**AerCap Holdings N.V. Dutch GAAP Annual Report**

**for the year ended December 31, 2006**

## INDEX TO ANNUAL REPORT

AerCap Holdings N.V. Annual Report 2006, Amsterdam

## DIRECTORS' REPORT

### Description of business

AerCap is a global aviation company that purchases, leases and sells aircraft, engines and parts. We also provide a wide range of aircraft management services to other owners of aircraft. We possess extensive aviation expertise that permits us to extract value from every stage of an aircraft's lifecycle across a broad range of aircraft and engine types. It is our strategy to acquire aviation assets at attractive prices, lease the assets to suitable lessees, and manage the funding and other lease related costs efficiently. We believe that by applying our expertise through an integrated business model, we will be able to identify and execute on a broad range of market opportunities that we expect will generate attractive returns for our shareholders. We are headquartered in Amsterdam and have offices in Ireland, Florida and Arizona with a total of 351 people.

We operate our business on a global basis, providing aircraft, engines and parts to customers in every major geographical region. As of December 31, 2006, we owned 131 aircraft and 51 engines, managed 103 aircraft, had 99 new aircraft and 6 new engines on order, had entered into a purchase contract for one aircraft and had executed letters of intent to purchase an additional 10 aircraft.

We lease most of our aircraft to airlines under operating leases. Under an operating lease, the lessee is responsible for the maintenance and servicing of the equipment during the lease term and the lessor receives the benefit, and assumes the risk, of the residual value of the equipment at the end of the lease. As of December 31, 2006, our owned and managed aircraft and engines were leased to 106 commercial airline and cargo operator customers in 47 countries and are managed from our offices in The Netherlands, Ireland and the United States. We expect to expand our leasing activity in Asia and in China in particular through our AerDragon joint venture with China Aviation Supplies Import & Export Group Corporation, which commenced operations in October 2006.

We have the infrastructure, expertise and resources to execute a large number of diverse aircraft and engine transactions in a variety of market conditions. From January 1, 2004 to December 31, 2006, we have executed over 800 aircraft and engine transactions, including 229 aircraft leases, 214 engine leases, 126 aircraft purchase or sale transactions, 130 engine purchase or sale transactions and the disassembly of 36 aircraft and 99 engines. Our teams of dedicated marketing and asset trading professionals have been successful in December 31, 2006, our weighted average owned aircraft utilization rate was 99.1%.

We were formed as a Netherlands public limited liability company ("*naamloze vennootschap*") on July 10, 2006 to acquire all of the assets and leasing and trading our aircraft and engine portfolios. Between January 1, 2004 and liabilities of AerCap Holdings C.V. a Netherlands limited partnership. AerCap Holdings C.V. was formed on June 27, 2005 for the purpose of acquiring all of the shares and certain liabilities of AerCap B.V. (formerly known as debis AirFinance B.V.). On June 30, 2005, AerCap Holdings C.V. acquired all of AerCap B.V.'s shares and the liabilities owed by AerCap B.V. to its prior shareholders for a total consideration of $1.4 billion, $370.0 million of which was funded with equity contributions from funds and accounts affiliated with Cerberus Capital Management, L.P., or Cerberus. On April 26, 2006, we acquired all of the existing share capital of AeroTurbine, Inc. an engine trading and leasing and parts sales company. On October 27, 2006, AerCap Holdings N.V. acquired all of the assets and liabilities of AerCap Holdings C.V. On November 27, 2006, we completed the initial public offering of 6.8 million of our ordinary shares on the New York Stock Exchange.

Our principal executive offices are located at Evert van de Beekstraat 312, 1118 CX Schiphol Airport, The Netherlands, and our general telephone number is +31 20 655-9655. Our website address is www.aercap.com.

## Our business strategy

We intend to pursue the following business strategies:

***Leverage Our Ability to Manage Aircraft and Engines Profitably throughout their Lifecycle.*** We intend to continue to leverage our integrated business model by selectively:

- purchasing aircraft and engines directly from manufacturers;
- taking advantage of price incentives offered by sellers for the purchase of entire portfolios of aircraft and engines of varying ages and types;
- using our global customer relationships to obtain favorable lease terms and reduce time off-lease;
- selling select aircraft and engines;
- disassembling older airframes and engines for sale of their component parts; and
- providing management services to securitization vehicles, our joint ventures and other aircraft owners at limited incremental cost to us.

Our ability to profitably manage aircraft throughout their lifecycle depends in part on our successful integration of AeroTurbine, which we acquired in April 2006, our ability to successfully lease aircraft and engines at profitable rates and our ability to source acquisition opportunities of new and used aircraft at favorable prices.

***Expand Our Aircraft and Engine Portfolio.*** We intend to grow our portfolio of aircraft and engines through portfolio purchases, new aircraft purchases, airline refleetings, and other opportunistic aircraft and engine purchases. We will rely on our experienced team of aircraft and engine market professionals to identify and purchase assets we believe are being sold at attractive prices or that we believe will increase in demand and value. In addition, we will continue to rebalance our aircraft and engine portfolios through acquisitions, sales and selective disassemblies to maintain the appropriate mix of aviation assets to meet our customers' needs.

***Focus on High Growth Markets.*** Although we maintain a geographically diverse portfolio, we focus on high growth airline markets such as the Asia/Pacific market. In May 2006, we entered into a joint venture with China Aviation Supplies Import & Export Group Corporation, a state-owned aviation service engaged in the import and export of civil aviation products and the leasing and maintenance of aircraft, engines and aviation parts. This joint venture enhances our presence in the increasingly important China market and will enhance our ability to lease our aircraft and engines throughout the entire Asia/Pacific region.

***Enter into Joint Ventures to Obtain Economies of Scale.*** We intend to continue to leverage our leading market position, extensive knowledge of the aircraft and engine leasing markets and aircraft and engine management capabilities by entering into joint ventures that increase our purchasing power and our ability to obtain price discounts on large aircraft orders. For example, by recently structuring a large aircraft purchase from Airbus through a 50% owned consolidated joint venture, we were able to increase the number of aircraft we ordered from 35 to 70 and obtained significantly more favorable terms than would otherwise have been available to us. We expect to generate fees from our joint ventures by providing them with aircraft management services.

***Obtain Maintenance Cost Savings.*** We intend to lower our aircraft and engine maintenance costs by using aircraft and engine parts we obtain from the selective disassembly of acquired and existing airframes and engines. We intend to achieve further maintenance cost savings by using our FAA and EASA certified repair station to perform a variety of value-added MRO services on our aircraft and engines that would otherwise be outsourced at significantly higher costs.

***Acquire Complementary Businesses.*** We intend to selectively pursue acquisitions that we believe will enhance our ability to manage aircraft and engines profitably throughout their lifecycle. The synergies, economies of scale and operating efficiencies we expect to derive from our acquisitions will allow us to strengthen our competitive advantages and diversify our sources of revenue.

## Risk factors

Our business is subject to various risks relating to changing competitive, economic, political, regulatory, legal, social, industrial, business and financial conditions. These conditions are described below. The following risk factors could harm our business, financial conditions and operating results, adversely affect our revenues and profitability, and possibly lead to a drop in the trading price of our shares. See our Annual Report on form 20-F for a detailed description of the following risk factors:

***Risks Related to Our Business***

- Our business model depends on the continual re-leasing of our aircraft and engines when current leases expire, and we may not be able to do so on favorable terms, if at all.
- If we are unable to successfully integrate AeroTurbine, we may not be able to implement our business strategy.
- Changes in interest rates may adversely affect our financial results and growth prospects.
- Leasing, financing and sales of aircraft, engine, and parts has historically experienced prolonged periods of oversupply during which lease rates and aircraft values have declined, and any future oversupply could materially and adversely affect our financial results and growth prospects.
- Our financial condition is dependent, in part, on the financial strength of our lessees; lessee defaults and other credit problems could adversely affect our financial results and growth prospects.
- The value and lease rates of our aircraft and engines could decline and this would have a material adverse effect on our financial results and growth prospects.
- The concentration of some aircraft and engine models in our aircraft and engine portfolios could adversely affect our business and financial results should any problems specific to these particular models occur.
- We are indirectly subject to many of the economic and political risks associated with emerging markets, which could adversely affect our financial results and growth prospects.
- If our lessees encounter financial difficulties and we decide to restructure our leases, the restructuring would likely result in less favorable leases which could adversely affect our financial results and growth prospects.
- If we or our lessees fail to maintain our aircraft or engines, their value may decline and we may not be able to lease or re-lease our aircraft and engines at favorable rates, if at all, which would adversely affect our financial results and growth prospects.
- Competition from other aircraft or engine lessors with greater resources or a lower cost of capital than us could adversely affect our financial results and growth prospects.
- We are exposed to significant regional political and economic risks due to the concentration of our lessees in certain geographical regions which could adversely affect our financial results and growth prospects.
- Our substantial indebtedness incurred to acquire our aircraft and engines requires significant debt service payments.
- Aircraft have limited economically useful lives and depreciate over time, which can adversely affect our financial condition and growth prospects.

- Our failure to maintain effective internal controls could have a material adverse effect on our business in the future and on our access to the capital markets.
- The advanced age of some of our aircraft may cause us to incur higher than anticipated maintenance expenses, which could adversely affect our financial results and growth prospects.
- The advent of superior aircraft and engine technology could cause our existing aircraft and engine portfolio to become outdated and therefore less desirable, which could adversely affect our financial results and growth prospects.
- If our lessees' insurance coverage is insufficient, it could adversely affect our financial results and growth prospects.
- If we incur significant costs resulting from lease defaults it could adversely affect our financial results and growth prospects.
- If we provide MRO services to third-parties, we may lose some of our existing MRO service provider customers who lease our engines and purchase our parts.
- If our lessees fail to appropriately discharge aircraft liens, we may be obligated to pay the aircraft liens, which could adversely affect our financial results and growth prospects.
- Failure to obtain certain required licenses, certificates and approvals could adversely affect our ability to re-lease or sell aircraft and engines, our ability to perform maintenance services or to provide cash management services, which would materially and adversely affect our financial condition and results of operations.
- Our ability to operate in some countries is restricted by foreign regulations and controls on investments.
- There are a limited number of aircraft and engine manufacturers and the failure of any manufacturer to meet its aircraft and engine delivery obligations to us could adversely affect our financial results and growth prospects.
- We will need additional capital to finance our growth, and we may not be able to obtain it on terms acceptable to us, if at all, which may limit our ability to grow and compete in the aircraft and engine leasing and trading markets.
- We are subject to various environmental regulations that may have an adverse impact on our financial results and growth prospects.
- We are the manager for several securitization vehicles and joint ventures and our financial results would be adversely affected if we were removed from these positions.
- Our limited control over our joint ventures may delay or prevent us from implementing our business strategy which may adversely affect our financial results and growth prospects.
- The departure of senior managers could adversely affect our financial results and growth prospects.
- In certain countries, an engine affixed to an aircraft may become an accession to the aircraft and we may not be able to exercise our ownership rights over the engine.

***Risks Related to the Aviation Industry***

- As high fuel prices continue to affect the profitability of the aviation industry, our lessees might not be able to meet their lease payment obligations, which would adversely affect our financial results and growth prospects.

- If the effects of terrorist attacks and geopolitical conditions continue to adversely affect the financial condition of the airlines, our lessees might not be able to meet their lease payment obligations, which would adversely affect our financial results and growth prospects.
- The effects of SARS or other epidemic diseases may adversely affect the airline industry in the future, which might cause our lessees to not be able to meet their lease payment obligations to us, which would adversely affect our financial results and growth prospects.
- The passenger aviation industry is inherently cyclical and a significant downturn in the industry would adversely impact our lessees' ability to make payments to us, which would adversely affect our financial results and growth prospects.

***Risks Related to Our Organization and Structure***

- If the ownership of our ordinary shares continues to be highly concentrated, it may prevent you and other minority shareholders from influencing significant corporate decisions and may result in conflicts of interest.
- We are a Netherlands public limited liability company (naamloze vennootschap) and it may be difficult for you to obtain or enforce judgments against us or our executive officers, some of our directors and some of our named experts in the United States.
- Our international operations expose us to economic and legal risks associated with a global business, including, without limitation, interest and currency risks.
- If our subsidiaries do not make distributions to us we will not be able to pay dividends.

***Risks Related to Taxation***

- We may become a passive foreign investment company, or PFIC, for U.S. federal income tax purposes.
- We may become subject to income or other taxes in jurisdictions which would adversely affect our financial results and growth prospects.
- We may incur current tax liabilities in our primary operating jurisdictions in the future.
- We may become subject to additional Irish taxes based on the extent of our operations carried on in Ireland.
- We may fail to qualify for benefits under one or more tax treaties.

## 2006 Financial and Operating Review

### Environment

The industry environment in 2006 was characterized by strong demand and tight supply for aircraft, with airline passenger growth exceeding 5.9%. Overall, the industry saw the strong growth of airlines in emerging markets, growth of low cost carriers globally, and a strengthening of the U.S. airline industry. With the growth of the industry, we have also experienced increased competition from other aircraft lessors in the market. We see no slowdown in 2007 of these trend factors that dominated 2006. We expect the industry outlook to be comparable to 2006 and expect the percentage of leased aircraft in the total industry fleet, to continue increasing.

**Major Developments**

- We completed our initial public offering on the New York Stock Exchange of 26.1 million common shares on November 27, 2006 at a price of $23 per share, generating net proceeds of $143.0 million retained by us. We used these proceeds primarily to pay down indebtedness.
- We acquired AeroTurbine in April 2006 as part of our strategy of managing aircraft profitably throughout their lifecycle.
- We purchased $973.2 million of additional aviation assets in 2006. Total consolidated assets at December 31, 2006 equals $4.0 billion.
- We signed an agreement on December 11, 2006 with Airbus for a firm order of 20 new A330-200 aircraft to be delivered between 2008 and 2010. These contracted purchases, along with previous orders, provide us with a strong investment pipeline for the future and will allow us to meet the needs of our diverse customer base in varying geographic regions.
- We launched a Chinese aircraft leasing joint venture (AerDragon) on October 26, 2006 with China Aviation Supplies Import & Export Group Corporation (or CASGC) and Calyon Airfinance as partners. CASGC is a Chinese government organization that supports the flow of aircraft into the Chinese airlines and we believe this gives us additional access to the Chinese market beyond our current customer base. AerDragon took delivery of its first aircraft (A320) on lease to a Chinese operator in February 2007.

**Results of Operations**

Net Income for the full year 2006 was $106.9 million. Net income includes charges for share-based compensation of $68.3 million. Our results were driven by a number of factors. Our portfolio has grown through purchases of aircraft and other aviation assets, and we have higher sale activity coming from both the acquisition of AeroTurbine and the sale of aircraft driven by portfolio balancing. Additionally, we have benefited from improved lease rates and the leveraging of our cost base. Our performance in 2006 reflects the strength and flexibility of our business model and demonstrates our continuing focus on investing strategically to grow our business.

**Charge for Share-based Compensation**

The charge for share-based compensation, net of tax, was $68.3 million for full year 2006. The majority of this charge was triggered in connection with our initial public offering, and relates to the restricted shares and share options in entities that have a controlling interest in us which are held by members of our senior management team, independent directors and a consultant. The charge was a non-cash charge and did not reduce our net equity.

**Earnings Per Share**

Total earnings per share for the full year 2006 was $1.35. Included in our earnings per share is a charge of $0.87 per share related to charges for share-based compensation. The number of outstanding shares is currently at 85.0 million. The amount of shares increased 6.8 million during the fourth quarter of 2006 as a result of our initial public offering, and the average shares outstanding were 79.0 million for the full year.

**Aviation Assets**

Our total assets and portfolio continue to grow. Total assets on the balance sheet were $4.0 billion at December 31, 2006. Total assets increased 26% during 2006 which was driven by a net increase of 26 owned aircraft in our portfolio, along with the acquisition of the AeroTurbine business. The number of aircraft in our portfolio is 344 at December 31, 2006, consisting of 131 owned aircraft, 103 managed aircraft, 99 aircraft in our order book, one aircraft subject to a separate purchase contract and 10 aircraft under letter of intent. This represents an increase of more than 100 aircraft since the end of 2005. The number of engines owned or on contract is 57, an increase of 53 engines from four engines owned at the end of 2005 which highlights the impact of the AeroTurbine acquisition. We acquired $523.0 million of aviation assets including 28 aircraft. These amounts included the purchase of an aircraft portfolio from GATX Corporation and six Boeing aircraft from ILFC. The amount of closed deals in the fourth quarter of 2006 brought the total amount of purchases to just under $973.2 million for the full year 2006, including 41 aircraft.

**Liquidity, Access to Capital and Interest Rate Risk**

Our cash balance at the end of 2006 was $243.5 million including restricted cash and our operating cash flow was $348.4 million for the full year. The available lines of credit at December 31, 2006 were approximately $1.3 billion. As these amounts suggest, we have significant access to capital for growth through our cash and available lines of credit, along with our ability to access the capital markets.

Our debt balance at December 31, 2006 was $2.3 billion and the annual average interest rate on our debt in 2006 was 6.8%. Our debt to equity ratio stood at 3.1 to 1 at December 31, 2006. We completed several financings during 2006. The net proceeds from our initial public offering were used primarily to pay down debt relating to the acquisition of AeroTurbine. Additionally, a revolving line of credit for AeroTurbine was amended and increased to $220.0 million. We also signed a $248.0 million financing with a bank syndicate to fund the purchase of an aircraft portfolio from GATX Corporation and established a pre-delivery payments facility for our AerVenture joint venture.

The table below provides information as of December 31, 2006 regarding our derivative financial instruments that are sensitive to changes in interest rates on our borrowing, including our interest rate swaps and caps. The table presents the notional amounts and weighted average interest rates by contracted maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at the applicable date.

| | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter | Total | Fair value |
|---|---|---|---|---|---|---|---|---|
| | (US Dollars in thousands) | | | | | | | |
| **Interest rate caps** | | | | | | | | |
| Notional amounts | $ 75,000 | $ 575,000 | $ 575,000 | $ 355,000 | $ 200,000 | $ 616,000 | $ 2,396,000 | $ 17,357 |
| Weighted average strike rate | 4.90% | 5.59% | 5.09% | 5.31% | 5.78% | 5.78% | 5.47% | |
| **Interest rate swaps** | | | | | | | | |
| Notional amounts | $ — | $ 60,000 | $ — | $ — | $ — | $ — | $ 60,000 | $ 212 |
| Weighted average pay rate | — | 5.38% | — | — | — | — | 5.38% | — |
| Weighted average receive rate | — | 5.36% | — | — | — | — | 5.36% | — |

As of December 31, the interest rate swaps and caps had notional amounts of $2.5 billion and a fair value of $17.6 million. The variable benchmark interest rates associated with these instruments ranged from one to six-month LIBOR.

**Personnel**

We had 100 and 351 persons in employment as at December 31, 2005 and 2006, respectively. The increase in numbers of employees between the periods is primarily the result of the acquisition of AeroTurbine and employees hired at our leased facility in Goodyear, Arizona. We expect that the number of personnel will remain relatively constant throughout 2007, unless we acquire additional complementary businesses.

**Financial Outlook**

On the assumption that there will be no major disruptions in our markets our views as to the financial outlook for 2007 are as follows. Our cash and available lines of credit should allow for purchases in 2007 to be comparable or perhaps exceed that achieved in 2006. The amount of sales revenue as a percent of total revenue is expected to be higher than 2006 considering the strong demand in the market. The cost of debt in 2007 is expected to be comparable to 2006 and the tax rate should be lower. Return on equity is expected to be in the range of 20 to 25%. In summary, we achieved strong growth and a solid operating performance in 2006 and believe that we are well-positioned for 2007.

## Corporate Governance

As we are listed on the NYSE and are a Netherlands public limited liability company ("naamloze vennootschap") we are required to comply with the Sarbanes-Oxley Act and certain corporate governance requirements and best practices set out by the NYSE, the U.S. Securities and Exchange Commission (SEC) and the Netherlands Corporate Governance Code. We have elected to be exempt from the NYSE rules on directors independence as a foreign private issuer.

At AerCap, we are committed to upholding the highest standards in corporate governance and ethics practices. We believe our numerous internal policies and procedures provide structure for the operation of the Company that is consistent with the best interests of our shareholders and customers as well as the requirements of the law and modern standards of corporate governance. We endeavour to ensure that our policies and procedures comply with both U.S. and Netherlands corporate governance requirements, to the extent possible and desirable. In this report, we discuss our corporate governance structure.

The Netherlands Corporate Governance Code contains principles and best practices for Netherlands companies with listed shares. The Netherlands Corporate Governance Code requires companies to either comply with the best practice provisions of the Code or to explain why they deviate from these best practice provisions. Our corporate governance policies with respect to the implementation of the Netherlands Corporate Governance Code will be discussed with our shareholders at the 2006 Annual General Meeting of Shareholders, including those best practice provisions that we did not comply with.

In the future, we will discuss any material changes in our corporate governance structure in the Annual General Meeting of Shareholders. Corporate Governance related documents are available on our website, including the Committees and Rules, Board Rules, the Audit Committee Charter, the Nomination and Compensation Committee Charter, the Code of Conduct, the Whistleblower Procedure and , Insider Trading Policy.

Below we discuss our corporate governance, to the extent not already addressed elsewhere in this report:

## Board of Directors

### *Responsibilities*

Under our Articles of Association, the rules for the Board of Directors and the board committees and Netherlands corporate law, the members of the Board of Directors are collectively responsible for the management, general and financial affairs and policy and strategy of our Company.

The Board shall consist of nine directors from which the Board shall appoint one executive director. The executive director is our Chief Executive Officer, who is primarily responsible for managing our day-to-day affairs as well as other responsibilities that have been delegated to the executive director in accordance with our Articles of Association and our Board rules, that also comprise the rules applicable to the committees of the Board. The non-executive directors supervise the Chief Executive Officer and our general affairs and provide general advice to our Chief Executive Officer. In performing their duties, the non-executive directors are guided by the interests of the company and shall, within the boundaries set by relevant Netherlands law, take into account the relevant interests of our shareholders. The internal affairs of the Board of Directors are governed by our rules for the Board of Directors.

