Company's forthcoming Annual General Meeting.

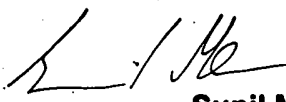
**Directors and their interests**

The directors did not have any interest in the shares or options of the Company at any time during the year ended 31 December 2015.

**Political contributions**

The Company did not make any political donations during the year (2014: nil).

By order of the board

  
.....**Sunil Masson**  
Director  
.....07/09/..... 2016

**Statement of directors' responsibilities**

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

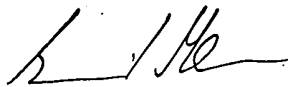
Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union ("EU") and applicable law.

The financial statements are required by law to 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 then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the EU have been followed subject to any material departures 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the board



Director

**Sunil Masson**

07/09/2016



**KPMG  
Audit**  
1 Harbourmaster Place  
IFSC  
Dublin 1  
D01 F6F5  
Ireland

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAF LEASING UK 1 LIMITED**

We have audited the financial statements ("financial statements") of EAF Leasing UK 1 Limited for the year ended 31 December 2015 which comprise the statement of profit and loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland).

### **Opinions and conclusions arising from our audit**

#### ***1 Our opinion on the financial statements is unmodified***

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### ***2 Our conclusions on other matters on which we are required to report by the Companies Act 2006 are set out below***

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### ***3 We have nothing to report in respect of matters on which we are required to report by exception***

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in respect of the above responsibilities.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAF LEASING UK 1 LIMITED (*continued*)**

### **Basis of our report, responsibilities and restrictions on use**

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 and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2006. Our responsibility is to audit and express an opinion on the financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Killian Croke (*Senior Statutory Auditor*)  
**for and on behalf of KPMG, Statutory Auditor**  
Chartered Accountants  
1 Harbourmaster Place  
IFSC  
Dublin 1

07 September 2016



# **EAF LEASING UK 1 LIMITED**

## **Statement of profit or loss and other comprehensive income**

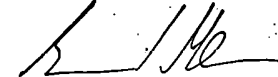
for the year ended 31 December 2015

	Notes	Year ended 31 December 2015 USD	Year ended 31 December 2014 USD
<b>Revenues</b>			
Operating lease income	3	5,791,920	5,791,920
Operating lease expense	3	(5,676,082)	(5,676,081)
<b>Total net revenue</b>		<b>115,838</b>	<b>115,839</b>
Interest income		115	61
Foreign exchange gain		521	328
<b>Expenses</b>			
General legal fees		(13,465)	(29,955)
<b>Profit from operating activities and before income tax</b>		<b>103,009</b>	<b>86,273</b>
Income tax expense	4	(20,602)	(18,477)
<b>Profit for the year</b>		<b>82,407</b>	<b>67,796</b>
<b>Other comprehensive result</b>			
<b>Total comprehensive income for the year</b>		<b>82,407</b>	<b>67,796</b>

All profits and total comprehensive income for the year and the preceding financial year are attributable to the owner of the Company.

The accompanying notes on pages 11 to 19 form an integral part of these financial statements.

On behalf of the board



Director **Sunil Masson**

07/09/ 2016

# **EAF LEASING UK 1 LIMITED**

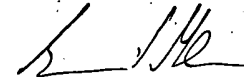
## **Statement of financial position.**

**At 31 December 2015**

	Notes	31 December 2015 USD	31 December 2014 USD
Restricted cash	6	257,795	139,122
Intercompany receivables	7	375,307	398,862
<b>Total current assets</b>		<b>633,102</b>	<b>537,984</b>
<b>Total assets</b>		<b>633,102</b>	<b>537,984</b>
<b>Liabilities</b>			
Trade and other payables	10	442,436	428,166
Current tax liabilities		4,175	5,734
<b>Total current liabilities</b>		<b>446,611</b>	<b>433,900</b>
<b>Total liabilities</b>		<b>446,611</b>	<b>433,900</b>
<b>Equity</b>			
Share capital	8	2	2
Retained earnings	8	186,489	104,082
<b>Total equity</b>		<b>186,491</b>	<b>104,084</b>
<b>Total equity and liabilities</b>		<b>633,102</b>	<b>537,984</b>

The accompanying notes on pages 11 to 19 form an integral part of these financial statements.

