

# ANNUAL REPORT

For the fiscal year ended March 31, 2007

of

**Airplanes Limited**  
22 Grenville Street, St. Helier  
Jersey, JE4 8PX  
Channel Islands  
(+44 1534 609 000)

**Airplanes U.S. Trust**  
1100 North Market Street,  
Rodney Square North  
Wilmington, Delaware 19890-0001  
(+1-302-651-1000)

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**Subclass A-8 and A-9 Certificates due March 15, 2019**

**Class B, C and D Certificates due March 15, 2019**

[www.airplanes-group.com](http://www.airplanes-group.com)

**AIRPLANES LIMITED AND AIRPLANES U.S. TRUST**

**2007 ANNUAL REPORT**

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## 1. INTRODUCTION

### A. OVERVIEW OF CAPITAL STRUCTURE

Airplanes Limited (“**Airplanes Limited**”) is a special purpose, limited liability company formed on November 3, 1995 under the laws of Jersey, Channel Islands. Airplanes U.S. Trust (“**Airplanes Trust**”) is a Delaware statutory trust formed in November 1995. “**Airplanes Group**” refers to Airplanes Limited and Airplanes Trust, and in this report, we use “**we**,” “**us**” and “**our**” to refer to Airplanes Group and its subsidiaries and Airplanes Pass Through Trust. The “**board**” refers to the Board of Directors of Airplanes Limited and the Controlling Trustees of Airplanes U.S. Trust. We are in the business of leasing aircraft to aircraft operators around the world.

Until June 3, 2005 when we filed a Form 15 with the Securities and Exchange Commission (“**SEC**”), we were a reporting company under the Securities Exchange Act of 1934 and filed annual, quarterly and other periodic reports with the SEC. You can obtain electronic copies, free of charge, of all of these reports from our website, [www.airplanes-group.com](http://www.airplanes-group.com). For an explanation of the reasons for our filing of a Form 15, please refer to our press release dated June 3, 2005 as filed with the SEC on Form 8-K, which is available from our website.

On March 28, 1996, we established eight separate pass through trusts to issue and sell \$4,048 million in aggregate principal amount of subclass A-1, A-2, A-3, A-4 and A-5 and class B, C and D pass through certificates in an underwritten offering. We used the proceeds from this offering, together with the proceeds from the sale of the class E notes of Airplanes Limited and Airplanes Trust to GPA Group plc (now known as AerCap Ireland Limited), to acquire a portfolio of 229 aircraft from GPA Group and its subsidiaries. We use the rental payments that we receive from leasing the aircraft to pay interest and principal on this debt. On March 16, 1998, we established four additional pass through trusts to issue and sell \$2,437 million in aggregate principal amount of subclass A-6, A-7 and A-8 and class B certificates in connection with the refinancing of our subclass A-1, A-2 and A-3 and class B certificates. On November 20, 1998, General Electric Capital Corporation (“**GE Capital**”) acquired a majority of the class E notes from AerFi Group (previously known as GPA Group and now known as AerCap Ireland) and its subsidiaries. On that date, a subsidiary of AerFi Group also granted GE Capital an option to acquire the residual interest in Airplanes Trust. See below at “Airplanes Trust” for more information about the option. The subclass A-5 certificates were fully repaid as of May 15, 1998. We established a new pass through trust on March 15, 2001 to issue and sell \$750 million in aggregate principal amount of subclass A-9 certificates which rank equally in right of payment with our outstanding subclass A-8 certificates. We used the proceeds from this offering to refinance our subclass A-4 and A-7 certificates and the corresponding subclass A-4 and A-7 notes. The subclass A-6 certificates were fully repaid on October 15, 2004.

### AIRPLANES PASS THROUGH TRUST

“**Airplanes Pass Through Trust**” and the “**trust**” refer to all the pass through trusts created under the Airplanes Pass Through Trust Agreement dated March 28, 1996, as supplemented (the “**trust agreement**”) among Airplanes Limited, Airplanes Trust and Bankers Trust Company (now known as Deutsche Bank Trust Company Americas), as trustee (the “**trustee**”), except where it is clear that this term means only a particular pass through trust. The certificates issued by each pass through trust each represent a fractional undivided beneficial interest in two corresponding classes or subclasses of notes issued and cross-guaranteed by Airplanes Limited and Airplanes Trust pursuant to indentures dated as of March 28, 1996 (as amended or supplemented, the “**indentures**”) they entered into with Deutsche Bank Trust Company Americas, as trustee (the “**indenture trustee**”), and held by that trust. The two corresponding classes of notes and guarantees held by each trust are the principal sources of payment for the class or subclass of certificates issued by that trust.

### AIRPLANES LIMITED

The sole purposes of Airplanes Limited are to (a) acquire, own, manage, maintain, lease, re-lease, modify and sell (subject to restrictions under its indenture) the aircraft, (b) finance and refinance these activities, including guaranteeing the obligations of its subsidiaries and of Airplanes Trust, (c) manage its interest rate and currency risks, and (d) engage in other activities related to the aircraft and their financing.

Airplanes Limited’s principal assets are the intercompany loans it has advanced to its subsidiaries and 95% of the capital stock of Airplanes Holdings Limited. As of March 31, 2007, Airplanes Holdings owned a total of 124 aircraft directly and through its aircraft-owning subsidiaries, and owned a number of aircraft-leasing subsidiaries which lease aircraft from the aircraft-owning subsidiaries

and sublease them to lessees. The remaining 5% of the capital stock of Airplanes Holdings is owned by GE Commercial Aviation Services Limited (“GECAS”).

Airplanes Limited has a board of directors, which is currently composed of five directors.

## **AIRPLANES TRUST**

The sole purposes of Airplanes Trust are to (a) acquire, own, manage, maintain, lease, re-lease, modify and sell (subject to restrictions under its indenture) the aircraft, (b) finance and refinance these activities, including guaranteeing the obligations of its subsidiaries and of Airplanes Limited, (c) manage its interest rate and currency risks and (d) engage in other activities related to the aircraft and their financing.

Airplanes Trust’s principal assets are the intercompany loans it has advanced to its subsidiaries and 100% of the capital stock of AeroUSA, which as of March 31, 2007, owned 3 aircraft. The shares of AeroUSA and AeroUSA 3 are held by separate voting trusts with Wells Fargo Bank Northwest, acting as trustee, in order to satisfy the U.S. Federal Aviation Administration regulations regarding the U.S. citizenship of the owners of U.S. registered aircraft. Airplanes Trust has no ownership or leasehold interests in any real property.

AerCap, Inc. (formerly known as debis AirFinance, Inc.), a wholly-owned subsidiary of AerCap Ireland (formerly known as debis AirFinance Ireland), holds the residual ownership interest in all of the property of Airplanes Trust. In connection with the sale of the Class E notes to GE Capital by GPA Group (now known as AerCap Ireland) and its subsidiaries in 1998, GPA, Inc. (now known as AerCap, Inc.) granted an option to GE Capital for it to purchase this residual ownership interest in Airplanes Trust for \$1.00. If GE Capital does not exercise this option before its expiry date, which is 30 days after notice of the dissolution of the trust, the option will become void. Upon repayment in full of all of the indebtedness of Airplanes Trust and the dissolution of Airplanes Trust, legal title to the AeroUSA shares and other property of Airplanes Trust will revert to AerCap, Inc. or GE Capital, if GE Capital has exercised its option.

Airplanes Trust has five controlling trustees, who are the same individuals as those who currently serve as directors of Airplanes Limited, and a Delaware trustee, Wilmington Trust Company.

## **B. OVERVIEW OF CURRENT FINANCIAL CONDITION**

### ***SINCE DECEMBER 15, 2003 WE HAVE BEEN UNABLE TO MAKE PAYMENTS ON JUNIOR NOTES AND CERTIFICATES.***

We have been unable to meet all of the base case assumptions either in our original prospectus dated March 28, 1996 (the “**1996 Base Case**”) or in our prospectus dated March 8, 2001 (the “**2001 Base Case**”). On each payment date, we are currently only paying in full our administrative and lease expenses and certain other payments in the ordinary course of business, interest on the class A notes and swap payments, and the “First Collection Account Top-Up”. We use any remaining cash flows towards payment of minimum principal on the class A notes which at May 15, 2007 was \$611.9 million in arrears. We do not anticipate that we will ever be able to resume making payments of interest or principal on the class B, C and D notes.

As a result of the overall strengthening of the aviation industry as discussed under “6B. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Background”, our lease rates for some of the aircraft types in our portfolio have improved over the rates we obtained for these aircraft in recent years. Additionally, our aircraft downtime has generally lessened as a result of stronger demand. However, as most aircraft types within our fleet are out of production, the benefit to our fleet is limited, and the rates we are able to achieve on new leases have been lower, and in many cases significantly lower, than lease rates assumed in the 2001 Base Case. Accordingly these improvements have not made, nor do we expect them to make a significant difference to our net cashflow. We are thus generating revenues which have been inadequate to pay minimum principal on the class A notes in full, or to pay any interest or minimum principal on the class B notes or any interest on the class C and class D notes, since the December 15, 2003 payment date. As a result of the consent solicitation we conducted in 2003 (the “**2003 consent solicitation**”), we are now able to sell aircraft which we may not have been able to sell previously. As most of these aircraft are niche type aircraft which have been unaffected by the strengthened market, such sales in the current market are, however, difficult to achieve and where sales have been completed, the sales proceeds have not made a significant difference to our cashflow.

## Ratings

This vulnerability of the various classes of notes has been reflected in actions taken by the rating agencies which continue to re-evaluate structured aircraft financings.

Set out in the table below are the ratings of our certificates at May 30, 2007:-

Certificate	Outstanding Principal Balance as at May 15, 2007	S & P	Fitch	Moody's (S&P equivalent)
Subclass A-8...	\$498.0m	A	BB	Baa3 (BBB-)
Subclass A-9...	\$750.0m	BB+*	B+	B1 (B+)
Class B.....	\$226.8m	D	C	Ca (CC)
Class C.....	\$349.8m	D	C	Ca (CC)
Class D.....	\$395.1m	D	C	C (C)

\* On May 1, 2007 S&P placed the subclass A-9 certificates on creditwatch with negative implications.

## C. RISK FACTORS

The following summarizes various risks and uncertainties which may materially affect the ability of Airplanes Limited and Airplanes Trust to pay interest, principal or any premium even on those notes with respect to which we are currently paying interest and hence our ability to pay interest, principal or any premium on the corresponding certificates in full at or before their respective final maturity dates. These risks and uncertainties are not the only ones relevant to the certificates, the notes and guarantees, the trust or Airplanes Group.

This Annual Report contains forward-looking statements that involve risks and uncertainties. In most cases, you can identify these forward-looking statements by terms such as “may,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue” or similar terms that relate to the future or express uncertainty. Our actual results could differ materially from those anticipated in these forward-looking statements. In evaluating these statements, you should specifically consider various factors, including the risks outlined below, that may impact our results of operations.

### RISKS RELATING TO PAYMENT ON THE NOTES AND CERTIFICATES

#### ***SUBORDINATION PROVISIONS RESTRICT THE RIGHTS OF JUNIOR NOTEHOLDERS AND CERTIFICATE HOLDERS.***

In general, the rights and remedies with respect to a note event of default are exercisable only by the trustee of and the holders of the most senior class of notes outstanding, and then only to the extent that there is an event of default with respect to that senior class of notes. For example, a failure to make a required payment on a class of notes is a default only with respect to that class of notes and the corresponding certificates. Accordingly, if, as occurred on December 15, 2003, when we were unable to pay interest on the class B, C and D notes, an event of default occurs with respect to a class of notes which is not the most senior class outstanding, the holders of that class of notes (and thus, the corresponding certificates) will not be permitted to enforce their rights until all amounts owing under any more senior class of notes outstanding and certain other amounts have been paid in full. The class A notes are the most senior class of notes currently outstanding.

#### ***CERTIFICATEHOLDERS HAVE NO SECURITY INTEREST IN THE AIRCRAFT OR THE LEASES TO SECURE OUR REPAYMENT OF THE CERTIFICATES.***

None of the certificateholders, the trustee or the security trustee has any security interest, mortgage, charge or similar interest in any aircraft in our portfolio or in the related leases. If an actionable event of default occurs, neither the certificateholders nor anybody acting on their behalf can sell the aircraft or exercise other remedies with respect to the aircraft or the leases to repay the principal and interest, which they would have been able to do if they had held a security interest in the aircraft or the leases. Airplanes Limited and Airplanes Trust have, however, pledged to the security trustee, as security for the notes and their other obligations, one-third of the ordinary share capital of each of AeroUSA, Airplanes Holdings and their subsidiaries, cash balances in the accounts and investments made with our cash balances.

***THE TRUST HAS LIMITED SOURCES OF INCOME.***

The trust is a pass through trust. The principal assets of the trust are the notes and guarantees, and its only sources of payment on the certificates are payments by Airplanes Limited and Airplanes Trust on those notes and guarantees, including proceeds from any disposition of them. If Airplanes Limited and Airplanes Trust do not make payments on the notes and guarantees to the trust, the trust has no other funds to make payments to certificateholders on the certificates. The certificates and notes are not guaranteed by the trustee, the security trustee, the indenture trustee, the servicer, the administrative agent, the cash manager or any of their affiliates, and certificateholders cannot look to them or anyone else to repay them if the trust defaults in payment on the certificates.

***AIRPLANES LIMITED AND AIRPLANES TRUST HAVE LIMITED SOURCES OF INCOME.***

The principal assets of Airplanes Limited and Airplanes Trust are shares of their direct subsidiaries and intercompany loans to their direct and indirect subsidiaries. Airplanes Limited and Airplanes Trust do not directly own any of the aircraft and are dependent on payments and distributions from their subsidiaries for their cashflow. If their subsidiaries do not make principal or interest payments to Airplanes Limited and Airplanes Trust on the intercompany loans, or if their subsidiaries do not make any distributions to them, Airplanes Limited and Airplanes Trust would have less cash available to make payments to the trust on the notes or guarantees. Also, if withholding or other taxes are imposed on payments or distributions to Airplanes Limited and Airplanes Trust, or if other significant tax liabilities arise, Airplanes Limited and Airplanes Trust would have less cash available to make payments to the trust. In these circumstances, the trust's cashflows would be further reduced.

***AIRPLANES LIMITED AND AIRPLANES TRUST HAVE OTHER CLAIMS THAT RANK SENIOR TO THE NOTES AND GUARANTEES.***

Airplanes Limited and Airplanes Trust have guaranteed a significant number of their respective subsidiaries' obligations to lessees. Payments on these guarantees will be treated as lease expenses and will rank ahead of other payment obligations of Airplanes Limited and Airplanes Trust.

***CLAIMS ON OUR SUBSIDIARIES ARE EFFECTIVELY SENIOR TO THE CLAIMS OF CERTIFICATEHOLDERS ON AIRPLANES LIMITED AND AIRPLANES TRUST, AND OUR SUBSIDIARIES MAY HAVE MATERIAL CONTINGENT LIABILITIES UNKNOWN TO US.***

Any claims on the subsidiaries of Airplanes Limited and Airplanes Trust are effectively senior to the notes and guarantees because the subsidiaries would generally have to make payments on those claims before making payments or distributions to Airplanes Limited and Airplanes Trust. These claims include any payment obligations to lessees and other contingent liabilities, such as liabilities to third parties from operating and leasing the aircraft. There may also be liabilities of this type that arose before we acquired our subsidiaries from GPA Group (now AerCap Ireland) in 1996 of which we are not aware. If the subsidiaries are called upon to pay any of these contingent liabilities, our cashflows would be further reduced.

***THERE IS NO PUBLIC MARKET FOR THE CERTIFICATES.***

The certificates have a limited trading market which may harm certificateholders' ability to sell them or depress the price at which certificateholders sell them. The certificates are listed only on the Luxembourg Stock Exchange. No one has an obligation to make a market in the certificates. We do not intend to seek approval for quotation through any automated quotation system. Future trading prices for the certificates depend on many factors, including general economic conditions, our financial condition, performance and prospects and the market's then current perception of the commercial aircraft industry and the operating lease business generally.

***RISKS RELATING TO AIRPLANES GROUP AND THIRD PARTIES***

***WE HAVE A HISTORY OF INCURRING NET LOSSES IN OUR OPERATIONS.***

Airplanes Group has incurred net losses since its inception and expects to continue to incur substantial and increasing net losses. See "6. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a further discussion of these net losses.

***WE HAVE NO MANAGEMENT RESOURCES AND DEPEND ON SERVICE PROVIDERS TO OPERATE OUR BUSINESS AND COLLECT OUR REVENUES.***

We have no employees or executive management resources of our own and rely solely on the servicer, administrative agent, cash manager and other service providers for all aircraft servicing, leasing, re-leasing, sales and other executive and administrative functions relating to our portfolio. If these service providers do not perform their contractual obligations to us, our operations and cashflow may suffer, thereby adversely affecting the timing of payments on, and ultimate repayment of the certificates. We may find it difficult to recover damages for any of these third parties' poor performance pursuant to their contracts and may not be able to terminate these contracts by ourselves. In particular, our rights to terminate the servicing agreement are very limited. We cannot guarantee that we will continue our arrangements with the existing service providers or that they will continue their relationship with us until the certificates are paid in full. If a service provider resigns or if we terminate any service provider, we may be unable to find a suitable replacement that we can engage on suitable terms, which would harm our operations and impede our cashflow. The appointment of replacement service providers may also cause the rating agencies to lower or withdraw the ratings on the certificates. You should refer to "10. Directors and Trustees of Airplanes Group" for more detailed information on the responsibilities we have delegated to the service providers.

***THE SERVICER WILL NOT BE LIABLE TO US FOR LOSSES WE INCUR IN CONNECTION WITH ITS PERFORMANCE OF THE SERVICES.***

The servicer will not be liable to us for losses we incur in connection with its performance of the services, except where a court has finally adjudicated that the losses have been directly caused by the servicer's willful misconduct or gross negligence. In addition, we have agreed to indemnify the servicer on an after-tax basis for a broad range of losses in connection with its performance of the services. Any such indemnification payments would rank senior to payments on the notes and certificates.

***WE HAVE DEPENDED ON SWAP COUNTERPARTIES IN MANAGING INTEREST RATE RISKS BUT ARE NOW UNABLE TO FIND SWAP COUNTERPARTIES. IF WE ARE UNABLE TO HEDGE OR IF OUR COUNTERPARTIES DEFAULT, THERE MAY BE A MISMATCH BETWEEN OUR FIXED AND FLOATING RATE ASSETS AND LIABILITIES WHICH COULD FURTHER REDUCE OUR CASHFLOW.***

We have historically managed interest rate risks arising from any mismatch between fixed and floating rate lease rental receipts and our floating rate interest obligations (the only interest obligations we are currently able to pay) through interest rate swaps and other derivative instruments. This strategy for managing interest rate risks was dependent upon our ability to enter into interest rate swaps with eligible counterparties and on the counterparties fulfilling their contractual obligations. Because of our financial condition, we are no longer able to find counterparties willing to enter into swaps with us and as a result of this we have begun purchasing interest rate caps. Our inability now to enter into swaps and the risk of default by an existing swap counterparty or by a cap counterparty may result in a mismatch between our floating rate interest obligations and our fixed and floating rate lease receipts, which could further harm our cashflow.

***GECAS, THE SERVICER, MAY HAVE CONFLICTS OF INTEREST IN MANAGING OUR PORTFOLIO AS A RESULT OF ITS OTHER AIRCRAFT MANAGEMENT ACTIVITIES.***

In addition to acting as the servicer for Airplanes Group, GECAS manages a large portfolio of aircraft owned by its affiliates, including the GE group of companies, and third parties, including other securitization vehicles such as Lease Investment Flight Trust, Aircraft Finance Trust and Genesis Lease Ltd. GECAS also arranges aircraft or engine financings and other lease transactions and GE Capital, an affiliate of GECAS, is the owner of the class E notes. GECAS may therefore face conflicts of interest in managing and marketing our portfolio for re-lease or sale. The aircraft it manages for itself or others may compete with our aircraft when they are being marketed for re-lease or sale. These conflicts will arise as decisions affecting some aircraft that GECAS is managing or that GECAS or one of its affiliates owns may be adverse to other aircraft also managed by GECAS. The servicing agreement provides that the standard of care applicable in cases where such conflicts arise requires that GECAS not discriminate between aircraft on an unreasonable basis. For a fuller description of the standard of care, see "10B. Directors and Trustees of Airplanes Group—The Servicer". While GECAS has agreed to perform the services for us with reasonable care and diligence at all times, GECAS may give preference to its affiliates and other third parties under the terms of its other marketing and servicing arrangements. In addition, GECAS is not obliged to inform us of any conflicts of interest of which it is aware. If, as a result of a conflict of interest, GECAS makes a decision potentially adverse to us, it could have a material adverse effect on the servicing of our aircraft, which may cause additional reductions in our cashflow. See "10B. Directors and Trustees of Airplanes Group—The Servicer" for more information on the activities of the servicer.

***THE ADMINISTRATIVE AGENT AND CASH MANAGER MAY HAVE CONFLICTS OF INTEREST BECAUSE OF THEIR PARENT COMPANIES' OTHER AIRCRAFT MANAGEMENT ACTIVITIES AND OWNERSHIP INTERESTS.***

AerCap N.V. and AerCap Ireland, parent companies of the administrative agent and the cash manager, manage a large portfolio of aircraft owned by themselves, their affiliates and third parties. AerCap Ireland and its subsidiary also act as the servicer for AerCo Limited (“AerCo”) and Aircraft Lease Securitisation Limited (“ALS”), two securitization vehicles similar to Airplanes Group, and AerCap Ireland currently holds substantially all of the class E-1 and E-2 notes issued by AerCo and all of the class E-1 and E-2 notes issued by ALS. Subsidiaries of AerCap Ireland also act as administrative agent and cash manager for AerCo and as administrative agent for ALS. As a result, the administrative agent and the cash manager of Airplanes Group may from time to time have conflicts of interest in performing their obligations to Airplanes Group. While the roles of the administrative agent and the cash manager are more limited than those of the servicer, any conflicts of interest that they cannot resolve could have an adverse impact on our cashflow.

***OUR LEGAL COUNSEL MAY HAVE CONFLICTS OF INTEREST IN NEGOTIATING SOME OF OUR AGREEMENTS BECAUSE THEY ALSO REPRESENT PARTIES WITH WHICH WE DEAL.***

Airplanes Group and AerCap Ireland are represented by the same Jersey and Irish legal counsel, and we anticipate that this multiple representation will continue. Our legal counsel may face conflicts of interest when negotiating agreements between Airplanes Group and AerCap Ireland. If a significant dispute does arise in the future between Airplanes Group and AerCap Ireland or any of their respective affiliates, we anticipate that we will retain separate counsel to represent us.

***THE DIRECTORS AND CONTROLLING TRUSTEES OF AIRPLANES GROUP MAY HAVE CONFLICTS OF INTEREST.***

The Directors of Airplanes Limited and the Controlling Trustees of Airplanes Trust as well as the directors of subsidiaries of Airplanes Group may have conflicts of interest that arise as a result of their other relationships in the aviation industry. One of the Directors and Controlling Trustees, who also is a director of an Airplanes Group subsidiary, is also a director of another aircraft securitization vehicle whose business activities are similar to the business activities of Airplanes Group.

One Director and Controlling Trustee, who is also a director of certain Airplanes Group subsidiaries, has been appointed by the holder of the majority in aggregate principal amount of the Class E Notes, currently GE Capital, and is not required to be independent of GE Capital or its affiliates. See “10A. Directors and Trustees of Airplanes Group—Directors and Controlling Trustees.”

***RISKS RELATING TO THE AIRCRAFT***

***THE COMMERCIAL AIRCRAFT MARKET IS CYCLICAL. DECREASED DEMAND FOR OR EXCESS SUPPLY OF AIRCRAFT CAN DEPRESS AIRCRAFT VALUES AND LEASE RATES, WHICH MAY CAUSE US TO BE UNABLE TO RE-LEASE OR SELL AIRCRAFT ON FAVORABLE TERMS.***

The market for commercial jet aircraft is cyclical and can produce sharp increases or decreases in aircraft values and lease rates depending on the level of supply or demand. The factors discussed under “6B. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Background”, describe the effects on our cashflows of the sustained downturn in the airline industry and our inability to benefit from recent improvements in the industry, given the age and mix of our fleet.

Airlines generally prefer jet aircraft to turboprop aircraft, and new generation Stage 3 aircraft to older Stage 3 aircraft (which make up a significant proportion of our portfolio), and so the markets for these types of aircraft remain unfavorable in terms of both aircraft values and lease rates.

The conditions in the aircraft market depend upon, among other things, the business cycle for the lessees and buyers, as well as general economic conditions worldwide or in specific regions. The condition of the market at the time when any of our aircraft are being marketed for re-lease or sale will affect our ability to re-lease or sell those aircraft on satisfactory terms. Unsatisfactory market conditions, particularly for less attractive aircraft such as our MD-80 and F-100 aircraft mean that the lease rates and, where applicable, sales proceeds that we obtain are unfavorable and less than those assumed in the 2001 Base Case.

***GEOPOLITICAL EVENTS SUCH AS WAR OR TERRORIST ATTACKS AS WELL AS THE OUTBREAK OF A PANDEMIC DISEASE COULD ADVERSELY AFFECT THE AIRLINE INDUSTRY AND IMPAIR OUR ABILITY TO RE-LEASE OR SELL AIRCRAFT.***

***Effects of Terrorist Attacks and Geopolitical Conditions***

As a result of the September 11, 2001 terrorist attacks in the United States and subsequent terrorist attacks outside the United States, airlines have increased security restrictions, airline costs for aircraft insurance and enhanced security measures have increased and airlines have faced and continue to face increased difficulties in acquiring war risk and other insurance at reasonable costs. The uncertain situation in Iraq and tension over Iran's nuclear program both continue, and either or both may lead to further instability in the Middle East or elsewhere. Future terrorist attacks, war or armed hostilities, or the fear of such events, could have a further adverse impact on the airline industry and on the financial condition of our lessees, aircraft values and rental rates and may lead to restructurings, all of which could have a further negative impact on our cashflows.

Terrorist attacks and geopolitical conditions have negatively affected the airline industry. Concerns about further terrorist attacks could continue to negatively affect airlines (including our lessees) for the foreseeable future. Such negative effects may include: (1) higher costs to airlines due to the increased security measures; (2) losses in passenger revenue due to the inconvenience of additional security measures; (3) the price and availability of jet fuel and the practicability of obtaining fuel hedges under current market conditions; (4) higher financing costs and difficulty in raising financing; (5) the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance will continue to be available or may exclude events such as dirty bombs, bio-hazardous materials and electromagnetic pulsing, which may damage or destroy aircraft; (6) the inability of airlines to reduce their operating costs and conserve financial resources, taking into account the increased costs incurred as a consequence of the terrorist attacks and geopolitical conditions, including those referred to above; and (7) special charges recognized by some airlines, such as those related to the impairment of aircraft and other long lived assets stemming from the grounding of aircraft as a result of the terrorist attacks, the economic slowdown and airline reorganizations.

Any additional terrorist attacks, acts of war or armed hostilities may further increase airline costs, depress air travel demand, depress aircraft values and rental rates or cause certain aviation insurance to become available only at significantly increased premiums, for reduced amounts of coverage that are insufficient to comply with the levels of insurance coverage required by aircraft lenders and lessors or by applicable government regulations or not be available at all.

Although the Aircraft Transportation Safety and System Stabilization Act (the "ATSA") adopted in the United States and similar programs instituted by the governments of some other countries provide for limited state coverage for certain aviation insurance, there can be no assurances that these programs will continue or that any such government will pay under these programs in a timely fashion.

If the current industry conditions should continue or become exacerbated due to future terrorist attacks, acts of war or armed hostilities, they are likely to cause our lessees to incur higher costs and to generate lower revenues, resulting in an adverse impact on their financial positions. Consequently, these conditions may affect our lessees' ability to make rental and other lease payments or obtain the types and amounts of insurance required by the applicable leases (which may in turn lead to aircraft groundings), may result in additional lease restructurings and aircraft repossessions, may increase our cost of re-leasing or selling the aircraft and may impair our ability to re-lease the aircraft or lease the aircraft on a timely basis and/or at favorable rates and may reduce the value received for the aircraft upon any disposition. These results could have a further negative impact on our cashflows.

***Effects of Pandemic Diseases***

The 2003 outbreak of Severe Acute Respiratory Syndrome ("SARS") was linked to air travel early in its development and had a severe impact on the aviation industry which was evidenced by a sharp reduction in passenger bookings, cancellation of many flights and employee layoffs. In addition, since 2003, there have been several outbreaks of avian influenza, or bird flu, beginning in Asia and, most recently, spreading to certain parts of Africa and Europe. Although human cases of avian influenza so far have been limited in number, the World Health Organization has expressed serious concern that a human influenza pandemic could develop from the avian influenza virus. In such an event, numerous responses, including travel restrictions, might be necessary to combat the spread of the disease. Additional outbreaks of SARS or other epidemic diseases such as avian influenza, or the fear of such events, could negatively affect passenger demand for air travel, the aviation industry and ultimately could have a further negative impact on our cashflows.

***THE AIRCRAFT VALUES AND LEASE RATES FOR AIRCRAFT MAY FLUCTUATE SIGNIFICANTLY BECAUSE OF FACTORS OUTSIDE OUR CONTROL.***

Factors outside our control which affect our business include:

- general economic conditions affecting lessee operations as discussed above, including passenger demand and the cost of fuel and other expenses;
- geopolitical events, including war, prolonged armed conflicts and acts of terrorism;
- outbreaks of communicable, pandemic diseases and natural disasters;
- the supply of and demand for used aircraft;
- manufacturer production levels and prices for new aircraft;
- interest rates, currency exchange rates and credit availability;
- retirement and obsolescence of aircraft models;
- re-introduction into service of aircraft previously in storage;
- airline restructurings and bankruptcies;
- governmental regulations including new Airworthiness Directives (“ADs”) and environmental regulations; and
- lack of capacity in the aircraft traffic control system.

Additional factors outside our control that may lead to sharp increases or decreases in aircraft values (which affect potential sales prices) or lease rates for specific aircraft include:

- manufacturer production levels and competition between aircraft manufacturers, such as the current competition between The Boeing Company and Airbus Industrie, which has led to an increased supply of new aircraft at lower prices;
- manufacturers merging or leaving the aircraft industry, such as the merger between Boeing and McDonnell Douglas and the bankruptcy of Fokker NV., which led to the termination of production of MD and Fokker aircraft and a resulting decrease in the values and lease rates for our MD and Fokker aircraft;
- the maintenance and operating history of the aircraft;
- the number of operators using a particular type of aircraft (which may be reduced by bankruptcy or industry consolidation) and the supply of that type of aircraft;
- legal or regulatory requirements that prevent or diminish the opportunity or ability to re-lease or sell that type of aircraft or make it more expensive to do so;
- the discovery of manufacturing defects in an aircraft model; and
- new regulatory requirements relating to an aircraft model.

***INCREASES IN THE PRICE OF FUEL COULD ADVERSELY AFFECT AIRLINES AND IMPAIR OUR ABILITY TO RE-LEASE OR SELL AIRCRAFT.***

Fuel costs represent a major expense to companies operating within the airline industry. Fuel prices fluctuate widely depending primarily on international market conditions, geopolitical and environmental events and currency exchange rates. As a result, fuel costs are not within the control of our lessees and significant changes would materially and adversely affect their operating results. In addition, natural disasters can significantly affect fuel availability and prices. In August and September 2005, Hurricanes Katrina and Rita inflicted widespread damage along the Gulf Coast of the United States, causing significant disruptions to oil production, refinery

operations and pipeline capacity in the region and to oil production in the Gulf of Mexico. These disruptions resulted in decreased fuel availability and higher fuel prices.

Fuel prices have recently been at historically high levels. The continuing high cost of fuel has had, and sustained high costs in the future may continue to have, a material adverse impact on airlines' profitability (including that of our lessees). Due to the competitive nature of the airline industry, airlines may not be able to pass on any increases in fuel prices to their customers by increasing fares. In addition, airlines may not be able to manage this risk by appropriately hedging their exposure to fuel price fluctuations. If fuel prices remain at historically high levels or become higher due to adverse supply and demand conditions, future terrorist attacks, acts of war, armed hostilities or natural disasters or for any other reason, they may cause our lessees to incur higher costs and to generate lower net revenues, resulting in an adverse impact on their financial positions. Consequently, these conditions may (i) affect our lessees' ability to make rental and other lease payments, (ii) result in lease restructurings and aircraft repossessions, (iii) increase our costs of servicing and marketing the aircraft, (iv) impair our ability to re-lease our aircraft or re-lease or otherwise dispose of our aircraft on a timely basis and/or at favorable rates and (v) reduce the value receivable for our aircraft upon any disposition. These results could have a further negative impact on our cashflows.

***INDUSTRY ECONOMIC LOSSES AND AIRLINE REORGANIZATIONS COULD IMPAIR OUR ABILITY TO RE-LEASE OR SELL AIRCRAFT.***

Bankruptcies, liquidations or consolidations of airlines may result in large numbers of aircraft becoming available for lease or purchase at reduced lease values or acquisition prices and reduce the number of potential lessees and operators of particular models of aircraft, either of which would result in inflated supply levels and consequently decreased aircraft values for any such models and lease rates in general. Historically, airlines involved in reorganizations have undertaken substantial fare discounting to maintain cash flows and to encourage continued customer loyalty. Such fare discounting has led to lower yields for all airlines, including certain of our lessees. The bankruptcies and reduced demand generally have led to the grounding of significant numbers of aircraft and negotiated reductions in aircraft lease rentals, including in respect of certain of our aircraft, with the effect of depressing aircraft market values. In addition, requests for additional labor concessions may result in significant labor disputes which could lead to strikes, slowdowns or may otherwise adversely affect labor relations, thereby worsening the financial condition of the airline industry and further reducing aircraft values and lease rates. Additional reorganizations or liquidations by airlines under Chapter 11 or Chapter 7 of the U.S. Bankruptcy Code or other bankruptcy or reorganization laws or further rejection or abandonment of aircraft by airlines in a Chapter 11 proceeding under the U.S. Bankruptcy Code or equivalent laws in other countries may have already exacerbated and would be expected to further exacerbate such depressed aircraft values and aircraft lease rentals. Additional grounded aircraft and lower market values would adversely affect our ability to sell certain of our aircraft or re-lease other aircraft at favorable rates, which would have a further negative impact on our cashflows.

***THE CONCENTRATION OF AIRCRAFT TYPES IN OUR PORTFOLIO COULD MAGNIFY THE IMPACT OF DECLINES IN LEASE RATES OR AIRCRAFT VALUES.***

As of March 31, 2007, each of the B737-400, B767-300ER, MD-83 and A320-200 models of aircraft comprised more than 10% of our portfolio by appraised value as of January 31, 2007 and, in addition, each of the B737-300, B737-500, B757-200 and F-100 models of aircraft comprised more than 5% of our portfolio by appraised value as of January 31, 2007. Furthermore, at March 31, 2007, widebody aircraft comprised more than 10%, and turboprop aircraft comprised more than 5% of our portfolio by appraised value as of January 31, 2007. The concentration on particular models or types of aircraft magnifies the adverse impact to our cashflow of a decline in lease rates or aircraft values for these models or types of aircraft and of specific governmental or technical regulations imposed on those aircraft types or other external factors relevant to particular aircraft types. In this connection, we have seen (w) an increase in the price of fuel which has adversely impacted the attractiveness of certain aircraft types, in particular the MD-80s, which are considered to be less fuel efficient, (x) decreasing popularity of turboprop aircraft, the cessation of production of MD-83s and B757s, and the bankruptcy of Fokker, (y) noise regulations restricting the use of Stage 2 aircraft which, as of March 31, 2007, accounted for approximately 0.11% of our portfolio by appraised value as of January 31, 2007, and (z) ADs with respect to a number of aircraft types, including the MD-80s and B737s, all as described more fully below in "2E. The Aircraft Related Leases and Collateral — Compliance with Governmental and Technical Regulation." These events have caused, and are likely to continue to cause, our overall lease rates and aircraft values to significantly decrease and may cause us to incur significant costs. Given the preference for newer, more technologically advanced aircraft, the market for our aircraft, in particular, some of our older, less attractive types of aircraft such as MD-80s and F-100s, is unlikely ever to recover to previous levels.

***CURRENT APPRAISED VALUES OF THE AIRCRAFT ARE LOWER THAN THE VALUES NEEDED TO REPAY A PROPORTIONATE AMOUNT OF THE NOTES AND CERTIFICATES AND THE ACTUAL MARKET VALUE OF THE AIRCRAFT IS LESS THAN THE APPRAISED VALUE.***

The appraised values of our aircraft are determined based on the assumption that there is an “open, unrestricted stable market environment with a reasonable balance of supply and demand” and take into account long-term trends, including current expectations of particular models becoming obsolete more quickly, as a result of airlines switching to different models or manufacturers ceasing production, and expected declines in lease rates. Appraised values for an aircraft do not necessarily reflect the market value for the aircraft at a specific time and you should not rely on appraised values as an indication of the price that we could obtain if we sold an aircraft. As of the date of this Annual Report the appraised value of each of our aircraft is higher and, in some cases, significantly higher than what we understand to be their likely market value.

Since we are no longer able to pay class A principal adjustment amount and since we are no longer required to sell our aircraft at or above a specified target price, the appraised values of our aircraft are now of little significance except as a basis for providing statistical information on the portfolio and for complying with certain technical provisions in the indentures.

***SOME OF OUR LESSEES MAY EXERCISE PURCHASE OPTIONS AT PRICES THAT ARE LESS THAN THE PROPORTIONATE SHARE OF THE UNPAID PRINCIPAL OF THE NOTES AND CERTIFICATES ALLOCABLE TO THE RELEVANT AIRCRAFT.***

As of March 31, 2007, three lessees had options to purchase a total of 4 aircraft, representing 4.47% of our portfolio by appraised value as of January 31, 2007. In each case, if the option is exercised the purchase price will be less than the proportionate share of the unpaid principal of the notes and certificates allocable to the aircraft being purchased.

***WE MAY BE UNABLE TO REPOSSESS, RE-LEASE OR SELL THE AIRCRAFT IF THE LESSEES DO NOT DISCHARGE LIENS ON THE AIRCRAFT.***

Liens which secure the payment of airport taxes, customs duties, air navigation charges, landing charges, crew wages, repairer's charges or salvage may attach to the aircraft in the normal course of operations. The sums which these liens secure may be substantial and could exceed the value of the aircraft. In some jurisdictions, a holder of aircraft liens may have the right to detain, sell or cause the forfeiture of the aircraft. While our lessees are generally required to discharge all liens arising during the term of their leases, their failure to discharge any liens may impair our ability to repossess, re-lease or sell the aircraft if the lessee defaults. If lessees do not comply with their obligations under the leases to discharge such liens Airplanes Group may, in some cases, find it necessary to pay the claims secured by such liens in order to repossess the aircraft. Such payments would be a required expense of Airplanes Group and would be paid by us prior to payments on the notes.

***OUR LESSEES MAY FAIL TO MAINTAIN REGISTRATION OF OUR AIRCRAFT, WHICH MAY AFFECT THEIR ABILITY TO MAKE PAYMENTS TO US.***

All aircraft in operation must be duly registered with an appropriate aviation authority. If any lessee fails to maintain a valid registration of an aircraft, the lessee operator or, in some cases, the owner or lessor may be subject to penalties which may result in a lien being placed on the aircraft. Loss of registration could also have other adverse effects, including grounding of the aircraft and loss of insurance.

***THE AVAILABILITY OF NEWER, MORE TECHNOLOGICALLY ADVANCED AIRCRAFT MAY IMPAIR OUR ABILITY TO RE-LEASE OR SELL AIRCRAFT.***

The availability of newer, more technologically advanced aircraft could adversely affect our ability to re-lease or sell our aircraft because lessees and buyers of used aircraft tend to favor these newer, more technologically advanced models. Within the last number of years demand for older narrowbody Stage 3 aircraft, which make up a significant proportion of our portfolio, has been adversely affected by the availability of new generation narrowbody Stage 3 aircraft. Although this risk is common to all aircraft lessors, it is particularly significant for us because we have a comparatively older portfolio (the weighted average age of the portfolio at March 31, 2007 by appraised value as at January 31, 2007 is 15.79 years) and will need to re-lease all of our aircraft at least once before the final maturity date of the certificates.

