



# QUARTERLY REPORT

For the quarterly period ended December 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**

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

## Airplanes Limited and Airplanes U.S. Trust

### Quarterly Report for the Three and Nine Month Periods Ended December 31, 2005

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## Part I. FINANCIAL INFORMATION

### Item 1. Financial Statements (Unaudited)

#### AIRPLANES GROUP

#### UNAUDITED CONDENSED BALANCE SHEETS

	March 31,			December 31,		
	2005			2005		
	Airplanes Limited	Airplanes Trust	Combined	Airplanes Limited	Airplanes Trust	Combined
	(\$millions)			(\$millions)		
<b>ASSETS</b>						
Cash	80	6	86	74	6	80
Accounts receivable						
Trade receivables	10	2	12	13	2	15
Allowance for doubtful debts	(3)	(1)	(4)	(4)	(1)	(5)
Amounts due from Airplanes Limited	-	46	46	-	36	36
Prepaid expenses	2	-	2	11	-	11
Other Current Assets	1	1	2	4	-	4
Total Current Assets	<u>90</u>	<u>54</u>	<u>144</u>	<u>98</u>	<u>43</u>	<u>141</u>
Aircraft, Held for Use	1,262	45	1,307	1,202	43	1,245
Aircraft, Held for Sale	35	-	35	13	-	13
Total assets	<u>1,387</u>	<u>99</u>	<u>1,486</u>	<u>1,313</u>	<u>86</u>	<u>1,399</u>
<b>LIABILITIES</b>						
Accrued expenses and other liabilities	3,486	342	3,828	4,356	427	4,783
Amounts due to Airplanes Trust	46	-	46	36	-	36
Total Current Liabilities	<u>3,532</u>	<u>342</u>	<u>3,874</u>	<u>4,392</u>	<u>427</u>	<u>4,819</u>
Indebtedness	2,663	259	2,922	2,583	252	2,835
Provision for maintenance	256	8	264	259	9	268
Deferred income taxes	-	23	23	-	22	22
Total liabilities	<u>6,451</u>	<u>632</u>	<u>7,083</u>	<u>7,234</u>	<u>710</u>	<u>7,944</u>
Common Stock, \$1 par value per share, Authorised 10,000 shares; issued and outstanding 30 shares.	-	-	-	-	-	-
Net Deficit	<u>(5,064)</u>	<u>(533)</u>	<u>(5,597)</u>	<u>(5,921)</u>	<u>(624)</u>	<u>(6,545)</u>
	<u>1,387</u>	<u>99</u>	<u>1,486</u>	<u>1,313</u>	<u>86</u>	<u>1,399</u>

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

**AIRPLANES GROUP**  
**UNAUDITED CONDENSED STATEMENTS OF OPERATIONS**

	Three Months Ended December 31,					
	2004			2005		
	Airplanes Limited	Airplanes Trust (\$millions)	Combined	Airplanes Limited	Airplanes Trust (\$millions)	Combined
<b>Revenues</b>						
Aircraft leasing	42	1	43	42	2	44
Other Income	7	-	7	-	-	-
Aircraft sales	4	-	4	-	-	-
<b>Expenses</b>						
Cost of Aircraft sold	(2)	-	(2)	-	-	-
Impairment expense writedown	(10)	(10)	(20)	-	-	-
Depreciation and amortisation	(20)	(1)	(21)	(19)	(1)	(20)
Net interest expense	(250)	(24)	(274)	(326)	(32)	(358)
Bad and doubtful debts	1	-	1	(1)	(1)	(2)
Other lease costs	(4)	-	(4)	(2)	(4)	(6)
Selling, general and administrative expenses	(8)	-	(8)	(7)	-	(7)
<b>Operating loss before provision for income taxes</b>	(240)	(34)	(274)	(313)	(36)	(349)
Income tax Charge	-	(2)	(2)	-	-	-
<b>Net Loss</b>	(240)	(36)	(276)	(313)	(36)	(349)

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

**AIRPLANES GROUP**

**UNAUDITED CONDENSED STATEMENTS OF OPERATIONS**

Nine Months Ended December 31,

	2004			2005		
	Airplanes Limited	Airplanes Trust (\$millions)	Combined	Airplanes Limited	Airplanes Trust (\$millions)	Combined
<b>Revenues</b>						
Aircraft leasing	135	6	141	126	5	131
Other Income	7	-	7	1	-	1
Aircraft sales	52	5	57	14	-	14
<b>Expenses</b>						
Cost of Aircraft sold	(25)	(2)	(27)	(5)	-	(5)
Impairment expense writedown	(36)	(10)	(46)	-	-	-
Depreciation and amortisation	(60)	(2)	(62)	(58)	(2)	(60)
Net interest expense	(706)	(69)	(775)	(911)	(89)	(1,000)
Bad and doubtful debts	6	-	6	(1)	(1)	(2)
Other lease costs	(8)	-	(8)	(11)	(5)	(16)
Selling, general and administrative expenses	(23)	(1)	(24)	(22)	(1)	(23)
<b>Operating loss before provision for income taxes</b>	(658)	(73)	(731)	(867)	(93)	(960)
Income tax benefit / (Charge)	-	(3)	(3)	-	1	1
<b>Net Loss</b>	(658)	(76)	(734)	(867)	(92)	(959)

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

**AIRPLANES GROUP**

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

	<b>Three Months Ended December 31,</b>					
	<b>2004</b>			<b>2005</b>		
	<b>Airplanes Limited</b>	<b>Airplanes Trust</b>	<b>Combined</b>	<b>Airplanes Limited</b>	<b>Airplanes Trust</b>	<b>Combined</b>
	<b>(\$millions)</b>			<b>(\$millions)</b>		
Loss for the period	(240)	(36)	(276)	(313)	(36)	(349)
Other Comprehensive Gain						
- Net change in cashflow hedges	9	1	10	5	-	5
<b>Total Comprehensive loss</b>	<b>(231)</b>	<b>(35)</b>	<b>(266)</b>	<b>(308)</b>	<b>(36)</b>	<b>(344)</b>

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

**AIRPLANES GROUP**

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

	Nine Months Ended December 31,					
	2004			2005		
	<u>Airplanes Limited</u>	<u>Airplanes Trust</u>	<u>Combined</u>	<u>Airplanes Limited</u>	<u>Airplanes Trust</u>	<u>Combined</u>
	(\$millions)			(\$millions)		
Loss for the period	(658)	(76)	(734)	(867)	(92)	(959)
Other Comprehensive Gain						
- Net change in cashflow hedges	31	3	34	10	1	11
<b>Total Comprehensive loss</b>	<u>(627)</u>	<u>(73)</u>	<u>(700)</u>	<u>(857)</u>	<u>(91)</u>	<u>(948)</u>

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

AIRPLANES GROUP

UNAUDITED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT/NET LIABILITIES

Nine Months Ended December 31, 2005 and December 31, 2004

	Airplanes Limited			Airplanes Trust			Combined Shareholders Deficit/ Net Liabilities (\$millions)	
	Share Capital (\$millions)	Accumulated Loss (\$millions)	Other Comprehensive Loss (\$millions)	Shareholders' Deficit (\$millions)	Accumulated Loss (\$millions)	Other Comprehensive Loss (\$millions)		Shareholders Deficit (\$millions)
<b>Balance at March 31, 2004</b>	-	4,156	46	4,202	431	5	436	4,638
Net loss for the period	-	658	-	658	76	-	76	734
Other Comprehensive Gain	-	-	(31)	(31)	-	(3)	(3)	(34)
<b>Balance at December 31, 2004</b>	<u>-</u>	<u>4,814</u>	<u>15</u>	<u>4,829</u>	<u>507</u>	<u>2</u>	<u>509</u>	<u>5,338</u>
<b>Balance at March 31, 2005</b>	-	5,064	-	5,064	533	-	533	5,597
Net loss for the period	-	867	-	867	92	-	92	959
Other Comprehensive Gain	-	-	(10)	(10)	-	(1)	(1)	(11)
<b>Balance at December 31, 2005</b>	<u>-</u>	<u>5,931</u>	<u>(10)</u>	<u>5,921</u>	<u>625</u>	<u>(1)</u>	<u>624</u>	<u>6,545</u>

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



**AIRPLANES GROUP**

**UNAUDITED CONDENSED STATEMENTS OF CASHFLOWS**

	Nine Months Ended December 31,					
	2004			2005		
	Airplanes Limited	Airplanes Trust (\$millions)	Combined	Airplanes Limited	Airplanes Trust (\$millions)	Combined
<b>Cash flows from operating activities</b>						
Net loss	(658)	(76)	(734)	(867)	(92)	(959)
Adjustment to reconcile (net loss) to net cash provided by operating activities:						
Depreciation	60	2	62	58	2	60
Impairment Charge	36	10	46	-	-	-
Aircraft maintenance, net	32	-	32	25	-	25
Profit on disposal of aircraft	(27)	(3)	(30)	(9)	-	(9)
Deferred income taxes	-	3	3	-	(1)	(1)
Provision for bad debts	(6)	-	(6)	1	1	2
Accrued and deferred interest expense	665	66	731	867	87	954
<b>Changes in operating assets &amp; liabilities:</b>						
Accounts receivable	12	(2)	10	(14)	10	(4)
Intercompany account movements	-	-	-	-	-	-
Other accruals and liabilities	(16)	2	(14)	13	-	13
Other assets	2	6	8	(11)	-	(11)
<b>Net cash provided by operating activities</b>	<u>100</u>	<u>8</u>	<u>114</u>	<u>63</u>	<u>7</u>	<u>70</u>
<b>Cash flows from investing activities</b>						
Purchase/Sale of aircraft	51	5	56	11	-	11
Capital and sales type leases	1	-	1	-	-	-
<b>Net cash provided by investing activities</b>	<u>52</u>	<u>5</u>	<u>57</u>	<u>11</u>	<u>-</u>	<u>11</u>
<b>Cash flows from financing activities</b>						
Repayment of indebtedness	(132)	(13)	(145)	(80)	(7)	(87)
<b>Net cash used in financing activities</b>	<u>(132)</u>	<u>(13)</u>	<u>(145)</u>	<u>(80)</u>	<u>(7)</u>	<u>(87)</u>
<b>Net increase / (decrease) in cash</b>	20	-	20	(6)	-	(6)
<b>Cash at beginning of period</b>	<u>77</u>	<u>6</u>	<u>83</u>	<u>80</u>	<u>6</u>	<u>86</u>
<b>Cash at end of period</b>	<u>97</u>	<u>6</u>	<u>103</u>	<u>74</u>	<u>6</u>	<u>80</u>
<b>Cash paid in respect of:</b>						
Interest	<u>41</u>	<u>3</u>	<u>44</u>	<u>35</u>	<u>3</u>	<u>38</u>

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

## Airplanes Group

### Notes to the Unaudited Condensed Financial Statements

#### 1. Basis of Preparation

The accompanying unaudited condensed financial statements of 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**” and together with Airplanes Limited, “**Airplanes Group**”) and the combined unaudited condensed balance sheets, statements of operations, statements of comprehensive income/(loss), statement 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 conformity with United States generally accepted accounting principles.

The accompanying financial statements for Airplanes Limited and Airplanes Trust reflect all adjustments which in the opinion of management are necessary for a fair statement of the results of operations for the three and nine month periods ended December 31, 2005 and 2004. Such adjustments are of a normal, recurring nature. The results of operations for the three and nine month periods ended December 31, 2005 are not necessarily indicative of the results to be expected for the full year.

References to Airplanes Group in these notes to the unaudited condensed financial statements relate to Airplanes Limited and Airplanes Trust on a combined or individual basis as applicable and in this respect, we use “**we**”, “**us**” and “**our**” to refer to Airplanes Group and its subsidiaries and Airplanes Pass-through Trust.

#### *Current Performance*

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, the continuing conflict in Iraq, record highs for fuel prices as exacerbated by hurricanes in 2005, the difficulty of obtaining fuel hedges under current market conditions and the high cost of insurance 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. A number of US airlines continue to incur significant losses and both Delta Airlines and Northwest Airlines filed for bankruptcy on September 14, 2005. In light of the weakened market, we have had to agree to requests by many of our lessees to restructure their leases. Additionally the rates we are able to achieve on new leases (also adversely affected by a low interest rate environment) have been lower, and in many cases significantly lower, than lease rates assumed in the 2001 Base Case. Although we are seeing some improvement in lease rates for certain aircraft types when compared to the rates which we obtained in recent years, this improvement has not made, nor do we expect it to make a significant difference to our 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. 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 where the economics indicate that a sale is more beneficial than a re-lease. Such sales in the current market are, however, difficult to achieve and where sales have been completed, the sales proceeds have not made a significant difference to our cashflow. 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 January 17, 2006 was \$191.0 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.

