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AER - Q4 2012 AerCap Holdings N.V. Earnings Conference Call

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OVERVIEW:

Co. reported 2012 total revenue of $973m, reported net income of $163.7m, adjusted net income of $258m, reported EPS of $1.24, and adjusted EPS of $1.96. 4Q12 total revenue was $192m, reported net income was $11.2m, adjusted net income was $67.5m, reported EPS was $0.09, and adjusted EPS was $0.57.

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

John Godyn *Morgan Stanley - Analyst*

Gary Liebowitz *Wells Fargo Securities - Analyst*

Arren Cyganovich *Evercore Partners - Analyst*

Isaac Husseini *Barclays Capital - Analyst*

Helane Becker *Dahlman Rose & Co. - Analyst*

Scott Valentin *FBR Capital Markets - Analyst*

Glenn Engel *BofA Merrill Lynch - Analyst*

Mike Linenberg *Deutsche Bank - Analyst*

PRESENTATION

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

Thank you very much. Good day, everyone. Welcome to the 2012 fourth-quarter and full-year results conference call. With me today are Aengus Kelly, AerCap's CEO; and Keith Helming, AerCap's CFO.

In today's call we will discuss our fourth-quarter and full-year earnings for 2012. In addition to this earnings call, we will also host a lunch for analysts and investors today at the Waldorf Astoria in the Peacock Alley west room. The lunch will not be webcast.

Before we begin, I want to remind you that some statements made during this conference call that are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. In addition, this conference call contains time-sensitive information that reflects management's best judgment 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 forward-looking statements can be found in AerCap's earnings release dated February 20, 2013.

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 everyone in the US and good afternoon to those of you in the Middle East and Europe. Thank you for joining us today for our fourth-quarter and full-year 2012 earnings call. Adjusted net income for the full year was a very healthy $258 million or $1.96 per share. During the fourth quarter, AerCap generated an adjusted net income of $67 million or $0.57 per share.

This level of profitability is driven by our two key strategies, of having a modern portfolio of fuel-efficient aircraft that is funded by a long-term, stable liability structure. 2012 was an outstanding year for AerCap, and one where these two strategies were very evident. As I said, we have always told you that our strategy is to have a modern portfolio of aircraft funded by a long-term, covenant-free debt structure.

If you follow this strategy, you will make substantial and, importantly, sustainable profits in the aircraft leasing sector and you will be able to convert these retained profits into cash at the appropriate time. And then, either return substantial amounts of capital to the shareholders, and/or reinvest in the business. In 2012, we continue to execute on these strategies.

Firstly, we followed on from the sale of AeroTurbine in 2011, our part out and engine leasing business, with the sale of 59 mainly older vintage aircraft in 2012. The average age of these aircraft was 10 years, and they were effectively sold at book value. Secondly, we acquired over $1.1 billion of brand-new aircraft with an average lease term of over 12 years. These long-term leases will continue to drive AerCap's long-term profitability.

Thirdly, we were rated investment grade, the only independent aircraft leasing company to be so rated. Fourthly, and further evidence of the robust nature of the carrying values of our aircraft, is that in the fourth quarter of 2012 we booked a $12 million gain on the sale of some newer aircraft and we have also contracted sale for four newer aircraft in 2013 that will generate a $20 million gain on sale.

The combination of these actions enabled us to convert prior year retained profits into cash and to return $320 million to our shareholders during 2012. The return of capital to shareholders further enhanced shareholder value as it was done by a share buyback program which was executed at a 30% discount to book value per share.

The 2012 buyback follows on from our $100 million buyback in the second half of 2011. The average price of the 2011 buyback program was $10.64. In total, this brings the amount of capital that AerCap has returned to its shareholders to $420 million in an 18-month period. The average price of the 2011 and 2012 buybacks was $11.72. This compares to the book value per share at December 31, 2012, of $18.74.

A further result of our active portfolio management strategy is that the average age of our portfolio has now decreased to an all-time low of 5.1 years, one of the youngest in the industry, and our utilization rate remains at a healthy 98.5%. The average lease term for new aircraft increased to 149 months in 2012 and the average term for releases was 66 months.

