

FINAL TRANSCRIPT

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AER - Q2 2009 AerCap Holdings N.V. Earnings Presentation

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PRESENTATION

Operator

Good morning, my name is Richard, and I will be your conference operator today.

At this time, I would like to welcome everyone to the AerCap Second Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

(Operator Instructions)

Thank you. I would now like to turn the conference over to Peter Wortel, Vice President of Investor Relations.

Sir, you may begin.

Peter Wortel - *AerCap Holdings N.V. - VP of IR*

Good morning everyone, and good afternoon for people in Europe. Welcome to the Second Quarter 2009 Conference Call.

With me, as usual, Klaus Heinemann our CEO, and Keith Helming, the CFO. I would like to mention that after this conference call, we will also host a luncheon here, in the New York Palace in New York. The presentation given there will not be webcasted, but the slides will be made available for you at our website, shortly before the start of the lunch around noon New York time.

Before we begin, I want to remind you that some statements made during this conference call, that are not historical facts, may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements.



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In addition, this conference call contains time sensitive information that reflects management's best judgment only as of the date of the live call. AerCap does not undertake any ongoing obligation, other than that imposed by law, to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after this call.

Further information concerning issues that could materially affect the performance related to forward-looking statements can be found in AerCap's earnings release, dated August 6, 2009. A copy of the earnings release and conference call presentation are available on our website at www.AerCap.com. This call is open to the public and is being webcast simultaneously at our website and will be archived for replay.

I will now turn the call over to Klaus Heinemann.

Klaus?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

Thank you, Peter. And also from my side, good morning here from New York, and thank you for joining us for AerCap's 2009 Second Quarter Earnings Call.

We are very pleased to report that we closed the second quarter with a sound profit, most importantly a 21% increase in our leasing net spread to a \$112.6 million. As you know, the income after interest expense from our lease portfolio is the most adequate measure of the performance of our lease portfolio. Our total assets grew by 18% to \$6.1 billion. This all demonstrates AerCap's unique ability to deliver profitable growth of our core lease business even in the most challenging of economic conditions.

The operating environment for the second quarter, and indeed the first half of 2009 has been incredibly challenging indeed, yet faced with the situation made difficult by the worst recession since World War II, compounded by the turnaround in the credit markets, AerCap has still managed to achieve significant milestones and materially placing all of our remaining aircraft on order, and finding the term finance required to meet our order commitments through 2011. And importantly, throughout all of that, remaining solidly profitable.

We have witnessed an unprecedented set of circumstances in the market over the past 12 months. However, as I mentioned back in May, there are definite early signs of a market recovery, judging by our business activity from late March onwards, in terms of contracts agreed and sales of aircraft assets. This trend has continued into the second quarter. And in light of this, we still expect a much broader recovery to be on the way in 2010, which AerCap is very well positioned to participate in.

Furthermore, airlines around the world, while obviously struggling, still managed by and large to fulfill their contractual lease obligations to us. This resilience however will be tested once again during these coming winter months.

AerCap continues to display its credentials as one of the most efficient franchises on the funding side, as well as on the placement side for aircraft. We have shown time and again that AerCap is able to procure more than adequate financing even in an environment such as this.

The latest examples of this in the second quarter are facilities for \$221 million U.S. pre delivery financing of 10 A330 Aircraft on order, and also the \$466.5 million funding of the initial 15 A320 Aircraft in our ALS II Securitization Facility, which will eventually allow the funding of a total of 30 brand new A320 Airbus Aircraft. All of our current order commitments have been fully term financed through 2011.



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In the second quarter of 2009, AerCap executed lease agreements for nine aircraft, and executed letters of intent for 21 new aircraft leases. We delivered nine aircraft and 19 engines to lessees, purchased 11 aircraft and seven engines, and sold three aircraft and six engines. The number of aircrafts in our owned and to-be-delivered portfolio is now standing at 290.

We've also made excellent progress with regard to the placement of our A320 and A330 forward orders. Of the 100 aircraft in our forward order, we have delivered 29. We have lease agreements for 44, and LOIs for 15 of those aircraft, and we have sold nine forward, of which three have been completed.

Any other purchase options we have had are now expired and unutilized. As we see good interest from airlines to add additional capacity for replacement growth purposes, in the longer term, we have purchased four additional aircraft for delivery in 2013, as part of a related lease deal.

