

# FINAL TRANSCRIPT

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## **AER - Q3 2010 AerCap Holdings N.V. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Peter Wortel**

*AerCap Holdings N.V. - Head of IR*

**Klaus Heinemann**

*AerCap Holdings N.V. - CEO*

**Keith Helming**

*AerCap Holdings N.V. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Gary Liebowitz**

*Wells Fargo Securities - Analyst*

**Andrew Light**

*Citigroup - Analyst*

**Scott Valentin**

*FBR Capital Markets - Analyst*

**Fritz von Carp**

*Sage Asset Management - Analyst*

**Helene Becker**

*Dahlman Rose - Analyst*

## PRESENTATION

**Operator**

Good morning and good afternoon, ladies and gentlemen, and welcome to the AerCap Holdings third-quarter 2010 results conference call. At this time, all participants are in listen-only mode. This call is being webcast, and audio version of the call will be available on the Company's website. The call is also being recorded for replay purposes.

I now handover to Peter Wortel, head of Investor Relations.

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

Thank you and good day everyone. Welcome to the 2010 third-quarter results conference call. With me today are Klaus Heinemann, AerCap CEO, Keith Helming, the CFO, and also Aengus Kelly, currently COO of AerCap Inc.

I would like to mention that after this conference call, we will host a luncheon at the New York Palace in New York. The presentation given there will not be webcasted, but the slides will be made available in the website shortly before the start of the lunch around noon, New York time.

Now, before we start 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 live call. AerCap does not undertake any ongoing obligation other than that imposed by law to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call.

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Further information concerning issues that could materially affect performance related to forward-looking statements can be found in AerCap's earnings release dated November 5, 2010.

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'll now turn the call over to Klaus.

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**Klaus Heinemann** - *AerCap Holdings N.V. - CEO*

Good morning everybody and thank you for joining us for AerCap's 2010 third-quarter earnings call. The end of this third quarter brings with it, the last stretch of the largest lease asset expansion program in AerCap's history. And Keith will go into the numbers a little later, but we delivered our last aircraft during the month of October and that really brings this program pretty much to its conclusion.

As you know, profitable expansion is of course very much a theme for us. And therefore before I go into detail, I'm keen to stress that our philosophy remains with regard to further expansion that investment will only be done if deals generate positive long-term returns to shareholders.

Our total lease assets increased by 67% to \$7.97 billion year on year, and this growth was achieved with solid equity support. AerCap's total equity reached \$1.98 billion by quarter end, importantly without diluting or compromising our historically strong earnings-per-share performance or the strength of our balance sheet.

Third-quarter earnings per share grew to \$0.51 on an adjusted basis compared to \$0.46 for the same quarter last year, representing an 11% increase. But our debt to equity ratio remained stable at 3.3 to 1 despite the fact of this massive expansion.

Our total revenue grew by 125% when compared to the third quarter of 2009. The increase was mainly due to the Genesis transaction, deliveries of forward order aircraft, and also in view of increased portfolio sales revenue.

The increase in sales revenue continues to demonstrate growing investor interest in our sector, which makes it a better climate for trading opportunities, and the resulting gains show the solidity of our portfolio valuations.

Another important contributor to our total revenue growth is of course the increase in stable contracted lease revenue, which by nature improves our earnings mix and earnings visibility. With the third quarter, our Basic Lease Rents reached \$233.9 million, representing a year-on-year increase of 65%.

This increase in lease income also has a positive effect on our net spread, the margin we earn on our leased assets which increased by 50% year on year, to \$171.8 million.

Our results underline the growth we see in the current global aviation market with airlines clearly benefiting from the economic recovery in most regions of the world, and increased traffic volumes. Airlines continue to pursue capacity growth and fleet renewal opportunities for 2011 and beyond, which materially enhances the demand for the core content for AerCap's modern aircraft lease portfolio.

I would like to give you an update on the Mexicana default that occurred earlier during the third quarter. It was in the middle of August. As you heard, we were very quick in reacting to this default and started the repossession process immediately.