### ***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.

### ***Debt Maturity***

The terms of each subclass or class of notes, including the outstanding principal amount as of December 31, 2005 and estimated fair value as of December 31, 2005, are as follows:

<u>Class of Notes</u>	<u>Annual Interest Rate (Payable Monthly)</u>	<u>Outstanding Principal Amount at December 31, 2005</u> \$ Million	<u>Final Maturity Date</u>	<u>Estimated Fair Value at December 31, 2005*</u> \$ Million
Subclass A-8	(LIBOR+.375%)	527	March 15, 2019	498
Subclass A-9	(LIBOR+.55%)	750	March 15, 2019	401
Class B	(LIBOR+.75%)	227	March 15, 2019	1
Class C	(8.15%)	350	March 15, 2019	0
Class D	(10.875%)	<u>395</u>	March 15, 2019	<u>0</u>
		<u>2,249</u>		<u>900</u>

\* Although the estimated fair values of the class A to D notes outstanding have been determined by reference to prices as at December 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.

### ***SEC Filings***

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 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 and also available on our website.

## 2. Contingent Liabilities

### Guarantees

Airplanes Limited and Airplanes Trust have unconditionally guaranteed each others' obligations under all classes of notes issued by Airplanes Trust and Airplanes Limited, respectively, pursuant to the securitization transaction, details of which are set out in our Annual Report for the year ended March 31, 2005.

### 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.

### Legal Proceedings

#### VASP

Following the default by the Brazilian airline VASP under its leases, AerCap Ireland Limited (formerly known as debis AirFinance Ireland Limited and GPA Group plc) 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 2.0% of our portfolio by appraised value as of January 31, 2006. In December 1996, the Sao Paulo Court of Justice, Brazil, found in favor of VASP on appeal and granted it the right to the return of the aircraft and engines or the right to seek damages against AerCap Ireland. AerCap Ireland challenged this decision and in January 2000, the Court of Justice granted a stay of the 1996 judgment while it considered AerCap Ireland's rescission action. In April 2002, the High Court found in favour of AerCap Ireland's rescission action and overturned the 1996 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 AerCap Ireland's rescission action. AerCap Ireland has indicated that it will continue to actively pursue all available courses of action, including appeals and if necessary initiating a new rescission action. A risk of repossession would only arise if VASP were successful on appeal in seeking repossession of the aircraft and the aircraft were located in Brazil. Brazilian counsel to AerCap Ireland believe that VASP may not commence repossession action as VASP has indicated that it may instead file a motion for damages suffered as a result of the repossession of the aircraft. AerCap Ireland cannot at this time quantify the amount of this potential damages claim. Although none of our lessees which lease any of the relevant aircraft is based in Brazil, some of them may operate those aircraft into Brazil from time to time.

The preparation of the financial statements requires the use of management estimates.

**The accompanying unaudited condensed interim financial statements of Airplanes Limited and Airplanes Trust (pages 3 to 13) have been prepared in accordance with United States generally accepted accounting principles for interim financial information. Consequently, they do not include all the disclosure normally required by United States generally accepted accounting principles. For further information regarding Airplanes Group and its financial condition, results of operations and cashflows, you should refer to the audited financial statements and notes thereto included in Airplanes Group's Annual Report for the year ended March 31, 2005 as published on our website at [www.airplanes-group.com](http://www.airplanes-group.com).**

## **2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **A. Introduction**

We are in the business of leasing aircraft to aircraft operators around the world. At December 31, 2005, we owned 143 aircraft, 138 of which were on lease to 51 lessees in 34 countries. For background information on our capital structure, please refer to our Annual Report for the year ended March 31, 2005.

The discussion and analysis which follows is based primarily on the combined operating results of Airplanes Limited and Airplanes Trust and not on their results reported as individual entities. It should be noted, however, that the notes and the Guarantees comprise obligations of two different legal entities owning different assets. The Directors of Airplanes Limited and the Controlling Trustees of Airplanes Trust 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 to ensure that no payments are made on a junior class of notes of Airplanes Limited or Airplanes Trust, as the case may be, before any amounts due and payable on a more senior class of notes of Airplanes Limited or Airplanes Trust, respectively, are paid pursuant to the Guarantees.

### **General**

Substantially all of our business consists of aircraft operating lease activities. We may also engage in aircraft sales subject to certain guidelines. Our revenues and operating results are determined by a number of significant factors including (i) trading conditions in the civil aviation industry, and in particular, the market for aircraft on operating leases, (ii) the mix, relative age and popularity of the various aircraft types in our portfolio and (iii) our financial resources and liquidity position relative to our competitors.

*This Quarterly Report contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties. Statements in this document which are not historical facts are hereby identified as "forward-looking statements" for the purpose of the safe harbour provided by Section 21E of the Securities Exchange Act of 1934 ("**Exchange Act**"). In most cases, you can identify these forward looking statements by such terms as "may", "should", "expect", "plan", "believe", "estimate", "potential", "continue" or similar terms that relate to the future or express uncertainty. Our actual results and business experience could differ materially from those anticipated in these forward looking statements. In evaluating these statements, you should specifically consider various factors, including risk factors disclosed in our Annual Report for the year ended March 31, 2005.*

## **B.Industry Background**

In recent years, various factors, starting with the 2001 (“9/11”) terrorist attacks in the US and a weak global economy and including the continued threat of terrorist attacks, the outbreak of SARS, the continuing conflict in Iraq, record high fuel prices as exacerbated by recent hurricanes and the high cost of insurance, have contributed to a weak aircraft leasing market and severely weakened the financial condition of airlines worldwide, including many of our lessees. Several airlines have filed for bankruptcy protection since 9/11, including most recently, Delta Air Lines and North West Airlines in the United States. Notwithstanding a continued record-high fuel price environment, the commercial aviation industry has begun to show signs of recovery, with values and lease rates for most aircraft types still in production showing a return to pre 9/11 rates. However, as most aircraft types within our fleet are out of production aircraft types, the benefit to our fleet is limited. Large areas of the industry continue to suffer from overcapacity, intense competition and soft pricing and remain affected due to the sustained downturn. In addition the market remains vulnerable to external events such as terrorist attacks and health epidemics.

### *Impact on Airplanes Group*

Many of our lessees have been adversely affected by the events described above. As a result, in order to keep our aircraft in service, we have had to agree to requests to restructure leases, providing concessions such as rental reductions, rent holidays and “power by the hour” arrangements, all of which adversely affect our cash flows. As discussed above, the overall aircraft market is stronger and lease rates have improved for some of the aircraft types in our portfolio and our aircraft downtime has generally lessened as a result of stronger demand. However, our ability to take full advantage of this improvement is limited by the availability of our aircraft for re-lease, many of which are on lease at rents which were set during the downturn or reset in restructurings. Additionally, because the weighted average age of our fleet is now thirteen years, even when aircraft become available for re-lease, we are not able to command the highest rates for even the most popular aircraft types and our lease rates, while higher than the rates we have previously achieved for such aircraft, are not at pre 9/11 levels. Overall, our lease revenues are significantly lower than those assumed in both the 1996 Base Case assumptions and the 2001 Base Case assumptions and we have also been unable to meet the other assumptions in those Base Cases.

We are generating revenues 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 D notes, since the December 15, 2003 payment date. 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, however, difficult to achieve and where sales have been completed, they 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 January 17, 2006 was \$191.0 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.

## ***Effect of Performance on Priority of Payments***

### ***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.

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). 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 unable to fund the "Second Collection Account Top-up" in full. Beginning on the December 15, 2003 payment date our cashflows were insufficient to allocate any funds at all to the "Second Collection Account Top-up" or to pay minimum principal on the class A notes in full. Since 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 a corresponding class of certificates.

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

We do not anticipate that we will ever be able to resume 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 are 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 rendering remote any likelihood of payments ranking below this in the order of priority of payments.

#### *Ratings*

This vulnerability of the various classes of notes and certificates has been reflected in actions taken by the rating agencies which continue to re-evaluate structured aircraft financings. On June 24, 2005 Fitch announced a downgrade of the subclass A-9 certificates from rating BB to BB-, a downgrade of the class C certificates from CCC to C and a downgrade of the class D certificates from CC to C. The subclass A-8 certificates and class B certificates were reaffirmed at their current ratings.

Set out in the table below are the ratings of our certificates at January 17, 2006:-

<u>Certificate</u>	<u>Outstanding Principal Balance as at January 17, 2006</u>	<u>S &amp; P</u>	<u>Fitch</u>	<u>Moody's (S&amp;P equivalent)</u>
Subclass A-8	\$526.9m	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	C	Ca (CC)
Class D	\$395.1m	D	C	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.

### ***C. Commercial Opportunities for Certain Types of our Aircraft***

The market for certain aircraft models is currently very weak and is expected to remain so. The price of aviation fuel has risen dramatically in recent months and remains at record highs. This has added to the financial difficulties for airlines since, as a result of competitive pressures, not all of this cost is being passed back to customers. It also has a negative effect on operators of older, less fuel efficient aircraft which comprise a majority of the aircraft in our portfolio. Continued high fuel prices also make it more difficult for us to remarket these aircraft favourably.

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

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 2003 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 December 31, 2005, our portfolio contained a total of 22 aircraft of these and other types for which re-leasing may not be economically viable. Since the 2003 consent solicitation we have sold 33 aircraft for an aggregate amount of \$82.5 million. For each of these aircraft there was either no leasing market or leasing was not economically viable.

We continue to evaluate sales opportunities for aircraft with little or no re-lease prospects and which require expenditure for storage, maintenance and insurance. In the nine month period to December 31, 2005, we sold one B747-200SF, two DC8-71Fs, one B737-200A and one DHC8-300C. In addition a conditional sale for one B737-200A closed during the nine month period. At December 31, 2005 one

DC8-71F and one ATR-42 were subject to letters of intent for sale and two B737-200As were available for sale. Subsequent to December 31, 2005 the sale of the DC8-71F closed.

LOI's for the sale of 5 B737-200As signed in the quarter ended December 31, 2005 failed to close.

### ***Remarketing***

At December 31, 2005, we had 25 aircraft scheduled to be remarketed before December 31, 2006. These comprise 2 B737-200As, 3 B737-500s, 2 DHC8s, 10 DC8s, 1 B737-300, 1 B757-200, 2 MD83s, 1 MD87, 2 MD82s and 1 ATR42-300. As a result of the current over supply of aircraft in the market place and the factors discussed above, we will experience difficulties in placing certain of these aircraft, particularly the older less fuel efficient models such as the DC8s and B737-200As.

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

With respect to each of our aircraft identified as a sale opportunity, we will apply the methodology described above on a case by case basis to determine whether sale of the aircraft may be in the best interests of Airplanes Group and the noteholders.

### ***D. The Lessees:***

#### ***Europe***

At December 31, 2005 we leased 43 aircraft which represented 37.31% of our portfolio by appraised value at January 31, 2006 to operators in Europe.

Europe continues to perform strongly and the low cost boom has continued with additional start-ups, but also a number of failures, showing competition is strong.

On November 2, 2005 one MD83 aircraft representing 0.6% of our portfolio by appraised value as at January 31, 2006 returned early from a Croatian lessee due to a failure to meet obligations. The servicer is currently in discussions with the lessee regarding its obligations.

#### ***North America***

At December 31, 2005 we leased 16 aircraft representing 11.22% of our portfolio by appraised value as of January 31, 2006, to operators in North America. A number of US airlines continue to announce significant losses and Delta and Northwest Airlines filed for Chapter 11 bankruptcy protection on September 14, 2005. We believe that the US market is suffering from over-capacity and low yields.

At December 31, 2005, we leased six aircraft, representing 7.70% of our portfolio by appraised value as of January 31, 2006 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 this lessee under its bankruptcy proceedings.

At December 31, 2005 one former Canadian lessee which had leased two aircraft representing 1.20% of our portfolio by appraised value as of January 31, 2006 was in arrears. During the year to March 31, 2005, the airline filed for protection under the Companies Creditors Arrangement Act (Canada). During the quarter to June 30, 2005 the lessee declared bankruptcy. The servicer has filed a claim against the bankrupt estate. Both aircraft have now been delivered to a new lessee.