As was reported in our 20-F filing for 2008, our AerVenture joint venture partner was unable to make the required equity contribution in March of this year. Under the terms of agreement, our joint venture partner lost its voting and economic rights in AerVenture. We have since reached an agreement with Waha Capital, based in Abu Dhabi, who has agreed to acquire a 50% stake in AerVenture.

We are very pleased to have entered into this agreement with a partner as reputable and experienced as Waha Capital, in our area of aircraft leasing. They share our vision of delivering profitable and sustainable growth. This partnership will considerably strengthen AerCap's market position, not only in the Middle East.

To conclude my introduction, we are very proud of our achievement so far in 2009. Our second quarter results confirm not only that we are in a good shape, but also that we are very well positioned to benefit from the market recovery we expect to see from 2010 onwards. Our cash position, inclusive of restrictive cash, reached nearly \$350 million as of June 30, 2009, which is over 50% of our current market capitalization.

With this in mind, I would like to reiterate our commitment to delivering significant long-term value to our shareholders, who have invested in our company. And we do so with a strong balance sheet, with long-term contracted lease revenue giving stability to our revenue line, with strong cash balances.

With a proven track record of raising finance, even in the most difficult environment. With a growing asset base that consists exclusively of the most new, efficient and in-demand aircraft that are currently available around the world, and a solid client base, as well as a solid base of multiple funding sources around the world.

On that note, I would now like to handover to Keith, who will take you through the details of our financial and operating performance.

Keith A. Helming - AerCap Holdings N.V. - CFO

Thanks, Klaus.

Good morning, everyone.

As always, I'll run you through the highlights of our financial performance for the quarter. Our total net income in second quarter 2009 was \$56.6 million. In addition, our most important earnings measure, net income excluding the non-cash impact relating to the mark-to-market of our interest rate caps and share-based compensation was \$39.1 million in second quarter 2009.



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The decrease in second quarter 2009 net income, as compared to the second quarter in 2008, was driven primarily by lower net income from sales. This amount was \$3.7 million in 2Q 2009, and was \$32.3 million in 2Q 2008. However, our leasing earnings continue to grow year-over-year, as you'll see later in the slides.

Total earnings per share were \$0.67 in second quarter 2009, including all items. Earnings per share were \$0.46 during this period, excluding the non-cash impact relating to the mark-to-market of the caps, and the share based compensation.

Total revenue in second quarter 2009 was \$295 million, down from \$333 million in second quarter 2008. As you can see, basic rents increased to \$141 million in 2Q 2009, up 12% over the same period of 2008. Maintenance related revenues, which were classified as part of lease revenues, also increased, resulting in an increase of total lease revenues of 18% year-over-year. The decrease in total revenue was driven by lower sales revenues, as you can see.

The growth in our net spread in second quarter 2009 was 21% over second quarter 2008. As you know, the definition of that spread is the difference between basic lease rents and interest expense, excluding the non-cash impact relating to the mark-to-market of our caps. Basic rents increased 12% in second quarter 2009 versus the prior year as mentioned, while interest expense excluded in the non-cash mark-to-market impact decreased 14%. At the same time, our debt balance increased 21%. This resulted in the net spread of \$112 million in 2Q 2009 as compared to \$93 million in 2Q 2008.

On a year-to-date basis, the growth in our net spread during the first half 2009 was 26% over first half 2008. Basic rents increased 12% in first half 2009 versus the prior year as mentioned, while interest expense excluded in the non-cash mark-to-market impact decreased 22%. The net spread was \$225 million in the first half 2009, compared to \$179 million in first half 2008.

The 26% growth in our net spread is in line with a 26% growth in average lease assets over the same period, resulting in a steady annualized margin of 11%. The total sales revenue in second quarter 2009 was \$112 million. Revenues relating to the sale of aircraft was \$62 million, the sale of engines was \$23 million, and parts sales were \$27 million in the second quarter. Total gain from sales in second quarter 2009 was \$6.1 million on a pre-tax basis, as compared to \$39.9 million in second quarter 2008, also on a pre-tax basis.