On behalf of the board



Director **Sunil Masson**

07/09/2016

# EAF LEASING UK 1 LIMITED

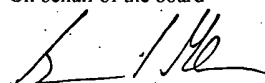
## Statement of cash flows

for the year ended 31 December 2015

	Notes	Year ended 31 December 2015 USD	Year ended 31 December 2014 USD
<b>Cash flows from operating activities</b>			
Profit for the year before tax		103,009	86,273
<i>Adjustments for:</i>			
Decrease in intercompany receivables	7	23,502	64,523
Increase/(decrease) in trade and other payables	10	14,270	(14,273)
<b>Cash generated from operating activities</b>		<b>140,781</b>	<b>136,523</b>
Income tax paid		(22,108)	(26,691)
<b>Net cash from operating activities</b>		<b>118,673</b>	<b>109,832</b>
<b>Cash flows from financing activities</b>			
Increase in restricted cash		(118,673)	(109,832)
<b>Net cash used in financing activities</b>		<b>(118,673)</b>	<b>(109,832)</b>
<b>Net result in cash and cash equivalents</b>		<b>-</b>	<b>-</b>
Cash and cash equivalents at 1 January		-	-
<b>Cash and cash equivalents at 31 December</b>	6	<b>-</b>	<b>-</b>

The accompanying notes on pages 11 to 19 form an integral part of these financial statements.

On behalf of the board.



Director **Sunil Masson**

07/09/2016

**EEF LEASING UK 1 LIMITED****Statement of changes in shareholder's equity****for the year ended 31 December 2015**

	<b>Share capital USD</b>	<b>Retained earnings USD</b>	<b>Total equity USD</b>
At 1 January 2014	2	36,286	36,288
<i>Total comprehensive income for the year</i>			
Profit for the year	-	67,796	67,796
<b>At 31 December 2014</b>	<b>2</b>	<b>104,082</b>	<b>104,084</b>
<i>Total comprehensive income for the year</i>			
Profit for the year	-	82,407	82,407
<b>At 31 December 2015</b>	<b>2</b>	<b>186,489</b>	<b>186,491</b>

All equity is attributable to the holder of the ordinary shares in the Company.

The accompanying notes on pages 11 to 19 form an integral part of these financial statements.

On behalf of the board

Director **Sunil Masson**

07/09/ 2016

**Notes to the financial statements**

**1. Reporting entity**

The financial statements of the Company for the year ended 31 December 2015 were authorised for issue by the directors on 07/09/2016.

The Company was incorporated on 1 June 2012 in the United Kingdom (UK) with registered number 8093037. The registered office of the Company is Winchester House, Mailstop 428, 1 Great Winchester Street, London, EC2N 2DB, United Kingdom. The Company commenced trading on 26 June 2012. The Company changed its name from Avolon Aerospace UK 4 Limited to EAF Leasing UK 1 Limited on 16 October 2013.

The principal activity of the Company is the leasing of two Embraer E190-AR aircraft bearing manufacturer's serial numbers 19000312 and 19000321 respectively (the "Aircraft") under operating leases to VB LeaseCo Pty Ltd (the "Lessee"). The proceeds from the leases, effective as from 17 October 2013 for aircraft 1900312 and 1900321 respectively, are used to pay Emerald Aviation AOE 7 Limited (the "Owner") under the Head Lease Agreements.

The Company has no direct employees.

The Company has no subsidiaries.

**2. Significant accounting policies**

**(a) Statement of compliance**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee (IFRIC) as adopted by the European Union ("EU") and as applied in accordance with the Companies Act 2006, IFRSs applied by the Company in the preparation of these financial statements and those that were effective at 31 December 2015. The accounting policies have been consistently applied by the Company unless otherwise described. The principal accounting policies adopted by the Company are set out below.

**(b) Accounting developments**

**Standards and interpretations adopted during the year**

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in the financial statements.