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As a result of these efforts, we were the first lessor to get all our airplanes safely out. We then started marketing these planes and have placed all of them with other lessees. So far three of the five have been actually delivered to the new lessees. However, I invite you to compare that to any other lessor. It demonstrates the capability of our operating platform like nothing else.

As you know, a week ago, we announced the signing of our agreement with Waha Capital, an Abu Dhabi-based investment company to sell a 20% stake in AerCap in exchange for 40% stake in Waha's aircraft portfolio. Which we will manage for fees in future, buying back Waha's 50% stake in Aerventure, which contains the most valuable part of our narrow-body new-generation aircraft and a \$105 million in cash.

The transaction was valued at \$380 million and the deal provides us with significant unrestricted cash that we can use to fund future growth or other alternatives depending on share price developments. Keith, during the lunchtime presentation, will go into much greater detail as to the logic of this transaction.

The deal will prove to be exciting from a strategy standpoint. Our new shareholding structure will materially enhance our opportunities and our competitive advantage in the fastest growing Middle East area, both on our asset side and also for our liability side.

Furthermore, the deal provides AerCap with the full benefit of a potential refinancing of our securitization ALS-II which funds the majority of Aerventure aircraft, and eliminates the non-controlling interest related to Waha's portion of Aerventure of which we now have 100% control. If you look at the minority interest's P&L bleed; year to date, in our P&L you see how significant it is in overall profit terms to regain control over that part of our earnings. This is important of course because Aerventure is mostly made up of brand new aircraft. It's most profitable and highly cash-generative part of our portfolio.

Keith will provide some more details of our recent transaction with Waha, as I just said during the lunch presentation, which will also be made available on the website of AerCap.com.

On that note, I would like to hand you over to Keith who will take you through the details of our financial and operating performance, year to date.

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

Okay, thanks, Klaus. Good morning to everyone. I'll walk you through the earnings call presentation which provides the highlights of our third quarter financial performance.

Our total net income in third quarter 2010 was \$51.9 million. The net income excluding the non-cash charges relating to the mark-to-market of our interest caps and share-based compensation was \$61.1 million in third quarter 2010. And that's up from \$39.2 million from the same period in 2009.

Total earnings per share were \$0.43 in third-quarter 2010 including all items, and earnings per share were \$0.51 during this period, including the non-cash charges that I just mentioned.

Total revenue in third-quarter 2010 was \$478 million. That's up from \$212 million in third-quarter 2009. The basic rents increased to \$234 million, up from \$142 million over the same period 2009. In addition, you can see that the amount of sales revenue was up significantly over the prior year.

Net spread in third-quarter 2010 was \$172 million, which is up 50% over third quarter 2009 and the net spread margin percentage was 1 -- was 8.8% in third quarter 2010. That's down from the same period in 2009.



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The decrease in the annualized margin percentage was driven by the impact from the delivery of new aircraft and the Genesis transaction. For new aircraft, the net spread is lower at the start of a lease because of higher interest expense resulting from a higher loan-to-value and also because of a higher book value.

Total sales revenue in third quarter 2010 was \$218 million. Revenue related to sale of aircraft was \$168 million, sale of engines was \$10 million, and part sales were \$40 million.

Total gain from sales in third-quarter 2010 was \$16 million on a pre-tax basis, as compared to \$9 million in the same period in 2009.

The aircraft sold in third quarter 2010 included two new A320s and one new A330. Sale and related terms of the A330 sales was previously agreed during the first half of 2009, and the two A320s are part of a transaction we agreed with Avalon.

The total amount of leasing expenses and SG&A from third-quarter 2010 was \$42 million, which is essentially flat as compared with the same period in 2009. These amounts exclude the cost for share-based compensation.

Leasing expenses on a standalone basis were higher at third quarter 2010 as compared to the same period 2009, and the following page provides more details on those costs.

SG&A costs decreased significantly in third-quarter 2010 compared to 2009. This decrease in cost resulted primarily from an \$8.5 million mark-to-market credit related to foreign exchange rate hedges, which is offset partially by costs associated with the servicing of the Genesis portfolio.

Leasing expenses were \$17 million for third quarter 2010. That's up from \$11 million in third quarter last year. The largest drivers of the increase in leasing expenses in third quarter 2010 was normal transition costs and costs associated with overhaul of engines in our AeroTurbine business.

