

FINAL TRANSCRIPT

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AER - Q3 2008 Aercap Holdings N.V. Earnings Conference Call

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PRESENTATION

Operator

Good morning. My name is Alice, and I will be your conference operator today. At this time I would like to welcome everyone to the Aercap quarterly earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions) Thank you. Mr. Wortel, you may begin your conference.

Peter Wortel - *Aercap Holdings N.V. - IR Contact*

Good morning, everyone, this is Peter Wortel. With me today are Klaus Heinemann, our CEO (technical difficulty) after the presentation which can be downloaded via our website. There will be a question-and-answer session. The lunch presentation that [the CEO] will be giving this afternoon (technical difficulty) webcast, which you can download after the presentation (technical difficulty).

Before we begin I'd like to remind you that some statements made during this conference call that are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements.

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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.

Further information concerning issues that could materially affect performance related to forward-looking statements can be found in Aercap's earnings release dated December 8, 2008. A copy of the earnings release and conference call presentation are available on our website at www.aercap.com. This call is open to the public and is being webcast simultaneously at aercap.com and will be archived. I'll now turn over the call to Klaus Heinemann.

Klaus Heinemann - Aercap Holdings N.V. - CEO

May I also add my good morning to everybody, and welcome to Aercap's third quarter earnings call. As you all know, the past months have clearly seen quite unprecedented challenges to global economy and the aviation industry caused by the financial markets crisis which is now a global one with all its ramifications. So I'd like to give you in my opening remarks a few key bullet points on the situation and our reactions.

First Aercap's global operating franchise is working with remarkable discipline, as you will have seen from third quarter activity report and our third quarter results. Based on that our third quarter and year-to-date performance continues to deliver real earnings growth and after tax return on equity exceeding 20%.

Second, most of our global airline clients are continuing to date to perform under their contract obligations and are taking fast and often very radical steps to ensure their own future and therefore ability to perform their contract obligations (technical difficulty).

Third, while airlines around the globe are very reluctant to add aircraft capacity beyond their current contracted obligations, during this coming winter and probably also during most of 2009, they remain interested in additional aircraft capacity for replacements and growth purposes from 2010 on the [contracts].

I'd like to point to our third quarter activity report released in which you'd have seen that for example we contracted a number of additional A320 aircrafts with Air France for 2020. So there is a distinct difference between the short-term market and the market that we have really been into, which is market (technical difficulty) from 2007 onwards.

Fourth, both Airbus and Boeing are cooperating closely with their key clients, with airlines and lessors to deal with issues resulting from the financial markets crisis in a very constructive way, and are starting to adjust production capacity towards modest GDP growth scenarios during the short- and medium-term future. Again, this is something that we did expect to happen.

Having said that, none of this is reflected in our current trading levels for Aercap's shares and debt, and its publicly traded debt instruments.

Myself and my colleagues, with the full support of our Board, are completely focused to seek ways to change this lack of reflection during the coming months. Nothing less than a radical rethinking of our strategies would justify the change of global market circumstances and the [strained] patience of our shareholders. So what are we doing?

First, we have suspended all future CapEx other than our existing contracted CapEx with Airbus, which ensures material growth in its own right, during 2009 and 2010. Clearly at current trading levels for our debt and equity, all shareholder value creating incremental CapEx is focused on the liability side of our balance sheet, which offers earnings opportunities way in excess of even the most distressed investment opportunities on the asset side, especially for modern state-of-the art aircraft that to date have shown little stress.

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Second, we have embarked on a major SG&A cost-cutting effort reducing our workforce house -- headcount on all levels of seniority by around 15%. This -- the effect of this headcount reduction has been completed over the last few weeks, and will start to show in the first quarter of next year. This will also be aided by recent favorable exchange movements of the euro versus the dollar, i.e. the weakening of the euro. Please remind yourselves that a significant part of our SG&A is euro-denominated, which we have already locked in for the year 2009 to an appropriate -- through an appropriate derivative contract.