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015:

*1) Annual Improvements to IFRS's 2010-2012 Cycle, and Annual Improvements to IFRS's 2011-2013 Cycle*

The nature and effects of the changes are explained below.

**1) Annual Improvements to IFRS's 2010-2012 Cycle, and Annual Improvements to IFRS's 2011-2013 Cycle**

The IASB Board has made amendments to a total of nine standards relating to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 2 Share Based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 40 Investment Property.

This had no impact on the financial statements for the year ended 31 December 2015.

## Notes to the financial statements (continued)

## 2. Significant accounting policies (continued)

## (b) Accounting developments (continued)

## New standards and interpretations effective not yet adopted (continued)

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing the financial statements. The Company does not plan to adopt these standards early.

Description	Effective date (period beginning)
Amendments to IFRS 11: Accounting for acquisitions of interests in Joint Operations **	01 January 2016
IFRS 14: Regulatory Deferral Accounts	01 January 2016
Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation **	01 January 2016
Amendments to IAS 16: Property, Plant and Equipment and IAS 41: Bearer Plants **	01 January 2016
Amendments to IAS 27: Equity method in Separate Financial Statements **	01 January 2016
Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture	01 January 2016
Amendments to IAS 1: Disclosure Initiative **	01 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle **	01 January 2016
IFRS 15: Revenue from contracts with customers	01 January 2018
IFRS 16: Leases	01 January 2019
IFRS 9: Financial Instruments (2014)	01 January 2018
Amendments to IAS 7: Disclosure Initiative	01 January 2017
Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses	01 January 2017

\* : Where new standards are endorsed the EU effective date is disclosed. For un-endorsed standards and interpretations, the IASB's effective date is noted. Where any of the upcoming requirements are applicable to the Company, it will apply them from their EU effective date.

\*\* : EU endorsed

The Company is still in the process of reviewing the impact of the upcoming standards to determine their impact but do not anticipate that the application of these amendments will have a significant impact on the Company's financial statements.

## (c) Basis of preparation

Except as otherwise indicated, all financial information presented in USD has been rounded to the nearest USD.

## (d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 14 – Commitments and contingent liabilities - Key assumptions about the likelihood and magnitude of an outflow of resources.

The judgements and estimates involved in the Company's accounting policies are those that are considered by the directors to be the most important to the portrayal of the Company's financial condition and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## (e) Functional and presentation currency

The financial statements are presented in United States Dollar (USD), which is the Company's functional currency. Functional currency is the currency of the primary economic environment in which the entity operates. The Company's main transactions are denominated in USD. The directors of the Company believe that USD most faithfully represents the economic effects of the underlying transactions, events and conditions.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

**(f) Financial instruments**

The Company's financial asset categories are loans and receivables. Loans and receivables comprise 'intercompany receivables' and 'restricted cash' in the Statement of Financial Position. The Company's financial liabilities are all categorised as financial liabilities measured at amortised cost, which comprise 'trade and other payables' in the Statement of Financial Position.

**Non-derivative financial instruments**

Non-derivative financial instruments comprise intercompany receivables, restricted cash and trade and other payables. These instruments are initially recognised at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured at cost using the effective interest rate method, less any impairment losses.

**Restricted cash**

Restricted cash comprises cash held by the Company but which is used as security for specific financing arrangements, and to which the Company does not have unfettered access. All restricted cash is held in cash deposit accounts with major financial institutions in segregated accounts or constitutes short-term overnight AAA-rated money market products predominantly issued by the U.S. government.

**(g) Maintenance reserves**

Maintenance reserves received in cash from lessees are recognised as maintenance liabilities on the Statement of Financial Position (liabilities) in recognition of the contractual commitment to either refund such receipts or to hold them for future scheduled maintenance work to be performed thereafter. Maintenance work performed by lessees will not be capitalized, but instead will be recorded as a refund of maintenance reserve and shown as a deduction from the payments by the Company for maintenance liabilities account on the Statement of Financial Position. Lessor contributions and top-ups to maintenance reserves will be recorded as a leasing expense (over the term of the lease), except where a liability exists by virtue of having purchased an aircraft with leases attached including an obligation to refund maintenance reserve payments made to date by the lessee, or where they are deemed to be modifications/improvements that materially improve the value of the asset/lease or extends its useful life whereby it would be capitalised and depreciated over the respective life of the asset or remaining term of the lease. When flight equipment is sold the portion of accrued liability which is not assigned to the buyer is recognized as sales revenue. The Company relies on its ongoing use of its maintenance forecasting model to assess contractual commitments to refund maintenance receipts.

