

# ANNUAL REPORT

For the fiscal year ended March 31, 2015

of

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**Subclass 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**

**2015 ANNUAL REPORT**

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EXHIBIT:—

1. CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2015.

## 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 Annual 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 Trust. We are in the business of leasing, and now selling, aircraft to aircraft operators around the world. In this Annual Report, references to the “**United States**” or the “**US**” are to the United States of America and references to “**US dollars**”, “**US\$**” or “**\$**” are to United States dollars.

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 plc and its subsidiaries. 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 plc (previously known as GPA Group plc and now known as AerCap Ireland Limited) and its subsidiaries. On November 15, 2010 GE Capital, as holder of all of the class E notes issued by Airplanes Trust, notified Airplanes Trust that, effective on that date, GE Capital discharged and released Airplanes Trust from any and all payment and other obligations thereunder. On October 21, 2011 GE Capital, as holder of class E notes issued by Airplanes Limited in the principal amount of \$526,314,418, notified Airplanes Limited that, effective on that date, GE Capital discharged and released Airplanes Limited from any and all payment and other obligations thereunder. The discharges and releases by GE Capital are described in more detail under “6F. Surrender of Class E Notes”. The subclass A-5 certificates were fully repaid as of May 15, 1998. We established an additional pass through trust on March 15, 2001 to issue and sell \$750 million in aggregate principal amount of subclass A-9 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 and the subclass A-8 certificates were fully repaid (save for accrued step-up interest and accrued interest thereon) on November 15, 2010.

### 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 trust indentures dated as of March 28, 1996 (as amended or supplemented, the “**indentures**” or “**trust 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 ("**Airplanes Holdings**"). The remaining 5% of the capital stock of Airplanes Holdings is owned by GE Capital Aviation Services Limited ("**GECAS**"). As of March 31, 2015, Airplanes Holdings owned a total of 11 aircraft directly and through its aircraft-owning subsidiaries, and owned one aircraft-leasing subsidiary which leases aircraft from the aircraft-owning subsidiaries and subleases them to a lessee. Thirteen subsidiaries of Airplanes Holdings which had become dormant were liquidated during the year ended March 31, 2015.

Airplanes Limited has a board of directors, which is currently composed of four directors. On October 21, 2011, when GE Capital, as holder of class E notes issued by Airplanes Limited in the principal amount of \$526,314,418, notified Airplanes Limited that, effective on that date, GE Capital discharged and released Airplanes Limited from any and all payment and other obligations thereunder, GE Capital ceased to be entitled to appoint a class E note director of Airplanes Limited; such right is now vested in the holder of the majority of the remaining class E notes issued by Airplanes Limited, which holder has not exercised such right.

## **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, Inc. ("**AeroUSA**"), which as of March 31, 2015, owned 6 aircraft. AeroUSA's dormant subsidiary, AeroUSA 3, Inc., was liquidated during the year ended March 31, 2015. The shares of AeroUSA are held by a separate voting trust with Wells Fargo Bank Northwest, acting as trustee, in order to satisfy the US Federal Aviation Administration regulations regarding the US citizenship of the owners of US registered aircraft. Airplanes Trust has no ownership or leasehold interests in any real property.

AerCap, Inc. (formerly known as GPA, Inc.), a wholly-owned subsidiary of AerCap Holdings N.V., 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 plc (now known as AerCap Ireland Limited) 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. On November 15, 2010, GE Capital as holder of such option notified AerCap, Inc., AerCap Ireland Limited and GECAS that GE Capital thereby waived, discharged and released all of its rights in, to or under such option and the residual ownership interest in Airplanes Trust and any and all other rights, title and interest in, to and under the agreement pursuant to which the option was granted. 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 would therefore revert to AerCap, Inc.

Airplanes Trust has four 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; AND WE DO NOT EXPECT TO BE ABLE TO REPAY IN FULL THE SUBCLASS A-9 NOTES AND CERTIFICATES; WE SUSPENDED PAYMENTS OF MINIMUM PRINCIPAL ON THE SUBCLASS A-9 NOTES AND CERTIFICATES ON OCTOBER 15, 2013 UNTIL DECEMBER 15, 2014 IN***

***ORDER TO INCREASE THE CASH HELD IN THE COLLECTION ACCOUNT BY WAY OF MAINTENANCE RESERVE AMOUNT TO \$140 MILLION TO COVER LIABILITY INCURRED IN ONGOING LITIGATION WITH TRANSBRASIL IF AND WHEN DUE.***

***Recent events affecting subclass A-9 note and certificate holders***

***Further increase in cash liquidity reserve on October 8, 2013***

In connection with the ongoing litigation with Transbrasil involving our subsidiary Airplanes Holdings, as described in more detail below under “3. Legal Proceedings”, the Board determined on October 8, 2013 to increase the liquidity reserve held by way of the maintenance reserve amount, required to be held at the level of the “First Collection Account Top-up” in the priority of payments (the “**Liquidity Reserve**”), from US\$110 million to US\$140 million with immediate effect. This increase resulted in the suspension of payments of subclass A-9 minimum principal (but not subclass A-9 interest payments), commencing on October 15, 2013, which suspension continued until the amount of cash retained in the collection account by way of the Liquidity Reserve reached US\$140 million which occurred on the December 15, 2014 payment date. Such cash will continue to be invested in permitted account investments in accordance with the trust indentures.

The decision to increase the Liquidity Reserve was taken by the Board on October 8, 2013 in light of an updated assessment as at that date of a worst case allocation of liability to Airplanes Holdings in the Transbrasil litigation, the ongoing nature of the litigation and the absence of a concrete prospect of settlement or resolution. The Board determined that such further increase in the Liquidity Reserve was necessary to allow for the potential payment by Airplanes Holdings in accordance with the judgment issued against Airplanes Holdings by the Appellate Court of the State of Sao Paulo in May 2010 (the “**2010 Judgment**”) and the Orders to Pay (as defined below) as well as for the interest, monetary adjustments for inflation, court mandated legal fees, court costs, fines, and legal and other expenses which had accrued since the initial increase in the Liquidity Reserve in June 2012 and were continuing to accrue.

The level of US\$140 million to which the Board determined that the Liquidity Reserve should be increased represented our best reasonable estimate at that time, based upon advice provided by Brazilian legal counsel retained by our servicer, GE Capital Aviation Services Limited (“**GECAS**” or the “**Servicer**”), on behalf of Airplanes Holdings (“**Brazilian Counsel**”), of a worst case allocation of liability to Airplanes Holdings under the 2010 Judgment (described in detail below under “3. Legal Proceedings”), with the understanding that additional amounts could be payable but are not yet capable of being estimated.

The increase in the Liquidity Reserve to US\$140 million on October 8, 2013 followed an earlier increase in the Liquidity Reserve from US\$45 million to US\$110 million on June 28, 2012.

The terms of the 2010 Judgment are described in detail in “3. Legal Proceedings.” Since the date of issuance of the 2010 Judgment each of Transbrasil’s former owners, its trustee in bankruptcy, and its lawyers have been seeking separately to enforce this judgment and, as described in “3. Legal Proceedings”, in June 2012 a Lower Court judge issued to Airplanes Holdings and the other Lessor Companies (as defined in “3. Legal Proceedings”) two orders to pay (the “**Orders to Pay**”). The total amounts specified in the Orders to Pay as being directly allocable to Airplanes Holdings were approximately R\$160 million / US\$80 million (based on an exchange rate of US\$1:R\$2. While the actual exchange rate fluctuates regularly and will cause the US\$ amounts to vary accordingly, this is the exchange rate used for all Brazilian currency conversions provided herein and is not necessarily the exchange rate on the date hereof). The Orders to Pay also directed that payments be made by all the Lessor Companies, including Airplanes Holdings, with respect to the AerCap Leasing Note (as defined in “3. Legal Proceedings”), but the Orders to Pay did not assign any particular amount to be paid by Airplanes Holdings or any of the other Lessor Companies with respect to that promissory note, nor is it possible to calculate such amount without further guidance from the Lower Court.

As was the case with the June 2012 increase in the Liquidity Reserve, the Board determined on October 8, 2013 that, despite the fact that it believed the 2010 Judgment and Orders to Pay lacked merit, fairness or rationale, it had no option but to continue to take measures that would allow Airplanes Holdings to comply with the 2010 Judgment

and the Orders to Pay, if and when enforced against Airplanes Holdings. Since, under the trust indentures, claims on Airplanes Group subsidiaries, such as the judgment against Airplanes Holdings, are senior to the subclass A-9 notes and certificates, such claims are required to be satisfied before we can make payments on the subclass A-9 notes and certificates. If we do not reserve a portion of our future cashflows, this will likely prevent Airplanes Holdings from being able to satisfy its liability and we will instead have distributed this limited cashflow as subclass A-9 minimum principal (ranking below this claim in the priority of payments) in contravention of our contractual requirements and of applicable law.

#### ***Decision in Special Appeal on October 22, 2013***

As described in more detail in “3. Legal Proceedings”, on June 8, 2010, GECAS, on behalf of Airplanes Holdings as well as the GE Lessors (as defined in “3. Legal Proceedings”), filed two appeals against the 2010 Judgment. One appeal (the “**Special Appeal**”) was filed with the Federal Court of Appeals of Brazil (Superior Tribunal de Justiça). The Special Appeal was heard on October 22, 2013 and a decision was rendered on the same day by the Federal Court of Appeals (the “**October 2013 Decision**”). In the October 2013 Decision the Federal Court of Appeals judges (by a unanimous vote) overturned the 2010 Judgment of the State Appellate Court in a number of respects as described in more detail in “3. Legal Proceedings”. In early November 2013 both Transbrasil and the Lessor Companies filed motions to clarify against the October 2013 Decision. On November 26, 2013 the Federal Court of Appeals rejected both Transbrasil’s and the Lessor Companies’ motions to clarify, meaning that the October 2013 Decision became effective (for the purpose described below) on December 9, 2013 and remains unaltered and in force as at the date of this Annual Report.

#### ***Divergence Appeal filed by Transbrasil on February 7, 2014***

Against the October 2013 Decision, Transbrasil filed a divergence appeal on February 7, 2014 (the “**Divergence Appeal**”) and the Lessor Companies also filed two divergence appeals on February 20, 2014 (the “**Lessor Companies Divergence Appeal**”). A divergence appeal is an appeal filed by a party that was unsuccessful in one or more issues brought to the attention of the Federal Court of Appeals whereby the unsuccessful party argues that the decision of that court was inconsistent with previous decisions of the same court and should therefore be overturned. The filing of the Divergence Appeal means that the October 2013 Decision, whilst effective for the purpose of allowing Airplanes Holdings and the other Lessor Companies to request termination of the various provisional enforcement proceedings initiated by Transbrasil in the Lower Courts (as described in “3. Legal Proceedings”), is not yet final. Brazilian Counsel has advised Airplanes Holdings that it considers that the Divergence Appeal was filed by Transbrasil after the permitted deadline for filing such an appeal. Brazilian Counsel therefore intends to challenge the admissibility of the Divergence Appeal as well as the substance of the appeal should such challenge as to its admissibility be unsuccessful. The Divergence Appeal seeks to nullify the October 2013 Decision and restore the terms of the 2010 Judgment. The Lessor Companies Divergence Appeal seeks to expand the October 2013 Decision to eliminate any aspects thereof that are favorable to Transbrasil.

In light of the fact that the October 2013 Decision is not yet final (as a result of the filing of the Divergence Appeal), thereby allowing for the possibility of the reinstatement of the 2010 Judgment, the Board has been advised that it is required under applicable law to continue to maintain the Liquidity Reserve at its current level at this time and has accordingly determined not to make any reduction in the Liquidity Reserve at this time.

Airplanes Holdings will continue to vigorously dispute liability in the litigation with Transbrasil in an effort to favorably resolve the litigation and to have as much as possible of the Liquidity Reserve ultimately be paid to the subclass A-9 noteholders if the litigation is ultimately resolved in favor of Airplanes Holdings or if Airplanes Holdings’ ultimate liability is for a lower amount. The Board will continue to keep these matters under close review and to make adjustments as appropriate and necessary.

We can provide no assurances as to the ultimate outcome of the litigation, the amounts that may be payable by Airplanes Holdings, or the timing of any resolution of the litigation.

### *Cancellation of Orders to Pay*

Brazilian Counsel had previously advised Airplanes Holdings that as a result of the October 2013 Decision it expected that the Orders to Pay would be effectively cancelled and the letters of guarantee presented to the Lower Court (as described in “3. Legal Proceedings”) would be returned to Airplanes Holdings and the other Lessor Companies given that the October 2013 Decision had become effective for this purpose. The Lessor Companies filed requests before the Lower Court where such provisional enforcement proceedings were ongoing seeking the cancellation of the Orders to Pay and the release of each of the letters of guarantee presented. The request for the cancellation of the Orders to Pay and release of the related letters of guarantee in connection with the provisional enforcement proceeding seeking to recover court mandated legal fees was granted by the Lower Court judge on February 4, 2014 and the related letters of guarantee were released on August 22, 2014. In addition, the request for the cancellation of the Orders to Pay and release of the related letters of guarantee in connection with the provisional enforcement proceeding seeking to recover twice the amount of the promissory notes was granted by the Lower Court judge on August 7, 2014 and the related letters of guarantee were released on August 22, 2014. Transbrasil has, however, appealed these decisions that have dismissed these provisional enforcement proceedings and cancelled the Orders to Pay. As a result, such decisions are not yet final and the Orders to Pay may be reinstated if Transbrasil is successful in its appeal.

### *General Background — Anticipated Remaining Trading Activities*

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 since the December 15, 2003 payment date, we have been paying in full only our administrative and lease expenses and certain other payments in the ordinary course of business, interest on the class A notes, hedging payments and the “First Collection Account Top-up”. We have used any remaining cashflows towards payment of minimum principal on the class A notes which at May 15, 2015 was \$424.0 million in arrears.

Even in the absence of an increase in the Liquidity Reserve, we would not have been able to make any further payments on the class B, C or D notes or to repay in full the subclass A-9 notes. The Transbrasil litigation adds further uncertainty with regard to the exact amount of principal we will ultimately be able to pay on the subclass A-9 notes.

As a result of the overall strengthening of the aviation industry between 2005 and 2007, our lease rates in that period for some of the aircraft types in our portfolio improved over the rates we had obtained for these aircraft in the years immediately following the terrorist attacks in the US on September 11, 2001 (“**9/11**”) although lease rates were still lower, and in some cases substantially lower, than the rates assumed in the 2001 Base Case. Additionally, our aircraft downtime in that period generally lessened as a result of stronger demand and improved industry conditions in those years. However, because of earlier restructurings and the fact that not all of our leases came up for renewal in the period 2005-2007, we could not benefit fully from the temporary improvements in lease rates and values which we experienced even for some of our older aircraft in that period. Furthermore, 2008 and 2009 proved to be extremely difficult for most carriers with record high average fuel prices, exceptionally weak yields and the near collapse of parts of the worldwide banking system which led to simultaneous recession in the EU, US and Japan, liquidation of a number of airlines worldwide such as Aloha, Eos, Skybus, Spain’s Futura and the UK’s XL Group, two of our Asian and one of our African lessees, and reorganizations or bankruptcy of other airlines.

Despite improved industry conditions overall from 2010 to date, the market for our portfolio of older, less technologically advanced and fuel-efficient aircraft has remained extremely difficult and a number of our lessees are in a weak financial condition, with two lessees of 11 of our aircraft, Mexicana and BlueLine, having ceased operations and entered bankruptcy during the year ended March 31, 2011, one lessee of one of our aircraft, American Airlines, having entered bankruptcy during the year ended March 31, 2012 and the lessee of two of our aircraft, Batavia Air, having ceased operations and entered bankruptcy during the year ended March 31, 2013. While the International Air Transport Association (“**IATA**”) reported global losses by the aviation industry in 2008 and 2009, it reported profits of \$19.2 billion for the aviation industry in 2010, \$8.8 billion for 2011, \$6.1 billion for 2012, \$10.6 billion for 2013 and \$16.4 billion for 2014. IATA is also forecasting profits for the aviation industry for 2015 of \$29.3 billion. While our cashflows do not generally correspond to performance of the airline industry as a



whole but rather reflect the age of our aircraft and the financial condition of the majority of our lessees, a global or broad regional economic downturn may adversely affect the financial condition of all our lessees and can disproportionately affect the value of older aircraft. In addition, as a result of the sustained adverse market conditions for our portfolio of aircraft over the past several years, the majority of our aircraft are highly likely to become obsolete earlier than the end of their useful life expectancies assumed in the 2001 Base Case assumptions, which further negatively affects the lease rates and market values of these aircraft.

Where we have been able to re-lease aircraft, the lease rates we have been able to achieve have generally been substantially lower than the rates generated for the same aircraft in the 2005 - 2007 period, which, as noted above, were in some cases already substantially lower than the rates assumed in the 2001 Base Case. We have entered into no new leases (excluding finance-type leases in respect of conditional sale agreements and short term engine leases) in the last four years. Even with lease rates compromised in this way, many of our lessees struggle to comply with their payment obligations. In the year ended March 31, 2015, the Servicer signed early termination agreements in respect of three aircraft. See “2F. The Aircraft, Related Leases and Collateral – The Lessees”.

Notwithstanding the lifting of certain restrictions on aircraft sales that were contained in our indentures prior to the consent solicitation we conducted in 2003 (the “**2003 consent solicitation**”), it has been very difficult, and will likely continue to be very difficult, for us to achieve sales as our aircraft age and the supply of newer, more technologically advanced and fuel-efficient aircraft increases. Although we undertake a sale of an aircraft which has been redelivered at the end of its lease only where the Servicer can demonstrate either that there is no realistic re-lease prospect for an aircraft, or that the sale proceeds are expected to be greater than the net present value of estimated cashflows from re-leasing (including, *inter alia*, the estimated transition costs), assuming a lease could even be obtained, the sales that we have been able to achieve have not made a significant difference to our overall cashflows.

As realistic prospects for re-leasing our aircraft and projected cashflows from any such re-leasing diminish, we anticipate that upon redelivery of our remaining aircraft at the end of their current leases the analysis performed by the Servicer will demonstrate in all cases that cashflows will be maximized through a sale of the aircraft rather than re-leasing.

The limited leasing and sale markets for our aircraft have required us to consider other alternatives for maximizing cashflow from our portfolio. For some aircraft we have been able to obtain better returns by leasing or selling the airframe or its engines separately, although we no longer anticipate that there will be circumstances where cashflows will be maximized by re-leasing airframes or engines. In the five years to March 31, 2015 we sold 13 airframes and 33 engines, leased six other airframes under conditional sale agreements and leased eight engines to two lessees. For other aircraft, cashflows may be maximized by selling the aircraft as scrap, including under a consignment arrangement where we receive payments as parts of the aircraft are torn down and sold, although as of the date of this Annual Report we had not entered into any consignment arrangements.

However, even taking into account these alternatives, we had one aircraft on the ground as at March 31, 2015. As at the date of this Annual Report, this aircraft has not been sold and we have an additional one aircraft and two engines on the ground.

The environment is thus deeply challenging for aircraft of the age and type comprising our portfolio and the revenue we are able to generate is accordingly limited and is not sufficient to allow us to pay minimum principal on the subclass A-9 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, even if we had not used most of our available cashflows in the fourteen months ended December 15, 2014 to fund the increase in the Liquidity Reserve referred to above. We therefore do not expect to generate revenues that will be sufficient to repay in full the subclass A-9 notes, or to pay any interest or principal on the class B, C or D notes.

On March 3, 2015 we entered into agreements with Air Canada to extend the leases in respect of six A320-200 aircraft which were previously scheduled to expire between January and November 2015. In the case of each of the six aircraft, the term of the lease has been extended for four years.

It is currently anticipated that our remaining aircraft (of which there are ten as at the date of this Annual Report, excluding the six Air Canada aircraft) will be sold within the next twelve months although there can be no assurance that the actual timing of such sales will not differ, perhaps materially, from such anticipated timing. Given the anticipated timing for the sale of these ten aircraft, the Board believe that cashflows would be maximized through a sale of the six Air Canada aircraft with their current (extended) leases in place and accordingly the Servicer is currently marketing these aircraft for sale, although again there can be no assurance as to the timing of any such sale. In determining whether to approve any proposed sale of the six Air Canada aircraft, as with other sale proposals the Board will review a written analysis from the Servicer which, among other things, will compare the expected sale proceeds against the net present value of estimated cashflows from continued leasing.

Given the significant reduction in the size of our portfolio in the last eighteen months, the maturity profile of our remaining leases and the anticipated timing for the sale of our remaining aircraft and the costs of continuing to operate Airplanes Group, the Board are currently considering the strategy to wind up the vehicle. As a preliminary step, the Board have been seeking to simplify the corporate structure of Airplanes Group by liquidating subsidiaries which have become dormant. In the year ended March 31, 2015 fourteen subsidiaries which had become dormant were liquidated and the Board intend to liquidate further subsidiaries as and when they become dormant.

The Board consider that it is no longer appropriate to prepare the financial statements for Airplanes Group on a going concern basis given that at the date of the financial statements the current expectation is that the vehicle will cease its aircraft leasing and sale activities within the next twelve months and the Board are currently considering the strategy to wind up the vehicle. Accordingly the financial statements for the year ended March 31, 2015 included in Exhibit 1 have been prepared on a liquidation basis in accordance with FASB ASC 205-30. The comparative results for the years ended March 31, 2014 and 2013 were prepared on a going concern basis of accounting. In accordance with the requirements of FASB ASC 205-30, all assets are stated at the best estimate of their recoverable amount and the results for the year ended March 31, 2015 are described as being on a discontinuing basis. In addition, an accrual has been made for the estimated winding up costs of the vehicle.

***Indemnification claim by AerCap Ireland Limited***

In February 2015 Airplanes Group was notified by AerCap Ireland Limited that it intended to seek indemnification from Airplanes Group in relation to certain Indian litigation proceedings. At this time Airplanes Group does not accept that it has any liability in connection with this matter; however it is seeking more information from AerCap Ireland Limited in order to assess both the validity of the purported indemnification obligation and the possible size of any potential claim which may ultimately be made against Airplanes Group. See “3. Legal Proceedings” below for further information.

***Ratings***

The vulnerability of the various classes of notes and corresponding certificates 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 the date of this Annual Report:-

<u>Certificate</u>	<u>Outstanding Principal Balance as at May 15, 2015</u>	<u>S&amp;P</u>	<u>Fitch</u>	<u>Moody's (S&amp;P equivalent)</u>
Subclass A-9 .....	\$430.7m	CCC-	C	Ca (CC)**
Class B .....	\$226.8m	NR*	C	C (C)
Class C .....	\$349.8m	NR*	C	C (C)
Class D.....	\$395.1m	NR*	C	C (C)

\* Ratings withdrawn.

\*\* A press release was issued by Moody's on November 20, 2014, stating that the subclass A-9 certificates were being downgraded to “Ca” from “Caa3”.

There can be no assurance that the rating agencies will not further downgrade any class or subclass of our 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.

### **C. RISK FACTORS**

The following summarizes various risks and uncertainties which may materially affect the ability of Airplanes Limited and Airplanes Trust to generate cashflows. 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. Events of default other than those resulting from non-payment (such as could arise in connection with the Transbrasil litigation if a Brazilian court were to issue one or more judgments or orders expressly requiring Airplanes Holdings to pay an amount in excess of \$100 million) may affect all classes of noteholders, including the subclass A-9 notes. 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 its aircraft-owning 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, if their subsidiaries do not make any distributions to them, or if a subsidiary suffers an unanticipated expense, 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 expenses and will rank ahead of other payment obligations of Airplanes Limited and Airplanes Trust.

***CLAIMS ON OUR SUBSIDIARIES ARE SENIOR TO THE CLAIMS OF NOTEHOLDERS AND OUR SUBSIDIARIES MAY HAVE MATERIAL CONTINGENT LIABILITIES UNKNOWN TO US AND OTHER SIGNIFICANT LIABILITIES.***

Any claims on the subsidiaries of Airplanes Limited and Airplanes Trust are 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. They also include claims resulting from judgments and related orders to pay awarded against Airplanes Holdings in the litigation with Transbrasil as described in more detail under "3. Legal Proceedings". There may also be liabilities of our subsidiaries that arose before we acquired them from GPA Group plc (now AerCap Ireland Limited) in 1996 of which we are not aware. If the subsidiaries are called upon to pay any of these contingent or other 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 (and the class B, class C and class D certificates are currently suspended from trading as a result of the default in the payment of interest on such certificates). No one has an obligation to make a market in the certificates. We have not and 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. As noted under “3. Legal Proceedings” below, we are relying on GECAS, as Servicer, to handle the ongoing litigation with Transbrasil on our behalf. If these service providers do not perform their contractual obligations to us, our operations may suffer, thereby further adversely affecting our cashflows. 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 at our sole discretion. 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 final maturity date of the certificates. 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 further impede our cashflows. The appointment of replacement service providers may also cause the rating agencies to further 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.

### ***EXCEPT IN CERTAIN CIRCUMSTANCES, 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.

### ***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 CASHFLOWS.***

In recent years, we have managed interest rate risk 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 the purchase of interest rate caps and, historically, have managed this risk through interest rate swaps. Because of our financial condition, since early 2006 we have not been able to find counterparties willing to enter into swaps with us and as a result of this we have been purchasing interest rate caps. Our last swap matured on April 15, 2010 and as a result from that date onwards we have only held interest rate caps. Our last cap matured on December 15, 2014. If we are required to purchase any additional interest rate caps, an inability to find an eligible counterparty or a default by a counterparty may result in a mismatch between our floating rate interest obligations and our fixed and floating rate lease receipts, which could further reduce our cashflows.

### ***GECAS, THE SERVICER, MAY HAVE CONFLICTS OF INTEREST IN MANAGING OUR PORTFOLIO AND PERFORMING RELATED SERVICES 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 and Aircraft Finance Trust. GECAS also arranges aircraft or engine financings and other lease transactions. 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 cashflows. See “10B. Directors and Trustees of Airplanes Group—The Servicer” for more information on the activities of the Servicer. As noted below under “3. Legal Proceedings”, GECAS is conducting the Brazilian litigation with Transbrasil on our behalf and since various affiliates of GECAS are also parties to such litigation conflicts of interest may arise. We are closely monitoring this litigation and if material conflicts arise, separate Brazilian counsel will be required to represent our interests in this litigation.

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

AerCap Holdings N.V. and AerCap Ireland Limited, 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 Limited and its subsidiary also act as the servicer for AerCo Limited (“AerCo”), Aircraft Lease Securitisation Limited (“ALS”) and Aircraft Lease Securitisation II Limited (“ALS II”), three securitization vehicles similar to Airplanes Group, and AerCap Ireland Limited currently holds all of the class E-1 and E-2 notes issued by AerCo and all of the class E-1 notes ALS II. Subsidiaries of AerCap Ireland Limited also act as administrative agent and cash manager for AerCo and as administrative agent for ALS and ALS II. 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 a further adverse impact on our cashflows.

***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 Limited are represented by the same Jersey legal counsel and, except in connection with the Transbrasil litigation discussed in more detail in “3. Legal Proceedings”, where Airplanes Group has retained separate legal counsel for advice as to matters of Irish law, the same Irish legal counsel. 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 Limited. If a significant dispute does arise in the future between Airplanes Group and AerCap Ireland Limited 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 is also a director of an Airplanes Group subsidiary, is also a director of another aircraft securitization/leasing vehicle whose business activities are similar to the business activities of Airplanes Group.

## **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 and 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 downturn in the airline industry following the 9/11 terrorist attacks and our inability to benefit in any significant way from any general improvement in industry conditions.

The conditions in the aircraft market depend upon, among other things, the business cycle for lessees and buyers, as well as general economic conditions worldwide or in specific regions. Given the age of our portfolio, all of the aircraft types in the portfolio are now difficult to place regardless of general market conditions, although poor market conditions at the time when any of our aircraft are being marketed for re-lease or sale can further adversely affect our ability to re-lease or sell those aircraft on satisfactory terms.

***GEOPOLITICAL EVENTS SUCH AS WAR OR TERRORIST ATTACKS AS WELL AS THE OUTBREAK OF A PANDEMIC DISEASE OR THE OCCURRENCE OF NATURAL DISASTERS 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 9/11 terrorist attacks in the United States and subsequent terrorist attacks outside the United States, airlines and airports 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.

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.

The uncertain situation in Iraq and tensions involving Iran continue, and either or both may lead to further instability in the Middle East or elsewhere. The terrorist attacks in Mumbai in November 2008 and in Pune in February 2010 heightened tensions between India and Pakistan, while Pakistan itself has become increasingly unstable following the death of Osama Bin Laden in May 2011. The 2011 uprisings in Tunisia, Egypt, Libya and other countries in the Middle East and North African region as well as the current civil war in Syria have resulted in political and economic uncertainty and instability in the region. The uncertain situation in North Korea as a result of their threatening South Korea and the US with war, in addition to threats of pre-emptive nuclear strikes in March 2013 have resulted in political and economic uncertainty and instability in this region.

The foiled terrorist attack on cargo aircraft at the end of October 2010 has highlighted the need for vigilant cargo security controls. Following the attempted attacks the Transportation Security Administration (“TSA”) immediately enhanced protocols for screening inbound cargo and deployed inspectors to Yemen and Somalia to assist governments in enhancing their cargo screening procedures, according to IATA. Additional security measures which may be introduced to counter the terrorism threat may have an adverse financial impact on airlines carrying cargo.

Terrorist attacks and adverse geopolitical and macro economic conditions negatively affect the airline industry. Such negative effects may include: (1) higher costs to airlines due to increased security measures; (2) losses in passenger revenue due to the inconvenience of additional security measures; (3) increased price and reduced availability of jet fuel as well as difficulty in obtaining fuel hedges; (4) higher financing costs and difficulty in raising financing; (5) 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) 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) the grounding of aircraft by airlines in attempts to reduce their operating costs.

While robust market conditions may be sufficient to allow the airline industry as a whole to withstand these effects, certain airlines, such as a number of our lessees, can be challenged in this environment and their financial condition suffers accordingly. Consequently, 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) is affected and these terrorist attacks and adverse geopolitical and macro economic conditions may further impair the financial condition of our lessees which may result in additional lease restructurings and aircraft repossessions, may increase our cost of re-leasing or selling the aircraft and may further impair our ability to re-lease the aircraft or lease the aircraft on a timely basis and/or at favorable rates and may further reduce the value received for the aircraft upon any disposition. These results could have a further negative impact on our cashflows.

### ***Effects of War or Armed Hostilities***

War or armed hostilities in the Middle East, North Africa, North Korea, India, Pakistan or elsewhere, or the fear of such events, could reasonably be expected to deter travel to and within these areas. The situation in Iraq continues to be uncertain and tension over Iran's nuclear programs, and recent political instability in North Africa and the Middle East, may lead to further instability in the region. Potential consequences for airlines include increased security restrictions on air travel, increased costs for, and restricted availability of, aircraft war risk and other insurance and fuel, enhanced security measures and a decline in passenger demand for air travel, with the potential for us of additional lessee restructurings or repossessions. There can be no assurance that the government of the United States or any other country will take further action to assist the aviation industry in the manner provided pursuant to the ATSA or otherwise. 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, causing 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 spreading to certain parts of Africa and Europe. Although human cases of avian influenza so far have been limited in number, the World Health Organisation continues to monitor the threat that a human influenza pandemic could develop from the avian influenza virus. Furthermore the outbreak of Swine Flu in Mexico in 2009 had a significant short-term impact on air travel to and within the region. Additional outbreaks of SARS or other epidemic diseases or the fear of such epidemics, could negatively affect passenger demand for air travel, the aviation industry and ultimately could have a further negative impact on our cashflows.

### ***Effects of Natural Disasters such as Volcanic Eruptions, Earthquakes and Tsunamis***

Due to the presence of volcanic ash over Northern Europe and the Atlantic from Iceland's Eyjafjallajökull volcano, a large number of flights were grounded throughout a large part of Northern Europe at various times during April and May 2010. Many other flights were delayed and/or rerouted to avoid the ash, resulting in additional fuel costs and disruption to schedules. This had a severe impact on the European aviation industry. IATA has estimated that the industry lost \$400 million per day while flights were grounded. More recent eruptions during May 2011 from Iceland's Grimsvötn volcano were, according to Icelandic meteorological official reports, "unlikely to have nearly as significant an impact as the 2010 Eyjafjallajökull eruptions." IATA has reported that it is encouraged by the improved coordination of European authorities thus far in managing its airspace in light of the Grimsvötn eruptions. In June 2011, flights in Australia, New Zealand and South America were disrupted due to volcanic ash from eruptions from Chile's Puyehue volcano. Additional volcanic eruptions and grounding of flights could negatively affect passenger demand for air travel, the aviation industry and ultimately could have a further negative impact on our cashflows.



On March 11, 2011 an earthquake hit Oshika peninsula on the east coast of Japan, followed by a tsunami. The disaster left thousands dead, inflicted extensive material damage to buildings and infrastructure and caused core damage to a nuclear power station which the International Atomic Energy Agency rated a level 7 incident, the Agency's highest level, indicating major off-site consequences for health and the environment. Further earthquakes could negatively affect passenger demand for air travel, and the aviation industry generally with a consequential further negative impact on our cashflows.

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

In addition to those described above, other factors outside our control, some of which are described below, which affect our business include:

- 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 unless hedged and significant increases materially and adversely affect their operating results. Fuel prices in July 2008 reached a record high of \$147 per barrel which had a material adverse impact on airlines' profitability for 2008 (including that of our lessees) and resulted in repossessions of aircraft from certain lessees and restructurings with certain other lessees. Due to the competitive nature of the airline industry, airlines were not able to fully pass on increases in fuel prices to their customers by increasing fares. In addition, not all airlines were able to manage this risk by appropriately hedging their exposure to fuel price fluctuations. Although in the latter part of 2008 and early 2009 fuel prices dropped significantly to a low of approximately \$30 per barrel, they subsequently increased before falling significantly in the second half of 2014. In its latest forecast issued in June 2015 IATA is forecasting an average jet fuel price of approximately \$78 per barrel for 2015, a significant decrease from the previous forecast in June 2014 of \$124.20 per barrel. IATA noted that fuel still represents approximately 28% of the industry's operating cost structure.

While the reduction in the supply of oil from North Africa is compensated by production increases from certain OPEC members, if political unrest spreads to any of the larger oil exporting countries in the Middle East, fuel prices could rise beyond peak levels of 2008. In addition, natural disasters such as hurricanes can significantly affect fuel availability and prices. For example, hurricanes in the United States Gulf Coast have in the past caused significant disruptions to oil production, refinery operations and pipeline capacity in the region and to oil production, resulting in higher fuel prices. If fuel costs return to the high levels experienced in 2008 or become even higher due to adverse supply and demand conditions, future terrorist attacks, acts of war, armed hostilities or natural disasters or for any other reason, this will cause our lessees to incur higher costs and to generate lower net revenues, resulting in a further adverse impact on their financial positions, and in some cases resulting in bankruptcies. Consequently, these conditions may (i) further affect our lessees' ability to make rental and other lease payments, (ii) result in additional lease restructurings, grounding of aircraft, aircraft repossessions and airline bankruptcies, (iii) increase our costs of servicing and marketing the aircraft, (iv) further 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) further reduce the amount received for our aircraft upon any disposition. Our lessees may be disproportionately affected by rises in the price of fuel as most of our aircraft are older, less fuel-efficient types and the values of such aircraft are also disproportionately affected by high fuel prices. In addition, many of our lessees are not in a financial position to be able to hedge their exposure to fuel prices. Fuel price rises could thus have a further negative impact on our cashflows.

***FURTHER AIRLINE REORGANIZATIONS COULD IMPAIR OUR ABILITY TO RE-LEASE OR SELL AIRCRAFT.***

The last six years have seen a number of bankruptcies, liquidations or consolidations of airlines which resulted in large numbers of aircraft becoming available for lease or purchase at reduced values. Further bankruptcies, liquidations or consolidations of airlines may result in even larger numbers of aircraft becoming available for lease or purchase at further reduced lease values or sale prices and further 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 cashflows and to encourage continued customer loyalty. Fare discounting leads to lower yields for all airlines, including certain of our lessees. 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 can result in significant labor disputes which can lead to strikes, slowdowns or otherwise adversely affect labor relations. Additional reorganizations or liquidations by airlines under Chapter 11 or Chapter 7 of the US Bankruptcy Code or other bankruptcy or reorganization laws or further rejection or abandonment of aircraft by airlines in a Chapter 11 proceeding under the US Bankruptcy Code or equivalent laws in other countries could exacerbate current depressed aircraft values and aircraft lease rentals for our aircraft types. Grounded aircraft and lower market values continue to have an adverse effect on our ability to sell certain of our aircraft or re-lease other aircraft at favorable rates.

Additional grounded aircraft and even lower market values would further adversely affect our ability to sell certain of our aircraft or re-lease other aircraft at favorable rates or at all 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, 2015, the A320-200 model of aircraft comprised more than 47% of our portfolio by appraised value as of January 31, 2015, the DHC8-300 model of aircraft comprised more than 18% of our portfolio by appraised value as of January 31, 2015, the B767-300ER and the B737-400 models of aircraft each comprised more than 23% of our portfolio by appraised value as of January 31, 2015 and, in addition, the B737-300 model of aircraft comprised more than 7% of our portfolio by appraised value as of January 31, 2015. Furthermore, at March 31, 2015, widebody aircraft comprised more than 9% and turboprop aircraft comprised more than 18% of our portfolio by appraised value as of January 31, 2015. The concentration on particular models or types of aircraft magnifies the adverse impact to our cashflows 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 (x) an increase in the price of fuel adversely impact the attractiveness of certain aircraft types, in particular MD80s and B737s, which are considered to be less fuel-efficient, (y) decreasing popularity of turboprop aircraft, the cessation of production of a number of aircraft types and the bankruptcy of Fokker, and (z) ADs with respect to a number of aircraft types, including MD80s 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 potential lease rates and aircraft values to significantly decrease and may cause us to incur significant costs. Given the preference for newer, more technologically advanced and fuel-efficient aircraft, the market for our aircraft is unlikely ever to recover to previous levels.