AerCap's leasing expenses and SG&A for second quarter 2009 were \$53.2 million, again compared to \$47.4 million in second quarter 2008. These amounts exclude the cost of forward-share based compensation. Leasing expenses were higher in second quarter 2009, again, compared to same period in 2008, and it was driven primarily by costs relating to the airline defaults, which occurred in 2008, plus higher lessor contributions for maintenance events. The following page provides you with a little bit more detail on leasing expenses. Our SG&A costs decreased 15% in second quarter of 2009, as compared to the same period in 2008.

As mentioned, the largest driver of the increase in leasing expenses year-over-year were costs relating to the defaults, which occurred during 2008. This amount was \$4.5 million in the second quarter. Normal transition costs were the same, even though our portfolio of aircraft has increased since last year.

Another key driver of the increase was higher maintenance contributions that we were required to make to lessees relating to certain aircraft. These payments were required in order to bring the aircraft and the engines up to a certain condition for the follow-on leases. Although we are required to make these payments, we were compensated in the prior release through maintenance rents or end-of-lease compensation. These costs, just as maintenance related revenue, do not occur evenly throughout the year, but are instead driven by the timing of lease rollovers and corresponding maintenance events.

The last item driving the increase in leasing expenses were costs relating to our engine leasing assets in AeroTurbine, because of a higher amount of engines, as well as an increase in the number of repairs during the quarter versus prior year. As we did in the first quarter 2009, we incurred impairment charges in second quarter 2009, relating to three older aircraft, which were the result of the receipt of end-of-lease payments.



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As you can see by this chart, the net impact of these items was zero and P&L neutral in both the first quarter and the second quarter 2009. Prior to the receipt of these end-of-lease payments, these aircraft were not considered impaired based on U.S. GAAP accounting rules. However, the receipt of these large payments triggered the impairment at the same time the revenue was recorded. We expect to have another aircraft in a similar situation to occur during the second half of 2009.

During the second quarter of 2009, we incurred a negative \$5.4 million impact relating to airline defaults, which again occurred primarily in 2008. This was in the form of lower basic lease rents and higher leasing expenses. For the first half of 2009, this amount was \$14.4 million, and for the full year 2008, this amount was \$18.7 million, including the partially offsetting benefit from maintenance rents held by us as collateral for the use of the aircraft. Most of the charges in 2008 occurred in the fourth quarter.

Our blended tax rate for first half 2009 was a charge of 2.7%. The tax rate for aircraft assets was a charge of 1.2%, and the tax rate was a charge of 34.3% on our engines and parts assets. As mentioned in prior calls, the positive tax rates which occurred in 2008, resulted because of a significant portion of charges relating to airline defaults and inventory impairments occurred in the higher tax rate jurisdictions, and the most significant portion of pre-tax earnings occurred in lower tax rate jurisdictions.

AerCap's total assets have grown 18% in second quarter 2009, compared to second quarter 2008. Total assets on the balance sheet are \$6.1 billion at the end of the second quarter. The number of aircraft in our portfolio is 290, including the owned aircraft, the managed aircraft, the aircraft on order under contract or subject to LOI.

The decrease in the units since the end of second quarter 2008 is again largely driven by the sales of older aircraft, including managed aircraft, and the expiration of five options from forward-order aircraft. The number of engines owned or under contract was 83 at the end of second quarter 2009.

We completed \$790 million of purchases of aviation assets in first half 2009, including the purchase of 21 aircraft. For the full year 2009, we have \$1.8 billion of committed purchases of aviation assets. The number of aircraft purchases for full year 2009 is expected to be 41, which relates primarily to our forward-order aircraft.

The utilization rate was maintained at 97.8% for first half 2009, a very high level, considering the challenging environment. The yield generated by our aircraft lease portfolio was 15.5% for first half 2009. Part of the decrease versus full year 2008, was the result of airline defaults, plus the delivery of new aircrafts, which initially have a lower yield.

1. Our book equity amount is \$1.3 billion.

The average cost for debt in second quarter 2009 was 2.7%, which was 140 basis points lower across our entire portfolio, compared to the same time period in 2008. Again, this decreasing cost of funding is reflective of the lower interest rate environment, and the use of interest rate caps for hedging purposes in prior years.

