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PRESENTATION

Operator

Welcome to today's AerCap Holdings third-quarter results conference call. At this time, all participants are in a listen-only mode. This call is being webcast and an audio version of the call will be available on the Company's website. The call is also being recorded for replay purposes.

I now hand the call over to Peter Wortel, Head of Investor Relations.

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

Thank you, and good day, everyone. Welcome to the 2014 third-quarter results conference call. With me today in New York are Aengus Kelly, AerCap's CEO; and Keith Helming, AerCap's CFO.

Before we begin today's call, I would like to mention that in addition to this earnings call, AerCap will also host a group presentation for analysts and investors today at the New York Palace Hotel in the drawing room starting at 11.30 a.m. Doors will open at 11.00 a.m. The presentation there will not be webcasted.

I also 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. In addition, this conference call contains time-sensitive information that reflects management's best judgments only as of the date of the last 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 performance related to forward-looking statements can be found in AerCap's earnings release dated November 4, 2014. A copy of the earnings release and conference call presentation are available on our website at AerCap.com. This call is open to the public and is being webcast simultaneously at AerCap.com and will be archived for replay.

I will now turn the call over to Aengus Kelly.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Thank you, Peter. Good morning to all of you in the US, and good afternoon to those of you in the Middle East and Europe. Thank you for joining us today for our third-quarter earnings call, the first full quarterly set of results reported by AerCap following the completion of the ILFC transaction.

While it is still relatively early in the integration process, we are pleased to report that our integration plan remains as or ahead of schedule in all material respects. To date, we have incurred no unscheduled aircraft downtime, minimal unplanned labor attrition, and substantially all of our assets have been transferred to Ireland, which is where we now have the largest portion of our staff and operations.

The operational progress -- in particular, the merging of the main IT systems by September 30 -- represents a key milestone, which enables our technical and risk management team to actively monitor the combined portfolio on a single platform. With their efforts on this and the many other work streams associated with the integration plan, I again want to reiterate my thanks to the entire AerCap team around the world.

The success of the transaction is borne out by the results. In Q3, AerCap generated adjusted after-tax net income of $316 million and adjusted earnings per share of $1.49. And we finished the quarter with $44 billion of total assets on the balance sheet. Our net spread or NIM, which is the crucial measure of the Company's performance, continued to run at a five-year high of 10.1% during the quarter. Our fleet utilization was 99.3% during the quarter. And as of September 30, AerCap had $6.6 billion of available liquidity on-hand.

During the quarter, we executed 134 aircraft transactions, which means that we effectively bought, sold, or leased more than one aircraft every 24 hours. One noteworthy transaction we closed during the quarter was a sale-leaseback deal with Virgin Atlantic, a long-time customer of AerCap. This transaction was for seven 787-9's, one of the most attractive aircraft types available, worth approximately $900 million based on appraised values.

The delivery stock of these aircraft are also very attractive, with the first one having delivered last month. This transaction is an example of how the AerCap franchise can lever both its scale and in-service fleet with customers to obtain highly attractive assets for the benefit of our shareholders.

Turning to the order book, as of September 30, we had committed to purchase 391 aircraft valued at approximately $29 billion to be delivered through 2022. Despite the long lead-time, I am pleased to report that we have already placed 90% of the delivery through 2016, and almost 60% of all deliveries between now and end-2019.

The average lease term on the new aircraft is approximately 12 years. And on the used side, we have one of the lowest remarketing tasks the combined entity has faced in many years, with less than 50 aircraft to place before end-2015. The average lease term we achieved in used aircraft of 58 months during the quarter reflects the robust demand environment we have been observing.

This strong level of placement activity on both new and used aircraft is a result of our attractive order book, moderate in-service fleets, and the global reach of the AerCap platform. The duration of the leases provides both stability and visibility into the future profits and cash flows of AerCap.

As I noted on the Q2 call, we continue to see a favorable market for modern technology equipment. We are moving the A320 and 737 family aircraft, particularly the A321 and 737-800, on attractive terms. The widebody side, we also see good demand for the 330. We are also observing good demand for high-quality 767's and 757's. The attractive nature of our order book is evidenced by the strong placement activity I referenced earlier.

Turning to receivables, we have not witnessed any unusual level of activity on receivables or repossessions, given the time of year we are in. We are, of course, extremely vigilant with regard to the impact of macroeconomic trends and geopolitical risks on our customers. Current events such as Ebola, the Ukraine conflict, and unrest in the Middle East, are all carefully monitored by our risk management team. To date, these events have not had a material impact on our business.

As I also mentioned on the Q2 call, the business is run on four key principles, which are -- the proactive management of credit risk; maintenance of a portfolio of in-demand aircraft funded by a long-term stable liability structure that has a suitable leverage ratio; and a hedging policy designed to manage the business to accommodate changes in the business environment and fluctuations in interest rates.

With that, I will hand you over to Keith before we start the Q&A.

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

Thanks, Gus. Hello to everyone. I'll start on page 5 of the presentation. Our reported net income for the third quarter was $340.9 million. During the third quarter, we incurred post-tax expenses of $12.6 million relating to the ILFC transaction.

