THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AER - Q4 2014 AerCap Holdings NV Earnings Call

EVENT DATE/TIME: FEBRUARY 23, 2015 / 2:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

John Wikoff *AerCap Holdings N.V. - IR*

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

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

CONFERENCE CALL PARTICIPANTS

Mike Linenberg *Deutsche Bank - Analyst*

Gary Liebowitz *Wells Fargo Securities - Analyst*

Nathan Hong *Morgan Stanley - Analyst*

Mark Streeter *JPMorgan - Analyst*

Andrew Light *Citigroup - Analyst*

Glenn Engel *BofA Merrill Lynch - Analyst*

Moshe Orenbuch *Credit Suisse - Analyst*

Scott Valentin *FBR & Co. - Analyst*

Justine Fischer *Goldman Sachs - Analyst*

Helane Becker *Cowen and Company - Analyst*

Arren Cyganovich *Evercore ISI - Analyst*

PRESENTATION

Operator

Welcome to today's AerCap Holdings fourth-quarter and full-year 2014 results conference call. (Operator Instructions) The call is also being recorded for replay purposes.

I now hand the call over to John Wikoff, head of Investor Relations.

John Wikoff - *AerCap Holdings N.V. - IR*

Thank you, Ann. Good day, everyone. Welcome to our 2014 fourth-quarter and full-year 2014 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 AM, and doors will open at 11:00 AM.

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 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 to forward-looking statements can be found in AerCap's earnings release dated February 23, 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 archived for replay.

I will now turn the call over to Aengus Kelly.

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

Thank you, John. Good morning and thank you all for joining us for our fourth-quarter earnings call.

Earlier today we reported record results for the fourth-quarter and full-year 2014. Adjusted net income was $282 million for the fourth quarter and $840 million for the full year. EPS was $1.33 for the fourth quarter and $4.78 for the full year.

As we look to 2015 our annual EPS run rate will exceed $5.00 per share. This is significantly higher than the guidance we originally provided at the time of the ILFC transaction.

We finished 2014 with $44 billion of total assets on the balance sheet. Our net spread, a crucial measure of our performance, was $892 million in the fourth quarter, a fourfold increase on Q4 of 2013. In percentage terms, this translates to a net interest margin of 9.8% in Q4 versus 8.7% in 2013.

The increase in net income and earnings per share were driven primarily by the ILFC transaction. Through this transformative deal we have become an industry leader with a more diversified customer base and wider geographical coverage. The integration is progressing well ahead of schedule in all material aspects.

We maintain a portfolio of in-demand aircraft funded by a long-term, stable liability structure. We also have one of the most attractive order books in the industry.

During 2014 we purchased 33 aircraft with a total value of $2.3 billion, and our committed future aircraft purchases were $28 billion as of December 31. These future commitments deliver between now and the end of 2022 and consist of the most modern, fuel-efficient, next-generation aircraft available in the market. We have now placed either under lease contract or letter of intent more than 90% of our committed aircraft purchases through December 2017 and more than 60% through 2019.

During the last four months alone, we signed lease agreements for 49 Airbus A320neo and A350 aircraft. These placements are for an average term of 144 months and represent 13% of our order book. Furthermore, these placements demonstrate both the scale of the AerCap platform and the continued demand for modern, fuel-efficient aircraft which, taken together, will underpin the future profits and cash flows of the AerCap franchise.

In 2014 we executed 365 aircraft transactions; that is one every 24 hours. The average lease term of our used aircraft placements was 54 months, and our utilization rate was 99.2%. Both are indicators of a robust demand environment. Our portfolio of long-dated lease contracts, combined with a long-dated liability structure, provides us with significant visibility into both future cash flows and profits.

As evidenced by the strong demand we have witnessed for both new and used aircraft, we expect robust traffic growth in 2015 and a resulting increase in demand for aircraft. The recent reduction in fuel costs has provided a meaningful and immediate benefit to our customer base, thereby improving our credit quality and increasing the demand for capacity.

Not surprisingly, our receivables balance remained well below historical averages, despite the regional uncertainties in Russia, where we have recently reduced our exposure by 17 aircraft. In addition, we hold approximately $700 million of collateral against our remaining exposure in Russia. The combination of our significant collateral, the low cost basis of our aircraft, and our ability to remove aircraft as needed means that Russia does not represent an unusual risk for AerCap.