Third, we are reviewing with our Board a number of strategic alternatives to unlock currently unrecognized value for our shareholders, growth in our portfolio and in our global franchise, which as you know we own and don't contract out to a third party. We are in active discussions to sell minority stakes and suitable [ring-fenced] parts of our portfolio, and to use our franchise to assist potential investors in this sector to locate and execute the right opportunities in the current distressed situation. Some of these discussions are advanced and continue to progress as we speak.

Cash raised from these efforts, which will be incremental to the cash needed for our existing CapEx will be invested if current trading levels for debt and equity remain where they are on the liability side of AerCap's business. Potential interests from sovereign and private investors around the world in the aviation sector based on the belief that the current situation will restabilize during 2009, and reverse to growth patterns in 2010 is evident, and AerCap is engaging actively in dialogue with some of these interests as we speak. So that's where we are at this moment.

I would like to assure that my Board, my management team and myself are completely focused on recreating shareholder value that has been destroyed, and that we believe that this might also represent a unique opportunity for AerCap and the shareholders to create a truly leading franchise in our sector, whose value belongs to you, our shareholders. And it will reflect itself, given time, in our share price. With that I would like to hand over to Keith for this financial review of the third quarter.

Keith Helming - AerCap Holdings N.V. - CFO

Thanks, Klaus. Good morning, everyone. I will start with our net income performance. Our total net income for third quarter 2008 was \$51.3 million. Our net income excluding non-cash charges relating to the mark-to-market of our interest rate caps and share-based compensation was \$61.1 million during this period. The mark-to-market interest rate caps resulted in a loss this quarter.

Total earnings per share were \$0.60 in third quarter 2008, including all items. Earnings per share were \$0.72 during this period, excluding the previously referenced charges. Again, the difference is largely driven by the loss recorded on the mark-to-market of our interest rate caps.

The growth in our net spread was solid again in third quarter 2008 versus prior year. Net spread is the difference between basic lease rents and interest expense excluding the non-cash charges relating to the mark-to-market of our interest rate caps.

Basic rents increased 6% in third quarter 2008 compared to the same period in 2007, while interest expense excluding the non-cash mark-to-market decreased 22%. At the same time our debt balance increased 30%. This resulted in a net spread of \$93 million in third quarter 2008 as compared to \$75 million in third quarter 2007, an increase of 25%. This increase is primarily driven by the 22% growth in our leased assets.

The longer-term trend for net spread is favorable. The average amount of net spread per quarter in 2007 was \$77 million. This amount grew to \$86 million in first quarter 2008, and then to \$93 million in both the second and third quarters. The net spread in third quarter was adversely affected by the default of some of our customers, in particular Gemini and Zoom Airlines. Lost lease rents were approximately \$6 million in third quarter 2008 relating to these defaults.

We still expect the average amount of net spread per quarter in 2008 to be approximately \$91 million, which is an increase of 18% over 2007 quarterly average.

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Total revenue in third quarter 2008 was \$302 million, down from \$336 million in third quarter 2007. The decrease in total revenue was largely driven by a lower amount of sales revenues in third quarter 2008 versus the same period in 2007.

Basic rents increased as previously mentioned, as well as maintenance rents. The increase in maintenance rents was driven by a change in estimate on the reimbursement of maintenance rents to our lessees as well as airline defaults. I'll talk more about both of these items in the following pages.

As of September 30, 2008 we had an accrued maintenance liability of \$208 million on our balance sheet. This is the amount of maintenance rents we have collected that we expect to reimburse back to our lessees for maintenance expenditures incurred relating to our aircraft.

The increase in maintenance rents recorded as revenue in third quarter 2008 when compared to prior periods is in part due to a change in the estimate of the amounts of maintenance rents expected to be reimbursed to lessees. The change in estimate arose from the implementation of an improved model used to forecast future maintenance reimbursements.

We record as revenue all maintenance rents not expected to be repaid to lessees. In third quarter 2008 \$16.6 million was recorded as revenue as a result of the change in estimates. Of this \$16.6 million \$3.7 million was collected from lessees during third quarter 2008, and \$12.9 million was collected in prior periods.