Turning to the operating side of the business, we entered into 53 lease agreements, bought 20 aircraft and sold 59 aircraft. This level of activity demonstrates the capability of the AerCap platform. This averages an aircraft transaction every two working days during 2012. On the financing side, we raised over $1.5 billion in 2012, including a $285 million undrawn working capital facility. It does not have any unencumbered asset test ratios.

Turning to the credit side, we did not have any material airline failures in the traditionally weak fourth quarter and we do not currently see any unusual activity on the receivable side. In terms of aircraft values, we continue to see a firming of lease rates for 320s and also for 319 aircraft. Of course, the best evidence I can give you of this is the fact that we sold a heavy content of A320s during the year in the sale of the ALS portfolio, where over 30 A320 Family were sold at effectively book value.

The A330 aircraft continues to perform very well and lease rates are still showing an upward trend. Lease rates for the 737-800 are still very stable and this is a very resilient aircraft. But all of these aircraft types have large user bases and that is what underpins their values and ensures that these aircraft will always be leased no matter what cycle we are in.

Now, meeting strong market demand for young, fuel-efficient aircraft is the cornerstone of our growth strategy. In the second half of 2013 and from 2014 onwards, we will begin to see delivery to airlines of the record orders that they placed in 2010 and in 2011, the two record years of all time for aircraft orders. Given this fact and that airline margins are for the most part steady or slightly decreasing, the demand for operating leasing is likely to be greater than ever before in the coming years.

Those who will capitalize on this growth opportunity will be the lessors who can move rapidly to acquire aircraft. To do this, firstly, you must have a platform that has the global reach to source the opportunity. Secondly, you have to have the ability to rapidly execute and have access to efficient funding. AerCap is in a position to capitalize on such opportunities, a fact recognized by the rating agencies who have made us the only independent lessor in the world to be rated investment grade.

On that note, I would like to hand you over to Keith, who will go through the financials before we open the call to the Q&A session.

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

Thanks, Gus. Good morning, everyone. I will start on page 4 of the presentation, which highlights the key developments of our portfolio during 2012. Following the sale of our ALS portfolio, our total assets at year-end 2012 was $8.6 billion. As mentioned, the average age of our owned aircraft is now at 5.1 years, down from 5.8 years as a result of the ALS sale.

During 2012, 59 aircraft were sold with an average age of approximately 9 years. Since 2010, the amount of Boeing 737 new gen aircraft, as a percent of our total aircraft investment, has increased to over 32%. The book value per share of our equity has increased to $18.74 at the end of 2012. Also at the end of 2012, the amount of free capital that was available was over $800 million, which consisted of our unrestricted cash balance and an undrawn working capital facility.

Page 5, our reported net income for the fourth-quarter 2012 was $11.2 million. Adjusted net income, which excludes the various items listed, was $67.5 million. Reported net income for full-year 2012 was $163.7 million and adjusted net income was $258 million.

Page 6, reported earnings per share was $0.09 in fourth-quarter 2012. Adjusted earnings per share was $0.57 during the same period. The average shares outstanding during fourth-quarter 2012 were 119.2 million. Reported earnings per share for full-year 2012 was $1.24 and adjusted earnings per share was $1.96.

Page 7, total revenue in fourth quarter was $192 million. For full-year 2012 total revenue was $973 million. The decreases from prior year was driven primarily by the sale of the ALS portfolio and lower maintenance rents.

On page 8, net interest margin, or net spread, was $160 million in fourth-quarter 2012. The annualized margin as a percent to average lease assets was 8.5%.

On page 9, the net interest margin for full-year 2012 was $684 million and the annualized margin as a percent to average lease assets was 8.7%.

On page 10, the impact from sales for fourth-quarter 2012 was a loss of $43.7 million. The pretax loss from the sale of the ALS portfolio was $59.9 million, but this upfront loss is essentially offset by future servicing fees and interest income of approximately $57 million. During fourth quarter, the pretax gain from the sale of all other aircraft was $12.4 million. The overall results are similar for full-year 2012.

On page 11, leasing expenses were $12.5 million for fourth-quarter 2012 and was $72.1 million for full year. The increase in full-year leasing expenses was driven primarily by the impact from defaults and restructurings which occurred in late 2011 and during 2012.

SG&A for fourth quarter 2012 was $23.1 million and was $83.4 million for full year. The decrease in full-year SG&A was driven primarily from the one-time charge in 2011 which related to the buyout of the Genesis portfolio servicing rights. Our tax rate for full-year 2012 was 5.2%, down from 6.7% in 2011.