Our prudent approach to balance sheet management ensures continued access to the global financing markets while maintaining a low cost of capital, and our hedging policy is designed to ensure that we can manage the Company to accommodate changes in the business environment

THOMSON REUTERS

and fluctuations in interest rates. We have made substantial progress in deleveraging and ended the quarter with an adjusted debt/equity ratio of 3.4-to-1. As of December 31, 2014, we had $7.3 billion of available liquidity on hand; and since the announcement of the ILFC transaction, $13 billion of funding has been raised.

In summary, we see strong demand globally; receivables are low; our revenue line is on average over 70% contracted through 2019, while our interest expense is hedged over this time period. The combination of the excellent integration of the ILFC and AerCap platforms, our record-setting 2014 results, favorable industry outlook, and our high degree of earnings visibility have enabled us to institute the first step in rewarding our shareholders by announcing a share repurchase program. The new program will run through December 2015 and allow for repurchases of up to $250 million.

With that, I will hand the call over to Keith for a detailed review of the financials.

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

Thanks, Gus. Good morning. I'll start on page 6 of the presentation.

Our reported net income for fourth quarter was $298.2 million. Adjusted net income was $296.7 million.

Adjusted net income and earnings per share has been redefined and no longer includes an adjustment related to share-based compensation costs, which we believe better aligns our adjusted earnings with reported. The adjustments made include the mark-to-market of interest rate caps and swaps, transaction- and integration-related expenses, and maintenance rights-related expense.

Page 7. Reported earnings per share were $1.41 in fourth quarter. Adjusted earnings per share were $1.40 during the same period. The average shares outstanding in the fourth quarter were $212 million.

Page 8. Total revenue in fourth quarter was $1.159 billion. Maintenance-related revenue was $124 million. Net gain on sale of assets was $26 million, and other income was $28 million.

Maintenance revenue includes approximately $57 million relating to aircraft that prematurely terminated or defaulted in the quarter. As you will see in subsequent slides, this amount was offset by costs relating to these terminations. The increase in total revenue as compared to the same period in 2013 was driven primarily by the ILFC acquisition.

Page 9. Net interest margin or net spread was $884 million in the fourth quarter. The annualized margin as a percent to average lease assets was 9.8%, up from 8.7% during the same period in 2013.

Net interest margin in fourth quarter was negatively impacted by approximately $12 million from one-time charges relating to debt breakage costs on aircraft sales and interest costs on our ALS investment.

Page 10. The impact from asset sales in fourth quarter was a pretax gain of $25.8 million. During fourth quarter, we sold nine aircraft from our own portfolio, two aircraft from our managed portfolio, and executed part-out transactions for three aircraft.

Page 11. Leasing expenses were $119.1 million, and SG&A was $117.5 million in fourth quarter. Leasing costs include $57.4 million relating to expensing of the maintenance rights assets and $38.4 million relating to aircraft that prematurely terminated or defaulted in the quarter.

During fourth quarter we incurred expenses of $12 million relating to the ILFC transaction. Also in fourth quarter we incurred $20 million of impairments due primarily to the early termination of some of our leases in Russia, which was partially offset by maintenance revenue that was triggered by the same events.

The full-year tax rate for 2014 was 15%. This rate is lower than previously discussed, as more transaction-related expenses and financing costs met deductibility criteria, and we had lower servicing profit in the US.

Page 12. Our cost basis for the Russian aircraft is $2.2 billion. Relating to these aircraft, we hold approximately $700 million of maintenance reserves, security deposits, and letters of credit. The market value for these aircraft based on the average of three appraisers is $2.8 billion.

The past few months we reduced the number of aircraft we have in Russia by 17. As mentioned previously, Russia exposure does not represent unusual risk since significant collateral is held, our cost basis is low, and aircraft can be removed as needed.

Page 13. AerCap's unrestricted cash balance at the end of fourth quarter was $1.490 billion, and our total cash balance including restricted cash was $2.208 billion. Operating cash flows were $846 million for the fourth quarter.

Page 14. Our available liquidity sources over the next 12 months is $10.7 billion, and contracted debt maturities and CapEx over the same period is $6.8 billion. This results in excess liquidity coverage of $3.9 billion and a ratio of sources-to-uses of 1.57 times. These sources do not include additional financing for deliveries of new aircraft purchases.