Our ability to manage these technological risks through modifications to aircraft is limited by the significant costs of modifications and by the restrictions imposed on modifications to aircraft under the indentures.

The governments of some countries have considered regulations restricting or prohibiting the import of aircraft above a certain age. If passed, such regulations may impact our ability to re-lease some of our aircraft on favorable lease terms or at all.

In addition, due to industry conditions over the past several years, the majority of our aircraft are highly likely to become obsolete earlier than the useful life expectancies assumed in the 2001 Base Case and it is highly likely that we will be unable to realize the residual values assumed in the 2001 Base Case at the end of the useful lives of our aircraft.

***INCREASED REGULATION OF THE AIRCRAFT INDUSTRY MAY CAUSE US TO INCUR MORE EXPENSES OR MAY IMPAIR OUR ABILITY TO RE-LEASE OR SELL AIRCRAFT.***

The aircraft industry is heavily regulated and aviation authorities may adopt additional regulations in jurisdictions where our aircraft are registered or operate. In particular, governmental regulations, especially in North America and Europe, impose increasingly strict noise and emissions levels and enhanced safety and security requirements for aircraft, such as fire safety insulation, traffic collision avoidance systems and emergency locator transmitters. We may have to incur significant costs in order to comply with additional regulations. In addition, because our portfolio is composed of a significant number of older aircraft and we have a heavy concentration of some types of aircraft, increasingly stringent noise or emissions regulations that disproportionately affect older aircraft or particular types of aircraft, could have a significant adverse impact on our results. We could incur significant costs in order to comply with these regulations and aircraft that fail to comply with noise or emissions regulations could be prohibited from flying into some jurisdictions, which would adversely affect their values and lease rates. We will also incur significant costs in connection with other U.S. Federal Aviation Administration (“FAA”) regulations. For example, it will cost an estimated \$8.9 million to comply with the MD-80 fire safety regulations, \$5.7 million of which has been incurred to date in relation to fourteen aircraft. In addition, the regulation issued in April 2006 relating to the introduction of an aircraft aging program to address widespread fatigue damage to aging airframes, may accelerate the reduction in value of older aircraft as they become more expensive to operate.

***EXISTING OR PROPOSED ENVIRONMENTAL REGULATIONS COULD ADVERSELY AFFECT AIRLINES AND IMPAIR OUR ABILITY TO RE-LEASE OR SELL AIRCRAFT.***

Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated. For example, jurisdictions throughout the world have adopted noise regulations which require all aircraft to comply with noise level standards. In addition to the current requirements, the United States and the International Civil Aviation Organization (“ICAO”) have adopted a new, more stringent set of standards for noise levels which applies to engines manufactured or certified on or after January 1, 2006. Currently, U.S. regulations would not require any phase-out of aircraft that qualify with the older standards applicable to engines manufactured or certified prior to January 1, 2006, but the EU has established a framework for the imposition of operating limitations on aircraft that do not comply with the new standards. These regulations could limit the economic life of our aircraft and engines, reduce their value, limit our ability to lease or sell the non-compliant aircraft and engines or, if engine modifications are permitted, require us (to the extent we have available funds for such purpose in accordance with the terms of the trust indentures) to make significant additional investments in the aircraft and engines to make them compliant.

In addition to more stringent noise restrictions, the United States and other jurisdictions are beginning to impose more stringent limits on nitrogen oxide, carbon monoxide and carbon dioxide emissions from engines, consistent with current ICAO standards. These limits generally apply only to engines manufactured after 1999. None of our aircraft engines were manufactured after 1999. Concerns over global warming could result in more stringent limitations on the operations of aircraft powered by older, non-compliant engines.

European countries generally have relatively strict environmental regulations that can restrict operational flexibility and decrease aircraft productivity. The European Parliament has confirmed that aviation is to be included in the EU’s Emissions Trading Scheme starting from 2012. This inclusion could possibly distort the European air transport market leading to higher ticket prices and ultimately a reduction in the number of airline passengers. As an answer to these concerns, European airlines have established the Committee for Environmentally Friendly Aviation to promote the positive environmental performance of airlines. The United Kingdom has doubled its air passenger duties, effective February 1, 2007, in recognition of the environmental costs of air travel. Similar measures may be implemented in other jurisdictions as a result of environmental concerns.

Compliance with current or future regulations, taxes or duties imposed to deal with environmental concerns could cause our lessees to incur higher costs and to generate lower net revenues, resulting in an adverse impact on their financial positions. Consequently, such compliance may affect our lessees’ ability to make rental and other lease payments and reduce the value received for the aircraft upon any disposition, which could have a further negative impact on our cashflows.

## **RISKS RELATING TO THE LEASES AND CASHFLOW FROM LEASE PAYMENTS**

### ***OUR OPERATIONAL AND FINANCIAL RESTRICTIONS AFFECT OUR ABILITY TO COMPETE AND GENERATE CASHFLOW.***

The indentures and constitutive documents of Airplanes Limited and Airplanes Trust impose restrictions on how we operate our business. These restrictions limit our ability to compete against other lessors who are not subject to similar restrictions or who have greater financial resources than we do. For example, we are not permitted to grant concessionary rental rates to airlines in return for equity investments in the airlines. There are also restrictions on potential lessees and limits on leasing to lessees in particular geographic regions. Many competing aircraft lessors do not operate under similar restrictions or have a stronger financial position or other strengths and therefore have a competitive advantage over us when negotiating leases and sales.

Following the 2003 consent solicitation, we amended the indentures to permit sales below a specified target price where the board of directors of Airplanes Limited or the controlling trustees of Airplanes Trust, as applicable, have unanimously confirmed that such a sale is in the best interests of Airplanes Group and the noteholders and certain other conditions are met.

Whilst amendment of the indentures helps us generate cash sales proceeds for aircraft that have little, if any, economic future and enables us to eliminate expenditures on storage, insurance and maintenance for those aircraft, we do not expect the proceeds of any such sales to make a significant difference to our cashflow.

### ***OUR CASHFLOWS WILL BE ADVERSELY AFFECTED IF WE CANNOT RE-LEASE OR SELL AIRCRAFT QUICKLY AND ON FAVORABLE TERMS.***

We may not be able to re-lease the aircraft upon expiration or termination of the leases without incurring significant downtime. If we cannot quickly re-lease or sell the aircraft, or if we cannot obtain favorable sales prices or lease rates and lease terms for the aircraft, our cashflows will be adversely affected. Our ability to re-lease aircraft at acceptable lease rates or sell aircraft on acceptable terms may suffer because of a number of factors, including:

- economic conditions affecting the airline industry including the price of fuel;
- the supply of competing aircraft and demand for particular aircraft types;
- increased bargaining power of lessees as they join global alliances with other airlines;
- reduced number of potential lessees as airlines consolidate or file for bankruptcy;
- competition from other lessors; and
- restrictions on our flexibility imposed by the indentures.

The following table shows the number and type of aircraft as of March 31, 2007 that we must remarket during the next five years. The table assumes that (1) no lease terminates early, (2) there are no sales of aircraft and (3) existing letters of intent will result in sales or leases. Additional aircraft may need to be remarketed if they become available through early terminations, if letters of intent do not result in sales or leases or if new leases are for short terms.

## AIRPLANES GROUP EXPECTED REMARKETING REQUIREMENT AS OF MARCH 31, 2007

Aircraft Type	Year Ending December 31,				
	2007	2008	2009	2010	2011
A320-200 .....	1	7	4	—	—
ATR42-300 .....	2	1	—	—	—
B737-200A .....	1	—	—	—	—
B737-300 .....	2	1	1	1	2
B737-400 .....	6	5	4	1	3
B737-500 .....	2	—	—	3	2
B757-200 .....	—	—	2	—	1
B767-200ER .....	1	—	—	—	—
B767-300ER .....	—	2	—	—	—
DC8-71F .....	1	—	—	—	—
DC8-73F .....	1	—	—	—	—
DHC8-100 .....	—	4	—	—	—
DHC8-300 .....	4	2	4	1	1
DHC8-300C .....	—	—	—	—	—
F-100 .....	6	2	2	6	—
MD-82 .....	—	—	—	—	—
MD-83 .....	2	6	10	—	1
MD-87 .....	1	—	—	—	—
Total .....	<u>30</u>	<u>30</u>	<u>27</u>	<u>12</u>	<u>10</u>

Our longest lease is scheduled to expire in June 2014. Therefore we will be required to remarket all of our aircraft at least once before the final maturity date for the certificates. We currently expect that the majority of our fleet will prove difficult to re-lease because of the factors noted above, particularly turboprop aircraft, older widebody aircraft, Stage 2 aircraft and some older Stage 3 narrowbody aircraft. If we cannot on a timely basis re-lease the aircraft that are coming off lease or can only re-lease them at lease rates lower than the lease rates assumed in our 2001 Base Case, our cashflow will be further reduced with the potential consequences described above under “1C. Introduction—Risk Factors—Risks Relating to Payment on the Notes and Certificates.” There are currently 40 aircraft which are scheduled to come off lease within a year from March 31, 2007. Our forecasts assume that future lease rates for many of these aircraft will be significantly lower than currently contracted rates. In light of the difficulties we foresee in re-leasing these aircraft, we will also carefully consider the recommendation of the servicer as to whether in any particular case, a sale would achieve a more favorable economic outcome.

### ***LESSEES MAY NOT BE ABLE TO OBTAIN REQUIRED LICENSES, CONSENTS AND APPROVALS.***

A number of lessees require specific licenses, consents or approvals for different aspects of their leases. These include consents from governmental or regulatory authorities to make payments under the leases and to the import, re-export or de-registration of the aircraft. If they cannot obtain the required governmental licenses, consents and approvals, if these requirements are increased by subsequent changes in applicable law or administrative practice, or if the licenses, consents or approvals are withdrawn, we may be unable to re-lease or sell our aircraft.

### ***LESSEES MAY NOT PERFORM REQUIRED AIRCRAFT MAINTENANCE, CAUSING THE AIRCRAFT VALUES AND LEASE RATES TO DECLINE.***

The standard of maintenance observed by our lessees and the condition of the aircraft at the time of lease or sale may also affect the aircraft values and lease rates on our aircraft. If a lessee fails to perform required or recommended maintenance on an aircraft during the term of the lease or does not comply with all applicable governmental requirements, the aircraft could be grounded and we may incur substantial costs to restore the aircraft to an acceptable maintenance condition before its re-lease or sale. Also, an increasing number of lessees no longer provide any cash maintenance reserves. If the lessees do not perform their maintenance obligations in any month, or if the maintenance costs for any month exceed the maintenance payments made by the lessees or are more than our maintenance reserves, we will have to fund these maintenance costs out of cashflow from the leases for that month. As a result, our cashflow may be volatile from month to month after paying significant maintenance costs, especially as the aircraft age.

***OUR AIRCRAFT INSURANCE MAY NOT BE AVAILABLE OR MAY NOT BE ADEQUATE TO COVER THE LOSSES OR LIABILITIES WE INCUR.***

Our lessees are required under the leases to maintain property and liability insurance covering their operation of the aircraft and to indemnify us against any damages. Although we believe that the required levels of insurance are prudent and reasonable in the context of industry experience and practice, we cannot guarantee that losses and liabilities from one or more aviation accidents and other catastrophic events will not exceed the insurance coverage limits. If the proceeds of insurance held by the lessees or contingent policies held by us do not cover the losses or liabilities we incur, or if our lessees default in fulfilling their insurance or indemnification obligations, we would have to cover these losses or liabilities.

The effects of 9/11 have included, among other things, increased insurance premiums required by the insurance markets. Airlines worldwide continue to experience difficulties in maintaining war insurance cover and some other types of insurance cover in the amounts required under their leases with us and other lessors. These insurance issues have been mitigated in certain jurisdictions by a number of temporary government schemes and the emergence of a limited available insurance market, however, failure by a lessee to obtain adequate insurance cover as required under its lease could result in the relevant aircraft being grounded.

***OUR HEDGING POLICY MAY NOT ADEQUATELY MANAGE OUR INTEREST RATE RISKS, INCLUDING THE ASSOCIATED LESSEE CREDIT RISKS, AND WE MAY NOT BE ABLE TO PURCHASE AN ADEQUATE PORTFOLIO OF SWAPTIONS IF REQUIRED TO MITIGATE OUR INTEREST RATE RISKS, INCLUDING THE ASSOCIATED LESSEE CREDIT RISKS. IN THIS CASE, THERE COULD BE A MISMATCH BETWEEN OUR FIXED AND FLOATING RATE ASSETS AND LIABILITIES.***

We have traditionally managed our interest rate risks, including the associated lessee credit risks, through the use of interest rate swaps and more recently have begun to purchase interest rate caps. In the past we have also hedged the associated lessee credit risks through the use of swaptions. Following consultation with the rating agencies in the year ended March 31, 2002, it is not currently proposed to purchase any further swaptions primarily due to our current cashflow performance.

If we are required by the rating agencies to purchase swaptions, the premium would be payable at two points in the priority of payments under the indentures. Fifty percent of any swaption premium in any month is a “minimum hedge payment” and would be payable fourth in Airplanes Group’s order of priority of payments (ahead of class A minimum principal amount). The other 50% of the premium is expended as a “supplemental hedge payment” and would be payable seventeenth in Airplanes Group’s order of priority of payments but given our current cashflow performance it is highly unlikely we would ever be able to make such payment.

***WITHHOLDING TAXES MAY BE IMPOSED ON LEASE RENTALS, INCREASING OUR COSTS.***

We have tried to structure our leases so that either withholding taxes do not apply to lease payments or, if withholding taxes do apply, the lessees are obliged to pay corresponding additional amounts so that we always receive the full lease payment. However, if withholding taxes must be paid and we cannot recover additional amounts from the lessees, that would further reduce cashflow.

**RISK OF LESSEE DEFAULT**

***LESSEES IN WEAK FINANCIAL CONDITION COULD FAIL TO MAKE LEASE PAYMENTS.***

There is a significant risk that lessees in weak financial condition may default on their obligations under the leases. If lessees do not make rent and maintenance payments or are significantly in arrears, our cashflow will be further reduced. The ability of each lessee to perform its obligations under its lease depends primarily on its financial condition, which may be affected by many factors beyond its control, including competition, fare levels, passenger demand, currency exchange rates, operating costs (including in particular fuel and labor costs), cost and availability of financing, and environmental and other governmental regulation. Because a substantial portion of business and, especially, leisure airline travel is discretionary, the general economic conditions of the geographic regions where our lessees operate also affect their ability to meet their lease obligations. Since the majority of our leases require lease payments in U.S. dollars, any weakness in the local currency in which a lessee operates against the U.S. dollar could also adversely affect its ability to pay us.

The prolonged downturn in the airline industry resulted in a number of airlines experiencing severe financial difficulties. Some carriers, including some of our lessees, have filed for bankruptcy, while others, including many of our lessees, continue to announce large losses or face severe financial difficulties. We have agreed to rental holidays, rental restructurings, the early return of aircraft and similar measures for a number of lessees. You should expect that some of our current or future lessees will continue to be in a weak

financial position, and a sizeable proportion of our lessees will continue to be in significant arrears on their rental or maintenance payments at any particular time.

The current level of defaults and arrears may not even be representative of future defaults and arrears, and defaults and arrears may increase if the airline industry faces continued difficulties. Some regions where our lessees are based, such as Asia or Latin America, may be more susceptible than others to economic downturns. See “2F. The Aircraft, Related Leases and Collateral—The Lessees” below for a more detailed discussion of the regional concentrations of our lessees and economic conditions which may impact their financial condition and ability to perform their obligations to us.

Various of our existing lessees are in a weak financial position and suffer liquidity problems, and this is likely to be the case in the future and with future lessees as well. In a portfolio the size of our portfolio it should be expected that some lessees will be slow in paying or will fail to make in full their payments under the leases. Also, as a result of a variety of factors that may be specific to a lessee or industry-wide, as discussed elsewhere in this section, the financial position of certain lessees could be weakened, which in turn could cause an increase in delayed, missed or reduced rental payments. Any future terrorist attacks, continued or future armed hostilities in the Middle East, North Korea, Europe or elsewhere, another outbreak of a pandemic disease or the occurrence of other natural disasters could greatly exacerbate the weakened financial condition of various of the lessees and further increase the risk of delayed, missed or reduced rental payments.

***LESSEES OPERATING IN EMERGING MARKETS MAY BE SUBJECT TO A GREATER RISK OF DEFAULT.***

Emerging markets often comprise countries that have under-developed legal systems and economies that are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments. The resulting instability may adversely affect the ability of lessees that operate in these markets to meet their lease obligations and these lessees may be more likely to default than lessees that operate in developed economies. For a description of regions, see “2C. The Aircraft, Related Leases and Collateral—Portfolio Information”.

***WE MAY NOT BE ABLE TO TERMINATE LEASES OR REPOSSESS AIRCRAFT WHEN A LESSEE DEFAULTS, CAUSING US TO INCUR UNEXPECTED REPOSSESSION COSTS.***

If there is an event of default under a lease, we have the right to terminate the lease and repossess the aircraft. However, it may be difficult, expensive and time-consuming for us to enforce our rights in some circumstances, especially if the lessee contests the termination or is bankrupt or under court protection. Delays resulting from proceedings to repossess an aircraft add to the period when the aircraft is not generating cashflow for us. In addition, we may incur significant costs in trying to repossess an aircraft and in performing maintenance and other work necessary to make the aircraft available for re-lease or sale, including retrieval or reconstruction of aircraft records. We may also incur swap breakage costs. Our efforts to repossess an aircraft following a lessee’s default may also be limited by the laws of the local jurisdiction which may delay or prevent repossession. If we do terminate a lease and repossess the aircraft, we may be unable to re-lease the aircraft promptly and/or at a satisfactory lease rate.

**RISKS RELATING TO TAX**

***OWNING THE CERTIFICATES MAY HAVE TAX CONSEQUENCES FOR CERTIFICATEHOLDERS AND MAY REDUCE CERTIFICATEHOLDERS’ INCOME.***

Ownership of the certificates may subject certificateholders to withholding of income taxes in the United States, Jersey or other jurisdictions in which Airplanes Group, its aircraft-owning and aircraft-leasing subsidiaries and the lessees are organized, reside or operate. The tax consequences of the purchase and holding of the certificates depend to some extent upon certificateholders’ individual circumstances.

***PRE-1998 AEROUSA LOSSES MAY NOT BE AVAILABLE TO OFFSET FUTURE TAXABLE INCOME OF AEROUSA, AS A RESULT OF WHICH AEROUSA MAY HAVE TO PAY ADDITIONAL U.S. FEDERAL INCOME TAX.***

AeroUSA had net operating loss carryforwards for U.S. federal income tax purposes when GE Capital acquired all of the class E notes on November 20, 1998. As a result of that acquisition, AeroUSA’s pre-1998 net operating loss carryforwards may only be utilized to offset up to \$452,000 of taxable income per year. To the extent that the pre-1998 net operating loss carryforwards are not available to offset taxable income of AeroUSA in future years, AeroUSA will be required to pay additional U.S. federal income tax

which will reduce the amount available to pay to Airplanes Trust and which will have a further negative impact on the cashflow of Airplanes Trust.

***AEROUSA MAY INCUR ADDITIONAL TAX LIABILITIES AS A RESULT OF FILING CONSOLIDATED TAX RETURNS WITH GENERAL ELECTRIC COMPANY (“GE”) OR AERCAP, INC. THERE WILL BE A NEGATIVE IMPACT ON THE CASHFLOW OF AIRPLANES GROUP IF AEROUSA INCURS ANY SUCH LIABILITIES.***

AeroUSA and its wholly owned subsidiary, AeroUSA 3 Inc. (together, the “**AeroUSA group**”), filed U.S. federal consolidated tax returns and certain state and local tax returns with GPA, Inc. (now known as AerCap, Inc.) and its subsidiaries (together, the “**AerCap U.S. tax group**”) through November 20, 1998. Since November 20, 1998, the AeroUSA group has filed U.S. federal consolidated tax returns and certain state and local tax returns with GE and its subsidiaries (together, the “**GE U.S. tax group**”). As members of the consolidated tax groups, the AeroUSA group is jointly and severally liable for the applicable U.S. federal or state and local tax liabilities of the AerCap U.S. tax group for the period through November 20, 1998 and of the GE U.S. tax group for the period since November 20, 1998. There are no ongoing U.S. federal, state and local tax audits with respect to taxes previously reported by the AerCap U.S. tax group.

GE, AeroUSA and Airplanes Trust have entered into a tax sharing agreement pursuant to which GE has agreed to indemnify members of the AeroUSA group against any U.S. federal, state or local tax liabilities of any member of the GE U.S. tax group (other than an AeroUSA group member) which are imposed on the AeroUSA group that are related to any tax period or portion of a tax period beginning after November 20, 1998 and are tax liabilities that the AeroUSA group would not have incurred if they were not members of the GE U.S. tax group. Furthermore, under this tax sharing agreement, (1) AeroUSA has agreed to pay GE (in cash if a payment is then due by the GE U.S. tax group to a tax authority, otherwise in the form of subordinated non-interest bearing notes) its share of tax liabilities based on the amount of tax liabilities that the AeroUSA group would have incurred if it were not included in the GE U.S. tax group and (2) GE has agreed to pay AeroUSA, at the time such tax savings are realized, an amount equal to any tax savings by any member of the GE U.S. tax group (other than a member of the AeroUSA group) for any tax period after November 20, 1998 as a result of any tax asset generated by the AeroUSA group. Similar provisions contained in a tax sharing agreement between GPA Group (now known as AerCap Ireland), GPA, Inc. (now known as AerCap, Inc.), AeroUSA and Airplanes Trust which terminated on November 20, 1998 remain applicable in respect of tax periods ending on or before November 20, 1998.

The receipt by Airplanes Trust or AeroUSA of any amounts from GE, AerCap Ireland or AerCap, Inc., as applicable, pursuant to the tax sharing agreements will depend upon the financial condition and liquidity of GE, AerCap Ireland or AerCap, Inc., as applicable, at the time any claim is made. To the extent any tax claims are successfully made against the AeroUSA group and those amounts are not indemnified by GE, AerCap Ireland or AerCap, Inc. under the relevant tax sharing agreements, those claims will have a negative impact on the cashflow of Airplanes Group. In addition, because the notes and certificates are not secured directly or indirectly by the aircraft or the leases, substantially all of the assets of the AeroUSA group, including the aircraft, would be available for attachment and satisfaction of any of those claims.

***AIRPLANES LIMITED, AIRPLANES HOLDINGS AND AIRPLANES HOLDINGS’ NON-U.S. SUBSIDIARIES MAY BE SUBJECT TO U.S. FEDERAL INCOME TAX AS A RESULT OF ACTIONS OF THE SERVICER OR ADMINISTRATIVE AGENT OR, IN THE CASE OF AIRPLANES HOLDINGS AND ITS IRISH TAX RESIDENT AIRCRAFT OWNING SUBSIDIARIES, BECAUSE THEY MAY NOT BENEFIT FROM THE U.S.-IRISH TAX TREATY.***

Whether Airplanes Limited, Airplanes Holdings and Airplanes Holdings’ non-U.S. subsidiaries will be subject to U.S. federal income tax may depend on the manner in which the activities of the servicer and administrative agent are performed, and in the case of Airplanes Holdings and its Irish tax resident aircraft owning subsidiaries, will depend on qualification for the benefits of the income tax treaty between the United States and Ireland (the “**treaty**”).

Prior to GE Capital’s acquisition of the class E notes, Airplanes Holdings and its Irish tax resident aircraft owning subsidiaries qualified for treaty benefits by virtue of a ruling obtained by AerFi Group (now known as AerCap Ireland) from the U.S. competent authority, which applied to AerFi Group and its qualified affiliates. Following the acquisition of the class E notes by GE Capital, Airplanes Holdings and its Irish tax resident aircraft owning subsidiaries ceased to be affiliates of AerFi Group. Airplanes Holdings applied for its own ruling on similar grounds to those on which the AerFi Group ruling was based. On September 28, 2001, the ruling by the U.S. competent authority was granted to Airplanes Holdings and its Irish tax resident aircraft owning subsidiaries. There can be no assurance that the activities of the servicer or the administrative agent will not subject Airplanes Limited, Airplanes Holdings and Airplanes Holdings’ non-U.S. subsidiaries to U.S. federal income tax on some or all of their income in the future.

In the event that Airplanes Limited, Airplanes Holdings or Airplanes Holdings' non-U.S. subsidiaries are subject to U.S. federal income tax on some or all of their income, their cashflow would be reduced.

***THE OPERATIONS OF AIRPLANES LIMITED, AIRPLANES TRUST AND AEROUSA MAY BECOME SUBJECT TO IRISH CORPORATE TAXES.***

Airplanes Limited, Airplanes Trust and AeroUSA do not intend to be treated as doing business in Ireland and, therefore, do not expect to be subject to Irish corporate tax. However, if their operations differ from those intended, they could become subject to Irish taxes.

***WE WILL NOT PAY ANY ADDITIONAL AMOUNTS TO MAKE UP FOR ANY WITHHOLDING TAX THAT MAY APPLY.***

We will not make any additional payments to certificateholders for any withholding or deduction required by applicable law on payments on either the notes or the certificates. We will use reasonable efforts to avoid the application of withholding taxes or other deductions. If withholding taxes are imposed on the notes or certificates and we do not redeem them, which is likely given our current financial condition, we will reduce the net amount of any interest that is passed through to certificateholders by the amount of any withholding or deduction.

***WE HAVE LOST IRISH CORPORATE TAX BENEFITS.***

The preferential 10% corporate tax rate was terminated on December 31, 2005. As a result, Airplanes Holdings and its Irish tax resident subsidiaries became subject to Irish corporate tax on their net trading income, including leasing income, at general Irish statutory rates, which are currently 12.5%. There can be no assurance that this tax rate will not be changed in the future.

***RISKS RELATING TO BANKRUPTCY***

***OUR ASSETS MAY BE CONSOLIDATED WITH THOSE OF AERCAP IRELAND OR ITS SUBSIDIARIES IF THEY BECOME BANKRUPT OR INSOLVENT, LEAVING FEWER ASSETS AVAILABLE TO REPAY THE CERTIFICATES.***

We have taken steps to structure Airplanes Group and our transactions, especially the 1996 transaction whereby we acquired our portfolio of aircraft from GPA Group (now known as AerCap Ireland), to ensure that our assets would not be consolidated with the assets of AerCap Ireland and would not become available to AerCap Ireland's creditors in any bankruptcy or insolvency proceeding involving AerCap Ireland or any of its affiliates. If AerCap Ireland or any of its subsidiaries becomes bankrupt or insolvent, there is a legal risk that a court or other authority could decide that these steps were not effective to insulate our assets from AerCap Ireland's assets or that AerCap Ireland's transfer of aircraft to us in 1996 was improper. As a result, the aircraft and our other assets could become available to repay AerCap Ireland's creditors and we could lose all of our rights in the aircraft and our other assets.

## 2. THE AIRCRAFT, RELATED LEASES AND COLLATERAL

### A. OVERVIEW

As of March 31, 2007, our portfolio comprised a total of 127 aircraft and one spare engine, of which 122 aircraft were on lease to 53 lessees in 34 countries and 5 aircraft were off-lease. As of March 31, 2007, one of these off-lease aircraft was subject to a letter of intent for sale. As of the date of this Annual Report, another of the off-lease aircraft has become subject to a letter of intent for lease. As of March 31, 2007, the weighted average remaining contracted lease term of our portfolio (by appraised value as of January 31, 2007 and without giving effect to purchase options or extension options) was 28 months. Our longest lease is scheduled to expire in June 2014. Therefore we will be required to re-lease all of our aircraft at least once before the final maturity date of the certificates. See “1C. Introduction—Risk Factors—Risks Relating to the Leases and Cashflows from Lease Payments” for a description of the risks certificateholders could face if aircraft are not re-leased.

### B. APPRAISALS

Under the indentures, we are required, at least once each year and in any case no later than March 1 of each year, to deliver to the indenture trustee, appraisals of the value of each of the aircraft in our portfolio from at least three independent appraisers. This value (the “**appraised value**”) for each aircraft is the value for that aircraft at normal utilization rates in an open, unrestricted and stable market, adjusted to take account of the reported maintenance standard of that aircraft, except for the aircraft that are subject to finance leases, which are valued at their lease receivable book values. The appraisals are not based on physical inspection of the aircraft and do not take into account the value of the leases, maintenance reserves or security deposits.

For the appraisals as of January 31, 2007, we obtained independent appraisals from three independent appraisers and calculated the appraised value of each aircraft by taking the average of the three appraisals. On this basis, the average appraised value for our portfolio of 127 aircraft was approximately \$1,172 million as of January 31, 2007, as compared to \$1,346 million for the same 127 aircraft based on appraisals as of January 31, 2006.

The appraised value of each aircraft in our portfolio by each of the three independent appraisers as of January 31, 2007 can be found in “Airplanes Group Portfolio Analysis” below. The aggregate appraised values calculated by each of the three independent appraisers for our portfolio, calculated by adding up the appraised value by that appraiser of each aircraft in our portfolio, are as follows:

Appraiser	Aggregate Appraised Value as of January 31, 2007
	(In Millions)
Airclaims Limited.....	\$ 988.0
Aircraft Information Services, Inc. ....	1,080.6
BK Associates, Inc.....	1,447.6
Average of three appraisers .....	\$ 1,172.1

You should not rely on the appraised value as a measure of the realizable value of any aircraft. See “1C. Introduction—Risk Factors—Risks Relating to the Aircraft” for a discussion of the risks associated with the appraised value.

### C. PORTFOLIO INFORMATION

The tables set forth below summarize important information about our portfolio. For a more detailed analysis of the aircraft, see “Airplanes Group Portfolio Analysis” below.

As of March 31, 2007, 99.89% of the aircraft in our portfolio by appraised value as of January 31, 2007 held or were capable of holding a noise certificate issued under Chapter 3 of Volume I, Part II of Annex 16 of the Chicago Convention or have been shown to comply with the Stage 3 noise levels set out in Section 36.5 of Appendix C of Part 36 of the United States Federal Aviation Regulations (assuming for this purpose that turboprop aircraft are Stage 3 aircraft). We refer to this as being “**Stage 3**” compliant and call these aircraft “**Stage 3 aircraft**.”

The remaining 0.11% of the aircraft by appraised value as of January 31, 2007 held or were capable of holding a noise certificate issued under Chapter 2 of the Chicago Convention or have been shown to comply with the Stage 2 noise levels set out in Section 36.5

of Appendix C of Part 36 of the United States Federal Aviation Regulations but do not comply with the requirements for a Stage 3 aircraft. We refer to this as being “**Stage 2**” compliant and call these aircraft “**Stage 2 aircraft.**” Most jurisdictions have adopted these U.S. classifications, which consider Stage 2 aircraft that have been hushkitted to be Stage 3 aircraft.

The following table lists the aircraft by type and number as of March 31, 2007 and the percentage of our portfolio they represent by appraised value as of January 31, 2007. For the purpose of this table, turboprop aircraft are considered to be Stage 3 aircraft.

Manufacturer	Type of Aircraft	Number of Aircraft	Body Type	Stage	% of Portfolio by Appraised Value as of January 31, 2007
Boeing (58.34%) .....	B737-200A	1	Narrowbody	2	0.11%
	B737-300	8	Narrowbody	3	6.97
	B737-300SF	2	Narrowbody	3	1.77
	B737-400	22	Narrowbody	3	22.99
	B737-500	11	Narrowbody	3	9.39
	B757-200	3	Narrowbody	3	5.03
	B767-200ER	1	Widebody	3	1.65
	B767-300ER	4	Widebody	3	10.44
McDonnell Douglas (12.95%).....	DC8-71F	2	Freighter	3	0.59
	DC8-73CF	1	Freighter	3	0.49
	MD-82	2	Narrowbody	3	0.86
	MD-83	20	Narrowbody	3	10.64
	MD-87	1	Narrowbody	3	0.38
Airbus (16.01%).....	A320-200	12	Narrowbody	3	16.01
Fokker (6.92%) .....	F-100	16	Narrowbody	3	6.92
De Havilland of Canada (5.09%).....	DHC8-100	5	Turboprop	3	0.86
	DHC8-300	13	Turboprop	3	4.23
ATR (0.68%).....	ATR42-300	3	Turboprop	3	0.68
Total		<u>127</u>			<u>100%</u>

The following table sets forth the exposure of our portfolio by lessee as of March 31, 2007 according to the number of aircraft and the appraised value as of January 31, 2007.

Lessee(1)	Number of Aircraft	% of Portfolio by Appraised Value as of January 31, 2007
Aerovias del Continente Americano S.A. (AVIANCA).....	7	8.10%
AC Leasing .....	6	7.76
Turk Hava Yollari A.O. (THY Turkish Airlines).....	5	5.09
Ukraine International.....	5	4.82
Aerocaribe .....	8	3.55
TAM Transportes Aereos Meridionais S.A.....	8	3.38
PT Mentari Airlines.....	3	3.13
Compania Hispano Irlandesa de Aviacion S.A. (FUTURA).....	3	3.11
Kras Air .....	3	3.00
Spanair S.A.....	6	2.97
BH Air .....	2	2.91
PT Adam Sky Connection Airlines .....	3	2.84
Nationwide Airlines.....	1	2.75
Nouvelair Tunisie .....	2	2.73
Compagnie Nationale Air France (AIR FRANCE).....	2	2.61
euro Atlantic Airways.....	1	2.56
Aeroflot Nord .....	3	2.54
Excel Airways .....	1	2.53
Air One SpA.....	2	2.13

Lessee(1)	Number of Aircraft	% of Portfolio by Appraised Value as of January 31, 2007
Orenair .....	2	2.06
PT Metro Batavia .....	2	2.00
SkyEurope Airlines .....	2	1.80
Titan Airways .....	1	1.76
Transaero Airlines .....	2	1.70
China Southern Airlines Company Limited .....	1	1.66
Meridiana SpA .....	3	1.66
Caribbean Star Airlines .....	5	1.62
Austral Lineas Aereas.....	2	1.04
Other (23 lessees) .....	31	14.05
Off-lease(2) .....	5	2.14
<b>Total .....</b>	<b>127</b>	<b>100.00%</b>

(1) Total number of lessees = 53

(2) As of March 31, 2007, one of the five off-lease aircraft was subject to a letter of intent for sale. As of the date of this Annual Report, another of the off-lease aircraft has become subject to a letter of intent for lease.

The following table sets forth the exposure of our portfolio by country of domicile of lessees as of March 31, 2007 according to the number of aircraft and the appraised value of the portfolio as of January 31, 2007.

Country(l)	Number of Aircraft	% of Portfolio by Appraised Value as of January 31, 2007
Russia .....	11	9.96%
Colombia .....	8	8.43
Indonesia.....	8	7.97
Canada .....	6	7.76
Spain.....	9	6.08
Turkey.....	5	5.09
United Kingdom .....	4	4.96
Mexico.....	10	4.82
Ukraine .....	5	4.82
Italy.....	5	3.79
Brazil .....	8	3.37
France .....	3	3.06
Bulgaria .....	2	2.91
South Africa.....	1	2.75
Tunisia .....	2	2.73
Portugal.....	1	2.56
Antigua .....	9	2.45
Argentina .....	3	1.87
Slovakia .....	2	1.80
United States of America.....	3	1.78
China.....	1	1.66
Japan.....	1	1.11
Other (12 countries).....	15	6.13
Off-lease (2).....	5	2.14
<b>Total .....</b>	<b>127</b>	<b>100.00%</b>

(1) Total number of countries = 34

(2) As of March 31, 2007, one of the five off-lease aircraft was subject to a letter of intent for sale. As of the date of this Annual Report, another of the off-lease aircraft has become subject to a letter of intent for lease.

The following table sets forth the exposure of our portfolio by regions in which lessees are domiciled as of March 31, 2007 according to the number of aircraft and the appraised value of our portfolio as of January 31, 2007.

<b>Region</b>	<b>Number of Aircraft</b>	<b>% of Portfolio by Appraised Value as of January 31, 2007</b>
Europe (excluding CIS Countries).....	37	32.64%
Latin America.....	41	21.64
Asia & Far East.....	14	13.48
North America.....	9	9.54
Africa.....	4	5.58
Australia & New Zealand.....	1	0.20
Other (including CIS Countries).....	16	14.78
Off-Lease (1).....	5	2.14
<b>Total.....</b>	<b>127</b>	<b>100.00%</b>

(1) As of March 31, 2007, one of the five off-lease aircraft was subject to a letter of intent for sale. As of the date of this Annual Report, another of the off-lease aircraft has become subject to a letter of intent for lease.

The following table sets forth the exposure of the portfolio by year of aircraft manufacture or conversion to freighter as of March 31, 2007 according to the number of aircraft and the appraised value of the aircraft as of January 31, 2007. See note 1 to “Airplanes Group Portfolio Analysis” below for the original manufacture dates of the aircraft that were converted into freighters.

<b>Year of Manufacture/Freighter Conversion</b>	<b>Number of Aircraft</b>	<b>% of Portfolio by Appraised Value as of January 31, 2007</b>
1988.....	12	4.95%
1989.....	6	3.23
1990.....	19	12.65
1991.....	35	25.96
1992.....	44	45.67
1993.....	2	2.64
Other.....	9	4.90
<b>Total.....</b>	<b>127</b>	<b>100.00%</b>

The following table sets forth the exposure of the portfolio by seat category as of March 31, 2007 according to the number of aircraft and the appraised value of the portfolio as of January 31, 2007.