On page 12, the financial impact from the defaults and restructurings for full-year 2012 was a loss of $37.7 million, down from a gain of $21.1 million for full-year 2011. In late 2011, the Kingfisher default occurred and the significant amount of deposits and reserves that were held were recorded as revenue at that time, which drove a gain in 2011. Subsequently, the costs associated with the Kingfisher default were incurred in 2012, which drove a loss in that year. The Kingfisher default accounted for over 50% of the variance from 2011 to 2012, and the remaining variance was a result of similar situations from other defaults which occurred in late 2011.

Page 13, AerCap's free and unrestricted cash balance at the end of fourth-quarter 2012 was $520 million and our total cash balance including restricted cash was $800 million. Operating cash flows were $643 million for the full-year 2012. In addition, an undrawn working capital facility of $285 million was available at year-end 2012.

Page 14, at the end of fourth quarter, AerCap's debt balance was $5.8 billion and our debt to equity ratio was 2.7 to 1. Book equity is $2.1 billion and the average cost of our debt for the fourth quarter was 4.2%.

On page 15, with regard to our full-year 2013 financial outlook, the expected aircraft purchases are $1.1 billion. 2013 basic rents is expected to decrease approximately 3% to 6% as compared to 2012 as a result of the ALS sale. The maintenance contribution in the income is expected to be minimal in 2013.

The pretax gain from committed aircraft sales in 2013 is expected to be approximately $20 million and the average cost of debt in 2013 is approximately 4%. And the 2013 blended tax rate is expected to be approximately 7%. So, those were the details on the fourth quarter and full year financial highlights, and I would like to know open it up to Q&A..

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

Operator, can you do a poll, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Godyn, Morgan Stanley.

John Godyn - *Morgan Stanley - Analyst*

I wanted to follow up first on this $20 million gain on sale guidance. Gus, you mentioned -- I think I heard you mention that was already booked based on some transactions in 2013. I just wanted to make sure that was not forward looking, and it was transactions that already happened. And, secondarily, would you describe that as opportunistic or reflective of any kind of broader, inflecting trend, a more positive trend, in terms of residual value risk and the direction that that risk is facing? Thanks.

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

Thanks, John. Firstly, just to be clear on the facts, the deal is contracted and the gains -- the deals were contracted in the fourth-quarter 2012. The aircraft concerned will deliver in 2013, and that is the gain on sale. The reason for the gain on sale, quite frankly, is how we buy airplanes. We are patient and disciplined, and when we find the right opportunities we are aggressive. And that is always been the way we have operated this business.

We have sold over 200 airplanes in the last seven years at an average gain of $2 million. It is the way we buy them is the key, John. Obviously, there is resilience to certain aircraft types in the markets, no question about that, and the 330 and the 737 are the two aircraft that have exhibited the greatest level of resilience. However, having said that, we did sell the 50 airplanes in the ALS portfolio, which was made up of 35 A320 family aircraft -- A319s, A320s -- and that was effectively sold at book.

We don't -- the fees are coming in every month, but they weren't part of the consideration when we calculated the gain or loss on disposal. So, it always comes back to a function of how you buy in this business. If you are disciplined and patient, you will do just fine. If you force the market you won't.

John Godyn - *Morgan Stanley - Analyst*

Okay, that is helpful. And just focusing on the broader market trends on the margin here, when we think about 2013 and the supply/demand characteristics that are going to define it, you mentioned this issue of deliveries going up significantly. And, as you know, there is people talking about production rate increases out there. I am just trying to get a sense for -- when we think about what that means incrementally, is the supply/demand balance in the secondary market for aircraft improving in 2013? Or would you say that it is stable? And, perhaps, tying that back to -- I think your prior ROE guidance of 10% would be helpful. I'm just trying to get a sense for the direction that risk is skewed and how it is evolving.

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

Okay, let me talk about the secondary market first for used airplanes. So, it goes back to the point, as I said, if you have modern, fuel-efficient airplanes you will always place them. And that is the point about you need to always have a modern, fuel-efficient portfolio. And in today's market, I have said it before -- that is the 737, the 330, the 320 -- you will always place those airplanes.