Page 15. At the end of fourth quarter, AerCap's debt balance was $30.4 billion and our debt-to-equity ratio was 3.4-to-1. Our book equity is $7.9 billion, and the average cost for our debt in the fourth quarter was 3.6%. Interest cost in fourth quarter was higher by approximately $12 million from one-time charges relating to debt breakage costs on aircraft sales and interest costs on our ALS investment.

Page 17. With regard to the financial outlook for 2015 on an adjusted basis, total revenue is expected to be approximately $5 billion to $5.1 billion. Depreciation is expected to be $2.1 billion, and this reflects expensing a maintenance rights asset over the remaining economic life of the aircraft. Interest expense is expected to be $1.1 billion.

Leasing and SG&A costs are expected to be approximately $600 million, and the tax rate is expected to be 13.5%. This results in pretax earnings of approximately $1.250 billion and after-tax earnings of $1.05 billion to $1.1 billion.

Page 18. As mentioned on previous earnings calls, our deleveraging plan has been accelerated. We expect to reach a 3-to-1 debt/equity ratio during 2015. We now expect to maintain a debt-to-equity ratio in the range of 2.7-to-3 over the next several years.

At this leverage approximately $500 million of excess capital is generated per annum beginning in 2016. The debt/equity ratio remains flat beyond 2016, as it is assumed that excess capital is not used to further reduce leverage. Potential uses of excess capital include additional aircraft purchases and/or return of capital.

Page 19. Excess capital of approximately $250 million is available for use in 2015, while still achieving a debt/equity ratio of 2.9-to-1. This amount may be used for our new share repurchase program. As just mentioned, during 2016 and 2017 excess capital of $500 million or more per annum is available for use.

Page 20. The total amount of excess capital available from 2015 through 2017 is expected to be approximately $1.3 billion. As mentioned on previous slides, this amount can be used for aircraft purchases and/or return of capital.

If this entire amount would be used for aircraft purchases, it would resulted in an average growth rate for our lease assets of approximately 9% per annum through 2017, inclusive of the already 4.5% annual growth from our order book. If this entire amount was used for share repurchases, it could result in repurchases in the range of 30 million shares, along with the contracted growth for our lease assets of 4.5% per annum. A combination of additional aircraft purchases and return of capital is expected.

The anticipated drivers for AerCap's financial performance for 2017 are as follows. Changes in least revenue, depreciation, and leasing expenses should generally correlate with changes in aircraft assets. Other revenue and SG&A including share-based compensation should remain relatively flat.

Interest costs should grow to 4.2%. A tax rate of 12.5% to 13% is expected. And diluted shares, excluding any share repurchases, would grow to approximately 220 million.

On page 21, turning to adjustments for our reported income, the impact from expensing maintenance rights assets during the lease term is expected to result in a reduction in pretax reported earnings of $170 million in 2015. This is generated through a reduction of depreciation of approximately $250 million and an increase in leasing expenses of approximately $420 million.

Okay. Those were the financial highlights for our fourth quarter. I would like to now open up the call to Q&A; so operator, can you open the line for our first question?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mike Linenberg, Deutsche Bank.

Mike Linenberg - *Deutsche Bank - Analyst*

Hey, yes. Good morning, everybody. Yes, Keith, I want to go back to -- you talked about the excess capital and the possibility of returning capital to shareholders. We've already made the first step with today's announcement, with the $250 million share repo. When we think about other alternatives, a dividend, a permanent durable dividend, is something that we think would be attractive to investors.

As you think about that, is it important for AerCap to be at an investment-grade credit rating before you would implement something like that? Or is that not a hard and fast rule? Just your thoughts on that.

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

Reaching investment grade isn't directly tied to doing a dividend. In the example I just went through, we tried to show two bookends, if you will. Obviously, if all the excess capital was used for purchases, you get one result; and then obviously we use share repurchases as the other example, if you will.

But of course return of capital could be share repurchases as well as a dividend. So even though the example didn't specifically say dividends, that certainly is a consideration, as the other alternatives are as well.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay, great. Then just one other. This is just on the accounting.

In the past, the share-based compensation -- I believe you called it out as a special. In this press release it looks like it just ran through or maybe it was just so small. What's -- has there just been a change there in how you think about that?

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

That's right. Before when one we talked about adjusted net income we excluded the cost relating to share-based compensation. But we redefined adjusted net income starting in this quarter; so the adjusted net income now reflects that cost. So we think it is a better representation of our earnings going forward.

Mike Linenberg - *Deutsche Bank - Analyst*

Great; I agree. Thanks. Appreciate it.

