

# ANNUAL REPORT

For the fiscal year ended March 31, 2005

of

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

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

**AIRPLANES LIMITED AND AIRPLANES U.S. TRUST**  
**2005 ANNUAL REPORT**  
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## 1. INTRODUCTION

### A. OVERVIEW

Airplanes Limited (“**Airplanes Limited**”) is a limited liability company formed under the laws of Jersey, Channel Islands. Airplanes U.S. Trust (“**Airplanes Trust**”) is a Delaware business trust. “**Airplanes Group**” refers to Airplanes Limited and Airplanes Trust, and in this report, we use “**we**,” “**us**” and “**our**” to refer to Airplanes Group and its subsidiaries and Airplanes Pass Through Trust. The “**board**” refers to the Board of Directors of Airplanes Limited and the Controlling Trustees of Airplanes U.S. Trust. We are in the business of leasing aircraft to aircraft operators around the world. At March 31, 2005, we owned 149 aircraft (the “**aircraft**”), 139 of which were on lease to 51 lessees in 33 countries.

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 as such filed annual, quarterly and other periodic reports with the SEC. You can obtain electronic copies, free of charge, of all of our periodic and current reports filed electronically with the SEC prior to June 3, 2005 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.

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

### AIRPLANES PASS THROUGH TRUST

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

Airplanes Limited is a special purpose limited liability company formed on November 3, 1995 under the laws of Jersey, Channel Islands. Its sole purposes are to (a) acquire, own, manage, maintain, lease, re-lease, modify and sell (subject to restrictions under its indenture) the aircraft, (b) finance and refinance these activities,

including guaranteeing the obligations of its subsidiaries and of Airplanes Trust, (c) manage its interest rate and currency risks, and (d) engage in other activities related to the aircraft and their financing.

Airplanes Limited's principal assets are the intercompany loans it has advanced to its subsidiaries and 95% of the capital stock of Airplanes Holdings Limited. As of March 31, 2005, Airplanes Holdings owned a total of 139 aircraft directly and through its aircraft-owning subsidiaries, and owned a number of aircraft-leasing subsidiaries which lease aircraft from the aircraft-owning subsidiaries and sublease them to lessees. The remaining 5% of the capital stock of Airplanes Holdings is owned by GE Commercial Aviation Services Limited ("GECAS"). See below "Risk Factors — Risks Relating to Tax" for a discussion of the tax benefits of this 5% ownership by GECAS and the risk of losing these benefits. Airplanes Limited has no ownership or leasehold interests in any real property.

For information on the capital stock of Airplanes Limited, including a discussion of annual dividends, see "5. Market for Airplanes Group's Common Equity and Related Shareholder Matters."

Airplanes Limited has a board of directors, which is currently composed of five directors. See "10A. Directors and Controlling Trustees" for details on these directors. Airplanes Limited does not have any employees or executive management of its own and relies solely on service providers to service, lease and re-lease aircraft and perform other executive and administrative responsibilities. For a description of the services provided by the service providers, see "10B. The Servicer" and "10C. The Administrative Agent and Cash Manager."

We have taken steps to structure Airplanes Limited and its acquisition of the aircraft-owning and aircraft-leasing subsidiaries from GPA Group (now known as debis AirFinance Ireland) in 1996 to ensure that its assets would not be consolidated with the assets of debis AirFinance Ireland and would not otherwise become available to its creditors in any bankruptcy or insolvency proceeding involving debis AirFinance Ireland or any of its affiliates. For a description of the risks if these steps are not effective, see "1B. Risk Factors — Risks Relating to Bankruptcy."

## **AIRPLANES TRUST**

Airplanes Trust is a Delaware statutory business trust formed in November 1995. Its sole purposes are to (a) acquire, own, manage, maintain, lease, re-lease, modify and sell (subject to restrictions under its indenture) the aircraft, (b) finance and refinance these activities, including guaranteeing the obligations of its subsidiaries and of Airplanes Limited, (c) manage its interest rate and currency risks and (d) engage in other activities related to the aircraft and their financing.

Airplanes Trust's principal assets are the intercompany loans it has advanced to its subsidiaries and 100% of the capital stock of AeroUSA, which as of March 31, 2005, owned 10 aircraft. The shares of AeroUSA and AeroUSA 3 are held by separate voting trusts with First Security Bank of Utah, acting as trustee, in order to satisfy the U.S. Federal Aviation Administration regulations regarding the U.S. citizenship of the owners of U.S. registered aircraft. Airplanes Trust has no ownership or leasehold interests in any real property.

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

Airplanes Trust has five controlling trustees, who are the same individuals as those who currently serve as directors of Airplanes Limited, and a Delaware trustee, Wilmington Trust Company. For information on its management, see "10. Directors and Trustees of Airplanes Group." Airplanes Trust does not have any employees or executive officers of its own and relies solely on service providers to service, lease and re-lease the aircraft and

perform other executive and administrative responsibilities. For a description of these services, see “10B. The Servicer” and “10C. The Administrative Agent and Cash Manager.”

We have taken steps to structure Airplanes Trust and its acquisition of the aircraft-owning and aircraft-leasing subsidiaries from GPA Group (now known as debis AirFinance Ireland) in 1996 to ensure that its assets would not be consolidated with the assets of debis AirFinance Ireland and would not otherwise become available to its creditors in any bankruptcy or insolvency proceeding involving debis AirFinance Ireland or any of its affiliates. For a description of the risks if these steps are not effective, see “1B. Risk Factors — Risks Relating to Bankruptcy.”

## **B. RISK FACTORS**

The following summarizes various risks and uncertainties which may materially affect the ability of Airplanes Limited and Airplanes Trust to pay interest, principal or any premium on the notes and hence our ability to pay interest, principal or any premium on our certificates in full at or before their respective final maturity dates. We first describe how the difficulties currently facing the airline industry have adversely affected our cashflows and the effect these reduced cashflows has had and is likely to have on our ability to make payments on the certificates. We then describe other risks which may further adversely affect our cashflow. 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**

#### ***OUR REDUCED CASHFLOWS MEAN THAT WE ARE UNABLE TO MAKE PAYMENTS ON JUNIOR NOTES AND CERTIFICATES.***

We have been unable to meet all of the base case assumptions either in our original prospectus dated March 28, 1996 (the “**1996 Base Case**”) or in our prospectus dated March 8, 2001 (the “**2001 Base Case**”). Various factors, starting with the 2001 terrorist attacks in the US and a weak global economy and including the continued threat of terrorist attacks, the outbreak of SARS, increases in fuel prices and the practicability of obtaining fuel hedges under current market conditions, and continuing risk of terrorism, armed hostilities or outbreak of disease have contributed to lower demand for air travel and an oversupply of aircraft which in turn have lead to a weakened airline industry and a weak aircraft leasing market. As a result we have had to restructure many of our leases. Additionally the rates we are able to achieve on new leases (also adversely affected by a low interest rate environment) have been generally lower, and in many cases significantly lower, than lease rates assumed in the 2001 Base Case. Although we are seeing some improvement in lease rates for certain aircraft types, this improvement has not made, nor do we expect it to make a significant difference to our net cashflow particularly given the age of our fleet. 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 consent solicitation we conducted in 2003 (the “**2003 consent solicitation**”), we are now able to sell aircraft which we may not have been able to sell previously, such sales in the current market are difficult to achieve and where sales have been completed, the sales proceeds have not made a significant difference to our cashflow. On each payment date we are currently only paying in full our administrative and lease expenses and certain other payments in the ordinary course of business, interest on the class A notes and swap payments, and the “First Collection Account Top-Up”. We use any remaining cashflows towards payment of minimum principal on the class A notes which at May 16, 2005 was

\$160.0 million in arrears. We do not anticipate that we will ever be able to resume making payments of interest or principal on the class B, C and D notes.

### ***Background***

#### *Class A principal adjustment amount*

As a result of our low revenues and a greater than assumed decline in the appraised value of the aircraft in our portfolio, we have 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. 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, resulting in accumulating arrears. In the year to January 31, 2005, there has been a decline of 11.57% in the appraised value of our fleet, being \$42.3 million greater than the decline assumed in setting the payment schedules on our notes. This has resulted in an increase in the arrears of class A principal adjustment amount by \$41 million to \$526.1 million at February 15, 2005 (the first payment date following the 2005 appraisals).

Class A principal adjustment amount ranks ahead of scheduled principal payments on the class C and D notes. If, on any payment date, we were unable to make payment in full of class A principal adjustment amount, then by definition we were unable to make any scheduled principal payments on the class C and D notes. Between February 1999 and March 2000, we were unable to make some scheduled principal payments on the class C and D notes and since April 2000 we have 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 we have sufficient available funds, we are 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 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. Minimum principal arrears on the class A notes were \$160.0 million following the May 16, 2005 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. Our 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*

We do not anticipate that we will ever be able to resume making payments of interest or principal on the class B, C and D notes. Given our failure to pay interest when due on these notes beginning on the December 15, 2003 payment date, interest has begun to accrue on the unpaid interest in accordance with the terms of the notes and will continue to accrue until all interest arrears are paid in full. Since interest (and minimum principal) on the class A notes is payable prior to payment of interest and minimum/scheduled principal on the class B, C and D notes (and all other amounts of principal on the class B, C and D notes), available cashflows will be used first to service interest and, to the extent possible, minimum principal on the class A notes. The minimum principal arrears on the class A notes on each payment date have been and will continue to be carried over to the next

payment date causing the amount payable to increase over time, making it more difficult to make payments in full. Even if cash were available at any subsequent time to make payments ranking below class A minimum principal, cashflows would first be used to pay interest on the class B notes, which would then include all the accrued interest from the period when no payments were made on these notes. Thus the likelihood of remaining cashflows over the life of Airplanes Group being sufficient to resume any payments ranking below class B interest is even further diminished.

If we 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 we would be unable to make further payments on that class of notes. Our failure to make payments on a class of notes results in failure to make payments on the corresponding class of certificates.

### *Ratings*

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

Set out in the table below are the ratings of our certificates at June 14, 2005:-

<u>Certificate</u>	<u>Outstanding Principal Balance as at May 16, 2005</u>	<u>S &amp; P</u>	<u>Fitch</u>	<u>Moody's (S&amp;P equivalent)</u>
Subclass A-8 .....	\$ 593.9m	A	BB	Baa3 (BBB-)
Subclass A-9 .....	\$ 750.0m	BB+	BB	B1 (B+)
Class B .....	\$ 226.8m	D	CCC	Ca (CC)
Class C .....	\$ 349.8m	D	CCC	Ca (CC)
Class D .....	\$ 395.1m	D	CC	C (C)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Airplanes Group has incurred net losses since its inception and expects to continue to incur substantial and increasing net losses. See "7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a further discussion of these net losses.

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

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

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

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

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

We manage interest rate risks arising from any mismatch between fixed and floating rate lease rental receipts and our floating rate interest obligations (the only interest obligations we are currently able to pay) through swaps and other derivative instruments. This strategy for managing interest rate risks is dependent upon our ability to enter into interest rate swaps with eligible counterparties and on the counterparties fulfilling their contractual obligations. If a counterparty defaults or if we are unable to find eligible counterparties willing to enter into interest rate swaps with us because of our financial condition, a mismatch between our floating rate interest obligations and our fixed and floating rate lease receipts may arise, which could further harm our cashflow.

As further discussed under “8. Quantitative and Qualitative Disclosures about Market Risks — Interest Rate Risk and Management” we have reviewed and modified our hedging policy with the approval of the rating agencies and no longer enter into hedges of the class B notes and certificates as we ceased payments of interest on these notes and certificates on the November 17, 2003 payment date. We believe it prudent to continue to hedge our interest rate exposure in respect of the class A notes and certificates as the mix of fixed and floating rental receipts does not correlate to the floating payments due on the class A notes and certificates. Our cashflows are insufficient to enable any funds to be allocated to the “Second Collection Account Top-up” in the priority of payments. Therefore, we have not included this cash balance in our hedging calculations since the end of 2003.

The required rating for a swap counterparty is 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 with the prior agreement of the rating agencies. However, because of our financial condition, it is becoming increasingly difficult for us to find counterparties willing to enter into swaps with us, and it is consequently becoming more expensive for us to enter into swaps with eligible counterparties.

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

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

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

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

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

Airplanes Group and debis AirFinance Ireland are represented by the same Jersey, Irish and United States legal counsel, and we anticipate that this multiple representation will continue. Our legal counsel may face

conflicts of interest when negotiating agreements between Airplanes Group and debis AirFinance Ireland. If a significant dispute does arise in the future between Airplanes Group and debis AirFinance Ireland or any of their respective affiliates, we anticipate that we will retain separate counsel to represent us.

## **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 AND CAN DECREASE CASHFLOW.***

The market for commercial jet aircraft is cyclical and can produce sharp increases or decreases in aircraft values and lease rates depending on the level of supply or demand. In 2001 there was a general downturn in the world economic climate, with a consequential negative impact on the commercial aviation industry. The effects of this downturn were exacerbated by the terrorist attacks of September 11, 2001, the military action of the U.S. and its allies in Afghanistan, the war in Iraq, terrorist attacks in various locations and the outbreak of Severe Acute Respiratory Syndrome (SARS). The threat of terrorist attacks had deterred air travel. The drop in passenger demand led to reductions in flight schedules and a consequent oversupply of aircraft (including aircraft available for lease), as well as severe financial difficulties for many airlines. High fuel prices are adding to these difficulties, although the weakened US dollar is somewhat mitigating these costs for European carriers. In the year to March 31, 2005, global traffic has increased and although we have seen some improvement in lease rates for certain aircraft types, this improvement has not made, nor do we expect it to make a significant difference to our net cashflow particularly given the age and mix of our fleet.

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

The conditions in the aircraft market depend upon, among other things, the business cycle for the lessees and buyers, as well as general economic conditions worldwide or in specific regions. The condition of the market at the time when any of our aircraft are being marketed for re-lease or sale will affect our ability to re-lease or sell those aircraft on satisfactory terms. Unsatisfactory market conditions, particularly for older aircraft, such as those we are currently experiencing, mean that the lease rates and, where applicable, sales proceeds that we obtain are unfavorable and less than those assumed in the 2001 Base Case, resulting in decreased cashflows. We cannot predict when, if at all for certain aircraft types, the market will recover.

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

Factors outside our control which affect our business include:

- general economic conditions affecting lessee operations as discussed above, including passenger demand and the cost of fuel and other expenses;
- 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;
- governmental 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 N.V., which has 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.

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

As of March 31, 2005, each of the B737-400, MD-83 and A320-200 models of aircraft comprised more than 10% of our portfolio by appraised value as of January 31, 2005 and, in addition, each of the B737-300, B737-500, B767-300ER, and F-100 models of aircraft comprised more than 5% of our portfolio by appraised value as of January 31, 2005. Furthermore, at March 31, 2005, widebody aircraft comprised more than 10%, and turboprop aircraft comprised more than 5% of our portfolio by appraised value as of January 31, 2005. The concentration on particular models or types of aircraft magnifies the adverse impact to our cashflow of a decline in lease rates or aircraft values for these models or types of aircraft and of specific governmental or technical regulations imposed on those aircraft types. In this connection, we have seen (x) decreasing popularity of the turboprop aircraft, the cessation of production of MD-83s, and the bankruptcy of Fokker, (y) noise regulations restricting the use of Stage 2 aircraft which, as of March 31, 2005, accounted for approximately 0.8% of our portfolio by appraised value as of January 31, 2005, and (z) Airworthiness Directives (“ADs”) with respect to the MD-80s and B737s, all as described more fully below in “2E. Compliance with Governmental and Technical Regulation.” These events have caused, and are likely to continue to cause, our overall lease rates and the aircraft values to significantly decrease and may cause us to incur significant costs which would further reduce our cashflow. Given the current oversupply of aircraft, particularly newer types, the market for some of our older types of aircraft such as MD-80s and F-100s may never recover to previous levels.

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

The appraised values of the aircraft are determined based on the assumption that there is an “open, unrestricted stable market environment with a reasonable balance of supply and demand” and take into account long-term trends, including current expectations of particular models becoming obsolete more quickly, as a result of airlines switching to different models or manufacturers ceasing production, and expected declines in lease rates. Appraised values for an aircraft do not necessarily reflect the market value for the aircraft at a specific time and you should not rely on appraised values as an indication of the price that we could obtain if we sold an aircraft. The aircraft market is cyclical and there may be imbalances of supply and demand at any one time, especially for specific aircraft types. At the high point in the industry cycle, the current market value of some

aircraft may be at or above their appraised values while the current market value of others may be significantly less than their appraised values. At a low point in the industry cycle such as we are experiencing currently, the current market value of most aircraft types is generally less, or in many cases, much less, than appraised values. As of the date of this Annual Report the appraised value of each of our aircraft is higher and in some cases, significantly higher than what we understand to be their likely market value.

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

***SOME OF OUR LESSEES MAY EXERCISE PURCHASE OPTIONS AT PRICES THAT ARE LESS THAN THE PROPORTIONATE SHARE OF THE UNPAID PRINCIPAL OF THE NOTES AND CERTIFICATES ALLOCABLE TO THE RELEVANT AIRCRAFT THEREBY REDUCING CASH AVAILABLE TO US TO MAKE PAYMENTS ON THE NOTES AND CERTIFICATES.***

As of March 31, 2005, four lessees had options to purchase a total of 8 aircraft, representing 7.24% of our portfolio by appraised value as of January 31, 2005. In each case, the purchase price will be less than the proportionate share of the unpaid principal of the notes and certificates allocable to the aircraft being purchased.

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

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, which could further reduce our cashflow.

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

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, which may prevent the aircraft from generating cashflow.

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

The availability of newer, more technologically advanced aircraft could adversely affect our ability to re-lease or sell our aircraft because lessees and buyers of used aircraft tend to favor these newer, more technologically advanced models. Within the last number of years demand for some older narrowbody Stage 3 aircraft, which make up a significant proportion of our portfolio, has been adversely affected by the availability of new generation narrowbody Stage 3 aircraft. Although this risk is common to all aircraft lessors, it is particularly significant for us because we have a comparatively older portfolio (the weighted average age of the portfolio at March 31, 2005 by appraised value as at January 31, 2005 is 13.95 years) and will need to re-lease all of our aircraft at least once before the final maturity date of the certificates. Our ability to manage these technological risks through modifications to aircraft is limited by the significant costs of modifications and by the restrictions imposed on modifications to aircraft under the indentures.

In addition, in light of the age of our fleet, should the current oversupply of aircraft continue in the longer term, our aircraft are highly likely to become obsolete earlier than the useful life expectancies assumed in the

2001 Base Case and/or it is highly likely that we will be unable to realize the residual values assumed in the 2001 Base Case at the end of the useful lives of certain 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 AND REDUCE OUR CASHFLOW.***

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

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

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

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

Additionally, prior to the 2003 consent solicitation we were not permitted to sell aircraft at prices below a specified target price except in limited circumstances and in limited aggregate amounts. This restricted our ability to sell aircraft to generate cashflow. Following the 2003 consent solicitation we amended the indentures to permit sales below that 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 begun to help us generate cash sales proceeds for aircraft that have little, if any, economic future and enable us to eliminate expenditures on storage, insurance and maintenance for those aircraft, we do not expect the proceeds of any such sales to make a significant difference to our cashflow.

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

We may not be able to re-lease the aircraft upon expiration or termination of the leases without incurring significant downtime. If we cannot quickly re-lease or sell the aircraft, or if we cannot obtain favourable sales prices or lease rates and lease terms for the aircraft, our cashflows will be adversely affected. Our ability to re-

lease aircraft at acceptable lease rates or sell aircraft on acceptable terms may suffer because of a number of factors, including:

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

For the reasons discussed above and in “7B. Recent Developments” the airline industry continues to suffer some of the worst times in aviation history. Our cashflows are suffering as a result of an oversupply of aircraft for lease and sale, increased aircraft downtime and an overall decline in lease rates and aircraft values, especially of older aircraft which make up a significant portion of our fleet. We cannot predict when, if at all for certain aircraft types, the market will recover to previous levels.

The following table shows the number and type of aircraft as of March 31, 2005 that we must remarket during the next five years. The table assumes that (1) no lease terminates early, (2) there are no sales of aircraft and (3) existing letters of intent will result in sales or leases. Additional aircraft may need to be remarketed if they become available through early terminations, if letters of intent do not result in sales or leases or if new leases are for short terms.

**AIRPLANES GROUP EXPECTED REMARKETING REQUIREMENT AS OF MARCH 31, 2005**

<u>Aircraft Type</u>	<u>Year Ending December 31,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
A320-200 .....	—	—	3	5	4
ATR42-300 .....	1	1	2	—	—
B737-200A .....	2	1	2	—	3
B737-300 .....	—	4	3	1	—
B737-400 .....	4	5	4	5	3
B737-500 .....	1	6	2	—	—
B757-200 .....	—	2	—	—	—
B767-200ER .....	—	—	1	—	—
B767-300ER .....	—	—	1	3	—
DC8-71F .....	9	1	—	—	—
DC8-73F .....	—	1	—	—	—
DHC8-100 .....	1	2	—	2	—
DHC8-300 .....	3	1	4	1	4
DHC8-300C .....	—	—	—	—	—
F-100 .....	—	—	6	2	4
MD-82 .....	—	2	—	—	—
MD-83 .....	2	4	9	4	—
MD-87 .....	—	1	—	—	—
Total .....	<u>23</u>	<u>31</u>	<u>37</u>	<u>23</u>	<u>18</u>

Our longest lease is scheduled to expire in June 2014. Therefore we will be required to remarket all of our aircraft at least once before the final maturity date for the certificates. We currently expect that the majority of our fleet will prove difficult to re-lease because of the factors noted above, particularly turboprop aircraft, older widebody aircraft, Stage 2 aircraft and some older Stage 3 narrowbody aircraft. If we cannot on a timely basis re-lease the aircraft that are coming off lease or can only re-lease them at lease rates lower than the lease rates assumed in our 2001 Base Case, our cashflow will be further reduced with the potential consequences described above under “— Risks Relating to Payment on the Notes and Certificates.” There are currently 32 aircraft which are scheduled to come off lease within a year from March 31, 2005. Our forecasts assume that future lease rates

for many of these aircraft will be significantly lower than currently contracted rates. In light of the difficulties we foresee in re-leasing these aircraft, we will also carefully consider the recommendation of the servicer as to whether in any particular case, a sale would achieve a more favorable economic outcome.

***WE MAY NOT BE ABLE TO OBTAIN REQUIRED LICENSES, CONSENTS AND APPROVALS, AND CONSEQUENTLY OUR CASHFLOW MAY BE REDUCED.***

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. In that case, our cashflow would be further reduced.

***LESSEES MAY NOT PERFORM REQUIRED AIRCRAFT MAINTENANCE, CAUSING THE AIRCRAFT VALUES AND LEASE RATES TO DECLINE AND THEREBY REDUCING OUR CASHFLOW.***

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

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

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 which would further reduce our cashflow.

The effects of the events of September 11, 2001, have included, amongst other things, increased insurance premiums required by the insurance markets. In particular, airlines worldwide continue to experience difficulties in maintaining war insurance cover and some other types of insurance cover in the amounts required under their leases with us and other lessors. These insurance issues have been mitigated in certain jurisdictions by a number of temporary government schemes and the emergence of a limited available insurance market, however, failure by a lessee to obtain adequate insurance cover as required under its lease could result in the relevant aircraft being grounded. 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.

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

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

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

In light of our current financial condition and our current or future ratings, it is becoming increasingly difficult for us to find counterparties willing to enter into swaps with us. If our hedging policy does not adequately manage our interest rate risks, including the associated lessee credit risks, we cannot find swap counterparties or we do not have sufficient cashflow to purchase the total amount of any swaptions required, a mismatch between our floating rate interest obligations (the only interest obligations we are currently able to pay) and fixed and floating rate lease receipts may arise, which could further harm our cashflow. Additionally, because of our financial condition the cost of entering into swaps is increasing which further reduces our cashflow.

See “8. Quantitative and Qualitative Disclosures about Market Risks — Interest Rate Risk and Management” for a discussion of changes we have made to our hedging policy.

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

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

#### **RISK OF LESSEE DEFAULT**

***LESSEES IN WEAK FINANCIAL CONDITION COULD FAIL TO MAKE LEASE PAYMENTS, CAUSING OUR REVENUES TO FALL.***

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

The prolonged downturn in the airline industry has resulted in a number of airlines experiencing severe financial difficulties. Some carriers, including some of our lessees have filed for bankruptcy, while others,

including many of our lessees, continue to announce large losses or face severe financial difficulties. We have agreed to rental holidays, rental restructurings, the early return of aircraft and similar measures for a number of lessees. You should expect that some of our current or future lessees will continue to be in a weak financial position, and a sizeable proportion of our lessees will continue to be in significant arrears on their rental or maintenance payments at any particular time.

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

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

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

**RISKS RELATING TO TAX**

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

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

***PRE-1998 AEROUSA LOSSES MAY NOT BE AVAILABLE TO OFFSET FUTURE TAXABLE INCOME OF AEROUSA, AS A RESULT OF WHICH AEROUSA MAY HAVE TO PAY ADDITIONAL U.S. FEDERAL INCOME TAX AND HAVE LESS CASHFLOW TO PAY AIRPLANES TRUST WHICH WILL HAVE LESS CASH TO MAKE PAYMENTS ON THE NOTES AND CERTIFICATES.***

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

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

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

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

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

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

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

Prior to GE Capital’s acquisition of the class E notes, Airplanes Holdings and its Irish tax resident aircraft owning subsidiaries qualified for treaty benefits by virtue of a ruling obtained by AerFi Group (now known as

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

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

***THE OPERATIONS OF AIRPLANES LIMITED, AIRPLANES TRUST AND AEROUSA MAY BECOME SUBJECT TO IRISH CORPORATE TAXES WHICH WOULD REDUCE THEIR CASHFLOW.***

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 AND REDUCE THE AMOUNTS CERTIFICATEHOLDERS RECEIVE.***

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 we cannot avoid the withholding, we have the right to redeem the notes and certificates. If withholding taxes are imposed on the notes or certificates and we do not redeem them, which is likely given our current financial condition, we will reduce the net amount of any interest that is passed through to certificateholders by the amount of any withholding or deduction.

***WE MAY LOSE IRISH CORPORATE TAX BENEFITS WHICH WOULD FURTHER REDUCE OUR CASH AVAILABLE TO MAKE PAYMENTS ON THE NOTES AND CERTIFICATES.***

Airplanes Limited owns 95% of the capital stock of Airplanes Holdings and GECAS owns the remaining 5%. The 5% shareholding by GECAS is intended to entitle Airplanes Holdings and some of its Irish tax-resident subsidiaries to continue to be eligible for a reduced rate of corporate tax and other corporate tax benefits for Shannon, Ireland certified companies, including a preferential 10% corporate tax rate. If GECAS reduces or relocates its operations for any reason so that it fails to maintain, among other things, specified employment levels in Ireland, or if GECAS resigns or its appointment is terminated in accordance with the terms of the servicing agreement, then Airplanes Holdings and those other companies (a) may lose the preferential tax rate of 10% otherwise applicable until December 31, 2005 and become subject to Irish corporate taxation at general Irish statutory rates, which are currently 12.5%, and (b) may lose the ability to deduct interest payments to Airplanes Limited from their income in calculating their liability to Irish tax. The loss of these tax benefits would likely further materially adversely affect Airplanes Limited's cashflows.

Upon the scheduled termination of the preferential 10% corporate tax rate on December 31, 2005, Airplanes Holdings and its Irish tax resident subsidiaries will become subject to Irish corporate tax on their net trading income, which would include leasing income, at general Irish statutory rates, which are currently 12.5%. There can be no assurance that this tax rate will not be changed in the future.

## **RISKS RELATING TO BANKRUPTCY**

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

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

## 2. THE AIRCRAFT, RELATED LEASES AND COLLATERAL

### A. OVERVIEW

As of March 31, 2005, our portfolio comprised a total of 149 aircraft, of which 139 aircraft were on lease to 51 lessees in 33 countries and 10 aircraft were off-lease. At March 31, 2005, five of these off-lease aircraft were subject to letters of intent for sale and one was subject to a lease contract. As of the date of this Annual Report, the five aircraft subject to letters of intent for sale have been sold and the aircraft subject to the lease contract has been delivered to the lessee. As of March 31, 2005, the weighted average remaining contracted lease term of our portfolio (by appraised value as of January 31, 2005 and without giving effect to purchase options or extension options) was 30 months. Our longest lease is scheduled to expire in June 2014. Therefore we will be required to re-lease all of our aircraft at least once before the final maturity date of the certificates. See “1B. Risk Factors — Risks Relating to the Leases and Cashflows from Lease Payments” for a description of the risks certificateholders could face if aircraft are not re-leased.

### B. APPRAISALS

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

For the appraisals as of January 31, 2005, we obtained independent appraisals from three independent appraisers and calculated the appraised value of each aircraft by taking the average of the three appraisals. On this basis, the average appraised value for our portfolio of 149 aircraft was approximately \$1,616.4 million as of January 31, 2005, as compared to \$1,828.1 million for the same 149 aircraft based on appraisals as of January 31, 2004.