The current directors are:

| Name | Age | Nationality | Position | Expiration of Term |
|---|---|---|---|---|
| Mr. Pieter Korteweg . . . . . . | 65 | Netherlands | Non-Executive Chairman of the Board of Directors | 2010 Annual General Meeting of Shareholders |
| Mr. Ronald J. Bolger . . . . . . | 59 | Ireland | Non-Executive Director | 2010 Annual General Meeting of Shareholders |
| Mr. James N. Chapman. . . . | 44 | USA | Non-Executive Director | 2010 Annual General Meeting of Shareholders |
| Mr. Klaus W. Heinemann. . | 55 | Germany | Executive Director, Chief Executive Officer | July 3, 2009 |
| Mr. W. Brett Ingersoll . . . . . | 43 | USA | Non-Executive Director | 2010 Annual General Meeting of Shareholders |
| Mr. Marius J.L. Jonkhart . . | 57 | Netherlands | Non-Executive Director | 2010 Annual General Meeting of Shareholders |
| Mr. Gerald P. Strong . . . . . . | 62 | UK | Non-Executive Director | 2010 Annual General Meeting of Shareholders |
| Mr. David J. Teitelbaum . . . | 35 | USA | Non-Executive Director | 2010 Annual General Meeting of Shareholders |
| Mr. Robert G. Warden . . . . | 34 | USA | Non-Executive Director | 2010 Annual General Meeting of Shareholders |

Each Non-Executive director listed above has been appointed for a term of four years from the 2006 Annual General Meeting of Shareholders expiring on the date indicated above. Our Executive Director has been appointed for a term ending on the expiry date of his employment agreement as indicated above.

**Pieter Korteweg.** Mr. Korteweg has been a director of AerCap B.V. from September 20, 2005 until October 27, 2006 and of AerCap Holdings N.V. since July 26, 2006. He serves in various positions in numerous organizations including as Chairman of the Supervisory Board of a number of Cerberus companies in the Netherlands, including Aozora Bank Ltd., consultant to and Vice Chairman of Cerberus Global Investment Advisors, LLC and member of the Supervisory Boards of DaimlerChrysler Netherlands B.V. and Hypo Real Estate Holding AG. He also serves as senior advisor to Anthos B.V. Mr. Korteweg previously served as Chairman of the Supervisory Board of Pensions and Insurance Supervisory Authority of The Netherlands, Chairman of the Supervisory Board of the Dutch Central

Bureau of Statistics and Vice-Chairman of the Supervisory Board of De Nederlandsche Bank from 2002 to 2004. From 1987 to 2001, Mr. Korteweg was President and Chief Executive Officer of the Group Executive Committee of Robeco Group in Rotterdam. From 1981 to 1986, he was Treasurer-General at The Netherlands Ministry of Finance. In addition, Mr. Korteweg was a professor of economics from 1971 to 1998 at Erasmus University Rotterdam in The Netherlands. Mr. Korteweg holds a PhD in Economics from Erasmus University Rotterdam.

**Ronald J. Bolger.** Mr. Bolger has been a director of AerCap B.V. from October 11, 2005 until October 27, 2006 and of AerCap Holdings N.V. since July 26, 2006. Mr. Bolger currently serves as a member of the board of directors of a number of companies including Ely Capital Ltd., Irish Food Processors, C & D Foods Ltd., Galway Clinic Doughiska Ltd. and Global Shares Plc. He is a former Managing Partner of KPMG Ireland and has wide experience in the financial services industry. He served on the Irish Prime Minister's Committee for Dublin's International Financial Services Centre from 1987 to 2002. Mr. Bolger was appointed Honorary Consul General of Singapore in Ireland in 2000. Mr. Bolger is a Chartered Accountant and holds a BA in Economics from University College Dublin.

**James N. Chapman.** Mr. Chapman has been a director of AerCap B.V. from December 7, 2005 until October 27, 2006 and of AerCap Holdings N.V. since July 26, 2006. Mr. Chapman is non-executive Vice Chairman and Director of JetWorks Leasing, LLC, an aircraft management services company based in Greenwich, Connecticut, which he joined in December 2004. Prior to JetWorks, Mr. Chapman joined Regiment Capital Advisors, LLC in January 2003, a high-yield hedge fund based in Boston. Prior to Regiment, Mr. Chapman was a capital markets and strategic planning consultant and worked with private and public companies as well as hedge funds (including Regiment) across a range of industries. Mr. Chapman was affiliated with The Renco Group, Inc. from December 1996 to December 2001. Presently, Mr. Chapman serves as a member of the board of directors of Coinmach Service Corp., as well as a number of private companies. Mr. Chapman received an MBA with distinction from Dartmouth College and was elected as an Edward Tuck Scholar. He received his BA, with distinction, *magna cum laude*, from Dartmouth College and was elected to *Phi Beta Kappa*, in addition to being a Rufus Choate Scholar.

**Klaus W. Heinemann.** Mr. Heinemann has been the Chief Executive Officer of first AerCap B.V. and subsequently AerCap Holdings N.V. since April 2003 and has over 25 years of experience in the aviation financing industry. Mr. Heinemann has been a director of our company since 2002. Mr. Heinemann joined our company in October 2002 from DVB Bank, where he was a Member of the Executive Board. In 1988 he joined the Long-Term Credit Bank of Japan in London as Deputy General Manager and Head of the Aviation Group. He was later appointed as Joint General Manager of the Head Office at the Long-Term Credit Bank of Japan, where he was responsible for the Transportation Finance division before this division was sold to DVB Bank in 1998. Mr. Heinemann started his career with Bank of America in 1976, where he helped to build up its Aviation Finance department in Europe. Mr. Heinemann holds the degree of Diplom-Kaufmann (Bachelor of Commerce) from the University of Hamburg.

**W. Brett Ingersoll.** Mr. Ingersoll has been a director of AerCap B.V. from September 20, 2005 until October 27, 2006 and of AerCap Holdings N.V. since July 26, 2006. He is currently a Managing Director of Cerberus Capital Management, L.P., a senior member of its Private Equity Practice and a member of its Investment Committee. Mr. Ingersoll is also a director of ACE Aviation Holdings Inc. and a member of the Audit, Finance and Risk Committee and the Human Resources and Compensation Committee of ACE Aviation Holdings Inc. In addition, Mr. Ingersoll is a director of various public and private companies, including Coram Health Care, IAP Worldwide Services, Inc., Aeroplan (AER TO), Pitney Bowes, Talecris Bio Therapeutics, Inc. and Endura Care, LLC. Prior to joining Cerberus in 2002, Mr. Ingersoll was a Partner at JP Morgan Partners (formerly Chase Capital Partners) from 1993 to 2002. Mr. Ingersoll received his MBA from Harvard Business School and his BA from Brigham Young University.

**Marius J.L. Jonkhart.** Mr. Jonkhart has been a director of AerCap B.V. from October 11, 2005 until October 27, 2006 and of AerCap Holdings N.V. since July 26, 2006. Mr. Jonkhart is currently the Chief Executive Officer of NOB Holding N.V. He is currently also a member of the Supervisory Boards of Connexxion Holding N.V., Corus Netherland N.V. and Staatsbosbeheer, Chairman of the Supervisory Board of Ruimte voor Ruimte Beheer B.V. and a non-executive director of Aozora Bank. Mr. Jonkhart is an advisor to Cerberus Global Investment Advisors, LLC. Mr Jonkhart was previously the Chief Executive Officer of De Nationale Investerings Bank N.V. and also served as the director of monetary affairs of the Dutch Ministry of finance. He was also a professor of finance at Erasmus University Rotterdam. He has served as a member of a number of supervisory boards, including the Supervisory Boards of the European Investment Bank, Bank Nederlandse Gemeenten N.V., Postbank N.V., NPM Capital N.V., Kema N.V., AM Holding N.V. and De Nederlandsche Bank N.V. He has also served as chairman of the Investment Board of ABP Pension Fund and several other funds. Mr. Jonkhart holds a Master's degree in Business Administration, a Master's degree in Business Economics and a PhD in Economics from Erasmus University Rotterdam.

**Gerald P. Strong.** Mr. Strong has been a director of our company since July 26, 2006. He currently is a Managing Director of Cerberus Capital Partners' operations in Europe. Mr. Strong has extensive senior experience in a number of industries, including airlines, global communications, retailing, and consumer products. He has served senior roles in the restructuring and building of a number of international businesses in his career. Mr. Strong was Chairman of the Advisory Board on Telecom Security to the government of the United Kingdom from 2002 to 2005 and President and Chief Executive Officer of Teleglobe International Holdings Limited. He is also a member of the Governing Council of the Ashridge Business School, a Director of NewPage Corporation and Chairman of Virtual IT. Mr. Strong received his BA with honors from Trinity College, Dublin.

**David J. Teitelbaum.** Mr. Teitelbaum has been a director of our AerCap B.V. from September 20, 2005 until October 27, 2006 and of AerCap Holdings N.V. since July 26, 20006. Mr. Teitelbaum is a Managing Director of Cerberus Capital Management, LLC and has worked for Cerberus and/or its affiliates since 1997. Prior to joining Cerberus, Mr. Teitelbaum worked in the investment banking department of Donaldson, Lufkin & Jenrette. Mr Teitelbaum holds a BS in Business Administration from the University of California, Berkeley.

**Robert G. Warden.** Mr. Warden has been a director of AerCap B.V. from September 20, 2005 until October 27, 2006 and of AerCap Holdings N.V. since July 26, 2006. He is also currently a Managing Director of Cerberus Capital Management, L.P., which he joined in February 2003. Mr. Warden is also currently a director of Aeroplan and Bluelinx Corporation. Prior to joining Cerberus, Mr. Warden was a Vice President at J.H. Whitney from May 2000 to February 2003, a Principal at Cornerstone Equity Investors LLC from July 1998 to May 2000 and an Associate at Donaldson, Lufkin & Jenrette from July 1995 to July 1998. Mr. Warden received his AB from Brown University.

The Chairman of the Board is obligated to insure, among other things, that (i) each director receives all information about matters that he or she may deem useful or necessary in connection with the proper performance of his or her duties, (ii) each director has sufficient time for consultation and decision making, and (iii) the Board of Directors and the board committees are properly constituted and functioning.

Each director has the right to cast one vote and may be represented at a meeting of the Board of Directors by a fellow director. The Board of Directors may pass resolutions only if a quorum of four directors, including our Chief Executive Officer, the Chairman or Vice Chairman is present at the meeting. All resolutions must be passed by an absolute majority of the votes cast. If there is a tie, the matter will be decided by the Chairman of our Board of Directors or in his or her absence, the Vice Chairman.

Subject to Netherlands law, resolutions may be passed in writing by a majority of the directors in office. Pursuant to the internal rules for our Board of Directors, a director may not participate in discussions or the decision making process on a transaction or subject in relation to which he or she has a conflict of interest with us. Resolutions to enter into such transactions must be approved by a majority of our Board of Directors, excluding such interested director or directors.

In 2006, the Board met on four occasions. Throughout the year, the Chairman of the Board and individual non-executive directors were in close contact with our Executive Officers. During its meetings and contacts with the Executive Officers, the Board discussed such topics as the Company's initial public offering, our contract with Airbus for the purchase of 20 A330 aircraft, the establishment of Board committees and related specific delegated authorities, the financial results achieved at various times during the year and the outlook for future periods, and reviewed reports on risk management from the audit committee and the internal risk management and control function.

The non-executive directors of the Board also meet once per year to perform a self-assessment of the Board's performance. It assesses its own functioning and that of its individual members. Because the board has been appointed in October 2006 the first assessment will include the period October 2006-December 2007. As part of that assessment, the Board shall discuss at least once a year the corporate strategy and the risks of the business, and the result of the assessment of the structure and operation of the internal risk management and control systems, as well as any significant changes thereto. The outcome of these discussions shall be reflected in the Directors' Report.

Given its recent appointment, the Board has not yet attended the introduction program required by the Code and has not yet determined a board profile. This is anticipated to take place in 2007.

***Conflicts of interest***

As per Best Practice Provision II.3.2. of the Netherlands Corporate Governance Code each Director shall immediately report any potential conflict of interest concerning a Director to the Chairman. The Director with such conflict of interests shall in such case provide the Chairman of the Board with all information relevant to the conflict. During the year, there were no conflicts of interests reported.

***Appointment, suspension and dismissal***

The directors are appointed at the general meeting of the shareholders. Our directors may be elected by the vote of a majority of votes cast at a general meeting of shareholders provided that our Board of Directors has proposed the election. Without a Board of Directors proposal, directors may also be elected by the vote of a majority of the votes cast at a general meeting of shareholders if the majority represents at least one-third of our issued capital.

Shareholders may remove or suspend a director by the vote of a majority of the votes cast at a general meeting of shareholders provided that our Board of Directors has proposed the removal. Our shareholders may also remove or suspend a director, without there being a proposal by the Board of Directors, by the vote of a majority of the votes cast at a general meeting of shareholders if the majority represents at least one-third of our issued capital.

All Non-Executive Director are appointed for a period of four years from the date of the 2006 Annual General Meeting of Shareholders until the date of the 2010 Annual General Meeting of Shareholders. Our Executive Director is appointed until the expiry of his employment contract which is July 3, 2009. Future new appointments to the Board will follow the recommended 4 year term. Given the fact that our Board has been recently appointed, and also taking into account their term of appointment, there has been no need in 2006 to prepare a profile of the Board and a rotation schedule as required by the Code. We anticipate that this will be done in 2007.

### *Remuneration*

The general policy for the remuneration of our Board of Directors will be determined by our Nomination and Compensation Committee. The remuneration of directors will be set by our Board of Directors in accordance with our remuneration policy and the recommendation of the Nomination and Compensation Committee. With regard to arrangements concerning remuneration in the form of ordinary shares or share options, the Board of Directors must submit a proposal to the shareholders for approval. This proposal must, at a minimum, state the number of ordinary shares or share options that may be granted to directors and the criteria that apply to the granting of the ordinary shares or share options or the alteration of such arrangements.

For information regarding the remuneration of member of the Board, reference is made to the Remuneration Policy (available on our website), the Remuneration Report 2006 included in this Annual Report and Note 26 "Board Remuneration" of our Annual Report.

Our Executive Director's employment contract includes a severance clause that grants him 18-months of base salary, benefits and bonus (based on the average of the three prior year bonuses) payments in the event that he does not renew his employment contract at its expiration or is terminated without cause or voluntarily leaves for good reason (as such terms are defined in the employment agreement). Although this is in excess of what the Code recommends, this employment arrangement has been entered into prior to our establishment by one of our predecessors, AerCap B.V., which is now one of our subsidiary companies, and the Company wishes to respect these existing arrangements.

Some of our Non-Executive Directors have, prior to the listing of our shares on the New York Stock Exchange, received options to purchase shares of a Bermuda holding company which indirectly owns a majority of our shares and the options can be converted into our shares or options to purchase our shares. See the Remuneration Policy for a more detailed description of these stock options.

In connection with the acquisition of AerCap B.V., one of our predecessors, by AerCap Holdings C.V. our Executive Director received options to purchase shares of a Bermuda holding company which indirectly owns a majority of our shares. These options have fully vested and can be exercised as from 28 November 2008 and our Executive Director has the right, subject to certain limitations, to exchange these shares in our indirect shareholders in Bermuda, for ordinary shares in our Company. These options were not granted by the Company and the Company wishes to respect existing arrangements. See the Remuneration Policy for a more detailed description of these stock options.

### *Independence*

Our Board of Directors currently consists of nine directors, eight of whom are non-executive directors and are independent under the independence definition III.2.2 of the Code.

### *Committees of the Board of Directors*

In order to more efficiently fulfil its role, and in compliance with the Netherlands Corporate Governance Code, the Board has created the following committees: a Group Executive Committee, a Group Portfolio and Investment Committee, a Group Treasury and Accounting Committee, an Audit Committee and a Nomination and Compensation Committee. What follows is more detailed description of the Audit Committee and the Nomination and Compensation Committee.

The Code requires the Board to have three committees: an audit committee, a compensation committee and a nomination committee. We have combined the functions of the compensation committee with those of the nomination committee. We have only one executive director. Having a compensation committee with respect to the remuneration of only that one executive director would be inefficient and unnecessary costly. Under the Code the Chairman of the Board shall not chair the compensation committee; he may, however, chair the nomination committee. Given the fact that we have combined both committees - so that there is no direct departure from the Code - and also having regard to the fact that the Chairman of the Board is very familiar with executive compensation in The Netherlands, we believe that the Chairman of the Board is the best person to chair the Nomination and Compensation committee.

Our *Audit Committee* assists the Board of Directors in fulfilling its responsibilities relating to the integrity of our financial statements, our risk management and internal control arrangements, our compliance with legal and regulatory requirements, the performance, qualifications and independence of external auditors, and the performance of the internal audit function. The Audit Committee is chaired by a person with the necessary qualifications who is appointed by the Board of Directors and is comprised of three Non-Executive Directors who are "independent" as defined by Rule 10A-3 of the Securities Exchange Act of 1934, as amended, as well as under The Netherlands Corporate Governance Code. The current members of our Audit Committee are Marius Jonkhart, James Chapman and Ronald Bolger.

The Audit Committee meets periodically to nominate a firm to be appointed as independent auditors to audit the financial statements and to perform services related to the audit, review the scope and results of the audit with the independent auditors, review with management and the independent auditors our annual operating results and consider the adequacy of the internal accounting procedures and the effect of the procedures relating to the auditor's independence.

As recommended by the Sarbanes-Oxley Act and the Netherlands Corporate Governance Code, we intend for the Audit Committee to include at least one Financial Expert, who must have in-depth experience and knowledge of financial statements, international accounting principles and internal controls and procedures for financial reporting. The Board has concluded that Mr. Ron Bolger meets these requirements.

Our Audit Committee met two times during 2006. In addition, throughout the year, the members of the audit committee were in close contact with our Executive Officers. Principal items discussed during the meetings and through contacts with our Executive Officers included, the functioning of the audit committee, the audit committee charter and the audit committee cycle, the functioning of the internal audit function and its priorities for 2006, and the progress towards Sarbanes Oxley compliance, the progress of the Company's initial public offering, the results of the Company's operations during the year and the outlook for future periods and the independent auditor's audit plan for 2006.

Our *Nomination and Compensation Committee* selects, recruits and determines the remuneration, bonuses and other terms of employment of candidates for the positions of the Chief Executive Officer, non-executive director and Chairman of the Board of Directors, approves the remuneration, bonuses and other terms of employment and appoints the members of the Group Portfolio and Investment Committee, the Group Treasury and Accounting Committee and the Group Executive Committee and recommends candidates for the Audit Committee and plans the succession within the Board of Directors and committees. It is chaired by the Chairman of our Board of Directors and is comprised of three Non-Executive Directors appointed by the Board of Directors. The current members of our Nomination and Compensation Committee are Brett Ingersoll, Marius Jonkhart and Pieter Korteweg.

Our Nomination and Compensation Committee met two times during 2006. During such meetings it discussed and approved changes to the Company's bonus and incentive plans and the 2007 Salary and Bonus scheme for members of the Group Executive Committee, all within the limits of our remuneration policy. As per best practice II.2.13 of the Netherlands Corporate Governance Code, the Company has included the 2006 remuneration report in this Annual Report.

***Reporting of trading in Netherlands listed companies.***

The members of our Board are aware of the limitations under Netherlands and U.S. law that apply to trading in listed securities when one is in the possession of material non-public information. As per our policies there is quarterly internal reporting by these persons of all trading in securities of all Netherlands listed companies. This policy has been in place since September 27, 2006 as part of our Board Rules and the members of the board have reported their trading in securities of Netherlands listed companies for the fourth quarter of 2006 to the compliance officer.

***Profile of the Board.***

Given the recent appointment of the Directors, the Company has not prepared a profile of the Board yet as per the Netherlands Corporate Governance Code III.3.1. A profile will be prepared by the Board during 2007 and shall be submitted to the 2007 Annual General Meeting (to be held in 2008) for approval. Any (re)appointment to the Board shall be based on consistency with such Board Profile. On reappointment, account must be taken of the candidate's performance in the past period. A Board member who is available for reappointment must be interviewed by the chairman of the Board Nomination and Compensation Committee Any new Board members will serve a four-year term and Board members may be re-elected twice.

**Internal Risk Management and Control Framework**

Management is responsible for designing, implementing and operating an adequate functioning internal risk management and control framework in the Company. The purpose of this framework is to identify and manage the strategic, operational, financial and compliance risks to which we are exposed, to promote effectiveness and efficiency of our operations, to promote reliable financial reporting and to promote compliance with laws and regulations. Our internal risk management and control framework is based on the COSO framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (1992). The COSO framework aims to provide reasonable assurance regarding effectiveness and efficiency of an entity's operations, reliability of financial reporting, prevention of fraud and compliance with laws and regulations.

Our internal risk management and control framework has the following key components:

***Planning and control cycle***

The planning and control cycle consists of an annual budget and business plan prepared by management and approved by our Board of Directors, quarterly forecasts and operational reviews and monthly financial reporting.

***Code of Conduct and Whistleblower Policy***

Our Code of Conduct is applicable to all our employees, including the Chief Executive Officer, Chief Financial Officer and controllers. It is designed to promote honest and ethical conduct and timely and accurate disclosure in our periodic financial results. Our Whistleblower Policy provides for the reporting of alleged violations of the Code of Conduct and alleged irregularities of a financial nature by our employees or other stakeholders without any fear of reprisal against the individual that reports the violation or irregularity.

***Disclosure Controls and Procedures***

The Disclosure Committee assists management in overseeing our disclosure activities and to ensure compliance with applicable disclosure requirements arising under U.S. and Netherlands law and regulatory requirements. The Disclosure Committee obtains information for its recommendations from the

Company's operational and financial reviews, internal letters of representation, input from the documentation and assessment of our internal controls over financial reporting and input from risk management activities during the year. The Disclosure Committee comprises various members of senior management and makes recommendations to our Chief Executive Officer and Chief Financial Officer relating to their certification obligations under Section 302 of the Sarbanes-Oxley Act.

***Risk Management and Internal Controls***

We have implemented financial policies and procedures, including accounting policies, and non-financial policies and procedures to ensure control by the Management Board over our operations. Managing directors and finance directors of our main subsidiaries annually sign a detailed letter of representation with regard to financial reporting, internal controls and ethical principles.

We are currently expanding our risk management policies, internal control documentation and assessment of such internal controls to provide further assurance regarding the reliability of our financial reporting. We are assessing our internal controls over financial reporting to comply with Section 404 of the Sarbanes-Oxley Act, beginning with our Annual Report on Form 20-F for the year ending December 31, 2007. Accordingly, we are documenting, evaluating, and expanding as necessary our internal control systems over financial reporting to enable us to comply by December 31, 2007. The internal assessment of our internal controls over financial reporting to comply with Section 404 of the Sarbanes-Oxley Act must be attested by our independent registered public accounting firm.

We have further enhanced our identification and assessment of our strategic, operational, financial, financial reporting, and compliance risks and are in the process of rolling these processes out to our operating entities and embedding them in our standard business processes. This includes our AeroTurbine business, although, we are less advanced in our efforts with this subsidiary than other segments of the AerCap business due to the recent nature of this acquisition.

The results of these assessments, thus far, have been discussed with our Audit Committee.

Based on an evaluation and recommendation by the Disclosure Committee, the Chief Executive Officer and the Chief Financial Officer have concluded that the design and operation of our disclosure controls and procedures were effective as of December 31, 2006 and that subsequently there have been no changes in our internal controls over financial reporting or in other factors that could significantly affect those controls. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements, inaccuracies, errors, fraud and non-compliance with law and regulation. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. We are therefore not in a position to give an unqualified statement within the meaning of best practice provision II.1.4 of the Code.