Operator

Gary Liebowitz, Wells Fargo.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Thank you, operator. Good day, gentlemen. Gus, we've had other lessors talk about airlines perhaps looking to do more sale leaseback activity in an environment of the stronger US dollar. Have you seen any of that to date?

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

There is a lot of sale leaseback activity out there. Every day, you know, there is something on the market.

From our perspective, we have never competed in those open bake-offs and we don't plan to. But there are plenty of opportunity out there if you are willing to be just a part of a commoditized product, where there's 10 people bidding for it.

The advantage that AerCap has in that regard is with the scale of the platform, the installed user base. Things like Virgin, where it's just not as contested a process as it might otherwise be, because we utilize our existing portfolio to win on the sale leaseback.

So I think overall there is plenty of opportunity, Gary, short answer. But you won't see AerCap participate in the open bake-offs every day.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. Keith, I was hoping you could clarify on the 2015 guidance to what extent, if any, trading gains are included in your revenue and your earnings numbers.

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

Yes, Gary, in the guidance that I just went through, none of that includes any gains from sales. Typically we do generate some; but at this point we are not going to specify anything specific, because we're not sure exactly which assets we will sell and obviously what the impact would be.

Once we get contracted sales completed, we would identify those to you as soon as available. And if there is a gain associated, we would let you know.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Is the $1 billion a year targeted trading asset sales, is that still operative?

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

That still is the general guideline that we are following, yes.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. Last one, was there anything unusual in the gains that you reported in the fourth quarter? Because given the mix of aircraft that you sold, I was surprised how high that number was.

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

Nothing unusual; it was nine aircraft that generated that. So I mean, we've generated a lot more gains than that in the past. But that was the results for those nine aircraft.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay. Thank you very much.

Operator

Nathan Hong, Morgan Stanley.

Nathan Hong - *Morgan Stanley - Analyst*

Hi, thank you for taking the question. Gus, historically AerCap has been able to accelerate growth in some sort of step function on the back of large (technical difficulty) deals or acquisitions. I'm just wondering if these types of deals are now behind the Company. Or is there opportunities to see AerCap, if anything, grow significantly in the future?

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

Well, Nathan, we have grown the Company, as you say, on a -- you can call it, use the word opportunistic basis. But in this industry we know a couple of things for sure.

One, it is a high-growth business. More people are going to travel in 10 years' time than there are today.

We also know that our customers will always need us. They do not have the financial wherewithal to take delivery of all the aircraft required to satisfy the growth.

So as long as you are disciplined in your investment decisions you will find plenty of growth in this industry. The key with growth is that you make money for your shareholders. When we spend our shareholders' money we have to make money for them.

And when we look at growth opportunities, if we see the right opportunity we'll be very aggressive. If we don't see opportunities, we'll either sell assets, give money back to the shareholders; but the growth is certainly out there.

At the moment, we do have the best part of 5% contracted growth rate. And as Keith showed you, we have the capacity to almost double that if we wish to, if we were to deploy all the free cash flow we are generating back into the business; or we can give some of it back to the shareholders.

But the key investment thesis of this Company is that, when I spend my shareholders' money, it's got to generate a fair return for them. That's how we look at it.

And it's not -- if that means that, as I said, there's a big -- there's opportunity, we'll be aggressive. And if there isn't, then we'll look at distributing cash back.

Nathan Hong - *Morgan Stanley - Analyst*

Great. I think you mentioned that you are seeing strong demand in both new and used aircraft. I'm just wondering how lease rates are trending across major aircraft types.

And if anything, I'm wondering where this incremental demand is coming from. Is it replacement, or growth demand? Thanks.

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

The demand we're seeing for airplanes on the older side, let me start with that, I think is -- of the very old airplanes. For example, just last week we sold two A340s and a 747, airplanes that we had assumed we would scrap.

What's happening, though, is that airlines that we have those aircraft on lease with, with the current low fuel environment, are taking those relatively fuel-inefficient aircraft and putting them into service for a few more years. Now the amount of time they put them into service for has a hard stop on it, because to overhaul four engines on a 74 or a 340, plus overhaul the interior of cabin -- if you're going to upgrade it every few years, as airlines do with their new business product -- between those two events you're looking at $30 million of capital spend.

And no airline is going to do that, because they know in a long time, fuel is something that could go up significantly. So there is a boost for the very old stuff happening because of low fuel.