The appraised value of each aircraft in our portfolio by each of the three independent appraisers as of January 31, 2005 can be found in “Airplanes Group Portfolio Analysis” below. The aggregate appraised values calculated by each of the three independent appraisers for our portfolio, calculated by adding up the appraised value by that appraiser of each aircraft in our portfolio, are as follows:

<u>Appraiser</u>	<u>Aggregate Appraised Value as of January 31, 2005</u> (In Millions)
Airclaims Limited . . . . .	\$1,426.7
Aircraft Information Services, Inc. . . . .	1,518.7
BK Associates, Inc. . . . .	1,903.7
Average of three appraisers . . . . .	\$1,616.4

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

Additionally, since we are no longer in a position to maintain loan to current appraised value ratios by paying class A principal adjustment amount and since, as a result of the consent solicitation, we are no longer required to meet a specified target price on sales of aircraft, there is now little significance to the appraised values, other than as a basis for statistical information on the portfolio and for complying with certain technical provisions in the indentures.

### C. PORTFOLIO INFORMATION

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

As of March 31, 2005, 99.19% of the aircraft in our portfolio by appraised value as of January 31, 2005 held or were capable of holding a noise certificate issued under Chapter 3 of Volume 1, Part II of Annex 16 of the Chicago Convention or have been shown to comply with the Stage 3 noise levels set out in Section 36.5 of Appendix C of Part 36 of the United States Federal Aviation Regulations (assuming for this purpose that turboprop aircraft are Stage 3 aircraft). We refer to this as being “**Stage 3**” compliant and call these aircraft “**Stage 3 aircraft.**”

The remaining 0.81% of the aircraft by appraised value as of January 31, 2005 held or were capable of holding a noise certificate issued under Chapter 2 of the Chicago Convention or have been shown to comply with the Stage 2 noise levels set out in Section 36.5 of Appendix C of Part 36 of the United States Federal Aviation Regulations but do not comply with the requirements for a Stage 3 aircraft. We refer to this as being “**Stage 2**” compliant and call these aircraft “**Stage 2 aircraft.**” Most jurisdictions have adopted these U.S. classifications, which consider Stage 2 aircraft that have been hushkitted to be Stage 3 aircraft. For purposes of the table below, Stage 2 aircraft that have been hushkitted are considered to be Stage 3 aircraft and referred to as “**Stage 3hk.**”

The following table lists the aircraft by type and number as of March 31, 2005 and the percentage of our portfolio they represent by appraised value as of January 31, 2005. For the purpose of this table, turboprop aircraft are considered to be Stage 3 aircraft.

<u>Manufacturer</u>	<u>Type of Aircraft</u>	<u>Number of Aircraft</u>	<u>Body Type</u>	<u>Stage</u>	<u>% of Portfolio by Appraised Value as of January 31, 2005</u>
Boeing (49.03%) . . . . .	B737-200A	9	Narrowbody	2	0.81
	B737-200A	1	Narrowbody	3hk	0.08
	B737-300	8	Narrowbody	3	6.48
	B737-300QC	2	Narrowbody	3	1.40
	B737-400	22	Narrowbody	3	21.14
	B737-500	11	Narrowbody	3	8.76
	B747-200SF	1	Freighter	3	0.80
	B757-200	3	Narrowbody	3	4.32
	B767-200ER	1	Widebody	3	1.63
	B767-300ER	4	Widebody	3	9.39
McDonnell Douglas (26.29%) . . . . .	DC8-71F	12	Freighter	3	3.32
	DC8-73CF	1	Freighter	3	0.41
	MD-82	2	Narrowbody	2	0.87
	MD-83	20	Narrowbody	3	12.29
	MD-87	1	Narrowbody	3	0.42
Airbus (13.51%) . . . . .	A320-200	12	Narrowbody	3	15.30
Fokker (5.50%) . . . . .	F-100	16	Narrowbody	3	6.68
De Havilland of Canada (5.01%) . . .	DHC8-100	5	Turboprop	3	0.73
	DHC8-300	13	Turboprop	3	4.07
	DHC8-300C	1	Turboprop	3	0.29
ATR (0.67%) . . . . .	ATR42-300	4	Turboprop	3	0.81
Total . . . . .		<u>149</u>			<u>100.00%</u>

The following table sets forth the exposure of our portfolio by lessee as of March 31, 2005 according to the number of aircraft and the appraised value as of January 31, 2005.

<u>Lessee(1)</u>	<u>Number of Aircraft</u>	<u>% of Portfolio by Appraised Value as of January 31, 2005</u>
Aerovias Nacionales de Colombia S.A. (AVIANCA) . . . . .	7	7.86%
AC Leasing . . . . .	6	7.49
Turk Hava Yollari A.O. (THY Turkish Airlines) . . . . .	6	5.86
SkyEurope Airlines . . . . .	5	4.05
Air One SpA . . . . .	4	3.80
Compania Mexicana de Aviacion, S.A. de C.V. (MEXICANA) . . . . .	8	3.41
Spanair S.A. . . . .	6	3.38
TAM Transportes Aereos Meridionais S.A. . . . .	8	3.27
Nouvelair Tunisie . . . . .	3	3.23
China Southern Airlines Company Limited . . . . .	4	3.16
Compania Hispano Irlandesa de Aviacion S.A. (FUTURA) . . . . .	3	2.84
Philippine Airlines Inc. (PAL) . . . . .	3	2.75
BH Air . . . . .	2	2.69
Ukraine International . . . . .	3	2.55
Compagnie Nationale Air France (AIR FRANCE) . . . . .	2	2.49
Nationwide Airlines . . . . .	1	2.45
Air Atlantic Icelandic . . . . .	1	2.43
euro Atlantic Airways . . . . .	1	2.32
Air Transport International . . . . .	7	1.98
Meridiana SpA . . . . .	3	1.95
P T Garuda Indonesia . . . . .	2	1.84
Air Asia Sdn. Bhd. . . . .	2	1.81
PT Metro Batavia . . . . .	3	1.81
Caribbean Star Airlines . . . . .	5	1.54
Other (27 lessees) . . . . .	44	20.15
Off-lease(2) . . . . .	<u>10</u>	<u>2.89</u>
Total . . . . .	<u>149</u>	<u>100.00%</u>

(1) Total number of lessees = 51

(2) As of March 31, 2005, five of the ten off-lease aircraft were subject to letters of intent for sale and one aircraft was subject to a lease contract. As of the date of this Annual Report, the five aircraft subject to letters of intent for sale have been sold and the aircraft subject to the lease contract has been delivered to the lessee.

The following table sets forth the exposure of our portfolio by country of domicile of lessees as of March 31, 2005 according to the number of aircraft and the appraised value of the portfolio as of January 31, 2005.

<u>Country(1)</u>	<u>Number of Aircraft</u>	<u>% of Portfolio by Appraised Value as of January 31, 2005</u>
Canada . . . . .	8	8.80%
Colombia . . . . .	9	8.44
Turkey . . . . .	7	6.52
Spain . . . . .	9	6.22
Mexico . . . . .	13	6.10
Indonesia . . . . .	12	6.08
Italy . . . . .	7	5.76
China . . . . .	5	4.64
United States of America . . . . .	10	3.61
Brazil . . . . .	8	3.27
Tunisia . . . . .	3	3.23
France . . . . .	3	3.05
United Kingdom . . . . .	4	2.80
Philippines . . . . .	3	2.75
Bulgaria . . . . .	2	2.69
Ukraine . . . . .	3	2.55
Iceland . . . . .	1	2.43
Antigua . . . . .	10	2.41
Slovakia . . . . .	3	2.41
South Africa . . . . .	1	2.45
Portugal . . . . .	1	2.32
Malaysia . . . . .	2	1.81
Hungary . . . . .	2	1.64
Other (10 countries) . . . . .	13	5.13
Off-lease(2) . . . . .	<u>10</u>	<u>2.89</u>
Total . . . . .	<u>149</u>	<u>100.00%</u>

(1) Total number of countries = 33

(2) As of March 31, 2005, five of the ten off-lease aircraft were subject to letters of intent for sale and one aircraft was subject to a lease contract. As of the date of this Annual Report, the five aircraft subject to letters of intent for sale have been sold and the aircraft subject to the lease contract has been delivered to the lessee.

The following table sets forth the exposure of our portfolio by regions in which lessees are domiciled as of March 31, 2005 according to the number of aircraft and the appraised value of our portfolio as of January 31, 2005.

<u>Region(1)</u>	<u>Number of Aircraft</u>	<u>% of Portfolio by Appraised Value as of January 31, 2005</u>
Europe (excluding CIS Countries) .....	42	38.09%
Latin America .....	43	20.82
North America .....	18	12.41
Asia & Far East .....	25	17.32
Africa .....	5	5.77
Australia & New Zealand .....	1	0.16
Other (including CIS Countries) .....	3	2.55
Off-Lease(1) .....	<u>10</u>	<u>2.89</u>
Total .....	<u>149</u>	<u>100.00%</u>

(1) As of March 31, 2005, five of the ten off-lease aircraft were subject to letters of intent for sale and one aircraft was subject to a lease contract. As of the date of this Annual Report, the five aircraft subject to letters of intent for sale have been sold and the aircraft subject to the lease contract has been delivered to the lessee.

The following table sets forth the exposure of the portfolio by year of aircraft manufacture or conversion to freighter as of March 31, 2005 according to the number of aircraft and the appraised value of the aircraft as of January 31, 2005. See note 1 to "Airplanes Group Portfolio Analysis" below for the original manufacture dates for the aircraft that were converted into freighters.

<u>Year of Manufacture/Freighter Conversion</u>	<u>Number of Aircraft</u>	<u>% of Portfolio by Appraised Value as of January 31, 2005</u>
1988 .....	12	5.18%
1989 .....	7	3.66
1990 .....	20	13.47
1991 .....	40	24.53
1992 .....	47	44.19
1993 .....	5	2.48
Other .....	<u>18</u>	<u>6.49</u>
Total .....	<u>149</u>	<u>100.00%</u>

The following table sets forth the exposure of the portfolio by seat category as of March 31, 2005 according to the number of aircraft and the appraised value of the portfolio as of January 31, 2005.

<u>Seat Category</u>	<u>Aircraft Types</u>	<u>Number of Aircraft</u>	<u>% of Portfolio by Appraised Value as of January 31, 2005</u>
Less than 51	DHC8, ATR42 .....	23	5.90%
91-120	B737-200A, B737-500, MD-87, F-100 .....	38	16.76
121-170	B737-300/300QC/400, MD-82/83, A320-200 .....	66	57.47
171-240	B757-200, B767-200ER .....	4	5.95
241-350	B767-300ER, .....	4	9.39
Freighter	B747-200SF, DC8-71F/73CF .....	<u>14</u>	<u>4.53</u>
		<u>149</u>	<u>100.00%</u>

**AIRPLANES GROUP PORTFOLIO ANALYSIS  
AT MARCH 31, 2005**

<u>Region</u>	<u>Country</u>	<u>Lessee</u>	<u>Aircraft Type</u>	<u>Serial Number</u>	<u>Date of Manufacture/ Conversion(1)</u>	<u>Appraised Value at January 31, 2005 (U.S.\$000's)</u>	<u>% of Portfolio by Appraised Value as of Jan 31, 2005</u>
Africa	Nigeria	Belview Airlines Ltd	B737-200A	23024	1983	1,436	0.09%
	South Africa	Nationwide Airlines	B767-300ER	26200	1992	39,572	2.45%
	Tunisia	Nouvelair Tunisie	MD83	49631	1989	9,759	0.60%
Asia & Far East	Tunisia	Nouvelair Tunisie	A320-200	348	1992	21,796	1.35%
	Tunisia	Nouvelair Tunisie	A320-200	301	1992	20,695	1.28%
	Bangladesh	GMG Airlines	DHC8-300	307	1991	5,078	0.31%
	China	China Southern	B737-500	24897	1991	12,098	0.75%
	China	China Southern	B737-500	25182	1992	12,569	0.78%
	China	China Southern	B737-500	25183	1992	13,228	0.82%
	China	China Southern	B737-500	25188	1992	13,242	0.82%
	China	Xinjiang	B737-200	26156	1992	23,837	1.47%
	Indonesia	Garuda	B737-400	24683	1990	14,537	0.90%
	Indonesia	Garuda	B737-400	24691	1990	15,187	0.94%
Indonesia	PT Lion Mentari Airlines	B737-400	26071	1992	16,757	1.04%	
Indonesia	PT Adam SkyConnection Airlines	B737-400	24520	1990	14,471	0.90%	
Indonesia	PT Mandala Airlines	B737-200A	21685	1979	892	0.06%	
Indonesia	PT Mandala Airlines	B737-200A	22278	1980	1,317	0.08%	
Indonesia	PT Mandala Airlines	B737-200A	22804	1983	1,938	0.12%	
Indonesia	PT Mandala Airlines	B737-200A	22803	1983	1,922	0.12%	
Indonesia	PT Mandala Airlines	B737-200A	23023	1983	2,005	0.12%	
Indonesia	PT Metro Batavia	B737-200A	22802	1983	1,276	0.08%	
Indonesia	PT Metro Batavia	B737-400	24687	1990	14,326	0.89%	
Indonesia	PT Metro Batavia	B737-400	24345	1989	13,597	0.84%	
Japan	Skynet Asia	B737-400	26069	1992	17,081	1.06%	
Malaysia	AirAsia Berhad	B737-300	24907	1991	14,590	0.90%	
Malaysia	AirAsia Berhad	B737-300	24905	1991	14,705	0.91%	
Philippines	Philippine Airlines	B737-400	24684	1990	14,532	0.90%	
Philippines	Philippine Airlines	B737-400	26081	1993	16,978	1.05%	
Philippines	Philippine Airlines	B737-300	24770	1990	12,971	0.80%	
Taiwan	Far Eastern Air Transport	MD83	49950	1991	10,787	0.67%	
Australia & New Zealand	Australia	National Jet Systems	DHC8-100	229	1990	2,658	0.16%

Region	Country	Lessee	Aircraft Type	Serial Number	Date of Manufacture/Conversion(t)	Appraised Value at January 31, 2005 (U.S.\$000's)	% of Portfolio by Appraised Value as of Jan 31, 2005
Europe	Bulgaria	BH Air	A320-200	349	1992	22,472	1.39%
	Bulgaria	BH Air	A320-200	294	1992	21,026	1.30%
	Czech Republic	Travel Servis a.s.	B737-400	24911	1991	15,868	0.98%
	France	Air France	A320-200	220	1991	20,299	1.26%
	France	Air France	A320-200	203	1991	20,024	1.24%
	France	Blue Line	MD83	49672	1988	9,027	0.56%
	Hungary	SkyEurope Airlines	B737-500	25185	1992	12,917	0.80%
	Hungary	SkyEurope Airlines	B737-500	25289	1992	13,574	0.84%
	Iceland	Air Atlanta Icelandic	B767-300ER	26204	1992	39,288	2.43%
	Italy	Air One SpA	B737-300	25179	1992	14,922	0.92%
	Italy	Air One SpA	B737-300	25187	1992	15,175	0.94%
	Italy	Air One SpA	B737-400	24906	1991	15,493	0.96%
	Italy	Air One SpA	B737-400	24912	1991	15,893	0.98%
	Italy	Meridiana SpA	MD83	49792	1989	9,978	0.62%
	Italy	Meridiana SpA	MD83	49935	1990	10,621	0.66%
	Italy	Meridiana SpA	MD83	49951	1991	10,977	0.68%
	Netherlands	Capital Aviation Services B.V.	DHC8-300	276	1991	4,965	0.31%
	Netherlands	Capital Aviation Services B.V.	DHC8-300	244	1990	4,665	0.29%
	Norway	Wideroe's Flyveselskap A/S	DHC8-300	293	1991	5,185	0.32%
	Norway	Wideroe's Flyveselskap A/S	DHC8-300	342	1992	5,475	0.34%
	Portugal	euroAtlantic Airways	B767-300ER	25411	1992	37,577	2.32%
	Slovakia	SkyEurope Airlines	B737-500	25186	1992	12,147	0.75%
	Slovakia	SkyEurope Airlines	B737-500	25191	1992	13,569	0.84%
	Slovakia	SkyEurope Airlines	B737-500	25288	1992	13,244	0.82%
	Spain	Futura	B737-400	25180	1992	15,989	0.99%
	Spain	Futura	B737-400	24690	1990	14,996	0.93%
	Spain	Futura	B737-400	24689	1990	14,912	0.92%
	Spain	Spanair	MD83	49624	1988	6,763	0.42%
	Spain	Spanair	MD83	49936	1990	9,881	0.61%
	Spain	Spanair	MD83	49709	1988	9,054	0.56%
	Spain	Spanair	MD83	49626	1988	9,074	0.56%
	Spain	Spanair	MD83	49938	1990	10,666	0.66%
	Spain	Spanair	MD83	49620	1988	9,274	0.57%
	Turkey	FreeBird Airlines	MD83	49949	1991	10,583	0.65%
	Turkey	Turk Hava Yollari	B737-400	24917	1991	15,783	0.98%
	Turkey	Turk Hava Yollari	B737-400	24493	1989	14,707	0.91%
	Turkey	Turk Hava Yollari	B737-400	26065	1992	15,950	0.99%
	Turkey	Turk Hava Yollari	B737-400	25181	1992	15,581	0.96%
	Turkey	Turk Hava Yollari	B737-400	25261	1992	16,766	1.04%
	Turkey	Turk Hava Yollari	B737-400	25184	1992	15,998	0.99%
	Turkey	Turk Hava Yollari	B737-400	296	1991	5,077	0.31%
	United Kingdom	Air Southwest	DHC8-300	334	1992	5,507	0.34%
	United Kingdom	easyJet Airline Company Limited	DHC8-300	23923	1988	11,694	0.72%
	United Kingdom	Titan Airways Limited	B757-200	26151	1992	22,977	1.42%

Region	Country	Lessee	Aircraft Type	Serial Number	Date of Manufacturer/ Conversion(I)	Appraised Value at January 31, 2005 (U.S.\$000's)	% of Portfolio by Appraised Value as of Jan 31, 2005
Latin America	Antigua	Caribbean Star Airlines	DHC8-300	266	1991	4,902	0.30%
	Antigua	Caribbean Star Airlines	DHC8-300	232	1990	4,569	0.28%
	Antigua	Caribbean Star Airlines	DHC8-300	267	1991	5,086	0.31%
	Antigua	Caribbean Star Airlines	DHC8-300	300	1992	5,230	0.32%
	Antigua	Caribbean Star Airlines	DHC8-300	298	1992	5,041	0.31%
	Antigua	Liat	DHC8-100	270	1991	2,644	0.16%
	Antigua	Liat	DHC8-100	113	1988	2,131	0.13%
	Antigua	Liat	DHC8-100	140	1989	2,143	0.13%
	Antigua	Liat	DHC8-300	283	1991	4,955	0.31%
	Antigua	Liat	DHC8-100	144	1989	2,275	0.14%
	Brazil	TAM Linhas Aereas	F100	11305	1991	6,762	0.42%
	Brazil	TAM Linhas Aereas	F100	11304	1991	6,749	0.42%
	Brazil	TAM Linhas Aereas	F100	11284	1990	6,271	0.39%
	Brazil	TAM Linhas Aereas	F100	11285	1990	6,330	0.39%
	Brazil	TAM Linhas Aereas	F100	11371	1991	6,656	0.41%
	Brazil	TAM Linhas Aereas	F100	11348	1991	6,825	0.42%
	Brazil	TAM Linhas Aereas	F100	11347	1991	6,682	0.41%
	Brazil	TAM Linhas Aereas	F100	11336	1991	6,558	0.41%
	Colombia	Avianca	B757-200	26154	1992	22,949	1.42%
	Colombia	Avianca	MD83	49946	1991	10,227	0.63%
	Colombia	Avianca	B767-200ER	25421	1992	26,381	1.63%
	Colombia	Avianca	MD83	49939	1990	9,915	0.61%
	Colombia	Avianca	MD83	53125	1992	11,206	0.69%
	Colombia	Avianca	MD83	53120	1992	11,059	0.68%
	Colombia	Avianca	B767-300ER	24948	1991	35,378	2.19%
	Colombia	Tampa	DC8-71F	45945	1992	3,787	0.23%
	Colombia	Tampa	DC8-71F	45976	1991	5,498	0.34%
	El Salvador	Taca International	ATR42-300	109	1988	2,989	0.18%
	El Salvador	Taca International	ATR42-300	113	1988	2,885	0.18%
	Mexico	Aeromexico	MD82	49660	1988	6,920	0.43%
	Mexico	Aeromexico	MD82	49667	1988	7,119	0.44%
	Mexico	Aeromexico	MD87	49673	1988	6,788	0.42%
	Mexico	Estafeta Carga Aerea	B737-300SF	23500	1986	11,224	0.69%
	Mexico	Estafeta Carga Aerea	B737-300SF	23499	1986	11,380	0.70%
	Mexico	Mexicana	F100	11374	1992	7,178	0.44%
	Mexico	Mexicana	F100	11375	1992	7,061	0.44%
	Mexico	Mexicana	F100	11382	1992	7,166	0.44%
	Mexico	Mexicana	F100	11384	1992	7,157	0.44%
	Mexico	Mexicana	F100	11266	1990	6,327	0.39%
	Mexico	Mexicana	F100	11339	1991	6,594	0.41%
	Mexico	Mexicana	F100	11309	1991	6,923	0.43%
	Mexico	Mexicana	F100	11319	1991	6,774	0.42%
Uruguay	PLUNA Lineas Aereas Uruguayas S.A.	ATR42-300	284	1992	3,785	0.23%	

Region	Country	Lessee	Aircraft Type	Serial Number	Date of Manufacture/Conversion(I)	Appraised Value at January 31, 2005 (U.S.\$000's)	% of Portfolio by Appraised Value as of Jan 31, 2005
North America	Canada	AC Leasing	A320-200	175	1991	19,364	1.20%
	Canada	AC Leasing	A320-200	404	1993	21,769	1.35%
	Canada	AC Leasing	A320-200	174	1991	19,348	1.20%
	Canada	AC Leasing	A320-200	232	1991	19,519	1.21%
	Canada	AC Leasing	A320-200	284	1991	20,051	1.24%
	Canada	AC Leasing	A320-200	309	1992	20,986	1.30%
	Canada	Jetso Airlines	MD83	49941	1990	10,270	0.64%
	Canada	Jetso Airlines	MD83	49943	1991	10,869	0.67%
	United States of America	Air Transport International	DC8-71F	45811	1991	5,095	0.32%
	United States of America	Air Transport International	DC8-71F	45813	1992	5,047	0.31%
	United States of America	Air Transport International	DC8-71F	45973	1992	4,813	0.30%
	United States of America	Air Transport International	DC8-71F	45978	1993	3,848	0.24%
	United States of America	Air Transport International	DC8-71F	45993	1993	4,882	0.30%
	United States of America	Air Transport International	DC8-71F	45994	1994	3,911	0.24%
	United States of America	Air Transport International	DC8-71F	46065	1992	4,457	0.28%
	United States of America	Astar Air Cargo	DC8-73CF	46091	1989	6,627	0.41%
	Off Lease	United States of America	Pace Airlines	B737-300	23749	1987	11,039
United States of America		TWA Airlines LLC	MD83	49575	1987	8,665	0.54%
Off Lease		Off Lease	B737-300	23177	1986	9,631	0.60%
Off Lease		Off Lease	DHC8-300C	242	1990	4,746	0.29%
Off Lease		Off Lease	B747-200SF	21730	1999	12,870	0.80%
Off Lease		Off Lease	B737-200A	22979	1983	1,280	0.08%
Off Lease		Off Lease	DC8-71F	45849	1991	3,712	0.23%
Off Lease		Off Lease	DC8-71F	46066	1991	3,486	0.22%
Off Lease		Off Lease	ATR42-300	249	1991	3,449	0.21%
Off Lease		Off Lease	B737-200A	22368	1980	1,170	0.07%
Off Lease		Off Lease	B737-200A	22369	1980	1,193	0.07%
Off Lease		Off Lease	DC8-71F	45970	1992	5,163	0.32%
Other		Ukraine	Ukraine International	B737-400	25190	1992	16,129
	Ukraine	Ukraine International	B737-500	25192	1992	12,433	0.77%
	Ukraine	Ukraine International	B737-500	26075	1992	12,636	0.78%
					<b>1,616,387</b>	<b>100.00%</b>	

Note:

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

<u>MSN</u>	<u>Date of Manufacture</u>	<u>MSN</u>	<u>Date of Manufacture</u>
45811 .....	Aug-67	45993 .....	Aug-68
45813 .....	Jan-67	45994 .....	Aug-68
45849 .....	Apr-67	46065 .....	Jun-69
45945 .....	Mar-68	46066 .....	Jun-69
45970 .....	Mar-68	46091 .....	Apr-70
45973 .....	May-68	21730 .....	Jun-79
45976 .....	Jul-68		
45978 .....	Jul-68		

(2) As of March 31, 2005, five of the off-lease aircraft (MSN 242, 21730, 22979, 45849, 46066) were subject to letters of intent for sale and one aircraft (MSN 23177) was subject to a lease contract. As of the date of this Annual Report, the five aircraft (MSN 242, 21730, 22979, 45849, 46066) have been sold and the aircraft subject to lease contract (MSN 23177) has been delivered to the lessee.

## D. THE LEASES

Most of the leases are operating leases under which we generally retain the benefit, and bear the risk, of the residual value of the aircraft at the end of the lease. As of March 31, 2005, 139 aircraft were on lease and ten aircraft were off-lease. As of March 31, 2005, five of these off-lease aircraft were subject to letters of intent for sale and one was subject to a lease contract. The remaining four unplaced aircraft represent 0.68% of our portfolio by appraised value as of January 31, 2005. As of the date of this Annual Report, the five aircraft subject to letters of intent for sale have been sold and the aircraft subject to a lease contract has been delivered to the lessee. All leases are managed by the servicer according to the servicing agreement.

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

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

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

Each lease also contains provisions which specify our rights and remedies if the lessee defaults in making payments or performing its other obligations under the lease. These remedies include terminating the lease and repossessing the aircraft. However, any default by a lessee may lead to reduction of payments under the leases and cause us to incur significant repossession and other costs, including breakage costs under swaps. If there is an event of default due to a lessee's bankruptcy, we may also face delays in asserting our rights if the relevant jurisdiction imposes a mandatory waiting period between default and repossession.

The following is a summary of the principal terms of the leases as of March 31, 2005, with reference to appraised values as of January 31, 2005.

<b>Lease Term</b> .....	As of March 31, 2005, the weighted average remaining contracted lease term of the aircraft (weighted by appraised value as of January 31, 2005 and without giving effect to purchase options, early terminations or extensions) was 30 months. The longest lease was scheduled to expire in June 2014.
<b>Rentals</b> .....	As of March 31, 2005, rent under 126 of the leases, representing 92.17% by appraised value of our portfolio as of January 31, 2005, was payable monthly in advance, and rent under 13 of the leases, representing 4.95% by appraised value of our portfolio as of January 31, 2005, was payable monthly in arrears.  These rental payments are calculated based on a floating rate or a fixed rate or may change from one to the other over the course of the lease. The rent under all of the leases is currently payable in U.S. dollars, although in the future, rent on some new leases may be payable in euros. Some rental payments are based on the number of flight hours an aircraft is operated or may vary depending on the time of year during which the aircraft is operating.
<b>Extension Options</b> .....	Some of the leases contain an extension option pursuant to which, depending on the negotiations with the lessee at the time of signing of the lease, either we or the lessee could extend the term of the lease at either the

existing lease rate or at the future market rate. As of March 31, 2005, 26 of the leases representing 16.56% of our portfolio by appraised value as of January 31, 2005, included an extension option.

- Early Termination Options . . . . .** Some of the leases contain an early termination option pursuant to which the lessee may terminate the lease before the scheduled expiration date if specified conditions are met. As of March 31, 2005, 24 of the leases representing 15.6% of our portfolio by appraised value as of January 31, 2005 include an early termination option. Assuming that all these options are exercised for the earliest possible termination, the weighted average remaining lease term of our portfolio would be 29 months.
  
- Purchase Options . . . . .** As of March 31, 2005, four lessees had outstanding options to purchase a total of eight aircraft, representing 7.2% of our portfolio by appraised value as of January 31, 2005. The latest date on which a purchase option could be exercised is November 16, 2008 for a purchase of a B767-200ER.
  
- Security Deposits . . . . .** As of March 31, 2005, lessees under 132 of the leases representing 88.89% of our portfolio by appraised value as of January 31, 2005 have provided security for their obligations. As of March 31, 2005, we had \$23 million in cash security deposits in respect of 100 aircraft representing 64.71% of our portfolio by appraised value as of January 31, 2005, and \$104 million in letters of credit in respect of 58 aircraft representing 43.30% of our portfolio by appraised value as of January 31, 2005.
  
- Guarantees . . . . .** In 45 of the leases representing 16.37% of our portfolio by appraised value as of January 31, 2005, we have received guarantees of the lessee's performance obligations under the lease. These guarantees were issued by the lessee's parent company or shareholders.
  