***THE APPRAISED BASE VALUES OF THE MAJORITY OF THE AIRCRAFT ARE SIGNIFICANTLY HIGHER THAN THE CURRENT MARKET VALUE OF THE AIRCRAFT.***

The appraised base 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. Accordingly appraised base values for an aircraft are hypothetical and do not reflect the market for such aircraft at a specific time. You should not therefore rely on appraised base values as an indication of the price that we could obtain if we sold an aircraft. As of the date of this Annual Report, we believe that the appraised base value of the majority of our aircraft is significantly higher than what we understand to be their likely current market value. For our accounting policy in respect of the determination of the appropriate carrying value of our aircraft see Note 4(d) of our consolidated financial statements attached as Exhibit 1 hereto.

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 base 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.

***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 AND FUEL-EFFICIENT AIRCRAFT IMPAIRS OUR ABILITY TO RE-LEASE OR SELL AIRCRAFT.***

The availability of newer, more technologically advanced and fuel-efficient aircraft adversely affects our ability to re-lease or sell our aircraft because lessees and buyers of used aircraft (and their financiers) tend to favor these newer, more technologically advanced and fuel-efficient 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. This has been exacerbated by various industry downturns which disproportionately affect older aircraft which are costly to operate. It has also been exacerbated by the rate of production of new aircraft where overcapacity in the industry as a whole has increased the availability of new generation aircraft, thereby further depressing demand for and, as a consequence, lease rates and values of, older generation 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, 2015 by appraised value as at January 31, 2015 is 23.43 years).

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.

Certain countries have regulations and policies restricting or prohibiting the import of aircraft above a certain age. For example, a number of countries have age restrictions varying from 10 to 22 years. Certain other countries are considering introducing regulations and policies restricting or prohibiting the import of aircraft above a certain age and also certain airlines have adopted their own policies imposing age restrictions. Due to the prospective nature of many of these restrictions and prohibitions certain of our aircraft which are the subject of existing leases by airlines in some of these countries have not been subject to these age restrictions and prohibitions; however, given the average age of our fleet, these restrictions and prohibitions further limit our ability to re-lease our aircraft and reduce the pool of potential purchasers for our aircraft.

In addition, as a result of the sustained adverse market conditions for our portfolio of aircraft over the past several years and our inability to benefit in any meaningful way from occasional improvements in the overall market, the majority of our aircraft are highly likely to become obsolete earlier than the end of their useful life expectancies assumed in the 2001 Base Case and we do not believe that we will be able 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 operated. 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. To the extent the cost of complying with such regulations is required to be borne by us rather than the lessees, we could incur significant cash expenditures in order to comply with these regulations and aircraft that fail to comply with these regulations could be prohibited from flying into some jurisdictions, which would adversely affect their values

and lease rates. For examples of some of the more significant regulations and their estimated costs see “2E. The Aircraft, Related Leases and Collateral—Compliance with Governmental and Technical Regulation.”

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

Significant new requirements with respect to noise standards, emission standards and other aspects of aircraft or their operation could cause the value of an aircraft type to decrease and further limit our ability to re-lease or sell aircraft. Governmental regulations relating to noise and emissions levels may be imposed not only by the jurisdictions in which the aircraft are registered, possibly as part of the airworthiness requirements, but also in other jurisdictions where the aircraft operate.

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. Such regulations, taxes or duties could also add to the unattractiveness of older, less fuel-efficient aircraft in favour of new generation, more technologically advanced aircraft, which would further reduce the value of our aircraft and limit our ability to lease or sell them. Because our portfolio is composed entirely 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 further material adverse 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. Although, as a result of the 2010 consent solicitation we are now able to relax some of these restrictions without obtaining a rating agency confirmation, 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 has removed a contractual restriction on our ability to sell aircraft, it is very difficult to achieve sales in the current market environment for our aircraft and for some aircraft types we are, and have been, only able to sell the aircraft for scrap and for other aircraft we may only be able to sell one or more engines or the airframe. While we have been able to generate cash sales proceeds for aircraft where the Board has unanimously concluded that a sale is the best economic option for an aircraft or where aircraft have little, if any, economic future, the proceeds from such sales have not made a significant difference to our cashflows.

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

We may not be able to re-lease or sell 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, where we can identify potential lessees, lease rates and lease terms for the aircraft, our cashflows will be further

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 generally and those affecting the airline industry in particular, 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 aircraft sellers;
- restrictions on our flexibility imposed by the indentures; and
- failure of lessees to comply with aircraft return conditions.

The following table shows the number and type of aircraft and engines as of March 31, 2015 that we must remarket during the next five years. The table assumes that (1) no lease terminates early and (2) letters of intent for sale existing as of March 31, 2015 will result in sales. The 2015 numbers in the table below include the one aircraft which was off-lease at March 31, 2015. They do not include four aircraft which were subject to conditional sale agreements and two other aircraft on lease which were subject to a letter of intent for sale at that date. Additional aircraft, airframes or engines may need to be remarketed if letters of intent do not result in sales.

#### AIRPLANES GROUP EXPECTED REMARKETING REQUIREMENT AS OF MARCH 31, 2015

Aircraft Type	Year Ending December 31,				
	2015	2016	2017	2018	2019
A320-200.....	—	—	—	—	6
B737-300SF.....	1	—	—	—	—
B737-400.....	3	—	—	—	—
B767-300ER.....	1	—	—	—	—
Total.....	5	—	—	—	6

Engine Type	Year Ending December 31,	
	2015	2016
CFM56.....	1	—
Total.....	1	—

As of March 31, 2015, our longest lease was scheduled to expire in November 2019. As noted above in “1B. Overview of Current Financial Condition – General Background – Anticipated Remaining Trading Activities”, the Servicer is currently marketing the six A320-200 aircraft on lease to Air Canada for sale with their leases (which expire in 2019) in place. In addition, we expect that upon redelivery of our remaining aircraft at the end of their current leases the analysis performed by the Servicer will demonstrate in all cases that cashflows will be maximized through a sale of the aircraft rather than re-leasing. While sale of an aircraft may maximize cashflows, our forecasts indicate that the net sale proceeds will in all cases be substantially lower than the net present value of the cashflows assumed in our 2001 Base Case to be generated from the continued leasing and subsequent sale of the relevant aircraft. As at the date of this Annual Report, aside from the two aircraft and two engines currently off-lease, there are four aircraft and one engine which are scheduled to come off-lease before March 31, 2016. Even though we anticipate that a sale would in all cases maximize the cashflow generation for the particular aircraft or engine, as

described elsewhere in this Annual Report, due to the age and type of aircraft in our portfolio, sales opportunities have been limited and are expected to continue to be limited.

***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 values and lease rates for 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 we can offer the aircraft for 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 cashflows may be further reduced in any month as a result of significant maintenance costs, especially as the aircraft continue to 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.

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

We have tried to structure our leases so that withholding or other taxes either do not apply to lease payments or, if withholding or other taxes do apply, the lessees are obliged to pay corresponding additional amounts so that we always receive the full lease payment. However, if withholding or other taxes must be paid and we cannot recover additional amounts from the lessees, that would further reduce our cashflows. See below under “Airplanes Holdings and its Irish tax resident subsidiaries may not be indemnified by lessees in respect of the US tax liabilities of such subsidiaries” for the withholding tax consequences arising from GE Capital’s surrender on October 21, 2011 of the Airplanes Limited class E notes held by it.

**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 (which tend to be the airlines that favour operating leases) may default on their obligations under the leases. If lessees do not make rent and maintenance payments or are significantly in arrears, our cashflows 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 in the geographic regions where our lessees operate also affect their ability to meet their lease obligations. Since all of our leases require lease payments in US dollars, any weakness in the local currency in which a lessee operates against the US dollar could also adversely affect its ability to pay us.

The downturn in the airline industry in the period immediately following the 9/11 terrorist attacks resulted in a number of airlines experiencing severe financial difficulties. Some carriers, including some of our lessees, filed for bankruptcy, while others, including many of our lessees, announced large losses or faced severe financial difficulties. During this period, the Servicer agreed to rental holidays, rental restructurings, the early return of aircraft and similar measures for a number of lessees. In the period 2008-2009, another period of difficult industry conditions, the Servicer undertook a number of aircraft repossessions and lease restructurings and, as noted above, the Servicer has continued to take such actions through the date of this Annual Report notwithstanding general market improvements since 2009. These lease restructurings generally consist of short and longer term deferrals of rent and other lease payments and/or the reduction of current lease rentals.

You should expect that a number of our lessees will be or continue to be in 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 Europe and Russia, may be more susceptible than others to the impact of any economic downturn. 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 further their financial condition and ability to perform their obligations to us.

A number of our existing lessees are in a weak financial position and suffer liquidity problems, and this is likely to continue to be the case. 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 grounding of flights as a result of 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”.

***THE SERVICER 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. The efforts of the Servicer 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 the Servicer does terminate a lease and repossess the aircraft, for all the reasons discussed above, re-leasing the aircraft will be challenging.

***OUR LESSEES MAY BE BANNED FROM EUROPEAN AIRSPACE, WHICH MAY AFFECT THEIR ABILITY TO MAKE PAYMENTS TO US.***

The European Union (the “EU”) and its Member States are working with aviation safety authorities in other countries to raise aviation safety standards across the world. To improve aviation safety in Europe the EU, in consultation with Member States’ aviation safety authorities, has the ability to ban airlines considered to not meet EU safety standards from operating in European airspace. Such bans may be blanket bans affecting all airlines based in a particular country or may be in respect of specific airlines. The EU can also impose restrictions on the operations in Europe of specific airlines. Whilst any such ban or restriction may not impact an airline which operates wholly outside the EU, if any of our lessees operate aircraft within the EU or fly aircraft into the EU and become subject to such EU bans or restrictions, this may affect such lessee’s ability to generate revenue and thus to make rental and other lease payments to us, which could have a further negative impact on our cashflows.

One of our lessees based in Indonesia is subject to an EU ban applying to the majority of Indonesian airlines. This airline leases two aircraft and one engine from us, representing 11.59% of our portfolio by appraised value as of January 31, 2015. These aircraft are, however, leased by the lessee for the purpose of their Asian operations which are outside Europe and are not therefore currently affected by such ban.

**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.

***AIRPLANES HOLDINGS AND ITS IRISH TAX RESIDENT SUBSIDIARIES MAY NOT BE INDEMNIFIED BY LESSEES IN RESPECT OF THE US TAX LIABILITIES OF SUCH SUBSIDIARIES.***

Prior to GE Capital’s acquisition of the class E notes from AerFi Group plc (now known as AerCap Ireland Limited) in 1998, Airplanes Holdings and its Irish tax resident aircraft owning subsidiaries qualified for the benefits of the income tax treaty between the United States and Ireland (the “**treaty**”) by virtue of a ruling obtained by AerFi Group plc from the US competent authority, which applied to AerFi Group plc 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 plc ruling was based. On September 28, 2001, the ruling by the US competent authority was granted to Airplanes Holdings and its Irish tax resident aircraft owning subsidiaries.

As a direct result of the surrender by GE Capital on October 21, 2011 of the Airplanes Limited class E notes held by it, Airplanes Holdings and its Irish tax resident aircraft-owning subsidiaries no longer qualify for the benefits of the treaty. Consequently, certain of our lessees are required to withhold US federal income tax on rent paid to those subsidiaries and certain subsidiaries are liable to pay US gross transportation tax on rent which they receive from certain of our lessees. While the affected leases contain a gross-up provision which we believe requires the lessees to pay additional amounts so that these subsidiaries receive the same amount as they would have received if the taxes were not payable, certain of the affected lessees have not yet agreed to pay these additional amounts pursuant to the gross-up provisions, and other affected lessees are resisting our attempts to collect these additional amounts. As long as we are unable to collect these amounts our cashflows are being reduced by the payment of these taxes. As at March 31, 2015, three aircraft remained in ownership by Irish tax resident aircraft-owning subsidiaries that have exposure in this regard.

***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.

**RISKS RELATING TO BANKRUPTCY**

***OUR ASSETS MAY BE CONSOLIDATED WITH THOSE OF AERCAP IRELAND LIMITED 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 plc (now known as AerCap Ireland Limited), to ensure that our assets would not be consolidated with the assets of AerCap Ireland Limited and would not become available to AerCap Ireland Limited's creditors in any bankruptcy or insolvency proceeding involving AerCap Ireland Limited or any of its affiliates. If AerCap Ireland Limited 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 Limited'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 Limited'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, 2015, our portfolio comprised a total of 17 aircraft and one engine, of which 16 aircraft and one engine were on-lease to 8 lessees in 6 countries and one aircraft was off-lease. Four aircraft were subject to conditional sale agreements and two aircraft were subject to a letter of intent for sale to their lessee. As of the date of this Annual Report, these two aircraft are now contracted for sale to the lessee. In addition, a conditional sale agreement in respect of one MD83 aircraft which was in place at March 31, 2015 was subsequently terminated early as a result of the lessee ceasing its operations. Pursuant to the early termination agreement, title to the airframe of the aircraft was passed to the lessee and the two engines previously attached to the airframe were returned to Airplanes Group. Such engines will now be marketed for sale to a third party. In addition, as of the date of this Annual Report, one B737-400 aircraft has been redelivered at the end of its lease and is currently being marketed for sale. As of March 31, 2015, the weighted average remaining contracted lease term of our portfolio (by appraised value as of January 31, 2015 and without giving effect to purchase options, early termination options or extension options) was 33 months. As of March 31, 2015, our longest lease was scheduled to expire in November 2019.

**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 base 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. 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 or current market conditions.

For the appraisals as of January 31, 2015, we obtained independent appraisals from three independent appraisers and calculated the appraised base value of each aircraft and engine by taking the average of the three appraisals. On this basis, the average appraised base value for our portfolio of 17 aircraft and one engine at March 31, 2015 based upon the appraised values as of January 31, 2015 was approximately \$73 million, as compared to \$85 million for the same 17 aircraft and one engine at March 31, 2014 based upon the appraised values as of January 31, 2014.

The average appraised base value of each aircraft and engine in our portfolio by each of the three independent appraisers as of January 31, 2015 can be found in “Airplanes Group Portfolio Analysis at March 31, 2015” below. The aggregate appraised base values calculated by each of the three independent appraisers for our portfolio, calculated by adding up the appraised base value by that appraiser of each item in our portfolio, are as follows:

Appraiser	Aggregate Appraised Base Value as of January 31, 2015  (In \$ Millions)
Ascend Limited (a division of Airclaims).....	60.0
Aircraft Information Services, Inc .....	96.3
BK Associates, Inc.....	63.9
Average of three appraisers .....	73.4

You should not rely on the appraised base value as a measure of the realizable value of any aircraft or engine. See “1C. Introduction—Risk Factors—Risks Relating to the Aircraft” for a discussion of the relevance of the appraised base 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 at March 31, 2015” below which includes various footnotes summarising certain changes to the portfolio which have taken place in the period between March 31, 2015 and the date of this Annual Report. The information in such footnotes applies equally to the tables set forth below.

As of March 31, 2015, all of the aircraft in our portfolio by appraised base value as of January 31, 2015 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 following table lists the aircraft and engines by type and number as of March 31, 2015 and the percentage of our portfolio they represent by appraised base value as of January 31, 2015.

#### *Aircraft*

Manufacturer	Type	Number	Body Type	% of Portfolio by Appraised Base Value as of January 31, 2015
Boeing (30.47%).....	B737-300SF	2	Freighter	7.09
	B737-400	3	Narrowbody	13.38
	B767-300ER	1	Widebody	9.99
McDonnell Douglas (1.05%).....	MD83	1	Narrowbody	1.05
Airbus (47.27%) .....	A320-200	6	Narrowbody	47.27

<u>Manufacturer</u>	<u>Type</u>	<u>Number</u>	<u>Body Type</u>	<u>% of Portfolio by Appraised Base Value as of January 31, 2015</u>
De Havilland of Canada (18.10%).....	DHC8-300	4	Turboprop	18.10
Total Aircraft .....		<u>17</u>		<u>96.88</u>

***Engines***

<u>Manufacturer</u>	<u>Type</u>	<u>Number</u>	<u>Body Type</u>	<u>% of Portfolio by Appraised Base Value as of January 31, 2015</u>
CFM (3.12%).....	CFM56	1	—	3.12
Total Engines .....		<u>1</u>		<u>3.12</u>
Total.....				<u>100.00</u>

The following table sets forth the exposure of our portfolio by lessee as of March 31, 2015 according to the number of aircraft and engines and the appraised base value as of January 31, 2015.

***Aircraft***

<u>Lessee(1)</u>	<u>Number</u>	<u>% of Portfolio by Appraised Base Value as of January 31, 2015</u>
AC Leasing .....	6	47.27
LIAT .....	2	8.75
Safair.....	1	4.42
PT Sriwijaya Air .....	2	8.46
Jazz Air .....	2	9.35
Sibir Airlines.....	1	4.91
Other (2 lessees) .....	2	3.73
Off-lease .....	1	9.99
Total Aircraft .....	<u>17</u>	<u>96.88</u>

***Engines***

<u>Lessee(1)</u>	<u>Number</u>	<u>% of Portfolio by Appraised Base Value as of January 31, 2015</u>
PT Sriwijaya Air .....	1	3.12
Total Engines .....	<u>1</u>	<u>3.12</u>
Total.....		<u>100.00</u>

(1) Total number of lessees = 8

The following table sets forth the exposure of our portfolio by country of domicile of lessees as of March 31, 2015 according to the number of aircraft and engines and the appraised base value of the portfolio as of January 31, 2015.

***Aircraft***

Country(1)	Number	% of Portfolio by Appraised Base Value as of January 31, 2015
Canada .....	8	56.61
Russia.....	1	4.91
Indonesia.....	3	11.15
Antigua .....	2	8.75
South Africa.....	1	4.42
United States of America.....	1	1.05
Off-lease .....	1	9.99
Total Aircraft .....	17	96.88

***Engines***

Country(1)	Number	% of Portfolio by Appraised Base Value as of January 31, 2015
Indonesia.....	1	3.12
Total Engines .....	1	3.12
Total.....		100.00

(1) Total number of countries = 6

The following table sets forth the exposure of our portfolio by regions in which lessees are domiciled as of March 31, 2015 according to the number of aircraft and engines and the appraised base value of our portfolio as of January 31, 2015.

***Aircraft***

Region	Number	% of Portfolio by Appraised Base Value as of January 31, 2015
North America .....	9	57.66
Asia & Far East.....	3	11.15
Africa .....	1	4.42
Latin America .....	2	8.75
Other (including CIS Countries).....	1	4.91
Off-lease .....	1	9.99
Total Aircraft .....	17	96.88

***Engines***

Region	Number	% of Portfolio by Appraised Base Value as of January 31, 2015
Asia & Far East.....	1	3.12
Total Engines .....	1	3.12
Total.....		100.00

The following table sets forth the exposure of the portfolio by year of manufacture as of March 31, 2015 according to the number of aircraft and engines and the appraised base value of the portfolio as of January 31, 2015.

*Aircraft*

<b>Year of Manufacture</b>	<b>Number</b>	<b>% of Portfolio by Appraised Base Value as of January 31, 2015</b>
1986 .....	2	7.09
1990 .....	1	3.55
1991 .....	7	44.54
1992 .....	6	32.77
1993 .....	1	8.93
<b>Total Aircraft .....</b>	<b>17</b>	<b>96.88</b>

*Engines*

<b>Year of Manufacture</b>	<b>Number</b>	<b>% of Portfolio by Appraised Base Value as of January 31, 2015</b>
1991 .....	1	3.12
<b>Total Engines .....</b>	<b>1</b>	<b>3.12</b>
<b>Total .....</b>		<b>100.00</b>

The following table sets forth the exposure of the portfolio by seat category as of March 31, 2015 according to the number of aircraft and the appraised base value of the portfolio as of January 31, 2015.

*Aircraft*

<b>Seat Category</b>	<b>Types</b>	<b>Number</b>	<b>% of Portfolio by Appraised Base Value as of January 31, 2015</b>
Less than 51 .....	DHC8 .....	4	18.10
121-170 .....	B737-400, MD83, A320-200 .....	10	61.70
241-350 .....	B767-300ER .....	1	9.99
Freighter .....	B737-300SF .....	2	7.09
<b>Total Aircraft .....</b>		<b>17</b>	<b>96.88</b>

**AIRPLANES GROUP PORTFOLIO ANALYSIS  
AT MARCH 31, 2015**

**Aircraft**

Airplanes Group Region Name	Lessee Country	Lessee	Aircraft/Engine Type	Serial Number	Year of Manufacture	Lease Start Date	Lease End Date	Appraised Base Value as of January 31, 2015 (\$'000)	% of Portfolio by Appraised Base Value as of January 31, 2015
North America.....	Canada	AC Leasing	A320-200	174	1991	12/Apr/1991	30/Sep/2019	5,108	6.96%
	Canada	AC Leasing	A320-200	175	1991	30/Apr/1991	31/Jan/2019	5,176	7.05%
	Canada	AC Leasing	A320-200	232	1991	03/Oct/1991	30/Nov/2019	5,694	7.76%
	Canada	AC Leasing	A320-200	284	1991	10/Mar/1992	31/Oct/2019	6,931	9.44%
	Canada	AC Leasing	A320-200	309	1992	13/May/1992	30/Nov/2019	5,230	7.12%
	Canada	AC Leasing	A320-200	404	1993	24/Jan/1994	24/Mar/2019	6,557	8.93%
	Canada(1)	Jazz Air	DHC8-300	342	1992	22/Jan/2008	10/Aug/2016	3,499	4.77%
	Canada(1)	Jazz Air	DHC8-300	293	1991	13/Dec/2007	10/Aug/2016	3,362	4.58%
	United States of America(6)	Falcon Air Express	MD83	53120	1992	05/Mar/2014	18/Jun/2015	773	1.05%
Latin America.....	Antigua(2)	LIAT	DHC8-300	266	1991	28/Nov/2003	11/May/2016	3,322	4.53%
	Antigua(2)	LIAT	DHC8-300	283	1991	05/Jul/2002	30/Dec/2016	3,100	4.22%
Africa.....	South Africa(5)	Safair	B737-300SF	23500	1986	12/Sep/2009	17/May/2015	3,245	4.42%
Asia & Far East .....	Indonesia(3)	PT Sriwijaya Air	B737-400	25180	1992	07/Jul/2009	12/Jul/2015	3,613	4.92%
	Indonesia	PT Sriwijaya Air	B737-400	24690	1990	27/Jan/2009	26/Sep/2015	2,604	3.55%
	Indonesia(2)	PT Cardig	B737-300SF	23499	1986	08/Sep/2014	07/Sep/2015	1,963	2.67%
Other.....	Russia(4)	Sibir Airlines	B737-400	26071	1992	30/Sep/2008	30/May/2015	3,607	4.91%
Off Lease .....	Unassigned	Unassigned	B767-300ER	25411	1992	n/a	n/a	7,335	9.99%
<b>Total Aircraft.....</b>								<b>71,119</b>	<b>96.88%</b>

**Engines**

Airplanes Group Region Name	Lessee Country	Lessee	Aircraft/Engine Type	Serial Number	Year of Manufacture	Lease Start Date	Lease End Date	Appraised Base Value as of January 31, 2015 (\$'000)	% of Portfolio by Appraised Base Value as of January 31, 2015
Asia & Far East .....	Indonesia	PT Sriwijaya Air	CFM56-3C1	724913(3)	1991	30/May/2014	12/Jul/2015	2,288	3.12%
<b>Total Engines .....</b>								<b>2,288</b>	<b>3.12%</b>
<b>Total.....</b>								<b>73,407</b>	<b>100%</b>

- (1) As at March 31, 2015 these aircraft were subject to a letter of intent for sale to the lessee. As at the date of this Annual Report, these aircraft are contracted for sale to the lessee.
- (2) As at March 31, 2015, these aircraft were leased under conditional sale agreements whereby title to the relevant aircraft will pass to the lessee on the expiry date of the lease.
- (3) One CFM56-3C1 engine (ESN 724913) was substituted with one CFM56-3C1 engine (ESN 727500) previously attached to the B737-400 airframe with MSN 25180. ESN 724913 has been delivered to the lessee and ESN 727500 is in storage in the UK.
- (4) As at the date of this Annual Report, this aircraft has been redelivered and is currently being marketed for sale.

- (5) Subsequent to March 31, 2015, the lease of this aircraft was extended to September 17, 2015.
- (6) As at March 31, 2015 this MD83 aircraft was leased under a conditional sale agreement whereby title to the aircraft would pass to the lessee on the expiry date of the lease. Subsequent to March 31, 2015 the conditional sale agreement was extended to December 20, 2015. Subsequent to such extension, the conditional sale agreement has been terminated early as a result of the lessee ceasing its operations. Pursuant to the early termination agreement, title to the airframe of the aircraft was passed to the lessee and the two engines previously attached to the airframe were returned to Airplanes Group. Such engines will now be marketed for sale to a third party.



## D. THE LEASES

Under most of the leases 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, 2015, 16 aircraft and one engine were on-lease and one aircraft was off-lease. As of March 31, 2015, four of these on-lease aircraft were subject to leases in the form of conditional sale agreements pursuant to which title to the aircraft will pass automatically to the lessee upon payment of the final installment of rent. 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 require the lessee to indemnify 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, 2015, with reference to appraised values as of January 31, 2015.

<b>Lease Term</b> .....	As of March 31, 2015, the weighted average remaining contracted lease term of the portfolio (weighted by appraised value as of January 31, 2015 and without giving effect to purchase options, early termination options or extension options) was 33 months. As of March 31, 2015, the longest lease was scheduled to expire in November 2019.
<b>Rentals</b> .....	As of March 31, 2015, rent under all of the 16 leases, including the conditional sale agreements, representing 90.01% by appraised value of our portfolio as of January 31, 2015, was payable monthly in advance, and none of the leases provided for rent to be payable 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 US dollars. 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.
<b>Extension Options</b> .....	We may enter into a lease which contains 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, 2015,

none of the leases included an extension option.

<b>Early Termination Options</b> .....	We may enter into a lease which contains 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, 2015, none of the leases included an early termination option.
<b>Purchase Options</b> .....	As of March 31, 2015, one lessee had outstanding options to purchase two aircraft, representing 8.75% of our portfolio by appraised value as of January 31, 2015. The latest date on which a purchase option could be exercised is October 31, 2016 for the purchase of a DHC8 aircraft.
<b>Security Deposits</b> .....	As of March 31, 2015, lessees under nine of the leases representing 41.84% of our portfolio by appraised value as of January 31, 2015 had provided security for their obligations. As of March 31, 2015, we had received \$2.6 million in cash security deposits in respect of nine aircraft and one engine representing 34.71% of our portfolio by appraised value as of January 31, 2015, and held \$0.5 million in letters of credit in respect of one aircraft representing 4.91% of our portfolio by appraised value as of January 31, 2015. We had also received \$0.6 million in cash security deposits in respect of two aircraft representing 9.35% of our portfolio by appraised value as of January 31, 2015 which are subject to a letter of intent for sale.
<b>Guarantees</b> .....	As of March 31, 2015, in six of the leases representing 47.27% of our portfolio by appraised value as of January 31, 2015, we had 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 four of the leases. Under the balance of the aircraft operating 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 (4 leases as of March 31, 2015, representing 17.80% of our portfolio by appraised value as of January 31, 2015) or provide a combination of maintenance reserves and letters of credit (as of March 31, 2015 no lessee provided maintenance letters of credit). 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.

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** ..... The majority 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. This limit is now between \$50 million and \$350 million. 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 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 further 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 most jurisdictions but at increased costs for some jurisdictions. However, the lack of general availability of cover for Confiscation by the State of Registration risk in all jurisdictions means that this requirement may not be currently satisfied under all of the leases. The insurance market has 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. The FAA insurance programme expired on December 11, 2014.

**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 maintains 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. 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**

### **Compliance with Mandatory Requirements**

The air transportation industry is highly regulated. In addition to general requirements regarding maintenance of aircraft, aviation authorities issue ADs requiring the operators of aircraft to take particular maintenance actions. This can include specific inspections or modifications to a number of aircraft of designated types. ADs normally specify a period in which to carry out the required action or modification and, except for emergency ADs with very short compliance periods, enough time is allowed to permit the implementation of the ADs in connection with scheduled maintenance of the aircraft or engines. Each aircraft must comply with the ADs issued by the aviation authority of the state of registration.

Generally the aviation authority of the state of registration will mandate those ADs issued by the state of design of an aircraft, engine or appliance. For example, Federal Aviation Administration (“**FAA**”) ADs for Boeing aircraft and for General Electric and Pratt & Whitney engines, and European Aviation Safety Agency (“**EASA**”) ADs for Airbus aircraft and Rolls Royce engines. However, the aviation authority of the state of registration may also originate their own ADs or issue ADs which supersede the ADs issued by the state of design.

In addition to ADs there may be operational requirements that require the aircraft operator to install certain equipment on an aircraft. In the US commercial aircraft operational requirements are generally governed by Federal Aviation Regulations (“**FAR**”) Part 91 and Part 121. In Europe the equivalent requirement is European Union

Operations (“**EU-OPS**”) which is being superseded by Implementing Rules Operations (“**IR-OPS**”). Increasingly, upgrades to aircraft equipment are driven by airspace requirements. In these instances use of certain airspace or routings is governed by the standard of communication, navigation and surveillance capability of the individual aircraft.

The lessee usually bears the cost of compliance with ADs, operational requirements and airspace requirements. We may be required to contribute a portion of such costs over a specified threshold. However, if a lessee fails to perform an AD required on an aircraft or the aircraft transfers to an area with different operational requirements or airspace requirements or the aircraft is off-lease then Airplanes Group, as owner, would bear the cost of compliance necessary for the aircraft to maintain its certificate of airworthiness and be correctly configured for operations.

In addition to these direct costs, significant new requirements with respect to noise standards, emission standards and other aspects of aircraft or their operation could cause the value of an aircraft type to decrease. Governmental regulations relating to noise and emissions levels may be imposed not only by the jurisdictions in which the aircraft are registered, possibly as part of the airworthiness requirements, but also in other jurisdictions where the aircraft operate. In addition, most countries’ aviation laws require aircraft to be maintained under an approved maintenance program having defined procedures and intervals for inspection, maintenance and repair. To the extent that an aircraft is off lease or a lessee defaults in effecting such compliance, we will be required to comply with such requirements.

#### ***Fleet Noise and Emissions Requirements***

A noise standard has been adopted in Annex 16, Volume 1, Chapter 4 of the Chicago Convention. It is currently only applicable to aircraft manufactured after January 1, 2006. All of our aircraft were manufactured prior to that date. At present there is no requirement to phase out aircraft manufactured prior to 2006 which do not comply with the Chapter 4 standard. However, regulations such as EC 598-2014 which imposes increasing operational restrictions based on aircraft noise may adversely affect the value of or the ability to remarket these aircraft. It is likely that the majority of the aircraft can be made compliant with the new standard; however, some may require modification at a cost that is currently unknown since the manufacturers have not undertaken the work to define what, if any, changes are required.

Annex 16, Volume 2 of the Chicago Convention also contains standards and recommendations regarding limitations on vented fuel, smoke and gaseous emissions from aircraft. While a number of countries have adopted regulations implementing these recommendations, such regulations generally have been prospective in nature, requiring only that newly manufactured engines meet particular standards after a particular date.

A carbon emissions trading scheme introduced in the EU in January 2012 affects aircraft currently operating within the EU. There is a cost associated with the purchase of additional carbon allowances. In an expanding market this will have a multiplier effect on the incentive for operators to introduce newer aircraft types with reduced fuel burn. These operators will gain from the direct savings associated with the lower amount of fuel used and the reduced cost associated with the purchase of additional carbon allowances. The International Civil Aviation Organisation (“**ICAO**”) has undertaken an initiative to develop global aviation emissions rules by the next ICAO Assembly in autumn 2016 to be effective from 2020. If this initiative succeeds there may be a bigger effect on the value of higher emission aircraft at that time. This will further reduce demand for older, less technologically advanced and less fuel-efficient aircraft which comprise substantially all of our portfolio.

#### ***Fleet Aging Aircraft Requirements***

The fleet aging aircraft programmes are being continuously updated. One concept that has come out of the research and development effort into mitigating the occurrence of Widespread Fatigue Damage (“**WFD**”) in large transport aircraft is applying a Limit of Validity (“**LOV**”) to an aircraft’s maintenance program. This is a point in an aircraft’s operational life beyond which there may be insufficient engineering data to support continued operation due to fatigue considerations. In other words, the inspections in the maintenance program may not detect fatigue damage before the strength levels are reduced below the regulatory requirements. The proposed LOV for a B737 for instance is 100,000 flight cycles. No B737 aircraft has yet reached this threshold and it would equate to at least 35

years of typical operations. The rulemaking which the FAA and EASA are considering in this area would result in substantially higher maintenance costs for aircraft that have passed their LOV and effectively make economic operation of the aircraft unviable. In December 2008 the FAA issued a revised draft of the proposed rule. The revised draft amended several key requirements in respect of WFD evaluation of existing repairs and structural modifications. Revisions to the original proposal combined with the high threshold of the LOV will limit the financial impact of the rule and it is now not expected to have a significant financial impact on the majority of leased aircraft.

In what is known as the Aging Airplane Safety Rule (“AASR”), the FAA has published a series of amendments to Part 121 and 129 which mandate aircraft inspections, records reviews and damage tolerance based supplemental inspections for older aircraft. The new rule is applicable to aircraft operated under Part 121 or 129. Part 1 of the AASR mandates an aging aircraft record review and inspection by FAA representatives for an aircraft once it has exceeded 14 years since manufacture. Thresholds are provided for aircraft that are already more than 14 years since manufacture at the time the rule was introduced. Thereafter, aging aircraft record reviews and inspections for the aircraft are to be repeated every seven years. There is also the possibility of additional maintenance work resulting from an adverse finding during these reviews. It is expected that the cost of such aging aircraft record reviews and inspections will, in general, be borne by the lessees. However if the aircraft is transitioning onto the US register or the lessee is unable to fulfill its obligations the responsibility for this review would rest with us.

Part 2 of the AASR requires manufacturers to establish a model specific list of Fatigue Critical Baseline Structure (“FCBS”) and make damage tolerance based maintenance programs available for all applicable unpublished repair approvals. From December 20, 2010 operators operating under Part 121 and 129 must ensure their maintenance programme provides for a physical survey of individual aircraft to identify repairs or alterations to FCBS and introduce tolerance based inspections as required. It is expected that the cost of such reviews and associated inspections will, in general, be borne by the operator. However if the aircraft is transitioning onto the US register or the lessee is unable to fulfill its obligations the responsibility for this review would rest with us.

In 2013 EASA published a Notice of Proposed Amendment 2013-07 addressing the continuing structural integrity of ageing aircraft structures. This will introduce similar concepts and requirements to the FAA aging aircraft programmes. While it is not expected to have a significant financial impact on most leased aircraft it will lead to an increase in the cost and complexity of maintaining older aircraft. The final rule is not expected to be published before 2015.

### ***Fleet Security Requirements***

As a result of the terrorist attacks in the United States on 9/11, and the subsequent threat of similar attacks, aviation authorities may adopt new security directives. The FAA and EASA already require the installation of reinforced cockpit doors. In addition, the ICAO requires contracting states to mandate the incorporation of cockpit doorway surveillance systems. The average cost of an installation for a reinforced cockpit door and cockpit doorway surveillance system for a non-compliant aircraft would be approximately \$85,000 and \$35,000 respectively.

The FAA has introduced a revision to FAR Part 25 design certification requirements which requires the incorporation of enhanced security provisions for new aircraft designs. The revised rule includes requirements to strengthen bulkheads between the passenger cabin and the cockpit (in addition to current requirements to strengthen the cockpit door), to limit the penetration of smoke/fumes/gases from incendiary devices from entering the cockpit from the passenger cabin, to quickly evacuate smoke/fumes/gases from the cockpit and passenger cabin, and to maximize survivability after an explosion or fire. There are no current proposals for retrospective action for existing aircraft and as such no additional costs for in service aircraft are envisaged at this time.

The development of civil aircraft missile protection systems has continued and the installation of such a system on the Israeli commercial aircraft fleet is planned. Although there are no proposed US or European requirements for installation of such a system, should a security event occur involving the use of a shoulder launched missile, installation of missile protection systems could be mandated in a short space of time.

### ***Fleet Operational and Airspace Requirements***

Aircraft may need to comply with certain operational requirements that are mandated by the state of the operating airline (which, in some cases, may be different from the state of registration) or the states into which or over which an aircraft will be flown. An aircraft operating in a particular jurisdiction may require new modifications as they are mandated by the responsible authorities. Similarly, an aircraft that will be operated in a new jurisdiction may require modifications to bring it up to the standard of the new jurisdiction. Depending on whether the costs of complying with these requirements are borne by the lessees or us, installation of these systems could result in significant cash expenditures by us, primarily during aircraft transitioning. Major examples of such requirements are as follows:-

In July 2008 the FAA issued an amendment to FAR Part 121 & Part 129 introducing a new operational requirement to reduce fuel tank ullage (vacant container space) flammability, and thus reduce the possibility of fuel tank explosion. Specifically named aircraft types include the B737, B747, B757, B767 and Airbus A300, A310, A320, A330 and A340 models. The requirement is directed at newly built aircraft industry cargo aircraft, and passenger aircraft in the existing fleet manufactured after January 1992. The most likely method for complying with the above requirement will be the installation of a Nitrogen Generation System (“NGS”) for insertion of nitrogen into the affected fuel tanks on affected aircraft. Operators are required to incorporate the requirements on at least 50% of their fleet of the specified types of aircraft by September 19, 2014, and on 100% of their fleet of the specified types of aircraft by September 19, 2017. An extension of one year may be granted for each of these dates provided certain operational practices are adopted. EASA has indicated it is not intending to require the retrofit of such a system. Retrofit of an NGS is estimated to cost between \$350,000 for a narrow body aircraft to \$450,000 for a wide body aircraft.