We do not have any AOG airplanes and virtually everything is placed. We have 2 freighters to place later on in the year, but everything else is placed. So the secondary market at the moment is certainly stronger, I can say that for sure, than it was 12 months ago. And that is something we have been reiterating on calls as we have gone through the year.

Now, turning to the new market and what we believe is likely to happen in the next couple of years, as you know, both 2010 and 2011 were all time records for aircraft orders. Huge orders were placed by airlines. Those orders will really start to begin to deliver towards the end of this year and then into 2014 and 2015 onwards. So that will create, I believe, an increased demand for operating leasing given that the amount of airplanes airlines are taking has never been this high.

Now, then does that lead to concerns of oversupply in the system? What we know in this industry is that there are two suppliers. And in the end they act rationally. They have never, ever forced airlines to take airplanes that would force them into bankruptcy. Because you have this duopoly on aircraft, this is not like shipping. In shipping the oversupply did occur, and destroyed the value to the craft because there were tens and tens ship manufacturers around the world all just trying to cover variable cost of production. That is not the case in this industry.

So, I would not get concerned about orders. It is deliveries that matter. And make no mistake, the OEMs will push as many aircraft out there as they possibly can and that, from a leasing company standpoint, is very good news, because the airlines are going to need the leasing companies more than ever before. (Multiple speakers). To the point about ROEs, the reason we didn't give guidance this time is that, as we explained on the last call, that was our baseline guidance. Clearly, we will strive to beat that during 2013.

John Godyn - *Morgan Stanley - Analyst*

That is very thorough and helpful. Thank you. Just one more. Now that we have more clarity on how this increase in ECA fees may be impacting the market, I think the prior commentary was along the lines of hey, this could be a very slight positive, but definitely not game changing. Do we have any more clarity on how it might be impacting the market? And is it consistent with that prior view? Thanks.

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

I wouldn't say that the change in cost of ECA funding is a game changer. At the margins it will move the needle. When you think about an airline's P&L, the greatest components are labor and fuel. And the fact that ownership costs move out by 10, 20, 30 basis points a year is not what moves the needle, really. It will at the margins, of course, don't get me wrong. There will be a few smaller airlines who will shy away from the ECA -- when I say ECA I use it interchangeably with EXIM -- that will shy away from those in favor of operating leasing.

But what really would drive a huge shift in airline behavior is if those entities, EXIM and ECA, were to reduce the advance levels and therefore reduce the amount of cash that the airlines can generate in doing a financing with a government institution. That would definitely be a game changer, and then you would see enormous shift to operating leasing. But that is not the case.

There has been a small decline in advance levels for certain airlines. So, I would say, John, overall, yes, at the margin, and for some smaller airlines for sure, yes, will move it. I think the bigger issue is that those record orders are starting to come and someone is going to have to pay for them.

John Godyn - *Morgan Stanley - Analyst*

Great. That is really helpful. Thanks.

Operator

Gary Liebowitz, Wells Fargo Securities.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

So, if you can just clarify, you are affirming the 10% ROE number for 2013 even though it is not on the guidance page? And just to be clear, you don't need that $20 million gain to get there? Is that correct?

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

That is correct, Gary.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. Also, Gus, can you give us a little more color on the A320 sale-leasebacks that were canceled?

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

We had two aircraft with a particular customer that was a sale-leaseback transaction, and the customer has deferred those positions, so we decided not to proceed with the sale-leaseback.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. And then can you just -- for the $1.1 billion of asset purchases this year, what does the timing look like? Is it pretty even throughout the year? I thought some of the Singapore planes delivered a little bit early.

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

It is slightly skewed to the first half of the year, Gary, but there is still a significant amount in the second half.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. And have you announced the financing for the Singapore aircraft yet?

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

No, we (multiple speakers).

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

Not yet, no.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. I will get back in the queue, thanks.

Operator

Arren Cyganovich, Evercore.

Arren Cyganovich - *Evercore Partners - Analyst*

The basic lease rate guidance of down 3% to 6% was a little bit lower than we were expecting, but also the depreciation rate for the quarter in the fourth quarter was a lot lower than we were expecting. Can you give us any sense of how that depreciation rate will hold in 2013, given that you have a generally younger portfolio now?