- Maintenance . . . . .** The leases contain detailed provisions specifying maintenance standards and aircraft redelivery conditions generally to be met at the lessees' expense. During the term of each lease, we require the lessee to maintain the aircraft in accordance with an agreed maintenance program designed to ensure that the aircraft meets applicable airworthiness and other regulatory requirements. Lessees must provide monthly maintenance reserves under approximately 81 of the leases. Under the balance of the leases, the lessee or the lessor may be required to make certain adjustment payments to one another if at redelivery the aircraft or specified items do not meet the required standards under the lease. Heavy maintenance on significant components of an aircraft, such as the airframe and the engines, is generally required to be performed on a cycle of several years and the cost of this maintenance may be material in relation to the value of the aircraft, with the overhaul of a single component often exceeding \$1 million. Pursuant to the leases, if and when an aircraft is transferred from one lessee to another between maintenance overhauls, the transferring lessee is generally required to pay for that portion of the succeeding overhaul that can be attributed to its use of the aircraft under its lease.

Depending on the credit of the lessee and other factors, we may require that the lessee pay cash maintenance reserves (74 leases as of March 31, 2005, representing 58.52% of our portfolio by appraised value as of January 31, 2005) or provide a combination of maintenance reserves and letters of credit (12 leases as of March 31, 2005, representing 6.70% of our portfolio by appraised value as of January 31, 2005). If the lessee pays maintenance reserves, we will have to reimburse it for maintenance it

actually performs on the aircraft. Our obligation to reimburse maintenance is classified as an expense and therefore ranks senior to any payments on the notes and certificates.

If the lessee is not required to pay maintenance reserves or provide letters of credit or guarantees, we have to rely on the lessee's credit and its ability to maintain the aircraft during the lease term and return it in good condition or make any maintenance payments required at the end of the lease. If maintenance is required on the aircraft but not performed, or the lessee fails to pay, we have to fund this maintenance ourselves. As of March 31, 2005, we recorded approximately \$264 million of maintenance reserves liability.

Maintenance payments by lessees will depend upon numerous factors including the financial condition of the lessee and the ability of Airplanes Group to obtain satisfactory maintenance terms in leases. An increasing number of leases do not provide for any maintenance payments to be made by lessees as security for their maintenance obligations. Any significant variations in these factors may materially adversely affect the ability of Airplanes Group to make payments of interest, principal and premium, if any, on the notes and certificates.

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

**Insurance** . . . . . The lessees bear responsibility through an operational indemnity to carry insurance for liabilities arising out of the operation of the aircraft. The indemnity includes liabilities for death or injury to persons and damage to property that ordinarily would attach to the operator of the aircraft. The lessees are also required to carry comprehensive liability insurance and hull insurance, and any further insurance that is customary in the commercial aircraft industry, and to indemnify us against all liabilities, including where the liability to us as owner and lessor attaches by law. Generally, the leases require us to be named as an additional insured on hull and liability policies. Most of the leases also require the lessee to maintain the liability insurance for a specified period between one and two years after termination of that lease. Under the servicing agreement, the servicer is required to monitor the lessees' performance of obligations with respect to the insurance provisions of the applicable leases. We also carry contingent hull and liability insurance consistent with industry practice which acts as a backup for Airplanes Group's interests in instances where a lessee's policy does not satisfy the requirements of the lease and acts as excess coverage above that provided by a lessee's policy. The amount of the contingent liability policies may not be the same as the insurance required under the lease. The amount of war third party contingent insurance and other types of cover are subject to a number of limitations imposed by the aviation insurance industry particularly following the terrorist attacks of September 11, 2001.

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 September 11, 2001, the aviation insurance markets applied a \$50 million limit on war third party (non-passenger) liability insurance. We require lessees to either buy additional insurance in the commercial markets or obtain equivalent protection under applicable governmental schemes. These insurance issues have been mitigated in certain jurisdictions by a number of temporary government schemes and the emergence of limited available insurance markets, however, failure by a lessee to obtain adequate insurance cover as required under its lease could result in the relevant aircraft being grounded. This would likely reduce our cashflows if as a result aircraft were returned early and/or we do not receive rental payments from lessees which are affected by such developments.

**Aircraft Property Insurance** . . . . In all cases, the sum of the stipulated loss value and our own additional coverage in place is at least equal to the appraised value of the aircraft. Permitted deductibles, which generally apply only in the case of a partial loss, range from \$50,000 for turboprop aircraft to \$1 million for widebody aircraft. Following insurance market developments in the aftermath of the terrorist attacks of September 11, 2001, the insurance market, on January 1, 2002, ceased offering cover for Confiscation by the State of Registration (as generally required under the leases). Such cover is now available again, for certain jurisdictions but at increased costs. However, the lack of general availability of cover for Confiscation by the State of Registration risk in all jurisdictions means that this requirement is not currently satisfied under all of the leases.

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

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

## E. COMPLIANCE WITH GOVERNMENTAL AND TECHNICAL REGULATION

In addition to the general requirements regarding maintenance of the aircraft, aviation authorities from time to time issue ADs requiring the operators of aircraft to take particular maintenance actions or make particular modifications with respect to all aircraft of a particular type. Manufacturer recommendations may also be issued. To the extent that a lessee fails to perform ADs that are required to maintain its certificate of airworthiness or other manufacturer requirements in respect of an aircraft (or if the aircraft is not currently subject to a lease), Airplanes Group may have to bear or share (if the lease requires it) the cost of compliance. Other governmental regulations relating to noise and emissions levels may be imposed not only by the jurisdictions in which the aircraft are registered, including as part of the airworthiness requirements, but also in other jurisdictions where the aircraft operate. A number of jurisdictions including the United States have adopted, or are in the process of adopting, noise regulations which ultimately will require all aircraft to comply with the most restrictive currently applicable standards. Some of the jurisdictions that impose these regulations restrict the future operation of aircraft that do not meet Stage 3 noise requirements and prohibit the operation of those aircraft in those jurisdictions. As 0.81% of our portfolio by appraised value as of January 31, 2005 did not meet the Stage 3 requirements as of March 31, 2005, these regulations may adversely affect Airplanes Group because our non-compliant aircraft will not be able to operate in those jurisdictions and we may incur substantial costs to comply with the Stage 3 requirements.

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

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

Aviation authorities in Europe and North America have adopted regulations requiring the installation of traffic collision avoidance systems, automatic emergency locator transmitters and various other systems. Depending on whether the costs of complying with these regulations are borne by us or the lessees, installation of these systems could result in significant cash capital expenditures by Airplanes Group in the future. In addition to the ADs discussed below, we currently expect that the FAA and other aviation authorities may issue further ADs to improve security on aircraft.

One requirement is the installation of enhanced Ground Proximity Warning System (“**GPWS**”) in all aircraft by 2005, which has been mandated by the FAA and the European Joint Airworthiness Authorities. GPWS is an avionics system which detects an aircraft’s proximity to the ground. The enhanced version enables the system to correlate the aircraft’s current position with a database of obstructions in the horizontal plane (high mountain peaks, buildings, antennae etc). All new generation Airbus and Boeing aircraft have GPWS and require only a software upgrade. For the majority of our aircraft, installation of GPWS requires the full modification, some of which are being completed under cost sharing arrangements with lessees. The estimated cost to implement this modification is \$120,000 per aircraft. To the extent that compliance with this or any further such ADs is not the responsibility of lessees under their leases, or if the aircraft are not on lease, we may incur significant costs, which could impact adversely our results of operations.

The FAA issued an AD concerning insulation for the purpose of increasing fire safety on MD-80 aircraft. At March 31, 2005, 23 aircraft representing 13.58% of the portfolio by appraised value as of January 31, 2005, were MD-80s. We are incurring significant costs in ensuring these aircraft comply with these standards. It is estimated that the necessary modification of the 23 aircraft will cost approximately \$8.9 million. To date, we have

completed the modification of twelve aircraft at a cost of \$5.7 million. We expect to complete the modification of the remaining aircraft by December 31, 2007 at an estimated cost of \$3.2 million.

The FAA issued Notice Of Proposed Rule Making (NPRM 2005-NM-028-AD) on April 5, 2005 in relation to the further replacement of insulation blankets. The affected insulation covering is installed on B737-200/300 and 400 aircraft; B747 aircraft, B757 and B767 aircraft originally certified 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. There is no set date for this NPRM to be issued as an AD. The servicer is currently assessing the possible affects of this NPRM on our fleet.

The FAA has issued an AD mandating the modification of affected lap joints on Boeing 737 aircraft when an aircraft has completed 50,000 cycles. The estimated cost to implement those modifications for each aircraft is approximately \$230,000. Based on the current cycles completed to date, our 53 Boeing 737 aircraft, representing 38.7% of our portfolio by appraised value at January 31, 2005, are not likely to require these modifications prior to 2007. However, after that date we will incur significant costs in ensuring our Boeing 737 aircraft comply with these standards, which could impact adversely our results of operations.

In early 2004 Boeing discovered cracks at the lap joint areas on a number of B737-200/300/400/500 aircraft ("B737 classic aircraft"), which were caused by scribe marks from sharp instruments used in paint, sealant and de-cal removal. As of November 2004, per Boeing information, 50 B737 classic aircraft out of 77 aircraft inspections were reported to have scribes (28 B737-200's, 18 B737-300's, 4 B737-400's). Also reported were scribe findings on five B747's, two B767's, and two B757's. The FAA issued Notice of Proposed Rule Making (NPRM 2004-NM-269-AD) on April 29, 2005 in relation to this matter and the associated AD is expected to be mandated by the fourth quarter of 2005. The servicer is assessing our portfolio of B737 classic aircraft to determine the extent of the exposure of our fleet.

The FAA has issued an AD affecting all Boeing 737 aircraft, mandating the installation of a new rudder power control unit and changes to adjacent systems in order to rectify an unsafe condition which has led to a jammed or restricted control of the rudder in the past. The manufacturer will supply most of the parts of engineering as this is a recognized design problem and the average cost per aircraft of the labour is expected to be approximately \$15,000 and is to be completed before November 2008. If the costs are not the responsibility of some or all lessees under their leases, or if the aircraft are not on lease, we could incur costs in ensuring that our 56 Boeing 737 aircraft comply with these modifications, which could impact adversely our results of operations.

In light of the events of September 11, 2001, the regulatory authorities issued Special Federal Aviation Regulation Amendments mandating the installation, before April 2003 in the US and November 2003 in Europe, of ballistic and blunt impact resistance flight doors allowing for controlled cockpit access as well as emergency ingress and egress to and from the cockpit. There may be further requirements in this area relating to transponder upgrades and on board video surveillance systems in the near future. As regulations currently stand the majority of aircraft will be modified by the lessee with no cost to us. However such requirements may increase remarketing costs for aircraft currently off-lease or which are returned to us over the next twelve months.

## **F. THE LESSEES**

As of March 31, 2005, 139 of our aircraft were on lease to 51 lessees in 33 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, 2005, 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 \$0.1 million in respect of 16 lessees (who leased a combined total of 49 aircraft representing 32.0% of our portfolio by appraised value as of that date) and \$0.7 million in respect of seven former lessees. Of the total \$0.8 million, \$0.1 million was in arrears for a period between 30 and 60 days, \$0.1 million was in arrears for a period between 60 and 90 days and \$0.6 million was in arrears for a period greater than 90 days. Some of these lessees have consistently been significantly in arrears in their respective rental payments and many are known to be currently experiencing financial difficulties.

As of March 31, 2005, in addition to the \$0.8 million in respect of payments past due more than 30 days, we had agreed to allow four lessees to defer rent, maintenance and miscellaneous payments totaling \$8.9 million for periods ranging from seven months for one lessee in respect of \$0.1 million and up to 32 months for one lessee in respect of \$6.5 million. Restructurings have typically involved delaying rental payments for certain periods and/or the reduction of current rentals usually in exchange for extensions of the relevant leases. In addition, some restructurings have involved forgiveness of amounts of past due rent, voluntary terminations of leases prior to lease expiration, the replacement of aircraft with less expensive aircraft and the arrangement of subleases from the lessee to another aircraft operator. In other cases, it has been necessary to repossess aircraft from lessees which have defaulted and re-lease the aircraft to other lessees. While the servicer attempts to limit concessions, the current international commercial aircraft market is characterized not only by a large number of weak lessees, but also by overcapacity of available aircraft in every aircraft category and restructuring of leases is often the only way to keep our aircraft in use and earning revenues. The servicer is still pursuing negotiations with some lessees and we expect further restructurings to be agreed with a consequent adverse effect on operating revenues.

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

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

## **LATIN AMERICA**

At March 31, 2005, lessees with respect to 20.82% of the aircraft by appraised value as of January 31, 2005 operated in Latin America, principally Brazil, Mexico and Colombia. The prospects for lessee operations in these countries depend in part on the general level of political stability and economic activity and policies in those countries. Future developments in the political systems or economies of these countries or the implementation of future governmental policies in these countries may materially affect these lessees' operations.

*Brazil.* The instability in the Brazilian economy experienced in recent years means that lessees may be unable to generate sufficient revenues in Brazilian currency to pay rental payments in U.S. dollars under the leases. At March 31, 2005, Airplanes Group leased 8 aircraft representing 3.27% of our portfolio by appraised value as of January 31, 2005 to operators in Brazil. Accordingly, any future deterioration in the Latin American economies, especially Brazil, could lead to a decrease in Airplanes Group's leasing revenues and an increase in default related costs.

At March 31, 2005, we had eight F-100 aircraft, representing 3.27% of our portfolio by appraised value as of January 31, 2005, on lease to a Brazilian lessee. The lessee signed an agreement which provides for rental deferrals of 35% to 50% for the period to December 2002, with repayment before the expiry of the current leases in 2007 and 2008. The lessee has to date continued to meet its obligations to us.

A former Brazilian lessee of three MD-11 aircraft, due to trading difficulties, was in arrears. The servicer, following discussions with the lessee agreed to the early return of the aircraft during 2003. The aircraft which were returned, were subsequently sold during the year ended March 31, 2005. The servicer has signed a settlement agreement in respect of the lessee's obligations and the lessee is current in respect of these obligations.

During the year ended March 31, 2005, a former Brazilian lessee of three B737-500 aircraft, representing 2.39% of our portfolio by appraised value at January 31, 2005 was in arrears. The servicer agreed to the early return of the aircraft prior to March 31, 2003, and has signed a settlement agreement in 2004 in respect of the lessee's obligations. The lessee is current in respect of these obligations.

At March 31, 2005, a former Brazilian lessee of one DC8-71F aircraft, representing 0.32% of our portfolio by appraised value as of January 31, 2005, was in arrears. The servicer took redelivery of the aircraft during the year ended March 31, 2005 and is pursuing the lessee for its outstanding obligations.

See "4. Legal Proceedings" for details of legal proceedings involving a Brazilian airline.

*Colombia.* Colombia has recently suffered economically as a result of the deterioration in the value of the Colombian peso and the resulting negative impact on the Colombian economy. As of March 31, 2005, we leased nine aircraft, representing 8.44% of our portfolio by appraised value as of January 31, 2005, to two Colombian lessees. Because of the continued weakness in the value of the Colombian peso, as well as general deterioration in the Colombian economy, these lessees may be unable to generate sufficient revenues in Colombian pesos to pay the U.S. dollar denominated rental payments under the leases.

At March 31, 2005, we leased seven aircraft (included in the nine aircraft mentioned in the preceding paragraph) to one Colombian lessee, representing 7.86% of our portfolio by appraised value at January 31, 2005. The lessee, which emerged from Chapter 11 bankruptcy protection in the U.S. in December 2004, is current in respect of its obligations which were restructured during the year ended March 31, 2004.

*Antigua.* During the year ended March 31, 2004, one Antiguan lessee of five aircraft, representing 0.88% of our portfolio by appraised value as of January 31, 2005, agreed with the servicer to a restructuring, in which the lessee would pay its arrears over a 24 month period. The lessee is current in respect of these obligations.

## **NORTH AMERICA**

As of March 31, 2005, we had 10 aircraft, representing 3.61% of our portfolio by appraised value as of January 31, 2005, on lease to four U.S. lessees, and eight aircraft, representing 8.80% of our portfolio by appraised value as of January 31, 2005, on lease to two Canadian lessees. The commercial aircraft industry in North America is highly sensitive to general economic conditions. Since air travel is largely discretionary, the industry has suffered severe financial difficulties during economic downturns. Over the last several years, the majority of the major North American passenger airlines have entered into plans of reorganization or sought protection through bankruptcy, insolvency or other similar proceedings and several major U.S. airlines have ceased operations.

At March 31, 2005, we leased six aircraft, representing 7.49% of our portfolio by appraised value as of January 31, 2005 to one Canadian lessee. The lessee, which has emerged from the protection of the Companies Creditors Arrangement Act (Canada), resumed making payments in July 2003 and continues to do so. The servicer had agreed a restructuring of the leases resulting in a temporary reduction in lease rentals. During the year ended March 31, 2005 we realised \$2 million from the proceeds of shares received under our claim against the lessee under its bankruptcy proceedings.

At March 31, 2005 we leased two aircraft, representing 1.31% of our portfolio by appraised value as of January 31, 2005 to another Canadian lessee. During the year to March 31, 2005, the airline filed for protection under the Companies Creditors Arrangement Act (Canada). Subsequent to March 31, 2005 the lessee declared bankruptcy. The servicer is currently pursuing the return of our two aircraft and assessing the claim against the bankrupt estate. The two aircraft have also become subject to a letter of intent for lease.

In the year ended March 31, 2005, a lessee of one aircraft representing 0.88% of our portfolio by appraised value as of January 31, 2005 filed for Chapter 11 bankruptcy protection. The aircraft was rejected as part of the Chapter 11 proceedings and has been redelivered. The servicer agreed a \$10 million cash settlement with the lessee which was received during the year ended March 31, 2005. The aircraft has been sold subsequent to March 31, 2005.

## **ASIA & FAR EAST**

As of March 31, 2005, 25 aircraft representing 17.32% of our portfolio by appraised value as of January 31, 2005 were on lease to 12 lessees in this region. Since 1999, there has been some stabilization and recovery in the economies of this region.

In the final quarter of the year ended March 31, 2003, this region in particular, was subject to the outbreak of SARS. This led to widespread disruption in travel within and from outside the region. Airlines suffered substantial cutbacks in the number of passengers travelling and flight schedules were reduced, but are now largely recovered. On December 26, 2004, South East Asia was struck by a tsunami, causing severe devastation in the region. There are likely to be knock-on effects on tourism, which may adversely affect travel and lessees in the region.

*Indonesia.* During the year ended March 31, 2005, an Indonesian lessee of two aircraft representing 0.15% of our portfolio by appraised value as of January 31, 2005 was in arrears. The servicer issued default notices to the lessee and the aircraft were returned. The servicer is currently in discussions with the lessee regarding outstanding amounts due.

## **EUROPE (EXCLUDING CIS)**

As of March 31, 2005, 44 aircraft representing 38.09% of our portfolio by appraised value as of January 31, 2005 were on lease to 18 lessees in this region. The commercial aircraft industry in European countries, as in the rest of the world generally, is highly sensitive to general economic conditions. Accordingly, the financial prospects for European lessees can be expected to depend largely on the level of economic activity in Europe generally and in the specific countries in which these lessees operate. In addition, commercial airlines in Europe face, and can be expected to continue to face, increased competitive pressures, in part as a result of the continuing deregulation of the airline industry by the EU. There can be no assurance that competitive pressures resulting from such deregulation will not have a material adverse impact on the operations of our European lessees.

*Turkey.* During the year to March 31, 2005, a Turkish lessee of one A300 aircraft, was in arrears. The servicer concluded the sale of the aircraft to the lessee and settled the arrears.

## **AFRICA**

As of March 31, 2005, five aircraft representing 5.77% of our portfolio by appraised value as of January 31, 2005, were on lease to three lessees in this region. Given the age and type of aircraft in our portfolio, this region represents an area of growing opportunity for the successful lease placement of our aircraft.

## **OTHER**

We have three aircraft, representing 2.55% of our portfolio by appraised value as of January 31, 2005, on lease to one lessee, in Ukraine.

## **PURCHASE OPTIONS**

As of March 31, 2005, four lessees with respect to eight aircraft, representing 7.24% of our portfolio by appraised value as of January 31, 2005, held options to purchase aircraft. The purchase price will be less than the proportionate share of unpaid principal of the notes and certificates allocable to the aircraft being purchased. If these options are exercised there could be additional reductions in the amount of cash available to us.

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

Prior to the 2003 consent solicitation, our indentures limited our ability to sell aircraft at less than specified amounts. The consent solicitation has enabled us to generate cash flows from aircraft sales in circumstances where we would otherwise not have been able to do so given the restrictions on sales in the indentures and the very weak market for certain aircraft models such as we have in our portfolio. This means that the servicer is now able to realistically assess the economic prospects for each aircraft at redelivery in order to recommend to the board whether the aircraft should be sold in order to maximize cash flows.

The board would not ordinarily approve a sale of an aircraft unless the servicer has concluded that the best economic option for that aircraft is a sale. In determining whether to approve any aircraft sale, the board reviews a written analysis from the servicer which, among other things compares expected sales proceeds against the net present value of estimated cash flows from continued leasing.

The servicer's overall objective in this analysis is to maximise the cash flow generation for the relevant aircraft. The board, based on the recommendations of the servicer and the administrative agent, had, as part of the consent solicitation process, identified a number of aircraft for potential sale. The aircraft which had been identified for potential sale were typically older and predominantly stage 2 aircraft, including B737-200As, DC8s, an A300B4-200, and turboprop aircraft, all of which had little or no re-lease prospects. At March 31, 2005, there was a total of 33 aircraft of these and other types for which re-leasing may not be economically viable. Since the 2003 consent solicitation we have sold 29 aircraft for an aggregate amount of \$77.1 million. For each of these aircraft there was either no leasing market or leasing was not economically viable.

At March 31, 2005, we had ten aircraft off-lease, nine of which (DC8-71F x3; B737-200A x3; B747-200SF x1; ATR42 x1 and DHC8-300C x1) are candidates for sale given the lack of a leasing market for these aircraft types, which is exacerbated by the age of the aircraft and their technical condition. At March 31, 2005 we had entered into letters of intent for sale for five of these aircraft (one B737-200A, one B747-200SF, one DHC8-300C and two DC8-71Fs). As of the date of this Annual Report, the five aircraft have been sold.

In addition to the ten off-lease aircraft at March 31, 2005, four aircraft (DHC8-100 x2; DC8-71F x2) scheduled to redeliver in the next year have also been identified as potential sales candidates based on the current condition of the aircraft and their current leasing markets. Other redeliveries scheduled for the next year and beyond this point may also include potential sales candidates but will be fully assessed closer to redelivery. None of these aircraft sales, if completed, will make a significant difference to our cashflow, but in circumstances where we believe there are no existing or foreseeable better alternative economic prospects for an aircraft, we consider it is better to realize what cash we can as soon as possible.

### **3. PROPERTIES**

Airplanes Group has no ownership or leasehold interest in any real property.

Airplanes Limited's registered and principal office is located at 22 Grenville Street, St. Helier, Jersey, JE4 8PX, Channel Islands and its telephone number is +44-1534-609000.

Airplanes Trust's principal office is located at 1100 North Market Street, Rodney Square North, Wilmington, Delaware 19890-0001, care of Wilmington Trust Company and its telephone number is +1-302-651-1000.

For a description of Airplanes Group's interest in other property, see "2. The Aircraft, Related Leases and Collateral."

### **4. LEGAL PROCEEDINGS**

Following the default by the Brazilian airline VASP under its leases, debis AirFinance Ireland (formerly known as GPA Group) sought and obtained in November 1992 a preliminary injunction for repossession of 13 aircraft and three engines, and subsequently repossessed these aircraft and engines. Airplanes Group acquired seven of these aircraft from GPA Group in March 1996, four of which remain in our portfolio, representing 1.97% of our portfolio by appraised value as of January 31, 2005. In December 1996, the Sao Paolo Court of Justice, Brazil, found in favor of VASP on appeal and granted it the right to the return of the aircraft and engines or the right to seek damages against debis AirFinance Ireland. debis AirFinance Ireland challenged this decision and in January 2000, the Court of Justice granted a stay of the 1996 judgment while it considered debis AirFinance Ireland's rescission action. In April 2002, the High Court found in favour of debis AirFinance Ireland's rescission action and overturned the 1996 judgement in favour of VASP. VASP has actively pursued appeals to this decision and in June 2004, the Superior Court of Justice found in favour of VASP, granting VASP's special appeal with the consequential dismissal of debis AirFrance Ireland's rescission action. debis AirFinance Ireland has indicated that it will continue to actively pursue all available courses of action, including appeals and if necessary initiating a new rescission action. A risk of repossession would only arise if VASP were successful on appeal in seeking repossession of the aircraft and the aircraft were located in Brazil. Brazilian counsel to debis AirFinance Ireland believe that VASP may not commence repossession action as VASP has indicated that it may instead file a motion for damages suffered as a result of the repossession of the aircraft. debis AirFinance Ireland cannot at this time quantify the amount of this potential damages claim. Although none

of our lessees which lease any of the relevant aircraft is based in Brazil, some of them may operate those aircraft into Brazil from time to time.

AeroUSA and AeroUSA 3 have in the past filed U.S. federal consolidated tax returns and certain state and local tax returns with debis AirFinance, Inc. (then known as AerFi, Inc.) and its subsidiaries. There are no ongoing tax audits by certain state and local tax authorities with respect to tax returns previously reported by debis AirFinance, Inc. and its subsidiaries.

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

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

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

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

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

## 6. 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, 2005 have been extracted or derived from the financial statements of Airplanes Group, which have been audited by KPMG, independent chartered accountants. These financial statements have been prepared in accordance with generally accepted accounting principles in the United States.

The selected combined financial data set forth below combine the operating results, assets, liabilities and cashflows of Airplanes Limited and Airplanes Trust. The separate balance sheets, statements of operations, statements of comprehensive income/(loss), statements of changes in shareholders’ deficit/net liabilities and

statements of cashflows, and notes thereto, of Airplanes Limited and Airplanes Trust are contained in the financial statements included in Exhibit 1. The directors of Airplanes Limited and the controlling trustees of Airplanes Trust believe that a combined presentation is most appropriate because:

- the assets of Airplanes Limited and Airplanes Trust are managed on the basis of one combined aircraft fleet, and
- each of Airplanes Limited and Airplanes Trust has fully and unconditionally guaranteed the performance of the other under their respective notes.

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

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

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

	Fiscal Year Ended March 31,				
	2001	2002	2003	2004	2005
	(In Millions)				
<b>Revenues(2)</b>					
Aircraft leasing .....	\$ 421	\$ 356	\$ 292	\$ 210	182
Aircraft sales .....	21	5	14	3	63
Other income .....	—	—	—	—	8
<b>Expenses</b>					
Cost of aircraft sold .....	(14)	(2)	(15)	(1)	(31)
Depreciation .....	(170)	(159)	(140)	(116)	(83)
Impairment charge .....	—	(292)	(76)	(373)	(47)
Net interest expense(3) .....	(536)	(609)	(725)	(854)	(1,064)
Bad and doubtful debts .....	(7)	(3)	(6)	5	5
Other lease costs .....	(33)	(19)	(11)	(25)	(7)
Selling general and administrative expenses .....	(35)	(36)	(33)	(37)	(33)
Tax (charge)/benefit .....	20	64	8	17	(3)
Net loss .....	<u>\$ (333)</u>	<u>\$ (695)</u>	<u>\$ (692)</u>	<u>\$(1,171)</u>	<u>(1,010)</u>

**COMBINED BALANCE SHEET DATA(1)**

	As of March 31,				
	2001	2002	2003	2004	2005
	(In Millions)				
Aircraft, net, and net investment in capital and sales-type leases .....	\$ 2,759	\$ 2,296	\$ 2,058	\$ 1,558	\$ 1,343
Total assets .....	<u>3,023</u>	<u>2,523</u>	<u>2,275</u>	<u>1,710</u>	<u>1,486</u>
Indebtedness(3) .....	(3,495)	(3,314)	(3,209)	(3,103)	(2,922)
Provision for maintenance .....	(246)	(257)	(275)	(287)	(264)
Total liabilities .....	<u>(5,052)</u>	<u>(5,283)</u>	<u>(5,769)</u>	<u>(6,348)</u>	<u>(7,083)</u>
Net liabilities .....	<u>(2,029)</u>	<u>(2,760)</u>	<u>(3,494)</u>	<u>(4,638)</u>	<u>(5,597)</u>

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

	Fiscal Year Ended March 31,				
	2001	2002	2003	2004	2005
	(In Millions)				
Cash paid in respect of interest(3) .....	\$ 210	\$ 186	\$ 179	\$ 127	62
Net cash provided by operating activities (after payment of interest) .....	\$ 131	\$ 129	\$ 107	\$ 50	185
Net cash used in financing activities .....	<u>(137)</u>	<u>(184)</u>	<u>(108)</u>	<u>(108)</u>	<u>(182)</u>
Net increase/(decrease) in cash .....	<u>\$ (6)</u>	<u>\$ (55)</u>	<u>\$ (1)</u>	<u>\$ (58)</u>	<u>3</u>

**OTHER DATA(1)**

	Fiscal Year Ended March 31,				
	2001	2002	2003	2004	2005
	(In Millions)				
Deficiency of combined earnings after combined fixed charges(4) .....	\$(353)	\$(761)	\$(700)	\$(1,188)	\$(1,007)

- (1) The financial statements of Airplanes Group are stated in U.S. dollars which is the principal operating currency of Airplanes Group and the aviation industry.
- (2) Revenues exclude maintenance reserve receipts. See Note 14 to the financial statements.
- (3) Net interest expense is significantly higher than cash paid in respect of interest in all periods reflecting the high interest rate accruing on the class E notes (20% adjusted for inflation) relative to the lower amount of cash interest payable on the class E notes for so long as the other classes of notes remain outstanding. Net interest expense is stated after crediting interest income of \$14 million in 2001, \$6 million in 2002, \$3 million in 2003, \$2 million in 2004, and \$2 million in 2005. In the year ended March 31, 2002 Net interest expense includes an adjustment of US\$(5) million in relation to the effect of change in accounting principle on the adoption of SFAS 133.
- (4) Deficiency of combined earnings after combined fixed charges represents the amount by which Airplanes Group's loss before income taxes and fixed charges exceeded fixed charges. Fixed charges consists of interest expense. Because our fixed charges exceeded earnings for all periods presented, a ratio of earnings to fixed charges is not presented.