<b>Seat Category</b>	<b>Aircraft Types</b>	<b>Number of Aircraft</b>	<b>% of Portfolio by Appraised Value as of January 31, 2007</b>
Less than 51	DHC8, ATR42	21	5.77%
91-120	B737-200A, B737-500, MD-87, F-100	29	16.80
121-170	B737-300/300SF/400, MD-82/83, A320-200	64	57.46
171-240	B757-200, B767-200ER	4	6.68
241-350	B767-300ER	4	10.44
Freighter	DC8-71F/73CF	5	2.84
		<b>127</b>	<b>100.00%</b>

**AIRPLANES GROUP PORTFOLIO ANALYSIS  
AT MARCH 31, 2007**

<b>Region</b>	<b>Country</b>	<b>Lessee</b>	<b>Aircraft Type</b>	<b>Serial Number</b>	<b>Date of Manufacture/ Conversion(1)</b>	<b>Appraised Value at January 31, 2007 (U.S.\$000's)</b>	<b>% of Portfolio by Appraised Value as of Jan 31, 2007</b>
Africa .....	Nigeria	Bellview Airlines Ltd	B737-200A	23024	1983	1,300	0.11%
	South Africa	Nationwide Airlines	B767-300ER	26200	1992	32,189	2.75%
	Tunisia	Nouvelair Tunisie	A320-200	301	1992	15,879	1.35%
	Tunisia	Nouvelair Tunisie	A320-200	348	1992	16,068	1.37%
Asia & Far East .....	Bangladesh	GMG Airlines	DHC8-300	307	1991	3,769	0.32%
	China	China Southern	B757-200	26156	1992	19,403	1.66%
	Indonesia	PT Adam SkyConnection Airlines	B737-300	23923	1988	9,383	0.80%
	Indonesia	PT Adam SkyConnection Airlines	B737-400	24493	1989	11,115	0.95%
	Indonesia	PT Adam SkyConnection Airlines	B737-400	26071	1992	12,826	1.09%
	Indonesia	PT Lion Mentari Airlines	B737-400	24520	1990	11,069	0.94%
	Indonesia	PT Lion Mentari Airlines	B737-400	24684	1990	12,799	1.09%
	Indonesia	PT Lion Mentari Airlines	B737-400	24911	1991	12,784	1.09%
	Indonesia	PT Metro Batavia	B737-400	24345	1989	10,799	0.92%
	Indonesia	PT Metro Batavia	B737-400	24687	1990	12,647	1.08%
	Japan	Skynet Asia	B737-400	26069	1992	13,041	1.11%
	Malaysia	AirAsia Berhad	B737-300	24905	1991	10,303	0.88%
	Philippines	Philippine Airlines	B737-300	24770	1990	9,555	0.82%
	Taiwan	Far Eastern Air Transport	MD83	49950	1991	8,551	0.73%
Australia & New Zealand.....	Australia	National Jet Systems	DHC8-100	229	1990	2,320	0.20%
Europe.....	Bulgaria	BH Air	A320-200	294	1992	17,241	1.47%
	Bulgaria	BH Air	A320-200	349	1992	16,862	1.44%
	France	Air France	A320-200	203	1991	14,451	1.23%
	France	Air France	A320-200	220	1991	16,173	1.38%
	France	Blue Line	MD83	49672	1988	5,203	0.44%
	Greece	Sky Wings Airlines	MD83	49949	1991	6,514	0.56%
	Italy	Air One SpA	B737-400	24906	1991	13,040	1.11%
	Italy	Air One SpA	B737-400	24912	1991	11,975	1.02%
	Italy	Meridiana SpA	MD83	49792	1989	5,964	0.51%
	Italy	Meridiana SpA	MD83	49935	1990	6,904	0.59%
	Italy	Meridiana SpA	MD83	49951	1991	6,546	0.56%
	Netherlands	Capital Aviation Services B.V.	DHC8-300	244	1990	3,542	0.30%
	Netherlands	Capital Aviation Services B.V.	DHC8-300	276	1991	3,834	0.33%
	Norway	Wideroe's Flyveselskap A/S	DHC8-300	293	1991	3,668	0.31%
	Norway	Wideroe's Flyveselskap A/S	DHC8-300	342	1992	4,160	0.35%

Region	Country	Lessee	Aircraft Type	Serial Number	Date of Manufacture/ Conversion(1)	Appraised Value at January 31, 2007 (U.S.\$000's)	% of Portfolio by Appraised Value as of Jan 31, 2007
	Portugal	euroAtlantic airways	B767-300ER	25411	1992	30,054	2.56%
	Slovakia	SkyEurope Airlines a.s	B737-500	25288	1992	10,513	0.90%
	Slovakia	SkyEurope Airlines a.s	B737-500	25289	1992	10,536	0.90%
	Spain	Futura	B737-400	24689	1990	11,390	0.97%
	Spain	Futura	B737-400	24690	1990	12,141	1.04%
	Spain	Futura	B737-400	25180	1992	12,967	1.11%
	Spain	Spanair	MD83	49620	1988	6,118	0.52%
	Spain	Spanair	MD83	49624	1988	5,212	0.44%
	Spain	Spanair	MD83	49626	1988	5,185	0.44%
	Spain	Spanair	MD83	49709	1988	5,405	0.46%
	Spain	Spanair	MD83	49936	1990	6,495	0.55%
	Spain	Spanair	MD83	49938	1990	6,374	0.54%
	Sweden	Viking Airlines AB	MD83	49631	1989	6,224	0.53%
	Turkey	Turk Hava Yollari	B737-400	24917	1991	11,486	0.98%
	Turkey	Turk Hava Yollari	B737-400	25181	1992	12,087	1.03%
	Turkey	Turk Hava Yollari	B737-400	25184	1992	12,070	1.03%
	Turkey	Turk Hava Yollari	B737-400	25261	1992	12,068	1.03%
	Turkey	Turk Hava Yollari	B737-400	26065	1992	11,990	1.02%
	United Kingdom	Air Southwest	DHC8-300	296	1992	3,829	0.33%
	United Kingdom	Air Southwest	DHC8-300	334	1992	4,085	0.35%
	United Kingdom	Titan Airways Limited	B757-200	26151	1992	20,587	1.76%
	United Kingdom	XL Airways	B767-300ER	26204	1992	29,677	2.53%
Latin America.....	Antigua	Caribbean Star Airlines	DHC8-300	232	1990	3,565	0.30%
	Antigua	Caribbean Star Airlines	DHC8-300	266	1991	3,742	0.32%
	Antigua	Caribbean Star Airlines	DHC8-300	267	1991	3,709	0.32%
	Antigua	Caribbean Star Airlines	DHC8-300	298	1992	3,988	0.34%
	Antigua	Caribbean Star Airlines	DHC8-300	300	1992	3,977	0.34%
	Antigua	LIAT	DHC8-100	113	1988	1,853	0.16%
	Antigua	LIAT	DHC8-100	144	1989	1,984	0.17%
	Antigua	LIAT	DHC8-100	270	1991	2,215	0.19%
	Antigua	LIAT	DHC8-300	283	1991	3,666	0.31%
	Argentina	Aerolineas Argentinas S.A.	B737-500	24897	1991	9,806	0.84%
	Argentina	Austral Lineas Aereas	MD83	49941	1990	6,041	0.52%
	Argentina	Austral Lineas Aereas	MD83	49943	1991	6,124	0.52%
	Brazil	TAM Linhas Aereas	F100	11284	1990	4,463	0.38%
	Brazil	TAM Linhas Aereas	F100	11285	1990	4,605	0.39%
	Brazil	TAM Linhas Aereas	F100	11304	1991	5,289	0.45%

Region	Country	Lessee	Aircraft Type	Serial Number	Date of Manufacture/ Conversion(1)	Appraised Value at January 31, 2007 (U.S.\$000's)	% of Portfolio by Appraised Value as of Jan 31, 2007
	Brazil	TAM Linhas Aereas	F100	11305	1991	4,821	0.41%
	Brazil	TAM Linhas Aereas	F100	11336	1991	4,769	0.41%
	Brazil	TAM Linhas Aereas	F100	11347	1991	4,663	0.40%
	Brazil	TAM Linhas Aereas	F100	11348	1991	5,201	0.44%
	Brazil	TAM Linhas Aereas	F100	11371	1991	5,752	0.49%
	Colombia	Avianca	B767-300ER	24948	1991	30,403	2.59%
	Colombia	Avianca	B767-200ER	25421	1992	19,387	1.65%
	Colombia	Avianca	B757-200	26154	1992	18,954	1.62%
	Colombia	Avianca	MD83	49939	1990	6,062	0.52%
	Colombia	Avianca	MD83	53120	1992	6,892	0.59%
	Colombia	Avianca	MD83	53125	1992	6,839	0.58%
	Colombia	SAM	MD83	49946	1991	6,448	0.55%
	Colombia	Tampa	DC8-71F	45976	1991	3,884	0.33%
	El Salvador	Taca International	ATR42-300	109	1988	2,610	0.22%
	El Salvador	Taca International	ATR42-300	113	1988	2,501	0.21%
	Mexico	Aerocaribe	F100	11266	1990	4,205	0.36%
	Mexico	Aerocaribe	F100	11309	1991	5,507	0.47%
	Mexico	Aerocaribe	F100	11319	1991	4,856	0.41%
	Mexico	Aerocaribe	F100	11339	1991	5,401	0.46%
	Mexico	Aerocaribe	F100	11374	1992	5,455	0.47%
	Mexico	Aerocaribe	F100	11375	1992	5,289	0.45%
	Mexico	Aerocaribe	F100	11382	1992	5,443	0.46%
	Mexico	Aerocaribe	F100	11384	1992	5,436	0.46%
	Mexico	Aeromexico	MD87	49673	1988	4,433	0.38%
	Mexico	Estafeta Carga Aerea	B737-300SF	23499	1986	10,508	0.90%
	Uruguay	PLUNA Lineas Aereas Uruguayas S.A.	ATR42-300	284	1992	2,875	0.25%
North America.....	Canada	AC Leasing	A320-200	174	1991	14,612	1.25%
	Canada	AC Leasing	A320-200	175	1991	14,808	1.26%
	Canada	AC Leasing	A320-200	232	1991	14,321	1.22%
	Canada	AC Leasing	A320-200	284	1991	14,192	1.21%
	Canada	AC Leasing	A320-200	309	1992	15,962	1.36%
	Canada	AC Leasing	A320-200	404	1993	17,085	1.46%
	United States of America	Astar Air Cargo	DC8-73CF	46091	1989	5,697	0.49%
	United States of America	Pace Airlines	B737-300	23749	1987	9,552	0.81%
	United States of America	TWA Airlines LLC	MD83	49575	1987	5,588	0.48%
Other.....	Russia	Aeroflot Nord	B737-500	25185	1992	9,755	0.83%
	Russia	Aeroflot Nord	B737-500	25186	1992	10,241	0.87%
	Russia	Aeroflot Nord	B737-500	25191	1992	9,800	0.84%

Region	Country	Lessee	Aircraft Type	Serial Number	Date of Manufacture/ Conversion(1)	Appraised Value at January 31, 2007 (U.S.\$000's)	% of Portfolio by Appraised Value as of Jan 31, 2007
	Russia	KD avia	B737-300	23177	1986	7,683	0.66%
	Russia	KrasAir	B737-300	24907	1991	10,878	0.93%
	Russia	KrasAir	B737-300	25179	1992	12,111	1.03%
	Russia	KrasAir	B737-300	25187	1992	12,202	1.04%
	Russia	Orenair	B737-400	24683	1990	12,042	1.03%
	Russia	Orenair	B737-400	24691	1990	12,058	1.03%
	Russia	Transaero Airlines	B737-500	25183	1992	10,013	0.85%
	Russia	Transaero Airlines	B737-500	25188	1992	9,962	0.85%
	Ukraine	Ukraine International	B737-500	25182	1992	10,453	0.89%
	Ukraine	Ukraine International	B737-400	25190	1992	13,199	1.13%
	Ukraine	Ukraine International	B737-500	25192	1992	9,442	0.81%
	Ukraine	Ukraine International	B737-500	26075	1992	9,522	0.81%
	Ukraine	Ukraine International	B737-400	26081	1993	13,842	1.18%
Off Lease (2) .....	Off Lease	Off Lease	DHC8-100	140	1989	1,761	0.15%
	Off Lease	Off Lease	B737-300SF	23500	1986	10,231	0.87%
	Off Lease	Off Lease	DC8-71F	45945	1992	3,007	0.26%
	Off Lease	Off Lease	MD82	49660	1988	5,706	0.49%
	Off Lease	Off Lease	MD82	49667	1988	4,361	0.37%
						1,172,077	100.00%
						1,172,077	100.00%

Notes:

(1) For the aircraft listed below, the table above reflects the date of conversion to a freighter configuration. The following table sets forth the date of original manufacture for those aircraft.

MSN	Date of Manufacture
45945	Mar-68
45976	Jul-68
46091	Apr-70

(2) As of March 31, 2007, one of the five off-lease aircraft was subject to a letter of intent for sale. As of the date of this Annual Report, another of the off-lease aircraft has become subject to a letter of intent for lease.

## D. THE LEASES

Most of the leases are operating leases under which we generally retain the benefit, and bear the risk, of the residual value of the aircraft at the end of the lease. As of March 31, 2007, 122 aircraft were on lease and five aircraft were off-lease. As of March 31, 2007, one of these off-lease aircraft was subject to a letter of intent for sale. The remaining four off-lease aircraft represent 1.88% of our portfolio by appraised value as of January 31, 2007. As of the date of this Annual Report, another of the off-lease aircraft has become subject to a letter of intent for lease. All leases are managed by the servicer according to the servicing agreement.

Although the lease documentation is fairly standardized in many respects, significant variations do exist as a result of negotiation with each lessee.

Under a majority of our leases, the lessee is responsible, either directly or through indemnification of the lessor, for all operating expenses, including maintenance, operating, overhaul, fuel, crews, airport and navigation charges, taxes, licenses, consents and approvals, aircraft registration and hull and liability insurance. In addition, the lessees must remove all liens on the aircraft except liens that are permitted by the lease.

Each of our current leases requires the lessee to make periodic rental payments during the term of the lease. Some of the leases also require the lessee to pay periodic amounts as maintenance reserves or to deliver letters of credit or guarantees for this purpose. Almost all the leases require the lessees to make payments to us without set-off or counterclaim, and most of them include an obligation for the lessee to gross-up payments under the lease if the lease payments are subject to withholding or other taxes. The leases also generally contain indemnification of the lessor for tax liabilities such as value added tax and stamp duty tax, but not income tax.

Each lease also contains provisions which specify our rights and remedies if the lessee defaults in making payments or performing its other obligations under the lease. These remedies include terminating the lease and repossessing the aircraft.

The following is a summary of the principal terms of the leases as of March 31, 2007, with reference to appraised values as of January 31, 2007.

**Lease Term** ..... As of March 31, 2007, the weighted average remaining contracted lease term of the aircraft (weighted by appraised value as of January 31, 2007 and without giving effect to purchase options, early terminations or extensions) was 28 months. The longest lease was scheduled to expire in June 2014.

**Rentals** ..... As of March 31, 2007, rent under 117 of the leases, representing 96.18% by appraised value of our portfolio as of January 31, 2007, was payable monthly in advance, and rent under 5 of the leases, representing 1.69% by appraised value of our portfolio as of January 31, 2007, was payable monthly in arrears.

These rental payments are calculated based on a floating rate or a fixed rate or may change from one to the other over the course of the lease. The rent under all of the leases is currently payable in U.S. dollars, although in the future, rent on some new leases may be payable in euros. Some rental payments are based on the number of flight hours an aircraft is operated or may vary depending on the time of year during which the aircraft is operating.

**Extension Options** ..... Some of the leases contain an extension option pursuant to which, depending on the negotiations with the lessee at the time of signing of the lease, either we or the lessee could extend the term of the lease at either the existing lease rate or at the future market rate. As of March 31, 2007, 13 of the leases representing 12.77% of our portfolio by appraised value as of January 31, 2007, included an extension option.

## Early Termination

<b>Options</b> .....	Some of the leases contain an early termination option pursuant to which the lessee may terminate the lease before the scheduled expiration date if specified conditions are met. As of March 31, 2007, 16 of the leases representing 14.28% of our portfolio by appraised value as of January 31, 2007 include an early termination option. Assuming that all these options are exercised for the earliest possible termination, the weighted average remaining lease term of our portfolio would be 24 months.
<b>Purchase Options</b> .....	As of March 31, 2007, three lessees had outstanding options to purchase a total of four aircraft, representing 4.47% of our portfolio by appraised value as of January 31, 2007. The latest date on which a purchase option could be exercised is September 11, 2009 for a purchase of a B737-500.
<b>Security Deposits</b> .....	As of March 31, 2007, lessees under 109 of the leases representing 83.8% of our portfolio by appraised value as of January 31, 2007 have provided security for their obligations. As of March 31, 2007, we had \$21 million in cash security deposits in respect of 74 aircraft representing 55.25% of our portfolio by appraised value as of January 31, 2007, and \$14 million in letters of credit in respect of 46 aircraft representing 36.31% of our portfolio by appraised value as of January 31, 2007.
<b>Guarantees</b> .....	In 47 of the leases representing 30.05% of our portfolio by appraised value as of January 31, 2007, we have received guarantees of the lessee's performance obligations under the lease. These guarantees were issued by the lessee's parent company or shareholders.
<b>Maintenance</b> .....	The leases contain detailed provisions specifying maintenance standards and aircraft redelivery conditions generally to be met at the lessees' expense. During the term of each lease, we require the lessee to maintain the aircraft in accordance with an agreed maintenance program designed to ensure that the aircraft meets applicable airworthiness and other regulatory requirements. Lessees must provide monthly maintenance reserves under approximately 75 of the leases. Under the balance of the leases, the lessee or the lessor may be required to make certain adjustment payments to one another if at redelivery the aircraft or specified items do not meet the required standards under the lease. Heavy maintenance on significant components of an aircraft, such as the airframe and the engines, is generally required to be performed on a cycle of several years and the cost of this maintenance may be material in relation to the value of the aircraft, with the overhaul of a single component often exceeding \$1 million. Pursuant to the leases, if and when an aircraft is transferred from one lessee to another between maintenance overhauls, the transferring lessee is generally required to pay for that portion of the succeeding overhaul that can be attributed to its use of the aircraft under its lease.

Depending on the credit of the lessee and other factors, we may require that the lessee pay cash maintenance reserves (75 leases as of March 31, 2007, representing 65.66% of our portfolio by appraised value as of January 31, 2007) or provide a combination of maintenance reserves and letters of credit (1 lease as of March 31, 2007, representing 1.06% of our portfolio by appraised value as of January 31, 2007). If the lessee pays maintenance reserves, we will have to reimburse it for maintenance it actually performs on the aircraft. Our obligation to reimburse maintenance is classified as an expense and therefore ranks senior to any payments on the notes and certificates.

If the lessee is not required to pay maintenance reserves or provide letters of credit or guarantees, we have to rely on the lessee's credit and its ability to maintain the aircraft during the lease term and return it in good condition or make any maintenance payments required at the end of the lease. If maintenance is required on

the aircraft but not performed, or the lessee fails to pay, we have to fund this maintenance ourselves. As of March 31, 2007, we recorded approximately \$275 million of maintenance reserves liability.

Maintenance payments by lessees will depend upon numerous factors including the financial condition of the lessee and the ability of Airplanes Group to obtain satisfactory maintenance terms in leases. An increasing number of leases do not provide for any maintenance payments to be made by lessees as security for their maintenance obligations.

**Redelivery Conditions** ..... At least 90% of the leases provide for the aircraft to be redelivered in a specified condition upon expiration of the lease and/or stipulate the payments to be made by the lessee to us or, in some cases, by us to the lessee, to reflect the extent to which the actual redelivery condition of the aircraft falls below or exceeds the redelivery condition specified in the lease.

**Insurance** ..... The lessees bear responsibility through an operational indemnity to carry insurance for liabilities arising out of the operation of the aircraft. The indemnity includes liabilities for death or injury to persons and damage to property that ordinarily would attach to the operator of the aircraft. The lessees are also required to carry comprehensive liability insurance and hull insurance, and any further insurance that is customary in the commercial aircraft industry, and to indemnify us against all liabilities, including where the liability to us as owner and lessor attaches by law. Generally, the leases require us to be named as an additional insured on hull and liability policies. Most of the leases also require the lessee to maintain the liability insurance for a specified period between one and two years after termination of that lease. Under the servicing agreement, the servicer is required to monitor the lessees' performance of obligations with respect to the insurance provisions of the applicable leases. We also carry contingent hull and liability insurance consistent with industry practice which acts as a backup for Airplanes Group's interests in instances where a lessee's policy does not satisfy the requirements of the lease and acts as excess coverage above that provided by a lessee's policy. The amount of the contingent liability policies may not be the same as the insurance required under the lease. The amount of war third party contingent insurance and other types of cover are subject to a number of limitations imposed by the aviation insurance industry particularly following the terrorist attacks of 9/11.

Most insurance certificates contain a breach of warranty endorsement so that an additional insured party remains protected even if the lessee violates any of the terms, conditions or warranties of the insurance policies, provided that the additional insured party has not caused, contributed to or knowingly condoned the breach.

**Third Party Liability Insurance** ..... The minimum third party liability limits under the leases range from \$250 million in respect of turboprop aircraft to \$750 million in respect of widebody aircraft. In some cases, the lessee carries more insurance than the minimum specified in the lease. Following the terrorist attacks of 9/11, the aviation insurance markets applied a \$50 million limit on war third party (non-passenger) liability insurance. We require lessees to either buy additional insurance in the commercial markets or obtain equivalent protection under applicable governmental schemes. These insurance issues have been mitigated in certain jurisdictions by a number of temporary government schemes and the emergence of limited available insurance markets, however, failure by a lessee to obtain adequate insurance cover as required under its lease could result in the relevant aircraft being grounded. This would likely reduce our cashflows if as a result aircraft were returned early and/or we do not receive rental payments from lessees which are affected by such developments.

**Aircraft Property Insurance** ..... In all cases, the sum of the stipulated loss value and our own additional coverage in place is at least equal to the appraised value of the aircraft. Permitted deductibles, which generally apply only in the case of a partial loss, range from \$50,000 for turboprop aircraft to \$1 million for widebody aircraft. Following insurance market developments in the aftermath of the terrorist attacks of 9/11, the insurance market, on January 1, 2002, ceased offering cover for Confiscation by the State of Registration (as generally required under the leases). Such cover is now available again, for certain jurisdictions but at increased costs. However, the lack of general availability of cover for Confiscation by the State of Registration risk in all jurisdictions means that this requirement is not currently satisfied under all of the leases. Recently, the insurance market has introduced new limitations under airline hull war policies in circumstances where aircraft are on the ground for losses arising from Weapons of Mass Destruction (“**WMD**”) devices – electromagnetic pulse, emission, discharge, release or escape of any chemical, biological or biochemical material. The insurers’ concern is the potential accumulation of WMD losses in one event. Alternative cover either from the commercial insurance markets or governments is not currently available for these risks except for US airlines insured under the Federal Aviation Authority insurance programme.

**Political Risk Insurance**..... With respect to some leases, we may arrange separate political risk repossession insurance for our own benefit, covering (a) confiscation, nationalization and requisition of title of the relevant aircraft by the government of the country of registration and denegation and deprivation of legal title and rights, and (b) the failure of the authorities in that country to allow de-registration and export of the aircraft, subject to the conditions of the policies.

**Subleases And Wet Leases** ..... Under most of our current leases, the lessee may sublease the aircraft without our consent if specified conditions are met. Under most of our current leases, the lessee may also “**wet lease**” the aircraft (leasing the aircraft to another airline with a crew and services provided by the lessee) without our consent so long as the lessee does not part with operational control of the aircraft. Where there is a sublease or a wet lease, the lessee remains fully liable to us for all its payment and performance obligations under the lease and we have no contractual relationship with the sublessee or the wet lessee. Leases with new lessees are based on a pro forma lease that includes restrictions on subleases and wet leases into specified prohibited countries.

## **E. COMPLIANCE WITH GOVERNMENTAL AND TECHNICAL REGULATION**

In addition to the general requirements regarding maintenance of the aircraft, aviation authorities from time to time issue ADs requiring the operators of aircraft to take particular maintenance actions or make particular modifications with respect to all aircraft of a particular type. Manufacturer recommendations may also be issued. To the extent that a lessee fails to perform ADs that are required to maintain its certificate of airworthiness or other manufacturer requirements in respect of an aircraft (or if the aircraft is not currently subject to a lease), Airplanes Group may have to bear or share (if the lease requires it) the cost of compliance. Other governmental regulations relating to noise and emissions levels may be imposed not only by the jurisdictions in which the aircraft are registered, including as part of the airworthiness requirements, but also in other jurisdictions where the aircraft operate. A number of jurisdictions including the United States have adopted, or are in the process of adopting, noise regulations which ultimately will require all aircraft to comply with the most restrictive currently applicable standards.

Moreover new ADs or noise or emissions reduction requirements may be adopted in the future and these could result in significant costs to Airplanes Group or adversely affect the value of, or our ability to re-lease, Stage 2 or Stage 3 aircraft. In particular, certain organizations and jurisdictions are currently considering “**Stage 4**” requirements which would tighten noise and emissions certification requirements for newly manufactured aircraft. If these more restrictive requirements are adopted or applied to existing aircraft types, it could result in significant costs to Airplanes Group or adversely affect the value of, or our ability to re-lease, aircraft in our portfolio.

Volume 2 of Annex 16 of the Chicago Convention also contains standards and recommendations regarding limitations on vented fuel and smoke and gaseous emissions for aircraft. While a number of countries have adopted regulations implementing these recommendations, these regulations generally have been prospective in nature, requiring only that newly manufactured engines meet particular standards after a particular date. To the extent that these regulations require modifications to the engines owned by Airplanes Group, they would be treated similarly to ADs under the lease.

The installation of Enhanced Ground Proximity Warning System (“EGPWS”) in all aircraft by 2005 was mandated by the FAA and the European Joint Airworthiness Authorities for all aircraft operating in the regions governed by these authorities. EGPWS is an avionics system which detects an aircraft’s proximity to the ground. The enhanced version enables the system to correlate the aircraft’s current position with a database of obstructions in the horizontal plane (high mountain peaks, buildings, antennae etc). All new generation Airbus and Boeing aircraft have EGPWS and require only a software upgrade. For the majority of our aircraft, installation of EGPWS required the full modification, some of which have been completed under cost sharing arrangements with lessees. The estimated cost to implement this modification was \$120,000 per aircraft, of which a portion may be recharged to the lessor. Seventeen claims have been made up until March 31, 2007 at an average cost to Airplanes Group of \$46,000 per aircraft.

The FAA issued an AD concerning insulation for the purpose of increasing fire safety on MD-80 aircraft. At March 31, 2007, 23 aircraft representing 11.88% of the portfolio by appraised value as of January 31, 2007, were MD-80s. To date, we have incurred costs of \$5.7 million related to the modification of 14 aircraft. The remaining costs which are currently expected to be up to \$3.2 million, will be recharged to us based on the contractual terms of the respective leases with some of these costs not rechargeable until lease end.

The FAA issued a Notice Of Proposed Rule Making (“NPRM”) (NPRM 2005-NM-028-AD) on April 5, 2005 in relation to the further replacement of insulation blankets. The affected insulation covering is installed on B737-200/300 and 400 aircraft, B747 aircraft, B757 aircraft and B767 aircraft originally built between July 1981 and December 1988 inclusive. This insulation blanket covering does not meet the new FAA requirement involving resistance of materials to ignition from an electrical arc or spark. The associated AD is anticipated to have a final compliance date of 2011. A total of the six B737 aircraft which we currently own, representing 4.15% of the portfolio by appraised value as at January 31, 2007 are likely to be affected by this AD with a compliance cost of up to \$500,000 per aircraft.

The FAA has issued an AD mandating the modification of affected lap joints on Boeing 737 aircraft when an aircraft has completed 50,000 cycles. The estimated cost to implement those modifications for each aircraft is approximately \$230,000. Based on the current utilization, the 44 Boeing 737 aircraft which we owned at March 31, 2007, representing 41.22% of our portfolio by appraised value at January 31, 2007, will be required to have this modification embodied at the rate of approximately 4 or 5 aircraft per year over the next eleven years. The amount of these costs and timing by which they will be borne by us is subject to the actual utilization of the aircraft and the individual cost sharing arrangements that are included in the respective lease contracts.

In November 2005 the FAA issued an NPRM (FAA-2005-22997) proposing a new operational requirement which will mandate a reduction of fuel tank flammability in transport category airplanes including the B737, B757, B767 and Airbus A320 aircraft. One possible method for reducing fuel tank flammability is the introduction of a nitrogen inerting system. Fleet embodiment is proposed by 2014 with half of individual operator fleets to be completed by 2011. Cost estimates available indicate that the modification is likely to be over \$200,000 for a narrowbody aircraft and over \$300,000 for a widebody aircraft. As the mandate will be an operational rule rather than an AD, the exposure of Airplanes Group to such costs will depend on the commitment specified in individual lease agreements.

In early 2004 Boeing discovered cracks at the lap joint areas on a number of B737-200/300/400/500 aircraft (“**B737 classic aircraft**”), which were caused by scribe marks from sharp instruments used in paint, sealant and de-cal removal. Scribe marking has also been found on B747, B757 and B767 aircraft. The FAA issued AD 2006-07-12 on March 31, 2006 mandating S/B 737-53A1262 which details an inspection program for scribe marks on B737 classic aircraft. S/B 737-53A1262 proposes a zonal inspection approach with inspections based on aircraft total cycles and cycles since first paint. This zonal approach will establish the time by which the inspections must be completed. The potential cost to Airplanes Group of implementing the requirements of the AD is dependent upon the extent of findings on individual aircraft.

The FAA issued NPRM FAA-2007-27560 on March 15, 2007. This NPRM addresses scribe marks on B757-200 aircraft of which Airplanes Group owns three. The NPRM is in line with the above described AD for the B737 classic aircraft and proposes an inspection programme described by Boeing SB 757-53A0092 Rev 1 dated January 2007. Similar to the B737 classic aircraft the implications for the B757-200 airframe are dependent on findings during the inspections.

The FAA has issued an AD affecting all Boeing 737 aircraft, mandating the installation of a new rudder power control unit and changes to adjacent systems in order to rectify an unsafe condition which has led to a jammed or restricted control of the rudder in the past. The manufacturer will supply most of the parts of engineering as this is a recognized design problem and the average cost per aircraft of the labor is expected to be approximately \$15,000 and is to be completed before November 2008. If the costs are not the responsibility of some or all lessees under their leases, or if the aircraft are not on lease, we could incur costs in ensuring that our Boeing 737 aircraft comply with these modifications, which could impact adversely our results of operations.

In September 2005, the FAA issued an NPRM (NPRM FAA-2005-22449-2) for an operational requirement for the installation of video surveillance systems. Compliance is likely to be required within two years from final rule publication. The estimated average cost is approximately \$20,000 to \$25,000 per aircraft. There may be further requirements in this area relating to transponder upgrades.

In April 2006 the FAA issued an NPRM (FAA-2006-24281) which would affect FAR Part 121 & 129 operators (i.e. US airlines and foreign airlines flying into the US). The purpose of this proposal is to introduce an aging aircraft program to address widespread fatigue damage (“WFD”) to aging airframes. The FAA proposes to establish operational life limits on airplanes. The proposal would prohibit operating an aircraft past this limit unless an extended operational limit and associated service information had been incorporated into the operator’s maintenance program and approved by the FAA. The servicer is currently assessing the impact of this on the Airplanes Group fleet although the main impact is likely to be the potential reduction in the value of older aircraft as they become more expensive to operate.

In April 2006 the FAA issued a Supplemental NPRM (FAA-1999-6482) to revise a 1999 proposal to increase the number of digital flight data recorder (DFDR) parameters required for all Boeing 737 series airplanes. This is to allow for monitoring and recording of the rudder system on these aircraft. The FAA estimated in the SNPRM that the cost to retrofit a Boeing 737 would vary between \$41,800 and \$221,950 per airplane, depending upon the 737 model, its FDR system equipment, and when it was installed.

The incurrence by Airplanes Group of any of the foregoing costs will further adversely impact our results of operations.

## **F. THE LESSEES**

As of March 31, 2007, 122 of our aircraft were on lease to 53 lessees in 34 countries throughout the world. See “Portfolio Information” above for the countries and regions where our lessees reside.

A number of our lessees are in a relatively weak financial position. As of March 31, 2007, amounts outstanding for a period greater than 30 days in respect of rental payments, maintenance reserves and other miscellaneous amounts due under the leases (net of amounts in respect of default interest and cash in transit) amounted to \$0.2 million in respect of 3 lessees (who leased a combined total of 12 aircraft representing 5.6% of our portfolio by appraised value as of January 31, 2007). Of the total \$0.2 million, \$0.1 million was in arrears for a period between 30 and 60 days and \$0.1 million was in arrears for a period greater than 90 days. Some of these lessees have consistently been significantly in arrears in their respective rental payments and some are known to be currently experiencing financial difficulties.

As of March 31, 2007, in addition to the \$0.2 million in respect of payments past due more than 30 days, we had agreed to allow two lessees to defer rent, maintenance and miscellaneous payments totaling \$7.9 million for periods ranging from three months for one lessee in respect of \$1.4 million and up to 20 months for one lessee in respect of \$6.5 million. Restructurings have typically involved delaying rental payments for certain periods and/or the reduction of current rentals usually in exchange for extensions of the relevant leases. In addition, some restructurings have involved forgiveness of amounts of past due rent, voluntary terminations of leases prior to lease expiration, the replacement of aircraft with less expensive aircraft and the arrangement of subleases from the lessee to another aircraft operator. In other cases, it has been necessary to repossess aircraft from lessees which have defaulted and re-lease the aircraft to other lessees. The servicer is still pursuing negotiations with some lessees and further restructurings could be agreed with a consequent adverse effect on operating revenues.

In addition to difficulties which have affected lessees in a given region, individual lessees have experienced periodic difficulties in meeting their maintenance obligations under the related leases. The difficulties have arisen from, among other things, the failure of the lessee to have in place a sufficiently well established maintenance program, adverse climate and other environmental conditions in the locations where the related aircraft is operated or financial and labor difficulties experienced by the relevant lessee. A continuous failure by a lessee to meet its maintenance obligations under the relevant lease could result in a grounding of the aircraft, cause us to incur substantial costs in restoring the aircraft to an acceptable maintenance condition before we can re-lease or sell it and adversely affect the value of the aircraft.

The following is a discussion of the lessees experiencing difficulty by region in which they are located.

## **EUROPE**

At March 31, 2007 we leased 37 aircraft representing 32.62% of our portfolio by appraised value at January 31, 2007 to operators in Europe. Europe continues to perform strongly and the low cost boom has continued with additional start-ups, but also a number of failures, showing competition is strong.

On November 2, 2005 one MD83 aircraft representing 0.6% of our portfolio by appraised value as at January 31, 2007 returned early from a Croatian lessee due to a failure to meet obligations. The servicer is monitoring the lessee's financial status to determine the most appropriate course of action regarding the lessee's obligations.

## **NORTH AMERICA**

At March 31, 2007 we leased 9 aircraft representing 9.54% of our portfolio by appraised value as of January 31, 2007 to operators in North America. The North American market continues to experience difficulties and Northwest Airlines remains under Chapter 11 bankruptcy protection although their latest reported earnings show a significant year on year improvement and they are expected to emerge from Chapter 11 protection in the near future. Delta exited Chapter 11 bankruptcy on April 30, 2007. The US market continues to suffer from over-capacity and low yields.

At March 31, 2007 one former Canadian lessee which had leased two aircraft representing 1.77% of our portfolio by appraised value as of January 31, 2007 was in arrears. During the year to March 31, 2005, the airline filed for protection under the Companies Creditors Arrangement Act (Canada). During the quarter to June 30, 2005 the lessee declared bankruptcy. The servicer has filed a claim against the bankrupt estate. Both aircraft have been delivered to a new lessee.

## **LATIN AMERICA**

At March 31, 2007, lessees of 41 aircraft with respect to 21.63% of our portfolio by appraised value as of January 31, 2007 operated in Latin America, principally Brazil, Mexico and Colombia. The prospects for lessee operations in these countries depend in part on the general level of political stability and economic activity and policies in those countries. Further developments in the political systems or economies of these countries or the implementation of future governmental policies in these countries may materially affect these lessees' operations.

Economic volatility may increase in these and other emerging markets which may cause further difficulties for our lessees. However, Latin American airlines recorded solid passenger growth in 2006.

Two related former Brazilian lessees of three MD-11 aircraft and three B737-500 aircraft were in arrears. The servicer, following discussions with the lessees agreed to the early return of the aircraft during 2003. The servicer signed a settlement agreement in 2004 in respect of both lessees' obligations. During the quarter ended June 30, 2005, the lessees filed for protection under new Brazilian bankruptcy laws. Following this, the servicer notified the airlines of an event of default under the settlement agreement and filed a claim for amounts outstanding with the bankruptcy court. Airplanes Group has agreed the sale of its claim to a third party which, if successfully closed will see it relinquish any future claims on these two former lessees.

At March 31, 2007 we leased eight F-100 aircraft representing 3.37% of our portfolio by appraised value as of January 31, 2007 to a Brazilian lessee. This lessee has previously signed a restructuring agreement, which provided for rental deferrals of 35% to 50% for the period to December 2002, with repayment at expiry of the current leases in 2007 and 2008. The lessee has to date continued to meet its obligations under the agreement.

At March 31, 2007, we leased 8 aircraft, representing 8.43% of our portfolio by appraised value at January 31, 2007 to two Colombian lessees. Continued weakness in the value of the Colombian Peso, as well as general deterioration in the Colombian economy, may mean that these lessees will be unable to generate sufficient revenues in the Colombian currency to pay the U.S. dollar denominated rental payments under the leases.

At March 31, 2007 we leased 3 aircraft representing 1.88% of our portfolio by appraised value at January 31, 2007 to an Argentinean lessee. The lessee has been experiencing financial difficulties, and as a result of delays in payment, we issued default notices, and terminated contracts to deliver a further three aircraft to this lessee during 2006. The lessee is currently up to date though continues to be monitored closely.

## **ASIA AND THE FAR EAST**

As at March 31, 2007, we leased 14 aircraft representing 13.48% of our portfolio by appraised value as of January 31, 2007 to 9 lessees in this region.

A decline in tourism in this area may adversely affect demand for aircraft in the region as occurred following the outbreak of SARS in 2003. The region is however currently experiencing strong growth in all air traffic levels.

## **AFRICA**

At March 31, 2007 we leased 4 aircraft representing 5.58% of our portfolio by appraised value at January 31, 2007 to 3 lessees in Africa.

## **OTHER**

At March 31, 2007, we also leased 16 aircraft representing 14.78% of our portfolio by appraised value as of January 31, 2007 to lessees in Ukraine and Russia.

## **G. COMMERCIAL OPPORTUNITIES FOR CERTAIN TYPES OF OUR AIRCRAFT**

Notwithstanding the improvements in the industry noted under “6B. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Background,” the market for some aircraft models (such as the DC8s, the MD80s and the B737-200A) is currently very weak and is expected to remain so. The price of aviation fuel remains high, and the resultant high costs of operation of older, less fuel efficient aircraft which comprise a majority of the aircraft in our portfolio, adversely affect the lease rates and values of such aircraft.

The board does not ordinarily approve a sale of an aircraft unless the servicer has concluded that the best economic option for that aircraft is a sale. In determining whether to approve any aircraft sale, the board reviews a written analysis from the servicer which, among other things, compares expected sales proceeds against the net present value of estimated cash flows from continued leasing including, inter alia, the estimated transition expenditures. The servicer’s overall objective in this analysis is to maximize the cash flow generation for the relevant aircraft.

Board approval of any sale is based on the recommendations of the servicer and the administrative agent. Aircraft sold since the 2003 consent solicitation have typically been older and predominantly stage 2 aircraft, including B737-200As, DC8s, one A300B4-200, and turboprop aircraft, all of which had little or no re-lease prospects. At March 31, 2007, our portfolio contained a total of 21 aircraft of these and other types for which re-leasing may not be economically viable.

We continue to evaluate sales opportunities for aircraft with little or no re-lease prospects and which require expenditure for storage, maintenance and insurance. In the year to March 31, 2007, we sold seven B737-200As, the airframe of one ATR-42 (the engines of which were sold during the year ended March 31, 2006) and seven DC8-71F aircraft. At March 31, 2007, one DC8-71F was subject to a letter of intent for sale and one DHC8-100 and one spare engine were off lease and available for sale. Since the 2003 consent solicitation we have sold 18 aircraft for an aggregate amount of \$104.6 million. For each of these aircraft there was either no leasing market or leasing was not economically viable.

## **3. LEGAL PROCEEDINGS**

Following the default by the Brazilian airline VASP under its leases, AerCap Ireland (formerly known as GPA Group) sought and obtained in November 1992 a preliminary injunction for repossession of 13 aircraft and three engines, and subsequently repossessed these aircraft and engines. Airplanes Group acquired seven of these aircraft from GPA Group in March 1996, three of which remain in our portfolio, representing 2.08% of our portfolio by appraised value as of January 31, 2007. In December 1996, the Sao Paulo Court of Justice, Brazil, found in favor of VASP on appeal and granted it the right to the return of the aircraft and engines or the right to seek damages against AerCap Ireland. AerCap Ireland challenged this decision and in January 2000, the Court of Justice granted a stay of the 1996 judgment while it considered AerCap Ireland’s rescission action. In April 2002, the High Court found in favour of AerCap Ireland’s rescission action and overturned the 1996 judgment in favour of VASP. VASP has actively pursued appeals to this decision and in June 2004, the Superior Court of Justice found in favour of VASP, granting VASP’s special appeal with the consequential dismissal of AerCap Ireland’s rescission action. AerCap Ireland has indicated that it will continue to actively pursue all available courses of action, including appeals and if necessary initiating a new rescission action. A risk of repossession would only arise if

VASP were successful on appeal in seeking repossession of the aircraft and the aircraft were located in Brazil. Brazilian counsel to AerCap Ireland believe that VASP may not commence repossession action as VASP has indicated that it may instead file a motion for damages suffered as a result of the repossession of the aircraft. AerCap Ireland cannot at this time quantify the amount of this potential damages claim. Although none of our lessees which lease any of the relevant aircraft is based in Brazil, some of them may operate those aircraft into Brazil from time to time.

#### 4. MARKET FOR AIRPLANES GROUP'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Airplanes Limited has an authorized share capital of 10,000 ordinary shares, with \$1 par value per share. 30 ordinary shares of Airplanes Limited have been issued and are outstanding. The ordinary shares of Airplanes Limited are not listed on any national exchange or traded in any established market. These shares are held by Juris Limited and Lively Limited, each a Jersey limited liability company, as bare nominees for the benefit of the following three "charitable trusts":

<u>Title of Class</u>	<u>Name and Address</u>	<u>Number of Shares</u>	<u>Percent of Class</u>
Common stock .....	Mourant & Co. Trustees Limited as trustee of Holdings Trust I, 22 Grenville Street, St. Helier, Jersey, Channel Islands	10 Shares	33 1/3%
Common stock .....	Mourant & Co. Trustees Limited as trustee of Holdings Trust II, 22 Grenville Street, St. Helier, Jersey, Channel Islands	10 Shares	33 1/3%
Common stock .....	Mourant & Co. Trustees Limited as trustee of Holdings Trust III, 22 Grenville Street, St. Helier, Jersey, Channel Islands	10 Shares	33 1/3%

Under its articles of association, Airplanes Limited pays an annual fixed cumulative preferential dividend of \$4,500 (the "annual dividend amount") to the holders of its capital stock, but only when it has distributable profits which may lawfully be paid as dividends and provided that no event of default has occurred and is continuing.