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

Right. The depreciation rate that you see for the year is based on the equipment that we have and the equipment that we are going to be booking for 2013; should be around an annualized rate of about $350 million. And the guidance for the lower revenue, it could be toward the lower end of the 3% to 6% range, but it all depends on, obviously, release rates and any potential impact from defaults or restructurings.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay. And the 2013 acquisitions were lowered modestly to 1.1 from 1.2. Is that from the contracted sales that you're going to have the gain on?

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

It was actually the two A320s that we have canceled. That is where it came from.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay, okay. So, are the -- is the $1.1 billion inclusive of the aircraft that you're actually going to be selling in the year as well?

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

The aircraft we are selling is a combination of fleet -- aircraft in stock and coming into stock.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay. And there was also a note receivable of $78 million on the balance sheet, can you describe what that was? Was it part of the ALS transaction?

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

Yes, that is right. The ALS transaction had two balance sheet impacts. One, a note receivable, which is the amount of cash flows that we will share once the residual cash flows start coming in. And then there was a liability that was booked, which is effectively some coupon payments that we pay to Guggenheim up until the point where the G notes are paid off. So, there were two balance sheet impacts there.

Arren Cyganovich - *Evercore Partners - Analyst*

Okay, thank you.

Operator

Isaac Husseini, Barclays.

Isaac Husseini - *Barclays Capital - Analyst*

Gus, I wanted to see if I can get your thoughts on Asia. Lately, demand for leasing has been strong in Asia, but fuel has been on the rise. Earnings and traffic in Asia have been relatively weaker than expected and some airlines may be facing increased competition from high-speed rail. So, I just wanted to see if you can give us your thoughts on those factors and how that might impact demand for leasing in Asia. And if that is the case, if Asia does weaken a bit, do you see another region that has the scale to absorb that demand?

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

Well, there are different pockets to Asia, of course. If you look at, let's call Russia part of Asia, that there is tremendous demand there. Certainly in Indonesia there are a lot of airplanes going in there with what is happening with AirAsia and with Lion Air. So, that market and Japan as well, yes, the Chinese majors -- some of their domestic traffic numbers were a bit lower than expected, that were reported yesterday. But, nonetheless, the demand for airplanes in China is still very strong.

The Indian market has, with the demise of Kingfisher, become a more balanced market and we are seeing reasonable demand in Thailand as well. So, I would say, yes, there were pockets in Asia where perhaps they are not -- the growth rate isn't quite what people had assumed, but for me that is pretty good news overall. So long as these markets are growing, which they definitely will, people want to travel. They want to have new business opportunities. They want to visit family and friends. The market will grow.

What is good news for me is that the profitability of some of these airlines may not be everything they thought it might have been and therefore their cash resources may not be everything they thought it might have been, so their willingness to engage in operating leasing will be significantly higher than it has been to date. So, overall, I would say in Asia, maybe not quite the stellar growth that we had hoped -- that some people had hoped for -- but still very solid, strong growth and enough to support a good number of deliveries in there.

I think overall, though, at the moment, the United States and North America is probably the most robust market, and that is because of the impact of rationalization and the M&A activity that has occurred. And, of course, obviously, the one that is in the news now is the creation of the largest airline in the world with American and US Air. And, as you know, one that we took a big -- did a big transaction with just in advance of the Chapter 11 filing.

So we would say that there it is a more mature market. You see what happens in a mature aviation market. There is a trend of rationalization and capacity restraint that comes from some of the weaker participants leaving the sector. Europe is probably a few years behind, but it is happening in Europe as well. You can see Lufthansa have bought up quite a number of airlines. You have got British Airways doing the same. You have Air France doing the same.

They would be the three major groups in Europe and then you have a couple of very big LCC carriers. So Europe is more or less following the trend of the United States, and over the course of the next decade or so, I am sure we will see similar trends emerge in the Asian region, too.

Isaac Husseini - *Barclays Capital - Analyst*

Okay, that is very helpful color. Thank you. The follow-up question I had was, obviously, you returned a lot of cash to shareholders via the buybacks, especially in the last 12 months or so. But I had a question on liquidity. Where we stand today, you have increased the amount of cash that you have on your balance sheet significantly. It is up to about 10% of your balance sheet. I don't think it has ever been that high. So, maybe you can walk us through what you think is an appropriate level of cash for your business and, also at the same time, if you can just walk us through where do you think -- if you were to use some of that cash, where do you think the biggest bang for your buck would be? Would it be paying down some debt and reducing your debt-to-equity target? Would it be returning more cash to shareholders or just investing in the business and buying more assets?

