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Aircastle LTD

Form 10-K

February 12, 2019

P5Y04124600047304000false--12-31FY20182018-12-3110-K000136298878564901YesLarge Accelerated

Filer1040970000Aircastle

LTDNoYes3552000135000013500000.010.01250000000250000000787079637545451178707963753249890.05030.02270.03

style="font-family:Times New Roman;font-size:10pt;"><div

style="line-height:120%;padding-bottom:16px;padding-top:8px;font-size:10.5pt;"><font

style="font-family:inherit;font-size:10.5pt;font-weight:bold;">Accumulated Other Comprehensive

Loss</font></div><div

style="line-height:120%;padding-bottom:4px;text-align:justify;text-indent:32px;font-size:10.5pt;"><font

style="font-family:inherit;font-size:10.5pt;">The following table describes the principal components of accumulated

other comprehensive loss recorded on our Consolidated Balance Sheets as of:</font></div><div

style="line-height:120%;padding-bottom:4px;text-align:left;font-size:10pt;"><div

style="padding-left:0px;text-indent:0px;line-height:normal;padding-top:10px;"><table cellpadding="0"

cellspacing="0" style="font-family:Times New

Roman;font-size:10pt;width:100%;border-collapse:collapse;text-align:left;"><tr><td colspan="8"

rowspan="1"></td></tr><tr><td style="width:75%;" rowspan="1" colspan="1"></td><td style="width:1%;" rowspan="1"

colspan="1"></td><td style="width:10%;" rowspan="1" colspan="1"></td><td style="width:1%;" rowspan="1"

colspan="1"></td><td style="width:1%;" rowspan="1" colspan="1"></td><td style="width:1%;" rowspan="1"

colspan="1"></td><td style="width:10%;" rowspan="1" colspan="1"></td><td style="width:1%;" rowspan="1"

colspan="1"></td></tr><tr><td

style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"

colspan="1"><div style="font-size:8pt;"><font style="font-family:inherit;font-size:8pt;font-weight:bold;">Changes in

accumulated other comprehensive loss by component</font><font

style="font-family:inherit;font-size:8pt;font-weight:bold;"><sup

style="vertical-align:top;line-height:120%;font-size:5pt">(1)</sup></font></div></td><td colspan="7"

style="vertical-align:bottom;border-bottom:1px solid

#000000;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div

style="text-align:center;font-size:8pt;"><font style="font-family:inherit;font-size:8pt;font-weight:bold;">Year Ended

December 31,</font></div></td></tr><tr><td

style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"

colspan="1"><div style="overflow:hidden;font-size:10pt;"><font

style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3"

style="vertical-align:bottom;border-bottom:1px solid

#000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:center;font-size:8pt;"><font

style="font-family:inherit;font-size:8pt;font-weight:bold;">2018</font></div></td><td

style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px

solid #000000;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font

style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3"

style="vertical-align:bottom;border-bottom:1px solid

#000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:center;font-size:8pt;"><font

style="font-family:inherit;font-size:8pt;font-weight:bold;">2017</font></div></td></tr><tr><td

style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font

style="font-family:inherit;font-size:9pt;">Beginning balance</font></div></td><td

style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font

style="font-family:inherit;font-size:9pt;">\$</font></div></td><td

style="font-family:inherit;font-size:9pt;">\$</font></div></td><td

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style="vertical-align:bottom;background-color:#cceedd;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">(1,350</font></div></td><td style="vertical-align:bottom;background-color:#cceedd;padding-right:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;"></font></div></td><td style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceedd;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">\$</font></div></td><td style="vertical-align:bottom;background-color:#cceedd;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">(3,552</font></div></td><td style="vertical-align:bottom;background-color:#cceedd;padding-right:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;"></font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceedd;padding-left:12px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Amount recognized in other comprehensive loss on derivatives, net of tax expense of \$0 for all periods presented</font></div></td><td colspan="2" style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;background-color:#cceedd;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="2" style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;background-color:#cceedd;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:12px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Amounts

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reclassified from accumulated other comprehensive loss into income, net of tax expense </font></div><div style="font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#160;&#160;&#160;&#160;of \$0 for all periods presented</font></div></td><td colspan="2" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="2" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">2,202</font></div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceedf;padding-left:20px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Net current period other comprehensive income</font></div></td><td colspan="2" style="vertical-align:bottom;border-bottom:1px solid #000000;background-color:#cceedf;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;border-bottom:1px solid #000000;background-color:#cceedf;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;background-color:#cceedf;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="2" style="vertical-align:bottom;border-bottom:1px solid #000000;background-color:#cceedf;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">2,202</font></div></td><td style="vertical-align:bottom;border-bottom:1px solid #000000;background-color:#cceedf;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceedf;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Ending balance</font></div></td><td colspan="3" style="vertical-align:bottom;border-bottom:3px double #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceedf;" rowspan="1" colspan="1"></td></tr>



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style="vertical-align:bottom;border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:center;font-size:8pt;"><font style="font-family:inherit;font-size:8pt;font-weight:bold;">2018</font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:center;font-size:8pt;"><font style="font-family:inherit;font-size:8pt;font-weight:bold;">2017</font></div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Losses on cash flow hedges</font></div></td><td colspan="3" style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:12px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Amount of effective amortization of net deferred interest rate derivative losses</font><font style="font-family:inherit;font-size:9pt;"><sup style="vertical-align:top;line-height:120%;font-size:6pt">(2)</sup></font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">\$</font></div></td><td style="vertical-align:bottom;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">\$</font></div></td><td style="vertical-align:bottom;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">2,202</font></div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceedd;padding-left:12px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Effective amount of net settlements of interest rate derivatives, net of tax expense of \$0 for all periods presented</font></div></td><td colspan="2" style="vertical-align:bottom;background-color:#cceedd;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;background-color:#cceedd;" rowspan="1" colspan="1"><div style="vertical-align:bottom;background-color:#cceedd;" rowspan="1" colspan="1"></div>

<font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;background-color:#cceedf;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="2" style="vertical-align:bottom;background-color:#cceedf;padding-left:2px;padding-top:2px;padding-bottom:2px;rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;background-color:#cceedf;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Amount of loss reclassified from accumulated other comprehensive loss into income</font></div></td><td style="vertical-align:bottom;border-bottom:3px double #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">\$</font></div></td><td style="vertical-align:bottom;border-bottom:3px double #000000;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;border-bottom:3px double #000000;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;border-bottom:3px double #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;"><div style="text-align:right;font-size:9pt;">2,202</font></div></td><td style="vertical-align:bottom;border-bottom:3px double #000000;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr></table></div></div><div style="line-height:120%;padding-bottom:12px;text-align:left;padding-left:6px;text-indent:144px;font-size:8pt;"><font style="font-family:inherit;font-size:8pt;text-decoration:underline;">&#160;&#160;&#160;&#160;&#160;&#160;&#160;&#160;&#160;</font><div style="line-height:120%;padding-bottom:4px;text-indent:6px;font-size:8pt;"><font style="font-family:inherit;font-size:8pt;">(1) All amounts are net of tax.</font></div><div style="line-height:120%;padding-bottom:16px;text-indent:6px;font-size:8pt;"><font style="font-family:inherit;font-size:8pt;">(2) Included in interest expense.</font></div><div style="line-height:120%;padding-bottom:16px;text-align:justify;text-indent:30px;font-size:10.5pt;"><font style="font-family:inherit;font-size:10.5pt;">At </font><font style="font-family:inherit;font-size:10.5pt;">December&#160;31, 2018</font><font style="font-family:inherit;font-size:10.5pt;">, the amount of deferred net loss expected to be reclassified from OCI into interest expense over the next twelve months related to our terminated interest rate derivatives is </font><font style="font-family:inherit;font-size:10.5pt;">\$0</font><font style="font-family:inherit;font-size:10.5pt;">.</font></div></div><div style="font-family:Times New Roman;font-size:10pt;"><div

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style="line-height:120%;padding-bottom:4px;text-align:left;padding-left:6px;text-indent:-6px;font-size:10pt;"><div style="padding-left:0px;text-indent:0px;line-height:normal;padding-top:10px;"><table cellpadding="0" cellspacing="0" style="font-family:Times New Roman;font-size:10pt;width:684px;border-collapse:collapse;text-align:left;"><tr><td colspan="8" rowspan="1"></td></tr><tr><td style="width:516px;" rowspan="1" colspan="1"></td><td style="width:6px;" rowspan="1" colspan="1"></td><td style="width:69px;" rowspan="1" colspan="1"></td><td style="width:4px;" rowspan="1" colspan="1"></td><td style="width:8px;" rowspan="1" colspan="1"></td><td style="width:6px;" rowspan="1" colspan="1"></td><td style="width:69px;" rowspan="1" colspan="1"></td><td style="width:4px;" rowspan="1" colspan="1"></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="font-size:8pt;"><font style="font-family:inherit;font-size:8pt;font-weight:bold;">Reclassifications from accumulated other comprehensive loss</font><font style="font-family:inherit;font-size:8pt;font-weight:bold;"><sup style="vertical-align:top;line-height:120%;font-size:5pt">(1)</sup></font></div></td><td colspan="7" rowspan="1" colspan="1"><div style="border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:center;font-size:8pt;"><font style="font-family:inherit;font-size:8pt;font-weight:bold;">Year Ended December 31,</font></div></div></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" rowspan="1" colspan="1"><div style="border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:center;font-size:8pt;"><font style="font-family:inherit;font-size:8pt;font-weight:bold;">2018</font></div></td><td colspan="1" rowspan="1" colspan="1"><div style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1" colspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" rowspan="1" colspan="1"><div style="border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:center;font-size:8pt;"><font style="font-family:inherit;font-size:8pt;font-weight:bold;">2017</font></div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Losses on cash flow hedges</font></div></td><td colspan="3" rowspan="1" colspan="1"><div style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="1" rowspan="1" colspan="1"><div style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" rowspan="1" colspan="1"><div style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:12px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Amount of effective amortization of net deferred interest rate derivative losses</font><font style="font-family:inherit;font-size:9pt;"><sup style="vertical-align:top;line-height:120%;font-size:6pt">(2)</sup></font></div></td><td colspan="1" rowspan="1" colspan="1"><div style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">\$</font></div></td><td colspan="1" rowspan="1" colspan="1"></td></tr></table>

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style="vertical-align:bottom;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">\$</font></div></td><td style="vertical-align:bottom;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">2,202</font></div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceeef;padding-left:12px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Effective amount of net settlements of interest rate derivatives, net of tax expense of \$0 for all periods presented</font></div></td><td colspan="2" style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="2" style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Amount of loss reclassified from accumulated other comprehensive loss into income</font></div></td><td style="vertical-align:bottom;border-bottom:3px double #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">\$</font></div></td><td style="vertical-align:bottom;border-bottom:3px double #000000;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;border-bottom:3px double #000000;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;border-bottom:3px double #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font





style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Beginning balance</font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">\$</font></div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">(1,350</font></div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-right:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;"></font></div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">\$</font></div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">(3,552</font></div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-right:2px;padding-top:2px;padding-bottom:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;"></font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceeef;padding-left:12px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Amount recognized in other comprehensive loss on derivatives, net of tax expense of \$0 for all periods presented</font></div></td><td colspan="2" style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="2" style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font

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style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;background-color:#cceeef;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:12px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Amounts reclassified from accumulated other comprehensive loss into income, net of tax expense </font></div><div style="font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#160;&#160;&#160;&#160;of \$0 for all periods presented</font></div></td><td colspan="2" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="2" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">2,202</font></div></td><td style="vertical-align:bottom;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;background-color:#cceeef;padding-left:20px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="text-align:left;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">Net current period other comprehensive income</font></div></td><td colspan="2" style="vertical-align:bottom;border-bottom:1px solid #000000;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">&#8212;</font></div></td><td style="vertical-align:bottom;border-bottom:1px solid #000000;background-color:#cceeef;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td><td style="vertical-align:bottom;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="2" style="vertical-align:bottom;border-bottom:1px solid #000000;background-color:#cceeef;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;" rowspan="1"><div style="text-align:right;font-size:9pt;"><font style="font-family:inherit;font-size:9pt;">2,202</font></div></td><td style="vertical-align:bottom;border-bottom:1px solid #000000;background-color:#cceeef;border-top:1px solid #000000;" rowspan="1" colspan="1"><div style="text-align:left;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;"><br clear="none"/></font></div></td></tr><tr><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1" colspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td><td colspan="3" style="vertical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;" rowspan="1"><div style="overflow:hidden;height:13px;font-size:10pt;"><font style="font-family:inherit;font-size:10pt;">&#160;</font></div></td></tr></table>



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us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-12-31 0001362988  
us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-12-31 0001362988 us-gaap:CommonStockMember  
2016-12-31 0001362988 us-gaap:RetainedEarningsMember 2017-01-01 2017-12-31 0001362988  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2015-12-31 0001362988  
us-gaap:RetainedEarningsMember 2018-01-01 2018-12-31 0001362988 us-gaap:RetainedEarningsMember  
2016-01-01 2016-12-31 0001362988 us-gaap:RetainedEarningsMember 2015-12-31 0001362988  
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-01-01 2017-12-31 0001362988  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2018

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32959

**AIRCASTLE LIMITED**

(Exact name of Registrant as Specified in its Charter)

**Bermuda 98-0444035**

(State or other Jurisdiction of (I.R.S. Employer

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*Incorporation or organization) Identification No.)*

**c/o Aircastle Advisor LLC**

**201 Tresser Boulevard, Suite 400, Stamford, CT 06901**

*(Address of Principal Executive Offices)*

Registrant’s telephone number, including area code: **(203) 504-1020**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Shares, par value \$0.01 per share	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the Registrant’s Common Shares based upon the closing price on the New York Stock Exchange on June 30, 2018 (the last business day of registrant’s most recently completed second fiscal quarter), beneficially owned by non-affiliates of the Registrant was approximately \$1.13 billion. For purposes of the foregoing calculation, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and executive officers and shareholders owning 10% or more of the outstanding common shares of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

As of February 8, 2019, there were 75,126,240 outstanding shares of the registrant’s common shares, par value \$0.01 per share.

**DOCUMENTS INCORPORATED BY REFERENCE**

<b>Documents of Which Portions Are Incorporated by Reference</b>	<b>Parts of Form 10-K into Which Portions Of Documents Are Incorporated</b>
Proxy Statement for Aircastle Limited	Part III
2019 Annual General Meeting of Shareholders	(Items 10, 11, 12, 13 and 14)

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**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

All statements included or incorporated by reference in this Annual Report on Form 10-K (this “Annual Report”), other than characterizations of historical fact, are forward-looking statements within the meaning of the federal securities laws, including the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not necessarily limited to, statements relating to our ability to acquire, sell, lease or finance aircraft, raise capital, pay dividends, and increase revenues, earnings, EBITDA, Adjusted EBITDA and Adjusted Net Income and the global aviation industry and aircraft leasing sector. Words such as “anticipates,” “expects,” “intends,” “plans,” “projects,” “believes,” “may,” “will,” “would,” “could,” “should,” “seeks,” “estimates” and variations on these words and similar expressions are intended to identify such forward-looking statements. These statements are based on our historical performance and that of our subsidiaries and on our current plans, estimates and expectations and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements; Aircastle can give no assurance that its expectations will be attained. Accordingly, you should not place undue reliance on any such forward-looking statements which are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this Annual Report. These risks or uncertainties include, but are not limited to, those described from time to time in Aircastle’s filings with the Securities and Exchange Commission (“SEC”), including as described in Item 1A, and elsewhere in this report. In addition, new risks and uncertainties emerge from time to time, and it is not possible for Aircastle to predict or assess the impact of every factor that may cause its actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this Annual Report. Aircastle expressly disclaims any obligation to revise or update publicly any forward-looking statement to reflect future events or circumstances.

**WEBSITE AND ACCESS TO COMPANY’S REPORTS**

The Company’s Internet website can be found at [www.aircastle.com](http://www.aircastle.com). Our annual reports on Forms 10-K, quarterly reports on Forms 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through our website under “Investors — SEC Filings” as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Statements and information concerning our status as a Passive Foreign Investment Company (“PFIC”) for U.S. taxpayers are also available free of charge through our website under “Investors — Financial Information — SEC Filings”. Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Board of Directors committee charters (including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee) are available free of charge through our website under “Investors — Corporate Governance”. In addition, our Code of Ethics for the Chief Executive and Senior Financial Officers, which applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Treasurer and Controller, is available in print, free of charge, to any shareholder upon request to Investor Relations, Aircastle Limited, c/o Aircastle Advisor LLC, 201 Tresser Boulevard, Suite 400, Stamford, Connecticut 06901. The information on the Company’s website is not part of, or incorporated by reference, into this Annual Report, or any other report we file with, or furnish to, the SEC.

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## **PART I**

### **ITEM 1. BUSINESS**

*Unless the context suggests otherwise, references in this Annual Report to “Aircastle,” the “Company,” “we,” “us,” or “our” to Aircastle Limited and its subsidiaries. References in this Annual Report to “Aircastle Bermuda” refer to Aircastle Holding Corporation Limited and its subsidiaries. Throughout this Annual Report, when we refer to our aircraft, we include aircraft that we have transferred into grantor trusts or similar entities for purposes of financing such assets through securitizations and term financings. These grantor trusts or similar entities are consolidated for purposes of our financial statements. All amounts in this Annual Report are expressed in U.S. dollars and the financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).*

Aircastle acquires, leases, and sells commercial jet aircraft to airlines throughout the world. As of December 31, 2018, we owned and managed on behalf of our joint ventures 261 aircraft leased to 81 lessees located in 44 countries. Our aircraft are managed by an experienced team based in the United States, Ireland and Singapore. Our aircraft are subject to net leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs. In many cases, however, we are obligated to pay a portion of specified maintenance or modification costs. As of December 31, 2018, the net book value of our flight equipment (including flight equipment held for lease and net investment in finance and sales-type leases, or “net book value”) was \$7.40 billion compared to \$6.73 billion at the end of 2017. Our revenues and net income for the year ended December 31, 2018 were \$890.4 million and \$247.9 million, respectively, and for the fourth quarter of 2018 were \$292.6 million and \$103.8 million, respectively.

Growth in commercial air traffic is broadly correlated with world economic activity. In recent years, commercial air traffic growth has expanded at a rate 1.5 to 2 times that of global GDP growth. The expansion of air travel has driven a rise in the world aircraft fleet. There are currently approximately 22,000 commercial mainline passenger and freighter aircraft in operation worldwide. This fleet is expected to continue expanding at a three to four percent average annual rate over the next twenty years. Aircraft leasing companies own approximately 44% of the world’s commercial jet aircraft.

2018 showed strong growth in air traffic. According to the International Air Transport Association, during 2018, global passenger traffic increased 6.5% compared to the same period in 2017. Demand for air travel varies by region. Emerging market economies have generally been experiencing greater increases in air traffic, driven by rising levels of per capita income leading to an increased propensity to fly. Mature markets, such as North America and Western Europe, have been growing more slowly in tandem with their economies. Air traffic growth is also being driven by the proliferation of low cost carriers, which have stimulated demand through lower prices. The outlook for airlines operating in areas with political instability or weakening economies is more uncertain. On balance, we believe air travel will increase over time and, as a result, we expect demand for modern aircraft will continue to remain strong over the long-term.

Notwithstanding the sector’s long-term growth, the aviation market is subject to economic variability due to changes in macroeconomic variables, such as interest rates, fuel price levels and foreign exchange rates. The aviation industry is also susceptible to external shocks, such as regional conflicts and terrorist events. Mitigating this risk is the portability of the assets, allowing aircraft to be redeployed to locations where there is demand.

Fuel prices and interest rates have had a substantial effect on our industry. After dropping to a low of \$36 per barrel in December 2015, the price of fuel has risen to an average of \$66 per barrel during 2018. While still below historic highs, higher fuel prices have impacted airline profitability. The prolonged low interest rate environment and the strong overall performance of the aircraft financing sector attracted significant new capital, increasing competition for new investments and putting pressure on margins and returns. Interest rates have started to rise in the U.S., with Federal Reserve guidance suggesting possible rate hikes in the Federal Funds rate going forward.

Capital availability for aircraft has varied over time, and we consider this variability to be a basic characteristic of our business. If pursued properly, this represents an important source of investment opportunity. Strong U.S. debt capital market conditions benefit borrowers by permitting access to financing at historic lows. Commercial bank debt also continues to play a critical role for aircraft finance. Export credit agency availability, however, has been curtailed due

to political issues, both in the U.S. and in Europe. While financial market conditions remain attractive, geopolitical issues may increase capital costs and limit availability going forward.

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We believe capital market developments should generate attractive additional investment and trading opportunities for which we are well placed to capitalize given our access to different financing sources, our limited capital commitments and our reputation as a reliable trading partner. During 2018, we achieved investment grade credit ratings from Moody's, Standard & Poor's and Fitch. We believe being an investment grade issuer will reduce our borrowing costs and enable more reliable access to debt capital throughout the business cycle.

Our business approach is differentiated from those of other large leasing companies. Our investment strategy is to seek out the best risk-adjusted return opportunities across the commercial jet market, so the nature and volume of assets we buy will vary over time with market conditions. We plan to grow our business and profits over the long-term while maintaining a conservative, flexible capital structure. We prefer to have capital resources available to capture investment opportunities that arise in the context of changing market circumstances. As such, we limit large, long-term capital commitments and are therefore less reliant on orders for new aircraft from aircraft manufacturers as a source of new investments than many of our competitors.

### **Competitive Strengths**

We believe that the following competitive strengths will allow us to capitalize on future growth opportunities in the global aviation industry:

***Diversified portfolio of modern aircraft.*** We have a portfolio of modern aircraft that is diversified with respect to lessees, geographic markets, lease maturities and aircraft types. As of December 31, 2018, our aircraft portfolio consisted of 261 aircraft, comprised of a variety of aircraft types leased to 81 lessees located in 44 countries. Lease expirations for our owned aircraft are well dispersed, with a weighted-average remaining lease term of 4.5 years. This provides the company with a long-dated base of contracted revenues. We believe our focus on portfolio diversification reduces the risks associated with individual lessee defaults and adverse geopolitical or economic issues, and results in generally predictable cash flows.

***Flexible, disciplined acquisition approach and broad investment sourcing network.*** Since our formation, we have acquired 470 aircraft for \$15.4 billion. Our investment strategy is to seek out the best risk-adjusted return opportunities across the commercial jet market, so our acquisition targets vary with market opportunities. We source our acquisitions through well-established relationships with airlines, other aircraft lessors, manufacturers, financial institutions and other aircraft owners. Since our formation in 2004, we built our aircraft portfolio through more than 164 transactions with 94 counterparties.

***Significant experience in successfully selling aircraft throughout their life cycle.*** Our team is adept at managing and executing the sale of aircraft. Since our formation, we sold 221 aircraft for \$5.3 billion. These sales produced net gains of \$323 million and involved a wide range of aircraft types and buyers. Of these aircraft, 147, or 67%, were over fourteen years old at the time of sale; many of these being sold on a part-out disposition basis, where the airframe and engines may be sold to various buyers. We believe our competence in selling older aircraft is one of the capabilities that sets us apart from many of our competitors.

***Strong capital raising track record and access to a wide range of financing sources.*** Aircastle is a publicly listed company, and our shares have traded on the New York Stock Exchange ("NYSE") since 2006. Since our inception in late 2004, we raised \$1.7 billion in equity capital from private and public investors. Our largest shareholder is Marubeni Corporation ("Marubeni"), with whom we maintain a strong, strategic relationship. We also obtained \$14.4 billion in debt capital from a variety of sources including the unsecured bond market, commercial banks, export credit agency-backed debt, and the aircraft securitization market. The diversity and global nature of our financing sources demonstrates our ability to adapt to changing market conditions and seize new opportunities.

***Our capital structure provides investment flexibility.*** We have \$1.05 billion available from unsecured revolving credit facilities that expire in 2021 and 2022, thereby limiting our near-term financial markets exposure. Given our relatively limited future capital commitments, we have the resources to take advantage of future investment opportunities. Our large unencumbered asset base and our unsecured revolving lines of credit give us access to the unsecured bond market, allowing us to pursue a flexible and opportunistic investment strategy.

***Experienced management team with significant expertise.*** Each member of our management team has more than twenty years of industry experience and we have expertise in the acquisition, leasing, financing, technical

management, restructuring/repossession and sale of aviation assets. This experience spans several industry cycles and a wide range of business conditions and is global in nature. We believe our management team is highly

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qualified to manage and grow our aircraft portfolio and to address our long-term capital needs.

***Global and scalable business platform.*** We operate through offices in the United States, Ireland and Singapore, using a modern asset management system designed specifically for aircraft operating lessors and capable of handling a significantly larger aircraft portfolio. We believe that our current facilities, systems and personnel are capable of supporting an increase in our revenue base and asset base without a proportional increase in overhead costs.

### **Business Strategy**

Aircraft owners have benefited from the low interest rate environment in recent years. Particularly strong conditions in the debt capital markets have provided select borrowers, including Aircastle, access to attractively priced, flexible financing. This provides us a competitive advantage over many airlines and lessors. Geopolitical and macroeconomic events may increase the cost of capital and limit its availability in the future, which may provide more attractive investment opportunities for Aircastle.

We plan to grow our business and profits over the long-term while limiting long-dated capital commitments and maintaining a conservative and flexible capital structure. Our business strategy entails the following elements:

***Pursuing a disciplined and differentiated investment strategy.*** In our view, the relative values of different aircraft change over time. We continually evaluate investments across different aircraft models, ages, lessees and acquisition sources and re-evaluate these choices as market conditions and relative investment values change. We believe our team's experience with a wide range of asset types and the financing flexibility offered through unsecured debt provides us with a competitive advantage. We view orders from equipment manufacturers to be part of our investment opportunity set, but choose to keep our long term capital commitments limited.

***Originating investments from many different sources across the globe.*** Our strategy is to seek out worthwhile investments by leveraging our team's wide range of contacts. We utilize a multi-channel approach to sourcing acquisitions and have purchased aircraft from a large number of airlines, lessors, original equipment manufacturers, lenders and other aircraft owners. Since our formation in 2004, we have acquired aircraft from 94 different sellers.

***Selling assets when attractive opportunities arise.*** We sell assets with the aim of realizing profits and reinvesting proceeds. We also use asset sales for portfolio management purposes, such as reducing lessee specific concentrations and lowering residual value exposures to certain aircraft types. Since our formation, we have sold aircraft to 65 buyers.

***Maintaining efficient access to capital from a wide set of sources and leveraging our recent investment grade credit rating.*** We believe the aircraft investment market is influenced by the business cycle. Our strategy is to increase our purchase activity when prices are low and to emphasize asset sales when prices are high. To implement this approach, we believe it is important to maintain access to a wide variety of financing sources. During 2018, we achieved our objective of improving our corporate credit ratings to an investment grade level by maintaining strong portfolio and capital structure metrics while achieving a critical size through accretive growth. We believe our improved credit rating will not only reduce our borrowing costs, but also facilitate more reliable access to both unsecured and secured debt capital throughout the business cycle.

***Leveraging our strategic relationships.*** We intend to capture the benefits provided through the extensive global contacts and relationships maintained by Marubeni, which is our biggest shareholder and is one of the largest Japanese trading companies. Marubeni has enabled greater access to Japanese-based financing and helped source and develop our joint venture with the leasing arm of the Industrial Bank of Japan, Limited.

***Capturing the value of our efficient operating platform and strong operating track record.*** We believe our team's capabilities in the global aircraft leasing market places us in a favorable position to source and manage new income-generating activities. We intend to continue to focus our efforts in areas where we believe we have competitive advantages, including new direct investments as well as ventures with strategic business partners.

***Intending to pay quarterly dividends to our shareholders based on the Company's sustainable earnings levels.***

Aircastle has paid dividends each quarter since our initial public offering in 2006. On October 30, 2018, our Board of Directors declared a regular quarterly dividend of \$0.30 per common share, or an aggregate of \$22.9 million for the three months ended December 31, 2018, which was paid on December 14, 2018 to holders of record on November 30, 2018. These dividend amounts may not be indicative of any future dividends. Our



ability to pay quarterly dividends will depend upon many factors, including those as described in Item 1A. “Risk Factors” and elsewhere in this Annual Report.

Declaration Date	Dividend per Common Share	Aggregate Dividend Amount	Record Date	Payment Date
October 30, 2018	\$ 0.30	\$ 22,867	November 30, 2018	December 14, 2018
August 3, 2018	\$ 0.28	\$ 21,870	August 31, 2018	September 14, 2018
May 1, 2018	\$ 0.28	\$ 21,908	May 31, 2018	June 15, 2018
February 2, 2018	\$ 0.28	\$ 22,085	February 28, 2018	March 15, 2018
October 31, 2017	\$ 0.28	\$ 22,039	November 30, 2017	December 15, 2017
August 4, 2017	\$ 0.26	\$ 20,464	August 31, 2017	September 15, 2017
May 2, 2017	\$ 0.26	\$ 20,482	May 31, 2017	June 15, 2017
February 9, 2017	\$ 0.26	\$ 20,466	February 28, 2017	March 15, 2017
October 28, 2016	\$ 0.26	\$ 20,434	November 29, 2016	December 15, 2016
August 2, 2016	\$ 0.24	\$ 18,872	August 26, 2016	September 15, 2016
May 2, 2016	\$ 0.24	\$ 18,915	May 31, 2016	June 15, 2016
February 9, 2016	\$ 0.24	\$ 18,915	February 29, 2016	March 15, 2016

We believe our team’s capabilities in the global aircraft leasing market place us in a favorable position to explore new income-generating activities as capital becomes available for such activities. We intend to continue to focus our efforts on investment opportunities in areas where we believe we have competitive advantages and on transactions that offer attractive risk/return profiles. There can be no assurance, however, that we will be able to access capital on a cost-effective basis and a failure to do so could have a material adverse effect on our business, financial condition or results of operations.

### Acquisitions and Sales

We originate acquisitions and sales through well-established relationships with airlines, other aircraft lessors, financial institutions and brokers, as well as other sources. We believe that sourcing such transactions globally through multiple channels provides for a broad and relatively consistent set of opportunities.

Our objective is to develop and maintain a diverse operating lease portfolio. We review our operating lease portfolio to sell aircraft opportunistically, to manage our portfolio diversification and to exit from aircraft investments when we believe selling will achieve better expected risk-adjusted cash flows than reinvesting in and re-leasing the aircraft. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Acquisitions and Sales.”

We have an experienced acquisition and sales team based in Stamford, Connecticut; Dublin, Ireland and Singapore that maintains strong relationships with a wide variety of market participants throughout the world. We believe that our seasoned personnel and extensive industry contacts facilitate our access to acquisition and sales opportunities and that our strong operating track record facilitates our access to debt and equity capital markets.

Potential investments and sales are evaluated by teams comprised of marketing, technical, risk management, finance and legal professionals. These teams consider a variety of aspects before we commit to purchase or sell an aircraft, including price, specification/configuration, age, condition and maintenance history, operating efficiency, lease terms, financial condition and liquidity of the lessee, jurisdiction, industry trends and future redeployment potential and values. We believe that utilizing a cross-functional team of experts to consider investment parameters helps us assess more completely the overall risk and return profile of potential acquisitions and helps us move forward expeditiously on letters of intent and acquisition documentation.

### Finance

We believe that cash on hand, payments received from lessees and other funds generated from operations, unsecured borrowings, borrowings from our revolving credit facilities, secured borrowings for aircraft, and other borrowings and proceeds from future aircraft sales will be sufficient to satisfy our liquidity and capital resource needs over the next twelve months. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-



term debt financings, additional equity offerings or cash generated from operations and asset sales. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Secured Debt Financings” and “ — Unsecured Debt Financings” under Item 7.

### Segments

The Company manages, analyzes and reports on its business and results of operations on the basis of one operating segment: leasing, financing, selling and managing commercial flight equipment. Our chief executive officer is the chief operating decision maker.

### Aircraft Leases

Nearly all of our aircraft are contracted on operating leases. Under an operating lease, we retain the benefit, and bear the risk, of re-leasing and of the residual value of the aircraft at the end of the lease. Operating leasing can be an attractive alternative to ownership for an airline because leasing increases an airline’s fleet flexibility, requires lower capital commitments, and significantly reduces aircraft residual value risks for the airline. Under an operating lease, the lessee agrees to lease an aircraft for a fixed term, although certain of our operating leases allow the lessee the option to extend the lease for an additional term or, in rare cases, terminate the lease prior to its expiration. As a percentage of lease rental revenue for the year ended December 31, 2018, our three largest customers, Avianca Brazil, Lion Air and South African Airways, accounted for 7%, 6% and 5%, respectively.

In the fourth quarter of 2018, we terminated our leases with Avianca Brazil and were granted a repossession order. Subsequently, the airline filed for the equivalent of bankruptcy protection and was granted a stay on repossessions, which was recently extended until mid-April 2019. Despite extending the stay, the airline is required to resume making payments, beginning February 1, 2019. Aircastle intends to continue to aggressively pursue its rights, including an appeal of the court’s decision.