Mourant & Co. Trustees Limited, as trustee of each of the three charitable trusts, has agreed pursuant to a shareholders' agreement with Airplanes Limited and the indenture trustee not to transfer any part of the capital stock of Airplanes Limited without the prior written approval of the indenture trustee and all the directors of Airplanes Limited, unless the transferee is a trustee of a substantially identical charitable trust and enters into a substantially identical shareholders' agreement.

#### 5. SELECTED COMBINED FINANCIAL DATA

The selected combined financial data set out below for each of the years in the five year period ended March 31, 2007 have been extracted or derived from the financial statements of Airplanes Group, which have been audited by KPMG, independent chartered accountants. These financial statements have been prepared in accordance with generally accepted accounting principles in the United States.

The selected combined financial data set forth below combine the operating results, assets, liabilities and cashflows of Airplanes Limited and Airplanes Trust. The separate balance sheets, statements of operations, statements of comprehensive income/(loss), statements of changes in shareholders' deficit/net liabilities and statements of cashflows, and notes thereto, of Airplanes Limited and Airplanes Trust are contained in the financial statements included in Exhibit 1. The directors of Airplanes Limited and the controlling trustees of Airplanes Trust believe that a combined presentation is most appropriate because:

- the assets of Airplanes Limited and Airplanes Trust are managed on the basis of one combined aircraft fleet, and

- each of Airplanes Limited and Airplanes Trust has fully and unconditionally guaranteed the performance of the other under their respective notes.

You should note that the notes and the guarantees comprise obligations of two different legal entities owning different assets. However, the notes and guarantees have been structured in the indentures to ensure that no payments are made on a junior class of notes or guarantees of Airplanes Trust before all amounts due and payable on a more senior class of notes or guarantees of Airplanes Limited have been paid, and no payments are made on a junior class of notes or guarantees of Airplanes Limited before all amounts due and payable on a more senior class of notes or guarantees of Airplanes Trust have been paid.

Aircraft assets are stated on the “predecessor cost basis,” that is, reflecting AerCap Ireland’s historical cost less accumulated depreciation and impairment provisions. The difference between the predecessor cost basis and the amount of Airplanes Group’s indebtedness is a significant component of total shareholders’ deficit in the combined balance sheet data.

#### COMBINED STATEMENT OF OPERATIONS DATA(1)

	Fiscal Year Ended March 31,				
	2003	2004	2005	2006	2007
	(In Millions)				
<b>Revenues(2)</b>					
Aircraft leasing .....	\$ 292	\$ 210	\$ 182	\$ 171	\$ 161
Aircraft sales .....	14	3	63	17	20
Other income.....	—	—	8	4	—
<b>Expenses</b>					
Cost of aircraft sold .....	(15)	(1)	(31)	(7)	(6)
Depreciation.....	(140)	(116)	(83)	(81)	(78)
Impairment charge .....	(76)	(373)	(47)	—	(39)
Net interest expense(3) .....	(725)	(854)	(1,064)	(1,373)	(1,787)
Bad and doubtful debts .....	(6)	5	5	(3)	—
Other lease costs .....	(11)	(25)	(7)	(20)	5
Selling general and administrative expenses.....	(33)	(37)	(33)	(31)	(29)
Tax (charge)/benefit.....	8	17	(3)	—	1
Net loss.....	<u>\$ (692)</u>	<u>\$ (1,171)</u>	<u>\$ (1,010)</u>	<u>\$ (1,323)</u>	<u>\$ (1,752)</u>

#### COMBINED BALANCE SHEET DATA(1)

	As of March 31,				
	2003	2004	2005	2006	2007
	(In Millions)				
Aircraft, net, and net investment in capital and sales-					
type leases .....	\$ 2,058	\$ 1,558	\$ 1,342	\$ 1,236	\$ 1,096
Total assets .....	2,275	1,710	1,486	1,393	1,260
Indebtedness(3).....	(3,209)	(3,103)	(2,922)	(2,815)	(2,710)
Provision for maintenance .....	(275)	(287)	(264)	(275)	(260)
Total liabilities .....	(5,769)	(6,348)	(7,083)	(8,294)	(9,922)
Net liabilities.....	(3,494)	(4,638)	(5,597)	(6,901)	(8,662)

#### COMBINED STATEMENT OF CASHFLOW DATA(1)

	Fiscal Year Ended March 31,				
	2003	2004	2005	2006	2007
	(In Millions)				
Cash paid in respect of interest(3) .....	\$ 179	\$ 127	\$ 62	\$ 60	\$ 61
Net cash provided by operating activities					
(after payment of interest).....	107	50	185	107	105
Net cash used in financing activities .....	(108)	(108)	(182)	(109)	(106)
Net increase/(decrease) in cash.....	<u>\$ (1)</u>	<u>\$ (58)</u>	<u>\$ (3)</u>	<u>\$ (2)</u>	<u>\$ (1)</u>

## OTHER DATA(1)

	Fiscal Year Ended March 31,				
	2003	2004	2005	2006	2007
	(In Millions)				
Deficiency of combined earnings after combined fixed charges(4).....	\$ (700)	\$ (1,188)	\$ (1,007)	\$ (1,323)	\$ (1,753)

- (1) The financial statements of Airplanes Group are stated in U.S. dollars which is the principal operating currency of Airplanes Group and the aviation industry.
- (2) Revenues exclude maintenance reserve receipts. See Note 13 to the financial statements.
- (3) Net interest expense is significantly higher than cash paid in respect of interest in all periods reflecting the high interest rate accruing on the class E notes (20% adjusted for inflation) relative to the lower amount of cash interest payable on the class E notes for so long as the other classes of notes remain outstanding. Net interest expense is stated after crediting interest income of \$3 million in 2003, \$2 million in 2004, \$2 million in 2005, \$3 million in 2006 and \$5 million in 2007.
- (4) Deficiency of combined earnings after combined fixed charges represents the amount by which Airplanes Group's loss before income taxes and fixed charges exceeded fixed charges. Fixed charges consist of interest expense. Because our fixed charges exceeded earnings for all periods presented, a ratio of earnings to fixed charges is not presented.

## 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### A. INTRODUCTION

The following discussion and analysis is based primarily on the combined operating results of Airplanes Limited and Airplanes Trust and not on their results reported as individual entities. You should note that the notes and the guarantees comprise obligations of two different legal entities owning different assets. The directors and the controlling trustees believe that a combined discussion is the most appropriate basis of presentation because:

- Airplanes Limited and Airplanes Trust are not intended to be regarded as separate businesses but rather on the basis of one combined aircraft fleet, and
- each of Airplanes Limited and Airplanes Trust has fully and unconditionally guaranteed the performance of the other under their respective notes.

The notes and guarantees have been structured in the indentures to ensure that no payments are made on a junior class of notes of Airplanes Trust or Airplanes Limited, as the case may be, before all amounts due and payable on a more senior class of notes of Airplanes Limited or Airplanes Trust, respectively, have been paid pursuant to the terms of the more senior classes of notes or the guarantees of these notes.

Substantially all of Airplanes Group's future business is expected to consist of aircraft operating lease activities and sales. Airplanes Group's revenues and operating cashflows are determined by a number of significant factors, including:

- trading conditions in the civil aviation industry and, in particular, the market for aircraft on operating leases,
- the mix, relative age and popularity of the various aircraft types in our portfolio, and
- Airplanes Group's financial resources and liquidity position relative to its competitors who may possess substantially greater financial resources.

Except to the extent that the strength of the U.S. dollar against some local currencies may adversely affect the ability of some of our lessees who operate in those currencies to pay us, the effect of changes in currency rates on Airplanes Group is minimal because Airplanes Group conducts its business almost entirely in U.S. dollars.

## **B. BACKGROUND**

### ***Industry Overview***

According to IATA, the outlook for the aviation industry is currently positive, with many airlines reporting robust increases in revenues on the back of continued traffic growth and increasing yields. Since 2004, after several difficult years, there have been steady increases in global demand levels which are helping to absorb the more attractive parked aircraft and reduce downtime for aircraft coming off lease, which in turn has resulted in increased rates of production of new aircraft. The lack of availability for new built aircraft has lifted rentals for younger models and some niche types are enjoying a renewal of interest. Despite the improvements, the market remains vulnerable to external events such as oil price volatility, terrorist attacks and health epidemics. In light of the strengthened market, our lease rates have improved for some of the aircraft types in our portfolio and our aircraft downtime has generally lessened as a result of stronger demand. However, as most aircraft types within our fleet are out of production and many are less attractive types, the benefit to our fleet is limited, and the rates we are able to achieve on new leases have been lower, and in many cases significantly lower, than lease rates assumed in the 2001 Base Case. Although we are seeing some improvement in lease rates for certain aircraft types when compared to the rates which we obtained in recent years, this improvement has not made, nor do we expect it to make a significant difference to our cashflow.

### ***Aircraft Appraised Values***

There has been a decline of 12.94% in the appraised value of our fleet in the year to January 31, 2007, which is \$25.8 million greater than the decline assumed in our 2001 Base Case assumptions. The appraised values are based upon the value of the aircraft at normal utilization rates in an open, unrestricted and stable market, and take into account long-term trends, including current expectations of particular models becoming obsolete more quickly, as a result of airlines switching to different models, or lease values for aircraft declining more rapidly than previous predictions. Notwithstanding the significant decline in appraised values, the appraised value of each of our aircraft is still higher and, in some cases, significantly higher than what we understand to be its likely market value. Therefore, as a theoretical value, the appraised value should not be viewed as indicative of market value and thus there is no guarantee that we would obtain the appraised value upon sale of any aircraft. As discussed in “IC. Introduction — Risk Factors — Risks Relating to Payment on the Notes and Certificates”, decreases in appraised values have previously resulted in the requirement to pay class A principal adjustment amount to the extent of available cashflows. Due to industry conditions over the past several years, the majority of our aircraft are highly likely to become obsolete earlier than the useful life expectancies assumed in the 2001 Base Case assumptions, which would negatively impact appraised values further. Since we are no longer able to pay class A principal adjustment amount and since, as a result of our 2003 consent solicitation, we are no longer required to sell our aircraft at or above a specified target price, the appraised values of our aircraft are now of little significance, except as a basis for providing statistical information on the portfolio and for complying with certain technical provisions in the indentures.

### ***Performance***

We have been unable to meet all of the 1996 Base Case assumptions or the 2001 Base Case assumptions. In light of lease restructurings and a weakened leasing market for us since then, we are generating revenues at significantly lower levels than we had assumed and at levels which have been inadequate to pay minimum principal on the class A notes in full, or to pay any interest or minimum principal on the class B notes or any interest on the class C and class D notes since the December 15, 2003 payment date. Even though, as a result of the 2003 consent solicitation, we are now able to sell aircraft which we may not have been able to sell previously, such sales in the current market are difficult to achieve and where sales have been completed, the sales proceeds have not made a significant difference to our cashflow. On each payment date, we are currently only paying in full our administrative and lease expenses and certain other payments in the ordinary course of business, interest on the class A notes and swap payments, and the “First Collection Account Top-Up”. We use any remaining cashflows towards payment of minimum principal on the class A notes which at May 15, 2007 was \$611.9 million in arrears. We do not anticipate that we will ever be able to resume making payments of interest or principal on the class B, C and D notes. For a detailed background, see “IC. Introduction - Risk Factors — Risks Relating to Payments on the Notes and Certificates — Our reduced cashflows mean that we are unable to make payments on junior notes and certificates.”

### ***Remedies***

As discussed in IC above, notwithstanding the default in payment of interest on the class B, C and D notes, the holders of those notes (and thus, the corresponding certificates) are not permitted to enforce their rights until all amounts owing under any more senior

class of notes outstanding and certain other amounts have been paid in full. The class A notes are the most senior class of notes currently outstanding.

**Ratings**

Set out in the table in “1C. Introduction - Risk Factors — Risks relating to payment on the Notes and Certificates — Ratings” are the ratings of our certificates at May 30, 2007.

**Remarketing**

At March 31, 2007, we had 30 aircraft scheduled to be remarketed before December 31, 2007. These comprise 1 A320-200, 1 B737-200A, 2 B737-500s, 4 DHC8s, 2 DC8s, 2 B737-300s, 6 B737-400s, 1 B767-200ER, 6 F-100s, 2 MD83s, 1 MD87 and 2 ATR42-300s. As a result of the preference for newer, more technologically advanced aircraft in the market place and the factors discussed above, we will experience difficulties in placing certain of these aircraft, particularly the older less fuel efficient models such as the DC8s, B737-200As and MD80s.

Furthermore, in light of the financial condition of certain lessees, it is likely that we will also experience redeliveries of aircraft prior to their contractual lease expiries, resulting in additional remarketing obligations. Aircraft returned early are unlikely to meet return conditions under the related lease, so we may also be required to incur significant redelivery costs. To the extent that we suffer significant delays in placing these aircraft, we will incur substantial downtime. In addition new lease rates are also likely to be lower, and in some cases materially lower, than both the lease rates assumed in the 2001 Base Case and lease rates which have been in force for leases entered into more than five years ago.

With respect to each of our aircraft identified as a sale opportunity, we will apply the methodology described above under “2G. The Aircraft, Related Leases and Collateral—Commercial Opportunities for Certain Types of Our Aircraft” on a case by case basis to determine whether sale of the aircraft may be in the best interests of Airplanes Group and the noteholders.

**Critical Accounting Policies**

Airplanes Group determines the critical policies by considering accounting policies that involve the most subjective decisions or assessments. The most critical accounting policies are those related to depreciation methods and impairment of aircraft values, since both of these involve elements which require Airplanes Group to make assumptions as to matters that are highly uncertain at the time the estimates are made.

**Depreciation:**

Aircraft are recorded at cost and depreciated on a straight line basis over the estimated life to their estimated residual value. The determinations of useful life and residual value are critical to the calculation of depreciation. The estimates of residual values are generally 15% of cost, and the useful lives are as follows:

	<u>Years</u>	<u>From</u>
Stage 2 aircraft .....	20–25	Manufacture date
Refurbished and upgraded aircraft — converted to freighters.....	20	Conversion date
Turboprop aircraft .....	22.5	Manufacture date
All other aircraft .....	25	Manufacture date

The estimates of useful lives and residual values are reviewed at least annually.

**Impairment:**

Aircraft are periodically reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long Lived Assets” (“SFAS 144”). An impairment review is required whenever events or changes in circumstances indicate that the asset’s carrying amount may not be recoverable. An impairment loss is evaluated when the undiscounted estimated future cashflows of the aircraft are less than its carrying value, and the loss is measured as the excess of the carrying value over the fair value.

The fair value of the aircraft is generally based on independent appraisals of aircraft. These appraisals are determined based on the assumption that there is an “open, unrestricted stable market environment with a reasonable balance of supply and demand”. In assessing fair value, consideration is also given to other available information, including past experience, actual lease rates, sales prices achievable in the current market, the servicer’s experience in the market and estimated discounted cash flows. Where the other available information indicates a lower value for an aircraft than its appraised value, such information is evaluated in detail in making the determination of the fair value for that aircraft. In some instances, discounted cash flows may be used as a more accurate indication of fair value. The estimated discounted future cashflows assume, among other things, market lease rates at the end of the existing lease term, other lease costs, downtime and the risk inherent in the cashflows.

**C. RESULTS OF OPERATIONS — YEAR ENDED MARCH 31, 2007 COMPARED WITH YEAR ENDED MARCH 31, 2006**

Details of Airplanes Group’s results are set out below:

	2006	2007	%
	(\$ Millions)		Change
<b>Revenues</b>			
Aircraft leasing.....	171	161	(5.8)
Other income.....	4	—	(100.0)
Aircraft sales .....	17	20	17.6
<b>Expenses</b>			
Depreciation.....	(81)	(78)	3.7
Cost of aircraft sold.....	(7)	(6)	14.3
Impairment charge .....	—	(39)	—
Net interest expense .....	(1,373)	(1,787)	(30.2)
Bad and doubtful debts .....	(3)	—	—
Other lease costs .....	(20)	6	—
Selling general and administrative expenses.....	(31)	(29)	6.5
Tax benefit/(expense).....	—	—	—
<b>Net loss .....</b>	<b>(1,323)</b>	<b>(1,752)</b>	<b>(32.4)</b>

Airplanes Group’s results for the year ended March 31, 2007 reflected a continuation of the difficult trading conditions for Airplanes Group, notwithstanding evidence of improvement for the aviation industry as a whole. Unsatisfactory market conditions, particularly for older, less attractive aircraft such as our MD-80 aircraft gave rise to a requirement for impairment charges in the year ended March 31, 2007 of \$39 million (2006: no requirement for impairment charge). We have sold aircraft for which there were little or no re-lease prospects but at prices which have not made a significant difference to our cashflow. These factors will continue to have a significant adverse impact in future periods, although various factors, including the timing of receipts and expenditures and non-recurring items, can result in short-term swings in any particular reporting period.

Airplanes Group generated \$105 million in cash from operations in the year ended March 31, 2007, compared to \$107 million in the year ended March 31, 2006. The decrease in cash generated from operations is primarily attributable to a reduction in lease revenues as a result of aircraft sales in previous periods, an increase in interest paid as a result of increased LIBOR rates, and a decrease in maintenance receipts, partially offset by increased aircraft sales and reduced selling, general and administrative costs, again as a result of aircraft sales in previous periods. There were 15 aircraft sales in the year ended March 31, 2007, compared to the year ended March 31, 2006, when there were six sales and one conditional sale. There was a net loss for the year ended March 31, 2007 of \$1,752 million (Airplanes Limited: \$1,606 million; Airplanes Trust: \$146 million) compared to a net loss for the year ended March 31, 2006 of \$1,323 million (Airplanes Limited: \$1,199 million; Airplanes Trust: \$124 million). Excluding accrued but unpaid class E note interest, the increase in the net loss for the period of \$47 million was primarily attributable to a reduction in revenue due primarily to reduced rentals as a result of aircraft sales in previous periods, and an increased aircraft impairment charge of \$39 million (Airplanes Limited: \$39 million; Airplanes Trust: \$nil) in the year ended March 31, 2007 as compared to no impairment charge in the year ended March 31, 2006.

## **LEASING REVENUES**

Leasing revenues for the year ended March 31, 2007 were \$161 million (Airplanes Limited: \$156 million; Airplanes Trust: \$5 million), compared with \$171 million (Airplanes Limited: \$164 million; Airplanes Trust: \$7 million) for the year ended March 31, 2006. The decrease was primarily attributable to the number of aircraft off-lease and to the reduction in the number of aircraft on lease as a consequence of aircraft sales in previous periods. At March 31, 2007, we had 122 of our 127 aircraft on lease (Airplanes Limited: 119 aircraft; Airplanes Trust: 3 aircraft), compared to 138 of our 142 aircraft on lease (Airplanes Limited: 129 aircraft; Airplanes Trust: 9 aircraft) at March 31, 2006.

## **OTHER INCOME**

During the year ended March 31, 2007, Airplanes Group received no income from agreements signed with lessees following their emergence from bankruptcy protection, as compared to \$4 million (Airplanes Limited: \$4 million; Airplanes Trust: \$nil) during the year ended March 31, 2006.

## **IMPAIRMENT CHARGES**

Aircraft carrying values are periodically assessed for impairment in accordance with SFAS 144. An impairment review is required whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The statement requires an assessment for impairment when an asset's carrying value is greater than its estimated undiscounted future cashflows. Impairments are measured by the excess of carrying value over fair value. Following consideration of the independent appraisers' values and estimated future cashflows from rental or sales proceeds to be generated by our aircraft, an SFAS 144 assessment resulted in a requirement for an impairment charge of \$39 million (Airplanes Limited: \$39 million; Airplanes Trust: \$nil) in the year ended March 31, 2007 as compared with no impairment charge for the year ended March 31, 2006.

## **DEPRECIATION**

The charge for depreciation in the year ended March 31, 2007 amounted to \$78 million (Airplanes Limited: \$75 million; Airplanes Trust: \$3 million) as compared with \$81 million (Airplanes Limited: \$78 million; Airplanes Trust: \$3 million) for the year ended March 31, 2006. The reduction in the charge resulted primarily from the reduced depreciable value of the fleet following aircraft sales in previous periods.

## **AIRCRAFT SALES**

Sales proceeds of \$20 million (Airplanes Limited: \$5 million; Airplanes Trust: \$15 million) in respect of the sale of seven B737-200A aircraft, seven DC8-71F aircraft, and the airframe for one ATR-42 aircraft, were received in the year ended March 31, 2007. The net book value of the aircraft sold was \$23 million (Airplanes Limited: \$7 million; Airplanes Trust: \$16 million). In the year ended March 31, 2006, sales proceeds of \$17 million (Airplanes Limited: \$17 million; Airplanes Trust: nil) in respect of the sale of three DC8-71F aircraft, one DHC8-300C aircraft, one B737-200A aircraft, one B747-200SF aircraft, and two engines for one ATR-42 aircraft were received. The net book value of the aircraft sold was \$30 million (Airplanes Limited: \$30 million; Airplanes Trust: \$nil).

## **NET INTEREST EXPENSE**

Net interest expense was \$1,787 million (Airplanes Limited: \$1,627 million; Airplanes Trust: \$160 million), of which \$173 million related to interest on the class A to D notes and interest rate swap payments and \$1,614 million related to interest on the class E notes, in the year ended March 31, 2007 compared to \$1,373 million (Airplanes Limited: \$1,251 million; Airplanes Trust: \$122 million), of which \$158 million related to interest on the class A to D notes and interest rate swap payments and \$1,215 million related to interest on the class E notes, in the year ended March 31, 2006. The increase in the amount of interest charged was primarily due to interest on accrued but unpaid class E note interest of \$399 million and a higher average interest rate, partially offset by lower average debt in the year ended March 31, 2007.

The weighted average interest rate on the class A to D notes (taking into account the interest rate swaps entered into by Airplanes Group but excluding the class E supplemental interest amount and the remainder of the class E adjusted interest) during the year ended March 31, 2007 was 6.67% and the average debt in respect of the class A to D notes outstanding during the period was \$2,188 million. The class E notes together with the accrued but unpaid class E note interest, accrue interest at a rate of 20% per annum, as adjusted (by reference to the U.S. consumer price index, effective March 28, 1996) to the current level of 29.52%.

The weighted average interest rate on the class A to D notes (on the same basis as above) during the year to March 31, 2006 was 6.21% and the average debt in respect of the class A to D notes outstanding during the period was \$2,276 million.

The difference for the year ended March 31, 2007 between Airplanes Group's net interest expense of \$1,787 million (Airplanes Limited: \$1,627 million; Airplanes Trust: \$160 million) and cash paid in respect of interest of \$61 million (Airplanes Limited: \$57 million; Airplanes Trust: \$4 million) is substantially accounted for by the fact that interest on the class E notes is accrued but unpaid, and interest on the class B, C and D notes is now also being accrued and not paid.

Net interest expense is stated after deducting interest income earned during the relevant period. In the year ended March 31, 2007, Airplanes Group earned interest income (including lessee default interest) of \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$nil), compared with \$3 million in the year ended March 31, 2006 (Airplanes Limited: \$3 million; Airplanes Trust: \$nil).

## **BAD DEBT PROVISIONS**

Airplanes Group's practice is to provide specifically for any amounts due but unpaid by lessees based primarily on the amount due in excess of security held and also taking into account the financial strength and condition of a lessee and the economic conditions existing in the lessee's operating environment. While a number of Airplanes Group's lessees failed to meet their contractual obligations in the year ended March 31, 2007, resulting in the requirement for additional provisions in respect of bad and doubtful debts in respect of these lessees, the credit exposure with regard to certain other carriers improved in the period. Overall, there was no net change in the provisions in respect of bad and doubtful debts in the year ended March 31, 2007, compared with an overall net increase in provisions of \$3 million for the year ended March 31, 2006 (Airplanes Limited: \$3 million; Airplanes Trust: \$nil).

## **OTHER LEASE COSTS**

Other lease costs, comprising mainly aircraft related technical expenditure associated with remarketing the aircraft, in the year ended March 31, 2007 amounted to \$(6) million (Airplanes Limited: \$(3) million; Airplanes Trust: \$(3) million), compared with other lease costs of \$20 million (Airplanes Limited: \$15 million; Airplanes Trust: \$5 million) in the year ended March 31, 2006.

## **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses for the year ended March 31, 2007 amounted to \$29 million (Airplanes Limited: \$28 million; Airplanes Trust: \$1 million) as compared to the year ended March 31, 2006 of \$31 million (Airplanes Limited: \$30 million; Airplanes Trust: \$1 million).

The most significant element of selling, general and administrative expenses is the aircraft servicing fees paid to GECAS as servicer. Substantially all of these amounts represent asset-based fees calculated as an annual percentage of agreed values of aircraft under management pursuant to a servicing agreement. Selling, general and administrative expenses in the year ended March 31, 2007 include \$20 million (Airplanes Limited: \$19 million; Airplanes Trust: \$1 million) related to servicing fees, as compared with \$21 million (Airplanes Limited: \$20 million; Airplanes Trust: \$1 million) in the year ended March 31, 2006.

A further significant element of Airplanes Group's actual selling, general and administrative expenses reported in the year ended March 31, 2007 was \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$nil) in respect of administrative agency and cash management fees payable to subsidiaries of AerCap Ireland, as compared with the charge of \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$nil) for the year ended March 31, 2006.

## **OPERATING LOSS**

The operating loss for the year ended March 31, 2007 was \$1,752 million (Airplanes Limited: \$1,606 million; Airplanes Trust: \$146 million), compared with an operating loss on continuing operations of \$1,323 million for the year ended March 31, 2006 (Airplanes Limited: \$1,199 million; Airplanes Trust: \$124 million). Airplanes Limited and Airplanes Trust are expected to continue to report substantial losses in the future.

## **TAXES**

There was a tax charge of \$nil (Airplanes Limited: \$nil; Airplanes Trust: \$nil) in the year ended March 31, 2007, as compared with a tax charge of \$nil (Airplanes Limited: \$nil; Airplanes Trust: \$nil) for the year ended March 31, 2006.

## **NET LOSS**

The net loss after taxation for the year ended March 31, 2007 was \$1,752 million (Airplanes Limited: \$1,606 million; Airplanes Trust: \$146 million), compared with a net loss after taxation on continuing operations for the year ended March 31, 2006 of \$1,323 million (Airplanes Limited: \$1,199 million; Airplanes Trust: \$124 million).

## D. RESULTS OF OPERATIONS — YEAR ENDED MARCH 31, 2006 COMPARED WITH YEAR ENDED MARCH 31, 2005

Details of Airplanes Group's results are set out below:

	2005	2006	%
	(\$ Millions)		Change
<b>Revenues</b>			
Aircraft leasing.....	182	171	(6)
Other income.....	8	4	(50.0)
Aircraft sales.....	63	17	(73.0)
<b>Expenses</b>			
Depreciation.....	(83)	(81)	2.4
Cost of aircraft sold.....	(31)	(7)	77.4
Impairment charge.....	(47)	—	—
Net interest expense.....	(1,064)	(1,373)	(29.0)
Bad and doubtful debts.....	5	(3)	(160.0)
Other lease costs.....	(7)	(20)	(185.7)
Selling general and administrative expenses.....	(33)	(31)	6.1
Tax benefit/(expense).....	(3)	—	—
<b>Net loss</b> .....	<u>(1,010)</u>	<u>(1,323)</u>	<u>31.0</u>

Airplanes Group's results for the year ended March 31, 2006 reflected a continuation of the difficult trading conditions for the aviation industry. Slightly improved trading conditions gave rise to no requirement for impairment charges in the year ended March 31, 2006 (2005: impairment charge of \$47 million required). We have sold aircraft for which there were little or no re-lease prospects but at prices which have not made a significant difference to our cashflow. These factors will continue to have a significant adverse impact in future periods, although various factors, including the timing of receipts and expenditures and non-recurring items, can result in short-term swings in any particular reporting period.

Airplanes Group generated \$107 million in cash from operations in the year ended March 31, 2006, compared to \$185 million in the year ended March 31, 2005. The decrease in cash generated from operations is primarily attributable to aircraft sales, a decrease in maintenance receipts due to lease-end adjustments, an increase in re-lease costs due to increased leasing activity, a reduction in lease revenues caused by new leases at lower rates and reduced rentals as a result of aircraft sales in previous periods, offset by less aircraft downtime and a reduction in interest paid. There were six aircraft sales (and one conditional sale under a finance lease) in the year ended March 31, 2006, compared to the year ended March 31, 2005, when there were twenty-one sales. There was a net loss for the year ended March 31, 2006 of \$1,323 million (Airplanes Limited: \$1,199 million; Airplanes Trust: \$124 million) compared to a net loss for the year ended March 31, 2005 of \$1,010 million (Airplanes Limited: \$908 million; Airplanes Trust: \$102 million). Excluding accrued but unpaid class E note interest, the increase in the net loss for the period of \$15 million was primarily attributable to a reduction in revenue due primarily to reduced rentals as a result of aircraft sales in previous periods partially offset by a reduced aircraft impairment charge of nil in the year ended March 31, 2006 as compared to \$47 million (Airplanes Limited: \$37 million and Airplanes Trust: \$10 million) in the year ended March 31, 2005.

### LEASING REVENUES

Leasing revenues for the year ended March 31, 2006 were \$171 million (Airplanes Limited: \$164 million; Airplanes Trust: \$7 million), compared with \$182 million (Airplanes Limited: \$174 million; Airplanes Trust: \$8 million) for the year ended March 31, 2005. The decrease was primarily attributable to a number of lease restructurings, including rental reductions, the number of aircraft off-lease and to the reduction in the number of aircraft on lease as a consequence of aircraft sales in previous periods. At March 31, 2006, we had 138 of our 142 aircraft on lease (Airplanes Limited: 129 aircraft; Airplanes Trust: 9 aircraft), compared to 139 of our 149 aircraft on lease (Airplanes Limited: 129 aircraft; Airplanes Trust: 10 aircraft) at March 31, 2005.

### OTHER INCOME

During the year ended March 31, 2006, Airplanes Group received \$4 million (Airplanes Limited: \$4 million; Airplanes Trust: \$nil) under agreements signed with three lessees, following their emergence from bankruptcy protection. During the year ended

March 31, 2006 one of these lessees from whom we received \$3.4 million during the year ended March 31, 2006 filed again for bankruptcy protection and since then, no further settlement cash has been received.

## **IMPAIRMENT CHARGES**

Aircraft carrying values are periodically assessed for impairment in accordance with SFAS 144. An impairment review is required whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The statement requires an assessment for impairment when an asset's carrying value is greater than its estimated undiscounted future cashflows. Impairments are measured by the excess of carrying value over fair value. Following consideration of the independent appraisers' values and estimated future cashflows from rental or sales proceeds to be generated by our aircraft, an SFAS 144 assessment resulted in no requirement for an impairment charge in the year ended March 31, 2006 as compared with \$47 million (Airplanes Limited: \$37 million; Airplanes Trust: \$10 million) for the year ended March 31, 2005.

## **DEPRECIATION**

The charge for depreciation in the year ended March 31, 2006 amounted to \$81 million (Airplanes Limited: \$78 million; Airplanes Trust: \$3 million) as compared with \$83 million (Airplanes Limited: \$79 million; Airplanes Trust: \$4 million) for the year ended March 31, 2005. The reduction in the charge resulted primarily from the reduced depreciable value of the fleet following the impairment provisions made in the year ended March 31, 2005 and, to a lesser extent, aircraft sales in previous periods.

## **AIRCRAFT SALES**

Sales proceeds of \$17 million (Airplanes Limited: \$17 million; Airplanes Trust: \$nil) in respect of the sale of three DC8-71F aircraft, one DHC8-300C aircraft, one B737-200A aircraft, one B747-200SF aircraft, and two engines for one ATR-42 aircraft, were received in the year ended March 31, 2006. The net book value of the aircraft sold was \$30 million (Airplanes Limited: \$30 million; Airplanes Trust: \$nil). In the year ended March 31, 2005, sales proceeds of \$63 million (Airplanes Limited: \$58 million; Airplanes Trust: \$5 million) in respect of the sale of three MD11 aircraft, five DC9-32 aircraft, five DC8-71F aircraft, three MD83 aircraft, one DHC8-100 aircraft, one DHC8-300C aircraft, one B737-200A aircraft, one A300B4-200 aircraft and one A300C4-200 aircraft were received. The net book value of the aircraft sold was \$31 million (Airplanes Limited: \$29 million; Airplanes Trust: \$2 million).

## **NET INTEREST EXPENSE**

Net interest expense was \$1,373 million (Airplanes Limited: \$1,251 million; Airplanes Trust: \$122 million), of which \$158 million related to interest on the class A to D notes and interest rate swaps and \$1,215 million related to interest on the class E notes, in the year ended March 31, 2006 compared to \$1,064 million (Airplanes Limited: \$969 million; Airplanes Trust: \$95 million), of which \$147 million related to interest on the class A to D notes and interest rate swaps and \$917 million related to interest on the class E notes, in the year ended March 31, 2005. The increase in the amount of interest charged was primarily due to interest on accrued but unpaid class E note interest of \$298 million, partially offset by lower average debt in the year ended March 31, 2006.

The weighted average interest rate on the class A to D notes (taking into account the interest rate swaps entered into by Airplanes Group but excluding the class E supplemental interest amount and the remainder of the class E adjusted interest) during the year ended March 31, 2006 was 6.21% and the average debt in respect of the class A to D notes outstanding during the period was \$2,276 million. The class E notes together with the accrued but unpaid class E note interest, accrue interest at a rate of 20% per annum, as adjusted (by reference to the U.S. consumer price index, effective March 28, 1996) to the current level of 28.58%.

The weighted average interest rate on the class A to D notes (on the same basis as above) during the year to March 31, 2005 was 5.70% and the average debt in respect of the class A to D notes outstanding during the period was \$2,433 million.

The difference for the year ended March 31, 2006 between Airplanes Group's net interest expense of \$1,373 million (Airplanes Limited: \$1,251 million; Airplanes Trust: \$122 million) and cash paid in respect of interest of \$60 million (Airplanes Limited: \$56 million; Airplanes Trust: \$4 million) is substantially accounted for by the fact that interest on the class E notes is accrued but unpaid, and interest on the class B, C and D notes is now also being accrued and not paid.

Net interest expense is stated after deducting interest income earned during the relevant period. In the year ended March 31, 2006, Airplanes Group earned interest income (including lessee default interest) of \$3 million (Airplanes Limited: \$3 million; Airplanes Trust: \$nil), compared with \$2 million in the year ended March 31, 2005 (Airplanes Limited: \$2 million; Airplanes Trust: \$nil).

## **BAD DEBT PROVISIONS**

Airplanes Group's practice is to provide specifically for any amounts due but unpaid by lessees based primarily on the amount due in excess of security held and also taking into account the financial strength and condition of a lessee and the economic conditions existing in the lessee's operating environment. While a number of Airplanes Group's lessees failed to meet their contractual obligations in the year ended March 31, 2006, resulting in the requirement for additional provisions in respect of bad and doubtful debts in respect of these lessees, the credit exposure with regard to certain other carriers improved in the period. Overall, there was a net increase of provisions in respect of bad and doubtful debts in the year ended March 31, 2005 of \$3 million (Airplanes Limited: \$3 million; Airplanes Trust: \$nil), compared with an overall net release of provisions of \$5 million for the year ended March 31, 2005 (Airplanes Limited: \$5 million; Airplanes Trust: \$nil).

## **OTHER LEASE COSTS**

Other lease costs, comprising mainly aircraft related technical expenditure associated with remarketing the aircraft, in the year ended March 31, 2006 amounted to \$20 million (Airplanes Limited: \$15 million; Airplanes Trust: \$5 million), compared with other lease costs of \$7 million (Airplanes Limited: \$7 million; Airplanes Trust: \$nil) in the year ended March 31, 2005.

## **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses for the year ended March 31, 2006 amounted to \$31 million (Airplanes Limited: \$30 million; Airplanes Trust: \$1 million) as compared to the year ended March 31, 2005 of \$33 million (Airplanes Limited: \$32 million; Airplanes Trust: \$1 million).

The most significant element of selling, general and administrative expenses is the aircraft servicing fees paid to GECAS as servicer. Substantially all of these amounts represent asset-based fees calculated as an annual percentage of agreed values of aircraft under management pursuant to a servicing agreement. Selling, general and administrative expenses in the year ended March 31, 2006 include \$21 million (Airplanes Limited: \$20 million; Airplanes Trust: \$1 million) related to servicing fees, as compared with \$23 million (Airplanes Limited: \$22 million; Airplanes Trust: \$1 million) in the year ended March 31, 2005.

A further significant element of Airplanes Group's actual selling, general and administrative expenses reported in the year ended March 31, 2006 was \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$nil) in respect of administrative agency and cash management fees payable to subsidiaries of AerCap Ireland, as compared with the charge of \$6 million (Airplanes Limited: \$5 million; Airplanes Trust: \$1 million) for the year ended March 31, 2005.

## **OPERATING LOSS**

The operating loss for the year ended March 31, 2006 was \$1,323 million (Airplanes Limited: \$1,199 million; Airplanes Trust: \$124 million), compared with an operating loss on continuing operations of \$1,007 million for the year ended March 31, 2005 (Airplanes Limited: \$908 million; Airplanes Trust: \$99 million). Airplanes Limited and Airplanes Trust are expected to continue to report substantial losses in the future.

## **TAXES**

There was a tax charge of \$nil (Airplanes Limited: \$nil; Airplanes Trust: \$nil) in the year ended March 31, 2006, as compared with a tax charge of \$3 million (Airplanes Limited: \$nil; Airplanes Trust: \$3 million) for the year ended March 31, 2005.

## **NET LOSS**

The net loss after taxation for the year ended March 31, 2006 was \$1,323 million (Airplanes Limited: \$1,199 million; Airplanes Trust: \$124 million), compared with a net loss after taxation on continuing operations for the year ended March 31, 2005 of \$1,010 million (Airplanes Limited: \$908 million; Airplanes Trust: \$102 million).

## **E. FINANCIAL RESOURCES AND LIQUIDITY**

Our primary source of liquidity is rental payments made by lessees under the leases. Our principal uses of cash rental payments are expenses related to the aircraft and their servicing, corporate expenses and the payment of interest, principal and any premium on

indebtedness. See “6C. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Indebtedness” for more information regarding our outstanding debt.

Airplanes Group’s cash balances at March 31, 2007 amounted to \$83 million (Airplanes Limited: \$77 million; Airplanes Trust: \$6 million), compared to cash balances at March 31, 2006 of \$84 million (Airplanes Limited: \$78 million; Airplanes Trust: \$6 million).

Under the terms of Airplanes Group’s indebtedness, we are required, to the extent we have sufficient cashflows to maintain cash balances, which we refer to as the “liquidity reserve amount,” equal to (1) the amount of security deposits (\$21 million at March 31, 2007) and (2) a maintenance reserve. See “6E. — The Accounts — Liquidity Reserve Amount” for circumstances under which these amounts may be increased or decreased. When we have cash to fund these reserves, the terms of Airplanes Group’s indebtedness restrict the use of this cash so that it is generally not available to service debt. The liquidity reserve amount was determined largely based on an analysis of historical experience, assumptions regarding Airplanes Group’s future performance and the frequency and cost of certain contingencies in respect of the aircraft. It was intended to provide liquidity for meeting the cost of maintenance obligations and non-maintenance, aircraft-related contingencies, such as removing liens, complying with ADs and repossessing and re-leasing aircraft.

Since December 15, 2003, however, we have been unable to fund the \$20 million maintenance reserve fund and the security deposit reserve fund, and we have only been able to retain cash at the “First Collection Account Top-Up” level in the priority of payments.

## **F. OPERATING ACTIVITIES**

Operating cashflows depend on many factors, including the performance of lessees and Airplanes Group’s ability to re-lease aircraft, the average cost of the notes, the efficacy of Airplanes Group’s interest rate hedging policies, the ability of Airplanes Group’s swap and cap providers to perform under the terms of their swap and cap obligations and maintenance cashflows which, although expected to be neutral over time, may not balance in any given year.

