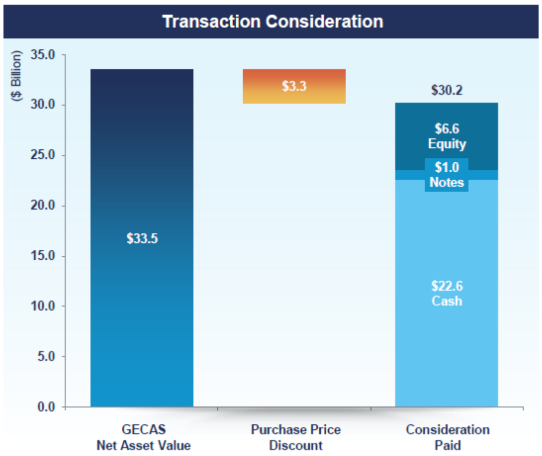
PPA Explanation – Slides and Comments from 4Q21 Transcript

GECAS Purchase Price Allocation



($ billion)	Fair Value
Flight Equipment	24.4
Maintenance Rights Asset & Lease Premium Asset	4.0
Prepayments on Flight Equipment	3.0
Other Assets	2.3
Accrued Maintenance Liability	(1.2)
Other Liabilities	(2.2)
Total Consideration	30.2

See Appendix – Endnotes.

As many of you know, when we acquired the GECAS business, we were required under GAAP to fair value all the assets and liabilities.

The net asset value of the GECAS business on their closing balance sheet was $33.5 billion dollars. We paid GE total consideration of $30.2 billion, which was comprised of $22.6 billion dollars in cash, $1.0 billion dollars of notes issued directly to GE, and $6.6 billion of equity, which is 111.5 million shares multiplied by the stock price on the closing date. So that $30.2 billion is the total amount of value that we had to allocate through the purchase price allocation, or PPA, process.

As you'd expect, the largest amount of value was allocated to flight equipment. It's important to note, though, that in purchase accounting, we are required to separate the metal value of the flight equipment assets – that is, based on the actual physical condition that they are in as of the closing date – and other assets related to the lease contracts we have in place for that flight equipment. We have $24.4 billion dollars of flight equipment based on the physical condition of the aircraft, engines, and helicopters. In addition, we also have a further $4.0 billion dollars of related maintenance rights assets. So altogether the total value of flight equipment assets is $28.4 billion.

We have another asset of $3 billion dollars that reflects the prepayments on flight equipment, or PDPs, which GECAS made to the OEMs for future orders.

In addition, we've recognized an accrued maintenance liability for amounts that we expect to reimburse our customers for future maintenance events. And then there are also some other assets and liabilities.

GECAS Purchase Price Allocation (cont'd)

Under purchase accounting, we recorded all GECAS assets and liabilities at fair value on the acquisition closing date of November 1, 2021

Purchase Price Allocation	Fair Value (billion)	Basis of Calculation	Amortization Period
Flight Equipment	$24.4	• Based on maintenance condition of each asset on closing date and discounted cash flows over remaining life of each asset	• Amortized over remaining useful life of each asset
Maintenance Rights Asset	$2.8	• Represents difference between (a) actual maintenance condition of each flight equipment asset on closing date and (b) contractual maintenance return condition at lease termination, as specified in lease agreement	• Amortized over remaining lease term upon occurrence of maintenance events or upon end of lease • Effectively results in accelerated depreciation of lease assets during this period
Lease Premium Asset	$1.2	• Represents difference between (a) contracted lease rental rate under lease agreement and (b) prevailing market rental rate as of closing date	• Amortized over remaining lease term as a reduction to basic lease rents • Effectively results in accelerated depreciation of lease assets during this period
Maintenance Liability	$1.2	• Represents expected amount that AerCap will reimburse lessee for maintenance events during remaining term of current lease	• Reduced upon reimbursement of lessee for maintenance events

I thought it would be useful to explain a few of these key items in a little more detail. For those of you who are familiar with our acquisition of ILFC in 2014, we went through exactly the same process this time and recognized the same types of maintenance rights assets, lease premium assets and maintenance liabilities that we did back in 2014.

The flight equipment of $24.4 billion dollars was based on the actual maintenance condition of each asset as of the closing date and the discounted cash flows over the remaining life of that asset. This amount will be depreciated over the remaining useful life of each asset. For most passenger aircraft, that means over the remaining useful life until the aircraft is 25 years old.

The **maintenance rights asset** represents the difference between the physical condition of each asset on the closing date and the contractually required return condition at the end of the lease. As many of you know, the lessee is responsible for the maintenance of our aircraft while they're on-lease. They either make maintenance reserve payments to us on a monthly basis based on the utilization of the aircraft over the previous month, which is called a maintenance reserve contract, or they make a payment to us at the end of the lease for the value difference between the actual return condition and the contractually required return condition, which is called an end-of-lease contract.

This maintenance rights asset is amortized over the remaining term of the lease, not over the remaining useful life of the aircraft. This effectively results in accelerated depreciation of the asset over the remaining term of the lease. It is amortized when events occur, rather than on a straight-line basis, so it can move around from quarter to quarter depending on what events happened during that quarter.

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When we calculate the fair value of assets, we have to look at the market as of the closing date. If we have a lease that's in the money – in other words, where the rental rate in the lease agreement is higher than the prevailing market rate as of the closing date – we have to recognize a **lease premium asset**. The lease premium asset represents the discounted value of those differences between the contractual rate and the market rate and is amortized over the remaining term of the lease as a reduction to basic lease rents. This has two impacts: first, it reduces the amount of revenue that we will report during the remaining term of the lease, and second, it results in accelerated depreciation of lease assets over the period – that's because the lease premium asset, like the maintenance rights asset, is amortized over the remaining lease term, not the remaining useful life.

And finally, the maintenance liability is the amount that we expect to reimburse our lessees for maintenance events that occur during the remainder of the lease. That liability of $1.2 billion dollars will increase as we receive future maintenance payments and will decrease when the maintenance events occur, and we reimburse our lessees.

So, what does all this mean in practice? It means that the purchase accounting rules have a significant impact on our balance sheet and our income statement. To give you an idea of this, during the fourth quarter alone, our revenue was reduced by a non-cash amount of $129 million dollars due to amortization of the maintenance rights asset and lease premium asset during the quarter.

I realize that's a lot of information on accounting topics but given the sizes of these items and the significant impact on the financial statements, I thought it would be useful to explain all of this in some detail.