### *Latin America*

At December 31, 2005, lessees of 46 aircraft with respect to 23.30% of our portfolio by appraised value as of January 31, 2006 operated in Latin America, principally Brazil, Mexico and Colombia. The prospects for lessee operations in these countries depend in part on the general level of political stability and economic activity and policies in those countries. Further developments in the political systems or economies of these countries or the implementation of future governmental policies in these countries may materially affect these lessees' operations.

Economic volatility may increase in these and other emerging markets which may cause further difficulties for our lessees.

Two former Brazilian lessees of three MD-11 aircraft and three B737-500 aircraft were in arrears. The servicer, following discussions with the lessees agreed to the early return of the aircraft during 2003. The servicer signed a settlement agreement in 2004 in respect of both lessees' obligations. During the quarter ended June 30, 2005, the lessees filed for protection under new Brazilian bankruptcy laws. Following this, the servicer notified the airlines of an event of default under the settlement agreement. The servicer is currently in negotiations with the airlines regarding the outstanding amounts.

A Brazilian lessee of eight F-100 aircraft representing 3.31% of our portfolio by appraised value as of January 31, 2006, has signed a restructuring agreement, which provided 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 under the agreement.

At December 31, 2005 a former Brazilian lessee of one DC8-71F aircraft was experiencing trading difficulties. The servicer took redelivery of the aircraft from the lessee during the year ended March 31, 2005 and is pursuing the lessee for its outstanding obligations.

At December 31, 2005, we leased 9 aircraft, representing 8.53% of our portfolio by appraised value at January 31, 2006 to two Colombian lessees. Continued weakness in the value of the Colombian Peso, as well as general deterioration in the Colombian economy, may mean that these lessees will be unable to generate sufficient revenues in the Colombian currency to pay the U.S. dollar denominated rental payments under the leases.

At December 31, 2005, we leased 7 aircraft (included in the 9 aircraft mentioned in the preceding paragraph) to one Colombian lessee, representing 8.11% of our portfolio by appraised value at January 31, 2006. 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.

### ***Asia and the Far East***

As at December 31, 2005, we leased 25 aircraft representing 18.58% of our portfolio by appraised value as of January 31, 2006 to 11 lessees in this region.

At December 31, 2005 an Indonesian lessee of five B737-200A aircraft representing 0.36% of our portfolio by appraised value as of January 31, 2006 was experiencing trading difficulties. The lessee is currently in default and grounding notices have been issued by the servicer following failure to meet obligations.

A decline in tourism in this area may adversely affect demand for aircraft in the region. For example, 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 many flight schedules were reduced. These factors adversely affected the ability of lessees in the region to make payments under their leases. Indications to date are that the region had recovered and experienced traffic growth.

### ***Africa***

At December 31, 2005 we leased 4 aircraft representing 5.40% of our portfolio by appraised value at January 31, 2006 to lessees in Africa.

### ***Other***

At December 31, 2005, we also leased 3 aircraft representing 2.74% of our portfolio by appraised value as of January 31, 2006 to a lessee in Ukraine and one aircraft representing 0.18% of our portfolio by appraised value as of January 31, 2006 to a lessee in Australia.

### ***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, 2006 did not meet the Stage 3 requirements as of December 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 lease.

The installation of Enhanced Ground Proximity Warning System ("EGPWS") in all aircraft was mandated by 2005 by the FAA and the European Joint Airworthiness Authorities. EGPWS is an avionics system which detects an aircraft's proximity to the ground. The enhanced version enables the system to correlate the aircraft's current position with a database of obstructions in the horizontal plane (high mountain peaks, buildings, antennae etc). All new generation Airbus and Boeing aircraft have EGPWS and require only a software upgrade. For the majority of our aircraft, installation of EGPWS required the full modification, some of which have been completed under cost sharing arrangements with lessees. The estimated cost to implement this modification was \$120,000 per aircraft. The effective date for installation of EGPWS was January 1, 2005, although not all costs may yet have been charged to Airplanes Group where costs are to be recharged to the aircraft lessor. 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 December 31, 2005, 23 aircraft representing 13.09% of the portfolio by appraised value as of January 31, 2006, were MD-80s. To date, we have incurred costs of \$5.7 million related to the modification of 14 aircraft. The remaining costs which are currently expected to be up to \$3.2 million, will be recharged to us based on the contractual terms of the respective leases with some of these costs not rechargeable until lease end.

The FAA issued Notice Of Proposed Rule Making (NPRM 2005-NM-028-AD) on April 5, 2005 in relation to the further replacement of insulation blankets. The comment period has been extended to February 2006. The affected insulation covering is installed on B737-200/300 and 400 aircraft; B747 aircraft, B757 and B767 aircraft originally built between July 1981 and December 1988 inclusive. This insulation blanket covering does not meet the new FAA requirement involving resistance of materials to ignition from an electrical arc or spark. The associated AD is anticipated to have a final compliance date of 2011. A total of 9 B737 aircraft representing 4.26% of the portfolio by appraised value as at January 31, 2006 are likely to be affected by this AD with a compliance cost of up to \$500,000 per aircraft.

The FAA has issued an AD mandating the modification of affected lap joints on Boeing 737 aircraft when an aircraft has completed 50,000 cycles. The estimated cost to implement those modifications for each aircraft is approximately \$230,000. Based on the current utilization, our 51 Boeing 737 aircraft, representing 38.40% of our portfolio by appraised value at January 31, 2006, will be required to have this modification embodied at the rate of approximately 4 or 5 aircraft per year over the next twelve years. The amount of these costs and timing by which they will be borne by us is subject to the actual utilisation of the aircraft and the individual cost sharing arrangements that are included in the respective lease contracts.

In November 2005 the FAA issued an NPRM (FAA-2005-22997) proposing a new operational requirement which shall mandate a reduction of fuel tank flammability in transport category airplanes including the B737, B757, B767 and Airbus A320 aircraft. One possible method for reducing fuel tank flammability is the introduction of a nitrogen inerting system. Fleet embodiment is proposed by 2014 with half of individual operator fleets to be completed by 2011. No cost estimate is yet available but the cost is likely to be over \$200,000 per aircraft. As the mandate will be an operational rule rather than an airworthiness directive, the exposure of Airplanes Group to such costs will depend on the commitment specified in individual lease agreements.

In early 2004 Boeing discovered cracks at the lap joint areas on a number of B737-200/300/400/500 aircraft ("B737 classic aircraft"), which were caused by scribe marks from sharp instruments used in paint, sealant and de-cal removal. Scribe marking has also been found on B747, B757 and B767 aircraft. The FAA issued Notice of Proposed Rule Making (NPRM 2004-NM-269-AD) on April 29, 2005 proposing to mandate an inspection program for scribe marks. The associated AD is expected to be mandated by the second quarter of 2006. No modification program has been defined at this point. 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 51 Boeing 737 aircraft comply with these modifications, which could impact adversely our results of operations.

There may be further security requirements including transponder upgrades and on board video surveillance systems on all aircraft. 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.

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

## **F. Results of Operations - Three Month Period Ended December 31, 2005 Compared with Three Month Period Ended December 31, 2004.**

Airplanes Group's results for the three month period ended December 31, 2005 reflected a continuation of the difficult trading conditions for the aviation industry. Prior lease restructurings continue to have a significant adverse impact, 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 \$16 million in cash from operations in the three month period ended December 31, 2005 compared to \$46 million in the same period of the previous year. The decrease in cash generated from operations in the three month period ended December 31, 2005 is primarily attributable to aircraft sales in the prior period, reduced rentals as a result of aircraft sales in previous periods, and by decreased maintenance cashflows. Cashflow will continue to be adversely affected by the factors outlined above.

There was a net loss after taxation for the three month period ended December 31, 2005 of \$349 million (Airplanes Limited: \$313 million; Airplanes Trust: \$36 million) compared to a net loss after taxation for the three month period ended December 31, 2004 of \$276 million (Airplanes Limited: \$240 million; Airplanes Trust: \$36 million). Excluding accrued but unpaid class E note interest and impairment charges, the movement from a loss of \$20 million to a loss of \$34 million for the three month period ended December 31, 2005 was primarily attributable to reduced profit on sale of aircraft, reduced other income and increased other lease costs.

### ***Leasing Revenues***

Leasing revenues for the three month period ended December 31, 2005 were \$44 million (Airplanes Limited: \$42 million; Airplanes Trust: \$2 million) compared with \$43 million (Airplanes Limited: \$42 million; Airplanes Trust: \$1 million) for the three month period ended December 31, 2004. At December 31, 2005, we had 138 of our 143 aircraft on lease (Airplanes Limited: 129 aircraft; Airplanes Trust: 9 aircraft) compared to 140 of our 154 aircraft on lease (Airplanes Limited: 145 aircraft; Airplanes Trust: 10 aircraft) at December 31, 2004.

### ***Other Income***

During the three month period ended December 31, 2005, Airplanes Group received no other income.

### ***Aircraft Sales***

No sales proceeds were received in the three month period ended December 31, 2005. In the three month period ended December 31, 2004, sales proceeds of \$4 million (Airplanes Limited: \$4 million; Airplanes Trust: \$Nil) were received in respect of the sale of two MD83 aircraft. The net book value of the aircraft sold was \$2 million (Airplanes Limited: \$2 million; Airplanes Trust: \$Nil).



### ***Impairment Charges***

Aircraft carrying values are periodically assessed for impairment in accordance with SFAS 144. An impairment review is required whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The statement requires an assessment for impairment when an asset's carrying value is greater than its estimated undiscounted future cashflows. Impairments are measured by the excess of carrying value over fair value. Following consideration of the independent appraisers values and estimated future cashflows from rentals or sales proceeds to be generated by our aircraft, an SFAS 144 assessment resulted in no requirement for an impairment charge in the three month period ended December 31, 2005 compared with \$10 million (Airplanes Limited: \$Nil; Airplanes Trust: \$10 million) in the three month period ended December 31, 2004.

### ***Depreciation and Amortization***

The charge for depreciation and amortization in the three month period ended December 31, 2005 amounted to \$20 million (Airplanes Limited: \$19 million; Airplanes Trust: \$1 million) as compared with \$21 million (Airplanes Limited: \$20 million; Airplanes Trust: \$1 million) for the three month period ended December 31, 2004.

### ***Net Interest Expense***

Net interest expense was \$358 million (Airplanes Limited: \$326 million; Airplanes Trust: \$32 million), of which \$42 million related to interest on the class A to D notes and swaps and \$316 million related to interest on the class E notes, in the three month period ended December 31, 2005 compared to \$274 million (Airplanes Limited: \$250 million; Airplanes Trust: \$24 million), of which \$38 million related to interest on the class A to D notes and swaps and \$236 million related to interest on the class E notes, in the three month period ended December 31, 2004. The increase in the amount of interest charged was primarily due to additional interest charged on accrued but unpaid class E note interest of \$80 million.

The weighted average interest rate on the class A to D notes during the three month period ended December 31, 2005 was 6.33% and the average debt in respect of the class A to D notes outstanding during the period was \$2,259 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 with effect from March 28, 1996).

The weighted average interest rate on the class A to D notes during the three month period to December 31, 2004 was 5.78% and the average debt in respect of the class A to D notes outstanding during the period was \$2,401 million.

The difference for the three month period ended December 31, 2005 in Airplanes Group's net interest expense of \$358 million (Airplanes Limited: \$326 million; Airplanes Trust: \$32 million) and cash paid in respect of interest of \$14 million (Airplanes Limited: \$13 million; Airplanes Trust: \$1 million) is substantially accounted for by the fact that interest on the class E notes is accrued but unpaid and that 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 three month period ended December 31, 2005, Airplanes Group earned interest income (including lessee default interest) of \$1 million compared with \$Nil in the three month period ended December 31, 2004.

### ***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 three month period ended December 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 increase in provisions of \$2 million (Airplanes Limited: \$1 million, Airplanes Trust: \$1 million) in respect of bad and doubtful debts in the three month period ended December 31, 2005 compared with a net release of provisions of \$1 million (Airplanes Limited: \$1 million; Airplanes Trust: \$Nil) for the three month period ended December 31, 2004.