A Cargo Compartment Fire Detection and Suppression System is already a requirement in the United States for all underfloor cargo compartments. While EASA have elected not to require retrofit of such a system it is required in both EASA and FAA jurisdictions for ETOPS operation. A non-equipped aircraft may be more difficult to remarket to certain operators. The average cost of an installation for a non-compliant aircraft would be approximately \$100,000 - \$120,000.

Additional Flight Data Recorder Parameters and extended cockpit voice recorder recording duration are a requirement in the United States. The effect of these requirements varies depending on year of manufacture and existing provisions. The cost of additional inputs is totally dependent on the current aircraft configuration but installation for a non-compliant aircraft could be up to \$90,000.

Implementation of the EU requirement to install a controller pilot datalink communication (“CPDLC”) system on aircraft operating in EU airspace has been delayed from 2015 to February 2020. The average cost of installation will vary but for an older aircraft without the necessary equipment, fitment costs of up to \$350,000 can be expected. Many older aircraft scheduled for retirement prior to 2023 will now be exempt from the requirement. A CPDLC equipped aircraft operated on the US register will require recording of CPDLC on the cockpit voice recorder (“CVR”). Installing a data capable CVR will be an additional expense. EASA have indicated that they will also require recording of CPDLC messages on the CVR, probably in line with the revised 2020 installation date.

Aircraft operating in Eurocontrol airspace have been required to have the installation of Enhanced Mode S ATC Transponders since March 2007. The average cost of an installation for a non-compliant aircraft is approximately \$50,000 - \$80,000.

Since October 2009 newly manufactured aircraft originally designed under 9G rules, such as the A320 and B737NG, and operated under FAR Part 121, have to meet stricter cabin attendant and passenger seating crash requirements. EASA has issued a Notice of Proposed Amendment which details similar requirements for newly manufactured aircraft without specifying an implementation date. While there is no requirement for any retrospective action, aircraft built after the threshold date and transitioning into jurisdictions covered by the rule will have to comply. In addition, fleet commonality and equipment availability issues will make it likely that non-compliant aircraft built before October 2009 will ultimately be affected. Similarly, parts of the revised Part 382 requirements on non discrimination on the basis of disability in air travel are applicable to existing aircraft being



reconfigured. These rule changes may have the effect of increasing transition costs and modification leadtimes for aircraft moving between operators.

Many air traffic control authorities especially in Europe, North America, Australia and Asia are planning the implementation of Automatic Dependent Surveillance (Broadcast) (“**ADS-B**”). This system allows an aircraft to transmit details of its location and trajectory to air traffic control and other aircraft. While carriage of ADS-B equipment is mostly voluntary at present, several authorities have mandated or are mandating use of ADS-B in specific regions. By 2020, it is expected that ADS-B will be a common requirement worldwide. Although many modern aircraft are already ADS-B equipped, the cost of installing this equipment on older aircraft could be significant.

Traffic Alert and Collision Avoidance System (“**TCAS**”) has been installed on commercial aircraft for many years. In 2011 the EU mandated the retrofit of TCAS II version 7.1 which alters the TCAS advisory logic. This retrofit is applicable to aircraft operated by European operators and was required to be completed by December 2015. For most modern aircraft the change requires a TCAS computer software upgrade only. For a limited number of aircraft fitted with older TCAS computers, the computer may have to be changed at a projected cost of \$50,000.

## **Type Specific Requirements**

### ***Boeing 737***

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 decal removal. Scribe marking has also been found on B747, B757 and B767 aircraft. FAA AD 2010-05-13 effective April 2010 and AD 2010-26-06, effective February 2011, mandate a zonal inspection program for scribe marks on B737 aircraft. The threshold for accomplishing the inspection for each individual zone on an individual aircraft is dependent on the aircraft’s maintenance history, total cycles and cycles since first painting. In the event significant “scribe lines” are detected, significant repair and aircraft out of service time may be required. The potential cost of complying with the requirements of the service bulletin is totally dependent on findings on individual aircraft but could cost up to \$300,000 per aircraft. An aircraft with unrepaired scribe mark damage may become more difficult or expensive to remarket or such damage may impact the re-lease rate.

The FAA issued AD 2002-07-08 mandating the modification of crown 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 \$250,000. In addition repairs to scribe damaged areas that must take place at the same time could raise the total repair costs for crown lap joints and scribe damage to \$450,000 per aircraft. In April 2011 AD 2011-08-51 was issued requiring additional inspections of certain B737 classic lap joints at stringer 4. It is not currently possible to estimate the cost that could be incurred if cracks or other defects were found as a result of such inspections.

The FAA issued AD 2008-23-09 on October 24, 2008 mandating the replacement of insulation blankets. The affected insulation covering is installed on B737-200, 300 and 400 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 final compliance date of December 15, 2016 means that the youngest affected aircraft will be almost 28 years old at this time. Compliance cost is estimated to be up to \$300,000 per aircraft.

### ***Boeing 767***

The FAA issued AD 2005-03-11 requiring an inspection of the aft pressure bulkhead on certain B767 aircraft. The FAA have since issued AD 2012-09-08 mandating further inspections of the aft pressure bulkheads on B767 aircraft up to line number 175, or bulkhead replacement once the aircraft reach 43,000 flight cycles. Approximate costs associated with replacement of the bulkhead are likely to exceed \$750,000. For aircraft averaging a typical 1400 flight cycles per year this equates to 30 years of service before this threshold is reached.

The FAA has issued AD 2010-6-16 mandating the Boeing scribe mark inspection Service Bulletin for B767 aircraft. The threshold for accomplishing the inspection for each individual zone on an individual aircraft is dependent on the aircraft's maintenance history, total cycles and cycles since first painting. The potential cost of complying with the requirements of the service bulletin is totally dependent on findings on individual aircraft but could cost up to \$250,000 per aircraft. An aircraft with unrepaired scribe mark damage may become more difficult or expensive to remarket.

The FAA has issued an AD mandating the Boeing 757/767 Strut Improvement Programme that requires the modification of the nacelle struts on Boeing 767 series aircraft with line numbers 1 to 663 equipped with any engine type. The modification must be accomplished prior to the aircraft reaching 20 years since manufacture. While the basic cost of the modification is covered under Boeing warranty additional cost may be borne by the owner should warranty conditions not be met.

### ***Airbus A320***

EASA has issued AD 2011-011 mandating additional inspections of Airbus A318/A319/A320/A321 aircraft for cracking in the main landing gear support ribs fitting of the wing even if the prescribed 'terminating' modification has been embodied. A terminating modification is available and has been mandated, but requires the aircraft to be out of service for a minimum of five days. Provided the incorporation of such terminating modification is accomplished in time, the significant cost of rib replacement can be avoided. In the event significant damage is detected prior to incorporation of the terminating modification, resulting in the necessity to replace the rib, the cost of such rib replacement would be approximately \$500,000 per affected wing and would cause the aircraft to be out of service for approximately five weeks.

From January 2010 the A318/A319/A320/A321 maintenance planning document requires a repetitive inspection of the wing trailing edge skin on A320 family aircraft up to serial number 3768 in accordance with service bulletins 57-1154 and 57-1155. The initial results of these inspections have indicated that a large number of aircraft may be affected, in particular those aircraft operating in a corrosive environment. The necessary repairs are dependent on the level of findings, but for older aircraft may be considerable and may introduce a performance penalty to the aircraft. The cost and presence of such repairs may have a negative impact on the ability to remarket such aircraft. Airbus has recently reported that similar damage has been reported on a limited number of aircraft post MSN 3768.

Operators have reported cracking on the frontal window frame between the L/H and R/H # 1 windows and additional cracking on the lateral sliding window frame on some high cycle A320 aircraft. Inspection of the frames are currently mandated as airworthiness limitation items. Should cracking be found the repair is extensive and requires extended aircraft downtime from that required for normal maintenance activities.

### ***CFM International CFM56-5 Engines***

Following a number of In-Flight Shutdowns caused by the failure of an HPT blade part number 2080M87P04 installed on some CFM56-5 engines, CFM International ("CFMI") issued a Service Bulletin recommendation to operators to schedule a shop visit for replacement of the affected blades when these blades have operated more than 12,500 cycles since new.

At March 31, 2015, Airplanes Group owned 11 of these engines and this requirement could result in premature shop visits and inadequate maintenance reserve funds for these engines. Lessees may also raise claims for the cost of the replacement HPT blades pending any agreed support from CFMI. The cost of replacing these blades is dependent on many factors, including the number of blades with this particular part number; however, a full set of blades currently costs \$645,000 excluding labor costs and any applicable support from CFMI.

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

New ADs or specific requirements may be adopted in the future and these could result in significant costs to Airplanes Group or adversely affect the value of our aircraft and our ability to re-lease our aircraft.

## **F. THE LESSEES**

As of March 31, 2015, 16 of our aircraft and one engine were on-lease to 8 lessees in 6 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, 2015, 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 \$0.7 million in respect of five lessees (who leased a combined total of six aircraft and one engine representing 24.7% of our portfolio by appraised value as of January 31, 2015). Of the total \$0.7 million, \$0.2 million was in arrears for a period between 30 and 60 days and \$0.5 million was in arrears for a period greater than 60 days.

As of March 31, 2015, no deferral arrangements were in place with any lessees in respect of rental payments, maintenance reserves and other miscellaneous amounts due under the leases. Restructurings and deferral agreements typically involve delaying rent and other lease payments for certain periods and/or the reduction of current rentals. In addition, some restructurings involve 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. The Servicer continually monitors all lessee receivables, and further restructurings and/or deferral arrangements 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, could cause us to incur substantial costs in restoring the aircraft to an acceptable maintenance condition before the Servicer can offer the aircraft for re-lease or sale and could adversely affect the value of the aircraft.

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

### **EUROPE**

At March 31, 2015 we no longer leased aircraft to any operator in Europe.

### **NORTH AMERICA**

At March 31, 2015 we leased 9 aircraft representing 57.66% of our portfolio by appraised value as of January 31, 2015 to operators in North America. One of these aircraft representing 1.05% of our portfolio by appraised value as of January 31, 2015 was leased to one of our North American lessees under a conditional sale agreement.

IATA reported that North American carriers are expected to see a growth in demand of 3% in 2015 as compared to 2014. IATA reported that capacity is expected to increase by 3% and the load factor fell 2.6 percentage points to 78.1%, the highest for any region.

In its June 2015 report, IATA forecasts North American airlines to deliver the strongest financial performance with the highest net post-tax profits at \$15.7 billion for 2015. According to IATA this represents a net profit of \$18.12 per enplaned passenger, which is a marked improvement from just three years earlier when it was \$2.83 although that is still only a net margin of 7.5% of revenues. IATA noted that this improvement has been driven by the relatively strong economy, a restructured industry and the lower oil price.

During the quarter ended March 31, 2015, one of our North American lessees, with six aircraft, entered into an extension of leases which were previously scheduled to expire between January and November 2015. In the case of each of the six aircraft, the term of the lease has been extended for four years.

In addition, during the quarter ended March 31, 2015, a letter of intent for sale was signed with one lessee with regard to two aircraft currently on lease with one North American lessee.

As at March 31, 2015 one of our North American lessees of one MD83 aircraft representing 1.05% of our portfolio by appraised value as of January 31, 2015 was in arrears in relation to its obligations under its conditional sale agreement. Subsequent to March 31, 2015, the conditional sale agreement was extended to December 20, 2015. Subsequent to such extension, the conditional sale agreement has been terminated early as a result of the lessee ceasing its operations. Pursuant to the early termination agreement, title to the airframe of the aircraft was passed to the lessee and the two engines previously attached to the airframe were returned to Airplanes Group. Such engines will now be marketed for sale to a third party.

## **LATIN AMERICA**

At March 31, 2015, we leased two aircraft representing 8.75% of our portfolio by appraised value as of January 31, 2015 to operators in Latin America. Both of these aircraft were leased under conditional sale agreements.

IATA reported Latin American airlines are expected to return a net profit of \$600 million in 2015 for a net margin of 1.8%. This follows breakeven performance in 2014. According to IATA, the region has delivered weak returns on average for the past few years, largely because of the very poor performance of key economies like Brazil and Argentina. IATA expect that significant exchange rate weakness against the US dollar will substantially limit any benefits from lower fuel prices. This year, demand for the region's airlines is expected to grow 5.1%, slightly outpacing a 5.0% expansion of capacity. IATA reported that Latin American carrier capacity expanded 7.3% year over year, causing the load factor to decrease to 77.7%, down 0.7 percentage points compared to 2014.

## **ASIA AND THE FAR EAST**

As at March 31, 2015, we leased three aircraft and one engine representing 14.26% of our portfolio by appraised value as of January 31, 2015 to operators in this region. One of these aircraft representing 2.67% of our portfolio by appraised value as of January 31, 2015 was leased to one of our Asian and Far Eastern lessees under a conditional sale agreement.

IATA reported that Asia-Pacific carriers saw air traffic growth of 9.0% in 2014 which was higher than the 5.3% growth in 2013. Capacity expansion of 6.0% for the year as reported by IATA kept the load factor at a healthy average of 78.3%.

Carriers in the Asia-Pacific region are expected by IATA to generate a \$5.1 billion profit for a 2.5% net margin in 2015, which is an increase from the \$3.2 billion profit they generated in 2014. According to IATA, profit per passenger is expected to be \$4.24 in 2015. According to IATA, Asia-Pacific airlines have about a 40% share of the global air cargo market. Consequently, they have been disproportionately impacted by the doldrums in the air cargo industry. The slowdown in the Chinese economy has also had a dampening impact on profitability. Demand is expected by IATA to grow a healthy 8.1%, slightly ahead of the 7.7% forecast growth in capacity. IATA also expect that lower fuel costs will help but that the stronger US dollar will reduce the benefit in this region.

During March 2008 we repossessed three aircraft from an Indonesian lessee. In June 2010, the receivers of this now bankrupt lessee issued legal proceedings against us seeking the return of the security deposits totaling \$1.3 million on the three aircraft. On December 20, 2010 the Indonesian District Court of South Jakarta decided in our favour in this matter (which decision was affirmed on appeal by the Indonesian High Court of DKI Jakarta by virtue of its decision rendered on November 17, 2011); however, on February 23, 2012, the receivers appealed against this High Court decision to the Indonesian Supreme Court and we filed arguments in defence with the Indonesian Supreme Court. On December 27, 2012 the Supreme Court rejected the receivers' appeal and decided in our favour.

During the quarter ended June 30, 2012 the Servicer entered into an early termination agreement for the return of one B767-300ER aircraft with one of our Asia and Far Eastern lessees. This aircraft was redelivered in May 2012 and was subsequently sold. The lessee has defaulted on its obligations under this early termination agreement and its other lease obligations. During the quarter ended December 31, 2012 the Servicer terminated the lease of one DHC8-300 aircraft with this lessee. This aircraft was also subsequently sold. The lessee has ceased operations and it is unlikely that it will clear its default under the leases and early termination agreement. The Servicer is currently monitoring the former lessee's financial status to determine the most appropriate course of action regarding its outstanding obligations.

## **AFRICA**

At March 31, 2015 we leased one aircraft representing 4.42% of our portfolio by appraised value at January 31, 2015 to an operator in Africa.

In its June 2015 report, IATA forecasts African airlines to continue to be the weakest performers in 2015, as in the past two years, with profits barely positive (\$100 million) and representing just \$1.59 per passenger and a margin of just 0.8% of revenues. This continues the relatively poor performance of the past few years. Capacity expansion of 5.0% for 2014 as reported by IATA meant the load factor rose 1.3 percentage points to 67.5%, the lowest among the regions. Last year, according to IATA, traffic growth for African airlines was weak because of various problems that disrupted tourism, but market share also continues to be lost. Currencies have been weak, particularly for oil exporters, so the benefits of lower fuel prices are expected by IATA to be limited in this region. African airlines are also expected by IATA to see the slowest growth among developing markets with capacity and demand expansion of 3.3% and 3.2% respectively this year.

During the quarter ended March 31, 2013 we terminated the lease of one B737-300 airframe and one CFM56 engine with one of our other African lessees. The Servicer is currently monitoring the former lessee's financial status to determine the most appropriate course of action regarding its outstanding obligations.

## **OTHER**

At March 31, 2015 we leased one aircraft representing 4.91% of our portfolio by appraised value as of January 31, 2015 to a lessee in Russia. As at the date of this Annual Report, this aircraft has been redelivered by its lessee following the expiry of the lease.

Despite the Russia-Ukraine crisis, passenger traffic in Russia increased by approximately 19% in 2014 as compared with 2013 according to the Russian Aviation Authority. The strong 2014 result followed an increase of 14% in 2013. The passenger load factor was 79.8%. According to the Russian Aviation Authority, passenger and cargo turnover has increased year on year.

## **G. COMMERCIAL OPPORTUNITIES FOR OUR AIRCRAFT**

Notwithstanding the current overall profitable status of the airline industry noted under "6B. Management's Discussion and Analysis of Financial Condition and Results of Operations—Background," demand for aircraft of the types and age contained in our portfolio has declined significantly over the past six and a half years in particular, reducing both values and lease rates. The decline has been exacerbated by the increasing availability of newer, more technologically advanced and fuel-efficient aircraft.

We therefore continue to look for opportunities to sell aircraft where the sale proceeds are expected to be greater than the net present value of estimated cashflows from re-leasing, as well as those aircraft with little or no re-lease prospects which require expenditure for storage, maintenance and insurance. The Board does not approve the sale of an aircraft which has been redelivered at the end of its lease unless the Servicer has concluded that the better economic option for that aircraft is a sale rather than a re-lease or where no re-lease prospects realistically exist. We now anticipate that for all of our aircraft types the analysis performed by the Servicer will indicate that cashflows will not be maximized by re-leasing given the low potential re-lease rates and high transition costs, coupled with the financial condition of the potential, and increasingly limited, pool of lessees for these aircraft and the associated credit risk. We have entered into no new leases (excluding finance-type leases in respect of conditional sale

agreements and short-term engine leases) in the last four years. We anticipate that the certainty of immediate cash from aircraft sales in all cases will outweigh the uncertainty of cash collection over a longer period, the risk of associated expenditure on repossession and the risk of further deteriorations in future values. In determining whether to approve any proposed aircraft sale, the Board reviews a written analysis from the Servicer which, among other things, compares (where applicable) expected sale proceeds against the net present value of estimated cashflows from re-leasing including, *inter alia*, the estimated transition costs. The Servicer's overall objective in this analysis is to maximize the cashflow generation for the relevant aircraft. Board approval of any sale is based on the recommendation of the Servicer. Given the age and type of aircraft in our portfolio, sales opportunities are currently extremely limited and are expected to continue to be limited.

In some cases where an aircraft has been approved for sale we have been unable to find a purchaser for the aircraft and its related engines as one unit but have been able to sell the individual airframe or one or both engines separately and continue to seek opportunities for the remaining pieces of equipment. In some cases, based on the recommendation of the Servicer, we have determined that cashflows will be maximized through the continued leasing of an airframe or one or both engines comprising an aircraft separately and the sale of the remaining equipment, although, as noted above, we no longer anticipate that there will be circumstances where cashflows will be maximized by re-leasing airframes or engines.

On March 3, 2015 we entered into agreements with Air Canada to extend the leases in respect of six A320-200 aircraft which were previously scheduled to expire between January and November 2015. In the case of each of the six aircraft, the term of the lease has been extended for four years.

It is currently anticipated that our remaining aircraft (of which there are ten as at the date of this Annual Report, excluding the six Air Canada aircraft) will be sold within the next twelve months although there can be no assurance that the actual timing of such sales will not differ, perhaps materially, from such anticipated timing. Given the anticipated timing for the sale of these ten aircraft, the Board believe that cashflows would be maximized through a sale of the six Air Canada aircraft with their current (extended) leases in place and accordingly the Servicer is currently marketing these aircraft for sale, although again there can be no assurance as to the timing of any such sale. In determining whether to approve any proposed sale of the six Air Canada aircraft, as with other sale proposals the Board will review a written analysis from the Servicer which, among other things, will compare the expected sale proceeds against the net present value of estimated cashflows from continued leasing.

Between the 2003 consent solicitation and March 31, 2015, we sold 136 aircraft, 14 airframes and 29 engines for an aggregate amount of \$312.7 million. In each case there was either no re-leasing market or the sale proceeds received were greater than the net present value of the estimated cashflows from re-leasing, including the estimated transition costs.

In the year ended March 31, 2015 we sold three B737-400 aircraft, one B767-300ER aircraft, one MD83 aircraft, one DHC8-300 aircraft, one A320-200 airframe and three CFM-56 engines. In addition, in the year ended March 31, 2015 we entered into conditional sale agreements in respect of two MD83 aircraft and one B737-300SF aircraft. One of these, an MD83 aircraft, was sold to the lessee in the quarter ended December 31, 2014 under the relevant conditional sale agreement.

### **3. LEGAL PROCEEDINGS**

#### **TRANSBRASIL**

Airplanes Holdings leased two aircraft to Transbrasil, a now defunct Brazilian airline, in the 1990s. At the same time, other aircraft were leased to Transbrasil by General Electric Capital Corporation ("**GE Capital**"), two affiliates of GE Capital (Alcyone FSC Corporation ("**Alcyone**") and Aviation Financial Services Inc. (now known as NAS Holdings LLC, ("**NAS**")) (collectively, with GE Capital, the "**GE Lessors**"), AerFi Group plc (now renamed AerCap Ireland Limited) and an affiliate of AerFi Group plc (AerFi Leasing USA II Inc. (now renamed AerCap Leasing USA II Inc.) ("**AerCap Leasing**")). Airplanes Holdings, GE Capital, Alcyone, NAS, AerFi Group plc and AerCap Leasing are collectively referred to as the "**Lessor Companies**". GECAS was the servicer for all of the leases entered into between the Lessor Companies and Transbrasil at that time.

In 1998 and 1999, following default by Transbrasil under its leases with the Lessor Companies, GECAS, on behalf of the Lessor Companies, restructured the debt owed to them by Transbrasil, which issued seven promissory notes to the Lessor Companies as guarantees of the payment obligations under such restructured debt. The Servicer has informed Airplanes Holdings that the promissory note issued to Airplanes Holdings is in the amount of US\$7,196,700 (the “**Holdings Note**”). In 2000, Transbrasil defaulted on the promissory notes. In January 2001, GECAS, acting on behalf of Airplanes Holdings, took steps toward initiating a collection against Transbrasil by presenting the Holdings Note to a notary public for payment (also known as a ‘protest’). At the same time, GECAS, acting on behalf of the other Lessor Companies, presented five of the other six promissory notes to a notary public for payment. Shortly thereafter (though Airplanes Holdings was not informed of this until well after the fact), in response to the presentment of the Holdings Note, as well as the promissory notes presented on behalf of the other Lessor Companies, Transbrasil sought an injunction to stay the protest of the six promissory notes and, thereafter, commenced a lawsuit (the “**Declaratory Action**”) against Airplanes Holdings and the other Lessor Companies (i) seeking a declaration that the promissory notes which Airplanes Holdings and the other Lessor Companies were seeking to collect had already been paid by Transbrasil (initially arguing that they were, at least, partially paid, but subsequently asserting that they were fully paid) and were therefore invalid and (ii) seeking the imposition of a penalty against Airplanes Holdings and the other Lessor Companies of twice the amount of the promissory notes. In addition, Transbrasil sought to have Airplanes Holdings and the other Lessor Companies indemnify Transbrasil for the losses resulting from the alleged wrongful collection of the promissory notes.

In July 2001, GE Capital, as a Lessor Company holding one of the promissory notes, initiated an action in its own name seeking the declaration of the bankruptcy of Transbrasil, which was granted on appeal. This decision was challenged by Transbrasil through a special appeal filed before the Federal Court of Appeals and an extraordinary appeal filed before the Supreme Court. This special appeal was denied and the motion to clarify subsequently filed by Transbrasil was also denied. Currently, an appeal by Transbrasil against the decision on the motion to clarify is pending (based on a dissenting opinion previously rendered by the Federal Court of Appeals in a case that Transbrasil alleges to be similar to the request for its bankruptcy). The appeal before the Supreme Court remains dormant until the Federal Court of Appeals decides the appeal premised upon the referenced dissenting opinion.

In November 2001, GECAS, on behalf of five of the Lessor Companies (including Airplanes Holdings, but excluding GE Capital), commenced separate suits (the “**Collection Proceedings**”) against Transbrasil seeking to collect on the Lessor Companies’ respective promissory notes. Some of the Collection Proceedings have been suspended until the Declaratory Action is finally decided.

On May 3, 2007, the Declaratory Action of 2001 was decided in favour of Transbrasil by the 22nd Lower Court of the county of Sao Paulo, Brazil (the “**Lower Court**”). Both Transbrasil and GECAS, on behalf of the Lessor Companies appealed that judgment (the “**2007 Judgment**”), which was confirmed by the 2010 Judgment rendered by the Appellate Court of the State of Sao Paulo (the “**State Appellate Court**”) in February 2010, which ruling was not made public by the State Appellate Court until May 25, 2010. The 2010 Judgment ordered that the Lessor Companies (including Airplanes Holdings) pay to Transbrasil twice the amount of the promissory notes plus damages for the loss suffered by Transbrasil due to the attempted enforcement/collection of the promissory notes (including the loss suffered due to the declaration of Transbrasil’s bankruptcy) as well as court mandated legal fees and court costs. Transbrasil alleged that the 2010 Judgment also provides for certain interest and monetary adjustments for inflation to be applied to the amounts awarded. The 2010 Judgment allowed the calculation of the amounts to be completed at a later stage. In the case of Airplanes Holdings, twice the amount of the Holdings Note is approximately US\$15 million. The State Appellate Court provided no basis for calculating the amount of damages or the loss suffered as a result of the declaration of Transbrasil’s bankruptcy. The court mandated legal fees were awarded in an amount equal to ten percent of the total liability due under the other elements of the 2010 Judgment, but an exact dollar amount is not capable of calculation at this time given the lack of clarity in the amount of the other elements of the 2010 Judgment.

Airplanes Holdings, together with the other Lessor Companies, also held a portion of another one of the promissory notes (the “**AerCap Leasing Note**”) that is the subject of a Collection Proceeding commenced only in the name of AerCap Leasing. Airplanes Holdings was not a party to that case, and Brazilian Counsel has advised that Airplanes Holdings is unlikely to have liability with respect to actions taken to collect on the AerCap Leasing Note, but Airplanes Holdings understands that AerCap Leasing nevertheless may seek to hold it responsible for a

percentage of AerCap Leasing's exposure to Transbrasil arising from the Collection Proceeding commenced in AerCap Leasing's name. (Though this action was dismissed as part of the 2010 Judgment, Transbrasil's claims for damages arising from the action continue.) The AerCap Leasing Note (of which Airplanes Holdings' share would be approximately 42%) was in the amount of approximately US\$5.3 million. As noted above, if Airplanes Holdings were found to be responsible for a portion of AerCap Leasing's exposure, its potential liability would increase.

Following the decisions in the Declaratory Action in Transbrasil's favor, Transbrasil filed a motion to dismiss the Collection Proceedings commenced by GECAS on behalf of Airplanes Holdings and the other Lessor Companies (with the exception of AerCap Leasing). This motion was denied by the Lower Court judge and the interlocutory appeal filed against such decision was also denied by the State Appellate Court. A motion to clarify filed by Transbrasil against such decision was denied, and a special appeal filed by Transbrasil was rejected pursuant to a decision which became final on April 28, 2014. (Transbrasil also filed a motion to dismiss the Collection Proceeding commenced by AerCap Leasing, which was granted. That decision was challenged in an appeal filed by AerCap Leasing, which was heard by the three judges of the State Appellate Court in June 2013, who ruled that the Collection Proceeding should be suspended until the final judgment of the Declaratory Action by the Federal Court of Appeals in the Special Appeal referred to below).

On June 8, 2010, GECAS, on behalf of Airplanes Holdings as well as the GE Lessors, filed two appeals against the 2010 Judgment. One appeal (the "Special Appeal") was filed with the Federal Court of Appeals of Brazil (Superior Tribunal de Justiça). The other appeal was filed by way of a Request for Certiorari coupled with an extraordinary appeal addressed to the Supreme Court of Brazil (Supremo Tribunal Federal). The appeal to the Supreme Court was to stay dormant until the Federal Court of Appeals had decided the Special Appeal, but will now also stay dormant until the Federal Court of Appeals decides the divergence appeal which was filed by Transbrasil on February 7, 2014 as well as the two divergence appeals which were filed by the Lessor Companies on February 20, 2014 (as described in more detail below).

The Special Appeal was heard on October 22, 2013 and a decision was rendered on the same day by the Federal Court of Appeals (the "**October 2013 Decision**"). In the October 2013 Decision the Federal Court of Appeals judges (by a unanimous vote) overturned the 2010 Judgment of the State Appellate Court in a number of respects. The October 2013 Decision overturned the order contained in the 2010 Judgment that Airplanes Holdings and the other Lessor Companies pay a penalty of twice the amount of the promissory notes. Moreover, the October 2013 Decision dismissed Transbrasil's claim for indemnification for loss suffered due to the declaration of Transbrasil's bankruptcy and ruled that the Lessor Companies (including Airplanes Holdings) should only be liable to indemnify Transbrasil for the loss it suffered as a result of the protest of the promissory notes during the period between the submission of the promissory notes for protest and the date when the request for Transbrasil's bankruptcy was filed (subject to Transbrasil providing satisfactory evidence of any such loss). The October 2013 Decision recognised that by the time the promissory notes were submitted for protest, Transbrasil was already experiencing serious financial difficulties. In addition, the Federal Court of Appeals ruled in the October 2013 Decision that each party should bear its own legal fees, thereby effectively eliminating that element of the 2010 Judgment which provided for the Lessor Companies to pay court mandated legal fees to Transbrasil's lawyers.

In early November 2013 both Transbrasil and the Lessor Companies filed motions to clarify against the October 2013 Decision. On November 26, 2013 the Federal Court of Appeals rejected both Transbrasil's and the Lessor Companies' motions to clarify (the "**November 2013 Decision**"), meaning that the October 2013 Decision became effective (for the purpose described below) on December 9, 2013 and remains unaltered and in force as at the date of this Annual Report. The October 2013 Decision and the November 2013 Decision are together referred to below simply as the "October 2013 Decision". Against the October 2013 Decision, Transbrasil filed a divergence appeal on February 7, 2014 (the "**Divergence Appeal**") and the Lessor Companies also filed two divergence appeals on February 20, 2014 (the "**Lessor Companies Divergence Appeal**"). A divergence appeal is an appeal filed by a party that was unsuccessful in one or more issues brought to the attention of the Federal Court of Appeals whereby the unsuccessful party argues that the decision of that court was inconsistent with previous decisions of the same court and should therefore be overturned. The filing of the Divergence Appeal means that the October 2013 Decision, whilst effective for the purpose of allowing Airplanes Holdings and the other Lessor Companies to request termination of the various provisional enforcement proceedings initiated by Transbrasil in the Lower Courts (as described below), is not yet final. Brazilian Counsel has advised Airplanes Holdings that it considers that the



Divergence Appeal was filed by Transbrasil after the permitted deadline for filing such an appeal. Brazilian Counsel therefore intends to challenge the admissibility of the Divergence Appeal as well as the substance of the appeal should such challenge as to its admissibility be unsuccessful.

The Divergence Appeal seeks to nullify the October 2013 Decision and restore the terms of the 2010 Judgment. The Lessor Companies Divergence Appeal seeks to expand the October 2013 Decision to eliminate any aspects thereof that are favorable to Transbrasil.

On March 1, 2014 the Lessor Companies Divergence Appeal was forwarded to the Special Court of the Federal Court of Appeals (the “**Special Court**”), which is comprised of 15 judges of the Federal Court of Appeals. The Lessor Companies Divergence Appeal will be decided by the Special Court in the majority of the issues of merit, with the remainder of the issues of merit to be subsequently decided by the 2nd Section of the Federal Court of Appeals. The Lessor Companies Divergence Appeal will be decided in advance of the Divergence Appeal. Once this happens, the Divergence Appeal will be addressed to the 2nd Section of the Federal Court of Appeals, which is a group of two chambers of the Federal Court of Appeals (including the one which rendered the October 2013 Decision) where it will be decided by ten judges *en banc*. A summary outline of the decision tree for both the Lessor Companies Divergence Appeal and the Divergence Appeal is as follows:

- (i) If the decision by the Special Court is to uphold the October 2013 Decision and expand it for the benefit of the Lessor Companies, then Transbrasil will be able to file motions to clarify against such decision.
- (ii) If such motions are not granted, such that the decision by the Special Court remains unaltered, the 2nd Section of the Federal Court of Appeals will proceed with the review and decision in connection with the Divergence Appeal in respect of issues raised in such appeal that were not decided by the Special Court in the Lessor Companies Divergence Appeal.
- (iii) If the decision by the Special Court upholds the October 2013 Decision, even after Transbrasil’s motions to clarify, Transbrasil will be able to then file an extraordinary appeal with the Supreme Court, within 15 days of the publication of the decision by the 2nd Section indicated immediately below.
- (iv) After the Special Court renders its decision in connection with the Lessor Companies Divergence Appeal, the portion of such appeal that needs to be decided by the 2nd Section as well as the Divergence Appeal will be reviewed and decided by the 10 judges that make up the 2nd Section, concomitantly with the Divergence Appeal. If the decision by the judges of the 2nd Section in connection with both the remaining portion of the Lessor Companies Divergence Appeal as well as the Divergence Appeal (a) is in favor of maintaining intact or improving the Lessor Companies’ position vis-à-vis the October 2013 Decision, Transbrasil will be able to file motions to clarify before the same group of judges, and if such motions are denied, then Transbrasil will be able to file an extraordinary appeal against such decisions before the Supreme Court; or (b) is in favor of Transbrasil, then the Lessor Companies will be able to file motions to clarify before the same group of judges, which, if denied, would allow the Lessor Companies to file an extraordinary appeal against such decisions before the Supreme Court.
- (v) If Airplanes Holdings and the other Lessor Companies, or Transbrasil, file an extraordinary appeal as indicated above, such appeal will be evaluated for purposes of admissibility by the Supreme Court and, if admitted, will run its course together with the extraordinary appeal filed by GECAS on behalf of Airplanes Holdings and the GE Lessors in 2010 and which has been dormant pending the decision in the Special Appeal by the Federal Court of Appeals (and which now also remains dormant pending the decision in the Lessor Companies Divergence Appeal and the Divergence Appeal). If, however, one or more of such extraordinary appeals is not admitted, the party affected may still file an interlocutory appeal with the Supreme Court seeking admittance of the extraordinary appeal that was denied processing. If the interlocutory appeal is granted, then the extraordinary appeal to which it related will be forwarded to the Supreme Court. If the

interlocutory appeal is rejected, the party affected may file an internal appeal with the Supreme Court to try to reverse such decision barring which such extraordinary appeal will not be processed. If Transbrasil is the party whose extraordinary appeal is not admitted, and its interlocutory appeal and internal appeal are rejected, then it will have no further opportunity to appeal the October 2013 Decision or the decisions by the Special Court and the 2nd Section of the Federal Court of Appeals.

- (vi) Any extraordinary appeal filed by Airplanes Holdings and the other Lessor Companies or Transbrasil, would be in addition to the one filed already by GECAS on behalf of Airplanes Holdings and the GE Lessors in 2010 and which (a) will be kept dormant until a final decision relating to the Lessor Companies Divergence Appeal and the Divergence Appeal, and (b) will be adjusted to reflect the fact that various issues discussed therein may have become moot because of the October 2013 Decision as well as other decisions of the Special Court and the 2nd Section of the Federal Court of Appeals.

If the October 2013 Decision is maintained in full after the final decision in the Lessor Companies Divergence Appeal and the Divergence Appeal, then the calculation of possible damages to Transbrasil indicated by the October 2013 Decision will be performed in the context of the provisional enforcement proceeding filed by the former owners of Transbrasil in which they were originally seeking indemnification for the bankruptcy of Transbrasil and which now will be used for this purpose. If this occurs, the calculation will be performed before the Supreme Court addresses the extraordinary appeal and for this reason, the calculation will be performed on a preliminary basis.

On July 13, 2011, a lower court in the county of Sao Paulo, State of Sao Paulo, Brazil made public a motion filed by the bankruptcy trustee for Transbrasil (the “**Bankruptcy Trustee**”) for provisional enforcement of the 2010 Judgment, in which the Bankruptcy Trustee provided the court with its calculation of the amounts owed. The Bankruptcy Trustee’s calculation covered twice the amount of the promissory notes plus interest and monetary adjustments, but did not include any amount for court mandated legal fees and court costs or for damages for the loss suffered by Transbrasil as a result of it being placed into bankruptcy. The Bankruptcy Trustee’s calculation of twice the amount of the promissory notes plus interest and monetary adjustments is approximately R\$330 million / US\$165 million in the aggregate for all Lessor Companies. Airplanes Holdings believes, based on advice from Brazilian Counsel, that the amount sought by the Bankruptcy Trustee is grossly overstated because the calculation has been made in a manner inconsistent with the applicable law and the terms of the 2010 Judgment. The aggregate amount of approximately US\$165 million calculated by the Bankruptcy Trustee did not differentiate between the amounts owed by each of the Lessor Companies and the 2010 Judgment did not address whether there was joint and several liability as between each of the Lessor Companies and the proportion that should be observed for the split of the liability among the Lessor Companies.