The scheduled maturities of our aircraft leases by aircraft type grouping currently are as follows, taking into account lease placement and renewal commitments as of February 8, 2019:

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Off-Lease <sup>(1)</sup>	Sale Agreement	Total
A319/A320/A320N/A321	17	16	11	12	29	9	5	—	2	—	11	20	133	
A330-200/300	—	1	5	—	2	1	3	2	4	—	—	2	—	20
737-700/800/900ER	5	8	6	18	11	14	5	4	4	—	5	—	—	80
777-200ER/300ER	—	—	—	—	1	—	2	2	1	—	—	—	—	6
E195	—	—	—	—	3	2	—	—	—	—	—	—	—	5
Freighters	—	—	—	—	1	2	—	—	—	1	—	—	—	4
<b>Total</b>	<b>6</b>	<b>26</b>	<b>27</b>	<b>29</b>	<b>30</b>	<b>48</b>	<b>19</b>	<b>13</b>	<b>9</b>	<b>3</b>	<b>5</b>	<b>13</b>	<b>20</b>	<b>248</b>

(1) Consisted of eleven Airbus A320-200 and two Airbus A330-200 aircraft which we are marketing for lease or sale.

### 2019 Lease Expirations and Lease Placements

We began 2019 with nineteen aircraft having scheduled lease expirations in 2019 and fifteen off-lease aircraft, including the eleven Avianca Brazil aircraft. As of February 8, 2019, we have agreements to lease fifteen of these aircraft. Of the remaining nineteen aircraft, which account for 8.3% of our net book value at December 31, 2018, we expect that the ten narrow-body aircraft with Avianca Brazil will be placed on lease after repossession and five aircraft will be sold at lease end, with the remaining four aircraft still to be placed.

### **2020-2023 Lease Expirations and Lease Placements**

Taking into account lease and sale commitments, we currently have the following number of aircraft with lease expirations scheduled in the period 2020-2023, representing the percentage of our net book value at December 31, 2018, specified below:

2020: 26 aircraft, representing 7%;

2021: 27 aircraft, representing 10%;

2022: 29 aircraft, representing 9%; and

2023: 30 aircraft, representing 11%.

*Lease Payments and Security.* Each of our leases requires the lessee to pay periodic rentals during the lease term. As of December 31, 2018, rentals on more than 93% of our leases then in effect, as a percentage of net book value, are fixed and do not vary according to changes in interest rates. For the remaining leases, rentals are payable on a floating interest-rate basis. Virtually all lease rentals are payable monthly in advance, and all lease rentals are payable in U.S. dollars.

Under our leases, the lessee must pay operating expenses accrued or payable during the term of the lease, which normally include maintenance, overhaul, fuel, crew, landing, airport and navigation charges, certain taxes, licenses, consents and approvals, aircraft registration and insurance premiums. Typically, the lessee is required to make payments for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are either made monthly in arrears or at the end of the lease term. Our determination of whether to permit a lessee to make a single maintenance payment at the end of the lease term, or requiring such payments to be made monthly, depends on a variety of factors, including the creditworthiness of the lessee, the amount of security deposit which may be provided by the lessee and market conditions at the time. If a lessee is making monthly maintenance payments, we would typically be obligated to use the funds paid by the lessee during the lease term to reimburse the lessee for costs they incur for heavy maintenance, overhaul or replacement of certain high-value components, usually following completion of the relevant work. If a lease requires an end of lease term maintenance payment, the lessee would typically be required to pay us for its utilization of the aircraft during the lease. In some cases, however, we may owe a net payment to the lessee in the event heavy maintenance is performed and the aircraft is returned to us in better condition than at lease inception.

Many of our leases also contain provisions requiring us to pay a portion of the cost of modifications to the aircraft performed by the lessee at its expense if such modifications are mandated by recognized airworthiness authorities. Typically, these provisions would set a threshold, below which the lessee would not have a right to seek reimbursement and above which we may be required to pay a portion of the cost incurred by the lessee. The lessees are obliged to remove liens on the aircraft other than liens permitted under the leases.

Our leases generally provide that the lessees' payment obligations are absolute and unconditional under any and all circumstances and require lessees to make payments without withholding payment on account of any amounts the lessor may owe the lessee or any claims the lessee may have against the lessor for any reason, except that under certain of the leases a breach of quiet enjoyment by the lessor may permit a lessee to withhold payment. The leases also generally include an obligation of the lessee to gross up payments under the lease where lease payments are subject to withholding and other taxes, although there may be some limitations to the gross up obligation, including provisions which do not require a lessee to gross up payments if the withholdings arise out of our ownership or tax structure. In addition, changes in law may result in the imposition of withholding and other taxes and charges that are not reimbursable by the lessee under the lease or that cannot be so reimbursed under applicable law. Our leases also generally require the lessee to indemnify the lessor for tax liabilities relating to the leases and the aircraft, including in most cases, value added tax and stamp duties, but excluding income tax or its equivalent imposed on the lessor.

### **Portfolio Risk Management**

Our objective is to build and maintain a lease portfolio which is balanced and diversified and delivers returns commensurate with risk. We have portfolio concentration objectives to assist in portfolio risk management and highlight areas where action to mitigate risk may be appropriate, and take into account the following:



individual lessee exposures;  
geographic concentrations;

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aircraft type concentrations;  
portfolio credit quality distribution; and  
lease maturity distribution.

We have a risk management team which undertakes detailed due diligence on lessees when aircraft are being acquired with a lease already in place and for placement of aircraft with new lessees following lease expiration or termination.

#### **Lease Management and Remarketing**

Our aircraft re-leasing strategy is to develop opportunities proactively, well in advance of scheduled lease expiration, to enable consideration of a broad set of alternatives, including deployment, sale or part-out, and to allow for reconfiguration or maintenance lead times where needed. We also take a proactive approach to monitoring the credit quality of our customers, and may seek early return and redeployment of aircraft if we feel that a lessee is unlikely to perform its obligations under a lease. We have invested significant resources in developing and implementing what we consider to be state-of-the-art lease management information systems and processes to enable efficient management of aircraft in our portfolio.

#### **Other Aviation Assets and Alternative New Business Approaches**

We believe investment opportunities may arise in related areas such as financing secured by commercial jet aircraft as well as jet engine and spare parts leasing, trading and financing. In the future, we may make opportunistic investments in these or other sectors or in other aviation-related assets, and we intend to continue to explore other income-generating activities and investments.

We source and service investments for our joint ventures with Ontario Teachers' Pension Plan ("Lancaster") and IBJ Air and provide marketing, asset management and administrative services to them. We are paid market based fees for these services, which are recorded in Other revenue in our Consolidated Statements of Income.

We believe we have a world class servicing platform and may also pursue opportunities to capitalize on these capabilities such as providing aircraft management services for third party aircraft owners.

#### **Competition**

The aircraft leasing and trading industry is highly competitive with a significant number of active participants. We face competition for the acquisition of aircraft, for the placement of aircraft and for the sale of aircraft which we may wish to divest.

Competition for aircraft acquisitions comes from many sources, ranging from large established aircraft leasing companies to smaller players and new entrants. Competition has increased across most asset types and has drawn many new investors to our business.

Larger lessors are generally more focused on acquiring new aircraft via purchase and lease-back transactions with airlines and through direct orders with the original equipment manufacturers. These larger lessors include GE Capital Aviation Services, AerCap Holdings, Air Lease Corporation, Aviation Capital Group, SMBC Aviation Capital, BOC Aviation, Avolon Holdings and Dubai Aerospace Enterprise. In addition, several major Asian financial institutions' leasing subsidiaries are aggressively pursuing business, including Industrial and Commercial Bank of China ("ICBC") and China Development Bank ("CDB"). In August 2017, Dubai Aerospace Enterprise completed its acquisition of AWAS. In December 2017, Tokyo Century Corporation, part of the Mizuho Group, acquired a 20% interest in Aviation Capital Group. In November 2018, ORIX Aviation Systems acquired 30% of Avolon Holdings from Bohai Leasing.

Competition for mid-aged and older aircraft typically comes from other competitors that, in many cases, rely on private equity or hedge fund capital sources. Such competitors include Carlyle Aviation Partners, Deucalion, Castlelake, Alterna Capital Partners and other players funded by alternative investment funds and companies. These companies are typically fund-based, rather than having permanent capital structures, and have benefited from the substantially improved availability of debt financing for mid-aged aircraft.

Competition for leasing or re-leasing of aircraft, as well as aircraft sales, is based principally upon the availability, type and condition of aircraft, user base, lease rates, prices and other lease terms. Aircraft manufacturers, airlines and other operators, distributors, equipment managers, leasing companies, financial institutions and other parties engaged in leasing,



managing, marketing or remarketing aircraft compete with us, although their focus may be on different market segments and aircraft types.

Some of our competitors have, or may obtain, greater financial resources and may have a lower cost of capital. A number also commit to speculative orders of new aircraft to be placed on operating lease upon delivery from the manufacturer, which compete with new and used aircraft offered by other lessors. However, we believe that we are able to compete favorably in aircraft acquisition, leasing and sales activities due to the reputation of our team of experienced professionals, extensive market contacts and expertise in sourcing and acquiring aircraft. We also believe our access to unsecured debt provides us with a competitive advantage in pursuing investments quickly and reliably and in acquiring aircraft in situations where it may be more difficult to finance on a secured, non-recourse basis.

### **Employees**

As of December 31, 2018, we had 109 employees. None of our employees are covered by a collective bargaining agreement, and we believe that we maintain excellent employee relations. We provide certain employee benefits, including retirement benefits, and health, life, disability and accident insurance plans.

### **Insurance**

We require our lessees to carry general third-party legal liability insurance, all-risk aircraft hull insurance (both with respect to the aircraft and with respect to each engine when not installed on our aircraft) and war-risk hull and legal liability insurance. We are named as an additional insured on liability insurance policies carried by our lessees, and we or one of our lenders would typically be designated as a loss payee in the event of a total loss of the aircraft. We maintain contingent hull and liability insurance coverage with respect to our aircraft which is intended to provide coverage for certain risks, including the risk of cancellation of the hull or liability insurance maintained by any of our lessees without notice to us, but which excludes coverage for other risks such as the risk of insolvency of the primary insurer or reinsurer.

We maintain insurance policies to cover non-aviation risks related to physical damage to our equipment and property, as well as with respect to third-party liabilities arising through the course of our normal business operations (other than aircraft operations). We also maintain limited business interruption insurance to cover a portion of the costs we would expect to incur in connection with a disruption to our main facilities, and we maintain directors' and officers' liability insurance providing coverage for liabilities related to the service of our directors, officers and certain employees. Consistent with industry practice, our insurance policies are generally subject to deductibles or self-retention amounts.

We believe the insurance coverage currently carried by our lessees and by Aircastle provides adequate protection against the accident-related and other covered risks involved in the conduct of our business. However, there can be no assurance that we have adequately insured against all risks, that lessees will at all times comply with their obligations to maintain insurance, that our lessees' insurers and re-insurers will be or will remain solvent and able to satisfy any claims, that any particular claim will ultimately be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

### **Government Regulation**

The air transportation industry is highly regulated. In general, we are not directly subject to most air transportation regulations because we do not operate aircraft. In contrast, our lessees are subject to extensive, direct regulation under the laws of the jurisdictions in which they are registered and where they operate. Such laws govern, among other things, the registration, operation, security, and maintenance of our aircraft, as well as environmental and financial oversight regulation of their operations.

Our customers may also be subject to noise or emissions regulations in the jurisdictions in which they operate our aircraft. In July 2016, the U.S. Environmental Protection Agency ("EPA") determined that Greenhouse Gas ("GHG") emissions from certain aircraft engines contribute to climate change and endangers the public's health and the environment. The findings are for carbon dioxide ("CO<sub>2</sub>"), methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride. At that time, the EPA indicated its intention to promulgate new rules to adopt GHG standards promulgated by the International Civil Aviation Organization ("ICAO"). In October 2016, ICAO adopted a global market-based measure to control CO<sub>2</sub> emissions from international aviation. The pilot phase of this

measure will begin in 2021, and the mandatory phase begins in 2027. In June 2017, the United States indicated that it is reviewing whether it will remain fully committed to the ICAO rules. No firm date for conclusion of this review has been announced. In addition, European countries generally

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have strict environmental regulations, and, in particular, the European Union (“E.U.”) has included flights originating or landing in the E.U. in the European Emissions Trading Scheme (“ETS”). The United States, China and other countries continue to oppose the inclusion of aviation emissions in ETS. Other environmental regulations our customers may be subject to include those relating to discharges to surface and subsurface waters, management of hazardous substances, oils, and waste materials, and other regulations affecting their aircraft operations.

**Subsequent Events**

The Company’s management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of December 31, 2018 through the date of this filing, the date on which the consolidated financial statements included in this Form 10-K were issued.

## ITEM 1A. RISK FACTORS

*In addition to the other information set forth in this Annual Report, you should carefully consider the following factors, which could materially adversely affect our business, financial condition, results of operations or ability to pay dividends in future periods or to meet our debt obligations. The risks described below are not the only risks facing our Company. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, results of operations or ability to pay dividends in future periods.*

### **Risks Related to Our Business**

#### **Risks Related to Our Operations**

*Risks affecting the airline industry may adversely affect our customers and have a material adverse impact on our financial results.*

We operate as a supplier to airlines and are indirectly impacted by all the risks facing airlines today. The ability of each lessee to perform its obligations under the relevant lease will depend primarily on the lessee's financial condition and cash flow, which may be affected by factors beyond our control, including:

• passenger and air cargo demand;

• competition;

• passenger fare levels and air cargo rates;

• availability of financing and other circumstances affecting airline liquidity, including covenants in financings, terms imposed by credit card issuers, collateral posting requirements contained in fuel hedging contracts and the ability of airlines to make or refinance principal payments as they come due;

• operating costs, including the price and availability of jet fuel, labor costs and insurance costs and coverages;

• restrictions in labor contracts and labor difficulties, including pilot shortages;

• economic conditions, including recession, financial system distress and currency fluctuations in the countries and regions in which the lessee operates or from which the lessee obtains financing, including the uncertainty and any negative macroeconomic effects associated with the U.S. government shutdown;

• aircraft accidents;

• the continuing availability of government support, whether through subsidies, loans, guarantees, equity investments or otherwise;

• changing political conditions, including risk of rising protectionism, restrictions on immigration or imposition of new trade barriers;

• geopolitical and other events, including war, acts or threats of terrorism, outbreaks of epidemic diseases and natural disasters;

• cyber risk, including information hacking, viruses and malware; and

• governmental regulation of, or affecting the air transportation business, including noise regulations, emissions regulations, climate change initiatives, and aircraft age limitations.

These factors, and others, may lead to defaults by our customers, or may delay or prevent aircraft deliveries or transitions, result in payment restructurings or other lease term restructurings, and may increase our costs from repossessions and reduce our revenues due to downtime or lower re-lease rates.

*Volatile financial market conditions may adversely impact our liquidity, our access to capital and our cost of capital and may adversely impact the airline industry and the financial condition of our lessees.*

The availability and pricing of capital in the commercial bank market and in the unsecured bond market remain susceptible to global events, including, for example, political changes in the U.S. and abroad, rising interest rates, a fluctuating dollar, the rate of international economic growth and implications from changes in oil prices. If we need, but cannot obtain, adequate capital on satisfactory terms, or at all, as a result of negative conditions in the capital markets or otherwise, our business, financial condition, results of operations or our ability to pay dividends to our shareholders could be materially adversely affected. Additionally, such inability to obtain capital on satisfactory terms, or at all, could prevent us from pursuing attractive future growth opportunities.





***We bear the risk of re-leasing and selling our aircraft.***

We bear the risk of re-leasing or selling or otherwise disposing of our aircraft in order to continue to generate income. In certain cases we commit to purchase aircraft that are not subject to lease and therefore are subject to lease placement risk. Because only a portion of an aircraft's value is covered by contractual cash flows from an operating lease, we are exposed to the risk that the residual value of the aircraft will not be sufficient to permit us to fully recover or realize a gain on our investment in the aircraft and to the risk that we may have to record impairment charges. Further, our ability to re-lease, lease or sell aircraft on favorable terms, or at all, or without significant off-lease time and transition costs is likely to be adversely impacted by risks affecting the airline industry generally. Other factors that may affect our ability to fully realize our investment in our aircraft and that may increase the likelihood of impairment charges include credit deterioration of a lessee, declines in rental rates, residual value risk, higher fuel prices which may reduce demand for older, less fuel efficient aircraft, additional environmental regulations, age restrictions, customer preferences and other factors that may effectively shorten the useful life of older aircraft.

***We own and lease long-lived assets and have written down the value of some of our assets in prior years, and if market conditions worsen, or in the event of a customer default, we may be required to record further write-downs.***

We test our assets for recoverability whenever events or changes in circumstances indicate that the carrying amounts for such assets are not recoverable from their expected, undiscounted cash flows. We also perform a fleet-wide recoverability assessment annually. This recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management's experience in the aircraft leasing industry as well as from information received from third party sources.

If anticipated aircraft lease cash flows or sales values worsen due to a decline in market conditions, or if a lessee defaults, we may have to reassess the carrying value of one or more of our aircraft. As aircraft approach the end of their economic useful lives, their carrying values may be more susceptible to non-recoverable declines in value because such assets will have a shorter opportunity in which to benefit from a market recovery. We monitor our fleet for aircraft that are more susceptible to failing our recoverability assessments within one year due to their sensitivity to changes in contractual cash flows, future cash flow estimates and aircraft residual or scrap values. As of December 31, 2018, no aircraft were on our monitoring list.

***Our ability to obtain debt financing and our cost of debt financing is, in part, dependent upon our credit ratings and a credit downgrade or being put on negative watch could adversely impact our financial results.***

Maintaining our credit ratings depends in part on strong financial results and in part on other factors, including the outlook of the ratings agencies on our sector and on the market generally. A credit rating downgrade or being put on negative watch may make it more difficult or costly for us to raise debt financing in the unsecured bond market, or may result in higher pricing or less favorable terms under other financings. Credit rating downgrades or being put on negative watch may make it more difficult and/or more costly to satisfy our funding requirements. In addition, any future tightening or regulation of financial institutions (such as Basel 4), including increasing capital reserves, could impact our ability to raise funds in the commercial bank loan market in the future.

***An increase in our borrowing costs may adversely affect our earnings and cash available for distribution to our shareholders.***

Our aircraft are financed under long-term debt financings. As these financings mature, we will be required to either refinance these instruments by entering into new financings, which could result in higher borrowing costs, or repay them by using cash on hand or cash from the sale of our assets.

***Departure of key officers could harm our business and financial results.***

Our senior management's reputations and relationships with lessees, sellers, buyers and financiers of aircraft are a critical element of our business. We encounter intense competition for qualified employees from other companies in the aircraft leasing industry, and we believe there are only a limited number of available qualified executives in our industry. The Company seeks to retain a pipeline of senior management personnel with superior talent to provide continuity of succession, including for the Chief Executive Officer position and other senior positions. In addition, our

Board of Directors is involved in succession planning, including review of short- and long-term succession plans for the Chief Executive Officer

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and other senior positions. Our future success depends, to a significant extent, upon the continued service of our senior management personnel, including the Chief Executive Officer and his potential successors, and if we lose one or more of these individuals, our business could be adversely affected.

***We may not be able to pay or maintain dividends, or we may choose not to pay dividends, and the failure to pay or maintain dividends may adversely affect our share price.***

On October 30, 2018, our Board of Directors declared a regular quarterly dividend of \$0.30 per common share, or an aggregate of \$22.9 million, which was paid on December 14, 2018 to holders of record on November 30, 2018. This dividend may not be indicative of the amount of any future quarterly dividends. Our ability to pay, maintain or increase cash dividends to our shareholders is subject to the discretion of our Board of Directors and will depend on many factors, including: our ability to comply with financial covenants in our financing documents that limit our ability to pay dividends and make certain other restricted payments; the difficulty we may experience in raising, and the cost of, additional capital and our ability to finance our aircraft acquisition commitments; our ability to re-finance our long-term financings; our ability to negotiate and enforce favorable lease rates and other contractual terms; the level of demand for our aircraft in the lease placement or sales markets; the economic condition of the commercial aviation industry generally; the financial condition and liquidity of our lessees; unexpected or increased aircraft maintenance or other expenses; the level and timing of capital expenditures, principal repayments and other capital needs; maintaining our credit ratings, our results of operations, financial condition and liquidity; legal restrictions on the payment of dividends, including a statutory dividend test and other limitations under Bermuda law; and general business conditions and other factors that our Board of Directors deems relevant. Some of these factors are beyond our control. In the future, we may choose to not pay dividends or may not be able to pay dividends, maintain our current level of dividends, or increase them over time. The failure to maintain or pay dividends may adversely affect our share price.

***We are subject to risks related to our indebtedness that may limit our operational flexibility and our ability to compete with our competitors.***

As of December 31, 2018, our total indebtedness was \$4.8 billion, representing approximately 70.3% of our total capitalization. Aircastle Limited is either the principal obligor or has guaranteed most of this indebtedness, and we are responsible on a full recourse basis for timely payment when due and compliance with covenants under the related debt documentation. As a result of our substantial amount of indebtedness, we may be unable to generate sufficient cash to pay, when due, the principal of, interest on or other amounts due with respect to our indebtedness, and our substantial amount of indebtedness may increase our vulnerability to adverse economic and industry conditions, reduce our flexibility in planning for or reaction to changes in the business environment or in our business or industry, and adversely affect our cash flow and our ability to operate our business and compete with our competitors.

Our indebtedness subjects us to certain risks, including:

18% of our net book value serves as collateral for our secured indebtedness, and the terms of certain of our indebtedness require us to use proceeds from sales of aircraft, in part, to repay amounts outstanding under such indebtedness;

our failure to comply with the terms of our indebtedness, including restrictive covenants contained therein, may result in additional interest being due or defaults that could result in the acceleration of the principal, and unpaid interest on, the defaulted debt, as well as the forfeiture of any aircraft pledged as collateral; and

- non-compliance with covenants prohibiting certain investments and other restricted payments, including limitations on our ability to pay dividends, repurchase our common shares, raise additional capital or refinance our existing debt, may reduce our operational flexibility and limit our ability to refinance or grow the business.

***The provisions of our long-term financings require us to comply with financial and other covenants. Our compliance with these ratios, tests and covenants depends upon, among other things, the timely receipt of lease payments from our lessees and upon our overall financial performance.***

***Senior Notes.*** Our senior notes indentures impose operating and financial restrictions on our activities. These restrictions limit our ability to, or in certain cases prohibit us from, incurring or guaranteeing additional indebtedness,

refinancing our existing indebtedness, paying dividends, repurchasing our common shares, making other restricted payments, making certain investments or entering into joint ventures and a cross-default to certain other financings of the Company.

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*ECA Financings.* Our ECA Financings contain a \$500 million minimum net worth covenant and also contain, among other customary provisions, a material adverse change default and a cross-default to certain other financings of the Company.

*Bank Financings.* Our secured bank financings contain, among other customary provisions, a \$500 million minimum net worth covenant, a cross-default to certain other financings of the Company, and for one portfolio financing, a minimum debt service coverage ratio of 1.15.

*Unsecured Revolving Credit Facilities and Loan.* Our unsecured revolving credit facilities/loan contain \$750 million minimum net worth covenants, minimum unencumbered asset ratios, minimum interest coverage ratios and cross-defaults to certain other financings of the Company.

The terms of our financings also restrict our ability to incur or guarantee additional indebtedness or engage in mergers, amalgamations or consolidations among our subsidiary companies or between a subsidiary company and a third party or otherwise dispose of all or substantially all of our assets.

***We are subject to various risks and requirements associated with transacting business in foreign jurisdictions.***

The international nature of our business exposes us to trade and economic sanctions and other restrictions imposed by the U.S. and other governments. The U.S. Departments of Justice, Commerce and Treasury, as well as other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against companies for violations of export controls, the Foreign Corrupt Practices Act (“FCPA”), and other federal statutes, sanctions and regulations, including those established by the Office of Foreign Assets Control (“OFAC”) and, increasingly, similar or more restrictive foreign laws, rules and regulations, including the U.K. Bribery Act (“UKBA”), which may also apply to us. By virtue of these laws and regulations, and under laws and regulations in other jurisdictions, we may be obliged to limit our business activities, we may incur costs for compliance programs and we may be subject to enforcement actions or penalties for noncompliance. In recent years, U.S. and foreign governments have increased their oversight and enforcement activities with respect to these laws, and we expect the relevant agencies to continue to increase these activities.

We have compliance policies and training programs in place for our employees with respect to FCPA, OFAC Regulations, UKBA and similar laws, but there can be no assurance that our employees, consultants or agents will not engage in conduct for which we may be held responsible. Violations of FCPA, OFAC Regulations, UKBA and other laws, sanctions or regulations may result in severe criminal or civil penalties, and we may be subject to other liabilities.

General Data Protection Regulation (“GDPR”) took effect on May 25, 2018, requiring us to protect the privacy of certain personal data of EU citizens. While we have implemented processes and controls to comply with GDPR requirements, the manner in which the EU will interpret and enforce certain provisions remains unclear and we could incur significant fines of up to 4% of worldwide revenue, individual damages and reputational risks if the EU determines that our controls and processes are ineffective and we have failed to adequately comply with the requirements.

***We are dependent upon information technology systems, which are subject to disruption, damage, failure and risks associated with implementation and integration.***

We are dependent upon information technology systems to manage, process, store and transmit information associated with our operations, which may include proprietary business information and personally identifiable information of our customers, suppliers and employees. Our information technology systems are subject to disruption, damage or failure from a variety of sources, including, without limitation, computer viruses, security breaches, cyber-attacks, employee error, natural disasters and defects in design. Damage, disruption, or failure of one or more information technology systems may result in interruptions to our operations in the interim or may require a significant investment to fix or replace them or may result in significant damage to our reputation. Although various measures have been implemented to manage our risks related to the information technology systems and network disruptions, our resources and technical sophistication may not be adequate to prevent all types of cyber-attacks that could lead to the payment of fraudulent claims, loss of sensitive information, including our own proprietary information or that of our customers, suppliers and employees, and could harm our reputation and result in lost revenues and additional costs

and potential liabilities.

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### **Risks Related to Our Aviation Assets**

***The variability of supply and demand for aircraft could depress lease rates for our aircraft, which would have an adverse effect on our financial results and growth prospects.***

The aircraft leasing and sales industry has experienced periods of aircraft oversupply and undersupply. The oversupply of a specific type of aircraft in the market is likely to depress aircraft lease rates for, and the value of, that type of aircraft.

The supply and demand for aircraft is affected by various cyclical and non-cyclical factors that are not under our control, including:

- passenger and air cargo demand;
- operating costs, including fuel costs, and general economic conditions affecting our lessees' operations;
- interest rates;
- foreign exchange rates;
- the availability of credit;
- airline restructurings and bankruptcies;
- changes in control of, or restructurings of, other aircraft leasing companies;
- manufacturer production levels and technological innovation;
- discounting by manufacturers on aircraft types nearing end of production;
- manufacturers merging, exiting the industry or ceasing to produce aircraft types;
- new-entrant manufacturers producing additional aircraft models, or existing manufacturers producing newly engineered aircraft models or new aircraft models, in competition with existing aircraft models;
- geopolitical events, including war, prolonged armed conflict and acts of terrorism;
- governmental regulation;
- climate change initiatives, technological change, aircraft noise and emissions regulations, aircraft age limits and other factors leading to reduced demand for, early retirement or obsolescence of aircraft models;
- tariffs and other restrictions on trade;
- outbreaks of communicable diseases and natural disasters;
- reintroduction into service of aircraft previously in storage; and
- airport and air traffic control infrastructure constraints.

These and other factors may produce sharp decreases or increases in aircraft values and lease rates, which would impact our cost of acquiring aircraft and our ability to grow the business, or which may result in lease defaults and also prevent the aircraft from being re-leased or sold on favorable terms. This could have an adverse effect on our financial results and growth prospects.

***Other factors that increase the risk of decline in aircraft value and lease rates could have an adverse effect on our financial results and growth prospects.***

In addition to factors linked to the aviation industry generally, other factors that may affect the value and lease rates of our aircraft include:

- the age of the aircraft;
- the particular maintenance and operating history of the airframe and engines;
- the number of operators using that type of aircraft;
- whether the aircraft is subject to a lease and, if so, whether the lease terms are favorable to us;
- the demand for and availability of such aircraft at any given time;
- applicable airworthiness directives or manufacturer's service bulletins that have not yet been performed to the aircraft;
- grounding orders or other regulatory action that could prevent or limit utilization of our aircraft;

any regulatory and legal requirements that must be satisfied before the aircraft can be purchased, sold or re-leased; and

compatibility of our aircraft configurations or specifications with those desired by the operators of other aircraft of that type.

Any decrease in the values of and lease rates for commercial aircraft which may result from the above factors or other unanticipated factors may have a material adverse effect on our financial results and growth prospects.

***The advent of superior aircraft technology and higher production levels could cause our existing aircraft portfolio to become outdated and therefore less desirable.***

As manufacturers introduce technological innovations and new types of aircraft, including the Boeing 787, the Airbus A350, the Airbus A220 (formerly the Bombardier C series) and re-engined and/or replacement types for the Boeing 737, Boeing 777, Airbus A320, Airbus A330 and Embraer E-Jet families of aircraft, certain aircraft in our existing aircraft portfolio may become less desirable to potential lessees or purchasers. This next generation of aircraft is expected to deliver improved fuel consumption and reduced noise and emissions with lower operating costs compared to current-technology aircraft. The Boeing 787 and 737 Max and the Airbus A350, A320neo and A220 are all currently in production. The first deliveries for the Airbus A330neo and Embraer's second generation of E-Jets, the E2 family, began in 2018. The Boeing 777X is expected to enter service in 2020. Additionally, Commercial Aircraft Corporation of China Ltd., Mitsubishi and Russia's United Aircraft Corporation are developing aircraft models that will compete with the Airbus A319, the Boeing 737 and the Embraer E-Jet.

The introduction of these new models and the potential resulting overcapacity in aircraft supply, could adversely affect the residual values and the lease rates for our aircraft, our ability to lease or sell our aircraft on favorable terms, or at all, or result in us recording future impairment charges.

***The effects of energy, emissions, and noise regulations and policies may negatively affect the airline industry. This may cause lessees to default on their lease payment obligations to us and may limit the market for certain aircraft in our portfolio.***

Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated. Jurisdictions throughout the world have adopted noise regulations which require all aircraft to comply with noise level standards. In addition to the current requirements, the United States and ICAO have adopted a new, more stringent set of standards for noise levels which applies to engines manufactured or certified on or after January 1, 2006. Currently, U.S. regulations would not require any phase-out of aircraft that qualify with the older standards applicable to engines manufactured or certified prior to January 1, 2006, but the E.U. has established a framework for the imposition of operating limitations on aircraft that do not comply with the new standards. These regulations could limit the economic life of the aircraft and engines, reduce their value, limit our ability to lease or sell these non-compliant aircraft and engines or, if engine modifications are permitted, require us to make significant additional investments in the aircraft and engines to make them compliant.

In addition to noise restrictions, the U.S. and other jurisdictions have imposed limits on aircraft engine emissions, such as NO<sub>x</sub>, CO and CO<sub>2</sub>, consistent with current ICAO standards. European countries have relatively strict environmental regulations that can restrict operational flexibility and decrease aircraft productivity. The E.U. has included the aviation sector in its emissions trading scheme ("ETS"), and has attempted to apply the ETS to flights outside of European airspace. This effort has been opposed by the U.S. and other countries. The E.U. suspended the ETS for flights from or to non-European countries in 2013, and in December 2017 further extended that suspension until December 2023. ICAO has adopted a resolution developing a global market-based measure to control CO<sub>2</sub> emission from international aviation, which begins in 2021. As noted above, the U.S. EPA announced in 2016 its intent to promulgate and adopt a rule to incorporate these new standards into domestic law, although that decision is now under review.

In 2015, over 190 countries, including the United States, reached an agreement to reduce global GHG emissions at the United Nations Framework Convention on Climate. The agreement does not expressly reference aviation, but if the agreement is implemented in the United States and other countries there could be an adverse direct or indirect effect on the aviation industry as a whole. On June 1, 2017 the United States announced that it intends to withdraw from the



2015 agreement. That withdrawal cannot be given officially until November 4, 2019 and would be effective November 4, 2020.

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Over time, it is possible that governments will adopt additional regulatory requirements and/or market-based policies that are intended to reduce energy usage, emissions, and noise levels from aircraft. Such initiatives may be based on concerns regarding climate change, energy security, public health, local impacts, or other factors, and may also impact the global market for certain aircraft and cause behavioral shifts that result in decreased demand for air travel. These concerns could also result in greater limitations on the operation of our fleet, particularly aircraft equipped with older technology engines.

Compliance with current or future regulations, taxes or duties could cause our lessees to incur higher costs and lead to higher ticket prices, which could mean lower demand for travel and adverse impacts on the financial condition of our lessees. Such compliance may also affect our lessees' ability to make rental and other lease payments and limit the market for aircraft in our portfolio, which could have other negative effects on our financial position.

***The older age, or older technology, of some of our aircraft may expose us to higher than anticipated maintenance related expenses.***

In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Additionally, older aircraft typically are less fuel-efficient than newer aircraft and may be more difficult to re-lease or sell, particularly if, due to increasing production rates by aircraft manufacturers or airline insolvencies or other distress, older aircraft are competing with newer aircraft in the lease or sale market. Expenses like fuel, aging aircraft inspections, maintenance or modification programs and related airworthiness directives could make the operation of older aircraft less economically viable and may result in increased lessee defaults. We may also incur some of these increased maintenance expenses and regulatory costs upon acquisition or re-leasing of our aircraft. Re-leasing larger wide-body aircraft may result in higher reinvestment and maintenance expenditures than re-leasing narrow-body aircraft.

