THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AER - Q2 2015 AerCap Holdings NV Earnings Call

EVENT DATE/TIME: AUGUST 11, 2015 / 1:00PM GMT

CORPORATE PARTICIPANTS

John Wikoff *AerCap Holdings NV - Head, IR*

Aengus Kelly *AerCap Holdings NV - CEO*

Keith Helming *AerCap Holdings NV - CFO*

CONFERENCE CALL PARTICIPANTS

Nish Mani *JPMorgan - Analyst*

Gary Liebowitz *Wells Fargo Securities - Analyst*

Michael Linenberg *Deutsche Bank - Analyst*

Nathan Hong *Morgan Stanley - Analyst*

Moshe Orenbuch *Credit Suisse - Analyst*

Helane Becker *Cowen and Company - Analyst*

Scott Valentin *FBR & Co. - Analyst*

Darryl Genovesi *UBS Securities - Analyst*

Kristine Liwag *BofA Merrill Lynch - Analyst*

Vincent Caintic *Macquarie Capital Markets - Analyst*

PRESENTATION

Operator

Welcome to today's AerCap Holdings second-quarter 2015 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 will now hand over to Mr. John Wikoff, Head of Investor Relations. Please go ahead, sir.

John Wikoff *- AerCap Holdings NV - Head, IR*

Thank you, Alex. Hello, everyone. Welcome to our 2015 second-quarter results conference call. With me today is our Chief Executive Officer, Aengus Kelly, and our Chief Financial Officer, Keith Helming.

Before we begin today's call, I would like 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.

AerCap undertakes no 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 can be found in AerCap's earning release dated August 11, 2015. 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 available for replay. I will turn the call over now to Aengus Kelly.

Aengus Kelly - *AerCap Holdings NV - CEO*

Thank you, John. Good morning, everyone, and thank you for joining us for our 2015 second-quarter earnings call.

We are delighted to report another set of record quarterly results and a very notable quarter for AerCap. In addition to our daily activities, which we will run through momentarily, the second quarter also saw the completion of a highly successful $3.5 billion secondary share offering, a landmark order for 100 Boeing 737 MAX jets, and a $750 million share repurchase, representing over 7% of our outstanding shares, which was partially financed by a highly accretive subordinated debt issuance.

Let's start, however, with our financial results. We generated adjusted net income of $361 million for the second quarter and adjusted EPS of $1.73. This contributed to an adjusted first-half EPS of $3.16, which will see AerCap far exceed the expected annual earnings per share of $4 which we guided for at the time of the announcement of the ILFC transaction.

We finished the first half of the year with total assets of $44.1 billion. Our net spread, which is the crucial measure of the Company's operational performance, reached $910 million in the second quarter, a record level for AerCap. This represents annual net interest margin of 9.9%. These results reflect the tremendous success of our transformational deal with ILFC and the efficiency with which the two leasing platforms have been integrated to create the global industry leader.

The business is firing on all cylinders. Our daily interaction with the marketplace during the second quarter saw the completion of 132 aircraft transactions. This includes the signing of 103 aircraft lease agreements, the purchase of 11 aircraft, and the sale or part-out of 18 aircraft.

We remain very nimble despite our scale and our operational capability is delivering a virtually full fleet utilization rate of 99%. Combine this with an average remaining contracted lease term of six years and a hedge liability structure, which is designed to mirror these lessee cash flows, and you have tremendous earnings visibility over the next several years.

Let's reflect a little on the highly-notable achievements AerCap accomplished during the second quarter. The secondary offering conducted by AIG, which saw AIG reduce its position in AerCap by 90%, represents a new beginning for our company and all of our shareholders. In addition, the partial financing of our 750 million share repurchase through the issuance to AIG of very attractive $500 million 30-year subordinated notes at a below-market coupon represents significant value for our shareholders.

The second quarter also showcased AerCap's ability to source significant long-term growth opportunities. As we have always said, AerCap does not seek to grow for growth's sake. Any transaction we undertake must meet the strict criteria of our investment strategy with our ultimate objective to enhance earnings per share and create value for our shareholders.

The order placed in June with Boeing for 100 737 MAX aircraft achieves this and adds an important aircraft model to our already highly-attractive order book. This landmark order brings our purchase commitments to 461 aircraft with scheduled delivery dates through 2022. The successful placement of our forward orders is well within the capabilities of our market-leading platform and substantial progress has already been made.

As of June 30, over 90% of our committed purchases through December 2017 and approximately 80% through December 2018 have been placed under lease contract or LOI. In total, we have now placed almost 180 new aircraft on long-term leases from our forward order book.