Two other similar motions for provisional enforcement of the 2010 Judgment were also filed – one by the former owners of Transbrasil and another by Transbrasil’s lawyers. The amount calculated by the former owners of Transbrasil as being payable by the Lessor Companies also sought twice the amount of the promissory notes (plus interest and monetary adjustments), but their calculation of such amount was approximately R\$397 million / US\$198.5 million. The motions filed by the Bankruptcy Trustee and the former owners of Transbrasil were manifestly duplicative.

On August 8, 2012, the Lower Court ruled that the motion for provisional enforcement filed by the Bankruptcy Trustee should be terminated. Following this decision, the provisional enforcement proceeding initiated by the Bankruptcy Trustee has been used by Transbrasil to seek the establishment of the amount of the indemnification for the losses resulting from the alleged wrongful collection of the promissory notes as determined in the 2010 Judgment. The criteria for the calculation of this element of the 2010 Judgment is being challenged by the GE Lessors as Transbrasil is trying to perform such calculation through an expert examination (known as an “*arbitration*”) while Brazilian Counsel has advised that the Brazilian Civil Procedure Code provides that such calculation should be performed through a more detailed proceeding (known as “*articles*”). The Lower Court judge issued a decision which in turn had failed to decide whether the calculation of the indemnification to Transbrasil under the provisional enforcement proceeding should be performed through “*arbitration*” or “*articles*” on the grounds that this matter had already been decided by the State Appellate Court. Brazilian Counsel, on behalf of the

GE Lessors and Airplanes Holdings, filed interlocutory appeals against such decision, which were dismissed, on a preliminary basis, by the State Appellate Court judge, sitting alone, on the same basis as for the decision rendered by the Lower Court judge. The preliminary decision issued by the State Appellate Court judge was, however, reversed on November 7, 2012 in response to two motions filed by Brazilian Counsel on behalf of the GE Lessors and Airplanes Holdings by way of internal interlocutory appeals, and, as a result, the interlocutory appeals regarding the procedure to be followed for calculation of the indemnification amount were heard by the full chamber of the State Appellate Court in June 2013. The full chamber of the State Appellate Court denied (by 2 to 1 vote) the interlocutory appeals filed by Airplanes Holdings and the GE Lessors and ruled that the calculation of the indemnification should be performed through “*arbitration*”. Against this ruling, Airplanes Holdings and the GE Lessors filed motions to clarify with the same chamber, which were denied. On September 30, 2013 a special appeal was filed before the Federal Court of Appeals by Airplanes Holdings and the GE Lessors, challenging this decision. Brazilian Counsel has advised Airplanes Holdings that as a result of the October 2013 Decision, it expects that the provisional enforcement proceeding seeking the indemnification for the losses resulting from the alleged wrongful collection of the promissory notes should terminate in the near future given that the October 2013 Decision has now become effective (for the purpose of allowing the Lessor Companies to request termination of the various provisional enforcement proceedings initiated by Transbrasil), as the Federal Court of Appeals ruled that Airplanes Holdings and the other Lessor Companies had no liability for such losses. However, as stated above, the Federal Court of Appeals ruled in the October 2013 Decision that the Lessor Companies (including Airplanes Holdings) should be liable to indemnify Transbrasil for the loss, if any, which it suffered as a result of the protest of the promissory notes between the date when such protest was effected and the date of filing of the request for bankruptcy (subject to Transbrasil providing satisfactory evidence of any such loss). In this regard, the November 2013 Decision has clarified that the calculation of the indemnification shall be performed through “*arbitration*”.

Brazilian Counsel has also advised Airplanes Holdings that as a result of the October 2013 Decision, there is no basis for the provisional enforcement proceeding filed by the former owners of Transbrasil seeking indemnification for the bankruptcy of Transbrasil to continue and that it expects that it will be terminated in the near future given that the October 2013 Decision has now become effective for this purpose. Brazilian Counsel has also advised Airplanes Holdings that Transbrasil is likely to try to keep this provisional enforcement proceeding alive, or to start a new one, encompassing the indemnification for the loss, if any, which it suffered as a result of the protest of the promissory notes. Brazilian Counsel, on behalf of Airplanes Holdings and the GE Lessors, has requested that, at a minimum, such provisional enforcement proceeding be halted until a final decision is rendered in connection with the appeals relating to the October 2013 Decision. The Lower Court judge has indicated that the parties to such provisional enforcement proceeding must wait until the case is finally decided in order to determine whether or not there is a need for the court to appoint an expert to assess any losses suffered by Transbrasil further to the October 2013 Decision.

The motion for provisional enforcement of the 2010 Judgment filed by Transbrasil’s lawyers sought payment of court mandated legal fees in an aggregate amount of approximately R\$40 million / US\$20 million, which amount represented ten percent of their own calculation of twice the amount of the promissory notes plus interest and monetary adjustments. Brazilian Counsel advised Airplanes Holdings that as a result of the October 2013 Decision, the claim by Transbrasil’s lawyers for court mandated legal fees no longer had any basis as the Federal Court of Appeals ruled that each of the litigating parties should bear the costs of its own counsel. On February 3, 2014 the Lower Court judge ruled that the provisional enforcement proceeding seeking payment of court mandated legal fees should be terminated and that the related letters of guarantee presented on behalf of the Lessor Companies (as described below) should be released, but (whilst the related letters of guarantee have now been released) this ruling regarding termination of this provisional enforcement proceeding has not yet become final since Transbrasil and the Lessor Companies filed appeals to the State Appellate Court. Transbrasil requested the annulment of the decision that has terminated the provisional enforcement proceeding and the stay of the proceedings (including the maintenance of the letters of guarantee presented by the Lessor Companies) until a final decision is issued in the Special Appeal. The Lessor Companies requested that the assessment of the losses suffered by them due to the provisional enforcement proceedings initiated by Transbrasil be made in the court records of the proceeding and that the court mandated legal fees awarded to the Lessor Companies’ counsel be increased. At the same time, the Lessor Companies asked the Lower Court to release all of the letters of guarantee which they had previously supplied to

guarantee their ability to file an opposition against the provisional enforcement proceedings initiated by Transbrasil's former owners and their lawyers (which release has now occurred, as described below).

The motions presented by the former owners of Transbrasil and Transbrasil's lawyers both indicated the Lessor Companies' liability as several (save with regard to the AerCap Leasing Note, where the allocation of liability as between the Lessor Companies is unclear) and indicated the amounts being sought from each Lessor Company. The amounts payable by Airplanes Holdings with respect to the Holdings Note were listed in the motions as follows: approximately R\$146 million / US\$73 million (representing twice the amount of the Holdings Note plus interest and monetary adjustments) and approximately R\$14 million / US\$7 million (representing court mandated legal fees related to the Holdings Note plus interest and monetary adjustments). Brazilian Counsel has previously indicated to Airplanes Holdings that in its opinion both figures are grossly overstated because in each case the calculation has been made in a manner inconsistent with the applicable law and with the terms of the 2010 Judgment.

Since commencement of the provisional enforcement proceedings in July 2011 to enforce the 2010 Judgment, Brazilian Counsel has taken several measures seeking to suspend such proceedings pending the decision on the Special Appeal, which has now been rendered on October 22, 2013. Brazilian Counsel, on behalf of the GE Lessors and Airplanes Holdings, filed an interlocutory appeal in the provisional enforcement proceeding initiated by the Bankruptcy Trustee, which although it was preliminarily granted in favor of such Lessor Companies, was ultimately denied by the State Appellate Court. Brazilian Counsel, on behalf of the GE Lessors and Airplanes Holdings, also instituted a number of measures in the provisional enforcement proceedings initiated by Transbrasil's former owners and their lawyers. These measures were ultimately denied by the Lower Court in the proceeding brought by Transbrasil's former owners and an appeal of that decision was also denied by the State Appellate Court. The measures brought in the proceeding commenced by Transbrasil's lawyers were also denied. Two requests for injunction filed by Brazilian Counsel on behalf of Airplanes Holdings and the GE Lessors before the State Appellate Court and the Federal Court of Appeals each seeking the suspension of the decision rendered on the Declaratory Action and a stay of the provisional enforcement proceedings were preliminarily denied. Interlocutory appeals challenging those denials were filed and also denied.

Brazilian Counsel, on behalf of Airplanes Holdings and the GE Lessors, filed three motions to clarify against the decisions in such interlocutory appeals – one in connection with the interlocutory appeal filed by Airplanes Holdings and the GE Lessors and one in each of the two interlocutory appeals filed by Transbrasil. The decisions on such motions, rendered in May 2012, were unfavorable to Airplanes Holdings and the GE Lessors. Three special appeals were filed against these decisions by Brazilian Counsel on behalf of Airplanes Holdings and the GE Lessors, which are still pending judgment before the Federal Court of Appeals. However, as a result of the October 2013 Decision, no further appeals have been made by Brazilian Counsel, who have sought the dismissal of all pending provisional enforcement proceedings and related motions and appeals given that the October 2013 Decision has now become effective for this purpose.

In an effort to speed up the development of the provisional enforcement proceedings in respect of the 2010 Judgment, in June 2012 Transbrasil filed three interlocutory appeals (one in each provisional enforcement proceeding) against the decision by the Lower Court judge of March 2012 that required certain steps to be taken prior to moving ahead with the provisional enforcement proceedings. On June 19, 2012, the reporting judge of the State Appellate Court issued decisions finding two of the three interlocutory appeals to be without grounds, but directing the third provisional enforcement proceeding (brought by Transbrasil's former owners seeking twice the amount of the promissory notes) to move forward. Notwithstanding the more limited decision of the reporting judge of the State Appellate Court, Transbrasil nevertheless presented this decision to the Lower Court not only in respect of that provisional enforcement proceeding, but also in respect of the provisional enforcement proceeding brought by Transbrasil's lawyers seeking to recover court mandated legal fees.

On June 21, 2012, the Lower Court judge responsible for hearing the provisional enforcement proceedings issued the following two Orders to Pay: (i) ordering the Lessor Companies to make a payment to the Lower Court of twice the amount of the promissory notes (plus interest and monetary adjustments) and (ii) ordering the Lessor Companies to make a payment to the Lower Court for court mandated legal fees (plus interest and monetary adjustments). Brazilian Counsel has advised that Transbrasil indicated in its pleading that Airplanes Holdings' share of these amounts is approximately R\$146 million / US\$73 million and approximately R\$14 million / US\$7 million,

respectively, for amounts directly attributable to the Holdings Note. Brazilian Counsel has also advised that the Orders to Pay direct payment of approximately R\$118 million / US\$59 million to be made by the Lessor Companies with respect to the AerCap Leasing Note, but that it is not possible to attribute any particular amount to any particular Lessor Company nor do the Orders to Pay contain any provision providing for joint liability. As a result, without further clarification from the Lower Court, it is impossible for Airplanes Holdings to discern what amount, if any, is due from it under the terms of the Orders to Pay with respect to the AerCap Leasing Note. Brazilian Counsel, on behalf of Airplanes Holdings and the GE Lessors, filed both a writ of mandamus and complaint with the State Appellate Court seeking to deny the effect of the reporting judge's June 19, 2012 decision and, by extension, the Lower Court judge's June 21, 2012 Orders to Pay. Brazilian Counsel also filed a request for the suspension of the decisions rendered by the Lower Court judge, which were published in the Brazilian official gazette on June 26, 2012. On June 27, 2012, both the writ of mandamus and the aforementioned complaint were dismissed. Brazilian Counsel, on behalf of Airplanes Holdings and the GE Lessors, also filed two motions to dismiss the provisional enforcement proceedings brought by the former owners of Transbrasil and Transbrasil's lawyers. The preliminary requests for suspension of such provisional enforcement proceedings were denied by the Lower Court judge and interlocutory appeals were filed against these decisions. These interlocutory appeals were withdrawn once Airplanes Holdings and the GE Lessors were able to present full defenses, including through the filing of certain motions to stay, upon the presentation of letters of guarantee to the Lower Court. On behalf of Airplanes Holdings and the GE Lessors, Brazilian Counsel presented letters of guarantee in order to avoid any judicial lien or other enforcement against their assets and to allow the presentation of the full defense in these provisional enforcement proceedings. These letters of guarantee were filed with the Lower Court on July 25, 2012. (On December 18, 2012, GECAS posted additional letters of guarantee to cover the actions against AerCap Ireland Limited and AerCap Leasing, including with respect to the AerCap Leasing Note). Shortly after the July 25, 2012 submission of the letters of guarantee, Brazilian Counsel, on behalf of Airplanes Holdings and the GE Lessors, also filed two motions to stay the provisional enforcement proceedings brought by the former owners of Transbrasil and Transbrasil's lawyers.

Brazilian Counsel had previously advised Airplanes Holdings that as a result of the October 2013 Decision it expected that the Orders to Pay would be effectively cancelled and the letters of guarantee presented to the Lower Court would be returned to Airplanes Holdings and the other Lessor Companies given that the October 2013 Decision had become effective for this purpose. The Lessor Companies filed requests before the Lower Court where such provisional enforcement proceedings were ongoing seeking the cancellation of the Orders to Pay and the release of each of the letters of guarantee presented. The request for the cancellation of the Orders to Pay and release of the related letters of guarantee in connection with the provisional enforcement proceeding seeking to recover court mandated legal fees was granted by the Lower Court judge on February 4, 2014 and the related letters of guarantee were released on August 22, 2014. In addition, the request for the cancellation of the Orders to Pay and release of the related letters of guarantee in connection with the provisional enforcement proceeding seeking to recover twice the amount of the promissory notes was granted by the Lower Court judge on August 7, 2014 and the related letters of guarantee were released on August 22, 2014. Transbrasil has, however, appealed these decisions that have dismissed these provisional enforcement proceedings and cancelled the Orders to Pay. As a result, such decisions are not yet final and the Orders to Pay may be reinstated if Transbrasil is successful in its appeal.

The motion to stay filed in July 2012 in respect of the provisional enforcement proceeding relating to twice the amount of the promissory notes was rejected by the Lower Court judge. In the same decision, the related letters of guarantee were not accepted by the Lower Court judge. A motion to clarify was filed against such decision by Brazilian Counsel on behalf of one of the Lessor Companies, NAS. The decision on that motion to clarify, among other things, reaffirmed the denial of the motion to stay and the rejection of the related letters of guarantee. In the same decision the Lower Court judge directed the Lessor Companies to provide information regarding their financial assets in Brazil, if any, their Brazilian tax ID numbers, if any, and their legal representation in Brazil. In response to such decision, new motions to clarify were filed by Brazilian Counsel on behalf of Airplanes Holdings and the other Lessor Companies. Those motions were rejected. An interlocutory appeal addressed to the State Appellate Court was filed on February 4, 2013 against the rejection of the motions to clarify. The Lessor Companies also made a request for injunctive relief in order to suspend the challenged decision, but this request was denied. As of the date hereof, the interlocutory appeal remains pending, but has been rendered moot by the October 2013 Decision, which has also rendered moot the orders directing the Lessor Companies to provide financial information and Brazilian tax ID numbers.

On the motion to stay filed in July 2012 in respect of the provisional enforcement proceeding relating to the court mandated legal fees a decision accepting the related letters of guarantee was rendered. The Lower Court judge also denied the motion to stay and directed that the court files should be sent to a judicial accountant or to an expert in order to determine the correct amount of the court mandated legal fees awarded in the 2010 Judgment. Transbrasil filed a motion to clarify with respect to this decision that was granted and the Lessor Companies were directed to provide the same information as that referred to above regarding their financial assets in Brazil, if any, their Brazilian tax ID numbers, if any, and their legal representation in Brazil. Transbrasil and Brazilian Counsel on behalf of NAS filed further motions to clarify with respect to this decision. With respect to those motions to clarify, the Lower Court rejected the motion filed on behalf of NAS and determined that the letters of guarantee would be accepted for the purposes of the preliminary enforcement proceeding seeking recovery of court mandated legal fees, but determined that the court files should not be sent to a judicial accountant or expert. An interlocutory appeal against these decisions to the State Appellate Court was filed by Brazilian Counsel on February 4, 2013. The Lessor Companies also made a request for injunctive relief in order to suspend the challenged decision, but this request was denied. Brazilian Counsel has previously advised Airplanes Holdings that since the October 2013 Decision effectively eliminated the obligations of Airplanes Holdings and the other Lessor Companies to pay court mandated legal fees, the interlocutory appeals filed in connection with such proceedings became moot and the expectation is that the provisional enforcement proceeding related thereto initiated by Transbrasil's lawyers will be terminated and the related letters of guarantee that have been presented to the Lower Court judge will be returned to Airplanes Holdings and the other Lessor Companies given that the October 2013 Decision has now become effective for this purpose. As stated above, the request for the termination of this provisional enforcement proceeding, cancellation of the related Orders to Pay and release of the related letters of the guarantee was granted by the Lower Court judge and the related letters of guarantee were released on August 22, 2014, however this decision is not yet final, since Transbrasil has appealed from it.

Although Airplanes Holdings has filed a proof of claim with the estate of Transbrasil's bankruptcy for amounts it is owed by Transbrasil, it is unlikely that Airplanes Holdings will recover any such amounts because such claims rank in priority behind claims for labor and taxes. Transbrasil opposed such filing by Airplanes Holdings and obtained a decision favorable to it, which includes the order for Airplanes Holdings to pay court mandated legal fees, court costs and fines. Brazilian Counsel, on behalf of Airplanes Holdings, appealed this decision to the State Appellate Court. This appeal was heard and denied and the order maintaining the decision was rendered by the Lower Court judge. Brazilian Counsel filed a motion to clarify in respect of this decision, which was rejected and followed by a special appeal filed in November 2013. Such special appeal is still pending judgment.

In accordance with US Generally Accepted Accounting Principles, a provision of US\$19 million in respect of the Transbrasil litigation was reflected in the financial statements as at September 30, 2013. The October 2013 Decision, whilst not yet final (as a result of the Divergence Appeal filed by Transbrasil on February 7, 2014), overturns the 2010 Judgment in a number of respects. The Board reassessed the amount of the provision as at December 31, 2013 in accordance with the requirements of US Generally Accepted Accounting Principles and determined that it was necessary to reduce the amount of the provision to US\$10 million as at December 31, 2013. Having regard, inter alia, to the payment during the quarter ended March 31, 2014 of US\$4.6 million to the Servicer by way of reimbursement of legal fees and expenses incurred in relation to the Transbrasil litigation (which amount had previously been provided for), the Board further reassessed the amount of the provision as at March 31, 2014 in accordance with the requirements of US Generally Accepted Accounting Principles and updated the amount of the provision to US\$6 million as at March 31, 2014. The Board have further reassessed the amount of the provision as at the end of each quarter and have updated the amount of the provision from US\$4 million as at December 31, 2014 to US\$3 million as of March 31, 2015. The Board will continue to keep these matters under close review and to make adjustments as appropriate and necessary.

The representation of Airplanes Holdings in each of the legal proceedings referenced above has been and continues to be directed by GECAS as the Servicer of Airplanes Group. GECAS, as Servicer, together with Brazilian Counsel, are obligated to keep Airplanes Group fully informed as to developments in this matter.

As noted above, Airplanes Holdings, based on the advice of Brazilian Counsel, believes it has strong defences against the substantive issues raised in the 2010 Judgment and the related proceedings brought by Transbrasil's former owners, the Bankruptcy Trustee and Transbrasil's lawyers. The October 2013 Decision has overturned the

2010 Judgment in a number of respects however, as discussed above, as a result of the filing of the Divergence Appeal the October 2013 Decision is not yet final and there remains uncertainty as to the final outcome of this litigation, both as regards whether the October 2013 Decision becomes final as currently written and whether the Brazilian courts ultimately rule in favor of Airplanes Holdings in other respects and, in the event they do not do so, as regards the amount which could ultimately be adjudged to be payable by Airplanes Holdings. In addition, the timing for finalisation of the October 2013 Decision as well as any further proceedings including any extraordinary appeal to the Supreme Court remains unclear. Therefore, the timing of when any amount ultimately adjudged to be payable by Airplanes Holdings would be due also remains unclear.

As discussed in “1B. Introduction — Overview of Current Financial Condition” above, the Board (having taken legal advice, including as to the position of Airplanes Holdings as a matter of Irish law and the position of Airplanes Limited as a matter of Jersey law and New York law) determined on June 28, 2012 that, commencing July 16, 2012, it was necessary to increase the level of the Liquidity Reserve held by Airplanes Group. On October 8, 2013 the Board determined that it was necessary to further increase the level of the Liquidity Reserve. The increases in the Liquidity Reserve were intended to ensure that in all currently reasonably foreseeable circumstances Airplanes Holdings will have funds available to be able to comply with any order to pay (including those published on June 26, 2012), to challenge calculations made by Transbrasil in the provisional enforcement proceedings, and/or to pay any judgments ultimately awarded against Airplanes Holdings in the Transbrasil litigation. Whilst no assurance can be given as to whether any of the Liquidity Reserve may ultimately need to be utilised to make payments under the Transbrasil proceedings, to the extent not so utilised, the Liquidity Reserve would ultimately be available to fund payments of subclass A-9 minimum principal (to the extent not otherwise required to discharge any other liability of Airplanes Group ranking senior thereto in the priority of payments).

The Board determined that this action was necessary to ensure compliance with Airplanes Group’s contractual requirements and applicable law while at the same time continuing to vigorously dispute liability in an effort to have as much as possible of these reserves paid ultimately to the subclass A-9 noteholders if the litigation is ultimately resolved in favor of Airplanes Holdings or if Airplanes Holdings’ ultimate liability is for a lower amount. The Board will continue to keep these matters under close review and to make adjustments as appropriate and necessary.

#### **INDEMNIFICATION CLAIM BY AERCAP IRELAND LIMITED**

In February 2015 Airplanes Group was notified by AerCap Ireland Limited that it intended to seek indemnification from Airplanes Group in relation to certain Indian litigation proceedings.

AerCap Ireland Limited has asserted that Airplanes Finance Limited, a subsidiary of Airplanes Holdings, is liable to indemnify AerCap Ireland Limited under the terms of a sub-lease assignment agreement entered into between such parties on March 8, 1996 pursuant to which the lease of one B737-200A aircraft to East West Travel and Trade Links Limited (“**East West**”) was assigned by AerCap Ireland Limited to Airplanes Finance Limited. AerCap Ireland Limited has indicated that it is one of several defendants under Indian litigation proceedings concerning East West, which proceedings were commenced by the airports authority of India (the “**AAI**”) in 1997 and remain ongoing. AerCap Ireland Limited has indicated that whilst it continues to defend itself in the proceedings, it intends to seek indemnification both for any liability which it may ultimately be adjudged to have to the AAI as well as its reasonable legal fees in defending the proceedings.

At this time Airplanes Group does not accept that it has any liability in connection with this matter; however it is seeking more information from AerCap Ireland Limited in order to assess both the validity of the purported indemnification obligation and the possible size of any potential claim which may ultimately be made against Airplanes Group.

In light of the uncertainties around both the validity of the purported indemnification obligation as well as the likelihood and possible size of any potential claim, no provision in respect of this matter has been made in the financial statements as at March 31, 2015. The ultimate resolution of the matter could however have a further adverse impact on our cashflows.

#### 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 (the “**charitable trusts**”):

Title of Class	Name and Address	Number of Shares	Percent of Class
Common stock .....	Pavilion Trustees Limited (formerly known as Mourant & Co. Trustees Limited) as trustee of Holdings Trust I, 47 Esplanade, St. Helier, Jersey, Channel Islands	10 Shares	33 1/3%
Common stock .....	Pavilion Trustees Limited (formerly known as Mourant & Co. Trustees Limited) as trustee of Holdings Trust II, 47 Esplanade, St. Helier, Jersey, Channel Islands	10 Shares	33 1/3%
Common stock .....	Pavilion Trustees Limited (formerly known as Mourant & Co. Trustees Limited) as trustee of Holdings Trust III, 47 Esplanade, 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.

Pavilion Trustees Limited (formerly known as 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, 2015 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 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.

The Board consider that it is no longer appropriate to prepare the financial statements for Airplanes Group on a going concern basis given that at the date of the financial statements the current expectation is that the vehicle will cease its aircraft leasing and sale activities within the next twelve months and the Board are currently considering the strategy to wind up the vehicle. Accordingly the financial statements for the year ended March 31, 2015 included in Exhibit 1 have been prepared on a liquidation basis in accordance with FASB ASC 205-30. The comparative results for the years ended March 31, 2014 and 2013 were prepared on a going concern basis of accounting. In accordance with the requirements of FASB ASC 205-30, all assets are stated at the best estimate of their recoverable amount and the results for the year ended March 31, 2015 are described as being on a discontinuing basis. In addition, an accrual has been made for the estimated winding up costs of the vehicle.

Airplanes Group's accounting policies are consistent with previous years except as detailed in Note 4 to the financial statements.

## COMBINED STATEMENT OF OPERATIONS DATA(1)

	Fiscal Year Ended March 31,				
	(In \$ Millions)				
	2011	2012	2013	2014	2015
					(Discontinuing basis)
<b>Revenues</b>					
Aircraft leasing .....	188	163	115	58	37
Aircraft sales (note 2) .....	35	37	94	28	13
Other income .....	3	7	18	4	2
<b>Expenses</b>					
Cost of aircraft sold (note 2) .....	(28)	(26)	(76)	(13)	(6)
Depreciation .....	(49)	(67)	(45)	(35)	(23)
Impairment charge.....	(129)	(58)	(36)	(9)	—
Net interest expense (note 3).....	(5,126)	(3,495)	(376)	(467)	(587)
Bad and doubtful debts.....	—	(8)	(5)	—	—
Other lease costs.....	(59)	(42)	(17)	11	(3)
Selling, general and administrative expenses.....	(27)	(25)	(26)	(16)	(15)
Extraordinary items (note 4) .....	1,697	22,051	—	—	—
Revaluation of aircraft (note 5) .....	—	—	—	—	31
Accrued winding up costs (note 5) .....	—	—	—	—	(748)
Tax benefit.....	18	4	3	—	—
Net (loss)/profit (note 2).....	(3,477)	18,541	(351)	(439)	(1,299)

## COMBINED BALANCE SHEET DATA(1)

	As of March 31,				
	(In \$ Millions)				
	2011	2012	2013	2014	2015
					(Discontinuing basis)
Aircraft, net, and net investment in capital and sales-type leases (note 4) .....	379	224	109	50	51
Total assets .....	487	339	264	213	213
Indebtedness (note 3) .....	(2,197)	(1,542)	(1,462)	(1,425)	(1,415)
Total liabilities .....	(21,908)	(3,219)	(3,495)	(3,883)	(5,182)
Net liabilities .....	(21,421)	(2,880)	(3,231)	(3,670)	(4,969)

## COMBINED STATEMENT OF CASHFLOW DATA(1)

	Fiscal Year Ended March 31,				
	(In \$ Millions)				
	2011	2012	2013	2014	2015
					(Discontinuing basis)
Cash paid in respect of interest (note 3) .....	7	5	4	3	3
Net cash provided by operating activities (after payment of interest) .....	135	137	131	55	19
Net cash used in financing activities .....	(144)	(130)	(79)	(38)	(9)
Net increase/(decrease) in cash.....	(9)	7	52	17	10

## OTHER DATA(1)

	Fiscal Year Ended March 31,				
	(In \$ Millions)				
	2011	2012	2013	2014	2015
					(Discontinuing basis)
Deficiency of combined earnings after combined fixed charges (note 6) .....	(3,477)	18,541	(351)	(439)	(1,299)

### Notes:

- (1) The financial statements of Airplanes Group are stated in US dollars which is the principal operating currency of Airplanes Group and the aviation industry. As described above, the financial statements for the year ended March 31, 2015 have been prepared on a liquidation basis in accordance with FASB ASC 205-30. The comparative results for the years ended March 31, 2014 and 2013 were prepared on a going concern basis of accounting.
- (2) During the year ended March 31, 2013 eight aircraft were transferred at fair value by subsidiaries of Airplanes Limited to a subsidiary of Airplanes Trust. As a result, aircraft sales revenue of \$94 million includes an amount of \$44 million attributable to Airplanes Limited, and cost of aircraft sold of \$76 million includes an amount of \$31 million attributable to Airplanes Trust, resulting in a net profit of \$13 million being recognised in the Combined Statement of Operations for the year ended March 31, 2013.
- (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 \$2 million in 2011, \$1 million in 2012, \$1 million in 2013, less than \$1 million in 2014 and less than \$1 million in 2015.

- (4) Extraordinary items relate to the discharge and release of all of the class E notes of Airplanes Trust in the year ended March 31, 2011 and a portion of the class E notes of Airplanes Limited in the year ended March 31, 2012. The principal amount of \$53 million of the class E notes of Airplanes Trust and the accrued interest thereon amounting to \$1,645 million were released in the year ended March 31, 2011 and the principal amount of \$526 million of the class E notes of Airplanes Limited and the accrued interest thereon amounting to \$21,525 million were released in the year ended March 31, 2012.
- (5) FASB ASC 205-30 requires all assets to be stated at the best estimate of their recoverable amount. This means that the vehicle is required to measure assets to reflect the estimated amount of cash or other consideration that it expects to collect in settling or disposing of those assets. Prior to the change in basis of preparation, aircraft were accounted for at their net book value. The change in basis of preparation has resulted in a revaluation uplift of \$31 million in the value of aircraft. The value of the aircraft is based on the best estimate as at the date of the financial statements of the amount which Airplanes Group expects to collect on the sale of the aircraft. The actual amount which Airplanes Group receives could differ significantly from that estimate. FASB ASC 205-30 also requires an accrual to be made for the estimated winding up costs of the vehicle. The accrual for estimated winding up costs included in the Statement of Operations represents the operating, leasing and interest costs estimated at the date of the financial statements to be incurred in the ordinary course of operating the vehicle until the date on which a winding up is assumed to commence (as well as certain costs anticipated to be incurred in order to place the vehicle into a winding up) net of the leasing revenue contracted at the date of the financial statements to be received for such period. The Board are considering a number of options in respect of the future winding up of Airplanes Group and therefore the estimate of winding up costs included in the Statement of Operations has not taken into account certain costs that may be associated with the options potentially available as these costs are incapable of estimation at present. In accordance with the requirements of FASB ASC 205-30, the estimated interest costs which form part of the accrual include an amount of \$735 million in respect of step-up interest payable on the subclass A-8 notes and interest payable on the class B, C, D and E notes notwithstanding that Airplanes Group does not expect to have sufficient cashflows to make any further payments of step-up interest on the subclass A-8 notes or interest on the class B, C, D or E notes.
- (6) 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. Our fixed charges exceeded earnings for all periods presented, excluding the extraordinary items, hence 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 US 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 US dollars.

The Board consider that it is no longer appropriate to prepare the financial statements on a going concern basis given that at the date of the financial statements the current expectation is that the vehicle will cease its aircraft leasing and sale activities within the next twelve months and the Board are currently considering the strategy to wind up the vehicle. Accordingly the financial statements have been prepared on a liquidation basis in accordance with FASB ASC 205-30. The comparative results for the years ended March 31, 2014 and 2013 were prepared on a going concern basis of accounting. In accordance with the requirements of FASB ASC 205-30, all assets are stated at the best estimate of their recoverable amount and the results for the year ended March 31, 2015 are described as being on a discontinuing basis. In addition, an accrual has been made for the estimated winding up costs of the vehicle.

## **B. BACKGROUND**

### *Industry Overview*

In June 2015 IATA announced its revised industry outlook for 2015. IATA expects global profits of \$29.3 billion. IATA noted that the main factors impacting the airline industry's profitability include stronger global economic prospects, record load factors, lower fuel prices and an appreciation of the US dollar.

According to IATA, the airline industry had another strong year in 2014, solidifying a positive trend in profitability after huge losses during the 2008—2009 global economic recession. Net post tax profit for 2014 was \$16.4 billion, a 2.2% margin on revenues. This was the fifth successive year of profitability, and it builds on the \$10.6 billion profit and 1.5% profit margin in 2013. The air transport industry's profitability in 2014 is owed primarily to improving global economic conditions, which underpinned robust growth in passenger and air cargo demand. Lower fuel costs also helped, but because of hedging some airlines have yet to experience the benefits of the decline in fuel prices.

There was also an increase in aircraft deliveries in 2014, to 1,627 new aircraft. The in-service fleet rose to 26,051 aircraft, from 25,187 in 2013. Replacements for older aircraft were generally larger in size than their predecessors, adding yet more seats to the global market. Overall, the number of seats available in the fleet rose to 3.5 million, adding 5% capacity to the market globally.

According to IATA, in 2014, the aviation industry directly supported around 9 million jobs. This number is likely to grow 50% in the next two decades, putting even more pressure on the industry to ensure that its workforce is well trained.

Overall, the return on invested capital in the industry rose from 4.9% in 2013 to 6.1% in 2014. This is still well short of the 7%–8% expected by investors based on returns from investments in other industry sectors. It is, nevertheless, a marked improvement on the previous year and the highest it has been since 2010.

“For the airline business, 2015 is turning out to be a positive year. Since the tragic events of September 2001, the global airline industry has transformed itself with major gains in efficiency. This is clearly evident in the expected record high passenger load factor of 80.2% for this year. The result is a hard-earned 4% average net profit margin. On average, airlines will retain \$8.27 for every passenger carried,” said Tony Tyler, IATA’s Director General and CEO.

### ***Impact on Airplanes Group***

New aircraft are continuing to come on stream and their availability (and consequent increased availability of used aircraft which are newer than those in our portfolio) is impacting the leasing and sale market for our aircraft, with a consequent effect on their value. Although the last five years have seen improvements for the airline industry as a whole, our cashflows do not generally correspond to performance of the airline industry as a whole. The increase in new aircraft availability combined with the age and type of aircraft in our portfolio, has meant that sales opportunities for all aircraft types in our fleet are also currently extremely limited and are expected to continue to be limited. While re-leasing remains a possibility for a few of our aircraft types, we now anticipate that the analysis performed by the Servicer will indicate that cashflows will not be maximized by re-leasing given the low potential re-lease rates and high transition costs, coupled with the credit risks associated with the potential pool of lessees for such aircraft and the attendant risk of early re-delivery or repossession costs. We have entered into no new leases (excluding finance-type leases in respect of conditional sale agreements and short-term engine leases) in the last four years. As discussed in “1B. Overview of Current Financial Condition – General Background – Anticipated Remaining Trading Activities”, it is currently anticipated that all of our remaining aircraft will be sold within the next twelve months, although there can be no assurance that the actual timing of such sales will not differ, perhaps materially, from such anticipated timing.

As of the date of this Annual Report, we have two aircraft and two engines on the ground and we have no commitment for their sale or lease. See “2F. The Aircraft, Related Leases and Collateral – The Lessees”.

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

There has been a decline of \$13 million (14.3%) in the appraised base value of our portfolio in the year to January 31, 2015, which is \$22 million less than the decline of \$35 million (30.8%) assumed in our 1996 Base Case assumptions. However, even after allowing for sales of aircraft which were not assumed in the 1996 Base Case, the average appraised base value of our portfolio as of January 31, 2015 is \$2 million lower than the portfolio value assumed in the 1996 Base Case. The appraised base values are hypothetical values 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 base values, the appraised base value of the majority of our aircraft is still significantly higher than what we understand to be its likely current market value. Therefore, as a theoretical value, the appraised base value should not be viewed as indicative of market value and thus there is no guarantee that we would obtain the appraised base value upon sale of any aircraft. As discussed in “1C. Introduction—Risk Factors—Risks Relating to Payment on the Notes and Certificates”, decreases in appraised base values have previously resulted in the requirement to pay class A principal adjustment amount to the extent of available cashflows. 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 base 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. Even before the 9/11 terrorist attacks in the US, the worldwide economy had begun to weaken and the events of 9/11 exacerbated that weakness. Since then, despite a brief period (2005 - 2007) in which the aircraft industry strengthened and profitable years for the industry as a whole since 2010, the economic environment, particularly for older aircraft, has been generally challenging. For our portfolio of older, less technologically advanced and fuel-

efficient aircraft, the effects of years of weakness in the industry are felt more acutely; whatever demand exists will tend to favour newer, more efficient aircraft and our lease rates and aircraft values consequently suffer. Because of earlier restructurings and the fact that not all of our leases came up for renewal in the period 2005 - 2007, we could not benefit fully from the relative but temporary improvements in lease rates and values that even some of the older aircraft experienced in that period, nor have we seen any significant improvement in our cashflows since the entire aviation industry returned to profitability in 2010. We are thus 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 are difficult to achieve and where sales have been completed, the sales proceeds have not made a significant difference to our cashflows. On each payment date since the December 15, 2003 payment date, we have been paying in full only our administrative and lease expenses and certain other payments in the ordinary course of business, interest on the class A notes, hedging payments, and the “First Collection Account Top-up”. We have used any remaining cashflows towards payment of minimum principal on the class A notes which at May 15, 2015 was \$424.0 million in arrears. Even in the absence of the increase in the Liquidity Reserve with effect from the July 16, 2012 payment date and the further increase in the Liquidity Reserve with effect from October 8, 2013 as a result of the Transbrasil litigation which resulted in the suspension of payments of subclass A-9 minimum principal with effect from the October 15, 2013 payment date until the December 15, 2014 payment date, we would not have been able to resume making payments of interest or principal on the class B, C and D notes, or to repay the subclass A-9 notes in full. For a detailed background, see “1B. Introduction—Overview of Current Financial Condition.”

As discussed in 1C 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 “1B. Introduction – Overview of Current Financial Condition—Ratings” are the ratings of our certificates at the date of this Annual Report.