***The concentration of aircraft types in our aircraft portfolio could lead to adverse effects on our business and financial results should any difficulties specific to these particular types of aircraft occur.***

Our owned aircraft portfolio is concentrated in certain aircraft types. Should any of these aircraft types (or other types we acquire in the future) or aircraft manufacturers encounter technical, financial or other difficulties, it would cause a decrease in value of these aircraft, an inability to lease the aircraft on favorable terms or at all, or a potential grounding of these aircraft, which may adversely impact our financial results, to the extent the affected aircraft types comprise a significant percentage of our aircraft portfolio.

***We operate in a highly competitive market for investment opportunities in aviation assets and for the leasing and sale of aircraft.***

We compete with other operating lessors, airlines, aircraft manufacturers, financial institutions, aircraft brokers and other investors with respect to aircraft acquisitions, leasing and sales. The aircraft leasing industry is highly competitive and may be divided into three basic activities: (i) aircraft acquisition; (ii) leasing or re-leasing of aircraft; and (iii) aircraft sales. Competition varies among these three basic activities.

A number of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances, lower investment return expectations or different risk or residual value assessments, which could allow them to consider a wider variety of investments, establish more relationships, bid more aggressively on aviation assets available for sale and offer lower lease rates or sales prices than we can. Some of our competitors may provide financial services, maintenance services or other inducements to potential lessees or buyers that we cannot provide. As a result of competitive pressures, we may not be able to take advantage of attractive investment opportunities from time to time, and we may not be able to identify and make investments that are consistent with our investment objectives. We continue to see lessors and airlines starting to manage the transition from current to newer technology and younger aircraft. Additionally, the barriers to entry in the aircraft acquisition and leasing market are comparatively low, and new entrants with private equity, hedge fund, Asian bank or other funding sources appear from time to time. We may not be able to compete effectively against present and future competitors in the aircraft acquisition, leasing or sales market.

**Risks Related to our Order of New Embraer E-Jet E2 Aircraft**

We have lease commitments for three of the 25 Embraer E-Jet E2 aircraft that we contracted to purchase from Embraer and are scheduled for delivery between the third quarter of 2020 and fourth quarter of 2021. We do not yet have lease

commitments for the remaining deliveries nor have we put financing in place for any of the Embraer E-Jet E2 aircraft deliveries. Our ability to lease these aircraft on favorable terms, if at all, may be adversely affected by desirability of this new aircraft type and risks to the commercial airline industry generally. If we are unable to obtain commitments for the remaining deliveries or the necessary financing, if needed, or otherwise satisfy our contractual obligations to Embraer, we will be subject to several potential risks, including:

- forfeiting advance deposits and progress payments to Embraer, as well as incurring certain significant costs related to these commitments such as contractual damages and legal, accounting and financial advisory expenses;
- defaulting on any future lease commitments we may have entered into with respect to these aircraft, which could result in monetary damages and strained relationships with lessees;
- failing to realize the benefits of purchasing and leasing such aircraft; and
- risking harm to our business reputation, which would make it more difficult to purchase and lease aircraft in the future on agreeable terms, if at all.

In addition, the Embraer E-Jet E2 is a new aircraft variant and first entered service in April 2018. The Embraer E-Jet E2 aircraft incorporates a modified version of the recently introduced Pratt & Whitney geared turbofan engine, which is now in production. Airframe and engine manufacturers have occasionally experienced delays and technical difficulties in bringing new aircraft and engine types to market. If any aircraft for which we have made future lease commitments is delayed or if Embraer is unable to produce the aircraft in compliance with the performance specifications, some or all of our affected lessees might be able to terminate their leases with respect to such aircraft. Our purchase agreement with Embraer and the anticipated future leases for these aircraft contain certain cancellation rights related to delays in delivery. Any such termination could strain our relations with those lessees going forward. Lastly, we will rely on Embraer to return any advance deposits and progress payments if they are unable to meet their obligations to us, and we may not be able to recover such amounts if Embraer defaults or becomes insolvent. In November 2017, Airbus and Bombardier announced a partnership for the C-series aircraft (now known as the Airbus A220 model), which competes with the E-Jet E2. In December 2018, Boeing and Embraer announced a strategic partnership, which is subject to government approval. No assurance can be given that the Boeing and Embraer strategic partnership will receive government approval, and that even if the transaction is consummated, what the implications could be for our commitments and the E-Jet E2 program. Any of these events could materially and adversely affect our financial results and operations.

#### **Risks Related to Our Leases**

*If lessees are unable to fund their maintenance obligations on our aircraft, we may incur increased costs at the conclusion of the applicable lease.*

The standards of maintenance observed by the various lessees and the condition of the aircraft at the time of lease or sale may affect the future values and rental rates for our aircraft.

Under our leases, the relevant lessee is responsible for maintaining the aircraft and complying with all governmental requirements applicable to the lessee and the aircraft, including, without limitation, operational, maintenance, and registration requirements and airworthiness directives, although in certain cases we may agree to share certain of these costs. Failure of a lessee to perform required aircraft maintenance or required airworthiness directives could result in a decrease in value of such aircraft, an adverse effect on our ability to lease the aircraft at favorable rates or at all, or a potential grounding of such aircraft, and will likely require us to incur increased maintenance and modification costs upon the expiration or earlier termination of the applicable lease, which could be substantial, to restore such aircraft to an acceptable condition. If any of our aircraft are not subject to a lease, we would be required to bear the entire cost of maintaining that aircraft and performing any required airworthiness directives.

Certain of our leases provide that the lessee is required to make periodic payments to us during the lease term in order to provide cash reserves for the major maintenance. In these leases there is an associated liability for us to reimburse the lessee after such maintenance is performed. A substantial number of our leases do not provide for any periodic maintenance reserve payments to be made to us. Typically, these lessees are required to make payments at the end of the lease term. However, in the event such lessees default, the value of the aircraft could be negatively affected by the maintenance condition and we may be required to fund the entire cost of performing major maintenance on the

relevant aircraft without, in either case, having received compensating maintenance payments from these lessees.

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Even if we receive maintenance payments, these payments may not cover the entire expense of the scheduled maintenance they are intended to fund. In addition, maintenance payments typically cover only certain scheduled maintenance requirements and do not cover all required maintenance and all scheduled maintenance. As a result, we may incur unanticipated or significant costs at the conclusion of a lease.

***Failure to pay certain potential additional operating costs could result in the grounding or arrest of our aircraft and prevent the re-lease, sale or other use of our aircraft.***

As in the case of maintenance costs, we may incur other operational costs upon a lessee default or where the terms of the lease require us to pay a portion of those costs. Such costs include:

- the costs of casualty, liability and political risk insurance and the liability costs or losses when insurance coverage has not been or cannot be obtained as required, or is insufficient in amount or scope;
- the costs of licensing, exporting or importing an aircraft, airport charges, customs duties, air navigation charges, landing fees and similar governmental or quasi-governmental impositions, which can be substantial;
- penalties and costs associated with the failure of lessees to keep aircraft registered under all appropriate local requirements or obtain required governmental licenses, consents and approvals; and
- carbon taxes or other fees, taxes or costs imposed under emissions limitations, climate change regulations or other initiatives.

The failure to pay certain of these costs can result in liens on the aircraft. The failure to register the aircraft can result in a loss of insurance. These matters could result in the grounding or arrest of the aircraft and prevent the re-lease, sale or other use of the aircraft until the problem is cured.

***Our lessees may have inadequate insurance coverage or fail to fulfill their respective indemnity obligations, which could result in us not being covered for claims asserted against us.***

By virtue of holding title to the aircraft, lessors may be held strictly liable for losses resulting from the operation of aircraft or may be held liable for those losses based on other legal theories. Liability may be placed on an aircraft lessor in certain jurisdictions around the world even under circumstances in which the lessor is not directly controlling the operation of the relevant aircraft.

Lessees are required under our leases to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain public liability, property damage and hull all risk and hull war risk insurance on the aircraft at agreed upon levels. However, they are not generally required to maintain political risk insurance. Following the terrorist attacks of September 11, 2001, aviation insurers significantly reduced the amount of insurance coverage available to airlines for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events. At the same time, they significantly increased the premiums for such third-party war risk and terrorism liability insurance and coverage in general. As a result, the amount of such third-party war risk and terrorism liability insurance that is commercially available at any time may be below the amount stipulated in our leases.

Our lessees' insurance, including any available governmental supplemental coverage, may not be sufficient to cover all types of claims that may be asserted against us. Any inadequate insurance coverage or default by lessees in fulfilling their indemnification or insurance obligations will reduce the proceeds that would be received by us upon an event of loss under the respective leases or upon a claim under the relevant liability insurance.

***Failure to obtain certain required licenses and approvals could negatively affect our ability to re-lease or sell aircraft.***

A number of our lessees must obtain licenses, consents or approvals in order to import or operate the aircraft or comply with the leases. These include consents from governmental or regulatory authorities for certain payments under the leases and for the import, export or deregistration of the aircraft. Subsequent changes in applicable law or administrative practice may increase such requirements and a governmental consent, once given, might be withdrawn. Furthermore, consents needed in connection with future re-leasing or sale of an aircraft may not be forthcoming. Any of these events could adversely affect our ability to re-lease or sell aircraft.



***Due to the fact that many of our lessees operate in emerging markets, we are indirectly subject to many of the economic and political risks associated with competing in such markets.***

Emerging markets are countries which may be more vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets, unfavorable legal systems, change in law regarding recognition of contracts or ownership rights, changes in governments or government policy and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by our lessees and the resulting instability may adversely affect our ownership interest in an aircraft or the ability of lessees which operate in these markets to meet their lease obligations and these lessees may be more likely to default than lessees that operate in developed economies. For the year ended December 31, 2018, 54 of our lessees, which operated 142 aircraft and generated 68% of our lease rental revenue, are domiciled or habitually based in emerging markets.

#### **Risks Related to Our Lessees**

***Lessee defaults could materially adversely affect our business, financial condition and results of operations.***

As a general matter, airlines with weak capital structures are more likely than well-capitalized airlines to seek operating leases, and, at any point in time, investors should expect a varying number of lessees and sub-lessees to experience payment difficulties. As a result of their weak financial condition and lack of liquidity, a portion of lessees over time may be significantly in arrears in their rental or maintenance payments. This is likely to be the case in the future, particularly in a difficult economic or operating environment. Liquidity issues are more likely to lead to airline failures in the context of financial system distress, volatile fuel prices, and economic slowdown, with additional liquidity being more difficult and expensive to source. Given the size of our aircraft portfolio, we expect that from time to time some lessees will be slow in making, or will fail to make, their payments in full under their leases.

We may not correctly assess the credit risk of a lessee or may not be in a position to charge risk-adjusted lease rates, and lessees may not be able to continue to perform their financial and other obligations under our leases in the future. A delayed, reduced or missed rental payment from a lessee decreases our revenues and cash flow and may adversely affect our ability to make payments on our indebtedness or to comply with debt service coverage or interest coverage ratios. A default, delay or deferral of payments from a lessee where we have a significant exposure or concentration risk could have a materially adverse impact on our revenue and cash flows. We may experience some level of delinquency under our leases and default levels may increase over time, particularly as our aircraft portfolio ages and if economic conditions deteriorate. A lessee may experience periodic difficulties that are not financial in nature, which could impair its performance of maintenance obligations under the leases. These difficulties may include the failure to perform required aircraft maintenance and labor-management disagreements or disputes.

In the event that a lessee defaults under a lease, any security deposit paid or letter of credit provided by the lessee may not be sufficient to cover the lessee's outstanding or unpaid lease obligations and required maintenance and transition expenses.

***If our lessees encounter financial difficulties and we decide to restructure our leases with those lessees, this could result in less favorable leases and in significant reductions in our cash flow or adversely affect our financial results.***

When a lessee is late in making payments, fails to make payments in full or in part under the lease or has otherwise advised us that it will in the future fail to make payments in full or in part under the lease, we may elect to or be required to restructure the lease. Restructuring may involve anything from a simple rescheduling of payments to the termination of a lease without receiving all or any of the past due amounts. If requests for payment restructuring or rescheduling are made and granted, reduced or deferred rental payments may be payable over all or some part of the remaining term of the lease, and the terms of any revised payment schedules may be unfavorable or such payments may not be made. We may be unable to agree upon acceptable terms for any requested restructurings and as a result may be forced to exercise our remedies under those leases and we may be unable to repossess our aircraft on a timely basis. If we, in the exercise of our remedies, repossess the aircraft, we may not be able to re-lease the aircraft promptly at favorable rates, or at all.



The terms and conditions of payment restructurings or reschedulings, particularly involving lessees where we have significant exposure or concentration risk, may result in significant reductions of rental payments, which may adversely affect our cash flows or our financial results.

***Significant costs resulting from lease defaults could have a material adverse effect on our business.***

While we have the right to repossess the aircraft and to exercise other remedies upon a lessee default, repossession of an aircraft after a lessee default would lead to significantly increased costs for us. Those costs include legal and other expenses of court or other governmental proceedings, particularly if the lessee is contesting the proceedings or is in bankruptcy, and costs to obtain possession and/or de-registration of the aircraft and flight and export permissions. Delays resulting from any of these proceedings would increase the period of time during which the relevant aircraft is not generating revenue. We may also incur substantial maintenance, refurbishment or repair costs that a defaulting lessee has failed to incur or pay and that are necessary to put the aircraft in suitable condition for re-lease or sale. We may be required to pay off liens, claims, taxes and other governmental charges on the aircraft to obtain clear possession and to remarket the aircraft for re-lease or sale. We may also incur maintenance, storage or other costs while we have physical possession of the aircraft.

We may suffer other adverse consequences as a result of a lessee default and the termination of the lease and the repossession of the related aircraft. Our rights upon a lessee default vary significantly depending upon the jurisdiction, including the need to obtain a court order for repossession of the aircraft and/or consents for de-registration or re-export of the aircraft. When a defaulting lessee is in bankruptcy, protective administration, insolvency or similar proceedings, additional limitations may apply. Certain jurisdictions give rights to the trustee in bankruptcy or a similar officer to assume or reject the lease or to assign it to a third party, or entitle the lessee or another third party to retain possession of the aircraft without paying lease rentals or without performing all or some of the obligations under the relevant lease. There can be no assurance that jurisdictions that have adopted the Cape Town Convention, which provides for uniformity and certainty for repossession of aircraft, will enforce it as written. Certain of our lessees are owned in whole or in part by government-related entities, which could complicate our efforts to repossess the relevant aircraft. Accordingly, we may be delayed in, or prevented from, enforcing certain of our rights under a lease and in re-leasing or selling the affected aircraft.

If we repossess an aircraft, we may not necessarily be able to export or de-register and profitably redeploy the aircraft. When a lessee or other operator flies only domestic routes in the jurisdiction in which the aircraft is registered, repossession may be more difficult, especially if the jurisdiction permits the lessee or the other operator to resist de-registration. Significant costs may also be incurred in retrieving or recreating aircraft records required for registration of the aircraft and obtaining a certificate of airworthiness for the aircraft. A default and exercise of remedies involving a lessee where we have a significant exposure or concentration risk could have a materially adverse impact on our future revenue and cash flows.

***Adverse currency movements could negatively affect our lessees' ability to honor the terms of their leases and could materially adversely affect our business, financial condition and results of operations.***

Many of our lessees are exposed to currency risk due to the fact that they earn revenues in their local currencies while a significant portion of their liabilities and expenses, including fuel, debt service, and lease payments are denominated in U.S. dollars. In the case of a devaluation of the local currency, our lessees may not be able to increase revenue sufficiently to offset the impact of exchange rates on these expenses. This is particularly true for non-U.S. airlines whose operations are primarily domestic. This difference is magnified in the event of an appreciating U.S. dollar. Currency volatility, particularly in emerging market countries, could impact the ability of some of our customers to meet their contractual obligations in a timely manner. Shifts in foreign exchange rates can be significant, are difficult to predict, and can occur quickly.

***Airline reorganizations could have an adverse effect on our financial results.***

As a result of economic conditions, significant volatility in oil prices and financial markets distress, airlines may be forced to reorganize. In the past, airlines involved in reorganizations have undertaken substantial fare discounting to maintain cash flows and to encourage continued customer loyalty. Such fare discounting can lead to lower profitability for all airlines. Bankruptcies and reduced demand may lead to the grounding of significant numbers of aircraft and negotiated reductions in aircraft lease rental rates, with the effect of depressing aircraft market values.

Additional grounded aircraft and lower market values would adversely affect our ability to sell certain of our aircraft on favorable terms, or at all, or re-lease other aircraft at favorable rates comparable to the then current market

conditions, which collectively would have an adverse effect on our financial results. We may not recover any of our claims or damages against an airline under bankruptcy or insolvency protection.

***If our lessees fail to appropriately discharge aircraft liens, we might find it necessary to pay such claims.***

In the normal course of business, liens that secure the payment of airport fees and taxes, custom duties, air navigation charges (including charges imposed by Eurocontrol), landing charges, crew wages, repairer's charges, salvage or other liens, are likely, depending on the jurisdiction, to attach to the aircraft. These liens may secure substantial sums that may, in certain jurisdictions or for certain types of liens (particularly "fleet liens"), exceed the value of the relevant aircraft. Although the financial obligations relating to these liens are the responsibility of our lessees, if they fail to fulfill their obligations, these liens may attach to our aircraft and ultimately become our responsibility. Until these liens are discharged, we may be unable to repossess, re-lease or sell the aircraft or unable to avoid detention or forfeiture of the aircraft.

Our lessees may not comply with their obligations under their respective leases to discharge liens arising during the terms of their leases, whether or not due to financial difficulties. If they do not do so, we may, in some cases, find it necessary to pay the claims secured by any liens in order to repossess the aircraft.

***Risks associated with the concentration of our lessees in certain geographical regions could harm our business or financial results.***

Our business is sensitive to local economic and political conditions that can influence the performance of lessees located in a particular region.

***European Concentration***

Thirty-one lessees in Europe accounted for 87 aircraft, totaling 27% of the net book value of our aircraft at December 31, 2018. Five lessees, accounting for 30 aircraft, are based in the U.K. The final terms of the U.K.'s departure from the E.U. remain unclear and could potentially negatively impact carriers based in the U.K. and to a lesser extent elsewhere in the E.U.

***Asian Concentration***

Twenty-three lessees in Asia accounted for 78 aircraft totaling, 36% of the net book value of our aircraft at December 31, 2018. Growth in Asia has been strong, driven in large part by Southeast Asia and India. Eight lessees accounting for 25 aircraft are based in Southeast Asia and four lessees accounting for 26 aircraft are based in India. There is also risk of oversupply in the future driven by large outstanding order books of certain Southeast Asian and Indian carriers as well as infrastructure constraints. In general, Asian airlines continue to face competition from new entrants and the growth of low cost carriers in the region.

***North American Concentration***

Eleven lessees in North America accounted for 35 aircraft, totaling 10% of the net book value of our aircraft at December 31, 2018. Consolidation among major airlines in the U.S. has helped drive capacity discipline and pricing power.

***South American Concentration***

Nine lessees in South America accounted for 16 aircraft, totaling 10% of the net book value of our aircraft at December 31, 2018. Two lessees in Brazil accounted for fourteen aircraft, totaling 8% of the net book value of our aircraft at December 31, 2018. One of these carriers, Avianca Brazil, sought bankruptcy protection in December 2018. We are currently in the process of recovering the aircraft that had been on lease to Avianca Brazil.

***Middle East and African Concentration***

Eight lessees in the Middle East and Africa accounted for seventeen aircraft totaling 8% of the net book value of our aircraft at December 31, 2018.

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

***Fuel prices significantly impact the profitability of the airline industry. If fuel prices rise in the future, our lessees might not be able to meet their lease payment obligations, which would have an adverse effect on our financial results and growth prospects.***

Fuel costs represent a major expense to airlines. Fuel prices fluctuate widely depending primarily on international market conditions, geopolitical and environmental events and currency/exchange rates. As a result, fuel costs are not within the control of lessees and significant changes would materially affect their operating results.

Due to the competitive nature of the airline industry, airlines may be unable to pass on increases in fuel prices to their customers by increasing fares in a manner that fully compensates for the costs incurred. Higher and more volatile fuel prices may also have an impact on consumer confidence and spending, and thus may adversely impact demand for air transportation. In addition, airlines may not be able to successfully manage their exposure to fuel price fluctuations. If fuel prices increase due to future terrorist attacks, acts of war, armed hostilities, rebellion or political instability, natural disasters or for any other reason, they are likely to cause our lessees to incur higher costs and/or generate lower revenues, resulting in an adverse impact on their financial condition and liquidity. Fuel cost volatility may contribute to the reluctance of airlines to make future commitments to leased aircraft and reduce the demand for lease aircraft. Consequently, these conditions may: (i) affect our lessees' ability to make rental and other lease payments; (ii) result in lease restructurings and/or aircraft repossessions; (iii) increase our costs of re-leasing or selling our aircraft; or (iv) impair our ability to re-lease or sell our aircraft on a timely basis at favorable rates or terms, or at all.

***The effects of terrorist attacks and geopolitical conditions might adversely impact the financial condition of the airlines and our lessees might not be able to meet their lease payment obligations.***

War, armed hostilities or terrorist attacks, or the fear of such events, could decrease demand for air travel or increase the operating costs of our customers. Terrorist incidents and other international tensions may lead to regional or broader international instability. Future terrorist attacks, war or armed hostilities, large protests or government instability, or the fear of such events, could further negatively impact the airline industry and may have an adverse effect on the financial condition and liquidity of our lessees, aircraft values and rental rates and may lead to lease restructurings or aircraft repossessions, all of which could adversely affect our financial results.

Terrorist attacks and geopolitical conditions have negatively affected the airline industry, and concerns about geopolitical conditions and further terrorist attacks could continue to negatively affect airlines (including our lessees) for the foreseeable future, depending upon various factors, including: (i) higher costs to the airlines due to the increased security measures; (ii) decreased passenger demand and revenue due to safety concerns or the inconvenience of additional security measures; (iii) the price and availability of jet fuel; (iv) higher financing costs and difficulty in raising the desired amount of proceeds on favorable terms, or at all; (v) the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance has been or will continue to be available; (vi) the ability of airlines to reduce their operating costs and conserve financial resources, taking into account the increased costs incurred as a consequence of terrorist attacks and geopolitical conditions, including those referred to above; and (vii) special charges recognized by some airlines, such as those related to the impairment of aircraft and other long lived assets stemming from the above conditions.

***Economic conditions and regulatory changes resulting from the United Kingdom's ("U.K.") probable exit from the E.U. could have an adverse effect on our business.***

In June 2016, voters in the U.K. approved a referendum to exit from the E.U., known as Brexit. The effects of Brexit on us will depend on the resulting agreements regarding trade and travel made between the U.K. and the E.U. Brexit could result in adverse consequences, such as instability in financial markets, deterioration in economic conditions, volatility in currency exchange rates or adverse impact to air travel and the air freight market. These impacts may negatively impact the airline and finance industries and may have an adverse effect on our ability to borrow, the financial condition of our lessees, aircraft values and rental rates and may lead to lease restructurings or aircraft repossessions, all of which could adversely affect our financial results. The conditions under which the U.K. leaves the E.U., and even whether it ultimately does, are still being negotiated. The final results of the negotiations

remain unclear and could span a broad range of potential outcomes.

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***Epidemic diseases, severe weather conditions, natural disasters or their perceived effects may negatively impact the airline industry and our lessees' ability to meet their lease payment obligations to us.***

If an outbreak of epidemic diseases were to occur, numerous responses, including travel restrictions, might be necessary to combat the spread of the disease. Even if restrictions are not implemented, passengers may voluntarily choose to reduce travel. There have been several outbreaks of epidemic diseases which have spread to other parts of the world, although their impact was relatively limited. Additional outbreaks of epidemic diseases, or the fear of such events, could result in travel bans or could have an adverse effect on our financial results. Similarly, demand for air travel or the inability of airlines to operate to or from certain regions due to severe weather conditions or natural disasters, such as floods, earthquakes or volcanic eruptions, could have an adverse effect on our lessees' ability to their lease payment obligations to us, which could negatively impact our financial results.

**Risks Related to Our Organization and Structure**

***If the ownership of our common shares continues to be highly concentrated, it may prevent minority shareholders from influencing significant corporate decisions and may result in conflicts of interest.***

As of February 8, 2019, Marubeni owns 21,605,347 shares, or 28.8% of our common shares. Although the Shareholder Agreement, dated as of June 6, 2013, among us, Marubeni and a subsidiary of Marubeni (as amended and restated from time to time, the "Shareholder Agreement"), imposes certain restrictions on Marubeni's and its affiliates' ability to make additional acquisitions of our common shares, Marubeni, nonetheless, may be able to influence fundamental corporate matters and transactions, including the election of directors; mergers or amalgamations (subject to prior board approval); consolidations or acquisitions; the sale of all or substantially all of our assets; in certain circumstances, the amendment of our bye-laws; and our winding up and dissolution. This concentration of ownership may delay, deter or prevent acts that would be favored by our other shareholders. The interests of Marubeni may not always coincide with our interests or the interests of our other shareholders. This concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our company. Also, Marubeni may seek to cause us to take courses of action that, in its judgment, could enhance its investment in us, but which might involve risks to our other shareholders or adversely affect us or our other shareholders. In addition, under the Shareholder Agreement, based on the current ownership of our common shares by Marubeni and the current size of our Board of Directors, Marubeni is entitled to designate three directors for election to our Board of Directors. As a result of these or other factors, the market price of our common shares could decline or shareholders might not receive a premium over the then-current market price of our common shares upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of our common shares because investors may perceive disadvantages in owning shares in a company with a significant shareholder.

***We are a holding company with no operations and rely on our operating subsidiaries to provide us with funds necessary to meet our financial obligations.***

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and to pay dividends to our shareholders. Although there are currently no material legal restrictions on our operating subsidiaries ability to distribute assets to us, legal restrictions, including governmental regulations and contractual obligations, could restrict or impair our operating subsidiaries ability to pay dividends or make loan or other distributions to us. Our subsidiaries are legally distinct from us and may be prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions.

***We are a Bermuda company, and it may be difficult for securityholders to enforce judgments against us or our directors and executive officers.***

We are a Bermuda exempted company and, as such, the rights of holders of our common shares will be governed by Bermuda law and our memorandum of association and bye-laws. The rights of securityholders under Bermuda law may differ from the rights of securityholders of companies incorporated in other jurisdictions. A substantial portion of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process

on those persons in the United States or to enforce in the United States judgments obtained in U.S. courts against us or those persons based on the civil liability provisions of the U.S. securities laws. Uncertainty exists as to whether courts in Bermuda will enforce judgments obtained in other jurisdictions, including the United States, against us or our directors or officers under the



securities laws of those jurisdictions or entertain actions in Bermuda against us or our directors or officers under the securities laws of other jurisdictions.

***Our bye-laws restrict shareholders from bringing legal action against our officers and directors.***

Our bye-laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against any of our officers or directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against our officers and directors unless the act or failure to act involves fraud or dishonesty.

***We have anti-takeover provisions in our bye-laws that may discourage a change of control.***

Our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions include:

- provisions providing for a classified board of directors with staggered three-year terms;
- provisions regarding the election of directors, classes of directors, the term of office of directors and amalgamations to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 66% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;
- provisions in our bye-laws dealing with the removal of directors and corporate opportunity to be rescinded, altered or amended only upon approval by a resolution of the directors and by a resolution of our shareholders, including the affirmative votes of at least 80% of the votes attaching to all shares in issue entitling the holder to vote on such resolution;
- provisions providing for the removal of directors by a resolution, including the affirmative votes of at least 80% of all votes attaching to all shares in issue entitling the holder to vote on such resolution;
- provisions providing for our Board of Directors to determine the powers, preferences and rights of our preference shares and to issue such preference shares without shareholder approval;
- provisions providing for advance notice requirements by shareholders for director nominations and actions to be taken at annual meetings; and
- no provision for cumulative voting in the election of directors; all the directors standing for election may be elected by our shareholders by a plurality of votes cast at a duly convened annual general meeting, the quorum for which is two or more persons present in person or by proxy at the start of the meeting and representing in excess of 50% of all votes attaching to all shares in issue entitling the holder to vote at the meeting.

In addition, these provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and/or our Board of Directors. Public shareholders who might desire to participate in these types of transactions may not have an opportunity to do so. These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control or change our management and Board of Directors and, as a result, may adversely affect the market price of our common shares and your ability to realize any potential change of control premium.

***There are provisions in our bye-laws that may require certain of our non-U.S. shareholders to sell their shares to us or to a third party.***

Our bye-laws provide that if our Board of Directors determines that we or any of our subsidiaries do not meet, or in the absence of repurchases of shares will fail to meet, the ownership requirements of a limitation on benefits article of any bilateral income tax treaty with the U.S. applicable to us, and that such tax treaty would provide material benefits to us or any of our subsidiaries, we generally have the right, but not the obligation, to repurchase, at fair market value (as determined pursuant to the method set forth in our bye-laws), common shares from any shareholder who beneficially owns more than 5% of our issued and outstanding common shares and who fails to demonstrate to our satisfaction that such shareholder is either a U.S. citizen or a qualified resident of the U.S. or the other contracting state of any applicable tax treaty with the U.S. (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty).

We will have the option, but not the obligation, to purchase all or a part of the shares held by such shareholder (to the extent the Board of Directors, in the reasonable exercise of its discretion, determines it is necessary to avoid or cure adverse

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consequences), provided that the Board of Directors will use its reasonable efforts to exercise this option equitably among similarly situated shareholders (to the extent feasible under the circumstances).

Instead of exercising the repurchase right described above, we will have the right, but not the obligation, to cause the transfer to, and procure the purchase by, any U.S. citizen or a qualified resident of the U.S. or the other contracting state of the applicable tax treaty (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty) of the number of issued and outstanding common shares beneficially owned by any shareholder that are otherwise subject to repurchase under our bye-laws as described above, at fair market value (as determined in the good faith discretion of our Board of Directors).

***Our joint ventures may have an adverse effect on our business.***

Our joint ventures involve significant risks that may not be present with other methods of ownership, including: we may not realize a satisfactory return on our investment or the joint ventures may divert management's attention from our business;

our joint venture partners could have investment goals that are not consistent with our investment objectives, including the timing, terms and strategies for any investments;

our joint venture partners might fail to fund their share of required capital contributions or fail to fulfill their obligations as a joint venture partner;

decisions of our partners to sell aircraft in one of our joint ventures may have an impact on our financial performance; and

our joint venture partners may have competing interests in our markets that could create conflict of interest issues, particularly if aircraft owned by the joint ventures are being marketed for lease or sale at a time when the Company also has comparable aircraft available for lease or sale.

**Risks Related to Our Common Shares**

***The market price and trading volume of our common shares may be volatile or may decline regardless of our operating performance, which could result in rapid and substantial losses for our shareholders.***

If the market price of our common shares declines significantly, shareholders may be unable to resell their shares at or above their purchase price. The market price or trading volume of our common shares could be highly volatile and may decline significantly in the future in response to various factors, many of which are beyond our control, including:

variations in our quarterly or annual operating results;

failure to meet any earnings estimates;

actual or perceived reduction in our growth or expected future growth;

actual or anticipated accounting issues;

publication of research reports about us, other aircraft lessors or the aviation industry or the failure of securities analysts to cover our common shares or the decision to suspend or terminate coverage in the future;

additions or departures of key management personnel;

increased volatility in the capital markets and more limited or no access to debt financing, which may result in an increased cost of, or less favorable terms for, debt financing or may result in sales to satisfy collateral calls or other pressure on holders to sell our shares;

redemptions, or similar events affecting funds or other investors holding our shares, which may result in large block trades that could significantly impact the price of our common shares;

adverse market reaction to any indebtedness we may incur or preference or common shares we may issue in the future;

changes in or elimination of our dividend;

actions by shareholders;

changes in market valuations of similar companies;

announcements by us, our competitors or our suppliers of significant contracts, acquisitions, disposals, strategic partnerships, joint ventures or capital commitments;



speculation in the press or investment community;  
changes or proposed changes in laws or regulations affecting the aviation industry or enforcement of these laws and regulations, or announcements relating to these matters; and  
general market, political and economic conditions and local conditions in the markets in which our lessees are located. In addition, the equity markets in general have frequently experienced substantial price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies traded in those markets. Changes in economic conditions in the U.S., Europe or globally could also impact our ability to grow profitably. These broad market and industry factors may materially affect the market price of our common shares, regardless of our business or operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

***Future additional debt, which would be senior to our common shares upon liquidation, and additional equity securities, which would dilute the percentage ownership of our then current common shareholders and may be senior to our common shares for the purposes of dividends and liquidation distributions, may adversely affect the market price of our common shares.***

In the future, we may attempt to increase our capital resources by incurring debt or issuing additional equity securities, including commercial paper, medium-term notes, senior or subordinated notes or loans and series of preference shares or common shares. Upon liquidation, holders of our debt investments and preference shares and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings would dilute the holdings of our then current common shareholders and could reduce the market price of our common shares, or both. Preference shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments. Restrictive provisions in our debt and/or preference shares could limit our ability to make a distribution to the holders of our common shares. Because our decision to incur more debt or issue additional equity securities in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future capital raising activities. Thus, holders of our common shares bear the risk of our future debt and equity issuances reducing the market price of our common shares and diluting their percentage ownership.