As Klaus mentioned, we have been very successful in raising capital despite the tough credit environment. Since second quarter 2008, we have completed \$4.5 billion of financings. These include the transactions that Klaus mentioned earlier, but also includes such items such as pre-delivery payment financing for all of our A320s and A330s, ETA guarantees on the funding for both A320s and A330s, a securitization for 30 forward-order aircraft plus more.

Again, this demonstrates our ability to access diversified sources of funding and the support for our business model by the lenders. AerCap's unrestricted cash balance at the end of second quarter 2009, was \$218 million. Our total cash balance including restricted cash was \$347 million at the end of second quarter 2009, operating cash flow was \$108 million for second quarter 2009.

The remaining capital needs, including both collateralized term debts and the cash portion needed for committed purchase is essentially in place for the years 2009 through 2011, as you can see from the first column at the bottom of the chart. The



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remaining amount of \$870 million needed for 2012 and 2013, consist of approximately \$730 million relating to term debt for the aircraft delivering in those years, and a \$140 million related to cash requirements during those same years.

Since the last earnings call, we have made significant progress as it relates to cash requirements in the upcoming years. Previously, we outlined an amount of \$140 million of cash or equity needed for the period 2009 and 2010. This amount of cash is now accounted for with recent initiatives, and we have also covered our cash needs for the year 2011.

With regard to our 2009 financial outlook, committed purchases of aviation assets for the full year 2009 are still the same, \$1.8 billion as previously mentioned. The growth in basic lease rents is expected to increase around 15%. As we have experienced in the first half 2009, we expect gains from aircraft sales in 2009 to be 30% or more lower than 2008.

The average cost of debt in 2009 is expected to be approximately 3%, and the 2009 blended tax rate is also expected to be approximately 3%. Return on equity for the full year 2009 is still expected to be around the 15% mark.

Those were the financial highlights for the second quarter 2009. I'll turn it back over to Klaus to start the Q&A session.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

Thank you very much, Keith.

I would now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Gary Liebowitz with Wells Fargo Securities.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Thank you.

Good morning, gentlemen.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

Good morning, Gary.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Klaus, we heard earlier this morning from another lessor that reported results, that they are seeing a non-trivial number of customers coming to them, looking to restructure the terms of their lease, especially as the summer traffic numbers really aren't so great. Are you seeing a similar dynamic in your business?



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Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

No, not at this moment. We have, with regard to carriers that have restructuring needs, in other words, rescheduling of their lease payments, we have not seen an increase of that since the beginning of the year. This is a small number of our portfolio lessees, who are under this scheme. There is no increase to that number.

Gary Liebowitz - Wells Fargo Securities - Analyst

Okay, great. Also, Klaus, can you tell us how you're thinking about the Frontier Southwest situation? I don't think you have any plans to Frontier now, but are scheduled to place a few narrow bodies with them over the next year. I assume you have some security deposits. Can you just comment on that situation and the prospects of maybe 50 Airbus narrow bodies coming to market over the next couple of years?

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Well, I can't comment on where the Frontier situation is going. The leases that we have with them are bankruptcy court approved, so they have to be honored also by the acquiring party. So, I am not concerned about that. What will happen with the order book with Airbus, I can't comment on.

Gary Liebowitz - Wells Fargo Securities - Analyst

Okay, and then just one for Keith before I turn it over. Back in May, Keith, you said leasing expenses for the year would be in the \$50 million to \$60 million range annually. Through the first half, they were over \$40 million. Is this a timing issue or are there other things happening in the business that suggest that maybe that prior forecast was a little conservative?

Keith A. Helming - AerCap Holdings N.V. - CFO

Well, in the first half, as you saw, we incurred about \$14 million relating to defaults, and a significant portion relating to lease expenses. And that number will probably still increase slightly in the third quarter. So, we will definitely be well over \$60 million for the year. But in the years 2010, 2011 and 2012, when we look at our scheduled maintenance activity again, we expect on an annual basis to be around the \$60 million to \$65 million level.

Again, if there are airline defaults, lessee defaults, those numbers would increase above the scheduled level, but what we thought and what we see in terms of the, I'll call it the normal schedule and maintenance events and leasing expenses, it still remains in that amount.

Gary Liebowitz - Wells Fargo Securities - Analyst

Thank you.

Operator

Your next question comes from the line of Mike Linenberg with Bank of America -- Merrill Lynch.