### ***Remarketing***

At March 31, 2015, in addition to the one aircraft on the ground but excluding the four aircraft subject to conditional sale agreements we had six aircraft and one engine scheduled to come off lease before December 31, 2016. At March 31, 2015 two of these aircraft were subject to a letter of intent for sale to their lessee. As of the date of this Annual Report, these two aircraft are now contracted for sale to the lessee. In addition, a conditional sale agreement in respect of one MD83 aircraft which was in place at March 31, 2015 was subsequently terminated early as a result of the lessee ceasing its operations. Pursuant to the early termination agreement, title to the airframe of the aircraft was passed to the lessee and the two engines previously attached to the airframe were returned to Airplanes Group. Such engines will now be marketed for sale to a third party. As a result of the availability of, and preference for, newer, more technologically advanced and fuel-efficient aircraft, as well as the current over-supply of certain types of aircraft in the market place and the factors discussed above, the market for aircraft of the age and type in our portfolio has become increasingly challenging. With respect to each of our aircraft coming off lease, we will apply the methodology described above under “2G. The Aircraft, Related Leases and Collateral—Commercial Opportunities for Our Aircraft” on a case by case basis to determine whether sale of the aircraft, airframe or engines may be in the best interests of Airplanes Group and the noteholders. As discussed above, we now anticipate that the analysis performed by the Servicer will indicate that cashflows will not be maximized by re-leasing and accordingly all of these six aircraft and one engine (as well as our remaining aircraft) have been identified as likely sales candidates. The limited pool of potential lessees for aircraft of the age and type in our portfolio has also contributed to a significant weakening of the market for the sale of such older aircraft, putting strong downward pressure on sale prices.

Furthermore, in light of the financial condition of certain lessees, in addition to the aircraft repossessed and redelivered early in the last six years, we may also experience further repossessions and/or redeliveries of aircraft prior to their contractual lease expires. Aircraft which are repossessed or returned early are unlikely to meet return conditions under the related lease, which would be likely to reduce the value of the aircraft, and the increased redelivery and transition costs which we would need to incur in such a situation would make it even more uneconomic to re-lease the aircraft even if a suitable lessee could be found. To the extent that we suffer significant delays in selling these aircraft, we will incur substantial downtime.

### ***Critical Accounting Policies***

Airplanes Group determines the critical policies by considering accounting policies that involve the most subjective decisions or assessments. For the year ended March 31, 2015 the most critical accounting policy is the change to the basis of preparation of the financial statements since this requires Airplanes Group to make estimates and assumptions regarding its future plans for winding up, including estimates as to the recoverable amount of its assets and its winding up costs, which matters are highly uncertain at the time the estimates are made. Prior to the change in basis of preparation the most critical accounting policies were those related to depreciation methods and impairment of aircraft values, since both of these involved elements which required Airplanes Group to make assumptions as to matters that were highly uncertain at the time the estimates are made.

#### **Liquidation basis of accounting:**

As a result of the change from a going concern basis of accounting to the liquidation basis of accounting FASB ASC 205-30 requires that all assets are stated at the best estimate of their recoverable amount. This means that the vehicle is required to measure assets to reflect the estimated amount of cash or other consideration that it expects to collect in settling or disposing of those assets. As a result, all aircraft have been classified as held for sale as at March 31, 2015 and the value of the aircraft as at such date is based on the best estimate as at the date of the financial statements of the amount which Airplanes Group expects to collect on the sale of the aircraft. The actual amount which Airplanes Group receives could differ significantly from that estimate.

FASB ASC 205-30 also requires an accrual to be made for the estimated winding up costs of the vehicle. The accrual for estimated winding up costs included in the financial statements for the year ended March 31, 2015 represents the operating, leasing and interest costs estimated at the date of the financial statements to be incurred in the ordinary course of operating the vehicle until the date on which a winding up is assumed to commence (as well as certain costs anticipated to be incurred in order to place the vehicle into a winding up) net of the revenue contracted at the date of the financial statements to be received for such period. The Board are considering a number of options in respect of the future winding up of Airplanes Group and therefore the estimate of winding up costs included in the financial statements for the year ended March 31, 2015 has not taken into account certain costs that may be associated with the options potentially available as these costs are incapable of estimation at present.

#### **Depreciation:**

Prior to the change in basis of preparation, aircraft were stated at cost less accumulated depreciation and were depreciated at rates calculated to write off the cost of the aircraft to their estimated residual value, on a straight line basis, over their estimated useful lives. The estimates of useful lives and residual values were reviewed at least annually.

#### **Impairment:**

Prior to the change in basis of preparation, aircraft were periodically reviewed for impairment in accordance with FASB Accounting Standards Codification No. 360 "*Property, Plant and Equipment—Accounting for the Impairment or Disposal of Long lived Assets*" ("**FASB ASC 360**"). An impairment review was required whenever events or changes in circumstances indicated that the asset's carrying amount may not be recoverable. An impairment loss was evaluated when the undiscounted estimated future cashflows of the aircraft were less than its carrying value, and the loss was measured as the excess of the carrying value over the fair value. The fair value of the aircraft was based on independent appraisals of aircraft and 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 future cashflows. The independent appraisals were determined based on the assumption that there was an "open, unrestricted stable market environment with a reasonable balance of supply and demand". Where the other available information indicated a lower value for an aircraft than its appraised current market value, such information was evaluated in detail in making the determination of the fair value for that aircraft. Estimated discounted future cashflows were used as a more accurate indication of fair value where appropriate. The estimated discounted future cashflows assumed, among other things, market lease rates or sale of the aircraft at the end of the existing lease term, other lease or sale costs, downtime and the risk inherent in the cashflows.

### C. RESULTS OF OPERATIONS—YEAR ENDED MARCH 31, 2015 COMPARED WITH YEAR ENDED MARCH 31, 2014

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

	2014	2015	%
	(Discontinuing Basis)		
	(\$ Millions)		Increase/ (Decrease)
<b>Revenues</b>			
Aircraft leasing .....	58	37	(36.2)
Other income.....	4	2	(50)
Aircraft sales .....	28	13	(53.6)
<b>Expenses</b>			
Depreciation .....	(35)	(23)	(34.3)
Cost of aircraft sold.....	(13)	(6)	(53.8)
Impairment charge .....	(9)	—	(100)
Net interest expense .....	(467)	(587)	25.7
Bad and doubtful debts .....	—	—	—
Other lease costs .....	11	(3)	(127.3)
Selling general and administrative expenses.....	(16)	(15)	(6.3)
Revaluation of aircraft .....	—	31	n/a
Accrued winding up costs.....	—	(748)	n/a
Tax benefit .....	—	—	—
<b>Net loss</b> .....	<u>(439)</u>	<u>(1,299)</u>	<u>195.9</u>

As detailed in Note 2 of the financial statements for the year ended March 31, 2015 included in Exhibit 1, the Board consider that it is no longer appropriate to prepare the financial statements on a going concern basis given that at the date of the financial statements the current expectation is that the vehicle will cease its aircraft leasing and sale activities within the next twelve months and the Board are currently considering the strategy to wind up the vehicle. Accordingly the financial statements have been prepared on a liquidation basis in accordance with FASB ASC 205-30. The comparative results for the years ended March 31, 2014 and 2013 were prepared on a going concern basis of accounting. In accordance with the requirements of FASB ASC 205-30, all assets are stated at the best estimate of their recoverable amount and the results for the year ended March 31, 2015 are described as being on a discontinuing basis. In addition, an accrual has been made for the estimated winding up costs of the vehicle.

The results for the year ended March 31, 2015 reflected a continuation of the very difficult trading conditions for Airplanes Group. Sustained unsatisfactory market conditions for almost all of our aircraft gave rise to a requirement for impairment charges in the year ended March 31, 2015 of less than \$1 million (2014: \$9 million). We have sold aircraft with little or no re-lease prospects or where the Servicer's analysis showed that the proceeds from the sale would be greater than the net present value of estimated cashflows from re-leasing, including the estimated transition expenditures, but at prices which have not made a significant difference to our cashflows. The challenging markets 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 \$19 million in cash from operations in the year ended March 31, 2015, compared to \$55 million in the year ended March 31, 2014. There was a decrease in lease revenues due to a decrease in the number of aircraft in the portfolio, together with a decrease in aircraft sales revenue as a result of the value of aircraft, airframes and engines sold in the year ended March 31, 2015, as compared to the year ended March 31, 2014. We sold six aircraft, one airframe and three engines in the year ended March 31, 2015, compared to the year ended March 31, 2014, when we sold 12 aircraft, three airframes and six engines. There was a net loss for the year ended March 31, 2015 of \$1,299 million (Airplanes Limited: \$1,261 million; Airplanes Trust: \$38 million) compared to a net loss for the year ended March 31, 2014 of \$439 million (Airplanes Limited: \$414 million; Airplanes Trust: \$25 million). Excluding accrued but unpaid class E note interest, the increase in the net loss for the year of \$43 million was primarily attributable to lower lease revenue, lower profit on aircraft sales and lower other income, partially offset by lower depreciation and lower overheads.

## **LEASING REVENUES**

Leasing revenues (which include maintenance reserve receipts which we receive from certain of our lessees) for the year ended March 31, 2015 were \$37 million (Airplanes Limited: \$26 million; Airplanes Trust: \$11 million), compared with \$58 million (Airplanes Limited: \$40 million; Airplanes Trust: \$18 million) for the year ended March 31, 2014. The decrease was primarily attributable to the reduction in the number of aircraft on-lease as a consequence of aircraft sales in previous periods. At March 31, 2015, we had 16 of our 17 aircraft and our one engine on-lease (Airplanes Limited: 11 aircraft; Airplanes Trust: six aircraft), compared to 24 of our 27 aircraft and neither of our two engines on-lease (Airplanes Limited: 15 aircraft; Airplanes Trust: nine aircraft) at March 31, 2014.

## **OTHER INCOME**

During the year ended March 31, 2015, Airplanes Group received \$2 million (Airplanes Limited: \$1 million; Airplanes Trust: \$1 million) of other income, primarily relating to proceeds received from the earlier than anticipated redelivery of two aircraft as well as proceeds received from an ongoing legal claim against a former lessee. During the year ended March 31, 2014, Airplanes Group received \$4 million (Airplanes Limited: \$4 million; Airplanes Trust: \$nil) of other income, primarily relating to proceeds received from the earlier than anticipated redelivery of one aircraft.

## **IMPAIRMENT CHARGES**

Aircraft carrying values are periodically assessed for impairment in accordance with FASB ASC 360. 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, a FASB ASC 360 assessment resulted in a requirement for an impairment charge of less than \$1 million (Airplanes Limited: less than \$1 million; Airplanes Trust: \$nil) for the year ended March 31, 2015 as compared with an impairment charge of \$9 million (Airplanes Limited: \$9 million; Airplanes Trust: \$nil) for the year ended March 31, 2014.

## **DEPRECIATION**

The charge for depreciation for the year ended March 31, 2015 amounted to \$23 million (Airplanes Limited: \$9 million; Airplanes Trust: \$14 million) as compared with \$35 million (Airplanes Limited: \$17 million; Airplanes Trust: \$18 million) for the year ended March 31, 2014. The decrease in the charge is primarily as a result of aircraft sold.

## **AIRCRAFT SALES**

Sales proceeds of \$13 million (Airplanes Limited: \$11 million; Airplanes Trust: \$2 million) were received in the year ended March 31, 2015 in respect of the sale to external parties of three B737-400 aircraft, one DHC8-300 aircraft, one MD83 aircraft, one B767-300ER aircraft, one A320-200 airframe and three CFM56 engines. The net book value of the aircraft, airframes and engines sold in the year ended March 31, 2015 was \$6 million (Airplanes Limited: \$5 million; Airplanes Trust: \$1 million). Sales proceeds of \$28 million (Airplanes Limited: \$27 million; Airplanes Trust: \$1 million) were received in the year ended March 31, 2014 in respect of the sale to external parties of three B737-500 aircraft, five B737-400 aircraft, three A320-200 aircraft, one MD83 aircraft, one B737-300 airframe, one B737-400 airframe, one B737-500 airframe and six CFM56 engines. The net book value of the aircraft, airframes and engines sold in the year ended March 31, 2014 was \$13 million (Airplanes Limited: \$12 million; Airplanes Trust: \$1 million).

## **NET INTEREST EXPENSE**

Net interest expense was \$587 million (Airplanes Limited: \$565 million; Airplanes Trust: \$22 million), of which \$214 million related to interest on the class A to D notes and interest rate hedging payments and \$373 million related to interest on the class E notes, in the year ended March 31, 2015 compared to \$467 million (Airplanes Limited: \$446 million; Airplanes Trust: \$21 million), of which \$194 million related to interest on the class A to D notes and interest rate hedging payments and \$273 million related to interest on the class E notes, in the year ended March 31, 2014. The increase in the amount of interest charged was primarily due to an increase in the interest on accrued but unpaid class E note interest of \$100 million, higher interest on accrued but unpaid step up interest on the subclass A-8 notes and higher interest on accrued but unpaid interest on the class B, C and D notes.

The weighted average interest rate on the class A to D notes (taking into account the interest rate caps 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, 2015 was 5.43% and the average debt in respect of the class A to D notes outstanding during the period was \$1,411 million. The remaining Airplanes Limited class E notes together with the accrued but unpaid class E note interest thereon, accrue interest at a rate of 20% per annum (as adjusted (by reference to the US consumer price index, effective March 28, 1996) to the level of 34.16% at March 31, 2015).

The weighted average interest rate on the class A to D notes (on the same basis as above) during the year to March 31, 2014 was 5.42% and the average debt in respect of the class A to D notes outstanding during the period was \$1,418 million.

The difference for the year ended March 31, 2015 between Airplanes Group's net interest expense of \$587 million (Airplanes Limited: \$565 million; Airplanes Trust: \$22 million) and cash paid in respect of interest of \$3 million (Airplanes Limited: \$3 million; Airplanes Trust: \$nil) is substantially accounted for by the fact that interest on the remaining Airplanes Limited 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, 2015, Airplanes Group earned interest income (including lessee default interest) of less than \$1 million (Airplanes Limited: less than \$1 million; Airplanes Trust: \$nil), compared with less than \$1 million in the year ended March 31, 2014 (Airplanes Limited: less than \$1 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. There was a decrease of less than \$1 million in the provisions in respect of bad and doubtful debts in the year ended March 31, 2015 compared with no change for the year ended March 31, 2014.

## **ACCRUAL FOR ESTIMATED WINDING UP COSTS**

As set out in note 2 thereof, the financial statements for the year ended March 31, 2015 have been prepared on a liquidation basis in accordance with FASB ASC 205-30.

FASB ASC 205-30 requires an accrual to be made for the estimated winding up costs of the vehicle (see “Accrued winding up costs” above). The accrual for estimated winding up costs included in the financial statements represents the operating, leasing and interest costs estimated at the date of the financial statements to be incurred in the ordinary course of operating the vehicle until the date on which a winding up is assumed to commence (as well as certain costs anticipated to be incurred in order to place the vehicle into a winding up) net of the leasing revenue contracted at the date of the financial statements to be received for such period. The Board are considering a number of options in respect of the future winding up of Airplanes Group and therefore the estimate of winding up costs included in the financial statements for the year ended March 31, 2015 has not taken into account certain costs that may be associated with the options potentially available as these costs are incapable of estimation at present. In accordance with the requirements of FASB ASC 205-30, the estimated interest costs which form part of the accrual include an amount of \$735 million in respect of step-up interest payable on the subclass A-8 notes and interest payable on the class B, C, D and E notes notwithstanding that Airplanes Group does not expect to have sufficient cashflows to make any further payments of step-up interest on the subclass A-8 notes or interest on the class B, C, D or E notes.

## **REVALUATION OF AIRCRAFT**

As set out in note 2 thereof, the financial statements for the year ended March 31, 2015 have been prepared on a liquidation basis in accordance with FASB ASC 205-30.

FASB ASC 205-30 requires all assets to be stated at the best estimate of their recoverable amount. This means that the vehicle is required to measure assets to reflect the estimated amount of cash or other consideration that it expects to collect in settling or disposing of those assets. Prior to the change in basis of preparation, aircraft were accounted for at their net book value. The change in basis of preparation has resulted in a revaluation uplift of \$31 million in the value of aircraft as at March 31, 2015. The value of the aircraft is based on the best estimate as at the date of the financial statements of the amount which Airplanes Group expects to collect on the sale of the aircraft. The actual amount which Airplanes Group receives could differ significantly from that estimate.

## **OTHER LEASE COSTS**

Other lease costs, comprising mainly aircraft related technical expenditure associated with remarketing the aircraft and maintenance costs incurred by certain of our lessees, in the year ended March 31, 2015 amounted to \$3 million (Airplanes Limited: \$2 million; Airplanes Trust: \$1 million), compared with a positive movement of \$(11) million (Airplanes Limited: \$(12) million; Airplanes Trust: \$1 million) in the year ended March 31, 2014.

The positive movement in other lease costs in the year ended March 31, 2014 primarily relates to the decrease in the provision (from \$19 million to \$6 million) in respect of ongoing litigation with a former lessee, Transbrasil, as described in more detail in “3. Legal Proceedings”. This provision was updated from \$6 million to \$3 million for the year ended March 31, 2015. While Airplanes Holdings, based on the advice of Brazilian legal counsel retained by GECAS as Servicer to represent Airplanes Holdings (and certain other defendants) in this litigation, believes it has strong defences against the substantive issues raised in the proceedings brought by Transbrasil, there can be no certainty as to the final outcome of this litigation, the ultimate resolution of which is expected to take a considerable length of time.

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

Selling, general and administrative expenses for the year ended March 31, 2015 amounted to \$15 million (Airplanes Limited: \$12 million; Airplanes Trust: \$3 million) as compared to the year ended March 31, 2014 of \$16 million (Airplanes Limited: \$13 million; Airplanes Trust: \$3 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, 2015 include \$6 million (Airplanes Limited: \$4 million; Airplanes Trust: \$2 million) related to servicing fees, as compared with \$8 million (Airplanes Limited: \$6 million; Airplanes Trust: \$2 million) in the year ended March 31, 2014.

A further significant element of Airplanes Group's actual selling, general and administrative expenses reported in the year ended March 31, 2015 was \$5 million (Airplanes Limited: \$3 million; Airplanes Trust: \$2 million) in respect of administrative agency and cash management fees payable to subsidiaries of AerCap Ireland Limited, as compared with the charge of \$5 million (Airplanes Limited: \$4 million; Airplanes Trust: \$1 million) for the year ended March 31, 2013.

## OPERATING LOSS

The operating loss on continuing operations for the year ended March 31, 2015 was \$1,299 million (Airplanes Limited: \$1,261 million; Airplanes Trust: \$38 million), compared with an operating loss on continuing operations of \$439 million (Airplanes Limited: \$414 million; Airplanes Trust: \$25 million) for the year ended March 31, 2014. Airplanes Limited and Airplanes Trust are expected to continue to report substantial losses in the future.

## TAXES

There was no tax charge in the year ended March 31, 2015, compared with no tax charge for the year ended March 31, 2014. No charge to Irish corporation tax arose for either period.

## NET LOSS

The net loss after taxation on continuing operations for the year ended March 31, 2015 was \$1,299 million (Airplanes Limited: \$1,261 million; Airplanes Trust: \$38 million), compared with a net loss after taxation on continuing operations for the year ended March 31, 2014 of \$439 million (Airplanes Limited: \$414 million; Airplanes Trust: \$25 million).

## D. RESULTS OF OPERATIONS—YEAR ENDED MARCH 31, 2014 COMPARED WITH YEAR ENDED MARCH 31, 2013

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

	2013	2014	%
	(\$ millions)		Increase/ (Decrease)
<b>Revenues</b>			
Aircraft leasing .....	115	58	(49.6)
Other income .....	18	4	(77.8)
Aircraft sales.....	94	28	(70.2)
<b>Expenses</b>			
Depreciation.....	(45)	(35)	(22.2)
Cost of aircraft sold .....	(76)	(13)	(82.9)
Impairment charge .....	(36)	(9)	(75.0)
Net interest expense.....	(376)	(467)	24.2
Bad and doubtful debts .....	(5)	—	(100.0)
Other lease costs .....	(17)	11	(104.7)
Selling general and administrative expenses .....	(26)	(16)	(38.5)
Tax benefit.....	3	—	(100.0)
<b>Net loss .....</b>	<b>(351)</b>	<b>(439)</b>	<b>(88.0)</b>

The results for the year ended March 31, 2014 reflected a continuation of the very difficult trading conditions for Airplanes Group. Sustained unsatisfactory market conditions for almost all of our aircraft gave rise to a requirement for impairment charges in the year ended March 31, 2014 of \$9 million (2013: \$36 million). We have sold aircraft with little or no re-lease prospects or where the Servicer's analysis showed that the proceeds from the sale would be greater than the net present value of estimated cashflows from re leasing, including the estimated transition expenditures, but at prices which have not made a significant difference to our cashflows. The challenging markets 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 \$55 million in cash from operations in the year ended March 31, 2014, compared to \$131 million in the year ended March 31, 2013. There was a decrease in lease revenues due to a decrease in the number of aircraft in the portfolio, together with an increase in aircraft sales revenue as a result of the value of aircraft, airframes and engines sold in the year ended March 31, 2014, as compared to the year ended March 31, 2013. We sold 12 aircraft, three airframe and six engines in the year ended March 31, 2014, compared to the year ended March 31, 2013, when we sold 22 aircraft, one airframe and nine engines. There was a net loss for the year ended March 31, 2014 of \$439 million (Airplanes Limited: \$414 million; Airplanes Trust: \$25 million) compared to a net loss for the year ended March 31, 2013 of \$351 million (Airplanes Limited: \$340 million; Airplanes Trust: \$11 million). Excluding accrued but unpaid class E note interest, the increase in the net loss for the year of \$16 million was primarily attributable to lower leasing income, lower profit on aircraft sales and lower other income, partially offset by lower depreciation and lower overheads.

## **LEASING REVENUES**

Leasing revenues (which include maintenance reserve receipts which we receive from certain of our lessees) for the year ended March 31, 2014 were \$58 million (Airplanes Limited: \$40 million; Airplanes Trust: \$18 million), compared with \$115 million (Airplanes Limited: \$104 million; Airplanes Trust: \$11 million) for the year ended March 31, 2013. The decrease was primarily attributable to the reduction in the number of aircraft on-lease as a consequence of aircraft sales in previous periods. At March 31, 2014, we had 24 of our 27 aircraft and neither of our two engines on-lease (Airplanes Limited: 15 aircraft; Airplanes Trust: nine aircraft), compared to 39 of our 43 aircraft, neither of our two airframes and one of our six engines on-lease (Airplanes Limited: 28 aircraft and one engine; Airplanes Trust: 11 aircraft) at March 31, 2013.

## **OTHER INCOME**

During the year ended March 31, 2014, Airplanes Group received \$4 million (Airplanes Limited: \$4 million; Airplanes Trust: \$nil) of other income, primarily relating to proceeds received from the earlier than anticipated redelivery of one aircraft. During the year ended March 31, 2013, Airplanes Group received \$18 million (Airplanes Limited: \$18 million; Airplanes Trust: \$nil) of other income, primarily relating to proceeds received from the earlier than anticipated redelivery of one aircraft, proceeds received from the earlier than anticipated buy-out of three aircraft which had been leased under conditional sale agreements and funds received from ongoing legal claims.

## **IMPAIRMENT CHARGES**

Aircraft carrying values are periodically assessed for impairment in accordance with FASB ASC 360. 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, a FASB ASC 360 assessment resulted in a requirement for an impairment charge of \$9 million (Airplanes Limited: \$9 million; Airplanes Trust: \$nil) for the year ended March 31, 2014 as compared with an impairment charge of \$36 million (Airplanes Limited: \$36 million; Airplanes Trust: \$nil) for the year ended March 31, 2013.

## **DEPRECIATION**

The charge for depreciation for the year ended March 31, 2014 amounted to \$35 million (Airplanes Limited: \$17 million; Airplanes Trust: \$18 million) as compared with \$45 million (Airplanes Limited: \$40 million; Airplanes Trust: \$5 million) for the year ended March 31, 2013. The decrease in the charge is primarily as a result of aircraft sold.

## **AIRCRAFT SALES**

Sales proceeds of \$28 million (Airplanes Limited: \$27 million; Airplanes Trust: \$1 million) were received in the year ended March 31, 2014 in respect of the sale to external parties of three B737-500 aircraft, five B737-400 aircraft, three A320-200 aircraft, one MD83 aircraft, one B737-300 airframe, one B737-400 airframe, one B737-500 airframe and six CFM56 engines. The net book value of the aircraft, airframes and engines sold in the year ended March 31, 2014 was \$13 million (Airplanes Limited: \$12 million; Airplanes Trust: \$1 million). In the year ended March 31, 2013, sales proceeds of \$94 million (Airplanes Limited: \$92 million; Airplanes Trust: \$2 million) included proceeds of \$50 million in respect of the sale to external parties of one B737-300 aircraft, six B737-500 aircraft, two B767-300ER aircraft, one DHC8-100 aircraft, one DHC8-300 aircraft, three ATR42-300 aircraft, two B737-400 aircraft, one A320-200 aircraft, four MD83 aircraft, one MD83 airframe, nine CFM56 engines and insurance proceeds of \$8.4 million received in respect of the constructive total loss of one B737-400 aircraft. Sales proceeds received in the year ended March 31, 2013 also included proceeds of \$44 million in respect of the sale of five A320-200 aircraft and three MD83 aircraft by subsidiaries of Airplanes Limited to a subsidiary of Airplanes Trust. The net book value of the aircraft, airframe and engines sold in the year ended March 31, 2013 was \$76 million (Airplanes Limited: \$76 million; Airplanes Trust: \$nil), which included \$31 million in respect of the aircraft sold by subsidiaries of Airplanes Limited to a subsidiary of Airplanes Trust.

## **NET INTEREST EXPENSE**

Net interest expense was \$467 million (Airplanes Limited: \$446 million; Airplanes Trust: \$21 million), of which \$194 million related to interest on the class A to D notes and interest rate hedging payments and \$273 million related to interest on the class E notes, in the year ended March 31, 2014 compared to \$376 million (Airplanes Limited: \$360 million; Airplanes Trust: \$16 million), of which \$177 million related to interest on the class A to D notes and interest rate hedging payments and \$199 million related to interest on the class E notes, in the year ended March 31, 2013. The increase in the amount of interest charged was primarily due to an increase in the interest on accrued and unpaid class E note interest of \$74 million, higher interest on accrued but unpaid step up interest on the subclass A-8 notes and higher interest on accrued but unpaid interest on the class B, C and D notes.

The weighted average interest rate on the class A to D notes (taking into account the interest rate caps 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, 2014 was 5.42% and the average debt in respect of the class A to D notes outstanding during the period was \$1,418 million. The remaining Airplanes Limited class E notes together with the accrued but unpaid class E note interest thereon, accrue interest at a rate of 20% per annum (as adjusted (by reference to the US consumer price index, effective March 28, 1996) to the level of 34.69% at March 31, 2014).

The weighted average interest rate on the class A to D notes (on the same basis as above) during the year to March 31, 2013 was 5.21% and the average debt in respect of the class A to D notes outstanding during the period was \$1,485 million.

The difference for the year ended March 31, 2014 between Airplanes Group's net interest expense of \$467 million (Airplanes Limited: \$446 million; Airplanes Trust: \$21 million) and cash paid in respect of interest of \$3 million (Airplanes Limited: \$3 million; Airplanes Trust: \$nil) is substantially accounted for by the fact that interest on the remaining Airplanes Limited 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, 2014, Airplanes Group earned interest income (including lessee default interest) of less than \$1

million (Airplanes Limited: less than \$1 million; Airplanes Trust: \$nil), compared with \$1 million in the year ended March 31, 2013 (Airplanes Limited: \$1 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. There was no change (Airplanes Limited: \$nil; Airplanes Trust: \$nil) in the provisions in respect of bad and doubtful debts in the year ended March 31, 2014 compared with an increase of \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$nil) for the year ended March 31, 2013.

#### **OTHER LEASE COSTS**

Other lease costs, comprising mainly aircraft related technical expenditure associated with remarketing the aircraft and maintenance costs incurred by certain of our lessees, in the year ended March 31, 2014 amounted to a positive movement of \$(11) million (Airplanes Limited: \$(12) million; Airplanes Trust: \$1 million), compared with other lease costs of \$17 million (Airplanes Limited: \$15 million; Airplanes Trust: \$2 million) in the year ended March 31, 2013.

The reduction in other lease costs in the year ended March 31, 2014 primarily relates to the decrease in the provision (from \$19 million to \$6 million) in respect of ongoing litigation with a former lessee, Transbrasil, as described in more detail in "3. Legal Proceedings". While Airplanes Holdings, based on the advice of Brazilian legal counsel retained by GECAS as Servicer to represent Airplanes Holdings (and certain other defendants) in this litigation, believes it has strong defences against the substantive issues raised in the proceedings brought by Transbrasil, there can be no certainty as to the final outcome of this litigation, the ultimate resolution of which is expected to take a considerable length of time.

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

Selling, general and administrative expenses for the year ended March 31, 2014 amounted to \$16 million (Airplanes Limited: \$13 million; Airplanes Trust: \$3 million) as compared to the year ended March 31, 2013 of \$26 million (Airplanes Limited: \$25 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, 2014 include \$8 million (Airplanes Limited: \$6 million; Airplanes Trust: \$2 million) related to servicing fees, as compared with \$12 million (Airplanes Limited: \$11 million; Airplanes Trust: \$1 million) in the year ended March 31, 2013.

A further significant element of Airplanes Group's actual selling, general and administrative expenses reported in the year ended March 31, 2014 was \$5 million (Airplanes Limited: \$4 million; Airplanes Trust: \$1 million) in respect of administrative agency and cash management fees payable to subsidiaries of AerCap Ireland Limited, as compared with the charge of \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$nil) for the year ended March 31, 2013.

#### **OPERATING LOSS**

The operating loss on continuing operations for the year ended March 31, 2014 was \$439 million (Airplanes Limited: \$414 million; Airplanes Trust: \$25 million), compared with an operating loss on continuing operations of \$354 million (Airplanes Limited: \$343 million; Airplanes Trust: \$11 million) for the year ended March 31, 2013. Airplanes Limited and Airplanes Trust are expected to continue to report substantial losses in the future.

## **TAXES**

There was no tax charge in the year ended March 31, 2014, compared with a tax credit of \$3 million (Airplanes Limited: \$3 million credit; Airplanes Trust: \$nil million) for the year ended March 31, 2013. The tax credit in Airplanes Limited in the year ended March 31, 2013 of \$3 million comprises a tax credit relating to the release of historic foreign withholding tax provisions and a tax charge relating to US tax liabilities (comprising US withholding tax and US gross transportation tax) arising from the leasing of aircraft to airlines which operate those aircraft in US territory. No charge to Irish corporation tax arose for either period.

## **NET LOSS**

The net loss after taxation on continuing operations for the year ended March 31, 2014 was \$439 million (Airplanes Limited: \$414 million; Airplanes Trust: \$25 million), compared with a net loss after taxation on continuing operations for the year ended March 31, 2013 of \$351 million (Airplanes Limited: \$340 million; Airplanes Trust: \$11 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 “6I. 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, 2015 amounted to \$155 million (Airplanes Limited: \$155 million; Airplanes Trust: \$nil), compared to cash balances at March 31, 2014 of \$145 million (Airplanes Limited: \$145 million; Airplanes Trust: \$nil).

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 (\$2.9 million at March 31, 2015) and (2) a maintenance reserve amount. See “6L. Management’s Discussion and Analysis of Financial Condition and Results of Operations—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 originally 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 portion of the maintenance reserve amount and the security deposit reserve amount at the “Second Collection Account Top-up” level in the priority of payments, and we have only been able to retain cash at the “First Collection Account Top-up” level in the priority of payments. As discussed in more detail under “1B. Introduction—Overview of Current Financial Condition” the Board determined on June 28, 2012 that it was necessary to increase the level of the maintenance reserve amount for the purpose of the “First Collection Account Top-up” from \$45 million to \$110 million with effect from the July 16, 2012 payment date. On October 8, 2013, the Board determined that it was necessary to further increase the level of the maintenance reserve amount for the purpose of the “First Collection Account Top-up” from \$110 million to \$140 million with effect from the October 15, 2013 payment date. This resulted in the suspension of payments of subclass A-9 minimum principal (but not subclass A-9 interest), which suspension continued until the amount of cash retained in the collection account by way of maintenance reserve amount reached \$140 million, which occurred on the December 15, 2014 payment date.



## **F. SURRENDER OF CLASS E NOTES**

On November 15, 2010 GE Capital, as holder of the class E notes issued by Airplanes Trust in the principal amount of \$52,668,807, notified Airplanes Trust that, effective on that date, GE Capital discharged and released Airplanes Trust from any and all payment and other obligations under such class E notes with the intent and for the purpose of discharging the indebtedness and other contractual obligations that such class E notes represent and cancelling those class E notes. On the basis of this notice and other considerations, the class E notes of Airplanes Trust in the principal amount of \$52,668,807 and the accrued interest thereon amounting to \$1,644,637,626 were released in the Statement of Operations for the year ended March 31, 2011. The interest expense was originally recorded in Net Interest Expense in the Statement of Operations, however, due to the unique and infrequent nature of this transaction, the principal and interest released were included as an Extraordinary Item in the Statement of Operations. This transaction also resulted in the reversal of a \$18 million deferred tax liability during the year ended March 31, 2011.

On October 21, 2011 GE Capital, as holder of class E notes issued by Airplanes Limited in the principal amount of \$526,314,418, notified Airplanes Limited that, effective on that date, GE Capital discharged and released Airplanes Limited from any and all payment and other obligations under such class E notes with the intent and for the purpose of discharging the indebtedness and other contractual obligations that such class E notes represent and cancelling those class E notes. On the basis of this notice and other considerations, the class E notes of Airplanes Limited in the principal amount of \$526,314,418 and the accrued interest thereon amounting to \$21,524,963,408 were released in the Statement of Operations for the year ended March 31, 2012. The interest expense was originally recorded in Net Interest Expense in the Statement of Operations, however, due to the unique and infrequent nature of this transaction, the principal and interest released were included as an Extraordinary Item in the Statement of Operations.

## **G. 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 cap providers to perform under the terms of their 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, 2015 amounted to \$19 million (Airplanes Limited: \$18 million; Airplanes Trust: \$1 million) compared with \$55 million (Airplanes Limited: \$52 million; Airplanes Trust: \$3 million) in the year ended March 31, 2014. This includes cash paid in respect of interest of \$3 million in the year ended March 31, 2015 (Airplanes Limited: \$3 million; Airplanes Trust: \$nil) compared with \$3 million in the year ended March 31, 2014 (Airplanes Limited: \$3 million; Airplanes Trust: \$nil). The decrease is primarily due to decreased lease revenues and an increase in accrued interest expense.

In the year ended March 31, 2015, Airplanes Group also received net sales proceeds of \$13 million (Airplanes Limited: \$11 million; Airplanes Trust: \$2 million) compared to \$27 million (Airplanes Limited: \$26 million; Airplanes Trust: \$1 million) in the year ended March 31, 2014. There was a decrease in aircraft sales proceeds as a result of the value of aircraft, airframes and engines sold in the year ended March 31, 2015 as compared to the year ended March 31, 2014.

## **H. FINANCING ACTIVITIES**

Cashflows from financing activities in the year ended March 31, 2015 reflect the repayment of \$9 million of principal of the subclass A-9 notes (Airplanes Limited: \$8 million; Airplanes Trust: \$1 million), compared with \$38 million of the subclass A-9 notes repaid by Airplanes Group (Airplanes Limited: \$35 million; Airplanes Trust: \$3 million) in the year ended March 31, 2014.

There was a decrease in the amount of cash paid as interest during the year ended March 31, 2015 of less than \$1 million, as a result of a slightly lower average interest rate combined with lower average debt.

## I. INDEBTEDNESS

Airplanes Group's outstanding indebtedness consisted of class A, B, C, D and E notes in the amount of \$1,415 million (Airplanes Limited: \$1,292 million; Airplanes Trust: \$123 million) at March 31, 2015 and \$1,425 million (Airplanes Limited: \$1,301 million; Airplanes Trust: \$124 million) at March 31, 2014. Airplanes Group had \$12 million of class E notes outstanding at March 31, 2015 and at March 31, 2014. The terms of each class or subclass of notes, including the outstanding principal amount as of March 15, 2015 and estimated fair market value as of March 31, 2015, are as follows:

Class or Subclass of Certificates and Notes	Outstanding Principal Amount as of March 15, 2015	Annual Interest Rate (Payable Monthly)	Final Maturity Date	Estimated Fair Market Value as of March 31, 2015(3)
	(\$ Millions)			(\$ Millions)
Subclass A-8(1) .....	—	—	—	—
Subclass A-9 .....	431.5	LIBOR+0.550%	March 15, 2019	168.3
Class B .....	226.8	LIBOR+0.750%	March 15, 2019	—
Class C .....	349.8	8.150%	March 15, 2019	—
Class D .....	395.1	10.875%	March 15, 2019	—
Class E (notes only)(2) .....	12.2	20.000%	March 15, 2019	—

- (1) The principal of the subclass A-8 notes and certificates was repaid in full on November 15, 2010. Although accrued and unpaid step-up interest on such notes and certificates remains outstanding and interest continues to accrue on such unpaid step-up interest, these amounts are payable at level (xv) in the priority of payments and we do not have sufficient cashflows to pay them.
- (2) The annual interest rate on the class E notes is adjusted by reference to changes in the US Consumer Price Index since March 28, 1996. As of March 31, 2015, the annual interest rate on the class E notes was 34.16%. 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, 2015, the accrued and unpaid class E minimum interest amount and supplemental interest amount was \$1,419 million.
- (3) Although the estimated fair values of the class A to D notes outstanding have been determined by reference to prices as at March 31, 2015 provided by an independent third party based on information available to that third party at that date, these estimated 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. The actual amount that may be returned to noteholders is likely to be materially different.