***The market price of our common shares could be negatively affected by sales of substantial amounts of our common shares in the public markets.***

As of February 8, 2019, there were 75,126,240 shares issued and outstanding, all of which are freely transferable, except for any shares held by our "affiliates," as that term is defined in Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"). Approximately 28.8% of our outstanding common shares are held by our affiliate, Marubeni, and can be resold into the public markets in the future in accordance with the requirements of Rule 144 under the Securities Act.

Beginning in July 2016, pursuant to the occurrence of certain events set forth in the Shareholders Agreement, Marubeni and permitted third-party transferees have the ability to cause us to register the resale of their common shares into the public markets. We cannot assure you if or when any such registration or offering may occur.

***The issuance of additional common shares in connection with acquisitions or otherwise will dilute all other shareholdings.***

As of February 8, 2019, we had an aggregate of 149,683,900 common shares authorized but unissued and not reserved for issuance under our incentive plan. We may issue all of these common shares without any action or approval by our shareholders. We intend to continue to actively pursue acquisitions of aviation assets and may issue common shares in connection with these acquisitions. Any common shares issued in connection with our acquisitions, our incentive plan, and the exercise of outstanding share options or otherwise would dilute the percentage ownership held by existing shareholders.



## **Risks Related to Taxation**

***If Aircastle were treated as engaged in a trade or business in the United States, it would be subject to U.S. federal income taxation on a net income basis, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.***

If, contrary to expectations, Aircastle were treated as engaged in a trade or business in the United States, the portion of its net income, if any, that was “effectively connected” with such trade or business would be subject to U.S. federal income taxation at a maximum rate of 35% for taxable years ending on or prior to December 31, 2017 and 21% for taxable years beginning after December 31, 2017 (such rate, the “Federal Rate”). Such reduction in the Federal Rate occurred as a result of the recent passage of The Tax Cuts and Jobs Act on December 22, 2017 (the “Tax Act”). In addition, Aircastle would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

***If there is not sufficient trading in our shares, or if 50% of our shares are held by certain 5% shareholders, we could lose our eligibility for an exemption from U.S. federal income taxation on rental income from our aircraft used in “international traffic” and could be subject to U.S. federal income taxation which would adversely affect our business and result in decreased cash available for distribution to our shareholders.***

We expect that we are currently eligible for an exemption under Section 883 of the Internal Revenue Code of 1986, as amended (the “Code”), which provides an exemption from U.S. federal income taxation with respect to rental income derived from aircraft used in international traffic by certain foreign corporations. No assurances can be given that we will continue to be eligible for this exemption as our stock is traded on the market and changes in our ownership or the amount of our shares that are traded could cause us to cease to be eligible for such exemption. To qualify for this exemption in respect of rental income, the lessor of the aircraft must be organized in a country that grants a comparable exemption to U.S. lessors (Bermuda and Ireland each do), and certain other requirements must be satisfied. We can satisfy these requirements in any year if, for more than half the days of such year, our shares are primarily and regularly traded on a recognized exchange and certain shareholders, each of whom owns 5% or more of our shares (applying certain attribution rules), do not collectively own more than 50% of our shares. Our shares will be considered to be primarily and regularly traded on a recognized exchange in any year if: (i) the number of trades in our shares effected on such recognized stock exchanges exceed the number of our shares (or direct interests in our shares) that are traded during the year on all securities markets; (ii) trades in our shares are effected on such stock exchanges in more than de minimis quantities on at least 60 days during every calendar quarter in the year; and (iii) the aggregate number of our shares traded on such stock exchanges during the taxable year is at least 10% of the average number of our shares outstanding in that class during that year. If our shares cease to satisfy these requirements, then we may no longer be eligible for the Section 883 exemption with respect to rental income earned by aircraft used in international traffic. If we were not eligible for the exemption under Section 883 of the Code, we expect that the U.S. source rental income of Aircastle Bermuda generally would be subject to U.S. federal taxation, on a gross income basis, at a rate of not in excess of 4% as provided in Section 887 of the Code. If, contrary to expectations, Aircastle Bermuda did not comply with certain administrative guidelines of the Internal Revenue Service, such that 90% or more of Aircastle Bermuda’s U.S. source rental income were attributable to the activities of personnel based in the United States, Aircastle Bermuda’s U.S. source rental income would be treated as income effectively connected with the conduct of a trade or business in the United States. In such case, Aircastle Bermuda’s U.S. source rental income would be subject to U.S. federal income taxation on its net income at the Federal Rate as well as state and local taxation. In addition, Aircastle Bermuda would be subject to the U.S. federal branch profits tax on its effectively connected earnings and profits at a rate of 30%. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

### ***Bermuda Economic Substance Act 2018***

During 2017, the European Union (“EU”) Economic and Financial Affairs Council (“ECOFIN”) released a list of non-cooperative jurisdictions for tax purposes. The stated aim of this list, and accompanying report, was to promote good governance worldwide in order to maximize efforts to prevent tax fraud and tax evasion. Bermuda was not on

the list of non-cooperative jurisdictions, but did feature in the report as having committed to address concerns relating to economic substance by December 31, 2018.

In accordance with that commitment, Bermuda enacted the Economic Substance Act 2018 (the “ESA”) in December 2018. Under the ESA, if a Bermuda company is carrying on as a business one or more “relevant activity” (including: banking,



insurance, fund management, financing, leasing, headquarters, shipping, distribution and service center, intellectual property or holding company) it will be required to maintain a substantial economic presence in Bermuda and to comply with the economic substance requirements set forth in the ESA.

Companies subject to the economic substance requirements will be required to file an economic substance declaration with the Registrar of Companies in Bermuda on an annual basis.

At present, the impact of the ESA is unclear and it is impossible to predict the nature and effect of these requirements on the Company and its subsidiaries incorporated in Bermuda. We are currently evaluating the potential effect ESA will have on the Company or its Bermuda subsidiaries.

***One or more of our Irish subsidiaries could fail to qualify for treaty benefits, which would subject certain of their income to U.S. federal income taxation, which would adversely affect our business and result in decreased cash available for distribution to our shareholders.***

Qualification for the benefits of the double tax treaty between the United States and Ireland (the “Irish Treaty”) depends on many factors, including being able to establish the identity of the ultimate beneficial owners of our common shares. Each of the Irish subsidiaries may not satisfy all the requirements of the Irish Treaty and thereby may not qualify each year for the benefits of the Irish Treaty or may be deemed to have a permanent establishment in the United States. Moreover, the provisions of the Irish Treaty may change. Failure to so qualify, or to be deemed to have a permanent establishment in the United States, could result in the rental income from aircraft used for flights within the United States being subject to increased U.S. federal income taxation. The imposition of such taxes would adversely affect our business and would result in decreased cash available for distribution to our shareholders.

***We may become subject to an increased rate of Irish taxation which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.***

Our Irish subsidiaries and affiliates are expected to be subject to corporation tax on their income from leasing, managing and servicing aircraft at the 12.5% tax rate applicable to trading income. This expectation is based on certain assumptions, including that we will maintain at least the current level of our business operations in Ireland. If we are not successful in achieving trading status in Ireland, the non-trading income activities of our Irish subsidiaries and affiliates would be subject to tax at the rate of 25% and capital gains would be taxed at the rate of 35%, which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

***We may be subject to an increased rate of Singapore taxation which would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.***

Our Singapore subsidiaries are subject to Singapore income tax on their income from leasing, managing and servicing aircraft. Our Singapore subsidiaries had obtained a reduced rate of tax from the Singapore authorities through June 30, 2017. Beginning on July 1, 2017 and effective to June 30, 2022, the Singapore authorities renewed the reduced rate of tax to our Singapore subsidiaries, provided we satisfy certain conditions and requirements. If we cannot meet such conditions and requirements, or if the award is not renewed after June 30, 2022, we would be subject to additional Singapore income tax. This would adversely affect our business and would result in decreased earnings available for distribution to our shareholders.

***We may become subject to income or other taxes in the non-U.S. jurisdictions in which our aircraft operate, where our lessees are located or where we perform certain services which would adversely affect our business and result in decreased cash available for distributions to shareholders.***

Certain Aircastle entities are expected to be subject to the income tax laws of Ireland, Mauritius, Singapore and the United States. In addition, we may be subject to income or other taxes in other jurisdictions by reason of our activities and operations, where our aircraft operate or where the lessees of our aircraft (or others in possession of our aircraft) are located. Although we have adopted operating procedures to reduce the exposure to such taxation, we may be subject to such taxes in the future and such taxes may be substantial. In addition, if we do not follow separate operating guidelines relating to managing a portion of our aircraft portfolio through offices in Ireland and Singapore, income from aircraft not owned in such jurisdictions would be subject to local tax. Changes in tax law could impose withholding taxes on lease payments during the term of a lease. Our leases typically require our lessees to indemnify

us in respect of taxes but some leases may not require such indemnification or a lessee may fail to make such indemnification payment. The imposition of such taxes could adversely affect our business and result in decreased earnings available for distribution to our shareholders.

In addition, the Organization for Economic Co-operation and Development has undertaken the Base Erosion and Profit Shifting (“BEPS”) project, which aims to restructure the taxation scheme currently affecting multinational entities. If the proposals recommended under BEPS are implemented, the tax rules to which we are subject may increase our liability for non-U.S. taxes.

***We expect to continue to be a passive foreign investment company (“PFIC”) and may be a controlled foreign corporation (“CFC”) for U.S. federal income tax purposes.***

We expect to continue to be treated as a PFIC and may be a CFC for U.S. federal income tax purposes. If you are a U.S. person and do not make a qualified electing fund (“QEF”) election with respect to us and each of our PFIC subsidiaries, unless we are a CFC and you own 10% of our shares (by vote or value), you would be subject to special deferred tax and interest charges with respect to certain distributions on our common shares, any gain realized on a disposition of our common shares and certain other events. The effect of these deferred tax and interest charges could be materially adverse to you. Alternatively, if you are such a shareholder and make a QEF election for us and each of our PFIC subsidiaries, or if we are a CFC and you own 10% or more of our shares (by vote or value), you will not be subject to those charges, but could recognize taxable income in a taxable year with respect to our common shares in excess of any distributions that we make to you in that year, thus giving rise to so-called “phantom income” and to a potential out-of-pocket tax liability.

Distributions made to a U.S. person that is an individual will not be eligible for taxation at reduced tax rates generally applicable to dividends paid by certain United States corporations and “qualified foreign corporations.” The more favorable rates applicable to regular corporate dividends could cause individuals to perceive investment in our shares to be relatively less attractive than investment in the shares of other corporations, which could adversely affect the value of our shares.

#### ***Impact of U.S. Tax Reform***

We have evaluated the effect that the Tax Act will have on our operations and cash flows. As a non-U.S. company that earns a majority of its income outside of the United States, the Tax Act reduced our U.S. deferred taxes by \$2.8 million.

We also do not expect to incur income taxes on future distributions of undistributed earnings on non-U.S. subsidiaries and accordingly, no deferred income taxes have been provided for the distributions of such earnings. The Tax Act’s Participation exemption and Transition tax are not applicable to us.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

We lease office space in Stamford, Connecticut, Dublin, Ireland and in Singapore. The lease for our current office in Stamford, Connecticut expires in August 2028. The lease for our Dublin office expires in June 2026 and the lease on our Singapore office expires in July 2019.

We believe our current facilities are adequate for our current needs and that suitable additional space will be available as and when needed.

#### **ITEM 3. LEGAL PROCEEDINGS**

The Company is not a party to any material legal or adverse regulatory proceedings.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **Executive Officers of the Registrant**

Executive officers are elected by our Board of Directors, and their terms of office continue until the next annual meeting of the board or until their successors are elected and have been duly qualified. There are no family relationships among our executive officers.

Set forth below is information pertaining to our executive officers who held office as of February 8, 2019:

*Michael Inglese, 57*, became our Chief Executive Officer and a member of our Board in June 2017, having served as our Acting Chief Executive Officer from January 2017. He was previously our Chief Financial Officer from April 2007. Prior to joining the Company, Mr. Inglese served as an Executive Vice President and Chief Financial Officer of PanAmSat Holding Corporation, where he served as Chief Financial Officer from June 2000 until the closing of PanAmSat's sale to Intelsat in July 2006. Mr. Inglese joined PanAmSat in May 1998 as Vice President, Finance after serving as Chief Financial Officer for DIRECTV Japan, Inc. He is a Chartered Financial Analyst who holds a B.S. in Mechanical Engineering from Rutgers University College of Engineering and his MBA from Rutgers Graduate School of Business Management.

*Aaron Dahlke, 50*, became our Chief Financial Officer in June 2017. Prior to that, he was our Chief Accounting Officer from June 2005. Prior to joining the Company, Mr. Dahlke was Vice President and Controller of Boulliou Aviation Services Inc. from January 2003 to May 2005. Prior to Boulliou, Mr. Dahlke was at ImageX.com, Inc. and Ernst & Young LLP. He received a B.S. in Accounting from California State University, San Bernardino. He is a Certified Public Accountant.

*Michael Kriedberg, 57*, became our Chief Commercial Officer in April 2013. Prior to joining the Company, Mr. Kriedberg served as an Executive Vice President, Aviation Financing Operations of GECAS from August 2009. From January 2008 to August 2009, Mr. Kriedberg was the Chief Investment Officer of GE Capital Corporation ("GECC") and President of the Bank Loan Group division of GECC from August 2006 to January 2008. Mr. Kriedberg holds a B.S. in Economics from SUNY Albany and a Master's degree in Accounting from Pace University. In September 2018, we announced that Mr. Kriedberg intends to retire in the beginning of 2020 and the Company is in the process of identifying his successor.

*Christopher L. Beers, 54*, is our Chief Legal Officer & Secretary and became our General Counsel in November 2014. Prior to joining the Company, Mr. Beers held senior positions at GE Capital since 2000, including Senior Vice President and Associate General Counsel at GECAS from 2009 to 2014, and Senior Vice President and General Counsel of GE Transportation Finance from 2006 to 2009. Previously, Mr. Beers was a Senior Associate at the law firm of Milbank Tweed Hadley and McCloy in New York City. Mr. Beers holds a B.S. in Economics from Arizona State University and a J.D. from Pace Law School.

*Joseph Schreiner, 61*, became our Executive Vice President, Technical in October 2004. Prior to joining the Company, Mr. Schreiner oversaw the technical department at AAR Corp, a provider of products and services to the aviation and defense industries from 1998 to 2004 where he managed aircraft and engine evaluations and inspections, aircraft lease transitions, reconfiguration and heavy maintenance. Prior to AAR, Mr. Schreiner spent nineteen years at Boeing (McDonnell-Douglas) in various technical management positions. Mr. Schreiner received a B.S. from the University of Illinois and an MBA from Pepperdine University.

*Roy Chandran, 55*, became our Executive Vice President, Corporate Finance and Strategy in June 2017. He previously served as Executive Vice President of Capital Markets from May 2008. Prior to joining the Company, Mr. Chandran was a Director at Citi in the Global Structured Solutions Group, having originally joined Salomon Brothers in 1997. Mr. Chandran is responsible for all of the Company's fundraising activities and strategy and has extensive experience in US and international capital markets. Before 1997, Mr. Chandran spent eight years in Hong Kong focusing on tax-based cross border leasing of transportation equipment for clients in the Asia Pacific region. Mr. Chandran holds a B.S. in Chemical Engineering from the Royal Melbourne Institute of Technology, Australia and obtained his MBA from the International Institute of Management Development ("IMD"), Switzerland.

*James C. Connelly, 46*, became our Chief Accounting Officer in September 2018. Mr. Connelly has been Aircastle's Controller since January 2013. He joined Aircastle in May 2007 as Assistant Controller, Operational Accounting. Prior to joining Aircastle, Mr. Connelly was with Lehman Brothers as a Controller in their Finance Division,

beginning in January 2001. Mr. Connelly received a B.S. in Accounting from Syracuse University.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTER AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common shares are listed for trading on the NYSE under the symbol "AYR." As of February 1, 2019, there were 27,000 record holders of our common shares.

Our ability to pay, maintain or increase cash dividends to our shareholders is subject to the discretion of our Board of Directors and will depend on many factors, including the difficulty we may experience in raising capital in a market that has experienced significant volatility in recent years and our ability to finance our aircraft acquisition commitments; our ability to negotiate favorable lease and other contractual terms; the level of demand for our aircraft; the economic condition of the commercial aviation industry generally; the financial condition and liquidity of our lessees; the lease rates we are able to charge and realize; our leasing costs; unexpected or increased expenses; the level and timing of capital expenditures; principal repayments and other capital needs; the value of our aircraft portfolio; our compliance with loan to value, debt service coverage, interest rate coverage and other financial covenants in our financings; our results of operations, financial condition and liquidity; general business conditions; restrictions imposed by our senior notes and other financings; legal restrictions on the payment of dividends, including a statutory dividend test and other limitations under Bermuda law; and other factors that our Board of Directors deems relevant. Some of these factors are beyond our control and a change in any such factor could affect our ability to pay dividends on our common shares. In the future we may not choose to pay dividends or may not be able to pay dividends, maintain our current level of dividends, or increase them over time. Increases in demand for our aircraft and operating lease payments may not occur and may not increase our actual cash available for dividends to our common shareholders. The failure to maintain or pay dividends may adversely affect our share price.

**Issuer Purchases of Equity Securities**

On October 30, 2018, our Board of Directors increased the authorization to repurchase the Company's common shares to \$100.0 million from the \$42.2 million that was remaining under the previous authorization. During the fourth quarter of 2018, we purchased our common shares as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
(Dollars in thousands, except per share amounts)				
October 1 through 31	952,488	\$ 20.18	952,488	\$ 100,000
November 1 through 30	1,594	0.01	—	100,000
December 1 through 31	900,792	16.93	900,792	84,752
Total	1,854,874	\$ 18.60	1,853,280	\$ 84,752

(1) We repurchased an additional 496,920 shares at a total cost of \$8.7 million, including commissions, during January 2019. Under our current repurchase program, we have purchased an aggregate of 1,397,712 common shares at an aggregate cost of \$24.0 million, including commissions. The remaining dollar value of common shares that may be repurchased under the program is \$76.0 million.

**Performance Graph**

*The following stock performance graph shall not be deemed "filed" with the SEC or subject to Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act of 1933, as amended.*

The following graph compares the cumulative five year total return to holders of our common shares relative to the cumulative total returns of the S&P Midcap 400 Index and a customized peer group over the five year period ended

December 31, 2018. The peer group consists of three companies: AerCap Holdings NV (NYSE: AER), Air Lease Corporation

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(NYSE: AL) and FLY Leasing Limited (NYSE: FLY). An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common shares, the S&P Midcap 400 Index and in the peer group on December 31, 2013, and the relative performance of each is tracked through December 31, 2018. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance. We believe that the S&P Midcap 400 Index is more representative of our peers and as such, we utilize the S&P Midcap 400 Index as one of the metrics for our performance share-based compensation as part of our long-term incentive plan.

\* \$100 invested on December 31, 2013 in stock or index, including reinvestment of dividends.

	<b>12/31/13</b>	<b>12/31/14</b>	<b>12/31/15</b>	<b>12/31/16</b>	<b>12/31/17</b>	<b>12/31/18</b>
Aircastle Limited	\$ 100.00	\$ 116.42	\$ 118.54	\$ 123.91	\$ 145.50	\$ 113.45
S&P Midcap 400	100.00	109.77	107.38	129.65	150.71	134.01
Peer Group	100.00	103.84	111.52	109.65	142.15	101.15



**ITEM 6. SELECTED FINANCIAL DATA**

The selected historical consolidated financial, operating and other data as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 presented in this table are derived from our audited consolidated financial statements and related notes thereto appearing elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2015 and 2014 presented in this table are derived from our audited consolidated financial statements and related notes thereto, which are not included in this Annual Report. You should read these tables along with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements and the related notes thereto included elsewhere in this Annual Report.

	<b>Year Ended December 31,</b>					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	
	<b>(Dollars in thousands, except share data)</b>					
<b>Selected Financial Data:</b>						
<b>Consolidated Statements of Income:</b>						
Lease rental revenue	\$722,694	\$721,302	\$725,220	\$733,417	\$714,654	
Total revenues <sup>(1)</sup>	890,351	851,787	812,084	877,219	841,748	
Selling, general and administrative expenses	76,025	73,604	61,872	56,198	55,773	
Depreciation	310,850	298,664	305,216	318,783	299,365	
Interest, net	234,504	241,231	255,660	243,577	238,378	
Net income	247,919	147,874	151,453	121,729	100,828	
Earnings per common share — Basic:						
Net income per share	\$3.18	\$1.88	\$1.92	\$1.50	\$1.25	
Earnings per common share — Diluted:						
Net income per share	\$3.17	\$1.87	\$1.92	\$1.50	\$1.25	
Cash dividends declared per share	\$1.14	\$1.06	\$0.98	\$0.90	\$0.82	
<b>Other Operating Data:</b>						
EBITDA	\$814,184	\$705,525	\$734,989	\$707,524	\$658,606	
Adjusted EBITDA	839,831	801,584	767,953	832,105	792,283	
Adjusted net income	257,237	169,566	168,527	142,271	167,642	
<b>Consolidated Statements of Cash Flows:</b>						
Cash flows provided by operations	\$522,592	\$490,871	\$468,092	\$526,285	\$458,786	
Cash flows used in investing activities	(974,687 )	(517,107 )	(663,155 )	(847,662 )	(861,602 )	
Cash flows provided by (used in) financing activities	386,091	(248,724 )	449,839	306,878	(106,030 )	
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	\$152,719	\$211,922	\$455,579	\$155,904	\$169,656	
Flight equipment held for lease, net of accumulated depreciation	6,935,585	6,188,469	6,247,585	5,867,062	5,579,718	
Net investment in finance and sales-type leases	469,180	545,750	260,853	201,211	106,651	
Total assets	7,871,181	7,199,083	7,244,665	6,569,964	6,175,146	
Borrowings from secured and unsecured financings, net of debt issuance costs	4,761,353	4,313,606	4,506,245	4,041,156	3,744,587	
Shareholders’ equity	2,008,681	1,907,564	1,834,314	1,779,500	1,720,335	
<b>Other Data:</b>						
Number of aircraft owned and managed on behalf of our joint ventures (at the end of period)	261	236	206	167	152	
Total debt to total capitalization	70.3	% 69.3	% 71.1	% 69.4	% 68.5	%

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Total unencumbered assets	\$6,207,411	\$5,558,294	\$5,069,955	\$4,084,134	\$3,510,588
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(1) See Organization and Basis of Presentation in the Notes to Consolidated Financial Statements.

We define EBITDA as income (loss) from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-U.S. GAAP measure is helpful in identifying trends in our performance. This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals as well as achieving optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed. EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure, or expenses, of the organization. EBITDA is one of the metrics used by senior management and the Board of Directors to review the consolidated financial performance of our business.

We define Adjusted EBITDA as EBITDA (as defined above) further adjusted to give effect to adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes. Adjusted EBITDA is a material component of these covenants.

The table below shows the reconciliation of net income to EBITDA and Adjusted EBITDA for the years ended December 31, 2018, 2017, 2016, 2015 and 2014.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	<b>(Dollars in thousands)</b>				
Net income	\$247,919	\$147,874	\$151,453	\$121,729	\$100,828
Depreciation	310,850	298,664	305,216	318,783	299,365
Amortization of lease premiums, discounts and incentives	15,269	11,714	10,353	10,664	6,172
Interest, net	234,504	241,231	255,660	243,577	238,378
Income tax provision	5,642	6,042	12,307	12,771	13,863
EBITDA	814,184	705,525	\$734,989	\$707,524	\$658,606
Adjustments:					
Impairment of aircraft	—	80,430	28,585	119,835	93,993
Equity share of joint venture impairment	15,791	—	—	—	—
Loss on extinguishment of debt	—	—	—	—	36,570
Non-cash share-based payment expense	11,488	13,148	7,901	5,537	4,244
(Gain) loss on mark-to-market of interest rate derivative contracts	(1,632 )	2,481	(3,522 )	(791 )	(1,130 )
Adjusted EBITDA	\$839,831	\$801,584	\$767,953	\$832,105	\$792,283

Management believes that Adjusted Net Income (“ANI”) when viewed in conjunction with the Company’s results under U.S. GAAP and the below reconciliation, provides useful information about operating and period-over-period performance, and provides additional information that is useful for evaluating the underlying operating performance of our business without regard to periodic reporting elements related to interest rate derivative accounting, changes related to refinancing activity and non-cash share-based payment expense.

For additional information regarding the limitations of these non-GAAP measures, see “Limitations of EBITDA, Adjusted EBITDA and ANI” below.

The table below shows the reconciliation of net income to ANI for the years ended December 31, 2018, 2017, 2016, 2015 and 2014.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	<b>(Dollars in thousands)</b>				
Net income	\$ 247,919	\$ 147,874	\$ 151,453	\$ 121,729	\$ 100,828
Loss on extinguishment of debt <sup>(2)</sup>	—	—	—	—	36,570
Ineffective portion and termination of cash flow hedges <sup>(1)</sup>	—	—	—	455	660
(Gain) loss on mark-to-market of interest rate derivative contracts <sup>(2)</sup>	(1,632 )	2,481	(3,522 )	(791 )	(1,130 )
Loan termination payment <sup>(1)</sup>	(838 )	2,058	4,960	—	—
Write-off of deferred financing fees <sup>(1)</sup>	300	4,005	2,880	—	—
Stock compensation expense <sup>(3)</sup>	11,488	13,148	7,901	5,537	4,244
Term Financing No. 1 hedge loss amortization charges <sup>(1)</sup>	—	—	—	4,401	14,854
Securitization No. 1 hedge loss amortization charges <sup>(1)</sup>	—	—	4,855	10,940	11,616
Adjusted net income	\$ 257,237	\$ 169,566	\$ 168,527	\$ 142,271	\$ 167,642

(1) Included in Interest, net.

(2) Included in Other income (expense).

(3) Included in Selling, general and administrative expenses.

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

This management's discussion and analysis of financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the following discussion in conjunction with Item 6. "Selected Financial Data" and our historical consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those described under Item 1A. — "Risk Factors" and elsewhere in this Annual Report. Please see "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" for a discussion of the uncertainties, risks and assumptions associated with these statements. Our consolidated financial statements are prepared in accordance with U.S. GAAP and, unless otherwise indicated, the other financial information contained in this Annual Report has also been prepared in accordance with U.S. GAAP. Unless otherwise indicated, all references to "dollars" and "\$" in this Annual Report are to, and all monetary amounts in this Annual Report are presented in, U.S. dollars.

**OVERVIEW**

Aircastle acquires, leases, and sells commercial jet aircraft to airlines throughout the world. As of December 31, 2018, we owned and managed on behalf of our joint ventures 261 aircraft that were leased to 81 lessees located in 44 countries. Our aircraft are managed by an experienced team based in the United States, Ireland and Singapore. Our aircraft are subject to net leases whereby the lessee is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in certain cases, we are obligated to pay a portion of specified maintenance or modification costs. As of December 31, 2018, the net book value was \$7.40 billion compared to \$6.73 billion at the end of 2017. Our revenues and net income for the year ended December 31, 2018 were \$890.4 million and \$247.9 million respectively, and for the fourth quarter 2018 were \$292.6 million and \$103.8 million, respectively.

**Revenues**

Our revenues are comprised primarily of operating lease rentals on flight equipment held for lease, revenue from retained maintenance payments related to lease expirations, lease termination payments, lease incentive amortization, interest recognized from finance and sales-type leases and gains on the sale of flight equipment.

Typically, our aircraft are subject to net leases whereby the lessee pays lease rentals and is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs arising during the term of the lease. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease and the amount of the contracted rent will depend upon the type, age, specification and condition of the aircraft and market conditions at the time the lease is committed. The amount of rent we receive will depend on a number of factors, including the creditworthiness of our lessees and the occurrence of restructurings and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry conditions and trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues. Under an operating lease, the lessee is responsible for performing maintenance on the relevant aircraft and will typically be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and would be made either monthly in arrears or at the end of the lease term. For maintenance payments made monthly in arrears during a lease term, we will typically be required to reimburse all or a portion of these payments to the lessee upon their completion of the relevant heavy maintenance, overhaul or parts replacement. We record maintenance payments paid by the lessee during a lease as accrued maintenance liabilities in recognition of our obligation in the lease to refund such payments, and therefore we typically do not recognize maintenance revenue during the lease. Maintenance revenue recognition would occur at the end of a lease, when we are able to determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. The amount of

maintenance revenue we recognize in any reporting period is inherently

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volatile and is dependent upon a number of factors, including the timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee. Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay. This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

### **Operating Expenses**

Operating expenses are comprised of depreciation of flight equipment held for lease, interest expense, SG&A expenses, aircraft impairment charges and maintenance and other costs. Because our operating lease terms generally require the lessee to pay for operating, maintenance and insurance costs, our portion of maintenance and other costs relating to aircraft reflected in our statement of income primarily relates to expenses for unscheduled lease terminations.

### **Income Tax Provision**

We obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 2035, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily Ireland, Singapore and the United States.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes, unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

### **Acquisitions and Sales**

During 2018, we acquired 39 aircraft for \$1.44 billion. As of February 8, 2019, we have acquired two additional aircraft. At December 31, 2018, we had commitments to acquire 35 aircraft for \$1.33 billion, including 25 new Embraer E-Jet E2 aircraft from Embraer, with delivery beginning in 2020. These amounts include estimated amounts for pre-delivery deposits, contractual price escalations and other adjustments. As of February 8, 2019, we have commitments to acquire 33 aircraft for \$1.26 billion.

During 2018, we sold fourteen aircraft and other flight equipment for \$338.8 million, which resulted in a net gain of \$36.8 million. As of February 8, 2019, we have sold no additional aircraft.

The following table sets forth certain information with respect to the aircraft owned and managed on behalf of our joint ventures by us as of December 31, 2018, 2017 and 2016:

**AIRCATTLE AIRCRAFT INFORMATION (dollars in millions)**

<u>Owned Aircraft</u>	As of December 31, 2018 <sup>(1)</sup>	As of December 31, 2017 <sup>(1)</sup>	As of December 31, 2016 <sup>(1)</sup>
Flight Equipment Held for Lease	\$ 7,405	\$ 6,734	\$ 6,508
Unencumbered Flight Equipment included in Flight Equipment Held for Lease	\$ 6,055	\$ 5,346	\$ 4,614
Number of Aircraft	248	224	193
Number of Unencumbered Aircraft	217	195	156
Number of Lessees	81	81	71
Number of Countries	44	43	36
Weighted Average Age (years) <sup>(2)</sup>	9.1	9.1	7.9
Weighted Average Remaining Lease Term (years) <sup>(2)</sup>	4.5	5.0	5.1
Weighted Average Fleet Utilization during the Fourth Quarter <sup>(3)</sup>	97.0	% 99.5	% 99.0
Weighted Average Fleet Utilization for the Year Ended <sup>(3)</sup>	99.6	% 99.3	% 98.9
Portfolio Yield for the Fourth Quarter <sup>(4)</sup>	11.2	% 12.0	% 12.4
Portfolio Yield for the Year Ended <sup>(4)</sup>	11.5	% 12.2	% 12.4
 <u>Managed Aircraft on behalf of Joint Ventures</u>			
Flight Equipment	\$ 602	\$ 641	\$ 689
Number of Aircraft	13	12	13

(1) Calculated using net book value at period end.

(2) Weighted by net book value.

(3) Aircraft on-lease days as a percent of total days in period weighted by net book value.

(4) Lease rental revenue, interest income and cash collections on our net investment in finance and sales-type leases for the period as a percent of the average net book value for the period; quarterly information is annualized.

Our owned aircraft portfolio as of December 31, 2018 is listed in Exhibit 99.1 to this Annual Report.



**PORTFOLIO DIVERSIFICATION**

	Owned Aircraft as of December 31, 2018			Owned Aircraft as of December 31, 2017		
	Number of Aircraft	% of Net Book Value <sup>(1)</sup>	%	Number of Aircraft	% of Net Book Value <sup>(1)</sup>	%
<b>Aircraft Type</b>						
Passenger:						
Narrow-body	218	72	%	192	66	%
Wide-body	26	24	%	28	29	%
Total Passenger	244	96	%	220	95	%
Freighter	4	4	%	4	5	%
<b>Total</b>	<b>248</b>	<b>100</b>	<b>%</b>	<b>224</b>	<b>100</b>	<b>%</b>
<b>Manufacturer</b>						
Airbus	153	59	%	138	57	%
Boeing	90	39	%	81	41	%
Embraer	5	2	%	5	2	%
<b>Total</b>	<b>248</b>	<b>100</b>	<b>%</b>	<b>224</b>	<b>100</b>	<b>%</b>
<b>Regional Diversification</b>						
Asia and Pacific	78	36	%	59	30	%
Europe	87	27	%	92	32	%
Middle East and Africa	17	8	%	15	9	%
North America	35	10	%	32	10	%
South America	16	10	%	25	19	%
Off-lease	15	<sup>(2)</sup> 9	%	1	<sup>(3)</sup> —	%
<b>Total</b>	<b>248</b>	<b>100</b>	<b>%</b>	<b>224</b>	<b>100</b>	<b>%</b>

(1) Calculated using net book value at year end.