AerCap's discipline in managing its assets, combined with our enhanced scale, global platform, and unique daily insight into the market, provides us with significant competitive advantages. Indeed, 2015 is shaping up to be an excellent year for AerCap. There is strong market demand driven by passenger growth, which continues to increase by approximately 5.5% per annum. Furthermore, the financing needs of airlines globally and the flexibility provided by the leasing model means that demand for operating leases remains very robust.

Our forward-order placement activity, coupled with our near-record utilization rate and net spread, are evidence of this robust demand. Our receivables remain at historical lows and we have demonstrated that where there is risk our assets are highly portable, and we hold significant collateral to protect us against negative credit events.

On the liability side of our business, we remain highly cash generative and we maintain a conservative approach towards the management of our balance sheet. We remain well on track to decreasing our debt-equity ratio to a target of 3 to 1. Our debt-equity ratio currently stands at 3.3 to 1, having stood at 3.8 to 1 as recently as June 30, 2014. This is despite the growth activities and share buyback executed during the second quarter.

As of June 30, our success in financing the growth of our business means that we have $6.6 billion of available liquidity on hand and we have raised $17 billion since the announcement of the ILFC transaction.

In summary, we are operating in an industry with very strong and resilient fundamentals. We have an efficient and scalable platform, which benefits from the industry's most attractive order book. We remain a highly cash-generative business with significant earnings visibility and we succeed in delivering industry-leading returns, while maintaining a conservative attitude to risk through an innovative hedging strategy. This leaves us very well-positioned to drive highly attractive returns for our shareholders.

With that I will hand the call over to Keith for a detailed review of our financial performance.

Keith Helming - *AerCap Holdings NV - CFO*

Thanks, guys. Hello, everyone. I will start on page 5 of the presentation.

Our reported net income for second quarter was $309.1 million. Adjusted net income, as mentioned, was $361 million. The adjustments made to derive adjusted net income include the elimination of costs relating to the mark-to-market of interest-rate caps and swaps, transaction and integration expenses from the ILFC acquisition, and maintenance rights expense. The most significant adjustment was $51 million for maintenance right expense, which I will talk about in just a moment.

For the first half of 2015, adjusted net income was $665.7 million.

Slide 6, reported earnings per share were $1.48 in second quarter. Adjusted earnings per share were $1.73. The average shares outstanding in the second quarter were 209 million. For the first half of 2015, adjusted earnings per share were $3.16.

Slide 7. As a result of purchase accounting, a portion of the acquired IOC aircraft value is classified as an intangible asset. The amortization cost for this portion of the aircraft value, which stood at $3.5 billion as of the end of the quarter, is recorded as lease expense instead of depreciation expense. As a result, reported depreciation expense is lower and reported leasing expenses are higher than normal.

Prior to the acquisition, this asset was part of the aircraft book value and subject to normal depreciation. Now the amortization of the intangible asset is expensed more quickly over the remaining lease term, instead of the remaining economic life of the aircraft. This difference in cost has effectively accelerated depreciation and was $58 million pretax and $51 million after-tax in the second quarter.

Slide 7 -- excuse me, slide 8. Total revenue in second quarter was $1.338 billion, maintenance-related revenue was $70 million, net gain on sale of assets was $55 million, and other income was $49 million. The increase in revenue, as compared to same period in 2014, was driven primarily by the ILFC acquisition.

Slide 9, net interest margin, or net spread, was $910 million in second quarter. The annualized margin as a percent to average lease assets was 9.9%, up from 9.8% during the same period in 2014.

Slide 10. Following on from our second-quarter and net spread results, this slide provides a historical perspective regarding AerCap's consistent profitability in various markets over the past 8.5 years. During this period there have been several stressed environments which included the financial crisis, the difficulties created by high oil prices, and recent problems such as the Ebola scare and the Russian situation. Throughout this time period, AerCap's assets have grown tenfold and its profitability has remained strong and consistent, with average annual EPS growth of 12%.

Over this period, net interest margin, or NIM, has averaged 9.6% with all the years falling within a tight band around this average. NIM less depreciation expense has averaged 4.2% during the same period. Again, with all the years falling within a tight band around the average. These results demonstrate the strength and consistency of the AerCap business model, regardless of the macroeconomic environment.

Slide 11, the impact from asset sales in second quarter was a pretax gain of $54.6 million. During the second quarter we sold 13 aircraft and parted out one aircraft from our own portfolio. In addition, 11 aircraft were purchased during the second quarter.