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Michael Linenberg - Bank of America -- Merrill Lynch - Analyst

Yes, good morning all. I guess a couple of questions here. Klaus, can you just give us a sense about what values look like on next-gen aircraft today, and maybe compare them with the beginning of the year. And I guess you also indicated that you did forward-order some airplanes, I think what for 2013, maybe how that compares with some of the conversations, how those values compare with some of the conversations that you're having with customers, when you look out to the 2012, 2013 timeframe?

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Well, as we commented throughout the year, for brand new in-production narrow bodies, be that on the Boeing or Airbus side, we do not see any significant decline of value. We certainly don't see any reduced pricing coming from the manufacturers. Quite to the contrary, escalation rates are increasing. That's the inflation that is baked into the production of these aircraft.

What is sometimes misleading in the market is that the appraisers are focused on the sale and leaseback market. The sale and leaseback market is an interaction between the lease rental agreed, the interest rate and the purchase price of the aircraft. So, that is not a good indicator of what an aircraft actually costs as it comes from the manufacturer. And I can assure you, if we would see amazing bargains coming out of the manufacturers, we'd be sitting there with our pen ready to sign, but they are not.

Michael Linenberg - Bank of America -- Merrill Lynch - Analyst

Okay, and then just my next question. When you think about the number of -- you look at your number of customers, where is that number today, and what percentage of those customers do you feel are on kind of the edge, the ones that you kind of have to monitor cash on a weekly basis. How do things look, especially as we move into the winter, seasonal, sort of off-season?

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Well, we have as you know, over 100 customers worldwide. And those that require weekly monitoring, is somewhere around 5%-6% of our portfolio. That is a stable number. By the way, these are candidates of security payments. Some of them are working on rescheduling charges. None of them is bankrupt, none of them is at this stage a repossession case.

Where this will go throughout the winter season, it's difficult to say. I think there will be some strain, but we are starting to see real signs of stabilization. As I mentioned during our Investor Day in May, that's the definition in our industry of a Green Shoot. A Green Shoot is the first time where you see that actual passenger numbers are declining less than the capacity cutting of the airline.

If you've just seen the British Airways numbers, that is what is happening to British Airways in July. Some of their numbers are actually rising. That doesn't mean yet that the yield is rising, but at least the passenger numbers are rising, while capacity is still coming down. That is exactly my definition of a Green Shoot. We are starting to see that.

So, I am not as pessimistic about the winter season as some of the commentators are, because I still believe that in many areas of the market, we are actually seeing stronger performance than anticipated. I would just want to point out two areas of this market. The one area is very clearly China, which is basically out of recession, and is growing. Domestic passenger numbers in China are up double digits, and that's a big market.

And the second market segment, and that is true around the globe, that is doing very well, are the LCC carriers. And they are adding capacity, and they have to add capacity, because they are taking market share away from the legacy carriers. So, it's a mixed picture at the moment, but there is an increasing number of good signs in the market.

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Michael Linenberg - Bank of America -- Merrill Lynch - Analyst

Okay, very good, a nice quarter. Thanks, Klaus.

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Thanks.

Operator

Your next question comes from the line of Gary Chase with Barclays Capital.

Gary Chase - Barclays Capital - Analyst

Good morning, everybody.

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Hi, Gary.

Keith A. Helming - AerCap Holdings N.V. - CFO

Hey Gary.

Gary Chase - Barclays Capital - Analyst

A couple of questions Klaus, I wanted to take you back to a question you were answering earlier. I can't remember whose off hand, but on the Frontier situation, is there no way that they can reject these aircrafts? Is there a process by which they could lay down some of the leases that they've affirmed?

Can you just sort of walk us through what the procedures there are, because I thought at least some folks internally here think it is feasible, perhaps expensive, but it is feasible to dispense with some of those leases before they actually officially bring it out of bankruptcy and a transaction.

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Well that, I can't comment on what they might be able to do with other lessors who have existing aircraft in there. What we have is aircraft to be delivered in 2010, where the leases, as we entered into there, these leases have been approved by the bankruptcy court. The legal advice that we get, tells us that all -- any purchaser of Frontier cannot walk away from those leases as they are approved by the bankruptcy courts. That's the legal advice that we are getting.

Gary Chase - Barclays Capital - Analyst

Okay.