(2) Consisted of eleven Airbus A320-200 aircraft and two Airbus A330-200 aircraft, which we are marketing for lease or sale, and one Boeing B737-800 along with one Boeing B777-300ER aircraft, which are subject to lease commitments.

(3) Consisted of one Airbus A321-200 aircraft, which was delivered on lease to a customer during the second quarter of 2018.



Our largest single customer represents over 8% of the net book value at December 31, 2018. Our top fifteen customers for aircraft we owned at December 31, 2018, representing 118 aircraft and 52% of the net book value, are as follows:

Percent of Net Book Value	Customer	Country	Number of Aircraft
Greater than 6% per customer	IndiGo	India	16
3% to 6% per customer	Lion Air	Indonesia	11
	LATAM	Chile	3
	TAP Portugal <sup>(1)</sup>	Portugal	8
	Iberia	Spain	15
	South African Airways	South Africa	4
	easyJet	United Kingdom	20
	Aerolineas Argentinas	Argentina	5
	Less than 3% per customer	Interjet	Mexico
AirBridge Cargo <sup>(2)</sup>		Russia	2
Air Asia X		Malaysia	2
Jeju Air		South Korea	6
American Airlines		United States	5
Jet Airways		India	7
Garuda		Indonesia	3
Total top 15 customers			118
All other customers <sup>(3)</sup>			130
Total all customers			248

(1) Combined with an affiliate.

(2) Guaranteed by Volga-Dnepr Airlines. We have one additional aircraft on lease with an affiliate.

(3) At December 31, 2018, we had ten Airbus A320-200 aircraft being operated by Avianca Brazil in Brazil, even though we terminated the leasing of these aircraft. In December 2018, the airline filed for bankruptcy protection in Brazil and the court issued a stay on repossessions. The bankruptcy court extended the stay to mid-April 2019 and stipulated that the airline must recommence making lease payments payable after February 1, 2019, as if the leases had not been terminated. When the aircraft are repossessed, we expect these modern, in demand aircraft will be back on lease in a reasonable period thereafter.

## Finance

Aircastle Limited is a publicly-listed company, and our shares have been trading on the NYSE since August 2006. Since our inception in late 2004, we raised \$1.7 billion in equity capital from private and public investors. We also obtained \$14.4 billion in debt capital from a variety of sources including export credit agency-backed debt, commercial bank debt, the aircraft securitization markets and the unsecured bond market. The diversity and global nature of our financing sources demonstrates our ability to adapt to changing market conditions and seize new growth opportunities.

We intend to fund new investments through cash on hand, funds generated from operations, maintenance payments received from lessees, secured borrowings for aircraft, draws on our revolving credit facilities and proceeds from any future aircraft sales. We may repay all or a portion of such borrowings from time to time with the net proceeds from subsequent long-term debt financings, additional equity offerings or cash generated from operations and asset sales. Therefore, our ability to execute our business strategy, particularly the acquisition of additional commercial jet aircraft or other aviation assets, depends to a significant degree on our ability to obtain additional debt and equity capital on terms we deem attractive.

See “Liquidity and Capital Resources — Secured Debt Financings” and “Liquidity and Capital Resources — Unsecured Debt Financings” below.



**Comparison of the year ended December 31, 2018 to the year ended December 31, 2017:**

	Year Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Revenues:		
Lease rental revenue	\$ 722,694	\$ 721,302
Finance and sales-type lease revenue	35,132	25,716
Amortization of lease premiums, discounts and incentives	(15,269 )	(11,714 )
Maintenance revenue	105,738	56,128
Total lease rentals	848,295	791,432
Gain on sale of flight equipment	36,766	55,167
Other revenue	5,290	5,188
Total revenues	890,351	851,787
Expenses:		
Depreciation	310,850	298,664
Interest, net	234,504	241,231
Selling, general and administrative	76,025	73,604
Impairment of aircraft	—	80,430
Maintenance and other costs	8,961	9,077
Total operating expenses	630,340	703,006
Total other income (expense)	1,636	(2,476 )
Income from continuing operations before income taxes	261,647	146,305
Income tax provision	5,642	6,042
Earnings (loss) of unconsolidated equity method investment, net of tax	(8,086 )	7,611
Net income	\$ 247,919	\$ 147,874

**Revenues:**

Total revenues increased by \$38.6 million, for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily as a result of the following:

*Lease rental revenue* increased by \$1.4 million for the year ended December 31, 2018, primarily as a result of a \$148.4 million increase in revenue reflecting the partial year impact of 37 aircraft purchased in 2018 and the full year impact of 47 aircraft purchased in 2017. This increase was partially offset by:

an \$88.9 million decrease due to the sale of 45 aircraft during 2018 and 2017; and

a \$58.1 million decrease due to lease extensions, amendments, transitions and other changes.

*Finance and sales-type lease revenue.* For the year ended December 31, 2018, \$35.1 million of interest income from finance and sales-type leases was recognized as compared to \$25.7 million for the same period in 2017, due to the addition of 21 aircraft during 2017 and 2018, partially offset by the sale of six aircraft during that period.

*Amortization of lease premiums, discounts and incentives.*

	<b>Year Ended</b>	
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Dollars in thousands)</b>	
Amortization of lease incentives	\$(11,030)	\$(9,779 )
Amortization of lease premiums	(12,064 )	(10,022 )
Amortization of lease discounts	7,825	8,087

Amortization of lease premiums, discounts and incentives \$(15,269) \$(11,714)

As more fully described above under “Revenues,” lease incentives represent our estimated portion of the lessee’s cost for heavy maintenance, overhaul or replacement of certain high-value components which is amortized over the life of the related lease. As we enter into new leases, the amortization of lease incentives generally increases and, conversely, if a related lease terminates, the related unused lease incentive liability will reduce the amortization of lease incentives. The increase in amortization of lease incentives of \$1.3 million for the year ended December 31, 2018 as compared to the same period in 2017 was primarily attributable to the transition of aircraft and changes in estimates of existing lease incentives for certain aircraft, partially offset by aircraft sales.

As more fully described above under “Revenues,” lease premiums represent the present value of the amount above current lease rates for acquired aircraft with attached leases. The increase in amortization of lease premiums of \$2.0 million for the year ended December 31, 2018 as compared to the same period in 2017 resulted primarily from a net increase in amortization resulting from net aircraft acquisitions.

*Maintenance revenue.* For the year ended December 31, 2018, we recorded \$105.7 million of maintenance revenue primarily due to the transition of eighteen narrow-body aircraft, three wide-body aircraft and one freighter aircraft, including ten narrow-body and one wide-body aircraft due to early lease terminations with Avianca Brazil. For the same period in 2017, we recorded \$56.1 million due to the transition of four narrow-body aircraft, four wide-body aircraft and one freighter aircraft.

*Gain on sale of flight equipment* decreased by \$18.4 million, to \$36.8 million for the year ended December 31, 2018, as compared to gains of \$55.2 million for the same period in 2017. During 2018, we sold fourteen aircraft as compared to the sale of 37 aircraft during the same period in 2017.

*Other revenue* was \$5.3 million during the year ended December 31, 2018, primarily from \$2.6 million in fees earned in connection with the early termination of two leases and \$2.1 million in administrative fees from the Lancaster and IBJ Air joint ventures. For the year ended December 31, 2017, other revenue was \$5.2 million, which was primarily from \$2.9 million in fees earned in connection with the early termination of two leases and \$2.1 million in administrative fees from the Lancaster and IBJ Air joint ventures.

***Operating Expenses:***

Total operating expenses decreased by \$72.7 million, for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily as a result of the following:

*Depreciation expense* increased by \$12.2 million for the year ended December 31, 2018 over the same period in 2017.

The increase was primarily the result of higher depreciation of:

\$58.9 million due to 84 aircraft acquired during 2018 and 2017; and

\$3.6 million due to changes to asset lives, residual values and other changes.

These increases were partially offset by a decrease of \$50.8 million resulting from 45 aircraft sold during 2018 and 2017.

*Interest, net* consisted of the following:

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Dollars in thousands)</b>	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities <sup>(1)</sup>	\$221,987	\$223,260
Amortization of deferred losses related to interest rate derivatives	1,166	2,202
Amortization of deferred financing fees and debt discount <sup>(2)</sup>	14,627	19,435
Interest expense	237,780	244,897
Less: Interest income	(2,943 )	(3,411 )
Less: Capitalized interest	(333 )	(255 )
Interest, net	\$234,504	\$241,231

(1) Includes a loan termination gain of \$0.8 million and loan termination fees of \$2.1 million related to the sale of aircraft during the years ended December 31, 2018 and 2017, respectively.

(2) Includes \$0.3 million and \$4.0 million in deferred financing fees written off related to the sale of aircraft during the years ended December 31, 2018 and 2017, respectively.

Interest, net decreased by \$6.7 million over the year ended December 31, 2017. The net decrease was primarily a result of:

• a \$1.3 million decrease in interest on borrowings due to lower loan termination fees as compared to the prior year, partially offset by a higher weighted average interest rate;

• lower amortization of deferred losses on terminated interest rate derivatives of \$1.0 million; and

• lower amortization of deferred financing fees of \$4.8 million resulting from aircraft sales in 2017.

*Selling, general and administrative expenses* for the year ended December 31, 2018 increased by \$2.4 million over the same period in 2017, primarily as a result of higher personnel costs and professional service expenses.

*Impairment of aircraft.* No impairments were recorded during the year ended December 31, 2018 compared to \$80.4 million during the year ended December 31, 2017. See “Summary of Recoverability Assessment and Other Impairments” below for a detailed discussion of the related impairment charges for these aircraft.

***Other Income:***

*Total other income (expense)* increased by \$4.1 million for the year ended December 31, 2018, as compared to the same period in 2017, due to the mark-to-market change on our interest rate caps.

***Income Tax Provision:***

Our provision for income taxes for the years ended December 31, 2018 and 2017 was \$5.6 million and \$6.0 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland and the United States. The decrease in our income tax provision of \$0.4 million for the year ended December 31, 2018 as compared to the same period in 2017 was primarily attributable to changes in operating income subject to tax in Ireland, the United States and other jurisdictions, including a \$3.0 million tax benefit related to the Singapore rate reduction from 10% to 8%.

Our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are primarily non-U.S. corporations. These subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and the U.S. are subject to tax in those respective jurisdictions.

We have a U.S.-based subsidiary which provides management services to our subsidiaries and is subject to U.S. federal, state and local income taxes. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.

***Earnings (Loss) of Unconsolidated Equity Method Investment, Net of Tax:***

Loss from unconsolidated equity method investment, net of tax, was \$8.1 million in 2018 compared with earnings of \$7.6 million in 2017. The majority shareholder of one of our joint ventures, Lancaster Aircraft Leasing (“Lancaster”) stated its intention to liquidate all assets in the joint venture. The equity loss for the year ended December 31, 2018 relates to our share of undistributed losses and anticipated costs recorded by Lancaster for this liquidation. See Note 5 “Unconsolidated Equity Method Investment” below.

***Other Comprehensive Income:***

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Dollars in thousands)</b>	
Net income	\$247,919	\$147,874
Derivative loss reclassified into earnings	1,166	2,202
Total comprehensive income	\$249,085	\$150,076

Other comprehensive income was \$249.1 million for the year ended December 31, 2018, an increase of \$99.0 million from the \$150.1 million of other comprehensive income for the year ended December 31, 2017. Other comprehensive income for the year ended December 31, 2018 primarily consisted of \$247.9 million of net income and \$1.2 million of amortization of deferred net losses reclassified into earnings primarily related to terminated interest rate derivatives. Other comprehensive income for the year ended December 31, 2017 primarily consisted of \$147.9 million of net income and \$2.2 million of amortization of deferred net losses reclassified into earnings primarily related to terminated interest rate derivatives.

***Summary of Recoverability Assessment and Other Impairments***

***Transactional Impairments***

We did not record any transactional impairments during 2018. During 2017, we entered into agreements to sell two Boeing 747-400 production freighter aircraft at the end of their respective leases and one older Boeing 747-400 converted freighter aircraft to its lessee, resulting in impairment charges totaling \$79.2 million, partially offset by maintenance revenue of \$13.5 million. During 2017, we sold one of the production freighters and the one converted freighter. The agreement to sell the other production freighter was terminated and this aircraft remains on lease.

***Annual Recoverability Assessment***

We completed our annual recoverability assessment of our aircraft in the second quarter of 2018. We also performed aircraft-specific analyses where there were changes in circumstances, such as approaching lease expirations. No impairments were recorded as a result of our annual recoverability assessment.

The recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management’s experience in the aircraft leasing industry, as well as information received from third-party sources. Estimates of the undiscounted cash flows for each aircraft type are impacted by changes in contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors.

Management believes that the net book value of each aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by that aircraft, and accordingly, no aircraft were impaired as a consequence of our annual recoverability assessment. However, if our estimates or assumptions change, we may revise our cash flow assumptions





and record future impairment charges. While we believe that the estimates and related assumptions used in the annual recoverability assessment are appropriate, actual results could differ from those estimates.

***Aircraft Monitoring List***

At December 31, 2018, no aircraft were on our monitoring list. We monitor our fleet for aircraft that are more susceptible to failing our recoverability assessments within one year due to their sensitivity to changes in contractual cash flows, future cash flow estimates and aircraft residual or scrap values.

***Comparison of the year ended December 31, 2017 to the year ended December 31, 2016:***

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Dollars in thousands)</b>	
Revenues:		
Lease rental revenue	\$ 721,302	\$ 725,220
Finance and sales-type lease revenue	25,716	17,190
Amortization of lease premiums, discounts and incentives	(11,714 )	(10,353 )
Maintenance revenue	56,128	33,590
Total lease rentals	791,432	765,647
Gain on sale of flight equipment	55,167	39,126
Other revenue	5,188	7,311
Total revenues	851,787	812,084
Expenses:		
Depreciation	298,664	305,216
Interest, net	241,231	255,660
Selling, general and administrative	73,604	61,872
Impairment of aircraft	80,430	28,585
Maintenance and other costs	9,077	7,773
Total operating expenses	703,006	659,106
Total other income (expense)	(2,476 )	3,527
Income from continuing operations before income taxes	146,305	156,505
Income tax provision	6,042	12,307
Earnings of unconsolidated equity method investment, net of tax	7,611	7,255
Net income	\$ 147,874	\$ 151,453

***Revenues:***

Total revenues increased by \$39.7 million, for the year ended December 31, 2017 as compared to the year ended December 31, 2016, primarily as a result of the following:

*Lease rental revenue* decreased by \$3.9 million for the year ended December 31, 2017 primarily as a result of:

- \$108.7 million decrease due to the sale of 60 aircraft during 2017 and 2016; and
- \$25.5 million decrease due to lease extensions, amendments, transitions and other changes.

These decreases were offset by a \$130.3 million increase in revenue, reflecting the partial year impact of 47 aircraft purchased in 2017 and the full year impact of 50 aircraft purchased in 2016.

*Finance and sales-type lease revenue.* For the year ended December 31, 2017, \$25.7 million of interest income from finance and sales-type leases was recognized as compared to \$17.2 million for the same period in 2016, due to the net addition of fifteen aircraft subject to finance and sales-type leases.

*Amortization of lease premiums, discounts and incentives.*

	<b>Year Ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Dollars in thousands)</b>	
Amortization of lease incentives	\$(9,779 )	\$(6,223 )
Amortization of lease premiums	(10,022 )	(13,744 )
Amortization of lease discounts	8,087	9,614
Amortization of lease premiums, discounts and incentives	\$(11,714)	\$(10,353)

As more fully described above under “Revenues,” lease incentives represent our estimated portion of the lessee’s cost for heavy maintenance, overhaul or replacement of certain high-value components which is amortized over the life of the related lease. As we enter into new leases, the amortization of lease incentives generally increases and, conversely, if a related lease terminates, the related unused lease incentive liability will reduce the amortization of lease incentives. The increase in amortization of lease incentives of \$3.6 million for the year ended December 31, 2017 as compared to the same period in 2016 was primarily attributable to the reversal of lease incentives associated with two freighter aircraft due to changes in estimate and the reclassification of one aircraft from an operating lease to a finance lease during 2016.

As more fully described above under “Revenues,” lease premiums represent the present value of the amount above current lease rates for acquired aircraft with attached leases. The decrease in amortization of lease premiums of \$3.7 million for the year ended December 31, 2017 as compared to the same period in 2016 resulted primarily from the reversal of \$2.3 million of lease premiums related to two aircraft in 2017 returned from a new lessee and a net decrease in amortization resulting from net aircraft sales.

*Maintenance revenue.* For the year ended December 31, 2017, we recorded \$56.1 million of maintenance revenue primarily due to the transition of four narrow-body aircraft, four wide-body aircraft and one freighter aircraft for \$50.6 million. For 2016, we recorded \$33.6 million due to the transition of one narrow-body and two wide-body aircraft for \$18.1 million and maintenance reserves taken into income from three freighter, three narrow-body and one wide-body aircraft totaling \$15.3 million.

*Gain on sale of flight equipment* increased by \$16.0 million, to \$55.2 million for the year ended 2017, as compared to gains of \$39.1 million for the same period in 2016. During 2017, we recorded gains totaling \$55.2 million related to the sale of 37 aircraft. During 2016, we recorded gains totaling \$39.1 million related to the sale of 30 aircraft.

*Other revenue* was \$5.2 million during the year ended December 31, 2017, primarily from \$2.9 million in fees earned in connection with the early termination of two leases and \$2.1 million in administrative fees from the Lancaster and IBJ Air joint ventures. For the year ended December 31, 2016, other revenue was \$7.3 million, which was primarily due to \$5.1 million recognized in additional fees paid by lessees in connection with early termination and amendment of leases and \$2.1 million in administrative fees from the Lancaster and IBJ Air joint ventures.

***Operating Expenses:***

Total operating expenses increased by \$43.9 million, for the year ended December 31, 2017 as compared to the year ended December 31, 2016, primarily as a result of the following:

*Depreciation expense* decreased by \$6.6 million for the year ended December 31, 2017 over the same period in 2016. The decrease was primarily the result of lower depreciation of \$62.1 million due to 60 aircraft sold during 2017 and 2016. This decrease was partially offset by increases of:

\$52.1 million due to 97 aircraft acquisitions during 2017 and 2016; and

\$3.3 million due to changes to asset lives, residual values and other changes.



*Interest, net* consisted of the following:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Dollars in thousands)</b>	
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities <sup>(1)</sup>	\$223,260	\$228,774
Amortization of deferred losses related to interest rate derivatives	2,202	9,662
Amortization of deferred financing fees and debt discount <sup>(2)</sup>	19,435	18,508
Interest expense	244,897	256,944
Less: Interest income	(3,411 )	(1,140 )
Less: Capitalized interest	(255 )	(144 )
Interest, net	\$241,231	\$255,660

(1) Included \$2.1 million and \$5.0 million of loan prepayment fees related to the sale of aircraft during the years ended December 31, 2017 and 2016, respectively.

(2) Included \$4.0 million and \$2.9 million in deferred financing fees written off related to the sale of aircraft during the years ended December 31, 2017 and 2016, respectively.

Interest, net decreased by \$14.4 million over the year ended December 31, 2016. The net decrease was primarily a result of:

a \$5.5 million decrease in interest on borrowings due primarily to lower weighted average debt cost and lower net termination charges compared to 2016;

lower amortization of deferred losses on terminated interest rate derivatives of \$7.5 million; and

higher interest income of \$2.3 million.

*Selling, general and administrative expenses* for the year ended December 31, 2017 increased by \$11.7 million over the same period in 2016, primarily as a result of \$5.1 million of separation and disability compensation expense related to our former Chief Executive Officer under the terms of his employment and share-based award agreements and higher personnel costs.

*Impairment of aircraft* was \$80.4 million during the year ended December 31, 2017 and \$28.6 million during the year ended December 31, 2016. See “Summary of Recoverability Assessment and Other Impairments” below for a detailed discussion of the related impairment charges for these aircraft.

*Maintenance and other costs* were \$9.1 million for the year ended December 31, 2017, an increase of \$1.3 million over the same period in 2016. The net increase was primarily related to higher maintenance costs of \$1.2 million related to terminations and transitions during the year ended December 31, 2017 as compared to the year ended December 31, 2016.

***Other Income:***

*Total other income (expense)* decreased by \$6.0 million, to an expense of \$2.5 million for the year ended December 31, 2017, as compared to income of \$3.5 million versus the same period in 2016 relating to the mark-to-market of the fair value of our interest rate cap.

***Income Tax Provision:***

Our provision for income taxes for the years ended December 31, 2017 and 2016 was \$6.0 million and \$12.3 million, respectively. Income taxes have been provided based on the applicable tax laws and rates of those countries in which operations are conducted and income is earned, primarily Ireland, Singapore and the United States. For the year ended December 31, 2017, our income tax provision decreased by \$6.3 million as a result of a decrease in our deferred tax provision of \$15.1 million, partially offset by an increase in our current tax provision of \$8.8 million as compared to the same period in 2016.

The net change in our income tax provision was primarily attributable to changes in operating income subject to tax in Ireland, Singapore, the United States and other jurisdictions, including the net tax effect from the sale and transfer of aircraft in Ireland and Singapore. In addition, we also recorded a deferred tax benefit of \$4.1 million relating to the transfer



of aircraft from Singapore to other jurisdictions and a deferred tax benefit of \$2.8 million for the effect of the reduction in the U.S. federal tax rate from the passage of the Tax Act.

All of our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are non-U.S. corporations. These non-U.S. subsidiaries generally earn income from sources outside the United States and typically are not subject to U.S. federal, state or local income taxes unless they operate within the U.S., in which case they may be subject to federal, state and local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and Singapore are subject to tax in those respective jurisdictions.

We have a U.S.-based subsidiary which provides management services to our non-U.S. subsidiaries and is subject to U.S. federal, state and local income taxes. In addition, we have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions. The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. Consequently, the provision for income taxes recorded relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.

**Other Comprehensive Income:**

	Year Ended December 31,	
	2017	2016
	(Dollars in thousands)	
Net income	\$ 147,874	\$ 151,453
Net change in fair value of derivatives, net of tax expense of \$0 for both periods presented	—	(1)
Derivative loss reclassified into earnings	2,202	9,662
Total comprehensive income	\$ 150,076	\$ 161,114

Other comprehensive income was \$150.1 million for the year ended December 31, 2017, a decrease of \$11.0 million from the \$161.1 million of other comprehensive income for the year ended December 31, 2016. Other comprehensive income for the year ended December 31, 2017 primarily consisted of \$147.9 million of net income and \$2.2 million of amortization of deferred net losses reclassified into earnings primarily related to terminated interest rate derivatives. Other comprehensive income for the year ended December 31, 2016 primarily consisted of \$151.5 million of net income and \$9.7 million of amortization of deferred net losses reclassified into earnings primarily related to terminated interest rate derivatives.

**APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Our estimates and assumptions are based on historical experiences and currently available information. Actual results may differ from such estimates under different conditions, sometimes materially. A summary of our significant accounting policies is presented in the notes to our consolidated financial statements included elsewhere in this Annual Report. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and results and require our most subjective judgments, estimates and assumptions. Our most critical accounting policies and estimates are described below.

**Lease Revenue Recognition**

Our operating lease rentals are recognized on a straight-line basis over the term of the lease. We will neither recognize revenue nor record a receivable from a customer when collectability is not reasonably assured. Estimating whether collectability is reasonably assured requires some level of subjectivity and judgment. When collectability is not reasonably assured, the customer is placed on non-accrual status and revenue is recognized when cash payments are received. Management determines whether customers should be placed back on accrual status when we are reasonably assured that payments will be received in a timely manner. The accrual/non-accrual status of a customer is maintained at a level deemed





appropriate based on factors such as the customer's credit rating, payment performance, financial condition and requests for modifications of lease terms and conditions. Events or circumstances outside of historical customer patterns can also result in changes to a customer's accrual status.

#### **Maintenance Payments and Maintenance Revenue**

Under our leases, the lessee must pay operating expenses accrued or payable during the term of the lease, which would normally include maintenance, overhaul, fuel, crew, landing, airport and navigation charges; certain taxes, licenses, consents and approvals; aircraft registration; and insurance premiums. Typically, our aircraft are subject to net operating leases whereby the lessee pays lease rentals and is generally responsible for maintaining the aircraft and paying operational, maintenance and insurance costs, although in a majority of cases, we are obligated to pay a portion of specified maintenance or modification costs. Our aircraft lease agreements generally provide for the periodic payment of a fixed amount of rent over the life of the lease, and the amount of the contracted rent will depend upon the type, age, specification and condition of the aircraft and market conditions at the time the lease is committed. The amount of rent we receive will depend on a number of factors, including the credit-worthiness of our lessees and the occurrence of delinquencies, restructurings and defaults. Our lease rental revenues are also affected by the extent to which aircraft are off-lease and our ability to remarket aircraft that are nearing the end of their leases in order to minimize their off-lease time. Our success in re-leasing aircraft is affected by market conditions relating to our aircraft and by general industry conditions and trends. An increase in the percentage of off-lease aircraft or a reduction in lease rates upon remarketing would negatively impact our revenues.

Under an operating lease, the lessee will be responsible for performing maintenance on the relevant aircraft and will typically be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and would be made either monthly in arrears or at the end of the lease term. For maintenance payments made monthly in arrears during a lease term, we will typically be required to reimburse all or a portion of these payments to the lessee upon completion of the relevant heavy maintenance, overhaul or parts replacement. We record maintenance payments paid by the lessee during a lease as accrued maintenance liabilities in recognition of our obligation in the lease to refund such payments, and therefore we typically do not recognize maintenance revenue during the lease. Maintenance revenue recognition would occur at the end of a lease, when we are able to determine the amount, if any, by which reserve payments received exceed the amount we are required under the lease to reimburse to the lessee for heavy maintenance, overhaul or parts replacement. If a lease requires end of lease term maintenance payments, typically the lessee would be required to pay us for its utilization of the aircraft during the lease; however, in some cases, we may owe a net payment to the lessee in the event heavy maintenance is performed and paid for by the lessee during the lease term and the aircraft is returned to us in better condition than at lease inception. End of lease term maintenance payments made to us are recognized as maintenance revenue, and end of lease term maintenance payments we make to a lessee are recorded as contra maintenance revenue.

The amount of maintenance revenue or contra maintenance revenue we recognize in any reporting period is inherently volatile and is dependent upon a number of factors, including the timing of lease expiries, including scheduled and unscheduled expiries, the timing of maintenance events and the utilization of the aircraft by the lessee.

#### **Lease Incentives and Amortization**

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated cost of the maintenance event and the estimated amounts the lessee is responsible to pay. This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability, which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability, and any

excess above the lease incentive liability is recorded as a prepaid lease incentive asset, which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

### **Flight Equipment Held for Lease and Depreciation**

Flight equipment held for lease is stated at cost and depreciated using the straight-line method, typically over a 25-year life from the date of manufacture for passenger aircraft and over a 30 to 35-year life for freighter aircraft, depending on whether the aircraft is a converted or purpose-built freighter, to estimated residual values. Estimated residual values are generally determined to be approximately 15% of the manufacturer's estimated realized price for passenger aircraft when new and 5% to 10% for freighter aircraft when new. Management may make exceptions to this policy on a case-by-case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of value. Examples of situations where exceptions may arise include but are not limited to:

- flight equipment where estimates of the manufacturers' realized sales prices are not relevant (e.g., freighter conversions);

- flight equipment where estimates of the manufacturers' realized sales prices are not readily available; and

- flight equipment which may have a shorter useful life due to obsolescence.

In accounting for flight equipment held for lease, we make estimates about the expected useful lives, the fair value of attached leases, acquired maintenance assets or liabilities and the estimated residual values. In making these estimates, we rely upon actual industry experience with the same or similar aircraft types and our anticipated utilization of the aircraft. As part of our due diligence review of each aircraft we purchase, we prepare an estimate of the expected maintenance payments and any excess costs which may become payable by us, taking into consideration the then-current maintenance status of the aircraft and the relevant provisions of any existing lease.

For planned major maintenance activities for aircraft off-lease, the Company capitalizes the actual maintenance costs by applying the deferral method. Under the deferral method, we capitalize the actual cost of major maintenance events, which are depreciated on a straight-line basis over the period until the next maintenance event is required.

For purchase and lease back transactions, we account for the transaction as a single arrangement. We allocate the consideration paid based on the fair value of the aircraft and lease. The fair value of the lease may include a maintenance premium and a lease premium or discount.

When we acquire an aircraft with a lease, determining the fair value of the attached lease requires us to make assumptions regarding the current fair values of leases for specific aircraft. We estimate a range of current lease rates of like aircraft in order to determine if the attached lease is within a fair value range. If a lease is below or above the range of current lease rates, we present value the estimated amount below or above fair value range over the remaining term of the lease. The resulting lease discount or premium is amortized into lease rental income over the remaining term of the lease.

### **Impairment of Flight Equipment**

We perform a recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis, at least annually. In addition, a recoverability assessment is performed whenever events or changes in circumstances, or indicators, indicate that the carrying amount or net book value of an asset may not be recoverable. Indicators may include, but are not limited to, a significant lease restructuring or early lease termination, significant air traffic decline, the introduction of newer technology aircraft or engines, an aircraft type is no longer in production or a significant airworthiness directive is issued. When we perform a recoverability assessment, we measure whether the estimated future undiscounted net cash flows expected to be generated by the aircraft exceed its net book value. The undiscounted cash flows consist of cash flows from currently contracted leases, future projected lease rates, transition costs, estimated down time and estimated residual or scrap values for an aircraft. In the event that an aircraft does not meet the recoverability test, the aircraft will be adjusted to fair value, resulting in an impairment charge.

Management develops the assumptions used in the recoverability analysis based on current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry, as well as information received from third party industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in contracted lease rates, residual values, economic conditions, technology, airline demand for a particular aircraft type and other risk factors discussed in Item 1A. "Risk Factors." See further discussion of our aircraft more susceptible to failing our recoverability

assessment under “Summary of Recoverability Assessment and Other Impairments” above and “Fair Value Measurements” below.

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### **Net Investment in Finance and Sales-Type Leases**

If a lease meets specific criteria at the inception or at any lease modification date, we recognize the lease as a Net investment in finance and sales-type leases on our Consolidated Balance Sheets. For sales-type leases, we recognize the difference between the net book value of the aircraft and the Net investment in finance and sales-type leases as a gain or loss on sale of flight equipment, less any initial direct costs and lease incentives. The Net investment in finance and sales-type leases consists of lease receivables, less the unearned income, plus the estimated unguaranteed residual value of the leased flight equipment at the lease end date. The unearned income is recognized as Finance and sales-type lease revenue in our Consolidated Statements of Income over the lease term in a manner that produces a constant rate of return on the Net investment in finance and sales-type leases.

Collectability of finance and sales-type leases is evaluated periodically on an individual customer level. The evaluation of the collectability of the finance and sales-type leases considers the credit of the lessee and the value of the underlying aircraft. An allowance for credit losses is established if there is evidence that we will be unable to collect all amounts due according to the original contractual terms of the Net investment in finance and sales-type leases. At December 31, 2018, we had no allowance for credit losses for our Net investment in finance and sales-type leases. When collectability is not reasonably assured, the customer is placed on non-accrual status, and revenue is recognized when cash payments are received.

### **Fair Value Measurements**

We measure the fair value of certain assets and liabilities on a non-recurring basis, when U.S. GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include aircraft and unconsolidated equity investments. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft impaired are based on an income approach that uses Level 3 inputs, which include our assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft.

### **Income Taxes**

Aircastle uses an asset and liability based approach in accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement and tax basis of existing assets and liabilities using enacted rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount estimated by us to be realizable. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits.

### **RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

See Note 1 - Summary of Significant Accounting Policies - Organization and Basis of Presentation in the Notes to Consolidated Financial Statements below.

### **RECENTLY PROPOSED ACCOUNTING PRONOUNCEMENTS**

See Note 1 - Summary of Significant Accounting Policies - Proposed Accounting Pronouncements in the Notes to Consolidated Financial Statements below.

## LIQUIDITY AND CAPITAL RESOURCES

Our business is very capital intensive, requiring significant investments in order to expand our fleet and to maintain and improve our existing portfolio. Our operations generate a significant amount of cash, primarily from lease rentals and maintenance collections. We have also met our liquidity and capital resource needs by utilizing several sources over time, including:

- various forms of borrowing secured by our aircraft, including bank term facilities, limited recourse securitization financings, and ECA-backed financings for new aircraft acquisitions;
- unsecured indebtedness, including our current unsecured revolving credit facilities, term loan and senior notes;
- asset sales; and
- sales of common shares.

Going forward, we expect to continue to seek liquidity from these sources and other sources, subject to pricing and conditions we consider satisfactory.

During 2018, we met our liquidity and capital resource needs with \$522.6 million of cash flow from operations, \$1.41 billion in gross proceeds from the issuance of our Senior 4.40% Notes due 2023, bank debt and our revolving credit facilities and \$338.8 million of cash from aircraft sales.