What's also happening is that we are seeing continued growth globally around the world, and we are seeing enhanced demand for assets, be it 737s, 320s, 319s, in particular. 767s as well is something we've seen a significant demand for. That demand is coming from North America and it's also coming from parts of Asia and Europe.

Nathan Hong - *Morgan Stanley - Analyst*

Great. Thanks for the time.

Operator

Mark Streeter, JPMorgan.

Mark Streeter - *JPMorgan - Analyst*

Hi, it's Mark Streeter here with Jamie Baker. Just a couple of questions.

Your capital structure target has changed. You were targeting low 3 times leverage; now you're talking about 2.7 to 3 times. I'm just wondering if you can give us a little bit more color about the reason for the change and the feedback.

Is it just a more robust cash flow profile? Is it feedback from your stakeholders about running with lower leverage? What's changed in terms of your thinking?

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

Yes, in the past, we referenced 3-to-1. That was the general target.

But as you know, in the past AerCap typically ran 2.5-, 2.6-, 2.7-to-1. And your point is exactly right; there is significant cash flows, very robust.

We're not going to hit a specific number every single quarter, so the range is given here. Look, if there is opportunities for investment and the use of leverage, we'll be at the 3-to-1. But we just talked about a range here to give you an idea of where it could operate at the different levels.

Mark Streeter - *JPMorgan - Analyst*

No argument from me; we're all for it. Just a follow-up question. On the Aircastle call, Ron and his team talked about some seasonal weakness in certain aircraft types just because of some of the bankruptcies that have happened over the past couple of months -- Skymark, etc. -- and also talked a little bit about the sale leasebacks and the fact that some of the carriers where their revenues aren't denominated in US dollars obviously are looking at sale leasebacks as more attractive.

So I'm wondering if you can just talk a little bit about whether you're seeing those same trends.

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

Well, if we look at what we did recently, the 76 or 75s, etc., we took out of Russia, they were all moved within two weeks. We're running at a very high utilization rate right now. So we don't see much of an impact on our business from that at the moment.

In terms of sale leaseback, that's unchanged. There's plenty of stuff out there.

To be honest, when you're an airline and you're looking at a sale leaseback decision, the marginal decision is never driven by the real ownership cost. It's minor.

If you look at the P&L of an airline, ownership costs are relatively small amount. Fuel and labor costs make up two-thirds of the P&L. Whether ownerships costs go up or down by 1% or 2% doesn't really influence their decision; it's all about cash generation.

The strong dollar? Maybe at the margin, but the -- I don't see any huge upsurge in the level of sale leaseback activity. There's one every day. It's just a matter of whether the risk and rewards are in balance for you when you spend your shareholders' money.

Mark Streeter - *JPMorgan - Analyst*

Great. Thanks, Gus. Thanks, Keith.

Operator

Andrew Light, Citi.

Andrew Light - *Citigroup - Analyst*

Hi there. Good morning. I've got a question on SG&A. It seems to me that the underlying SG&A went up by about $22 million Q3 to Q4, excluding share-based compensation. I just wondered if there was any one-off item in there, or if this is really a new level for SG&A.

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

No, it's not a new level. In the fourth quarter, there was about $11 million of one-time charges that you will not see there going forward.

As you recall, the third quarter was relatively low based on timing of certain costs. Some of those costs got booked in the fourth quarter.

So the rate, excluding the one-time charges, if you look at the third and the fourth quarter, you take an average of those two, that's I think a good indication of our run rate going forward.

Andrew Light - *Citigroup - Analyst*

Okay, thanks, and just a question on your guidance. You've got an implicit, I think, pretax margin of around 25% for this year. Indeed it was almost 25% in the fourth quarter.

I just wondered: does that margin vary across products? Like for example narrowbody versus wide-body, or new order versus sale and leaseback. Is there much variability in the margin?

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

Well, it does, Andrew, of course. If you have a brand-new airplane then your interest expense component will probably be a bit higher, because you will have a higher leverage point on that airplane versus, say, an eight-year-old airplane you'll have a much lower leverage point, so the interest costs will be lower. And that will be the driver of whether the pretax margin is around that 25% level.

Andrew Light - *Citigroup - Analyst*

Okay. Is there any difference between, say, narrowbody and wide-body?

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

Not over the long term.

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

More the age of the aircraft.

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

More the age.

Andrew Light - *Citigroup - Analyst*

Right; good. Just one final question on impairments. Is that it for those planes, the $20 million? Or can we expect further maintenance-related costs in the first quarter?