### ***Other Lease Costs***

Other lease costs, comprising aircraft related technical expenditure associated with remarketing the aircraft, in the three month period ended December 31, 2005 amounted to \$5 million (Airplanes Limited: \$2 million; Airplanes Trust: \$3 million) compared with other lease costs of \$4 million (Airplanes Limited: \$4 million; Airplanes Trust: \$Nil) in the three month period ended December 31, 2004.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the three month period ended December 31, 2005 amounted to \$7 million (Airplanes Limited: \$7 million; Airplanes Trust: \$Nil) as compared to the expense that was incurred in the three month period ended December 31, 2004 of \$8 million (Airplanes Limited: \$8 million; Airplanes Trust: \$Nil).

The most significant element of selling, general and administrative expenses is the aircraft servicing fees paid to the 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 three month period ended December 31, 2005 included \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$Nil) relating to servicing fees, as compared to the three month period ended December 31, 2004, which included \$6 million (Airplanes Limited: \$6 million; Airplanes Trust: \$Nil) relating to servicing fees.

A further significant element of Airplanes Group's actual selling, general and administrative expenses reported in the three month period ended December 31, 2005 was \$1 million (Airplanes Limited: \$1 million; Airplanes Trust: \$Nil) in respect of administrative agency and cash management fees payable to subsidiaries of AerCap AirFinance Ireland, compared to the charge of \$1 million (Airplanes Limited: \$1 million; Airplanes Trust: \$Nil) for the three month period ended December 31, 2004.

### ***Operating Loss***

The operating loss for the three month period ended December 31, 2005 was \$349 million (Airplanes Limited: \$313 million; Airplanes Trust: \$36 million) compared with an operating loss of \$274 million for the three month period ended December 31, 2004 (Airplanes Limited: \$240 million; Airplanes Trust: \$34 million). Airplanes Limited and Airplanes Trust are expected to continue to report substantial losses in the future.

## ***Taxes***

There was a deferred tax credit of \$Nil million (Airplanes Limited: \$Nil, Airplanes Trust: \$Nil million) in the three month period ended December 31, 2005, as compared with a tax charge of \$2 million (Airplanes Limited: \$Nil; Airplanes Trust: \$2) for the three month period ended December 31, 2004.

## ***Net Loss after Taxation***

The net loss after taxation for the three month period ended December 31, 2005 was \$349 million (Airplanes Limited: \$313 million; Airplanes Trust: \$36 million) compared with a net loss after taxation for the three month period ended December 31, 2004 of \$276 million (Airplanes Limited: \$240 million; Airplanes Trust: \$36 million).

## **Financial Resources and Liquidity**

### **Commentary on Statement of Cashflows**

The factors discussed above at “Recent Developments” continue to impair our cashflows.

### ***Liquidity***

Cash balances at December 31, 2005 amounted to \$80 million (Airplanes Limited: \$74 million; Airplanes Trust: \$6 million) compared to cash balances at December 31, 2004 of \$103 million (Airplanes Limited: \$97 million; Airplanes Trust: \$6 million).

### ***Operating Activities***

Net cash provided by operating activities in the three month period ended December 31, 2005 amounted to \$16 million (Airplanes Limited: \$14 million; Airplanes Trust: \$2 million) compared with \$46 million in the three month period ended December 31, 2004 (Airplanes Limited: \$38 million; Airplanes Trust: \$8 million). This includes cash paid in respect of interest of \$16 million in the three month period ended December 31, 2005 (Airplanes Limited: \$15 million; Airplanes Trust: \$1 million) compared with \$14 million in the three month period ended December 31, 2004 (Airplanes Limited: \$13 million; Airplanes Trust: \$1 million).

Cashflows provided by operating activities in the three month period ended December 31, 2005 also includes proceeds from aircraft sales of \$Nil. In the three month period ended December 31, 2004, cashflows included proceeds of \$4 million (Airplanes Limited: \$4 million; Airplanes Trust: \$Nil) from the sale of aircraft.

The decrease in cash provided by operating activities in the three month period ended December 31, 2005 is primarily attributable to reduced rentals, aircraft sales and decreased maintenance cashflows.

### ***Financing Activities***

Cashflows used in financing activities in the three month period ended December 31, 2005 primarily reflect the repayment of \$23 million of principal on subclass A-8 notes by Airplanes Group (Airplanes Limited: \$21 million; Airplanes Trust: \$2 million) compared with \$86 million of principal repaid on subclass A-6 notes and subclass A-8 notes by Airplanes Group (Airplanes Limited: \$78 million; Airplanes Trust: \$8 million) in the three month period ended December 31, 2004.

### ***Indebtedness***

Airplanes Group's indebtedness consisted of class A to E notes in the amount of \$2,835 million (Airplanes Limited: \$2,583 million; Airplanes Trust: \$252 million) at December 31, 2005 and \$2,965 million (Airplanes Limited: \$2,698 million; Airplanes Trust: \$267 million) at December 31, 2004. Airplanes Group's outstanding publicly traded class A to D notes amounted to \$2,244 million (Airplanes Limited: \$2,042 million; Airplanes Trust: \$202 million) at December 31, 2005 and \$2,374 million (Airplanes Limited: \$2,160 million; Airplanes Trust: \$214 million) at December 31, 2004. Airplanes Group had \$591 million class E notes outstanding at December 31, 2005 and December 31, 2004.

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 notes having been repaid on October 15, 2004).

## **G. Results of Operations – Nine Month Period Ended December 31, 2005 Compared with Nine Month Period Ended December 31, 2004.**

Airplanes Group's results for the nine month period ended December 31, 2005 reflected a continuation of the difficult trading conditions for the aviation industry. Prior lease restructurings continue to have a significant adverse impact, 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 \$70 million in cash from operations in the nine month period ended December 31, 2005 compared to \$108 million in the same period of the previous year. The decrease in cash generated from operations in the nine month period ended December 31, 2005 is primarily attributable to reduced aircraft sales and reduced rentals as a result of aircraft sales in the prior period, by decreased maintenance cashflows and by the decreased recovery of amounts under lease restructuring agreements. Cashflow will continue to be adversely affected by the factors outlined above.

There was a net loss after taxation for the nine month period ended December 31, 2005 of \$959 million (Airplanes Limited: \$867 million; Airplanes Trust: \$92 million) compared to a net loss after taxation for the six month period ended December 31, 2004 of \$734 million (Airplanes Limited: \$658 million; Airplanes Trust: \$76 million). Excluding accrued but unpaid class E note interest and impairment charges, the movement from a loss of \$23 million to a loss of \$79 million for the nine month period ended December 31, 2005 was primarily attributable to reduced profit on sale of aircraft, reduced lease revenues and increased other lease costs.

### ***Leasing Revenues***

Leasing revenues for the nine month period ended December 31, 2005 were \$131 million (Airplanes Limited: \$126 million; Airplanes Trust: \$5 million) compared with \$141 million (Airplanes Limited: \$135 million; Airplanes Trust: \$6 million) for the nine month period ended December 31, 2004. At December 31, 2005, we had 138 of our 143 aircraft on lease (Airplanes Limited: 129 aircraft; Airplanes Trust: 9 aircraft) compared to 140 of our 154 aircraft on lease (Airplanes Limited: 130 aircraft; Airplanes Trust: 10 aircraft) at December 31, 2004.

### ***Other Income***

During the nine month period ended December 31, 2005, Airplanes Group received \$1 million (Airplanes Limited: \$1 million; Airplanes Trust: \$Nil) under agreements signed with three lessees following their emergence from bankruptcy protection.

### ***Aircraft Sales***

Sales proceeds of \$14 million (Airplanes Limited: \$14 million; Airplanes Trust: \$Nil) in respect of the sale of one B747-200SF aircraft, two DC8-71F aircraft, one B737-200A aircraft and one DHC8-300C aircraft were received in the nine month period ended December 31, 2005. The net book value of the aircraft sold was \$5 million (Airplanes Limited: \$5 million; Airplanes Trust: \$Nil). In the nine month period ended December 31, 2004, sales proceeds of \$57 million (Airplanes Limited: \$52 million; Airplanes Trust: \$5 million) in respect of the sale of three MD11 aircraft, three DC9-32 aircraft, five DC8-71F aircraft, two MD83 aircraft, one DHC8-300C, one B737-200A and one A300C4-200. The net book value of the aircraft sold was \$27 million (Airplanes Limited: \$25 million; Airplanes Trust: \$2 million).

### ***Impairment Charges***

Aircraft carrying values are periodically assessed for impairment in accordance with SFAS 144. An impairment review is required whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The statement requires an assessment for impairment when an asset's carrying value is greater than its estimated undiscounted future cashflows. Impairments are measured by the excess of carrying value over fair value. Following consideration of the independent appraisers values and estimated future cashflows from rentals or sales proceeds to be generated by our aircraft, a SFAS 144 assessment did not result in the requirement for an impairment charge in the nine month period ended December 31, 2005 compared with a \$46 million impairment charge in the nine month period ended December 31, 2004.

### ***Depreciation and Amortization***

The charge for depreciation and amortization in the nine month period ended December 31, 2005 amounted to \$60 million (Airplanes Limited: \$58 million; Airplanes Trust: \$2 million) as compared with \$62 million (Airplanes Limited: \$60 million; Airplanes Trust: \$2 million) for the nine month period ended December 31, 2004. The reduction in the charge in the nine month period ended December 31, 2005 resulted primarily from the reduced depreciable value of the fleet following impairment charges made.

### ***Net Interest Expense***

Net interest expense was \$1,000 million (Airplanes Limited: \$911 million; Airplanes Trust: \$89 million), of which \$120 million related to interest on the class A to D notes and swaps and \$880 million related to interest on the class E notes, in the nine month period ended December 31, 2005 compared to \$775 million (Airplanes Limited: \$706 million; Airplanes Trust: \$69 million), of which \$110 million related to interest on the class A to D notes and swaps and \$665 million related to interest on the class E notes, in the nine month period ended December 31, 2004. The increase in the amount of interest charged was primarily due to additional interest charged on accrued but unpaid class E note interest of \$215 million.

The weighted average interest rate on the class A to D notes during the nine month period ended December 31, 2005 was 6.15% and the average debt in respect of the class A to D notes outstanding during the period was \$2,288 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 with effect from March 28, 1996).

The weighted average interest rate on the class A to D notes during the nine month period to December 31, 2004 was 5.62% and the average debt in respect of the class A to D notes outstanding during the period was \$2,460 million.

The difference for the nine month period ended December 31, 2005 in Airplanes Group's net interest expense of \$1,000 million (Airplanes Limited: \$911 million; Airplanes Trust: \$89 million) and cash paid in respect of interest of \$39 million (Airplanes Limited: \$35 million; Airplanes Trust: \$4 million) is substantially accounted for by the fact that interest on the class E notes is accrued but unpaid and that 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 nine month period ended December 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 (Airplanes Limited: \$2 million; Airplanes Trust: \$Nil) in the nine month period ended December 31, 2004.

### ***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 nine month period ended December 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 an increase in provisions of \$2 million (Airplanes Limited: \$1 million Airplanes Trust: \$1 million) in respect of bad and doubtful debts in the nine month period ended December 31, 2005 compared with a release of provisions of \$6 million (Airplanes Limited: \$6 million; Airplanes Trust: \$Nil) for the nine month period ended December 31, 2004.

### ***Other Lease Costs***

Other lease costs, comprising aircraft related technical expenditure associated with remarketing the aircraft, in the nine month period ended December 31, 2005 amounted to \$15 million (Airplanes Limited: \$11 million; Airplanes Trust: \$4 million) compared with other lease costs of \$8 million (Airplanes Limited: \$8 million; Airplanes Trust: \$Nil) in the nine month period ended December 31, 2004.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the nine month period ended December 31, 2005 amounted to \$23 million (Airplanes Limited: \$22 million; Airplanes Trust: \$1 million) as compared to the expense that was incurred in the nine month period ended December 31, 2004 of \$24 million (Airplanes Limited: \$23 million; Airplanes Trust: \$1 million).

The most significant element of selling, general and administrative expenses is the aircraft servicing fees paid to the 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 nine month period ended December 31, 2005 included \$16 million (Airplanes Limited: \$15 million; Airplanes Trust:\$1 million) relating to servicing fees, as compared to the nine month period ended December 31, 2004, which included \$18 million (Airplanes Limited: \$17 million; Airplanes Trust: \$1 million) relating to servicing fees.