The aforementioned statement by the Board does not imply a statement regarding the adequacy and effectiveness of AerCap's internal controls over financial reporting as required by the Sarbanes-Oxley Act Section 404.

***Controls and Procedures Statement Under the Sarbanes-Oxley Act***

As discussed above, we have undertaken significant steps to improve the adequacy and effectiveness of our internal controls over financial reporting and the documentary evidence thereof in preparation for compliance with the requirements of section 404 of the Sarbanes-Oxley Act of 2002. The scope of this project includes assessment of and, where necessary, strengthening of our policies, procedures, systems and personnel with respect to financial reporting under both Dutch and US GAAP.

As of the end of the period covered by this report, our management (with the participation of our Chief Executive Officer and Chief Financial Officer) conducted an evaluation pursuant to section 302 of the US Sarbanes-Oxley Act and Rule 13a-15 promulgated under the US Securities Exchange Act of 1934, as amended of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, such disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the US Securities Exchange Act on 1934, as amended is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

**Our Auditors**

Our external auditor is responsible for auditing the financial statements. Following the recommendation by the Audit Committee and upon proposal by the Board of Directors, the General Meeting of Shareholders appoints each year the auditor to audit the financial statements of the current financial year. The external auditor reports to our Audit Committee. The external auditor is present at the meetings of the Audit Committee when our quarterly and annual results are discussed.

At the request of the Board of Directors and the Audit Committee, the Chief Financial Officer and the Internal Audit department review, in advance, each service to be provided by the auditor to identify any possible breaches of the auditor's independence. The Audit Committee pre-approves every engagement of our external auditor.

Our Board rules determine that when the responsible partner of the external audit firm has been in charge of the audit activities during a four year period without rotation, will have a conflict of interest with the Company. The current responsible partner has been appointed in the year 2006 for the first time.

**Annual General Meeting of Shareholders**

A general meeting of shareholders is held each year to discuss the annual report and to adopt the annual accounts. Extraordinary meetings will be held as often as the Board of Directors deems desirable.

**Protective measures**

There are no protective devices against takeovers in place.

## Remuneration Report

This remuneration report is based on the remuneration policy of AerCap Holdings N.V. The remuneration policy was adopted by the Board of Directors and approved by the shareholders meeting on 16 November 2006. Since AerCap Holdings N.V. is only in operation since October 2006, the Board of Directors intends on conducting a review of the remuneration policy and expects to propose a more extensive remuneration policy at the 2007 Annual General Meeting of Shareholders to be held in 2008. This remuneration report is applicable to members of our Board of Directors. The remuneration for non-executive directors consists of annual fees for membership on the boards and annual fees for membership or chair activities of the committees of the Board of Directors. The remuneration of our one executive director consists of base salary, annual incentive bonus, long-term incentives (restricted share or share option plans) pension and other arrangements.

***Non-Executive Directors***

We currently pay each non-executive director who is not affiliated with Cerberus an annual fee of €75,000 and pay each of these directors an additional €2,000 per meeting. We pay our Chairman of our Board of Directors €150,000 per year. In addition, we pay the chairs of the Audit Committee and

Nomination and Compensation Committee an annual fee of € 18,000 and each committee member will receive an annual fee of €6,000 and a fee of €2,000 per committee meeting. All members of the Board of Directors are reimbursed for reasonable costs and expenses incurred in attending meetings of our Board of Directors. Certain of our board members have been granted options in holding companies which have a

majority stake in our shares as described below. The table below indicates the total remuneration paid to our non-executive directors during 2006:

| | Director fees |
|---|---|
| P. Korteweg | € 180,000 |
| J. Chapman | € 109,000 |
| M. Jonkhart | € 123,000 |
| R. Bolger | € 121,000 |

***Executive Director***

During 2006, we paid Mr. Heinemann, our only executive director, an annual base salary of €375,000 and we accrued for the payment of an annual incentive bonus of €600,000 which was paid in February 2007. Mr. Heinemann's base salary for 2007 is set at €375,000 and his 2007 target bonus is €500,000. This compensation package was derived based on our understanding of comparable compensation packages for similar-sized competitors in our industry. We believe that the ratio of fixed and variable/incentive compensation is reasonable and provides an appropriate level of incentive compensation to promote the achievement of established targets. The targets established in relation to the incentive compensation relate primarily to the achievement of full-year net income targets. Incentive compensation is determined and paid once each quarter after publication of the Company's quarterly operating results. In addition to base salary and incentive compensation, Mr. Heinemann participates in the Company's defined benefit pension plan. The Company made contributions to the defined benefit plan in 2006 for Mr. Heinemann of €105,000. In addition to the remuneration above, Mr. Heinemann received other employment benefits such as a health benefits and a company car allowance which were not material to his total remuneration in 2006. Mr. Heinemann's employment contract expires on July 3, 2009. His employment contract includes a severance clause that grants him 18-months of base salary, benefits and bonus (based on the average of the three prior year bonuses) payments in the event that he does not renew his employment contract at its expiration or is terminated without cause or voluntarily leaves for good reason (as such terms are defined in the employment agreement). As described below, Mr. Heinemann has been granted share options in holding companies which have a majority stake in our shares as described below.

***Restricted Shares and Share Options***

Bermuda holding companies (the "Bermuda Parents") which indirectly hold a majority stake in our shares have implemented an equity incentive plan that is designed to motivate and retain individuals who are responsible for the attainment of our primary long-term performance goals. The plan provides for the grant of nonqualified stock options, incentive stock options for shares of common stock and restricted shares of common stock of the Bermuda Parents to participants of the plan selected by the boards of directors of the Bermuda Parents or a committee of each of their respective boards of directors or the administrator of the plan. Subject to certain adjustments, the maximum number of shares available to be granted under the plan is equal to 25% of the outstanding common shares of the Bermuda Parents. All options issued under the plan are exercisable for a period of ten years from their issuance.

All shares and options granted under the Bermuda Parents equity incentive plan vested after completion of our initial public offering in November 2006, except for options outstanding to three members of management issued originally in August and September of 2006. Even after vesting, pursuant to a shareholders agreement, all vested common shares and options to purchase common shares of the Bermuda Parents issued under the plan (other than common shares held by the former AeroTurbine owners and our directors) are subject to repurchase by the Bermuda Parents in the event the manager or director leaves his or her position without good cause or is terminated by us with cause, at a price equal to the lower of the cost or fair value until the termination of the two-year lock-up period described below. All common shares and options to purchase common shares are also subject to repurchase at fair value if the manager or director leaves for any other reason. The common shares of the Bermuda Parents are also subject to Cerberus's drag-along rights and the plan participant's tag-along rights in the event of certain transactions involving sales of the common shares of the Bermuda Parents.

In connection with our initial public offering, the members of our senior management and directors who have received shares or options to purchase shares of the Bermuda Parents under the Bermuda Parents equity incentive plan agreed not to offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of any of our ordinary shares directly held by them or indirectly held through the Bermuda Parents. Subject to limited exceptions, the lock-up is for a period of two years from the date our initial public offering was consummated. In addition, the members of our senior management and directors holding common shares of the Bermuda Parents also have received the right, beginning on the second anniversary of the consummation of this offering and ending on the fifth anniversary, to exchange Bermuda Parents common shares for our ordinary shares held by the selling shareholders in amounts representing their indirect interest in us held through the Bermuda Parents. To assist our management and directors in the resale of our ordinary shares to be held by them upon such exchange, we have agreed to file a registration statement and use commercially reasonable efforts to keep the registration statement continuously effective until all applicable ordinary shares have been sold or can be sold without registration under Rule 144(k) under the Securities Act.

The table below includes a summary of Bermuda Parent shares and share options outstanding at December 31, 2006. The share numbers in the table represent the equivalent number of our shares into which the Bermuda Parent shares and share options are exercisable.

| | Restricted shares(a) | Vested Options Subject to No Strike Price | Vested Options Subject to $7.00 Strike Price | Unvested Options Subject to $7.00 Strike Price |
|---|---|---|---|---|
| **Executive Director:** | | | | |
| K. Heinemann | 381,082.07 | 1,405,690.01(b) | — | — |
| **Non-Executive Directors:** | | | | |
| P. Korteweg | — | 84,195.59(c) | — | — |
| J. Chapman | — | 84,195.59(c) | — | — |
| M. Jonkhart | — | 42,097.80(c) | — | — |
| R. Bolger | — | 42,097.80(c) | — | — |
| **All other employees** | 5,312,332.37 | 129,755.92(b) | 97,317.00(c) | 145,975.50(c) |

(a) These restricted shares were issued in December 2005. All restrictions, other than repurchase restrictions discussed above lapsed in connection with the Company's initial public offering.

(b) These options were issued in December 2005 and vested fully in connection with the Company's initial public offering.

(c) These options were issued in August/September 2006. The vested portion vested in connection with our initial public offering and the satisfaction of certain time-based criteria. The unvested portion will vest through December 31, 2009 based partially on the satisfaction of time-based criteria and partially based on performance criteria which has yet to be established by the Nomination and Compensation committee.

Amsterdam, March 20, 2007

| | |
|---|---|
| Pieter Korteweg | /s/ PIETER KORTEWEG |
| Ronald J. Bolger | /s/ RONALD J. BOLGER |
| James N. Chapman | /s/ JAMES N. CHAPMAN |
| Klaus W. Heinemann | /s/ KLAUS W. HEINEMANN |
| W. Brett Ingersoll | /s/ W. BRETT INGERSOLL |
| Marius J.L. Jonkhart | /s/ MARIUS J.L. JONKHART |
| Gerald P. Strong | /s/ GERALD P. STRONG |
| David J. Teitelbaum | /s/ DAVID J. TEITELBAUM |
| Robert G. Warden | /s/ ROBERT G. WARDEN |

## AerCap Holdings N.V. and Subsidiaries

## Consolidated Balance Sheets

## As of December 31, 2005 and 2006
## (After proposed profit appropriation)

| | Note | December 31, 2005 | December 31, 2006 |
|---|---|---|---|
| | | (US dollars in thousands except share amounts) | |
| **Assets** | | | |
| Cash and cash equivalents | | $ 183,554 | $ 131,201 |
| Restricted cash | 3 | 157,730 | 112,277 |
| Trade receivables, net of provisions of $3,405 and $2,496 | 4 | 6,575 | 25,058 |
| Flight equipment held for operating leases, net | 5 | 2,537,822 | 3,273,329 |
| Net investment in direct finance leases | 6 | 1,072 | — |
| Notes receivable, net of provisions, of $2,563 and nil | 7 | 49,848 | 5,300 |
| Prepayments on flight equipment | 8 | 115,657 | 166,630 |
| Investments | 9 | 3,000 | 18,000 |
| Goodwill | 10 | — | 4,553 |
| Intangibles | 10 | 45,630 | 58,890 |
| Inventory | 11 | — | 82,811 |
| Derivative assets | 12 | 18,420 | 17,871 |
| Deferred income taxes | 17 | 29,739 | 47,752 |
| Other assets | 13 | 14,911 | 35,804 |
| **Total Assets** | | $ 3,163,958 | $ 3,979,476 |
| **Liabilities and Shareholders' Equity** | | | |
| Accounts payable | | $ 2,575 | $ 6,958 |
| Accrued expenses and other liabilities | 14 | 76,562 | 92,466 |
| Accrued maintenance liability | | 150,322 | 285,788 |
| Lessee deposit liability | | 56,386 | 77,686 |
| Debt | 15 | 1,989,713 | 2,336,360 |
| Accrual for onerous contracts | 16 | 152,634 | 111,333 |
| Deferred revenue | | 22,009 | 28,391 |
| Derivative liabilities | 12 | 8,087 | — |
| Deferred income taxes | 17 | 14,132 | 21,998 |
| Negative goodwill | | 271,875 | 237,762 |
| Commitments and contingencies | 24 | — | — |
| **Total Liabilities** | | 2,744,295 | 3,198,742 |
| Minority interest, net of taxes | | — | 31,937 |
| Ordinary share capital, €.01 par value (200,000,000 ordinary shares authorized, 78,236,957 and 85,036,957 ordinary shares issued and outstanding, respectively) | 18 | 646 | 699 |
| Additional paid-in capital | | 369,354 | 591,553 |
| Retained earnings | | 49,663 | 156,545 |
| **Total Shareholders' Equity** | | 419,663 | 748,797 |
| **Total Liabilities and Shareholders' Equity** | | $ 3,163,958 | $ 3,979,476 |

The accompanying notes are an integral part of these consolidated financial statements.

## AerCap Holdings N.V. and Subsidiaries

## Consolidated Income Statements

## For the Period from June 27, 2005 to December 31, 2005 and the Year Ended December 31, 2006

| | Note | Period from June 27, 2005 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|---|
| | | (US dollars in thousands, except share and per share amounts) | |
| **Revenues** | | | |
| Lease revenue | 20 | $ 173,568 | $ 440,609 |
| Sales revenue | | 12,489 | 301,405 |
| Management fee revenue | | 7,674 | 14,072 |
| Interest revenue | | 16,225 | 25,834 |
| Other revenue | | 1,006 | 20,336 |
| **Total Revenues** | | 210,962 | 802,256 |
| **Expenses** | | | |
| Depreciation | 5 | 49,000 | 102,387 |
| Cost of goods sold | | 10,574 | 225,333 |
| Goodwill amortization | 10 | — | 212 |
| Interest on debt | 15 | 40,632 | 157,372 |
| Operating lease in costs | 16 | 11,441 | 25,232 |
| Leasing expenses | | 12,213 | 47,394 |
| Provision for doubtful notes and accounts receivable | 4,7 | 3,002 | (186) |
| Selling, general and administrative expenses | 19,21 | 26,949 | 149,364(a) |
| **Total Expenses** | | 153,811 | 707,108 |
| **Income before income taxes and minority interest** | | 57,151 | 95,148 |
| Provision for income taxes | 17 | (7,488) | 11,146 |
| Minority interest, net of taxes | | — | 588 |
| **Net Income** | | $ 49,663 | $ 106,882 |
| Basic and diluted earnings per share | 22 | $ 0.63 | $ 1.35 |
| Pro forma, weighted average shares outstanding, basic and diluted | | 78,236,957 | 78,992,513 |

(a) Includes share-based compensation of $78,635

The accompanying notes are an integral part of these consolidated financial statements.

## AerCap Holdings N.V. and Subsidiaries

## Consolidated Statements of Cash Flows

## For the Period from June 27, 2005 to December 31, 2005 and the Year Ended December 31, 2006

| | Period from June 27, 2005 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|
| | (US dollars in thousands) | |
| Net Income | $ 49,663 | $ 106,882 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Minority interest | | (588) |
| Depreciation | 49,000 | 102,387 |
| Amortization of debt issuance costs | 566 | 11,777 |
| Amortization of intangibles | 6,882 | 12,241 |
| Impairment of flight equipment for operating lease | — | — |
| Goodwill impairment and amortization | — | 212 |
| Provision for doubtful notes and accounts receivable | 3,002 | (186) |
| Capitalized interest on pre-delivery payments | (2,767) | (4,888) |
| Release of provision against debt | — | (4,139) |
| Gain on disposal of assets | (2,645) | (62,664) |
| Mark-to-market of non-hedged derivatives | (19,028) | (9,166) |
| Deferred taxes | 7,019 | (10,147) |
| Share-based compensation | — | 78,635 |
| **Changes in assets and liabilities:** | | |
| Trade receivables and notes receivable, net | 3,331 | 30,299 |
| Inventories | — | (24,216) |
| Other assets and derivative assets | 857 | (8,017) |
| Accounts payable and accrued expenses, including accrued maintenance liability, lessee deposits | 5,408 | 124,853 |
| Deferred revenue | 2,349 | 5,104 |
| **Net cash provided by operating activities** | 103,637 | 348,379 |
| Purchase of flight equipment | (124,191) | (879,497) |
| Proceeds from sale/disposal of assets | 12,718 | 253,199 |
| Principle repayments from investments | — | — |
| Prepayments on flight equipment | (26,604) | (93,708) |
| Purchase of subsidiaries, net of cash acquired | (1,245,609) | (143,100) |
| Purchase of investments | — | (15,000) |
| Purchase of intangibles | — | (10,636) |
| Movement in restricted cash | (47,573) | 45,453 |
| **Net cash used in investing activities** | (1,431,259) | (843,289) |
| Issuance of debt | 2,231,633 | 908,077 |
| Repayment of debt | (1,052,494) | (607,721) |
| Debt issuance costs paid | (38,066) | (32,940) |
| Issuance of equity interests | 370,000 | 143,617 |
| Dividends paid to minority interests | — | (225) |
| Capital contributions from minority interests | — | 32,750 |
| **Net cash provided by financing activities** | 1,511,073 | 443,558 |
| Net increase (decrease) in cash and cash equivalents | 183,451 | (51,352) |
| Effect of exchange rate changes | 103 | (1,001) |
| Cash and cash equivalents at beginning of period | — | 183,554 |
| **Cash and cash equivalents at end of period** | $ 183,554 | 131,201 |
| **Supplemental cash flow information:** | | |
| Interest paid | $ 54,980 | 145,793 |
| Taxes (refunded) paid | (605) | 267 |

| *Fair values of assets acquired and liabilities assumed in purchase acquisitions* | AerCap B.V. | Aero Turbine |
|---|---|---|
| Assets acquired | $ 2,838,918 | $ 305,321 |
| Liabilities assumed | (1,469,641) | (160,619) |
| Cash paid | $ 1,369,277 | $ 144,702 |

**AerCap Holdings N.V. and Subsidiaries**

**Consolidated Statements of Shareholders' Equity**

**For the Period from June 27, 2005 to December 31, 2005 and the Year Ended December 31, 2006.**

| | Number of shares | Share capital | Additional paid-in capital | Retained earnings | Total shareholders' equity |
|---|---|---|---|---|---|
| **Period from June 27, 2005 to December 31, 2005** | | | | | |
| Balance at June 27, 2005 | — | — | — | — | — |
| Issuance of equity capital | 78,236,957 | $646 | $369,354 | | $370,000 |
| Net income for the year | | | | 49,663 | 49,663 |
| Balance at December 31, 2005 | 78,236,957 | $646 | $369,354 | $ 49,663 | $419,663 |
| **Year ended December 31, 2006** | | | | | |
| Balance at January 1, 2006 | 78,236,957 | $646 | $369,354 | $ 49,663 | $419,663 |
| Issuance of equity capital in public offering | 6,800,000 | 53 | 143,564 | | 143,617 |
| Share-based compensation | | | 78,635 | | 78,635 |
| Net income for the year | | | | 106,882 | 106,882 |
| Balance at December 31, 2006 | 85,036,957 | $699 | $591,553 | $156,545 | $748,797 |

As described in Note 1 and Note 18, because our conversion from a Netherlands limited partnership to a Netherlands public limited liability company was accomplished in a common control transaction, we have retroactively reflected our capital structure from the date of the acquisition of the group by AerCap Holdings C.V. on June 30, 2005, as if the group were owned by AerCap Holdings N.V. based on 78,236,957 shares outstanding.

The accompanying notes are an integral part of these consolidated financial statements.

## 1. General

### The Company

We are an integrated global aviation company, conducting aircraft and engine leasing and trading and parts sales. We also provide a wide range of aircraft management services to other owners of aircraft. We are headquartered in Amsterdam, The Netherlands, and have offices in Shannon, Ireland, Ft. Lauderdale and Miami, Florida and Goodyear, Arizona.

These consolidated financial statements include the accounts of AerCap Holdings N.V. and its subsidiaries. AerCap Holdings N.V. is a Netherlands public limited liability company ("naamloze vennootschap") formed on July 10, 2006 for the purpose of acquiring all of the assets and liabilities of AerCap Holdings C.V. AerCap Holdings C.V. is a limited partnership ("*commanditaire vennootschap*") formed under the laws of The Netherlands on June 27, 2005 for the purposes of acquiring the share capital, subordinated debt and senior debt of debis AirFinance B.V. ("AerCap B.V."), which occurred on June 30, 2005. In anticipation of our initial public offering, we changed our corporate structure from a Netherlands partnership to a Netherlands public limited liability company. This change was effected through the acquisition of all of the assets and liabilities of AerCap Holdings C.V. by AerCap Holdings N.V. on October 27, 2006. This acquisition was a transaction under common control and accordingly, AerCap Holdings N.V. recognized the acquisition of the assets and liabilities of AerCap Holdings C.V. at their carrying values and no goodwill or other intangible assets were recognized.

These consolidated financial statements are presented as if AerCap Holdings N.V. had been the acquiring entity of AerCap B.V. on June 30, 2005. On November 27, 2006, we completed an initial public offering of 6,800,000 of our common shares at $23 per share (Note 18) generating net proceeds of $143,017 which we used to repay debt.

### Acquisition of AeroTurbine, Inc.

On April 26, 2006 we purchased all of the existing share capital of AeroTurbine, Inc ("AT"). AT has been included in our consolidated financial statements from April 26, 2006. AT is engaged primarily in the distribution of turbojet aircraft, aircraft engines, and aircraft parts as well as the sale, lease and overhaul management of engines to the commercial aviation industry worldwide. AT is headquartered in Miami, Florida and has a location in Goodyear, Arizona. We acquired AT in order to diversify our investments in aviation assets and to give us a more significant presence in the market for older equipment. The total cash payment for the purchase was $144,702 including acquisition expenses. The consideration for the purchase was funded through cash from our operations of $70,946 and $73,756 of cash raised from refinancing AT's existing debt. The new financing totaled $175,000 and included $160,000 of senior unsecured debt, $15,000 of subordinated debt and a revolving credit facility of $171,000 to fund future growth. As discussed further in Note 18, we used the net proceeds from our initial public offering plus group cash to fully pre-pay the AT senior and subordinated debt. At the time of the prepayment of the AT senior and subordinated debt, we amended and restated the terms of the senior and subordinated facility and increased the availability under the revolving credit facility to $220,000.

**(US dollars in thousands)**

**1. General (Continued)**

We have allocated the purchase price to the assets acquired and liabilities assumed as of the date of the acquisition as indicated in the table below:

| | Fair Values Acquired |
|---|---|
| Cash and cash equivalents | $ 1,601 |
| Equipment held for operating lease, net | 158,820 |
| Inventory | 49,874 |
| Intangible assets | 25,600 |
| Goodwill | 38,199 |
| Property and equipment | 7,896 |
| Other | 23,331 |
| **Total assets** | 305,321 |
| Debt | 93,104 |
| Deferred taxes | 46,315 |
| Other | 21,200 |
| **Total liabilities** | 160,619 |
| **Total consideration paid** | $144,702 |

The total amount of goodwill has been allocated to the Engine and Parts segment and is not tax deductible. The goodwill will be amortized over 15 years which is the estimated economic life. A summary of the intangible assets acquired is as follows:

| | Estimated fair value | Estimated useful lives in years |
|---|---|---|
| Customer relationship—parts | $19,800 | 10 |
| Customer relationship—engines | 3,600 | 10 |
| FAA certificate | 1,100 | 15 |
| Non-compete agreement | 1,100 | 6 |

Amortization of the customer relationship intangibles is based on the anticipated sales in the periods after the AT acquisition of both parts and engines which benefit from such relationships. Amortization of the FAA certificate is straight-line over 15 years, the remaining estimated useful life of the engine type to which the repair station certificate relates. Amortization of the non-compete agreement is straight-line over six years, which is the sum of the term of the employment agreements of the related individuals and the term of the non-compete agreements.