When we incur an airline default we typically hold significant collateral coverage in the form of security deposits and maintenance reserves. This chart outlines how these items, plus the cost incurred as a result of default, impact our financial statements. First, any security deposits we hold will be applied to pass-through rents if any, which helps to partially offset the impact from lost lease rents during the transition period.

In addition, any cash we still hold as a result of maintenance rents previously collected from the airline becomes our cash upon termination of the lease. The accounting requirement is to record this amount as revenue upon lease termination. Lastly, the cost relating to the default are required to be expense when incurred.

During 2008 we had three airline defaults -- Skybus, Gemini and Zoom Airlines. As you can see by our chart, the impact on the defaults was minimal in both second and third quarter 2008. However, because of the timing of costs incurred relating to these defaults fourth quarter 2008 will be adversely impacted by approximately \$13 million as shown, mostly relating to the Gemini default where we had two MD-11 freighter aircraft.

Total sales revenue at third quarter 2008 was \$122 million. The sales revenue related to aircraft was \$97 million and engine and parts sales totaled \$25 million for the quarter. During the third quarter we sold one A330-200, one A321-200, and four MD82 aircraft. The gain from the sale of aircraft in third quarter 2008 was \$13 million compared to \$36 million in third quarter 2007.

The sale of the A330-200 was a result of a purchase option being exercised by one of our lessees. The four MD82 aircraft were sold at breakeven in order to further reduce the risk from all the aircraft. Both of these items drove the sales margin lower in third quarter 2008 than previous quarters.

In addition to the six aircraft sales, an A340 held in a joint venture that was 27% owned by AerCap was sold for a pre-tax profit of \$3 million and was recorded in other revenue.

AerCap's leasing expenses and SG&A for third quarter 2008 was \$43 million compared to \$33 million of second quarter 2007. These amounts exclude the cost for share-based compensation. Over \$4 million of the increase was a result of higher euro-US dollar exchange rates, which should be less of an issue going forward, based on recent movements on the rates. Leasing expenses were also higher in third quarter 2008 versus the same period in 2007; some of the increase was driven by the airline defaults. But third quarter 2007 was unusually low versus most other quarters.

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Our blended tax rate for the first three quarters of 2008 was 8.3%. The tax rate for our aircraft assets was 7.8%, and the tax rate was approximately 14% on our engine and parts assets. We expect to blend the tax rate for the fullyear 2008 to be approximately 8% to 9%.

Aercap's total assets have grown 24% in third quarter 2008 as compared to third quarter 2007. Total assets on the balance sheet are \$5.3 billion at the end of third quarter 2008.

The number of aircraft in our portfolio is 314, including owned aircraft, managed aircraft, and the aircraft on order under contract or subject to LOI. The decrease in units since the end of third quarter 2007 is largely driven by sales of older aircraft, including managed aircraft. The number of engines owned or under contract was 74 at the end of third quarter 2008.

We have \$1.4 billion of committed purchases of aviation assets for the fullyear 2008, out of which \$1.1 billion closed in the first three quarters of 2008. The number of aircraft purchases for the fullyear is expected to be 61, which consists of our forward-order aircraft, the purchase of the TUI portfolio plus other aircraft purchases.

The utilization rate was 97.5% in third quarter 2008, still a very high -- still very high despite the impact from the airline defaults. The yield generated by aircraft lease portfolio was 17.5% in the first three quarters of 2008. The average term of new aircraft leases entered into during third quarter 2008 inclusive of letters of intent was 121 months. The average term entered into during third quarter 2008 on our existing portfolio was 65 months.

The net book value of our leasing assets plus the purchase price of our forward-order aircraft is now roughly \$6 billion. This amount is still approximately \$1.5 billion below current market values based on data provided by external appraisers as of September 30, 2008. 95% of our portfolio consist of A320 family aircraft, A330s and 737 new gens. Within this group of aircraft 11% is greater than eight years of age.