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

If I look at what has led to the cash balance, and as you rightly say, over the last 18 months we have given back $420 million to the shareholders. I think that is more than any other leasing company has done. And we have -- look, at the end of the day we have to create shareholder value and return cash to the shareholders and reinvest in the business in a profitable fashion.

Now, we generated a lot of retained income over the course of the last four or five years, and this year and in the second half of last year we converted that into cash, a significant amount of cash, and we gave an awful lot of it back to the shareholders. Because there is great value in the buyback. As you can see, our buyback was executed at about 35% below when you consider the '11 and '12 buybacks, below where we are trading today.

As we look forward, yes, we can pay down debt, but our debt is pretty cheap. Our all-in cost of debt is 4.2%. I don't think that is fair to my shareholders to use cash on hand to repay debt. I think I have to use it to either give it back to the shareholders or grow the business.

When I look at growing the business, there were 50 aircraft contracted already over the course of the next three years -- that is 737s, A320 NEOs and a few A320s -- going out over the next three years. So that is already a couple of billion dollars of acquisitions, so that will require a decent chunk of cash as well. You can't ignore that fact.

And, as I also said, there are a substantial number of deliveries coming to airlines over the course of the next 12 to 24 months. And I believe that we will find opportunities that are accretive to the shareholders. But make no mistake, we are here for the shareholders. As I said many times, not to be big or beautiful for the sake of it, we are here to make money for the shareholders. And if we cannot find the right transactions on the growth side, we will look at ways that the capital can be returned to the shareholders.

However, I want to caveat that by saying, look, the key to this business -- if you have a modern portfolio of airplanes you know you will always lease them. You know that they will be well levered by the bank in a stable liability structure. If you do not have that portfolio -- and you won't have it if it ages over time -- what will happen is that the leverage that you're able to attract from the banks will become expensive and lower and the ROEs in the business will be a lot lower. And the risks you're running on the credit side will be a lot higher.

So there is a balance to be met in how you run this business. But as I said, if you stick to what we have done -- a modern portfolio of airplanes with a long-term liability structure, you will make a lot of money and you will make sustainable profit, and you will convert them back into cash at the right time and that will free up the amount of cash that we have freed up and we will be able to return it to the shareholders.

Isaac Husseini - *Barclays Capital - Analyst*

Okay, perfect. Thank you so much.

Operator

Helane Becker, Dahlman Rose.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Thanks for the time. Just a couple of clarification questions, if you don't mind. I thought you said you had two freighters coming up for release later this year and I see one owned MD-11 freighter and one managed A300 freighter. So, are those the two you are talking about?

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

No, Helane, the two freighters that are concerned are two 747 freighters, actually.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Okay. Because on your chart it looks like the 747s are passenger aircraft, so you just might note that. And then my other question is with respect to -- you might have just actually answered it -- but in terms of your ability to do more than what you have already contracted for this year, do you have -- so I guess that is the question. Do you have the ability to add aircraft in the portfolio this year if really attractive sale -- purchase-leasebacks, I guess, come available?

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

The answer to that is we certainly do. And we are pursuing them.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Okay, that is awesome. Thank you very much. Those were my questions.

Operator

Scott Valentin, FBR Capital Markets.

Scott Valentin - *FBR Capital Markets - Analyst*

Thanks for taking my question. Just a big picture question. There is a debate about economic life -- industry right now. Some people believe the economic life of aircraft is shortening. Some believe it is just a cyclical issue with a weaker global economy. But just wondering, one, what your outlook is on that? Do you think it is cyclical or secular? Two, any change to how you're testing for impairments in the portfolio?

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

Let me start and let Keith talk about how we ensure that we don't run into these impairments. Overall, when it comes to economic life of an airplane, technically these airplanes will fly for over 30 years if required. Just look at the fleets flying around here in the United States. It is the oldest fleet in the world and they all fly perfectly safely, so that is not the issue. The issue is from a technological standpoint, will they be obsolete or is your carrying cost just too high?