Adjusted net income, as mentioned -- which excludes the various items listed, including the adjustment for maintenance rights-related expense -- was $315.8 million. Both reported and adjusted net income included $20 million of nonrecurring income.

Slide 6. Reported earnings per share were $1.61 in the third quarter. And again, as mentioned, adjusted earnings per share were $1.49. The average shares outstanding during the third quarter were 212 million.

Slide 7. Total revenue in third quarter was $1,251 million. In the third quarter, maintenance-related revenue was $50 million; net gain on the sale of assets was $3 million; and other income was $26 million.

Slide 8. Net interest margin or net spread was $906 million in the third quarter. The annualized margin as a percent of our average lease assets, as mentioned, was 10.1%, up from 8.8% during the same period in 2013.

Slide 9. The impact from asset sales in third quarter was a pretax gain of $2.8 million. And during the third quarter, we sold 10 aircraft from our own portfolio; two aircraft from our managed portfolio; and executed part-out transactions for three aircraft.

Slide 10. Leasing expenses were $28.9 million for the quarter and SG&A was $96 million. Also in third quarter, as previously mentioned, we incurred $14.4 million of transaction expenses relating to the ILFC acquisition.

Page 11. AerCap's unrestricted cash balance at the end of the third quarter was $1,744 million. And our total cash balance, including restricted cash, was $2,418 million. Operating cash flows were $885 million for the third quarter.

Slide 12. Our available liquidity sources over the next 12 months is [$9.7 billion per slide]. And contracted debt maturities and CapEx over the same period is $6.6 billion. This results in excess liquidity coverage of $3 billion and a ratio of sources to uses of 1.45 times. These sources do not include additional financing for deliveries of new aircraft purchases.

Slide 13. At the end of third quarter, AerCap's debt balance was $30.8 billion and our adjusted debt to equity ratio was 3.5 to 1. Our book equity is $7.6 billion and the average cost of our debt for the third quarter was 3.4%.

Slide 14, with regard to the financial outlook for fourth quarter 2014, total revenue is expected to be approximately $1,250 million, which is $5 billion on an annualized basis. Depreciation is expected to be approximately $530 million or $2.1 billion on an annualized basis. This reflects expensing the maintenance rights assets over the remaining economic life of the aircraft.

Interest expense is expected to be approximately $280 million or $1.1 billion annualized. Leasing and SG&A costs are expected to be $125 million to $150 million or $500 million to $600 million on an annualized basis. And the tax rate is expected to be approximately 17.5%.

So those were the financial highlights for the quarter. And I'd now like to open up to Q&A.

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

Operator, can you start the Q&A, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Gary Liebowitz, Wells Fargo Securities.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Gus, I was wondering if you could characterize the market for midlife aircraft, secondary trading market? Earlier this year, it seemed to be a lot of new money coming into the space. Do you still think that's the case? And how should we be thinking of your aircraft divestiture strategy over the next couple of quarters?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Gary, we are seeing good leasing demand for midlife aircraft. Say, when I say midlife, we are looking at airplanes between, say, eight and up to 15 years of age. And if they are 737's, A320 family machines, we are moving them fairly easily. In terms of new money coming into the sector, certainly there is. As you see there, we talked through the aircraft we've sold. All of the aircraft we sold during the quarter were older aircraft that would be actually closer to the 15-year mark than the eight-year mark. So, yes, there is still a good bit out there.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. Also, I guess you talked about the 10.1% net interest margin you had in the quarter. I know you're not giving formal 2015, 2016 guidance but should we think of that as a sustainable NIM level?

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

Gary, when you look at our interest expense for the quarter, it's at 3.4%. And we are receiving, obviously, a benefit from the fair value of the ILFC debt. So we are replacing, as the debt runs off, with longer-term financing. So, the interest expense will increase and levelize around the 4% -- 4.1%. So, obviously, with that increase, we'll lose a little bit of that spread, but otherwise, it should stay pretty constant, at least for the foreseeable future.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. And then just one more for you, Keith. The $21 million you reported in equity investment income, were there unusual items in there?

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

There was $20 million of nonrecurring income in one of our joint ventures. So, it's a one-off item.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. Thank you very much.

Operator

John Godyn, Morgan Stanley.

John Godyn - *Morgan Stanley - Analyst*

Gus, though it's a little bit less topical today, a couple of months ago and on the last call, the view on the cycle was extremely -- extremely -- topical. I was hoping that you could sort of update your thoughts on where we are in the cycle, as well as specifically perhaps speak to the decision of the manufacturers, Boeing, to take narrowbody rates even higher. How do you see all this playing out?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

So, as I said, we are moving an airplane a day. So, at the moment, we see very good demand for modern technology assets. We are running at 99% utilization. The remarketing task the Company is facing on a combined basis is one of the lowest we've faced in many years. That's probably the best indicator I can give you of demand in the here and now.