As of December 31, 2018, the weighted average maturity of our secured and unsecured debt financings was 3.3 years and we are in compliance with all applicable covenants in our financings. We have also determined that as of December 31, 2018, our consolidated subsidiaries' restricted net assets, as defined by Rule 4-08(e)(3) of Regulation S-X, are less than 25% of our consolidated net assets.

We believe that cash on hand, payments received from lessees and other funds generated from operations, unsecured bond offerings, secured borrowings for aircraft, borrowings under our revolving credit facilities and other borrowings and proceeds from future aircraft sales will be sufficient to satisfy our liquidity and capital resource needs over the next twelve months. Our liquidity and capital resource needs include payments due under our aircraft purchase obligations, required principal and interest payments under our long-term debt facilities, expected capital expenditures, lessee maintenance payment reimbursements and lease incentive payments over the next twelve months.

### Cash Flows

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Net cash flow provided by operating activities	\$522,592	\$490,871	\$468,092
Net cash flow used in investing activities	(974,687 )	(517,107 )	(663,155 )
Net cash flow provided by (used in) financing activities	386,091	(248,724 )	449,839

#### *Operating Activities:*

Cash flow provided by operations was \$522.6 million and \$490.9 million for the years ended December 31, 2018 and 2017, respectively. The increase in cash flow provided by operations of \$31.7 million for the year ended December 31, 2018 versus the same period in 2017 was primarily a result of a \$45.2 million increase in cash from lease rentals, net of finance and sales-type leases, and a \$13.8 million decrease in cash paid for interest.

These inflows were offset by a \$15.1 million decrease in cash from maintenance revenue and an \$8.3 million decrease in cash from working capital.

Cash flow provided by operations was \$490.9 million and \$468.1 million for the years ended December 31, 2017 and 2016, respectively. The increase in cash flow provided by operations of \$22.8 million for the year ended December 31, 2017 versus the same period in 2016 was primarily a result of:

- a \$22.7 million increase in cash from maintenance revenue;
- a \$12.1 million decrease in cash paid for taxes; and
- a \$4.3 million decrease in cash used for working capital.

These inflows were offset by:

- a \$6.5 million increase in cash paid for SG&A;
- a \$3.4 million increase in cash paid for interest; and
- a \$1.3 million increase in cash paid for maintenance.

*Investing Activities:*

Cash flow used in investing activities was \$974.7 million and \$517.1 million for the years ended December 31, 2018 and 2017, respectively. The increase in cash flow used in investing activities of \$457.6 million for the year ended December 31, 2018 was primarily a result of a \$494.7 million decrease in proceeds from the sale of flight equipment. These outflows were offset partially by a net \$34.6 million increase in the acquisition and improvement of flight equipment and net investment in and collections on finance and sales-type leases.

Cash flow used in investing activities was \$517.1 million and \$663.2 million for the years ended December 31, 2017 and 2016, respectively. The decrease in cash flow used in investing activities of \$146.0 million for the year ended December 31, 2017 was primarily a result of:

- a net \$52.7 million decrease in the acquisition and improvement of flight equipment and net investment in and collections on finance and sales-type leases;
- a \$77.7 million increase in proceeds from the sale of flight equipment; and
- an \$18.0 million decrease in unconsolidated equity method investments.

*Financing Activities:*

Cash flow provided by financing activities was \$386.1 million for the year ended December 31, 2018 as compared to cash flow used in financing activities of \$248.7 million for the year ended December 31, 2017. The net increase in cash flow provided by financing activities of \$634.8 million for the year ended December 31, 2018 was primarily a result of a \$738.9 million increase in proceeds from secured and unsecured financings and a \$61.5 million increase in maintenance and security deposits returned, net of deposits received.

These inflows were partially offset by a \$90.6 million increase in securitization and term debt financing repayments and a \$66.6 million increase in shares repurchased.

Cash flow used in financing activities was \$248.7 million for the year ended December 31, 2017 as compared to cash flow provided by financing activities of \$449.8 million for the year ended December 31, 2016. The net increase in cash flow used in financing activities of \$698.6 million for the year ended December 31, 2017 was primarily a result of:

- a \$379.3 million decrease in proceeds from secured and unsecured financings;
- a \$289.8 million increase in securitization and term debt financing repayments; and
- a \$68.4 million increase in maintenance and security deposits returned, net of deposits received.

**Debt Obligations**

For complete information on our debt obligations, please refer to Note 7 - "Borrowings from Secured and Unsecured Debt" Financings in the Notes to Consolidated Financial Statements below.

**Contractual Obligations**

Our contractual obligations consist of principal and interest payments on variable and fixed rate liabilities, interest payments on interest rate derivatives, aircraft acquisition and rent payments pursuant to our office leases. Total contractual obligations increased to approximately \$6.95 billion at December 31, 2018 from \$6.61 billion at December 31, 2017 due to an increase in purchase obligations for aircraft to be acquired, partially offset by a decrease in borrowings.

The following table presents our actual contractual obligations and their payment due dates as of December 31, 2018.

Contractual Obligations	Payments Due by Period as of December 31, 2018				
	Total	1 year or less	2-3 years	4-5 years	More than 5 years
(Dollars in thousands)					
Principal payments:					
Senior Notes due 2019-2024	\$ 3,450,000	\$ 500,000	\$ 800,000	\$ 1,650,000	\$ 500,000
DBJ Term Loan	120,000	120,000	—	—	—
Revolving Credit Facilities	425,000	—	—	425,000	—
ECA Financings	189,080	39,801	83,975	57,255	8,049
Bank Financings	619,715	70,003	118,860	285,513	145,339
Total principal payments	4,803,795	729,804	1,002,835	2,417,768	653,388
Interest payments on debt obligations <sup>(1)</sup>	798,750	237,851	349,011	193,341	18,547
Office leases <sup>(2)</sup>	16,986	2,517	3,247	3,371	7,851
Purchase obligations <sup>(3)</sup>	1,328,553	415,955	912,598	—	—
Total	\$ 6,948,084	\$ 1,386,127	\$ 2,267,691	\$ 2,614,480	\$ 679,786

(1) Future interest payments on variable rate, LIBOR-based debt obligations are estimated using the interest rate in effect at December 31, 2018.

(2) Represents contractual payment obligations for our office leases in Stamford, Connecticut; Dublin, Ireland and Singapore.

At December 31, 2018, we had commitments to acquire 35 aircraft for \$1.33 billion, including 25 new E-Jet E2 aircraft from Embraer S.A. These amounts (3) include estimates for pre-delivery deposits, contractual price escalation and other adjustments. As of February 8, 2019, we have commitments to acquire 33 aircraft for \$1.26 billion.

### Capital Expenditures

From time to time, we make capital expenditures to maintain or improve our aircraft. These expenditures include the cost of major overhauls necessary to place an aircraft in service and modifications made at the request of lessees. For the years ended December 31, 2018, 2017 and 2016, we incurred a total of \$9.3 million, \$12.9 million and \$31.5 million, respectively, of capital expenditures (including lease incentives) related to the acquisition and improvement of aircraft.

As of December 31, 2018, the weighted average age (by net book value) of our aircraft was 9.1 years. In general, the costs of operating an aircraft, including maintenance expenditures, increase with the age of the aircraft. Our lease agreements call for the lessee to be primarily responsible for maintaining the aircraft. We may incur additional maintenance and modification costs in the future in the event we are required to remarket an aircraft or a lessee fails to meet its maintenance obligations under the lease agreement. These maintenance reserves are paid by the lessee to provide for future maintenance events. Provided a lessee performs scheduled maintenance of the aircraft, we are required to reimburse the lessee for scheduled maintenance payments. In certain cases, we are also required to make lessor contributions, in excess of amounts a lessee may have paid, towards the costs of maintenance events performed by or on behalf of the lessee.

Actual maintenance payments to us by lessees in the future may be less than projected as a result of a number of factors, including defaults by the lessees. Maintenance reserves may not cover the entire amount of actual maintenance expenses incurred and, where these expenses are not otherwise covered by the lessees, there can be no assurance that our operational cash flow and maintenance reserves will be sufficient to fund maintenance requirements, particularly as our aircraft age. See Item 1A. “Risk Factors — Risks Related to Our Business — Risks related to our leases — *If lessees are unable to fund their maintenance obligations on our aircraft, we may incur increased costs at the conclusion of the applicable lease.*”

### Off-Balance Sheet Arrangements

We entered into two joint venture arrangements in order to help expand our base of new business opportunities. Neither of these joint ventures qualifies for consolidated accounting treatment. The assets and liabilities of these entities are not included in our Consolidated Balance Sheets and we record our net investment under the equity method of accounting. See Note 5 - “Unconsolidated Equity Method Investment” in the Notes to Unaudited



Consolidated Financial Statements below.

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We hold a 30% equity interest in our Lancaster joint venture and a 25% equity interest in our joint venture with IBJ Air. At December 31, 2018, the net book value of both joint ventures' thirteen aircraft was \$601.7 million. As of December 31, 2018, the majority shareholder in Lancaster stated its intention to liquidate all assets of the joint venture. The Company recognized a loss from its unconsolidated equity method investment, net of tax, of \$8.1 million during the year ended December 31, 2018, resulting from our share in the undistributed loss in Lancaster.

#### **Foreign Currency Risk and Foreign Operations**

At December 31, 2018 all of our leases are payable to us in U.S. dollars. However, we incur Euro- and Singapore dollar-denominated expenses in connection with our subsidiaries in Ireland and Singapore. For the year ended December 31, 2018, expenses, such as payroll and office costs, denominated in currencies other than the U.S. dollar aggregated \$16.5 million in U.S. dollar equivalents and represented 22% of total SG&A expenses. Our international operations are a significant component of our business strategy and permit us to more effectively source new aircraft, service the aircraft we own and maintain contact with our lessees. Therefore, it is likely that our international operations and our exposure to foreign currency risk will increase over time. Although we have not yet entered into foreign currency hedges because our exposure to date has not been significant, if our foreign currency exposure increases we may enter into hedging transactions in the future to mitigate this risk. For the years ended December 31, 2018, 2017 and 2016, we incurred insignificant net gains and losses on foreign currency transactions.

#### **Hedging**

For complete information on our derivative instruments, please refer to Note 14 "Other Assets" in the Notes to Consolidated Financial Statements below.

#### **Inflation**

Inflation affects our lease rentals, asset values and costs, including SG&A expenses and other expenses. We do not believe that our financial results have been, or will be, adversely affected by inflation in a material way.

#### **Management's Use of EBITDA and Adjusted EBITDA**

We define EBITDA as income (loss) from continuing operations before income taxes, interest expense, and depreciation and amortization. We use EBITDA to assess our consolidated financial and operating performance, and we believe this non-U.S. GAAP measure is helpful in identifying trends in our performance.

This measure provides an assessment of controllable expenses and affords management the ability to make decisions which are expected to facilitate meeting current financial goals, as well as achieving optimal financial performance. It provides an indicator for management to determine if adjustments to current spending decisions are needed.

EBITDA provides us with a measure of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of our capital structure (primarily interest charges on our outstanding debt) and asset base (primarily depreciation and amortization) from our operating results. Accordingly, this metric measures our financial performance based on operational factors that management can impact in the short-term, namely the cost structure, or expenses, of the organization. EBITDA is one of the metrics used by senior management and the Board of Directors to review the consolidated financial performance of our business.

We define Adjusted EBITDA as EBITDA (as defined above) further adjusted to give effect to adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes. Adjusted EBITDA is a material component of these covenants.

The table below shows the reconciliation of net income to EBITDA for the years ended December 31, 2018, 2017 and 2016, respectively.

	Year Ended December 31,		
	2018	2017	2016
	<b>(Dollars in thousands)</b>		
Net income	\$247,919	\$147,874	\$151,453
Depreciation	310,850	298,664	305,216
Amortization of lease premiums, discounts and incentives	15,269	11,714	10,353
Interest, net	234,504	241,231	255,660
Income tax provision	5,642	6,042	12,307
EBITDA	\$814,184	\$705,525	\$734,989

Adjustments:

Impairment of aircraft	—	80,430	28,585
Equity share of joint venture impairment	15,791	—	—
Non-cash share-based payment expense	11,488	13,148	7,901
(Gain) loss on mark-to-market of interest rate derivative contracts	(1,632 )	2,481	(3,522 )
Adjusted EBITDA	\$839,831	\$801,584	\$767,953

**Management's Use of Adjusted Net Income ("ANI")**

Management believes that ANI, when viewed in conjunction with the Company's results under U.S. GAAP and the below reconciliation, provides useful information about operating and period-over-period performance, and provides additional information that is useful for evaluating the underlying operating performance of our business without regard to periodic reporting elements related to interest rate derivative accounting, changes related to refinancing activity and non-cash share-based payment expense.

The table below shows the reconciliation of net income to ANI for the years ended December 31, 2018, 2017 and 2016, respectively.

	Year Ended December 31,		
	2018	2017	2016
	<b>(Dollars in thousands)</b>		
Net income	\$247,919	\$147,874	\$151,453
(Gain) loss on mark-to-market of interest rate derivative contracts <sup>(2)</sup>	(1,632 )	2,481	(3,522 )
Loan termination fee <sup>(1)</sup>	(838 )	2,058	4,960
Write-off of deferred financing fees <sup>(1)</sup>	300	4,005	2,880
Non-cash share-based payment expense <sup>(3)</sup>	11,488	13,148	7,901
Securitization No. 1 hedge loss amortization charges <sup>(1)</sup>	—	—	4,855
Adjusted net income	\$257,237	\$169,566	\$168,527

(1) Included in Interest, net.

(2) Included in Other income (expense).

(3) Included in Selling, general and administrative expenses.

Weighted-average shares:	Year Ended December 31,		
	2018	2017	2016
Common shares outstanding	77,447,263	78,219,458	78,161,494
Restricted common shares	476,726	556,592	653,944
Total weighted-average shares	77,923,989	78,776,050	78,815,438

Percentage of weighted-average shares:	Year Ended December 31,			
	2018	2017	2016	
Common shares outstanding	99.39	% 99.29	% 99.17	%
Restricted common shares <sup>(1)</sup>	0.61	% 0.71	% 0.83	%
Total	100.00	% 100.00	% 100.00	%

	Year Ended December 31,		
	2018	2017	2016
Weighted-average common shares outstanding — Basic	77,447,263	78,219,458	78,161,494
Effect of dilutive shares <sup>(2)</sup>	301,356	153,983	42,785
Weighted-average common shares outstanding — Diluted	77,748,619	78,373,441	78,204,279

Adjusted net income allocation:	Year Ended December 31,		
	2018	2017	2016
	<b>(Dollars in thousands, except per share amounts)</b>		
Adjusted net income	\$ 257,237	\$ 169,566	\$ 168,527
Less: Distributed and undistributed earnings allocated to restricted common shares <sup>(1)</sup>	(1,574 )	(1,198 )	(1,398 )
Adjusted net income allocable to common shares — Basic and Diluted	\$ 255,663	\$ 168,368	\$ 167,129
Adjusted net income per common share — Basic	\$ 3.30	\$ 2.15	\$ 2.14
Adjusted net income per common share — Diluted	\$ 3.29	\$ 2.15	\$ 2.14

For the years ended December 31, 2018, 2017 and 2016, distributed and undistributed earnings to restricted shares was 0.61%, 0.71% and 0.83%, (1) respectively, of net income. The amount of restricted share forfeitures for all periods presented was immaterial to the allocation of distributed and undistributed earnings.

(2) For the years ended December 31, 2018, 2017 and 2016, dilutive shares represented contingently issuable shares related to the Company's Performance Share Units ("PSUs").

### Limitations of EBITDA, Adjusted EBITDA and ANI

An investor or potential investor may find EBITDA, Adjusted EBITDA and ANI important measures in evaluating our performance, results of operations and financial position. We use these non-U.S. GAAP measures to supplement our U.S. GAAP results in order to provide a more complete understanding of the factors and trends affecting our business.

EBITDA, Adjusted EBITDA and ANI have limitations as analytical tools and should not be viewed in isolation or as substitutes for U.S. GAAP measures of earnings (loss). Material limitations in making the adjustments to our earnings (loss) to calculate EBITDA, Adjusted EBITDA and ANI, and using these non-U.S. GAAP measures as compared to U.S. GAAP net income (loss), income (loss) from continuing operations and cash flows provided by or used in operations, include:

- depreciation and amortization, though not directly affecting our current cash position, represent the wear and tear and/or reduction in value of our aircraft, which affects the aircraft's availability for use and may be indicative of future needs for capital expenditures;
- the cash portion of income tax (benefit) provision generally represents charges (gains), which may significantly affect our financial results;
- elements of our interest rate derivative accounting may be used to evaluate the effectiveness of our hedging policy;
- hedge loss amortization charges related to Term Financing No. 1 and Securitization No. 1; and



adjustments required in calculating covenant ratios and compliance as that term is defined in the indenture governing our senior unsecured notes.

EBITDA, Adjusted EBITDA and ANI are not alternatives to net income (loss), income (loss) from operations or cash flows provided by or used in operations as calculated and presented in accordance with U.S. GAAP. You should not rely on these non-U.S. GAAP measures as a substitute for any such U.S. GAAP financial measure. We strongly urge you to review the reconciliations to U.S. GAAP net income (loss), along with our consolidated financial statements included elsewhere in this Annual Report. We also strongly urge you to not rely on any single financial measure to evaluate our business. In addition, because EBITDA, Adjusted EBITDA and ANI are not measures of financial performance under U.S. GAAP and are susceptible to varying calculations, EBITDA, Adjusted EBITDA and ANI as presented in this Annual Report, may differ from and may not be comparable to similarly titled measures used by other companies.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. These risks are highly sensitive to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. We are exposed to changes in the level of interest rates and to changes in the relationship or spread between interest rates. Our primary interest rate exposures relate to our lease agreements, floating rate debt obligations and interest rate derivatives. Rent payments under our aircraft lease agreements typically do not vary during the term of the lease according to changes in interest rates. However, our borrowing agreements generally require payments based on a variable interest rate index, such as LIBOR. Therefore, to the extent our borrowing costs are not fixed, increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding increase in rents or cash flow from our securities. Changes in interest rates may also impact our net book value as our interest rate derivatives are periodically marked-to-market through shareholders' equity. Generally, we are exposed to loss on our fixed pay interest rate derivatives to the extent interest rates decrease below their contractual fixed rate.

The relationship between spreads on derivative instruments may vary from time to time, resulting in a net aggregate book value increase or decrease. Changes in the general level of interest rates can also affect our ability to acquire new investments and our ability to realize gains from the settlement of such assets.

#### **Sensitivity Analysis**

The following discussion about the potential effects of changes in interest rates is based on a sensitivity analysis, which models the effects of hypothetical interest rate shifts on our financial condition and results of operations. Although we believe a sensitivity analysis provides the most meaningful analysis permitted by the rules and regulations of the SEC, it is constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by the inability to include the extraordinarily complex market reactions that normally would arise from the market shifts modeled. Although the following results of a sensitivity analysis for changes in interest rates may have some limited use as a benchmark, they should not be viewed as a forecast. This forward-looking disclosure also is selective in nature and addresses only the potential interest expense impacts on our financial instruments and, in particular, does not address the mark-to-market impact on our interest rate derivatives. It also does not include a variety of other potential factors that could affect our business as a result of changes in interest rates. A hypothetical 100-basis point increase/decrease in our variable interest rates would increase/decrease the minimum contracted rentals on our portfolio as of December 31, 2018 by \$4.1 million and \$4.1 million, respectively, over the next twelve months. As of December 31, 2018, a hypothetical 100-basis point increase/decrease in our variable interest rate on our borrowings would result in an interest expense increase/decrease of \$6.1 million and \$6.5 million, respectively, net of amounts received from our interest rate derivatives, over the next twelve months. In September 2016, we purchased an interest rate cap for \$2.3 million to hedge approximately 70% of our floating rate interest exposure. The interest rate cap is set at 2% and has a current notional balance of \$370.0 million and reduces over time to \$215.0 million. The cap matures in September 2021.



## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements and notes thereto, referred to in Item 15(A)(1) of this Form 10-K, are filed as part of this Annual Report and appear in this Form 10-K beginning on page F-1.

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

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Management's Evaluation of Disclosure Controls and Procedures**

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as appropriate, to allow timely decisions regarding required disclosure. An evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2018. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

### **Management's Annual Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018. The assessment was based on criteria established in the Internal Control — Integrated Framework (2013), issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2018. Ernst & Young LLP, the independent registered public accounting firm that audited our Consolidated Financial Statements included in this Annual Report on Form 10-K, audited the effectiveness of our controls over financial reporting as of December 31, 2018. Ernst & Young LLP has issued its report which is included below.

### **Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Aircastle Limited

### **Opinion on Internal Control over Financial Reporting**

We have audited Aircastle Limited and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Aircastle Limited and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018 and the related notes (collectively referred to as the "financial statements") of the Company and our report dated February 12, 2019 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2004.

Stamford, CT

February 12, 2019



## **ITEM 9B. OTHER INFORMATION**

None.

### **PART III**

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The name, age and background of each of our directors nominated for election will be contained under the caption “Election of Directors” in our Proxy Statement for our 2019 Annual General Meeting of Shareholders (“2019 Proxy Statement”). The identification of our Audit Committee and our Audit Committee financial experts will be contained in our 2019 Proxy Statement under the captions “CORPORATE GOVERNANCE — Committees of the Board of Directors — The Audit Committee.” Information regarding our Code of Business Ethics and Conduct, any material amendments thereto and any related waivers will be contained in our 2019 Proxy Statement under the captions “CORPORATE GOVERNANCE — Code of Business Conduct and Ethics.” All of the foregoing information is incorporated herein by reference. The Code of Business Conduct and Ethics is posted on Aircastle’s website at [www.aircastle.com](http://www.aircastle.com) under Investors — Corporate Governance. Pursuant to Item 401(b) of Regulation S-K, the requisite information pertaining to our executive officers is reported immediately following Item 4 of Part I of this Annual Report.

Information on compliance with Section 16(a) of the Exchange Act will be contained in our 2019 Proxy Statement under the captions “OWNERSHIP OF AYR COMMON SHARES — Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated herein by reference.

## **ITEM 11. EXECUTIVE COMPENSATION**

Information on compensation of our directors and certain named executive officers will be contained in our 2019 Proxy Statement under the captions “Directors’ Compensation” and “EXECUTIVE COMPENSATION,” respectively, and is incorporated herein by reference.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information on the number of shares of Aircastle’s common shares beneficially owned by each director, each named executive officer and by all directors and executive officers as a group will be contained under the captions “OWNERSHIP OF THE COMPANY’S COMMON SHARES — Security Ownership by Management” and information on each beneficial owner of more than 5% of Aircastle’s common shares is contained under the captions “OWNERSHIP OF THE COMPANY’S COMMON SHARES — Security Ownership of Certain Beneficial Owners” in our 2019 Proxy Statement and is incorporated herein by reference.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information relating to certain transactions between Aircastle and its affiliates and certain other persons will be set forth under the caption “CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS” in our 2019 Proxy Statement and is incorporated herein by reference.

Information relating to director independence will be set forth under the caption “PROPOSAL NUMBER ONE — ELECTION OF DIRECTORS — Director Independence” in our 2019 Proxy Statement and is incorporated herein by reference.

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information relating to audit fees, audit-related fees, tax fees and all other fees billed in fiscal 2018 and by Ernst & Young LLP, for services rendered to Aircastle is set forth under the caption “INDEPENDENT AUDITOR FEES” in the

2019 Proxy Statement and is incorporated herein by reference. In addition, information relating to the pre-approval policies and procedures of the Audit Committee is set forth under the caption “INDEPENDENT AUDITOR FEES — Pre-Approval Policies and Procedures” in our 2019 Proxy Statement and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(A) 1. Consolidated Financial Statements.**

The following is a list of the “Consolidated Financial Statements” of Aircastle Limited and its subsidiaries included in this Annual Report on Form 10-K, which are filed herewith pursuant to Item 8:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2018 and 2017.

Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016.

Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016.

Consolidated Statements of Changes in Shareholders’ Equity for the years ended December 31, 2018, 2017 and 2016.

Notes to Consolidated Financial Statements.

**2. Financial Statement Schedules.**

There are no Financial Statement Schedules filed as part of this Annual Report, since the required information is included in the Consolidated Financial Statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

**3. Exhibits.**

The exhibits filed herewith are listed on the Exhibit Index filed as part of this Annual Report on Form 10-K.

**(B) EXHIBIT INDEX**

**Exhibit No. Description of Exhibit**

- 3.1 Memorandum of Association (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
- 3.2 Amended Bye-laws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-3 (No. 333-182242) filed on June 20, 2012).
- 4.1 Specimen Share Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25, 2006).
- 4.2 Indenture, dated as of April 4, 2012, by and between Aircastle Limited and Wells Fargo Bank, National Association as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 5, 2012).
- 4.3 Indenture, dated as of November 30, 2012, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 30, 2012).
- 4.4 Amended and Restated Shareholder Agreement, dated as of February 18, 2015, by and between Aircastle Limited and Marubeni Corporation (incorporated by reference to Exhibit 4.8 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2015).
- 4.5 Amendment Agreement No. 1 to the Amended and Restated Shareholder Agreement, dated as of September 23, 2016, by and between Aircastle Limited and Marubeni Corporation (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 26, 2016).
- 4.6 Indenture, dated as of December 5, 2013, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee Citigroup Global Markets, Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC and RBC Capital Markets, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 6, 2013).
- 4.7 First Supplemental Indenture, dated as of December 5, 2013, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on December 6, 2013).
- 4.8 Second Supplemental Indenture, dated as of March 26, 2014, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 26, 2014).
- 4.9 Third Supplemental Indenture, dated as of January 15, 2015, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 15, 2015).
- 4.10 Fourth Supplemental Indenture, dated as of March 24, 2016, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 24, 2016).

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- 4.11 Fifth Supplemental Indenture, dated as of March 20, 2017, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 20, 2017).
- 4.12 Sixth Supplemental Indenture, dated as of September 25, 2018, by and between Aircastle Limited and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 25, 2018).
- 10.1 Form of Restricted Share Purchase Agreement (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
- 10.2 Form of Amended Restricted Share Grant Letter under the Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K filed on March 5, 2010). #

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Exhibit No. Description of Exhibit

- 10.3 Form of Amended Restricted Share Agreement for Certain Executive Officers under the Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K filed on March 10, 2011). #
- 10.4 Form of Amended International Employee Restricted Share Unit Agreement under the Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K filed on March 5, 2010). #
- 10.5 Amended and Restated Aircastle Limited 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.28 to the Company's Registration Statement on Form S-1 (Amendment No. 2) (No. 333-134669) filed on July 25 2006). #
- 10.6 Letter Agreement, dated as of February 24, 2006, by and between Aircastle Advisor LLC and Joseph Schreiner (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (No. 333-134669) filed on June 2, 2006). #
- 10.7 Letter Agreement, dated as of July 13, 2010, by and between Aircastle Advisor LLC and Ron Wainshal (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 15, 2010). #
- 10.8 Form of Employment Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 8, 2017). #
- 10.9 Form of Amended and Restated Indemnification Agreement with directors and officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 8, 2011).
- 10.10 Registration Rights Agreement, dated as of April 4, 2012, by and among Aircastle Limited and Goldman, Sachs & Co., Citigroup Global Markets Inc. and J.P. Morgan Securities LLC, as representatives of the several Initial Purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 5, 2012).
- 10.11 Share Purchase Agreement, dated as of August 7, 2012, by and among Aircastle Limited and the Fortress Shareholders named therein (incorporated by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed on August 13, 2012).
- 10.12 Registration Rights Agreement, dated as of November 30, 2012, by and among Aircastle Limited and J.P. Morgan Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co and RBC Capital Markets, LLC, as representatives of the several Initial Purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 30, 2012).
- 10.13 Third Amended and Restated Credit Agreement, dated as of March 28, 2016, by and among Aircastle Limited, the several lenders from time to time parties thereto, and Citibank N.A., in its capacity as agent for the lenders (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2016).
- 10.14 Aircastle Limited 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 23, 2014). #

- 10.15 Form of Restricted Share Agreement for Certain Executive Officers Under the Aircastle Limited 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 4, 2014). #
- 10.16 Form of Non-Officer Director Restricted Share Agreement Under the Aircastle Limited 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 4, 2014). #
- 10.17 Form of Performance Share Unit Agreement for Certain Executive Officers under the Aircastle Limited 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2016). #
- 10.18 Form of Restricted Share Unit Agreement Under the Aircastle Limited 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 4, 2017). #



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Exhibit No. Description of Exhibit

- 10.19 Aircastle Limited Amended and Restated 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on May 25, 2017). #
- 10.20 Purchase Agreement COM0270-15, dated as of June 12, 2015, by and between Aircastle Holding Corporation and Embraer S.A. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2015). Ø
- 10.21 Amendment No. 1 to Purchase Agreement COM0270-15, dated as of June 22, 2016, by and between Aircastle Holding Corporation and Embraer S. A. (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed on February 14, 2017). \*Ø
- 10.22 Amendment No. 2 to Purchase Agreement COM0270-15, dated as of November 11, 2016, by and between Aircastle Holding Corporation and Embraer S.A. (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed on February 14, 2017). \*Ø
- 10.23 Amendment No. 3 to Purchase Agreement COM0270-15, dated as of January 13, 2017, by and between Aircastle Holding Corporation and Embraer S.A. (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed on February 14, 2017). \*Ø
- 10.24 Amendment No. 4 to Purchase Agreement COM0270-15, dated as of August 11, 2017, by and between Aircastle Holding Corporation and Embraer S.A. (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2017). \*Ø
- 10.25 Amendment No. 5 to Purchase Agreement COM0270-15, dated as of April 19, 2018, by and between Aircastle Holding Corporation and Embrarer S.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2018) \*Ø
- 10.26 Amendment No. 6 to Purchase Agreement COM0270-15, dated as of June 29, 2018, by and between Aircastle Holding Corporation and Embrarer S.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 1, 2018) \*Ø
- 10.27 Amendment No. 1 to Letter Agreement COM0271-15 in Purchase Agreement COM0270-15, dated as of November 11, 2016, by and between Aircastle Holding Corporation and Embraer S.A. (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on February 14, 2017). \*Ø
- 10.28 Amendment No. 2 to Letter Agreement COM0271-15 in Purchase Agreement COM0270-15, dated as of August 11, 2017, by and between Aircastle Holding Corporation and Embraer S.A. (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2017). \*Ø
- 10.29 Amendment No. 3 to Letter Agreement COM0271-15 in Purchase Agreement COM0270-15, dated as of February 23, 2018, by and between Aircastle Holding Corporation and Embrarer S.A. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2018) \*Ø
- 10.30 Amendment No. 4 to Letter Agreement COM271-15 in Purchase Agreement COM0270-15, dated as of April 19, 2018, by and between Aircastle Holding Corporation and Embrarer S.A. (incorporated by

reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2018) \*Ø

10.31 Letter Agreement, dated as of October 4, 2016, by and between Aircastle Advisor LLC and Aaron Dahlke (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 7, 2016). #

10.32 Separation Agreement, dated June 30, 2017, between Aircastle Advisor LLC and Ron Wainshal (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2017). #

10.33 Retirement and Transition Agreement, dated September 17, 2018, for Michael L. Kriedberg (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 19, 2018). #

21.1 Subsidiaries of the Registrant \*

23.1 Consent of Ernst & Young LLP \*

31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 \*

31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002 \*

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Exhibit No. Description of Exhibit

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*

99.1 Owned Aircraft Portfolio at December 31, 2018 \*

101 The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2018 and 2017; (ii) Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; (v) Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; and (vi) Notes to Consolidated Financial Statements \*

# Management contract or compensatory plan or arrangement.

\* Filed herewith.

Ø Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

**ITEM 16. FORM 10-K SUMMARY**

None.

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**Index to Financial Statements**

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of Aircastle Limited

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Aircastle Limited and subsidiaries (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2018 and 2017 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 12, 2019 expressed an unqualified opinion thereon.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2004.