The difference in net book value and price paid versus appraiser values of these aircraft is 20% of the appraiser value. For the rest of our portfolio 3% is in 757s, 767s, and A300s. And the percentage difference versus appraiser values is 23%. In addition, 2% of our portfolio is 737 Classics or MD80s, and the percentage difference versus appraiser values is 26%.

At the end of third quarter 2008 Aercap's debt balance was \$3.6 billion, and our debt to equity ratio was 3.21. Our book equity is now over \$1.1 billion. The average cost of our debt in the third quarter 2008 was 4.3%, and has decreased by 250 basis points across our entire portfolio as compared to the same period in 2007. Again, this decrease in cost of funding is reflective of lower interest rates, and the use of interest rate caps for hedging purposes.

Aercap's cash balance at the end of third quarter 2008 was \$176 million excluding restricted cash. Restricted cash was \$168 million and although classified as restricted, some of it is available to pay operating expenses.

Operating cash flows were \$73 million for the third quarter 2008. The remaining financing requirement needed for committed purchases is approximately \$4.7 billion from 2009 to 2012. As of September 30, 2008, we have \$2.6 billion (technical difficulty) available unused lines of credit.

In addition we are working with various European export credit agencies in order to access funding for 10 A330 aircraft and 20 A320 aircraft, totaling \$1.2 billion. The remaining amount of funding needed is approximately \$900 million which relates primarily to purchases in 2011 and 2012, and assumes that we exercise all our options.

The update for 2008 is as follows. Committed purchase of the aviation assets for the fullyear 2008 are \$1.4 billion. The growth in net spread from leasing is expected to increase 18%. We expect sales revenue in 2008 to be slightly higher than 2007, but at a lower margin. And we are in the process of trying to sell two aircraft in fourth quarter 2008.

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The average cost of debt in 2008 is now expected to be \$4.6 or lower, and the 2008 tax rate is expected to be 8% to 9%. Fourth quarter earnings per share is expected to be negatively impacted by the impact of defaults as I discussed previously. And the maintenance rents in fourth quarter 2008 will be lower than the amount in third quarter. Return on equity for the full year 2008 is still expected to be around 20%.

Okay, those are the financial highlights for third quarter 2008, and I'll turn back over to Klaus.

Klaus Heinemann - AerCap Holdings N.V. - CEO

Thanks very much, Keith. Before we open for Q-and-A, just one last remark from myself. I'd like to focus people a little bit on the fact that despite the stresses that really started to kick in from May of this year and clearly accelerated through October, this company is still throwing up a return on equity of 20% plus. That's better than our competitors. That is significant. And I think it shows that the current market valuation of the Company is outright ridiculous.

With that I'd like to go to the Q-and-A session.

Peter Wortel - AerCap Holdings N.V. - IR Contact

Hello, Operator?

Operator

Yes. We're ready for questions?

Peter Wortel - AerCap Holdings N.V. - IR Contact

Yes, we are.

QUESTIONS AND ANSWERS

Operator

Your first question comes from Jamie Baker.

Klaus Heinemann - AerCap Holdings N.V. - CEO

Hi Jamie.

Jamie Baker - JPMorgan - Analyst

Hey, good morning. I'm Jamie Baker from JPMorgan. A question for Klaus. From time to time in the past, Klaus, you've expressed an aversion or maybe a skepticism in terms of embracing the US market for placing aircraft. It may just be a short-term anomaly, but there is a growing consensus that the US may in fact be profitable for the next couple of years, perhaps more profitable than some of the other global regions. I'm just wondering if you consider this to be a short-term phenomenon or if you might reconsider your willingness to take on more US exposure.

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Klaus Heinemann - AerCap Holdings N.V. - CEO

Jamie, the answer to that is yes and no. Parts of the industry are showing true restabilization; for example I am great believer in the success of the merger of Delta and Northwest. The fleet renewal efforts of American Airlines are starting to take real shape. So in parts of the US aviation industry, I am becoming much more optimistic. And given opportunities, I would not be reluctant to take advantages of them. That is, however, not true for all of them.