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

### **A. INTRODUCTION**

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

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

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

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

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

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

### **B. RECENT DEVELOPMENTS**

#### *Overview*

In the year to March 31, 2005, we have continued to suffer from a difficult business environment. During the past four years, the world economic climate has been weak. The global economic conditions, combined with the terrorist attacks of September 11, 2001, the military action of the U.S. and its allies in Afghanistan, the war in Iraq, the continued threat of terrorist attacks and the outbreak, in early 2003, of SARS have severely impacted the commercial aviation industry.

As previously reported, the resulting reduction in passenger numbers and consequential reduction in flight schedules by airlines has caused a continued decline in demand for aircraft. Demand for freighter aircraft also fell following the terrorist attacks. Some carriers, including two US majors (United Airlines and US Airways) and also some of our lessees have filed for bankruptcy, while others, including many of our lessees, have suffered large losses or face severe financial difficulties. Oversupply of aircraft has resulted in increased aircraft downtime, aircraft being parked, a fall in market value of aircraft (especially older technology and less fuel-efficient aircraft or models no longer in production) and lower lease rates throughout the industry. We have ourselves experienced decreasing revenues resulting from increased time between redelivery and re-leasing of aircraft, a decline in lease rates upon re-leasing or extensions of leases, and a decline in sales prices for our aircraft. We have already executed a substantial number of rental restructurings, typically involving the rescheduling of rental payments over a specified period and/or the reduction of current rentals usually in return for extensions of the relevant

leases. These arrangements sometimes include forgiveness of amounts in respect of rental arrears. Since these arrangements usually extend for the duration of the relevant leases and/or involve lease extensions, they have a continuing effect on cashflow. In the year ended March 31, 2005, global traffic has increased and although we have seen some improvement in lease rates for certain aircraft types, this improvement has not made, nor do we expect it to make a significant difference to our net cashflow, particularly given the age and mix of our fleet. In addition, we currently expect new ADs to be issued to improve security on aircraft, the costs of compliance with which, to the extent that they are not the responsibility of lessees under their leases or if the aircraft are not on lease, will be our responsibility. See “2E. Compliance with Governmental and Technical Regulation” above.

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

There has been a decline of 11.57% in the appraised value of our fleet in the year to January 31, 2005, which is \$42.3 million greater than the decline assumed in our 2001 Base Case assumptions. The appraised values are based upon the value of the aircraft at normal utilization rates in an open, unrestricted and stable market, and take into account long-term trends, including current expectations of particular models becoming obsolete more quickly, as a result of airlines switching to different models, or lease values for aircraft declining more rapidly than previous predictions. Notwithstanding the significant decline in appraised values, the appraised value of each of our aircraft is still higher and in some cases, significantly higher than what we understand to be its likely market value. Therefore, as a theoretical value, the appraised value should not be viewed as indicative of market value and thus there is no guarantee that we would obtain the appraised value upon sale of any aircraft. As discussed in “1B. Risk Factors — Risks Relating to Payment on the Notes and Certificates” decreases in appraised values have previously resulted in the requirement to pay class A principal adjustment amount to the extent of available cashflows. If the current oversupply of aircraft continues longer term, given the age of our fleet, certain of our aircraft may become obsolete significantly earlier than the useful life expectancy assumed in the 2001 Base Case assumptions, which would negatively impact appraised 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 values of our aircraft are now of little significance except as a basis for providing statistical information on the portfolio and for complying with certain technical provisions in the indentures.

### ***Performance***

We have been unable to meet all of the 1996 Base Case assumptions or the 2001 Base Case assumptions. In light of continued lease restructurings and a weak leasing market generally we are generating revenues at significantly lower levels than we had assumed and at levels which have been inadequate to pay minimum principal on the class A notes in full, or to pay any interest or minimum principal on the class B notes or any interest on the class C and class D notes, since the December 15, 2003 payment date. Even though, as a result of the 2003 consent solicitation we are now able to sell aircraft which we may not have been able to sell previously, such sales in the current market are difficult to achieve and where sales have been completed, the sales proceeds have not made a significant difference to our cashflow. On each payment date we are currently only paying in full our administrative and lease expenses and certain other payments in the ordinary course of business, interest on the class A notes and swap payments, and the “First Collection Account Top-Up”. We use any remaining cashflows towards payment of minimum principal on the class A notes which at May 16, 2005 was \$160.0 million in arrears. We do not anticipate that we will ever be able to resume making payments of interest or principal on the class B, C and D notes. For a detailed background see “1B. Risk Factors — Risks Relating to Payments on the Notes and Certificates — Our reduced cashflows mean that we are unable to make payments on junior notes and certificates.”

### ***Remedies***

In general, the rights and remedies with respect to a note event of default are exercisable only by the trustee of and the holders of the most senior class of notes outstanding, and then only to the extent that there is an event of default with respect to that senior class of notes. For example, a failure to make a required payment on a class of notes is a default only with respect to that class of notes and the corresponding certificates. Accordingly, if, as

occurred on December 15, 2003 when we were unable to pay interest on the class B, C and D notes, an event of default occurs with respect to a class of notes which is not the most senior class outstanding, the holders of that class of notes (and thus, the corresponding certificates) will not be permitted to enforce their rights until all amounts owing under any more senior class of notes outstanding and certain other amounts have been paid in full. The class A notes are the most senior class of notes currently outstanding.

***Impairment***

The impairment provision of \$47 million in the year to March 31, 2005 reflects perceived poor future lease prospects for the affected aircraft. See below under “Critical Accounting Policies — Impairment.”

***Ratings***

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

Set out in the table in “1B. Risk Factors — Risks relating to payment on the Notes and Certificates — Ratings” are the ratings of our certificates at June 14, 2005.

***Remarketing***

At March 31, 2005, we had 23 aircraft scheduled to be remarketed before December 31, 2005. These comprised five B737-300s/400s/500s, two B737-200As, four DHC8s, two MD83s, nine DC8s and one ATR42. Furthermore, in light of existing negotiations with certain lessees, we expect we will also experience early redeliveries of aircraft. As a result of the current oversupply of aircraft in the market place, we anticipate that we will experience difficulties in placing many of these aircraft. To the extent that we suffer significant delays in placing these aircraft, we will incur substantial downtime. Even if we are able to find lessees, new lease rates are likely to be lower, and in some cases materially lower, than lease rates which have been in force for leases entered into more than four years ago. In some cases, a sale of the particular aircraft may achieve a more favorable economic outcome.

***Critical Accounting Policies***

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

**Depreciation:**

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

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

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

**Impairment:**

Aircraft are periodically reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long Lived Assets” (“**SFAS 144**”). An impairment review is required whenever events or changes in circumstances indicate that the asset’s carrying

amount may not be recoverable. An impairment loss is evaluated when the undiscounted estimated future cashflows of the aircraft are less than its carrying value and the loss is measured as the excess of the carrying value over the fair value.

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

**C. RESULTS OF OPERATIONS — YEAR ENDED MARCH 31, 2005 COMPARED WITH YEAR ENDED MARCH 31, 2004.**

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

	<u>2004</u>	<u>2005</u>	<u>%</u>
	(\$ Millions)		Change
<b>Revenues</b>			
Aircraft leasing . . . . .	210	182	(13.3)
Other income . . . . .	—	8	
Aircraft sales . . . . .	3	63	
<b>Expenses</b>			
Depreciation . . . . .	(116)	(83)	28.4
Cost of aircraft sold . . . . .	(1)	(31)	
Impairment charge . . . . .	(373)	(47)	87.4
Net interest expense . . . . .	(854)	(1,064)	24.6
Bad and doubtful debts . . . . .	5	5	—
Other lease costs . . . . .	(25)	(7)	(72.0)
Selling general and administrative expenses . . . . .	(37)	(33)	(10.8)
Tax benefit/(expense) . . . . .	<u>17</u>	<u>(3)</u>	<u>(117.6)</u>
<b>Net loss . . . . .</b>	<u><u>(1,171)</u></u>	<u><u>(1,010)</u></u>	<u><u>(13.7)</u></u>

Airplanes Group’s results for the year ended March 31, 2005 reflected a continuation of the difficult trading conditions for the aviation industry. Continued difficult trading conditions gave rise to the requirement for impairment provisions in the year ended March 31, 2005 and in the year ended March 31, 2004 and to lessees seeking a variety of rental restructurings including rental reductions and deferrals. We have sold aircraft for which there were little or no re-lease prospects but at prices which have not made a significant difference to our cashflow. These factors will continue to have a significant adverse impact in future periods, although various factors, including the timing of receipts and expenditures and non-recurring items, can result in short term swings in any particular reporting period.

Airplanes Group generated \$185 million in cash from operations in the year ended March 31, 2005 compared to \$50 million in the year ended March 31, 2004. The increase in cash generated from operations is primarily attributable to aircraft sales, a reduction in interest paid, an increase in maintenance receipts due to lease end adjustments, a reduction in re-lease costs due to reduced leasing activity, offset by a reduction in lease revenues caused by new leases at lower rates, greater aircraft downtime and reduced rentals as a result of aircraft sales in previous periods. There were twenty one aircraft sales in the year ended March 31, 2005, compared to the year ended March 31, 2004 when there were seven sales. There was a net loss for the year ended March 31, 2005 of \$1,010 million (Airplanes Limited: \$908 million; Airplanes Trust: \$102 million) compared to a net loss for the

year ended March 31, 2004 of \$1,171 million (Airplanes Limited: \$1,066 million; Airplanes Trust: \$105 million). Excluding accrued but unpaid class E note interest, the decrease in the net loss for the period of \$378 million was primarily attributable to a reduced aircraft impairment provision of \$47 million (Airplanes Limited: \$37 million; Airplanes Trust: \$10 million) in the year ended March 31, 2005, as compared to a provision of \$373 million (Airplanes Limited: \$335 million; Airplanes Trust: \$38 million) in the year ended March 31, 2004 partially offset by a reduction in revenue due primarily to rental restructurings in the year ended March 31, 2005.

## **LEASING REVENUES**

Leasing revenues for the year ended March 31, 2005 were \$182 million (Airplanes Limited: \$174 million; Airplanes Trust: \$8 million) compared with \$210 million (Airplanes Limited: \$200 million; Airplanes Trust: \$10 million) for the year ended March 31, 2004. The decrease was primarily attributable to a number of lease restructurings including rental reductions, the number of aircraft off-lease and to the reduction in the number of aircraft on lease as a consequence of aircraft sales in previous periods. At March 31, 2005, we had 139 of our 149 aircraft on lease (Airplanes Limited: 129 aircraft; Airplanes Trust: 10 aircraft) compared to 153 of our 172 aircraft on lease (Airplanes Limited: 143 aircraft; Airplanes Trust: 10 aircraft) at March 31, 2004.

## **OTHER INCOME**

During the year ended March 31, 2005, Airplanes Group received \$8 million (Airplanes Limited: \$8 million; Airplanes Trust: \$Nil) under agreements signed with three lessees following their emergence from bankruptcy protection.

## **IMPAIRMENT PROVISIONS**

Aircraft carrying values are periodically assessed for impairment in accordance with SFAS 144. An impairment review is required whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The statement requires an assessment for impairment when an asset's carrying value is greater than its estimated undiscounted future cashflows. Impairments are measured by the excess of carrying value over fair value. Following consideration of the independent appraisers' values and estimated future cashflows from rental or sales proceeds to be generated by our aircraft, a SFAS 144 assessment resulted in the requirement for an impairment provision of \$47 million (Airplanes Limited: \$37 million; Airplanes Trust: \$10 million) in the year ended March 31, 2005 as compared with \$373 million (Airplanes Limited: \$335 million; Airplanes Trust: \$38 million) for the year ended March 31, 2004.

## **DEPRECIATION**

The charge for depreciation in the year ended March 31, 2005 amounted to \$83 million (Airplanes Limited: \$79 million; Airplanes Trust: \$4 million) as compared with \$116 million (Airplanes Limited: \$111 million; Airplanes Trust: \$5 million) for the year ended March 31, 2004. The reduction in the charge resulted primarily from the reduced depreciable value of the fleet following the impairment provisions made in the year ended March 31, 2004 and, to a lesser extent, aircraft sales in previous periods.

## **AIRCRAFT SALES**

Sales proceeds of \$63 million (Airplanes Limited: \$58 million; Airplanes Trust: \$5 million) in respect of the sale of three MD11 aircraft, five DC9-32 aircraft, five DC8-71F aircraft, three MD83 aircraft, one DHC8-100 aircraft, one DHC8-300C aircraft, one B737-200A aircraft, one A300B4-200 aircraft, and one A300C4-200 aircraft, were received in the year ended March 31, 2005. The net book value of the aircraft sold was \$31 million (Airplanes Limited: \$29 million; Airplanes Trust: \$2 million). In the year ended March 31, 2004, sales proceeds of \$3 million (Airplanes Limited: \$3 million; Airplanes Trust: \$Nil) in respect of the sale of two B737-200A aircraft, three Metro III aircraft, one DC9-51 aircraft and one A300B4-200 aircraft were received. The net book value of the aircraft sold was \$1 million (Airplanes Limited: \$1 million; Airplanes Trust: \$Nil).

## **NET INTEREST EXPENSE**

Net interest expense was \$1,064 million (Airplanes Limited: \$969 million; Airplanes Trust: \$95 million), of which \$147 million related to interest on the class A to D notes and interest rate swaps and \$917 million related to interest on the class E notes, in the year ended March 31, 2005 compared to \$854 million (Airplanes Limited: \$778 million; Airplanes Trust: \$76 million), of which \$154 million related to interest on the class A to D notes and interest rate swaps and \$700 million related to interest on the class E notes, in the year ended March 31, 2004. The increase in the amount of interest charged was primarily due to interest on accrued but unpaid class E note interest of \$217 million, partially offset by lower average debt and interest rates in the year ended March 31, 2005.

The weighted average interest rate on the class A to D notes (taking into account the interest rate swaps entered into by Airplanes Group and the class E minimum interest amount, but excluding the class E supplemental interest amount and the remainder of the class E adjusted interest) during the year ended March 31, 2005 was 5.70% and the average debt in respect of the class A to D notes outstanding during the period was \$2,433 million. The class E notes together with the accrued but unpaid class E note interest, accrue interest at a rate of 20% per annum, as adjusted (by reference to the U.S. consumer price index, effective March 28, 1996) to the current level of 27.49%.

The weighted average interest rate on the class A to D notes (on the same basis as above) during the year to March 31, 2004 was 5.95% and the average debt in respect of the class A to D notes outstanding during the period was \$2,587 million.

The difference for the year ended March 31, 2005 between Airplanes Group's net interest expense of \$1,064 million (Airplanes Limited: \$969 million; Airplanes Trust: \$95 million) and cash paid in respect of interest of \$62 million (Airplanes Limited: \$57 million; Airplanes Trust: \$5 million) is substantially accounted for by the fact that interest on the class E notes is accrued but unpaid and the 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, 2005, Airplanes Group earned interest income (including lessee default interest) of \$2 million (Airplanes Limited: \$2 million; Airplanes Trust: \$Nil) compared with \$2 million in the year ended March 31, 2004 (Airplanes Limited: \$2 million; Airplanes Trust: \$Nil).

## **BAD DEBT PROVISIONS**

Airplanes Group's practice is to provide specifically for any amounts due but unpaid by lessees based primarily on the amount due in excess of security held and also taking into account the financial strength and condition of a lessee and the economic conditions existing in the lessee's operating environment. While a number of Airplanes Group's lessees failed to meet their contractual obligations in the year ended March 31, 2005, resulting in the requirement for additional provisions in respect of bad and doubtful debts in respect of these lessees, the credit exposure with regard to certain other carriers improved in the period. Overall, there was a net release of provisions in respect of bad and doubtful debts in the year ended March 31, 2005 of \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$Nil) compared with an overall net release of provisions of \$5 million for the year ended March 31, 2004 (Airplanes Limited: \$2 million; Airplanes Trust: \$3 million).

## **OTHER LEASE COSTS**

Other lease costs, comprising mainly aircraft related technical expenditure associated with remarketing the aircraft, in the year ended March 31, 2005 amounted to \$7 million (Airplanes Limited: \$7 million; Airplanes Trust: \$Nil) compared with other lease costs of \$25 million (Airplanes Limited: \$24 million; Airplanes Trust: \$1 million) in the year ended March 31, 2004.

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

Selling, general and administrative expenses for the year ended March 31, 2005 amounted to \$33 million (Airplanes Limited: \$32 million; Airplanes Trust: \$1 million) as compared to the year ended March 31, 2004 of \$37 million (Airplanes Limited: \$35 million; Airplanes Trust: \$2 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, 2005 include \$23 million (Airplanes Limited: \$22 million; Airplanes Trust: \$1 million) relating to servicing fees, as compared with \$24 million (Airplanes Limited: \$23 million; Airplanes Trust: \$1 million) in the year ended March 31, 2004.

A further significant element of Airplanes Group's actual selling, general and administrative expenses reported in the year ended March 31, 2005 was \$6 million (Airplanes Limited: \$5 million; Airplanes Trust: \$1 million) in respect of administrative agency and cash management fees payable to subsidiaries of debis AirFinance Ireland, consistent with the charge of \$6 million (Airplanes Limited: \$5 million; Airplanes Trust: \$1 million) for the year ended March 31, 2004.

## **OPERATING LOSS**

The operating loss for the year ended March 31, 2005 was \$1,007 million (Airplanes Limited: \$908 million; Airplanes Trust: \$99 million) compared with an operating loss on continuing operations of \$1,188 million for the year ended March 31, 2004 (Airplanes Limited: \$1,079 million; Airplanes Trust: \$109 million). Airplanes Limited and Airplanes Trust are expected to continue to report substantial losses in the future.

## **TAXES**

There was a tax charge of \$3 million (Airplanes Limited: \$Nil, Airplanes Trust \$3 million) in the year ended March 31, 2005, as compared with a tax benefit of \$17 million (Airplanes Limited: \$13 million, Airplanes Trust: \$4 million) for the year ended March 31, 2004.

## **NET LOSS**

The net loss after taxation for the year ended March 31, 2005 was \$1,010 million (Airplanes Limited: \$908 million; Airplanes Trust: \$102 million) compared with a net loss after taxation on continuing operations for the year ended March 31, 2004 of \$1,171 million (Airplanes Limited: \$1,066 million; Airplanes Trust: \$105 million).

**RESULTS OF OPERATIONS — YEAR ENDED MARCH 31, 2004 COMPARED WITH YEAR ENDED MARCH 31, 2003.**

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

	<u>2003</u>	<u>2004</u>	<u>%</u>
	(\$ Millions)		Change
<b>Revenues</b>			
Aircraft leasing . . . . .	292	210	(28.0%)
Aircraft sales . . . . .	14	3	(78.57%)
Other income			
<b>Expenses</b>			
Cost of aircraft sold . . . . .	(15)	(1)	98.33%
Depreciation . . . . .	(140)	(116)	17.14%
Impairment Charge . . . . .	(76)	(373)	(390.79%)
Net interest expense . . . . .	(725)	(854)	(17.79%)
Bad and doubtful debts . . . . .	(6)	5	183.33%
Other lease costs . . . . .	(11)	(25)	127.2%
Selling general and administrative expenses . . . . .	(33)	(37)	(12.12%)
Tax benefit . . . . .	8	17	112.50%
Net loss . . . . .	<u>\$(692)</u>	<u>\$(1,171)</u>	<u>(69.22%)</u>

Airplanes Group's results for the year ended March 31, 2004 reflected a continuation of the difficult trading conditions for the aviation industry. Continued difficult trading conditions gave rise to the requirement for impairment provisions in the year ended March 31, 2004 and in the year ended March 31, 2003 and to lessees seeking a variety of rental restructurings including rental reductions and deferrals. In the year ended March 31, 2004 we also sold aircraft for which there were little or no re-lease prospects but at prices which have not made a significant difference to our cashflow. These factors will continue to have a significant adverse impact in future periods, although various factors, including the timing of receipts and expenditures and non-recurring items, can result in short term swings in any particular reporting period.

Airplanes Group generated \$50 million in cash from operations in the year ended March 31, 2004 compared to \$107 million in the year ended March 31, 2003. The decrease in cash generated from operations is primarily attributable to a reduction in sales revenue, lease revenues caused by an increased level of lease restructurings and, to a lesser extent, greater aircraft downtime and reduced rentals as a result of aircraft sales in previous periods. There were seven aircraft sales in the year ended March 31, 2004, compared to the year ended March 31, 2003 when there were seven sales. There was a net loss after taxation for the year ended March 31, 2004 of \$1,171 million (Airplanes Limited: \$1,066 million; Airplanes Trust: \$105 million) compared to a net loss after taxation for the year ended March 31, 2003 of \$692 million (Airplanes Limited: \$636 million; Airplanes Trust: \$56 million). Excluding accrued but unpaid class E note interest, the increase in the net loss for the period of \$304 million was primarily attributable to an aircraft impairment provision of \$373 million (Airplanes Limited: \$335 million; Airplanes Trust: \$38 million) in the year ended March 31, 2004, as compared to a provision of \$76 million (Airplanes Limited: \$74 million; Airplanes Trust: \$2 million) in the year ended March 31, 2003 and a reduction in revenue due primarily to rental restructurings in the year ended March 31, 2004.

**LEASING REVENUES**

Leasing revenues for the year ended March 31, 2004 were \$210 million (Airplanes Limited: \$200 million; Airplanes Trust: \$10 million) compared with \$292 million (Airplanes Limited: \$276 million; Airplanes Trust: \$16 million) for the year ended March 31, 2003. The decrease was primarily attributable to a number of lease restructurings including rental reductions, the number of aircraft off-lease and to the reduction in the number of aircraft on lease as a consequence of aircraft sales in previous periods. At March 31, 2004, we had 153 of our 172 aircraft on lease (Airplanes Limited: 143 aircraft; Airplanes Trust: 10 aircraft) compared to 158 of our 179 aircraft on lease (Airplanes Limited: 147 aircraft; Airplanes Trust: 11 aircraft) at March 31, 2003.

## **IMPAIRMENT PROVISIONS**

Aircraft carrying values are periodically assessed for impairment in accordance with SFAS 144. The statement requires an assessment for impairment when an asset's carrying value is greater than its fair value as measured by net undiscounted estimated future cashflows. Impairments are measured by the excess of carrying value over fair value. Following consideration of the estimated future cashflows to be generated by our aircraft, a SFAS 144 assessment resulted in the requirement for an impairment provision of \$373 million (Airplanes Limited: \$335 million; Airplanes Trust: \$38 million) in the year ended March 31, 2004 as compared with \$76 million (Airplanes Limited: \$74 million; Airplanes Trust: \$2 million) for the year ended March 31, 2003.

## **DEPRECIATION**

The charge for depreciation in the year ended March 31, 2004 amounted to \$116 million (Airplanes Limited: \$111 million; Airplanes Trust: \$5 million) as compared with \$140 million (Airplanes Limited: \$132 million; Airplanes Trust: \$8 million) for the year ended March 31, 2003. The reduction in the charge resulted primarily from the reduced depreciable value of the fleet following the impairment provisions made in the year ended March 31, 2003 and, to a lesser extent, aircraft sales in previous periods.

## **AIRCRAFT SALES**

Aircraft sales revenues of \$3 million (Airplanes Limited: \$3 million, Airplanes Trust: \$Nil) in respect of the sale of two B737-200A aircraft, one DC9-51 aircraft, one A300 aircraft and three Metro III aircraft were received in the year ended March 31, 2004. The net book value of the aircraft sold was \$1 million (Airplanes Limited: \$1 million; Airplanes Trust: \$Nil). Sales revenues of \$14 million (Airplanes Limited: \$14 million; Airplanes Trust: \$Nil) in respect of the sale of three B737-200A aircraft, two DC9-51 aircraft, one DC8-71F aircraft and insurance proceeds in relation to one DC9-32 aircraft which was deemed a constructive total loss were received in the year ended March 31, 2003. The net book value of the aircraft sold was \$15 million (Airplanes Limited: \$15 million; Airplanes Trust: \$Nil).

## **NET INTEREST EXPENSE**

Net interest expense was \$854 million (Airplanes Limited: \$778 million; Airplanes Trust: \$76 million), of which \$154 million related to interest on the class A to D notes and interest rate swaps and \$700 million related to interest on the class E notes, in the year ended March 31, 2004 compared to \$725 million (Airplanes Limited: \$660 million; Airplanes Trust: \$65 million), of which \$181 million related to interest on the class A to D notes and interest rate swaps and \$544 million related to interest on the class E notes, in the year ended March 31, 2003. The increase in the amount of interest charged was primarily due to interest on accrued but unpaid class E note interest of \$156 million, partially offset by lower average debt and interest rates in the year ended March 31, 2004.

The weighted average interest rate on the class A to D notes (taking into account the interest rate swaps entered into by Airplanes Group and the class E minimum interest amount, but excluding the class E supplemental interest amount and the remainder of the class E adjusted interest) during the year ended March 31, 2004 was 5.95% and the average debt in respect of the class A to D notes outstanding during the period was \$2,587 million. The class E notes together with the accrued but unpaid class E note interest, accrue interest at a rate of 20% per annum, as adjusted (by reference to the U.S. consumer price index, effective March 28, 1996) to the current level of 26.6%.

The weighted average interest rate on the class A to D notes (on the same basis as above) during the year to March 31, 2003 was 6.77% and the average debt in respect of the class A to D notes outstanding during the period was \$2,674 million.

The difference for the year ended March 31, 2004 between Airplanes Group's net interest expense of \$854 million (Airplanes Limited: \$778 million; Airplanes Trust: \$76 million) and cash paid in respect of interest of \$127 million (Airplanes Limited: \$116 million; Airplanes Trust: \$11 million) is substantially accounted for by the fact that interest on the class E notes is accrued but unpaid.

Net interest expense is stated after deducting interest income earned during the relevant period. In the year ended March 31, 2004, Airplanes Group earned interest income (including lessee default interest) of \$2 million (Airplanes Limited: \$2 million; Airplanes Trust: \$Nil) compared with \$3 million in the year ended March 31, 2003 (Airplanes Limited: \$3 million; Airplanes Trust: \$Nil).

#### **BAD DEBT PROVISIONS**

Airplanes Group's practice is to provide specifically for any amounts due but unpaid by lessees based primarily on the amount due in excess of security held and also taking into account the financial strength and condition of a lessee and the economic conditions existing in the lessee's operating environment. While a number of Airplanes Group's lessees failed to meet their contractual obligations in the year ended March 31, 2004, resulting in the requirement for additional provisions in respect of bad and doubtful debts in respect of these lessees, the credit exposure with regard to certain other carriers improved in the period. Overall, there was a net release of provisions in respect of bad and doubtful debts in the year ended March 31, 2004 of \$5 million (Airplanes Limited: \$2 million; Airplanes Trust: \$3 million) compared with an overall net charge of \$6 million for the year ended March 31, 2003 (Airplanes Limited: \$5 million; Airplanes Trust: \$1 million).

#### **OTHER LEASE COSTS**

Other lease costs, comprising aircraft related technical expenditure associated with remarketing the aircraft, in the year ended March 31, 2004 amounted to \$25 million (Airplanes Limited: \$24 million; Airplanes Trust: \$1 million) compared with other lease costs of \$11 million (Airplanes Limited: \$12 million; Airplanes Trust: \$(1) million) in the year ended March 31, 2003.

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

Selling, general and administrative expenses for the year ended March 31, 2004 amounted to \$37 million (Airplanes Limited: \$35 million; Airplanes Trust: \$2 million) as compared to the year ended March 31, 2003 of \$33 million (Airplanes Limited: \$31 million; Airplanes Trust: \$2 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, 2004 include \$24 million (Airplanes Limited: \$23 million; Airplanes Trust: \$1 million) relating to servicing fees, consistent with \$24 million (Airplanes Limited: \$23 million; Airplanes Trust: \$1 million) in the year ended March 31, 2003.

A further significant element of Airplanes Group's actual selling, general and administrative expenses reported in the year ended March 31, 2004 was \$6 million (Airplanes Limited: \$5 million; Airplanes Trust: \$1 million) in respect of administrative agency and cash management fees payable to subsidiaries of debis AirFinance Ireland, consistent with the charge of \$6 million (Airplanes Limited: \$5 million; Airplanes Trust: \$1 million) for the year ended March 31, 2003.