**Acquisition of AerCap B.V.**

On June 30, 2005, Cerberus through AerCap Holdings C.V. purchased all of the share capital of AerCap B.V. from DaimlerChrysler Coordination Center SCS, DaimlerChrysler Aerospace AG, Bayerische Landesbank Girozentrale, DZ BANK AG Deutsche-Zentral-Genossenschaftsbank, Dresdner Bank AG in Frankfurt am Main, HVB Banque Luxembourg Société Anonyme (collectively, the "Previous Shareholders") and Kreditanstalt für Wiederaufbau (collectively with the Previous Shareholders, the

**(US dollars in thousands)**

**1. General (Continued)**

"Previous Shareholder Lenders"), as well as the rights and obligations of the Previous Shareholder Lenders under certain subordinated and senior debt instruments under which AerCap B.V. was obligated (the "2005 Acquisition").

The 2005 Acquisition was effected through an all-cash payment of $1,291,493 to the Previous Shareholder Lenders. $1,000,000 of the purchase price was financed through a term loan from a syndicate of lenders and arranged by a US investment bank. The remainder was financed from equity capital contributed by Cerberus. The 2005 Acquisition by Cerberus and its affiliates is accounted for as a purchase.

The sources and uses of funds in connection with the 2005 Acquisition are summarized below:

| | |
|---|---|
| *Sources:* | |
| Proceeds from secured term loan | $ 1,000,000 |
| Proceeds from equity capital invested | 370,000 |
| Total sources | 1,370,000 |
| *Uses:* | |
| Payment to Previous Shareholder Lenders | (1,291,493) |
| Transaction costs | (42,733) |
| Additional equity contribution to AerCap B.V. | (35,051) |
| | (1,369,277) |
| Remaining cash | $ 723 |

We have allocated the purchase price to the assets acquired and liabilities assumed as of the date of the acquisition as indicated in the table below:

| | Fair Values Acquired |
|---|---|
| Flight equipment held for operating lease | $2,445,195 |
| Prepayments on flight equipment | 119,200 |
| Intangible lease premium | 53,388 |
| Deferred tax asset | 22,626 |
| Cash and cash equivalents | 123,668 |
| Other | 206,645 |
| **Total assets** | 2,970,722 |
| Accrued maintenance liability | 135,113(a) |
| Debt | 847,084 |
| Negative goodwill | 281,407 |
| Other | 337,841 |
| **Total liabilities** | 1,601,445 |
| **Cash paid** | $1,369,277 |

(a) Represents the present value effect of our legal obligation to: (i) release supplemental rent collected by the lessor for maintenance incurred; and (ii) contribute to lessor maintenance obligations.

## 1. General (Continued)

### Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, profits and balances among group companies and other consolidated legal persons are eliminated. Unrealized losses on intercompany transactions are eliminated as well, unless such a loss qualifies as impairment. The accounting policies of group companies and other consolidated legal persons were changed where necessary, in order to align them to the prevailing group accounting policies.

In January 2006, we sold a 50% equity interest in AerVenture Ltd. ("AerVenture"), previously a wholly-owned entity, to LoadAir, a subsidiary of Al Fawares, an investment and construction company based in Kuwait. AerVenture has contracted with Airbus for the delivery of up to 70 A320 family aircraft between November 2007 and August 2010, with the intent of leasing these aircraft to third parties. The agreement with the other shareholders requires us to make certain specified equity contributions and additional equity capital available to AerVenture depending on capital needs in the future. We have entered into agreements to provide management and marketing services to AerVenture in return for management fees. We have determined that AerVenture is a special purpose entity for which we exercise control. As such, we have continued to consolidate AerVenture in our accounts.

In April 2006, we signed an agreement with Deucalion to form Bella in which we hold a 50% equity interest. Bella was formed to purchase two used Airbus A330-322 aircraft for leasing. These aircraft were purchased in April and May 2006 and have subsequently been leased to third parties. We have entered into agreements to provide to Bella aircraft management and marketing services in return for management fees. We have determined that Bella is a special purpose entity for which we exercise control. As such, we have consolidated Bella into our accounts.

As further discussed in Note 15, we hold equity and subordinated debt investments in ALS and AerFunding. ALS and AerFunding are special purpose entities which, as we exercise control, we consolidate the accounts of ALS and AerFunding in our accounts since their inception dates.

### Investments in unconsolidated joint ventures

In May 2006, we signed an agreement with China Aviation Supplies Import and Export Group Corporation and affiliates of Calyon establishing AerDragon. AerDragon is 50% owned by China Aviation and 25% owned by each of us and Calyon. The joint venture did not own any aircraft at December 31, 2006, but purchased an aircraft from Airbus in February 2007 through an assignment of our purchase right under our 1999 Forward Order. We provide aircraft management services to AerDragon in return for fees. As of December 31, 2006, we have determined that we exercise significant influence but do not exercise control over AerDragon and accordingly, we account for our investment in AerDragon according to the net asset value.

## 1. General (Continued)

### Risks and uncertainties

We are dependent upon the viability of the commercial aviation industry, which determines our ability to service existing and future operating leases of our aircraft and engines and our ability to sell aircraft and engines parts. The global airline industry has experienced passenger growth in the last two years, which has led to increased demand for new aircraft and a strengthening of lease rates in most aircraft categories. The continued growth of the global aviation industry is dependent on several factors, most notably sustained global GDP growth and price stability in the oil markets. Substantial increases in jet kerosene prices in recent years has caused a depression in airline earnings and in some cases liquidity shortages. The impact of continued or rising oil prices as well as overcapacity and high levels of competition in some geographical markets may create occasional unscheduled lease returns and possible supply surpluses, which may create pressure on rentals and aircraft and engine values. The value of the largest asset on our balance sheet—flight equipment held for operating leases—is subject to fluctuations in the values of commercial aircraft and engines worldwide. A material decrease in aircraft or engine values could have a downward effect on lease rentals and residual values and may require that the carrying value of our flight equipment be materially reduced. In addition, if we are not able to sell our existing parts and engine inventory, we may be required to reduce the carrying value of such inventory through impairment charges.

The values of trade receivables, notes receivable, intangible lease premium assets and the accrual for onerous contracts are dependent upon the financial viability of related lessees, which is directly tied to the health of the commercial aviation market worldwide.

We have significant tax losses carried forward in some of our Irish and Swedish subsidiaries, which are recognized as tax assets on our balance sheets. The recoverability of these assets is dependent upon the ability of the Irish and Swedish entities to generate a certain level of taxable income in the future. If those entities cannot generate such taxable income, we will not recover those tax assets.

We expect to fund a significant portion of our forward order delivery obligations (Note 8) through borrowings secured by the related aircraft. The unavailability to us of such secured borrowings at the time of delivery could have a material impact on our ability to meet our obligations under the forward order contract. If we cannot meet our obligations under such contract, we will not recover the value of prepayments on flight equipment on our balance sheets and may be subject to other contract breach damages.

We periodically perform reviews of the carrying values of our aircraft and customer receivables, the recoverable value of deferred tax assets and the sufficiency of accruals and provisions, substantially all of which are sensitive to the above risks and uncertainties.

### Related parties

All group companies mentioned in Note 27 are considered to be related parties. Transactions between group companies are eliminated upon consolidation.

## 1. General (Continued)

### Notes to the cash flow statement

The cash flow statement has been prepared applying the indirect method. The cash and cash equivalents in the cash flow statement comprise the balance sheet item cash and cash equivalents.

Receipts and payments of interest, dividends received and corporate income tax are included in the cash flow from operating activities. Dividends paid have been included in the cash flow from financing activities.

Investments in group companies are recognized at acquisition cost less cash and cash equivalents available in the company acquired at the time of acquisition.

## 2. Summary of significant accounting policies

### Basis for presentation

The consolidated financial statements were prepared in accordance with the statutory provisions of Part 9, Book 2, of the Netherlands Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board. The annual accounts are denominated in US Dollars, which is our functional and reporting currency. The income statement is presented in accordance with BW2 Title 9 Art. 402. These consolidated financial statements are presented as if AerCap Holdings N.V. had been the acquiring entity of AerCap B.V. on June 30, 2005.

Based on BW2 Title 9 Art. 362.4 the Company did not adopt the model formats for the balance sheets, the income statements or the statements of cash flows as prescribed by the Netherlands Civil Code. The current presentation of primary statements is applied by peers and we believe the use of these primary statements is necessary to provide sound judgment on the financial position and results of the Company.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred with exception of derivatives which are measured at fair value. The balance sheet and income statement include references to the notes.

The principles of valuation and determination of result remain unchanged compared to the prior year. Certain reclassifications have been made to prior years to reflect the current year presentation.

### Reclassifications

We have historically presented gain on sale of assets, including sales of financial assets or other assets, on a net basis, with the net book value of the asset being sold and related direct selling costs netted against sales consideration as gain on sale of assets. AT has historically derived a significant portion of its revenue from trading, and as a result, presented its asset sales on a gross basis as sales revenue, with the net book value of the asset sold and the amount of direct selling costs recorded as costs of good sold. As a result of the acquisition of AT, effective January 1, 2006, the Company has retroactively reclassified its presentation of sales of aircraft and engines on a gross basis and included net gains on sales of financial or other assets

(US dollars in thousands)

## 2. Summary of significant accounting policies (Continued)

in other revenue in its consolidated financial statements. The table below summarizes the effect of this change in the period from June 27, 2005 to December 31, 2005:

| | Under previous presentation | Reclassification | Under current presentation |
|---|---|---|---|
| Sales revenue | $ — | $12,489 | $12,489 |
| Net gain on sale of assets | 2,645 | (2,645) | — |
| Other revenue | 276 | 730 | 1,006 |
| Cost of goods sold | — | 10,574 | 10,574 |

### Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. For us, the use of estimates is or could be a significant factor affecting the reported carrying values of flight equipment, inventory, goodwill, investments, trade and notes receivable, deferred tax assets and accruals and reserves. Management utilize professional appraisers and valuation experts, where possible, to support estimates, particularly with respect to flight equipment. Despite management's best efforts to accurately estimate such amounts, actual results could materially differ from those estimates.

### Foreign currencies

Foreign currency transactions are translated into U.S. dollars, which is the currency of the primary economic environment in which the group operates, at the exchange rate prevailing at the time the transaction took place or at the rates of exchange under related forward contracts where such contracts exist. Subsequent receivables or payables resulting from such foreign currency transactions are translated into U.S. dollars at the exchange rate prevailing at each balance sheet date. All resulting exchange gains and losses are taken to the income statement.

### Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with an original maturity of less than twelve months.

### Restricted cash

Restricted cash includes cash held by banks that is subject to withdrawal restrictions.

### Trade receivables

Trade receivables represent unpaid, current lease obligations of lessees under existing lease contracts. Trade receivables are carried at the fair value of the consideration, usually its face value. Allowances are made for doubtful accounts where it is considered that there is a significant risk of non-recovery. The assessment of risk of non-recovery is primarily based on the extent to which amounts outstanding exceed

**2. Summary of significant accounting policies (Continued)**

the value of security held, together with an assessment of the financial strength and condition of a debtor and the economic conditions persisting in the debtor's operating environment.

**Flight equipment held for operating leases, net**

Flight equipment held for operating leases, including aircraft, is stated at cost less accumulated depreciation and impairment. Costs incurred in the acquisition of aircraft or related leases are included in the cost of the flight equipment and depreciated over the useful life of the equipment. In instances where the purchase price includes additional consideration which can be allocated to the value of an acquired lease containing above market terms, such allocated cost is amortized over the term of the related lease. The cost of improvements to flight equipment are normally expensed unless the improvement materially increases the long-term value of the flight equipment or extends the useful life of the flight equipment. In instances where the increased value benefits the existing lease, such capitalized cost is depreciated over the life of the lease. Otherwise, the capitalized cost is depreciated over the remaining useful life of the aircraft. Flight equipment acquired is depreciated over the assets' useful life, based on 25 years from the date of manufacture, using the straight-line method to the estimated residual value. The current estimates for residual (salvage) values for most aircraft types are 15% of original manufacture cost.

The estimates of useful lives are as follows:

| | |
|---|---|
| Stage III Aircraft | 20-25 years |
| Turboprop Aircraft | 20 years |

We depreciate current production model engines on a straight-line basis over a 15-year period from the acquisition date to an estimated residual value. Out-of-production engines are depreciated on a straight-line basis over an estimated useful life ranging from five to seven years to an estimated residual value. The carrying value of flight equipment that is designated for part-out is transferred to the inventory pool.

On each balance sheet date, the company tests whether there are any indications of assets being subject to impairment. If any such indications are present, the recoverable amount of the asset is determined. If this proves to be impossible, the recoverable amount of the cash generating unit to which the asset belongs is identified. An asset is subject to impairment if its carrying amount is higher than its recoverable value; the recoverable value is the higher of the net realizable value and the value in use.

Net realizable value is determined based on appraisers data and reference to an active market. Value in use, is determined as the present value of cash expected to be received from the aircraft in the future, including its expected residual value discounted at a rate commensurate with the associated risk. Future cash flows are assumed to occur under then current market conditions and assume adequate time for a sale between a willing buyer and a willing seller. Expected future lease rates are based on all relevant information available, including current contracted rates for similar aircraft, appraisal data and industry trends. Residual (salvage) value assumptions generally reflect an aircraft's booked residual, except where more recent industry information indicates a different value is appropriate.

If it is established that a previously recognized impairment no longer applies or has declined, the increased carrying amount of the assets in question is not set higher than the carrying amount that would have been determined had no asset impairment been recognized.

**2. Summary of significant accounting policies (Continued)**

**Leases**

*Operating leases*—Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

*Net investment in direct finance leases*—Net investment in direct finance leases where the Company acts as lessor consists of contracted lease receivables plus the expected residual value on lease termination date of equipment under finance lease less unearned income. Initial unearned income for newly acquired aircraft under finance lease is the amount by which the lease contract receivables plus the expected residual value exceeds the initial investment in the leased equipment at lease inception. In instances where the terms of a new aircraft lease agreement require the classification of the aircraft and related lease from a previous operating lease to a direct finance lease, initial unearned income under the finance lease is the difference between the lease contract receivable and the fair value of the equipment at the time of the new agreement. Unearned income is recognized as lease revenue over the lease term in a manner which produces a constant rate of return on the net investment in the finance lease.

**Notes receivable**

Notes receivable arise primarily from (i) the restructuring and deferring of trade receivables from lessees experiencing financial difficulties and (ii) the sale of aircraft to lessees where we finances a portion of the aircraft purchase price through an interest bearing note secured by a security interest in the aircraft sold. Allowances are made for doubtful accounts where there is a significant risk of non-recovery of the note receivable. The assessment of the risk of non-recovery is primarily based on the extent to which amounts outstanding exceed the value of security held, together with an assessment of the financial strength and condition of a debtor and the economic conditions persisting in the debtor's operating environment.

**Capitalization of interest**

We capitalize interest related to progress payments made in respect of flight equipment on forward order and add such amount to prepayments on flight equipment. The amount of interest capitalized is the actual interest costs incurred on funding specific to the progress payments or the amount of interest costs which could have been avoided in the absence of such progress payments.

**Investments**

Group companies and other participating interests in which the company exercises significant influence are stated at net asset value. We are considered to exercise significant influence if we hold at least 20% of the voting rights.

Net asset value is calculated using the accounting policies applied in these consolidated financial statements. Participating interests whose financial information cannot be aligned to these policies are valued based on their own accounting policies. Participating interests with an equity deficit are carried at

**2. Summary of significant accounting policies (Continued)**

nil. A provision is formed if and when we are fully or partially liable for the debts of the participating interest, or has the firm intention to allow the participating interest to pay its debts.

Participating interests acquired are initially measured at the fair value of the identifiable assets and liabilities upon acquisition. Any subsequent valuation is based on the accounting policies that apply to these annual accounts, taking into account the initial valuation.

Participating interests in which no significant influence can be exercised are stated at acquisition price. If an asset qualifies as impaired, it is measured at its impaired value; any write offs are disclosed in the profit and loss account.

**Goodwill/Negative goodwill**

Goodwill represents the excess of the cost of acquisition of subsidiaries over the fair value of identifiable net assets at the dates of acquisition. Goodwill is amortized on a straight line basis over the estimated useful life with a maximum of 20 years and is tested for impairment annually or more often when events or circumstances indicate that there may have been impairment. Negative goodwill arising from acquisitions of subsidiaries is recognized as a liability on the balance sheet. Negative goodwill is released to income in accordance with the weighted average remaining life of the acquired assets. In the event of a disposal of an asset a relative portion of the negative goodwill based on the weighted average book value of the acquired asset is released to the income statement.

**Intangible assets**

We recognize intangible assets acquired in a business combination. The identified intangible assets are recorded at fair value on the date of acquisition. The rate of amortization of intangible assets is calculated with reference to the expected useful life. In instances where the purchase of flight equipment or the allocated fair value in a business combination includes consideration which can be allocated to the value of an acquired lease containing above market terms, such allocated costs is recognized as an intangible lease premium asset and amortized on a straight-line basis over the term of the related lease as a reduction of lease revenue. Similarly, we recognize a lease deficiency liability as part of accrued expenses and other liabilities for lease contracts where the terms of the lease contract are unfavorable to market terms and amortize the liability over the term of the related lease as an addition to lease revenue. We consider lease renewals on a lease by lease basis. We generally do not assume lease renewals in the determination of the lease premiums or deficiencies given a market participant would expect the lessee to renegotiate the lease on then market terms. We evaluate all intangible assets for impairment where circumstances indicate a potential impairment.

**Inventory**

Inventory, which consists exclusively of finished goods, is valued at the lower of cost or realizable value. Cost is primarily determined using the specific identification method for individual part purchases and whole engines and on an allocated basis for dismantled engines, aircraft, and bulk inventory purchases using the relationship of the cost of the dismantled engine, aircraft or bulk inventory purchase to estimated remaining sales value at the time of purchase. Inventories are comprised primarily of engines, aircraft and engine parts, rotables and expendables. Expenditures required for the recertification or betterment of

## 2. Summary of significant accounting policies (Continued)

flight equipment are capitalized in inventory and are expensed as the parts associated with such costs are sold. Inventory acquired in the purchase of a subsidiary is accounted for at estimated selling prices less the sum of (a) costs of disposal and (b) a reasonable profit allowance for the selling effort of the acquiring entity.

### Other assets

Other assets consist of prepayments, interest and other receivables and other tangible fixed assets. Prepayments, interest and other receivables are recognized at face value. Other tangible fixed assets consist of computer equipment, motor vehicles and office furniture and are valued at acquisition cost and depreciated at various rates between 16% to 33% per annum over the assets' useful lives using the straight-line method.

### Shareholders' equity

Expenses directly related to the purchase, sale and/or issue of new shares are directly charged against shareholders' equity, after processing of the relevant profit tax effects. Other direct changes in shareholders' equity are also recognized after processing of the relevant profit tax effects.

### Minority interest

The minority interest in group equity is carried at the amount of the net interest in the group companies concerned.

Insofar as the group company concerned has a negative net asset value, the negative value and other future losses are not allocated to the minority interest, unless the third party shareholders have an actual obligation, and are capable, to clear the losses. As soon as the net asset value of the group company is positive again, results are again allocated to the minority interest.

### Dividends

Dividend distributions to our shareholders are recognised as a liability in our financial statements in the period in which the dividends are approved by our shareholders. Dividend income is recognised when the right to receive payment is established.

### Provisions

Provisions are recognized for legally enforceable or constructive obligations existing on the balance sheet date, the settlement of which is probable to require an outflow of resources whose extent can be reliably estimated. Provisions are measured on the basis of the best estimate of the amounts required to settle the obligations as at the balance sheet date.

Provisions are stated at the present value of the expenditure expected to be required to settle the obligations. If the expenditure to settle obligations is expected to be recovered from third parties, the recovery is carried as an asset on the balance sheet if it is likely to be received upon settlement of the obligation.

**2. Summary of significant accounting policies (Continued)**

***Accrual for onerous contracts***—We make an accrual for onerous contracts where the undiscounted costs of performing under a contract or series of related contracts exceed the undiscounted benefits expected to be derived from such contracts. In connection with a purchase business combination, accruals are recorded at the present value of such differences.

***Pensions***—We operate a number of non-contributory defined benefit plans and defined contribution schemes for substantially all of our employees. Defined benefit plan obligations and contributions are determined periodically by qualified actuaries. We recognize pension liabilities and prepaid pension costs in accordance with RJ 271. The pension liability and expenses related to these plans are immaterial to our financial statements.

**Accrued maintenance liability**

In all of our leases, the lessees are responsible for maintenance and repairs of our flight equipment and related expenses during the term of the lease. In some instances, we may incur maintenance and repair expenses for off-lease aircraft. We recognize leasing expenses in our income statement for all such expenditures. In many operating lease and finance lease contracts, the lessee has the obligation to make periodic payments of supplemental rent which are calculated with reference to the utilization of airframes, engines and other major life-limited components during the lease. In most such contracts, upon lessee presentation of invoices evidencing the completion of qualifying maintenance on the flight equipment, we make a contribution to the lessee to help compensate for the cost of the maintenance, up to the amount of supplemental rents collected. In other contracts where supplemental rents are not paid, the lessee is required to re-deliver the aircraft in a similar maintenance condition (normal wear and tear excepted) as when accepted under the lease, with reference to major life-limited components of the aircraft. To the extent that such components are redelivered in a different condition than at acceptance, there is normally an end-of-lease compensation adjustment for the difference at redelivery. In addition, in both types of contracts, we may be obligated to make contributions to the lessee for maintenance related expenses (lessor contributions) on flight equipment during the term of the lease.

In all lease contracts where we agree to make lessor contributions to compensate for qualifying maintenance work during the lease, we record an accrued maintenance liability through a charge to leasing expenses at the commencement of the lease based on our estimate of maintenance events which will occur during the lease.