**(h) Revenue and expenditure recognition**

The Company acts as a sub-lessor of aircraft; leases in aircraft under an operating lease agreement with a related party, and subsequently leases out the aircraft to a third party airline on an operating lease basis.

Lease rental income and expense are recognised on a straight line basis over the term of the respective leases, with the net amount earned as Revenue.

Revenue is not recognised when collection is not reasonably assured. For past due rentals on all leases, a bad debt provision may be established on the basis of management's assessment of collectability, and to the extent such rentals exceed security deposits held, and would be recorded as an expense in the statement of profit or loss and other comprehensive income.

Lease incentives (if any) are recognised as a reduction of operating lease income on a systematic basis over the term of the lease.

The Company's lease contracts require payment in advance. Rentals received, but unearned under these lease agreements, are recorded as deferred revenue on the statement of financial position in accrued expenses and other liabilities.

**(i) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Notes to the financial statements (continued)

2. Significant accounting policies (continued)

(i) Income tax expense (continued)

**Deferred tax**

Deferred tax is recognised using the Statement of Financial Position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(j) Other receivables and payables

Other receivables and payables are recognised on an accruals basis.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(l) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value is the amount at which an instrument could be exchanged in an arm's length transaction between informed and willing parties, other than as part of a forced liquidation sale. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as quoted prices) or indirectly (i.e. derived from quoted prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(m) Cash and cash resources

Carrying amount approximates to fair value due to the short-term nature of these instruments. Cash and cash resources comprise cash and cash equivalents and restricted cash. The restricted cash relates to monies within certain of the Company's bank accounts which are restricted in line with the executed transaction agreements signed with the Wells Fargo Bank N.A.

(n) Trade and other receivables

The carrying amount approximates to fair value due to the short-term nature of these instruments.



# **EAF LEASING UK 1 LIMITED**

## **Notes to the financial statements (continued)**

### **3. Revenue**

	Year ended 31 December 2015 USD	Year ended 31 December 2014 USD
Operating lease income	5,791,920	5,791,920
Operating lease expense	(5,676,082)	(5,676,081)
<b>Total revenue</b>	<b>115,838</b>	<b>115,839</b>

### **Geographical information**

Lease rental income is received from leasing two aircrafts to VB LeaseCo Pty Ltd, under the Operating Lease Agreements. All of the Company's revenues are generated from Australia.

At 31 December 2015, there are no aircraft which have lease contracts with customers which are scheduled to expire during the year ending 31 December 2016. In addition, there are no lease contracts where a lessee has early termination rights. During the year ended 31 December 2015, no leases were terminated for which the Company held maintenance advances at lease expiry (2014: Nil).

The following are the minimum lease rental receipts schedule:

	Year ended 31 December 2015 USD	Year ended 31 December 2014 USD
Not later than one year	5,791,920	5,791,920
Later than one year but not later than five years	23,167,680	23,167,680
Later than five years	4,343,940	10,135,860
<b>Total</b>	<b>33,303,540</b>	<b>39,095,460</b>

Lease rental expense is paid due to the leasing of two aircrafts from Emerald Aviation AOE 7 Limited, under the Head Lease Agreements.