Slide 12, leasing expenses were $173 million and SG&A was $92 million in the second quarter. Leasing costs includes $126 million relating to the expensing of the maintenance rights asset and $13 million relating to aircraft debt prematurely terminated or defaulted. During second quarter we incurred expenses of $1 million related to the ILFC transaction.

Also in second quarter, we incurred $3 million of impairments which related to aircraft we parted out. The year-to-date tax rate for 2015 is 13.5%.

Slide 13. AerCap's unrestricted cash balance at the end of the second quarter was $1.6 billion and our total cash balance, including restricted cash, was $1.9 billion. Operating cash flows were $849 million in the second quarter.

Slide 14. Our available liquidity sources over the next 12 months is $10 billion and contracted debt maturities and CapEx over the same period is $7.5 billion. This results in excess liquidity coverage of $2.5 billion and a ratio of sources to uses of 1.3 times. These sources do not include any additional capital we expect to generate from financing of our new aircraft purchases.

Slide 15, at the end of second quarter, our debt to equity ratio was 3.3 to 1, down from 3.8 to 1 at the same period in 2014. The average cost of our debt for the quarter was 3.5%. At the end of second quarter 2015, the adjusted debt balance was $28.4 billion and the adjusted equity balance was $8.6 billion.

Slide 17. With regard to the financial outlook for 2015, we have updated our previous guidance for the full-year adjusted net income. The updates in the previous guidance includes an increase for the after-tax impact of the gain on sale generated during second quarter, as well as lower leasing and other expenses driven primarily by lower default-related costs. If we generated further gain on sales in the subsequent quarters in 2015, adjusted net income would increase further.

Those were the financial highlights for the second quarter and I would like to now open the call to the Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jamie Baker, JPMorgan.

Nish Mani - *JPMorgan - Analyst*

Good morning, guys. This is Nish Mani on for Jamie Baker. I wanted to ask you a question about capital allocation and the capital structure, more broadly speaking.

On the march to the 3 to 1 debt to equity ratio, how are you guys thinking about delevering relative to kind of enhanced returns to shareholders in the form of expanded buybacks and dividends long term?

Keith Helming - *AerCap Holdings NV - CFO*

As we mentioned, and I think as Gus mentioned again here, we do expect to get to our targeted debt-to-equity ratio of 3.1 by the end of 2015. We will likely -- from that point forward, we will likely operate in the band of 2.7 to 3.1.

What that means is, again, generation of excess capital of $500 million plus in each of the years 2016 and beyond, and that capital -- again, we will look to see what opportunities are available. Certainly share repurchases will be part of those opportunities as well as additional aircraft purchases. But, again, we will look at what the market conditions are at the time and pick the best choice with regard to the allocation of capital.

Nish Mani - *JPMorgan - Analyst*

Okay, great. And on the cost of debt component, you're sitting at about 3.5% right now and I'm wondering, as we get that number closer to 3 to 1, what you anticipate in terms of incremental savings on cost of new debt as you approach that 3 to 1 target by the year-end.

Keith Helming - *AerCap Holdings NV - CFO*

We issued a bond in June, which was an average cost of about 4.5%. It was a blend of both five- and seven-year issuance. Since that time, as you probably saw, we've got a positive outlook from Fitch, which that gives us now two rating agencies in that category. So again we believe we are on our way back to investment grade and again we think that with that the cost relative to the market should improve in future issuances.

Nish Mani - *JPMorgan - Analyst*

Great. And final question; I know I would be remiss if I didn't ask about what's happening at Avolon. I'm wondering if, without showing your hand too much, if you had the opportunity to kind of take a look at the fleet and order book, and if it ever piqued your interest given the amount of interest received from both Bohai and an unnamed third-party bidder as well.

Aengus Kelly - *AerCap Holdings NV - CEO*

We don't comment on any market speculation or rumors, but suffice to say, we have had our own fair share of M&A over the course of the last 12 months, so that has been our focus - internally cementing the success of the ILFC transaction.

Nish Mani - *JPMorgan - Analyst*

Okay. I will take that to mean that you guys are busy doing your own thing right now. Thank you so much, guys. I really appreciate the time.

Operator

Gary Liebowitz, Wells Fargo.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Thank you, operator. Good day, gentlemen. Gus, wondering if you had any comments on some of the recent ABS transactions we have seen in the sector and do you think that perhaps looking at ABS as a tool to optimize your fleet.