Net cash provided by operating activities in the year ended March 31, 2007 amounted to \$105 million (Airplanes Limited: \$94 million; Airplanes Trust: \$11 million) compared with \$107 million in the year ended March 31, 2006 (Airplanes Limited: \$99 million; Airplanes Trust: \$8 million). This includes cash paid in respect of interest of \$61 million in the year ended March 31, 2007 (Airplanes Limited: \$57 million; Airplanes Trust: \$4 million) compared with \$60 million in the year ended March 31, 2006 (Airplanes Limited: \$56 million; Airplanes Trust: \$4 million). The decrease in net cash provided by operating activities in the year ended March 31, 2007 is primarily attributable to a reduction in lease revenues as a result of aircraft sales in previous periods, an increase in interest paid as a result of increased LIBOR rates, and a decrease in maintenance receipts, partially offset by increased aircraft sales and reduced selling, general and administrative costs, again as a result of aircraft sales in previous periods.

In the year ended March 31, 2007, Airplanes Group also received net sales proceeds of \$20 million (Airplanes Limited: \$5 million; Airplanes Trust: \$15 million), compared to \$13 million (Airplanes Limited: \$13 million; Airplanes Trust: \$nil) in the year ended March 31, 2006.

## **G. FINANCING ACTIVITIES**

Cashflows from financing activities in the year ended March 31, 2007 reflect the repayment of \$106 million of principal on the subclass A-8 notes by Airplanes Group (Airplanes Limited: \$95 million; Airplanes Trust: \$11 million), compared with \$109 million of principal repaid on the subclass A-8 notes by Airplanes Group (Airplanes Limited: \$101 million; Airplanes Trust: \$8 million) in the year ended March 31, 2006.

There was an increase in the amount of cash paid as interest during the year ended March 31, 2007 of \$1 million, as a result of a higher average interest rate, partially offset by lower average debt.

## **H. INDEBTEDNESS**

Airplanes Group’s outstanding indebtedness consisted of class A, B, C, D and E notes in the amount of \$2,710 million (Airplanes Limited: \$2,470 million; Airplanes Trust: \$240 million) at March 31, 2007 and \$2,815 million (Airplanes Limited: \$2,566 million; Airplanes Trust: \$249 million) at March 31, 2006. Airplanes Group had \$591 million of class E notes outstanding at March 31, 2007 and 2006. The terms of each subclass of notes, including the outstanding principal amount as of March 15, 2007 and estimated fair market value as of March 31, 2007, are as follows:

Class or Subclass of Certificates and Notes	Outstanding Principal Amount as of March 15, 2007	Annual Interest Rate (Payable Monthly)	Final Maturity Date	Estimated Fair Market Value as of March 31, 2007(4)
	(\$ Millions)			(\$ Millions)
Subclass A-8(1).....	400.1	LIBOR+0.375%	March 15, 2019	380.1
Subclass A-9(2).....	750.0	LIBOR+0.550%	March 15, 2019	517.5
Class B.....	226.8	LIBOR+0.750%	March 15, 2019	4.5
Class C.....	349.8	8.150%	March 15, 2019	6.7
Class D.....	395.1	10.875%	March 15, 2019	—
Class E (notes only)(3).....	591.2	20.000%	March 15, 2019	—

(1) Airplanes Group was due to refinance the subclass A-8 certificates and notes on March 15, 2003. Given market conditions and the impact these conditions have had on our performance, as compared to the 2001 Base Case, a refinancing at that time was not economically viable. Step-up interest has therefore accrued on the subclass A-8 certificates and notes since March 15, 2003. However, due to insufficient cashflows and the low priority of step-up interest in the priority of payments, no step-up interest has been paid.

Prior to March 15, 2003, on each payment date, the priority of the principal amounts outstanding in respect of the various subclasses of class A certificates and notes was subclass A-6, subclass A-9 and subclass A-8 in that order. Because there was no refinancing of the subclass A-8 notes by March 15, 2003, the priority of the principal amounts outstanding in respect of the various subclasses of class A certificates and notes is now subclass A-8 and subclass A-9 in that order, the subclass A-6 certificates and notes having been repaid in full on October 15, 2004.

(2) The subclass A-9 certificates were issued on March 15, 2001.

(3) The annual interest rate on the class E notes is adjusted by reference to changes in the U.S. Consumer Price Index since March 28, 1996. As of March 31, 2007, the annual interest rate on the class E notes was 29.52%. Except for the class E minimum interest amount and supplemental interest amount, payable at 1% and 10% per annum respectively, no principal or interest is payable on the class E notes until the more senior classes of notes have all been paid in full. As of March 31, 2007, the accrued and unpaid class E minimum interest amount and supplemental interest amount was \$6,487 million.

(4) Although the estimated fair values of the class A to D notes outstanding have been determined by reference to prices as at March 31, 2007 provided by an independent third party, these fair values do not reflect the market value of these notes at a specific time and should not be relied upon as a measure of the value that could be realized by a noteholder upon sale.

## I. NEW ACCOUNTING PRONOUNCEMENTS

For new accounting-related pronouncements, please refer to paragraph 4(m) in the notes to our consolidated financial statements for the year ended March 31, 2007, which are attached as an exhibit hereto.

## J. COMPARISON OF ACTUAL CASHFLOWS VERSUS THE 2001 BASE CASE FOR THE FOUR MONTH PERIOD FROM JANUARY 10, 2007 TO MAY 15, 2007 AND FOR THE PERIOD MARCH 10, 2001 TO MAY 15, 2007 (74 MONTHS).

The discussion and analysis which follow are based on the results of Airplanes Limited and Airplanes Trust and their subsidiaries as a single entity (collectively “**Airplanes Group**”).

*The cashflow information set forth below was not prepared in accordance with generally accepted accounting principles of the United States. This information must be read in conjunction with Airplanes Group’s most recent financial information prepared in accordance with generally accepted accounting principles of the United States. For this, you should refer to pages F-1 to F-27 of Exhibit 1 to this Annual Report.*

For the purposes of this report, the “**Four Month Period**” comprises information from the monthly cash reports as published on our website for the relevant months ended February 15, 2007, March 15, 2007, April 16, 2007 and May 15, 2007. The financial data in these reports includes cash receipts from January 10, 2007 (first day of the Calculation Period for the February 2007 report) to May 9, 2007 (last day of the Calculation Period for the May 2007 report). Page 57 presents the cumulative cashflow information from March 2001 to the May 2007 payment date. This report, however, limits its commentary to the Four Month Period.

The 2001 Base Case contained assumptions in respect of Airplanes Group's future cashflows and expenses. Since these assumptions were developed, global economic conditions, and particularly conditions in the commercial aviation industry, have worsened significantly, particularly since September 11, 2001, as discussed above under "1B. Introduction - Overview of Current Financial Condition". Accordingly, the performance of Airplanes Group has been, and we expect it to continue to be, worse than the 2001 Base Case, particularly as far as the assumptions regarding aircraft re-lease rates, aircraft values, aircraft downtime and lessee defaults are concerned.

The following is a discussion of the Total Cash Collections, Total Cash Expenses, Interest Payments and Principal Payments in the Four Month Period and should be read in conjunction with the analysis on page 55.

## CASH COLLECTIONS

"*Total Cash Collections*" include Net Lease Rental, Interest Earned, Aircraft Sales, Net Maintenance and Other Receipts (each as defined below). In the Four Month Period, Airplanes Group generated approximately \$90.0 million in Total Cash Collections, \$31.5 million less than the 2001 Base Case. This difference is due to a combination of the factors set out below (the numbers in square brackets below refer to the line item number shown on page 54).

### [2] RENEGOTIATED LEASES

"*Renegotiated Leases*" is a measure of the loss in rental revenue caused by a lessee negotiating a reduction in the lease rental, in the period to the original contracted expiry date of the lease prior to the renegotiation of the terms of that lease. In the Four Month Period, there was no revenue loss attributed to Renegotiated Leases, which was in line with \$nil assumed in the 2001 Base Case.

### [3] RENTAL RESETS — RE-LEASING EVENTS WHERE NEW LEASE RATE DEVIATED FROM THE 2001 BASE CASE

"*Rental Resets*" is a measure of the difference in rental revenue when new lease rates are different from those assumed in the 2001 Base Case, including lease rate adjustments for changes in interest rates on floating rate leases and lease rates achieved where revenues are dependent on aircraft usage. The loss of rental revenue as a result of Rental Resets amounted to \$46.1 million in the Four Month Period, as compared to \$nil assumed in the 2001 Base Case. This reflects current market conditions where an oversupply of aircraft has resulted in lower lease rates upon re-leasing or extension of leases than assumed in the 2001 Base Case.

### [4] LEASE RENTALS — AIRCRAFT SALES

"*Lease Rentals — Aircraft Sales*" represents rental revenue foregone in respect of aircraft sold prior to their assumed sale date in the 2001 Base Case, net of rental revenue received in respect of aircraft remaining on lease after their assumed sale date in the 2001 Base Case. In the 2001 Base Case, all aircraft are assumed to be sold either at the end of their useful economic life or, where an aircraft was subject to a lease with the lease expiry date falling after the end of its useful economic life, on the contracted lease expiry date. Since March 2001, three MD11 aircraft, three MD83 aircraft, one B747-200SF aircraft, three DC9-51 aircraft, two DC9-32 aircraft, sixteen DC8-71F aircraft, two DHC8-300C aircraft, one DHC8-100A aircraft, seven B727-200A aircraft, twelve B737-200A aircraft, three Metro-III aircraft, two A300B4-200 aircraft and one ATR42-300 aircraft have been sold prior to their assumed sale date in the 2001 Base Case, resulting in a negative variance of \$27.7 million in lease rentals, compared to the 2001 Base Case in the Four Month Period.

### [5] CONTRACTED LEASE RENTALS

"*Contracted Lease Rentals*" represents the current contracted lease rental rollout which is equal to the 2001 Base Case Lease Rentals less adjustments for Renegotiated Leases, Rental Resets and Lease Rentals — Aircraft Sales. For the Four Month Period, Contracted Lease Rentals were \$53.1 million, which was \$73.8 million less than assumed in the 2001 Base Case. The difference is due to losses from Rental Resets and Lease Rentals — Aircraft Sales as discussed above.

### [6] MOVEMENT IN CURRENT ARREARS BALANCE

"*Current Arrears*" is the total Contracted Lease Rentals outstanding from current lessees at a given date but excluding any amounts classified as Bad Debts. There was a net decrease of \$2.8 million in the Current Arrears balance over the Four Month Period, as compared to \$nil assumed in the 2001 Base Case.

## **[7] NET STRESS-RELATED COSTS**

“*Net Stress-Related Costs*” is a combination of all the factors which can cause actual lease rentals to vary from the Contracted Lease Rentals. The 2001 Base Case assumed Net Stress-Related Costs equal to 6.0% of the 2001 Base Case Lease Rentals in the Four Month Period. For the Four Month Period, Net Stress-Related Costs incurred amounted to a net cash outflow of \$2.4 million (1.9% of Lease Rentals) compared to \$7.6 million outflow assumed in the 2001 Base Case, a variance of \$5.2 million that is due to the five factors described in items [8] to [12] below.

## **[8] BAD DEBTS**

“*Bad Debts*” are lease rental arrears owed by lessees which have defaulted and which are deemed irrecoverable. Bad Debts were \$nil for the Four Month Period, \$1.3 million less than the 2001 Base Case assumption of \$1.3 million (1.0% of Lease Rentals).

## **[9] DEFERRED ARREARS BALANCE**

“*Deferred Arrears Balance*” refers to current arrears that have been capitalized and restructured into a deferred balance. In the Four Month Period, Airplanes Group received payments totaling \$0.5 million in accordance with these restructurings. Payments assumed to be received in accordance with restructurings included in the 2001 Base Case were \$nil for the Four Month Period.

## **[10] AIRCRAFT ON GROUND (“AOG”)**

“*AOG*” is defined as the 2001 Base Case Lease Rentals lost when an aircraft is off-lease or deemed non-revenue earning. Airplanes Group had six aircraft AOG at various times during the Four Month Period. The 2001 Base Case Lease Rentals loss attributed to AOG in the Four Month Period was \$2.9 million (2.3% of Lease Rentals), as compared to \$5.3 million (4.2% of Lease Rentals) assumed under the 2001 Base Case.

## **[11] OTHER LEASING INCOME**

“*Other Leasing Income*” consists of miscellaneous income received in connection with a lease other than contracted rentals, maintenance receipts and security deposits, such as early termination payments or default interest. In the Four Month Period, there was no Other Leasing Income, which was in line with \$nil assumed under the 2001 Base Case.

## **[12] REPOSSESSION COSTS**

“*Repossession Costs*” cover legal and aircraft technical costs incurred as a result of repossessing an aircraft. In the Four Month Period, Repossession Costs amounted to \$nil, as compared to \$1.0 million assumed under the 2001 Base Case.

## **[14] NET LEASE RENTAL**

“*Net Lease Rental*” is Contracted Lease Rentals less any movement in Current Arrears balance and Net Stress-Related Costs. In the Four Month Period, Net Lease Rental amounted to \$53.5 million, \$65.8 million less than that assumed in the 2001 Base Case. The variance was attributable to the combined effect of the factors outlined in items [2] to [4] and in items [6] to [12] above.

## **[15] INTEREST EARNED**

“*Interest Earned*” relates to interest received on cash balances held in the Collection and Expense Accounts. Cash held in the Collection Account consists of the cash liquidity reserve amount (\$80 million plus the security deposit amount, subject to available cashflows), in addition to the intra-month cash balances for all the rentals and maintenance payments collected prior to the monthly payment date. The Expense Account contains cash set aside to pay for expenses which are expected to be payable over the next month. In the Four Month Period, Interest Earned amounted to \$1.5 million, \$0.7 million less than that assumed in the 2001 Base Case. The difference is due to a lower cash balance in the Collection Account as available cashflows were adequate to allocate only \$60 million to the cash liquidity reserve amount on each payment date in the Four Month Period (refer to item [29A] below), partly offset by a higher average reinvestment rate than assumed in the 2001 Base Case. The average actual reinvestment rate for the Four Month Period was 5.25% (excluding a \$5 million guaranteed investment contract), as compared to the 5.2% assumed in the 2001 Base Case.

## [16] AIRCRAFT SALES

Aircraft sales proceeds totaling \$14.0 million were received in the Four Month Period in respect of the sale of seven DC8-71F aircraft. In the 2001 Base Case, no aircraft sales were assumed in the Four Month Period. In the 2001 Base Case, all aircraft are assumed to be sold either at the end of their useful economic life or, where an aircraft was subject to a lease with the lease expiry date falling after the end of its useful economic life, on the contracted lease expiry date.

## [17] NET MAINTENANCE

“*Net Maintenance*” refers to maintenance reserve revenue received less any maintenance reimbursements paid to lessees. In the Four Month Period, positive net maintenance cashflows of \$20.9 million (comprising maintenance reserve receipts totaling \$38.0 million and maintenance reserve reimbursements totaling \$17.1 million) were received. The 2001 Base Case makes no assumptions for Net Maintenance, as it assumes that, over time, maintenance revenue will equal maintenance expenditure. However, it is unlikely that in any particular reporting period, maintenance revenue will exactly equal maintenance reimbursements.

## CASH EXPENSES

“*Total Cash Expenses*” include Aircraft Operating Expenses and Selling, General and Administrative (“**SG&A**”) Expenses. In the Four Month Period, Total Cash Expenses were \$14.4 million, compared to \$17.1 million assumed in the 2001 Base Case giving a positive variance of \$2.7 million. A number of factors discussed below have given rise to this.

“*Aircraft Operating Expenses*” includes all operational costs related to the leasing of aircraft, including costs of insurance, re-leasing and other overhead costs.

## [20] RE-LEASING AND OTHER OVERHEAD COSTS

“*Re-Leasing and Other Overhead Costs*” consist of miscellaneous re-delivery and leasing costs associated with re-leasing events, costs of insurance and other lessee-related overhead costs. In the Four Month Period, these costs amounted to \$3.6 million (or 2.8% of Lease Rentals), compared to \$6.3 million (or 5.0% of Lease Rentals) assumed in the 2001 Base Case. Actual Re-Leasing and Other Overhead Costs were lower than the 2001 Base Case assumption, primarily due to lower than assumed transition costs on aircraft delivering to new lessees and lower payments made in the form of lessor contributions to defray certain technical costs during the term of certain leases.

“*SG&A Expenses*” relate to fees paid to the servicer and to other service providers.

## [21] AIRCRAFT SERVICER FEES

“*Aircraft Servicer Fees*” are defined as amounts paid to the servicer in accordance with the terms of the servicing agreement. In the Four Month Period, the total Aircraft Servicer Fees paid were \$7.7 million, \$0.1 million less than that assumed in the 2001 Base Case.

Aircraft Servicer Fees consist of:

	<u>\$M</u>
Retainer Fee .....	6.2
Minimum Incentive Fee .....	1.5
Core Cashflow/Sales Incentive Fee .....	<u>0.0</u>
Total Aircraft Servicer Fee .....	<u><u>7.7</u></u>

The Retainer Fee is a fixed amount per month per aircraft and changes only as aircraft are sold.

## [23] OTHER SERVICER FEES AND OTHER OVERHEADS

“*Other Servicer Fees and Other Overheads*” relate to fees and expenses paid to other service providers including the administrative agent, the cash manager, financial advisers, legal advisers and accountants and to the directors/controllers/trustees. In the Four Month Period, Other Servicer Fees and Other Overheads amounted to \$3.1 million, \$0.1 million less than an assumed expense of \$3.2 million in the 2001 Base Case.

## [29A] SHORTFALL IN LIQUIDITY RESERVE

Airplanes Group is required to maintain a cash balance in the collection account under the indentures, subject to available cashflows, in an amount equal to the sum of:

- the maintenance reserve amount (\$80 million); and
- a security deposit reserve amount.

Under the priority of payments applicable to Airplanes Group, this cash balance is retained at point (iii) First Collection Account Top-up (maintenance reserve amount — \$60 million) and at point (x) Second Collection Account Top-up (maintenance reserve amount — \$20 million plus security deposit reserve amount).

“*Shortfall in Liquidity Reserve*” relates to any shortfall in the funds allocated to the “First Collection Account Top-up” and “Second Collection Account Top-up” as a result of Airplanes Group not having sufficient balance of funds after payment of expenses and all required payments on the notes which rank prior to the applicable liquidity reserve amount under the priority of payments applicable to Airplanes Group. Since the May 2003 payment date, there has been a depletion of the “Second Collection Account Top-up”, and, beginning on the December 15, 2003 payment date, cashflows have been insufficient to allocate any funds to the “Second Collection Account Top-up”. On the May 15, 2007 payment date, there was a shortfall in the liquidity reserve amount of \$41.7 million as compared to a shortfall of \$45.7 million on the January 16, 2007 payment date, representing an overall decrease of \$4.0 million in the Shortfall in Liquidity Reserve for the Four Month Period. This decrease in the Shortfall in Liquidity Reserve is explained by a net decrease of \$4.0 million in the security deposit reserve amount in the Four Month Period. Under the 2001 Base Case, a Shortfall in Liquidity Reserve was not anticipated.

## [30] INTEREST PAYMENTS

In the Four Month Period, interest payments to the holders of the class A, B, C and D notes amounted to \$22.3 million, which is \$21.6 million lower than assumed under the 2001 Base Case.

Interest payments on the floating rate class A notes amounted to \$22.3 million, \$5.0 million higher than assumed under the 2001 Base Case, reflecting a higher principal balance outstanding on these notes than assumed in the 2001 Base Case and a higher than expected level of average interest rates on the class A notes. The 2001 Base Case assumed LIBOR to be 5.2%, whereas the average monthly LIBOR rate in the Four Month Period was 5.3%. Our cashflows have been inadequate to pay any interest on the class B, C and D notes in the Four Month Period. Interest payments assumed under the 2001 Base Case in the Four Month Period amounted to \$3.1 million, \$9.2 million and \$14.3 million respectively, on the class B, C and D notes. Interest is accruing on the unpaid interest on the class B, C and D notes in accordance with the terms of these notes and will continue to accrue until the arrears of interest are paid in full. Accrued and unpaid interest (including interest accrued on unpaid interest) amounted to \$35.8 million, \$115.0 million and \$182.0 million, respectively, on the class B, C and D notes following the May 15, 2007 payment date.

In the Four Month Period, there was a continued suspension of payments of the class E minimum interest amount of 1% (refer to item [33] below). No payments of class E minimum interest were anticipated in the 2001 Base Case.

Airplanes Group’s \$700 million subclass A-8 notes had an expected final payment date of March 15, 2003. At the time the subclass A-8 notes were issued the expected final payment date was established based on an assumption that these notes would be refinanced on March 15, 2003. Given market conditions and the impact these conditions have had on our performance, we believed that such a refinancing at that time was not economically viable and therefore it did not proceed as scheduled. In accordance with the terms of the subclass A-8 notes, step-up interest of 0.5% per annum began to accrue on these notes from March 17, 2003 (the first business day following the expected final payment date) and will continue to accrue until they are repaid in full or refinanced. Under the priority of payments applicable to Airplanes Group, step-up interest is payable after payment of expenses, interest, minimum principal and scheduled principal on class A, B, C and D notes and any aircraft modification payments. To the extent that step-up interest is not paid, it will accrue in accordance with the terms of the subclass A-8 notes. Available cashflows have not been sufficient to allow payment of step-up interest on any of the payment dates since March 2003 and this is expected to continue to be the case. Total step-up interest (including interest accrued on unpaid step-up interest) accrued and unpaid on the subclass A-8 notes at May 15, 2007 was \$14.0 million.

### [31] SWAP AND CAP CASHFLOWS

Airplanes Group's net swap and cap receipts during the Four Month Period were \$1.8 million, compared to \$nil assumed in the 2001 Base Case.

### [33] PRINCIPAL PAYMENTS

In the seventy-four month period from March 10, 2001 to May 15, 2007, total principal payments amounted to \$806.3 million (comprising \$754.8 million on the class A notes and \$51.5 million on the class B notes), \$333.3 million less than assumed in the 2001 Base Case. The breakdown of the \$333.3 million variance is set out on page 57. In the Four Month Period, total principal payments amounted to \$51.2 million, (comprising \$51.2 million on the class A notes), \$9.3 million less than assumed in the 2001 Base Case. The breakdown of the \$9.3 million variance is set out on page 55.

Applying the declining value assumptions in the 1996 Base Case to the original March 1996 fleet appraisals and adjusting for aircraft sales, the total appraised value of the aircraft was assumed to be \$1,909.0 million at May 15, 2007. Our portfolio is appraised annually and the most recent appraisal was obtained on January 31, 2007 and valued the current portfolio at \$1,172.1 million. Applying the declining value assumptions to this appraisal, the total appraised value was \$1,132.4 million at May 15, 2007.

As a consequence of the cumulative excess decline in appraised values experienced since March 1996, combined with overall cash performance in that period, we have been required to pay class A principal adjustment amount to the extent of available cashflows throughout the seventy-four month period since the 2001 refinancing. However, we have not always had sufficient cashflows to pay class A principal adjustment amount in full, and, since the April 15, 2003 payment date, we have not had sufficient cashflows to pay any class A principal adjustment amount. Class A principal adjustment amount is intended to accelerate the principal amortization schedule of the class A notes when the appraised value of the aircraft declines at a greater rate than the decline in appraised values assumed in the 1996 Base Case by reference to certain loan to current appraised value ratios. Since the class A principal adjustment amount ranks ahead of the scheduled principal payments on the class C and D notes, and since available cashflows were not sufficient to pay all of the class A principal adjustment amount, scheduled principal payments on the class C and D notes have been deferred on each payment date during the seventy-four month period since the 2001 refinancing. Total deferrals of class C and class D scheduled principal amounts amounted to \$173.9 million and \$133.7 million, respectively, as of May 15, 2007.

Based on the most recent annual appraisal dated January 31, 2007, the decline in appraised values in the year to January 31, 2007 was approximately \$25.8 million more than the decline assumed in the 1996 Base Case. The decline in appraised values in this period has resulted in an increase in the arrears of class A principal adjustment amount at the February 15, 2007 payment date from \$569.0 million to \$605.3 million. The class A principal adjustment amount outstanding was \$611.9 million as at May 15, 2007.

To the extent that we have sufficient available funds, we are required to pay a minimum principal amount on the class A notes in order to maintain certain loan to initial appraised value ratios. As a result of earlier payments of class A principal adjustment amount, described above, we remained ahead of the required class A minimum principal payment schedule. However, as described above, we have not always had sufficient cashflows to pay class A principal adjustment amount in full, and, since the April 15, 2003 payment date, we have not had sufficient cashflows to pay any class A principal adjustment amount. As a result, since the August 15, 2003 payment date, we have no longer been ahead of the required class A minimum principal payment schedule. Therefore on that date we had to recommence payments of minimum principal on the class A notes to the extent of available cashflows and we were consequently unable to fund the "Second Collection Account Top-up" in full. Beginning on the December 15, 2003 payment date, our cashflows were insufficient to allocate any funds at all to the "Second Collection Account Top-up" or to pay minimum principal on the class A notes in full.

Because the outstanding principal balance of the class A notes has exceeded the adjusted portfolio value (determined by reference to the annual appraised value) since the February 15, 2007 payment date, the methodology for calculation of class A minimum principal amounts has changed under the terms of the trust indentures, resulting in an increase in the amount of class A minimum principal payable on each payment date and accordingly, an increase in the arrears thereof. Minimum principal arrears on the class A notes were \$611.9 million following the May 15, 2007 payment date. While it is possible that the outstanding principal balance of the class A notes may be less than the adjusted portfolio value on one or more future payment dates, which would result in class A minimum principal being calculated as it has been up until February 15, 2007, in general the class A note outstanding principal balance will henceforth exceed the adjusted portfolio value and the corresponding calculation of class A minimum principal will be applicable. Actual payments to class A noteholders, however, are dependent on available cash flows and are not affected by the calculation of class A minimum principal payments or the annual aircraft appraisals.

Since minimum principal on the class A notes ranks ahead of interest and minimum principal on the class B notes and interest on the class C and D notes in the priority of payments, our cashflows have been inadequate to pay any interest or minimum principal on the class B notes or any interest on the class C and D notes, since the December 15, 2003 payment date. Minimum principal arrears on the class B notes were \$92.5 million following the May 15, 2007 payment date.

The appraised values are based upon the value of our aircraft at normal utilization rates in an open, unrestricted and stable market, and take into account long-term trends, including current expectations of particular models becoming obsolete more quickly, as a result of airlines switching to different models, manufacturers ceasing production or lease values for aircraft declining more rapidly than previous predictions. As a theoretical value, the appraised value is not indicative of market value and thus there is no guarantee that we would obtain the appraised value upon sale of any aircraft. The current market value of each of our aircraft is less than, and in many cases significantly less than the appraised value. Due to industry conditions over the past several years, the majority of our aircraft are highly likely to become obsolete earlier than the useful life expectancies assumed in the 2001 Base Case assumptions, which would negatively impact appraised values further. Since we are no longer able to pay class A principal adjustment amount and since, as a result of our 2003 consent solicitation, we are no longer required to sell our aircraft at or above a specified target price, the appraised values of our aircraft are now of little significance except as a basis for providing statistical information on the portfolio and for complying with certain technical provisions in the indentures.

#### ***OTHER ISSUES***

For a discussion of our current expectations as to our future ability to make payments on our notes and certificates in light of our weaker than expected performance as well as a discussion of rating actions on the certificates, see “1B. Introduction—Overview of Current Financial Condition” above.

Note	Report Line Name	Description
	<b>CASH COLLECTIONS</b>	
[1]	Lease Rentals	Assumptions as per the 2001 Base Case
[2]	— Renegotiated Leases	Change in contracted rental cashflow caused by a renegotiated lease
[3]	— Rental Resets	Re-leasing events where new lease rate deviated from the 2001 Base Case
[4]	— Lease Rentals — Aircraft Sales	Revenue foregone on aircraft sold prior to their assumed sale date in the 2001 Base Case net of revenue received on aircraft remaining on lease after their assumed sale date in the 2001 Base Case
[5] $\Sigma$ [1]...[4]	Contracted Lease Rentals	Current Contracted Lease Rentals due as at the latest Calculation Date
[6]	Movement in Current Arrears Balance	Current Contracted Lease Rentals not received as at the latest Calculation Date, excluding Bad Debts
[7]	Less Net Stress Related Costs	
[8]	— Bad Debts	Arrears owed by former lessees and deemed irrecoverable
[9]	— Deferred Arrears Balance	Current arrears that have been capitalised and restructured as a Note Payable
[10]	— AOG	Loss of rental due to an aircraft being off-lease and non-revenue earning
[11]	— Other Leasing Income	Includes lease termination/restructuring payments, rental guarantees and late payments charges
[12]	— Repossession	Legal and technical costs incurred in repossessing aircraft.
[13] $\Sigma$ [8]...[12]	Sub-total	
[14] [5]+[6]+[13]	Net Lease Rental	Contracted Lease Rentals less Movement in Current Arrears Balance and Net Stress Related Costs
[15]	Interest Earned	Interest earned on monthly cash balances
[16]	Aircraft Sales	Proceeds, net of fees and expenses, from the sale of aircraft.
[17]	Net Maintenance	Maintenance Revenue Reserve received less reimbursements to lessees
[18]	Other Receipts	Receipts from GE Capital under the Tax Sharing Agreement
[19] $\Sigma$ [14]..[18]	Total Cash Collections	Net Lease Rental + Interest Earned + Aircraft Sales + Net Maintenance + Other Receipts
	<b>CASH EXPENSES</b>	
	Aircraft Operating Expenses	All operational costs related to the leasing of aircraft
[20]	Releasing and Other Overheads	Costs associated with transferring an aircraft from one lessee to another, costs of insurance and other lessee-related overheads
	SG&A Expenses	
[21]	Aircraft Servicer Fees	Monthly and annual fees paid to servicer
	— Retainer Fee	Fixed amount per month per aircraft
	— Minimum Incentive Fee	Minimum annual fee paid to servicer for performance above an annually agreed target
	— Core Cashflow/Sales Incentive Fee	Fees (in excess of Minimum Incentive Fee above) paid to servicer for performance above an annually agreed target/on sale of an aircraft
[22] [21]	Sub-total	
[23]	Other Servicer Fees and Other Overheads	Administrative Agent, trustee and professional fees paid to other service providers and other overheads
[23A]	Other SG&A Expenses	Costs relating to the assumed refinancing of the subclass A-8 notes in March 2003, as assumed under the 2001 Base Case and costs relating to the 2003 consent solicitation for indenture amendment
[24] [22]+[23]+[23A]	Sub-total	
[25] [20]+[24]	Total Cash Expenses	Aircraft Operating Expenses + SG&A Expenses
	<b>NET CASH COLLECTIONS</b>	
[26] [19]	Total Cash Collections	Line 19 above
[27] [25]	Total Cash Expenses	Line 25 above
[28]	Movement in Expense Account	Relates to reduction in accrued expense amounts
[29]	Reduction in Liquidity Reserve	Reduction of the miscellaneous reserve amount from \$40m to \$nil in April 2001
[29A]	Shortfall in Liquidity Reserve	Reduction in the balance of funds on deposit in the collection account below the liquidity reserve amount
[30]	Interest Payments	Interest paid on all outstanding debt
[31]	Swap / Cap Cashflows	Net swap and cap payments (paid)/received
[32] $\Sigma$ [26]...[31]	Total	
[33]	<b>PRINCIPAL PAYMENTS</b>	Principal payments on debt

**AIRPLANES GROUP CASHFLOW PERFORMANCE FOR THE PERIOD FROM  
JANUARY 10, 2007 TO MAY 15, 2007 (4 MONTHS)**

**Comparison of Actual Cashflows Versus 2001 Base Case Cashflows**

		2001			% of Lease Rentals under the 2001 Base Case		
		Actual	Base Case	Variance	Actual	Base Case	Variance
		(\$ Millions)					
<b>CASH COLLECTIONS</b>							
1	Lease Rentals	126.9	126.9	0.0	100.0%	100.0%	0.0%
2	— Renegotiated Leases.....	0.0	0.0	0.0	0.0%	0.0%	0.0%
3	— Rental Resets.....	(46.1)	0.0	(46.1)	(36.3%)	0.0%	(36.3%)
4	— Lease Rentals— Aircraft Sales .....	(27.7)	0.0	(27.7)	(21.8%)	0.0%	(21.8%)
5	∑ 1-4 <b>Contracted Lease Rentals</b> .....	53.1	126.9	(73.8)	41.9%	100.0%	(58.1%)
6	Movement in Current Arrears Balance ....	2.8	0.0	2.8	2.2%	0.0%	2.2%
7	less Net Stress Related Costs .....						
8	— Bad Debts.....	0.0	(1.3)	1.3	0.0%	(1.0%)	1.0%
9	— Deferred Arrears Balance.....	0.5	0.0	0.5	0.4%	0.0%	0.4%
10	— AOG.....	(2.9)	(5.3)	2.4	(2.3%)	(4.2%)	1.9%
11	— Other Leasing Income.....	0.0	0.0	0.0	0.0%	0.0%	0.0%
12	— Repossession.....	0.0	(1.0)	1.0	0.0%	(0.8%)	0.8%
13	∑ 8-12 Sub-total.....	(2.4)	(7.6)	5.2	(1.9%)	(6.0%)	4.1%
14	5+6+13 <b>Net Lease Rental</b> .....	53.5	119.3	(65.8)	42.2%	94.0%	(51.8%)
15	Interest Earned .....	1.5	2.2	(0.7)	1.2%	1.7%	(0.5%)
16	Aircraft Sales .....	14.0	0.0	14.0	11.0%	0.0%	11.0%
17	Net Maintenance .....	20.9	0.0	20.9	16.5%	0.0%	16.5%
18	Other Receipts.....	0.0	0.0	0.0	0.0%	0.0%	0.0%
19	∑ 14-18 <b>Total Cash Collections</b> .....	90.0	121.5	(31.5)	70.9%	95.7%	(24.9%)
<b>CASH EXPENSES</b>							
20	Aircraft Operating Expenses .....						
	— Re-leasing and other overheads.....	(3.6)	(6.3)	2.7	(2.8%)	(5.0%)	2.1%
21	SG&A Expenses .....						
	Aircraft Servicer Fees .....						
	— Retainer Fee .....	(6.2)	(7.1)	0.9	(4.8%)	(5.6%)	0.7%
	— Minimum Incentive Fee .....	(1.5)	(0.5)	(1.0)	(1.2%)	(0.4%)	(0.8%)
	— Core Cashflow/Sales Incentive Fee.....	0.0	0.0	0.0	0.0%	0.0%	0.0%
22	21 Sub-total.....	(7.7)	(7.6)	(0.1)	(6.0%)	(6.0%)	(0.0%)
23	Other Servicer Fees and Other Overheads .....	(3.1)	(3.2)	0.1	(2.4%)	(2.5%)	0.1%
23A	Other SG&A Expenses .....	0.0	0.0	0.0	0.0%	0.0%	0.0%
24	22+23+23A Sub-total.....	(10.7)	(10.8)	0.1	(8.5%)	(8.5%)	0.0%
25	24+20 <b>Total Cash Expenses</b> .....	(14.4)	(17.1)	2.7	(11.3%)	(13.5%)	2.2%
<b>NET CASH COLLECTIONS</b>							
26	19 Total Cash Collections .....	90.0	121.5	(31.5)	70.9%	95.7%	(24.9%)
27	25 Total Cash Expenses .....	(14.4)	(17.1)	2.7	(11.3%)	(13.5%)	2.2%
28	Movement in Expense Account .....	0.0	0.0	0.0	0.0%	0.0%	0.0%
29	Reduction in Liquidity Reserve .....	0.0	0.0	0.0	0.0%	0.0%	0.0%
29A	Shortfall in Liquidity Reserve.....	(4.0)	0.0	(4.0)	(3.1%)	0.0%	(3.1%)
30	Interest Payments .....	(22.3)	(43.9)	21.6	(17.6%)	(34.6%)	17.0%
31	Swap/Cap Cashflows .....	1.8	0.0	1.8	1.4%	0.0%	1.4%
32	∑ 26-31 <b>TOTAL</b> .....	51.2	60.5	(9.3)	40.3%	47.7%	(7.4%)
33	<b>PRINCIPAL PAYMENTS</b>						
	Class A.....	51.2	48.2	3.0	40.3%	38.0%	2.3%
	Class B.....	0.0	7.2	(7.2)	0.0%	5.7%	(5.7%)
	Class C.....	0.0	5.1	(5.1)	0.0%	4.0%	(4.0%)
	<b>Total</b> .....	51.2	60.5	(9.3)	40.3%	47.7%	(7.4%)

	<u>Actual</u>	<u>2001 Base Case</u>
	(\$ Millions)	
<b>Debt Balances at May 15, 2007</b>		
Subclass A-6.....	0.0	0.0
Subclass A-8.....	390.6	700.0
Subclass A-9.....	750.0	194.5
Class B.....	226.8	153.2
Class C.....	349.8	336.2
Class D.....	395.1	395.1
	<u>2,112.4</u>	<u>1,779.0</u>

**AIRPLANES GROUP CASHFLOW PERFORMANCE FOR THE PERIOD FROM  
MARCH 10, 2001 TO MAY 15, 2007 (74 MONTHS)**

**Comparison of Actual Cashflows Versus 2001 Base Case Cashflows**

		2001			% of Lease Rentals under the 2001 Base Case		
		Actual	Base Case	Variance	Actual	Base Case	Variance
		(\$ Millions)					
<b>CASH COLLECTIONS</b>							
1	Lease Rentals .....	2,514.3	2,514.3	0.0	100.0%	100.0%	0.0%
2	— Renegotiated Leases.....	(88.7)	0.0	(88.7)	(3.5%)	0.0%	(3.5%)
3	— Rental Resets.....	(670.7)	0.0	(670.7)	(26.7%)	0.0%	(26.7%)
4	— Lease Rentals— Aircraft Sales .....	(199.5)	0.0	(199.5)	(7.9%)	0.0%	(7.9%)
5	∑ 1-4 <b>Contracted Lease Rentals</b> .....	1,555.3	2,514.3	(959.0)	61.9%	100.0%	(38.1%)
6	Movement in Current Arrears Balance ....	0.4	0.0	0.4	0.0%	0.0%	0.0%
7	less Net Stress Related Costs .....						
8	— Bad Debts.....	(11.3)	(25.2)	13.9	(0.4%)	(1.0%)	0.6%
9	— Deferred Arrears Balance.....	25.0	3.1	21.9	1.0%	0.1%	0.9%
10	— AOG.....	(145.4)	(105.7)	(39.7)	(5.8%)	(4.2%)	(1.6%)
11	— Other Leasing Income.....	29.6	0.0	29.6	1.2%	0.0%	1.2%
12	— Repossession.....	(4.1)	(20.2)	16.1	(0.2%)	(0.8%)	0.6%
13	∑ 8-12 Sub-total.....	(106.1)	(148.0)	41.9	(4.2%)	(5.9%)	1.7%
14	5+6+13 <b>Net Lease Rental</b> .....	1,449.7	2,366.3	(916.6)	57.7%	94.1%	(36.5%)
15	Interest Earned .....	18.5	42.3	(23.8)	0.7%	1.7%	(0.9%)
16	Aircraft Sales .....	128.6	69.6	59.0	5.1%	2.8%	2.3%
17	Net Maintenance .....	162.2	0.0	162.2	6.5%	0.0%	6.5%
18	Other Receipts.....	15.2	0.0	15.2	0.6%	0.0%	0.6%
19	∑ 14-18 <b>Total Cash Collections</b> .....	1,774.2	2,478.2	(704.0)	70.6%	98.6%	(28.0%)
<b>CASH EXPENSES</b>							
Aircraft Operating Expenses							
20	— Re-leasing and other overheads.....	(141.2)	(125.9)	(15.3)	(5.6%)	(5.0%)	(0.6%)
SG&A Expenses .....							
21	Aircraft Servicer Fees .....						
	— Retainer Fee .....	(130.6)	(135.7)	5.0	(5.2%)	(5.4%)	0.2%
	— Minimum Incentive Fee .....	(10.5)	(9.3)	(1.3)	(0.4%)	(0.4%)	(0.0%)
	— Core Cashflow/Sales Incentive Fee.....	(0.2)	0.0	(0.2)	(0.0%)	0.0%	(0.0%)
22	21 Sub-total.....	(141.3)	(144.9)	3.6	(5.6%)	(5.8%)	0.1%
23	Other Servicer Fees and Other						
	Overheads .....	(65.4)	(60.6)	(4.8)	(2.6%)	(2.4%)	(0.2%)
23A	Other SG&A Expenses .....	(2.0)	(4.7)	2.7	(0.1%)	(0.2%)	0.1%
24	22+23+23A Sub-total.....	(208.7)	(210.2)	1.5	(8.3%)	(8.4%)	0.1%
25	24+20 <b>Total Cash Expenses</b> .....	(349.8)	(336.1)	(13.7)	(13.9%)	(13.4%)	(0.5%)
<b>NET CASH COLLECTIONS</b>							
26	19 Total Cash Collections .....	1,774.2	2,478.2	(704.0)	70.6%	98.6%	(28.0%)
27	25 Total Cash Expenses .....	(349.8)	(336.1)	(13.7)	(13.9%)	(13.4%)	(0.5%)
28	Movement in Expense Account .....	(5.5)	0.0	(5.5)	(0.2%)	0.0%	(0.2%)
29	Reduction in Liquidity Reserve .....	40.0	40.0	0.0	1.6%	1.6%	(0.0%)
29A	Shortfall in Liquidity Reserve.....	41.7	0.0	41.7	1.7%	0.0%	1.7%
30	Interest Payments .....	(511.6)	(1,014.3)	502.7	(20.3%)	(40.3%)	20.0%
31	Swap/Cap Cashflows .....	(182.6)	(28.2)	(154.4)	(7.3%)	(1.1%)	(6.1%)
32	∑ 26-31 <b>TOTAL</b> .....	806.3	1,139.6	(333.3)	32.1%	45.3%	(13.3%)
33	<b>PRINCIPAL PAYMENTS</b>						
	Class A.....	754.8	1,000.9	(246.1)	30.0%	39.8%	(9.8%)
	Class B.....	51.5	125.1	(73.6)	2.0%	5.0%	(2.9%)
	Class C.....	0.0	13.6	(13.6)	0.0%	0.5%	(0.5%)
	<b>Total</b> .....	806.3	1,139.6	(333.3)	32.1%	45.3%	(13.3%)