Jamie Baker - JPMorgan - Analyst

Okay, thank you for that clarity. I appreciate it.

Operator

Your next question comes from the line of Gary Liebowitz with Wachovia.

Gary Liebowitz - Wachovia - Analyst

So, good morning.

Klaus Heinemann - AerCap Holdings N.V. - CEO

Good morning, Gary.

Gary Liebowitz - Wachovia - Analyst

Klaus, I'm wondering if you can reconcile for me your comments that you are seeing unprecedented challenges, yet in the slides you talk about impact from defaults peaking in the third quarter 2008, and then declining going forward. I just wonder if you can clarify the apparent disconnect there. I would think that the impact from defaults you might project would be somewhat worse.

Klaus Heinemann - AerCap Holdings N.V. - CEO

Well, decreased visibility really refers to broader macroeconomic issues. One issue for example -- and we've seen over the last few days movements on it -- that we had a complete dislocation between the Fed rate and the LIBOR rate, which as you know is terribly important to us in our funding costs.

During the month of October it went the wrong way most of the month; i.e. the Fed rate came down and LIBOR came up. And that had a negative impact on our interest costs. Where it will pan out into the Fed rate will eventually completely be reflected as it traditionally has, and the LIBOR rate remains to be seen. That's one of the areas where I remain cautious, and where I don't have visibility.

The same is true for the future development of fuel costs. My position's that I like fuel costs to be based on cost per barrel between 70 and 100, because at that level they don't do unbearable damage to airlines' P&Ls, yet they accelerate return of all older aircraft. I have no idea where fuel cost will go over the next six months. That's a decreased visibility.

And the third one is what impact will the credit squeeze have on airlines globally also via exchange rate movements, especially for emerging market countries. The anticipation is that the decisive action that has been taken by central banks around the

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globe and by governments should ease the financial crisis situation over the coming months. But one can't be sure at this moment. So it's more focused on macroeconomic issues than on specific business issues. But all of them will obviously have an impact on the fourth quarter depending which way they pan out.

By the way on the -- direct focus on your question on the cost of airline defaults, what we are saying here is that because of the way we have to account for it, and the fourth quarter will see an over-proportional part of the expense, while the second and third quarter showed an over-proportional part of the income part as you lose your repayment liability for security deposits and maintenance rights.

Gary Liebowitz - Wachovia - Analyst

I see. And then just one follow-up, as we go to 2009, what kind of assumption should we have for your gross margin on asset sales? It seems to take down a lot during the quarter but it might have been just specifically related to the MD80s. You mentioned that you estimate there's a 20% difference between book and market values. Is 20% still the right number, or would you be more cautious for 2009 forecasting?

Klaus Heinemann - AerCap Holdings N.V. - CEO

Well, you have to -- you see, if you go into this you have to be very careful to look at the way we value the portfolio. Because, the way we look at the portfolio is we take the next present value of the contracted cash flow from an aircraft, we stress that for anticipated default levels, and then we add to that the NPV of the residual assumptions, which in many cases is many years out. And that sum total is effectively the value of our portfolio. It's not the naked asset without a lease contract.

On the MD80s you see the effect. Our remaining six MD80s are all with American Airlines. The remaining cash flows from those contracts which stretch into 2012 more than cover the net book value of these aircraft. So assuming that American Airlines doesn't fly during the contract period there is no impairment issue in those contracts. And therefore, the net book value of anything is a conservative estimate of the real value of contract with American Airlines plus residual. That's the way we have to look at it.

And on other areas I see stresses, but they're minor. In our portfolio where I see stresses is on the 767 family of aircraft, and I see stresses on the traffics as well. But as Keith outlined, that is less than 5% of our portfolio.

Gary Liebowitz - Wachovia - Analyst

Okay, thank you.

Operator

Your next question comes from the line of Mike Linenberg with Merrill Lynch.

Mike Linenberg - Merrill Lynch - Analyst

Yes, good morning all.

Klaus Heinemann - AerCap Holdings N.V. - CEO

Hi, Mike.