These type of costs are not incurred evenly across all quarters, and instead are based on the timing of these particular events.

We incurred \$1.6 million of charges related to default and restructuring in third quarter 2010. This amount included an impairment charge of \$2.8 million from the Mexicana default, and \$1.7 million of other expenses which are partially offset by maintenance reserves that we held as collateral.

On a year-to-date basis, in 2010, the total cost of impairments and other default-related charges were essentially offset by maintenance-related revenue. For the full-year 2009, we incurred approximately \$25 million of default-related cost.

A blended tax rate for third-quarter 2010 was a charge of 9%. The tax rate for aircraft assets was a charge of 9.3%, and the tax impact relating to our engines and parts assets was positive.

The blended effective tax rate in any year is impacted by the source and the amount of earnings among AerCap's different tax jurisdictions. The increase in 2010 effective tax rates as compared to 2009 is the result of having more earnings generated from higher tax rate jurisdictions.

Our capital assets have grown 46% in third-quarter 2010 as compared to the prior year. Total assets on the balance sheet are \$9.3 billion at the end of third quarter. \$1.5 billion of this growth in assets was related to the Genesis transaction, and the remaining \$1.4 billion of growth reflects primarily deliveries from our forward ordering.

The number of aircraft in our portfolio is 324 including owned aircraft, managed aircraft, and aircrafts on order, under contract, or subject to LOI, and the total number of engines owned or under contract was 83 at the end of the third quarter 2010.



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We completed \$2.4 billion of purchases of aviation assets in the first three quarters of 2010 including the purchase of 51 aircraft. In fourth quarter 2010, we will purchase (Company corrected after the conference call) another \$150 million of committed purchases of aircraft. The number of aircraft purchases for the full-year 2010 is 54.

Utilization rates for third quarter 2010 was 98.3%. The yield generated by aircraft lease portfolio was 13.2% for the first three quarters of 2010. Decrease in yield versus the full-year 2009 is primarily the result of lower interest rates plus the delivery of new aircraft, which initially have a lower yield.

The average term of new leases for aircraft entered into during the first three quarters of 2010 inclusive of LOIs was 138 months, and the average term entered into during the first three quarters of 2010 for new leases on existing portfolio aircraft was 62 months.

AerCap's free cash balance at the end of third quarter 2010, \$286 million. Our total cash balance including restricted cash was \$520 million at the end of third quarter 2010, and operating cash flows were \$151 million during the third quarter.

As you can see, we're in a very strong liquidity position. At the end of the third quarter 2010, AerCap's debt balance was \$6.6 billion and our debt/equity ratio was 3.3 to 1.

Our book equity amount is nearly \$2 billion, and the average cost for debt in third quarter 2010 was 3.7%. This rate is a very low cost of funding, but it's still slightly higher than the rate incurred in third quarter 2009.

The increase in the rate was driven again primarily by the Genesis transaction, plus the use of more fixed-rate financing as a hedge against increases in interest rates primarily on our forward order deliveries.

Although the fixed rates are higher than the short-term LIBOR rates incurred on floating rate debt, we think this is a good thing to do these fixed-rate financings, locking in a low rate over a very long period of time.

The next page helps, again, to better understand the increasing in interest on debt from 2009 to 2010 for both the third quarter and the first three quarters of the year. If you focus on the first two columns to the left relates to third quarter. You see that interest on debt increased from \$32.8 million in third quarter 2009 to \$75.1 million in third quarter 2010.

These are the numbers that you actually see on our income statement; \$8 million of this increase is due to the mark-to-market of interest rate caps. These amounts were charged to both years, but was higher in third quarter 2010.

In addition, we incurred an increase of interest expense of \$15 million in third quarter 2010 as a result of the Genesis transaction. Including both the mark-to-market amounts and the impact from the Genesis transaction, interest on debt increased approximately \$19 million to \$47.1 million in third quarter 2010 over the same period 2009, primarily as a result of the increase in our lease portfolio from the delivery of forward order aircraft.