And what I mean by that is, let's say you get back an airplane that is 18 years of age. You bought it when it was 12 years of age, and you paid up because you had a short-term lease that looked pretty attractive when you paid up for it. And then you get the airplane back, and you have to sink -- let's take a 757 as an example. You overhaul both engines, refurbish the cabin, it is $10 million. You will not spend the $10 million to do that.

So, the useful life of an airplane is all about your input cost to the airplane. We have not ordered, for example, A320s since December 2005. But that is not to say we wouldn't buy A320s. We would buy A320s all day long today. We know what we can lease them for. We know how long we can lease them for, and that just has to be factored into the price.

The same applies to 737s or 737-700s or A319s, you pick your airplane. Where you get upside down is if you have a bunch of these airplanes coming at you that were ordered, say, in 2010, 2011, and they're coming at you now. And you have got to squeeze 25 years out of them, and you paid boom time prices in 2010 or 2011. And, Keith, do you want to talk about why our impairment are --?

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

Yes, there is a number of factors that goes into the total impairment review and impairment health. First of all, as Gus just pointed out, the input price is obviously very important in terms of the risk of impairments, if you will. But just as important is your operating strategy. When you look at our portfolio, we have nine aircraft that are aged 15 years or older. So a significant amount, if not almost all of our aircraft, effectively gets sold down before it hits the 15-year mark. And that is very, very important relative to your depreciation policy and the like.

As Gus pointed out, we have sold over 200 aircraft in the last several years and we recorded nearly a $2 million gain per aircraft. Obviously, our depreciation rates are quite in line with what our operating results are, effectively. So, you need to look at your depreciation policy and your impairments relative to your operating strategy, as well as to your input price, if you will.

And we do look at every aircraft, though, on top of that and test for impairments. And for those aircraft that hit the 15-year mark we typically will put in what we call accelerated depreciation, because at that point you know what is really going to happen more likely to that aircraft. So we tailor the depreciation policy specifically to each individual aircraft for those that actually reach to that level.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay. And just a follow-up question on the margin. I think, excluding the ALS transaction, the margin was relatively stable from fourth-quarter 2011 to fourth-quarter 2012. Just wondering what the look is going forward? I think you guys were trying to extend some duration, liability side. Maybe that resulted in a little bit higher cost of funds, and it sounded like that lease rates are stabilizing. Just wondering maybe what direction the margin goes in over the course of the next 12 months.

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

The net spread on that margin, it will probably be in the range of roughly 8.5%. But, again, it is lower because we've actually have now put some unsecured debt on the books and we will probably do more so in the future. So without unsecured debt we would be back up probably to the 8.8%, 8.9% which is typically where we have run in the past.

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Scott Valentin - *FBR Capital Markets - Analyst*

Okay, thanks for very much.

Operator

(Operator Instructions). Glenn Engel, Bank of America.

Glenn Engel - *BofA Merrill Lynch - Analyst*

The $54.6 million that you recover in future servicing fees and interest income, where will that show up in future quarters?

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

The servicing fees will actually be in other income and then a portion of that will also be referred to as interest income, so that will be in interest revenue, if you will.

Glenn Engel - *BofA Merrill Lynch - Analyst*

And that will be spread out over how many years?

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

The largest portion of it comes back in the first 3 to 4 years, but, obviously, the portfolio will tail off in later years, so it will be a few more years beyond that. But, again, the largest portion will be over the next four years.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Okay, that will be another $10 million or $20 million then the year of extra income to boost 2013?

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

It's around $10 million plus, yes.

Glenn Engel - *BofA Merrill Lynch - Analyst*

And the $20 million of gains that you have set for 2013 on aircraft, what are those aircraft you have sold?

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

It is a mixture of airplanes -- 737s and A330s.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Thank you very much.

Operator

Mike Linenberg, Deutsche Bank.

Mike Linenberg - *Deutsche Bank - Analyst*

Just a couple of questions here. When we look at your fleet, and I think your own fleet is just over 200 airplanes -- maybe it is about 210 or so -- with the ALS airplanes going out, you picked up a bunch of new airplanes last year. What is the releasing profile look over the next year or two? How many lease renewals should we anticipate in 2013 and 2014?