## J. NEW ACCOUNTING PRONOUNCEMENTS

There were no new accounting pronouncements relevant to our consolidated financial statements in the year ended March 31, 2015.

## K. COMPARISON OF ACTUAL CASHFLOWS VERSUS THE 2001 BASE CASE FOR THE FOUR MONTH PERIOD FROM JANUARY 16, 2015 TO MAY 15, 2015 AND FOR THE PERIOD FROM MARCH 10, 2001 TO MAY 15, 2015 (170 MONTHS)

The discussion and analysis which follows is 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-33 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 12, 2015, March 12, 2015, April 13, 2015 and

May 13, 2015. The financial data in these reports includes cash receipts from January 10, 2015 (first day of the Calculation Period for the February 2015 report) to May 11, 2015 (last day of the Calculation Period for the May 2015 report). Page 84 presents the cumulative cashflow information from March 2001 to the May 2015 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, worsened significantly in the years immediately following the 9/11 terrorist attacks in the US, improved between 2005 and 2007, but deteriorated again in 2008 and 2009 and whilst industry conditions overall have improved since 2009, it is unlikely that Airplanes Group will benefit from this as discussed 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 81.**

## **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 \$10.1 million in Total Cash Collections, \$57.3 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 pages 79-80).

### **[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, the amount of revenue loss attributed to Renegotiated Leases, was \$nil, which is in line with the 2001 Base Case.

For details of current lessee restructurings please refer to “2F. The Lessees” above.

### **[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 \$0.6 million in the Four Month Period, as compared to \$nil assumed in the 2001 Base Case. Although between 2005 and 2007 lease rates for some of the aircraft types in our portfolio had improved over the rates we obtained for these aircraft in the years following the 9/11 terrorist attacks in the US, the rates we have been able to achieve on new leases have been substantially lower than lease rates 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, 14 MD83 aircraft, one B747-200SF aircraft, 17 B737-400 aircraft, two B737-400 airframes, three B737-400 engines, five B737-300 aircraft, one DC8-71F aircraft, three DHC8-300 aircraft, 16 F-100 aircraft, one ATR42-300

aircraft, five A320-200 aircraft, three B767-300ER aircraft, one B767-200ER aircraft, 11 B737-500 aircraft and three B757-200 aircraft have been sold prior to their assumed sale date in the 2001 Base Case, resulting in a negative variance of \$55.4 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 \$8.6 million, which was \$56.0 million less than assumed in the 2001 Base Case. The difference is due to losses from Renegotiated Leases, 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 or Deferred Arrears. There was a net decrease of \$0.4 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 \$1.4 million (2.1% of Lease Rentals) compared with the \$3.9 million outflow assumed in the 2001 Base Case, a positive variance of \$2.5 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, \$0.6 million lower than the 2001 Base Case assumption of \$0.6 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, payments received in accordance with these restructurings were \$nil which is in line with the 2001 Base Case assumption.

#### **[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 one aircraft AOG during the Four Month Period. The 2001 Base Case Lease Rentals loss attributed to AOG in the Four Month Period was \$1.4 million (2.1% of Lease Rentals), as compared to \$2.8 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, Other Leasing Income was \$nil compared with \$nil assumed in 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 \$0.5 million (0.8% of Lease Rentals) 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 \$7.6 million, \$53.1 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 during the Four Month Period, \$140 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 less than \$0.1 million, \$2.1 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 \$140 million to the cash liquidity reserve amount in the Four Month Period (refer to item [29A] below). The lower amount of interest received as compared to the 2001 Base Case assumed amount is also as a result of the average actual reinvestment rate for the Four Month Period being 0.03% compared to the 5.2% assumed in the 2001 Base Case.

#### **[16] AIRCRAFT SALES**

There were no aircraft sales proceeds in the Four Month Period. One DHC8-300 aircraft and one B737-400 aircraft were assumed to be sold in the Four Month Period for \$4.6 million. 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, net maintenance cashflows were \$1.9 million positive (comprising maintenance reserve receipts totaling \$1.9 million and maintenance reserve reimbursements totaling \$nil). 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.

#### **[18] OTHER RECEIPTS**

“*Other Receipts*” were \$0.6 million in the Four Month Period, as compared with the 2001 Base Case assumption of \$nil. This is primarily due to proceeds received from an ongoing legal claim against a former lessee.

#### **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 \$7.8 million compared to \$11.7 million assumed in the 2001 Base Case, a positive variance of \$3.9 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 redelivery 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 \$1.2 million (or 1.9% of Lease Rentals) compared to \$3.2 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 timing of certain technical costs and a reduction in the re-leasing activity.

“*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 \$2.6 million, \$2.7 million lower than that assumed in the 2001 Base Case, primarily due to aircraft sales.

Aircraft Servicer Fees consist of:

	<u>\$M</u>
Retainer Fee .....	1.1
Minimum Incentive Fee .....	1.5
Core Cashflow/Sales Incentive Fee.....	<u>0.0</u>
Total Aircraft Servicer Fee.....	<u>2.6</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/controlling trustees. In the Four Month Period, Other Servicer Fees and Other Overheads were \$4.0 million, which was \$0.8 million greater than the assumed expense of \$3.2 million in the 2001 Base Case, primarily as a result of the payment of \$1.0 million in respect of D&O insurance and the payment of \$0.3 million to the Servicer by way of reimbursement of legal fees and expenses incurred by the Servicer on behalf of Airplanes Group in relation to the Transbrasil litigation.

**[23A] OTHER SG&A EXPENSES**

“Other SG&A Expenses” relate to refinancing expenses and costs relating to the consent solicitation process. In the Four Month Period other SG&A Expenses were \$nil which is consistent with the 2001 Base Case assumption.

**[29A] SHORTFALL IN LIQUIDITY RESERVE**

We are required under the indentures to maintain a liquidity reserve by way of a cash balance in the collection account, subject to available cashflows, in an amount equal to the sum of:

- the maintenance reserve amount; and
- a security deposit reserve amount.

Under the priority of payments applicable to Airplanes Group, this cash balance is retained (below point (i) retention of cash for anticipated expenses and point (ii) class A interest payments and hedging payments) at point (iii) “First Collection Account Top-up” (maintenance reserve amount of \$140 million) and at point (x) “Second Collection Account Top-up” (maintenance reserve amount of \$20 million plus security deposit reserve amount). As described earlier in this Annual Report, the level of the maintenance reserve amount for the purpose of the “First Collection Account Top-up” was increased from \$110 million to \$140 million with effect from October 8, 2013.

“*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”. For a detailed discussion in relation to the change with effect from October 8, 2013 in respect of the liquidity requirement at the “First Collection Account Top-up” see “1B. Introduction – Overview of Current Financial Condition” above. On the May 15, 2015 payment date, there was a shortfall in the liquidity reserve amount of \$20.4 million which is similar to the shortfall on the January 15, 2015 payment date. 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 \$1.0 million, which was \$11.4 million lower than assumed under the 2001 Base Case.

Interest payments on the floating rate class A notes amounted to \$1.0 million, which was in line with the payments assumed under the 2001 Base Case, reflecting a lower level of average interest rates on the class A notes than assumed in the 2001 Base Case, but a higher principal balance outstanding on these notes than assumed in the 2001 Base Case. The 2001 Base Case assumed LIBOR to be 5.2% whereas the average monthly LIBOR in the Four Month Period was 0.2%. 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 \$0.2 million and \$11.2 million, respectively on the class B 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 \$75.0 million, \$540.5 million and \$977.0 million, respectively, on the class B, C and D notes following the May 15, 2015 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). 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 and this is expected to continue to be the case. To the extent that step-up interest is not paid, it continues to accrue interest in accordance with the terms of the subclass A-8 notes. The principal of the subclass A-8 notes was repaid in full on November 15, 2010 although accrued and unpaid step-up interest (and interest thereon) on such notes remains outstanding. Total step-up interest (including interest accrued on unpaid step-up interest) accrued and unpaid on the subclass A-8 notes at May 15, 2015 was \$20.2 million.

### **[31] SWAP AND CAP CASHFLOWS**

Airplanes Group’s net swap and cap cashflows during the Four Month Period amounted to \$nil which is in line with the 2001 Base Case.

### **[33] PRINCIPAL PAYMENTS**

In the one hundred and seventy month period from March 10, 2001 to May 15, 2015, total principal payments amounted to \$1,516.2 million (comprising \$1,464.7 million on the class A notes and \$51.5 million on the class B notes), \$1,056.5 million less than assumed in the 2001 Base Case. The breakdown of the \$1,056.5 million negative variance is set out on page 83. In the Four Month Period, total principal payments amounted to \$4 million which

was \$39.3 million less than assumed in the 2001 Base Case. The breakdown of the \$39.3 million negative variance is set out on page 82. Principal payments were suspended on October 15, 2013 as a result of the shortfall in the cash retained in the Collection Account following the increase in the level of the maintenance reserve amount for the purpose of the “First Collection Account Top-up” with effect from October 8, 2013 (refer to item [29A] above). Payment of Class A minimum principal resumed on December 15, 2014 following the retention of additional cash in the Collection Account to eliminate such shortfall.

Applying the declining value assumptions in the 1996 Base Case to the original March 1996 portfolio appraisals and adjusting for aircraft sales, the total appraised value of the aircraft portfolio was assumed to be \$62.5 million at May 15, 2015. Our portfolio is appraised annually and the most recent appraisal was obtained on January 31, 2015 and valued the current portfolio at \$73.4 million. Applying the declining value assumptions to this appraisal, the total appraised value was \$54.5 million at May 15, 2015.

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 one hundred and seventy 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 portfolio 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 one hundred and seventy month period since the 2001 refinancing. Total deferrals of class C and class D scheduled principal amounts amounted to \$349.8 million and \$395.1 million respectively, as of May 15, 2015.

Based on the most recent annual appraisal dated January 31, 2015, the decline in appraised values in the year to January 31, 2015 was approximately \$2 million less than the decline assumed in the 1996 Base Case. The decline in appraised values in the year to January 31, 2015 resulted in a decrease in the arrears of class A principal adjustment amount at the February 17, 2015 payment date of \$2.8 million. The class A principal adjustment arrears were \$424.0 million as at May 15, 2015.

To the extent that we have sufficient cashflows, 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.

Since the January 31, 2007 appraisals the outstanding principal balance of the class A notes has exceeded the adjusted value of the portfolio (determined by reference to the annual appraised value). As a result the methodology for calculation of class A minimum principal payments 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. We believe that the class A outstanding principal balance will continue to exceed the adjusted portfolio value and therefore the corresponding method of calculation of class A minimum principal will continue to be applicable. Actual payments to class A noteholders, however, are dependent on available cashflows and are not affected by the method of calculation of class A minimum principal payments or the annual aircraft appraisals. As noted above, payments of class A minimum principal were suspended with effect from the October 15, 2013 payment date, but resumed on the December 15, 2014 payment date.



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 \$225.1 million following the May 15, 2015 payment date.

The appraised values are “base values” ascertained on the basis of 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, manufacturers ceasing production or lease values for aircraft declining more rapidly than previous predictions. In the case of AISI, “base value salvage” has been used for certain of the aircraft, given the significant proportion of the value of those aircraft now attributable solely to the engines. “Base value salvage” represents the base value of the engines with a run out airframe. Adjustments are then made to that value to account for the maintenance status of the engines but not the airframe. As a theoretical value, the appraised base value is not indicative of market value and thus there is no guarantee that we would obtain the appraised base value upon sale of any aircraft. We believe that the current market value of the majority of our aircraft is significantly less than the appraised base 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 base values further. However, 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 base 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 the current ratings of the certificates and the decision taken on October 8, 2013 to increase the maintenance reserve amount for the purpose of the “First Collection Account Top-up” from \$110 million to \$140 million, 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 capitalized 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 payments, rental guarantees and late payments charges
[12]	— Repossession	Legal and technical costs incurred in repossessing aircraft
[13] $\Sigma$ [8]...[12]	Sub-total	
[14]	Net Lease Rental	Contracted Lease Rentals less Movement in Current Arrears Balance and Net Stress Related Costs
[5]+[6]+[13]		
[15]	Interest Earned	Interest earned on monthly cash balances
[16]	Aircraft Sales	Proceeds from the sale of aircraft and proceeds from insurance policies, net of fees and expenses
[17]	Net Maintenance	Maintenance Revenue Reserve received less reimbursements to lessees
[18]	Other Receipts	Receipts from GE Capital under the Tax Sharing Agreement, collateral release and cash released from expired guarantees
[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 and 2010 consent solicitations for Indenture amendments
[24]	Sub-total	
[22]+[23]+[23A]		
[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/(increase) in accrued expense amounts
[29]	(Increase)/Reduction in Liquidity	Reduction of the miscellaneous reserve amount from \$40m to \$nil in

Note	Report Line Name	Description
[29A]	Reserve Shortfall in Liquidity Reserve	April 2001 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 notes
[31]	Swap / Cap Cashflows	Net swap and cap payments (paid)/received
[32] $\Sigma$	Total	
[26]...[31]		
[33]	PRINCIPAL PAYMENTS	Principal payments on notes

**AIRPLANES GROUP CASHFLOW PERFORMANCE FOR THE PERIOD FROM  
JANUARY 16, 2015 TO MAY 15, 2015 (4 MONTHS)**

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

				% of Lease Rentals under the 2001 Base Case						
				Actual	2001 Base Case	Variance	Actual	2001 Base Case	Variance	
				(\$ Millions)				%	%	%
<b>CASH COLLECTIONS</b>										
1		Lease Rentals	64.6	64.6	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.....	(0.6)	0.0	(0.6)	(1.0%)	0.0%	(1.0%)		
4		— Lease Rentals—Aircraft Sales .....	(55.4)	0.0	(55.4)	(85.8%)	0.0%	(85.8%)		
5	1-4	<b>Contracted Lease Rentals</b> .....	8.6	64.6	(56.0)	13.2%	100.0%	(86.8%)		
6		Movement in Current Arrears Balance .....	0.4	0.0	0.4	0.7%	0.0%	0.7%		
7		less Net Stress Related Costs								
8		— Bad Debts.....	0.0	(0.6)	0.6	0.0%	(1.0%)	1.0%		
9		— Deferred Arrears Balance.....	0.0	0.0	0.0	0.0%	0.0%	0.0%		
10		— AOG.....	(1.4)	(2.8)	1.4	(2.1%)	(4.2%)	2.1%		
11		— Other Leasing Income.....	0.0	0.0	0.0	0.0%	0.0%	0.0%		
12		— Repossession.....	0.0	(0.5)	0.5	0.0%	(0.8%)	0.8%		
13	8-12	Sub-total.....	(1.4)	(3.9)	2.5	(2.1%)	(6.0%)	3.9%		
14	5+6+13	<b>Net Lease Rental</b> .....	7.6	60.7	(53.1)	11.8%	94.0%	(82.2%)		
15		Interest Earned .....	0.0	2.1	(2.1)	0.0%	3.3%	(3.3%)		
16		Aircraft Sales .....	0.0	4.6	(4.6)	0.0%	7.1%	(7.1%)		
17		Net Maintenance .....	1.9	0.0	1.9	3.0%	0.0%	3.0%		
18		Other Receipts .....	0.6	0.0	0.6	1.0%	0.0%	1.0%		
19	14-18	<b>Total Cash Collections</b> .....	10.1	67.4	(57.3)	15.8%	104.4%	(88.6%)		
<b>CASH EXPENSES</b>										
Aircraft Operating Expenses										
20		— Re-leasing and other overheads .....	(1.2)	(3.2)	2.0	(1.9%)	(5.0%)	3.1%		
SG&A Expenses										
21		Aircraft Servicer Fees								
		— Retainer Fee .....	(1.1)	(4.8)	3.7	(1.7%)	(7.4%)	5.7%		
		— Minimum Incentive Fee.....	(1.5)	(0.5)	(1.0)	(2.3%)	(0.8%)	(1.5%)		
		— Core Cashflow/Sales Incentive Fee.....	0.0	0.0	0.0	0.0%	0.0%	0.0%		
22	21	Sub-total.....	(2.6)	(5.3)	2.7	(4.0%)	(8.2%)	4.2%		
23		Other Servicer Fees and Other Overheads .....	(4.0)	(3.2)	(0.8)	(6.2%)	(4.9%)	(1.4%)		
23A		Other SG&A Expenses .....	0.0	0.0	0.0	0.0%	0.0%	0.0%		
24	22+23+23 A	Sub-total.....	(6.6)	(8.5)	1.9	(10.2%)	(13.1%)	2.9%		
25	24+20	<b>Total Cash Expenses</b> .....	(7.8)	(11.7)	3.9	(12.1%)	(18.1%)	6.0%		
<b>NET CASH COLLECTIONS</b>										
26	19	Total Cash Collections.....	10.1	67.4	(57.3)	15.8%	104.4%	(88.6%)		
27	25	Total Cash Expenses .....	(7.8)	(11.7)	3.9	(12.1%)	(18.1%)	6.0%		
28		Movement in Expense Account .....	2.7	0.0	2.7	4.2%	0.0%	4.2%		
29		(Increase)/Reduction in Liquidity Reserve .....	0.0	0.0	0.0	0.0%	0.0%	0.0%		
29A		Shortfall in Liquidity Reserve.....	0.0	0.0	0.0	0.0%	0.0%	0.0%		
30		Interest Payments.....	(1.0)	(12.4)	11.4	(1.6%)	(19.3%)	17.7%		
31		Swap/Cap Cashflows .....	0.0	0.0	0.0	0.0%	0.0%	0.0%		
32	26-31	<b>TOTAL</b> .....	4.0	43.3	(39.3)	6.3%	67.0%	(60.7%)		
33		<b>PRINCIPAL PAYMENTS</b>								
		Class A.....	4.0	16.2	(12.2)	6.3%	25.1%	(18.8%)		
		Class B.....	0.0	3.4	(3.4)	0.0%	5.3%	(5.3%)		

	Actual	2001 Base Case	Variance	% of Lease Rentals under the 2001 Base Case		
				Actual	2001 Base Case	Variance
		(\$ Millions)		%	%	%
Class C.....	0.0	0.0	0.0	0.0%	0.0%	0.0%
Class D.....	0.0	23.7	(23.7)	0.0%	36.6%	(36.6%)
<b>Total</b> .....	<b>4.0</b>	<b>43.3</b>	<b>(39.3)</b>	<b>6.3%</b>	<b>67.0%</b>	<b>(60.7%)</b>

	<b>Actual</b>	<b>2001 Base Case</b>	<b>Variance</b>
	(\$ Millions)		
<b>NOTE BALANCES AT MAY 15, 2015</b>			
Subclass A-8	0.0	40.7	40.7
Subclass A-9	430.7	0.0	(430.7)
Class B	226.8	10.5	(216.3)
Class C	349.8	0.0	(349.8)
Class D	395.1	294.8	(100.3)
	<u>1,402.4</u>	<u>346.0</u>	<u>(1,056.4)</u>

**AIRPLANES GROUP CASHFLOW PERFORMANCE FOR THE PERIOD FROM  
MARCH 10, 2001 TO MAY 15, 2015 (170 MONTHS)**

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

					% of Lease Rentals under the 2001 Base Case			
		Actual	2001 Base Case	Variance	Actual	2001 Base Case	Variance	
		(\$ Millions)			%	%	%	
<b>CASH COLLECTIONS</b>								
1		Lease Rentals.....	4,922.9	4,922.9	0.0	100.0%	100.0%	0.0%
2		— Renegotiated Leases .....	(88.7)	0.0	(88.7)	(1.8%)	0.0%	(1.8%)
3		— Rental Resets .....	(1,118.7)	0.0	(1,118.7)	(22.7%)	0.0%	(22.7%)
4		— Lease Rentals—Aircraft Sales .....	(1,212.7)	0.0	(1,212.7)	(24.6%)	0.0%	(24.6%)
5	1-4	<b>Contracted Lease Rentals .....</b>	<b>2,502.8</b>	<b>4,922.9</b>	<b>(2,420.1)</b>	<b>50.5%</b>	<b>100.0%</b>	<b>(49.1%)</b>
6		Movement in Current Arrears Balance .....	11.7	0.0	11.7	0.2%	0.0%	0.2%
7		less Net Stress Related Costs						
8		— Bad Debts .....	(15.2)	(49.3)	34.1	(0.3%)	(1.0%)	0.7%
9		— Deferred Arrears Balance .....	25.0	3.1	21.9	0.5%	0.1%	0.4%
10		— AOG .....	(280.7)	(206.9)	(73.8)	(5.7%)	(4.2%)	(1.5%)
11		— Other Leasing Income.....	63.4	0.0	63.4	1.3%	0.0%	1.3%
12		— Repossession.....	(4.1)	(39.4)	35.3	(0.1%)	(0.8%)	0.7%
13	8-12	Sub-total .....	(211.6)	(292.5)	80.9	(4.3%)	(5.9%)	1.6%
14	5+6+13	<b>Net Lease Rental .....</b>	<b>2,302.9</b>	<b>4,630.4</b>	<b>(2,327.5)</b>	<b>46.8%</b>	<b>94.1%</b>	<b>(47.3%)</b>
15		Interest Earned.....	24.7	95.6	(70.9)	0.5%	1.9%	(1.4%)
16		Aircraft Sales .....	328.8	216.8	112.0	6.7%	4.4%	2.3%
17		Net Maintenance.....	313.2	0.0	313.2	6.4%	0.0%	6.4%
18		Other Receipts .....	28.7	0.0	28.7	0.6%	0.0%	0.6%
19	14-18	<b>Total Cash Collections.....</b>	<b>2,998.3</b>	<b>4,942.8</b>	<b>(1,944.5)</b>	<b>61.0%</b>	<b>100.4%</b>	<b>(39.4%)</b>
<b>CASH EXPENSES</b>								
Aircraft Operating Expenses								
20		— Re-leasing and other overheads.....	(235.5)	(246.3)	10.8	(4.8%)	(5.0%)	0.2%
SG&A Expenses								
21		Aircraft Servicer Fees						
		— Retainer Fee.....	(236.1)	(284.0)	47.9	(4.8%)	(5.8%)	1.0%
		— Minimum Incentive Fee.....	(22.5)	(21.3)	(1.2)	(0.5%)	(0.4%)	(0.1%)
		— Core Cashflow/Sales Incentive Fee .....	(0.2)	0.0	(0.2)	0.0%	0.0%	0.0%
22	21	Sub-total .....	(258.8)	(305.3)	46.5	(5.3%)	(6.2%)	0.9%
23		Other Servicer Fees and Other Overheads.....	(144.4)	(141.2)	(3.2)	(2.9%)	(2.9%)	0.0%
23A		Other SG&A Expenses .....	(3.1)	(4.7)	1.6	(0.1%)	(0.1%)	0.0%
24	22+23+23A	Sub-total .....	(406.3)	(451.2)	44.9	(8.3%)	(9.2%)	0.9%
25	24+20	<b>Total Cash Expenses.....</b>	<b>(641.8)</b>	<b>(697.5)</b>	<b>55.7</b>	<b>(13.1%)</b>	<b>(14.2%)</b>	<b>1.1%</b>
<b>NET CASH COLLECTIONS</b>								
26	19	Total Cash Collections.....	2,998.3	4,942.8	(1,944.5)	61.0%	100.4%	(39.4%)
27	25	Total Cash Expenses.....	(641.8)	(697.5)	55.7	(13.1%)	(14.2%)	1.1%
28		Movement in Expense Account .....	(2.8)	0.0	(2.8)	(0.1%)	0.0%	(0.1%)
29		(Increase)/Reduction in Liquidity Reserve .....	(40.0)	40.0	(80.0)	(0.8%)	0.8%	(1.6%)
29A		Shortfall in Liquidity Reserve .....	20.4	0.0	20.4	0.4%	0.0%	0.4%
30		Interest Payments.....	(620.0)	(1,684.4)	1,064.4	(12.6%)	(34.2%)	21.6%
31		Swap/Cap Cashflows .....	(197.9)	(28.2)	(169.7)	(4.0%)	(0.6%)	(3.4%)
32	26-31	<b>TOTAL .....</b>	<b>1,516.2</b>	<b>2,572.7</b>	<b>(1,056.5)</b>	<b>30.8%</b>	<b>52.2%</b>	<b>(21.4%)</b>

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				% of Lease Rentals under the 2001 Base Case		
	Actual	2001		Actual	2001	
		Base Case	Variance		Base Case	Variance
	(\$ Millions)			%	%	%
<b>PRINCIPAL PAYMENTS</b>						
Class A .....	1,464.7	1,854.8	(390.1)	29.8%	37.7%	(7.9%)
Class B.....	51.5	267.8	(216.3)	1.0%	5.4%	(4.4%)
Class C.....	0.0	349.8	(349.8)	0.0%	7.1%	(7.1%)
Class D .....	0.0	100.3	(100.3)	0.0%	2.0%	(2.0%)
<b>Total.....</b>	<b>1,516.2</b>	<b>2,572.7</b>	<b>(1,056.5)</b>	<b>30.8%</b>	<b>52.2%</b>	<b>(21.4%)</b>

**NOTE BALANCES AT MAY  
15, 2015**

Subclass A-8	0.0	40.7	40.7
Subclass A-9	430.7	0.0	(430.7)
Class B	226.8	10.5	(216.3)
Class C	349.8	0.0	(349.8)
Class D	395.1	294.8	(100.3)
	<u>1,402.4</u>	<u>346.0</u>	<u>(1,056.4)</u>

	Mar-01 Closing	Actual	2001 Base Case	
	(\$ Millions)	(\$ Millions)	(\$ Millions)	
<b>Net Cash Collections</b> .....		1,516.2	2,572.7	
Add Back Interest Payments and Swap/Cap Cashflows .....		817.9	1,712.6	
a Net Cash Collections (excl. interest payments and swap/cap cashflows).....		<u>2,334.1</u>	<u>4,285.3</u>	
b Swap/Cap Cashflows .....		197.9	28.2	
c Class A Interest.....		409.0	679.2	
d Class A Minimum Principal.....		1,209.8	0.0	
e Class B Interest .....		20.5	118.3	
f Class B Minimum Principal.....		51.5	267.8	
g Class C Interest .....		76.0	285.2	
h Class D Interest.....		114.6	601.8	
i Class A Principal Adjustment.....		254.8	1,854.7	
j Class C Scheduled Principal .....		0.0	349.8	
k Class D Scheduled Principal.....		0.0	100.3	
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 Principal.....		0.0	0.0	
p Class A Supplemental Principal.....		0.0	0.0	
<b>Total</b> .....		<u>2,334.1</u>	<u>4,285.3</u>	
[1] <b>Interest Coverage Ratio</b>				
Class A.....		3.8	6.1	= a/(b+c)
Class B.....		N/A	5.2	= a/(b+c+d+e)
Class C.....		N/A	3.1	= a/(b+c+d+e+f+g)
Class D.....		N/A	2.2	= a/(b+c+d+e+f+g+h)
[2] <b>Debt Coverage Ratio</b>				
Class A.....		N/A	6.1	= a/(b+c+d)
Class B.....		N/A	3.9	= 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)



	<b>Mar-01 Closing</b>	<b>Actual</b>	<b>2001 Base Case</b>
	(\$ Millions)	(\$ Millions)	(\$ Millions)
[3] <b>Loan to Value Ratios (in US dollars)</b>			
Adjusted Portfolio Value .....	3,108.6	54.5	329.4
Liquidity Reserve Amount of which			
— Cash .....	156.9	140.0	116.0
— Accrued Expenses.....	12.6	11.3	0.0
Subtotal.....	169.5	151.3	116.0
Less Lessee Security Deposits .....	36.9	2.7	36.0
Subtotal.....	132.6	148.6	80.0
[4] <b>Total Asset Value</b> .....	3,241.2	203.1	409.4

Note Balances as at:	March 01 Closing March 15, 2001		Actual May 15, 2015		2001 Base Case May 15, 2015	
	(\$ millions)	(% of [4])	(\$ millions)	(% of [4])	(\$ millions)	(% of [4])
Class A.....	1,895.4	58.5%	430.7	212.1%	40.7	9.9%
Class B.....	278.3	67.1%	226.8	323.7%	10.5	12.5%
Class C.....	349.8	77.9%	349.8	496.0%	0.0	12.5%
Class D.....	395.1	90.0%	395.1	690.5%	294.8	84.5%
	2,918.6		1,402.4		346.0	

- [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 adjusted portfolio value plus liquidity reserve amount minus lessee security deposits.

## L. 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 Deutsche Bank Trust Company Americas. Such accounts are permitted under the terms of the indentures to be maintained at Deutsche Bank Trust Company Americas so long as:

- Deutsche Bank Trust Company Americas has a long-term unsecured debt rating of not less than A, or the equivalent, by the rating agencies; or
- Deutsche Bank Trust Company Americas has a certificate of deposit rating of A-1 by Standard & Poor’s, A-1 by Moody’s and a rating otherwise acceptable to Fitch; and

- the amount on deposit at any time in any accounts that are held with Deutsche Bank Trust Company Americas does not exceed 20% of the outstanding principal balance of the Airplanes Group notes for any period in excess of 30 days.

Such accounts are permitted under the terms of the indentures to be maintained with another bank having:

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

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. If there are available funds in accordance with the priority of payments on any payment date, the cash manager may 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 under the indentures to maintain a cash balance in the collection account in an amount equal to the sum of:

- the maintenance reserve amount (currently \$140 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 further described below), and
- a security deposit reserve amount (equal to approximately \$2.9 million as of March 31, 2015).

Because our cashflows have been insufficient to allocate any funds to the “Second Collection Account Top-up” since December 2003 we only maintained a cash balance, by way of maintenance reserve amount, of \$60 million up to February 15, 2011. Following the amendment of the indentures on November 30, 2010 as a result of our successful 2010 consent solicitation, the Board became entitled to reduce the required level of the liquidity reserve amount subject to prior notification thereof to the rating agencies. On February 15, 2011, following such notification to the rating agencies, the Board reduced the level of the maintenance reserve amount for the purposes of the “First Collection Account Top-up” from \$60 million to \$45 million. As discussed in more detail under “1B. Introduction—Overview of Current Financial Condition”, the Board determined on June 28, 2012 that it was necessary to increase the level of the maintenance reserve amount for the purposes of the “First Collection Account Top-up” from \$45 million to \$110 million with effect from the July 16, 2012 payment date and on October 8, 2013 the Board determined that it was necessary to further increase the level of the maintenance reserve amount for the purposes of the “First Collection Account Top-up” to \$140 million with effect from the October 15, 2013 payment date. Principal payments were suspended from this date before resuming on the December 15, 2014 payment date.

If the balance of funds on deposit in the collection account falls below 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 on deposit 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. If the balance of funds on deposit 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, (a) of 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) under our hedging 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. At March 31, 2015 none of our leases required funds to be segregated.

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 “6I. Management’s Discussion and Analysis of Financial Condition and 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 the notes and certificates do not correlate to the mix of fixed and floating rental receipts for different rental periods. This interest rate exposure can be managed through the use of interest rate caps, interest rate swaps and other derivative instruments.

Since we are no longer paying interest on the class B notes and certificates, we hedge our interest rate exposure only in respect of the subclass A-9 notes and certificates 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 subclass A-9 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.

We had historically entered into interest rate swaps in order to manage our interest rate exposure. Under the interest rate swaps, Airplanes Group would pay fixed amounts and receive floating amounts on a monthly basis. However, because of our financial condition, since early 2006 we have not been able to find eligible counterparties who are willing to enter into new swaps with us and as a result from late 2004, we began purchasing interest rate caps. Our last swap matured on April 15, 2010 and as a result from that date onwards, we have only held interest rate caps. Our last cap matured on December 15, 2014. 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 receives the excess, if any, of one month LIBOR, reset monthly on an actual/360 adjusted basis over the strike rate of the relevant cap. Any caps which we may purchase in the future would amortize having regard to a number of factors, including the expected pay down schedule of the subclass A-9 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.

As of March 31, 2015, Airplanes Group had no caps.

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 a short-term unsecured debt rating of at least A-1 from Standard & Poor's and a long-term unsecured debt rating of at least A2 from Moody's or otherwise as approved by the Board subject to prior written notification to 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 from late 2004 we began purchasing interest rate 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.

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. All of Airplanes Group's interest rate swaps which all matured in the year ended March 31, 2011 were designated as "cashflow" hedges.

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", 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 “held for trading” instruments, they are carried at fair value on the balance sheet and any changes in fair value are 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. Dantzc .....	70	Independent director	Independent controlling trustee
Joseph E. Francht, Jr.....	64	Independent director	Independent controlling trustee
William M. McCann.....	71	Chairman and independent director	Chairman and independent controlling trustee
Isla M. Smith .....	63	Independent director	Independent controlling trustee

Roy Dantzc is Chairman of ISG plc 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. Dantzc 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 British Gas Properties Limited until his retirement in 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 qualified as a chartered accountant in 1966. 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. He was deputy chairperson of the Irish Takeover Panel from 1997 to 2009 and was a director of the Central Bank of Ireland from 1993 to 1998. He is currently a non-executive director of Allianz plc and of a number of other companies.

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 seven years and Global Head of Tax from 2002. She left Norton Rose in 2004 to pursue a portfolio career. She was a non-executive director of Abbot Group plc and Rensburg Sheppards plc until each of those companies were taken private and at the end of March 2015 stepped down as Chair of Breast Cancer Campaign following its merger with the other major UK breast cancer research charity, Breakthrough Breast Cancer. She is currently a trustee of Walk the Walk, a grant making charity that funds breast cancer research and support for those suffering from cancer.

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's affiliate, GE Capital, acquired the Airplanes Limited and Airplanes Trust class E notes previously held by GPA Group plc (now known as AerCap Ireland Limited) and its subsidiaries. On November 15, 2010 GE Capital, as holder of the class E notes issued by Airplanes Trust in the principal amount of \$52,668,807, notified Airplanes Trust that, effective on that date, GE Capital discharged and released Airplanes Trust from any and all payment and other obligations under such class E notes with the intent and for the purpose of discharging the indebtedness and other contractual obligations that such class E notes represent and cancelling those class E notes. On October 21, 2011 GE Capital, as holder of class E notes issued by Airplanes Limited in the principal amount of \$526,314,418, notified Airplanes Limited that, effective on that date, GE Capital discharged and released Airplanes Limited from any and all payment and other obligations under such class E notes with the intent and for the purpose of discharging the indebtedness and other contractual obligations that such class E notes represent and cancelling those class E notes. As the holder of the majority in aggregate principal amount of the Airplanes Limited class E notes and Airplanes Trust class E notes, GE Capital had the right to appoint one director to the board of Airplanes Limited and one controlling trustee of Airplanes Trust, however such rights ceased upon the surrender of class E notes described above. For further details of the surrender of class E notes by GE Capital see "6F. Surrender of Class E Notes". GECAS holds 5% of the ordinary share capital of Airplanes Holdings, and GE Capital previously held an option to acquire the residual interest in Airplanes Trust from AerCap, Inc. On November 15, 2010 GE Capital as holder of such option notified AerCap, Inc., AerCap Ireland Limited and GECAS that GE Capital thereby waived, discharged and released all of its rights in, to or under such option and the residual

ownership interest in Airplanes Trust and any and all other rights, title and interest in, to and under the agreement pursuant to which the option was granted.

GECAS is a leading global player in commercial aircraft leasing and financing that offers an expansive portfolio of solutions to companies across the spectrum of the aviation industry, including lease management, marketing and technical support services to airlines, aircraft owners, lenders and investors and various third parties, including Airplanes Group. As of March 31, 2015, GECAS and its affiliates serviced a portfolio of over 1,570 owned and serviced aircraft on-lease to approximately 235 lessees in over 75 countries.

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 services for Airplanes Group include collecting rental payments, arranging and monitoring aircraft maintenance performed by others, limited technical inspection of aircraft, arranging and monitoring insurance, 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 had 24 offices worldwide with over 500 employees at March 31, 2015 including Shannon, Ireland where it had over 150 employees at March 31, 2015.

## **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 serviced by GECAS, GECAS will perform its services in good faith. If the two aircraft or the aircraft in our portfolio and the other aircraft serviced 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 serviced 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 servicing 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 described in this Annual 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;
- providing technical specifications for aircraft 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 input from 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, 2015, this fee was 0.681% 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 are a significant component of our overhead costs. In the year ended March 31, 2015, aircraft maintenance reserve expenses were \$4.5 million. Other expenses, including Servicer fees, outside professional advisory fees, insurance and other out-of-pocket expenses amounted to \$7.9 million for the same period.

## **TERM AND TERMINATION**

The servicing agreement originally provided that the term of the agreement would expire on the earlier of March 28, 2014 and the payment in full of all amounts outstanding under the notes. The servicing agreement was amended on June 7, 2013 to provide that the term of the agreement will expire on the earlier of December 31, 2017 and the date on which Airplanes Group no longer owns any aircraft.

Each party has the right to terminate the servicing agreement 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**

Airplanes Holdings and its Irish tax resident subsidiaries are subject to Irish corporate tax on their net trading income, including lease income, at the general Irish statutory rate for trading income which is currently 12.5%.

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.

#### **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 Capital Aviation Services Limited, Aviation House, Shannon, Ireland and its telephone number is +353-61-706500.

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

##### ***AERCAP IRELAND LIMITED***

Subsidiaries of AerCap Ireland Limited serve as our administrative agent and cash manager. AerCap Ireland Limited is a wholly-owned indirect subsidiary of AerCap Holdings N.V., a major participant in the global commercial aviation industry. AerCap Holdings N.V., directly and through AerCap Ireland Limited and other subsidiaries, also owns and manages aircraft, both for its own account and for third parties, including AerCo, ALS and ALS II, three other aircraft securitization vehicles. At March 31, 2015, AerCap Holdings N. V. owned and managed a portfolio of 1,274 aircraft and had 368 aircraft on order, which were on-lease to 200 lessees in 90 countries. AerCap Ireland Limited is also the holder of all of the class E-1 and E-2 notes issued by AerCo and all of the class E-1 notes issued by ALS II. AerCap Ireland Limited and its subsidiary act as servicer for the portfolio of aircraft owned by AerCo, ALS and ALS II. Subsidiaries of AerCap Ireland Limited also act as administrative agent and cash manager to AerCo and as administrative agent to ALS and ALS II.