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Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

But I cannot comment on what happens to other existing leases in there, some of which may have been affirmed, others may just have been allowed to exist, if you so wish. So, I have no view or opinion on that one.

Gary Chase - Barclays Capital - Analyst

Okay, so if they wanted to do anything with yours, that would be negotiation you'd have to consent to?

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Indeed, yes, that would be a discussion that has to happen with the acquiring party, and indeed that discussion is already going on, so the acquiring party is clearly aware of it, or the potentially acquiring party.

Gary Chase - Barclays Capital - Analyst

Okay. Keith, just a cleanup one, and then I've got one other for you. On the cash flow statement, it shows \$500,000 in gains from sales. Is that the gain on the aircraft sales, and if not, could you just fill us in on what that number was?

Keith A. Helming - AerCap Holdings N.V. - CFO

Yes, it is the gain from the aircraft sales. I mean we did, as you see, on the -- well, we didn't actually split up the margin between the different types of sales, but the assets that we did sell, the two aircraft that we did sell, plus the third forward-order aircraft sale, and all three of them we did, actually incur and generate a profit, albeit obviously the margin was much smaller than what you've seen in the past.

Gary Chase - Barclays Capital - Analyst

Okay, but is that \$500,000? I mean that's effectively no margin, right? I mean it's a small profit, but it's...

Keith A. Helming - AerCap Holdings N.V. - CFO

It's a small profit, yes.

Gary Chase - Barclays Capital - Analyst

I mean but what you're saying is that the margin on sale of aircraft right now has -- or at least the ones you called (inaudible - multiple speakers).

Keith A. Helming - AerCap Holdings N.V. - CFO

(inaudible - multiple speakers) aircraft, yet they were effectively just above breakeven, yes. With those aircraft, we generated a reasonable amount of cash, which is the primary reason that we sold those aircraft.

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Gary Chase - *Barclays Capital - Analyst*

Okay, and that presumably is not what you would say as representative of where the whole portfolio is. It's just a unique nature of what you sold?

Keith A. Helming - *AerCap Holdings N.V. - CFO*

That's right. I mean we've done it -- we have another potential sale that's actually been under LOI on some of our forward-order aircraft, and it's a significant amount of profit still generated on that.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

If I could just come in on this one, I mean these two aircrafts were with a European charter carrier, whose parent is at this moment in bankruptcy. They are A321s, they are older A321s, so they are not exactly brand new A320s, and even in those cases, these are aircraft that typically get impaired in this environment. Even in this environment, bankrupt parent of the lessor, A321s that are older, even in that case, our net book values still do not trigger any impairment charges. So, I would look at this as good news.

Gary Chase - *Barclays Capital - Analyst*

Okay, and then just one last one, and I think kind of the most important (inaudible).

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

[I don't think that we can].

Gary Chase - *Barclays Capital - Analyst*

Keith, you show the net spread metric on an average, and those are improving, which you show in your presentation, but of course, one of the things that is happening is you had six leases in place, and you are now getting the benefit of interest rate declines. So, I wanted to ask the question, not in aggregate, which you've shown, but at the margin.

If I look at where the net spread is, as you lease up new assets, it is comparable to lower than or higher than what you're seeing on average in the business, because you've got a lower funding cost now, but presumably lower lease rates as well.

Keith A. Helming - *AerCap Holdings N.V. - CFO*

Yes, certainly. I mean as you saw, there is an 11% margin that we had both last year and this year, but part of that margin is to benefit the lower interest rate environment, and the interest rates that we're actually incurring, have moved in some cases well below our cap levels. So, there is a benefit, and you can call it a temporary benefit that we are receiving.

Although, we have taken the opportunity to re-strike some of our caps and move those caps down to protect ourselves at a lower interest rate levels. And obviously, on new deliveries and such, we are putting those in place, and locking in a lower funding cost. So, I mean if interest rates suddenly rose quite a bit, I mean we could lose potentially a 100 basis points on the 11% margin.



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Gary Chase - *Barclays Capital - Analyst*

But when you think about where -- I mean I guess I wasn't really thinking of the caps. If you think about the new funding environment, and you marry that up with the new leasing environment, and the rates you're getting on new leases.