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

It runs around 10%, 11% a year, Mike, on average. That is the normal average given the size of the fleet. And as you look at it, one of the things that is important to us, of course, while the ALS airplanes have left the balance sheet, as have other airplanes that we've sold, we still continue to manage them, so the entire fleet that we're looking at is well north of 300 airplanes.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay, very good. And then just my second question, Gus, I saw something recently from Boeing. They usually put out a survey every year and they talk about industry delivery financing sources. I think back in 2012, not surprisingly, we saw the banks represent just over 20%, and that number had come down. We have seen a lot of the banks, especially the European banks, back away. I thought what was interesting for 2013, they had that number back up to just under 30%. And I guess the question -- just based on what you see, who you talk to, does it feel like that the banks are coming back or is it just banks from other jurisdictions? Maybe it is banks out of the Middle East or Asia that are backfilling some of the Europeans, hence getting back to this 30% range or so.

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

It is mainly driven, to be fair, by banks in other jurisdictions. There are some Europeans that are increasing their lending capacity, but it is mainly, to be fair, in the US and in Japan, Singapore, China, Taiwan. Because when you think about it, Mike, the banks have pulled out. Never got into trouble because of the aircraft leasing -- or lending to the aviation business. They got into -- they had other issues, as we all know.

It wasn't this part of the business that got them into trouble, but it made them capital constrained. And it has always been the same in this sector. This is a niche sector, and it's deeply capital intensive. And it has a shallow enough pool of lenders -- and that is why any leasing company that has ever gotten into trouble has been on the liability side. Because you have this shallow enough pool of lenders and if you have a short-term liability structure or a long-term one perforated with covenants, you will run into trouble because of that.

But, that being said, what always happens also in this business is that new banks come in and look at it and say, well, hold on, maybe it is a niche business, but you know what? Because it is a bit niche -- and if I look at this, I am getting -- I am putting up an average loan-to-value over a 10-year period of maybe 55% against a hard asset. I have got a big leasing company that has shown for the last 10 years they have a 98% utilization rate. They can move the asset all over the world.

When I look at a comparable credit risk in autos or credit cards this is a really good deal. But it is a niche enough business, so you need to hire a team of people to understand the business, invest some capital, but that always happens. I think the best example of this I can give that is close to home here is Wells Fargo, who have gone from being virtually a tiny player in this sector to being now one of the biggest lenders globally. Because they have the in-house expertise, from when they bought the old Wachovia, and they developed that very successfully, because they saw that. They said, hold on, some of the big European guys are pulling back. I am getting paid a big premium. If I lend to a BB or BBB entity in this sector, because of the niche nature, I'm probably getting a 100 basis point pickup.

And when you look at the net interest margin of what these financial institutions earn, that is huge. And that is why you always have banks coming back in. And to Boeing's point, that is exactly right. People have said, okay, so some of these guys have pulled out. There is a market opportunity. And you find the Japanese as well, who have a lot of latent in-house expertise, have come back into the sector.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay, very good. And if I could just squeeze in one more on your business with American. All of the purchase-leasebacks that you have done, basically the aircraft that are delivering, those terms have been set, and that is the question I am asking. Have those terms been set or are there -- is there a little bit more negotiation or anything else to be done on it? The reason I am asking is a lot of groundwork was obviously done when American was a very, very weak credit on the cusp of filing for bankruptcy.

As you mentioned earlier, it is going to become the largest airline in the world, and, presumably, it will be a better credit and, therefore, potentially less profitable for you to do business with. So I was just curious if whether or not you have set the terms on the batch of airplanes that you're doing the purchase-leasebacks with them.

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

Mike, that is correct. Now, we took -- we always believed that American would emerge in much stronger credit when he went into the transaction, and now, as you say, it is the biggest airline in the world with one of the biggest market caps in the world. And there has been no change to our terms. We were there when no one was there, Mike. Everybody followed in afterwards, but we were there when no one was there.

Mike Linenberg - *Deutsche Bank - Analyst*

Very good. Very good timing, Gus. Thanks.

Operator

(Operator Instructions). Mr. Wortel, I show no questions in the queue. I would like to turn the call back over to you for any closing remarks.

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

Thank you very much, and thank you very much to all of you for joining in for the call. We hope to see as many of you as possible at the Waldorf at the Peacock Alley for lunch. And, failing that, then we will talk to you on the next earnings call. Thanks very much. Thanks, everyone.