#### **OPERATING LOSS**

The operating loss for the year ended March 31, 2004 was \$1,188 million (Airplanes Limited: \$1,079 million; Airplanes Trust: \$109 million) compared with an operating loss of \$700 million for the year ended March 31, 2003 (Airplanes Limited: \$639 million; Airplanes Trust: \$61 million). Airplanes Limited and Airplanes Trust are expected to continue to report substantial losses in the future.

#### **TAXES**

There was a tax benefit of \$17 million (Airplanes Limited: \$13 million, Airplanes Trust \$4 million) in the year ended March 31, 2004, as compared with a tax benefit of \$8 million (Airplanes Limited: \$3 million, Airplanes Trust: \$5 million) for the year ended March 31, 2003.

## NET LOSS

The net loss after taxation for the year ended March 31, 2004 was \$1,171 million (Airplanes Limited: \$1,066 million; Airplanes Trust: \$105 million) compared with a net loss after taxation for the year ended March 31, 2003 of \$692 million (Airplanes Limited: \$636 million; Airplanes Trust: \$56 million).

## 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 “— Indebtedness” for more information regarding our outstanding debt.

Airplanes Group’s cash balances at March 31, 2005 amounted to \$86 million (Airplanes Limited: \$80 million; Airplanes Trust: \$6 million) compared to cash balances at March 31, 2004 of \$83 million (Airplanes Limited: \$77 million; Airplanes Trust: \$6 million).

Under the terms of Airplanes Group’s indebtedness, we are required, to the extent we have sufficient cashflows to maintain cash balances, which we refer to as the “**liquidity reserve amount**,” equal to (1) the amount of security deposits (\$23 million at March 31, 2005) and (2) a maintenance reserve. See “7E. — The Accounts — Liquidity Reserve Amount” for circumstances under which these amounts may be increased or decreased. When we have cash to fund these reserves, the terms of Airplanes Group’s indebtedness restrict the use of this cash so that it is generally not available to service debt. The liquidity reserve amount was determined largely based on an analysis of historical experience, assumptions regarding Airplanes Group’s future performance and the frequency and cost of certain contingencies in respect of the aircraft. It was intended to provide liquidity for meeting the cost of maintenance obligations and non-maintenance, aircraft-related contingencies such as removing liens, complying with ADs and repossessing and re-leasing aircraft.

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

## OPERATING ACTIVITIES

Operating cashflows depend on many factors including the performance of lessees and Airplanes Group’s ability to re-lease aircraft, the average cost of the notes, the efficacy of Airplanes Group’s interest rate hedging policies, the ability of Airplanes Group’s swap providers to perform under the terms of their swap and similar 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, 2005 amounted to \$185 million (Airplanes Limited: \$169 million; Airplanes Trust: \$16 million) compared with \$50 million in the year ended March 31, 2004 (Airplanes Limited: \$40 million; Airplanes Trust: \$10 million). This includes cash paid in respect of interest of \$62 million in the year ended March 31, 2005 (Airplanes Limited: \$57 million; Airplanes Trust: \$5 million) compared with the \$127 million in the year ended March 31, 2004 (Airplanes Limited: \$116 million; Airplanes Trust: \$11 million). The increase in net cash provided by operating activities in the year ended March 31, 2005 is primarily attributable to aircraft sales; a reduction in interest paid; an increase in maintenance receipts due to lease end adjustments; a reduction in re-lease costs due to reduced leasing activity, partially offset by greater aircraft downtime, lower interest rates on floating rate leases and a reduction in the number of aircraft on lease as a result of previous aircraft sales.

In the year ended March 31, 2005, Airplanes Group also received net sales proceeds of \$63 million (Airplanes Limited: \$58 million; Airplanes Trust: \$5 million) compared to \$3 million (Airplanes Limited: \$3 million; Airplanes Trust: \$Nil) in the year ended March 31, 2004. Cashflows from operating activities in the year ended March 31, 2005 reflect the cash provided by capital and sales type leases which was \$1 million (Airplanes Limited: \$1 million; Airplanes Trust: \$Nil) compared to \$2 million (Airplanes Limited: \$2 million; Airplanes Trust: \$Nil) in the year ended March 31, 2004.

## FINANCING ACTIVITIES

Cashflows from financing activities in the year ended March 31, 2005 reflect the repayment of \$182 million of principal on the subclass A-6 notes and subclass A-8 notes by Airplanes Group (Airplanes Limited: \$166 million; Airplanes Trust: \$16 million) compared with \$108 million of principal repaid on the subclass A-6 and class B notes by Airplanes Group (Airplanes Limited: \$98 million; Airplanes Trust: \$10 million) in the year ended March 31, 2004.

There was a reduction in the amount of cash paid as interest during the year ended March 31, 2005 of \$65 million, as a result of the non payment of interest on the class B, C and D notes since the November 2003 payment date and lower average debt and a lower average interest rate.

## INDEBTEDNESS

Airplanes Group's outstanding indebtedness consisted of class A, B, C, D and E notes in the amount of \$2,922 million (Airplanes Limited: \$2,663 million; Airplanes Trust: \$259 million) at March 31, 2005 and \$3,103 million (Airplanes Limited: \$2,828 million; Airplanes Trust: \$275 million) at March 31, 2004. Airplanes Group had \$591 million of class E notes outstanding at March 31, 2005 and 2004. The terms of each subclass of notes, including the outstanding principal amount as of March 15, 2005, and estimated fair market value as of March 31, 2005, are as follows:

<u>Class or Subclass of Certificates and Notes</u>	<u>Outstanding Principal Amount as of March 15, 2005</u> (\$ Millions)	<u>Annual Interest Rate (Payable Monthly)</u>	<u>Final Maturity Date</u>	<u>Estimated Fair Market Value as of March 31, 2005(4)</u> (\$ Millions)
Subclass A-8(1) .....	615.0	LIBOR+0.375%	March 15, 2019	553.7
Subclass A-9(2) .....	750.0	LIBOR+0.550%	March 15, 2019	397.5
Class B .....	226.8	LIBOR+0.750%	March 15, 2019	35.2
Class C .....	349.8	8.150%	March 15, 2019	10.5
Class D .....	395.1	10.875%	March 15, 2019	—
Class E (notes only)(3).....	591.2	20.000%	March 15, 2019	—

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

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

- (2) The subclass A-9 certificates were issued on March 15, 2001.
- (3) The annual interest rate on the class E notes is adjusted by reference to changes in the U.S. Consumer Price Index since March 28, 1996. As of March 31, 2005, the annual interest rate on the class E notes was 27.49%. 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, 2005, the accrued and unpaid class E minimum interest amount and supplemental interest amount was \$3,659 million.
- (4) Although the estimated fair values of the class A to D notes outstanding have been determined by reference to prices as at March 31, 2005 provided by an independent third party, these fair values do not reflect the

market value of these notes at a specific time and should not be relied upon as a measure of the value that could be realized by a noteholder upon sale.

## NEW PRONOUNCEMENTS

In November 2004, the Task Force consensus reached in EITF 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations*, was ratified by the Board. Although the consensus is only required to be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004, operating results related to a component that is disposed of or classified as held for sale within an enterprise's fiscal year that includes the date that this consensus is ratified may be classified to reflect the consensus. The guidance has been considered in the preparation of the Airplanes Group financial statements and the application of the EITF consensus did not have a significant impact on Airplanes Group's financial statements.

In the current financial year, the FASB issued FIN No. 46(R) — 1 through to FIN No. 46(R) — 5, which replace and further clarify FIN No. 46, "Consolidation of Variable Interest Entities". The interpretations clarify the application of No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The proposed guidance documents issued did not have a significant impact on Airplanes Group's financial statements.

In July 2004, the FASB issued DIG Issue No. G25, "Cash Flow Hedges: Using the First-Payments-Received Technique in Hedging the Variable Interest Payments on a Group of Non-Benchmark-Rate-Based Loans". This Issue addresses whether the first-payments-received technique for identifying hedged interest payments can be used in a cash flow hedge of the variable prime-rate-based or other variable non-benchmark-rate-based interest payments for a rolling portfolio of prepayable interest-bearing loans. The issue is effective for all of an entity's hedging relationships at the first day of the first fiscal quarter beginning after August 9, 2004. This issue did not have any significant impact on the financial statements of Airplanes Group.

## D. COMPARISON OF ACTUAL CASHFLOWS VERSUS THE 2001 BASE CASE FOR THE FOUR MONTH PERIOD FROM JANUARY 12, 2005 TO MAY 16, 2005.

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-29 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 filed at the Securities and Exchange Commission as Forms 8-K for the relevant months ended February 15, 2005, March 15, 2005, April 15, 2005 and May 16, 2005. The financial data in these reports includes cash receipts from January 12, 2005 (first day of the Calculation Period for the February 2005 report) up to May 10, 2005 (last day of the Calculation Period for the May 2005 report). Page 66 presents the cumulative cashflow information from March 2001 to the May 2005 payment date. This report, however, limits its commentary to the Four Month Period.

**The 2001 Base Case contained assumptions in respect of Airplanes Group's future cashflows and expenses. Since these assumptions were developed, global economic conditions, and particularly conditions in the commercial aviation industry, have worsened significantly, particularly since September 11, 2001, as discussed above under "7B. Recent Developments". Accordingly the performance of Airplanes Group has been and we expect it to continue to be worse than the 2001 Base Case, with particular reference to those assumptions relating to aircraft re-lease rates, aircraft values, aircraft downtime and lessee defaults.**

**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 65.**

## **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 \$74.6 million in Total Cash Collections, \$55.7 million less than the 2001 Base Case. This difference is due to a combination of the factors set out below (the numbers in square brackets below refer to the line item number shown on page 64).

### **[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 \$1.1 million, as compared to \$Nil assumed in the 2001 Base Case. This related primarily to renegotiations with one Latin American lessee, one European lessee and one Asian lessee representing 4 aircraft in total on lease to these lessees at March 31, 2005.

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

### **[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 \$49.5 million in the Four Month Period, as compared to \$Nil assumed in the 2001 Base Case. This reflects current market conditions where an oversupply of aircraft has resulted in lower lease rates upon re-leasing or extension of leases than assumed in the 2001 Base Case.

### **[4] LEASE RENTALS — AIRCRAFT SALES**

*“Lease Rentals — Aircraft Sales”* represents rental revenue foregone in respect of aircraft sold prior to their assumed sale date in the 2001 Base Case, net of rental revenue received in respect of aircraft remaining on lease after their assumed sale date in the 2001 Base Case. In the 2001 Base Case, all aircraft are assumed to be sold either at the end of their useful economic life or, where an aircraft was subject to a lease with the lease expiry date falling after the end of its useful economic life, on the contracted lease expiry date. Since March 2001, three MD11 aircraft, three MD83 aircraft, one B747-200SF aircraft, three DC9-51 aircraft, two DC9-32 aircraft, six DC8-71F aircraft, one DHC8-300C aircraft, one DHC8-100A aircraft, two B727-200A aircraft, seven B737-200A aircraft, three Metro-III aircraft and two A300B4-200 aircraft have been sold prior to their assumed sale date in the 2001 Base Case, resulting in a negative variance of \$20.8 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 \$62.6 million, which was \$71.4 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. There was a net decrease of \$1.8 million in the Current Arrears balance over the Four Month Period, as compared to \$Nil assumed in the 2001 Base Case.

## 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 \$4.1 million (3.1% of Lease Rentals) compared to \$8.0 million outflow assumed in the 2001 Base Case, a variance of \$3.9 million that is due to the five factors described in items [8] to [12] below.

## [8] BAD DEBTS

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

## [9] DEFERRED ARREARS BALANCE

“*Deferred Arrears Balance*” refers to current arrears that have been capitalized and restructured into a deferred balance. In the Four Month Period, Airplanes Group received payments totaling \$1.9 million in accordance with these restructurings. Payments assumed to be received in accordance with restructurings included in the 2001 Base Case were \$Nil for the Four Month Period.

## [10] AIRCRAFT ON GROUND (“AOG”)

“*AOG*” is defined as the 2001 Base Case Lease Rentals lost when an aircraft is off-lease or deemed non-revenue earning. Airplanes Group had fourteen aircraft AOG at various times during the Four Month Period. The 2001 Base Case Lease Rentals loss attributed to AOG in the Four Month Period was \$6.5 million (4.9% of Lease Rentals), as compared to \$5.6 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 amounted to \$0.5 million, as compared to \$Nil assumed under the 2001 Base Case.

## [12] REPOSSESSION COSTS

“*Repossession Costs*” cover legal and aircraft technical costs incurred as a result of repossessing an aircraft. In the Four Month Period, Repossession Costs amounted to \$Nil, as compared to \$1.1 million assumed under the 2001 Base Case.

## [14] NET LEASE RENTAL

“*Net Lease Rental*” is Contracted Lease Rentals less any movement in Current Arrears balance and Net Stress-Related Costs. In the Four Month Period, Net Lease Rental amounted to \$60.3 million, \$65.7 million less than that assumed in the 2001 Base Case. The variance was attributable to the combined effect of the factors outlined in items [2] to [4] and in items [6] to [12] above.

## [15] INTEREST EARNED

*“Interest Earned”* relates to interest received on cash balances held in the Collection and Expense Accounts. Cash held in the Collection Account consists of the cash liquidity reserve amount (\$80 million plus the security deposit amount, subject to available cashflows), in addition to the intra-month cash balances for all the rentals and maintenance payments collected prior to the monthly payment date. The Expense Account contains cash set aside to pay for expenses which are expected to be payable over the next month. In the Four Month Period, Interest Earned amounted to \$0.7 million, \$1.5 million less than that assumed in the 2001 Base Case. The difference is due to a lower cash balance in the Collection Account as available cashflows were adequate to allocate only \$60 million to the cash liquidity reserve amount on each payment date in the Four Month Period (refer to item [29A] below), and a lower average reinvestment rate than assumed in the 2001 Base Case. The average actual reinvestment rate for the Four Month Period was 2.6% (excluding a \$5 million guaranteed investment contract) as compared to the 5.2% assumed in the 2001 Base Case.

## [16] AIRCRAFT SALES

Aircraft sales proceeds totalling \$12.2 million were received in the Four Month Period in respect of the sale of one DHC8-100A aircraft, two DC9-32 aircraft, one A300B4-200 aircraft, one MD83 aircraft and one B747-200SF aircraft. Aircraft sales proceeds for the Four Month Period also included the receipt of sale deposits totalling \$0.5 million in respect of one DHC8-300C aircraft and two DC8-71F aircraft which have been sold subsequent to May 10, 2005. In the 2001 Base Case, aircraft sales proceeds of \$2.1 million were assumed to be received in the Four Month Period in respect of the assumed sale of one B737-200A aircraft which had been sold in a prior period. In the 2001 Base Case all aircraft are assumed to be sold either at the end of their useful economic life or, where an aircraft was subject to a lease with the lease expiry date falling after the end of its useful economic life, on the contracted lease expiry date.

## [17] NET MAINTENANCE

*“Net Maintenance”* refers to maintenance reserve revenue received less any maintenance reimbursements paid to lessees. In the Four Month Period, positive net maintenance cashflows of \$0.9 million, (comprising maintenance reserve receipts totalling \$17.6 million and maintenance reserve reimbursements totalling \$16.7 million), were received. The 2001 Base Case makes no assumptions for Net Maintenance as it assumes that, over time, maintenance revenue will equal maintenance expenditure. However, it is unlikely that in any particular reporting period, maintenance revenue will exactly equal maintenance expenses.

## 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 \$20.2 million compared to \$17.7 million assumed in the 2001 Base Case, a negative variance of \$2.5 million. A number of factors discussed below have given rise to this.

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

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

*“Re-Leasing and Other Overhead Costs”* consist of miscellaneous re-delivery and leasing costs associated with re-leasing events, costs of insurance and other lessee-related overhead costs. In the Four Month Period, these costs amounted to \$8.2 million (or 6.1% of Lease Rentals) compared to \$6.7 million (or 5.0% of Lease Rentals) assumed in the 2001 Base Case. Actual Re-Leasing and Other Overhead Costs were higher than the 2001 Base Case assumption primarily due to higher than assumed transition costs on aircraft delivering to new lessees and higher payments made in the form of lessor contributions to defray certain technical costs during the term of certain leases.

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

**[21] AIRCRAFT SERVICER FEES**

“*Aircraft Servicer Fees*” are defined as amounts paid to the servicer in accordance with the terms of the servicing agreement. In the Four Month Period, the total Aircraft Servicer Fees paid were \$6.7 million, \$1.1 million less than that assumed in the 2001 Base Case.

Aircraft Servicer Fees consist of:

	<u>\$M</u>
Retainer Fee . . . . .	6.7
Minimum Incentive Fee . . . . .	0.0
Core Cashflow/Sales Incentive Fee . . . . .	<u>0.0</u>
Total Aircraft Servicer Fee . . . . .	<u>6.7</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 amounted to \$5.3 million, \$2.1 million more than an assumed expense of \$3.2 million in the 2001 Base Case.

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

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

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

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

“*Shortfall in Liquidity Reserve*” relates to any shortfall in the funds allocated to the “First Collection Account Top-up” and “Second Collection Account Top-up” as a result of Airplanes Group not having sufficient balance of funds after payment of expenses and all required payments on the notes which rank prior to the applicable liquidity reserve amount under the priority of payments applicable to Airplanes Group. Since the May 2003 payment date there has been a depletion of the “Second Collection Account Top-up” and beginning on the December 15, 2003 payment date cashflows have been insufficient to allocate any funds to the “Second Collection Account Top-up”. On the May 16, 2005 payment date, there was a shortfall in the liquidity reserve amount of \$42.8 million as compared to a shortfall of \$43.4 million on the January 18, 2005 payment date, representing an overall decrease of \$0.6 million in the Shortfall in Liquidity Reserve for the Four Month Period. This decrease in the Shortfall in Liquidity Reserve is explained by a net reduction of \$0.6 million in the security deposit reserve amount in the Four Month Period. Under the 2001 Base Case, a Shortfall in Liquidity Reserve was not anticipated.

**[30] INTEREST PAYMENTS**

In the Four Month Period, interest payments to the holders of the class A, B, C and D notes amounted to \$14.3 million which is \$37.2 million lower than assumed under the 2001 Base Case.

Interest payments on the floating rate class A notes amounted to \$14.3 million, \$9.4 million lower than assumed under the 2001 Base Case, reflecting a lower than expected level of average interest rates on the floating rate notes, the impact of which was partly offset by 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 rate in the Four Month Period was 2.7%. 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 \$4.0 million, \$9.5 million and \$14.3 million respectively on the class B, C and D notes. Interest is accruing on the unpaid interest on the class B, C and D notes in accordance with the terms of these notes and will continue to accrue until the arrears of interest are paid in full. Accrued and unpaid interest (including interest accrued on unpaid interest) amounted to \$8.7 million, \$45.3 million and \$69.7 million respectively on the class B, C and D notes following the May 16, 2005 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. Given market conditions and the impact these conditions have had on our performance, we believed that such a refinancing at that time was not economically viable and therefore it did not proceed as scheduled. In accordance with the terms of the subclass A-8 notes, step-up interest of 0.5% per annum began to accrue on these notes from March 17, 2003 (the first business day following the expected final payment date) and will continue to accrue until they are repaid in full or refinanced. Under the priority of payments applicable to Airplanes Group, step-up interest is payable after payment of expenses, interest, minimum principal and scheduled principal on class A, B, C and D notes and any aircraft modification payments. To the extent that step-up interest is not paid, it will accrue in accordance with the terms of the subclass A-8 notes. Available cashflows have not been sufficient to allow payment of step-up interest on any of the payment dates since March 2003 and this is expected to continue to be the case. Total step-up interest (including interest accrued on unpaid step-up interest) accrued and unpaid on the subclass A-8 notes at May 16, 2005 was \$7.7 million.

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

Airplanes Group's net swap payments during the Four Month Period were \$5.4 million compared to \$Nil assumed in the 2001 Base Case.

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

In the fifty month period from March 10, 2001 to May 16, 2005, total principal payments amounted to \$603.0 million, (comprising \$551.5 million on the class A notes and \$51.5 million on the class B notes), \$153.0 million less than assumed in the 2001 Base Case. The breakdown of the \$153.0 million variance is set out on page 66. In the Four Month Period, total principal payments amounted to \$34.1 million, (comprising \$34.1 million on the class A notes), \$27.0 million less than assumed in the 2001 Base Case. The breakdown of the \$27.0 million variance is set out on page 65.

Applying the declining value assumptions in the 1996 Base Case to the original March 1996 fleet appraisals and adjusting for aircraft sales, the total appraised value of the aircraft was assumed to be \$2,282.3 million at May 16, 2005. Our portfolio is appraised annually and the most recent appraisal was obtained on January 31, 2005 and valued the current portfolio at \$1,603.5 million. Applying the declining value assumptions to this appraisal, the total appraised value was \$1,558.4 million at May 16, 2005.

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 fifty month period since the 2001 refinancing. However, we have not always had sufficient cashflows to pay class A principal adjustment amount in full and since the April 15, 2003 payment date, we have not had sufficient cashflows to pay any class A principal adjustment amount. Class A principal adjustment amount is intended to accelerate the principal amortization schedule of the class A notes when the appraised value of the aircraft declines at a greater rate than the decline in appraised values assumed in the 1996 Base Case by reference to certain loan to current appraised value ratios. Since the class A principal adjustment amount ranks ahead of the scheduled principal payments on the class C and D notes, and since available cashflows were not sufficient to pay all of the class A principal adjustment amount, scheduled principal payments on the class C and D notes have been deferred on each payment date

during the fifty month period since the 2001 refinancing. Total deferrals of class C and class D scheduled principal amounts amounted to \$108.7 million and \$73.9 million respectively as of May 16, 2005.

Based on the most recent annual appraisal dated January 31, 2005, the decline in appraised values in the year to the February 2005 payment date was approximately \$42.3 million more than the decline assumed in the 1996 Base Case. The decline in appraised values in this period has resulted in an increase in the arrears of class A principal adjustment amount at the February 15, 2005 payment date from \$485.1 million to \$526.1 million. The class A principal adjustment amount outstanding was \$535.5 million as at May 16, 2005.

To the extent that we have sufficient available funds, we are required to pay a minimum principal amount on the class A notes in order to maintain certain loan to initial appraised value ratios. (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, 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. Minimum principal arrears on the class A notes were \$160.0 million following the May 16, 2005 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 \$54.3 million following the May 16, 2005 payment date.

The appraised values are based upon the value of the aircraft at normal utilization rates in an open, unrestricted and stable market, and take into account long-term trends, including current expectations of particular models becoming obsolete more quickly, as a result of airlines switching to different models, manufacturers ceasing production or lease values for aircraft declining more rapidly than previous predictions. As a theoretical value, the appraised value is not indicative of market value and thus there is no guarantee that we would obtain the appraised value upon sale of any aircraft. The current market value of each of our aircraft is less than, and in many cases significantly less than the appraised value. If the current oversupply of aircraft continues longer term, given the age of our fleet, certain of our aircraft may become obsolete significantly earlier than the useful life expectancy assumed in the 2001 Base Case assumptions, which would negatively impact appraised 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 values of our aircraft are now of little significance except as a basis for providing statistical information on the portfolio and for complying with certain technical provisions in the indentures.

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

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

**AIRPLANES GROUP CASHFLOW PERFORMANCE FOR THE PERIOD FROM  
JANUARY 12, 2005 TO MAY 16, 2005 (4 MONTHS)  
Comparison of Actual Cashflows Versus 2001 Base Case Cashflows**

			% of Lease Rentals under the 2001 Base Case			
			2001			
			Base Case	2001	2001	
			(\$ Millions)	Base Case	Variance	
	Actual	2001 Base Case	Variance	Actual	Base Case	Variance
<b>CASH COLLECTIONS</b>						
1	Lease Rentals .....	134.0	134.0	0.0	100.0%	0.0%
2	— Renegotiated Leases .....	(1.1)	0.0	(1.1)	(0.8%)	(0.8%)
3	— Rental Resets .....	(49.5)	0.0	(49.5)	(36.9%)	(36.9%)
4	— Lease Rentals — Aircraft Sales .....	(20.8)	0.0	(20.8)	(15.5%)	(15.5%)
5	Σ 1-4 <b>Contracted Lease Rentals</b> .....	62.6	134.0	(71.4)	46.7%	(53.3%)
6	Movement in Current Arrears Balance .....	1.8	0.0	1.8	1.3%	0.0%
7	less Net Stress Related Costs					
8	— Bad Debts .....	0.0	(1.3)	1.3	0.0%	(1.0%)
9	— Deferred Arrears Balance .....	1.9	0.0	1.9	1.4%	0.0%
10	— AOG .....	(6.5)	(5.6)	(0.9)	(4.9%)	(0.7%)
11	— Other Leasing Income .....	0.5	0.0	0.5	0.4%	0.0%
12	— Repossession .....	0.0	(1.1)	1.1	0.0%	(0.8%)
13	Σ 8-12 Sub-total .....	(4.1)	(8.0)	3.9	(3.1%)	(6.0%)
14	5+6+13 <b>Net Lease Rental</b> .....	60.3	126.0	(65.7)	45.0%	94.0%
15	Interest Earned .....	0.7	2.2	(1.5)	0.5%	1.6%
16	Aircraft Sales .....	12.7	2.1	10.6	9.5%	1.6%
17	Net Maintenance .....	0.9	0.0	0.9	0.7%	0.0%
18	Other Receipts .....	0.0	0.0	0.0	0.0%	0.0%
19	Σ 14-18 <b>Total Cash Collections</b> .....	74.6	130.3	(55.7)	55.7%	97.2%
<b>CASH EXPENSES</b>						
Aircraft Operating Expenses						
20	— Re-leasing and other overheads .....	(8.2)	(6.7)	(1.5)	(6.1%)	(5.0%)
SG&A Expenses						
21	Aircraft Servicer Fees					
	— Retainer Fee .....	(6.7)	(7.3)	0.6	(5.0%)	(5.4%)
	— Minimum Incentive Fee .....	0.0	(0.5)	0.5	0.0%	(0.4%)
	— Core Cashflow/Sales Incentive Fee .....	0.0	0.0	0.0	0.0%	0.0%
22	21 Sub-total .....	(6.7)	(7.8)	1.1	(5.0%)	(5.8%)
23	Other Servicer Fees and Other Overheads .....	(5.3)	(3.2)	(2.1)	(4.0%)	(2.4%)
23A	Other SG&A Expenses .....	0.0	0.0	0.0	0.0%	0.0%
24	22+23+23A Sub-total .....	(12.0)	(11.0)	(1.0)	(9.0%)	(8.2%)
25	24+20 <b>Total Cash Expenses</b> .....	(20.2)	(17.7)	(2.5)	(15.1%)	(13.2%)
<b>NET CASH COLLECTIONS</b>						
26	19 Total Cash Collections .....	74.6	130.3	(55.7)	55.7%	97.2%
27	25 Total Cash Expenses .....	(20.2)	(17.7)	(2.5)	(15.1%)	(13.2%)
28	Movement in Expense Account .....	0.0	0.0	0.0	0.0%	0.0%
29	Reduction in Liquidity Reserve .....	0.0	0.0	0.0	0.0%	0.0%
29A	Shortfall in Liquidity Reserve .....	(0.6)	0.0	(0.6)	(0.4%)	0.0%
30	Interest Payments .....	(14.3)	(51.5)	37.2	(10.7%)	(38.4%)
31	Swap Payments .....	(5.4)	0.0	(5.4)	(4.0%)	0.0%
32	Σ 26-31 <b>TOTAL</b> .....	34.1	61.1	(27.0)	25.4%	45.6%
33	<b>PRINCIPAL PAYMENTS</b>					
	Class A .....	34.1	53.9	(19.8)	25.4%	40.2%
	Class B .....	0.0	7.2	(7.2)	0.0%	5.4%
	<b>Total</b> .....	34.1	61.1	(27.0)	25.4%	45.6%
<b>Debt Balances at May 16, 2005</b>						
	Subclass A-6 .....	0.0	0.0			
	Subclass A-8 .....	593.9	700.0			
	Subclass A-9 .....	750.0	521.1			
	Subclass B .....	226.8	196.6			
	Subclass C .....	349.8	349.8			
	Subclass D .....	395.1	395.1			
		2,315.6	2,162.6			