Stamford, CT

February 12, 2019

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**Aircastle Limited and Subsidiaries**  
**Consolidated Balance Sheets**  
(Dollars in thousands, except share data)

	December 31, 2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 152,719	\$ 211,922
Restricted cash and cash equivalents	15,134	21,935
Accounts receivable	15,091	12,815
Flight equipment held for lease, net of accumulated depreciation of \$1,221,985 and \$1,125,594, respectively	6,935,585	6,188,469
Net investment in finance and sales-type leases	469,180	545,750
Unconsolidated equity method investment	69,111	76,982
Other assets	214,361	141,210
Total assets	\$ 7,871,181	\$ 7,199,083
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Borrowings from secured financings, net of debt issuance costs	\$ 798,457	\$ 849,874
Borrowings from unsecured financings, net of debt issuance costs	3,962,896	3,463,732
Accounts payable, accrued expenses and other liabilities	153,341	140,221
Lease rentals received in advance	87,772	57,630
Security deposits	120,962	130,628
Maintenance payments	739,072	649,434
Total liabilities	5,862,500	5,291,519
Commitments and Contingencies		
<b>SHAREHOLDERS' EQUITY</b>		
Preference shares, \$0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common shares, \$0.01 par value, 250,000,000 shares authorized, 75,454,511 shares issued and outstanding at December 31, 2018; and 78,707,963 shares issued and outstanding at December 31, 2017	754	787
Additional paid-in capital	1,468,779	1,527,796
Retained earnings	539,332	380,331
Accumulated other comprehensive loss	(184	) (1,350 )
Total shareholders' equity	2,008,681	1,907,564
Total liabilities and shareholders' equity	\$ 7,871,181	\$ 7,199,083

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



**Aircastle Limited and Subsidiaries**  
**Consolidated Statements of Income**  
(Dollars in thousands, except per share amounts)

	Year Ended December 31,		
	2018	2017	2016
<b>Revenues:</b>			
Lease rental revenue	\$722,694	\$721,302	\$725,220
Finance and sales-type lease revenue	35,132	25,716	17,190
Amortization of lease premiums, discounts and incentives	(15,269 )	(11,714 )	(10,353 )
Maintenance revenue	105,738	56,128	33,590
Total lease rentals	848,295	791,432	765,647
Gain on sale of flight equipment	36,766	55,167	39,126
Other revenue	5,290	5,188	7,311
Total revenues	890,351	851,787	812,084
<b>Expenses:</b>			
Depreciation	310,850	298,664	305,216
Interest, net	234,504	241,231	255,660
Selling, general and administrative (including non-cash share-based payment expense of \$11,488, \$13,148 and \$7,901, respectively)	76,025	73,604	61,872
Impairment of aircraft	—	80,430	28,585
Maintenance and other costs	8,961	9,077	7,773
Total expenses	630,340	703,006	659,106
Total other income (expense)	1,636	(2,476 )	3,527
Income from continuing operations before income taxes and earnings of unconsolidated equity method investment	261,647	146,305	156,505
Income tax provision	5,642	6,042	12,307
Earnings (loss) of unconsolidated equity method investment, net of tax	(8,086 )	7,611	7,255
Net income	\$247,919	\$147,874	\$151,453
Earnings per common share — Basic:			
Net income per share	\$3.18	\$1.88	\$1.92
Earnings per common share — Diluted:			
Net income per share	\$3.17	\$1.87	\$1.92
Dividends declared per share	\$1.14	\$1.06	\$0.98

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





**Aircastle Limited and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**(Dollars in thousands)**

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net income	\$247,919	\$147,874	\$151,453
Other comprehensive income, net of tax:			
Net change in fair value of derivatives, net of tax expense of \$0 for all periods presented	—	—	(1 )
Net derivative loss reclassified into earnings	1,166	2,202	9,662
Other comprehensive income	1,166	2,202	9,661
 Total comprehensive income	 \$249,085	 \$150,076	 \$161,114

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

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**Aircastle Limited and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(Dollars in thousands)

	Year Ended December 31,		
	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net income	\$247,919	\$147,874	\$151,453
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	310,850	298,664	305,216
Amortization of deferred financing costs	14,627	19,435	18,508
Amortization of lease premiums, discounts and incentives	15,269	11,714	10,353
Deferred income taxes	(496)	(8,948)	6,156
Non-cash share-based payment expense	11,488	13,148	7,901
Cash flow hedges reclassified into earnings	1,166	2,202	9,662
Security deposits and maintenance payments included in earnings	(80,628)	(17,947)	(23,123)
Gain on the sale of flight equipment	(36,766)	(55,167)	(39,126)
Impairment of aircraft	—	80,430	28,585
Other	3,032	1,476	(6,867)
Changes on certain assets and liabilities:			
Accounts receivable	(12,328)	(6,734)	832
Other assets	5,065	(7,655)	(1,089)
Accounts payable, accrued expenses and other liabilities	10,526	13,857	(4,014)
Lease rentals received in advance	32,868	(1,478)	3,645
Net cash and restricted cash provided by operating activities	522,592	490,871	468,092
<b>Cash flows from investing activities:</b>			
Acquisition and improvement of flight equipment	(1,317,497)	(1,038,343)	(1,331,059)
Proceeds from sale of flight equipment	338,831	833,576	755,898
Net investment in finance and sales-type leases	(15,783)	(331,721)	(78,892)
Collections on finance and sales-type leases	29,961	32,184	19,413
Aircraft purchase deposits and progress payments, net of returned deposits and aircraft sales deposits	(15,494)	(7,681)	(9,628)
Unconsolidated equity method investment and associated costs	(3,350)	—	(18,048)
Other	8,645	(5,122)	(839)
Net cash and restricted cash used in investing activities	(974,687)	(517,107)	(663,155)
<b>Cash flows from financing activities:</b>			
Repurchase of shares	(71,421)	(4,862)	(37,337)
Proceeds from secured and unsecured debt financings	1,413,901	675,000	1,054,250
Repayments of secured and unsecured debt financings	(969,139)	(878,534)	(588,778)
Deferred financing costs	(11,642)	(8,540)	(18,890)
Restricted secured liquidity facility collateral	—	—	65,000
Liquidity facility	—	—	(65,000)
Security deposits and maintenance payments received	203,925	192,830	171,672
Security deposits and maintenance payments returned	(90,803)	(141,185)	(51,658)
Dividends paid	(88,730)	(83,433)	(77,137)
Other	—	—	(2,283)
Net cash and restricted cash provided by (used in) financing activities	386,091	(248,724)	449,839
<b>Net (decrease) increase in cash and restricted cash</b>	<b>(66,004)</b>	<b>(274,960)</b>	<b>254,776</b>

Cash and restricted cash at beginning of year	233,857	508,817	254,041
Cash and restricted cash at end of year	\$167,853	\$233,857	\$508,817

**Aircastle Limited and Subsidiaries**  
**Consolidated Statements of Cash Flows (Continued)**  
(Dollars in thousands)

	Year Ended December 31,		
	2018	2017	2016
<b>Reconciliation to Consolidated Balance Sheets:</b>			
Cash and cash equivalents	\$152,719	\$211,922	\$455,579
Restricted cash and cash equivalents	15,134	21,935	53,238
Unrestricted and restricted cash and cash equivalents	\$167,853	\$233,857	\$508,817
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for interest	\$214,350	\$228,125	\$224,705
Cash paid during the year for income taxes	\$6,254	\$4,576	\$16,693
<b>Supplemental disclosures of non-cash investing activities:</b>			
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets settled in sale of flight equipment	\$71,837	\$132,585	\$75,335
Advance lease rentals, security deposits, maintenance payments, other liabilities and other assets assumed in asset acquisitions	\$63,432	\$149,100	\$202,808
Transfers from Flight equipment held for lease to Net investment in finance and sales-type leases and Other assets	\$11,202	\$154,213	\$142,950

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

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**Aircastle Limited and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**(Dollars in thousands, except share amounts)**

	Common Shares	Additional	Retained	Accumulated	Total	
	Shares	Paid-In	Earnings	Other	Shareholders'	
	Amount	Capital	(Deficit)	Comprehensive	Equity	
				Income (Loss)		
Balance, December 31, 2015	80,232,260	\$ 802	\$ 1,550,337	\$ 241,574	\$ (13,213 )	\$ 1,779,500
Issuance of common shares to directors and employees	317,501	3	(3 )	—	—	—
Repurchase of common shares from stockholders, directors and employees	(1,956,628 )	(19 )	(37,318 )	—	—	(37,337 )
Amortization of share-based payments	—	—	7,901	—	—	7,901
Excess tax benefit from stock based compensation	—	—	273	—	—	273
Dividends declared	—	—	—	(77,137 )	—	(77,137 )
Net income	—	—	—	151,453	—	151,453
Net change in fair value of derivatives, net of \$0 tax expense	—	—	—	—	(1 )	(1 )
Net derivative loss reclassified into earnings	—	—	—	—	9,662	9,662
Balance, December 31, 2016	78,593,133	786	1,521,190	315,890	(3,552 )	1,834,314
Issuance of common shares to stockholders, directors and employees	344,017	3	(3 )	—	—	—
Repurchase of common shares from stockholders, directors and employees	(229,187 )	(2 )	(4,860 )	—	—	(4,862 )
Amortization of share-based payments	—	—	11,469	—	—	11,469
Dividends declared	—	—	—	(83,433 )	—	(83,433 )
Net income	—	—	—	147,874	—	147,874
Net derivative loss reclassified into earnings	—	—	—	—	2,202	2,202
Balance, December 31, 2017	78,707,963	787	1,527,796	380,331	(1,350 )	1,907,564
Issuance of common shares to stockholders, directors and employees	423,202	4	(4 )	—	—	—
Repurchase of common shares from stockholders, directors and employees	(3,676,654 )	(37 )	(71,384 )	—	—	(71,421 )
Amortization of share-based payments	—	—	10,523	—	—	10,523
Reclassification of prior year director stock award liability	—	—	1,848	—	—	1,848
Dividends declared	—	—	—	(88,730 )	—	(88,730 )
Net income	—	—	—	247,919	—	247,919
Adoption of accounting standard	—	—	—	(188 )	—	(188 )
Net derivative loss reclassified into earnings	—	—	—	—	1,166	1,166
Balance, December 31, 2018	75,454,511	\$ 754	\$ 1,468,779	\$ 539,332	\$ (184 )	\$ 2,008,681

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

**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**

(Dollars in thousands, except per share amounts)

**Note 1. Summary of Significant Accounting Policies**

**Organization and Basis of Presentation**

Aircastle Limited (“Aircastle,” the “Company,” “we,” “us” or “our”) is a Bermuda exempted company that was incorporated on October 29, 2004 under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle’s business is investing in aviation assets, including acquiring, leasing, managing and selling high-utility commercial jet aircraft.

Aircastle is a holding company that conducts its business through subsidiaries. Aircastle directly or indirectly owns all of the outstanding common shares of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The Company manages, analyzes and reports on its business and results of operations on the basis of one operating segment: leasing, financing, selling and managing commercial flight equipment. Our chief executive officer is the chief operating decision maker.

Effective January 1, 2018, the Company adopted FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and related updates. Lease contracts within the scope of Accounting Standards Codification (“ASC”) 840, *Leases*, are specifically excluded from ASU No. 2014-09. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The update is applied using the modified retrospective approach. The standard did not have a material impact on our consolidated financial statements and related disclosures; however, as part of the Company’s adoption of this standard, we have reclassified Gain on sale of flight equipment from Other income (expense) to Revenues on our Consolidated Statements of Income for the year ended December 31, 2018. We believe this better reflects the sale of flight equipment as part of our ordinary activities and conforms our presentation to those of our publicly traded peers. The presentation for the years ended December 31, 2017, 2016, 2015 and 2014 have also been reclassified to conform to the current period presentation:

	Year Ended December 31,			
	2017	2016	2015	2014
Total revenues as previously reported	\$796,620	\$772,958	\$819,202	\$818,602
Gain on sale of flight equipment	55,167	39,126	58,017	23,146
Total revenues	\$851,787	\$812,084	\$877,219	\$841,748

The Company’s management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of December 31, 2018 through the date on which the consolidated financial statements included in this Form 10-K were issued.

Effective January 1, 2018, the Company adopted FASB ASU No. 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. The standard clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The update is applied using a retrospective transition method to each period presented. The standard did not have a material impact on our consolidated financial statements and related disclosures.

Effective January 1, 2018, the Company adopted FASB ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting*. The standard clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. In addition, when applicable, disclosure is required to indicate that compensation expense has not changed. The update is applied using a prospective transition method to each period presented. The standard did not have a material impact on our consolidated financial statements and related disclosures.





**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

**Principles of Consolidation**

The consolidated financial statements include the accounts of Aircastle and all of its subsidiaries. Aircastle consolidates four Variable Interest Entities (“VIEs”) of which Aircastle is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

We consolidate VIEs in which we have determined that we are the primary beneficiary. We use judgment when deciding (a) whether an entity is subject to consolidation as a VIE, (b) who the variable interest holders are, (c) the potential expected losses and residual returns of the variable interest holders, and (d) which variable interest holder is the primary beneficiary. When determining which enterprise is the primary beneficiary, we consider (1) the entity’s purpose and design, (2) which variable interest holder has the power to direct the activities that most significantly impact the entity’s economic performance, and (3) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. When certain events occur, we reconsider whether we are the primary beneficiary of VIEs. We do not reconsider whether we are a primary beneficiary solely because of operating losses incurred by an entity.

**Risk and Uncertainties**

In the normal course of business, Aircastle encounters several significant types of economic risk including credit, market, aviation industry and capital market risks. Credit risk is the risk of a lessee’s inability or unwillingness to make contractually required payments and to fulfill its other contractual obligations. Market risk reflects the change in the value of financings due to changes in interest rate spreads or other market factors, including the value of collateral underlying financings. Aviation industry risk is the risk of a downturn in the commercial aviation industry which could adversely impact a lessee’s ability to make payments, increase the risk of unscheduled lease terminations and depress lease rates and the value of the Company’s aircraft. Capital market risk is the risk that the Company is unable to obtain capital at reasonable rates to fund the growth of our business or to refinance existing debt facilities.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. While Aircastle believes that the estimates and related assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

**Cash and Cash Equivalents and Restricted Cash and Cash Equivalents**

Aircastle considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Restricted cash and cash equivalents consists primarily of rent collections, maintenance payments and security deposits received from lessees pursuant to the terms of various lease agreements held in lockbox accounts in accordance with our financings.

Virtually all of our cash and cash equivalents and restricted cash and cash equivalents are held or managed by three major financial institutions.

**Flight Equipment Held for Lease and Depreciation**

Flight equipment held for lease is stated at cost and depreciated using the straight-line method, typically over a 25-year life from the date of manufacture for passenger aircraft and over a 30 to 35-year life for freighter aircraft, depending on whether the aircraft is a converted or purpose-built freighter, to estimated residual values. Estimated residual values are generally determined to be approximately 15% of the manufacturer’s estimated realized price for passenger aircraft when new and 5% to 10% for freighter aircraft when new. Management may make exceptions to this policy on a case-by-case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of value. Examples of situations where exceptions may arise include but are not limited to:



**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

flight equipment where estimates of the manufacturer's realized sales prices are not relevant (e.g., freighter conversions);

flight equipment where estimates of the manufacturer's realized sales prices are not readily available; and  
flight equipment which may have a shorter useful life due to obsolescence.

Major improvements and modifications incurred in connection with the acquisition of aircraft that are required to get the aircraft ready for initial service are capitalized and depreciated over the remaining life of the flight equipment.

For planned major maintenance activities for aircraft off-lease, the Company capitalizes the actual maintenance costs by applying the deferral method. Under the deferral method, we capitalize the actual cost of major maintenance events, which are depreciated on a straight-line basis over the period until the next maintenance event is required.

In accounting for flight equipment held for lease, we make estimates about the expected useful lives, the fair value of attached leases, acquired maintenance assets or liabilities and the estimated residual values. In making these estimates, we rely upon actual industry experience with the same or similar aircraft types and our anticipated lessee's utilization of the aircraft.

For purchase and lease back transactions, we account for the transaction as a single arrangement. We allocate the consideration paid based on the fair value of the aircraft and lease. The fair value of the lease may include a maintenance premium and a lease premium or discount.

When we acquire an aircraft with a lease, determining the fair value of attached leases requires us to make assumptions regarding the current fair values of leases for specific aircraft. We estimate a range of current lease rates of like aircraft in order to determine if the attached lease is within a fair value range. If a lease is below or above the range of current lease rates, we present value the estimated amount below or above the fair value range over the remaining term of the lease. The resulting lease discount or premium is amortized into lease rental income over the remaining term of the lease.

**Impairment of Flight Equipment**

We perform a recoverability assessment of all aircraft in our fleet, on an aircraft-by-aircraft basis annually during the second quarter. In addition, a recoverability assessment is performed whenever events or changes in circumstances, or indicators, suggest that the carrying amount or net book value of an asset may not be recoverable. Indicators may include, but are not limited to, a significant lease restructuring or early lease termination, significant change in aircraft model's storage levels, the introduction of newer technology aircraft or engines, an aircraft type is no longer in production or a significant airworthiness directive is issued. When we perform a recoverability assessment, we measure whether the estimated future undiscounted net cash flows expected to be generated by the aircraft exceed its net book value. The undiscounted cash flows consist of cash flows from currently contracted lease rental and maintenance payments, future projected lease rates, transition costs, estimated down time, estimated residual or scrap values for an aircraft, economic conditions and other factors. In the event that an aircraft does not meet the recoverability test, the aircraft will be adjusted to fair value, resulting in an impairment charge. See Note 2 — Fair Value Measurements.

Management develops the assumptions used in the recoverability analysis based on current and future expectations of the global demand for a particular aircraft type and historical experience in the aircraft leasing market and aviation industry, as well as information received from third party industry sources. The factors considered in estimating the undiscounted cash flows are impacted by changes in future periods due to changes in projected lease rental and maintenance payments, residual values, economic conditions, technology, airline demand for a particular aircraft type and other factors.

In monitoring the aircraft in our fleet for impairment charges, we identify those aircraft that are most susceptible to failing the recoverability assessment and monitor those aircraft more closely, which may result in more frequent recoverability assessments. The recoverability in the value of these aircraft is more sensitive to changes in contractual cash flows, future cash flow estimates and residual values or scrap values for each aircraft. These are typically older

aircraft for which lessee demand is declining.

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**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

**Net Investment in Finance and Sales-Type Leases**

If a lease meets specific criteria at the inception or at any lease modification date, we recognize the lease as a Net investment in finance and sales-type leases on our Consolidated Balance Sheets. For sales-type leases, we recognize the difference between the net book value of the aircraft and the Net investment in finance and sales-type leases as a gain or loss on sale of flight equipment, less any initial direct costs and lease incentives. The Net investment in finance and sales-type leases consists of lease receivables, less the unearned income, plus the estimated unguaranteed residual value of the leased flight equipment at the lease end date. The unearned income is recognized as Finance and sales-type lease revenue in our Consolidated Statements of Income over the lease term in a manner that produces a constant rate of return on the Net investment in finance and sales-type leases.

Collectability of finance and sales-type leases is evaluated periodically on an individual customer level. The evaluation of the collectability of the finance and sales-type leases considers the credit of the lessee and the value of the underlying aircraft. An allowance for credit losses is established if there is evidence that we will be unable to collect all amounts due according to the original contractual terms of the Net investment in finance and sales-type leases. At December 31, 2018, we had no allowance for credit losses for our Net investment in finance and sales-type leases. When collectability is not reasonably assured, the customer is placed on non-accrual status, and revenue is recognized when cash payments are received.

**Unconsolidated Equity Method Investment**

Aircastle accounts for its interest in an unconsolidated joint venture using the equity method as we do not control the joint venture entity. Under the equity method, the investment is initially recorded at cost and the carrying amount is affected by its share of the unconsolidated joint venture's undistributed earnings and losses, and distributions of dividends and capital. The investment may also reflect an equity loss in the event that circumstances indicate an other-than-temporary impairment.

**Security Deposits**

Most of our operating leases require the lessee to pay Aircastle a security deposit or provide a letter of credit. Security deposits represent cash received from the lessee that is held on deposit until lease expiration. Aircastle's operating leases also obligate the lessees to maintain flight equipment and comply with all governmental requirements applicable to the flight equipment, including without limitation, operational, maintenance, registration requirements and airworthiness directives.

**Maintenance Payments**

Typically, under an operating lease, the lessee is responsible for performing all maintenance but they may also be required to make payments to us for heavy maintenance, overhaul or replacement of certain high-value components of the aircraft. These maintenance payments are based on hours or cycles of utilization or on calendar time, depending upon the component, and are required to be made monthly in arrears or at the end of the lease term. Whether to permit a lessee to make maintenance payments at the end of the lease term, rather than requiring such payments to be made monthly, depends on a variety of factors, including the creditworthiness of the lessee, the level of security deposit which may be provided by the lessee and market conditions at the time we enter into the lease. If a lease requires monthly maintenance payments, we would typically be obligated to reimburse the lessee for costs they incur for heavy maintenance, overhaul or replacement of certain high-value components to the extent of maintenance payments received in respect of the specific maintenance event, usually shortly following completion of the relevant work. If a lease requires end of lease term maintenance payments, typically the lessee would be required to pay us for its utilization of the aircraft during the lease; however, in some cases, we may owe a net payment to the lessee in the event heavy maintenance is performed and paid for by the lessee during the lease term and the aircraft is returned to us in better condition than at lease inception.

We record monthly maintenance payments by the lessee as accrued maintenance payments liabilities in recognition of our contractual commitment to refund such receipts. In these contracts, we typically do not recognize such

maintenance payments as maintenance revenue during the lease. Reimbursements to the lessee upon the receipt of evidence of qualifying maintenance work are charged against the existing accrued maintenance payments liability. We currently defer maintenance revenue recognition of most monthly maintenance payments collected until the end of the lease, when we are able to determine the amount, if any, by which the monthly maintenance payments received from a lessee exceed costs to be incurred by that

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**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

lessee in performing heavy maintenance. End of lease term maintenance payments made to us are recognized as maintenance revenue, and end of lease term maintenance payments we make to a lessee are recorded as contra maintenance revenue.

**Lease Incentives and Amortization**

Many of our leases contain provisions which may require us to pay a portion of the lessee's costs for heavy maintenance, overhaul or replacement of certain high-value components. We account for these expected payments as lease incentives, which are amortized as a reduction of revenue over the life of the lease. We estimate the amount of our portion for such costs, typically for the first major maintenance event for the airframe, engines, landing gear and auxiliary power units, expected to be paid to the lessee based on assumed utilization of the related aircraft by the lessee, the anticipated amount of the maintenance event cost and the estimated amounts the lessee is responsible to pay.

This estimated lease incentive is not recognized as a lease incentive liability at the inception of the lease. We recognize the lease incentive as a reduction of lease revenue on a straight-line basis over the life of the lease, with the offset being recorded as a lease incentive liability which is included in maintenance payments on the balance sheet. The payment to the lessee for the lease incentive liability is first recorded against the lease incentive liability, and any excess above the lease incentive liability is recorded as a prepaid lease incentive asset, which is included in other assets on the balance sheet and continues to amortize over the remaining life of the lease.

Lease acquisition costs related to reconfiguration of the aircraft cabin, other lessee specific modifications and other direct costs are capitalized and amortized into revenue over the initial life of the lease, assuming no lease renewals, and are included in other assets.

**Income Taxes**

Aircastle uses an asset and liability based approach in accounting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement and tax basis of existing assets and liabilities using enacted rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount estimated by us to be realizable. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits.

**Lease Revenue Recognition**

We lease flight equipment under net operating leases with lease terms typically ranging from three to seven years. We generally do not offer renewal terms or purchase options in our leases, although certain of our operating leases allow the lessee the option to extend the lease for an additional term. Operating leases with fixed rentals and step rentals are recognized on a straight-line basis over the term of the initial lease, assuming no renewals. Operating lease rentals that adjust based on a London Interbank Offered Rate ("LIBOR") index are recognized on a straight-line basis over the period the rentals are fixed and accruable. Revenue is not recognized when collection is not reasonably assured. When collectability is not reasonably assured, the customer is placed on non-accrual status, and revenue is recognized when cash payments are received.

**Comprehensive Income**

Comprehensive income consists of net income and other gains and losses, net of income taxes, if any, affecting shareholders' equity that, under U.S. GAAP, are excluded from net income.

**Share-Based Compensation**

Aircastle recognizes compensation cost relating to share-based payment transactions in the financial statements based on the fair value of the equity instruments issued. Aircastle uses the straight-line method of accounting for compensation cost on share-based payment awards that contain pro-rata vesting provisions.





**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

**Deferred Financing Costs**

Deferred financing costs, which are included in borrowings from secured and unsecured financings, net of debt issuance costs, in the Consolidated Balance Sheets, are amortized using the interest method for amortizing loans over the lives of the relevant related debt.

**Recent Accounting Pronouncements**

On February 25, 2016, the FASB issued ASC 842, *Leases* (“ASC 842”) which, together with all subsequent amendments, replaced the existing guidance in ASC 840, *Leases* (“ASC 840”). The accounting for leases by lessors basically remained unchanged from the concepts that existed in ASC 840 accounting. The FASB decided that lessors would be precluded from recognizing selling profit and revenue at lease commencement for any sales-type or direct finance lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the revenue recognition standard, which evaluates whether a sale has occurred from the customer’s perspective.

The most significant among the changes in ASC 842 is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP, existing at, or entered into after, January 1, 2019. The standard will be effective for reporting periods beginning after December 15, 2018. We plan to adopt the standard on its required effective date of January 1, 2019, using the required “modified retrospective” approach and the available practical expedients. We have evaluated the impact of ASC 842 and have determined the standard will not have a material impact on our consolidated financial statements and related disclosures. We do not believe that the adoption of the standard will significantly impact our existing or potential lessees’ economic decisions to lease aircraft.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* and related updates. The standard affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The standard replaces today’s incurred loss model with an expected loss model that requires entities to consider a broader range of information to estimate expected credit losses over the lifetime of the asset. Under the new standard, an allowance for credit losses is recorded which represents amounts not expected to be collected. The standard is applied on a modified retrospective approach. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as early as the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are in the process of determining the impact the standard will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. The standard modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of determining the impact the standard will have on our related disclosures.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use-software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. We are in the process of determining the impact the standard will have on our consolidated financial

statements and related disclosures.

In October 2018, the FASB issued ASU No. 2018-17, *Consolidation (Topic 810), Targeted Improvements to Related Party Guidance for Variable Interest Entities*. The standard changes how all entities evaluate decision-making fees under the variable interest entity guidance. The standard is applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The standard is effective for annual periods beginning after

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**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**

(Dollars in thousands, except per share amounts)

December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are in the process of determining the impact the standard will have on our consolidated financial statements and related disclosures.

**Note 2. Fair Value Measurements**

Fair value measurements and disclosures require the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants price the asset or liability.

The valuation techniques that may be used to measure fair value are as follows:

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The income approach uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.

The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

The following tables set forth our financial assets and liabilities as of December 31, 2018 and 2017 that we measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

	Fair Value as of December 31, 2018	Fair Value Measurements at December 31, 2018 Using Fair Value Hierarchy			Valuation Technique
		Level 1	Level 2	Level 3	
<b>Assets:</b>					
Cash and cash equivalents	\$ 152,719	\$ 152,719	\$—	\$—	Market
Restricted cash and cash equivalents	15,134	15,134	—	—	Market
Derivative assets	4,886	—	4,886	—	Market
Total	\$ 172,739	\$ 167,853	\$ 4,886	\$—	

	Fair Value as of December 31, 2017	Fair Value Measurements at December 31, 2017 Using Fair Value Hierarchy			Valuation Technique
		Level 1	Level 2	Level 3	
<b>Assets:</b>					
Cash and cash equivalents	\$ 211,922	\$ 211,922	\$—	\$—	Market
Restricted cash and cash equivalents	21,935	21,935	—	—	Market
Derivative assets	3,254	—	3,254	—	Market
Total	\$ 237,111	\$ 233,857	\$ 3,254	\$—	

Our cash and cash equivalents, along with our restricted cash and cash equivalents balances, consist largely of money market securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy. Our interest rate derivative included in Level 2 consists of United States dollar-denominated interest rate cap, and its fair value is based on the market comparisons for similar instruments. We also considered the credit rating and risk of the counterparty providing the interest rate cap based on quantitative and qualitative factors.



**Aircastle Limited and Subsidiaries**  
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*(Dollars in thousands, except per share amounts)*

For the years ended December 31, 2018 and 2017, we had no transfers into or out of Level 3.

We measure the fair value of certain assets and liabilities on a non-recurring basis, when U.S. GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include our investment in unconsolidated joint ventures and aircraft. We account for our investment in unconsolidated joint ventures under the equity method of accounting and record impairment when its fair value is less than its carrying value. We record aircraft at fair value when we determine the carrying value may not be recoverable. Fair value measurements for aircraft in impairment tests are based on an income approach which uses Level 3 inputs, which include the Company's assumptions and appraisal data as to future cash proceeds from leasing and selling aircraft.

Our investments in joint ventures are valued using the equity method. Investments are recorded at cost and are adjusted by undistributed earnings and losses and the distributions of dividends and capital. These investments are also reviewed whenever events or circumstances indicate other-than-temporary impairments.

**Aircraft Valuation**

*Transactional Impairments*

We did not record any transactional impairments during 2018. During 2017, we entered into agreements to sell two Boeing 747-400 production freighter aircraft at the end of their respective leases and one older Boeing 747-400 converted freighter aircraft to its lessee, resulting in impairment charges totaling \$79,234, partially offset by maintenance revenue of \$13,520. During 2017, we sold one of the production freighters and the one converted freighter. The agreement to sell the other production freighter was terminated and this aircraft remains on lease.

*Annual Recoverability Assessment*

We completed our annual recoverability assessment of our aircraft in the second quarter of 2018. We also performed aircraft-specific analyses where there were changes in circumstances, such as approaching lease expirations. No impairments were recorded as a result of our annual recoverability assessment.

The recoverability assessment is a comparison of the carrying value of each aircraft to its undiscounted expected future cash flows. We develop the assumptions used in the recoverability assessment, including those relating to current and future demand for each aircraft type, based on management's experience in the aircraft leasing industry, as well as information received from third-party sources. Estimates of the undiscounted cash flows for each aircraft type are impacted by changes in contracted and future expected lease rates, residual values, expected scrap values, economic conditions and other factors.

Management believes that the net book value of each aircraft is currently supported by the estimated future undiscounted cash flows expected to be generated by that aircraft, and accordingly, no aircraft were impaired as a consequence of our annual recoverability assessment. However, if our estimates or assumptions change, we may revise our cash flow assumptions and record future impairment charges. While we believe that the estimates and related assumptions used in the annual recoverability assessment are appropriate, actual results could differ from those estimates.

**Financial Instruments**

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable, amounts borrowed under financings and interest rate derivatives. The fair value of cash, cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short-term nature.

The fair values of our ECA Financings (as described in Note 6 — Variable Interest Entities below) and other secured bank financings are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our senior notes is estimated using quoted market prices.



**Aircastle Limited and Subsidiaries**  
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The carrying amounts and fair values of our financial instruments at December 31, 2018 and 2017 are as follows:

	December 31, 2018		December 31, 2017	
	Carrying Amount of Liability	Fair Value of Liability	Carrying Amount of Liability	Fair Value of Liability
Credit Facilities	\$425,000	\$425,000	\$175,000	\$175,000
Unsecured Term Loan	120,000	120,000	120,000	120,000
ECA Financings	189,080	190,216	227,491	232,030
Bank Financings	619,715	623,604	635,443	634,132
Senior Notes	3,450,000	3,446,826	3,200,000	3,367,245

All of our financial instruments are classified as Level 2 with the exception of our senior notes, which are classified as Level 1.

**Note 3. Lease Rental Revenues and Flight Equipment Held for Lease**

Minimum future annual lease rentals contracted to be received under our existing operating leases of flight equipment at December 31, 2018 were as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2019	\$712,286
2020	611,647
2021	502,508
2022	417,322
2023	354,525
Thereafter	512,783
Total	\$3,111,071

The classification of regions in the tables below is determined based on the principal location of the lessee of each aircraft.

Geographic concentration of lease rental revenue earned from flight equipment held for lease was as follows:

<u>Region</u>	<u>Year Ended December 31,</u>					
	2018		2017		2016	
Asia and Pacific	36 %	37 %	40 %			
Europe	28 %	24 %	23 %			
Middle East and Africa	11 %	12 %	12 %			
North America	9 %	8 %	6 %			
South America	16 %	19 %	19 %			
Total	100 %	100 %	100 %			

The following table shows the number of lessees with lease rental revenue of at least 5% and their combined total percentage of lease rental revenue for the years indicated:

<u>Year Ended December 31,</u>	2018		2017		2016	
	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue	Number of Lessees	Combined % of Lease Rental Revenue
Largest lessees by lease rental revenue	3	18%	4	24%	4	25%





**Aircastle Limited and Subsidiaries**  
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The following table sets forth revenue attributable to individual countries representing at least 10% of total revenue (including maintenance revenue) in any year based on each lessee's principal place of business for the years indicated:

<u>Year Ended December 31, 2018</u>	2018		2017		2016	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
Brazil <sup>(1)</sup>	\$ 116,527	13%	\$ —	—%	\$ —	—%
Indonesia <sup>(2)</sup>	—	—%	—	—%	83,087	8%

(1) For the year ended December 31, 2018, total revenue included \$72,242 of maintenance revenue related to early lease terminations with Avianca Brazil. Total revenue attributable to Brazil was less than 10% for the years ended December 31, 2017 and 2016.

(2) Total revenue attributable to Indonesia was less than 10% for the years ended December 31, 2018 and 2017.

Geographic concentration of net book value of flight equipment (including flight equipment held for lease and net investment in finance and sales-type leases, or "net book value") was as follows:

<u>Region</u>	December 31, 2018			December 31, 2017		
	Number of Aircraft	Net Book Value	%	Number of Aircraft	Net Book Value	%
Asia and Pacific	78	36	%	59	30	%
Europe	87	27	%	92	32	%
Middle East and Africa	17	8	%	15	9	%
North America	35	10	%	32	10	%
South America	16	10	%	25	19	%
Off-lease	15 <sup>(1)</sup>	9	%	1 <sup>(2)</sup>	—	%
Total	248	100	%	224	100	%

(1) Consisted of eleven Airbus A320-200 aircraft and two Airbus A330-200 aircraft which we are marketing for lease or sale, and one Boeing B737-800 along with one Boeing B777-300ER aircraft, which are subject to lease commitments.