What the manufacturers are planning to do in 2018 and 2019 is subject to an awful lot of change. That's a ways out. One thing we do know about Boeing and Airbus -- and they have proven it time and again -- is that, ultimately, they do act like a rational duopoly, and they never produce whitetails. They have the ability to match the demand and the supply in the market. And they've always done that in the past.

So when they announce future rate increases or you hear big orders, that's not really something that (technical difficulty) -- they are much more focused on deliveries when they actually happen. We know that, historically, both of those manufacturers have always matched supply and demand, even if you go back to the worst days of 2003 post-SARS, and again in 2009 post-Lehman, neither one of those OEMs produced whitetails and stuck them on the tarmac, which produced -- which is what would produce significant overcapacity in the industry.

And that, of course, is in contrast to the shipping industry, where you see dozens of manufacturers just covering variable costs and making the ships. That doesn't happen in this industry. So, for that reason, I'm not as concerned about the pronouncements they make in Seattle and Toulouse. I'm more interested in what they actually do and deliver.

John Godyn - *Morgan Stanley - Analyst*

Very helpful. And one of the concerns that I sometimes hear from investors is that the lessors are perceived as lagging the cycle a bit. Of course, your leases -- there's a certain churn to it. And if we did look at lease rates and the impact on your financials, we could certainly conclude that.

But I wonder, as you guys think about the cycle, what sort of kind of very short-term indicators that aren't lagging do you anchor to? What gives you confidence that lessors are not a lagging indicator?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Well, you've got to remember, the lessors are leased into the future. So, we lease airplanes -- we're leasing airplanes now in 2017. So I would say that's not a lagging indicator. It's a future indicator. And so the other thing is that's on the new side.

On the used side then, we have more or less given our scale -- given our scale. We are more or less leased out through the end of 2015. We have less than 50 airplanes to move, which is not a huge amount for this platform, and lower than we've seen in many years. So we are moving used aircraft that are coming back in 2016 as well.

So, that's what we would look to ourselves is, how is the market for our aircraft that are coming off lease in 2015 and 2016? And on the new side, how is the market for aircraft that are delivering in 2016 and 2017?

John Godyn - *Morgan Stanley - Analyst*

Got it. Thanks a lot.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

No problem.

Operator

Michael Linenberg, Deutsche Bank.

Richa Talwar - *Deutsche Bank - Analyst*

It's actually Richa Talwar filling in for Mike. So first, just a housekeeping question. I apologize, Keith. This is going back to a question I believe you answered. But that $20 million of nonrecurring income, can you give us more clarity on what that's tied to?

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

Again, it's in one of our joint ventures and it's primarily insurance-related.

Richa Talwar - *Deutsche Bank - Analyst*

Okay, great. And then, Gus, I was curious to hear your thoughts about the US Fed ending quantitative easing and the consequent impact that might have on interest rates in your business. I mean, there is a view that higher interest rates are inherently good for aircraft leasing, given that it's a harbinger for better economic prospects, which means a healthier customer base and higher lease rates. But we've also been hearing from investors that a higher interest rate environment can also be negative, obviously, for the net interest margin. And it's also been something that's driven up the sharp demand for aircraft recently. So I was curious to hear your thoughts around that.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Sure. On interest rates, there's a couple of aspects to it. The first one, though, is that we don't speculate on interest rates as a company. So we will hedge the business to material fluctuations in interest rates. So, therefore, the concern of the net spread being reduced for rises in interest rates shouldn't be having any material impact on the existing leases that are out there.

Then the question is, if rates rise, what does it mean to the future leases you've locked in? However, virtually all of our forward order aircraft -- there's a mechanism in there where you agree the lease rent today, and then it adjusts as interest rates rise or fall. So, your net interest margin is a natural hedge built into the lease until delivery. So effectively, the lease rate floats, then it delivers, then it fixes, so you're not exposed until it actually delivers. And at that point, you hedge it.

Now, generally, you are correct that interest rates -- higher interest rate environment is generally correlated with an improving global GDP; asset inflation as well, very importantly, in the market. And that's what we've seen in the past. Of course, though, the word of caution is that it's the velocity of the movement in rates, not necessarily the absolute level they get to that is the concern.

So, if interest rates gradually go up in a controlled fashion, at the short end of the curve, up to normalized LIBOR levels, then the business will adjust to that, as lease rates are a function of interest rates. Where you have the risk is that if there was a sudden shock -- as we saw with the Lehman crisis in 2008, and that would be different, because it would take a longer time for the lease rates to adjust. But absent those outlier events, generally, your assertion is correct about rising rates and the business environment.

Richa Talwar - *Deutsche Bank - Analyst*

Okay, thank you. That's it for me.

Operator

Jason Arnold, RBC Capital Markets.

Jason Arnold - *RBC Capital Markets - Analyst*

Just to follow-up on previous comments on the used market. Has anything changed in the relative appeal of releasing sale or part-out of aircraft coming off lease since last quarter, maybe just given those kind of comments on the midlife strength?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

There are a number of aircraft that we had assumed would be part of that but we are actually seeing some re-leasing activity on those aircraft. It's not enough to -- I could say that it's moved the needle tremendously, but they are certainly aircraft that we thought we would not be re-leasing that we are re-leasing. But the bulk of the portfolio is not in that age category or that aircraft type category, as you know. And the vast majority of the portfolio is on the 320, 737, 777 and 330 family. But, yes, I mean if you have a good quality 757 or 767, you will definitely find a home for it.