**AIRPLANES GROUP CASHFLOW PERFORMANCE FOR THE PERIOD FROM  
MARCH 10, 2001 TO MAY 16, 2005 (50 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	1,732.7	1,732.7	0.0	100.0%	100.0%	0.0%
2	— Renegotiated Leases	(85.3)	0.0	(85.3)	(4.9%)	0.0%	(4.9%)
3	— Rental Resets	(376.4)	0.0	(376.4)	(21.7%)	0.0%	(21.7%)
4	— Lease Rentals — Aircraft Sales	(57.5)	0.0	(57.5)	(3.3%)	0.0%	(3.3%)
5	Σ 1-4	<u>1,213.5</u>	<u>1,732.7</u>	<u>(519.2)</u>	<u>70.0%</u>	<u>100.0%</u>	<u>(30.0%)</u>
6	Movement in Current Arrears Balance	(1.8)	0.0	(1.8)	(0.1%)	0.0%	(0.1%)
7	less Net Stress Related Costs						
8	— Bad Debts	(10.2)	(17.3)	7.1	(0.6%)	(1.0%)	0.4%
9	— Deferred Arrears Balance	23.3	3.1	20.2	1.3%	0.2%	1.2%
10	— AOG	(131.5)	(72.9)	(58.6)	(7.6%)	(4.2%)	(3.4%)
11	— Other Leasing Income	25.3	0.0	25.3	1.5%	0.0%	1.5%
12	— Repossession	(4.1)	(13.9)	9.8	(0.2%)	(0.8%)	0.6%
13	Σ 8-12	<u>(97.2)</u>	<u>(101.0)</u>	<u>3.8</u>	<u>(5.6%)</u>	<u>(5.8%)</u>	<u>0.2%</u>
14	5+6+13	<u>1,114.5</u>	<u>1,631.7</u>	<u>(517.2)</u>	<u>64.3%</u>	<u>94.2%</u>	<u>(29.8%)</u>
15	Interest Earned	11.0	28.7	(17.7)	0.6%	1.7%	(1.0%)
16	Aircraft Sales	101.4	45.7	55.7	5.9%	2.6%	3.2%
17	Net Maintenance	95.5	0.0	95.5	5.5%	0.0%	5.5%
18	Other Receipts	13.8	0.0	13.8	0.8%	0.0%	0.8%
19	Σ 14-18	<u>1,336.2</u>	<u>1,706.1</u>	<u>(369.9)</u>	<u>77.1%</u>	<u>98.5%</u>	<u>(21.3%)</u>
<b>CASH EXPENSES</b>							
Aircraft Operating Expenses							
20	— Re-leasing and other overheads	(98.5)	(86.8)	(11.7)	(5.7%)	(5.0%)	(0.7%)
SG&A Expenses							
21	Aircraft Servicer Fees						
	— Retainer Fee	(92.1)	(92.6)	0.5	(5.3%)	(5.3%)	0.0%
	— Minimum Incentive Fee	(6.0)	(6.3)	0.3	(0.3%)	(0.4%)	0.0%
	— Core Cashflow/Sales Incentive Fee	(0.2)	0.0	(0.2)	(0.0%)	0.0%	(0.0%)
22	21	<u>(98.3)</u>	<u>(98.9)</u>	<u>0.6</u>	<u>(5.7%)</u>	<u>(5.7%)</u>	<u>0.0%</u>
23	Other Servicer Fees and Other Overheads	(46.1)	(41.5)	(4.6)	(2.7%)	(2.4%)	(0.3%)
23A	Other SG&A Expenses	(2.0)	(4.7)	2.7	(0.1%)	(0.3%)	0.2%
24	22+23+23A	<u>(146.4)</u>	<u>(145.1)</u>	<u>(1.3)</u>	<u>(8.4%)</u>	<u>(8.4%)</u>	<u>(0.1%)</u>
25	24+20	<u>(244.9)</u>	<u>(231.9)</u>	<u>(13.0)</u>	<u>(14.1%)</u>	<u>(13.4%)</u>	<u>(0.8%)</u>
<b>NET CASH COLLECTIONS</b>							
26	19	1,336.2	1,706.1	(369.9)	77.1%	98.5%	(21.3%)
27	25	(244.9)	(231.9)	(13.0)	(14.1%)	(13.4%)	(0.8%)
28	Movement in Expense Account	(5.5)	0.0	(5.5)	(0.3%)	0.0%	(0.3%)
29	Reduction in Liquidity Reserve	40.0	40.0	0.0	2.3%	2.3%	0.0%
29A	Shortfall in Liquidity Reserve	42.8	0.0	42.8	2.5%	0.0%	2.5%
30	Interest Payments	(382.5)	(730.0)	347.5	(22.1%)	(42.1%)	20.1%
31	Swap Payments	(183.1)	(28.2)	(154.9)	(10.6%)	(1.6%)	(8.9%)
32	Σ 26-31	<u>603.0</u>	<u>756.0</u>	<u>(153.0)</u>	<u>34.8%</u>	<u>43.6%</u>	<u>(8.8%)</u>
33	<b>PRINCIPAL PAYMENTS</b>						
	Class A	551.5	674.3	(122.8)	31.8%	38.9%	(7.1%)
	Class B	51.5	81.7	(30.2)	3.0%	4.7%	(1.7%)
	<b>Total</b>	<u>603.0</u>	<u>756.0</u>	<u>(153.0)</u>	<u>34.8%</u>	<u>43.6%</u>	<u>(8.8%)</u>
<b>Debt Balances at May 16, 2005</b>							
	Subclass A-6	0.0	0.0	0.0			
	Subclass A-8	593.9	700.0	(106.1)			
	Subclass A-9	750.0	521.1	228.9			
	Subclass B	226.8	196.6	30.2			
	Subclass C	349.8	349.8	0.0			
	Subclass D	395.1	395.1	0.0			
		<u>2,315.6</u>	<u>2,162.6</u>	<u>153.0</u>			

	<u>Mar-01</u> <u>Closing</u> (\$ Millions)	<u>Actual</u> (\$ Millions)	<u>2001</u> <u>Base Case</u> (\$ Millions)
<b>Net Cash Collections</b> .....		603.0	756.0
Add Back Interest and Swap Payments.....		<u>565.6</u>	<u>758.2</u>
a Net Cash Collections (excl. interest and swap payments).....		<u>1,168.6</u>	<u>1,514.2</u>
b Swaps.....		183.1	28.2
c Class A Interest.....		171.4	371.8
d Class A Minimum.....		296.6	0.0
e Class B Interest.....		20.5	60.4
f Class B Minimum.....		51.5	81.7
g Class C Interest.....		76.0	118.8
h Class D Interest.....		114.6	179.0
i Class A Principal Adjustment.....		254.9	674.3
j Class C Scheduled.....		0.0	0.0
k Class D Scheduled.....		0.0	0.0
l Permitted Aircraft Modifications.....		0.0	0.0
m Step-up Interest.....		0.0	0.0
n Class E Minimum Interest.....		0.0	0.0
o Class B Supplemental.....		0.0	0.0
p Class A Supplemental.....		<u>0.0</u>	<u>0.0</u>
<b>Total</b> .....		<u>1,168.6</u>	<u>1,514.2</u>
<b>[1] Interest Coverage Ratio</b>			
Class A.....		3.3	3.8 = a/(b+c)
Class B.....		N/A	3.3 = a/(b+c+d+e)
Class C.....		N/A	2.3 = a/(b+c+d+e+f+g)
Class D.....		N/A	1.8 = a/(b+c+d+e+f+g+h)
<b>[2] Debt Coverage Ratio</b>			
Class A.....		N/A	3.8 = a/(b+c+d)
Class B.....		N/A	2.8 = 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>Loan to Value Ratios (in U.S. dollars)</b>			
<b>[3] Adjusted Portfolio Value</b>	3,108.6	1,558.4	2,307.0
Liquidity Reserve Amount of which			
— Cash.....	156.9	60.0	116.0
— Accrued Expenses.....	<u>12.6</u>	<u>10.0</u>	<u>0.0</u>
Subtotal.....	169.5	70.0	116.0
Less Lessee Security Deposits.....	<u>36.9</u>	<u>0.0</u>	<u>36.0</u>
Subtotal.....	<u>132.6</u>	<u>70.0</u>	<u>80.0</u>
<b>[4] Total Asset Value</b> .....	<u>3,241.2</u>	<u>1,628.4</u>	<u>2,387.0</u>

<b>Note Balances as at:</b>	<u>March 15, 2001</u>		<u>May 16, 2005</u>		<u>May 16, 2005</u>	
Class A.....	1,895.4	58.5%	1,343.9	82.5%	1,221.1	51.2%
Class B.....	278.3	67.1%	226.8	96.5%	196.6	59.4%
Class C.....	349.8	77.9%	349.8	117.9%	349.8	74.0%
Class D.....	395.1	90.0%	395.1	142.2%	395.1	90.6%
	<u>2,918.6</u>		<u>2,315.6</u>		<u>2,162.6</u>	

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

## E. THE ACCOUNTS

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

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

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

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

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

## RENTAL ACCOUNTS

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

## THE COLLECTION ACCOUNT

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

- rental payments,
- payments under any letter of credit, letter of comfort, letter of guarantee or other assurance in respect of a lessee's obligations under a lease,
- the liquidity reserve amount,
- amounts received in respect of claims for damages or in respect of any breach of contract for any nonpayment (including any amounts received from any Airplanes Group subsidiary, whether by way of distribution, dividend, repayment of a loan or otherwise and any proceeds received in connection with a lessee's restructuring),
- net proceeds of any aircraft sale or amounts received under purchase options and other agreements,
- proceeds of any insurance payments in respect of any aircraft or any indemnification proceeds,
- amounts transferred from the lessee funded account to the collection account,

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

#### **LIQUIDITY RESERVE AMOUNT**

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

- the maintenance reserve amount (\$60 million for purposes of the “First Collection Account Top-up” plus an additional \$20 million for purposes of the “Second Collection Account Top-up” as of March 15, 2005, as further described below), and
- a security deposit reserve amount (equal to approximately \$23.2 million as of March 15, 2005).

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

On March 8, 2001, the board of directors of Airplanes Limited and the controlling trustees of Airplanes Trust approved a reduction of the maintenance reserve amount required to be retained by Airplanes Group in the collection account from \$80 million to \$60 million as of March 15, 2001 for purposes of the “First Collection Account Top-up” (but not for the “Second Collection Account Top-up”) according to the priority of payments provided in the indentures.

The reduction of the maintenance reserve amount for purposes of the “First Collection Account Top-up” allowed an additional amount of up to \$20 million to be applied, if required, to pay the minimum hedge payments, class A minimum principal, class B interest, class B minimum principal, class C interest and class D interest on any payment date after March 15, 2001. This additional \$20 million amount, however, was still required to be retained by Airplanes Group in the collection account for purposes of the “Second Collection Account Top-up” if we had sufficient cashflows. This reduction of the maintenance reserve amount did not cause the rating agencies to lower or withdraw the ratings of any class or subclass of certificates.

If funds on deposit in the collection account are insufficient to satisfy the liquidity reserve amount at any time, as has been the case since December 15, 2003, we may continue to make all payments, including required payments on the notes and the guarantees, which rank prior to or equally with payments of accrued but unpaid

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

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

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

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

#### **THE EXPENSE ACCOUNT**

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

### **8. 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 “7C. Results of Operations — Indebtedness”) and the derivative instruments used by Airplanes Group to manage interest rate risk.

#### **INTEREST RATE RISK AND MANAGEMENT**

The revenues of Airplanes Group are generated primarily from lease rental payments which are based on either a fixed or floating rate, or a combination of the two. In the case of floating rate leases, an element of the rental varies in line with changes in LIBOR, generally six-month LIBOR. See “2D. The Leases” for more information regarding the terms of our leases. As of March 31, 2005, leases representing approximately 98% of our portfolio by appraised value as of January 31, 2005 provided for fixed rate rental payments and approximately 2% provided for floating rate payments.

In general, an interest rate exposure arises to the extent that Airplanes Group’s fixed and floating interest obligations in respect of the class A, B, C and D 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 swaps and other derivative instruments. The class A and class B notes and certificates bear floating rates of interest and the class C and class D notes and certificates bear fixed rates of interest. The mix of fixed and floating rental receipts contains a higher percentage of fixed rate receipts than the percentage of fixed rate interest

payments on the notes and certificates and the reset periods on floating rental receipts are generally longer than the monthly reset periods on the floating rate notes. Before November 17, 2003 we entered into interest rate swaps in order to correlate the contracted fixed and floating rental receipts to the fixed and floating interest payments on the notes and certificates. Since November 17, 2003, however, we have not paid interest on our class B, C and D notes and certificates.

We therefore reviewed and modified our hedging policy with the approval of the rating agencies and no longer enter into hedges of the class B notes and certificates. We believe it prudent to continue to hedge our interest rate exposure in respect of the class A notes and certificates as the mix of fixed and floating rental receipts does not correlate to the floating payments due on the class A notes and certificates. Our cashflows have been insufficient to enable any funds to be allocated to the "Second Collection Account Top-up" in the priority of payments since December 15, 2003. We have therefore not included this cash balance in our hedging calculations since the end of 2003.

Under the swaps, Airplanes Group pays fixed amounts and receives floating amounts on a monthly basis. The swaps amortize having regard to a number of factors, including the expected pay down schedule of the class A notes, the expiry dates of the leases under which lessees are contracted to make fixed rate rental payments and the LIBOR reset dates under the floating rate leases. At least every three months, and in practice more frequently, the administrative agent seeks to enter into additional swaps or sell at market value or unwind part or all of the swaps and any future swaps in order to rebalance the floating interest obligations and the fixed and floating mix of rental receipts.

As of March 31, 2005, Airplanes Group had unamortized swaps with an aggregate notional principal balance of \$940 million. The aggregate notional principal balance of these swaps reduce by their terms to an aggregate notional principal balance of \$935 million by March 31, 2006, to an aggregate notional principal balance of \$715 million by March 31, 2007, to an aggregate notional principal balance of \$440 million by March 31, 2008, to an aggregate notional principal balance of \$350 million by March 31, 2009 and to an aggregate notional principal balance of \$100 million by March 31, 2010. None of the swaps has a maturity date extending beyond April 2010. The aggregate fair market value of the portfolio of 25 swaps as of March 31, 2005 was estimated at \$0.1 million (that is, the swaps were "in-the-money," meaning that if the swaps were sold then, a profit of \$0.1 million would result) as detailed below:

#### AIRPLANES GROUP SWAP BOOK AT MARCH 31, 2005

<u>Swap Number</u>	<u>Notional Amount(1)</u> (in millions)	<u>Effective Date</u>	<u>Final Maturity Date</u>	<u>Fixed Rate Payable(2)</u>	<u>Estimated Fair Market Value as of March 31, 2005</u> (in thousands)
1 .....	15	15-Oct-04	15-Oct-05	4.5650%	(100,175)
2 .....	15	17-Oct-01	15-Oct-05	3.9475%	(57,525)
3 .....	150	15-Jul-04	15-Dec-05	2.4475%	920,513
4 .....	70	24-Jul-01	15-Dec-05	5.2850%	(730,550)
5 .....	10	17-Nov-03	15-Jan-06	5.1150%	(149,656)
6 .....	85	20-Dec-01	15-Feb-06	4.6350%	(349,890)
7 .....	10	15-May-03	15-Mar-06	2.8800%	37,524
8 .....	25	30-Jan-02	15-Apr-06	3.5040%	54,007
9 .....	25	15-Mar-02	15-Apr-06	4.0125%	(84,196)
10 .....	10	15-Dec-03	18-Apr-06	2.9425%	81,886
11 .....	155	15-Aug-02	15-Jul-06	5.5500%	(2,259,656)
12 .....	0	17-Oct-05	15-Oct-06	4.9400%	(66,374)
13 .....	85	15-Jul-04	15-May-07	5.8620%	(3,592,899)
14 .....	60	15-Apr-03	15-May-07	3.5350%	596,129
15 .....	45	15-Mar-04	15-May-07	5.2020%	(998,092)
16 .....	90	15-Dec-04	15-Jun-07	4.1300%	(27,324)
17 .....	90	17-Mar-03	17-Sep-07	3.8700%	619,880

<u>Swap Number</u>	<u>Notional Amount(1)</u> (in millions)	<u>Effective Date</u>	<u>Final Maturity Date</u>	<u>Fixed Rate Payable(2)</u>	<u>Estimated Fair Market Value as of March 31, 2005</u> (in thousands)
18 .....	0	15-May-07	15-Nov-07	4.8000%	(46,251)
19 .....	0	17-Sep-07	17-Dec-07	4.9440%	(47,130)
20 .....	0	15-Jul-05	15-Apr-08	3.4800%	1,792,871
21 .....	0	15-Jun-05	15-Oct-09	3.8625%	1,361,145
22 .....	0	15-Jul-05	15-Nov-09	4.0775%	995,001
23 .....	0	15-Aug-05	15-Jan-10	4.0913%	1,056,583
24 .....	0	15-Sep-05	15-Mar-10	4.6088%	93,761
25 .....	0	15-Apr-05	15-Apr-10	4.0800%	1,040,477
	<u>940</u>				<u>140,059</u>

- (1) While some of the above swaps have a fixed notional amount, many amortize over the period to the final maturity date.
- (2) Under all swaps, Airplanes Group receives floating rate payments at one month LIBOR, reset monthly on an actual/360 adjusted basis.
- (3) The initial amounts for swaps number 12, 18, 19, 20, 21, 22, 23, 24 and 25 are \$10 million, \$95 million, \$75 million, \$45 million, \$50 million, \$50 million, \$50 million, \$50 million and \$50 million respectively.

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 the low interest rate environment and our current cashflow performance.

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

Through the use of swaps Airplanes Group seeks to manage its exposure to adverse changes in interest rates based on regular reviews of its interest rate risk. There can be no assurance, however, that Airplanes Group's interest rate risk management strategies will be effective in this regard.

Our indentures required that any counterparty with whom we enter into a swap have at least a short-term unsecured debt rating of A-1+ from Standard & Poor's and a long-term unsecured debt rating of A1 from Moody's. It was proving increasingly difficult to find counterparties meeting these requirements and therefore the board of directors of Airplanes Limited and the controlling trustees of Airplanes Trust resolved in 2003 to undertake the 2003 consent solicitation seeking, among other things, to amend the indentures so as to reduce the required rating for a swap counterparty to 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 with the prior agreement of the rating agencies. The 2003 consent solicitation was successful and the indentures accordingly amended in September 2003. We believe that the amendment to the indentures should help us to identify eligible counterparties to enter into interest rate swaps to hedge our interest rate exposure in respect of the class A notes and certificates. However, because of our financial condition, it is nevertheless becoming increasingly difficult for us to find counterparties willing to enter into swaps with us, and it is becoming more expensive for us to enter into swaps with eligible counterparties.

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

On April 1, 2001 we adopted Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and Certain Hedging Activities" and SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133." As a result, all derivatives are now recognized on the balance sheet at their fair value. All derivatives are designated as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), a hedge of a forecasted transaction or of the variability of cashflows to be received or paid related to a recognized asset or liability ("cashflow" hedge), a foreign-currency fair-value or cash-flow hedge ("foreign currency" hedge) or a "held for trading" instrument.

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

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

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

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

The opening effect as at April 1, 2001 of the adoption of SFAS 133 was \$(38) million in other comprehensive income (i.e. if the swaps were sold then, a loss of \$38 million would have resulted) and \$5 million in earnings (being the deferred gain on early termination of interest and related derivatives). The net change in the value of cashflow hedges for the year ended March 31, 2005 was an increase of \$50 million.

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

None.

### **9A. 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:

<u>Name</u>	<u>Age</u>	<u>Offices Held</u>	
		<u>Airplanes Limited</u>	<u>Airplanes Trust</u>
Roy M. Dantzig . . . . .	60	Independent director	Independent controlling trustee
Joseph E. Francht, Jr. . . . .	54	Independent director	Independent controlling trustee
William M. McCann . . . . .	61	Chairman and independent director	Chairman and independent controlling trustee
Isla M. Smith . . . . .	53	Independent director	Independent controlling trustee
Brian T. Hayden . . . . .	57	Class E note director	Class E note controlling trustee

On July 1, 2004 Richard E. Cavanagh resigned as an Independent Director and Controlling Trustee and on February 7, 2005 Hugh R. Jenkins resigned as an Independent Director and Controlling Trustee.

Roy Dantzig is Chairman of Development Securities 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. Dantzig was appointed by the British Government as the finance director of British National Oil Corporation and he served in this capacity until 1984. Between 1985 and 1989, he was a director of the corporate broking division of Wood McKenzie. In 1989 he joined the board of directors of Stanhope Properties and became its finance director from 1992 until the company was acquired in 1995. Thereafter he served as managing director of Second Site Property Holdings Ltd. until 2003.

On July 1, 2004 Joseph E. Francht Jr. was appointed as an Independent Director and Controlling Trustee. Mr. Francht has been a private investor and consultant since 1998. Mr. Francht also serves as a controlling trustee and as chairman of the audit committee of Lease Investment Flight Trust (another aircraft securitization vehicle). He was Senior Vice President-Finance and Treasurer at Northwest Airlines from 1990 to 1998, where he was responsible for, among other things, all capital markets transactions, aircraft financing activities and fleet planning and analysis. He has also served as chairman of Northwest’s Pension Investment Committee and was on the Board of Directors of Champion Air, Inc. and Northwest Aerospace Training Corporation. Prior to that, from 1972 to 1990, Mr. Francht was employed as a corporate lending officer at Chase Manhattan Bank, now JP

Morgan Chase, and later, at Banque Paribas, now BNP Paribas, in several senior lending positions, including Senior Vice President-Leveraged Capital Group.

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

On February 7, 2005 Isla M. Smith was appointed as an Independent Director and Controlling Trustee. Ms. 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 from 1996 to 2003. In 2002 Ms. Smith was appointed Global Head of Tax with responsibility for management of the tax practice in London, Paris, Frankfurt, Amsterdam and Milan. Ms. Smith moved from Norton Rose in 2004 to take on consultancy work and non-executive directorships. She has extensive experience in financing and taxation, particularly in aviation, transport, banking, utilities and real estate.

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

Neither Airplanes Limited nor Airplanes Trust has any employees or executive management. The board of directors of Airplanes Limited and the controlling trustees of Airplanes Trust rely on the servicer, the administrative agent, the cash manager and the other service providers for all servicing, executive and administrative functions. See "1B. Risk Factors — Risks Relating to Airplanes Group and Third Parties" for a description of the risks involved in relying on service providers to operate our business. The directors and controlling trustees of Airplanes Limited and Airplanes Trust, as well as other individuals, serve as directors of various of our subsidiaries.

## **B. THE SERVICER**

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

GECAS is a global commercial aviation financial services company that offers a broad range of aircraft financial products and provides management, marketing and technical support services to airlines, aircraft owners, lenders and investors and various of its affiliates, including the GE Group, and other third parties, including Aircraft Finance Trust, Lease Investment Flight Trust and Airplanes Group. As of March 31, 2005, GECAS and its affiliates managed a portfolio consisting of 1,615 aircraft on lease to more than 191 lessees in 72 countries throughout the world. As of March 31, 2005, GECAS and its affiliates have also committed to purchase a total of 302 new aircraft from manufacturers, deliverable through June 2010.

GECAS and its affiliates offer such financial products as finance leases (including both direct financing and leveraged leases), operating leases and other structured finance products (including aircraft securitization vehicles). Its management services include collecting rental payments, arranging and monitoring aircraft maintenance performed by others, limited technical inspection of aircraft, arranging and monitoring insurance, arranging for aircraft valuations, registration and de-registration, monitoring compliance with leases, enforcement of lease provisions against lessees, confirming compliance with applicable ADs and facilitating delivery and

redelivery of aircraft. GECAS also arrange sales of aircraft to third parties. GECAS, its affiliate, GE Capital, or any of its other affiliates may acquire debt or beneficial interests in other securitization vehicles that own a portfolio of aircraft assets.

GECAS is headquartered in Shannon, Ireland where it had 105 employees as of March 31, 2005. The Aviation Services business of GE, which includes GECAS, has a further 252 employees worldwide and has operations in Stamford, Connecticut; Shannon, Ireland; Miami, Florida and a number of other locations.

The table below sets forth the different aircraft comprising the GECAS and its affiliates managed portfolio as of March 31, 2005 by manufacturer and by whether the aircraft are owned and managed by affiliates of GE Capital or managed for third parties or Airplanes Group.

<u>Aircraft Type and Class</u>	<u>GE Capital Fleet</u>	<u>Other Managed Third Parties(1)</u>	<u>Airplanes Group</u>	<u>Total</u>
Airbus				
A300 .....	13	—	—	13
A310 .....	5	1	—	6
A318 .....	8	—	—	8
A319 .....	124	—	—	124
A320 .....	137	11	12	160
A321 .....	10	—	—	10
A330 .....	21	—	—	21
Boeing				
B727 .....	6	—	—	6
B737-200 .....	33	—	10	43
B737-300/400/500 .....	261	31	43	335
B737-600/700/800 .....	190	5	—	195
B737-900 .....	4	—	—	4
B747 .....	29	1	1	31
B757-200 .....	33	—	3	36
B767-200 .....	2	—	—	2
B767-200ER .....	9	2	1	12
B767-300ER .....	36	15	4	55
B767-300F .....	1	—	—	1
B777-200ER/300ER .....	13	—	—	13
McDonnell Douglas				
DC8 .....	—	—	13	13
DC10 .....	4	—	—	4
MD-11F .....	6	1	—	7
MD-81 .....	—	10	—	10
MD-82 .....	17	24	2	43
MD-83 .....	16	5	20	41
MD-87 .....	—	5	1	6
MD-88 .....	12	—	—	12
Fokker				
F-100 .....	10	—	16	26
Other Jets .....	334	—	—	334
Turboprops .....	21	—	23	44
Total .....	<u>1,355</u>	<u>111</u>	<u>149</u>	<u>1,615</u>
Body Type:				
Widebody .....	140	20	6	166
Narrowbody .....	1,215	91	143	1,449
Stage Compliance(2):				
Stage 2 .....	26	—	9	35
Stage 3 .....	1,329	111	140	1,580

- (1) The third parties include Lease Investment Flight Trust and Aircraft Finance Trust. Certain aircraft included in the Other Managed Third Parties fleet are owned by joint ventures or pursuant to other arrangements in which unaffiliated parties have interests.
- (2) Turboprop and Stage 3 hushkitted aircraft have been classified as Stage 3 compliant.

## **THE SERVICING AGREEMENT**

GECAS provides services with respect to all of the aircraft in our portfolio pursuant to the servicing agreement. The servicing agreement provides that the servicer will act in accordance with applicable law and with our directions in performing the aircraft services described below. In addition, the servicer has agreed to perform its services in accordance with the following “**GECAS services standard**” and “**GECAS conflicts standard**”:

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

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

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

## **AIRCRAFT SERVICES**

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

- lease marketing, including re-marketing, lease negotiation and execution;
- aircraft management, including lease rent collection, ensuring aircraft maintenance, insurance monitoring and procurement, contract compliance by, and enforcement against, lessees, and accepting delivery and re-delivery of aircraft;
- aircraft sales as we direct;
- monitoring of maintenance reporting, and provision of records and information about the aircraft;
- arranging valuations and monitoring regulatory developments;
- commercially reasonable assistance in complying with covenants relating to the aircraft under the indentures;

- assistance in connection with public or private offerings of certificates;
- legal and other professional services in the ordinary course of the operating lease business; and
- periodic reporting of operational information relating to the aircraft.

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

## **OPERATING GUIDELINES**

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

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

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

## **BUDGET**

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

## **SERVICING FEES**

Airplanes Limited, Airplanes Holdings and AeroUSA pay an annual index-linked fee to the servicer, payable monthly in arrears for the period each aircraft is under management. For the year to March 31, 2005, this fee was 0.57% of the agreed book value of each aircraft, payable monthly in arrears for the period of time that aircraft is under GECAS's management. The servicer is entitled to additional incentive fees based on annual cashflow generated by leases in excess of targets and sales of aircraft, with a minimum fee of \$1.5 million annually. The servicer is also entitled to additional fees in connection with the services required to be provided by GECAS in respect of any offerings and sales by us of certificates. Airplanes Limited, Airplanes Holdings and AeroUSA also pay expenses incurred or approved by the servicer on our behalf, including aircraft maintenance costs and insurance, outside professional advisory fees and other out of pocket expenses, which may be a significant component of our overhead costs. In the year ended March 31, 2005, aircraft maintenance reserve expenses were \$38.7 million. Other expenses, including servicer fees, outside professional advisory fees, insurance and other out of pocket expenses amounted to \$31.9 million for the same period.

## TERM AND TERMINATION

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

- Airplanes Limited, Airplanes Trust, Airplanes Holdings and/or AeroUSA fail to pay when due any servicing fees or other amounts owed to the servicer after appropriate notice;
- Airplanes Limited, Airplanes Trust, Airplanes Holdings and/or AeroUSA fail to perform or observe or violate in any material respect any material term, covenant, condition or agreement under the servicing agreement;
- any of Airplanes Limited, Airplanes Trust, Airplanes Holdings, AeroUSA or their respective subsidiaries or affiliates has made a false or misleading representation or warranty in the servicing agreement or any related document that is reasonably likely to have a material adverse effect on the servicer or on its rights and obligations under the servicing agreement;
- an involuntary proceeding under applicable bankruptcy, insolvency, receivership or similar law against Airplanes Limited, Airplanes Trust, Airplanes Holdings, AeroUSA or any of their significant subsidiaries continues for 75 days or if any of these entities goes into liquidation or suffers a receiver or mortgagee to take possession of all or substantially all of our or its assets, or if any of these entities commences a voluntary proceeding under bankruptcy, insolvency, receivership or similar law or makes a general assignment for the benefit of their creditors;
- Airplanes Limited, Airplanes Trust, AeroUSA, Airplanes Holdings and their respective subsidiaries and affiliates no longer own any aircraft;
- the indentures cease to be in full force and effect; or
- any guarantee in favor of the servicer by any of Airplanes Limited, Airplanes Trust, AeroUSA, Airplanes Holdings and their respective subsidiaries and affiliates ceases to be legal, valid and binding.

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

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

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

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

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

- be unlawful under applicable law;
- violate GE policy as written and in effect for GE and its controlled subsidiaries at that time;

- be likely to lead to an investigation by any governmental authority;
- expose the servicer to liabilities for which, in the servicer's good faith opinion, it is not adequately indemnified; or
- place the servicer in a conflict of interest so that, in the servicer's good faith opinion, it could not continue to perform its obligations under the servicing agreement according to its terms.