Aengus Kelly - *AerCap Holdings NV - CEO*

Sure. Gary, we've been very big supporters of the ABS transaction. In fact, we started the market off with the biggest deal that's ever been done on it with the airplanes deal in 1996, so we are very positively disposed to ABS transactions.

But as we have looked at them over the course of the last couple of years, the cost base for them has been relatively high. That's coming down significantly. We're watching it closely, and if we feel that the market size grows a bit, then it's something we will look very hard at.

We are a very big supporter of the product and we just need to make sure that the scale is there to do a deal that is suitable for AerCap now. There's no point in us doing $500 million or $600 million. It needs to be closer to the $2 billion level for it to be worthwhile for us, but we are certainly looking at it. As the size of the market increases and as the cost of the bonds comes down, we're continuing to look very hard at it.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Great, thanks. For Keith. Keith, can you help me understand; it looks like on your trading gains your margin on sale was well into the teens. And it looks like most of the planes you sold were part of the ILFC transaction, so they would have been marked-to-market about a year ago.

Can you explain how you are generating these types of gains on planes that were booked at market?

Keith Helming - *AerCap Holdings NV - CFO*

Sure, you're correct. In terms of the margin on the sales, it was around 15%. And just as you know, Gary, if you look at our history, that margin is about what we have generated throughout AerCap's history.

With regard to the fair value exercise that we did with ILFC, the sales, in particular the two large ones, the 787s, those transactions didn't materialize until after the acquisition was closed. So those sets of circumstances were effectively post-acquisition and the deal was negotiated. And these are kind of a special situation, so there's a number of reasons why this sort of fair value analysis wasn't considered at the time of the acquisition. So everything that we are booking now is really based on items that are effectively subsequent events.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay, great. Then just one last one. Keith, on the remaining CapEx for the year, do you have a dollar amount and how it is sort of split up between Q3 and Q4?

Keith Helming - *AerCap Holdings NV - CFO*

It's pretty even, I think, for the two quarters and offhand I think it's around $2 billion and change. I don't have the number exactly in front of me.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Thank you very much.

Operator

Michael Linenberg, Deutsche Bank.

Michael Linenberg - *Deutsche Bank - Analyst*

Yes, just a couple small sort of nits here. The AIG stake, I wasn't sure whether or not the green shoe was exercised. Are they now completely out of AerCap shares?

Aengus Kelly - *AerCap Holdings NV - CEO*

No, Michael, they are not. They still have the residual position left.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, good. Then with respect to the earnings, I see that it's reported basic. Is the reason you're not providing diluted is because it's an anti-dilutive number and so you default to the basic EPS?

Keith Helming - *AerCap Holdings NV - CFO*

No, we actually report both. If you look at our financial statements in the press release, we show the average -- the EPS on both a basic as well as diluted basis. In the quarter, for example, the basic was $1.48 and diluted was $1.46.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, good. Then just last question. With the potential demise of Ex-Im, there are obviously some carriers that have relied on that for support in the past. Are you seeing any maybe heavy Ex-Im users who are now coming to you and asking for more financing or more RFPs? Just any change in the landscape that you are seeing.

Aengus Kelly - *AerCap Holdings NV - CEO*

No, there's still a very robust demand for the sale-leaseback market; it hasn't changed. Where it is having an impact is when we talk to our airline customers is on future orders. There's no doubt that the absence of Ex-Im, if Ex-Im remains closed, will put some near-term concerns around large-scale ordering of the Boeing product directly by the airline.

But a number of our customers are saying to us, look, if Ex-Im shuts down, you are the biggest out there. Will you step in with us into part of the order and work with us? So I think that one way or the other this will get resolved. If Ex-Im isn't there, people like AerCap will step in as well to help with the airlines, assuming the deal makes sense for the shareholders.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, great. Thanks a lot, Gus. Thanks, Keith.

Operator

Nathan Hong, Morgan Stanley.

Nathan Hong - *Morgan Stanley - Analyst*

Thanks for taking the question. Keith, I just wanted to ask you about the net interest margin on slide 10 that you guys did highlight. There has definitely been a rebound since I guess the 2012-2013 time period, but it's obviously not back at the peak back in 2008 or 2009. So my question is do you think you will eventually expand your net interest margins back to where it was before? And if anything, can you talk about how we get there?

Keith Helming - *AerCap Holdings NV - CFO*

I think the level that we have seen on an average basis, the 9.6%, is -- as you can see, has been very consistent and we believe that that's a level that we will see in the future. Some of the higher amounts that you see in the earlier years was the fact that AerCap was relatively small back then and there was a few other -- there were a few one-off items that drove slightly higher profitability for a much smaller company. So I wouldn't focus too much on that time period, but really focus on the 9.6% that you see long term.