(2) Consisted of one Airbus A321-200 aircraft, which was delivered on lease to a customer during the second quarter of 2018.

The following table sets forth net book value attributable to individual countries representing at least 10% of net book value based on each lessee's principal place of business as of:

<u>Region</u>	December 31, 2018			December 31, 2017		
	Net Book Value	Net Book Value %	Number of Lessees	Net Book Value	Net Book Value %	Number of Lessees
India	\$ 865,046	12%	4	\$ —	—%	—

At December 31, 2018 and 2017, the amounts of lease incentive liabilities recorded in maintenance payments on the Consolidated Balance Sheets were \$15,636 and \$11,496, respectively.



**Aircastle Limited and Subsidiaries**  
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**Note 4. Net Investment in Finance and Sales-Type Leases**

At December 31, 2018, our net investment in finance and sales-type leases consisted of 29 aircraft. The following table lists the components of our net investment in finance and sales-type leases at December 31, 2018:

	<b>Amount</b>
Total lease payments to be received	\$236,993
Less: Unearned income	(118,936 )
Estimated residual values of leased flight equipment (unguaranteed)	351,123
Net investment in finance and sales-type leases	\$469,180

At December 31, 2018, minimum future lease payments on finance and sales-type leases are as follows:

<b><u>Year Ending December 31,</u></b>	<b>Amount</b>
2019	\$60,751
2020	58,320
2021	48,036
2022	37,540
2023	28,533
Thereafter	3,813
Total lease payments to be received	\$236,993

**Note 5. Unconsolidated Equity Method Investment**

We have joint ventures with an affiliate of Ontario Teachers' Pension Plan ("Teachers'") and with the leasing arm of the Industrial Bank of Japan, Limited.

At December 31, 2018, the net book value of both joint ventures' thirteen aircraft was \$601,652.

	<b>Amount</b>
Investment in joint ventures at December 31, 2016	\$72,977
Investment in joint ventures	2,994
Earnings from joint ventures, net of tax	7,611
Distributions	(6,600 )
Investment in joint ventures at December 31, 2017	76,982
Investment in joint ventures	4,115
Loss from joint ventures, net of tax	(8,086 )
Distributions	(3,900 )
Investment in joint ventures at December 31, 2018	\$69,111

The Company has recorded in its Consolidated Balance Sheet a \$13,565 guarantee liability in Maintenance payments and a \$5,100 guarantee liability in Security deposits representing its share of the respective exposures. As of December 31, 2018, Teachers' stated its intention, as majority shareholder, to liquidate all assets of its joint venture with the Company. Accordingly, we recognized our share of the undistributed loss in this joint venture of \$9,041 during the year ended December 31, 2018, the loss of which is attributable to fair value adjustments recorded by the joint venture and anticipated liquidation costs.

In December of 2018, we sold one aircraft to IBJ Air, in which we hold a 25% equity interest. This transaction was approved by our Audit Committee as an arm's length transaction under our related party policy.



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**Note 6. Variable Interest Entities**

Aircastle consolidates four VIEs of which it is the primary beneficiary. The operating activities of these VIEs are limited to acquiring, owning, leasing, maintaining, operating and, under certain circumstances, selling the six aircraft discussed below.

*ECA Financings*

Aircastle, through various subsidiaries, each of which is owned by a charitable trust (such entities, collectively the “Air Knight VIEs”), has entered into six different twelve-year term loans, which are supported by guarantees from Compagnie Francaise d’ Assurance pour le Commerce Extérieur (“COFACE”), the French government sponsored export credit agency (“ECA”). We refer to these COFACE-supported financings as “ECA Financings.”

Aircastle is the primary beneficiary of the Air Knight VIEs, as we have the power to direct the activities of the VIEs that most significantly impact the economic performance of such VIEs and we bear the significant risk of loss and participate in gains through a finance lease. The activity that most significantly impacts the economic performance is the leasing of aircraft of which our wholly owned subsidiary is the servicer and is responsible for managing the relevant aircraft. There is a cross collateralization guarantee between the Air Knight VIEs. In addition, Aircastle guarantees the debt of the Air Knight VIEs.

The only assets that the Air Knight VIEs have on their books are financing leases that are eliminated in the consolidated financial statements. The related aircraft, with a net book value as of December 31, 2018 of \$394,767, were included in our flight equipment held for lease. The consolidated debt outstanding, net of debt issuance costs, of the Air Knight VIEs as of December 31, 2018 is \$185,384.

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**Note 7. Borrowings from Secured and Unsecured Debt Financings**

The outstanding amounts of our secured and unsecured term debt financings were as follows:

<u>Debt Obligation</u>	At December 31, 2018			At	Outstanding Borrowings
	Outstanding Borrowings	Number of Aircraft	Interest Rate	December 31, 2017	
<b>Secured Debt Financings:</b>					
ECA Financings <sup>(1)</sup>	\$ 189,080	6	3.02% to 3.96%	12/03/21 to 11/30/24	\$ 227,491
Bank Financings <sup>(2)</sup>	619,715	25	2.27% to 5.03%	06/12/19 to 01/19/26	635,443
Less: Debt Issuance Costs	(10,338 )				(13,060 )
Total secured debt financings, net of debt issuance costs and discounts	798,457	31			849,874
<b>Unsecured Debt Financings:</b>					
Senior Notes due 2018	—		4.625%	12/15/18	400,000
Senior Notes due 2019	500,000		6.250%	12/01/19	500,000
Senior Notes due 2020	300,000		7.625%	04/15/20	300,000
Senior Notes due 2021	500,000		5.125%	03/15/21	500,000
Senior Notes due 2022	500,000		5.500%	02/15/22	500,000
Senior 5.00% Notes due 2023	500,000		5.000%	04/01/23	500,000
Senior 4.40% Notes due 2023	650,000		4.400%	09/25/23	—
Senior Notes due 2024	500,000		4.125%	05/01/24	500,000
Unsecured Term Loan	120,000		4.337%	04/28/19	120,000
Revolving Credit Facilities	425,000		4.006%	12/27/21 to 06/27/22	175,000
Less: Debt issuance costs and discounts	(32,104 )				(31,268 )
Total unsecured debt financings, net of debt issuance costs and discounts	3,962,896				3,463,732
Total secured and unsecured debt financings, net of debt issuance costs and discounts	\$ 4,761,353				\$ 4,313,606

(1) The borrowings under these financings at December 31, 2018 have a weighted-average rate of interest of 3.58%.

(2) The borrowings under these financings at December 31, 2018 have a weighted-average fixed rate of interest of 4.73%.

**Secured Debt Financing:**

*Bank Financings*

On October 11, 2018, we entered into a full recourse \$115,000 secured bank financing with National Bank of Australia in relation to five Boeing 737-800 aircraft on lease with a customer in North America. This financing bears interest at a fixed rate of 4.55% and matures in December 2024.

**Unsecured Debt Financings:**

*Senior 4.40% Notes due 2023*

On September 25, 2018, Aircastle issued \$650,000 aggregate principal amount of Senior Notes due 2023 (the "Senior 4.40% Notes due 2023") at an issue price of 99.831%. The Senior 4.40% Notes due 2023 will mature on September 25, 2023 and bear interest at the rate of 4.40% per annum, payable semi-annually on March 25 and September 25 of each year, commencing on March 25, 2019. Interest accrues on the Senior 4.40% Notes due 2023 from September 25, 2018.





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Prior to August 25, 2023, we may redeem all or part of the aggregate principal amount of the Senior 4.40% Notes due 2023 at any time at a redemption price equal to the greater of (a) 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest thereon to, but not including, the redemption date and (b) the sum of the present values of 100% of the principal amount of the notes redeemed and the remaining scheduled payments of interest on the notes from the redemption date through August 25, 2023 (computed using a discount rate equal to the Treasury Rate (as defined in the indenture governing the Senior 4.40% Notes due 2023) as of such redemption date plus 0.25%). In addition, on or after August 25, 2023, we may redeem all or part of the aggregate principal amount of the Senior 4.40% Notes due 2023 at a redemption price equal to 100%, plus accrued and unpaid interest thereon to, but not including, the redemption date. If the Company undergoes a change of control (as defined in the indenture governing the Senior 4.40% Notes due 2023) and, as a result of the change of control, the rating of the Senior 4.40% Notes due 2023 is downgraded to below an investment grade rating by certain rating agencies in the manner specified in the indenture governing the Senior 4.40% Notes due 2023, it must offer to repurchase the Senior 4.40% Notes due 2023 at 101% of the principal amount, plus accrued and unpaid interest to, but not including, the purchase date. The Senior 4.40% Notes due 2023 are not guaranteed by any of the Company's subsidiaries or any third-party. The net proceeds from the issuance were used to repay amounts drawn under our existing revolving credit facility and for general corporate purposes.

On December 15, 2018, we paid off our Senior Notes due 2018.

*Revolving Credit Facilities*

On June 27, 2018, we entered into an amendment that increased the size of one of our unsecured revolving facilities from \$675,000 to \$800,000, extended its maturity by more than two years to June 2022 and decreased the interest rate from LIBOR plus 2.25% to LIBOR plus 1.50%.

On December 27, 2018, we entered into a \$250,000 three-year, unsecured revolving credit facility with a group of banks based in Asia. It can be increased to a maximum of \$350,000. This facility bears interest at a rate of LIBOR plus 1.50% and matures in December 2021. The facility contains provisions similar to our existing credit facilities, including a \$750,000 minimum net worth covenant.

As a condition to this new facility, on January 9, 2019, we terminated our existing \$135,000 revolving credit facility with a group of banks based in Asia. Under the terms of this facility, we were not contractually able to draw upon this facility at December 31, 2018.

At December 31, 2018, we had \$425,000 outstanding under our revolving credit facilities and had \$625,000 available. Maturities of the secured and unsecured debt financings over the next five years and thereafter are as follows:

<b><u>Year Ending December 31,</u></b>	<b>Amount</b>
2019	\$729,804
2020	400,384
2021	602,451
2022	1,021,820
2023	1,395,948
Thereafter	653,388
Total	\$4,803,795

As of December 31, 2018, we were in compliance with all applicable covenants in our financings.



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**Note 8. Shareholders' Equity and Share-Based Payment**

On March 21, 2017, the Board of Directors adopted the Aircastle Limited Amended and Restated 2014 Omnibus Incentive Plan (the "Amended and Restated 2014 Plan"). The Amended and Restated 2014 Plan was approved by shareholders at the Company's 2017 Annual General Meeting of Shareholders on May 19, 2017.

The maximum number of Common Shares reserved for issuance under the Amended and Restated 2014 Plan is 6,750,000 Common Shares. Restricted common shares outstanding under prior plans in the amount of 487,177 shares will continue to vest subject to the terms and conditions of the prior plans and the applicable awards agreements which are included in the below table.

The purposes of the Amended and Restated 2014 Plan are to provide an incentive to selected officers, employees, non-employee directors, independent contractors, and consultants of the Company or its affiliates whose contributions are essential to the growth and success of the business of the Company and its affiliates, to strengthen the commitment of such persons to the Company and its affiliates, motivate such persons to faithfully and diligently perform their responsibilities and attract and retain competent and dedicated persons whose efforts will result in the long-term growth and profitability of the Company and its affiliates. To accomplish such purposes, the Company may grant options, share appreciation rights, restricted shares, restricted share units, share bonuses, other share-based awards, cash awards or any combination of the foregoing. The Amended and Restated 2014 Plan provides that grantees of restricted common shares will have all of the rights of shareholders, including the right to receive dividends, other than the right to sell, transfer, assign or otherwise dispose of the shares until the lapse of the restricted period.

Generally, the restricted common shares vest over three to five-year periods based on continued service and are being expensed on a straight-line basis over the requisite service period of the awards. The terms of the grants provide for accelerated vesting under certain circumstances, including termination without cause following a change of control. A summary of the fair value of non-vested restricted common shares for the years ended December 31, 2018, 2017 and 2016 is as follows:

<u>Non-vested Shares</u>	<u>Shares (in thousands)</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested at December 31, 2015	651.4	\$ 18.81
Granted	336.7	16.58
Canceled	(9.0 )	18.21
Vested	(302.4 )	18.50
Non-vested at December 31, 2016	676.7	17.84
Granted	315.5	22.41
Canceled	(4.2 )	20.36
Vested	(469.6 )	18.60
Non-vested at December 31, 2017	518.4	19.92
Granted	291.9	21.88
Canceled	(16.8 )	21.27
Vested	(306.3 )	19.52
Non-vested at December 31, 2018	487.2	\$ 21.30

The fair value of the restricted common shares granted in 2018, 2017 and 2016 were determined based upon the market price of the shares at the grant date.



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*Performance Share Units*

During 2018, the Company issued performance share units (“PSUs”) to certain employees. These awards were made under the Amended and Restated 2014 Plan and a prior plan. The PSUs are denominated in share units without dividend rights, each of which is equivalent to one common share, and are subject to market and performance conditions and time vesting.

The PSUs granted in 2018 vest at the end of a three-year performance period which ends on December 31, 2020. Half of the PSUs vest on achieving relative total stockholder return goals (the “TSR PSUs”) while the other half vest on attaining annual Adjusted Return on Equity goals (the “AROE PSUs”). The table below shows the PSU awards issued during 2018, including the number of common shares underlying the awards at the time of issuance:

	Minimum	Target	Maximum
TSR PSUs	—	169,631	339,262
AROE PSUs	—	169,626	339,252
Total	—	339,257	678,514

The fair value of the time-based TSR PSUs was determined at the grant date using a Monte Carlo simulation model. Included in the Monte Carlo simulation model were certain assumptions regarding a number of highly complex and subjective variables, such as expected volatility, risk-free interest rate and dividend yield. To appropriately value the award, the risk-free interest rate is estimated for the time period from the valuation date until the vesting date and the historical volatilities were estimated based on a historical time frame equal to the time from the valuation date until the end date of the performance period. The number of TSR PSUs that will ultimately vest is based on the percentile ranking of the Company’s TSR among the S&P Midcap 400 Index. The number of shares that will ultimately vest will range from 0% to 200% of the target TSR PSUs.

The following table summarizes the assumption ranges used in calculating the fair value of TSR PSUs during the following periods:

	Year Ended December 31,		
	2018	2017	2016
Volatility	24.8% to 32.6%	29.4% to 32.6%	29.4% to 31.7%
Dividend yield	4.3% to 4.9%	4.3%	4.3%
Risk-free interest rate	0.8% to 2.6%	0.8% to 1.5%	0.8% to 1.1%

The number of shares vesting from the AROE PSUs at the end of the three-year performance period will depend on the Company’s Adjusted Return on Equity as measured against the targets set by the Compensation Committee annually during the performance period, consistent with the business plan approved by the Board. The fair value of the 2018 AROE PSUs was determined based on the closing market price of the Company’s common shares on the date of grant reduced by the present value of expected dividends to be paid. The number of shares that will ultimately vest will range from 0% to 200% of the target AROE PSUs.

During 2018, the Company granted a target of 229,557 PSUs of which, 169,631 are TSR PSUs and 59,926 are AROE PSUs. As of December 31, 2018, the remaining target AROE PSUs will be considered granted upon the Compensation Committee’s setting the target AROE for the respective periods:

	Remaining AROE Target PSUs	
	2019	2020
2017 PSUs	35,807	—
2018 PSUs	59,926	49,774



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The following table summarizes the activities for our unvested PSUs for 2018:

	Unvested Performance Stock Units			
	Number of Units of TSR PSUs	Number of Units of AROE PSUs	TSR PSUs Weighted Fair Value on Date of Grant (\$)	AROE PSUs Weighted Fair Value on Date of Grant (\$)
Unvested at December 31, 2015	—	—	\$ —	\$ —
Granted	143,414	47,802	25.07	19.18
Unvested at December 31, 2016	143,414	47,802	25.07	19.18
Granted <sup>(1)</sup>	107,426	116,721	25.00	20.37
Vested	(50,899)	(57,637)	24.83	20.02
Canceled/Forfeited <sup>(2)</sup>	—	(1,697)	—	20.55
Unvested as of December 31, 2017	199,941	105,189	\$ 25.09	\$ 20.02
Granted <sup>(1)</sup>	169,631	266,244	22.15	19.65
Vested	—	(129,522)	—	20.14
Canceled/Forfeited <sup>(2)</sup>	(92,515)	(26,006)	25.20	19.99
Unvested as of December 31, 2018	277,057	215,905	\$ 23.16	\$ 19.47
Expected to vest after December 31, 2018	277,057	215,905	\$ 23.16	\$ 19.47

(1) Also includes shares above target.

(2) Represents performance share units that were below target and as a result were forfeited.

During 2018, the Company incurred share-based compensation expense of \$5,100 related to restricted common shares and \$6,388 related to PSUs.

As of December 31, 2018, the Company has unrecognized compensation cost, adjusted for actual forfeitures, of \$4,694 related to non-vested restricted common shares and \$6,128 related to PSUs, which is expected to be recognized over a weighted average period of 1.65 years.

On October 30, 2018, the Company's Board of Directors increased the authorization to repurchase shares to \$100,000 from the \$42,209 that was remaining under the previous authorization. Under this repurchase program, the Company may purchase its common shares from time to time in the open market or in privately negotiated transactions. During 2018, we repurchased 3,556,091 common shares at an aggregate cost of \$68,927. As of December 31, 2018, the remaining dollar value of common shares that may be purchased under the current repurchase program is \$84,752. We also repurchased 120,563 shares totaling \$2,494 from our employees and directors to settle tax obligations related to share vesting. As of February 8, 2019, we have repurchased an additional 496,920 shares at an aggregate cost of \$8,733.

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**Note 9. Dividends**

The following table sets forth the quarterly dividends declared by our Board of Directors for the three years ended December 31, 2018:

<u>Declaration Date</u>	<u>Dividend per Common Share</u>	<u>Aggregate Dividend Amount</u>	<u>Record Date</u>	<u>Payment Date</u>
October 30, 2018	\$ 0.30	\$ 22,867	November 30, 2018	December 14, 2018
August 3, 2018	\$ 0.28	\$ 21,870	August 31, 2018	September 14, 2018
May 1, 2018	\$ 0.28	\$ 21,908	May 31, 2018	June 15, 2018
February 2, 2018	\$ 0.28	\$ 22,085	February 28, 2018	March 15, 2018
October 31, 2017	\$ 0.28	\$ 22,039	November 30, 2017	December 15, 2017
August 4, 2017	\$ 0.26	\$ 20,464	August 31, 2017	September 15, 2017
May 2, 2017	\$ 0.26	\$ 20,482	May 31, 2017	June 15, 2017
February 9, 2017	\$ 0.26	\$ 20,466	February 28, 2017	March 15, 2017
October 28, 2016	\$ 0.26	\$ 20,434	November 29, 2016	December 15, 2016
August 2, 2016	\$ 0.24	\$ 18,872	August 26, 2016	September 15, 2016
May 2, 2016	\$ 0.24	\$ 18,915	May 31, 2016	June 15, 2016
February 9, 2016	\$ 0.24	\$ 18,915	February 29, 2016	March 15, 2016

**Note 10. Earnings Per Share**

We include all common shares granted under our incentive compensation plan which remain unvested (“restricted common shares”) and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (“participating securities”), in the number of shares outstanding in our basic and diluted EPS calculations using the two-class method. All of our restricted common shares are currently participating securities. Our unvested PSUs are contingently issuable shares which are included in our diluted earnings per share calculations which do not include voting or dividend rights. The PSUs that vested as of December 31, 2018 are included in basic and diluted EPS as issued shares.

Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period as follows:

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Weighted-average shares:</b>			
Common shares outstanding	77,447,263	78,219,458	78,161,494
Restricted common shares	476,726	556,592	653,944
Total weighted-average shares	77,923,989	78,776,050	78,815,438
<b>Percentage of weighted-average shares:</b>			
Common shares outstanding	99.39	% 99.29	% 99.17
Restricted common shares	0.61	% 0.71	% 0.83



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Total 100.00 % 100.00 % 100.00 %

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**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
*(Dollars in thousands, except per share amounts)*

The calculations of both basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016 are as follows:

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Earnings per common share — Basic:</b>			
Income from continuing operations	\$247,919	\$147,874	\$151,453
Less: Distributed and undistributed earnings allocated to restricted common shares <sup>(1)</sup>	(1,517 )	(1,045 )	(1,257 )
Income from continuing operations available to common shareholders — Basic	\$246,402	\$146,829	\$150,196
Weighted-average common shares outstanding — Basic	77,447,263	78,219,458	78,161,494
Net income per common share — Basic	\$3.18	\$1.88	\$1.92
<b>Earnings per common share — Diluted:</b>			
Income from continuing operations	\$247,919	\$147,874	\$151,453
Less: Distributed and undistributed earnings allocated to restricted common shares <sup>(1)</sup>	(1,517 )	(1,045 )	(1,257 )
Income from continuing operations available to common shareholders — Diluted	\$246,402	\$146,829	\$150,196
Weighted-average common shares outstanding — Basic	77,447,263	78,219,458	78,161,494
Effect of diluted shares <sup>(2)</sup>	301,356	153,983	42,785
Weighted-average common shares outstanding — Diluted	77,748,619	78,373,441	78,204,279
Net income per common share — Diluted	\$3.17	\$1.87	\$1.92

For the years ended December 31, 2018, 2017 and 2016, distributed and undistributed earnings to restricted shares was 0.61%, 0.71% and 0.83%,  
<sup>(1)</sup>respectively, of net income. The amount of restricted share forfeitures for all periods present was immaterial to the allocation of distributed and undistributed earnings.

<sup>(2)</sup>For the years ended December 31, 2018, 2017 and 2016, dilutive shares represented contingently issuable shares related to the Company's PSUs.

**Note 11. Income Taxes**

Income taxes have been provided for based upon the tax laws and rates in countries in which our operations are conducted and income is earned. The Company received an assurance from the Bermuda Minister of Finance that it would be exempted from local income, withholding and capital gains taxes until March 2035. Consequently, the provision for income taxes relates to income earned by certain subsidiaries of the Company which are located in, or earn income in, jurisdictions that impose income taxes, primarily the United States and Ireland.

The sources of income from continuing operations before income taxes and earnings of unconsolidated equity method investment for the years ended December 31, 2018, 2017 and 2016 were as follows:

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
U.S. operations	\$8,104	\$2,801	\$2,230
Non-U.S. operations	253,543	143,504	154,275
Income from continuing operations before income taxes and earnings of unconsolidated equity method investment	\$261,647	\$146,305	\$156,505



**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
*(Dollars in thousands, except per share amounts)*

The components of the income tax provision from continuing operations for the years ended December 31, 2018, 2017 and 2016 consisted of the following:

	Year Ended December 31,		
	2018	2017	2016
Current:			
United States:			
Federal	\$2,446	\$6,503	\$2,004
State	(136 )	1,913	587
Non-U.S.	3,828	6,574	3,560
Current income tax provision	6,138	14,990	6,151
Deferred:			
United States:			
Federal	2,901	(5,474 )	1,350
State	759	(1,161 )	(157 )
Non-U.S.	(4,156 )	(2,313 )	4,963
Deferred income tax provision (benefit)	(496 )	(8,948 )	6,156
Total	\$5,642	\$6,042	\$12,307

Significant components of the Company's deferred tax assets and liabilities at December 31, 2018, 2017 and 2016 consisted of the following:

	Year Ended December 31,		
	2018	2017	2016
Deferred tax assets:			
Non-cash share-based payments	\$2,182	\$1,899	\$2,183
Net operating loss carry forwards	48,660	22,804	47,538
Other	1,795	1,272	1,902
Total deferred tax assets	52,637	25,975	51,623
Deferred tax liabilities:			
Accelerated depreciation	(95,107 )	(62,379 )	(92,734 )
Other	(338 )	354	(1,227 )
Total deferred tax liabilities	(95,445 )	(62,025 )	(93,961 )
Net deferred tax liabilities	\$(42,808 )	\$(36,050 )	\$(42,338 )

The Company had \$57,036 of net operating loss ("NOL") carry forwards available at December 31, 2018 to offset future taxable income subject to U.S. graduated tax rates. If not utilized, \$54,265 of these carry forwards will expire by 2038, with \$2,771 of these carry forwards having no expiration date. The Company also had NOL carry forwards of \$377,383 with no expiration date to offset future Irish and Mauritius taxable income. In 2017, NOLs of \$223,758 were utilized as a result of gains from the sale and transfer of aircraft in Singapore. We have a five-year Singapore corporate tax reduction from the statutory rate of 17% to 8% through June 30, 2022. Deferred tax assets and liabilities are included in Other assets and Accounts payable and accrued liabilities, respectively, in the accompanying Consolidated Balance Sheets.

We do not expect to incur income taxes on future distributions of undistributed earnings of non-U.S. subsidiaries and accordingly, no deferred income taxes have been provided for the distributions of such earnings. As of December 31, 2018 we have elected to permanently reinvest our accumulated undistributed U.S. earnings of \$29,716. Accordingly, no U.S. withholding taxes have been provided. Withholding tax of \$1,486 would be due if such earnings were

remitted.

Our aircraft-owning subsidiaries that are recognized as corporations for U.S. tax purposes are primarily non-U.S. corporations. These subsidiaries generally earn income from sources outside the United States and typically are not

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**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**

*(Dollars in thousands, except per share amounts)*

subject to U.S. federal, state or local income taxes. The aircraft owning subsidiaries resident in Ireland, Mauritius and the U.S. are subject to tax in those respective jurisdictions.

We have a U.S.-based subsidiary which provides management services to our subsidiaries and is subject to U.S. federal, state and local income taxes. We also have Ireland and Singapore based subsidiaries which provide management services to our non-U.S. subsidiaries and are subject to tax in those respective jurisdictions.

Differences between statutory income tax rates and our effective income tax rates applied to pre-tax income from continuing operations at December 31, 2018, 2017 and 2016 consisted of the following:

	Year Ended December 31,		
	2018	2017	2016
Notional U.S. federal income tax expense at the statutory rate:	\$54,946	\$51,207	\$54,777
U.S. state and local income tax, net	525	168	182
Non-U.S. operations:			
Bermuda	(41,064 )	(21,517 )	(31,250 )
Ireland	(2,567 )	(2,348 )	(276 )
Singapore	(3,232 )	(15,839 )	(7,519 )
Other low tax jurisdictions	(3,246 )	(5,581 )	(3,877 )
Non-deductible expenses in the U.S.	157	(236 )	525
Other	123	188	(255 )
Provision for income taxes	\$5,642	\$6,042	\$12,307

The provision for income taxes includes a tax benefit of \$3,008 related to the Singapore rate reduction from 10% to 8%.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. We did not have any unrecognized tax benefits. We conduct business globally and, as a result, the Company and its subsidiaries or branches are subject to foreign, U.S. federal and various state and local income taxes, as well as withholding taxes. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Ireland and the United States. With few exceptions, the Company and its subsidiaries or branches remain subject to examination for all periods since inception.

Our policy is that we will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. We did not accrue interest or penalties associated with any unrecognized tax benefits, nor was any interest expense or penalty recognized during the year.

**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
*(Dollars in thousands, except per share amounts)*

**Note 12. Interest, Net**

The following table shows the components of interest, net for the years ended December 31, 2018, 2017 and 2016:

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Interest on borrowings, net settlements on interest rate derivatives, and other liabilities <sup>(1)</sup>	\$ 221,987	\$ 223,260	\$ 228,774
Amortization of deferred losses related to interest rate derivatives	1,166	2,202	9,662
Amortization of deferred financing fees and debt discount <sup>(2)</sup>	14,627	19,435	18,508
Interest expense	237,780	244,897	256,944
Less: Interest income	(2,943 )	(3,411 )	(1,140 )
Less: Capitalized interest	(333 )	(255 )	(144 )
Interest, net	\$ 234,504	\$ 241,231	\$ 255,660

(1) Includes a loan termination gain of \$838 and loan termination fees of \$2,058 related to the sale of aircraft during the years ended December 31, 2018 and 2017, respectively.

(2) Includes \$300 and \$4,005 in deferred financing fees written off related to the sale of aircraft during the years ended December 31, 2018 and 2017, respectively.

**Note 13. Commitments and Contingencies**

Rent expense, primarily for the corporate office and sales and marketing facilities, was \$2,865, \$2,143 and \$1,951 for the years ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2018, Aircastle is obligated under non-cancelable operating leases relating principally to office facilities in Stamford, Connecticut; Dublin, Ireland; and Singapore for future minimum lease payments as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$2,517
2020	1,608
2021	1,639
2022	1,670
2023	1,701
Thereafter	7,851
Total	\$16,986

At December 31, 2018, we had commitments to acquire 35 aircraft for \$1,328,553, including 25 Embraer E2 aircraft. Remaining commitments, including \$117,034 of progress payments, contractual price escalations and other adjustments for these aircraft at December 31, 2018, net of amounts already paid, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$415,955
2020	293,367
2021	619,231
2022	—
2023	—
Thereafter	—
Total	\$1,328,553

As of February 8, 2019, we have commitments to acquire 33 aircraft for \$1,262,928.





**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
*(Dollars in thousands, except per share amounts)*

**Note 14. Other Assets**

The following table describes the principal components of Other assets on our Consolidated Balance Sheets as of:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Deferred income tax asset	\$912	\$497
Lease incentives and premiums, net of amortization of \$47,304 and \$41,246, respectively	99,079	74,515
Flight equipment held for sale	11,707	707
Aircraft purchase deposits and progress payments	39,948	23,704
Fair value of interest rate cap	4,886	3,254
Note receivable <sup>(1)</sup>	4,292	10,000
Other assets <sup>(2)</sup>	53,537	28,533
 Total other assets	 \$214,361	 \$141,210

(1) Related to the sale of aircraft during the year ended December 31, 2017.

(2) Includes progress payments for Embraer E2 aircraft order.

**Note 15. Accounts Payable, Accrued Expenses and Other Liabilities**

The following table describes the principal components of Accounts payable, accrued expenses and other liabilities recorded on our Consolidated Balance Sheets as of:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Accounts payable and accrued expenses	\$57,220	\$50,948
Deferred income tax liability	43,720	36,547
Accrued interest payable	45,277	38,129
Lease discounts, net of amortization of \$43,935 and \$36,111, respectively	7,124	14,597
Total accounts payable, accrued expenses and other liabilities	\$153,341	\$140,221

**Aircastle Limited and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
*(Dollars in thousands, except per share amounts)*

**Note 16. Quarterly Financial Data (Unaudited)**

Quarterly results of our operations for the years ended December 31, 2018 and 2017 are summarized below:

	<b>Fourth Quarter</b>	<b>Third Quarter</b>	<b>Second Quarter</b>	<b>First Quarter</b>
<b><u>2018</u></b>				
Revenues	\$ 292,566	\$ 190,829	\$ 204,276	\$ 202,680
Net income	\$ 103,837	\$ 36,332	\$ 50,203	\$ 57,547
Basic earnings per share:				
Net income	\$ 1.36	\$ 0.47	\$ 0.64	\$ 0.73
Diluted earnings per share:				
Net income	\$ 1.35	\$ 0.46	\$ 0.64	\$ 0.73
<b><u>2017</u></b>				
Revenues	\$ 196,643	\$ 213,053	\$ 237,059	\$ 205,032
Net income (loss)	\$ 55,120	\$ 57,431	\$ (7,116 )	\$ 42,439
Basic earnings (loss) per share:				
Net income (loss)	\$ 0.70	\$ 0.73	\$ (0.09 )	\$ 0.54
Diluted earnings (loss) per share:				
Net income (loss)	\$ 0.70	\$ 0.73	\$ (0.09 )	\$ 0.54

The sum of the quarterly earnings (loss) per share amounts may not equal the annual amount reported since per share amounts are computed independently for each period presented.

**SIGNATURES**

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, Aircastle Limited has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 12, 2019

**Aircastle Limited**

By: /s/ Michael Inglese

Michael Inglese

Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Aircastle Limited and in the capacities and on the date indicated.

<b><u>SIGNATURE</u></b>	<b><u>TITLE</u></b>	<b><u>DATE</u></b>
/s/ Michael Inglese Michael Inglese	Chief Executive Officer and Director	February 12, 2019
/s/ Aaron Dahlke Aaron Dahlke	Chief Financial Officer	February 12, 2019
/s/ James C. Connelly James C. Connelly	Chief Accounting Officer	February 12, 2019
/s/ Peter V. Ueberroth Peter V. Ueberroth	Chairman of the Board	February 12, 2019
/s/ Ronald W. Allen Ronald W. Allen	Director	February 12, 2019
/s/ Giovanni Bisignani Giovanni Bisignani	Director	February 12, 2019
/s/ Michael J. Cave Michael J. Cave	Director	February 12, 2019
/s/ Douglas A. Hacker Douglas A. Hacker	Director	February 12, 2019
/s/ Hajime Kawamura Hajime Kawamura	Director	February 12, 2019
/s/ Ronald L. Merriman Ronald L. Merriman	Director	February 12, 2019
/s/ Agnes Mura Agnes Mura	Director	February 12, 2019
/s/ Charles W. Pollard Charles W. Pollard	Director	February 12, 2019

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/s/ Takayuki Sakakida     Director     February 12, 2019  
Takayuki Sakakida

/s/ Gentaro Toya     Director     February 12, 2019  
Gentaro Toya

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