In the majority of our leases where the lessee is required to make supplemental rent payments, we do not recognize such supplemental rent as revenue during the lease, but we record supplemental rent received from the lessee as accrued maintenance liability. Reimbursements to the lessee upon the receipt of evidence of qualifying maintenance work are charged against the existing accrued maintenance liability. In shorter-term lease contracts (primarily engine lease contracts) where the terms of the lease are designed specifically to allow us to directly manage the occurrence, timing and associated cost of qualifying maintenance work on the flight equipment, supplemental rents collected during the lease are recognized as lease revenue. For flight equipment subject to these shorter-term contracts, we record a charge to leasing expenses at the time maintenance work is performed on the flight equipment.

**2. Summary of significant accounting policies (Continued)**

For all of our lease contracts, any amounts of accrued maintenance liability at the end of a lease and any amounts received as part of a redelivery adjustment are recorded as lease revenue at lease termination. We regularly review the level of accrued maintenance liability to cover our contractual obligations in current lease contracts and make adjustments as necessary. When flight equipment is sold, the portion of the accrued maintenance liability which is not specifically assigned to the buyer is released from the balance sheet and recognized as sales revenue as part of the sale of the flight equipment.

**Deferred income taxes (assets and liabilities)**

Deferred tax assets and liabilities are recognized to provide for timing differences between the value of the assets and liabilities for financial reporting purposes on the one hand and for tax purposes on the other. Deferred tax liabilities are calculated based on the tax rate prevailing on the balance sheet date or the rates that will apply in the future, insofar as these have been set down by law.

Deferred taxes are recognized for timing differences concerning consolidated companies, participating interests and joint ventures, unless we are able to determine the moment of expiry of the timing difference and it is not likely that the timing difference will expire in the foreseeable future. Deferred taxes are recognized at face value.

**Term debt**

Term debt is carried at amortized cost, being the amount received taking account of any premium or discount, less transaction costs. The difference between the carrying value determined and the ultimate repayment value, together with the interest due, is determined in such a manner that the effective interest is taken to the profit and loss account during the term of the liabilities.

**Derivative financial instruments**

We use derivative financial instruments to manage our exposure to interest rate risks and foreign currency risks.

All derivatives are recognized on the balance sheet at their fair value (market value). Market value is the amount at which an asset can be traded or a liability settled between knowledgeable, willing parties in an arm’s length transaction. If no market value can be readily and reliably established, market value is approximated by deriving it from the market value of components or of a comparable financial instrument, or by approximating market value using valuation models and valuation techniques. For that purpose, use is made of recent similar arm’s length transactions, of the DCF method (discounted value of cash flows) and option valuation models, making allowance for specific circumstances.

Changes in fair values between periods are recognized as a reduction or increase of interest expense on the income statement, as we do not currently apply hedge accounting to our derivatives. Net cash received or paid under derivative contracts, where material in any reporting period, is classified as operating cash flow in our consolidated cash flow statements.

Profit or loss is determined taking into account the recognition of unrealized changes in fair value of derivative financial instruments that have not been designated as hedges.

## 2. Summary of significant accounting policies (Continued)

### Revenue recognition

As lessor, we lease flight equipment principally under operating leases and report rental income ratably over the life of the lease as it is earned. We account for lease agreements that include step rent clauses on a straight line basis. Lease agreements for which base rent is based on floating interest rates are included in minimum lease payments based on the floating interest rate existing at the inception of the lease; any increases or decreases in lease payments that result from subsequent changes in the floating interest rate are contingent rentals and are recorded as increases or decreases in lease revenue in the period of the interest rate change. In certain cases, leases provide for rentals based on usage. The usage may be calculated based on hourly usage or on the number of cycles operated, depending on the lease contract. We cease revenue recognition on a lease contract when the collectibility of such rentals is no longer reasonably assured. For past-due rentals which have been recognized as revenue, provisions are established on the basis of management's assessment of collectibility and to the extent such rentals exceed related security deposits held, and are recorded as expenses on the income statement.

Most of our lease contracts require payment in advance. Rentals received, but unearned under these lease agreements are recorded as deferred revenue on the balance sheet.

Sales revenues originate from the sale of aircraft, engines and parts and are recognized when the delivery of the relevant asset is complete and the risk of loss has transferred to the buyer.

Revenues from direct finance leases are recognized on the interest method to produce a level yield over the life of the finance lease. Expected, unguaranteed residual values of leased assets are based on our assessment of residual values and independent appraisals of the values of leased assets remaining at expiration of the lease terms.

Revenue from secured loans, notes receivables and other interest bearing instruments is recognized on an effective yield basis as interest accrues under the associated contracts. Revenue from lease management fees is recognized as income as it accrues over the life of the contract. Revenue from the receipt of lease termination penalties is recorded at the time cash is received or when the lease is terminated, if collection is reasonably assured. Other revenue includes any net gains we generate from the sale of aircraft related investments, such as our subordinated interests in securitization vehicles and notes, warrants or convertible securities issued by our lessees, which we receive from lessees as compensation for amounts owed to us in connection with lease restructurings.

### Interest income and expense

Interest income and expense are time apportioned, taking into account the effective interest rate for the relating assets and liabilities. The treatment of interest expenses for loans received takes account of any transaction costs.

### Exchange rate differences

Exchange differences arising upon the settlement of monetary items are recognized in the profit and loss account in the period that they arise.

**2. Summary of significant accounting policies (Continued)**

**Personnel remuneration**

Salaries, wages and social charges are taken to the profit and loss account when due, and in accordance with employment contracts and obligations.

**Share-based compensation**

Management of the Company receives share based compensation. We recognize compensation expense when it becomes probable that participants in share-based incentive plans who hold direct or indirect equity interests in our shares or options to acquire such shares will be able to achieve fair value. The amount of such expense is determined by reference to the fair value of the share or share option on the date of grant. The timing of expense recognition is determined with reference to the timing of lapsing of restrictions on restricted shares and vesting on share options, including the lapsing of repurchase rights which allow other parties to repurchase participants' shares at less than fair market value.

The amount of compensation expense recognized for restricted shares is derived with reference to the excess of fair market value of the shares at the date of grant over the price paid. The amount of expense recognized with respect to share options is based on the fair value of the option using the share valuation method described in note 19 and then applying a Black-Scholes option pricing model to the underlying share value. The value of each of the equity grants is recognized on a straight-line basis over the applicable vesting periods.

The offsetting entry for the compensation expense recognized for equity grants is to additional paid-in capital with no resulting effect on total shareholders' equity, other than the positive effect of the deferred tax benefit related to the tax deductible portion of share-based compensation charges.

**Tax on profit/(loss) on ordinary activities**

Profit tax is calculated on the profit/loss before taxation in the profit and loss account, taking into account any losses carried forward from previous financial years (insofar as these are not included in deferred tax assets), tax exempt items and non deductible expenses. Account is also taken of changes in deferred tax assets and deferred tax liabilities owing to changes in the applicable tax rates.

**Earnings Per Share**

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average shares of common stock outstanding during the period. For the purposes of calculating diluted earnings per share, the denominator includes both the weighted average number of shares of common stock outstanding during the period and the weighted average number of potential common stock, such as stock options.

**Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**2. Summary of significant accounting policies (Continued)**

**Financial instruments**

Our primary market risk exposure is interest rate risk associated with short and long-term borrowings bearing variable interest rates and lease payments under leases tied to floating interest rates. To manage this interest rate exposure, we enter into interest rate swap and cap agreements. We are also exposed to foreign currency risk, which can adversely affect our operating profits. To manage this risk, we enter into forward exchange contracts.

The following discussion should be read in conjunction with Notes 1, 2 and 11 to the audited consolidated financial statements which provide further information on our derivative instruments.

*Interest Rate Risk*—The rentals we receive under our leases are based on fixed and variable interest rates. We fund our operations with a mixture of fixed and floating rate US dollar denominated debt and finance lease obligations. An interest rate exposure arises to the extent that the mix of these obligations are not matched with our assets. This exposure is primarily managed through the use of interest rate caps and interest rate swaps using a cash flow based risk management model. This model takes the expected cash flows generated by our assets and liabilities and then calculates by how much the value of these cash flows will change for a given movement in interest rates. Our policy is to seek to ensure that the net worth of our business will not be exposed to more than a $15 million movement from a 1% parallel shift in US dollar interest rates across the yield curve.

Under our interest rate swaps, we pay fixed amounts and receive floating amounts on a monthly basis. The swaps amortize based on a number of factors, including the expiration dates of the leases under which our lessees are contracted to make fixed rate rental payments and the three—or six—month LIBOR reset dates under our floating rate leases. Under our interest rate caps, we will receive the excess, if any, of LIBOR, reset monthly or quarterly on an actual/360 adjusted basis, over the strike rate of the relevant cap.

Our Board of Directors is responsible for reviewing and approving our overall interest rate management policies and transaction authority limits. Specific hedging contracts are approved by the treasury committee acting within the overall policies and limits. Our counterparty risk is monitored on an ongoing basis, but is mitigated by the fact that all of our interest rate derivatives, except Aircraft Lease Securitization's derivatives, require two-way cash collateralization. Our counterparties are subject to the prior approval of the treasury committee.

*Foreign Currency Risk and Foreign Operations*—Our functional currency is the U.S. dollar. We incur Euro-denominated expenses in connection with our offices in The Netherlands and Ireland. We enter into foreign exchange contracts based on our projected exposure to foreign currency risks in order to protect ourselves from the effect of period over period exchange rate fluctuations. Mark-to-market gains or losses on such contracts are recorded as part of selling, general and administrative expenses since most of our non-US denominated payments relate to such expenses. Since we currently receive substantially all of our revenues in US dollars and we hedge a material portion of our non-dollar denominated expenditures, we do not believe that a change in foreign exchange rates will have material impact on our results of operations. However, the portion of our business conducted in foreign currencies could increase in the future, which could increase our exposure to losses arising from currency fluctuations.

(US dollars in thousands)

## 2. Summary of significant accounting policies (Continued)

*Credit risk*—The values of trade receivables and notes receivable are dependent upon the financial viability of related lessees, which is directly tied to the health of the commercial aviation market worldwide.

*Inflation*—Inflation generally affects our costs, including selling, general and administrative expenses and other expenses. However, we do not believe that our financial results have been, or will be, adversely affected by inflation in a material way.

## 3. Restricted cash

Restricted cash consists of the following at December 31:

| | 2005 | 2006 |
|---|---|---|
| Cash received under lease agreements restricted per the terms of the relevant lease and cash securing our obligations under debt and derivative instruments | $105,060 | $ 72,523 |
| Cash securing our obligations under the LILO head leases (Note 16) and cash securing the guarantee of lease obligations/indebtedness of a LILO sublessee (Note 14) | 49,710 | 38,074 |
| Other | 2,960 | 1,680 |
| | $157,730 | $112,277 |

Restricted cash securing our obligations under debt includes amounts related to the ALS securitization debt (Note 15), which requires that cash be placed in liquidity reserves.

## 4. Trade receivables, net of provisions.

Trade receivables consist of the following at December 31:

| | 2005 | 2006 |
|---|---|---|
| Trade receivables | $ 9,980 | $27,554 |
| Allowance for doubtful accounts | (3,405) | (2,496) |
| | $ 6,575 | $25,058 |

Trade receivables include amounts invoiced to lessees in respect of lease rentals and maintenance reserves and have a remaining term not exceeding one year.

The change in the allowance for doubtful trade receivable is set forth below:

| | Period from June 27, 2005 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|
| Provision at beginning of period | $ — | $ 3,405 |
| Expense for doubtful accounts receivable | 1,225 | 320 |
| Reclassification to notes receivable allowance | — | (2,326) |
| Other(*) | 2,180 | 1,097 |
| Provision at the end of period | $3,405 | $ 2,496 |

(*) Other includes direct write offs and receipt of direct write offs.

(US dollars in thousands)

## 5. Flight equipment held for operating leases, net

Movements in flight equipment held for operating leases during the periods presented were as follows:

| | Period from June 27, 2005 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|
| Net book value at beginning of period | $ — | $2,537,822 |
| Fair value of flight equipment acquired in business combinations | 2,445,195 | 158,820 |
| Additions | 157,104 | 928,468 |
| Depreciation | (55,760) | (125,858) |
| Asset impairment | — | — |
| Disposals | (8,717) | (217,660) |
| Transfers to/from direct finance leases | — | — |
| Other(*) | — | (8,263) |
| Net book value at end of period | $2,537,822 | $3,273,329 |
| Accumulated depreciation/impairment at December 31, 2005 and 2006 | $ (55,760) | $ (171,576) |

* As discussed further in Note 15, we settled a capital lease obligation at a discount of $8,263. The discount was applied to reduce the net book value of the related aircraft.

At December 31, 2006 we owned 131 aircraft and 51 engines, which we leased under operating leases to 79 lessees in 41 countries. The geographic concentrations of leasing revenues are set out in Note 21.

Prepayments on flight equipment (including related capitalized interest) of $32,914 and $48,971 have been applied against the purchase of aircraft during the period from June 27 to December 31, 2005 and the year ended December 31, 2006, respectively.

The following table indicates our contractual commitments for the prepayment and purchase of flight equipment in the periods indicated as of December 31, 2006:

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Capital expenditures | $456,158 | $413,497 | $1,234,867 | $1,462,116 |
| Pre-delivery payments | 116,796 | 383,409 | 397,033 | 92,323 |
| | $572,954 | $796,906 | $1,631,900 | $1,554,439 |

(US dollars in thousands)

## 5. Flight equipment held for operating leases, net (Continued)

Our current operating lease agreements expire over the next eight years. The contracted minimum future lease payments receivable from lessees for equipment on non-cancelable operating leases at December 31, 2006 are as follows:

| | Contracted minimum future lease receivables |
|---|---|
| 2007 | $ 427,002 |
| 2008 | 402,915 |
| 2009 | 289,095 |
| 2010 | 204,586 |
| 2011 | 152,558 |
| Thereafter | 285,019 |
| | $1,761,175 |

The titles to certain aircraft leased in the United States are held by a U.S. trust company as required by U.S. law. We are the beneficial owner of these aircraft and the aircraft are recorded under flight equipment held for operating lease on the consolidated balance sheets. The trust company is administered by a bank. The aircraft are segregated from the bank's assets and will not be considered part of the bank's bankruptcy estate in the event of a trustee bankruptcy.

## 6. Net investment in direct finance leases

Net investment in direct finance leases consists of the following at December 31, 2005:

| | 2005 |
|---|---|
| Gross finance lease rentals receivable | $1,123 |
| Unearned income | (51) |
| Net investment in direct finance leases | $1,072 |

The entire amount of finance lease rentals receivable at December 31, 2005 was received in 2006.

## 7. Notes receivable

Notes receivable consist of the following at December 31:

| | 2005 | 2006 |
|---|---|---|
| Secured notes receivable | $ 4,146 | $1,092 |
| Notes receivable from lessee restructurings | 48,265 | 4,208 |
| Allowance for doubtful accounts | (2,563) | — |
| | $49,848 | $5,300 |

(US dollars in thousands)

**7. Notes receivable (Continued)**

The minimum future receipts under notes receivable at December 31, 2006 are as follows:

| | Minimum future notes receivable |
|---|---|
| 2007 | 5,300 |
| | $5,300 |

The change in the allowance for doubtful notes receivable is set forth below:

| | Period from June 27, 2005 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|
| Provision at beginning of period | $ — | $ 2,563 |
| Expense for doubtful notes receivable | 1,777 | (506) |
| Reclassification from trade receivable allowance | — | 2,326 |
| Other(*) | 786 | (4,383) |
| Provision at the end of period | $2,563 | $ — |

* Other includes direct write offs and receipt of direct write offs.

**8. Prepayments on flight equipment**

In 1999, we signed a forward order contract with Airbus for the acquisition of up to 32 new aircraft between 2004 and 2009 (“1999 Forward Order”). Of that original order, one aircraft delivery was cancelled pursuant to cancellation rights granted by Airbus and 16 aircraft have been delivered through December 31, 2006. In January 2006, we exercised cancellation rights on a further six aircraft deliveries originally scheduled for delivery in 2008 and 2009, leaving nine firm aircraft remaining under the contract to be delivered in 2007.

In 2005, AerVenture signed a letter of intent with Airbus for the forward purchase of 70 aircraft (“2005 Forward Order”). As discussed above, we consolidate the accounts of AerVenture.

In December 2006, we placed an order with Airbus to acquire 20 new A330-200 widebody aircraft (“A330 Forward Order”). The delivery schedule for the A330 Forward Order includes ten aircraft to be delivered in 2009 and ten aircraft to be delivered in 2010.

In connection with all three forward order contracts, we are required to make scheduled prepayments toward these future deliveries (see table in Note 5). A total amount of interest of $2,767 and $6,236 was capitalized with respect to these payments for the period from June 27, 2005 to December 31, 2005 and the year ended December 31, 2006, respectively. As described in Note 16, because the contracted purchase prices of the aircraft at delivery under the 1999 Forward Order are in excess of the anticipated fair market value of the aircraft at delivery, we have recognized an accrual for onerous contracts with respect to this forward order at the 2005 Acquisition.

(US dollars in thousands)

## 8. Prepayments on flight equipment (Continued)

Following is a summary of the movements in prepayments on flight equipment during the period from June 27, 2005 to December 31, 2005 and the year ended December 31, 2006:

| | Period from June 27, 2005 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|
| Net book value at beginning of period | $ — | $115,657 |
| Fair value of acquired prepayments | 119,200 | — |
| Prepayments made | 26,604 | 93,708 |
| Prepayments applied against the purchase of flight equipment | (32,914) | (48,971) |
| Interest capitalized | 2,767 | 6,236 |
| Net book value at end of period | $115,657 | $166,630 |

## 9. Investments

Investments consist of the following at December 31:

| | 2005 | 2006 |
|---|---|---|
| Subordinated debt investment in single aircraft owning company | $3,000 | $ 3,000 |
| 25% equity investment in unconsolidated joint venture (AerDragon) | — | 15,000 |
| | $3,000 | $18,000 |

Our subordinated debt investment in a single aircraft owning company is accounted for at cost. Our 25% equity investment in a joint venture is accounted for at net asset value. AerDragon had no operations during the year ended December 31, 2006.

(US dollars in thousands)

## 10. Intangible assets

The following table presents details of amortizable intangible assets and related accumulated amortization and goodwill:

| | As of December 31, 2005 | | | |
|---|---|---|---|---|
| | Gross | Accumulated amortization | Other | Net |
| Lease premiums | $53,388 | $(7,758) | $— | $45,630 |

| | As of December 31, 2006 | | | |
|---|---|---|---|---|
| | Gross | Accumulated amortization | Other | Net |
| Lease premiums | $64,765 | $(29,527)(a) | | $35,238 |
| Customer relationships—parts | 19,800 | (890) | | 18,910 |
| Customer relationships—engines | 3,600 | (883) | | 2,717 |
| FAA certificate | 1,100 | (50) | | 1,050 |
| Non-compete agreement | 1,100 | (125) | | 975 |
| Net book value at end of period | $90,365 | $ (31,475) | $ | $58,890 |

(a) Includes ($6,439) from the write-off of lease premium in connection with the sale of related aircraft.

The following table presents the changes to amortizable intangible assets during the periods indicated:

| | Period from June 27, 2005 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|
| Net carrying value at beginning of period | $ — | $ 45,630 |
| Lease premiums acquired in 2005 Acquisition | 53,388 | — |
| Intangible assets acquired in AT Acquisition | — | 25,600 |
| Purchases of intangible lease premiums | — | 11,377 |
| Amortization | (7,758) | (17,278) |
| Disposals | — | (6,439) |
| Net carrying value at end of period | $45,630 | $ 58,890 |

### Goodwill

We recognized goodwill of $38,199 in the AT Acquisition. As described below in Note 17, as a result of the AT acquisition, we reduced goodwill by $33,434 in connection with the recognition of a deferred tax asset in the US and amortized goodwill for $212 during the year ended December 31, 2006.

(US dollars in thousands)

### 11. Inventory

We had no inventory at December 31, 2005. Following are the major classes of inventory at December 31, 2006:

| | |
|---|---|
| Engine and airframe parts | 66,486 |
| Work-in-process | 3,971 |
| Airframes | 2,005 |
| Engines | 10,349 |
| | $82,811 |

### 12. Derivative assets and liabilities

We use a variety of derivative instruments to manage exposure to interest rate and foreign currency risk. These derivative products can include interest rate caps, swaps, options and forward contracts.

As of December 31 2006, the interest rate swaps and caps had notional amounts of $2.5 billion and a fair value of $17,569. The variable benchmark interest rates associated with these instruments ranged from one to six—month LIBOR.

We have not applied hedge accounting to any of the above derivatives. The change in fair value of the derivative, therefore, is recorded in the income statement before income taxes and minority interests as a reduction of interest expense as specified below:

| | June 27 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|
| Change in fair value of derivatives | $20,813 | $7,874 |

Our agreement with the derivative counterparties requires a two-way cash collateralization of derivative fair values, except for those owned by ALS. Cash paid and received under such arrangements is included in restricted cash (note 3).

The maximum length of time over which we are managing our exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is 2016.

### 13. Other assets

Other assets consist of the following at December 31:

| | 2005 | 2006 |
|---|---|---|
| Other tangible fixed assets | 2,431 | 12,438(a) |
| Receivables from aircraft manufacturer | 5,884 | 4,228 |
| Prepaid expenses | 2,711 | 5,491 |
| Other receivables | 3,885 | 13,647(a) |
| | $14,911 | $35,804 |

(a) The increase in other tangible fixed assets and other receivables between 2005 and 2006 is due primarily to the acquisition of AeroTurbine.

(US dollars in thousands)

## 14. Accrued expenses and other liabilities

Accrued expenses and other liabilities consist of the following at December 31:

| | 2005 | 2006 |
|---|---|---|
| Guarantee liability | $18,798 | $15,668 |
| Accrued expenses | 31,294 | 42,681 |
| Accrued interest | 11,776 | 14,373 |
| Lease deficiency | 14,694 | 19,744 |
| | $76,562 | $92,466 |

*Guarantee liability*—In 1996, we terminated lease agreements with two head lessors covering 12 A320 aircraft under which we were obligated as head-lessee. In connection with this early termination, we assigned our rights as sublessor under sublease agreements covering the 12 aircraft to the respective head lessors.

In addition to the sublease assignments, we also issued guarantees to the head lessors covering the sublessee's obligations to the head lessors under the assigned subleases. We would be required to make payments under the guarantees if the sublessee were to default under the lease agreements with the head lessors. At December 31, 2006, the maximum amount which we could be required to pay is estimated at $31,074. The subleases and our obligations under the guarantees expire between the years 2007 and 2012. As referenced in Note 3, our potential obligations under the guarantees are secured by cash held in restricted bank accounts. This restricted cash is released back to us according to a set schedule as the sublessee fulfills its obligations under the leases.

We have recognized a liability equal to the estimated fair value of the guarantee since the time we became obligated for the guarantee as a result of a previous company acquisition. At the date of the 2005 Acquisition, we recognized the fair value of the guarantee obligation in connection with the purchase accounting.