Jason Arnold - *RBC Capital Markets - Analyst*

Super. Okay, thanks. And then I'm just curious if you could expand on your thoughts around the global macro? Are there any regions or country exposure that you are a bit more concerned about? And then maybe, conversely, can you speak to regions or countries that are doing well or better than you expected or that you are more excited about?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Sure. Well, I'll just go through the regions, may be the easiest thing. The North American market, as you've seen from the results of the major and all the airlines, in fact, here, is extremely strong and probably as healthy as it's been for many decades. South America, we see reasonable demand there. It's okay.

We were obviously following the events in Brazil with the election, but we are still placing aircraft down there. Growth has stalled off from what it was a few years ago when it was at much higher single digits, but still moving airplanes down there.

Europe and EMEA in general has been, I would say, the horsepower of the business to be fair. When I say EMEA, I mean Europe, Middle East, Africa. A lot of that has to do with facts that there was very little ordering of aircraft in Europe over the course of the last five or six years. And so we've been moving a fair number of aircraft there.

And Russia, obviously, the events are well-known with the Ukraine crisis. As I said, to date, that has not impacted us. But of course, if things were to escalate materially out there, then that would have an impact on many industries, not just our own, of course.

China -- China is doing fine. We are still moving airplanes there. Of course, it's not at the double-digit growth rate that it was, but it's still a market where we are doing a fair bit of business. Southeast Asia, we are seeing a lot of commentary in the press about has there been overordering down there? What I would say in relation to that is that the traffic will grow to the expected levels to absorb those orders. But whether or not it will grow at the level required to absorb them in the timeframe they were ordered, i.e., are those orders expected to deliver in the next five years, maybe it may take seven or eight years to do it.

But again, I go back to my comment about Boeing and Airbus, at how they moderate supply into the industry. They will not cannibalize their customer base. If an airline in Southeast Asia goes to Toulouse or Seattle and says, I have ordered 100 airplanes and I'm supposed to take 25 next year, and they say, we can only take 10 or 15, Boeing and Airbus will say to them, okay. There are certain penalties attached to that, but we will give you a lower number of airplanes. We will not force you to take all of them and put you into bankruptcy.

That's what I mean by cannibalizing their own customer base. So, with the duopoly we have in place in the supply side -- and that isn't going to change anytime soon. On large aircraft on the regional side, of course, we have Embraer. But on the large commercial aircraft side, that duopoly isn't going to change. And therefore, I think that -- and any overordering that it -- and you see that, by the way, from some of the airlines in Southeast Asia that have already announced deferrals of aircraft. And that has been accepted by the OEMs.

And the OEMs both know that this is part and parcel to the business. That's why they are quite happy to accept larger orders than perhaps an airline may ultimately need in the timeframe they are ordered. But they both know that, in time, those airplanes will get delivered.

Jason Arnold - *RBC Capital Markets - Analyst*

Makes sense. Okay, terrific. Thanks a lot for the color.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

You're welcome.

Operator

Arren Cyganovich, Evercore.

Arren Cyganovich - *Evercore Partners - Analyst*

The comments that you just made, Gus, about Europe being pretty strong in terms of transaction activity and demand, maybe you could just talk a little bit about that relative to the weakness we are seeing from an economic standpoint in the region? You know, how resilient you expect that to be? It looks like passenger traffic out of IATA this morning was showing about 4% increase in growth, I think, or something around that nature. Just some thoughts on the European demand for your portfolio.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Sure. There's a couple of aspects to it. As I said, the first thing was that there wasn't that much ordering in the first place by a lot of the European airlines over the course of the last few years, due to the weak outlook. And so there was a replacement requirement, if you will, a restocking requirement.

But beyond that, it's just such a massive market when you talk about Europe, the Middle East -- I said EMEA, in general, but it's backed by Europe. I mean, it is the biggest market in the world when you look at it like that. So you get -- you know, the IATA numbers you're looking at 4% to 5% in Europe. That's a big number for when you translate it, because it's such a huge market.

So surely the economic growth is weak obviously at the GDP level, but I think a combination of the fact that it's -- there was a restocking, but also just the scale of the market as well means that there has been demand for assets there. And also, you know, from a leasing company standpoint, quite frankly, we haven't seen the consolidation we've seen in the United States.

So we haven't seen the situation in Europe where you have very large consolidation into very powerful airlines. You still have some very large and powerful airlines there, but there's a lot more fragmentation. And I don't see that changing any time soon. And that fragmentation plays to the advantage of a leasing company.

Arren Cyganovich - *Evercore Partners - Analyst*

Thanks. And then in terms of expense synergies with ILFC, how far are you into your plan? And when do you expect that to reach the full synergy level?