At the bottom of the page, you see the corresponding rates for the cost of debt. Our average cost of debt in third quarter 2010 was 3.7% as clearly shown on the prior page.

But cost was only 3.2%, excluding the impact of Genesis transaction as compared to 2.6% in third quarter 2009. And this is again because our total debt on the fixed-rate side increased from 10% to 20%.

This page provides the segmentation of our total debt balances based on the types of hedges we use. As of September 30, 2010, we have \$1.3 billion for fixed-rate financing, \$800 million of debt from the Genesis transaction which has fixed-rate swaps in place. There's \$2.6 billion of interest rate caps, \$1.8 billion of debt that relate to floating rate or short-term leases, plus a small amount of other short-term debts such as pre-delivery payment financings.



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Our risk to increases in interest rate is minimal and would essentially only result from the difference in the strike rates on our interest rate caps as compared to the current interest rates.

With regard to a 2010 financial outlook, the committed purchases of assets for the full-year 2010 is \$2.5 billion. This amount is \$3.8 billion including the acquisition of the Genesis portfolio. 2010 basic rents are expected to increase (Company corrected after the conference call) 50% to 60% over 2009. 2010 gain from aircraft sales is approximately \$25 million as compared to \$18 million in 2009.

The average cost of debt in 2010 is approximately 3.5% to 4%. The tax rate will be between 9% to 10% and the ROE is very comparable to that of 2009.

The Waha transaction is only expected to be -- have a minimal impact on our income statement for 2010.

With regard to the financial outlook for fourth quarter 2010, the average EPS impact for the fourth quarter from the sale of aircraft will be about four cents less than the third quarter of 2010. With regard to the financial outlook for the full-year 2011, the average EPS impact for 2011 from the sale of aircraft at this point will be approximately \$0.23 lower than full-year 2010.

There are currently no contracted or executed LOIs of aircraft sales for 2011, but of course that could change during next year. That's the summary for the financial performance for AerCap, and I'll open it up for Q-and-A.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) We will pause just a moment to allow everyone to signal. We'll take our first question from Gary Liebowitz from Wells Fargo Securities. Please go ahead.

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**Gary Liebowitz** - Wells Fargo Securities - Analyst

Thank you and good morning gentlemen.

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**Klaus Heinemann** - AerCap Holdings N.V. - CEO

Gary.

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**Gary Liebowitz** - Wells Fargo Securities - Analyst

Klaus, can you tell us now where you find the most intriguing potential acquisition opportunities? You had talked about large sale leaseback deals as an opportunity, but your thoughts maybe on some of the portfolios -- existing portfolios that are reportedly for sale. Or even following what Bank of China did this week, are you in discussions with some of the OEMs, and if there are any good opportunities there?

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**Klaus Heinemann** - AerCap Holdings N.V. - CEO

Gary, first of all, as we've discussed before, we are in continuing discussions with the OEMs. So there is a possibility that prior to year end, we might see something if the terms and conditions are right that relate to the 2013 and beyond new delivery profile.

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With respect to purchase opportunities in the market -- and bear in mind, we continuously execute on opportunities that come up in the two or three aircraft environment, as we also have during the third quarter. But when it comes to larger opportunities, I think it is too early at this moment.

I think some of the equity that is backing some of the other portfolios will have to become more realistic in the assessment of the profitability or lack of profitability of some of those portfolios. I mean it is a matter of fact that in today's environment if our average funding costs are 3.2% and some of the (inaudible) money are 6% or 7%, it's a bit difficult to compete.

So I think while at this moment the focus is on growth, eventually new equity that has come into the market will start to focus on profitability. But that's probably six to nine months out. And I think once they do that, then we could have some interesting discussions.

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**Gary Liebowitz** - Wells Fargo Securities - Analyst

Okay. And one for Keith. It looks like the net spread growth in the third quarter relative to the second quarter led the asset growth. I'm guessing that has to do with the bankruptcies. Can you quantify how many millions of dollars of basic rent were affected by Mexicana and the KTHY bankruptcies?

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

Yes, particularly -- that's actually on the page that shows the impact from the restructuring and defaults, in the presentation (inaudible) right now. It had a minimal impact in third quarter 2010.