Aengus Kelly - *AerCap Holdings NV - CEO*

Nathan, one thing we really wanted to communicate with this slide is that you go through all the different issues this industry has faced in the last six years, seven years: $148 fuel; the financial crisis; the global downturn; the resulting euro crisis; most recently Ebola, Russia, Greece, you name it. Through all these events, the profitability of this company remains extremely stable. It's a very tight band and it's a very robust profitability and cash flow.

As you look forward, you can see that our debt is, for the most part, fixed for long duration. Our leases are fixed long term. You know the SG&A build, more or less, and you know the tax rate. So you have a lot of visibility into the future and we wanted to put this there so people can just see how robust the profitability of AerCap and indeed most of the aircraft leasing industry is.

Nathan Hong - *Morgan Stanley - Analyst*

Got it. Earnings has been pretty resilient.

If I could ask another question, obviously we have been hearing that there's a lot of capital coming into the space and, if anything, new leasing companies in China, for example, continuing to purchase aircraft. And so I'm wondering, as we look forward, how worried are you when some of these leasing companies will have to begin to remarket some of these aircraft they have in their fleet, considering that maybe something like -- what we have been hearing is that they may or may not be -- at least have the global platforms to do so efficiently.

Aengus Kelly - *AerCap Holdings NV - CEO*

Just repeat the last part of the question again, Nathan. Sorry.

Nathan Hong - *Morgan Stanley - Analyst*

Yes, just considering that what we have been hearing is that some of them, some of the leasing companies, may or may not have the global platforms to remarket some of these aircraft efficiently.

Aengus Kelly - *AerCap Holdings NV - CEO*

That's probably true. And Morgan Stanley made the same mistake themselves a few years ago when they bought AWAS, so it's nothing new. It doesn't surprise me.

The banks think it's a spread business. They pile in; realize there's a lot more to it than just being a spread business. And then what historically happens is they run for the hills once they realize that it actually is a big barrier to entry in this business to build a global platform and very difficult thing to do, very time-consuming thing to do. So I think we'll see the same behavior here that they'll run for the hills when the going gets tough.

Nathan Hong - *Morgan Stanley - Analyst*

Got it, that's helpful. Thanks again.

Operator

Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great, thanks. You may have said this before; I apologize if that. But the 3.5% cost of funds was kind of lower than what we were expecting, so better net interest margins. Just talk a little bit about how that progresses. Can that continue?

Keith Helming - *AerCap Holdings NV - CFO*

If you are comparing it to, for example, the first quarter, we had a one-off charge in the first quarter which was -- which actually added to the 3.7% cost that we had in first quarter. Excluding that one-off it would be 3.5%, so it was consistent this quarter versus first quarter on an adjusted basis.

But going forward, we would expect to see in probably the latter half of this year around 3.6%. And then, depending on what level of debt costs that we put on for new issuances, it will probably creep further closer to the 4% level, but level out at that level.

Moshe Orenbuch - *Credit Suisse - Analyst*

Got it, thanks. Kind of from a big picture standpoint, can you talk a little bit about some of the things going on in various areas of the world? Do you see an effect from the Chinese devaluation at all? And one of your competitors earlier had talked about a potential market opening in Iran and whether you see that as a significant development or not.

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, on China, the 1.9% devaluation overnight of the RMB, we have not seen that in the lead up to it over the course of the last six months of any impact on the traffic that the airlines are generating. Indeed, they are in the mid-teens growth, the Chinese airlines, year-to-date. Their record profitability.

Air China, the national carrier, recently -- just yesterday announced that they expect to see record earnings for the full year as well. And, thus, reflective of what we see in the Chinese market: very strong demand for new aircraft. Indeed, we signed a deal just a few weeks ago for a package of NEOs with a Chinese carrier just two weeks ago. So the Chinese market is very active.

You have got to remember, Chinese airlines are taking actions based on 5-, 10-, 12-year plans, not based on the impact of a retail-driven stock market overnight. That isn't impacting their decision making. They are looking at a much longer term scenario when they are looking at new airplanes. So we are continuing to see very positive demand out of China.

As for the second question about Iran, if that market opens -- and a lot of things have to happen before it does -- that's something we will evaluate at that time.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great. Thanks very much, guys.

Operator

Helane Becker, Cowen and Company.

Helane Becker - *Cowen and Company - Analyst*

Thanks very much, operator. Hi, gentlemen, thank you for the time. Just one question on AeroTurbine. Is that, Gus, continue -- do that continue to be core to the Company?