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

Yes. We're about halfway through the transition plan. And that, effectively, we'll be there by the second quarter of 2015.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay, thanks. And then lastly, the -- where is the amortization intangible benefit showing up? Is it showing up as a benefit to depreciation in this quarter? Where is that showing through the income statement?

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

That's correct. The depreciation that you see for the quarter is lower by the amount that we reflected in the adjusted net income calculation. So otherwise, the depreciation would be a higher amount.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay. All right, thank you.

Operator

Mark Streeter, JPMorgan.

Mark Streeter - *JPMorgan - Analyst*

A question from me and Jamie on -- a couple of things on asset sales. You've sold over $2 billion since you closed the ILFC transaction. You have the $1 billion run rate. Do you think you can do $2 billion every year? Or is the market that robust that the pace can continue that you're on?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

I mean, Jamie, if we wanted to, we could sell plenty of airplanes. What you've got to make sure is that our shareholders get rewarded. We have a very big powerful global platform, and when we sell an airplane, we've got to get paid. I'm not going to sell it to some guy who then turns around and flips it for $1 million more, because there is a scale of this platform with everything we can do from being the largest part-out business in the world to the largest lessor. We can do an awful lot.

So we've got to make sure when we sell, we get close to full value for our sales. And so long as we get what we perceive to be value, then we'll continue to sell. This year, as you saw, was a combination of assets we've sold plus some of the deals we did on our forward order book have resulted in that $2 billion. We have given the guidance of $1 billion. And as future guidance, we think that's a good benchmark.

Keith?

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

That's correct, yes.

Mark Streeter - *JPMorgan - Analyst*

And of the $44 billion of asset value you have combined right now, have you identified how many -- what dollar amount of assets might be eligible for sale? I know there is a recurring amount as the aircraft age, but is there a dollar amount you can give us on what you might look to sell if the market is there for you?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Well, we just stick with the $1 billion, Jamie, is where we are -- sorry, Mark, at the moment. That's just what we have, is the $1 billion as we look forward on an annualized basis. That can move around. One year, like this year, where you might sell a bit more; another year, you might sell a bit less, et cetera. But that's what it is -- $1 billion.

Mark Streeter - *JPMorgan - Analyst*

Okay. And then just one final question. Can you talk a little bit about the interplay with oil prices? And how you think about your own fleet strategy here, with WTI now at $77 -- and I look on the screen here. Is there a price where you start to alter how you think about the mix of your order book and used aircraft, and how willing you are to maybe sell used aircraft? Because, in theory, they become more economical as oil prices fall. Where is that sort of breaking point in terms of where it alters your thinking regarding the fleet? Thanks.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Sure. And on oil, I mean, of course, look, you have to look at the general direction you think oil is going to go over the long-term. And the airlines, you know, are our customer base. And that's what we take our guidance from. What does our customer want?

You know, we are not the market. The customer is the market. And the customer base is of the view firmly -- because we discuss it with our customers on an ongoing basis -- is that, yes, oil has come down in the very, very recent past. And you know just the fall this morning was due to the Saudi Arabia announcement. So it is volatile.

And I don't think -- we don't see any evidence yet that our customers are altering their longer-term fleet plans based on the recent declines in the price of oil. They are, of course, looking to extend some older assets that you may have on the books right now, that you might of thought maybe wouldn't have been economical to extend them. So they are doing that now.

But overall, the longer-term view of the airlines is that the best hedge against their single cost exposure item is a modern, fuel-efficient fleet. Don't forget 99% -- 95% of them wouldn't have the ability to hedge without posting cash collateral, which could get them into a lot of trouble. So they view having a fuel-efficient fleet as the key long-term hedge the biggest risk in their business, and the one that they have no control over. So, as of yet, we have not seen any change to that behavior.

Mark Streeter - *JPMorgan - Analyst*

Great. Thanks very much.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

You're welcome, Mark.

Operator

Scott Valentin, FBR & Company.

Scott Valentin - *FBR & Co. - Analyst*

Thanks for taking my question. Just with regard to a follow-up on oil prices -- Gus, when you talk to airlines CEOs, are they talking about expanding the number of routes, given the lower oil prices will help achieve profitability faster? And would that create incremental demand for aircraft?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

No. I think if you go to mature, experienced airlines, they realize that oil is a volatile swing factor, and that to base their route network around a relatively recent phenomenon in oil price would be high risk. You know, it takes time to set up new routes, advertising; generally, a new route is a loss leader for an airline. There has to be some promotional seats. There's a lot of advertising.

And one of the hallmarks of an airline that may not be running in an optimal fashion is that they open lots of routes and then promptly close them thereafter. You know, a well-run airline will have very few routes that it opens and that are shortly closed thereafter. I don't see that yet. I think it's much more based on the fundamentals underpinning the decision to take a route rather than the spot price of oil.

Scott Valentin - *FBR & Co. - Analyst*

Okay, thanks. And then, Keith, just a question on tax rate. It sounded like in the press release, you guys had moved most of the assets to Ireland. And I would've thought maybe the tax rate would've come down a little bit faster. You guys are guiding for a 17% tax rate?