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**Gary Liebowitz** - Wells Fargo Securities - Analyst

Okay. Okay. Because I think --

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

Again, these -- this loss of rent will -- is netted against the security deposits that we held as collateral. So there will a slightly higher impact in fourth quarter and subsequent quarters.

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**Gary Liebowitz** - Wells Fargo Securities - Analyst

All right. Also what aircraft did you have at KTHY and where do those stand now?

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

We -- well, this is what I mentioned earlier, Gary. We had five aircraft. There are two nearly new A319s all of which are not only repossessed and remarketed, but delivered to the new lessee. To my best knowledge, nobody else has done anything near it.

As a matter of fact, we know that a number of lessors are still out there trying to get hold of their equipment in Mexico, right? And the two remaining aircraft are also placed. But these are older aircraft, but cheaper aircraft, and that will be delivered in the coming months.

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**Gary Liebowitz** - Wells Fargo Securities - Analyst

I thought those were the Mexicana planes. I was asking you about KTHY.

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

That single aircraft -- well, I mean the aircraft Genesis was still managing that -- sorry, GE Capital were still managing that portfolio. That was one 737-800 which is placed with another carrier, but it is not yet delivered.

**Gary Liebowitz** - Wells Fargo Securities - Analyst

Okay, thanks. Okay, back in the queue.

**Operator**

We will take our next question from Andrew Light from Citi. Please go ahead.

**Andrew Light** - Citigroup - Analyst

Yes, hi there, good morning. Also on the subject of results, a couple of questions. Will you -- could you quantify what the impact would be in the fourth quarter? Would it be fair to say it's really just maintenance cost bringing the planes up to scratch and re-leasing?

And secondly, would you -- despite recovery in the airline industry, every week we hear one small airline going down. Would you still say there's still quite a lot of default risk generally out there in the airline sector?

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

On the quantification for fourth quarter it's about \$2 million, but again we'll show that when we report ourselves fourth quarter.

**Andrew Light** - Citigroup - Analyst

Okay. And more generally on where you see default risk at the moment.

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

It has materially come down. I mean we have only two clients left on our watchlist. That doesn't mean that small airlines can't go into trouble, but in the context of our portfolio, that is completely marginal. It is -- I do not see any significant default risk of any significant exposure that we have at this moment. The market continues to materially improve [until the last.]

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

You see that in our receivables as well. Our receivables are significantly down from the year before.

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**Andrew Light** - Citigroup - Analyst

Okay, great.

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

But as we said before, Andrew, I mean this default risk, I mean, is completely blown out of proportion. I mean, I remember in April, May of last year people saying -- some people saying 25% of the lessees is going to default.

I mean that clearly was -- (expletive) -- full of nonsense, right? So let's not fool ourselves here. The default ratios among airlines are extremely manageable and way below historical averages.

**Andrew Light** - Citigroup - Analyst

Right, okay. Just as a follow up on the -- on aircraft values generally. Are we still seeing the 737s holding up better than the A320s, or would you say the A320s especially the CFM ones still performing --

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

The CFM-powered A320s are the same level with the 737-800s. There's a slight delta to the performance of the IAE powered, which continues to be there as we've discussed before.

**Andrew Light** - Citigroup - Analyst

Okay, thanks very much.

**Operator**

We will take our next question, Scott Valentin from FBR Capital Markets. Please go ahead.

**Scott Valentin** - FBR Capital Markets - Analyst

Good morning, and thanks for taking my question. Just on the SG&A line, you mentioned there are some one-time impacts in there. I guess it came a lot lower than we expected. Do you have any guidance for where it should gravitate back towards?

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

Well, on a year-to-date basis, it's about a million-dollar benefit. So we're doing again -- we take a mark-to-market every quarter. So I mean, if exchange rate doesn't modify -- doesn't change much going from this point forward in the fourth quarter, then you won't see it.

But if you see significant changes in the exchange rate, US dollar to euro, then that's when you're going to see these spikes up and down if you will. So on the year-to-date basis, we're approximately neutral and I expect that to be the case in fourth quarter.