Aengus Kelly - *AerCap Holdings NV - CEO*

AeroTurbine it's much more important to us now, obviously, than it was when we had the smaller AerCap and we sold it to ILFC. So AeroTurbine is doing a good job for us right now and we are very happy with the performance of it, and so we don't see anything in the near term.

Helane Becker - *Cowen and Company - Analyst*

Okay. And then just my other question, probably for Keith, on restricted cash and the decline. Just in the cash flows that you have said that acknowledges the change but doesn't really say why, can you just say why it declines so much?

Keith Helming - *AerCap Holdings NV - CFO*

We put an effort into trying to free up a lot of restricted cash from some of the facilities that ILFC had in previously and we have done that. We have been able to release $300 million to $400 million, so now I think you are going to see the balance remain relatively stable going forward. If we find ways to further release some of the balances, which are all typically relating to debt facilities, we will do so. But I think we have hit on most of the opportunities at the moment.

Helane Becker - *Cowen and Company - Analyst*

Okay. Thank you for all my questions.

Operator

Scott Valentin, FBR Capital Markets

Scott Valentin - *FBR & Co. - Analyst*

Thank you, operator. Good morning, everyone. Thanks for taking my question. Just with regard to the pace of sales, I know there's no -- the guidance contains assumption of no sales in the second half, but the market seems to be pretty strong for maybe older-life or mid-life aircraft. Just wondering, do you guys anticipate selling aircraft or does it depend upon market conditions?

Aengus Kelly - *AerCap Holdings NV - CEO*

We would expect to sell more aircraft in the second half of the year. The quantum will depend on the market conditions.

And also, when you are selling aircraft, you are selling a bunch of aircraft to one guy, they don't just happen overnight. You don't just press a button and an aircraft is sold. You have to work across numerous jurisdictions when you are selling, say, eight or nine airplanes in different jurisdictions. So it takes -- it's a multi-month process, oftentimes the best part of six months, before it's all done and dusted.

So, no, we continue to look at sales opportunities throughout the portfolio.

Scott Valentin - *FBR & Co. - Analyst*

Okay. Then weaving that into this next question; in terms of age of the fleet, I think you are at 7.7 years or 7.6 years. Is that about where you want to be or do you foresee the fleet getting -- changing that age over time?

Aengus Kelly - *AerCap Holdings NV - CEO*

It will go down a bit over time with the addition of new aircraft, of course, coming in on a weighted-average basis that are more valuable, and that will drive down the weighted average age of the fleet. As we said, we don't really want it to go into the 5s.

We've got to make sure there's a fair risk and reward for our shareholders. But we think somewhere in the late 5s to 8-and-change as an average age is an area where there's an appropriate risk/return for the shareholders.

Scott Valentin - *FBR & Co. - Analyst*

Okay. Just one final question. In the past, before ILFC, I think you had the fleet appraised semiannually. Is there any thought about going back to that process?

Keith Helming - *AerCap Holdings NV - CFO*

We are looking at potentially providing some of that information in our upcoming investor day.

Scott Valentin - *FBR & Co. - Analyst*

Okay, thanks very much.

Operator

Darryl Genovesi, UBS.

Darryl Genovesi - *UBS Securities - Analyst*

Good morning, guys. Just wondering; back when you completed the ILFC acquisition, I think you had talked about your leasing and SG&A expense. At the time you thought it was going to benefit from about $100 million synergy between the legacy aircraft business and the ILFC business.

I think you were running a little over $600 million a year. Your guidance for this year would now anticipate about $500 million. Should we assume that that $100 million in synergies is now fully reflected or are there other moving parts within that?

Keith Helming - *AerCap Holdings NV - CFO*

No, I think what you see in this quarter is a pretty good run rate for the next few quarters. I think we had a handful of temporary staff left in the ILFC team that left early July, but that's effectively the completion of the integration. So the cost savings that we have initiated and executed so far is really complete. So the run rate you saw in the quarter is relatively good going forward.

Darryl Genovesi - *UBS Securities - Analyst*

Great. Thanks for that. And then on the sales, you had talked specifically about the 787s driving a big part of the gain that you saw in the quarter. It looks like you also sold a handful of A320 family airplanes and a handful of 757s as well.

Can you just give us a sense of how the used market is evaluating those assets currently? Is it going to be lower or above where we were, say, six to 12 months ago? And then are you seeing any downward pressure as we near the entry into service of the NEO and the MAX?