THOMSON REUTERS

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

Yes. The 17.5% that we are talking about for the fourth quarter is based on the full-year calculation. So that 17.5% takes into consideration the quicker movement of the assets effectively. But then next year, you'll see, obviously, the rate go down below the 17.5%.

Scott Valentin - *FBR & Co. - Analyst*

Okay. Okay. And then in terms of the cost of debt. I think, Keith, you mentioned -- I didn't hear the whole response, but 4.1%, I think is what you commented as being kind of the current market versus the 3.4% currently because of accounting adjustments?

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

Yes, that's right. Correct. As we continue to put longer-term debt in place on the debt that is running off of the ILFC debt portfolio, that rate will go up to around the 4%, maybe 4.1% level.

Scott Valentin - *FBR & Co. - Analyst*

Okay. And one final question. The debt-to-equity ratio came in, I think, 3.5 to 1, a little bit lower than we thought. Is that a reflection of the pace of the aircraft sales? And do you think you can -- everyone is kind of looking at when potentially you could achieve investment grade rating again. Is that timeframe accelerated now that the debt-to-equity ratio is a little bit lower than we thought? Or is it still kind of the same timeframe you thought before?

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

Yes, the timeframe for the 3-to-1 is again toward the end of 2015, so -- which is much quicker than our original expectations. But that's where we think it will be at the end of next year.

Scott Valentin - *FBR & Co. - Analyst*

Okay. Thanks very much.

Operator

Moshe Orenbuch, Credit Suisse.

James Ulan - *Credit Suisse - Analyst*

This is James Ulan in for Moshe. Thanks for taking the question. On depreciating foreign currencies, do you guys have any thoughts on how your customer base could be influenced if the dollar continues to appreciate or things stay the same at the same levels they are today?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

In terms of currency volatility, of course, we are indirectly exposed because a number of our customers will earn local currency and will not have access to hard currency, be it euros, yen, sterling, dollars, obviously.

And one thing that you have to look at is, it's the decline in the price of oil will also help these guys an awful lot too. The decline in the price of oil has offset -- more than offset the decline in emerging market currencies against the dollar. So really, on the currencies again, it's about the velocity of the move.

You know, if we saw a really sharp sudden weakening in a particular currency, you know in the space of a few weeks, then that would have an impact. What I'm talking about is the devaluation. And that's the type of thing that would have an impact, but it's generally country-specific. And so, sure, it may result in a default here or there. But, you know, as you've been tracking us now since 2005, and we've been through many spikes and lows in various currencies, it's not something that has materially moved the needle as to the results of the Company.

James Ulan - *Credit Suisse - Analyst*

Got you. And then following up on Scott's question, can you guys give us the pace of the increase from 3.4% interest expense to 4% -- 4.1%?

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

Yes. So next year, it will probably be around 3.6% and then probably 3.9%, 4% the following year.

James Ulan - *Credit Suisse - Analyst*

Thanks.

Operator

Glenn Engel, Bank of America Merrill Lynch.

Glenn Engel - *BofA Merrill Lynch - Analyst*

The jump in depreciation from $455 million to $530 million, is that because the maintenance guy goes from a bad guy to -- a good guy to a bad guy?

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

That's correct. I mean, again, if we -- based on the adjusted net income, the aircraft assets would be depreciated over their economic life, all value, including the intangible. And that would create a higher level of depreciation above the $455 million.

Glenn Engel - *BofA Merrill Lynch - Analyst*

And the SG&A goes from $125 million to $130 million, $150 million in the fourth quarter. What drives that?

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

Yes, there's -- the SG&A for the quarter was a little bit low, relative to some timing of legal-related expenses, which are more transaction-related.

Glenn Engel - *BofA Merrill Lynch - Analyst*

And finally, you mentioned Russia as an area to look at. Is there any problem getting planes out of Russia? Or is that just a normal airline economic problem?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Yes. It's normal course of business. I mean, we took an airplane out of Siberia during the quarter, put it back out on lease. We took another airplane out of Armenia and it's -- we got it out within 48 hours. And now we are marketing it at the moment. So we haven't seen any difficulty, any undue level of difficulty there.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Darryl Genovesi, UBS.

Darryl Genovesi - *UBS - Analyst*

So, a couple of questions. I guess first, just a point of clarification on the guidance. The $530 million in depreciation expense for the fourth quarter, I thought you said -- it says in the presentation that that reflects the maintenance rights asset over the remaining economic useful life. So, that would -- wouldn't that essentially imply kind of a flat Q4 depreciation expense relative to Q3 on the same basis?

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

Yes. I mean we are talking about adjusted net income. So adjusted net income, the depreciation level would be around the $500-million-plus. But on reported, you'll see something very comparable in fourth quarter that you see here in third quarter.

Darryl Genovesi - *UBS - Analyst*

Okay. And then similar for the $130 million to $150 million in leasing and other SG&A, that would exclude the share-based comp and also the ILFC integration expenses?

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

It excludes the integration expenses but it does include the share-based comp.