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Mike Linenberg - Merrill Lynch - Analyst

I guess -- hey. Couple of questions. I appreciate the fact that you broke up the detail on the impact from the defaults. Can you tell us -- I -- presumably that's for Zoom airplanes, and also the Gemini airplane -- the Zoom airplanes and the Gemini airplanes, can you tell us where those -- what the status is with those airplanes, are they -- have you lined up a new customer?

I believe the June quarter was part of the Skybus airplanes, and I think on the last call you indicated that those have been taken care of. Any additional color on that would be great.

Klaus Heinemann - Aercap Holdings N.V. - CEO

Okay, well, first of all on the Skybus aircraft, all of those had been placed and delivered because I always make that distinction, because there can be a multi-month differential between contracting and delivering. The Skybus aircraft were all contracted and delivered prior to the last earnings call in August.

And the two MD11s that came out of the Gemini bankruptcy are subjected to executed contracts with two different cargo airlines who have contracted with us to take these aircraft. They are in the process of being delivered, and I expect both of them to be in the revenue service under these contracts by the end of the year.

And the Zoom aircraft, the 767, there is a letter of intent signed with a North American party to take this aircraft. We intend to translate that letter of intent during the coming weeks into a firm lease and deliver the aircraft. So again on this one, I am reasonably optimistic that it will be flying again by the end of the year.

Mike Linenberg - Merrill Lynch - Analyst

Okay. And just my second question, in the past, Klaus, maybe it was at a prior lunch when you were asked about maybe some of the -- I think we -- maybe the question referred to it as problem children. When you look at your customers and obviously you look at these -- you look at the data on a day-to-day basis, I think you had indicated that five or six of your customers were what you would call maybe potential problems.

With Skybus gone, and Zoom gone, and Gemini gone, are we down to just a couple, or because of what's going on, on a macro basis or globally with the markets are we still looking at five or six customers? And I just bring that up because we saw the news that -- I think yesterday about Kingfisher potentially defaulting on some GECAS airplanes, and I do believe you have you have a few -- maybe three or four airplanes with Kingfisher.

Klaus Heinemann - Aercap Holdings N.V. - CEO

Well, first of all the weakest parties have gone with the bankruptcies that we just talked about.

Mike Linenberg - Merrill Lynch - Analyst

Okay.

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

We have currently on what we call the watch list, which is basically airlines that show stresses in their financial behavior, around three parties. The Kingfisher situation is a very complex one. The Indian government is very actively working with the remaining airlines there who are consolidating to resolve the problem.

Airbus and Boeing are both very constructive in the way they deal with contract obligations for deliveries. And I think you may have to distinguish in situations like Kingfisher, between situations for very various lessors. You should not automatically equate the default for one lessor with an insolvency of the airline.

Mike Linenberg - *Merrill Lynch - Analyst*

Okay. Very good, thank you.

Operator

Your next question comes from the line of David Chamberlain with Oppenheimer Capital.

David Chamberlain - *Oppenheimer Capital - Analyst*

Please, can you just walk through -- you brought up the fact that you might be able to raise cash from sound dispositions or sales to minority interests? If you look at your liabilities, what -- can you talk about where they are trading as a percentage of par? And then also, what part of capital structure -- what part of debt structure if anything is -- you can buy back at this point?

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

Well, there is only one part of the debt structure that is publicly traded, which is our debt in the ALS securitization. That is about one-third of our debt structure, the ALS A-bond. That bond is trading at around 75% to 80% of its face value.

As Keith has mentioned in his remarks, we tested the liquidity of this range because part of the problem in these bond markets is sometimes you just have a price, but you don't know if there is actually a seller for the price. So we tested that in the third quarter. We bought \$11 million face value in order to see what the pricing really is at \$0.75 on the dollar. So that's where we see it, and that's the discount that we see.

David Chamberlain - *Oppenheimer Capital - Analyst*

Any sense at all you can give in terms of the magnitude that you are able to sell the minority interests?

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

I think you should think about it in the magnitude between \$50 million and \$100 million.