A further significant element of Airplanes Group's actual selling, general and administrative expenses reported in the nine month period ended December 31, 2005 was \$4 million (Airplanes Limited: \$4 million; Airplanes Trust: \$Nil) in respect of administrative agency and cash management fees payable to subsidiaries of AerCap AirFinance Ireland, compared to the charge of \$4 million (Airplanes Limited: \$4 million; Airplanes Trust \$Nil) for the nine month period ended December 31, 2004.

### ***Operating Loss***

The operating loss for the nine month period ended December 31, 2005 was \$959 million (Airplanes Limited: \$867 million; Airplanes Trust: \$92 million) compared with an operating loss of \$731 million for the nine month period ended December 31, 2004 (Airplanes Limited: \$658 million; Airplanes Trust: \$73 million). Airplanes Limited and Airplanes Trust are expected to continue to report substantial losses in the future.

### ***Taxes***

There was a deferred tax credit of \$1 million (Airplanes Limited: \$Nil, Airplanes Trust: \$1 million) in the nine month period ended December 31, 2005, as compared with a tax charge of \$3 million (Airplanes Limited: \$Nil; Airplanes Trust: \$3 million) for the nine month period ended December 31, 2004.

### ***Net Loss after Taxation***

The net loss after taxation for the nine month period ended December 31, 2005 was \$959 million (Airplanes Limited: \$867 million; Airplanes Trust: \$92 million) compared with a net loss after taxation for the nine month period ended December 31, 2004 of \$734 million (Airplanes Limited: \$658 million; Airplanes Trust: \$76 million).

## **Financial Resources and Liquidity**

### **Commentary on Statement of Cashflows**

The factors discussed above at “Recent Developments” continue to impair our cashflows.

### ***Liquidity***

Cash balances at December 31, 2005 amounted to \$80 million (Airplanes Limited: \$74 million; Airplanes Trust: \$6 million) compared to cash balances at December 31, 2004 of \$103 million (Airplanes Limited: \$97 million; Airplanes Trust: \$6 million).

### ***Operating Activities***

Net cash provided by operating activities in the nine month period ended December 31, 2005 amounted to \$70 million (Airplanes Limited: \$63 million; Airplanes Trust: \$7 million) compared with \$108 million in the nine month period ended December 31, 2004 (Airplanes Limited: \$100 million; Airplanes Trust: \$8 million). This includes cash paid in respect of interest of \$38 million in the nine month period ended December 31, 2005 (Airplanes Limited: \$35 million; Airplanes Trust: \$3 million) compared with \$44 million in the nine month period ended December 31, 2004 (Airplanes Limited: \$41 million; Airplanes Trust: \$3 million).

Cashflows provided by operating activities in the nine month period ended December 31, 2005 also includes proceeds from aircraft sales of \$14 million (Airplanes Limited: \$14 million; Airplanes Trust: \$Nil), from the sale of one B747-200SF aircraft, two DC8-71F aircraft, one B737-200A aircraft and one DHC8-300C aircraft. In the nine month period ended December 31, 2004, cashflows included proceeds of \$57 million (Airplanes Limited: \$52 million; Airplanes Trust: \$5 million) from the sale of five DC8-



71F aircraft, one B737-200A aircraft, three MD11 aircraft, three DC9-32 aircraft, one A300C4-200 aircraft and one DHC8 aircraft.

The decrease in cash provided by operating activities in the nine month period ended December 31, 2005 is primarily attributable to reduced rentals, aircraft sales, decreased maintenance cashflows and decreased lease revenue receipts due from lease restructurings.

### ***Financing Activities***

Cashflows used in financing activities in the nine month period ended December 31, 2005 primarily reflect the repayment of \$87 million of principal on subclass A-8 notes by Airplanes Group (Airplanes Limited: \$80 million; Airplanes Trust: \$7 million) compared with \$145 million of principal repaid on subclass A-6 notes and subclass A-8 notes by Airplanes Group (Airplanes Limited: \$132 million; Airplanes Trust: \$13 million) in the nine month period ended December 31, 2004.

### ***Indebtedness***

Airplanes Group's indebtedness consisted of class A to E notes in the amount of \$2,835 million (Airplanes Limited: \$2,583 million; Airplanes Trust: \$252 million) at December 31, 2005 and \$2,965 million (Airplanes Limited: \$2,698 million; Airplanes Trust: \$267 million) at December 31, 2004. Airplanes Group's outstanding publicly traded class A to D notes amounted to \$2,244 million (Airplanes Limited: \$2,042 million; Airplanes Trust: \$202 million) at December 31, 2005 and \$2,374 million (Airplanes Limited: \$2,160 million; Airplanes Trust: \$214 million) at December 31, 2004. Airplanes Group had \$591 million class E notes outstanding at December 31, 2005 and December 31, 2004.

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 notes having been repaid on October 15, 2004).

## **H. Comparison of Actual Cashflows Versus 2001 Base Case for the Three Month Period from October 12, 2005 to January 17, 2006**

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 Airplanes Group's Annual Report for the year ended March 31, 2005, Quarterly Reports for the quarterly periods ended June 30, 2005 and September 30, 2005 and pages 3 to 13 of this Quarterly Report.*

For the purposes of this report, the "Three Month Period" comprises information from the monthly cash reports as filed on our website for the relevant months ended November 15, 2005, December 15, 2005 and January 17, 2006. The financial data in these reports includes cash receipts from October 12, 2005 (first day of the Calculation Period for the November 2005 report) up to January 10, 2006 (last day of the Calculation Period for the January 2006 report). Page 45 presents the cumulative cashflow information from March 2001 to the January 2006 payment date. This report, however, limits its commentary to the Three 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 "2B Industry Background". 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 Three Month Period and should be read in conjunction with the analysis on page 44.**

### **CASH COLLECTIONS**

*"Total Cash Collections"* include Net Lease Rental, Interest Earned, Aircraft Sales, Net Maintenance and Other Receipts (each as defined below). In the Three Month Period, Airplanes Group generated approximately \$54.4 million in Total Cash Collections, \$45.1 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 43).

### **[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 Three Month Period, the amount of revenue loss attributed to Renegotiated Leases was \$0.1 million, as compared to \$Nil assumed in the 2001 Base Case. This related to renegotiations with one Latin American lessee representing one aircraft in total on lease to this lessee at December 31, 2005.

For details of current lessee restructurings please refer to "2D 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 \$38.6 million in the Three 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, nine DC8-71F aircraft, two DHC8-300C aircraft, one DHC8-100A aircraft, two B727-200A aircraft, nine 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 \$17.5 million in lease rentals compared to the 2001 Base Case in the Three Month Period. Lease rentals totalling \$0.3 million were received in the Three Month Period in respect of two B737-200A aircraft which have remained on lease after their assumed sale date in the 2001 Base Case.

### **[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 Three Month Period, Contracted Lease Rentals were \$43.4 million, which was \$55.9 million less than assumed in the 2001 Base Case. The difference is due to losses from Renegotiated Leases, Rental Resets and Lease Rentals — Aircraft Sales as discussed above.

### **[6] MOVEMENT IN CURRENT ARREARS BALANCE**

*"Current Arrears"* is the total Contracted Lease Rentals outstanding from current lessees at a given date but excluding any amounts classified as Bad Debts or Deferred Arrears. There was a net increase of \$1.7 million in the Current Arrears balance over the Three 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 Three Month Period. For the Three Month Period, Net Stress-Related Costs incurred amounted to a net cash inflow of \$2.0 million (2.0% of Lease Rentals)

compared to \$6.0 million outflow assumed in the 2001 Base Case, a variance of \$8.0 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 Three Month Period, \$1.0 million less than the 2001 Base Case assumption of \$1.0 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 Three Month Period, payments received in accordance with these restructurings were \$Nil. Payments assumed to be received in accordance with restructurings included in the 2001 Base Case were \$Nil for the Three Month Period.

#### **[10] AIRCRAFT ON GROUND ("AOG")**

*"AOG"* is defined as the 2001 Base Case Lease Rentals lost when an aircraft is off-lease or deemed non-revenue earning. Airplanes Group had six aircraft AOG at various times during the Three Month Period. The 2001 Base Case Lease Rentals loss attributed to AOG in the Three Month Period was \$1.8 million (1.8% of Lease Rentals), as compared to \$4.2 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 Three Month Period, Other Leasing Income, which included payments received from two lessees relating to the early termination of leases, amounted to \$3.8 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 Three Month Period, Repossession Costs amounted to \$Nil, as compared to \$0.8 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 Three Month Period, Net Lease Rental amounted to \$43.7 million, \$49.6 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 Three Month Period, Interest Earned amounted to \$0.8 million, \$0.9 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 Three 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 Three Month Period was 3.9% (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 of \$2.5 million were received in the Three Month Period in respect of the sale of one DC8-71F aircraft. In the 2001 Base Case, aircraft sales proceeds of \$4.5 million were assumed to be received in the Three Month Period in respect of the assumed sale of one B737-200A aircraft and two DC9-32 aircraft. The two DC9-32 aircraft had been sold prior to the Three Month Period. The B737-200A aircraft remains on lease. 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 Three Month Period, positive net maintenance cashflows of \$6.4 million (comprising maintenance reserve receipts totalling \$13.1 million and maintenance reserve reimbursements totalling \$6.7 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.

## **[18] OTHER RECEIPTS**

*"Other Receipts"* consist of \$1.0 million received in the Three Month Period from GE Capital under the Tax Sharing Agreement in respect of utilisation by GE Capital of tax losses of Airplanes Group US companies for the year ended December 31, 2004.

## **CASH EXPENSES**

*"Total Cash Expenses"* include Aircraft Operating Expenses and Selling, General and Administrative ("SG&A") Expenses. In the Three Month Period, Total Cash Expenses were \$15.3 million compared to \$13.2 million assumed in the 2001 Base Case, a negative variance of \$2.1 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

Three Month Period, these costs amounted to \$9.0 million (or 9.1% of Lease Rentals) compared to \$5.0 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 Three Month Period, the total Aircraft Servicer Fees paid were \$4.8 million, \$1.0 million lower than that assumed in the 2001 Base Case.

Aircraft Servicer Fees consist of:

	<b>\$M</b>
Retainer Fee .....	4.8
Minimum Incentive Fee .....	0.0
Core Cashflow/Sales Incentive Fee.....	<u>0.0</u>
Total Aircraft Servicer Fee .....	<u>4.8</u>

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

**[23] OTHER SERVICER FEES AND OTHER OVERHEADS**

*"Other Servicer Fees and Other Overheads"* relate to fees and expenses paid to other service providers including the administrative agent, the cash manager, financial advisers, legal advisers and accountants and to the directors/controllers/trustees. In the Three Month Period, Other Servicer Fees and Other Overheads amounted to \$1.5 million, \$0.9 million lower than an assumed expense of \$2.4 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 January 17, 2006 payment date, there was a shortfall in the liquidity reserve amount of \$41.5 million as compared to a shortfall of \$42.1 million on the October 17, 2005 payment date, representing an overall decrease of \$0.6 million in the Shortfall in Liquidity Reserve for the Three Month Period. This decrease in the Shortfall in Liquidity Reserve is explained by a net decrease of \$0.6 million in the security deposit reserve amount in the Three Month Period. Under the 2001 Base Case, a Shortfall in Liquidity Reserve was not anticipated.

### **[30] INTEREST PAYMENTS**

In the Three Month Period, interest payments to the holders of the class A, B, C and D notes amounted to \$15.2 million which is \$21.8 million lower than assumed under the 2001 Base Case.

Interest payments on the floating rate class A notes amounted to \$15.2 million, \$1.2 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 Three Month Period was 4.2%. Our cashflows have been inadequate to pay any interest on the class B, C and D notes in the Three Month Period. Interest payments assumed under the 2001 Base Case in the Three Month Period amounted to \$2.8 million, \$7.1 million and \$10.7 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 \$15.9 million, \$67.3 million and \$104.4 million respectively on the class B, C and D notes following the January 17, 2006 payment date.

In the Three 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 January 17, 2006 was \$9.9 million.

### **[31] SWAP AND OTHER HEDGING CASHFLOWS**

Airplanes Group's net swap and other interest rate hedging payments during the Three Month Period were \$2.8 million compared to \$Nil assumed in the 2001 Base Case. The payments included premiums paid on two interest rate caps purchased in the Three Month Period.