	Year ended 31 December 2015 USD	Year ended 31 December 2014 USD
Lease expense	5,676,082	5,676,081
<b>Total lease expenses</b>	<b>5,676,082</b>	<b>5,676,081</b>

### **4. Income tax (expense)**

	Year ended 31 December 2015 USD	Year ended 31 December 2014 USD
<b>Current tax (expense):</b>		
Current year	(20,602)	(18,477)
<b>Total income tax (expense)</b>	<b>(20,602)</b>	<b>(18,477)</b>

### **Reconciliation of effective tax rate**

Profit for the year before tax	103,009	86,273
<b>Corporation tax 20% (2014: 21.50%)</b>	<b>20,602</b>	<b>18,549</b>
Effect of expenses that are not deductible in determining taxable profit	-	(72)
<b>Tax expense</b>	<b>20,602</b>	<b>18,477</b>

# EAF LEASING UK 1 LIMITED

## Notes to the financial statements (continued)

### 5. Auditor's and directors' remuneration

	Year ended 31 December 2015 USD	Year ended 31 December 2014 USD
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The profit for the year has been arrived at after charging:

#### Directors' remuneration

Fees

Other emoluments

#### Auditor's remuneration

Audit of the Financial Statements

Other non-audit services

The audit fees incurred in respect of this Company were paid for by Avolon Aerospace Leasing Limited in its capacity as manager/servicer of the Company for the years ended 31 December 2015 and 2014:

### 6. Restricted cash

	2015 USD	2014 USD
Bank balances subject to withdrawal restrictions	257,795	139,122
<b>Cash and cash resources</b>	<b>257,795</b>	<b>139,122</b>

Cash and cash resources subject to withdrawal restrictions represent cash securing the Company's obligations under the head lease agreements. Amounts received from lessees in respect of aircraft subject to certain funding arrangements may be required to be held in segregated accounts to support, amongst other things, interest and principal payments on the related debt facility.

### 7. Intercompany receivables

	2015 USD	2014 USD
Amount due from related parties	361,996	398,860
Other receivables	13,311	2
	<b>375,307</b>	<b>398,862</b>

### 8. Reconciliation of movement in capital and reserves

	Share capital USD	Retained earnings USD	Total equity USD
At 1 January 2014	2	36,286	36,288
<b>Total comprehensive income for the year</b>			
Profit for the year	-	67,796	67,796
<b>At 31 December 2014</b>	<b>2</b>	<b>104,082</b>	<b>104,084</b>
<b>Total comprehensive income for the year</b>			
Profit for the year	-	82,407	82,407
<b>At 31 December 2015</b>	<b>2</b>	<b>186,489</b>	<b>186,491</b>

The Company's issued unpaid share capital at year end is set at GBP 1 represented by 1 ordinary share wholly owned by Emerald Aviation Finance Limited.

## Notes to the financial statements (continued)

## 9. Financial risk management

Risk management framework

The Board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company does not have any externally imposed capital requirements.

The risk profile of the Company is such that market, credit, liquidity and other risks relating to the leases held for risk management are borne fully by the arranger.

The Company has exposure to the following risks from its use of financial instruments:

- (i) Credit risk;
- (ii) Liquidity risk;
- (iii) Market risks;
- (iv) Operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are provided below.

## (i) Credit risk

Credit risk is the risk of the financial loss to the Company if the counterparty to the lease fails to meet its contractual obligations.

The Company has limited exposure to credit risk as its contractual obligations are limited only to lease receipts and payments under the operating leases in place.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting

	Carrying value 2015 USD	Maximum exposure 2015 USD	Carrying value 2014 USD	Maximum exposure 2014 USD
Cash and cash resources	257,795	257,795	139,122	139,122
	<u>257,795</u>	<u>257,795</u>	<u>139,122</u>	<u>139,122</u>

## (ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations arising from its financial liabilities as they fall due.

The ability of the Company to meet its obligations under the Leases will be dependent on the receipt of rental income from the Lessee under the Lease Agreement. Pursuant to the enforcement of the Issuer Security, the Company is not expected to have any other funds available for it to meet its obligations under the Leases, that is, in respect of making any payment to the Owner.

The Company's obligation to the Owner is limited to the net proceeds receivable under the leases.

## (iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rate and interest rates will affect the Company's income or the value of its holdings of financial instruments.

The Company is not exposed to foreign exchange risks.

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and price risk.

## Notes to the financial statements (continued)

## 9. Financial risk management (continued)

Risk management framework (continued)Currency risk

The Company is not exposed to movements in exchange rates.