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

No, the costs --

Andrew Light - *Citigroup - Analyst*

(multiple speakers) already?

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

Yes, the costs relating to the terminations that happened in the fourth quarter all got recorded in the fourth quarter. So we had a roughly $57 million of maintenance-related revenue, and $38 million in leasing expense, and about $17 million of the $20 million in impairments.

Those terminations were approximately neutral for the quarter and should cover all the costs going forward.

Andrew Light - *Citigroup - Analyst*

All right, okay. Thanks very much for that.

Operator

Glenn Engel, Bank of America.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Good morning. A couple questions. One, your revenue estimates for 2015, what level of maintenance revenues do you assume?

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

Maintenance revenues should be in the range of $200 million to $250 million.

Glenn Engel - *BofA Merrill Lynch - Analyst*

When I look at the presentation, on page 26 it has $3.6 billion of CapEx; and on page 14 $3.2 billion. Why is there a difference? And is there an assumption of asset sales in one of those numbers?

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

It's relating to the -- the difference relates to the PDP payments in terms of --

---

Glenn Engel - *BofA Merrill Lynch - Analyst*

And lastly, on -- the maintenance rights show up on two lines, both lease expense and depreciation.

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

Yes, those are the two lines that you will generally see the maintenance rights expense. Depreciation on a reported basis would be lower than what you see on an adjusted basis; and then leasing expense will be higher on the reported basis than what you would see in the adjusted basis.

So the net of those two particular line items will drive typically the maintenance rights adjustment.

Glenn Engel - *BofA Merrill Lynch - Analyst*

So there's going to be a -- it's going to look better? Depreciation therefore will be -- should be higher, you're saying versus (multiple speakers)? I got it.

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

Yes, in 2015 on the reported basis depreciation will be lower than what you would normally expect, but leasing expenses would be higher than what you would normally expense. So leasing expenses will exceed the amount on depreciation, so we will have a net charge of roughly $170 million in 2015.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Okay, thanks.

Operator

Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great, thanks. Just back to the capital side of things, could you talk about -- I mean, obviously you've already said that to this point to you've accelerated the deleveraging process. As you look out over 2015, and obviously adding the $250 million share repurchases coming somewhat earlier than we were expecting, which is wonderful, but can you talk about the process there, against the fact that you now think that ultimately you'd like to get to a lower leverage ratio?

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

I think, gentlemen, on the leverage ratio we're giving you a guide, a range. In any given quarter it can be up or down based on -- if you look at the quantum of profits the Company is generating, it can move the needle in a couple of quarters.

So what we're looking at is a range. It's not a huge change to the guidance we're giving you; it's a general range based on what we are seeing and how much profitability the Company is expected to throw off.

Moshe Orenbuch - *Credit Suisse - Analyst*

Got it. Just as a follow-up, the $250 million, is that something you would be able to approach AIG and talk with them about, whether they would want to arrange a transaction with you?

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

We don't comment on anything to do with AIG publicly.

Moshe Orenbuch - *Credit Suisse - Analyst*

Got it. Thank you.

Operator

Scott Valentin, FBR & Company.

Scott Valentin - *FBR & Co. - Analyst*

Thank you. Good morning. Just a question on Russia. To date it hasn't really been that much of a problem. You've been able to repossess planes.

I'm just wondering what your plan is going forward. Do you plan to, I guess, consciously reduce exposure to Russia? Or just let it progress, and if airlines run into problems you will then proceed to repossess planes as needed?

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

Generally of course we're not adding capacity into Russia at the moment, and we are looking at taking further aircraft out of Russia. We'll probably take out another two airplanes this quarter as well. So where we see an opportunity to reduce exposure there, we do.

However, it's important that the Russian market has different components to it. Most -- almost half our exposure is with the Aeroflot Group and S7, two strong airlines.

The real issues in Russia revolve around a much smaller part of our portfolio, which had to do with those who were charter operators. These are travel companies who will fly package holidays where you book a hotel and a flight; and that's more geared toward the average guy in the street.

They don't have any scheduled network, and that's a very elastic demand. They are the guys who are being impacted the most, so they are the people that we are moving airplanes away from.

But that's less than 15% of our -- or less than 20% of our overall exposure in Russia. So gradually taking airplanes out.