### [33] PRINCIPAL PAYMENTS

In the fifty-eight month period from March 10, 2001 to January 17, 2006, total principal payments amounted to \$676.8 million (comprising \$625.3 million on the class A notes and \$51.5 million on the class B notes), \$209.5 million less than assumed in the 2001 Base Case. The breakdown of the \$209.5 million variance is set out on page 45. In the Three Month Period, total principal payments amounted to \$20.5 million (comprising \$20.5 million on the class A notes), \$28.8 million less than assumed in the 2001 Base Case. The breakdown of the \$28.8 million variance is set out on page 44.

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 \$2,146.4 million at January 17, 2006. Our portfolio is appraised annually and the most recent appraisal prior to the January 17, 2006 payment date was obtained on January 31, 2005 and valued the current portfolio at \$1,583.9 million. Applying the declining value assumptions to this appraisal, the total appraised value was \$1,461.0 million at January 17, 2006.

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-eight 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-eight month period since the 2001 refinancing. Total deferrals of class C and class D scheduled principal amounts amounted to \$128.8 million and \$91.4 million respectively as of January 17, 2006.

Based on the most recent annual appraisal dated January 31, 2006, the decline in appraised values in the year to January 31, 2006 was approximately \$34.7 million more than the decline assumed in the 1996 Base Case. The decline in appraised values in this period will result in an increase in the arrears of class A principal adjustment amount at the February 15, 2006 payment date of \$41.3 million. The class A principal adjustment amount outstanding was \$535.6 million as at January 17, 2006.

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 \$191.0 million following the January 17, 2006 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 \$67.8 million following the January 17, 2006 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 "2B Industry Background" above.

<u>Note</u>	<u>Report Line Name</u>	<u>Description</u>
	<b>CASH COLLECTIONS</b>	
[1]	Lease Rentals .....	Assumptions as per the 2001 Base Case
[2]	- Renegotiated Leases .....	Change in contracted rental cash flow 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 capitalized and restructured as a Note Payable
[10]	- AOG .....	Loss of rental due to an aircraft being off-lease and non-revenue earning
[11]	- Other Leasing Income .....	Includes lease termination payments, rental guarantees and late payments charges
[12]	- Repossession .....	Legal and technical costs incurred in repossessing aircraft.
[13] $\Sigma$ [8]...[12]	Sub-total	
[14] [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>	
	Aircraft Operating Expenses.....	All operational costs related to the leasing of aircraft.
[20]	Releasing and Other Overheads.....	Costs associated with transferring an aircraft from one lessee to another, costs of insurance and other lessee-related overheads
	SG&A Expenses	
[21]	Aircraft Servicer Fees .....	Monthly and annual fees paid to servicer
	- Retainer Fee.....	Fixed amount per month per aircraft
	- Minimum Incentive Fee .....	Minimum annual fee paid to servicer for performance above an annually agreed target.
	- Core Cashflow/Sales Incentive Fee	Fees (in excess of Minimum Incentive Fee above) paid to servicer for performance above an annually agreed target/on sale of an aircraft.
[22] [21]	Sub-total	
[23]	Other Servicer Fees and Other Overheads .....	Administrative Agent, trustee and professional fees paid to other service providers and other overheads
[23A]	Other SG&A Expenses .....	Costs relating to the assumed refinancing of the subclass A-8 notes in March 2003, as assumed under the 2001 Base Case and costs relating to the 2003 consent solicitation for Indenture amendment
[24] [22]+[23]+[23A]	Sub-total	
[25] [20]+[24]	<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.....	Shortfall 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]	Total	
[33]	<b>PRINCIPAL PAYMENTS.....</b>	Principal payments on debt

**AIRPLANES GROUP CASHFLOW PERFORMANCE FOR THE PERIOD FROM  
OCTOBER 12, 2005 TO JANUARY 17, 2006 (3 MONTHS)  
Comparison of Actual Cashflows Versus 2001 Base Case Cashflows**

					% of Lease Rentals under the 2001 Base Case			
		<u>Actual</u>	<u>2001 Base Case</u>	<u>Variance</u>	<u>Actual</u>	<u>2001 Base Case</u>	<u>Variance</u>	
		(\$ Millions)						
<b>CASH COLLECTIONS</b>								
1		Lease Rentals	99.3	99.3	0.0	100.0%	100.0%	0.0%
2		- Renegotiated Leases	(0.1)	0.0	(0.1)	(0.1%)	0.0%	(0.1%)
3		- Rental Resets	(38.6)	0.0	(38.6)	(38.9%)	0.0%	(38.9%)
4		- Lease Rentals - Aircraft Sales	<u>(17.2)</u>	<u>0.0</u>	<u>(17.2)</u>	<u>(17.3%)</u>	<u>0.0%</u>	<u>(17.3%)</u>
5	Σ 1 - 4	<b>Contracted Lease Rentals</b>	43.4	99.3	(55.9)	43.7%	100.0%	(56.3%)
6		Movement in Current Arrears Balance	(1.7)	0.0	(1.7)	(1.7%)	0.0%	(1.7%)
7		less Net Stress Related Costs						
8		- Bad Debts	0.0	(1.0)	1.0	0.0%	(1.0%)	1.0%
9		- Deferred Arrears Balance	0.0	0.0	0.0	0.0%	0.0%	0.0%
10		- AOG	(1.8)	(4.2)	2.4	(1.8%)	(4.2%)	2.4%
11		- Other Leasing Income	3.8	0.0	3.8	3.8%	0.0%	3.8%
12		- Repossession	<u>0.0</u>	<u>(0.8)</u>	<u>0.8</u>	<u>0.0%</u>	<u>(0.8%)</u>	<u>0.8%</u>
13	Σ 8 - 12	Sub-total	2.0	(6.0)	8.0	2.0%	(6.0%)	8.1%
14	5+6+13	<b>Net Lease Rental</b>	43.7	93.3	(49.6)	44.0%	94.0%	(49.9%)
15		Interest Earned	0.8	1.7	(0.9)	0.8%	1.7%	(0.9%)
16		Aircraft Sales	2.5	4.5	(2.0)	2.5%	4.5%	(2.0%)
17		Net Maintenance	6.4	0.0	6.4	6.4%	0.0%	6.4%
18		Other Receipts	<u>1.0</u>	<u>0.0</u>	<u>1.0</u>	<u>1.0%</u>	<u>0.0%</u>	<u>1.0%</u>
19	Σ 14 - 18	<b>Total Cash Collections</b>	<u>54.4</u>	<u>99.5</u>	<u>(45.1)</u>	<u>54.8%</u>	<u>100.2%</u>	<u>(45.4%)</u>
<b>CASH EXPENSES</b>								
Aircraft Operating Expenses								
20		- Re-leasing and other overheads	(9.0)	(5.0)	(4.0)	(9.1%)	(5.0%)	(4.0%)
SG&A Expenses								
Aircraft Servicer Fees								
21		- Retainer Fee	(4.8)	(5.4)	0.6	(4.8%)	(5.4%)	0.6%
		- Minimum Incentive Fee	0.0	(0.4)	0.4	0.0%	(0.4%)	0.4%
		- Core Cashflow/Sales Incentive Fee	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
22	21	Sub-total	(4.8)	(5.8)	1.0	(4.8%)	(5.8%)	1.0%
23		Other Servicer Fees and Other Overheads	(1.5)	(2.4)	0.9	(1.5%)	(2.4%)	0.9%
23A		Other SG&A Expenses	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
24	22+23+23A	Sub-total	<u>(6.3)</u>	<u>(8.2)</u>	<u>1.9</u>	<u>(6.3%)</u>	<u>(8.3%)</u>	<u>1.9%</u>
25	24+20	<b>Total Cash Expenses</b>	<u>(15.3)</u>	<u>(13.2)</u>	<u>(2.1)</u>	<u>(15.4%)</u>	<u>(13.3%)</u>	<u>(2.1%)</u>
<b>NET CASH COLLECTIONS</b>								
26	19	Total Cash Collections	54.4	99.5	(45.1)	54.8%	100.2%	(45.4%)
27	25	Total Cash Expenses	(15.3)	(13.2)	(2.1)	(15.4%)	(13.3%)	(2.1%)
28		Movement in Expense Account	0.0	0.0	0.0	0.0%	0.0%	0.0%
29		Reduction in Liquidity Reserve	0.0	0.0	0.0	0.0%	0.0%	0.0%
29A		Shortfall in Liquidity Reserve	(0.6)	0.0	(0.6)	(0.6%)	0.0%	(0.6%)
30		Interest Payments	(15.2)	(37.0)	21.8	(15.3%)	(37.3%)	22.0%
31		Swap Payments	<u>(2.8)</u>	<u>0.0</u>	<u>(2.8)</u>	<u>(2.8%)</u>	<u>0.0%</u>	<u>(2.8%)</u>
32	Σ 26 - 31	<b>TOTAL</b>	<u>20.5</u>	<u>49.3</u>	<u>(28.8)</u>	<u>20.6%</u>	<u>49.6%</u>	<u>(29.0%)</u>
<b>PRINCIPAL PAYMENTS</b>								
33		Class A	20.5	44.1	(23.6)	20.6%	44.4%	(23.8%)
		Class B	<u>0.0</u>	<u>5.2</u>	<u>(5.2)</u>	<u>0.0%</u>	<u>5.2%</u>	<u>(5.2%)</u>
		<b>Total</b>	<u>20.5</u>	<u>49.3</u>	<u>(28.8)</u>	<u>20.6%</u>	<u>49.6%</u>	<u>(29.0%)</u>
<b>Debt Balances at January 17, 2006</b>								
		Subclass A-6	0.0	0.0				
		Subclass A-8	520.1	700.0				
		Subclass A-9	750.0	405.3				
		Class B	226.8	182.1				
		Class C	349.8	349.8				
		Class D	<u>395.1</u>	<u>395.1</u>				
			<u>2,241.8</u>	<u>2,032.3</u>				