Keith A. Helming - *AerCap Holdings N.V. - CFO*

That's very comparable to what we have gotten in the past. The margins that we are receiving are effectively very comparable to what we've seen over the last couple of years. I mean even though the rentals themselves have been reduced because of the drop in interest rates, obviously the amount that we actually lock in at the interest rate level has decreased as well. So, the margins have stayed relatively stable, so actually especially relating to the new aircraft.

Gary Chase - *Barclays Capital - Analyst*

So, not much change in the underlying economics?

Keith A. Helming - *AerCap Holdings N.V. - CFO*

That's right, that's right.

Gary Chase - *Barclays Capital - Analyst*

Okay, thanks guys.

Operator

(Operator Instructions)

Your next question comes from the line of Andrew Light with Citi.

Andrew Light - *Citi - Analyst*

Hi there, good morning.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

Hello.

Keith A. Helming - *AerCap Holdings N.V. - CFO*

Hi, Andy.

Andrew Light - *Citi - Analyst*

The guidance you just gave, basically it's a revenue for the full year, about 15%. During your Investor Day guidance, it would seem to be a bit more than that. Am I right? Has there been a slight reduction in that?

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Keith A. Helming - *AerCap Holdings N.V. - CFO*

A slight reduction, again because -- number one, because of the interest rates environment. We are putting the new leases in it as a slightly lower rental, but again locking them in at a lower funding cost.

Andrew Light - *Citi - Analyst*

So, with the net spread guidance (inaudible - multiple speakers).

Keith A. Helming - *AerCap Holdings N.V. - CFO*

That's the way that we were talking about at the Investor Day, should be still steady in what we represented there.

Andrew Light - *Citi - Analyst*

Okay, excellent.

And a question for Klaus, obviously aircraft values have been coming down, and there's probably going to be some distressed sellers and airlines looking for the funding that they can't get elsewhere. Given that you've got quite a high debt level, plus obviously quite a big forward-order driven -- I know already it's placed. But can you realistically participate in some of those distress sale opportunities?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

Well, first of all, I wish there would be a large amount of distressed sale opportunities in the market segment that we are predominantly playing in, and that I want to play in, which is brand new in production narrow bodies. But I have yet to see these wonderful distressed purchase opportunities. They do exist for older wide bodies, they do exist for older narrow bodies, but I don't want to be there.

Could I take advantage of it? I think so, yes, because I think if I wanted to, I could raise at this moment, significant amounts of additional cash through joint ventures or throughout equity. But my point is that these so-called amazing purchase opportunities do not really exist in the market segment, that I believe to be the most promising for the long run, which is brand new in-production aircraft. I wish that it would be different, but these bargain purchases, they are mostly in areas that I'm not too keen to go into.

Andrew Light - *Citi - Analyst*

How about then sale and leaseback opportunities on new planes from airlines that are having maybe trouble getting other funding?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

Yes, that is a possibility, and that is what we have been doing with -- in the last quarter in particular, with U.S. LCC carriers, who are doing well, as you know. So, we are taking advantage of that market. As you can see, for example, the transaction that caused us to purchase additional positions in 2013, are a result of a swap of 2009-2010 sale and leaseback with an LCC carrier here in the United States.

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Andrew Light - Citi - Analyst

All right, for immediate deals, would you say you do have the credit available to do that kind of business?

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Yes, and if need be, I would have additional sources for that available, because as you know, the one source that is functioning impeccably, are the government guaranteed term facilities both for Boeing and Airbus, provided by the ECAs and by Exim Bank. We have access to both of them, we use both of them, and we could increase those facilities if the right opportunities would arise.

Andrew Light - Citi - Analyst

Great, thanks very much for that.

Operator

Your next question comes from the line of Gary Liebowitz with Wells Fargo Securities.

Gary Liebowitz - Wells Fargo Securities - Analyst

Thanks, I had a few cleanup questions.

First, Klaus, you mentioned the big cash balance. How much of that is actually unrestricted cash, not just in the accounting sense, but in the real economic sense? How much of it is real purchasing power?

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Keith, you want to (inaudible)?

Keith A. Helming - AerCap Holdings N.V. - CFO

Yes, I mean based on what we can actually use for any purpose whatsoever, it's around -- at this stage, around \$180 million, \$190 million.