Fair values

The term "financial instruments" includes financial assets and financial liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of financial assets and liabilities is estimated using quoted market prices for similar instruments and adjusted for differences between the quoted instrument and the instrument being valued. In certain cases, including the loans advanced to borrowers, where there are no ready markets, various techniques have been used to estimate the fair value of the instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Readers of these financial statements are advised to use caution when using the data to evaluate the Company's financial position or to make comparisons with other companies.

The fair value of restricted cash, intercompany receivables and trade and other payables is equal to their book value.

The following table gives details of the carrying amounts and fair values of financial instruments:

	Carrying amount 2015 USD	Fair values 2015 USD	Carrying amount 2014 USD	Fair values 2014 USD
<i>Loans and receivables</i>				
Cash and cash resources	257,795	257,795	139,122	139,122
Intercompany receivables	375,307	375,307	398,862	398,862
<b>Financial assets</b>	<b>633,102</b>	<b>633,102</b>	<b>537,984</b>	<b>537,984</b>
<i>Financial liability measured at amortised cost</i>				
Current tax liability	4,175	4,175	5,734	5,734
<b>Financial liability</b>	<b>4,175</b>	<b>4,175</b>	<b>5,734</b>	<b>5,734</b>

## (iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks are inherent in all business activity.

The Company was incorporated with the purpose of engaging in those activities outlined in the preceding paragraphs. All administration functions have been outsourced by the Company to Deutsche Bank AG London who has an operational risk management function that assist and advise line management on specific operational risks.

**Capital management**

The Company's transactions are designed to enable the Company to pay its liabilities as they fall due only, without realising a significant return on capital. This is the objective of the Company's capital management policy. As the level of lease income receivable and lease expense payable were established on incorporation of the Company, there is little need for the monitoring of the return on capital. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## 10. Trade and other payables

	2015 USD	2014 USD
Deferred lease income	442,436	428,166
	<b>442,436</b>	<b>428,166</b>

## 11. Holding and ultimate parent company

One GBP 1 ordinary share issued is held by Emerald Aviation Finance Limited.

Avolon Holdings Limited, a company incorporated in the Cayman Islands, holds all shares of Avolon Aerospace Leasing Limited and is hence considered as the ultimate parent and controlling party of the Company.

## Notes to the financial statements (continued)

**12. Related party transactions**

During the year, fees of USD 15,736 (2014: USD 16,344) were charged by Deutsche International Finance (Ireland) Limited in respect of administration services provided to the Company and there were no one-off acceptance fee for the year under review (2014: USD Nil). These fees were fully paid by the arranger, Avolon Aerospace Leasing Limited at year.

At 31 December 2015, the Company had amounts receivable from related parties of USD 375,307 (2014: USD 398,862) and had amounts payable to related parties of USD Nil (2014: USD Nil)

Deutsche International Finance (Ireland) Limited is a sister company of Deutsche Bank AG, London Branch. There have been no transactions with key management personnel during the year as the Company has no employees.

The Company leased two aircrafts from Emerald Aviation AOE 7 Limited and paid USD 5,676,082 (2014: USD 5,676,081) during the year under the terms of the Head Lease agreements. The Company issued one share to Avolon Aerospace Leasing Limited at inception which remains unpaid. On 17 October 2013, Avolon Aerospace Leasing Limited transferred the shares held to Emerald Aviation Finance Limited.

**13. Commitments and contingent liabilities****(a) Operating lease commitments**

At the date of signing of the financial statements, the Company had the following lease commitments:

	2015 USD	2014 USD
Not later than one year	5,676,082	5,676,081
Later than one year but not later than five years	22,704,326	22,704,326
Later than five years	4,257,061	9,933,143
<b>Total</b>	<b>32,637,469</b>	<b>38,313,550</b>

**(b) Guarantees**

Avolon Aerospace Leasing Limited guarantees the obligations of the Company to VB LeaseCo Pty Ltd under the terms of the operating lease agreement.

**(c) Contingent liabilities**

There were no contingent liabilities that require disclosure in the financial statements.

**14. Subsequent events**

There were no significant events subsequent to 31 December 2015 that require disclosure in the financial statements.

**15. Approval of financial statements**

The financial statements were authorised and issued for approval by the Board on 07/09/2016.