Darryl Genovesi - *UBS - Analyst*

Okay. And then I guess just a couple on the balance sheet, I guess, with regard to working capital and maybe focus on cash -- predelivery deposits, and then payables, since those are kind of the big items. Can you just give us some guidance around where those should normalize? If you are kind of already there? Or if there are further opportunities once the ILFC integration is complete?

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

Yes, I mean, with regard to the predelivery payments, I mean, there's -- a significant portion of that is the fair value of the order book, $2.4 billion of the $3.4 billion. And that $2.4 billion will be set as first cost to the aircraft as they deliver. And then the other almost $1 billion were actual PDP payments on the order book itself. And obviously just -- it's prepayments on buying the aircraft.

Darryl Genovesi - *UBS - Analyst*

Okay. And then on the cash balance, should that kind of come down over time? Because that's sort of four -- four-ish times where you were with standalone AerCap.

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

Yes.

Darryl Genovesi - *UBS - Analyst*

Is that about right or --?

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

Yes, I mean, the first thing is we're going to try -- we are going to maintain this 1.2 times sources and uses for 12 months. So, part of the cash balance will be driven a little bit by obviously that requirement. But you see that there is a reasonable amount of cash in the restricted category. And we do have several things, we're looking at initiatives to reduce that amount and put it in the unrestricted bucket.

Darryl Genovesi - *UBS - Analyst*

Okay, thank you.

Operator

Andrew Light, Citigroup.

Andrew Light - *Citigroup - Analyst*

Gus, AerCap was involved in the project with Airbus several years ago to convert A320 family planes into freighters, which I think was ultimately aborted. But I understand that might be reviving again. First of all, are you involved? And secondly, do you think that could be a significant support of the residual values for the A320 planes?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Andrew, that's right. We were -- at the time it became an aborted effort, the joint venture between Airbus and a Russian entity to convert the 320s into -- all the 320s into freighters, and particularly old technology 320's, the older engine variant.

Now, what you will have seen in some of the press was that we -- our subsidiary, AeroTurbine, has been doing some work with someone who is looking to convert A320's into freighters. But we are really just facilitating it. We're doing the conversion work for some of the freighters at our own facility. We have an MRO facility in Arizona, and so we are just doing it for them. And we are sourcing some airplanes, but we're not actually converting our own freighters into A320's. We are more just facilitating it through selling and doing some of the modification work ourselves for the third party.

Over time, will we have a look at that market again? Yes, sure, maybe. But to be honest, we are a few years down the track now. So those A320s that we had targeted, the different engine variety -- they are the CFM56-583 and V2500-A1 power airplanes -- they're gone now out of the system, really, at this point.

So, any of the newer technology engine A320's that we have now, we are seeing a good leasing market for them. So we're not as motivated, really, to have a look at the freighter alternative for them at the moment. That could change over time.

Andrew Light - *Citigroup - Analyst*

Okay, thanks. And on the integration and transaction expenses, do you expect any significant amounts going into 2015? Or is it really mostly all done this year?

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

Most of them will be incurred this year. We'll have a handful in the first part of 2015, but it will not be material.

Andrew Light - *Citigroup - Analyst*

Okay, great. Thank you very much.

Operator

Joe Gill, Goodbody Stockbrokers.

Joe Gill - *Goodbody Stockbrokers - Analyst*

I have three questions, please. First, I'd like to ask about oil, as well, in terms of -- have you done work on the relationship between oil prices and demand for new technology aircraft as against new aircraft? And at what levels do you think you would experience some pushback in demand from airlines for the new engined variance against extending their existing fleets or going for used aircraft?

The second question is in relation to narrowbodies. In terms of leases that are being renewed or rolled over, what's your experience in terms of the rates you are achieving for 737 versus A320? And is there any relative weakness in either of those types?

And the last question, in relation to widebodies. On the A330 lines, what are your thoughts about end of production demand for A330 CEO ahead of going Neo going into production, and what affect that's having on values? Thank you.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Well, let me deal with the oil one first. As I said, we don't see any evidence that any of our customers are altering their behavior based on the recent decline in the price of oil. Their view is that oil is their single biggest cost. It's an uncontrollable cost. And the best possible hedge, given the strength of their own balance sheet, to rising fuel prices in the future, is new engine technology equipment.

So, we don't see any change in that behavior. And we are still seeing very strong demand for our Neo -- A320 Neo, 78's and 350's.

On the narrowbody rollover, we are seeing, as I commented on, very good demand for 320s and 737s. In particular, the 321 variant and the 737-800 will be the two standouts. But 320's, we are moving on good terms.

On the widebody 330, clearly, in end of production. There's -- you can place A330; that's not a problem. A330-300, you can place them all day. The question is, versus what you buy them for, what's your lease rate? So, we would have no problem buying an A330 tomorrow. We know what we can lease it for. We've just got to make sure that if we are taking delivery of an A330 coming into the end of the production line, say, in 2018, that you know that your asset price reflects what the lease rent will be at that time, same as it was for A320 CEOs. Again, absolutely no problem moving them. It's just a question of what's your asset price?