*Lease deficiency*—Lease deficiency represents lease rates for current lease contracts which are below current market rentals for the applicable aircraft at the time of purchase. The lease deficiency amortizes over the remaining term of the related lease agreements as a non-cash increase in lease revenue. The remaining weighted average amortization period for the lease deficiency is 29 months.

(US dollars in thousands)

## 15. Debt

Debt consists of the following as of December 31:

| | 2005 | 2006 | Weighted average interest rate December 31, 2006 | Maturity |
|---|---|---|---|---|
| ECA-guaranteed financings | $ 570,950 | $ 567,900 | 5.49% | 2007-2018 |
| JOL financings | 149,037 | 100,261 | 5.64% | 2007-2015 |
| Pre-delivery payment facility | — | 8,130 | 7.00% | 2007-2010 |
| UBS revolving credit facility | — | 234,577 | 7.84% | 2007-2012 |
| AT revolving credit facility | — | 65,688 | 8.87% | 2007-2011 |
| GATX portfolio acquisition facility | — | 218,399 | 6.79% | 2007-2013 |
| ALS securitization debt (G1, G2, C and D classes) | 946,047 | 844,308 | 6.33% | 2007-2016 |
| Commercial bank debt | 335,583 | 353,725 | 6.41% | 2007-2019 |
| Capital lease obligations | 24,606 | — | — | — |
| Debt issuance costs | (36,510) | (56,628) | — | — |
| | $1,989,713 | $2,336,360 | | |

The weighted average interest rate in the table above includes the impact of derivative instruments which we hold to hedge our exposure to interest rates.

Aggregate maturities of debt (excluding debt issuance costs) during the next five years and thereafter are as follows:

| | Debt maturing |
|---|---|
| 2007 | $ 381,175 |
| 2008 | 234,296 |
| 2009 | 236,683 |
| 2010 | 212,375 |
| 2011 | 145,007 |
| Thereafter | 1,183,452 |
| | $2,392,988 |

**ECA-guaranteed financings—**In April 2003, we entered into an $840,000 export credit facility ("ECA Facility") for the financing of up to 20 A320 Airbus Family aircraft up to December 31, 2005. Funding under the facility is provided by commercial banks, but the repayment is guaranteed by European export credit agencies ("ECAs"). In January 2006, the ECA Facility was amended and extended to cover an additional nine aircraft and its size increased to a maximum of $1,215,000 for a further three years. The terms of the lending commitment in the ECA Facility are such that the ECAs only approve funding for aircraft that are due for delivery on a six-month rolling basis and have no obligation to fund deliveries beyond that time frame. The margin over three-month Libor ranges from 0.25% for aircraft delivered under the original facility and 0.12% for those aircraft delivered subsequently to the January 2006 amendment. We are obligated to repay principal on ECA loans over a 12-year term. The ECA Facility contains certain net worth financial covenants, a breach of which would cause us to lose some of our

**15. Debt (Continued)**

operational flexibility under our leases, such as a requirement to grant pledges over certain bank accounts to the respective lenders. In addition, all loans under the ECA Facility contain change of control provisions that grant the lenders the right to prepayment of their loans in the event of a change of control, unless the lenders consent to the change of control.

The security structures of the ECA-guaranteed debt require that legal title to the aircraft be transferred to and held by a special purpose company controlled by the lenders. We have entered into head lease agreements on the subject aircraft which transfer the risk and rewards of ownership of the aircraft to us. Aircraft subject to these structures are recorded as flight equipment held for operating lease on our balance sheets. The obligations outstanding under the ECA financings are secured by a pledge of our shares to the lenders which hold legal title to the aircraft financed under the respective financing. The obligations of each of our aircraft-owning subsidiaries under the ECA Facility are guaranteed by us.

At December 31, 2006, we had financed 17 aircraft under the ECA Facility, plus four aircraft financed under ECA financings prior to the April 2003 facility agreement. The net book value of aircraft pledged to the ECAs under the ECA Facility and the previous ECA loans was $598,366 at December 31, 2006.

**JOL Financings—**We have entered into several Japanese operating lease ("JOL ") finance structures to finance aircraft acquisitions. Funding under these structures is provided through a combination of senior commercial bank debt and subordinated loans from Japanese investors. The interest rate on the subordinated loans is fixed and the interest rate on the senior loans are variable based on three- and six-month LIBOR with spreads ranging from 0.25% to 1.35%. The security structures of the JOL financings require that legal title to the aircraft be transferred to and held by a special purpose company controlled by the respective lenders. We have entered into head lease agreements on the subject aircraft which transfer the risk and rewards of ownership of the aircraft to us. Aircraft subject to these structures are recorded as flight equipment held for operating lease on our balance sheets. The obligations outstanding under the JOL financings are secured by a pledge of our shares to the lenders which hold legal title to the aircraft financed under the respective financing. The obligations of each of our aircraft-owning subsidiaries under the JOL financings are guaranteed by us. All loans under the JOL financings contain change of control provisions that grant the lenders the right to prepayment of their loans in the event of a change of control, unless the lenders consent to the change of control. At December 31, 2006, we had financed three aircraft under JOL structures. The net book value of aircraft pledged to JOL financings was $89,671 at December 31, 2006.

**Pre-delivery Payment Facility**—AerVenture, has entered into a credit facility during 2006 to finance a portion of the pre-delivery payments to Airbus in an amount up to $118,900 ("AerVenture Facility"). Prior to drawing on the facility, AerVenture will pay, on average, 54% of the pre-delivery payment amount owed for each aircraft to be delivered in 2007, 60% of such amounts for each aircraft to be delivered in 2008 and 42% of such amount for each aircraft to be delivered in 2009. AerVenture must repay the lenders for the amounts drawn for the pre-delivery payment for each aircraft at the delivery date of that aircraft or, if the aircraft is not delivered on the scheduled delivery date, within three months of the scheduled delivery date. Borrowings under the AerVenture Facility are secured by, among other things, the partial assignment of the airframe and engine purchase agreements in respect of the 30 aircraft covered by the facility, including the right to take delivery of the aircraft where Calyon has provided the pre-delivery payments and the aircraft remains undelivered. The AerVenture Facility contains customary affirmative and financial

**15. Debt (Continued)**

covenants for secured financings. We have agreed to maintain a minimum of 25% of the shares of AerVenture until the AerVenture Facility is fully repaid. AerVenture is required to maintain a minimum net worth and a debt to equity ratio below a specified threshold.

**UBS Revolving Credit Facility**—AerFunding 1 Limited ("AerFunding") is a special purpose company incorporated with limited liability in Bermuda. The share capital of AerFunding is owned 95% by a charitable trust and 5% by AerCap Ireland. AerFunding was formed for the purpose of acquiring used aircraft assets which we acquire in the market. AerFunding entered into a non recourse senior secured revolving credit facility during 2006 in the aggregate amount of up to $1,000,000 with a syndicate of financial institutions led by UBS. The revolving loans under the credit facility are divided into three classes: class A loans, which have a maximum advance limit of $715,000, class B loans, which have a maximum advance limit of $180,000, and class C loans, which have a maximum advance limit of $105,000. In addition to borrowings under the revolving credit facilities, AerFunding has also issued subordinated notes to us at each aircraft purchase. Borrowings under the revolving credit facility can be used to finance between 72% and 84% of the appraised value of the acquired aircraft or, in the case of Boeing 737NG and Airbus A320 family aircraft, between 85% and 86% of the lower of the purchase price and the appraised value of the acquired aircraft. In addition, value enhancing expenditures and required liquidity reserves are also funded by the lenders. All borrowings under the revolving credit facility are subject to the satisfaction of customary conditions and restrictions on the purchase of aircraft that would result in our portfolio becoming too highly concentrated, with regard to both aircraft type and geographical location. Borrowings under the revolving credit facility are secured by, among other things, security interests in and pledges or assignments of equity ownership and beneficial interests in all of the subsidiaries of AerFunding, as well as by AerFunding's interests in the leases of its assets.

The UBS revolving credit facility includes general and operating covenants that restrict additional indebtedness in the AerFunding subsidiaries owning the related aircraft, the payment of dividends and other limitations which are customary for such credit facilities.

At December 31, 2006, we had financed ten aircraft under the UBS revolving credit facility. The net book value of the ten aircraft pledged to lenders under the credit facility was $295,191 at December 31, 2006.

**AeroTurbine Revolving Loan Facility**—In connection with the prepayment of the existing senior and subordinated debt with Calyon with the proceeds of our initial public offering, we amended and restated our AeroTurbine credit facilities and increased the capacity under the revolving loan facility to $220,000. Borrowings under the revolving loan facility are secured by security interests in and pledges or assignments of all the shares and other ownership interests in AeroTurbine and its subsidiaries, as well as by all assets of AeroTurbine and its subsidiaries. The revolving loan facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of AeroTurbine to incur additional indebtedness; create liens on assets, including assets financed with proceeds from the revolving loan facility; make advances, loans, extensions of credit, guarantees, capital contributions or other investments; engage in mergers or consolidations; engage in certain sale-leaseback transactions; change the business conducted by AeroTurbine and its subsidiaries; and make certain capital expenditures. Additionally, the revolving credit agreement includes a restriction in AeroTurbine's ability to declare or pay dividends or other asset distributions to other group companies above a certain defined threshold. The revolving loan

**15. Debt (Continued)**

facility also requires AeroTurbine to maintain certain minimum debt-to-earnings and earnings-to-expenses ratios. All of AeroTurbine's tangible assets of approximately $328,332 at December 31, 2006 are pledged as collateral for the revolving loan facility.

**GATX Portfolio Acquisition Facility**—In connection with the purchase of a portfolio of up to 25 aircraft from GATX, our consolidated subsidiary entered into a senior secured loan facility in the aggregate amount of up to $248.0 million with Calyon and certain other financial institutions. Borrowings under the senior facility can be used to finance the lesser of 70% of the purchase price of each aircraft and a scheduled percentage of loan amounts related to such aircraft. Borrowings under the senior facility are secured by mortgages on the aircraft and security interests in and pledges or assignments of all the shares and other ownership interests in the borrower and its subsidiaries, as well as their bank accounts and lease interests. The loans include general and operating covenants that restrict the borrower from incurring additional indebtedness and other limitations which are customary for such credit facilities. At December 31, 2006, we had financed 24 aircraft under the loan facility. The net book value of the 24 aircraft pledged to lenders under the loan facility was $316,793 at December 31, 2006.

**ALS Securitization Debt—**ALS is a special purpose company incorporated with limited liability in Jersey, Channel Islands, on August 10, 2005. The share capital of ALS is owned 95% by Jersey charitable trusts and 5% by AerCap Ireland. ALS was formed for the purpose of raising securitized debt financing on 42 of our aircraft which were not then subject to other secured financings. On September 15, 2005, ALS issued five subclasses (G-1A, G-2A, C-1, D-1 and E-1) of securitized notes secured by the 42 aircraft. The class G-1A, class G-2A and class C notes and a portion of the class D notes were issued to public investors for cash upon closing. The remaining class D notes were issued to public investors subsequent to closing. The class E notes are held by us. The net book value of the 42 aircraft pledged as collateral for the securitization debt was $949,474 at December 31, 2006.

ALS is bankruptcy-remote from us and the lenders to ALS may only look to proceeds derived from the 42 ALS aircraft for repayment. The indenture agreement, which governs the securitized notes, require that ALS hold a designated amount of cash aside in restricted accounts for future cash flow requirements of ALS. All cash held by ALS is recorded as restricted cash on our balance sheets. The indenture also requires ALS to comply with a number of general and operating covenants including, but not limited to the following:

- Limitations on aircraft modifications, acquisition and disposals.
- Limitation on transactions with us and our affiliates.
- Maintenance of separate existence.
- Compliance with concentration limits with regard to financial strength, regional location and specific country of lessees.

**(US dollars in thousands)**

### 15. Debt (Continued)

No lessee accounted for more than 10% of lease revenue in any of the periods indicated above. Sales revenue is comprised of 69% from our aircraft segment and 31% from our engine and parts segment. We have not provided a geographical breakdown of sales revenue because a material percentage of our sales are of movable flight equipment and are to buyers that have multiple locations. In addition, we have not provided a breakdown of management fee revenue, interest revenue or other revenue because amounts are less material than lease and sales revenue and we do not believe a geographical breakdown of such revenues is helpful in identifying geographical concentration risks to our business.

**Commercial Bank Debt—**We have entered into various commercial bank financings to fund the purchase of individual or small groups of aircraft. The financings mature at various dates through 2019. The interest rates are a mix of one-, three- and six-month LIBOR-based with spreads ranging from 0.95% to 1.80%. The financings are secured by a pledge of the shares of the subsidiaries owning the related aircraft and a guarantee from us. Most of our commercial bank debt contain affirmative covenants customary for secured financings, such as the regular provision of financial information and disclosure of material events affecting us, among others. At December 31, 2006, we had financed 14 aircraft under commercial bank financings. The net book value of the 14 aircraft pledged to commercial bank financings was $438,634 at December 31, 2006.

During 2006, we purchased an aircraft that was previously subject to a capital lease and terminated the capital lease obligation. The purchase consideration represented a discount of $8,263 to the carrying value of our capital lease obligation. The amount of the discount has been applied to reduce the net book value of the related aircraft.

At December 31, 2006, we had also issued letters of credit in an amount of $44,556 in support of certain obligations. All issued letters of credit are fully cash collateralized with restricted cash. In addition, at December 31, 2006, we had committed credit facilities of $922,300 and an on-demand overdraft facility of $10,000, which were undrawn.

A total amount of interest of $2,767 and $4,888 reduced interest expense in respect of the prepayments on flight equipment (Note 8) for the period from June 27, 2005 to December 31, 2005 and the year ended December 31, 2006, respectively.

Amortization of debt issuance costs was $566 and $11,777 for the period from June 27 to December 31, 2005 and the year ended December 31, 2006, respectively. The unamortized debt issuance costs at December 31, 2006 amortize annually from 2007 through 2018.

### 16. Accrual for onerous contracts

Accrual for onerous contracts consist of the following items, which are described below at December 31:

| | 2005 | 2006 |
|---|---|---|
| Lease-in, lease-out transactions | $ 86,148 | $ 72,959 |
| 1999 Forward Order | 66,486 | 38,374 |
| | $152,634 | $111,333 |

(US dollars in thousands)

**16. Accrual for onerous contracts (Continued)**

The movement in the accrual for onerous contracts can be summarized as follows:

| | Lease-in, Lease out transactions | 1999 Forward Order |
|---|---|---|
| Balance as at January 1, 2006 | $ 86,148 | $ 66,486 |
| *Movements* | | |
| Release to operating lease in costs | (13,189) | |
| Release to flight equipment held under operating lease | | (21,966) |
| Release to depreciation | | (6,146) |
| Balance as at December 31, 2006 | $ 72,959 | $ 38,374 |

*Lease-in, Lease-out transactions*—At December 31, 2006, we leased in 11 aircraft from several different lessors under operating head leases that mature between 2008 and 2012. We have entered into sublease agreements with several different customers covering these same 11 aircraft. In all cases, the lease termination dates of the subleases are matched to the lease termination dates under the head leases. The contracted sublease receipts, however, are insufficient to cover our monthly obligations under the head leases. These transactions are recorded at their net present value as a result of purchase accounting.

We have established a liability equal to the difference between the present value of head lease expenses and the present value of sublease revenue, discounted at appropriate discount rates. The amount of this liability amortizes to income monthly on a constant yield basis as we meets our obligations under the head leases.

Following is a summary of the undiscounted contracted minimum lease payments under the respective head leases and subleases:

| | Head lease payments | Sublease Receipts |
|---|---|---|
| 2007 | $ 39,129 | $ 23,748 |
| 2008 | 34,640 | 20,368 |
| 2009 | 28,339 | 15,858 |
| 2010 | 25,652 | 15,708 |
| 2011 | 24,911 | 15,708 |
| Thereafter | 21,745 | 10,573 |
| | $174,416 | $101,963 |

As referenced in Note 3, we are required, in some instances, to maintain deposits in restricted accounts or to cash-back letters of credit which are security to the respective headlessors for our obligations under the LILO transactions.

*Forward order contract*—As indicated in Note 8, we are committed for the purchase of nine firm aircraft under the 1999 Forward Order contract for delivery in 2007. The purchase price of these aircraft will be determined at the date of delivery. The final price depends upon the specification of the aircraft and the level of escalation applied to the contracted price which is dependent upon economic indices. An amount

(US dollars in thousands)

## 16. Accrual for onerous contracts (Continued)

of $63,433, exclusive of capitalized interest, is prepaid in respect of delivery of these aircraft at December 31, 2006. Because the contracted purchase prices of the aircraft at delivery are in excess of the anticipated fair market value of the aircraft at delivery, we have recognized an accrual for onerous contracts with respect to the forward order. The accrual was recognized at the date of the 2005 Acquisition as the excess of the net present value of costs to be incurred under the contract over the estimated fair value of the aircraft at delivery.

## 17. Income taxes

We have subsidiaries in a number of tax jurisdictions, principally, The Netherlands, Ireland, the United States of America and Sweden. Income tax expense by tax jurisdiction is summarized below for the periods indicated.

| | June 27 to December 31, 2005 | Year ended December 2006 |
|---|---|---|
| **Deferred tax expense (benefit)** | | |
| The Netherlands | $ 7,165 | $ 12,625 |
| Ireland | 445 | (8,032) |
| United States of America | — | (8,044) |
| Sweden | — | (9,010) |
| Other | (83) | (115) |
| | 7,527 | (12,576) |
| **Current tax (benefit) expense** | | |
| United States of America | (39) | 1,430 |
| **Income tax expense (benefit)** | $ 7,488 | $(11,146) |

Reconciliation of statutory income tax expense to actual income tax expense is as follows:

| | AerCap Holdings N.V. | |
|---|---|---|
| | June 27 to December 31, 2005 | Year ended December 2006 |
| Income tax (benefit) expense at statutory income tax rate | $16,917 | $ 28,164 |
| Increase (reduction) in tax resulting from: | | |
| Tax exempt (income) expense | — | 18,813 |
| Reduction of Netherlands corporate tax rate | — | (2,290) |
| Non-taxable results of limited partnership operations | (6,123) | (12,421) |
| Recognition of Swedish tax asset | — | (9,010) |
| Recognition of Irish tax asset | — | (17,431) |
| Tax on global activities | (3,306) | (16,971) |
| | (9,429) | (39,310) |
| Actual income tax expense (benefit) | $ 7,488 | $(11,146) |

(US dollars in thousands)

The calculation of income for tax purposes differs significantly from book income. Deferred income tax is provided to reflect the impact of temporary differences between the amounts of assets and liabilities

**17. Income taxes (Continued)**

for financial reporting purposes and such amounts as measured under tax law in the various jurisdictions. Tax loss carryforwards and accelerated tax depreciation on flight equipment held for operating leases give rise to the most significant timing differences. In addition, the U.S. subsidiaries have significant timing difference in respect of payments and receipts under the lease-in, lease-out transactions described in Note 16 and timing differences with respect to capitalized expenses.

The following tables describe the principal components of our deferred tax assets and liabilities by jurisdiction at December 31, 2005 and 2006.

| | December 31, 2005 | | | |
|---|---|---|---|---|
| | The Netherlands | Ireland | U.S. | Sweden |
| Depreciation/Impairment | $ 9,235 | $ 14,834 | $ 766 | |
| Prepayments on flight equipment | (4,297) | — | — | |
| Lease premium asset | 10,887 | 1,168 | — | |
| Lessee receivables | — | — | 8,130 | |
| Loss-making contracts | (21,401) | — | (29,068) | |
| Obligations under capital leases and debt obligations | — | (8,136) | — | |
| Capitalized expenses | — | — | (1,229) | |
| Investments | 39,827 | (2,500) | — | |
| Losses and credits forward | (22,072) | (50,925) | (5,616) | $(8,829) |
| Other | 1,953 | (1,611) | (4,823) | |
| Unrecognized tax asset | — | 17,431 | 31,840 | 8,829 |
| Net deferred tax liability (asset) | $ 14,132 | $(29,739) | $ — | $ — |

| | December 31,2006 | | | |
|---|---|---|---|---|
| | The Netherlands | Ireland | U.S. | Sweden |
| Depreciation/Impairment | $ 8,180 | $ 14,953 | $ 29,252 | $ — |
| Prepayments on flight equipment | (2,503) | — | — | — |
| Intangibles | 5,709 | 1,903 | 8,927 | — |
| Lessee receivables | — | — | (1,807) | — |
| Inventory | — | — | 2,145 | — |
| Loss-making contracts | (9,785) | — | (21,097) | — |
| Obligations under capital leases and debt obligations | — | (7,881) | — | — |
| Capitalized expenses | — | — | (1,275) | — |
| Investments | 25,389 | (2,500) | — | — |
| Losses and credits forward | (7,098) | (44,303) | (7,236) | (9,010) |
| Other | (3,287) | (710) | (3,720) | — |
| Unrecognized tax asset | — | — | — | — |
| Net deferred tax liability (asset) | $ 16,605 | $(38,538) | $ 5,189 | $(9,010) |

Deferred tax assets and liabilities are recognized at nominal value.

**17. Income taxes (Continued)**

*The Netherlands*

The majority of our Netherlands subsidiaries are part of a single Netherlands fiscal unity and are included in a consolidated tax filing. Due to the existence of losses forward and accelerated tax depreciation, no current tax expense arises with respect to the Netherlands subsidiaries. Deferred income tax is calculated using the Netherlands corporate income tax rate legislated to be in effect when the temporary differences reverse of 25.5% (2005; 29.6%).

***Ireland***

Our aircraft owning and principal operating Irish resident subsidiaries enjoyed the benefit of a 10% rate of corporate tax on qualifying trading activities until December 31, 2005. After December 2005, the enacted tax rate is 12.5%. Some of the Irish entities have significant losses forward at December 31, 2006 which give rise to deferred tax assets. The availability of these losses does not expire with time. Accordingly, no Irish tax charge arose during the year. Based on projected taxable profits in our Irish subsidiaries, including the anticipated interest income to be received from ALS securitization notes which we hold and the interest to be received by our Irish subsidiaries on loans transferred to Ireland in connection with our change in corporate structure described in Note 1, we expect to recover the full value of our Irish tax assets and have recognized a deferred tax asset at December 31, 2006. The offsetting entry to the recognition of the deferred tax asset reduced the income tax expense in the income statement.

***United States of America***

Our U.S. subsidiaries are assessable to federal and state U.S. taxes. Prior to our acquisition of AeroTurbine, our U.S. subsidiaries had significant timing differences available to offset future federal taxable profits and no current tax charge arose in periods prior to the AeroTurbine acquisition. Following a change of ownership of the U.S. Company in November 2000, and the change of control at the 2005 Acquisition, certain restrictions, under Section 382 of the IRS tax code, were imposed on the utilization of the net losses in existence at those dates and no tax asset had been recognized for these losses occurring prior to these changes of control. As of December 31, 2005, $5,616 of net losses occurring subsequent to the 2005 Acquisition existed, which would begin to expire in 2025. Based on projections of taxable income in the U.S. at December 31, 2005, however, the realizability of any portion of these deferred tax assets was not probable and were not recognized.