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**Scott Valentin** - *FBR Capital Markets - Analyst*

Okay, so it [sets back out] that benefit, okay. And then in terms of utilization rate, I think year to date, last quarter 99%; year to date, this quarter 98%. Is it just the Mexicana and KTHY impact?

**Klaus Heinemann** - *AerCap Holdings N.V. - CEO*

Primarily, yes, but again I still see that -- not much of a significant impact.

**Scott Valentin** - *FBR Capital Markets - Analyst*

Okay, all right. And in terms of -- oh, you guys touched it. It is all that I had. Thanks very much.

**Klaus Heinemann** - *AerCap Holdings N.V. - CEO*

Operator?

**Operator**

Your next question from Fritz von Carp from Sage Asset Management. Please go ahead.

**Fritz von Carp** - *Sage Asset Management - Analyst*

Yes, good morning or good afternoon.

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

Fritz?

**Fritz von Carp** - *Sage Asset Management - Analyst*

I just wanted to go back to the question and you would -- you did address it, but I guess I just wanted to try it again to get more color, or so I can understand it better that the new money coming into the sector, the new equity, did I understand what you're saying they're paying -- you said they're paying too much for assets, for planes?

And in that -- did I understand that right in the net market? Are you -- so are you a seller of assets? I mean how do you -- what is your strategy in general to deal with that in terms of your own asset purchase or sale plans and so forth?

How do you navigate the entry of all this new money and ultimately what impact do you see it having on the yields that you can achieve on the market for pricing the leased asset?

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

And we -- obviously as we have in the third quarter and as we have in the first and second quarter, if there are opportunities to sell aircraft and take profit off the table, we do that. And part of that is selling to parties that have been freshly endowed with new equity.

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But I think the focus is too much on what you pay for an aircraft. At the end of the day, if I pay \$1 million more or less for brand new aircraft, if that was overpaying or underpaying, we won't know in 10, 15 years time.

And the key differentiating factor if you over or underpay will be what the inflation rates in the long term will be. So I think that is actually not the important issue. The important issue is your funding cost and the efficiency of your funding structure.

If you are taking a lease that I can sign today in the market in a sale and leaseback situation, and I fund that as I do with average funding cost of 3.2% and I -- (technical difficulty) -- financial services business, or I have to fund it with 6% or 7%, then that makes a material difference to the P&L and to the equity return.

So I think it is much more about the funding cost and the funding structures than if you pay \$1 million or \$1.5 million more or less for rented aircraft.

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**Fritz von Carp** - Sage Asset Management - Analyst

Okay. Okay, great, thank you very much.

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**Operator**

(Operator Instructions) We will take our next question from Helane Becker from Dahlman Rose. Please go ahead.

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**Helane Becker** - Dahlman Rose - Analyst

Thanks Operator. Hi gentlemen. I just have two questions. One, I see this little German airline, Bremenfly, ceased operations earlier this week. Do you guys have any exposure to that one?

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**Klaus Heinemann** - AerCap Holdings N.V. - CEO

I think you are referring to Hamburg Airlines not Bremen Airlines. It's a town close to it, but I think that's what you refer to because they went bust. And the answer is no, we have no exposure to them.

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**Helane Becker** - Dahlman Rose - Analyst

Okay. And then my second question is do you have an SG&A run-rate that we can use for the next year, I guess -- quarter or so?

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**Klaus Heinemann** - AerCap Holdings N.V. - CEO

Yes, I think if you adjusted for \$8.5 million credit, that that would represent the run-rate going forward.

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**Helane Becker** - Dahlman Rose - Analyst

Great. Okay, thank you. See you later.

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**Klaus Heinemann** - AerCap Holdings N.V. - CEO

Good.

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**Operator**

We will take our next question from Scott Valentin from FBR Capital Markets. Please go ahead.

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**Scott Valentin** - *FBR Capital Markets - Analyst*

Thank you again for taking my follow-up question. Klaus, big-picture question; global utilization rates are really high. You've seen steady but probably modest increases in lease rates.

At some point, do you think that begins to accelerate again given we assume airlines will start adding material capacity to meet the global demand?