	2001		
	Actual	Base Case	Variance
	(\$ Millions)		
<b>Debt Balances at May 15, 2007</b>			
Subclass A-6 .....	0.0	0.0	0.0
Subclass A-8 .....	390.6	700.0	(309.4)
Subclass A-9 .....	750.0	194.5	555.5
Class B .....	226.8	153.2	73.6
Class C .....	349.8	336.2	13.6
Class D .....	395.1	395.1	(0.0)
	2,112.4	1,779.0	333.4

	Mar-01 Closing	Actual	2001 Base Case	
	(\$ Millions)	(\$ Millions)	(\$ Millions)	
<b>Net Cash Collections</b> .....		806.3	1,139.6	
Add Back Interest Payments and Swap/Cap Cashflows .....		694.2	1,042.5	
a Net Cash Collections (excl. interest payments and swap/cap cashflows) .....		1,500.5	2,182.1	
b Swap/Cap Cashflows .....		182.6	28.2	
c Class A Interest .....		300.5	492.6	
d Class A Minimum .....		499.9	0.0	
e Class B Interest .....		20.5	81.6	
f Class B Minimum .....		51.5	125.1	
g Class C Interest .....		76.0	175.2	
h Class D Interest .....		114.6	264.9	
i Class A Principal Adjustment .....		254.9	1,000.9	
j Class C Scheduled .....		0.0	13.6	
k Class D Scheduled .....		0.0	0.0	
l Permitted Aircraft Modifications .....		0.0	0.0	
m Step-up Interest .....		0.0	0.0	
n Class E Minimum Interest .....		0.0	0.0	
o Class B Supplemental .....		0.0	0.0	
p Class A Supplemental .....		0.0	0.0	
<b>Total</b> .....		1,500.5	2,182.1	
[1] <b>Interest Coverage Ratio</b>				
Class A .....		3.1	4.2	= a/(b+c)
Class B .....		N/A	3.6	= a/(b+c+d+e)
Class C .....		N/A	2.4	= a/(b+c+d+e+f+g)
Class D .....		N/A	1.9	= a/(b+c+d+e+f+g+h)
[2] <b>Debt Coverage Ratio</b>				
Class A .....		N/A	4.2	= a/(b+c+d)
Class B .....		N/A	3.0	= a/(b+c+d+e+f)
Class C .....		N/A	N/A	= a/(b+c+d+e+f+g+h+i+j)
Class D .....		N/A	N/A	= a/(b+c+d+e+f+g+h+i+j+k)
[3] <b>Loan to Value Ratios (in U.S. dollars)</b>				
Adjusted Portfolio Value .....	3,108.6	1,132.4	1,915.9	
Liquidity Reserve Amount of which				
— Cash .....	156.9	60.0	116.0	
— Accrued Expenses .....	12.6	10.0	0.0	
Subtotal .....	169.5	70.0	116.0	
Less Lessee Security Deposits .....	36.9	0.0	36.0	
Subtotal .....	132.6	70.0	80.0	
[4] <b>Total Asset Value</b> .....	3,241.2	1,202.4	1,995.9	

Note Balances as at:	Actual March 15, 2001		Actual May 15, 2007		2007 Base Case May 15, 2007	
	(\$ millions)	(% of [4])	(\$ millions)	(% of [4])	(\$ millions)	(% of [4])
Class A .....	1,895.4	58.5%	1,140.6	94.9%	894.5	44.8%
Class B.....	278.3	67.1%	226.8	113.7%	153.2	52.5%
Class C.....	349.8	77.9%	349.8	142.8%	336.2	69.3%
Class D .....	395.1	90.0%	395.1	175.7%	395.1	89.1%
	<u>2,918.6</u>		<u>2,112.4</u>		<u>1,779.0</u>	

- [1] **“Interest Coverage Ratio”** is equal to Net Cash Collections (excluding interest payments and swap/cap cashflows) expressed as a ratio of the interest payments payable on each subclass of notes plus the interest and minimum principal payments payable on each subclass of notes that rank senior in priority of payment to the relevant subclass of notes. Actual Interest Coverage Ratios have not been provided for the class B, C and D notes as interest amounts have not been paid on these notes since the December 2003 payment date.
- [2] **“Debt Coverage Ratio”** is equal to Net Cash Collections (excluding interest payments and swap/cap cashflows) expressed as a ratio of the interest and minimum/scheduled principal payments payable on each subclass of notes plus the interest and minimum/scheduled principal payments payable on each subclass of notes that ranks equally with or senior to the relevant subclass of notes in the priority of payments. In respect of the class A notes, principal adjustment amount payments have been excluded as they are a function of aircraft values. Actual Debt Coverage Ratios have not been provided for the class A, B, C and D notes as minimum principal amounts on the class A and B notes have not been paid in full and no scheduled principal amounts have been paid on the class C and D notes in the period since March 2001. 2001 Base Case Debt Coverage Ratios have not been provided for the class C and D notes as no principal payments were assumed.
- [3] **“Adjusted Portfolio Value”** represents the base value of each aircraft in the portfolio as determined by the most recent appraisal multiplied by the depreciation factor at payment date divided by the depreciation factor as of the relevant appraisal date.
- [4] **“Total Asset Value”** is equal to total expected/adjusted portfolio value plus liquidity reserve amount minus lessee security deposits.

## K. THE ACCOUNTS

The indentures and the security trust agreement provide that substantially all of Airplanes Group’s cash inflows and outflows occur through the rental accounts, collection account, lessee funded account and expense account which the cash manager, acting on behalf of the security trustee, has established and maintains at a bank having:

- a long-term unsecured debt rating of not less than AA, or the equivalent, by the rating agencies, or
- a certificate of deposit rating of A-1+ by Standard & Poor’s, P-1 by Moody’s and F1 by Fitch,

except that, where required by the terms of the relevant leases, some rental accounts may be established at banks having ratings of less than AA, or the equivalent, by the rating agencies or a certificate of deposit rating of less than A-1+ by Standard & Poor’s, P-1 by Moody’s and F1 by Fitch.

Except where local legal or regulatory reasons do not permit, all of these accounts are held in the names of the security trustee, who has sole dominion and control over the accounts, including the sole power to direct withdrawals from or transfers among the accounts. Subject to conditions set forth in the cash management agreement, the security trustee has delegated its authority over the accounts to the cash manager but the security trustee is not responsible for the acts or omissions of the cash manager.

For so long as any notes remain outstanding, funds on deposit in the accounts will be invested and reinvested at Airplanes Group’s written direction (which direction has been delegated to the cash manager pursuant to the cash management agreement) in one or more permitted account investments, maturing, in the case of the collection account and expense account, such that sufficient funds shall be available to make required payments on the first succeeding scheduled interest payment date on the notes after those investments are made. Investment and reinvestment of funds in the lessee funded account must be made in a manner and with maturities that conform to the requirements of the related leases. Investment earnings on funds deposited in any account, net of losses and investment expenses, will (to the extent permitted by the terms of the related leases in the case of funds in the lessee funded account) be deposited in the collection account and treated as collections.

## RENTAL ACCOUNTS

The lessees make all payments under the leases directly into the applicable rental accounts. Pursuant to the cash management agreement, the cash manager transfers, or causes to be transferred, all funds deposited into the rental accounts into the collection account as collections within one business day of receipt thereof (other than certain limited amounts, if any, required to be left on deposit for local legal or regulatory reasons).

## THE COLLECTION ACCOUNT

All of the following “**collections**” received by Airplanes Group have to be deposited in the collection account:

- rental payments;
- payments under any letter of credit, letter of comfort, letter of guarantee or other assurance in respect of a lessee’s obligations under a lease;
- the liquidity reserve amount;
- amounts received in respect of claims for damages or in respect of any breach of contract for any nonpayment (including any amounts received from any Airplanes Group subsidiary, whether by way of distribution, dividend, repayment of a loan or otherwise and any proceeds received in connection with a lessee’s restructuring);
- net proceeds of any aircraft sale or amounts received under purchase options and other agreements;
- proceeds of any insurance payments in respect of any aircraft or any indemnification proceeds;
- amounts transferred from the lessee funded account to the collection account;
- net payments to Airplanes Group under any swap or cap agreement;
- investment income on all amounts on deposit in the accounts (in each case to the extent consistent with the terms of applicable related leases); and
- any other amounts received by any member of Airplanes Group, except specified funds required to be segregated from Airplanes Group’s other funds, applied in connection with a redemption, received in connection with a refinancing issue of notes and required to be paid over to any third party.

Collections on deposit in the collection account are calculated by the cash manager on the fourth business day immediately preceding each interest payment date. On each payment date, the cash manager transfers from the collection account to the expense account the portion of Airplanes Group expenses that are due and payable or are anticipated to become due and payable over the next interest accrual period on the notes (the “**required expense amount**”) and that have not been paid directly by the cash manager to expense payees. The cash manager may also transfer other amounts into the expense account for unanticipated expenses falling due and payable within that interest accrual period. If there are available funds in accordance with the priority of payments on any payment date, the cash manager will also transfer amounts in respect of expenses and costs that are not regular, monthly recurring expenses but are anticipated to become due and payable in any future interest accrual period (“**permitted accruals**”) to the expense account. Amounts received in respect of segregated security deposits and maintenance reserves are transferred directly into the lessee funded account.

## LIQUIDITY RESERVE AMOUNT

To the extent of available cashflows, Airplanes Group is required to maintain a cash balance in the collection account under the indentures in an amount equal to the sum of:

- the maintenance reserve amount (\$60 million for purposes of the “First Collection Account Top-up” plus an additional \$20 million for purposes of the “Second Collection Account Top-up” as of March 15, 2007, as further described below), and
- a security deposit reserve amount (equal to approximately \$21.2 million as of March 15, 2007).

The indentures permit the required maintenance reserve amount to be increased or decreased from time to time by an action of the board of directors of Airplanes Limited and the controlling trustees of Airplanes Trust in light of significant changes in, among other things, the condition of the aircraft, the terms and conditions of future leases, the financial condition of the lessees or prevailing industry conditions. Any proposed reduction by the board of directors or the controlling trustees is subject to confirmation in advance in writing from the rating agencies that the proposed reduction in the liquidity reserve amount will not result in a lowering or withdrawal of their ratings of any class of certificates.

If funds on deposit in the collection account are insufficient to satisfy the liquidity reserve amount at any time, as has been the case since December 15, 2003, we may continue to make all payments, including required payments on the notes and the guarantees, which rank prior to or equally with payments of accrued but unpaid interest on the class D notes and any permitted accruals so long as the balance of funds in the collection account does not fall below the amount required to be retained for the purpose of the “First Collection Account Top-up” in the priority of payments (currently \$60 million). If the balance of funds in the collection account falls below the amount required to be retained for the purpose of the “First Collection Account Top-up” in the priority of payments, we may continue to make all payments, including required payments on the notes and the guarantees, of (a) all accrued but unpaid interest and, on the final maturity date, principal of the class or subclass of the most senior class of notes then outstanding to avoid a note event of default and (b) payments under our swap agreements.

#### **THE LESSEE FUNDED ACCOUNT**

Some leases require that certain lessee security deposits and supplemental rent payments to provide for maintenance reserves be segregated from other Airplanes Group funds. These security deposits and maintenance reserves are held in the “**lessee funded account**” and are accounted for (and, if required by any lease, segregated) on a per lease basis.

Funds on deposit in the lessee funded account are used to make specified maintenance payments, security deposit repayments and other specified or permitted payments and will not be used to make payments in respect of the notes or the certificates at any time, including after a note event of default. In some circumstances where lessees relinquish their rights to receive certain maintenance and security deposit payments upon the expiration of a lease, surplus funds may be transferred from the lessee funded account to the collection account.

#### **THE EXPENSE ACCOUNT**

On each payment date, the cash manager withdraws the required expense amount from the collection account to pay the expenses. To the extent that the required expense amount has not been paid directly to expense payees, it is deposited into the expense account. Further withdrawals of cash from the collection account by the cash manager to satisfy expenses due and payable prior to the next payment date that were not previously anticipated are also deposited in the expense account. If funds on deposit in the collection account are less than the required expense amount on any payment date, we will be unable to pay the required expense amount in full, which may lead to a default under our various service agreements or other contracts under which the expenses arise.

## 7. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

### INTEREST RATE SENSITIVITY

Airplanes Group's principal market risk exposure is to changes in interest rates. This exposure arises from the notes (as illustrated in the table above at "6C. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations — Indebtedness") and the derivative instruments used by Airplanes Group to manage interest rate risk.

### INTEREST RATE RISK AND MANAGEMENT

In general, an interest rate exposure arises to the extent that Airplanes Group's fixed and floating interest obligations in respect of notes and certificates do not correlate to the mix of fixed and floating rental receipts for different rental periods. We manage this interest rate exposure through the use of interest rate swaps and interest rate caps.

Since we are no longer paying interest on the class B notes and certificates, we hedge our interest rate exposure in respect of the class A notes and certificates only as our receipts of rental income are based largely on a fixed interest rate which does not correlate to the floating payments due on the class A notes and certificates. Our cashflows have been insufficient to enable any funds to be allocated to the "Second Collection Account Top-up" in the priority of payments since December 15, 2003. We have therefore not included this cash balance in our hedging calculations since the end of 2003.

Under the interest rate swaps, Airplanes Group pays fixed amounts and receives floating amounts on a monthly basis. The swaps amortize having regard to a number of factors, including the expected pay down schedule of the class A notes, the expiry dates of the leases under which lessees are contracted to make fixed rate rental payments and the LIBOR reset dates under the floating rate leases. In the past, the administrative agent sought to enter into additional swaps or sell at market value or unwind swaps in order to rebalance the floating interest obligations and the fixed and floating mix of rental receipts. However, because of our financial condition, we are no longer able to find eligible counterparties who are willing to enter into new swaps with us, and as a result, we have begun purchasing caps. The cash manager seeks to enter into caps on a periodic basis in order to hedge our floating interest obligations and our fixed and floating mix of rental receipts. Under the interest rate caps, Airplanes Group will receive the excess, if any, of one month LIBOR, reset monthly on an actual/360 adjusted basis over the strike rate of the relevant cap.

As of March 31, 2007, Airplanes Group had unamortized swaps and caps with an aggregate notional principal balance of \$1,150 million. The aggregate notional principal balance of these swaps and caps reduce by their terms to an aggregate notional principal balance of \$825 million by March 31, 2008, to an aggregate notional principal balance of \$730 million by March 31, 2009, to an aggregate notional principal balance of \$395 million by March 31, 2010, to an aggregate notional principal balance of \$245 million by March 31, 2011 and to an aggregate notional principal balance of \$nil by March 31, 2012. None of the swaps and caps has a maturity date extending beyond January 2012. The aggregate fair market value of the portfolio of 16 swaps and 7 caps as of March 31, 2007 was estimated at \$13 million (that is, the swaps and caps were "**in-the-money**," meaning that if the swaps and caps were sold, a profit of \$13 million would result) as detailed below:

#### AIRPLANES GROUP SWAP BOOK AT MARCH 31, 2007

Swap Number	Notional Amount(1)(3) (in \$ millions)	Effective Date	Final Maturity Date	Fixed Rate Payable (2)	Estimated Fair Market Value as of March 31, 2007
1 .....	90	15-Jul-04	15-May-07	5.8620%	(82,619)
2 .....	45	15-Apr-03	15-May-07	3.5350%	135,572
3 .....	15	15-Mar-04	15-May-07	5.2020%	3,012
4 .....	90	15-Dec-04	15-Jun-07	4.1300%	270,833
5 .....	85	17-Mar-03	17-Sep-07	3.8700%	612,863
6 .....	0	15-May-07	15-Nov-07	4.8000%	199,148
7 .....	0	17-Sep-07	17-Dec-07	4.9440%	21,511
8 .....	40	15-Jul-05	15-Apr-08	3.4800%	1,275,598
9 .....	50	15-Jun-05	15-Oct-09	3.8625%	1,245,725
10 .....	50	15-Jul-05	15-Nov-09	4.0775%	1,008,443

Swap Number	Notional Amount(1)(3) (in \$ millions)	Effective Date	Final Maturity Date	Fixed Rate Payable (2)	Estimated Fair Market Value as of March 31, 2007
11 .....	50	15-Aug-05	15-Jan-10	4.0913%	1,043,252
12 .....	50	15-Sep-05	15-Mar-10	4.6088%	363,023
13 .....	50	15-Apr-05	15-Apr-10	4.0800%	1,138,694
14 .....	50	15-Oct-05	15-Apr-10	4.3525%	743,463
15 .....	50	15-Nov-05	15-Apr-09	4.3425%	568,414
16 .....	55	15-Feb-06	15-Nov-08	4.3375%	933,295
Swap Total .....	<u>770</u>				<u>9,540,227</u>

#### AIRPLANES GROUP INTEREST RATE CAPS AT MARCH 31, 2007

Interest Rate Cap	Notional Amount(1)(4) (in \$ millions)	Effective Date	Final Maturity Date	Strike Rate (5)	Estimated Fair Market Value as of March 31, 2007
1 .....	50	15-Dec-04	15-Jun-09	5.0000%	266,469
2 .....	85	15-May-06	15-Jan-09	5.0000%	295,129
3 .....	0	15-Nov-09	15-Nov-10	5.0000%	936,459
4 .....	105	15-Jun-06	15-May-11	6.0000%	386,956
5 .....	70	15-Oct-06	15-Sep-11	5.5000%	539,187
6 .....	0	15-Nov-10	15-Jan-12	5.5000%	417,989
7 .....	70	15-Feb-07	15-Jan-12	5.5500%	597,633
Cap Total .....	<u>380</u>				<u>3,439,822</u>
Swap and Cap Total .....	<u>1,150</u>				<u>12,980,049</u>

- (1) While some of the above swaps and caps have a fixed notional amount, many amortize over the period to the final maturity date.
- (2) Under all swaps, Airplanes Group receives floating rate payments at one month LIBOR, reset monthly on an actual/360 adjusted basis.
- (3) The initial amounts for swaps numbers 6 and 7 are \$95 million and \$75 million respectively.
- (4) The initial amounts for caps numbers 3 and 6 are \$75 million and \$100 million respectively.
- (5) Under all caps, Airplanes Group receives the excess, if any, of one month LIBOR, reset monthly on an actual/360 adjusted basis over the strike rate of the cap.

Additional interest rate exposure will arise to the extent that lessees owing fixed rate rental payments default and interest rates have declined between the contract date of the lease and the date of default. This exposure can be managed through the purchase of swaptions. If Airplanes Group purchases swaptions, these, if exercised, will allow Airplanes Group to enter into interest rate swap transactions under which it would pay floating amounts and receive fixed amounts. These swaptions could be exercised in the event of defaults by lessees owing fixed rate rental payments in circumstances where interest rates had declined since the contract date of such leases. Following consultation with the rating agencies in the year ended March 31, 2002, it is not currently proposed to purchase any swaptions due primarily to our current cashflow performance.

There can be no assurance that Airplanes Group's interest rate risk management strategies will be effective to manage its exposure to adverse changes in interest rates.

Our indentures require that any counterparty with whom we enter into a swap or cap have at least a short-term unsecured debt rating of A-1+ from Standard & Poor's and a long-term unsecured debt rating of A2 from Moody's or otherwise as approved by the Board with the prior agreement of the rating agencies. However, because of our financial condition, we are no longer able to find eligible counterparties who are willing to enter into new swaps with us, and as a result of this we have begun purchasing caps.

The directors of Airplanes Limited and the controlling trustees of Airplanes Trust are responsible for reviewing and approving the overall interest rate management policies and transaction authority limits. Specific hedging contracts are approved by officers of the

cash manager acting within the overall policies and limits. Counterparty risk is monitored on an ongoing basis. Counterparties are subject to the prior approval of the directors of Airplanes Limited and the controlling trustees of Airplanes Trust. Airplanes Group's counterparties consist of the affiliates of major U.S. and European financial institutions who have credit ratings, or provide collateralization arrangements, which are consistent with maintaining the ratings of the class A certificates.

On April 1, 2001 we adopted Statement of Financial Accounting Standards (SFAS) 133, "*Accounting for Derivative Instruments and Certain Hedging Activities*" and SFAS 138, "*Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133.*" As a result, all derivatives are now recognized on the balance sheet at their fair value. All derivatives are designated as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), a hedge of a forecasted transaction or of the variability of cashflows to be received or paid related to a recognized asset or liability ("cashflow" hedge), a foreign-currency fair value or cashflow hedge ("foreign currency" hedge) or a "held for trading" instrument. At March 31, 2007 all of Airplanes Group's interest rate swaps were designated as "cashflow" hedges and Airplanes Group's interest rate caps were designated as "held for trading" instruments.

As noted above, we have a detailed hedging policy, which has been approved by the board of directors of Airplanes Limited and controlling trustees of Airplanes Trust and the rating agencies. As part of this hedging policy we have formally documented all relationships between hedging instruments and hedged items as well as our risk-management objective and strategy for undertaking various hedge transactions.

This process includes linking all derivatives that are designated as cashflow hedges to specific liabilities on the balance sheet. We formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cashflows of hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cashflow hedge are included in the item "Net change in cashflow hedges" in "other comprehensive income" (OCI), until earnings are affected by the variability in cashflows of the designated hedged item.

Hedge accounting is discontinued prospectively when it is determined that the derivative is no longer highly effective in offsetting changes in the cashflows of the hedged item, the derivative expires or is sold, terminated, or exercised, or it is determined that designation of the derivative as a hedging instrument is no longer appropriate. In all situations in which hedge accounting is discontinued, the derivative will continue to be carried at its fair value on the balance sheet, and any changes in its fair value will be recognized in earnings. In all situations where derivatives are designated as trading instruments, they are carried at fair value on the balance sheet and any changes in fair value are recognized in earnings.

The opening effect as at April 1, 2001 of the adoption of SFAS 133 was \$(38) million in other comprehensive income (i.e., if the swaps were sold then a loss of \$38 million would have resulted) and \$5 million in earnings (being the deferred gain on early termination of interest and related derivatives). The net change in the value of cashflow hedges for the year ended March 31, 2007 was a decrease of \$9 million.

As at March 31, 2007 all of interest rate caps held by Airplanes Group were designated as "held for trading" instruments. The net change in the value of held for trading instruments for the year ended March 31, 2007 was a decrease of \$3.3 million and is recorded in the Income Statement.

## **8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **9. CONTROLS AND PROCEDURES**

### ***(a) Evaluation of disclosure controls and procedures***

The Chairman of the Board of Directors of Airplanes Limited and Chairman of the Controlling Trustees of Airplanes Trust, acting on the recommendation of the Board of Directors of Airplanes Limited and the Controlling Trustees of Airplanes Trust, after evaluating the effectiveness of Airplanes Group's "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Annual Report, has concluded that our disclosure controls and procedures

were effective based on their evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Airplanes Group's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the Board of Directors of Airplanes Limited and the Controlling Trustees of Airplanes Trust have concluded that these controls and procedures are effective at the "reasonable assurance" level. However, Airplanes Group believes that a control system, no matter how well designed or operated, cannot provide absolute assurance that the objectives of the control system are met, and that no evaluation of controls can provide absolute assurance that various types of corporate operational risks within a company particularly one such as this that relies exclusively on third parties for all services, will be detected in a timely manner.

***(b) Changes in internal controls***

There were no changes in the internal controls of Airplanes Group over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15(e) or 15(d)-15(e) that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## 10. DIRECTORS AND TRUSTEES OF AIRPLANES GROUP

### A. DIRECTORS AND CONTROLLING TRUSTEES

The Directors and the Controlling Trustees of Airplanes Limited and Airplanes Trust, respectively, their respective ages and principal activities are as follows:

Name	Age	Offices Held	
		Airplanes Limited	Airplanes Trust
Roy M. Dantzig.....	62	Independent director	Independent controlling trustee
Joseph E. Francht, Jr. ....	56	Independent director	Independent controlling trustee
William M. McCann.....	63	Chairman and independent director	Chairman and independent controlling trustee
Isla M. Smith .....	55	Independent director	Independent controlling trustee
Brian T. Hayden.....	59	Class E note director	Class E note controlling trustee

Roy Dantzig is Chairman of Interior Services Group and a non-executive director of a number of other companies. He qualified as a chartered accountant in 1968 having started his career with Coopers & Lybrand. Between 1970 and 1980, he engaged in corporate advisory work, principally as a director of Samuel Montagu. In 1980, Mr. Dantzig was appointed by the British Government as the finance director of British National Oil Corporation and he served in this capacity until 1984. Between 1985 and 1989, he was a director of the corporate broking division of Wood McKenzie. In 1989 he joined the board of directors of Stanhope Properties and became its finance director from 1992 until the company was acquired in 1995. Thereafter he served as managing director of Second Site Property Holdings Ltd. until 2003.

Joseph Francht has been a private investor and consultant since 1998. Mr. Francht also serves as a controlling trustee and as chairman of the audit committee of Lease Investment Flight Trust (another aircraft securitization vehicle). He was Senior Vice President-Finance and Treasurer at Northwest Airlines from 1990 to 1998, where he was responsible for, among other things, all capital markets transactions, aircraft financing activities and fleet planning and analysis. He has also served as chairman of Northwest's Pension Investment Committee and was on the Board of Directors of Champion Air, Inc. and Northwest Aerospace Training Corporation. Prior to that, from 1972 to 1990, Mr. Francht was employed as a corporate lending officer at Chase Manhattan Bank, now JP Morgan Chase, and later, at Banque Paribas, now BNP Paribas, in several senior lending positions, including Senior Vice President-Leveraged Capital Group.

William McCann is a chartered accountant. From 1987 to 1995 he was the managing partner of Price Waterhouse in Ireland and from 1991 to 1995 he was a member of the Price Waterhouse World Board. He was chairman of the Electricity Supply Board, Ireland from 1996 to 2001 and was a director of the Central Bank of Ireland from 1993 to 1998. He is currently chairman of Tesco Ireland Limited and Galco Steel Limited and is deputy chairperson of the Irish Takeover Panel. He is a director of Readymix plc and of a number of other companies. He is a member of the board of the Michael Smurfit Graduate School of Business, University College Dublin.

Isla Smith qualified as an attorney in South Africa before moving to London and qualifying as a solicitor in 1980 and a member of the Institute of Taxation in 1981. She joined Norton Rose as an associate in 1980 and became a Commercial Tax Partner in 1985. Ms. Smith was a member of the firm's management board for 7 years and Global Head of Tax from 2002. She left Norton Rose in 2004. She is now a non-executive director of Abbot Group plc, has a number of consultancies and is a trustee of two charitable institutions, CityLife Limited and Resources Africa (UK).

Brian Hayden qualified as a mechanical engineer in 1970 and started his career with Aer Lingus. He worked in various management positions within Aer Lingus during the next 19 years. In 1989, he moved to GPA Group (now known as AerCap Ireland) to head the technical division as Senior Vice President Technical. In 1993, he joined GECAS and is presently GE National Executive for the Republic of Ireland. He is a director of GECAS and a former director of Irish Helicopters.

The Directors and Controlling Trustees of Airplanes Limited and Airplanes Trust, as well as other individuals, serve as directors of various of our subsidiaries.

## **B. THE SERVICER**

GECAS provides various aircraft-related services to us as servicer under the servicing agreement. On November 20, 1998, GECAS' affiliate, GE Capital, acquired the class E notes previously held by GPA Group (now known as AerCap Ireland) and its subsidiaries. As the holder of the majority of the class E notes, GE Capital has the right to appoint one director to the board of Airplanes Limited and one controlling trustee of Airplanes Trust. GECAS holds 5% of the ordinary share capital of Airplanes Holdings, and GE Capital, an affiliate of GECAS, has an option to acquire the residual interest in Airplanes Trust from AerCap, Inc.

GECAS is a global commercial aviation financial services company that offers a broad range of aircraft financial products and provides management, marketing and technical support services to airlines, aircraft owners, lenders and investors and various of its affiliates, including the GE Group, and other third parties, including Aircraft Finance Trust, Lease Investment Flight Trust and Airplanes Group. As of March 31, 2007, GECAS and its affiliates managed a portfolio consisting of 1,770 aircraft on lease to 220 lessees in 71 countries throughout the world. As of March 31, 2007, GECAS and its affiliates have also committed to purchase a total of 216 new aircraft from manufacturers, deliverable through 2012.

GECAS and its affiliates offer such financial products as finance leases (including both direct financing and leveraged leases), operating leases and other structured finance products (including aircraft securitization vehicles). Its management services include collecting rental payments, arranging and monitoring aircraft maintenance performed by others, limited technical inspection of aircraft, arranging and monitoring insurance, arranging for aircraft valuations, registration and de-registration, monitoring compliance with leases, enforcement of lease provisions against lessees, confirming compliance with applicable ADs and facilitating delivery and redelivery of aircraft. GECAS also arrange sales of aircraft to third parties. GECAS, its affiliate, GE Capital, or any of its other affiliates may acquire debt or beneficial interests in other securitization vehicles that own a portfolio of aircraft assets.

GECAS is headquartered in Shannon, Ireland where it had 123 employees as of March 31, 2007. The Aviation Services business of GE, which includes GECAS, has a further 487 employees worldwide and has operations in Stamford, Connecticut; Shannon, Ireland; Miami, Florida and a number of other locations.

The table below sets forth the different aircraft comprising the GECAS and its affiliates managed portfolio as of March 31, 2007 by manufacturer and by whether the aircraft are owned and managed by affiliates of GE Capital or managed for third parties or Airplanes Group.

Aircraft Type and Class	GE Capital Fleet	Other Managed Third Parties(1)	Airplanes Group	Total
<b>Airbus</b>				
A300.....	10	—	—	10
A310.....	3	1	—	4
A318.....	12	—	—	12
A319.....	160	3	—	163
A320.....	157	22	12	191
A321.....	16	—	—	16
A330.....	25	1	—	26
<b>Boeing</b>				
B727.....	5	—	—	5
B737-200.....	—	—	1	1
B737-300/400/500.....	229	34	43	306
B737-600/700/800.....	226	22	—	248
B737-900.....	4	—	—	4
B747.....	28	3	—	31
B757-200.....	32	—	3	35
B767-200.....	1	—	—	1
B767-200ER.....	14	4	1	19
B767-300ER.....	40	15	4	59
B767-300F.....	1	—	—	1
B777-200ER/300ER.....	25	—	—	25
<b>McDonnell Douglas</b>				
DC8.....	—	—	3	3
DC10.....	3	—	—	3
MD-11F.....	7	1	—	8
MD-81.....	—	10	—	10
MD-82.....	7	24	2	33
MD-83.....	15	5	20	40
MD-87.....	—	5	1	6
MD-88.....	2	—	—	2
<b>Fokker</b>				
F-100.....	10	—	16	26
Other Jets.....	391	49	—	440
Turboprops.....	21	—	21	42
<b>Total</b> .....	<b>1,444</b>	<b>199</b>	<b>127</b>	<b>1,770</b>
<b>Body Type:</b>				
Widebody.....	157	25	5	187
Narrowbody.....	1,444	174	122	1,583
<b>Stage Compliance (2):</b>				
Stage 2.....	54	—	1	55
Stage 3.....	1,390	199	126	1,715

(1) The third parties include Lease Investment Flight Trust and Aircraft Finance Trust. Certain aircraft included in the Other Managed Third Parties fleet are owned by joint ventures or pursuant to other arrangements in which unaffiliated parties have interests.

(2) Turboprop and Stage 3 hushkitted aircraft have been classified as Stage 3 compliant.

## THE SERVICING AGREEMENT

GECAS provides services with respect to all of the aircraft in our portfolio pursuant to the servicing agreement. The servicing agreement provides that the servicer will act in accordance with applicable law and with our directions in performing the aircraft

services described below. In addition, the servicer has agreed to perform its services in accordance with the following “**GECAS services standard**” and “**GECAS conflicts standard**”:

- GECAS must use reasonable care and diligence at all times in the performance of the services.
- If a conflict of interest arises regarding GECAS’s management, servicing or marketing of (a) any two aircraft in our portfolio or (b) any aircraft in our portfolio and any other aircraft managed by GECAS, GECAS will perform its services in good faith. If the two aircraft or the aircraft in our portfolio and the other aircraft managed by GECAS are substantially similar in terms of objectively identifiable characteristics that are relevant for the particular services to be performed, GECAS will not discriminate among the aircraft or between any of the aircraft in our portfolio and any other aircraft managed by GECAS on an unreasonable basis. GECAS is not obliged to inform us of any conflicts of interest.

The servicer does not have any fiduciary duty or other implied duties to us or any other person, including any certificateholders, and its obligations will be limited to the express terms of the servicing agreement. GECAS will not be liable to us for any of our losses arising out of, in connection with or related to, GECAS’s management of our portfolio, except where those losses are finally adjudicated to have resulted directly from GECAS’s gross negligence or willful misconduct. The servicer is not obliged to take any action that it believes is reasonably likely to violate any applicable law with respect to GECAS or its affiliates, violate any established written policies of GE related to legal, ethical and social matters in business practices, or lead to an investigation by any governmental authority. In addition, the servicer does not assume any liability or accountability for (a) the terms and conditions of the notes, (b) the ability of Airplanes Limited or Airplanes Trust to comply with the terms and conditions of the notes or the guarantees and (c) the structuring or implementation of any aspect of the various transactions contemplated by this report.

Airplanes Limited, Airplanes Trust, Airplanes Holdings and AeroUSA have agreed to indemnify the servicer and its affiliates on an after-tax basis for any of its losses arising out of, in connection with or related to its performance of the services, except where those losses are finally adjudicated to have resulted directly from GECAS’s gross negligence or willful misconduct in respect of its obligation to apply the GECAS services standard or GECAS conflicts standard in respect of its performance of the services.

## **AIRCRAFT SERVICES**

The main categories of the services that are provided by the servicer are:

- lease marketing, including re-marketing, lease negotiation and execution;
- aircraft management, including lease rent collection, ensuring aircraft maintenance, insurance monitoring and procurement, contract compliance by, and enforcement against, lessees, and accepting delivery and re-delivery of aircraft;
- aircraft sales as we direct;
- monitoring of maintenance reporting, and provision of records and information about the aircraft;
- arranging valuations and monitoring regulatory developments;
- commercially reasonable assistance in complying with covenants relating to the aircraft under the indentures;
- assistance in connection with public or private offerings of certificates;
- legal and other professional services in the ordinary course of the operating lease business; and
- periodic reporting of operational information relating to the aircraft.

The servicer has also agreed to give us and our agents access to information and its personnel for monitoring purposes, and to separate its own funds from our funds.

## **OPERATING GUIDELINES**

Under the servicing agreement, GECAS is entitled to exercise the authority necessary to give it a practicable and working autonomy in performing the services. Airplanes Holdings, acting on behalf of Airplanes Group through the administrative agent, has established monitoring and control procedures to enable the servicer to properly manage our business and assets.

All transactions the servicer enters into on our behalf must be at arm's-length and on fair market value terms unless we agree otherwise. Some transactions or matters involving the aircraft require the prior written approval of Airplanes Holdings. These include:

- sales of aircraft unless required by a lease;
- entering into any leases, renewals or extensions on terms that do not comply with the operating covenants under the indentures;
- terminating any lease or leases to any single lessee with respect to aircraft having an aggregate depreciated net book value in excess of \$200 million;
- entering into any contract for the modification or maintenance of aircraft where the costs to be incurred (a) exceed the greater of (1) the estimated aggregate cost of a heavy maintenance check for a similar aircraft and (2) available maintenance reserves or other collateral under the related lease, or (b) are outside the ordinary course of our business;
- issuing any guarantee for us, or otherwise pledging our credit, other than with respect to trade payables in the ordinary course of business; and
- any transaction with GE Capital or any of its affiliates not contemplated in the servicing agreement.

## **BUDGET**

Airplanes Holdings adopts an annual budget, developed with the servicer, each year with respect to the aircraft. The servicer has agreed to use reasonable commercial efforts to attempt to achieve the budget each year.

## **SERVICING FEES**

Airplanes Limited, Airplanes Holdings and AeroUSA pay an annual index-linked fee to the servicer, payable monthly in arrears for the period each aircraft is under management. For the year to March 31, 2007, this fee was 0.61% of the agreed book value of each aircraft, payable monthly in arrears for the period of time that aircraft is under GECAS's management. The servicer is entitled to additional incentive fees based on annual cashflow generated by leases in excess of targets and sales of aircraft, with a minimum fee of \$1.5 million annually. The servicer is also entitled to additional fees in connection with the services required to be provided by GECAS in respect of any offerings and sales by us of certificates. Airplanes Limited, Airplanes Holdings and AeroUSA also pay expenses incurred or approved by the servicer on our behalf, including aircraft maintenance costs and insurance, outside professional advisory fees and other out-of-pocket expenses, which may be a significant component of our overhead costs. In the year ended March 31, 2007, aircraft maintenance reserve expenses were \$14.7 million. Other expenses, including servicer fees, outside professional advisory fees, insurance and other out-of-pocket expenses amounted to \$28.3 million for the same period.

## **TERM AND TERMINATION**

The initial term of the servicing agreement expires on the earlier of March 28, 2014 and the payment in full of all amounts outstanding under the notes. Each party has the right to terminate under specified circumstances. The servicer has the right to terminate the servicing agreement if any of the following occur:

- Airplanes Limited, Airplanes Trust, Airplanes Holdings and/or AeroUSA fail to pay when due any servicing fees or other amounts owed to the servicer after appropriate notice;
- Airplanes Limited, Airplanes Trust, Airplanes Holdings and/or AeroUSA fail to perform or observe or violate in any material respect any material term, covenant, condition or agreement under the servicing agreement;
- any of Airplanes Limited, Airplanes Trust, Airplanes Holdings, AeroUSA or their respective subsidiaries or affiliates has made a false or misleading representation or warranty in the servicing agreement or any related document that is reasonably likely to have a material adverse effect on the servicer or on its rights and obligations under the servicing agreement;
- an involuntary proceeding under applicable bankruptcy, insolvency, receivership or similar law against Airplanes Limited, Airplanes Trust, Airplanes Holdings, AeroUSA or any of their significant subsidiaries continues for 75 days or if any of these entities goes into liquidation or suffers a receiver or mortgagee to take possession of all or substantially all of our or its assets,

or if any of these entities commences a voluntary proceeding under bankruptcy, insolvency, receivership or similar law or makes a general assignment for the benefit of their creditors;

- Airplanes Limited, Airplanes Trust, AeroUSA, Airplanes Holdings and their respective subsidiaries and affiliates no longer own any aircraft;
- the indentures cease to be in full force and effect; or
- any guarantee in favor of the servicer by any of Airplanes Limited, Airplanes Trust, AeroUSA, Airplanes Holdings and their respective subsidiaries and affiliates ceases to be legal, valid and binding.