Gary Liebowitz - Wells Fargo Securities - Analyst

Okay, thanks. And also, the \$6.3 million in other income, is that solely the gross margin on the forward A320 sale?

Keith A. Helming - AerCap Holdings N.V. - CFO

It's a number of items. Part of it's the sale of airline shares that we received in a prior restructuring. We got some recovery from other past defaults. We also skipped some guarantee fees on debt in our Chinese joint venture. And of course, it also includes the sale of one of the forward-order aircraft. Unfortunately, we are not able to split that out, because it's a specific commercial transaction that we can't disclose.

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Gary Liebowitz - Wells Fargo Securities - Analyst

That's why I asked. But it's fair to say that forward asset sale, that's the majority of the \$6.9 million?

Keith A. Helming - AerCap Holdings N.V. - CFO

We can't really comment on that.

Gary Liebowitz - Wells Fargo Securities - Analyst

Okay, and the last one is, there might be a small line about inventories were up 40% from the end of the first quarter. Is there something happening in AeroTurbine that's causing that?

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Yes, AeroTurbine bought four old aircraft for part-out, that went into the inventory. That was a bargain purchase on old A320s, and that caused the increase in inventory. These are aircraft that have just arrived in Goodyear, and that are starting to go into the parts business.

Gary Liebowitz - Wells Fargo Securities - Analyst

Great, thank you guys.

Klaus W. Heinemann - AerCap Holdings N.V. - CEO, Executive Director

Sure.

Operator

(Operator Instructions)

Your next question comes from the line of Gary Chase with Barclays Capital.

Gary Chase - Barclays Capital - Analyst

Hey, guys, thanks for taking the follow-up. Two other quick ones.

First on -- Keith, I'm looking at slide 22, and I heard you talk through it. I just want to make sure that I understand. You talk about cash initiatives, I forget the exact way you described it, but initiatives currently in progress.

Can you just give us a sense of what -- how much of that \$3.25 billion that you're looking at as committed debt, is in progress? And just give us a rough [stance], I mean is it close to completion or you started the process?

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Keith A. Helming - *AerCap Holdings N.V. - CFO*

I mean most of the \$3.25 million is effectively committed already. So, I'll give you one good example that's in process, so to speak. We have signed an LOI to sell three A330 aircraft delivery in 2010, which will generate \$60 million, \$70 million of cash. That's the net line, and we classify that in process, because obviously we haven't signed the sale agreement yet, but we will soon. And there is another one too, but that one is the most significant one.

Gary Chase - *Barclays Capital - Analyst*

Okay, so we're talking about like a \$100 million, a \$150 million here. I mean not [inaudible].

Keith A. Helming - *AerCap Holdings N.V. - CFO*

Yes, not a \$150 million, it's \$100 million or less.

Gary Chase - *Barclays Capital - Analyst*

Okay, okay, and then just maybe comment on the AeroTurbine margins, and if we take a look at the gains on sale, they are overall not that big. Can you just give us a sense of where you think -- why that's depressed and where you think that's going to head?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

Well, the AeroTurbine margins, and by the way also the lease rental revenue on the engine pool is a direct function of MRO activity. MRO activity, as you know in the first half of this year, has been down. And so, they have, as a result of that, suffered. They are coming back, because as aircraft are coming out of storage, as utilization of existing aircraft increases, we expect the MRO market to improve.

We are starting to see that, you may have seen that in July of this year, for the first time more aircraft have come out of storage, than go into storage. That's what we want to see, because as aircraft come out of storage, maintenance work has to be done, which triggers rental income for the engine pool, and it triggers spare sales at better margins. So, we expect this particular segment of our business to correlate very closely to the market recovery that we anticipate next year.

Gary Chase - *Barclays Capital - Analyst*

Okay, thank you.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

Sure.

Operator

(Operator Instructions)

And there appear to be no further questions.

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Are there any closing remarks?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO, Executive Director*

I think that's it from our side. I mean everything else we can cover for those of you who join the lunch today, and thank you very much for attending the call this morning. And for those who join us later today, we're looking forward to see you then.

Keith A. Helming - *AerCap Holdings N.V. - CFO*

Okay, thanks everyone, bye-bye.

Operator

Ladies and gentlemen, that concludes today's AerCap Second Quarter Earnings Conference Call. You may now disconnect.

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