Scott Valentin - *FBR & Co. - Analyst*

Okay. Then just a follow-up question. In terms of the pace of disposition, I guess, thinking about -- is it more of an opportunistic approach where, if you see prices may be higher than you think they should be, you'll be a little more aggressive in liquidating the aircraft? Or is it more just managing the fleet and trying to get the right mix of aircraft by type and by age?

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

It's managing the fleet. If you look at Russia, the vast majority of our customers, the vast, vast majority are paying on time. So there is no reason to be taking airplanes out of there.

It's as we sit down and work with the fleets of airlines -- or we work with the airlines and their fleet plans; and if there is room to adjust, we'll adjust.

Scott Valentin - *FBR & Co. - Analyst*

Okay. Thank you very much.

Operator

Justine Fischer, Goldman Sachs.

Justine Fischer - *Goldman Sachs - Analyst*

Good morning. The question I have is on the use of capital that you guys highlighted on slide 20, when you talked about that you could use your excess capital for aircraft purchases; but if not, then for share repurchases.

Just to confirm, does this mean that AerCap could be in the position in the future to just not have a significant order book? Because I think some of the -- one of the things that our investor base is concerned about now is that, if it's true that the cycle is turning -- and I know you guys have spoken vocally about the fact that it may not be -- but if that's true, then they would hope that the aircraft lessors might pare back on their order books in order to adjust that to a turn in the cycle.

ILFC certainly historically has always had a pretty big order book. So does this mean that you guys would be very willing to stop new ordering and take that down and wait until the cycle turns again?

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

Justine, our approach to investing our shareholders' money has always been exceptionally clear. If we believe there is a good opportunity out there, we'll be very aggressive. If we believe there is no opportunity out there, we'll shrink the balance sheet; and that's what we've done in the past in AerCap.

I'm not wedded to growth for the sake of growth. Our objective here is to maximize the value of the Company. If that means ordering airplanes or not ordering airplanes, that's the path we'll go down.

Justine Fischer - *Goldman Sachs - Analyst*

And is that -- there seems to be a focus industrywide on growth now. And again I think it's different for companies that are smaller than you guys, maybe in the $6 billion to $10 billion book value range versus you guys. I think that there may be pressure on the smaller end to continue to grow, even if it may sometimes be at the expense of margin, i.e. doing sale leaseback deals that might be lower-margin deals.

Do you think that AerCap may face less pressure of this type because you are already so significant -- so much larger than some of these companies in terms of book value?

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

I can't speak to the behavior of other leasing companies. But what I would say is in the sale leaseback market, as I mentioned earlier on on the call, we are not in the daily bake-off that you see. The scale of our operations means that we are generally at the fleet planning stage with the airlines when they are putting together their plans.

As I said, our focus is growing the earnings per share, not growing the revenue line or the asset side of the business. We believe that our asset side gives us plenty of opportunity to enhance the value of the business without being in those openly contested sale leasebacks.

Justine Fischer - *Goldman Sachs - Analyst*

Okay, thanks. Then the last question is just on what the airlines are telling you guys right now. I know you had mentioned previously and we've heard before that, even if some airlines are looking to extend the lives of some of their older assets, they have a hard stop when you have things like a maintenance check, because that just makes it prohibitive even if the fuel price is lower.

In your conversations with airlines, have they changed their rhetoric about how they are viewing the market or how they are viewing fleet planning? I mean, I think the longer oil prices stay lower -- I think three months ago maybe airlines hadn't changed the forward fuel price that they were using to plan their fleets. Have you gotten any indication that they may be changing that and they may be planning their fleets around $75 or $80 crude instead of $100-plus?

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

No, we haven't. You've got to think of an airline again, when we -- so we lease -- we've had the busiest quarter ever for leasing new airplanes in the one just gone. We moved, what was it, 49 brand-new 320neos and 350s.

When you are an airline, if you look at your cost basis the ownership cost in a traditional, in a normal airline's P&L will be less than 10% of the P&L. By far the biggest cost item they have, typically in emerging markets where labor is low, is fuel costs. They look at a horizon when they take an airplane off us, say, between 2018 and 2030. That's the term we are looking at.

So they know that if fuel increases significantly, it will have an extremely detrimental impact on the airline; and the only way they can protect against the rising fuel costs over that time frame is to have modern fuel-efficient aircraft in their portfolio. Now the marginal cost of modern fuel-efficient aircraft may move their ownership cost from maybe 8% to 9%. But the impact of not having those aircraft if fuel goes back to $100 could be the survival of the airline.