Airplanes Holdings, on behalf of itself, AeroUSA and Airplanes Limited, has the right to terminate the servicing agreement if any of the follow occur:

- the servicer ceases to be at least 75% owned, directly or indirectly, by GE or GE Capital;
- the servicer fails in any material respect to perform any material services required by the servicing agreement in accordance with the GECAS services standard or the GECAS conflicts standard, and this failure has a material adverse effect on Airplanes Group as a whole; or
- an involuntary proceeding under bankruptcy, insolvency, receivership or similar law against GE, GE Capital or the servicer continues undismissed for 75 days or any of those entities goes into liquidation or suffers a receiver or mortgagee to take possession of all or substantially all of its assets, or if GE, GE Capital or the servicer commences a voluntary proceeding under bankruptcy, insolvency, receivership or similar law or makes a general assignment for the benefit of its creditors.

Airplanes Limited, AeroUSA and Airplanes Holdings also have the right to terminate the servicing agreement upon six months' written notice to the servicer if:

- the servicer fails to perform any of its specified tax related undertakings to preserve the Shannon tax benefits as described below; and
- as a result, we experience a material adverse tax event as defined in the servicing agreement.

The servicer may resign if it determines that directions given, or services required, would, if carried out:

- be unlawful under applicable law;
- violate GE policy as written and in effect for GE and its controlled subsidiaries at that time;
- be likely to lead to an investigation by any governmental authority;
- expose the servicer to liabilities for which, in the servicer's good faith opinion, it is not adequately indemnified; or
- place the servicer in a conflict of interest so that, in the servicer's good faith opinion, it could not continue to perform its obligations under the servicing agreement according to its terms.

Generally, the servicer may only resign, and the parties may only terminate the servicing agreement, if a replacement servicer has been appointed and the rating agencies have confirmed that the current ratings of any certificates will not be lowered or withdrawn.

## **TAX STATUS**

Because GECAS owns 5% of the outstanding issued ordinary share capital of Airplanes Holdings and it maintains particular employment levels in Shannon, Ireland, Airplanes Holdings and its Irish tax-resident subsidiaries enjoyed reduced rates of corporation tax, and improved entitlements to capital allowances until December 31, 2005. In addition, these Shannon tax benefits included the right to pay interest in various circumstances without paying Irish withholding tax, and to deduct payments of interest in calculating corporate tax liability. While Airplanes Holdings and our Irish tax resident subsidiaries continued to benefit from their status as Shannon certified companies until the termination of the preferential tax regime on December 31, 2005, we cannot guarantee that the management of the aircraft by the servicer will not expose Airplanes Holdings or the Irish tax resident companies to tax liabilities

outside Ireland. The servicing agreement sets out various tax-related undertakings of the servicer to maintain a favorable tax treatment in Ireland for Airplanes Holdings and its Irish tax resident subsidiaries. These include:

- maintaining minimum levels of employment in Ireland if required for Airplanes Holdings or its Irish tax resident subsidiaries to maintain their Shannon licenses and tax certification;
- holding meetings of the board of directors of the servicer in Shannon at least quarterly, and only occasionally outside Shannon; and not outside Ireland;
- holding meetings of the servicer's transaction approval committee in Shannon at least monthly and only occasionally outside Ireland;
- a majority of the committee members must be employees of the servicer;
- generally signing aircraft-related contracts in Ireland or outside of Ireland pursuant to a limited power of attorney;
- compensating any of the servicer's affiliates for services provided outside Ireland in respect of the aircraft only to the extent those services are provided by express agreement;
- ensuring the managing director of the servicer is an officer and employee based in Shannon; and
- maintaining no offices outside Shannon.

If the servicer breaches a tax-related undertaking as a result of its gross negligence or willful misconduct and we experience a material tax event, our sole remedy is to terminate the servicing agreement after notice. The servicer has the right for any good faith commercial reason to modify the tax-related undertakings, which could lead to a loss of favorable tax treatment for Airplanes Holdings and its Irish tax resident subsidiaries.

On expiry of the preferential 10% corporate tax regime on December 31, 2005, Airplanes Holdings and its Irish tax resident subsidiaries became subject to Irish corporate tax on their net trading income, including leasing income, at the general Irish statutory rate for trading income which is currently 12.5%. The Irish Government has introduced amendments to Irish tax legislation over the last number of years to minimize the impact for companies on termination of the IFSC and Shannon regimes.

Overall, as a result of these amendments, it is not anticipated that the termination of the Shannon tax regime will have a material impact on Airplanes Holdings and its subsidiaries' Irish tax position although the absence of specific exemptions will require continued attention from the group to certain tax issues.

#### **ASSIGNMENT OF SERVICING AGREEMENT**

None of the servicer, Airplanes Limited, Airplanes Holdings or AeroUSA can assign their rights and obligations under the servicing agreement without the other parties' consent. However, the servicer may delegate a portion, but not all, of its duties to GE Capital or GE or any 75% or more owned subsidiary of GE Capital or GE.

#### **PRIORITY OF PAYMENT OF SERVICING FEES AND REIMBURSABLE EXPENSES**

The fees and expenses of the servicer rank senior in priority of payment to all payments of interest, principal and any premium on the notes.

The obligations of Airplanes Limited, Airplanes Holdings and AeroUSA under the servicing agreement have been guaranteed by each other, Airplanes Trust and their respective subsidiaries and affiliates.

GECAS's address is GE Commercial Aviation Services Limited, Aviation House, Shannon, Ireland and its telephone number is +353-61-706500.

## **C. THE ADMINISTRATIVE AGENT AND CASH MANAGER**

### ***AERCAP IRELAND***

Subsidiaries of AerCap Ireland serve as our administrative agent and cash manager. AerCap Ireland is a wholly-owned indirect subsidiary of AerCap N.V., a major participant in the global commercial aviation industry. AerCap N.V., directly and through AerCap Ireland and other subsidiaries, also owns and manages aircraft, both for its own account and for third parties, including AerCo and ALS, two other aircraft securitization vehicles. At March 31, 2007, AerCap N.V. directly had 50 aircraft in its portfolio which were on lease to 23 lessees in 18 countries and, through AerCap Ireland, had 25 aircraft in its portfolio which were on lease to 13 lessees in 10 countries. AerCap Ireland is also the holder of substantially all of the class E-1 and E-2 notes of AerCo and all of the class E-1 and E-2 notes of ALS and AerCap Ireland and its subsidiary act as servicer for the portfolio of aircraft owned by AerCo and by ALS. Subsidiaries of AerCap Ireland also act as administrative agent and cash manager to AerCo and as administrative agent to ALS.

On April 27, 2005, the shareholders of AerCap N.V. announced that they had reached agreement in relation to the sale of the entire issued share capital of the company to Cerberus Capital Management L.P.

AerCap acquired AeroTurbine in April 2006. AeroTurbine is a non original equipment manufacturer affiliated provider of after-market commercial transport category engines for sale, lease and exchange and also offers engine and airframe parts trading.

On November 27, 2006, AerCap and certain shareholders each sold a portion of the ordinary shares in AerCap in a public offering listed on the New York Stock Exchange.

At March 31, 2007, AerCap N.V. employed 361 people worldwide, with 38 employees in Shannon, Ireland, where AerCap Ireland is located. AerCap N.V. has its headquarters in Amsterdam, the Netherlands and it also has offices and facilities in Florida and Arizona, USA.

### **ADMINISTRATIVE AGENT**

AerCap Financial Services (Ireland) Limited, as administrative agent, is responsible for providing administrative and accounting services to the directors and controlling trustees. Its duties include:

- monitoring the performance of the servicer;
- liaising with rating agencies;
- maintaining accounting ledgers (although we retain responsibility for all discretionary decisions and judgments relating to the preparation and maintenance of ledgers and accounts, and we retain responsibility for, and prepare, our financial statements);
- preparing and presenting annual budgets to us for approval;
- authorizing payment of various expenses;
- coordinating any amendments to the transaction documents other than the leases;
- supervising outside counsel and coordinating legal advice;
- preparing and coordinating reports to investors and managing investor relations with the assistance of outside counsel and auditors, if appropriate;
- preparing, or coordinating the preparation of, all required tax returns for our approval and filing;
- maintaining, or monitoring the maintenance of, our books and records that are not maintained by our company secretary or the Delaware trustee;
- preparing agendas and any required papers for meetings of the governing bodies of Airplanes Group entities;
- assisting us in (i) developing and implementing our interest rate management policy and developing financial models, cashflow projections and forecasts, and (ii) making aircraft lease, sale and capital investment decisions;

- advising us as to the appropriate levels of the liquidity reserve amount; and
- assisting us in the refinancing of all or a portion of the notes and certificates.

We may also ask the administrative agent to provide additional services.

Under the administrative agency agreement, the administrative agent is entitled to a fixed annual fee and an annual fee which varies depending on the number of aircraft we own. These fees are paid monthly in arrears. The fixed annual fee during the year ended March 31, 2007 was \$3.20 million and the variable fee was approximately \$1.21 million. These fees have been index-linked with effect from April 1, 2003. The amount of the fixed annual fee payable to the administrative agent has been renegotiated with effect from April 1, 2005. Such fee has been reduced (on a non-cumulative basis before indexation) by \$0.6 million for the year ended March 31, 2007 and will be reduced (on a non-cumulative basis before indexation) by \$0.6 million per annum for the next financial year ending March 31, 2008, by \$0.92 million per annum on a non-cumulative basis for each of the subsequent seven financial years and by \$1.5 million per annum on a non-cumulative basis for each subsequent financial year. We reimburse the administrative agent for expenses incurred on our behalf and indemnify the administrative agent for any liability it incurs, other than through its own deceit, fraud, willful default or gross negligence.

The administrative agent may resign upon 60 days' written notice in defined circumstances. We may remove the administrative agent upon 180 days' written notice with or without cause. However, the resignation or removal of the administrative agent will not become effective until a successor administrative agent has been appointed with the consent of the servicer and has accepted appointment as the successor administrative agent under the administrative agency agreement.

#### ***CASH MANAGER***

AerCap Cash Manager Limited, as cash manager, provides cash management and related services to us, including establishing and administering our accounts, providing information about our accounts and investing the funds held by us in the collection account and the lessee funded account in prescribed investments (“**permitted account investments**”) on permitted terms. These accounts (but not the rental accounts) are maintained in the name of the security trustee. See “6E. Management’s Discussion and Analysis of Financial Condition and Results of Operations - The Accounts” for a more detailed description of our accounts.

The cash manager calculates monthly payments and makes other calculations required under the cash management agreement based on data it receives from the servicer. The cash manager also provides the trustee with the information required for the monthly reports to the certificateholders. It is the responsibility of the cash manager to ensure that the proceeds from the lease or sale of our assets are deposited in the collection account. Upon the occurrence of a note event of default, the cash manager will distribute funds in the manner set forth in the indentures.

We paid the cash manager an annual fee of \$0.96 million for the year ended March 31, 2007, which has been index-linked with effect from April 1, 2003, and indemnify the cash manager against any loss or liability it incurs, other than through its own deceit, fraud, willful default or gross negligence, or simple negligence in the handling of funds.

The cash manager may resign upon 30 days' written notice so long as a replacement cash manager has been appointed. We may remove the cash manager at any time upon 180 days' written notice with or without cause.

#### ***COMPANY SECRETARY***

Mourant & Co. Secretaries Limited, as company secretary for Airplanes Limited, provides secretarial services for, and maintains the books and records, including minute books and stock transfer records, of Airplanes Limited.

#### ***DELAWARE TRUSTEE***

Wilmington Trust Company, as the Delaware Trustee for Airplanes Trust, maintains the books and records, including minute books and trust certificate records, of Airplanes Trust.

#### ***CODE OF ETHICS***

Each of Airplanes Limited and Airplanes Trust has adopted a code of ethics. The code is applicable only to the directors of Airplanes Limited and the controlling trustees of Airplanes Trust, respectively, as Airplanes Limited and Airplanes Trust are special

purpose vehicles that do not employ any principal executive officer or principal financial officer or other employees. We have been informed by each of the servicer and the administrative agent that it is governed by a code of ethics instituted to fulfill its corporate governance requirements. Copies of the code of ethics for each of Airplanes Limited and Airplanes Trust are available upon request from Airplanes Group's administrative agent, AerCap Financial Services (Ireland) Limited, AerCap House, Shannon, Ireland.

#### **D. COMPENSATION**

All directors of Airplanes Limited and controlling trustees of Airplanes Trust are compensated for travel and other expenses incurred in the performance of their duties. Each independent director and independent controlling trustee is paid an index-linked annual fee, currently \$93,112, for their services in both capacities. The chairman of Airplanes Limited and Airplanes Trust also receives an additional index-linked annual fee, currently \$62,074, for his services in that capacity. The fees are index-linked and were adjusted for inflation on April 1, 2005 for the period to March 31, 2008 by reference to the increase in the US CPI from April 1, 2002 to March 31, 2005. The aggregate fees paid to the independent directors and independent controlling trustees by Airplanes Trust and Airplanes Limited may not exceed \$550,000 in any year. In addition, Mr. Dantzic and Mr. McCann each receive index-linked annual amounts, currently \$9,311, for their services as directors of Airplanes Holdings and certain of its subsidiaries and Ms. Smith receives an index-linked annual amount, currently \$3,104, for her services as a director of a subsidiary of Airplanes Holdings. Mr. Dantzic, Mr. McCann and Ms. Smith are also each entitled to receive an additional \$1,241 in respect of each board meeting of these companies which they attend, subject to a maximum payment of \$6,207 annually for each of them. Mr. Francht and Mr. Dantzic are also each entitled to receive an index-linked annual fee, currently \$3,104, from AeroUSA and AeroUSA 3 for their services as directors of these companies and are also entitled to receive an additional \$1,241 in respect of each board meeting of these companies which they attend, subject to a maximum payment of \$6,207 annually. The directors and controlling trustees are reimbursed for travel and other expenses, and premiums for directors' and officers' insurance are paid on their behalf. Neither the director nor the controlling trustee appointed by the holder of a majority in aggregate principal amount of the class E notes receives remuneration from Airplanes Limited or Airplanes Trust for his services, except reimbursement of travel and other expenses and payment of premiums for directors' and officers' insurance.

The directors and the controlling trustees do not receive any additional cash or non-cash compensation from Airplanes Limited or Airplanes Trust (either in the form of stock options, stock appreciation rights or pursuant to any long-term incentive plan, benefit or actuarial plan or any other similar arrangements of any kind) as salary or bonus for their services as directors or controlling trustees. None of the directors or controlling trustees currently has an employment contract with either Airplanes Limited or Airplanes Trust or serves as a member of a compensation committee of either Airplanes Limited or Airplanes Trust. The compensation of the directors of Airplanes Limited is set forth in the Articles of Association of Airplanes Limited and that of the controlling trustees is set forth in the Airplanes Trust Agreement. None of the directors or controlling trustees has any beneficial ownership in any of the equity securities of Airplanes Limited, Airplanes Trust or any of their subsidiaries.

None of the directors, controlling trustees or any member of their families, or any person owning five percent or more of Airplanes Limited's capital stock, has been party to any transaction, or is party to any currently proposed transaction, with Airplanes Limited, Airplanes Trust or any of their subsidiaries. No director or controlling trustee or any member of his family, or any corporation, organization or trust in which that director or controlling trustee is an executive officer, partner, trustee or has a beneficial interest, has been indebted in any amount to Airplanes Limited or Airplanes Trust.

#### **11. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Airplanes Group has had and currently maintains various relationships with GE Capital and GECAS. First, GECAS acts as servicer for Airplanes Group. Secondly, GECAS is the holder of 5% of the ordinary share capital of Airplanes Holdings. Thirdly, Mr. Hayden, an employee of GECAS, is a director of Airplanes Limited and a controlling trustee of Airplanes Trust. Fourthly, GE Capital holds the majority of the Airplanes Group class E notes and has an option over the residual interest in Airplanes Trust.

Airplanes Group has had and currently maintains various relationships with AerCap Ireland Limited, formerly known as AerFi Group plc which was previously known as GPA Group plc. First, AerCap Ireland acted as promoter in establishing the entities that comprise Airplanes Group. Second, Airplanes Group purchased substantially all of its assets from AerCap Ireland. See "1A. Introduction—Overview of Capital Structure." Third, AerCap Ireland was the holder of 5% of the ordinary share capital of Airplanes Holdings until November 20, 1998. Fourth, AerCap, Inc., a subsidiary of AerCap Ireland, holds the residual interest in Airplanes Trust (subject to an option granted over such interest in favour of GE Capital as described above). Fifth, subsidiaries of AerCap Ireland act as the administrative agent and cash manager for Airplanes Group. See "10C. Directors and Trustees of Airplanes Group—The

Administrative Agent and Cash Manager.” In addition, on November 20, 1998, GE Capital acquired the Airplanes Group class E notes previously held by AerCap Ireland.

## 12. PRINCIPAL ACCOUNTANT’S FEES AND SERVICES

### A. ACCOUNTANT’S FEES

	Year Ended March 31, 2007		Year Ended March 31, 2006	
	\$	% approved by Audit Committee	\$	% approved by Audit Committee
Audit Fees.....	385,495	100%	364,195	100%
Audit-Related Fees .....	162,610	100%	172,206	100%
Tax Fees.....	350,435	100%	391,885	100%
All Other Fees.....	48,334	100%	82,071	100%
Total.....	<u>947,007</u>	100%	<u>1,010,357</u>	100%

Audit-related fees in the table above for the years ended March 31, 2007 and 2006 relate to quarterly reviews, review of our Annual Report and Audit Committee work.

Tax fees in the table above for the years ended March 31, 2007 and 2006 relate to tax compliance in Ireland (\$196,558 and \$190,544 respectively), tax compliance and filings in the U.S. (\$112,600 and \$117,300 respectively), tax advice and other international tax filings.

All other fees in the table above for the years ended March 31, 2007 and 2006 relate to accounting advice and statutory filings for our subsidiaries. All fees include out of pocket expenditure and Value Added Tax (VAT).

### B. AUDIT COMMITTEE

Audit committees of Airplanes Limited and Airplanes Trust were established in August 2000, consisting of their four independent directors or controlling trustees, respectively. In light of the Sarbanes-Oxley Act of 2002, we have adopted revised terms of reference for a single audit committee acting for Airplanes Group, currently consisting of the four independent directors/controllers trustees since the financial statements combine the operating results, assets, liabilities and cashflows of Airplanes Limited and Airplanes Trust. The duties of the audit committee include the following:

- to retain, oversee and terminate the independent auditors of Airplanes Group, including, the approval of all audit and engagement fees and terms;
- to discuss and agree with the external auditor before the audit commences the nature, staffing and scope of the audit;
- to pre-approve all permissible non-audit services performed by the external auditors. (Audit services include the statutory audit of group and subsidiary companies, the review of annual reports and other related work). Pre-approval is delegated to any member to cater for matters arising between meetings, however, the full committee shall approve at the next scheduled meeting;
- to review from time to time the cost effectiveness of the audit and the independence and objectivity of the external auditor;
- to review submissions to the boards in relation to any audited accounts, focusing particularly on:
  - critical accounting policies and practices and any changes in accounting policies and practice;
  - all alternative treatments of financial information presented that have been or are to be discussed with the boards;
  - any unadjusted audit differences;
  - the going concern assumption;

- compliance with accounting standards (and in particular accounting standards adopted in the financial year for the first time);
- compliance with applicable legal requirements;
- to review, on behalf of the boards, Airplanes Group's system of internal control over financial reporting and disclosure controls and procedures (including financial, operational compliance and risk management, and whether there are any significant deficiencies in the design or operation of such controls and procedures, material weaknesses and any fraud involving any persons with a significant role in such controls and procedures) and make recommendations to the boards;
- to review the statement proposed to be included in each quarterly and annual report on the review of the system of internal and disclosure controls and procedures (including financial, operational compliance and risk management, and whether there are any significant deficiencies in the design or operation of such controls and procedures, material weaknesses and any fraud involving any persons with a significant role in such controls and procedures) prior to endorsement by the boards;
- to consider other matters as defined by the boards;
- to report on all of the above matters to the boards.

**SIGNATURES**

Date: May 30, 2007

For and on behalf of Airplanes Limited

By: /s/William M. McCann

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Name: William M. McCann

Title: Chairman of the Board of Directors

For and on behalf of Airplanes U.S. Trust

By: /s/William M. McCann

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Name: William M. McCann

Title: Chairman of the Board of Controlling Trustees

**AIRPLANES GROUP**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Airplanes Limited  
and the Controlling Trustees of Airplanes U.S. Trust

We have audited the accompanying balance sheets of Airplanes Limited and Airplanes U.S. Trust (“**Airplanes Group**”) as of March 31, 2007 and 2006, and the related statements of operations, comprehensive income/(loss), changes in shareholders’ deficit/net liabilities and cashflows for each of the years in the three-year period ended March 31, 2007. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Airplanes Group’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in notes 8 and 10 to the financial statements, post September 11, 2001, a number of factors have had a significant adverse effect on the aircraft industry in general and on Airplanes Group which has resulted in reductions in aircraft values and lease rates. These conditions have affected Airplanes Group’s ability to make scheduled principal and interest payments on the various classes of notes.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Airplanes Group as at March 31, 2007 and 2006, and the results of their operations and cashflows for each of the years in the three-year period ended March 31, 2007, in conformity with generally accepted accounting principles in the United States.

Dublin, Ireland  
May 30, 2007

KPMG  
Chartered Accountants

## AIRPLANES GROUP

### BALANCE SHEETS

	March 31, 2006			March 31, 2007			
	Notes	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
		(\$ millions)			(\$ millions)		
<b>ASSETS</b>							
Cash, unrestricted .....	5	78	—	78	77	—	77
Cash, restricted .....	5	—	6	6	—	6	6
Accounts receivable							
Trade receivables .....	6	13	1	14	10	1	11
Allowance for doubtful debts .....		(6)	—	(6)	(2)	(1)	(3)
Amounts due from Airplanes Limited .....	7	—	39	39	—	57	57
Prepaid expenses.....		25	1	26	15	1	16
Total Current Assets .....		110	47	157	100	64	164
Aircraft, Held for Use .....	8	1,193	35	1,228	1,075	15	1,090
Aircraft, Held for Sale .....	8	8	—	8	6	—	6
Total assets .....		1,311	82	1,393	1,181	79	1,260
<b>LIABILITIES</b>							
Accrued expenses and other liabilities.....	9	4,682	460	5,142	6,257	615	6,872
Amounts due to Airplanes Trust.....	7	39	—	39	57	—	57
Total Current Liabilities .....		4,721	460	5,181	6,314	615	6,929
Indebtedness .....	10	2,566	249	2,815	2,470	240	2,710
Provision for maintenance .....	11	270	5	275	257	3	260
Deferred income taxes .....	17	—	23	23	—	23	23
Total liabilities.....		7,557	737	8,294	9,041	881	9,922
Common Stock, \$1 par value per share, Authorized 10,000 shares; issued and outstanding 30 shares.....		—	—	—	—	—	—
Net liabilities		(6,246)	(655)	(6,901)	(7,860)	(802)	(8,662)
Shareholders' deficit and total liabilities		1,311	82	1,393	1,181	79	1,260

Commitments and Contingent Assets/Liabilities (Notes 18 and 19)

*The accompanying notes are an integral part of the financial statements.*

**AIRPLANES GROUP**  
**STATEMENTS OF OPERATIONS**

	Year Ended March 31,									
	2005			2006			2007			
	Notes	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
		(\$ millions)			(\$ millions)			(\$ millions)		
Revenues										
Aircraft leasing .....	13	174	8	182	164	7	171	156	5	161
Other Income .....		8	-	8	4	-	4	-	-	-
Aircraft Sales .....		58	5	63	17	-	17	5	15	20
Expenses										
Cost of Aircraft Sold .....		(29)	(2)	(31)	(7)	-	(7)	(1)	(5)	(6)
Impairment charge .....	8	(37)	(10)	(47)	-	-	-	(39)	-	(39)
Depreciation and amortisation .....		(79)	(4)	(83)	(78)	(3)	(81)	(75)	(3)	(78)
Net interest expense .....	14	(969)	(95)	(1,064)	(1,251)	(122)	(1,373)	(1,627)	(160)	(1,787)
Bad and doubtful debts .....		5	-	5	(3)	-	(3)	-	-	-
Other lease income/(costs) .....	15	(7)	-	(7)	(15)	(5)	(20)	3	3	6
Selling, general and administrative expenses .....	16	(32)	(1)	(33)	(30)	(1)	(31)	(28)	(1)	(29)
Operating loss before provision for income taxes .....		(908)	(99)	(1,007)	(1,199)	(124)	(1,323)	(1,606)	(146)	(1,752)
Income tax (expense)/benefit .....	17	-	(3)	(3)	-	-	-	-	-	-
Net Loss .....		(908)	(102)	(1,010)	(1,199)	(124)	(1,323)	(1,606)	(146)	(1,752)

*The accompanying notes are an integral part of the financial statements.*

**AIRPLANES GROUP**

**STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)**

	Year Ended March 31,								
	2005			2006			2007		
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
	(\$ millions)			(\$ millions)			(\$ millions)		
Loss for the period.....	(908)	(102)	(1,010)	(1,199)	(124)	(1,323)	(1,606)	(146)	(1,752)
<b>Other Comprehensive (Gain)/Loss</b>									
Net change in cashflow hedges .....	46	5	51	17	2	19	(8)	(1)	(9)
<b>Total Comprehensive loss.....</b>	<b>(862)</b>	<b>(97)</b>	<b>(959)</b>	<b>(1,182)</b>	<b>(122)</b>	<b>(1,304)</b>	<b>(1,614)</b>	<b>(147)</b>	<b>(1,761)</b>

*The accompanying notes are an integral part of the financial statements.*

## AIRPLANES GROUP

### STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT/NET LIABILITIES Years ended March 31, 2005, 2006 and 2007

	Airplanes Limited			Airplanes Trust			Combined	
	Share Capital	Accumulated Loss	Other Comprehensive Loss	Shareholders' Deficit	Accumulated Loss	Other Comprehensive Loss	Shareholders' Deficit/Net Liabilities	
	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	
Balance at March 31, 2004 .....	—	4,156	46	4,202	431	5	436	4,638
Net loss for the period.....	—	908	—	908	102	—	102	1,010
Other Comprehensive Gain .....	—	—	(46)	(46)	—	(5)	(5)	(51)
Balance at March 31, 2005 .....	—	5,064	—	5,064	533	—	533	5,597
Net loss for the period.....	—	1,199	—	1,199	124	—	124	1,323
Other Comprehensive Gain .....	—	—	(17)	(17)	—	(2)	(2)	(19)
Balance at March 31, 2006 .....	—	6,263	(17)	6,246	657	(2)	655	6,901
Net loss for the period.....	—	1,606	—	1,606	146	—	146	1,752
Other Comprehensive Loss.....	—	—	8	8	—	1	1	9
<b>Balance at March 31, 2007 .....</b>	<b>—</b>	<b>7,869</b>	<b>(9)</b>	<b>7,860</b>	<b>803</b>	<b>(1)</b>	<b>802</b>	<b>8,662</b>

*The accompanying notes are an integral part of the financial statements.*

## AIRPLANES GROUP

### STATEMENTS OF CASHFLOWS

Year Ended March 31,

	2005			2006			2007		
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
	(\$ millions)			(\$ millions)			(\$ millions)		
<b>Cash flows from operating activities</b>									
Net loss .....	(908)	(102)	(1,010)	(1,199)	(124)	(1,323)	(1,606)	(146)	(1,752)
Adjustment to reconcile (net loss) to net cash provided by operating activities:									
Depreciation .....	79	4	83	78	3	81	75	3	78
Impairment Charge .....	37	10	47	—	—	—	39	—	39
Aircraft maintenance, net .....	35	—	35	36	(3)	33	(7)	10	3
Profit on disposal of aircraft .....	(29)	(3)	(32)	(10)	—	(10)	(4)	(10)	(14)
Deferred income taxes .....	—	3	3	—	—	—	—	—	—
Accrued and deferred interest expense .....	914	90	1,004	1,196	118	1,314	1,572	155	1,727
Changes in operating assets and liabilities:									
Capital and sales type leases .....	1	—	1	—	—	—	—	—	—
Purchase/Sale of aircraft .....	56	5	61	13	-	13	5	15	20
Accounts receivable, net .....	3	1	4	(7)	15	8	17	(18)	(1)
Other accruals and liabilities .....	(22)	3	(19)	13	(2)	11	(4)	(1)	(5)
Other assets .....	3	5	8	(21)	1	(20)	9	1	10
<b>Net cash provided by operating activities .....</b>	<b>169</b>	<b>16</b>	<b>185</b>	<b>99</b>	<b>8</b>	<b>107</b>	<b>96</b>	<b>9</b>	<b>105</b>
<b>Cash flows from financing activities</b>									
Repayment of indebtedness .....	(166)	(16)	(182)	(101)	(8)	(109)	(97)	(9)	(106)
<b>Net cash used in financing activities .....</b>	<b>(166)</b>	<b>(16)</b>	<b>(182)</b>	<b>(101)</b>	<b>(8)</b>	<b>(109)</b>	<b>(97)</b>	<b>(9)</b>	<b>(106)</b>
<b>Net increase/(decrease) in cash .....</b>	<b>3</b>	<b>—</b>	<b>3</b>	<b>(2)</b>	<b>—</b>	<b>(2)</b>	<b>(1)</b>	<b>—</b>	<b>(1)</b>
Cash at beginning of year .....	77	6	83	80	6	86	78	6	84
Less: restricted cash (note 5) .....	—	(6)	(6)	—	(6)	(6)	-	(6)	(6)
Cash and cash equivalents at beginning of year .	77	—	77	80	—	80	78	—	78
Net (decrease)/increase in cash and cash equivalent .....	3	—	3	(2)	—	(2)	(1)	—	(1)
Cash and cash equivalents paid at end of year ....	80	—	80	78	—	78	77	—	77
<b>Cash paid in respect of:</b>									
Interest .....	57	5	62	56	4	60	57	4	61

*The accompanying notes are an integral part of the financial statements.*

## AIRPLANES GROUP

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. SECURITIZATION TRANSACTION

On March 28, 1996 (the “closing date”), AerCap Ireland Limited (then known as GPA Group plc) and its subsidiary undertakings (“AerCap”) re-financed on a long term basis certain indebtedness due to commercial banks and other senior secured debt. The re-financing was effected through a major aircraft securitization transaction (the “Transaction”).

Under the terms of the Transaction, a combination (“Airplanes Group”) comprising Airplanes Limited, a special purpose company formed under the laws of Jersey, Channel Islands (“Airplanes Limited”) and Airplanes U.S. Trust, a trust formed under the laws of Delaware (“Airplanes Trust”) acquired directly or indirectly from AerCap a portfolio of 229 commercial aircraft (collectively the “aircraft”) and related leases (the “leases”). The Transaction was effected by transferring existing subsidiaries of AerCap that owned the aircraft to Airplanes Limited and Airplanes Trust, respectively. References to Airplanes Group in these notes to the financial statements may relate to Airplanes Limited and Airplanes Trust on a combined or individual basis, as applicable.

Airplanes Group is in the business of leasing and selling aircraft. At March 31, 2007, the Airplanes Group fleet consisted of 127 aircraft, 122 of which were on lease to 53 lessees in 34 countries (2006: 142 aircraft, 138 on lease to 51 lessees in 34 countries).

Simultaneously with the transfers described above, Airplanes Group issued notes of \$4,048 million in aggregate principal amount in four classes: class A, class B, class C and class D (“notes”) with approximately 91% of the principal amount of notes in each class being issued by Airplanes Limited and approximately 9% by Airplanes Trust. Airplanes Group also issued class E notes ranking after the notes and these were taken up by AerCap as part consideration for the transfer of the aircraft and certain related lease receivables. Airplanes Limited and Airplanes Trust have each fully and unconditionally guaranteed each others’ obligations under the relevant notes.

On March 16, 1998 Airplanes Group successfully completed a refinancing of \$2,437 million related to class A and class B notes.

On November 20, 1998 AerCap (then known as AerFi Group plc) transferred its holding of class E notes to GE Capital Corporation (“GE Capital”).

On March 15, 2001 Airplanes Group successfully completed a refinancing of \$750 million related to Class A notes.

#### 2. BASIS OF PREPARATION

The accompanying financial statements of Airplanes Limited, Airplanes Trust and the combined balance sheets, statements of operations, statements of comprehensive income/(loss), statements of changes in shareholders’ deficit/net liabilities and statements of cashflows of Airplanes Group (together the “Financial Statements”) have been prepared on a going concern basis in accordance with the accounting policies set out in Note 4 and in conformity with United States of America generally accepted accounting principles. As set out in Note 10, “Indebtedness,” Airplanes Group has not maintained payments to all classes of noteholders, however all interest payments (other than step-up interest) to class A noteholders as required under the Trust Indentures remain up to date.

#### 3. RELATIONSHIP WITH GE COMMERCIAL AVIATION SERVICES LIMITED (“GECAS”) AND AERCAP AND MANAGEMENT ARRANGEMENTS

GECAS provides, in consideration for management fees, certain management services to Airplanes Group pursuant to a servicing agreement entered into by GECAS with certain members of Airplanes Group. In certain circumstances, GECAS may resign from the performance of its duties in relation to the management of all the aircraft generally, or the management of one or more aircraft individually, provided in either case that a replacement has been appointed to manage the aircraft. In addition, Airplanes Group will, in certain circumstances, have the right to terminate the servicing agreement.

As the holder of the majority of the class E notes, GE Capital has the right to appoint one director to the board of Airplanes Limited and one of the controlling trustees of Airplanes Trust. Airplanes Limited has a board of directors of five directors, including the director appointed by the holders of the class E notes. The controlling trustees of Airplanes Trust are the same individuals.

Certain cash management and administrative services are being provided by AerCap subsidiaries to Airplanes Group, pursuant to a cash management agreement and administrative agency agreement entered into by such AerCap subsidiaries with Airplanes Group.

In the year to March 31, 2007, fees of \$20.7 million and \$5.4 million (2006: \$20.9 million and \$5.3 million) were charged by GECAS and AerCap, respectively. At March 31, 2007, included in accrued expenses are fee amounts of \$2.6 million and \$0.3 million payable to GECAS and AerCap, respectively.

Although Airplanes Group’s portfolio will at all times be held in two different entities, Airplanes Limited and Airplanes Trust, Airplanes Group is managed and the note covenants structured on the basis of a single economic entity owning a single aircraft portfolio.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Airplanes Group’s accounting policies conform with United States generally accepted accounting principles. The following paragraphs describe the main accounting policies followed in these financial statements.

##### (a) Principles of consolidation

The financial statements separately consolidate the financial statements of Airplanes Limited and all of its subsidiary undertakings and the financial statements of Airplanes Trust and all of its subsidiary undertakings. All significant intercompany balances and transactions have been eliminated in each consolidation. The individual consolidated accounts are then aggregated to give a “combined” position for Airplanes Group as a whole. The combined accounts show the intercompany loan receivable and payable balances between Airplanes Limited and Airplanes Trust separately.

##### (b) Revenue recognition

Revenue from aircraft on operating leases is recognised as income on a straight line basis over the term of the leases. Unearned revenue from capital and sales type leases is amortised and included in income under the interest/effective yield method.

At the time Airplanes Group disposes of assets, the cost, accumulated depreciation and impairments are removed from the related accounts and recorded as cost of aircraft sold. The proceeds are recorded in revenue as aircraft sales.

##### (c) Aircraft

Aircraft held for use, including engines, are stated at cost, less accumulated depreciation and, where considered necessary, impairment provisions. Cost comprises the invoiced cost net of manufacturers’ discounts. Depreciation is calculated on a straight line basis. The estimates of useful lives and residual values are reviewed periodically.

Aircraft are periodically reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long Lived Assets (“SFAS 144”). An impairment loss is evaluated when the undiscounted estimated future cashflows of the aircraft are less than its carrying value, and the loss is measured as the excess of the carrying value over the fair value.

The fair value of the aircraft is generally based on independent appraisals of aircraft. The appraised values are determined based on the assumption that there is an “open unrestricted stable market environment with a reasonable balance of supply and demand”. On the basis of past experience including actual lease rates and sales prices achievable and the servicer’s experience of the market, estimated discounted cashflows are used as a more accurate indication of fair value. The estimated discounted future cashflows assume, among other things, market lease rates at the end of the existing lease term, other lease costs, downtime and the risk inherent in the cashflows.

The current estimates for residual values are generally 15% of cost, and for useful lives are as follows:

	Years	From
Stage 2 aircraft .....	20-25	Manufacture date
Refurbished and upgraded aircraft converted to freighters .....	20	Conversion date
Turboprop aircraft.....	22.5	Manufacture date
All other aircraft.....	25	Manufacture date

Aircraft classified as held for sale are recorded at the lower of carrying amount or fair value, less cost to sell. Aircraft are not depreciated while classified as held for sale. Costs to sell are the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made.

*(d) Provision for maintenance*

In most lease contracts the lessee has the obligation for maintenance costs on airframes and engines and in many lease contracts, the lessee makes a full or partial prepayment, calculated at an hourly rate, from which maintenance expenditures for major checks are disbursed. The undisbursed portion of these prepayments is included in the provision for maintenance which may from time to time include prepayments made by current lessees and prior lessees. At the time an aircraft is re-leased to a new lessee, an assessment is made of the expected maintenance provision requirement and any excess provision is then released through the Statement of Operations.

Maintenance provisions also include the directors' estimate of maintenance costs which are Airplanes Group's primary responsibility and certain amounts in respect of the risk of lessees defaulting on obligations, which could result in Airplanes Group incurring maintenance costs which are the lessee's primary responsibility.

*(e) Accounts receivable*

Accounts receivable represent only amounts billed and currently due from customers. Deferred lease receivables represent deferral of rent, maintenance and miscellaneous payments due from lessees due to a restructuring of the receivable. Interest is charged on deferred receivables.

*(f) Allowance for doubtful debts*

Allowances are made for doubtful debts where it is considered that there is a significant risk of non recovery.

The assessment of risk of non recovery is primarily based on the extent to which amounts outstanding exceed the expected value of security held together with an assessment of the financial strength and condition of a lessee and the economic conditions existing in the lessee's operating environment at the balance sheet date.

*(g) Taxation*

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognised in the period that includes the enactment date.

Income tax is provided based on the results for the year. Airplanes Limited's underlying taxable entities in Ireland were subject to Irish corporate income tax on approved trading operations at a rate of 10% until December 31, 2005 and thereafter, at general Irish statutory rates, which are currently 12.5%. Airplanes Trust's underlying taxable entities in the U.S. are subject to U.S. federal and state taxes on their trading operations. The US federal statutory tax rate was 35% for 2005, 2006 and 2007.

*(h) Concentrations of credit risk*

Financial instruments which potentially subject Airplanes Group to significant concentrations of credit risk consist primarily of trade accounts receivable and interest rate swaps. Details of Airplanes Group's interest rate swaps are set out at *(i)* below.

Credit risk with respect to trade accounts receivable is generally diversified due to the number of lessees comprising Airplanes Group's customer base and the different geographic areas in which they operate. At March 31, 2007, Airplanes Group owned 127 aircraft and one spare engine, 122 of which were on lease to 53 lessees in 34 countries, with 5 aircraft off-lease. The geographic concentrations of leasing revenues are set out in Note 13.

The exposure of Airplanes Group to particular countries and customers is managed partly through concentration limits provided for under the terms of the notes and through obtaining security from lessees by way of deposits, letters of credit and guarantees. Airplanes Group will continue to manage its exposure to particular countries, regions and lessees through concentration limits. In the normal course of its business Airplanes Group has reached agreements with certain of its lessees to restructure their leases and defer certain receivable balances. Details of accounts receivable, deferred balances and provision for bad and doubtful debts are set out in Note 6.

At March 31, 2007 one former Canadian lessee which had leased two aircraft, representing 1.77% of our portfolio by appraised value as of January 31, 2007, was in arrears. During the year ended March 31, 2005, the airline filed for protection under the Companies Creditors Arrangement Act (Canada). During the quarter ended June 30, 2005, the lessee declared bankruptcy. The servicer has filed a claim against the bankrupt estate. The two aircraft have been delivered to a new lessee.