As a result of the AeroTurbine acquisition, our projections of future taxable income of the U.S. group indicate we will generate sufficient taxable income to recover the full value of all tax assets in the U.S. group, including net operating losses which begin to expire in 2025 which are not otherwise restricted under Section 382. Based on these projections, we have recognized the full deferred tax asset at December 31, 2006. The offsetting entry to the recognition of the deferred tax asset was the reduction of goodwill recognized in the AeroTurbine Acquisition.

Beginning with the tax year ending December 31, 2006, we will file a consolidated federal income tax return in the U.S. which will include the accounts of AeroTurbine. Section 384 of the IRS code restricts the use of net operating losses of an acquiring entity to offset recognized built-in gains of an acquired entity in certain circumstances. As a result of recognized built-in gains from the operations of AeroTurbine in the



period between the AeroTurbine Acquisition and December 31, 2006 which exceed the losses of the consolidated U.S. group during the same period, we expect to pay current federal and state income taxes of $1,430 related to 2006.

***Sweden***

The Swedish entities have significant losses forward at December 31, 2006 which give rise to deferred tax assets. The availability of these losses does not expire with time. Accordingly, no Swedish tax charge arose during the year. Based on projected taxable profits in our Swedish subsidiaries we expect to recover the full value of our Swedish tax assets and have recognized the deferred tax asset at December 31, 2006. The offsetting entry to the recognition of the deferred tax asset in Sweden reduced the provision for income taxes in the income statement.

## 18. Share Capital

From the date of our acquisition of AerCap B.V. to just prior to our initial public offering, we were a Netherlands limited partnership under the name of AerCap Holdings C.V. with $370,000 of partnership capital held by four limited partners and one general partner, all located in Luxemburg. In anticipation of our public offering, AerCap Holdings N.V. was formed with 45,000 shares held by the same Luxemburg entities. AerCap Holdings N.V. issued one additional share to acquire all of the assets and liabilities of AerCap Holdings C.V. in a common control transaction after which, AerCap Holdings C.V. was put into liquidation. On November 10, 2006, we effected a 1,738.6 for one stock split resulting in total shares issued and outstanding of 78,236,957 and reduced the par value of each common share from €1.00 to €.01. Because our conversion from a Netherlands limited partnership to a Netherlands public limited liability company was accomplished in a common control transaction, we have retroactively reflected our capital structure during the period when our group was owned by AerCap Holdings C.V. (limited partnership) as if it were owned by AerCap Holdings N.V. based on 78,236,957 shares outstanding.

On November 21, 2006, we sold 6.8 million shares at $23 per share in an initial public offering. We received net proceeds of $143,017 after deducting underwriting discounts and commissions and offering expenses payable by us. We used the net proceeds from the initial public offering plus existing cash to retire $168,600 of senior and subordinated debt of AeroTurbine, our wholly-owned subsidiary. In connection with the early retirement of this debt, we wrote off $3,300 of debt issuance costs and paid prepayment penalties of $1,686.

As of December 31, 2006, our authorized share capital consists of 200,000,000 common shares with a par value of €.01 with 85,036,957 issued and outstanding.

### 19. Share-based compensation

Effective June 30, 2005, holding companies which indirectly owned 100% of our equity interests put into place an Equity Incentive Plan ("Equity Plan") under which members of our senior management, Board of Directors and a consultant (the "participants") can be granted either restricted shares or share options ("Equity Grants") in the holding companies. The holding companies from which the restricted shares and share options have been granted were formed with identical capital structures (95% preferred shares and 5% common shares) and each have an equal percentage indirect ownership interest in us, representing 100% of our ownership interests in aggregate prior to our initial public offering and 69.3% after our initial public offering. The holding companies do not own any other significant assets or conduct any other significant activities outside of their indirect investment in us and the value of the holding companies is derived exclusively with reference to the value of our shares.

In addition to formal vesting restrictions, the terms of the Equity Grants contain provisions which allow the holding companies to repurchase any restricted shares or shares obtained through the exercise of options at the occurrence of certain employment termination events or cessation of service on the board of directors for share options issued to our independent directors. All holders of Equity Grants signed a Share Agreement in connection with our public offering which gives each of them the right to exchange their holding company shares or share options for our shares or options on our shares directly with the holding companies. Such right is not exercisable until two years from our initial public offering date. The Share Agreement also restricts all such holders from selling or pledging their interests in the holding companies. At the expiration of the two-year period, the participants will not be restricted from selling their interests in our shares.

In December 2005, restricted shares and share options were issued to members of our senior management and a consultant. The terms of the Equity Grants contain provisions which allow the holding companies to repurchase any restricted shares or shares obtained through the exercise of options at no cost at the occurrence of certain employment termination events. According to the terms of the Equity Grants issued at that time, the options were to vest and certain restrictions on the restricted shares were to lapse during the period from June 2005 to December according to certain time and performance criteria. As set forth in the restricted share and option agreements, all share options vested and all restrictions on restricted shares lapsed (other than the repurchase rights referred to above), upon the closing of our initial public offering. The fair value of the shares and options issued in December 2005 were calculated with reference to the transaction price for the 2005 Acquisition on June 30, 2005 and considered all factors effecting the value between that date and the grant date. For all shares and share options except those held by a consultant, expense recognition is based on the grant date fair value. The share-based compensation for the consultant is based on the mark-to-market value of the underlying shares at each reporting date. Despite the formal vesting of these restricted shares and share options at the date of our initial public offering, expense recognition of these Equity Grants will be recognized between the date of our initial public offering and two years from that date, which is the date that the holders can exchange their Bermuda holding company shares for shares in our company and sell them in the market. This period of two years represents the period of "substantial vesting".

On April 26, 2006, (the date of the AT Acquisition) the selling shareholders of AT purchased restricted shares in the holding companies. These restricted shares were subject to certain time and performance criteria similar to the December 2005 grants. The agreements which govern the restricted

**19. Share-based compensation (Continued)**

shares, allow the holding companies to call the restricted shares and allow the employees to put their shares back to the holding companies at fair market value upon the occurrence of certain employment termination events. In connection with our initial public offering, all restrictions on these restricted shares, other than the put and call rights referred to above, lapsed.

On August 21, 2006 and September 5, 2006 the holding companies issued stock options under the Equity Plan to three members of the Company's senior management. The options vest over a four-year period of time according to both time and performance-based criteria. Twenty-percent of the options vested upon our initial public offering and another 20% vested on December 31, 2006 based on achievement of performance measures. All of these options issued vest upon a change of control, excluding an initial public offering of our shares. The option agreements contain provisions which allow the holding companies to repurchase any shares obtained through the exercise of options at the lower of fair market value or the exercise price paid at the occurrence of certain employment termination events.

On September 5, 2006, the holding companies granted options under the Equity Plan to four non-executive directors of the Company. The options granted to the directors are not subject to vesting criteria and are exercisable for a period of ten years. The holding companies have the right to repurchase any shares acquired through the exercise of options at fair market value within 90 days of the conclusion of any director's term on the board of directors.

Since all of the Equity Grants outstanding are shares or share options in the holding companies and since the right of the holders of the Equity Grants to exchange their shares in the holding companies for our shares after the two-year period is not directly with us, the existence of the restricted share and share options is not dilutive to our share ownership.

The fair values of all shares and share options granted in 2006 as described above were calculated assuming the midpoint valuation of our shares held by the holding companies in connection with the public offering of our shares. To this value, a discount for lack of marketability ("DLOM") was applied to reflect the fact that (i) the shares being valued represent an illiquid minority interest in a closely-held indirect holding company without access to a recognized market and (ii) the shares are subject to significant restrictions which prevent their transfer or pledge. The application of a DLOM was supported by empirical data from studies of restricted shares and pre-IPO studies of share prices. In addition, the DLOM was supported by a "put-option" analysis which calculates the inherent difference in value between a freely traded share and an illiquid, restricted share.

With the exception of 25% of the restricted shares purchased by the AT executive, a DLOM of 20% was applied in the April 2006 valuation supporting the issuance of shares to the two AT executives. Because the AT executives had control over a employment termination right that would allow them to put the shares at fair market value to the holding companies immediately upon vesting, 25% of the shares purchased qualified as a liability award and the value of those shares was subject to mark-to-market movements until September 19, 2006, when the put right was modified through an amendment to the restricted share purchase agreement. A DLOM of 10% was applied to the valuation supporting the issuances in August and September 2006 and the 25% tranche held by the AT executives. The decrease to the DLOM between the two valuation dates reflects the increased probability of a successful public

**19. Share-based compensation (Continued)**

offering of our shares and the resulting closer proximity to a liquid market for shares in the holding companies.

The amount of compensation expense recognized for restricted shares is derived with reference to the excess of fair market value of the shares at the date of grant (or the date of the amendment related to the 25% fourth tranche held by the AT executives) over the price paid. The amount of expense recognized with respect to share options is based on the fair value of the option using the share valuation method described above and then applying a Black-Scholes option pricing model to the underlying share value. The value of each of the Equity Grants is recognized on a straight-line basis over the applicable vesting periods.

For options valued with a Black-Scholes option pricing model, we have used the following assumptions:

| | |
|---|---|
| Volatility | 38.25% - 39.90% |
| Expected life | 5.00—5.93 years |
| Risk-free interest rate | 4.67% - 4.72% |
| Dividend yield rate | 0.00% |

Since our shares had not traded in the public market, we derived our volatility assumptions by comparison to peer group companies. The expected life represents the period of time the options are expected to be outstanding. The risk free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the expected life of the options. The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention not to pay regular dividends in the foreseeable future. The differing volatilities and interest rates used result from the differences in expected life among the different tranches of stock options valued.

The offsetting entry for the compensation expense recognized for Equity Grants is to additional paid-in capital with no resulting effect on total shareholders' equity, other than the positive effect of the deferred tax benefit related to the tax deductible portion of share-based compensation charges.

(US dollars in thousands)

**19. Share-based compensation (Continued)**

A summary of issuances under the Equity Plan at December 31, 2006 is set forth below. Because the number of shares and share options under the Equity Plan are shares and share options of the Bermuda holding companies, ownership interests in the table below have been stated as the equivalent number of our shares which are represented by the Bermuda holding company shares at December 31, 2006.

| | Grant Date | Shares(a)(b) | Options(a) | Grant Date Fair Value | Expense recognized in the year ended December 31, 2006 |
|---|---|---|---|---|---|
| December 2005 Grant (executives) | December 29, 2005 | 3,898,085 | 1,535,446 | $ 3,056(c) | $ 3,134 |
| AT Executive Issuance | April 26, 2006 | 3,758,529 | — | 70,125 | 70,125 |
| Senior Management Issuance | August 21/ September 5, 2006 | — | 980,004(e) | 9,712(d) | 1,453 |
| Independent Director Issuance | September 5, 2006 | — | 252,587(e) | 3,923 | 3,923 |
| Total | | 7,656,614 | 2,768,037 | $ 86,816 | $ 78,635 |

(a) On a fully-diluted basis assuming all options vest and are exercised.
(b) In addition to shares granted under the Equity Plan, members of management have purchased Bermuda holding company shares indirectly representing 186,389 of our common shares.
(c) Excludes the fair value of 270,325 indirect shares owned by a consultant whose value is determined based on the mark-to-market value at each reporting date.
(d) Excludes the fair value of 367,502 indirect options where vesting is determined with respect to future performance criteria which has not yet been established. The share-based compensation charges for these options will be determined when those criteria are formally established.
(e) These indirect options are subject to an exercise price of $7.00 per share.

On October 31, 2006, we implemented an equity incentive plan that is designed to promote our interests by enabling us to attract, retain and motivate directors, employees, consultants and advisors and align their interests with ours. Our new equity incentive plan provides for the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and other stock awards to participants of the plan selected by the Nomination and Compensation Committee of our Board of Directors. Subject to certain adjustments, the maximum number of shares available to be granted under the plan is equal to 5% of our outstanding shares. No shares have been issued and none are outstanding under the plan. The terms and conditions of awards, including vesting provisions for stock options, are determined by the Nomination and Compensation Committee, except that, unless otherwise determined by the Nomination and Compensation Committee, or as set forth in an award agreement: (a) each stock option is granted for ten years from the date of grant, or, in the case of certain key employees, (i.e., employees owning more than 10% of our ordinary shares), for five years from the date of grant; provided, however, no stock option period may extend beyond ten years from the date of grant;

(US dollars in thousands)

## 19. Share-based compensation (Continued)

(b) the option price per share may not be less than 100% of the fair market value of the ordinary shares except that the option price per share for a key employee may not be less than 110% of the fair market value of the ordinary shares at the time the incentive stock option is granted; and (c) incentive stock options may only be issued to the extent the aggregate fair market value of shares with respect to the exercise of the incentive stock options for the first time by an option holder during any calendar year is $100,000 or less, with any additional stock options being treated as nonqualified stock options.

## 20. Segment information

*Reportable Segments*

Prior to the acquisition of AT, we operated in one reportable segment—leasing, financing and management of commercial aircraft. From the date of the acquisition of AT, we manage our business, analyze and report our results of operations on the basis of two business segments—leasing, financing, sales and management of commercial aircraft ("Aircraft") and leasing, financing and sales of engines and parts ("Engine and Parts").

The following sets forth significant information from our reportable segments:

| | Year ended December 31, 2006 | | |
|---|---|---|---|
| | Aircraft | Engines and parts | Total |
| Revenues from external customers | $ 677,063 | $125,193 | $ 802,256 |
| Segment profit (loss) | 164,687 | (57,805) | 106,882 |
| Segment assets | 3,589,293 | 390,183 | 3,979,476 |
| Segment liabilities | 3,067,042 | 131,700 | 3,198,742 |
| Segment investments in intangible fixed assets | 35,238 | 23,652 | 58,890 |
| Depreciation | 95,933 | 6,454 | 102,387 |

In 2005 the Company only consisted of the aircraft segment.

*Geographical Information*

The distribution of our lease revenue by geographic regions is as follows for the periods indicated:

| | June 27 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|
| Europe | 33% | 35% |
| Asia/Pacific | 44 | 43 |
| Latin America | 5 | 7 |
| North America and Caribbean | 18 | 15 |
| Africa/Middle East | — | — |
| | 100% | 100% |

**(US dollars in thousands)**

### 20. Segment information (Continued)

No lessee accounted for more than 10% of lease revenue in any of the periods indicated above. Sales revenue is comprised of 69% from our aircraft segment and 31% from our engine and parts segment. We have not provided a geographical breakdown of sales revenue because a material percentage of our sales are of movable flight equipment and are to buyers that have multiple locations. In addition, we have not provided a breakdown of management fee revenue, interest revenue or other revenue because amounts are less material than lease and sales revenue and we do not believe a geographical breakdown of such revenues is helpful in identifying geographical concentration risks to our business.

### 21. Selling, general and administrative expenses

Selling, general and administrative expenses include the following expenses:

| | AerCap Holdings N.V. | |
|---|---|---|
| | Period from June 27 to December 31, 2005 | Year ended December 31, 2006 |
| Personnel expenses | $10,003 | $110,240(a) |
| Social securities | 654 | 929 |
| Pensions | 1,411 | 1,335 |
| Other personnel expenses | 1,349 | 1,959 |
| Travel expenses | 1,270 | 4,635 |
| Professional services | 6,662 | 19,415 |
| Office expenses | 1,571 | 4,590 |
| Other expenses | 4,029 | 6,261 |
| | $26,949 | $149,364 |

(a) Includes share-based compensation of $78,635

We had 100 (71 located in the Netherlands) and 351 (71 located in the Netherlands) persons in employment as at December 31, 2005 and 2006, respectively. The increase in numbers of employees between the periods is primarily the result of the acquisition of AeroTurbine and employees hired at our leased facility in Goodyear, Arizona.

### 22. Earnings per common share

Basic and diluted earnings per share (EPS) is calculated by dividing net income by the weighted average of our common shares outstanding. We have no dilutive shares or share options. The computations of basic and diluted earnings per common share for the periods indicated below are shown in the following table:

| | Period from June 27 to December 31, 2005 | Year ended December 31, 2006 |
|---|---|---|
| Net (loss) income for the computation of basic and diluted earnings per share | $ 49,663 | $ 106,882 |
| Weighted average common shares outstanding | 78,236,957 | 78,992,513 |
| Basic and diluted (loss) earnings per common share | $ 0.63 | $ 1.35 |

### 22. Earnings per common share (Continued)

As discussed in Notes 1 and 18, the shares outstanding in the table above are those of AerCap Holdings N.V. retroactively applied to the period when AerCap Holdings C.V. was the owner of the group.

### 23. Related party transactions

AerCo is an aircraft securitization vehicle from which we hold all of the most junior class of subordinated notes and some notes immediately senior to those junior notes. We do not recognize value for the AerCo notes which we still hold on our consolidated balance sheets. We have received interest from AerCo on its D note investment of $850 and $1,700 for the period from June 27, 2005 to December 31, 2005 and for the year ended December 31, 2006, respectively. In addition, we provide a variety of management services to AerCo for which we received fees of $2,440 and $5,208 for the period from June 27, 2005 to December 31, 2005 and for the year ended December 31, 2006, respectively

We have made payments to Cerberus and third parties on behalf of Cerberus totaling approximately $1,203 since the 2005 Acquisition. The payments to Cerberus represent reimbursement of consulting fees paid by Cerberus to individuals who have assisted us in the evaluation of portfolio or company purchases, including our acquisition of AeroTurbine. In addition, this amount also includes approximately $200 of reimbursements for consulting services incurred by Cerberus in connection with Cerberus's evaluation of the 2005 Acquisition. We are currently establishing agreements directly with the consultants who we expect to retain for similar services instead of working with them through Cerberus. If we accept services from individuals employed by or contracted through Cerberus in the future, we expect these arrangements to reflect arms' length negotiations that will not be more favorable than the terms we could negotiate with an independent party. Payments to third parties on behalf of Cerberus consist of payments to advisors engaged by Cerberus in connection with the 2005 Acquisition.

We lease two A320-200 model aircraft to Air Canada. One lease began on April 23, 2002 and extends for a term of six years. The other lease began on May 29, 2002 and extends for a term of ten years. Cerberus indirectly controls 11% of the equity of Air Canada as from September 30, 2004 and has a majority equity interest in AerCap Holdings N.V. Cerberus did not hold such equity interest in Air Canada and AerCap Holdings N.V. at the time we entered into the leases with Air Canada.

In February 2006, we entered into a guarantee arrangement with DvB Bank AG and Aozora Bank Limited, an entity that is majority-owned by Cerberus. In addition, Pieter Korteweg, the Chairman of our Board of Directors, and Marius Jacques Leonard Jonkhart, a non-executive director, are also on the board of directors of Aozora Bank. The guarantee supports certain of our obligations to a Japanese operating lessor of up to $13,800 in connection with a JOL financing. The Japanese operating lessor required the guarantee as additional credit support following the 2005 Acquisition. We leased the A320 aircraft from the Japanese operating lessor under a lease and then subleased the aircraft to an aircraft operator. In the event we fail to make certain payments related to JOL financing, DvB Bank will make the payment on our behalf but will be reimbursed by Aozora Bank for any payments made. We have agreed to indemnify Aozora Bank for any payments it makes under the guarantee arrangement. The guarantee expires in February 2008. Under the terms of the guarantee arrangement, we are required to provide cash collateral to Aozora Bank if we breach certain financial covenants. Currently we are not in breach of any of these covenants and have not provided any cash collateral. In connection with the guarantee arrangement, we pay Aozora Bank a guarantee fee of 4.1% per annum of the amount guaranteed and have provided Aozora

**23. Related party transactions (Continued)**

Bank with a second priority share pledge over the shares of the entity that entered into the financing from the Japanese operating lessor.

In April 2006, we entered into a senior secured revolving credit facility in the aggregate amount of up to $1,000,000 with UBS Real Estate Securities Inc., UBS Securities Inc., Deutsche Bank Trust Company Americas and certain other financial institutions. Aozora Bank is a syndicate member under the facility and participated in up to $50,000 of the Class A loans and up to $25,000 of the Class B loans issued thereunder, representing 7.0% of the Class A loans and 13.9% of the Class B loans. As of December 31, 2006, we had drawn and there remained outstanding $173,243 of the class A loans and $40,625 of the class B loans.

We lease our office and warehouse located in Miami, Florida from an entity owned by the Chief Executive Officer and Chief Operating Officer of AeroTurbine. The lease for this facility expires on December 31, 2013. The lease was amended in March 2006 to adjust the rent to current market rates commencing on January 2007.

In 2004, we entered into leases for six A320 aircraft with WizzAir Hungary Limited. As part of a subsequent restructuring of amounts outstanding, WizzAir agreed to issue us shares of their equity representing 17.4% of their equity as of November 2004. In 2005, we agreed with WizzAir's other shareholders and creditors to enter into a Shareholders' and Noteholders' Agreement under which we agreed to convert trade receivables into an unsecured, non-amortizing € 7,800 note, convertible into approximately 26% of WizzAir's outstanding shares on a fully diluted basis as of February 2005. Under the terms of the Shareholders' and Noteholders' Agreement we were able to appoint a director of WizzAir between February 2005 and June 2005. The convertible notes were carried on our balance sheet at December 31, 2005 at $1,800. We sold all of our WizzAir convertible notes in September 2006.

**24. Commitments and contingencies**

***Contingent liabilities***

At December 31, 2006, we had also issued letters of credit in an amount of $44,556 in support of certain obligations. All issued letters of credit are fully cash collateralized with restricted cash. In addition, at December 31, 2006, we had committed credit facilities of $922,300 and an on-demand overdraft facility of $10,000, which were undrawn.

(US dollars in thousands)

## 24. Commitments and contingencies (Continued)

***Property and other rental commitments***

We have entered into property rental commitments with third parties, which expire in 2011, amounting to $7,499 and $16,255 as of December 31, 2005 and 2006, respectively. We also have lease arrangements with respect to company cars and office equipment. Minimum payments under the property rental agreements are as follows:

| | |
|---|---|
| 2007 | $ 3,775 |
| 2008 | 3,220 |
| 2009 | 3,072 |
| 2010 | 1,822 |
| 2011 | 1,822 |
| Thereafter | 2,544 |
| | $16,255 |

**Legal proceedings**

**VASP litigation**

We leased 13 aircraft and three spare engines to Vicao Aerea de Sao Paulo ("VASP"), a Brazilian airline. In 1992, VASP defaulted on its lease obligations and we commenced litigation against VASP to repossess its aircraft. In 1992, we obtained a preliminary injunction for the repossession and export of 13 aircraft and three spare engines (the "Repossessed Assets") from VASP. We repossessed and exported the Repossessed Assets in 1992. VASP appealed this decision.