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

## **TAX STATUS**

Because GECAS owns 5% of the outstanding issued ordinary share capital of Airplanes Holdings and it maintains particular employment levels in Shannon, Ireland, Airplanes Holdings and its Irish tax-resident subsidiaries enjoy reduced rates of corporation tax, and improved entitlements to capital allowances. In addition, these Shannon tax benefits include the right to pay interest in various circumstances without paying Irish withholding tax, and to deduct payments of interest in calculating corporate tax liability. While we expect Airplanes Holdings and our Irish tax resident subsidiaries to continue to benefit from their status as Shannon certified companies until the scheduled termination of the preferential tax regime on December 31, 2005, we cannot guarantee that the management of the aircraft by the servicer will not expose Airplanes Holdings or the Irish tax resident companies to tax liabilities outside Ireland. The servicing agreement sets out various tax-related undertakings of the servicer to maintain a favorable tax treatment in Ireland for Airplanes Holdings and its Irish tax resident subsidiaries. These include:

- maintaining minimum levels of employment in Ireland if required for Airplanes Holdings or its Irish tax resident subsidiaries to maintain their Shannon licences and tax certification;
- holding meetings of the board of directors of the servicer in Shannon at least quarterly, and only occasionally outside Shannon;
- 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 wilful 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**

### ***DEBIS AIRFINANCE IRELAND***

Subsidiaries of debis AirFinance Ireland serve as our administrative agent and cash manager. debis AirFinance Ireland is a wholly-owned indirect subsidiary of debis AirFinance B.V., a major participant in the global commercial aviation industry. debis AirFinance B.V., directly and through debis AirFinance Ireland and other subsidiaries, also owns and manages aircraft, both for its own account and for third parties, including AerCo, another aircraft securitization vehicle. At March 31, 2005, debis AirFinance B.V. directly had 92 aircraft in its portfolio which were on lease to 30 lessees in 26 countries and, through debis AirFinance Ireland, had 37 aircraft in its portfolio which were on lease to 20 lessees in 17 countries. debis AirFinance Ireland is also the holder of substantially all of the subclass E-1 and E-2 notes of AerCo and acts as servicer for AerCo's portfolio of aircraft. Subsidiaries of debis AirFinance Ireland also act as administrative agent and cash manager to AerCo. Other subsidiaries of debis AirFinance Ireland act as administrative agent and cash manager to GPA-ATR Limited, a turboprop aircraft joint venture company in which debis AirFinance Jetprop Limited holds 50% of the share capital.

On April 27, 2005, the shareholders of debis AirFinance B.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. Such sale is expected to be completed in June 2005.

At March 31, 2005, debis AirFinance B.V. employed 113 people worldwide, with 23 employees in Shannon, Ireland, where debis AirFinance Ireland is located. debis AirFinance B.V. has its headquarters in Amsterdam, the Netherlands and also has an office with 10 employees in Fort Lauderdale, Florida.

### ***ADMINISTRATIVE AGENT***

debis AirFinance 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 the SEC and managing investor relations with the assistance of outside counsel and auditors, if appropriate;
- preparing, or coordinating the preparation of, all required tax returns for our approval and filing;

- maintaining, or monitoring the maintenance of, our books and records that are not maintained by our company secretary or the Delaware trustee;
- preparing agendas and any required papers for meetings of the governing bodies of Airplanes Group entities;
- assisting us in (i) developing and implementing our interest rate management policy and developing financial models, cashflow projections and forecasts, and (ii) making aircraft lease, sale and capital investment decisions;
- advising us as to the appropriate levels of the liquidity reserve amount; and
- assisting us in the refinancing of all or a portion of the notes and certificates.

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

Under the administrative agency agreement, the administrative agent is entitled to a fixed annual fee and an annual fee which varies depending on the number of aircraft we own. These fees are paid monthly in arrears. The fixed annual fee during the year ended March 31, 2005 was \$3.68 million and the variable fee was approximately \$1.29 million. These fees have been index-linked with effect from April 1, 2003. The amount of the fixed annual fee payable to the administrative agent has been renegotiated with effect from April 1, 2005. Such fee will be reduced (before indexation) by \$0.6 million per annum for each of the next three financial years (commencing with the year ending March 31, 2006), by \$0.92 million per annum for each of the subsequent seven financial years and by \$1.5 million per annum for each subsequent financial year. We reimburse the administrative agent for expenses incurred on our behalf and indemnify the administrative agent for any liability it incurs, other than through its own deceit, fraud, wilful 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***

debis AirFinance 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 “7E. The Accounts” for a more detailed description of our accounts.

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

We paid the cash manager an annual fee of \$0.9 million for the year ended March 31, 2005, which has been index-linked with effect from April 1, 2003, and indemnify the cash manager against any loss or liability it incurs, other than through its own deceit, fraud, willful default or gross negligence, or simple negligence in the handling of funds.

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

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

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

### ***DELAWARE TRUSTEE***

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

### ***AUDIT COMMITTEE FINANCIAL EXPERT***

We have no audit committee financial expert as defined in Section 407 of the Sarbanes-Oxley Act of 2002. Our audit committee members are financially literate professionals whose qualifications and experience are set forth above under “Directors and Controlling Trustees” and who collectively have the skills and experience required to discharge fully the duties of the audit committee. Our audit committee members are non-executive directors of Airplanes Limited and non-executive controlling trustees of Airplanes Trust. While we have no executive management of our own, we have access to independent expert advice including that of the administrative agent, for all our financial reporting services. Since Airplanes Group is a liquidating trust whose purpose is to service the notes and certificates through the leasing, re-leasing and sale of aircraft, we believe that the primary interest and focus of our certificate holders lies in our cashflows and our ability to service the certificates.

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

Each of Airplanes Limited and Airplanes Trust have 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. All members of the board of directors of Airplanes Limited and the controlling trustees of Airplanes Trust are non-executive. For all executive management functions Airplanes Limited and Airplanes Trust retain and rely upon third party service providers, including the servicer, the administrative agent and cash manager. 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, debis AirFinance Financial Services (Ireland) Ltd., debis AirFinance House, Shannon, Ireland.

### **D. COMPENSATION**

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

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

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

## 11. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

## 12. PRINCIPAL ACCOUNTANT'S FEES AND SERVICES

### A. ACCOUNTANT'S FEES

	<u>Year Ended March 31, 2005</u>		<u>Year Ended March 31, 2004</u>	
	<u>\$</u>	<u>% approved by Audit Committee</u>	<u>\$</u>	<u>% approved by Audit Committee</u>
Audit Fees .....	616,100	100%	319,600	100%
Audit-Related Fees .....	248,392	100%	132,648	100%
Tax Fees .....	348,044	100%	355,628	100%
All Other Fees .....	74,467	100%	44,369	100%
Total .....	<u>1,287,003</u>	100%	<u>852,245</u>	100%

Audit-Related Fees in the table above for the years ended March 31, 2005 and 2004 relate to quarterly reviews, review of our Annual Report and Audit Committee work.

Tax Fees in the table above for the years ended March 31, 2005 and 2004 relate to tax compliance in Ireland (\$213,691), tax compliance and filings in the U.S. (\$128,600), tax advice and other international tax filings.

All Other Fees in the table above for the years ended March 31, 2005 and 2004 relate to accounting advice and statutory filings for our subsidiaries.

## **B. AUDIT COMMITTEE**

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

- to retain, oversee and terminate the independent auditors of Airplanes Group, including, the approval of all audit and engagement fees and terms;
- to discuss and agree with the external auditor before the audit commences the nature, staffing and scope of the audit;
- to pre-approve all permissible non-audit services performed by the external auditors. (Audit services include the statutory audit of group and subsidiary companies, the review of annual reports and other related work). Pre-approval is delegated to any member to cater for matters arising between meetings, however, the full Committee shall approve at the next scheduled meeting;
- to review from time to time the cost effectiveness of the audit and the independence and objectivity of the external auditor;
- to review submissions to the boards in relation to any audited accounts, focusing particularly on:
  - critical accounting policies and practices and any changes in accounting policies and practice;
  - all alternative treatments of financial information presented that have been or are to be discussed with the boards;
  - any unadjusted audit differences;
  - the going concern assumption;
  - compliance with accounting standards (and in particular accounting standards adopted in the financial year for the first time);
  - compliance with applicable legal requirements;
- to review, on behalf of the boards, Airplanes Group's system of internal control over financial reporting and disclosure controls and procedures (including financial, operational compliance and risk management, and whether there are any significant deficiencies in the design or operation of such controls and procedures, material weaknesses and any fraud involving any persons with a significant role in such controls and procedures) and make recommendations to the boards;
- to review the statement proposed to be included in each quarterly and annual report on the review of the system of internal and disclosure controls and procedures (including financial, operational compliance and risk management, and whether there are any significant deficiencies in the design or operation of such controls and procedures, material weaknesses and any fraud involving any persons with a significant role in such controls and procedures) prior to endorsement by the boards;
- to consider other matters as defined by the boards;
- to report on all of the above matters to the boards.



**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, 2005 and 2004, and the related statements of operations, changes in shareholders' deficit/net liabilities, comprehensive income/(loss) and cashflows for each of the years in the three-year period ended March 31, 2005. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described more fully in notes 9 and 11 to the financial statements, the economic downturn and global conditions have had a significant adverse effect on the aircraft industry in general and on Airplanes Group which has resulted in reductions in aircraft values and lease rates. These conditions have affected Airplanes Group's ability to make scheduled principal and interest payments on the various classes of notes.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Airplanes Group as at March 31, 2005 and 2004, and the results of its operations and cashflows for each of the years in the three-year period ended March 31, 2005, in conformity with generally accepted accounting principles in the United States.

Dublin, Ireland  
May 25, 2005

KPMG  
Chartered Accountants

## AIRPLANES GROUP

### BALANCE SHEETS

Notes	March 31, 2004			March 31, 2005			
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	
	(\$ Millions)			(\$ Millions)			
<b>ASSETS</b>							
Current assets:							
Cash . . . . .	5	77	6	83	80	6	86
Accounts receivable . . . . .	6						
Trade receivables . . . . .		19	4	23	10	2	12
Allowance for doubtful debts		(8)	(1)	(9)	(3)	(1)	(4)
Amounts due from Airplanes							
Limited . . . . .	7	—	45	45	—	46	46
Prepaid expenses . . . . .		3	—	3	2	—	2
Other current assets . . . . .		1	5	6	1	1	2
Total current assets . . . . .		<u>92</u>	<u>59</u>	<u>151</u>	<u>90</u>	<u>54</u>	<u>144</u>
Net investment in capital and							
sales type leases . . . . .	8	1	—	1	—	—	—
Aircraft, held for use . . . . .	9	1,393	59	1,452	1,261	45	1,306
Aircraft, held for sale . . . . .	9	98	8	106	36	—	36
		<u>1,584</u>	<u>126</u>	<u>1,710</u>	<u>1,387</u>	<u>99</u>	<u>1,486</u>
<b>LIABILITIES</b>							
Current liabilities:							
Accrued expenses and other							
liabilities . . . . .	10	2,639	255	2,894	3,486	342	3,828
Amounts due to Airplanes Trust	7	45	—	45	46	—	46
Total current liabilities . . . . .		<u>2,684</u>	<u>255</u>	<u>2,939</u>	<u>3,532</u>	<u>342</u>	<u>3,874</u>
Indebtedness . . . . .	11	2,828	275	3,103	2,663	259	2,922
Provision for maintenance . . . . .	12	274	13	287	256	8	264
Deferred income taxes . . . . .	18	—	19	19	—	23	23
Total liabilities . . . . .		<u>5,786</u>	<u>562</u>	<u>6,348</u>	<u>6,451</u>	<u>632</u>	<u>7,083</u>
Common stock, \$1 par value							
per share, Authorised 10,000							
shares; issued and							
outstanding 30 shares in							
2005 and 2004 . . . . .		—	—	—	—	—	—
Shareholders deficit . . . . .		(4,202)	(436)	(4,638)	(5,064)	(533)	(5,597)
		<u>1,584</u>	<u>126</u>	<u>1,710</u>	<u>1,387</u>	<u>99</u>	<u>1,486</u>

Commitments and Contingent Liabilities (Notes 19 and 20)

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

## AIRPLANES GROUP

### STATEMENTS OF OPERATIONS

		Year ended March 31,									
		2003			2004			2005			
Notes	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined		
		(\$ Millions)			(\$ Millions)			(\$ Millions)			
<b>Revenues</b>											
	Aircraft leasing	14	276	16	292	200	10	210	174	8	182
	Other Income			—	—	—		—	8	—	8
	Aircraft sales		14	—	14	3	—	3	58	5	63
<b>Expenses</b>											
	Cost of aircraft sold		(15)	—	(15)	(1)	—	(1)	(29)	(2)	(31)
	Impairment charges		(74)	(2)	(76)	(335)	(38)	(373)	(37)	(10)	(47)
	Depreciation and amortisation		(132)	(8)	(140)	(111)	(5)	(116)	(79)	(4)	(83)
	Net interest expense	15	(660)	(65)	(725)	(778)	(76)	(854)	(969)	(95)	(1,064)
	Bad and doubtful debts		(5)	(1)	(6)	2	3	5	5	—	5
	Other lease costs	16	(12)	1	(11)	(24)	(1)	(25)	(7)	—	(7)
	Selling, general and administrative expenses	17	(31)	(2)	(33)	(35)	(2)	(37)	(32)	(1)	(33)
<b>Operating Loss Before Income</b>											
	Taxes		(639)	(61)	(700)	(1,079)	(109)	(1,188)	(908)	(99)	(1,007)
	Income tax benefit/(charge)	18	3	5	8	13	4	17	—	(3)	(3)
	<b>Net Loss</b>		<u>(636)</u>	<u>(56)</u>	<u>(692)</u>	<u>(1,066)</u>	<u>(105)</u>	<u>(1,171)</u>	<u>(908)</u>	<u>(102)</u>	<u>(1,010)</u>

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

**AIRPLANES GROUP**

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

	Year ended March 31,								
	2003			2004			2005		
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
	(\$ Millions)			(\$ Millions)			(\$ Millions)		
Loss for the year .....	(636)	(56)	(692)	(1,066)	(105)	(1,171)	(908)	(102)	(1,010)
<b>Other Comprehensive Loss</b>									
Net change in cashflow hedges ..	<u>(38)</u>	<u>(4)</u>	<u>(42)</u>	<u>25</u>	<u>2</u>	<u>27</u>	<u>46</u>	<u>5</u>	<u>51</u>
<b>Comprehensive Loss</b> .....	<u>(674)</u>	<u>(60)</u>	<u>(734)</u>	<u>(1,041)</u>	<u>(103)</u>	<u>(1,144)</u>	<u>(862)</u>	<u>(97)</u>	<u>(959)</u>

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, 2003, 2004 and 2005

	Airplanes Limited				Airplanes Trust			Combined
	Share Capital	Accumulated Loss	Other Comprehensive (Income)/Loss	Shareholders' Deficit	Accumulated Loss	Other Comprehensive (Income)/Loss	Share Deficit	Shareholders Deficit/Net Liabilities
	(\$ Millions)	(\$ Millions)	(\$ Millions)	(\$ Millions)	(\$ Millions)	(\$ Millions)	(\$ Millions)	(\$ Millions)
Balance at March 31, 2002 ..	—	2,454	33	2,487	270	3	273	2,760
Net loss for the period .....	—	636	—	636	56	—	56	692
Other comprehensive loss ....	—	—	38	38	—	4	4	42
Balance at March 31, 2003 ..	—	3,090	71	3,161	326	7	333	3,494
Net loss for the period .....	—	1,066	—	1,066	105	—	105	1,171
Other comprehensive income	—	—	(25)	(25)	—	(2)	(2)	(27)
Balance at March 31, 2004 ..	—	4,156	46	4,202	431	5	436	4,638
Net loss for the period .....	—	908	—	908	102	—	102	1,010
Other comprehensive income	—	—	(46)	(46)	—	(5)	(5)	(51)
<b>Balance at March 31, 2005</b>	<u>—</u>	<u>5,064</u>	<u>—</u>	<u>5,064</u>	<u>533</u>	<u>—</u>	<u>533</u>	<u>5,597</u>

The accompanying notes are an integral part of the financial statements

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

	Year ended March 31,								
	2003			2004			2005		
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
	(\$ Millions)			(\$ Millions)			(\$ Millions)		
<b>Cashflows from operating activities</b>									
Net loss .....	(636)	(56)	(692)	(1,066)	(105)	(1,171)	(908)	(102)	(1,010)
Adjustments to reconcile net loss to net cash provided by operating activities:									
Depreciation and amortisation .....	132	8	140	111	5	116	79	4	83
Impairment charge .....	74	2	76	335	38	373	37	10	47
Aircraft maintenance, net .....	21	2	23	18	2	20	35	—	35
Loss/(profit) on disposal of aircraft	1	—	1	(2)	—	(2)	(29)	(3)	(32)
Deferred income taxes .....	(3)	(5)	(8)	(13)	(4)	(17)	—	3	3
Accrued and deferred interest expense .....	496	49	545	664	65	729	914	90	1,004
Changes in operating assets and liabilities:									
Capital and sales type leases .....	4	—	4	2	—	2	1	—	1
Sale of aircraft .....	12	—	12	1	—	1	56	5	61
Accounts receivable, net .....	(2)	7	5	(2)	10	8	3	1	4
Other accruals and liabilities .....	(3)	(1)	(4)	(5)	(1)	(6)	(22)	3	(19)
Other assets .....	1	4	5	(3)	—	(3)	3	5	8
<b>Net cash provided by operating activities</b> .....	<u>97</u>	<u>10</u>	<u>107</u>	<u>40</u>	<u>10</u>	<u>50</u>	<u>169</u>	<u>16</u>	<u>185</u>
<b>Cashflows from financing activities</b>									
Repayment of notes .....	(98)	(10)	(108)	(98)	(10)	(108)	(166)	(16)	(182)
Issue of refinanced notes .....	—	—	—	—	—	—	—	—	—
<b>Net cash used in financing activities</b> .....	<u>(98)</u>	<u>(10)</u>	<u>(108)</u>	<u>(98)</u>	<u>(10)</u>	<u>(108)</u>	<u>(166)</u>	<u>(16)</u>	<u>(182)</u>
<b>Net (decrease)/increase in cash</b> ...	(1)	—	(1)	(58)	—	(58)	3	—	3
Cash at beginning of year .....	136	6	142	135	6	141	77	6	83
Cash at end of year .....	<u>135</u>	<u>6</u>	<u>141</u>	<u>77</u>	<u>6</u>	<u>83</u>	<u>80</u>	<u>6</u>	<u>86</u>
<b>Cash paid in respect of:</b>									
Interest .....	<u>162</u>	<u>17</u>	<u>179</u>	<u>116</u>	<u>11</u>	<u>127</u>	<u>57</u>	<u>5</u>	<u>62</u>

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

Under the terms of the Transaction, a combination (“Airplanes Group”) comprising Airplanes Limited, a special purpose company formed under the laws of Jersey, Channel Islands (“Airplanes Limited”) and Airplanes U.S. Trust, a trust formed under the laws of Delaware (“Airplanes Trust”) together acquired directly or indirectly from debis a portfolio of 229 commercial aircraft (collectively the “aircraft”) and related leases (the “leases”). The Transaction was effected by transferring existing subsidiaries of debis 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, 2005, the Airplanes Group fleet consisted of 149 aircraft, 139 of which were on lease to 51 lessees in 33 countries (2004: 172 aircraft, 153 on lease to 58 lessees in 35 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 9% approximately by Airplanes Trust. Airplanes Group also issued class E notes ranking after the notes and these were taken up by debis 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 debis (then known as AerFi Group plc) transferred its holding of class E notes to GE Capital Corporation (“GE Capital”).

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

#### 2. BASIS OF PREPARATION

The accompanying financial statements of Airplanes Limited, Airplanes Trust and the combined balance sheets, statements of operations, statements of comprehensive income/(loss), statements of changes in shareholders’ deficit/net liabilities and statements of cashflows of Airplanes Group (together the “Financial Statements”) have been prepared on a going concern basis in accordance with the accounting policies set out in Note 4 and in conformity with United States of America generally accepted accounting principles.

#### 3. RELATIONSHIP WITH GE COMMERCIAL AVIATION SERVICES LIMITED (“GECAS”) AND DEBIS 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. Under 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, under certain circumstances, have the right to terminate the servicing agreement.

## NOTES TO THE FINANCIAL STATEMENTS — (Continued)

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

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

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

In the year to March 31, 2005, fees of \$22.7 million and \$5.9 million (2004: \$24.2 million and \$5.8 million) were charged by GECAS and debis respectively. At March 31, 2005, included in accrued expenses are fee amounts of \$2.7 million and \$0.3 million payable to GECAS and debis respectively.

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

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### *(a) Principles of consolidation*

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

#### *(b) Revenue recognition*

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

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

#### *(c) Aircraft*

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

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

**NOTES TO THE FINANCIAL STATEMENTS — (Continued)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)**

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

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

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

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

*(d) Net investment in capital and sales type leases*

The amounts due from lessees under capital leases, where the entire cost of the asset is recovered, are shown in the balance sheet at the net amount receivable under these leases. The related finance revenue is recognised as income over the period of the lease in proportion to the amounts outstanding to give a constant periodic rate of return.

*(e) Provision for maintenance*

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

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

*(f) 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.

## NOTES TO THE FINANCIAL STATEMENTS — (Continued)

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

#### *(g) 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.

#### *(h) Taxation*

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

Income tax is provided based on the results for the year. Airplanes Limited's underlying taxable entities in Ireland are subject to Irish Corporate Income Tax on approved trading operations at a rate of 10% until December 31, 2005 and thereafter, at general Irish statutory rates, which are currently 12.5%. Airplanes Trust's underlying taxable entities in the U.S. are subject to U.S. Federal and State taxes on their trading operations.

#### *(i) Concentrations of credit risk*

Financial instruments which potentially subject Airplanes Group to significant concentrations of credit risk consist primarily of trade accounts receivable and interest rate swaps. Details of Airplanes Group's interest rate swaps are set out at *(j)* 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, 2005, Airplanes Group owned 149 aircraft, 139 of which were on lease to 51 lessees in 33 countries, with 10 aircraft off-lease. The geographic concentrations of leasing revenues is set out in Note 14.

Many of Airplanes Group's lessees are in a relatively weak financial position because of the difficult economic conditions in the civil aviation industry as a whole, and because, in general, weakly capitalised airlines are more likely to seek operating leases.

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

A Canadian lessee of six Airplanes Group aircraft which emerged from the protection of the Companies Creditors Arrangement Act (Canada), resumed making payments to Airplanes Group in July 2003 and continues to do so. The Servicer agreed a restructuring of the leases resulting in a temporary reduction in lease rentals. During the year ended March 31, 2005 Airplanes Group realised \$2 million from the proceeds of shares received under its claim against the lessee under its bankruptcy proceedings.

At March 31, 2005 Airplanes Group leased two aircraft, representing 4.49% of our portfolio by appraised value as of January 31, 2005 to another Canadian lessee. During the year ended March 31, 2005, the airline filed for protection under the Companies Creditors Arrangement Act (Canada). Subsequent to March 31, 2005 the

## NOTES TO THE FINANCIAL STATEMENTS — (Continued)

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

lessee declared bankruptcy. The servicer is currently pursuing the return of our two aircraft and assessing the claim against the bankrupt estate. The two aircraft have also become subject to a letter of intent for lease.

Airplanes Group's Brazilian lessees also continue to experience significant difficulties due to over-capacity and adverse market conditions. At March 31, 2005, eight of Airplanes Group's aircraft were being operated by Brazilian lessees.

A former Brazilian lessee of three MD-11 aircraft, due to trading difficulties, was in arrears. The servicer, following discussions with the lessee agreed to the early return of the aircraft during 2003. The aircraft which were returned, were subsequently sold during the year ended March 31, 2005. The servicer has signed a settlement agreement in respect of the lessee's obligations and at March 31, 2005 the lessee was current in respect of these obligations.

Another former Brazilian lessee of three B737-500 aircraft, representing 2.39% of our portfolio by appraised value at January 31, 2005 was in arrears. The servicer agreed to the early return of the aircraft prior to March 31, 2003 and signed a settlement agreement in 2004 in respect of the lessee's obligations. At March 31, 2005 the lessee was current in respect of these obligations.

The commercial aviation industry in Asia had been adversely affected by the severe economic and financial difficulties experienced in the region since 1998/1999 and more recently by the effects of the SARS virus which had resulted in a significant drop in airline traffic both within and to the region but has now largely recovered. At March 31, 2005, twenty five of Airplanes Group's aircraft were being operated by lessees in this region.

#### *(j) Fair Value of Financial Instruments*

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

- (i) The fair value of cash, trade receivables and trade payables approximates the carrying amount because of the nature and short maturity of these instruments.
- (ii) The fair value of the class A, B, C and D notes issued by Airplanes Group outstanding at March 31, 2005 and 2004 was \$997 million and \$1,148 million (carrying value at March 31, 2005 and 2004 was \$2,922 million and \$3,103 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, 2005 provided by an independent third party, these fair values do not reflect the market value of these notes at a specific time and should not be relied upon as a measure of the value that could be realized by a noteholder upon sale. While the amount subscribed for the class E notes was based on the appraised value of the aircraft at the closing date, the fair value of these notes at March 31, 2005 cannot be determined, as it represents the holders' residual interest in the aircraft owned by Airplanes Group.
- (iii) Airplanes Group manages its interest rate exposure through the use of interest rate swaps ("swaps") and in the past has also used options to enter into interest rate swaps ("swaptions"). At March 31, 2005 and 2004 Airplanes Group had entered into interest rate swaps with an aggregate notional principal amount of \$940 million and \$1,370 million respectively. Under these swap arrangements Airplanes Group will pay fixed and receive floating amounts on a monthly basis. 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

## NOTES TO THE FINANCIAL STATEMENTS — (Continued)

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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). 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. Airplanes Group believes it prudent to continue to hedge its interest rate exposure on the class A notes and certificates as the mix of fixed and floating rental receipts does not correlate to the floating payments due on the class A notes and certificates. Airplanes Group's 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. Therefore, Airplanes Group has not included this balance in its hedging calculations since the end of 2003. The fair values of interest rate swaps are provided by third parties and are calculated by discounting expected cashflows using market interest rates over the remaining term of the relevant instrument. The fair value of these swaps at March 31, 2005 and 2004 was an unrealised gain of \$0.1 million and an unrealised loss of \$52.5 million respectively.

Interest rate exposures which may arise in the event that lessees paying fixed rate rentals default have in the past been managed in part through the purchase of swaptions. At March 31, 2004 and 2003 Airplanes Group had no swaptions in place.

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

Counterparty risk is monitored on an ongoing basis. Counterparties are subject to the prior approval of the directors of Airplanes Limited and the controlling trustees of Airplanes Trust. Airplanes Group's counterparties at March 31, 2005 comprise major U.S./European financial institutions.

#### *(k) Foreign Currency Transactions*

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

#### *(l) Derivative Instruments and Hedging Activities*

Airplanes Group has adopted SFAS 133, "Accounting for Derivative Instruments and Certain Hedging Activities" and SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133." As a result, all derivatives are recognized on the balance sheet at their fair value. All derivatives are designated as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), a hedge of a forecasted transaction or of the variability of cashflows to be received or paid related to a recognized asset or liability ("cashflow" hedge), a foreign-currency fair-value or cash-flow hedge ("foreign currency" hedge) or a "held for trading" instrument. At March 31, 2005 all of Airplanes Group's interest rate swaps were designated as cashflow hedges.

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

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

## NOTES TO THE FINANCIAL STATEMENTS — (Continued)

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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

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

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

The opening effect as at April 1, 2001 of the adoption of SFAS 133 was \$(38) million in other comprehensive income (i.e. if the swaps were sold then a loss of \$38 million would have resulted) and \$5 million in earnings (being the deferred gain on early termination of interest and related derivatives). Airplanes Group’s financial statements for the first quarter of 2002 reported the net transition adjustment of \$(33) million in other comprehensive income. The net change in the value of cashflow hedges for the year ended March 31, 2002 was an increase of \$2 million. At March 31, 2005, Airplanes Group held interest rate swaps with a maximum maturity of 61 months to hedge its exposure to interest rate risk.

#### *(m) Use of Estimates*

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

#### *(n) New Pronouncements*

In November 2004, the Task Force consensus reached in EITF 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations*, was ratified by the Board. Although the consensus is only required to be applied to a component of an enterprise that is either disposed of or classified as held for sale in fiscal periods beginning after December 15, 2004, operating results related to a component that is disposed of or classified as held for sale within an enterprise’s fiscal year that includes the date that this consensus is ratified may be classified to reflect the consensus. The guidance has been considered in the preparation of the Airplanes Group financial statements and the application of the EITF consensus did not have a significant impact on Airplanes Group’s financial statements.

In the current financial year, the FASB issued FIN No. 46(R) — 1 through to FIN No. 46(R) — 5, which replace and further clarify FIN No. 46, “Consolidation of Variable Interest Entities”. The interpretations clarify the application of No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to

**NOTES TO THE FINANCIAL STATEMENTS — (Continued)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)**

finance its activities without additional subordinated financial support. The proposed guidance documents issued did not have a significant impact on Airplanes Group's financial statements.