Airplanes Group's Brazilian lessees also continue to experience significant difficulties due to over-capacity and adverse market conditions. At March 31, 2007, eight of Airplanes Group's aircraft representing 3.38% of our portfolio by appraised value as of January 31, 2007 were being operated by Brazilian lessees.

Two related former Brazilian lessees of three MD-11 aircraft and three B737-500 aircraft were in arrears. The servicer, following discussions with the lessees agreed to the early return of the aircraft during 2003. The MD-11 aircraft which were returned were subsequently sold during the year ended March 31, 2005. During the quarter ended June 30, 2005, the lessees filed for protection under new Brazilian bankruptcy laws. Following this, the servicer notified the airlines of an event of default under the settlement agreement and filed a claim for amounts outstanding with the bankruptcy court. Airplanes Group has recently agreed the sale of its claim to a third party which, if successfully closed, will see it relinquish any future claims on these two former lessees.

*(i) Fair Value of Financial Instruments*

SFAS 107 "Disclosures about Fair Value of Financial Instruments" defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair values of financial instruments have been determined with reference to available market information and the valuation methodologies discussed below. However, considerable management judgement is required in interpreting market data to arrive at estimates of fair values. Accordingly, the estimates presented herein may not be indicative of the amounts that Airplanes Group could realise in a current market exchange.

- (i) The fair value of cash, trade receivables and trade payables approximates the carrying amount because of the nature and short maturity of these instruments.
- (ii) The fair value of the class A, B, C and D notes issued by Airplanes Group outstanding at March 31, 2007 and 2006 was \$909 million and \$935 million (carrying value at March 31, 2007 and 2006 was \$2,122 million and \$2,224 million) respectively. Although the estimated fair values of the class A to D notes outstanding have been determined by reference to prices as at March 31, 2007 provided by an independent third party, these fair values do not reflect the market value of these notes at a specific time and should not be relied upon as a measure of the value that could be realised by a noteholder upon sale. While the amount subscribed for the class E notes was based on the appraised value of the aircraft at the closing date, the fair value of these notes at March 31, 2007 cannot be determined, as it represents the holders' residual interest in the aircraft owned by Airplanes Group.
- (iii) Airplanes Group manages its interest rate exposure through the use of interest rate swaps ("swaps") and interest rate caps ("caps") and in the past has also used options to enter into interest rate swaps ("swaptions"). At March 31, 2007 and 2006, Airplanes Group had entered into swaps with an aggregate notional principal amount of \$770 million and \$1,070 million, respectively. Under these swaps, Airplanes Group will pay fixed, and receive floating, amounts on a monthly basis. At March 31, 2007 and 2006, Airplanes Group had entered into caps with an aggregate notional principal amount of \$380 million and \$50 million, respectively. Under these caps, Airplanes Group will receive the excess, if any, of one month LIBOR, reset monthly on an actual /360 adjusted basis over the strike rate of the relevant cap. Before November 17, 2003, the primary objective of Airplanes Group's interest rate risk management policy was to correlate fixed and floating rate interest payments on the notes and certificates to the mix of contracted fixed and floating rental receipts for different rental periods. Since November 17, 2003, however, Airplanes Group has ceased paying interest on the class B

notes and certificates (a floating rate obligation) and on the class C and D notes and certificates (both fixed rate obligations). At that date, the hedges that were deemed to be ineffective were marked to market through the Income Statement. During the year ended March 31, 2004, Airplanes Group therefore reviewed and modified its hedging policy with the approval of the rating agencies and no longer enters into hedges of the class B notes and certificates. The fair values of swaps and caps are provided by third parties and are calculated by discounting expected cashflows using market interest rates over the remaining term of the relevant instrument. The fair value of these swaps at March 31, 2007 and 2006 was \$9.5 million and \$19.0 million, respectively. The fair value of these caps at March 31, 2007 and 2006 was \$3.4 million and \$3.0 million, respectively.

Interest rate exposures which may arise in the event that lessees paying fixed rate rentals default have in the past been managed in part through the purchase of swaptions. At March 31, 2007 and 2006, Airplanes Group had no swaptions in place.

Airplanes Group is exposed to losses in the event of non-performance by counterparties to interest rate swap agreements and interest rate cap agreements. However, Airplanes Group does not anticipate non-performance by these counterparties.

Counterparty risk is monitored on an ongoing basis. Counterparties are subject to the prior approval of the directors of Airplanes Limited and the controlling trustees of Airplanes Trust. Airplanes Group's counterparties at March 31, 2007 comprise major U.S./European financial institutions.

*(j) Foreign Currency Transactions*

Airplanes Group's foreign currency transactions are not significant, as virtually all revenues and most costs are denominated in U.S. dollars.

*(k) Derivative Instruments and Hedging Activities*

Airplanes Group has adopted SFAS 133, "Accounting for Derivative Instruments and Certain Hedging Activities" and SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133." As a result, all derivatives are recognized on the balance sheet at their fair value. All derivatives are designated as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), a hedge of a forecasted transaction or of the variability of cashflows to be received or paid related to a recognized asset or liability ("cashflow" hedge), a foreign-currency fair value or cashflow hedge ("foreign currency" hedge) or a "held for trading" instrument. At March 31, 2007, all of Airplanes Group's interest rate swaps were designated as "cashflow" hedges, and all of Airplanes Group's interest rate caps were designated as "held for trading" instruments.

Airplanes Group has a detailed hedging policy, which has been approved by the board of directors of Airplanes Limited and controlling trustees of Airplanes Trust and the rating agencies. As part of this hedging policy, Airplanes Group has formally documented all relationships between hedging instruments and hedged items as well as its risk-management objective and strategy for undertaking various hedge transactions.

This process includes linking all derivatives that are designated as cashflow hedges to specific liabilities on the balance sheet. Airplanes Group formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cashflows of hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cashflow hedge are included in "Net change in cashflow hedges" in other comprehensive income ("OCI"), until earnings are affected by the variability in cashflows of the designated hedged item.

Hedge accounting is discontinued prospectively when it is determined that the derivative is no longer highly effective in offsetting changes in the cashflows of the hedged item, the derivative expires or is sold, terminated, or exercised, or it is determined that designation of the derivative as a hedging instrument is no longer appropriate. In all situations in which hedge accounting is discontinued, the derivative will continue to be carried at its fair value on the balance sheet, and any changes in its fair value will be recognized in earnings. In all situations where derivatives are designated as trading instruments, they are carried at fair value on the balance sheet and any changes in fair value are recognized in earnings.

As described more fully in Note 10, Airplanes Group's cashflows have been inadequate to pay interest on the class B, C and D notes since the November 2003 payment date. Accordingly derivatives which have been documented as having a hedging relationship

with the interest payments on the class B notes and certificates can no longer be classed as highly effective cashflow hedges, and therefore the decrease in value of these derivatives for the year ended March 31, 2004 of \$2.0 million has been recognized in earnings in accordance with SFAS 133. These derivatives continued to be a hedge of Airplanes Group's interest rate exposure in respect of the class B notes and certificates until the date interest ceased being paid. During the year ended March 31, 2004, Airplanes Group accordingly reviewed and modified its hedging policy as more fully described in Note 4(i) above.

As of March 31, 2007, all of the interest rate caps held by Airplanes Group were designated as "held for trading" instruments. Interest rate caps are marked to market at each quarter end. Changes in the fair value of the caps are recorded in the Income Statement.

At March 31, 2007, Airplanes Group held swaps and caps with a maximum maturity of 37 months and 58 months respectively to hedge its exposure to interest rate risk.

*(l) Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*(m) New Accounting Pronouncements*

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. The statement defines and establishes a framework for measuring fair value when it is used as the measurement attribute for financial reporting, discusses how entities should measure fair value, establishes a fair value hierarchy based on the quality of the inputs used to estimate fair value and requires a significant amount of new disclosures. Statement 157 does not establish any new requirements to use fair value measures. Rather, requirements to use fair value measures in financial reporting are provided by other applicable GAAP. Entities are required to adopt Statement 157 for financial statements issued for fiscal years beginning after November 15, 2007 (e.g., on January 1, 2008 for calendar year-end entities), but early adoption is permitted. The adoption of this standard is not expected to have a significant effect on Airplanes Group's financial statements.

In February 2007, the FASB also issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*. Statement 159 permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. Statement 159 applies to all reporting entities, including not-for-profit organizations, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted subject to certain conditions, however an early adopter must also adopt Statement 157 at the same time. The adoption of this standard is not expected to have a significant effect on Airplanes Group's financial statements.

In June 2006, the FASB also issued FIN 48, *Accounting for Uncertainty in Income Taxes* which clarifies the criteria for recognizing tax benefits under FASB Statement No. 109, *Accounting for Income Taxes*. It also requires additional financial statement disclosures about uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006.

In September 2006, the FASB also issued FSP No. AUG AIR-1 *Accounting for Planning Major Maintenance Activities*. This FSP amends certain provisions in the AICPA Industry Audit guide, *Audits of Airlines to prohibit the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods* and makes this guidance applicable to entities in all industries. The FSP is effective for the first fiscal year beginning after December 15, 2006 and requires retrospective application for all fiscal years presented in the financial statements upon adoption. Early adoption as of an entity's fiscal year is permitted. Airplanes Group is in the process of evaluating the effects of the FSP on the combined financial statements.

## 5. CASH

	March 31			
	2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Cash .....	78	6	77	6

Substantially all of the cash balances at March 31, 2007 and 2006 are held for specific purposes under the terms of the Transaction. Included in the cash balances at March 31, 2007 and 2006 is restricted cash of \$6 million, which is held under the terms of certain guarantees.

## 6. ACCOUNTS RECEIVABLE

	March 31			
	2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Trade receivables .....	13	1	10	1
Allowance for doubtful debts.....	(6)	—	(2)	(1)
	7	1	8	—
Included in trade receivables are deferred amounts as follows:				
Gross deferred lease receivables .....	7	1	7	1
Allowance for doubtful debts.....	(2)	—	(2)	(1)
	5	1	5	—

Deferred lease receivables at March 31, 2007 represent deferrals of rent, maintenance and miscellaneous payments due from lessees. The most significant of these lessees are located in Colombia and Brazil where the air transport sector is suffering from substantial over capacity and the effects of difficult economic conditions (see Note 4(h)).

Receivables, before allowance for doubtful debts, include amounts classified as due after one year of \$7.9 million (Airplanes Limited: \$7.2 million; Airplanes Trust: \$0.7 million) at March 31, 2007 and \$8.4 million (Airplanes Limited: \$7.4 million; Airplanes Trust: \$1.0 million) at March 31, 2006.

A number of Airplanes Group's lessees are in a weak financial position. As of March 31, 2007, amounts outstanding for a period greater than 30 days in respect of rental payments, maintenance reserves and other miscellaneous amounts due under the leases (net of amounts in respect of default interest and cash in transit) amounted to \$0.2 million in respect of 3 lessees (who leased a combined total of 12 aircraft representing 5.6% of the portfolio by appraised value as of January 31, 2007). Of the total \$0.2 million, \$0.1 million was in arrears for a period between 30 and 60 days and \$0.1 million was in arrears for a period greater than 90 days. Some of these lessees have consistently been significantly in arrears in their respective rental payments and some are known to be currently experiencing financial difficulties.

As of March 31, 2007, in addition to the \$0.2 million in respect of payments past due more than 30 days, Airplanes Group had agreed to allow two lessees to defer rent, maintenance and miscellaneous payments totaling \$7.9 million for periods ranging from three months for one lessee in respect of \$1.4 million and up to 20 months for one lessee in respect of \$6.5 million.

## 7. AMOUNTS DUE FROM AIRPLANES LIMITED TO AIRPLANES TRUST

	March 31			
	2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Amount receivable from Airplanes Limited/Payable to Airplanes Trust.....	(39)	39	(57)	57

Included in the balance at March 31, 2007 and March 31, 2006 was \$19 million and \$88 million, respectively, payable from Airplanes Trust to Airplanes Limited in respect of aircraft sales and purchases. The remaining balance of \$76 million (2006: \$127 million) represents the net amount due to Airplanes Trust in respect of Airplanes Trust's trading activities, including servicing of its debt obligations.

## 8. AIRCRAFT

	March 31			
	2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
<b>Aircraft — Held for use</b>				
Cost.....	3,161	188	3,122	62
Less impairment charge .....	(484)	(62)	(505)	(8)
Less accumulated depreciation .....	(1,484)	(91)	(1,542)	(39)
	1,193	35	1,075	15
<b>Aircraft — Held for sale</b>				
Cost.....	121	—	31	3
Less impairment charge .....	(6)	—	(7)	—
Less accumulated depreciation .....	(107)	—	(18)	(3)
	8	—	6	—
<b>Fleet Analysis</b>				
On operating lease for a further period of:				
More than five years .....	42	—	207	—
From one to five years .....	923	14	848	15
Less than one year.....	224	21	8	—
Non revenue earning aircraft:				
Available for lease .....	10	—	12	—
Held for sale.....	2	—	6	—
Available for lease, subject to a lease contract.....	—	—	—	—
	1,201	35	1,081	15

At March 31, 2007, four aircraft were subject to purchase options granted to existing lessees. The latest date on which a purchase option could be exercised was September 11, 2009.

	Year ended March 31					
	2005		2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Depreciation expense .....	79	4	78	3	75	3
Impairment charge .....	37	10	—	—	39	—
	116	14	78	3	114	3

At March 31, 2007, Airplanes Group owned 127 (2006:142) aircraft.

At March 31, 2007, 5 aircraft were off-lease, one of which was subject to a letter of intent for sale. As of the date of these financial statements, another of the off-lease aircraft was subject to a letter of intent for lease.

In the year ended March 31, 2007, Airplanes Group has continued to suffer as a result of difficult leasing conditions, notwithstanding evidence of improvement for the aviation industry as a whole.

As of March 31, 2007, each of the B737-400, B767-300ER, MD-83 and A320-200 models of aircraft comprised more than 10% of Airplanes Group's portfolio by appraised value as of January 31, 2007 and, in addition, each of the B737-300, B737-500, B757-200 and F-100 models of aircraft comprised more than 5% of Airplanes Group's portfolio by appraised value as of January 31, 2007. Furthermore, at March 31, 2007, widebody aircraft comprised more than 10%, and turboprop aircraft comprised more than 5% of Airplanes Group's portfolio by appraised value as of January 31, 2007.

During the years ended March 31, 2007 and March 31, 2006, Airplanes Group evaluated all aircraft for impairment and this impairment analysis resulted in 15 and nil aircraft, respectively, being identified with a carrying value greater than the fair value for such aircraft. An impairment loss was calculated for these aircraft based on consideration of independent appraisers' values and the estimated discounted future cashflows from rentals or sales proceeds for each aircraft. For certain aircraft the estimated discounted future cashflows were lower than the corresponding independent appraised value. The appraised values were determined based on the assumption that there is an "open unrestricted stable market environment with a reasonable balance of supply and demand." Since this assumption is not always appropriate in current market conditions, in respect of a number of aircraft estimated discounted cashflows were used as a more accurate indication of fair value.

## 9. ACCRUED EXPENSES AND OTHER LIABILITIES

	March 31			
	2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Accrued expenses and other liabilities include:				
Unearned revenue.....	7	—	7	—
Other accruals.....	18	—	21	—
Interest accrued.....	4,636	460	6,208	615
Deposits received.....	21	—	21	—
	4,682	460	6,257	615
Of which:				
Payable within one year.....	249	1	365	—
Payable after one year.....	4,433	459	5,892	615
	4,682	460	6,257	615

## 10. INDEBTEDNESS

The components of the debt are as follows:

	March 31			
	2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Indebtedness in respect of notes issued:				
Subclass A-8.....	462	44	365	35
Subclass A-9.....	683	67	683	67
Class B.....	207	20	207	20
Class C.....	320	30	320	30
Class D.....	360	35	360	35

	March 31			
	2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Class E.....	538	53	538	53
	2,570	249	2,473	240
Discounts/costs arising on issue of notes.....	(4)	—	(3)	—
	2,566	249	2,470	240

#### Debt maturity

The repayment terms of the class A, B, C and D notes are such that certain principal amounts were expected to be repaid on certain dates based on certain assumptions (each such date, the “expected final payment date”) or refinanced through the issue of new notes by specified expected final payment dates but in any event are ultimately due for repayment on specified final maturity dates (each such date, the “final maturity date”). The expected final payment dates, final maturity date, principal amount and interest rates applicable to each class of note are set out below:

Class/Subclass of Notes	Interest Rates	Outstanding Principal Balance at March 31, 2007	Expected Final Payment Date*	Final Maturity Date
		(\$ Millions)		
Subclass A-8 .....	(LIBOR+.375%)	400	March 15, 2003	March 15, 2019
Subclass A-9 .....	(LIBOR+.55%)	750	November 15, 2008	March 15, 2019
Class B .....	(LIBOR+.75%)	227	February 15, 2017	March 15, 2019
Class C .....	8.15%	350	December 15, 2013	March 15, 2019
Class D .....	10.875%	395	February 15, 2017	March 15, 2019
Class E .....	See below	591	See below	See below
		2,713		

\* The expected final payment dates were determined in March 2001 based on the base case assumptions in Airplanes Group’s offering memorandum dated March 15, 2001 (the “2001 Base Case”).

Discounts on notes issues and costs arising on refinanced notes are netted against debt on the balance sheet. These amounts are accreted to the income statement over the expected life of the refinancing notes.

On March 15, 2001, Airplanes Group successfully completed a \$750 million refinancing of its subclass A-4 and subclass A-7 notes into subclass A-9 notes using the effective interest method.

The dates on which principal repayment on the notes will actually occur will depend on the cash generated by Airplanes Group. Airplanes Group was due to refinance the subclass A-8 notes in the capital markets on March 15, 2003. Given market conditions and the impact these conditions have had on Airplanes Group’s performance as compared to the 2001 Base Case, a refinancing was not economically viable. In the absence of a refinancing of the subclass A-8 notes, step-up interest at a rate of 0.5% per annum became payable from March 15, 2003. The expected final payment date for the subclass A-8 notes under the 2001 Base Case has thus proved incorrect. Due to insufficient cashflows and the low priority of step-up interest in the priority of payments, no step-up interest has been paid and it is not expected to be paid in the future, but full accrual has been made in the financial statements.

LIBOR on the class A and class B notes equates to the London interbank offered rate for one month U.S. dollar deposits.

Interest on the class C and class D fixed rate notes is calculated on the basis of a 360-day year, consisting of twelve 30-day months.

The class E notes accrue interest for each interest accrual period at a rate of 20% per annum. The stated interest rate on the class E notes is adjusted by reference to the U.S. consumer price index. Except for the class E note minimum interest amount plus the class E note supplemental interest amount, each of which are payable at a rate of 1% and 19% multiplied by the outstanding principal balance of the class E notes, respectively, no interest will be payable on the class E notes until all of the interest, principal and

premium, if any, on the notes have been repaid in full. The principal on the class E notes will be repaid, subject to adequate funds being available, after the interest on the class E notes.

In general the priority of the principal payments on the notes is as set out below:

1. Specified minimum principal amounts on the class A and the class B notes in that order.
2. Additional amounts on the class A notes in the event that the value of the portfolio falls below specified amounts.
3. Scheduled principal repayments on the class C and class D notes in that order.
4. Specified additional amounts on the class B notes and the class A notes in that order.
5. Thereafter cash available to repay the principal on the notes is applied on each payment date to repay the outstanding principal on the class D notes, the class C notes, the class B notes and the class A notes in that order.

Prior to March 15, 2003, on each payment date the priority of the principal amounts outstanding in respect of the various subclasses of class A notes was subclass A-6, subclass A-9 and subclass A-8 in that order. Because there was no refinancing of the subclass A-8 notes by March 15, 2003, the priority of the principal amounts outstanding in respect of the various subclasses of class A notes is now subclass A-8 and subclass A-9 in that order, the subclass A-6 notes having been repaid in full on October 15, 2004.

The concentration on particular models or types of aircraft magnifies the adverse impact to Airplanes Group's cashflow of a decline in lease rates or aircraft values for these models or types of aircraft and of specific governmental or technical regulations imposed on those aircraft types or other external factors relevant to particular aircraft types. In this connection, Airplanes Group has seen (w) an increase in the price of fuel which has adversely impacted the attractiveness of certain aircraft types, in particular the MD-80s, which are considered to be less fuel efficient, (x) decreasing popularity of the turboprop aircraft, the cessation of production of MD-83s and B757s, and the bankruptcy of Fokker, (y) noise regulations restricting the use of Stage 2 aircraft which, as of March 31, 2007, accounted for approximately 0.11% of Airplanes Group's portfolio by appraised value as of January 31, 2007, and (z) Airworthiness Directives ("ADs") with respect to a number of aircraft types, including the MD-80s and B737s. These events have caused, and are likely to continue to cause, overall lease rates and aircraft values to significantly decrease and may cause Airplanes Group to incur significant costs which would further reduce its cashflow.

Administrative and lease expenses and certain other payments in the ordinary course of business are senior to the notes in priority of payment and are therefore payable before any payments are made on the notes (and thus the corresponding certificates).

#### *Class A principal adjustment amount*

As a result of Airplanes Group's low revenues and a greater than assumed decline in the appraised value of the aircraft in its portfolio, Airplanes Group has been required to pay class A principal adjustment amount to the extent of available cashflows in order to maintain certain loan to current appraised value ratios on the class A notes. Airplanes Group has not always had sufficient cashflows to pay class A principal adjustment amount in full and since the April 15, 2003 payment date, Airplanes Group has not had sufficient cashflows to pay any class A principal adjustment amount, resulting in accumulating arrears. In the year to January 31, 2007, there has been a decline of 12.94% in the appraised value of Airplanes Group's fleet, being \$25.8 million greater than the decline assumed in setting the payment schedules on Airplanes Group's notes. This has resulted in an increase in the arrears of class A principal adjustment amount by \$36.3 million to \$605.3 million at February 15, 2007 (the first payment date following the 2007 appraisals).

Class A principal adjustment amount ranks ahead of scheduled principal payments on the class C and D notes. If, on any payment date, Airplanes Group was unable to make payment in full of class A principal adjustment amount, then by definition Airplanes Group was unable to make any scheduled principal payments on the class C and D notes. Between February 1999 and March 2000, Airplanes Group was unable to make some scheduled principal payments on the class C and D notes and since April 2000 Airplanes Group has not paid any scheduled principal on the class C and D notes (or paid any minimum interest on the class E notes) which continues to be deferred.

### *Class A minimum principal amount*

To the extent that Airplanes Group has sufficient available funds, Airplanes Group is also required to pay a minimum principal amount on the class A notes in order to maintain certain loan to initial appraised value ratios. (Since class A minimum principal amount is determined by reference to initial appraised values, it is unaffected by the annual appraisals referred to above.) As a result of earlier payments of class A principal adjustment amount described above Airplanes Group remained ahead of the required class A minimum principal payment schedule. However as described above, Airplanes Group has not always had sufficient cashflows to pay class A principal adjustment amount in full and since the April 15, 2003 payment date, Airplanes Group has not had sufficient cashflows to pay any class A principal adjustment amount. As a result, since the August 15, 2003 payment date Airplanes Group has no longer been ahead of the required class A minimum principal payment schedule. Therefore on that date Airplanes Group had to recommence payments of minimum principal on the class A notes to the extent of available cashflows and Airplanes Group was consequently unable to fund the "Second Collection Account Top-up" in full. Beginning on the December 15, 2003 payment date its cashflows were insufficient to allocate any funds at all to the "Second Collection Account Top-up" or to pay minimum principal on the class A notes in full.

Because the outstanding principal balance of the class A notes has exceeded the adjusted portfolio value (determined by reference to the annual appraised value) since the February 15, 2007 payment date, the methodology for calculation of class A minimum principal amounts has changed under the terms of the trust indentures, resulting in an increase in the amount of class A minimum principal payable on each payment date and accordingly, an increase in the arrears thereof. Minimum principal arrears on the class A notes were \$611.9 million following the May 15, 2007 payment date. While it is possible that the outstanding principal balance of the class A notes may be less than the adjusted portfolio value on one or more future payment dates, which would result in class A minimum principal being calculated as it has been up until February 15, 2007, in general the class A note outstanding principal balance will henceforth exceed the adjusted portfolio value and the corresponding calculation of class A minimum principal will be applicable. Actual payments to class A noteholders, however, are dependent on available cash flows and are not affected by the calculation of class A minimum principal payments or the annual aircraft appraisals. Since minimum principal on the class A notes ranks ahead of interest and minimum principal on the class B notes and interest on the class C and D notes in the priority of payments, Airplanes Group's cashflows have been inadequate to pay any interest or minimum principal on the class B notes or any interest on the class C and D notes, since the December 15, 2003 payment date. Airplanes Group's failure to make payments on a class of notes results in failure to make payments on the corresponding class of certificates.

### *Class B, C and D notes*

Airplanes Group does not anticipate that it will ever be able to resume making payments of interest or principal on the class B, C and D notes. Given Airplanes Group's failure to pay interest when due on these notes beginning on the December 15, 2003 payment date, interest has begun to accrue on the unpaid interest in accordance with the terms of the notes and will continue to accrue until all interest arrears are paid in full. Since interest (and minimum principal) on the class A notes is payable prior to payment of interest and minimum/scheduled principal on the class B, C and D notes (and all other amounts of principal on the class B, C and D notes), available cashflows will be used first to service interest and, to the extent possible, minimum principal on the class A notes. The minimum principal arrears on the class A notes on each payment date have been and will continue to be carried over to the next payment date causing the amount payable to increase over time, making it more difficult to make payments in full. Even if cash were available at any subsequent time to make payments ranking below class A minimum principal, cashflows would first be used to pay interest on the class B notes, which would then include all the accrued interest from the period when no payments were made on these notes. Thus the likelihood of remaining cashflows over the life of Airplanes Group being sufficient to resume any payments ranking below class B interest is even further diminished.

If Airplanes Group were able to resume making payments on the class B, C and D notes, payments would be made according to the priority of payments, commencing with the then most senior class and only making payments on more junior classes to the extent of available cashflows. The more junior the class of notes is in the order of priority, the greater the risk that Airplanes Group would be unable to make further payments on that class of notes. Airplanes Group's failure to make payments on a class of notes results in failure to make payments on the corresponding class of certificates.

### *Ratings*

This vulnerability of the various classes of notes has been reflected in actions taken by the rating agencies which continue to re-evaluate structured aircraft financings.

Set out in the table below are the ratings of Airplanes Group's certificates at the date of these financial statements:

Certificate	Outstanding Principal Balance as at May 15, 2007	S&P	Fitch	Moody's (S&P equivalent)
Subclass A-8 .....	\$390.6m	A	BB	Baa3 (BBB-)
Subclass A-9 .....	\$750.0m	BB+*	B+	B1 (B+)
Class B .....	\$226.8m	D	C	Ca (CC)
Class C .....	\$349.8m	D	C	Ca (CC)
Class D .....	\$395.1m	D	C	C (C)

\* On May 1, 2007 S&P placed the Subclass A-9 certificates on creditwatch with negative implications.

Given the continuing difficulties in the aircraft industry and their impact on the factors which determine Airplanes Group's revenues, there can be no assurance that the rating agencies will not further downgrade any class of Airplanes Group's certificates.

The ratings of the certificates address the likelihood of the timely payment of interest and the ultimate payment of principal and premium, if any, on the certificates. A rating is not a recommendation to buy, sell or hold certificates because ratings do not comment as to market price or suitability for a particular investor. A rating may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

## 11. PROVISION FOR MAINTENANCE

	March 31,			
	2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Balance at April 1 .....	256	8	270	5
Received during year .....	56	5	62	3
Expenditure/transfers .....	(42)	(8)	(75)	(5)
Balance at March 31 .....	270	5	257	3

The reserve for maintenance includes maintenance reserve funds received from lessees and provisions to cover the directors' estimate of maintenance costs where Airplanes Group has the primary obligation for maintenance.

Included in the provision for maintenance is \$8 million (Airplanes Limited: \$8 million; Airplanes Trust: \$nil) relating to aircraft held for sale.

## 12. SHARE CAPITAL

	Airplanes Limited March 31,	
	2006	2007
	(\$)	
Ordinary shares, par value \$1		
Authorised 10,000.....	10,000	10,000
Issued 30 .....	30	30

The holders of the issued ordinary shares are entitled to an annual cumulative preferential dividend of \$4,500. As Airplanes Limited does not have distributable profits, this dividend has not been paid. As at March 31, 2007, the total unpaid cumulative preferential dividend amounted to \$49,500.

### 13. REVENUES

The following table sets forth the amount and percentage of total revenues attributable to the indicated geographic areas based on each airline's principal place of business for the years indicated:

	Year ended March 31,					
	2005		2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
The distribution of revenues by geographic area is as follows:						
Europe.....	66	1	59	1	70	—
North America .....	70	12	30	6	15	20
South America .....	48	—	42	—	44	—
Asia/rest of world.....	56	—	54	—	32	—
	<u>240</u>	<u>13</u>	<u>185</u>	<u>7</u>	<u>161</u>	<u>20</u>
Of which, aircraft sales revenue to third parties represents .....	(58)	(5)	(17)	—	(5)	(15)
Leasing revenue .....	<u>182</u>	<u>8</u>	<u>168</u>	<u>7</u>	<u>156</u>	<u>5</u>

As of March 31, 2007, in addition to the four aircraft which were off lease and not subject to a letter of intent for sale, there were 40 aircraft which were scheduled to come off lease within one year from March 31, 2007.

At March 31, 2007, Airplanes Group had contracted to receive the following minimum rentals under operating leases:

Year ending March 31,	2007	
	Airplanes Limited	Airplanes Trust
	(\$ Millions)	
2008 .....	133	2
2009 .....	90	1
2010 .....	59	1
2011 .....	43	—
2012 .....	28	—
2013 .....	17	—
Thereafter.....	4	—
	<u>374</u>	<u>4</u>

Contracted rentals are based on actual rates up to the first recalculation date, and thereafter are based on a budget LIBOR of 5.0%.

Each of Airplanes Limited and Airplanes Trust operates in one business segment, the leasing of aircraft.

For Airplanes Limited, no customer accounted for more than 10% of revenue in any of the years ended March 31, 2005, 2006 or 2007 respectively. For Airplanes Trust: (a) three lessees accounted for more than 10% of leasing revenue for the year ended March 31, 2005 and individually these lessees accounted for 11%, 23% and 33% of leasing revenue, respectively, (b) two lessees accounted for more than 10% of leasing revenue for the year ended March 31, 2006 and individually these lessees accounted for 71% and 11% of leasing revenue, respectively, and (c) two leases accounted for more than 10% of leasing revenue for the year ended March 31, 2007 and individually these lessees accounted for 67% and 10% of leasing revenue, respectively.

## 14. NET INTEREST EXPENSE

	Year ended March 31,					
	2005		2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Interest on notes issued .....	971	95	1,254	122	1,631	160
Interest income .....	(2)	—	(3)	—	(4)	—
	<u>969</u>	<u>95</u>	<u>1,251</u>	<u>122</u>	<u>1,627</u>	<u>160</u>
Cash paid in respect of interest .....	<u>57</u>	<u>5</u>	<u>56</u>	<u>4</u>	<u>46</u>	<u>4</u>

Interest on notes issued includes \$(2.1) million (Airplanes Limited: \$(1.9) million; Airplanes Trust: \$(0.2) million), \$nil (Airplanes Limited: \$nil; Airplanes Trust: \$nil) and \$nil (Airplanes Limited: \$nil; Airplanes Trust: \$nil) in relation to the change in value of the ineffective cashflow hedges, for the years ended March 31, 2005, 2006 and 2007 respectively.

## 15. OTHER LEASE COSTS

	Year ended March 31,					
	2005		2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Net release of maintenance reserves .....	(4)	—	(3)	—	(23)	(3)
Other lease costs .....	11	—	18	5	20	—
	<u>7</u>	<u>—</u>	<u>15</u>	<u>5</u>	<u>(3)</u>	<u>(3)</u>

## 16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended March 31,					
	2005		2006		2007	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
GECAS management fees .....	22	1	20	1	20	1
Other selling, general and administrative expenses .....	10	—	10	—	8	—
	<u>32</u>	<u>1</u>	<u>30</u>	<u>1</u>	<u>28</u>	<u>1</u>

In the year ended March 31, 2007, other selling, general and administrative expenses included an amount of \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$nil) payable to AerCap in respect of administration and cash management fees as compared to the amount of \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$nil) payable in the year ended March 31, 2006 and \$6 million (Airplanes Limited: \$5 million; Airplanes Trust: \$1 million) payable in the year ended March 31, 2005.

## 17. PROVISION FOR INCOME TAXES

References to Airplanes Limited and Airplanes Trust in the context of this note refer to the underlying taxable entities of Airplanes Limited (primarily Irish entities) and Airplanes Trust (primarily U.S. entities).

There was a tax charge in the year ended March 31, 2007 of \$nil (Airplanes Limited: \$nil; Airplanes Trust: \$nil), as compared with a tax charge of \$nil (Airplanes Limited: \$nil; Airplanes Trust: \$nil) for the year ended March 31, 2006.

In respect of Airplanes Limited, as at March 31, 2007, no current tax or deferred tax provisions are being recognised in the financial statements. A deferred tax provision is deemed unnecessary due to the level of losses carried forward and additional forecasted losses.

Airplanes Trust has deferred tax assets relating to net operating loss carry forwards at March 31, 2007 of \$22 million. These deferred tax assets are offset by deferred tax liabilities on aircraft, alternative minimum tax losses utilized by GE Capital, and a valuation allowance. The result is a net deferred tax liability of \$23 million (2006: \$23 million) as at March 31, 2007.

(a) *Airplanes Limited*

Income tax benefit of Airplanes Limited consists of the following:

	Year ended March 31,		
	2005	2006	2007
	(\$ Millions)		
Current income tax.....	—	—	—
Deferred income tax.....	—	—	—
	—	—	—

Airplanes Limited's income from trading activities is taxable at general statutory rates which are currently 12.5%.

A reconciliation of differences between actual income tax benefit of Airplanes Limited for 2005, 2006 and 2007 and the expected tax benefit based on a tax rate of 12.5% is shown below:

	Year ended March 31,		
	2005	2006	2007
	(\$ Millions)		
Tax benefit at tax rate .....	94	152	200
Non-deductible class E note interest.....	(94)	(152)	(200)
Actual tax credit.....	—	—	—

Class E note interest is not deductible for tax purposes in Ireland.

Airplanes Limited has net operating loss carryforwards of approximately \$1,716 million as of March 31, 2007 (2006: \$1,537 million), which are available for offset against future taxable income with no restrictions to expiration.

The deferred tax assets and liabilities of Airplanes Limited are summarised below:

	March 31,	
	2006	2007
	(\$ Millions)	
Deferred tax assets relating to:		
Net operating loss carryforwards .....	198	214
Valuation allowance.....	(74)	(81)
	124	133
Deferred tax liability relating to:		
Aircraft.....	124	133
	124	133
Net deferred tax .....	—	—

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Airplanes Limited will not realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2007.

**(b) Airplanes Trust**

Income tax benefit/(expense) of Airplanes Trust consists of the following:

	Year ended March 31,		
	2005	2006	2007
	(\$ Millions)		
Current income tax:			
Federal.....	1	—	—
Total current.....	1	—	—
Deferred income tax:			
Federal.....	4	(6)	(1)
State.....	1	—	—
Increase in valuation allowance.....	(9)	6	1
Total deferred.....	(4)	—	—
	(3)	—	—

A reconciliation of differences between actual income tax benefit of Airplanes Trust for 2005, 2006 and 2007 and the expected tax benefit/(expense) based on the U.S. federal statutory tax rate of 35% in 2005, 2006 and 2007 is shown below:

	Year ended March 31,		
	2005	2006	2007
	(\$ Millions)		
Tax benefit at statutory rate.....	35	44	51
Non-deductible class E note interest.....	(29)	(38)	(50)
Increase in valuation allowance.....	9	(6)	1
	(3)	—	—

Airplanes Trust has federal and state net operating loss (“NOL”) carryforwards of approximately \$58.5 million as of March 31, 2007 (2006: \$75.6 million). Due to an ownership change in November 1998, \$3.5 million of Airplanes Trust’s aforementioned federal NOL’s became limited under Section 382 of the Internal Revenue Code of 1986, as amended (Section 382). Under Section 382, NOL’s will generally be limited annually to the product of the long-term tax-exempt rate (published monthly by the Service) and the value of the AeroUSA Inc. outstanding stock immediately before the ownership change (excluding certain capital contributions). However, the Section 382 limitation for a taxable year any portion of which is within the five-year period following the effective date (November 20, 1998) will be increased by the amount of any “recognized built-in gains” for such tax year (subject to certain limitations). With the lapsing of the five-year period to recognize built-in gains in November 2003, Airplanes Trust determined that \$37.4 million in NOL’s would never be realized and has thus written off the NOL’s.

Deferred tax assets and liabilities of Airplanes Trust are summarised below:

	Year ended March 31,	
	2006	2007
	(\$ Millions)	
Deferred tax assets relating to:		
Net operating loss carryforwards.....	28	22
Valuation allowance.....	(15)	(17)
	13	5

	Year ended March 31,	
	2006	2007
	(\$ Millions)	
Deferred tax liabilities relating to:		
Aircraft.....	13	5
AMT NOL Liability.....	23	23
	36	28
Net deferred tax liability.....	23	23

Based on Airplanes Trust’s consideration, given the reversal of deferred tax liabilities and available tax planning strategies, the valuation allowance for deferred tax assets was increased to \$17 million as of March 31, 2007 (2006: \$15 million; 2005: \$9 million). A valuation allowance was warranted for the year ended March 31, 2007 to reduce federal and state NOLs to a level that was more likely than not to be realizable.

Pursuant to a tax sharing agreement dated March 28, 1996, between Airplanes Trust and AerCap, Airplanes Trust was liable to AerCap for its share of the consolidated tax liability in years subsequent to the completion of the Transaction, in which Airplanes Trust generated taxable income. However, Airplanes Trust was obliged to satisfy this liability in cash only to the extent that payments due to tax authorities from AerCap were attributable to Airplanes Trust’s share of the consolidated tax liability; the remainder was to be paid in the form of subordinated notes. Conversely, Airplanes Trust was entitled to be reimbursed by AerCap for any tax benefits provided subsequent to the completion of the Transaction, to AerCap from Airplanes Trust’s tax losses. AerCap has also indemnified Airplanes Trust for any tax liabilities of AeroUSA, Inc. (a subsidiary of Airplanes Trust) that relate to tax years prior to the completion of the Transaction.

Subsequent to November 20, 1998, AeroUSA, Inc. and AeroUSA 3, Inc. now file consolidated United States federal tax returns and certain local tax returns with General Electric Company (“GE”), such returns being filed on a calendar basis. In addition, on November 20, 1998, Airplanes Trust entered into a tax sharing agreement with GE which is substantially similar to the tax sharing agreement between Airplanes Trust and AerCap which was in place prior to that date and which terminated on November 20, 1998, except with respect to those provisions relating to the position prior to the date on which AeroUSA, Inc. and AeroUSA 3, Inc. were deconsolidated from AerCap, Inc.

## 18. COMMITMENTS

### *Capital Commitments*

Airplanes Group did not have any material contractual commitments for capital expenditures at March 31, 2007.

## 19. CONTINGENT ASSETS/LIABILITIES

### *Guarantees*

Airplanes Limited and Airplanes Trust have unconditionally guaranteed each others’ obligations under all classes of notes (as disclosed in Note 10) issued by Airplanes Trust and Airplanes Limited, respectively, pursuant to the Transaction, details of which are set out in Note 1.

### *Foreign Taxation*

The international character of Airplanes Group’s operations gives rise to some uncertainties with regard to the impact of taxation in certain countries. The position is kept under continuous review and Airplanes Group provides for all known liabilities. See Note 17 for tax warranties.

### *Contingent Asset*

During the year ended March 31, 2004, the servicer agreed to the early redelivery of six aircraft from two Brazilian lessees. Following redelivery, a settlement agreement in respect of the lessees’ obligations was signed with both lessees. These agreements provide for the payment to Airplanes Group of \$31.8 million over five years which represents unpaid rentals for the unexpired portion

of the leases and certain technical costs. Due to uncertainties about the lessees' ability to meet these obligations, these amounts have not been recognised in the financial statements.

## **20. POST BALANCE SHEET EVENTS**

Since March 31, 2007 one MD83 aircraft has become subject to a letter of intent for sale but remains subject to approval by the board of directors of Airplanes Limited or the controlling Trustees of Airplanes Trust as applicable.