On April 27, 2005, the shareholders of AerCap Holdings 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 Holdings N.V. 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 Holdings N.V. and certain shareholders each sold a portion of the ordinary shares in AerCap Holdings N.V. in a public offering listed on the New York Stock Exchange.

On August 6, 2007 AerCap Holdings N.V. and certain shareholders each sold a further portion of the ordinary shares in AerCap Holdings N.V. in a secondary offering.

On March 25, 2010 AerCap Holdings N.V. and Genesis Lease Aviation (“**Genesis**”) announced the completion of their amalgamation, under which Genesis shareholders received one AerCap ordinary share for every Genesis common share they owned. Under the amalgamation, Genesis became a wholly owned subsidiary of AerCap and its shares ceased trading at the New York Stock Exchange.

On November 11, 2010 AerCap Holdings N.V. issued approximately 29.8 million new shares to Waha Capital PJSC.

On October 7, 2011 AerCap Holdings N.V. closed the sale of AeroTurbine to International Lease Finance Corporation.

On April 22, 2014, AerCap Holdings N.V. completed the sale of 100% of the class A common shares in Genesis Funding Limited, an aircraft securitisation vehicle with a portfolio of 37 aircraft with an average age of 13 years valued at approximately \$750 million.

On May 14, 2014, AerCap Holdings N.V. completed the acquisition of International Lease Finance Corporation from American International Group, Inc.

As of March 31, 2015, beneficial holders of 5% or more of the ordinary outstanding shares in AerCap Holdings N.V., based on available public filings include: American International Group at 46.0%, JANA Partners LLC at 5.2%, and Donald Smith & Co., Inc. at 5.1%.

At March 31, 2015, AerCap Holdings N.V. employed 422 people worldwide, with 103 employees in Shannon and Dublin, Ireland, where AerCap Ireland Limited is located. AerCap Holdings N.V. has its headquarters in Amsterdam, the Netherlands and it also has offices and facilities in the United States, France, Singapore, China and the United Arab Emirates.

## **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 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, 2015 was \$3.2 million and the variable fee was approximately \$0.2 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 was renegotiated with effect from April 1, 2005. Such fee was reduced (on a non-cumulative basis before indexation) by \$0.6 million for each of the years ended March 31, 2006, 2007 and 2008 and by \$0.92 million for each of the years ended March 31, 2009, 2010, 2011, 2012, 2013, 2014 and 2015 and will be reduced (on a non-cumulative basis before indexation) by \$1.5 million per annum on a non-cumulative basis for the next financial year and 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 “6L. 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 assists Airplanes Group in developing and implementing its interest rate management policy. 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 \$1.1 million for the year ended March 31, 2015, 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***

Sanne Corporate Services 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, 4450 Atlantic Avenue, Westpark, 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 \$113,821, for their services in both capacities. The chairman of Airplanes Limited and Airplanes Trust also receives an additional index-linked annual fee, currently \$75,881, for his services in that capacity. The fees are index-linked and were last adjusted for inflation on April 1, 2014 for the period to March 31, 2017 by reference to the increase in the US CPI from April 1, 2011 to March 31, 2014. 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 \$11,382, for their services as directors of Airplanes Holdings and certain of its subsidiaries. Mr. Dantzic and Mr. McCann are also each entitled to receive an additional \$1,518 in respect of each board meeting of these companies which they attend, subject to a maximum payment of \$7,588 annually for each of them. Mr. Francht is entitled to receive an index-linked annual fee, currently \$3,794, from AeroUSA for his services as a director of such company and is also entitled to receive an additional \$1,518 in respect of each board meeting of such company which he attends, subject to a maximum payment of \$7,588 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. If the holder of a majority in aggregate principal amount of the Airplanes Limited class E notes exercises its right to appoint a director of Airplanes Limited such director would not receive any remuneration from Airplanes Limited for his services to Airplanes Limited, except reimbursement of travel and other expenses and payment of premiums for directors' and officers' insurance. Various individuals other than the four directors of Airplanes Limited and controlling trustees of Airplanes Trust also act as directors of subsidiaries of Airplanes Group. The aggregate annual compensation for such other individuals in respect of the subsidiaries does not exceed \$125,000.

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 or her 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, prior to its surrender of class E notes issued by Airplanes Limited and Airplanes Trust, as described in more detail under “6F. Surrender of Class E Notes”, GE Capital had the right to appoint one director to the board of Airplanes Limited and one controlling trustee of Airplanes Trust.

Airplanes Group has had and currently maintains various relationships with AerCap Ireland Limited (formerly known as AerFi Group plc and which was previously known as GPA Group plc). First, AerCap Ireland Limited acted as promoter in establishing the entities that comprise Airplanes Group. Secondly, Airplanes Group purchased substantially all of its assets from AerCap Ireland Limited. See “1A. Introduction —Overview of Capital Structure.” Thirdly, AerCap Ireland Limited was the holder of 5% of the ordinary share capital of Airplanes Holdings until November 20, 1998. Fourthly, AerCap, Inc., a subsidiary of AerCap Ireland Limited, holds the residual interest in Airplanes Trust. Fifth, subsidiaries of AerCap Ireland Limited 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 Limited. GE Capital subsequently surrendered such class E notes as described in more detail under “6F. Surrender of Class E Notes”.

## 12. PRINCIPAL ACCOUNTANT’S FEES AND SERVICES

### A. ACCOUNTANT’S FEES

	Year Ended March 31, 2015		Year Ended March 31, 2014	
	\$	% approved by Audit Committee	\$	% approved by Audit Committee
Audit Fees.....	130,184	100%	219,614	100%
Audit-Related Fees .....	58,583	100%	141,264	100%
Tax Fees.....	240,959	100%	323,219	100%
All Other Fees.....	273,398	100%	16,591	100%
Total.....	<u>703,124</u>	100%	<u>700,688</u>	100%

Audit-related fees in the table above for the years ended March 31, 2015 and 2014 relate to quarterly reviews, review of our Annual Report and Audit Committee work.

All other fees in the table above for the years ended March 31, 2015 and 2014 relate to accounting advice, work carried out in relation to the liquidation of dormant subsidiaries 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 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 Board 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 Board, 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 Board;
- 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 Board;
- to consider other matters as defined by the Board;
- to report on all of the above matters to the Board.

**SIGNATURES**

Date: June 12, 2015

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, 2015 and 2014, and the related statements of operations, comprehensive loss, changes in shareholders' deficit/net liabilities and cashflows for each of the years in the three year period ended March 31, 2015. 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.

In our opinion the financial statements referred to above have been properly prepared in accordance with the Companies (Jersey) Law 1991 and present fairly, in all material respects, the financial position of Airplanes Group as at March 31, 2015 and 2014, and the results of their operations and cashflows for each of the years in the three year period ended March 31, 2015, in conformity with generally accepted accounting principles in the United States.

As described more fully in note 11 to the financial statements, a number of factors have had a significant adverse effect on the aircraft industry in general and on Airplanes Group. These conditions have affected Airplanes Group's ability to make scheduled principal and interest payments on the various classes of notes.

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the basis of preparation note on page F-8 of the financial statements which explains that the financial statements are no longer prepared on the going concern basis for the reasons set out in that note.

Dublin, Ireland

June 12, 2015

Barrie O'Connell  
For and on behalf of  
KPMG

## AIRPLANES GROUP

### BALANCE SHEETS

	March 31, 2014			March 31, 2015		
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
	(\$ millions)			(\$ millions) (Discontinuing Operations)		
<b>ASSETS</b>						
Cash (Note 5).....	145	—	145	155	—	155
Accounts receivable						
Trade receivables (Note 6).....	1	1	2	1	1	2
Allowance for doubtful debts.....	(1)	—	(1)	—	(1)	(1)
Amounts due from Group Companies (Note 7) .....	14	—	14	6	—	6
Prepaid expenses.....	2	—	2	—	—	—
Other Current Assets.....	—	1	1	—	—	—
Total Current Assets .....	161	2	163	162	—	162
Aircraft, Held for Use (Note 8).....	20	26	46	—	—	—
Aircraft, Held for Sale (Note 8) .....	3	1	4	23	28	51
Total assets .....	184	29	213	185	28	213
<b>LIABILITIES</b>						
Accrued expenses and other liabilities (Note 9) .....	2,320	124	2,444	2,870	143	3,013
Accrued winding up costs (Note 10) .....	—	—	—	720	28	748
Amounts due to Group Companies (Note 7) .....	—	14	14	—	6	6
Indebtedness (Note 11) .....	—	—	—	1,292	123	1,415
Total Current Liabilities.....	2,320	138	2,458	4,882	300	5,182
Indebtedness (Note 11) .....	1,301	124	1,425	—	—	—
Total liabilities .....	3,621	262	3,883	4,882	300	5,182
Common Stock, \$1 par value per share, Authorised 10,000 shares; issued and outstanding 30 shares (Note 12) .....	—	—	—	—	—	—
Net liabilities.....	(3,437)	(233)	(3,670)	(4,697)	(272)	(4,969)
Shareholders' deficit and total liabilities.....	(184)	(29)	(213)	(185)	(28)	(213)

*The results for the year ended March 31, 2015 have been prepared on a liquidation basis of accounting. The results for the year ended March 31, 2014 were prepared on a going concern basis of accounting.*

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

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

	Year Ended March 31,								
	2013			2014			2015		
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
	(\$ millions)			(\$ millions)			(\$ millions) (Discontinuing Operations)		
<b>Revenues</b>									
Aircraft leasing (Note 13).....	104	11	115	40	18	58	26	11	37
Other income .....	18	—	18	4	—	4	1	1	2
Aircraft sales .....	92	2	94	27	1	28	11	2	13
<b>Expenses</b>									
Cost of aircraft sold .....	(76)	—	(76)	(12)	(1)	(13)	(5)	(1)	(6)
Impairment charge .....	(36)	—	(36)	(9)	—	(9)	—	—	—
Depreciation and amortization.....	(40)	(5)	(45)	(17)	(18)	(35)	(9)	(14)	(23)
Net interest expense (Note 14).....	(360)	(16)	(376)	(446)	(21)	(467)	(565)	(22)	(587)
Bad and doubtful debts .....	(5)	—	(5)	—	—	—	—	—	—
Other lease costs (Note 15).....	(15)	(2)	(17)	12	(1)	11	(2)	(1)	(3)
Selling, general and administrative expenses (Note 16).....	(25)	(1)	(26)	(13)	(3)	(16)	(12)	(3)	(15)
<b>Operating loss before extraordinary items and provision for income taxes .....</b>	<b>(343)</b>	<b>(11)</b>	<b>(354)</b>	<b>(414)</b>	<b>(25)</b>	<b>(439)</b>	<b>(555)</b>	<b>(27)</b>	<b>(582)</b>
Revaluation of aircraft (Note 8) .....	—	—	—	—	—	—	14	17	31
Accrued winding up costs (Note 10) .....	—	—	—	—	—	—	(720)	(28)	(748)
Operating loss before provision for income taxes.....	(343)	(11)	(354)	(414)	(25)	(439)	(1,261)	(38)	(1,299)
Income tax credit (Note 17) .....	3	—	3	—	—	—	—	—	—
<b>Net Loss .....</b>	<b>(340)</b>	<b>(11)</b>	<b>(351)</b>	<b>(414)</b>	<b>(25)</b>	<b>(439)</b>	<b>(1,261)</b>	<b>(38)</b>	<b>(1,299)</b>

*The results for the year ended March 31, 2015 have been prepared on a liquidation basis of accounting. The results for the years ended March 31, 2013 and 2014 were prepared on a going concern basis of accounting.*

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

**AIRPLANES GROUP**

**STATEMENTS OF COMPREHENSIVE LOSS**

	Year Ended March 31,								
	2013			2014			2015		
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
	(\$ millions)			(\$ millions)			(\$ millions) (Discontinuing Operations)		
Loss for the period.....	(340)	(11)	(351)	(414)	(25)	(439)	(1,261)	(38)	(1,299)
Other Comprehensive Loss									
Net change in cashflow hedges.....	—	—	—	—	—	—	—	—	—
<b>Total Comprehensive Loss.....</b>	<b>(340)</b>	<b>(11)</b>	<b>(351)</b>	<b>(414)</b>	<b>(25)</b>	<b>(439)</b>	<b>(1,261)</b>	<b>(38)</b>	<b>(1,299)</b>

*The results for the year ended March 31, 2015 have been prepared on a liquidation basis of accounting. The results for the years ended March 31, 2013 and 2014 were prepared on a going concern basis of accounting.*

*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, 2013, 2014 and 2015

	Airplanes Limited				Airplanes Trust			Combined
	Share Capital	Accumulated Loss	Other Comprehensive Loss	Shareholders' Deficit	Accumulated Loss	Other Comprehensive Loss	Shareholders' Deficit	Shareholders' Deficit/Net Liabilities
	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)
Balance at March 31, 2012 .....	—	2,682	1	2,683	198	(1)	197	2,880
Net loss for the period.....	—	340	—	340	11	—	11	351
Balance at March 31, 2013 .....	—	3,022	1	3,023	209	(1)	208	3,231
Net loss for the period.....	—	414	—	414	25	—	25	439
Balance at March 31, 2014 .....	—	3,436	1	3,437	234	(1)	233	3,670
Net loss for the period.....	—	1,261	—	1,261	38	—	38	1,299
<b>Balance at March 31, 2015 (Discontinuing Operations)</b>	<b>—</b>	<b>4,697</b>	<b>1</b>	<b>4,698</b>	<b>272</b>	<b>(1)</b>	<b>271</b>	<b>4,969</b>

*The results for the year ended March 31, 2015 have been prepared on a liquidation basis of accounting. The results for the years ended March 31, 2013 and 2014 were prepared on a going concern basis of accounting.*

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



**AIRPLANES GROUP**  
**STATEMENTS OF CASHFLOWS**

	Year Ended March 31,								
	2013			2014			2015		
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
	(\$ millions)			(\$ millions)			(\$ millions) (Discontinuing Operations)		
<b>Cashflows from operating activities</b>									
Net loss.....	(340)	(11)	(351)	(414)	(25)	(439)	(1,261)	(38)	(1,299)
Adjustment to reconcile net loss to net cash provided by operating activities:									
Depreciation and amortization.....	40	5	45	17	18	35	9	14	23
Impairment charge .....	36	—	36	9	—	9	—	—	—
Revaluation of aircraft .....	—	—	—	—	—	—	(14)	(17)	(31)
Profit on disposal of aircraft .....	(16)	(2)	(18)	(15)	—	(15)	(6)	(1)	(7)
Deferred income taxes .....	(3)	—	(3)	—	—	—	—	—	—
Provision for bad debts .....	(5)	—	(5)	(2)	—	(2)	—	—	—
Accrued and deferred interest expense .....	358	16	374	439	24	463	571	19	590
Accrued winding up costs.....	—	—	—	—	—	—	720	28	748
Changes in operating assets and liabilities:									
Sale/(purchase) of aircraft.....	92	(42)	50	27	1	28	11	2	13
Capital and sales type leases.....	3	—	3	2	—	2	1	1	2
Accounts receivable, net .....	(9)	24	15	13	(1)	12	—	—	—
Other accruals and liabilities.....	(32)	17	(15)	(24)	(14)	(38)	(14)	(8)	(22)
Other assets .....	—	—	—	—	—	—	1	1	2
<b>Net cash provided by operating activities</b> .....	<b>124</b>	<b>7</b>	<b>131</b>	<b>52</b>	<b>3</b>	<b>55</b>	<b>18</b>	<b>1</b>	<b>19</b>
<b>Cashflows from financing activities</b>									
Repayment of indebtedness .....	(72)	(7)	(79)	(35)	(3)	(38)	(8)	(1)	(9)
<b>Net cash used in financing activities</b> .....	<b>(72)</b>	<b>(7)</b>	<b>(79)</b>	<b>(35)</b>	<b>(3)</b>	<b>(38)</b>	<b>(8)</b>	<b>(1)</b>	<b>(9)</b>
<b>Net increase in cash</b> .....	<b>52</b>	<b>—</b>	<b>52</b>	<b>17</b>	<b>—</b>	<b>17</b>	<b>10</b>	<b>—</b>	<b>10</b>
Cash and cash equivalents at beginning of year.....	76	—	76	128	—	128	145	—	145
Net increase in cash and cash equivalents.....	52	—	52	17	—	17	10	—	10
Cash and cash equivalents at end of year .....	128	—	128	145	—	145	155	—	155
<b>Cash paid in respect of:</b>									
Interest.....	4	—	4	3	—	3	3	—	3

*The results for the year ended March 31, 2015 have been prepared on a liquidation basis of accounting. The results for the years ended March 31, 2013 and 2014 were prepared on a going concern basis of accounting.*

*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 refinancing 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, 2015, the Airplanes Group portfolio consisted of 17 aircraft and one engine of which 16 aircraft and one engine were on-lease to 8 lessees in 6 countries and one aircraft was off-lease (March 31, 2014: 27 aircraft and two engines of which 24 aircraft were on-lease to 10 lessees in 7 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 Airplanes Limited and Airplanes Trust class E notes to GE Capital Corporation (“**GE Capital**”). On November 15, 2010 GE Capital, as holder of all of the class E notes issued by Airplanes Trust, notified Airplanes Trust that, effective on that date, GE Capital discharged and released Airplanes Trust from any and all payment and other obligations thereunder. On October 21, 2011 GE Capital, as holder of class E notes issued by Airplanes Limited in the principal amount of \$526,314,418, notified Airplanes Limited that, effective on that date, GE Capital discharged and released Airplanes Limited from any and all payment and other obligations thereunder.

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 loss, statements of changes in shareholders’ deficit/net liabilities and statements of cashflows of Airplanes Group (together the “**Financial Statements**”) have been prepared in accordance with the accounting policies set out in Note 4 and in conformity with United States of America generally accepted accounting principles (“**US GAAP**”). The Board of Directors of Airplanes Limited and the Controlling Trustees of Airplanes Trust (the “**Board**”) consider that it is no longer appropriate to prepare the Financial Statements on a going concern basis given that at the date of the Financial Statements the current expectation is that the vehicle will cease its aircraft leasing and sale activities within the next twelve months and the Board are currently considering the strategy to wind up the vehicle. Accordingly the Financial Statements have been

prepared on a liquidation basis in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification No. 205-30, “*Presentation of Financial Statements – Liquidation Basis of Accounting*” (“FASB ASC 205-30”). The comparative results for the years ended March 31, 2014 and 2013 were prepared on a going concern basis of accounting. As set out in Note 11, 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.

Airplanes Group accounting policies are consistent with previous periods save that they have been updated to reflect the liquidation basis of accounting as described in Note 4(b). The Financial Statements are stated in United States Dollars which is Airplanes Group’s functional currency.

### **3. RELATIONSHIP WITH GE CAPITAL 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.

Airplanes Limited has a board of directors of four directors (March 31, 2014: four). The controlling trustees of Airplanes Trust are the same individuals. As the holder of the majority of the outstanding principal amount of the Airplanes Limited class E notes, GE Capital previously had the right to appoint one director to the Board of Airplanes Limited; however, GE Capital no longer has such right following the submission on October 21, 2011 by GE Capital of a notice to Airplanes Limited stating that, effective on that date, GE Capital thereby discharged and released Airplanes Limited from any and all payment and other obligations under such class E notes. As the holder of all of the Airplanes Trust class E notes, GE Capital previously had the right to appoint one of the controlling trustees of Airplanes Trust however GE Capital no longer has such right following the submission on November 15, 2010 by GE Capital of a notice to Airplanes Trust stating that, effective on that date, GE Capital thereby discharged and released Airplanes Trust from any and all payment and other obligations under such class E notes.

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

In the year to March 31, 2015, fees of \$5.6 million and \$4.5 million (2014: \$7.5 million and \$4.6 million) were charged by GECAS and AerCap, respectively. At March 31, 2015, included in accrued expenses are fee amounts of \$1.7 million and \$0.2 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 US GAAP. 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) Liquidation basis of accounting*

As set out in Note 2, the Financial Statements have been prepared on a liquidation basis in accordance with FASB ASC 205-30. The comparative results for the years ended March 31, 2014 and 2013 were prepared on a going concern basis of accounting.

In order to comply with FASB ASC 205-30 a number of changes to accounting policies have occurred. FASB ASC 205-30 requires that all assets are stated at the best estimate of their recoverable amount and that the results for the year ended March 31, 2015 are described as being on a discontinuing basis. FASB ASC 205-30 also requires that all liabilities are presented in the Balance Sheet as current and that an accrual is made for the estimated winding up costs of the vehicle (see Note 10). The accrual for estimated winding up costs included in the Financial Statements represents the operating, leasing and interest costs estimated at the date of the Financial Statements to be incurred in the ordinary course of operating the vehicle until the date on which a winding up is assumed to commence (as well as certain costs anticipated to be incurred in order to place the vehicle into a winding up) net of the leasing revenue contracted at the date of the Financial Statements to be received for such period. The Board are considering a number of options in respect of the future winding up of Airplanes Group and therefore the estimate of winding up costs included in the Financial Statements has not taken into account certain costs that may be associated with the options potentially available as these costs are incapable of estimation at present. In accordance with the requirements of FASB ASC 205-30, the estimated interest costs which form part of the accrual include an amount of \$735 million in respect of step-up interest payable on the subclass A-8 notes and interest payable on the class B, C, D and E notes notwithstanding that Airplanes Group does not expect to have sufficient cashflows to make any further payments of step-up interest on the subclass A-8 notes or interest on the class B, C, D or E notes. Future payments in respect of the class A notes will be dependent on the amount of cash which can be generated from the remaining assets of the vehicle less ongoing operating costs, winding up costs and other liabilities which are required to be discharged prior to or during the winding up process. Airplanes Group does not expect to be able to repay the subclass A-9 notes in full or to make any further payments of interest or principal on the class B, class C or class D notes.

*(c) Revenue recognition*

Revenue from aircraft on operating leases is recognized as income on a straight line basis over the term of the leases. Airplanes Group accounts for lease agreements that include stepped rentals on a straight line basis. In certain cases, leases provide for rentals based on usage. Unearned revenue from capital and sales type leases is amortized and included in income under the interest/effective yield method.

Most of Airplanes Group's lease agreements require payment in advance. Rentals received, but unearned under these lease agreements are recorded as unearned revenue on the balance sheet.

Maintenance contributions for the period are recognized as supplemental income and are included in lease income as they arise.

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.

*(d) Aircraft*

FASB ASC 205-30 requires all assets to be stated at the best estimate of their recoverable amount. This means that the vehicle is required to measure assets to reflect the estimated amount of cash or other consideration that it expects to collect in settling or disposing of those assets. As a result, all aircraft have been classified as held for sale as at March 31, 2015 and the value of the aircraft as at such date is based on the best estimate as at the date of the Financial Statements of the amount which Airplanes Group expects to collect on the sale of the aircraft. The actual amount which Airplanes Group receives could differ significantly from that estimate (see Note 8).

For periods prior to March 31, 2015, aircraft held for use, including airframes and engines, were stated at cost, less accumulated depreciation and, where considered necessary, impairment provisions, and were depreciated at

rates calculated to write off the cost of the aircraft to their estimated residual value on a straight line basis over their estimated useful economic lives. Cost comprised the invoiced cost net of manufacturers' discounts. The estimates of useful lives and residual values were reviewed periodically.

Aircraft were periodically reviewed for impairment in accordance with FASB Accounting Standards Codification No. 360 "*Property, Plant and Equipment—Accounting for the Impairment of Long Lived Assets*" ("**FASB ASC 360**"). An impairment loss was evaluated when the undiscounted estimated future cashflows of the aircraft were less than its carrying value, and the loss was measured as the excess of the carrying value over the fair value. The fair value of the aircraft was based on independent appraisals of aircraft and 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 future cashflows. The independent appraisals were determined based on the assumption that there was an "open, unrestricted stable market environment with a reasonable balance of supply and demand". Where the other available information indicated a lower value for an aircraft than its appraised current market value, such information was evaluated in detail in making the determination of the fair value for that aircraft. Estimated discounted future cashflows were used as a more accurate indication of fair value where appropriate. The estimated discounted future cashflows assumed, among other things, market lease rates or sale of the aircraft at the end of the existing lease term, other lease or sale costs, downtime and the risk inherent in the cashflows.

For periods prior to March 31, 2015, aircraft classified as held for sale were recorded at the lower of carrying amount or fair value, less costs to sell. Aircraft were not depreciated while classified as held for sale. Costs to sell were the incremental direct costs to transact a sale, that is, the costs that resulted directly from and were essential to a sale transaction and that would not have been incurred by Airplanes Group had the decision to sell not been made.

*(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 recognized 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 recognized 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 are subject to Irish corporate income tax on trading operations at general Irish statutory rates, which are currently 12.5%. Airplanes Trust's underlying taxable entities in the US are subject to US federal and state taxes on their trading operations. The US federal statutory tax rate was 35% for 2013, 2014 and 2015.

US gross transportation tax and US withholding taxes are accounted for on an accruals basis where applicable.

*(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 caps. Details of Airplanes Group's interest rate caps are set out at Note 4(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, 2015, Airplanes Group owned 17 aircraft and one engine of which 16 aircraft and one engine were on-lease to 8 lessees in 6 countries, with one 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 allowance for doubtful debts are set out in Note 6. Any repossession of aircraft by Airplanes Group could result in the redelivery condition of the aircraft being significantly worse than expected. Given the age of the aircraft within the Airplanes Group portfolio this could have a significant impact on the ability of Airplanes Group to re-market the aircraft and could have an adverse impact on Airplanes Group's cashflows.

*(i) Fair Value of Financial Instruments*

FASB Accounting Standards Codification No. 820 "*Fair Value Measurements and Disclosures*" ("**FASB ASC 820**") 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 judgment 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, 2015 and 2014 was \$168.3 million and \$187.7 million respectively (carrying value at March 31, 2015 and 2014 was \$1,402.4 million and \$1,412.8 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, 2015 provided by an independent third party based on information available to that third party at that date, 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. The actual amount that may be returned to noteholders is likely to be materially different. 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 the class E notes remaining outstanding at March 31, 2015 cannot be determined.
- (iii) Airplanes Group manages its interest rate exposure through the use of interest rate caps ("**caps**") and in the past has also used interest rate swaps ("**swaps**") and options to enter into interest rate swaps ("**swaptions**"). At March 31, 2014, Airplanes Group had entered into caps with an aggregate notional principal amount of \$30 million. Under these caps, Airplanes Group received the excess, if any, of one month LIBOR, reset monthly on an actual /360 adjusted basis over the strike rate of the relevant cap. At March 31, 2015, Airplanes Group had no caps remaining. 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 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 caps at March 31, 2014 was less than \$0.01 million.

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, 2015 and 2014, Airplanes Group had no swaptions in place.

*(j) Foreign Currency Transactions*

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

*(k) Derivative Instruments and Hedging Activities*

Airplanes Group has adopted FASB Accounting Standards Codification No. 815, "*Derivatives and Hedging*" ("**FASB ASC 815**"). 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, 2015, no derivatives were held by Airplanes Group.

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

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

Hedge accounting was discontinued prospectively when it was determined that the derivative was no longer highly effective in offsetting changes in the cashflows of the hedged item, the derivative expired or was sold, terminated, or exercised, or it was determined that designation of the derivative as a hedging instrument was no longer appropriate. In all situations in which hedge accounting was discontinued, the derivative would have continued to be carried at its fair value on the balance sheet, and any changes in its fair value were recognized in earnings.

In all situations where derivatives are designated as "held for trading" instruments, they are carried at fair value on the balance sheet and any changes in fair value are recorded in the Income Statement. Interest rate caps are marked to market at each quarter end.

As described more fully in Note 11, 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 had been documented as having a hedging relationship with the interest payments on the class B notes and certificates could 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 was recorded in the Income Statement in accordance with FASB ASC 815. 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.

*(l) Fair Value Measurement of Financial Instruments*

In September 2006, the FASB issued FASB ASC 820. This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value of financial instruments and requires additional disclosures about the use of fair value measurements. FASB ASC 820 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Under FASB ASC 820, Airplanes Group determines fair value based on the price that would be received to sell a financial asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is Airplanes Group's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements in accordance with the fair value hierarchy as described below. Where limited or no observable market data exists, fair value measurements for financial assets and liabilities are based primarily on the Board's own estimates and are calculated based upon Airplanes Group's pricing policy, the economic and competitive environment, the characteristics of the financial asset or liability and other such factors. Therefore, the results may not be realized in actual sale or immediate settlement of the asset or liability.

Airplanes Group adopted FASB ASC 820 for all financial assets and liabilities required to be measured at fair value on a recurring basis, prospectively from January 1, 2008. The application of FASB ASC 820 for financial instruments which are periodically measured at fair value did not have a material effect on Airplanes Group's results of operations or financial position.

Under FASB ASC 820, there is a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by the FASB ASC 820 hierarchy are as follows:

Level 1 - Quoted prices are available in active markets for identical financial assets or liabilities as at the reported date.

Level 2 - The fair values determined through Level 2 of the fair value hierarchy are derived principally from or corroborated by observable market data. Inputs include quoted prices for similar financial assets, liabilities (risk adjusted) and market-corroborated inputs, such as market comparables, interest rates, yield curves and other items that allow value to be determined.

Level 3 - The fair values pertaining to Level 3 of the fair value hierarchy are derived principally from unobservable inputs from Airplanes Group's own assumptions about market risk developed based on the best information available, subject to cost benefit analysis, and may include Airplanes Group's own data.

When there are no observable comparables, inputs used to determine value are derived through extrapolation and interpolation and other Airplanes Group-specific inputs such as projected financial data and Airplanes Group's own views about the assumptions that market participants would use.

In October 2008, the FASB issued Accounting Standards Codification No. 820-10-35, "*Fair Value Measurements and Disclosures – Subsequent Measurement*" ("**FASB ASC 820-10-35**") which clarifies the application of FASB ASC 820 in a market that is not active and is intended to address the following application issues:



- How the reporting entity’s own assumptions (that is, expected cashflows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable inputs do not exist.
- How available observable inputs in a market that is not active should be considered when measuring fair value.
- How the use of market quotes (for example, broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value.

FASB ASC 820-10-35 is effective on issuance, including prior periods for which financial statements have not been issued. As such, FASB ASC 820-10-35 was effective for Airplanes Group for the year ended March 31, 2009. Adoption of FASB ASC 820-10-35 did not have a significant impact on Airplanes Group’s financial statements.

Airplanes Group’s policy is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy of FASB ASC 820. The fair values determined by Airplanes Group are derived principally from or corroborated by observable market data. Inputs include quoted prices for similar assets, liabilities (risk adjusted) and market-corroborated inputs, such as market comparables, interest rates, yield curves and other items that allow fair value to be determined. Due to the prevailing market conditions, Airplanes Group applied additional inputs to the fair value determination in the form of credit spreads, credit default swaps and an assessment of the probability of its own non performance and of default by its cap counterparties.

The following table summarizes the fair value of Airplanes Group’s financial assets and liabilities as of March 31, 2015 by level within the fair value hierarchy.

	Net Fair Value	Using Quoted Prices in Active Markets for Identical Assets	Using Significant Other Observable Inputs	Using Significant Unobservable Inputs
	March 31, 2015	(Level 1)	(Level 2)	(Level 3)
	(\$ Thousands)			
Cash and cash equivalents .....	155,328	155,328	–	–
Debt .....	(168,300)	–	(168,300)	–
Total.....	(12,972)	155,328	(168,300)	–

FASB Accounting Standards Codification No. 825, “*Financial Instruments*” (“**FASB ASC 825**”) requires a company to disclose the fair value of all financial instruments along with significant assumptions used to estimate fair value and any changes to those methods and significant assumptions.

FASB Accounting Standards Codification No. 825-10-50-3 “*Financial Instruments -Disclosures*” (“**FASB ASC 825-10-50-3**”) amended FASB ASC 825, requiring that such disclosures be included in interim financial statements as well as year end financial statements.

Airplanes Group’s financial instruments consist principally of derivative liabilities, note indebtedness, cash and cash equivalents and restricted cash. The fair value of cash and cash equivalents and restricted cash approximates the carrying value of these financial instruments because of their short term nature.

The fair value of Airplanes Group’s debt is estimated by reference to prices as at March 31, 2015 provided by an independent third party based on information available to that third party at that date. The fair value does not reflect the market value of the debt 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. The actual amount that may be returned to noteholders is likely to be materially different.

The carrying amounts and fair values of Airplanes Group's financial instruments as of March 31, 2015 are as follows:

	<b>Carrying Amount of Asset/(Liability)</b>	<b>Fair Value of Asset/(Liability)</b>
	<b>(\$ Thousands)</b>	<b>(\$ Thousands)</b>
<b>Assets</b>		
Cash and cash equivalents .....	155,328	155,328
	<u>155,328</u>	<u>155,328</u>
<b>Liabilities</b>		
Debt .....	1,415,188	(168,300)
	<u>1,415,188</u>	<u>(168,300)</u>

*(m) Use of Estimates*

The preparation of financial statements in conformity with US GAAP requires the Board to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. For Airplanes Group, the use of estimates is a significant factor affecting the reported carrying values of aircraft, accounts receivable, deferred tax assets and accruals and reserves. Due to the Financial Statements being prepared on a liquidation basis, all assets as at March 31, 2015 are stated at the best estimate of their recoverable amount. A best estimate of winding up costs has also been accrued (see Note 10). The Board utilize professional appraisers and valuation specialists, where possible, to support estimates, particularly with respect to aircraft valuation. Despite the Board's best efforts to accurately estimate such amounts, actual results could differ from those estimates. The Board evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. The Board adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid and volatile credit markets, energy markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

*(n) Maintenance*

In most lease contracts the lessee has the obligation to pay for maintenance costs on airframes and engines which arise during the term of the lease and in many lease contracts the lessee makes a full or partial prepayment calculated at an hourly rate. Under our policy we have adopted the "direct expense" method of accounting for maintenance which involves recognizing maintenance contributions as supplemental incomes included in lease income as they arise and cost of overhauls as an expense as it is incurred. Any uncollected supplemental rent is included in trade receivables at period end and assessed for recoverability as part of the balance.

In other lease contracts, the lessee is required to redeliver the aircraft in a specified maintenance condition (normal wear and tear excepted) under the lease, with reference to major life limited components of the aircraft. To the extent that such components are redelivered in a different condition than specified, there is normally an end-of-lease compensation adjustment for the difference at redelivery.

*(o) Security Deposits on Leases*

Security deposits on leases are made by the lessee on the execution of the lease and are non-refundable during the term of the lease. The amounts are held as a security for the timely and faithful performance by the lessee of its obligations during the lease. The deposit may be applied against amounts owing from the lessee for rent or returned to the lessee on the termination of the lease.

## 5. CASH

	March 31			
	2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Cash .....	145	—	155	—

Substantially all of the cash balances at March 31, 2015 and 2014 are held for specific purposes under the terms of the Transaction.

## 6. ACCOUNTS RECEIVABLE

	March 31			
	2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Trade receivables .....	1	1	1	1
Allowance for doubtful debts .....	(1)	—	—	(1)
	—	1	1	—
Included in trade receivables are deferred amounts as follows:				
Gross deferred lease receivables .....	—	—	—	—
Allowance for doubtful debts .....	—	—	—	—
	—	—	—	—

Receivables, before allowance for doubtful debts, include amounts classified as due after one year of \$nil (Airplanes Limited: \$nil; Airplanes Trust: \$nil) at March 31, 2015 and \$nil (Airplanes Limited: \$nil; Airplanes Trust: \$nil) at March 31, 2014.

A number of Airplanes Group's lessees are in a weak financial position. As of March 31, 2015, 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 \$0.7 million in respect of five lessees (who leased a combined total of six aircraft and one engine representing 24.66% of the portfolio by appraised value as of January 31, 2015). Of the total \$0.7 million, \$0.2 million was in arrears for a period between 30 and 60 days and \$0.5 million was in arrears for a period greater than 60 days.

As of March 31, 2015, no deferral arrangements were in place with any lessees in respect of rental payments, maintenance reserves and other miscellaneous amounts due under the leases. The accounts receivable balance is stated at the best estimate of its recoverable amount.

## 7. AMOUNTS DUE FROM/TO GROUP COMPANIES

	March 31			
	2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Amounts due from Airplanes Limited to Airplanes Trust .....	—	—	—	—
Amounts due from Airplanes Trust to Airplanes Limited .....	14	(14)	6	(6)
	<u>14</u>	<u>(14)</u>	<u>6</u>	<u>(6)</u>

Included in the balance at March 31, 2015 and March 31, 2014 was \$20 million and \$30 million, respectively, payable from Airplanes Trust to Airplanes Limited in respect of aircraft sales and purchases. Excluding this balance, there was a balance payable from Airplanes Limited to Airplanes Trust of \$14 million (2014: \$16 million) in respect of Airplanes Trust's trading activities, including servicing of its debt obligations.