So when you look at that trade-off, you don't spend an awful lot for the hedge, but you know that, if you don't do it, it could put you under. So that thinking hasn't changed in airlines; we don't see any evidence of it changing.

Justine Fischer - *Goldman Sachs - Analyst*

Okay, great. Thanks very much.

Operator

Helane Becker, Cowen and Company.

Helane Becker - *Cowen and Company - Analyst*

Thanks, operator. Hi, gentlemen. Thanks for the time. Just a couple of questions.

One, is there any opportunity to get the tax rate lower? Or is that the number we should be considering going forward?

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

Our assets are all going to Ireland or are effectively in Ireland, if you will. So the Irish tax rate at 12.5% is effectively the low point, if you will. That's where it should level out.

Helane Becker - *Cowen and Company - Analyst*

Okay. Then are there any aircraft in India at this point that are considered nonperforming or that you have to get out?

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

No, none.

Helane Becker - *Cowen and Company - Analyst*

Okay.

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

No, we've never had a problem getting airplanes out of India, we should say. We moved aircraft out of SpiceJet actually a couple of months ago. We had it out no problem at all.

Helane Becker - *Cowen and Company - Analyst*

Okay, that's good. Then one last question. As you look at your lease base, your client base, is there any market that you think you're underrepresented in, or any market that you're looking to grow in or expand in? Any place that's underrepresented in your portfolio I guess is the way to ask the question. Thanks.

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

Well, I guess given our scale, we are in every market. I mean, sure, would I like to have more exposure to US majors? Yes, I would; but that was something that's quite hard to achieve. We did that, obviously, with American and with Southwest previously.

Overall around the globe, though, at the moment we see a very robust demand in China for new airplanes. We see a very good bid on used aircraft here from US carriers, particularly for the used narrowbody types.

One market where we are underrepresented significantly is India. We are aware of the issues that the Indian market has faced over the course of the last several years, but that is not a reason why we're not there. It is a growth market; you just need to be careful in selecting the carriers you deal with.

Helane Becker - *Cowen and Company - Analyst*

Okay, great. Thanks very much. See you later.

Operator

(Operator Instructions) Arren Cyganovich, Evercore.

Arren Cyganovich - *Evercore ISI - Analyst*

Thanks. You mentioned the 49 aircraft that you signed, all these new technology aircraft since the end of September. Well, oil prices have come down a lot. It sounded like the lease terms -- you said average 144 months -- hadn't changed.

Have the lease rates relative to before oil stayed steady as well on those new aircraft?

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

No, they haven't changed. Again it goes back to my point. You don't pay an awful -- if you look at your total cost base as an airline, the ownership cost by buying the new aircraft in terms of your overall P&L -- paying up for new airplanes doesn't really move the needle.

But if you don't to do it and you are looking at this period between now and 2030, the impact of not doing it could be extremely detrimental to the airline. So the price of the hedge isn't that much on a relative basis, so airlines still go ahead and do it.

Arren Cyganovich - *Evercore ISI - Analyst*

Great, thanks. Then on the excess capital, clearly you're going to be balanced on the use of this excess capital. As you stand today and the opportunities that you see today, would you be erring more towards adding to portfolio today, or would you be more on returning capital to shareholders?

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

Well, it's a combination of the two. We feel that the business has the flexibility to do both. This is an authorization that we now have in place.

But again if we see great aircraft purchase opportunities, we will do it. If we don't or we see opportunities to take shares back, we'll do that.

It will be a very methodical calculation as to how we do it, the ultimate driver being to enhance the value of the business.

Arren Cyganovich - *Evercore ISI - Analyst*

Okay. Then lastly, on the Russia exposure I think you had mentioned $2.8 billion of gross exposure. It seemed like that was referenced to some sort of third-party valuation. Does that roughly match the book value as well on your balance sheet?

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

The $2.2 billion is our cost basis, which is the book value of the assets less the deposits and maintenance reserves we hold on those aircraft. And it's comparable to the market value that's on that page.

Arren Cyganovich - *Evercore ISI - Analyst*

Got it. Okay. Thank you.

Operator

That will conclude today's question and answer session. I would now like to hand the call back to Mr. Aengus Kelly for any concluding remarks.

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

Thank you, operator. Thank you very much, everyone, for joining us today on the fourth-quarter call. Hopefully we'll see as many of you as possible at the New York Palace at 11:00. Failing that, we'll talk to you again in three months' time. Goodbye.

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

Thank you.

Operator

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