Aengus Kelly - *AerCap Holdings NV - CEO*

No, we're not. The aircraft we are selling -- as we said on many prior calls, the aircraft we've been selling are older aircraft. They're just not competitors of the NEOs and the MAXs.

There's very few good quality 757s out there so there's a scarcity factor around it. While there's lots of 757s in storage, very few of them could ever be reactivated because of the prohibitive cost to reactivate them for five or six years. So if you've a good, quality 757 you'll get a good price for it.

On A320 and 737s, the market is so huge for those aircraft, there is such a massive installed base that you will be leasing those airplanes for a decade to come at least.

Darryl Genovesi - *UBS Securities - Analyst*

Great. And then if I can just sneak one last one in on AeroTurbine. I think AeroTurbine was running at about $200 million a year revenue run rate a few years ago. When you closed the ILFC acquisition, you talked about I think being closer to $100 million from here forward. So far what we've seen has exceeded that level, in Q2 in particular.

So I'm just wondering if the upside there is something that you view a sustainable that would put us on track to get back in that $200 million a year range, or if there are some one-times -- perhaps that's not the best way to say it -- but perhaps (inaudible) and we have just seen a lot of activity that you don't expect to repeat.

Aengus Kelly - *AerCap Holdings NV - CEO*

On the revenue line AeroTurbine is doing about $300 million a year. It was at $200 million when we sold it to ILFC and it's up to around $300 million now so there's been no real change there.

Keith Helming - *AerCap Holdings NV - CFO*

Including all products.

Aengus Kelly - *AerCap Holdings NV - CEO*

Yes, all products, yes, yes. There's been no real change there.

Keith Helming - *AerCap Holdings NV - CFO*

It's a pretty stable amount every quarter.

Darryl Genovesi - *UBS Securities - Analyst*

Okay, great. Thanks a lot guys.

Operator

Kristine Liwag, Bank of America Merrill Lynch.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Good morning. It seems like the Fed continues to target interest rate hikes this year. Are you seeing the anticipation of higher interest rates translate to higher lease rates for the aircraft you have placed in 2016, 2017, and 2018?

Aengus Kelly - *AerCap Holdings NV - CEO*

Yes, there's an automatic adjustment to the lease; it's contracted. So for every lease that is out there on a new aircraft, if there's an increase in interest rates, it just automatically ratchets up as a function of the contract.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Great. And as a follow-up to Gary's earlier question, you mentioned how the gain on sale in the quarter was from subsequent transactions after the fair value exercise from the deal. Does this mean that, absent significant market movement, should gain on sale from the ILFC acquisition trend below the 15% margin you've historically booked?

Keith Helming - *AerCap Holdings NV - CFO*

It depends again on what we sell and it depends on the market conditions, but the fair value exercise that we went through on the ILFC deal, we felt pretty comfortable with the levels that we put with the aircraft. And I think there's gains to be had on future sales as well, but again, the absolute amount will be -- will depend on the circumstances of the transaction.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

And as a follow-up, can you remind us how we should think about the $750 million in the quarter related to the 50% equity credit for long-term subordinated debt? And how should we think about this going forward?

Keith Helming - *AerCap Holdings NV - CFO*

The 50% equity credit that we refer to is effectively what the agencies, both Fitch and S&P, provide with their calculation to us. That's the same one that we follow. Those are two long-term debt facilities that will be around for long period of time, so you will see that as part of the calculation going forward.

Again, I think I mentioned before that we recently got a positive outlook from Fitch just recently, and so that puts both S&P and Fitch in that category.

Aengus Kelly - *AerCap Holdings NV - CEO*

Kristine, you know, these are extremely long-dated securities, 30- and 50-year maturities, and there's not going to be any change to what you see set out on slide 15. And these transactions are highly accretive. We are getting equity for the cost of debt.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Great. And the final question for me: how do the lease rates -- how do the lease revenues for the lease extensions that you have signed compare to the previous leases that you are extending? Then for the ones that you didn't get extensions for, how should we think about the consequent -- the subsequent leases?

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, you will literally always get a higher rate when you re-lease it on a subsequent lease versus an extension, because an extension you avoid the transition costs and the 30 days of downtime or whatever. So you will always figure that out, build that into the extension rate.

But of course, look, if you have an airplane that has been on lease for 12 years and it's 12 years older than it was when it went on lease, then of course you are going to have a lower lease rate like for any asset. But what you need to do, Kristine, that's why we put the chart up, is to show the net interest margin of the combined portfolio; because you have new aircraft coming in, you have older aircraft going out, but you can see the net interest margin is the key.