David Chamberlain - *Oppenheimer Capital - Analyst*

Great. Thank you.

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Operator

Your next question comes from the line of Barry Haimes with Sage Asset Management.

Fritz von Carp - Sage Asset Management - Analyst

Hi. It's Fritz von Carp from Sage Asset Management. And I was going to ask also about the troubled airlines, and I guess it has been answered. So, thank you very much.

Klaus Heinemann - Aercap Holdings N.V. - CEO

Sure, thank you.

Operator

Your next question comes from the line of [Philip Baines] with Tenon Capital.

Philip Baines - Tenon Capital - Analyst

Hi. Thanks very much. I wanted to ask you what your view is on the state of the financial market for deliveries by Airbus and Boeing to 2008-2009, or do you think there's a shortfall there at all?

Klaus Heinemann - Aercap Holdings N.V. - CEO

Yes.

Philip Baines - Tenon Capital - Analyst

And if there is a shortfall, whether you think there's an opportunity for you.

Klaus Heinemann - Aercap Holdings N.V. - CEO

Yes. And first of all this is the area where the stress caused by the financial markets crisis shows most, but maybe not as extensively as some observers assume. Because like ourselves, most of our competitors and most of the airlines will fund the CapEx 12 to 24 months prior to delivery. So if the market does not revive by late 2009, twelve months from now, I would start then to assume that there are significant issues for the 2010 delivery program.

But this winter and early next year, those stresses will be situations caused by either the airline's lessors not having funded short-term deliveries, which to be blunt I would think is irresponsible, but it does happen. And secondly, where commitments that they thought they had had fallen away because of solvency issues of the credit provider that they had a commitment from, and that we also see on occasion.

And, yes, you are right where these occasions occur we are in very close cooperation with our core manufacturer, Airbus, and the related engine manufacturers. We address these situations, and we see if we can take advantage of them.

Just one last remark, on the funding gap, this industry has traditionally had backups for situations like that. This is not the first time that as we go into a recession the industry finds the financial markets are cooling on them. Both for Boeing and Airbus

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well-accepted procedures are in place based on governmental guarantees -- in the US that's Ex-Im Bank, and in Europe it's the European credit agencies -- to support through 100% guarantees 12-year term money that can be made available to lessors and airlines.

So there is a significant safety net underneath the lack of funding possibilities over the next 12 months that will be used and is being used. In addition to that, manufacturers to a degree will, I believe, open their balance sheets to render finance to deal with some of these situations. So I think the reality of the credit crunch and its impact on deliveries may be a little bit more modest than some observers believe.

Philip Baines - *Tenon Capital - Analyst*

Thank you very much.

Operator

Your next question comes from the line of Gary Chase with Barclays Capital.

Gary Chase - *Barclays Capital - Analyst*

Hi. Klaus, I think in your prepared remarks you mentioned something about Boeing and Airbus adjusting production schedules to a more realistic GDP growth environment. Could you just elaborate on that and maybe what do you think needs to happen to those production schedules in order to restore balance in the market?

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

Okay. Well, first of all let me start with Boeing. Both Boeing and Airbus had anticipated a ramp-up of production, in both cases significant, during 2009 and 2010. Both manufacturers have said that this ramp-up is now not going to happen. So that -- bear in mind that these ramp-up production stocks have been sold, because everything that they -- that they intended to produce in 2009 and 2010, inclusive of the ramp-up has been sold previously.

So this is effectively a significant reduction of production capacity that has already been sold, and it will deal with a significant part of the (inaudible) in the order book.

In the case of Boeing, in addition to that we had an eight-week strike which took two months production, or around about 100 to -- 80 to 100 aircraft out of production permanently which will further aid the rebalancing. I know that both manufacturers are very carefully watching what is happening at the moment, and that they would be, I believe, prepared to consider further reductions of production capacity, and so they should, if the market requires it.

But please bear in mind, none of us, other than in distressed situations, place in the spot market, i.e. placing aircraft or selling aircraft now. We're all looking in our orderly business for 2010 and beyond. And in that arena we see less stresses than in the spot market. The spot market, while it causes all the attention of the observers, is a relative minor part of it.