**AIRPLANES GROUP CASHFLOW PERFORMANCE FOR THE PERIOD FROM  
MARCH 10, 2001 TO JANUARY 17, 2006 (58 MONTHS)**

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

					% of Lease Rentals under the 2001 Base Case		
		<u>Actual</u>	<u>2001 Base Case</u>	<u>Variance</u>	<u>Actual</u>	<u>2001 Base Case</u>	<u>Variance</u>
		(\$ Millions)					
<b>CASH COLLECTIONS</b>							
1		1,999.9	1,999.9	0.0	100.0%	100.0%	0.0%
2		(86.7)	0.0	(86.7)	(4.3%)	0.0%	(4.3%)
3		(474.4)	0.0	(474.4)	(23.7%)	0.0%	(23.7%)
4		<u>(103.8)</u>	<u>0.0</u>	<u>(103.8)</u>	<u>(5.2%)</u>	<u>0.0%</u>	<u>(5.2%)</u>
5	Σ 1 - 4	<b>1,335.0</b>	<b>1,999.9</b>	<b>(664.9)</b>	<b>66.8%</b>	<b>100.0%</b>	<b>(33.2%)</b>
6		(3.2)	0.0	(3.2)	(0.2%)	0.0%	(0.2%)
7							
8		(10.3)	(20.0)	9.7	(0.5%)	(1.0%)	0.5%
9		23.7	3.1	20.6	1.2%	0.2%	1.0%
10		(138.0)	(84.1)	(53.9)	(6.9%)	(4.2%)	(2.7%)
11		29.3	0.0	29.3	1.5%	0.0%	1.5%
12		<u>(4.1)</u>	<u>(16.0)</u>	<u>11.9</u>	<u>(0.2%)</u>	<u>(0.8%)</u>	<u>0.6%</u>
13	Σ 8 - 12	<b>(99.4)</b>	<b>(117.0)</b>	<b>17.6</b>	<b>(5.0%)</b>	<b>(5.9%)</b>	<b>0.9%</b>
14	5+6+13	<b>1,232.4</b>	<b>1,882.9</b>	<b>(650.5)</b>	<b>61.6%</b>	<b>94.1%</b>	<b>(32.5%)</b>
15		12.9	33.3	(20.4)	0.6%	1.7%	(1.0%)
16		111.2	55.9	55.3	5.6%	2.8%	2.8%
17		122.2	0.0	122.2	6.1%	0.0%	6.1%
18		<u>14.7</u>	<u>0.0</u>	<u>14.7</u>	<u>0.7%</u>	<u>0.0%</u>	<u>0.7%</u>
19	Σ 14 - 18	<b>1,493.4</b>	<b>1,972.1</b>	<b>(478.7)</b>	<b>74.7%</b>	<b>98.6%</b>	<b>(23.9%)</b>
<b>CASH EXPENSES</b>							
20		(117.4)	(100.2)	(17.2)	(5.9%)	(5.0%)	(0.9%)
21							
21							
21		(105.0)	(107.1)	2.1	(5.3%)	(5.4%)	0.1%
		(7.5)	(7.3)	(0.2)	(0.4%)	(0.4%)	(0.0%)
		<u>(0.2)</u>	<u>0.0</u>	<u>(0.2)</u>	<u>(0.0%)</u>	<u>0.0%</u>	<u>(0.0%)</u>
22	21	<b>(112.7)</b>	<b>(114.4)</b>	<b>1.7</b>	<b>(5.6%)</b>	<b>(5.7%)</b>	<b>0.1%</b>
23		(51.6)	(47.9)	(3.7)	(2.6%)	(2.4%)	(0.2%)
23A		<u>(2.0)</u>	<u>(4.7)</u>	<u>2.7</u>	<u>(0.1%)</u>	<u>(0.2%)</u>	<u>0.1%</u>
24	22+23+23A	<b>(166.3)</b>	<b>(167.0)</b>	<b>0.7</b>	<b>(8.3%)</b>	<b>(8.4%)</b>	<b>0.0%</b>
25	24+20	<b>(283.7)</b>	<b>(267.2)</b>	<b>(16.5)</b>	<b>(14.2%)</b>	<b>(13.4%)</b>	<b>(0.8%)</b>
<b>NET CASH COLLECTIONS</b>							
26	19	1,493.4	1,972.1	(478.7)	74.7%	98.6%	(23.9%)
27	25	(283.7)	(267.2)	(16.5)	(14.2%)	(13.4%)	(0.8%)
28		(5.5)	0.0	(5.5)	(0.3%)	0.0%	(0.3%)
29		40.0	40.0	0.0	2.0%	2.0%	0.0%
29A		41.5	0.0	41.5	2.1%	0.0%	2.1%
30		(419.7)	(830.4)	410.7	(21.0%)	(41.5%)	20.5%
5.1		<u>(189.2)</u>	<u>(28.2)</u>	<u>(161.0)</u>	<u>(9.5%)</u>	<u>(1.4%)</u>	<u>(8.1%)</u>
32	Σ 26 - 31	<b>676.8</b>	<b>886.3</b>	<b>(209.5)</b>	<b>33.8%</b>	<b>44.3%</b>	<b>(10.5%)</b>
33							
<b>PRINCIPAL PAYMENTS</b>							
		625.3	790.1	(164.8)	31.3%	39.5%	(8.2%)
		<u>51.5</u>	<u>96.2</u>	<u>(44.7)</u>	<u>2.6%</u>	<u>4.8%</u>	<u>(2.2%)</u>
		<b>676.8</b>	<b>886.3</b>	<b>(209.5)</b>	<b>33.8%</b>	<b>44.3%</b>	<b>(10.5%)</b>
<b>Debt Balances at January 17, 2006</b>							
		0.0	0.0	0.0			
		520.1	700.0	(179.9)			
		750.0	405.3	344.7			
		226.8	182.1	44.7			
		349.8	349.8	0.0			
		<u>395.1</u>	<u>395.1</u>	<u>0.0</u>			
		<b>2,241.8</b>	<b>2,032.3</b>	<b>209.5</b>			

	<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>		676.8	886.3
Add Back Interest and Swap Payments		<u>608.9</u>	<u>858.6</u>
a Net Cash Collections (excl. interest and swap payments)		<u>1,285.7</u>	<u>1,744.9</u>
b Swaps		189.2	28.2
c Class A Interest		208.6	416.8
d Class A Minimum		370.4	0.0
e Class B Interest		20.5	68.1
f Class B Minimum		51.5	96.2
g Class C Interest		76.0	137.8
h Class D Interest		114.6	207.7
i Class A Principal Adjustment		254.9	790.1
i 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>1,285.7</u>	<u>1,744.9</u>
[1] <b>Interest Coverage Ratio</b>			
Class A		3.2	3.9 = a/(b+c)
Class B		N/A	3.4 = 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)
[2] <b>Debt Coverage Ratio</b>			
Class A		N/A	3.9 = a/(b+c+d)
Class B		N/A	2.9 = a/(b+c+d+e+f)
Class C		N/A	N/A = a/(b+c+d+e+f+g+h+ i+j)
Class D		N/A	N/A = a/(b+c+d+e+f+g+h+ i+j+k)
<b>Loan to Value Ratios (in U.S. dollars)</b>			
[3] Adjusted Portfolio Value	3,108.6	1,461.0	2,175.0
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>
[4] <b>Total Asset Value</b>	<u>3,241.2</u>	<u>1,531.0</u>	<u>2,255.0</u>

**Note Balances as at:**

	<u>March 15, 2001</u>		<u>January 17, 2006</u>		<u>January 17, 2006</u>	
Class A	1,895.4	58.5%	1,270.1	83.0%	1,105.3	49.0%
Class B	278.3	67.1%	226.8	97.8%	182.1	57.1%
Class C	349.8	77.9%	349.8	120.6%	349.8	72.6%
Class D	<u>395.1</u>	90.0%	<u>395.1</u>	146.4%	<u>395.1</u>	90.1%
	<u>2,918.6</u>		<u>2,241.8</u>		<u>2,032.3</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.

### 3. 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 its notes and the derivative instruments used by Airplanes Group to manage its interest rate risk.

The terms of each subclass or class of notes, including the outstanding principal amount as of December 31, 2005 and estimated fair value as of December 31, 2005, are as follows:

<u>Class of Notes</u>	<u>Annual Interest Rate</u> <u>(Payable Monthly)</u>	<u>Outstanding Principal Amount</u> <u>at December 31,</u> <u>2005</u> \$ Million	<u>Final Maturity Date</u>	<u>Estimated Fair Value at</u> <u>December 31,</u> <u>2005*</u> \$ Million
Subclass A-8	(LIBOR+.375%)	527	March 15, 2019	498
Subclass A-9	(LIBOR+.55%)	750	March 15, 2019	401
Class B	(LIBOR+.75%)	227	March 15, 2019	1
Class C	(8.15%)	350	March 15, 2019	0
Class D	(10.875%)	<u>395</u>	March 15, 2019	<u>0</u>
		<u>2,249</u>		<u>900</u>

\* Although the estimated fair values of the class A to D notes outstanding have been determined by reference to prices as at December 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.

#### *Interest Rate Management*

The leasing revenues of Airplanes Group are generated primarily from lease rental receipts 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. Some leases carry fixed and floating rental payments for different rental periods. There has been an increasing tendency for fixed rate leases to be written and leases representing approximately 97% of our portfolio by appraised value as of January 31, 2006 are fixed rate leases.

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 to D notes 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 B notes bear floating rates of interest and the class C and class D notes 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 the reset periods on floating receipts payments 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. Since November 17, 2003, however, we have ceased paying interest on our class B, C and D notes.

We have 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 paydown 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, AerCap Financial Services (Ireland) Limited (formerly known as debis AirFinance Financial Services (Ireland) Limited), a subsidiary of AerCap Ireland Limited, as Airplanes Group’s administrative agent (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.

At December 31, 2005, Airplanes Group had unamortized swaps with an aggregate notional principal balance of \$1,070 million. The aggregate notional principal balance of these swaps will reduce, by their terms, to an aggregate notional principal balance of \$1,070 million by March 31, 2006, to an aggregate notional principal balance of \$770 million by March 31, 2007, to an aggregate notional principal balance of \$580 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 estimated fair market value of the swaps at December 31, 2005 was \$11.1 million, that is the swaps were “in-the-money”, meaning that if the swaps were sold, Airplanes Group would gain \$11.1 million, as detailed on the next page:



## Airplanes Group Swap Book at December 31, 2005

Swap No.	Notional Amount (1) \$'millions	Effective Date	Final Maturity Date	Fixed Rate Payable (2)	Estimated Fair Market Value (\$) As at Dec 31, 2005
1	25	17-Nov-03	15-Jan-06	5.1150%	(17,050)
2	15	20-Dec-01	15-Feb-06	4.6350%	(5,992)
3	5	15-May-03	15-Mar-06	2.8800%	19,672
4	25	30-Jan-02	15-Apr-06	3.5040%	86,600
5	15	15-Mar-02	15-Apr-06	4.0125%	25,923
6	10	15-Dec-03	18-Apr-06	2.9425%	54,141
7	55	15-Aug-02	15-Jul-06	5.5500%	(275,383)
8	10	17-Oct-05	15-Oct-06	4.9400%	(20,959)
9	80	15-Dec-05	15-Dec-06	3.8125%	703,511
10	110	15-Jul-04	15-May-07	5.8620%	(1,689,439)
11	60	15-Apr-03	15-May-07	3.5350%	856,987
12	40	15-Mar-04	15-May-07	5.2020%	(220,211)
13	90	15-Dec-04	15-Jun-07	4.1300%	795,902
14	90	17-Mar-03	17-Sep-07	3.8700%	1,248,511
15	0	15-May-07	15-Nov-07	4.8000%	(46,687)
16	0	17-Sep-07	17-Dec-07	4.9440%	(48,185)
17	90	15-Jul-05	15-Apr-08	3.4800%	2,084,436
18	0	15-Feb-06	15-Nov-08	4.3375%	872,506
19	50	15-Nov-05	15-Apr-09	4.3425%	576,475
20	50	15-Jun-05	15-Oct-09	3.8625%	1,519,560
22	50	15-Jul-05	15-Nov-09	4.0775%	1,163,608
23	50	15-Aug-05	15-Jan-10	4.0913%	1,187,148
24	50	15-Sep-05	15-Mar-10	4.6088%	226,330
25	50	15-Apr-05	15-Apr-10	4.0800%	1,282,889
	<u>50</u>	15-Oct-05	15-Apr-10	4.3525%	<u>742,002</u>
	<u>1070</u>				<u>11,122,295</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 15, 16, and 18 are \$95 million, \$75 million, \$55 million respectively.
- 4) Airplanes Group has also purchased three interest rate caps with initial notional amounts of \$50 million, \$85 million and \$75 million.

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 fifty percent 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, swaptions (when applicable) and other interest rate hedging products, 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, as further described in our most recent Annual Annual Report for the year ended March 31, 2005, the board of directors of Airplanes Limited and the controlling trustees of Airplanes Trust resolved to undertake a consent solicitation in 2003 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 consent solicitation was successful and the indentures accordingly amended in September 2003. However, in light of the lack of counterparties, notwithstanding the changes to the indentures, willing to enter into interest rate swaps with us, the directors of Airplanes Limited and the controlling trustees of Airplanes Trust have resolved that we may partially hedge the vehicle against a significant adverse movement in interest rates through the purchase of a limited amount of out of the money interest rate caps. During the year ended March 31, 2005 we purchased an interest rate cap with a notional amount of \$50 million. Since September 30, 2005 we purchased two interest rate caps with initial notional amounts of \$85 million and \$75 million respectively.

The directors of Airplanes Limited and the controlling trustees of Airplanes Trust are responsible for reviewing and approving the overall interest rate management policy 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 is required by the indentures to enter into swaps only with counterparties meeting certain rating requirements as discussed more fully in our most recent Annual Annual Report.

*The quantitative disclosure and other statements in this section are forward-looking statements that involve risks and uncertainties. Although Airplanes Group’s policy is to limit its exposure to changes in interest rates, it could suffer higher cashflow losses as a result of actual future changes in interest rates. It should also be noted that Airplanes Group’s future exposure to interest rate movements will change as the composition of its lease portfolio changes. Please refer to “Risk Factors” in our Annual Report for the year ended March 31, 2005 for more*

*information about risks, especially lessee credit risk, that could intensify Airplanes Group's exposure to changes in interest rates.*

#### **4. Controls and Procedures**

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

The Chairman of the Board of Directors of Airplanes Limited and 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 15 (d) – 15(e)) as of the end of the period covered by this quarterly report, has concluded that as of the end of such period, 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 or 15(d)-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **5. Legal Proceedings**

### ***VASP***

As discussed in “Note 2. Contingent Liabilities – Legal Proceedings” to the unaudited financial statements, AerCap Ireland has been, since 1992, and continues to be involved in certain legal proceedings in Brazil relating to VASP.