It's not the headline lease rate. It's irrelevant. What really matters is what are you generating after your cost of producing the revenue. And you can see how stable and steady that is through numerous crises.

Then on slide 22, we also showed you -- well, it's in the supplemental information in the deck -- the number of aircraft that this company has leased in the last 18 months. We have leased 484 airplanes in the last 18 months, that is 27 every month, and 116 of those are widebody aircraft. So you can see the huge amount of leasing that has been done, which reflects of course the power of the platform, but also you can take great comfort then in the fact that the NIM, because there's so many aircraft have been extended or re-leased, is going to continue to be a very durable number going forward.

Kristine Liwag - *BofA Merrill Lynch - Analyst*

Great, thank you very much.

Operator

Vincent Caintic, Macquarie.

Vincent Caintic - *Macquarie Capital Markets - Analyst*

Great. Thanks very much, guys. I have a quick one and then a longer one. The first one is just the AIG 10.6 million shares, about $500 million, that lockup period expires in a couple of days. Any thought to taking that out?

Aengus Kelly - *AerCap Holdings NV - CEO*

No, we haven't. We are continuing to -- we obviously did the big buyback during the quarter, during the second quarter, with the addition of the $500 million subordinated debt from AIG. We've made it clear now that we want to make sure we take ourselves back down to the 3 to 1 area. And from that point then we want to make sure that we allocate capital, whatever generates the most return for our shareholders at that point, from that point forward, be it buybacks, investing in new aircraft. And we look at each one on a case-by-case basis.

But you can rest assured, as evidenced by how we acted during Q2, in doing the buyback and forcing the $500 million off-market subordinated note to us, that we are extremely focused on creating value for our shareholders.

Vincent Caintic - *Macquarie Capital Markets - Analyst*

Got it, thanks for that. And the broader question is actually touching on that. You mentioned accretive opportunities on your press release and I was just wondering if you could elaborate on that in terms of your aircraft portfolio, growth, and/or sales. And then debt, the debt you have raised has been very accretive as well, so just any kind of elaboration on the opportunities you have. Thanks.

Aengus Kelly - *AerCap Holdings NV - CEO*

Well, we're always looking at capital allocation. We are as concerned about capital allocation as you guys are, I can assure you. If not more so. And every time we spend $1 we have to look at the alternatives and say, well, what can we do with this money? Do we pay down debt? Do we buy back stock? Do we buy new airplanes? And we are continually evaluating those choices.

In the second quarter, of course, you saw the decision because of the higher -- the amount of subordinated debt, the 30-year money we got from AIG, it made it highly accretive to go for the buyback, which we did, even though it pushed the leverage out a little bit and delayed the return back down to 3 -- to 2.7 times to 1 a couple of quarters. But once we get towards the end of this year, and if we see other opportunities similar to the AIG one, or in fact, for that matter, when we bought back almost 25% of the Company in the downturn, we will continue to act like that again. Or if we see very accretive deals in the market, we will buy those assets. But it will depend on what's in front of us of the time.

Vincent Caintic - *Macquarie Capital Markets - Analyst*

Great. Thanks very much, Gus.

Operator

(Operator Instructions) Gary Liebowitz, Wells Fargo.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Yes, thanks. A couple of quarters ago you guys provided a slide on your Russian net exposure and also the aircraft values there. I think it was as of September 30. I know you have pulled a number of planes out of Russia since then. I was wondering if you would update figures on where that exposure stands today.

Keith Helming - *AerCap Holdings NV - CFO*

Yes, Gary, there's a number of aircraft we are working on now of relocating as well. Once those are done, we will be down to roughly 92 aircraft and the book basis will be at roughly $1.9 billion and then the average appraised value for that book of business is at $2.4 billion. But we will provide probably more details on that in the upcoming investor day.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

And a majority of that $1.9 billion would be with Aeroflot and S7?

Keith Helming - *AerCap Holdings NV - CFO*

Correct.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Thank you very much.

Operator

Thank you. As we have no further questions, I would like to hand the call back to Mr. Aengus Kelly for any additional or closing remarks.

Aengus Kelly - *AerCap Holdings NV - CEO*

Thank you. Thank you all very much for joining the call today. I would like to invite you all to the AerCap investor day, which will be held on Thursday, September 10, at the Waldorf Astoria in Manhattan. The details will be on our website.

Thank you very much again and we look forward to seeing you on September 10. Goodbye.

Keith Helming - *AerCap Holdings NV - CFO*

Thanks, everyone.