So, the assets that will be most impacted by residual value of the new technology assets will be the ones rolling off the production line just prior to the launch of the new one. But so long as you know that going in, and you've priced your order appropriately, then you are fine.

The area where you may face some difficulty is if you, for example, have placed an order for existing technology equipment just before the OEMs announce the new tech, and your order stream was right up against the end of the run for the new tech, and so therefore, you paid top dollar price, and you didn't have the information that there was going to be a new aircraft type, then you might face some issues. But the key is that we know what the lease rates are for those assets. And so long as we've got the right price for them, we'll be fine.

Joe Gill - *Goodbody Stockbrokers - Analyst*

Thank you.

Operator

Robert Smalley, UBS.

Robert Smalley - *UBS - Analyst*

Just one quick question from the fixed income side. In terms of the unencumbered asset test that you guys have in some covenants, 135%, where does that stand? And what kind of cushion do you have?

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

We are well north of the 135%. And I think we are around the 160%, 170% level.

Robert Smalley - *UBS - Analyst*

Any plans to bring that down a little bit? Or is that just really -- does that come out as a function of the ongoing business and balance sheet?

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

Right now it's just obviously a fallout of really combining the two companies and where we stand. We're going to try -- and again, I think one of the metrics that we've talked about before is that we are going to try and keep the amount of secured debt below 30% of total assets. And that will -- to keep us well within the ratio.

Robert Smalley - *UBS - Analyst*

Okay. And I know the ratings question was asked earlier, but are you getting any body language from the rating agencies about them being a little bit more prospective about your outlook and your rating? Or do you think that you'll have to hit the numbers first for a couple of quarters -- hit their metrics first for a little while, before they consider you for the upgrade?

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

Look, I mean, we have a well-defined plan as to how we get back to investment grade. We set that up and established that before the acquisition was completed. And, of course, we are giving the agencies very frequent updates as to where we stand, and where we're at with integration and all the other items. So, yes, I think -- they'll make their call when they make their call.

Robert Smalley - *UBS - Analyst*

Okay. Thanks a lot.

Operator

(Operator Instructions) Michael Rudnick, AMI Group.

Michael Rudnick - *AMI Group - Analyst*

Congratulations on a great quarter to you and your team. I just want to chase down this fuel issue just a little bit more. Do you see the potential for the releasing of your assets to another tier of airlines as you go forward? I'm thinking the Spirits of the world here in the United States?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Spirit is a great airline, I have to say. You know, they have a tremendous airline. They do great stuff. So we'd be delighted to give Spirit more assets. They are a very important customer of ours. We've got over 20 airplanes down there in South Florida.

And the -- but the Spirits of the world you obviously know, as I'm sure they look at all different types of equipment, but they have a big order book of their own. And not speaking for Spirit specifically, but in general, as I said, most airlines are quite happy maybe to extend things like 75, 76's. When you talk about A320's or 737's, they are highly fuel-efficient aircraft as they are.

The assets that would be on the margin would be more like the 75, the 76, et cetera; older 330's before the revised engine technology. And those assets are the ones where, at the margin, you are seeing the price of oil encouraging airlines to maybe extend them for a bit longer than we had originally envisaged. But overall, the trend is still -- the fleet planning at our customers is focused on the newer technology assets for the longer-term.

Michael Rudnick - *AMI Group - Analyst*

Okay, thank you. And also, last quarter, you talked about the smallest releasing exposure you've had in years as far as the combined entities. I think it was something around or about 85 aircraft. Can you give us a little bit of color on where you are at with the re-leasing activities? And if that's pretty much the same as what you reported last quarter?

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Yes. So, as I said in my comments there, we are now down to less than 50, which is a very low level for the combined entity. We are moving a significant number of airplanes. And, of course, the accelerated sales activity helps with that too. But we are now -- we are down to less than 50 to the end of 2015 that have to be moved.

Michael Rudnick - *AMI Group - Analyst*

Okay. And then just two other quick questions. Your progress on $100 million reduction in SG&A, are you still on target for -- I think you said fourth quarter 2015?

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

Again, the transition, the full integration will complete -- be complete probably by the second quarter of 2015.

Michael Rudnick - *AMI Group - Analyst*

Okay. And last question. The tax rate is 12.5% for Ireland. Your guidance, I believe, was fourth-quarter 2015 for that as well. Is that still current?

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

The 12.5% is what we'll hit in future periods; not, obviously, this year. And next year, it will be probably just slightly north of 12.5%. But the following year in 2016, we'll be at that rate.

Michael Rudnick - *AMI Group - Analyst*

Terrific. Thank you. That's all for me. Thank you very much, gentlemen.

Operator

Thank you. As there are no further questions in the queue, that will conclude today's Q&A session. I would now like to turn the call back to AerCap for any additional or closing remarks.

Aengus Kelly - *AerCap Holdings N.V. - CEO and Executive Director*

Thank you, operator. Thank you very much for joining us on the call today. We hope we'll see as many of you as possible at the New York Palace later on this morning. Thank you.

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

Thank you.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.