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**Klaus Heinemann** - *AerCap Holdings N.V. - CEO*

Well, you have to distinguish here on aircraft type. On new or near new aircraft, the lease rentals provide for an adequate return to equity. So I don't see them going a lot higher than that, until such time that interest rates come up, because as you know there is a very strong correlation between the long-term interest rates and the lease rentals. So on modern equipment, pretty much the rentals that can be achieved show a full market.

On older aircraft, I don't see any improvement really. Because we are in a somewhat awkward situation when it comes to the traditional balance between lower capital costs, balancing of higher operating cost, and lower fuel efficiency and higher maintenance cost, because we are in an environment of very high fuel cost, and everybody assumes that they'll be going further up, and we've an environment of very low capital cost.

So the traditional balance that allows historically as airlines rebuild capacity to take older aircraft into consideration is not working this time, because we have unusually low capital cost, and we have unusually high energy cost.

In other words, in many cases older aircraft even if you could get them at zero capital cost, would not make any sense very simply because of the higher operating cost in the current fuel environment. So I believe that we will continue to see a significant bifurcation of the market between older and less efficient aircraft and modern most state-of-the-art equipment. And the two drivers are low capital cost for the US dollars and high energy cost, fuel cost.

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**Scott Valentin** - *FBR Capital Markets - Analyst*

Okay. Thanks very much.

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**Klaus Heinemann** - *AerCap Holdings N.V. - CEO*

Sure.

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**Operator**

We will take our next question from Andrew Light from Citi. Please go ahead.

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**Andrew Light** - Citigroup - Analyst

Hi, just a quick one. I'm not sure if you mentioned this already, but on the ex-Mexicana planes, how would you say the new lease rates compare to what you were getting from Mexicana?

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

The full market rates reflecting the current swap rates.

**Andrew Light** - Citigroup - Analyst

All right, so no deterioration in revenues.

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

But this is again -- these are nearly brand new aircraft and they could be placed -- as soon as we got them out, and they could be placed at -- we had three airlines competing for them. But they were not competing --

**Andrew Light** - Citigroup - Analyst

Okay.

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

-- for the oldest aircraft that came out.

**Andrew Light** - Citigroup - Analyst

Okay. Thanks very much.

**Operator**

We'll take our last question from Gary Liebowitz from Wells Fargo Securities. Please go ahead.

**Gary Liebowitz** - Wells Fargo Securities - Analyst

Yes, thanks. Keith, you didn't give much guidance for 2011. I just wondered at the topline based on your current portfolio and your purchase commitments, what side of \$1 billion do you expect basic rent to fall out next year?

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

Yes, we'll provide all that guidance probably our next earnings call. So it's a little bit too early for 2011.

I just wanted to point out the impact on contracted sales. Again, a reasonable amount of profit came from sales in 2010. And in your forecast, going forward, you just need to consider that 2011, although it's unlikely that it will be zero, will probably be less.

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**Gary Liebowitz** - Wells Fargo Securities - Analyst

All right. Because you -- I think you've said that there are -- you intend to sell a good number of the planes that are coming in from Waha. And I guess that -- and would that captured in your sale revenue line?

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

Yes, it would. But on the older --

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

No, no, because they come out of the non-consolidated --

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

Yes, exactly. And we sell the RJs that come out of the sale. It certainly impacts the sales revenue if we sell the portfolio that's in the equity investment you won't see it.

But again, on the profit side of the equation, again we're going to be disposing of the older aircraft. And again in our existing portfolio that's likely what we'll focus on as well. So we don't expect to get a tremendous amount of profit on the sales. In fact, breakeven or even a slight loss would probably be acceptable by just -- in order to get rid of the residual risk.

**Gary Liebowitz** - Wells Fargo Securities - Analyst

Okay. Thank you.

**Operator**

(Operator Instructions) We will pause for just a moment to allow everyone to signal. As there are no further questions in the queue, I would like to turn the call back over to you, gentlemen, for any additional or closing remarks.

**Klaus Heinemann** - AerCap Holdings N.V. - CEO

Okay. Thank you very much operator. And thank you everybody for participating in the earnings call this morning. And for those of you who attend the lunch, we're looking forward to see you there. Thank you.

**Operator**

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. Have a good day.

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