In 1996, the High Court of the State of São Paulo (the "High Court") found in favor of VASP on its appeal. We were instructed to return the Repossessed Assets to VASP for the lease under the terms of the original lease agreements between us and VASP. The High Court also granted VASP the right to seek damages in lieu of the return of Repossessed Assets. Since 1996, we have pursued in this case in the Brazilian courts through various motions and appeals.

On March 1, 2006, the Superior Court of Justice dismissed our most recent appeal and on April 5, 2006 a special panel of the Superior Court of Justice confirmed the Superior Court of Justice decision. On May 15, 2006, we appealed this decision to the Federal Supreme Court. On February 23, 2006, VASP commenced a procedure for the calculation of the award for damages. Our external legal counsel has advised us that even if we lose on the merits, they do not believe that VASP will be able to demonstrate any damages. In October 2006, the English Courts approved our motion to serve process upon VASP in Brazil.

We continue to actively pursue all courses of action that may be available to us and intend to defend our position vigorously and to pursue each of our claims against VASP based on the damages we incurred as a result of the default by VASP on its lease obligations. Our management, based on the advice of external legal counsel, has determined that it is not necessary to make any provisions for this litigation.

(US dollars in thousands)

## 24. Commitments and contingencies (Continued)

### Swedish tax dispute

In 2001, the Swedish tax authorities challenged our position in tax returns filed for the years 1999 and 2000 with respect to certain deductions. In accordance with Swedish law, we made a guarantee payment to the tax authority of $16,792 in 2003, which was recorded as a receivable in anticipation that we would prevail in our arguments. We appealed the decision of the tax authorities and in August 2004, a Swedish court ruled in our favor, which resulted in a tax refund of $19,887 (which included interest and the effect of foreign exchange movements for the intervening period) to us, which was offset against the receivable established. In September 2004, the Swedish tax authorities appealed the decision of the Court and filed an appeal with the Administrative Court of Appeal in Sweden. We have responded to this appeal and have requested an oral hearing on the matter. The Court has responded that they would schedule an oral hearing, but we have not yet received notice of the timing of such hearing. Management, based on the advice of our tax advisors, has determined that it is not necessary to make any provisions for this tax dispute.

## 25. Fair values of financial instruments

The fair value (market value) of a financial instrument is the amount at which an asset can be traded or a liability settled between knowledgeable, willing parties in an arm's length transaction. Fair values of financial instruments have been determined with reference to available market information. However, considerable management judgment is required in interpreting market data to arrive at estimates of fair values. Accordingly, the estimates presented herein may not be indicative of the amounts that we could realize in a current market exchange.

| | December 31, 2005 | | December 31, 2006 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| **Assets** | | | | |
| Investments | $ 3,000 | $ 3,000(a) | $ 3,000 | $ 3,000(a) |
| Notes receivable | 49,848 | 49,848 | 5,300 | 5,300 |
| Restricted cash | 157,730 | 157,730 | 112,277 | 112,277 |
| Derivative assets | 18,420 | 18,420 | 17,871 | 17,871 |
| Cash and cash equivalents | 183,554 | 183,554 | 131,201 | 131,201 |
| | $ 412,552 | $ 412,552 | $ 269,649 | $ 269,649 |
| **Liabilities** | | | | |
| Debt | $1,989,713 | $2,002,457 | $2,336,360 | $2,336,360 |
| Derivative liabilities | 8,087 | 8,087 | — | — |
| Guarantees | 18,798 | 18,798 | 15,668 | 15,668 |
| | $2,016,598 | $2,029,342 | $2,352,028 | $2,352,028 |

(a) This represents an investment of 12 percent in a class of subordinated debt of a private company. We do not believe it is practicable to estimate the fair value of this investment and have listed its fair value as equal to our carrying value, which equals its historical cost.

(US dollars in thousands)

## 26. Directors' remuneration

We currently pay each non-executive director who is not affiliated with Cerberus an annual fee of €75,000 and pay each of these directors an additional €2,000 per meeting. We pay our Chairman of our Board of Directors €150,000 per year. In addition, we pay the chairs of the Audit Committee and Nomination and Compensation Committee an annual fee of €18,000 and each committee member will receive an annual fee of €6,000 and a fee of €2,000 per committee meeting. All members of the Board of Directors are reimbursed for reasonable costs and expenses incurred in attending meetings of our Board of Directors. Certain of our board members have been granted options in holding companies which have a majority stake in our shares as described below. The table below indicates the total remuneration paid to our non-executive directors during 2006:

| | Director fees |
|---|---|
| P. Korteweg | €180,000 |
| J. Chapman | €109,000 |
| M. Jonkhart | €123,000 |
| R. Bolger | €121,000 |

### *Executive Director*

During 2006, we paid Mr. Heinemann, our only executive director, an annual base salary of €375,000 and we accrued for the payment of an annual incentive bonus of €600,000 which was paid in February 2007. Mr. Heinemann's base salary for 2007 is set at €375,000 and his 2007 target bonus is €500,000. This compensation package was derived based on our understanding of comparable compensation packages for similar-sized competitors in our industry. We believe that the ratio of fixed and variable/incentive compensation is reasonable and provides an appropriate level of incentive compensation to promote the achievement of established targets. The targets established in relation to the incentive compensation relate primarily to the achievement of full-year net income targets. Incentive compensation is determined and paid once each quarter after publication of the Company's quarterly operating results. In addition to base salary and incentive compensation, Mr. Heinemann participates in the Company's defined benefit pension plan. The Company made contributions to the defined benefit plan in 2006 for Mr. Heinemann of €105,000. In addition to the remuneration above, Mr. Heinemann received other employment benefits such as a health benefits and a company car allowance which were not material to his total remuneration in 2006. Mr. Heinemann's employment contract expires on July 3, 2009. His employment contract includes a severance clause that grants him 18-months of base salary, benefits and bonus (based on the average of the three prior year bonuses) payments in the event that he does not renew his employment contract at its expiration or is terminated without cause or voluntarily leaves for good reason (as such terms are defined in the employment agreement). As described below, Mr. Heinemann has been granted share options in holding companies which have a majority stake in our shares as described below.

### *Restricted Shares and Share Options*

Bermuda holding companies (the "Bermuda Parents") which indirectly hold a majority stake in our shares have implemented an equity incentive plan that is designed to motivate and retain individuals who are responsible for the attainment of our primary long-term performance goals. The plan provides for the

**26. Directors' remuneration (Continued)**

grant of nonqualified stock options, incentive stock options for shares of common stock and restricted shares of common stock of the Bermuda Parents to participants of the plan selected by the boards of directors of the Bermuda Parents or a committee of each of their respective boards of directors or the administrator of the plan. Subject to certain adjustments, the maximum number of shares available to be granted under the plan is equal to 25% of the outstanding common shares of the Bermuda Parents. All options issued under the plan are exercisable for a period of ten years from their issuance.

All shares and options granted under the Bermuda Parents equity incentive plan vested after completion of our initial public offering in November 2006, except for options outstanding to three members of management issued originally in August and September of 2006. Even after vesting, pursuant to a shareholders agreement, all vested common shares and options to purchase common shares of the Bermuda Parents issued under the plan (other than common shares held by the former AeroTurbine owners and our directors) are subject to repurchase by the Bermuda Parents in the event the manager or director leaves his or her position without good cause or is terminated by us with cause, at a price equal to the lower of the cost or fair value until the termination of the two-year lock-up period described below. All common shares and options to purchase common shares are also subject to repurchase at fair value if the manager or director leaves for any other reason. The common shares of the Bermuda Parents are also subject to Cerberus's drag-along rights and the plan participant's tag-along rights in the event of certain transactions involving sales of the common shares of the Bermuda Parents.

In connection with our initial public offering, the members of our senior management and directors who have received shares or options to purchase shares of the Bermuda Parents under the Bermuda Parents equity incentive plan agreed not to offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of any of our ordinary shares directly held by them or indirectly held through the Bermuda Parents. Subject to limited exceptions, the lock-up is for a period of two years from the date our initial public offering was consummated. In addition, the members of our senior management and directors holding common shares of the Bermuda Parents also have received the right, beginning on the second anniversary of the consummation of this offering and ending on the fifth anniversary, to exchange Bermuda Parents common shares for our ordinary shares held by the selling shareholders in amounts representing their indirect interest in us held through the Bermuda Parents. To assist our management and directors in the resale of our ordinary shares to be held by them upon such exchange, we have agreed to file a registration statement and use commercially reasonable efforts to keep the registration statement continuously effective until all applicable ordinary shares have been sold or can be sold without registration under Rule 144(k) under the Securities Act.

(US dollars in thousands)

**26. Directors' remuneration (Continued)**

The table below includes a summary of Bermuda Parent shares and share options outstanding at December 31, 2006. The share numbers in the table represent the equivalent number of our shares into which the Bermuda Parent shares and share options are exercisable.

| | Restricted shares (a) | Vested Options Subject to No Strike Price | Vested Options Subject to $7.00 Strike Price | Unvested Options Subject to $7.00 Strike Price |
|---|---|---|---|---|
| **Executive Director:** | | | | |
| K. Heinemann | 381,082.07 | 1,405,690.01(b) | — | — |
| **Non-Executive Directors:** | | | | |
| P. Korteweg | — | 84,195.59(c) | — | — |
| J. Chapman | — | 84,195.59(c) | — | — |
| M. Jonkhart | — | 42,097.80(c) | — | — |
| R. Bolger | — | 42,097.80(c) | — | — |
| **All other employees** | 5,312,332.37 | 129,755.92(b) | 97,317.00(c) | 145,975.50(c) |

(a) These restricted shares were issued in December 2005. All restrictions, other than repurchase restrictions discussed above lapsed in connection with the Company's initial public offering.

(b) These options were issued in December 2005 and vested fully in connection with the Company's initial public offering.

(c) These options were issued in August/September 2006. The vested portion vested in connection with our initial public offering and the satisfaction of certain time-based criteria. The unvested portion will vest through December 31, 2009 based partially on the satisfaction of time-based criteria and partially based on performance criteria which has yet to be established by the Nomination and Compensation committee.

## 27. Subsidiary undertakings

The subsidiaries which are taken up in the consolidated financial statements are direct and indirect subsidiaries 100% owned, unless otherwise stated.

*The Netherlands*

AerCap B.V.
AerCap Aircraft Finance XI B.V.
AerCap Aircraft Finance XII B.V.
AerCap Aircraft Finance XIII B.V.
AerCap Aircraft Finance XVII B.V.
AerCap Aircraft Finance XVIII B.V.
AerCap Leasing I B.V.
AerCap Leasing II B.V.
AerCap Leasing VIII B.V.
AerCap Leasing XIII B.V.
AerCap Leasing XIV B.V.
AerCap Leasing XIX B.V.
AerCap Leasing XVI B.V.
AerCap Leasing XVII B.V.
AerCap Leasing XVIII B.V.
AerCap Leasing XXII B.V.
AerCap Leasing XXIX B.V.
AeroTurbine B.V.
AerCap Leasing XXX B.V.
AMS AerCap B.V.
Brazilian Aircraft Finance IX B.V.
Brazilian Aircraft Finance X B.V.
Brazilian Aircraft Finance XI B.V.
Brazilian Aircraft Finance XIII B.V.
Brazilian Aircraft Finance XIV B.V.
Brazilian Aircraft Finance XV B.V.
Brazilian Aircraft Finance XVII B.V.
Budapest Aircraft Finance I B.V.
AerCap Netherlands B.V.
Mexican Aircraft Finance I B.V.

*Ireland*

Deasnic Aircraft Leasing Limited
AerCap Celtavia 1 Limited
AerCap Celtavia 2 Limited
AerCap Celtavia 3 Limited
AerCap Celtavia 4 Limited
AerCap Celtavia 5 Limited
AerCap Celtavia 6 Limited
Air Tara Limited
AerCap Administrative Services Limited
AerCap Associate Holdings Limited
AerCap Cash Manager Limited
AerCap Cash Manager II Limited
AerCap CNW Finance Limited
AerCap Financial Services (Ireland) Limited
AerCap Fokker Limited
AerCap Fokker100 Finance Limited
AerCap Ireland Limited
AerCap 1041 Limited
AerDragon Aviation Partners Limited and Subsidiaries (25%)
debis AirFinance 1 Limited
Air Maple Limited
GPA Group Limited
GPA Aero Citra Limited
AerFi Group Limited
Irish Aerospace Limited
Tyrolean Limited
Irish Aerospace Leasing Limited
AerCap Jetprop Limited
Skyscape Limited
Sunflower Aircraft Leasing Limited

**27. Subsidiary undertakings (Continued)**

Mexican Aircraft Finance II B.V.
Paris Aircraft Finance IV B.V.
Stockholm Aircraft Finance III B.V.
Stockholm Aircraft Finance IV B.V.
AerCap Dutch Aircraft Leasing B.V.
AerCap Dutch Aircraft Leasing I B.V.

***Ireland***

AerVenture Limited (50%)
Bella Aircraft Leasing 1 Limited (50%)
Bella Aircraft Leasing 3 Limited
Lishui Aircraft Leasing Limited
AerFunding 1 Limited and subsidiaries (5%)
AerFunding Leasing 25177 Limited
AerFunding Leasing 28825 Limited
AerFunding Leasing 28230 Limited
AerFunding Leasing 28232Limited
AerFunding Leasing 2981 Limited
AerFunding Leasing 3027 Limited
AerFunding Leasing 3034 Limited
AerFunding Leasing 3049 Limited
AerFunding Leasing 3136 Limited
AerFunding Leasing 3294 Limited
AerFundiing Leasing Asiana Limited
Marco Aircraft Leasing Limited

***France***

Dijon Location S.A.R.L.
Valence Location S.A.R.L.
Lyon Location S.A.R.L.
Lyon Aircraft Leasing I S.A.R.L.
Lille Location S.A.R.L.
Metz Location S.A.R.L.

Ancla Ireland Limited
Jasmine Aircraft Leasing Limited
Orchid Aircraft Leasing Limited
Berlin Aircraft Leasing Limited
Pirlo Aircraft Leasing Limited
Jade Aircraft Leasing Limited
Jasper Aircraft Leasing Limited

***Bermuda***

AerCap (Bermuda) No.3 Limited
AerCap Holdings (Bermuda) Limited
LC Bermuda No. 2 Limited
LC Bermuda No. 2 L.P.
Juan B. Martinez Leasing 1 Limited
Juan B. Martinez Leasing 2 Limited

***US***

AeroTurbine Inc
AerCap, Inc
AerCap USA, Inc
AerCap Corporation
AerCap Technologies USA, Inc
AerCap Leasing USA I, Inc
AerCap Leasing USA Sub 1, Inc
AerCap Leasing USA II, Inc

***Cayman Islands***

AerCap Corvo Limited
Airtransport Leasing Inc
Elasis (Cayman Islands) Limited
AerCap 320 Limited
AerCap 320 A Limited
AerCap 320 B Limited
AerCap 320 C Limited
AerCap Leasing 8 Limited

**27. Subsidiary undertakings (Continued)**

Toulouse Location S.A.R.L.

***U.K***

Elasis Leasing Limited
Elasis Leasing III Limited
AerCap International Limited
AerFunding Leasing UK Limited

***Norway***

Asset Management A/S

***Jersey***

AerCap Jet Limited
Aircraft Lease Securitisation Ltd and subsidiaries (4.9%)

***Isle of Man***

AerCap IOM Limited
AerCap Holding (I.O.M.) Limited
Acorn Aviation Limited
Crescent Aviation Limited
Stallion Aviation Limited

AerCap HK-320-A Limited
AerCap HK-320-B Limited
AerCap HK-320-C Limited
AerCap G Caymans Limited
Air Tara Hong Kong Limited
Air Tara Caymans I Limited
Air Tara Caymans II Limited
AerCap A Bordeaux Limited

***Malaysia***

AerCap Asia Limited

***Sweden***

AerFi Sverige AB
AerFi Sverige Aircraft AB

**AerCap Holdings N.V.**

**Company Balance Sheets**

**As of December 31, 2006**

**(After proposed profit appropriation)**

**(US dollars in thousands except share amounts)**

| | Note | 2006 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | | $ 792 |
| Investments | 29 | 986,214 |
| **Total Assets** | | $987,006 |
| **Liabilities and Shareholders' Equity** | | |
| Accrued expenses and other liabilities | | 447 |
| Negative goodwill | 30 | 237,762 |
| **Total Liabilities** | | 238,209 |
| Ordinary share capital, €.01 par value (200,000,000 ordinary shares authorized, 78,236,957 and 85,036,957 ordinary shares issued and outstanding, respectively) | | 699 |
| Additional paid-in capital | 31 | 764,969 |
| Accumulated deficit | | (16,871) |
| **Total Shareholders' Equity** | | 748,797 |
| **Total Liabilities and Shareholders' Equity** | | $987,006 |

**AerCap Holdings N.V.**

**Company Income Statement**

**for the period from July 10, 2006 to December 31, 2006**

**(US dollars in thousands)**

| | |
|---|---|
| Result from participation after taxation | $(21,229) |
| Other income and expenses after taxation | 4,358 |
| **Net Loss** | $(16,871) |

***(US dollars in thousands)***

### 28. Summary of significant accounting policies

**General**

AerCap Holdings N.V. is a limited liability company formed on July 10, 2006. The principles of valuation and determination of result for AerCap Holdings N.V. and the consolidated financial statements are the same. For these principles we refer to the consolidated financials statements.

The financial statements of the Company are presented in accordance with accounting principles generally accepted in the Netherlands. The income statement is presented in accordance with BW2 Title 9 Art. 402.

**Investments**

Investments consist of investments in subsidiaries. The majority participating interests (direct and indirect) in which the AerCap Holdings N.V. is able to exercise control are stated in principle at net asset value. The net asset value of majority participating interests is determined in accordance with the principles underlying these consolidated financial statements.

### 29. Investments

The movement in investments can be summarized as follows:

| | Total |
|---|---|
| Balance as at July 10, 2006 | $ — |
| *Movements* | |
| Contribution from AerCap Holdings C.V. | 802,694 |
| Equity investment in subsidiaries | 143,217 |
| Share-based compensation | 61,602 |
| Result of subsidiaries | (21,299) |
| Balance as at December 31, 2006 | $986,214 |

### 30. Negative goodwill

The movement in negative goodwill can be summarized as follows:

| | Total |
|---|---|
| Balance as at July 10, 2006 | $ — |
| *Movements* | |
| Contribution from AerCap Holdings C.V .. | 242,953 |
| Amortization | (5,191) |
| Balance as at December 31, 2006 | $237,762 |

**(*US dollars in thousands)***

### 31. Shareholders' Equity

The movement in shareholders' equity  can be summarized as follows:

| | Number of shares | Share capital | Additional paid-in capital | Retained (loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|
| Balance at July 10, 2006 | | | | | |
| Contribution from AerCap Holdings C.V. | 78,236,957 | $646 | $559,803 | $ — | $560,449 |
| Issuance of equity capital in public offering | 6,800,000 | 53 | 143,564 | | 143,617 |
| Share-based compensation | | | 61,602 | | 61,602 |
| Net loss for the period | | | | (16,871) | (16,871) |
| Balance at December 31, 2006 | 85,036,957 | $699 | $764,969 | $(16,871) | $748,797 |

As described in Note 15, the ability of our wholly-owned subsidiary, AeroTurbine, to declare and pay dividends to us of cash or other assets, above a certain threshold is restricted under the terms of its revolving credit facility. Our consolidated shareholders' equity includes shareholders' equity attributable to AeroTurbine of $258,483.

The net loss of $16,871 in the table above differs from the net income of the consolidated group by $123,753 due to the fact that the group consolidated results are for a period of one year, whereas the results above are from the period July 10, 2006 to December 31, 2006 and the Company had operations only from October 27, 2006.

### 32. Employees

AerCap Holdings N.V. does not have any employees.

### 33. Fiscal unity

The company forms a fiscal unity for corporate income tax and turnover tax purposes with AerCap B.V. Under the Tax Collection Act, the company is jointly and severally liable for the taxes payable by the group. The tax expense recognised in the financial statement of AerCap B.V., a subsidiary, is based on its profit for financial reporting purposes. AerCap Holdings N.V. settles its intercompany balances with AerCap B.V. based on the subsidiary's profit for financial reporting purposes.

### 34. Declaration of liability

AerCap Holdings N.V. has issued a declaration of liability as referred to in Article 403 of the Netherlands Civil Code in respect of its subsidiary AerCap B.V.

## Other information

### Profit appropriation according to the Articles of Association

According to article 15 of the Articles of Association the profit for the year is at the free disposal of the General Meeting of Shareholders.

### Appropriation of year end results

It will be proposed to the Shareholders to include the result for the period ended December 31, 2006, a gain of US$106.9 million, in retained earnings.

### Subsequent Events

In March 2007, we purchased a portfolio of nine aircraft and three spare engines. We were previously the lessee under a lease-in, lease-out structure for four of the nine aircraft for which we have recognized an onerous contract accrual (Note 16). The purchase economics reflected a discounted settlement of our onerous contract accrual. We have reduced the net book value of the four purchased aircraft by the amount of the discount on the settlement of onerous contract accrual. At December 31, 2006 we had recognized a guarantee liability of $10,511 in relation to a guarantee we had given on the leases of these five aircraft to a U.S. airline. In connection with the purchase of the portfolio, our guarantee liability has been extinguished and we will recognize the $10,511 as other income in our 2007 consolidated income statement.

To the General Meeting of Shareholders of
AerCap Holdings N.V.

**Auditor's report**

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements 2006 which are part of the financial statements of AerCap Holdings N.V., Amsterdam as set out on pages 21 to 74 which comprise the consolidated balance sheet as at December 31, 2006, the consolidated profit and loss account for the year then ended and the notes.

*The directors' responsibility*

The directors of the company are responsible for the preparation and fair presentation of the consolidated financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AerCap Holdings N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, March 20, 2007
PricewaterhouseCoopers Accountants N.V.

/s/ A. Tukker RA

To the General Meeting of Shareholders of
AerCap Holdings N.V.

**Auditor's report**

**Report on the company financial statements**

We have audited the accompanying company financial statements 2006 which are part of the financial statements of AerCap Holdings N.V., Amsterdam as set out on pages 75 to 78 which comprise the company balance sheet as at December 31, 2006, the profit and loss account for the period from July 10, 2006 to December 31, 2006 and the notes.

*The directors' responsibility*

The directors of the company are responsible for the preparation and fair presentation of the company financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the company financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express an opinion on the company financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the company financial statements give a true and fair view of the financial position of AerCap Holdings N.V. as at December 31, 2006, and of its result for the period from July 10, 2006 to December 31, 2006 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the company financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, March 20, 2007
PricewaterhouseCoopers Accountants N.V.

/s/ A. TUKKER RA