### ***Other Matters***

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

Since November 20, 1998, AeroUSA, Inc. and AeroUSA 3, Inc. have filed consolidated United States federal tax returns and certain state and local tax returns with General Electric Capital Corporation (“**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.

## SIGNATURES

Date: February 6, 2006

For and on behalf of Airplanes Limited

By:     /s/ William M. McCann    

Name : William M. McCann

Title: Chairman of the Board of Directors

Trust

For and on behalf of Airplanes U.S.

By:     /s/ William M. McCann    

Name : William M. McCann

Title: Chairman of the Board of Controlling  
Trustees

Region	Country	Lessee	Aircraft Type	Serial No	Appraised	% Portfolio by
					Value January 31, 2006 \$'000	Appraised Value January 31, 2006 \$'000
Africa	Nigeria	Bellview Airlines Ltd	B737-200A	23024	2,202	0.16%
	South Africa	Nationwide Airlines	B767-300ER	26200	35,871	2.59%
	Tunisia	Nouvelair Tunisie	A320-200	301	18,407	1.33%
Asia & Far East	Tunisia	Nouvelair Tunisie	A320-200	348	18,413	1.33%
	Bangladesh	GMG Airlines	DHC8-300	307	4,347	0.31%
	China	China Southern	B737-500	25182	11,803	0.85%
	China	China Southern	B737-500	25183	11,462	0.83%
	China	China Southern	B737-500	25188	11,531	0.83%
	China	China Southern	B757-200	26156	20,156	1.45%
	Indonesia	Garuda	B737-400	24683	13,502	0.97%
	Indonesia	Garuda	B737-400	24691	13,834	1.00%
		PT Adam				
	Indonesia	SkyConnection Airlines	B737-300	23923	10,472	0.76%
		PT Adam				
	Indonesia	SkyConnection Airlines	B737-400	26071	14,942	1.08%
		PT Lion Mentari				
	Indonesia	Airlines	B737-400	24520	12,740	0.92%
		PT Lion Mentari				
	Indonesia	Airlines	B737-400	24911	14,007	1.01%
	Indonesia	PT Mandala Airlines	B737-200A	21685	548	0.04%
	Indonesia	PT Mandala Airlines	B737-200A	22278	621	0.04%
	Indonesia	PT Mandala Airlines	B737-200A	22803	1,010	0.07%
	Indonesia	PT Mandala Airlines	B737-200A	22804	1,294	0.09%
Indonesia	PT Mandala Airlines	B737-200A	23023	1,526	0.11%	
Indonesia	PT Metro Batavia	B737-400	24345	12,033	0.87%	
Indonesia	PT Metro Batavia	B737-400	24687	13,762	0.99%	
Japan	z	B737-400	26069	15,034	1.08%	
Malaysia	AirAsia Berhad	B737-300	24905	12,146	0.88%	
Malaysia	AirAsia Berhad	B737-300	24907	13,287	0.96%	
Philippines	Philippine Airlines	B737-300	24770	11,088	0.80%	
Philippines	Philippine Airlines	B737-400	24684	12,405	0.89%	
Philippines	Philippine Airlines	B737-400	26081	15,209	1.10%	
	Far Eastern Air					
	Taiwan	Transport	MD83	49950	8,937	0.64%
Australia & New Zealand	Australia	National Jet Systems	DHC8-100	229	2,491	0.18%
Europe	Bulgaria	BH Air	A320-200	294	18,541	1.34%
	Bulgaria	BH Air	A320-200	349	19,091	1.38%
	France	Air France	A320-200	203	17,379	1.25%
	France	Air France	A320-200	220	17,364	1.25%
	France	Blue Line	MD83	49672	7,020	0.51%
	Greece	Sky Wings Airlines	MD83	49949	8,704	0.63%
	Iceland	Air Atlanta Icelandic	B767-300ER	26204	33,987	2.45%
	Italy	Air One SpA	B737-300	25179	13,595	0.98%
	Italy	Air One SpA	B737-300	25187	14,016	1.01%
	Italy	Air One SpA	B737-400	24906	14,705	1.06%
	Italy	Air One SpA	B737-400	24912	13,884	1.00%
	Italy	Meridiana SpA	MD83	49792	8,254	0.60%
	Italy	Meridiana SpA	MD83	49935	8,501	0.61%
	Italy	Meridiana SpA	MD83	49951	8,675	0.63%
		Capital Aviation				
	Netherlands	Services B.V.	DHC8-300	244	4,140	0.30%
		Capital Aviation				
	Netherlands	Services B.V.	DHC8-300	276	4,465	0.32%

Region	Country	Lessee	Aircraft Type	Serial No	Appraised Value January 31, 2006	% Portfolio by Appraised Value January 31, 2006
	Norway	Wideroe's Flyveselskap A/S	DHC8-300	293	4,444	0.32%
	Norway	Wideroe's Flyveselskap A/S	DHC8-300	342	4,919	0.35%
	Portugal	euroAtlantic airways	B767-300ER	25411	33,245	2.40%
	Russia	KD avia	B737-300	23177	8,732	0.63%
	Slovakia	SkyEurope Airlines a.s	B737-500	25185	11,441	0.83%
	Slovakia	SkyEurope Airlines a.s	B737-500	25186	10,775	0.78%
	Slovakia	SkyEurope Airlines a.s	B737-500	25191	11,849	0.85%
	Slovakia	SkyEurope Airlines a.s	B737-500	25288	11,657	0.84%
	Slovakia	SkyEurope Airlines a.s	B737-500	25289	11,952	0.86%
	Spain	Futura	B737-400	24689	13,165	0.95%
	Spain	Futura	B737-400	24690	13,072	0.94%
	Spain	Futura	B737-400	25180	14,553	1.05%
	Spain	Spanair	MD83	49620	7,475	0.54%
	Spain	Spanair	MD83	49624	7,355	0.53%
	Spain	Spanair	MD83	49626	7,243	0.52%
	Spain	Spanair	MD83	49709	7,229	0.52%
	Spain	Spanair	MD83	49936	7,860	0.57%
	Spain	Spanair	MD83	49938	8,679	0.63%
	Turkey	Turk Hava Yollari	B737-400	24493	12,727	0.92%
	Turkey	Turk Hava Yollari	B737-400	24917	13,114	0.95%
	Turkey	Turk Hava Yollari	B737-400	25181	13,499	0.97%
	Turkey	Turk Hava Yollari	B737-400	25184	13,842	1.00%
	Turkey	Turk Hava Yollari	B737-400	25261	13,949	1.01%
	Turkey	Turk Hava Yollari	B737-400	26065	13,993	1.01%
	United Kingdom	Air Southwest	DHC8-300	296	4,372	0.32%
	United Kingdom	Air Southwest	DHC8-300	334	4,849	0.35%
	United Kingdom	Titan Airways Limited	B757-200	26151	19,133	1.38%
Latin America	Antigua	Caribbean Star Airlines	DHC8-300	232	4,086	0.29%
	Antigua	Caribbean Star Airlines	DHC8-300	266	4,443	0.32%
	Antigua	Caribbean Star Airlines	DHC8-300	267	4,434	0.32%
	Antigua	Caribbean Star Airlines	DHC8-300	298	4,561	0.33%
	Antigua	Caribbean Star Airlines	DHC8-300	300	4,530	0.33%
	Antigua	LIAT	DHC8-100	113	1,825	0.13%
	Antigua	LIAT	DHC8-100	140	1,980	0.14%
	Antigua	LIAT	DHC8-100	144	2,035	0.15%
	Antigua	LIAT	DHC8-100	270	2,415	0.17%
	Antigua	LIAT	DHC8-300	283	4,385	0.32%
	Argentina	Aerolineas Argentinas S.A.	B737-500	24897	11,615	0.84%
	Argentina	Austral Lineas Aereas	MD83	49941	8,426	0.61%
	Argentina	Austral Lineas Aereas	MD83	49943	8,166	0.59%
	Brazil	TAM Linhas Aereas	F100	11284	5,335	0.38%
	Brazil	TAM Linhas Aereas	F100	11285	5,464	0.39%
	Brazil	TAM Linhas Aereas	F100	11304	5,915	0.43%
	Brazil	TAM Linhas Aereas	F100	11305	5,911	0.43%



Region	Country	Lessee	Aircraft Type	Serial No	Appraised Value January 31, 2006	% Portfolio by Appraised Value January 31, 2006
	Brazil	TAM Linhas Aereas	F100	11336	5,691	0.41%
	Brazil	TAM Linhas Aereas	F100	11347	5,788	0.42%
	Brazil	TAM Linhas Aereas	F100	11348	5,945	0.43%
	Brazil	TAM Linhas Aereas	F100	11371	5,921	0.43%
	Colombia	Avianca	B757-200	26154	18,801	1.36%
	Colombia	Avianca	B767-200ER	25421	24,648	1.78%
	Colombia	Avianca	B767-300ER	24948	31,335	2.26%
	Colombia	Avianca	MD83	49939	8,795	0.63%
	Colombia	Avianca	MD83	53120	10,006	0.72%
	Colombia	Avianca	MD83	53125	9,854	0.71%
	Colombia	Avianca	MD83	49946	9,083	0.65%
	Colombia	Tampa	DC8-71F	45945	2,257	0.16%
	Colombia	Tampa	DC8-71F	45976	3,470	0.25%
	El Salvador	Taca International	ATR42-300	109	2,744	0.20%
	El Salvador	Taca International	ATR42-300	113	2,899	0.21%
	Mexico	Aerocaribe	F100	11266	5,311	0.38%
	Mexico	Aerocaribe	F100	11309	6,057	0.44%
	Mexico	Aerocaribe	F100	11319	5,790	0.42%
	Mexico	Aerocaribe	F100	11339	5,709	0.41%
	Mexico	Aerocaribe	F100	11374	6,099	0.44%
	Mexico	Aerocaribe	F100	11375	6,213	0.45%
	Mexico	Aerocaribe	F100	11382	6,242	0.45%
	Mexico	Aerocaribe	F100	11384	6,234	0.45%
	Mexico	Aeromexico	MD82	49660	5,372	0.39%
	Mexico	Aeromexico	MD82	49667	5,454	0.39%
	Mexico	Aeromexico	MD87	49673	5,050	0.36%
	Mexico	Estafeta Carga Aerea	B737-300SF	23499	11,676	0.84%
	Mexico	Estafeta Carga Aerea	B737-300SF	23500	11,521	0.83%
		PLUNA Lineas Aereas				
North America	Uruguay	Uruguayas S.A.	ATR42-300	284	3,594	0.26%
	Canada	AC Leasing	A320-200	174	17,578	1.27%
	Canada	AC Leasing	A320-200	175	17,027	1.23%
	Canada	AC Leasing	A320-200	232	16,853	1.22%
	Canada	AC Leasing	A320-200	284	16,915	1.22%
	Canada	AC Leasing	A320-200	309	18,681	1.35%
	Canada	AC Leasing	A320-200	404	19,678	1.42%
	United States of America	Air Transport International	DC8-71F	45811	3,920	0.28%
	United States of America	Air Transport International	DC8-71F	45813	4,131	0.30%
	United States of America	Air Transport International	DC8-71F	45973	4,143	0.30%
	United States of America	Air Transport International	DC8-71F	45978	3,525	0.25%
	United States of America	Air Transport International	DC8-71F	45993	3,175	0.23%
	United States of America	Air Transport International	DC8-71F	45994	3,575	0.26%
	United States of America	Air Transport International	DC8-71F	46065	3,775	0.27%
	United States of America	Astar Air Cargo	DC8-73CF	46091	4,933	0.36%
	United States of America	Pace Airlines	B737-300	23749	10,581	0.76%
	United States of America	TWA Airlines LLC	MD83	49575	7,151	0.52%

Region	Country	Lessee	Aircraft Type	Serial No	Appraised Value January 31, 2006	% Portfolio by Appraised Value January 31, 2006
Off Lease	AOG	AOG	ATR42-300	249	3,077	0.22%
	AOG	AOG	B737-200A	22368	692	0.05%
	AOG	AOG	B737-200A	22369	683	0.05%
	AOG	AOG	DC8-71F	45970	4,841	0.35%
	AOG	AOG	MD83	49631	8,255	0.60%
Other	Ukraine	Ukraine International	B737-400	25190	15,288	1.10%
	Ukraine	Ukraine International	B737-500	25192	11,202	0.81%
	Ukraine	Ukraine International	B737-500	26075	11,469	0.83%
					1,386,757	100.00%