## 8. AIRCRAFT

	March 31			
	2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
<b>Aircraft—Held for use</b>				
Cost.....	356	44	—	—
Less impairment charge.....	(143)	—	—	—
Less accumulated depreciation.....	(193)	(18)	—	—
	<u>20</u>	<u>26</u>	<u>—</u>	<u>—</u>
<b>Aircraft—Held for sale</b>				
Cost.....	128	15	258	42
Revaluation of aircraft.....	—	—	14	17
Less impairment charge.....	(39)	(6)	—	—
Less accumulated depreciation.....	(86)	(8)	(249)	(31)
	<u>3</u>	<u>1</u>	<u>23</u>	<u>28</u>
<b>Fleet Analysis</b>				
On operating lease for a further period of:				
More than five years .....	—	—	—	—
From one to five years .....	10	21	—	—
Less than one year .....	10	5	—	—
Non revenue earning aircraft:				
Available for lease.....	—	—	—	—
Held for sale .....	3	1	23	28
	<u>23</u>	<u>27</u>	<u>23</u>	<u>28</u>

At March 31, 2015, two aircraft (which were leased under conditional sale agreements) were subject to purchase options granted to an existing lessee. The latest date on which a purchase option could be exercised was October 31, 2016.

	Year ended March 31					
	2013		2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Depreciation expense.....	40	5	17	18	9	14
Revaluation of aircraft.....	—	—	—	—	(14)	(17)
Impairment charge.....	36	—	9	—	—	—
	76	5	26	18	(5)	(3)

FASB ASC 205-30 requires all assets to be stated at the best estimate of their recoverable amount. This means that the vehicle is required to measure assets to reflect the estimated amount of cash or other consideration that it expects to collect in settling or disposing of those assets. As a result, all aircraft have been classified as held for sale as at March 31, 2015 and the value of the aircraft as at such date is based on the best estimate as at the date of the Financial Statements of the amount which Airplanes Group expects to collect on the sale of the aircraft. The change in basis of preparation has resulted in a revaluation uplift of \$31 million in the value of aircraft as at March 31, 2015. The actual amount which Airplanes Group receives could differ significantly from the estimated recoverable amount.

At March 31, 2015, Airplanes Group owned 17 aircraft and one engine (March 31, 2014: 27 aircraft and two engines). At March 31, 2015, one aircraft was off-lease. In the year ended March 31, 2015, Airplanes Group has continued to suffer as a result of difficult leasing conditions for its aircraft types.

As of March 31, 2015, the A320-200 model of aircraft comprised more than 47% of Airplanes Group's portfolio by appraised value as of January 31, 2015, the DHC8-300 model of aircraft comprised more than 18% of Airplanes Group's portfolio by appraised value as of January 31, 2015, the B767-300ER model of aircraft comprised more than 9% of Airplanes Group's portfolio by appraised value as of January 31, 2015, the B737-400 model of aircraft comprised more than 13% of Airplanes Group's portfolio by appraised value as of January 31, 2015 and the B737-300 model of aircraft comprised more than 7% of Airplanes Group's portfolio by appraised value as of January 31, 2015. Furthermore, at March 31, 2015, widebody aircraft comprised more than 9% and turboprop aircraft comprised more than 18% of Airplanes Group's portfolio by appraised value as of January 31, 2015.

During the years ended March 31, 2015 and March 31, 2014, Airplanes Group evaluated all aircraft for impairment and this impairment analysis resulted in 2 and 10 aircraft, respectively, being identified with a carrying value greater than the undiscounted estimated future cashflows for such aircraft. An impairment loss was calculated for these aircraft based on the excess of their carrying value over their fair value. The fair value of the aircraft was based on independent appraisals of aircraft and 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 future cashflows. The independent appraisals are determined based on the assumption that there was an "open, unrestricted stable market environment with a reasonable balance of supply and demand". Where the other available information indicated a lower value for an aircraft than its appraised current market value, such information was evaluated in detail in making the determination of the fair value for that aircraft. Estimated discounted future cashflows were used as a more accurate indication of fair value where appropriate. The estimated discounted future cashflows assumed, among other things, market lease rates or sale of the aircraft at the end of the existing lease term, other lease or sale costs, downtime and the risk inherent in the cashflows.

## 9. ACCRUED EXPENSES AND OTHER LIABILITIES

March 31			
2014		2015	
Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
(\$ Millions)		(\$ Millions)	

Accrued expenses and other liabilities include:

	March 31			
	2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Unearned revenue.....	1	—	1	—
Other accruals.....	15	—	2	—
Interest accrued.....	2,296	124	3,548	171
Deposits received .....	8	—	3	—
	<u>2,320</u>	<u>124</u>	<u>3,590</u>	<u>171</u>
Of which:				
Payable within one year .....	15	—	6	—
Payable after one year .....	2,305	107	3,584	143
	<u>2,320</u>	<u>107</u>	<u>3,590</u>	<u>143</u>

Due to the change in the basis of preparation of the Financial Statements, as at March 31, 2015 all liabilities are required to be presented in the Balance Sheet as current, however the contractual terms of such liabilities as at March 31, 2015 differ from this required treatment and those contractual terms are reflected above.

During 2010, a Brazilian State Appellate Court judgment (the “**2010 Judgment**”) was rendered against Airplanes Holdings Limited (“**Airplanes Holdings**”) in an action brought by a now bankrupt former lessee, Transbrasil, and on June 21, 2012, the Lower Court of the county of Sao Paulo, Brazil issued two orders to pay against Airplanes Holdings as described in more detail in Note 11. Airplanes Holdings filed appeals against the 2010 Judgment and challenged the orders to pay. As described in more detail in Note 11, on October 22, 2013 the Brazilian Federal Court of Appeals rendered a decision in respect of one of the appeals filed by Airplanes Holdings which overturns the 2010 Judgment in a number of respects. This decision of the Federal Court of Appeals is not, however, final as a result of a divergence appeal filed by Transbrasil, as described in more detail in Note 11. As a result of the October 22, 2013 decision of the Federal Court of Appeals, the two orders to pay against Airplanes Holdings were cancelled, however Transbrasil has filed an appeal and the orders to pay may be reinstated if Transbrasil is successful in its appeal, as discussed in more detail in Note 11. Whilst Airplanes Holdings, based on the advice of Brazilian legal counsel retained by GECAS as servicer to represent Airplanes Holdings (and certain other defendants) in this litigation (“**Brazilian Counsel**”), believes it has strong defences against the substantive issues raised in the proceedings brought by Transbrasil, a provision of \$6 million in respect of the Transbrasil litigation was made in the Financial Statements as at March 31, 2014 (Airplanes Limited: \$6 million; Airplanes Trust: \$nil). As at March 31, 2015 the amount of this provision was updated to \$3 million (Airplanes Limited: \$3 million; Airplanes Trust: \$nil) (reflected in ‘Other accruals’ above) having regard, inter alia, to the payment during the year ended March 31, 2015 of \$3.9 million to the Servicer by way of reimbursement of legal fees and expenses and guarantee fees incurred in relation to the Transbrasil litigation (which amount had previously been provided for). While Airplanes Holdings, based on the advice of Brazilian Counsel, believes it has strong defenses against the substantive issues raised in the proceedings brought by Transbrasil, the ultimate resolution of the matter could result in a loss in excess of the amount accrued, as described in more detail in Note 11. In addition, the provision of \$3 million does not include any amount that may ultimately be payable as a result of any decision in relation to Airplanes Holdings’ proof of claim in the Transbrasil bankruptcy proceeding.

In February 2015 Airplanes Group was notified by AerCap Ireland Limited that it intended to seek indemnification from Airplanes Group in relation to certain Indian litigation proceedings. AerCap Ireland Limited has asserted that Airplanes Finance Limited, a subsidiary of Airplanes Holdings, is liable to indemnify AerCap Ireland Limited under the terms of a sub-lease assignment agreement entered into between such parties on March 8, 1996 pursuant to which the lease of one B737-200A aircraft to East West Travel and Trade Links Limited (“**East West**”) was assigned by AerCap Ireland Limited to Airplanes Finance Limited. AerCap Ireland Limited has indicated that it is one of several defendants under Indian litigation proceedings concerning East West, which proceedings were commenced by the airports authority of India (the “**AAI**”) in 1997 and remain ongoing. AerCap Ireland Limited has indicated that whilst it continues to defend itself in the proceedings, it intends to seek indemnification both for any liability which it may ultimately be adjudged to have to the AAI as well as its

reasonable legal fees in defending the proceedings. At this time Airplanes Group does not accept that it has any liability in connection with this matter; however it is seeking more information from AerCap Ireland Limited in order to assess both the validity of the purported indemnification obligation and the possible size of any potential claim which may ultimately be made against Airplanes Group. In light of the uncertainties around both the validity of the purported indemnification obligation as well as the likelihood and possible size of any potential claim, no provision in respect of this matter has been made in the Financial Statements as at March 31, 2015. The ultimate resolution of the matter could however have a further adverse impact on Airplanes Group's cashflows.

## **10. ACCRUAL FOR ESTIMATED WINDING UP COSTS**

As set out in Note 2, the Financial Statements have been prepared on a liquidation basis in accordance with FASB ASC 205-30.

FASB ASC 205-30 requires an accrual to be made for the estimated winding up costs of the vehicle (see "Accrued winding up costs" in the Statement of Operations). The accrual for estimated winding up costs included in the Financial Statements represents the operating, leasing and interest costs estimated at the date of the Financial Statements to be incurred in the ordinary course of operating the vehicle until the date on which a winding up is assumed to commence (as well as certain costs anticipated to be incurred in order to place the vehicle into a winding up) net of the leasing revenue contracted at the date of the Financial Statements to be received for such period. The Board are considering a number of options in respect of the future winding up of Airplanes Group and therefore the estimate of winding up costs included in the Financial Statements has not taken into account certain costs that may be associated with the options potentially available as these costs are incapable of estimation at present. In accordance with the requirements of FASB ASC 205-30, the estimated interest costs which form part of the accrual include an amount of \$735 million in respect of step-up interest payable on the subclass A-8 notes and interest payable on the class B, C, D and E notes notwithstanding that Airplanes Group does not expect to have sufficient cashflows to make any further payments of step-up interest on the subclass A-8 notes or interest on the class B, C, D or E notes. The accrual as at March 31, 2015 totals \$748 million.

## **11. INDEBTEDNESS**

As detailed in Note 2, the Board consider that it is no longer appropriate to prepare the Financial Statements on a going concern basis given that at the date of the Financial Statements the current expectation is that the vehicle will cease its aircraft leasing and sale activities within the next twelve months and the Board are currently considering the strategy to wind up the vehicle. Accordingly the Financial Statements have been prepared on a liquidation basis in accordance with FASB ASC 205-30. The comparative results for the years ended March 31, 2014 and 2013 were prepared on a going concern basis of accounting. In accordance with the requirements of FASB ASC 205-30, all assets are stated at the best estimate of their recoverable amount and the results for the year ended March 31, 2015 are described as being on a discontinuing basis. In addition, an accrual has been made for the estimated winding up costs of the vehicle (see Note 10). FASB ASC 205-30 also requires that as at March 31, 2015 all liabilities (including Airplanes Group's indebtedness as described in this Note 11) are presented in the Balance Sheet as current, however the contractual terms of such liabilities as at March 31, 2015 differ from this required treatment and those contractual terms are reflected below. Future payments in respect of the class A notes will be dependent on the amount of cash which can be generated from the remaining assets of the vehicle less ongoing operating costs, winding up costs and other liabilities which are required to be discharged prior to or during the winding up process. Airplanes Group does not expect to be able to repay the subclass A-9 notes in full or to make any further payments of interest or principal on the class B, class C or class D notes.

The components of the debt are as follows:

	March 31			
	2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Indebtedness in respect of notes issued:				
Subclass A-9.....	402	39	393	38
Class B .....	207	20	207	20
Class C .....	320	30	320	30
Class D .....	360	35	360	35
Class E.....	12	—	12	—
	1,301	124	1,292	123

*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, outstanding principal balance 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, 2015	Expected Final Payment Date*	Final Maturity Date
		(\$ Millions)		
Subclass A-8** .....	(LIBOR+.375%)	—	—	—
Subclass A-9.....	(LIBOR+.55%)	431	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	12	See below	See below
		1,415		

\* 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**”).

\*\* The principal of the subclass A-8 notes was repaid in full on November 15, 2010. Although accrued and unpaid step-up interest on such notes remains outstanding and interest continues to accrue on such unpaid step-up interest, these amounts are payable at level (xv) in the priority of payments and Airplanes Group does not have sufficient cashflows to pay them.

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, if any, 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 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. The subclass A-9 notes have also not been repaid by their expected final payment date of November 15, 2008 however no step-up interest accrues in respect of the subclass A-9 notes.

LIBOR on the class A and class B notes equates to the London interbank offered rate for one month US 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 US 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 is repayable, subject to adequate funds being available, after the interest on the class E notes.

On November 15, 2010 GE Capital, as holder of the class E notes issued by Airplanes Trust in the principal amount of \$52,668,807, notified Airplanes Trust that, effective on that date, GE Capital thereby discharged and released Airplanes Trust from any and all payment and other obligations under such class E notes with the intent and for the purpose of discharging the indebtedness and other contractual obligations that such class E notes represent and cancelling those class E notes. On the basis of this notice and other considerations, the class E notes of Airplanes Trust in the principal amount of \$52,668,807 and the accrued interest thereon amounting to \$1,644,637,626 were released in the Statement of Operations for the year ended March 31, 2011. The interest expense was originally recorded in Net Interest Expense in the Statements of Operations, however, due to the unique and infrequent nature of this transaction the principal and interest released were included as an Extraordinary Item in the Statement of Operations for the year ended March 31, 2011. This transaction also resulted in the reversal of an \$18 million deferred tax liability during the year ended March 31, 2011.

On October 21, 2011 GE Capital, as holder of class E notes issued by Airplanes Limited in the principal amount of \$526,314,418, notified Airplanes Limited that, effective on that date, GE Capital thereby discharged and released Airplanes Limited from any and all payment and other obligations under such class E notes with the intent and for the purpose of discharging the indebtedness and other contractual obligations that such class E notes represent and cancelling those class E notes. On the basis of this notice and other considerations, the class E notes of Airplanes Limited in the principal amount of \$526,314,418 and the accrued interest thereon amounting to \$21,524,963,408 were released in the Statement of Operations for the year ended March 31, 2012. The interest expense was originally recorded in Net Interest Expense in the Statements of Operations, however, due to the unique and infrequent nature of this transaction the principal and interest released were included as an Extraordinary Item in the Statement of Operations for the year ended March 31, 2012.

The trust indentures entered into by Airplanes Group provides that in general the priority of repayment 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 notes and the 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 repayment 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 repayment of the principal amounts outstanding in respect of the various subclasses of class A notes was 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 subclass A-8 notes were repaid in full (save for accrued step-up interest and accrued interest thereon) on November 15, 2010.

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 (x) an increase in the price of fuel adversely impact the attractiveness of certain aircraft types, in particular the MD80s and B737s, which are considered to be less fuel-efficient, (y) decreasing popularity of the turboprop aircraft, the cessation of production of a number of aircraft types and the bankruptcy of Fokker, and (z) Airworthiness Directives with respect to a number of aircraft types, including the MD80s and B737s. These events have contributed to, and are likely to continue to contribute to, a significant reduction in overall lease rates and aircraft values, and may cause Airplanes Group to incur significant costs which would further reduce its cashflows.

Expenses of Airplanes Group 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, 2015, there has been a decline of 14.2% in the appraised value of Airplanes Group's fleet, being \$23 million less than the decline assumed in setting the payment schedules on Airplanes Group's notes. This has resulted in a decrease in the arrears of class A principal adjustment amount of \$2.8 million at February 17, 2015 (the first payment date following the 2015 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.

Since the January 31, 2007 appraisals, the outstanding principal balance of the class A notes has exceeded the adjusted portfolio value (determined by reference to the annual appraised value). As a result, 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 arrearage thereof. Airplanes Group believes that the class A outstanding principal balance will continue to exceed the adjusted portfolio value and therefore the corresponding method of calculation of class A minimum principal will continue to be applicable. Actual payments to class A noteholders, however, are dependent on available cashflows and are not affected by the method of 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 believe 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 arrearage is 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 arrearage 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.

#### *Suspension of payments of class A minimum principal*

In connection with the ongoing litigation with Transbrasil, a now bankrupt airline which was formerly a lessee of aircraft from our subsidiary Airplanes Holdings, the Board determined on October 8, 2013 to further increase the liquidity reserve held by way of the maintenance reserve amount, required to be held at the level of the “First Collection Account Top-up” in the priority of payments (the “**Liquidity Reserve**”) from US\$110 million to US\$140 million with immediate effect. This increase resulted in the suspension of payments of subclass A-9 minimum principal (but not subclass A-9 interest payments) commencing on October 15, 2013, which suspension continued until the amount of cash retained in the collection account by way of the Liquidity Reserve reached US\$140 million which occurred on the December 15, 2014 payment date. Such cash will continue to be invested in permitted account investments in accordance with the trust indentures.

The decision to increase the Liquidity Reserve was taken by the Board on October 8, 2013 in light of an updated assessment as at that date of a worst case allocation of liability to Airplanes Holdings in the Transbrasil litigation, the ongoing nature of the litigation and the absence of a concrete prospect of settlement or resolution. The

Board determined that such further increase in the Liquidity Reserve was necessary to allow for the potential payment by Airplanes Holdings in accordance with the judgment issued against Airplanes Holdings and the five other lessor companies involved in the litigation (together with Airplanes Holdings, the “**Lessor Companies**”) by the Appellate Court of the State of Sao Paulo in May 2010 (the “**2010 Judgment**”) and the Orders to Pay (as defined below) as well as for the interest, monetary adjustments for inflation, court mandated legal fees, court costs, fines, and legal and other expenses which had accrued since the initial increase in the Liquidity Reserve in June 2012 and were continuing to accrue.

The level of US\$140 million to which the Board determined that the Liquidity Reserve should be increased represented its best reasonable estimate at that time, based upon advice provided by Brazilian legal counsel retained by Airplanes Group’s servicer, GE Capital Aviation Services Limited (“**GECAS**” or the “**Servicer**”), on behalf of Airplanes Holdings (“**Brazilian Counsel**”), of a worst case allocation of liability to Airplanes Holdings under the 2010 Judgment, with the understanding that additional amounts could be payable but are not yet capable of being estimated.

The increase in the Liquidity Reserve to US\$140 million on October 8, 2013 followed an earlier increase in the Liquidity Reserve from US\$45 million to US\$110 million on June 28, 2012.

Since the date of issuance of the 2010 Judgment each of Transbrasil’s former owners, its trustee in bankruptcy, and its lawyers have been seeking separately to enforce this judgment and in June 2012 a Lower Court judge issued to Airplanes Holdings and the other Lessor Companies two orders to pay (the “**Orders to Pay**”). The total amounts specified in the Orders to Pay as being directly allocable to Airplanes Holdings are approximately R\$160 million / US\$80 million (based on an exchange rate of US\$1:R\$2. While the actual exchange rate fluctuates regularly and will cause the US\$ amounts to vary accordingly, this is the exchange rate used for all Brazilian currency conversions provided in the Financial Statements and is not necessarily the exchange rate on the date of the Financial Statements). The Orders to Pay also directed that payments be made by all the Lessor Companies, including Airplanes Holdings, with respect to a promissory note, a portion of which was held by Airplanes Holdings together with each of the other Lessor Companies (the “**AerCap Leasing Note**”), but the Orders to Pay did not assign any particular amount to be paid by Airplanes Holdings or any of the other Lessor Companies with respect to that promissory note, nor is it possible to calculate such amount without further guidance from the Lower Court.

As was the case with the June 2012 increase in the Liquidity Reserve, the Board determined on October 8, 2013 that, despite the fact that it believed the 2010 Judgment and Orders to Pay lacked merit, fairness or rationale, it had no option but to continue to take measures that would allow Airplanes Holdings to comply with the 2010 Judgment and the Orders to Pay, if and when enforced against Airplanes Holdings. Since, under the trust indentures, claims on Airplanes Group subsidiaries, such as the judgment against Airplanes Holdings, are senior to the subclass A-9 notes and certificates, such claims are required to be satisfied before Airplanes Group can make payments on the subclass A-9 notes and certificates. If Airplanes Group does not reserve a portion of its future cashflows, this will likely prevent Airplanes Holdings from being able to satisfy its liability and Airplanes Group will instead have distributed this limited cashflow as subclass A-9 minimum principal (ranking below this claim in the priority of payments) in contravention of Airplanes Group’s contractual requirements and of applicable law.

#### *Decision in Special Appeal on October 22, 2013*

On June 8, 2010, GECAS, on behalf of Airplanes Holdings as well as three other Lessor Companies (the “**GE Lessors**”), filed two appeals against the 2010 Judgment. One appeal (the “**Special Appeal**”) was filed with the Federal Court of Appeals of Brazil (Superior Tribunal de Justiça). The Special Appeal was heard on October 22, 2013 and a decision was rendered on the same day by the Federal Court of Appeals (the “**October 2013 Decision**”). In the October 2013 Decision the Federal Court of Appeals judges (by a unanimous vote) overturned the 2010 Judgment of the State Appellate Court in a number of respects. In early November 2013 both Transbrasil and the Lessor Companies filed motions to clarify against the October 2013 Decision. On November 26, 2013 the Federal Court of Appeals rejected both Transbrasil’s and the Lessor Companies’ motions to clarify, meaning that the October 2013 Decision became effective (for the purpose described below) on December 9, 2013 and remains unaltered and in force as at the date of the Financial Statements.

*Divergence Appeal filed by Transbrasil on February 7, 2014*

Against the October 2013 Decision, Transbrasil filed a divergence appeal on February 7, 2014 (the “**Divergence Appeal**”) and the Lessor Companies also filed two divergence appeals on February 20, 2014 (the “**Lessor Companies Divergence Appeal**”). A divergence appeal is an appeal filed by a party that was unsuccessful in one or more issues brought to the attention of the Federal Court of Appeals whereby the unsuccessful party argues that the decision of that court was inconsistent with previous decisions of the same court and should therefore be overturned. The filing of that Divergence Appeal means that the October 2013 Decision, whilst effective for the purpose of allowing Airplanes Holdings and the other Lessor Companies to request termination of the various provisional enforcement proceedings initiated by Transbrasil in the Lower Courts, is not yet final. Brazilian Counsel has advised Airplanes Holdings that it considers that the Divergence Appeal was filed by Transbrasil after the permitted deadline for filing such an appeal. Brazilian Counsel therefore intends to challenge the admissibility of the Divergence Appeal as well as the substance of the appeal should such challenge as to its admissibility be unsuccessful. The Divergence Appeal seeks to nullify the October 2013 Decision and restore the terms of the 2010 Judgment. The Lessor Companies Divergence Appeal seeks to expand the October 2013 Decision to eliminate any aspects thereof that are favorable to Transbrasil.

In light of the fact that the October 2013 Decision is not yet final (as a result of the filing of the Divergence Appeal), thereby allowing for the possibility of the reinstatement of the 2010 Judgment, the Board has been advised that it is required under applicable law to continue to maintain the Liquidity Reserve at its current level at this time and has accordingly determined not to make any reduction in the Liquidity Reserve at this time.

Airplanes Holdings will continue to vigorously dispute liability in the litigation with Transbrasil in an effort to favorably resolve the litigation and to have as much as possible of the Liquidity Reserve ultimately be paid to the subclass A-9 noteholders if the litigation is ultimately resolved in favor of Airplanes Holdings or if Airplanes Holdings’ ultimate liability is for a lower amount. The Board will continue to keep these matters under close review and to make adjustments as appropriate and necessary.

No assurances can be given as to the ultimate outcome of the litigation, the amounts that may be payable by Airplanes Holdings, or the timing of any resolution of the litigation.

*Cancellation of Orders to Pay*

Brazilian Counsel had previously advised Airplanes Holdings that as a result of the October 2013 Decision it expected that the Orders to Pay would be effectively cancelled and the letters of guarantee in connection therewith presented to the Lower Court would be returned to Airplanes Holdings and the other Lessor Companies given that the October 2013 Decision had become effective for this purpose. The Lessor Companies filed requests before the Lower Court where such provisional enforcement proceedings were ongoing seeking the cancellation of the Orders to Pay and the release of each of the letters of guarantee presented. The request for the cancellation of the Orders to Pay and release of the related letters of guarantee in connection with the provisional enforcement proceeding seeking to recover court mandated legal fees was granted by the Lower Court judge on February 4, 2014 and the related letters of guarantee were released on August 22, 2014. In addition, the request for the cancellation of the Orders to Pay and release of the related letters of guarantee in connection with the provisional enforcement proceeding seeking to recover twice the amount of the promissory notes was granted by the Lower Court judge on August 7, 2014 and the related letters of guarantee were released on August 22, 2014. Transbrasil has, however, appealed these decisions that have dismissed these provisional enforcement proceedings and cancelled the Orders to Pay. As a result, such decisions are not yet final and the Orders to Pay may be reinstated if Transbrasil is successful in its appeal.

*Ratings*

The vulnerability of the various classes of notes and corresponding certificates 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, 2015	S&P	Fitch	Moody's (S&P equivalent)
Subclass A-9.....	\$430.7m	CCC-	C	Ca (CC)**
Class B.....	\$226.8m	NR*	C	C (C)
Class C.....	\$349.8m	NR*	C	C (C)
Class D .....	\$395.1m	NR*	C	C (C)

\* Ratings withdrawn.

\*\* A press release was issued by Moody's on November 20, 2014 stating that the subclass A-9 certificates were being downgraded to "Ca" from "Caa3".

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 or subclass 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.

## 12. SHARE CAPITAL

	Airplanes Limited March 31,	
	2014	2015
	(\$)	
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, 2015, the total unpaid cumulative preferential dividend amounted to \$85,500.

## 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,					
	2013		2014		2015	
	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 .....	21	—	26	—	9	—
North America .....	74	1	7	15	11	13
South America .....	29	4	4	1	3	1
Asia/rest of world .....	90	8	34	3	15	—
	214	13	71	19	38	14
Of which, aircraft sales revenue from third parties represents .....	(92)	(2)	(27)	(1)	(11)	(2)

	Year ended March 31,					
	2013		2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Leasing revenue.....	122	11	44	18	27	12
Of which, maintenance reserve receipts represents.....	39	4	14	2	9	—

As of March 31, 2015, in addition to the one aircraft which was off-lease, there were four aircraft and one engine which were scheduled to come off lease before March 31, 2016 and two further aircraft were subject to conditional sale agreements which were due to expire before March 31, 2016.

At March 31, 2015, Airplanes Group had contracted to receive the following minimum rentals under operating leases:

Year ending March 31,	2015	
	Airplanes Limited	Airplanes Trust
	(\$ Millions)	
2016.....	3	9
2017.....	1	8
2018.....	1	8
2019.....	1	8
2020.....	0	4
	<u>6</u>	<u>37</u>

On March 3, 2015 Airplanes Group entered into agreements with Air Canada to extend the leases in respect of six A320-200 aircraft which were previously scheduled to expire between January and November 2015. In the case of each of the six aircraft, the term of the lease has been extended for four years.

It is currently anticipated that Airplanes Group's remaining aircraft (of which there are ten as at the date of the Financial Statements, excluding the six Air Canada aircraft) will be sold within the next twelve months although there can be no assurance that the actual timing of such sales will not differ, perhaps materially, from such anticipated timing. Given the anticipated timing for the sale of these ten aircraft, the Board believe that cashflows would be maximized through a sale of the six Air Canada aircraft with their current (extended) leases in place and accordingly GECAS is currently marketing these aircraft for sale, although again there can be no assurance as to the timing of any such sale. In determining whether to approve any proposed sale of the six Air Canada aircraft, as with other sale proposals the Board will review a written analysis from GECAS which, among other things, will compare the expected sale proceeds against the net present value of estimated cashflows from continued leasing.

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

For Airplanes Limited, (a) one lessee accounted for more than 10% of leasing revenue for the year ended March 31, 2013 and this lessee accounted for 16% of leasing revenue and (b) one lessee accounted for more than 10% of leasing revenue in the year ended March 31, 2014 and this lessee accounted for 14% of leasing revenue and (c) six lessees accounted for more than 10% of leasing revenue in the year ended March 31, 2015 and individually these lessees accounted for 21%, 15%, 13%, 12%, 12% and 11% of leasing revenue respectively. For Airplanes Trust: (a) three lessees accounted for more than 10% of leasing revenue for the year ended March 31, 2013 and individually these lessees accounted for 66%, 14% and 11% of leasing revenue, respectively, (b) two lessees accounted for more than 10% of leasing revenue for the year ended March 31, 2014 and individually these lessees accounted for 58% and 19% of leasing revenue, respectively, and (c) one lessee accounted for more than 10% of leasing revenue for the year ended March 31, 2015 and this lessee accounted for 85% of leasing revenue.

## 14. NET INTEREST EXPENSE

	Year ended March 31,					
	2013		2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Interest on notes issued.....	361	16	446	21	565	22
Interest income .....	(1)	—	—	—	—	—
	360	16	446	21	565	22
Cash paid in respect of interest.....	4	—	3	—	3	—

## 15. OTHER LEASE COSTS

	Year ended March 31,					
	2013		2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Maintenance costs.....	9	2	3	—	—	—
Other lease costs .....	6	—	(15)	1	2	1
	15	2	(12)	1	2	1

During 2010, the 2010 Judgment was rendered against Airplanes Holdings in an action brought by a now bankrupt former lessee, Transbrasil, and on June 21, 2012 the Lower Court of the county of Sao Paulo, Brazil issued two orders to pay against Airplanes Holdings as described in more detail in Note 11. Airplanes Holdings filed appeals against the 2010 Judgment and challenged the orders to pay. As described in more detail in Note 11, on October 22, 2013 the Brazilian Federal Court of Appeals rendered a decision in respect of one of the appeals filed by Airplanes Holdings which overturns the 2010 Judgment in a number of respects. This decision of the Federal Court of Appeals is not, however, final as a result of a divergence appeal filed by Transbrasil, as described in more detail in Note 11. As a result of the October 22, 2013 decision of the Federal Court of Appeals, the two orders to pay against Airplanes Holdings were cancelled, however Transbrasil has filed an appeal and the orders to pay may be reinstated if Transbrasil is successful in its appeal, as discussed in more detail in Note 11. Whilst Airplanes Holdings, based on the advice of Brazilian Counsel, believes it has strong defences against the substantive issues raised in the proceedings brought by Transbrasil, a provision of \$6 million in respect of the Transbrasil litigation was made in the Financial Statements as at March 31, 2014 (Airplanes Limited: \$6 million; Airplanes Trust: \$nil). As at March 31, 2015 the amount of this provision was updated to \$3 million (Airplanes Limited: \$3 million; Airplanes Trust: \$nil) (reflected in 'Other lease costs' above) having regard, inter alia, to the payment during the year ended March 31, 2015 of \$3.9 million to the Servicer by way of reimbursement of legal fees and expenses and guarantee fees incurred in relation to the Transbrasil litigation (which amount had previously been provided for). While Airplanes Holdings, based on the advice of Brazilian Counsel, believes it has strong defenses against the substantive issues raised in the proceedings brought by Transbrasil, the ultimate resolution of the matter could result in a loss in excess of the amount accrued, as described in more detail in Note 11. In addition, the provision of \$3 million does not include any amount that may ultimately be payable as a result of any decision in relation to Airplanes Holdings' proof of claim in the Transbrasil bankruptcy proceeding.

In February 2015 Airplanes Group was notified by AerCap Ireland Limited that it intended to seek indemnification from Airplanes Group in relation to certain Indian litigation proceedings. AerCap Ireland Limited has asserted that Airplanes Finance Limited, a subsidiary of Airplanes Holdings, is liable to indemnify AerCap Ireland Limited under the terms of a sub-lease assignment agreement entered into between such parties on March 8, 1996 pursuant to which the lease of one B737-200A aircraft to East West was assigned by AerCap Ireland Limited to Airplanes Finance Limited. AerCap Ireland Limited has indicated that it is one of several defendants under Indian litigation proceedings concerning East West, which proceedings were commenced by the AAI in 1997 and remain



ongoing. AerCap Ireland Limited has indicated that whilst it continues to defend itself in the proceedings, it intends to seek indemnification both for any liability which it may ultimately be adjudged to have to the AAI as well as its reasonable legal fees in defending the proceedings. At this time Airplanes Group does not accept that it has any liability in connection with this matter; however it is seeking more information from AerCap Ireland Limited in order to assess both the validity of the purported indemnification obligation and the possible size of any potential claim which may ultimately be made against Airplanes Group. In light of the uncertainties around both the validity of the purported indemnification obligation as well as the likelihood and possible size of any potential claim, no provision in respect of this matter has been made in the Financial Statements as at March 31, 2015. The ultimate resolution of the matter could however have a further adverse impact on Airplanes Group's cashflows.

## 16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended March 31,					
	2013		2014		2015	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
GECAS management fees .....	11	1	6	2	4	2
Other selling, general and administrative expenses .....	14	—	7	1	8	1
	<u>25</u>	<u>1</u>	<u>13</u>	<u>3</u>	<u>12</u>	<u>3</u>

In the year ended March 31, 2015, other selling, general and administrative expenses included an amount of \$5 million (Airplanes Limited: \$4 million; Airplanes Trust: \$1 million) 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, 2014 and \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$nil) payable in the year ended March 31, 2013.

## 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 US entities).

There was no tax charge in the year ended March 31, 2015 (Airplanes Limited: \$nil; Airplanes Trust: \$nil), as compared with no tax charge (Airplanes Limited: \$nil; Airplanes Trust: \$nil) for the year ended March 31, 2014.

In respect of Airplanes Limited, as at March 31, 2015, no deferred tax provision is being recognized in the Financial Statements. A deferred tax provision is deemed unnecessary due to the level of losses carried forward and additional forecasted losses. Airplanes Limited has a \$nil tax charge in the year ended March 31, 2015 (2014: \$nil).

Airplanes Trust had deferred tax assets relating to net operating loss carry forwards and deferred tax assets on aircraft at March 31, 2015 of \$28 million. These deferred tax assets are offset by a valuation allowance. The result is a net deferred tax liability of \$nil as at March 31, 2015 (2014: \$nil).

### (a) *Airplanes Limited*

Income tax credit/(charge) of Airplanes Limited consists of the following:

	Year ended March 31,		
	2013	2014	2015
	(\$ Millions)		
Current income tax .....	3	—	—
Deferred income tax .....	—	—	—
	<u>3</u>	<u>—</u>	<u>—</u>

There was no tax charge in the year ended March 31, 2015. No charge to Irish corporation tax arises for the period.

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 credit/(charge) of Airplanes Limited for 2013, 2014 and 2015 and the expected tax credit/(charge) based on a tax rate of 12.5% is shown below:

	Year ended March 31,		
	2013	2014	2015
	(\$ Millions)		
Tax credit/(charge) at tax rate.....	46	48	207
Impact of class E note interest and other items.....	(46)	(48)	(207)
US tax liabilities .....	—	—	—
Release of foreign withholding tax provisions .....	3	—	—
Actual tax credit/(charge) .....	3	—	—

Class E note interest is an adjusting item which is not deductible for tax purposes in Ireland.

Airplanes Limited had net operating loss carry-forwards of approximately \$1,694 million as of March 31, 2015 in trading entities (2014: \$2,300 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,	
	2014	2015
	(\$ Millions)	
Deferred tax assets relating to:		
Net operating losses carried forward .....	290	212
Valuation allowance .....	(287)	(209)
	3	3
Deferred tax liability relating to:		
Aircraft .....	3	3
	3	3
Net deferred tax .....	—	—

In assessing the realizability of deferred tax assets, the Board 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. The Board 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, the Board 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, 2015.

**(b) Airplanes Trust**

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

	Year ended March 31,		
	2013	2014	2015
	(\$ Millions)		
Current income tax:			
Federal .....	—	—	—
Total current .....	—	—	—
Deferred income tax:			
Federal .....	(2)	(11)	(13)
State .....	—	—	—
Increase in valuation allowance .....	2	11	13
Total deferred .....	—	—	—
	—	—	—

A reconciliation of differences between actual income tax benefit of Airplanes Trust for 2013, 2014 and 2015 the expected tax benefit/(expense) based on the US federal statutory tax rate of 35% in 2013, 2014 and 2015 is shown below:

	Year ended March 31,		
	2013	2014	2015
	(\$ Millions)		
Tax benefit at statutory rate .....	4	9	13
Non-deductible class E note interest .....	—	—	—
Non-taxable cancellation of debt income .....	—	—	—
Increase in valuation allowance .....	(3)	(11)	(13)
Other .....	(1)	2	—
	5	—	—

Airplanes Trust had federal and state net operating loss (“**NOL**”) carryforwards of approximately \$43.3 million as of March 31, 2015 (2014: \$26.8 million). These NOLs will begin to expire from a federal perspective in the year ended December 31, 2030. These NOLs will begin to expire from a state perspective in the year ended March 31, 2016.

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

	Year ended March 31,	
	2014	2015
	(\$ Millions)	
Deferred tax assets relating to:		
Net operating loss carryforwards .....	10	16
Valuation allowance .....	(14)	(28)
Accrual for winding up costs .....	—	10
Aircraft .....	4	2
	—	—
Deferred tax liabilities relating to:		
Aircraft .....	—	—
AMT NOL Liability .....	—	—
	—	—
Net deferred tax liability .....	—	—

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 \$28 million as of March 31, 2015. This valuation allowance was required for the year ended March 31, 2015 as the Board believes that it is more likely than not that the net operating loss carryforwards are not available.

## **18. COMMITMENTS**

### *Capital Commitments*

Airplanes Group did not have any material contractual commitments for capital expenditures at March 31, 2015.

## **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 11) 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.

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

Subsequent to March 31, 2015, the lease of one aircraft has been extended by a period of five months and a conditional sale agreement in respect of another aircraft has been terminated early as a result of the lessee ceasing its operations. Pursuant to the early termination agreement, title to the airframe of the aircraft was passed to the lessee and the two engines previously attached to the airframe were returned to Airplanes Group. Such engines will now be marketed for sale to a third party. In addition, subsequent to March 31, 2015, two aircraft which were subject to a letter of intent for sale to the lessee as at March 31, 2015 have been contracted for sale to the lessee.