In July 2004, the FASB issued DIG Issue No. G25, "Cash Flow Hedges: Using the First-Payments-Received Technique in Hedging the Variable Interest Payments on a Group of Non-Benchmark-Rate-Based Loans". This Issue addresses whether the first-payments-received technique for identifying hedged interest payments can be used in a cash flow hedge of the variable prime-rate-based or other variable non-benchmark-rate-based interest payments for a rolling portfolio of prepayable interest-bearing loans. The issue is effective for all of an entity's hedging relationships at the first day of the first fiscal quarter beginning after August 9, 2004. This issue did not have any significant impact on the financial statements of Airplanes Group.

**5. CASH**

	March 31,			
	2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Cash .....	77	6	80	6

Substantially all of the cash balances at March 31, 2005 and 2004 are held for specific purposes under the terms of the Transaction. Included in the cash balances at March 31, 2005 and 2004 is restricted cash of \$6 million, which is held in terms of certain guarantees.

**6. ACCOUNTS RECEIVABLE**

	March 31,			
	2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Trade receivables .....	19	4	10	2
Allowance for doubtful debts .....	(8)	(1)	(3)	(1)
	<u>11</u>	<u>3</u>	<u>7</u>	<u>1</u>
Included in trade receivables are deferred amounts as follows:-				
Gross deferred lease receivables .....	11	2	8	1
Allowance for doubtful debts .....	(4)	—	(2)	(1)
	<u>7</u>	<u>2</u>	<u>6</u>	<u>—</u>

Deferred lease receivables at March 31, 2005 represent deferrals of rent, maintenance and miscellaneous payments due from lessees. The most significant of these lessees are located in Colombia and Brazil where the air transport sector is suffering from substantial over capacity and the effects of difficult economic conditions (see Note 4(i)).

Receivables, before allowance for doubtful debts, include amounts classified as due after one year of \$8.9 million (Airplanes Limited \$7.5 million and Airplanes Trust \$1.4 million) at March 31, 2005 and \$13.8 million (Airplanes Limited \$11.2 million and Airplanes Trust \$2.6 million) at March 31, 2004.

A number of Airplanes Group's lessees are in a weak financial position. As of March 31, 2005, amounts outstanding for a period greater than 30 days in respect of rental payments, maintenance reserves and other

**NOTES TO THE FINANCIAL STATEMENTS — (Continued)**

**6. ACCOUNTS RECEIVABLE — (Continued)**

miscellaneous amounts due under the leases (net of amounts in respect of default interest and cash in transit) amounted to \$0.1 million in respect of 16 lessees (who leased a combined total of 49 aircraft representing 32.4% of the portfolio by appraised value as of January 31, 2005) and \$0.7 million in respect of seven former lessees. Of the total \$0.8 million, \$0.1 million was in arrears for a period between 30 and 60 days, \$0.1 million was in arrears for a period between 60 and 90 days and \$0.6 million was in arrears for a period greater than 90 days. Some of these lessees have consistently been significantly in arrears in their respective rental payments and many are known to be currently experiencing financial difficulties.

As of March 31, 2004, in addition to the \$0.8 million in respect of payments past due more than 30 days, Airplanes Group had agreed to allow four lessees to defer rent, maintenance and miscellaneous payments totaling \$8.9 million for periods ranging from seven months for one lessee in respect of \$0.1 million and up to 32 months for one lessee in respect of \$6.5 million.

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

	March 31,			
	2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Amount receivable from Airplanes Limited/Payable to Airplanes Trust .....	(45)	45	(46)	46

Included in the balance at March 31, 2005 and March 31, 2004 was \$80 million payable from Airplanes Trust to Airplanes Limited in respect of aircraft sales and purchases. The remaining balance of \$126 million (2004: \$125 million) represents the net amount due to Airplanes Trust in respect of Airplanes Trust's trading activities, including servicing of its debt obligations.

**8. NET INVESTMENT IN CAPITAL AND SALES TYPE LEASES**

The following are the components of the net investment in capital and sales-type leases of Airplanes Limited:

	March 31,			
	2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Total minimum lease payments receivable .....	1	—	—	—
Estimated residual values of leased assets .....	—	—	—	—
Less unearned revenue .....	—	—	—	—
Net investment in capital and sales-type leases .....	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>

Aggregate lease rentals in respect of such capital and sales type leases for the years ended March 31, 2003, 2004 and 2005 amounted to \$4 million, (Airplanes Limited \$4 million, Airplanes Trust \$Nil), \$3 million (Airplanes Limited \$3 million, Airplanes Trust \$Nil) and \$1 million (Airplanes Limited \$1 million, Airplanes Trust \$Nil) respectively.

Unearned revenue of \$0.3 million (Airplanes Limited \$0.3 million, Airplanes Trust \$Nil), \$0.6 million (Airplanes Limited \$0.6 million, Airplanes Trust \$Nil) and \$0.2 million (Airplanes Limited \$0.2 million,

**NOTES TO THE FINANCIAL STATEMENTS — (Continued)**

**8. NET INVESTMENT IN CAPITAL AND SALES TYPE LEASES — (Continued)**

Airplanes Trust \$Nil) for the years ended March 31, 2003, 2004 and 2005, respectively, was amortised and included in aircraft leasing revenue in the statement of operations.

At March 31, 2005, minimum future lease payments on finance leases are as follows:

	<u>2005</u>
	(\$ Millions)
Year Ending March 31, 2006 .....	<u>0.3</u>
	<u>0.3</u>

**9. AIRCRAFT**

	March 31,			
	<u>2004</u>		<u>2005</u>	
	<u>Airplanes Limited</u>	<u>Airplanes Trust</u>	<u>Airplanes Limited</u>	<u>Airplanes Trust</u>
	(\$ Millions)		(\$ Millions)	
<b>Aircraft — Held for use</b>				
Cost .....	3,378	222	3,162	211
Less impairment charge .....	(489)	(71)	(476)	(70)
Less accumulated depreciation .....	<u>(1,496)</u>	<u>(92)</u>	<u>(1,425)</u>	<u>(96)</u>
	<u>1,393</u>	<u>59</u>	<u>1,261</u>	<u>45</u>
<b>Aircraft — Held for sale</b>				
Cost .....	561	69	197	—
Less impairment charge .....	(164)	(15)	(42)	—
Less accumulated depreciation .....	<u>(299)</u>	<u>(46)</u>	<u>(119)</u>	<u>—</u>
	<u>98</u>	<u>8</u>	<u>36</u>	<u>—</u>
<b>Fleet Analysis</b>				
On operating lease for a further period of:				
More than five years .....	131	—	66	—
From one to five years .....	955	22	966	18
Less than one year .....	318	37	224	27
Non revenue earning aircraft:				
Available for lease .....	—	—	—	—
Held for sale .....	87	8	33	—
Available for lease, subject to a lease contract .....	<u>—</u>	<u>—</u>	<u>8</u>	<u>—</u>
	<u>1,491</u>	<u>67</u>	<u>1,297</u>	<u>45</u>

At March 31, 2005, eight aircraft were subject to purchase options granted to existing lessees. The latest date on which a purchase option could be exercised was November 16, 2008.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

9. AIRCRAFT — (Continued)

	Year ended March 31,					
	2003		2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Depreciation expense . . . . .	132	8	111	5	79	4
Impairment charge . . . . .	74	2	335	38	37	10
	<u>206</u>	<u>10</u>	<u>446</u>	<u>43</u>	<u>116</u>	<u>14</u>

At March 31, 2005, Airplanes Group owned 149 (2004:172) aircraft.

At March 31, 2005, 10 aircraft were off-lease, five of which were subject to letters of intent for sale and one which was subject to a lease contract. As of the date of these financial statements, the five aircraft subject to letters of intent for sale have been sold and the aircraft subject to a lease contract has been delivered to the lessee.

During the year ended March 31, 2005 one aircraft which had been classified as held for sale at March 31, 2004 was re-leased. This aircraft incurred a depreciation expense of \$0.4 million (Airplanes Limited \$0.4 million, Airplanes Trust \$Nil) during the year ended March 31, 2005.

In the year to March 31, 2005, we have continued to suffer from a difficult business environment. During the past four years, the world economic climate has been weak. The global economic conditions, combined with the terrorist attacks of September 11, 2001, the military action of the U.S. and its allies in Afghanistan, the war in Iraq, the continued threat of terrorist attacks and the outbreak, in early 2003, of SARS have severely impacted the commercial aviation industry.

As of March 31, 2005, each of the B737-400, MD-83 and A320-200 models of aircraft comprised more than 10% of Airplanes Group's portfolio by appraised value as of January 31, 2005 and, in addition, each of the B737-300, B737-500, B767-300ER and F-100 models of aircraft comprised more than 5% of Airplanes Group's portfolio by appraised value as of January 31, 2005. Furthermore, at March 31, 2005, widebody aircraft comprised more than 10%, and turboprop aircraft comprised more than 5% of Airplanes Group's portfolio by appraised value as of January 31, 2005.

During the years ended March 31, 2004 and March 31, 2005, Airplanes Group evaluated all aircraft for impairment and this impairment analysis resulted in 64 and 21 aircraft, respectively, being identified with a carrying value greater than the fair value for such aircraft. An impairment loss was calculated for these aircraft based on consideration of independent appraisers' values and the estimated discounted future cashflows from rentals or sales proceeds for each aircraft. For certain aircraft the estimated discounted future cashflows were lower than the corresponding independent appraised value. The appraised values were determined based on the assumption that there is an "open unrestricted stable market environment with a reasonable balance of supply and demand." Since this assumption is not appropriate in current market conditions, in respect of each aircraft estimated discounted cashflows were used as a more accurate indication of fair value.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

10. ACCRUED EXPENSES AND OTHER LIABILITIES

	March 31,			
	2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Accrued expenses and other liabilities include:				
Unearned revenue .....	6	—	4	1
Other accruals .....	28	1	19	—
Interest accrued .....	2,527	249	3,441	340
Valuation of swap portfolio .....	47	5	—	—
Trade payables .....	2	—	—	—
Deposits received .....	29	—	22	1
	<u>2,639</u>	<u>255</u>	<u>3,486</u>	<u>342</u>
Of which:				
Payable within one year .....	118	7	147	1
Payable after one year .....	2,521	248	3,339	341
	<u>2,639</u>	<u>255</u>	<u>3,486</u>	<u>342</u>

11. INDEBTEDNESS

The components of the debt are as follows:

	March 31,			
	2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Indebtedness in respect of notes issued:				
Subclass A-6 .....	88	9	—	—
Subclass A-8 .....	638	62	560	55
Subclass A-9 .....	683	67	683	67
Class B .....	207	20	207	20
Class C .....	320	30	320	30
Class D .....	360	35	360	35
Class E .....	538	53	538	53
	2,834	276	2,668	260
Discounts/costs arising on issue of notes .....	(6)	(1)	(5)	(1)
	<u>2,828</u>	<u>275</u>	<u>2,663</u>	<u>259</u>

*Debt maturity*

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

**NOTES TO THE FINANCIAL STATEMENTS — (Continued)**

**11. INDEBTEDNESS — (Continued)**

<u>Class/Subclass of Notes</u>	<u>Interest Rates</u>	<u>Principal Amount at March 31, 2005</u> (\$ Millions)	<u>Expected Final Payment Date*</u>	<u>Final Maturity Date</u>
Subclass A-8 . . . . .	(LIBOR+.375%)	615	March 15, 2003	March 15, 2019
Subclass A-9 . . . . .	(LIBOR+.55%)	750	November 15, 2008	March 15, 2019
Class B . . . . .	(LIBOR+.75%)	227	February 15, 2017	March 15, 2019
Class C . . . . .	8.15%	350	December 15, 2013	March 15, 2019
Class D . . . . .	10.875%	395	February 15, 2017	March 15, 2019
Class E . . . . .	See below	<u>591</u>	See below	See below
		<u>2,928</u>		

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

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

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

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

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

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

The class E notes accrue interest for each interest accrual period at a rate of 20% per annum. The stated interest rate on the class E notes is adjusted by reference to the U.S. consumer price index. Except for the class E note minimum interest amount plus the class E note supplemental interest amount, each of which are payable at a rate of 1% and 10% multiplied by the outstanding principal balance of the class E notes, respectively, no interest will be payable on the class E notes until all of the interest, principal and premium, if any, on the notes have been repaid in full. The principal on the class E notes will be repaid, subject to adequate funds being available, after the interest on the class E notes.

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

1. Specified minimum principal amounts on the class A and the class B notes in that order.
2. Additional amounts on the class A notes in the event that the value of the portfolio falls below specified amounts.
3. Scheduled principal repayments on the class C and class D notes in that order.
4. Specified additional amounts on the class B notes and the class A notes in that order.

## NOTES TO THE FINANCIAL STATEMENTS — (Continued)

### 11. INDEBTEDNESS — (Continued)

5. Thereafter cash available to repay the principal on the notes is applied on each payment date to repay the outstanding principal on the class D notes, the class C notes, the class B notes and the class A notes in that order.

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

The concentration on particular models or types of aircraft magnifies the adverse impact to Airplanes Group's cashflow of a decline in lease rates or aircraft values for these models or types of aircraft and of specific governmental or technical regulations imposed on those aircraft types. In this connection, Airplanes Group has seen (x) decreasing popularity of the turboprop aircraft, the cessation of production of MD-83s and B757s, and the bankruptcy of Fokker, (y) noise regulations restricting the use of Stage 2 aircraft which, as of March 31, 2005, accounted for approximately 0.81% of Airplanes Group's portfolio by appraised value as of January 31, 2005, and (z) Airworthiness Directives ("ADs") with respect to the MD-80s and B737s. These events have caused, and are likely to continue to cause, overall lease rates and aircraft values to significantly decrease and may cause Airplanes Group to incur significant costs which would further reduce its cashflow.

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

#### *Class A principal adjustment amount*

As a result of Airplanes Group's low revenues and a greater than assumed decline in the appraised value of the aircraft in its portfolio, Airplanes Group has been required to pay class A principal adjustment amount to the extent of available cashflows in order to maintain certain loan to current appraised value ratios on the class A notes. Airplanes Group has not always had sufficient cashflows to pay class A principal adjustment amount in full and since the April 15, 2003 payment date, Airplanes Group has not had sufficient cashflows to pay any class A principal adjustment amount, resulting in accumulating arrears. In the year to January 31, 2005, there has been a decline of 11.57% in the appraised value of Airplanes Group's fleet, being \$41 million greater than the decline assumed in setting the payment schedules on Airplanes Group's notes. This has resulted in an increase in the arrears of class A principal adjustment amount by \$41 million to \$526.1 million at February 15, 2005 (the first payment date following the 2005 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

## NOTES TO THE FINANCIAL STATEMENTS — (Continued)

### 11. INDEBTEDNESS — (Continued)

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. Minimum principal arrear on the class A notes were \$160.0 million following the May 16, 2005 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, Airplanes Group’s cashflows have been inadequate to pay any interest or minimum principal on the class B notes or any interest on the class C and D notes, since the December 15, 2003 payment date. Airplanes Group’s failure to make payments on a class of notes results in failure to make payments on the corresponding class of certificates.

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

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

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

#### *Ratings*

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

## NOTES TO THE FINANCIAL STATEMENTS — (Continued)

### 11. INDEBTEDNESS — (Continued)

Set out in the table below are the ratings of Airplanes Group's certificates at May 25, 2005:-

Certificate	Outstanding Principal Balance as at May 16, 2005	S & P	Fitch	Moody's (S&P equivalent)
Subclass A-8 .....	\$593.9m	A	BB	Baa3 (BBB-)
Subclass A-9 .....	\$750.0m	BB+	BB	B1 (B+)
Class B .....	\$226.8m	D	CCC	Ca (CC)
Class C .....	\$349.8m	D	CCC	Ca (CC)
Class D .....	\$395.1m	D	CC	C (C)

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

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

### 12. PROVISION FOR MAINTENANCE

	March 31,			
	2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)	
Balance at April 1 .....	262	13	274	13
Receivable during year .....	50	7	76	1
Expenditure/transfers .....	(38)	(7)	(94)	(6)
Balance at March 31 .....	<u>274</u>	<u>13</u>	<u>256</u>	<u>8</u>

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

Included in the provision for maintenance is \$33 million (Airplanes Limited \$33 million, Airplanes Trust \$Nil) relating to aircraft held for sale.

### 13. SHARE CAPITAL

	Airplanes Limited March 31,	
	2004	2005
	(\$)	
Ordinary shares, par value \$1		
Authorised 10,000 .....	<u>10,000</u>	<u>10,000</u>
Issued 30 .....	<u>30</u>	<u>30</u>

**NOTES TO THE FINANCIAL STATEMENTS — (Continued)**

**13. SHARE CAPITAL — (Continued)**

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, 2005, the total unpaid cumulative preferential dividend amounted to \$40,500.

**14. 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,					
	2003		2004		2005	
	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 .....	94	2	73	1	66	1
North America .....	47	14	17	9	70	12
South America .....	92	—	49	—	48	—
Asia/rest of world .....	<u>57</u>	<u>—</u>	<u>64</u>	<u>—</u>	<u>56</u>	<u>—</u>
	<u>290</u>	<u>16</u>	<u>203</u>	<u>10</u>	<u>240</u>	<u>13</u>
Of which, aircraft sales revenue to third parties represents .....	(14)	—	(3)	—	(58)	(5)
Leasing revenue .....	<u>276</u>	<u>16</u>	<u>200</u>	<u>10</u>	<u>182</u>	<u>8</u>

As of March 31, 2005, in addition to the 10 aircraft which were off lease and not subject to a letter of intent there were 32 aircraft which were scheduled to come off lease within one year from March 31, 2005.

At March 31, 2005, Airplanes Group had contracted to receive the following minimum rentals under operating leases:

Year ending March 31,	2005	
	Airplanes Limited	Airplanes Trust
	(\$ Millions)	
2006 .....	156	5
2007 .....	116	1
2008 .....	76	1
2009 .....	37	—
2010 .....	13	—
Thereafter .....	<u>10</u>	<u>—</u>
	<u>408</u>	<u>7</u>

Contracted rentals are based on actual rates up to the first recalculation date, and thereafter are based on a budget LIBOR of 3.2%, and include aircraft subject to letters of intent to lease.

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

For Airplanes Limited, no customer accounted for more than 10% of revenue in any of the years ended March 31, 2003, 2004 or 2005 respectively. For Airplanes Trust: (a) two lessees accounted for more than 10% of

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

14. REVENUES — (Continued)

leasing revenue for the year ended March 31, 2003, and individually these lessees accounted for 60% and 25% of leasing revenue, respectively (b) three lessees accounted for more than 10% of leasing revenue in the year ended March 31, 2004 and individually these lessees accounted for 11%, 23% and 33% of leasing revenue, respectively, and (c) three lessees accounted for more than 10% of leasing revenue for the year ended March 31, 2005 and individually these lessees accounted for 11%, 23% and 33% of leasing revenue, respectively.

15. NET INTEREST EXPENSE

	Year ended March 31,					
	2003		2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Interest on notes issued . . . . .	663	65	780	76	971	95
Interest income . . . . .	(3)	—	(2)	—	(2)	—
	<u>660</u>	<u>65</u>	<u>778</u>	<u>76</u>	<u>969</u>	<u>95</u>
Cash paid in respect of interest . . .	<u>162</u>	<u>17</u>	<u>116</u>	<u>11</u>	<u>57</u>	<u>5</u>

Interest on notes issued includes \$4.2 million (Airplanes Limited \$3.8 million, Airplanes Trust \$0.4 million), \$(2.0) million (Airplanes Limited \$(1.8) million, Airplanes Trust \$(0.2) million) and \$(2.1) million (Airplanes Limited \$(1.9) million, Airplanes Trust \$(0.2) million) in relation to the change in value of the ineffective cashflow hedges, for the years ended March 31, 2003, 2004 and 2005 respectively.

16. OTHER LEASE COSTS

	Year ended March 31,					
	2003		2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
Net release of excess maintenance reserves . . . . .	(4)	(2)	(12)	—	(4)	—
Other lease costs . . . . .	<u>16</u>	<u>1</u>	<u>36</u>	<u>1</u>	<u>11</u>	<u>—</u>
	<u>12</u>	<u>(1)</u>	<u>24</u>	<u>1</u>	<u>7</u>	<u>—</u>

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended March 31,					
	2003		2004		2005	
	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust	Airplanes Limited	Airplanes Trust
	(\$ Millions)		(\$ Millions)		(\$ Millions)	
GECAS management fees . . . . .	23	1	23	1	22	1
Other selling, general and administrative expenses . . . . .	<u>8</u>	<u>1</u>	<u>12</u>	<u>1</u>	<u>10</u>	<u>—</u>
	<u>31</u>	<u>2</u>	<u>35</u>	<u>2</u>	<u>32</u>	<u>1</u>

In the year ended March 31, 2005, other selling, general and administrative expenses included an amount of \$6 million (Airplanes Limited \$6 million, Airplanes Trust \$Nil) payable to debis in respect of administration and

**NOTES TO THE FINANCIAL STATEMENTS — (Continued)**

**17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES — (Continued)**

cash management fees as compared to the amount of \$6 million (Airplanes Limited \$5 million, Airplanes Trust \$1 million) payable in the year ended March 31, 2004 and \$6 million (Airplanes Limited \$5 million, Airplanes Trust \$1 million) payable in the year ended March 31, 2003.

**18. PROVISION FOR INCOME TAXES**

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

There was a tax charge of \$3 million (Airplanes Limited: \$Nil, Airplanes Trust \$3 million) in the year ended March 31, 2005, as compared with a tax benefit of \$17 million (Airplanes Limited: \$13 million, Airplanes Trust: \$4 million) for the year ended March 31, 2004.

In respect of Airplanes Limited, as at March 31, 2005, no current tax or deferred tax provisions are being recognised in the accounts. A deferred tax provision is deemed unnecessary due to the level of losses carried forward and additional forecasted losses.

Airplanes Trust has deferred tax assets relating to net operating loss carry forwards at March 31, 2005 of \$26 million. These deferred tax assets are offset by deferred tax liabilities on aircraft, alternative minimum tax losses utilized by GE Capital, and a valuation allowance. The result is a net deferred tax liability of \$23 million (2004: \$19 million) as at March 31, 2005.

**(a) Airplanes Limited**

Income tax benefit of Airplanes Limited consists of the following:

	<u>Year ended March 31,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(\$ Millions)		
Current income tax .....	—	—	—
Deferred income tax .....	<u>3</u>	<u>13</u>	<u>—</u>
	<u>3</u>	<u>13</u>	<u>—</u>

Airplanes Limited's income from approved activities in Ireland is taxable at a rate of 10% until December 31, 2005. Thereafter income from trading activities will be taxable at general statutory rates which are currently 12.5%.

A reconciliation of differences between actual income tax benefit of Airplanes Limited for 2003, 2004 and 2005 and the expected tax benefit based on a tax rate of 10% is shown below:

	<u>Year ended March 31,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(\$ Millions)		
Tax benefit at tax rate .....	59	72	94
Non-deductible class E note interest .....	(56)	(72)	(94)
Release of deferred tax .....	<u>—</u>	<u>13</u>	<u>—</u>
Actual tax credit .....	<u>3</u>	<u>13</u>	<u>—</u>

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

Airplanes Limited has net operating loss carryforwards of approximately \$1,756 million as of March 31, 2005, (2004: \$1,864 million) which are available for offset against future taxable income with no restrictions to expiration.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

18. PROVISION FOR INCOME TAXES — (Continued)

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

	<u>March 31,</u>	
	<u>2004</u>	<u>2005</u>
	(\$ Millions)	
Deferred tax assets relating to:		
Net operating loss carryforwards . . . . .	233	220
Valuation allowance . . . . .	<u>(87)</u>	<u>(59)</u>
	<u>146</u>	<u>161</u>
Deferred tax liability relating to:		
Aircraft . . . . .	<u>146</u>	<u>161</u>
	<u>146</u>	<u>161</u>
Net deferred tax . . . . .	<u>—</u>	<u>—</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Airplanes Limited will not realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2005.

(b) *Airplanes Trust*

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

	<u>Year ended March 31,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(\$ Millions)		
Current income tax:			
Federal . . . . .	—	5	1
State . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
Total current . . . . .	<u>—</u>	<u>5</u>	<u>1</u>
Deferred income tax:			
Federal . . . . .	4	(2)	4
State . . . . .	1	1	1
Increase in valuation allowance . . . . .	<u>—</u>	<u>—</u>	<u>(9)</u>
Total deferred . . . . .	<u>5</u>	<u>(1)</u>	<u>(4)</u>
	<u>5</u>	<u>4</u>	<u>(3)</u>

**NOTES TO THE FINANCIAL STATEMENTS — (Continued)**

**18. PROVISION FOR INCOME TAXES — (Continued)**

A reconciliation of differences between actual income tax benefit of Airplanes Trust for 2003, 2004 and 2005 and the expected tax benefit/(expense) based on the U.S. federal statutory tax rate of 35% in 2003, 2004 and 2005 is shown below:

	<u>Year ended March 31,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(\$ Millions)		
Tax benefit at statutory rate .....	21	38	35
State taxes, net of federal .....	1	—	—
Non-deductible class E note interest .....	(17)	(22)	(29)
Increase in valuation allowance .....	—	—	(9)
Write-off of NOL's .....	—	(12)	—
	<u>5</u>	<u>4</u>	<u>(3)</u>

Airplanes Trust has federal and state net operating loss (NOL) carryforwards of approximately \$69.5 million as of March 31, 2005 (2004: \$73.7 million). Due to an ownership change in November 1998, \$4.0 million of Airplanes Trust's aforementioned federal NOL's became limited under Section 382 of the Internal Revenue Code of 1986, as amended (Section 382). Under Section 382, NOL's will generally be limited annually to the product of the long-term tax-exempt rate (published monthly by the Service) and the value of the AeroUSA Inc. outstanding stock immediately before the ownership change (excluding certain capital contributions). However, the Section 382 limitation for a taxable year any portion of which is within the five-year period following the effective date (November 20, 1998) will be increased by the amount of any "recognized built-in gains" for such tax year (subject to certain limitations). With the lapsing of the five-year period to recognize built-in gains in November 2003, Airplanes Trust determined that \$37.4 million in NOL's would never be realized and has thus written off the NOL's.

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

	<u>Year ended</u>	
	<u>March 31,</u>	
	<u>2004</u>	<u>2005</u>
	(\$ Millions)	
Deferred tax assets relating to:		
Net operating loss carryforwards .....	28	26
Valuation allowance .....	—	(9)
	<u>28</u>	<u>17</u>
Deferred tax liabilities relating to:		
Aircraft .....	25	17
AMT NOL Liability .....	22	23
	<u>47</u>	<u>40</u>
Net deferred tax liability .....	<u>19</u>	<u>23</u>

Based on Airplanes Trust's consideration, given the reversal of deferred tax liabilities and available tax planning strategies, a valuation allowance for deferred tax assets of \$9.0 million was established at March 31, 2005. There was no valuation allowance for the year ended March 31, 2004. A valuation allowance was warranted for the year ended March 31, 2005 to reduce federal and state NOLs to a level that was more likely than not to be realizable. Pursuant to a tax sharing agreement between Airplanes Trust and debis, Airplanes Trust is liable to debis for its share of the consolidated tax liability in years subsequent to the completion of the Transaction, in which Airplanes Trust generates taxable income. However, Airplanes Trust shall satisfy this

## NOTES TO THE FINANCIAL STATEMENTS — (Continued)

### 18. PROVISION FOR INCOME TAXES — (Continued)

liability in cash only to the extent that payments due to tax authorities from debis are attributable to Airplanes Trust's share of the consolidated tax liability; the remainder will be paid in the form of subordinated notes. Conversely, Airplanes Trust is entitled to be reimbursed by debis for any tax benefits provided subsequent to the completion of the Transaction, to debis from Airplanes Trust's tax losses. debis has also indemnified Airplanes Trust for any tax liabilities of AeroUSA, Inc. (a subsidiary of Airplanes Trust) that relate to tax years prior to the completion of the Transaction.

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

In relation to the tax year ended December 31, 2004, GE utilized \$4.9 million of current year losses. Accordingly there will be a cash payment of \$1.0 million to Airplanes Group under the terms of this agreement in relation to the tax year ended December 31, 2004. This amount has been included in the balance sheet under "other current assets".

### 19. COMMITMENTS

#### *Capital Commitments*

Airplanes Group did not have any material contractual commitments for capital expenditures at March 31, 2005.

### 20. 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 18 for tax warranties.

#### *Contingent Asset*

During the year ended March 31, 2004, the servicer agreed to the early redelivery of six aircraft from two Brazilian lessees. Following redelivery, a settlement agreement in respect of the lessees' obligations was signed with both lessees. These agreements provide for the payment to Airplanes Group of \$31.8 million over five years which represents unpaid rentals for the unexpired portion of the leases and certain technical costs. Due to uncertainties about the lessees' ability to meet these obligations, these amounts have not been recognised in the financial statements.

### 21. POST BALANCE SHEET EVENTS

Since March 31, 2005, one B747-200SF aircraft, one B737-200A aircraft and two DC8-71F aircraft have been sold at values in excess of their net carrying amount as reflected in the balance sheet.

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