Gary Chase - *Barclays Capital - Analyst*

Okay. And then you talked a little bit about the realization of value. And I think the way you phrased it was something like, the opportunities on the liability side of your balance sheet are much greater than you see in the aircraft market.

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

At current trading levels.

Gary Chase - *Barclays Capital - Analyst*

Well, how -- but I guess the flipside of that would be, you've got negotiated debt capacity with an ability to apply that towards aircrafts, not towards your own debt. What should we be thinking in terms of scope, is it operating cash flow will be dedicated to it, that proceeds from any joint venture -- you talked about selling minority interests in some of these ring-fenced assets, that those proceeds would be applied to it? Are you thinking about -- I don't know, is there some other source of capital that you might apply to book that gain?

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

Well, first of all, when I talk about earnings opportunities of the liability side, I don't only talk about debt instruments, I also talk about our shares. Because with where the shares are currently trading, at around about 50% of our net book value of the portfolio, and about 25%, if that, of the market value of the portfolio, very clearly buying back a share in my own portfolio gives me a discount on an aircraft that is unachievable for modern aircraft in today's distressed markets.

So I'm talking about debt and equity instruments. And secondly, what cash am I talking about. First of all, because of the credit crisis, and until the credit crisis subdues, our existing liquidity, our existing funding lines, our existing cash position, all of that is dedicated to make certain that our very significant CapEx during 2009-2010, each year around 1.7 billion, is safe. And I will not relent on that until I have more visibility on the restabilization of the financial side of the house.

Therefore, we are talking about incremental cash, which indeed would come from disposal of minority interests within the portfolio, and if trading levels remain where they are, I anticipate that this incremental cash is mostly likely to be employed for debt and share buybacks.

Gary Chase - *Barclays Capital - Analyst*

Okay. So really you're not thinking about any operating cash flow, you're thinking about any JV sales you might be able to negotiate?

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

That is correct, yes. New cash, excess cash that we think is created.

Gary Chase - *Barclays Capital - Analyst*

Okay. So that's \$50 million to \$100 million that you referenced in answer to an earlier question is the scope of the opportunity, right?

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

That's the scope that is under current active discussion.

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

Right.

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

But we do have additional discussions coming up with a number of long-term investors who believe as we do that in the medium- to long-term, the assets that we deal with, modern aircraft are undervalued at this moment, and who are keen, because in many cases these are sovereign wealth funds or private equity houses who have not their own platform to spot these opportunities and to judge them and due diligence them properly.

And one of the things that we see is that they have come to the conclusion that Aercap is among the best operating platforms in this environment, and importantly, compared to other publicly quoted companies, or some of them, we actually own our franchise. We don't contract it out. And they're interested to talk to us. And what might come of that, it's too early to say, but that is not in the \$50 million to \$100 million range that I have just mentioned.

Gary Chase - *Barclays Capital - Analyst*

Okay. And then just one last one if I could. I know you guys -- and you referenced it in your comments on the debt, your philosophy is you don't really know what things are going to trade at just because an appraiser says something or a quotron says something. You have to sell it to know what it can sell for.

When you look at that 20% discounts in net book value, do you think that's actually consistent with what you can monetize portions of the portfolio for today, or is that an appraised value that's a bit off market that's not really caught up to the current reality?

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

I think I'll deal with that. In parts of that portfolio, the appraised value just hasn't caught up with market realities. I think, again on some of this, the better equipment in that first bucket, again the differential that you see there, 20%, we do see potential to liquidate part of that portfolio, again at those sorts of margins. So you have to look at what part of the portfolio you are talking about and obviously see what interest is out there in the market.

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

Yes, I think that's very important, yes, and I've mentioned that before, the significant bifurcation. To apply this across aircrafts types would be outright wrong. To give you one example, on the A330 aircraft, in particular the 300, our trading experience is that the appraiser is actually a little bit on the conservative side, right, even in today's market. On the Classics, on the MD80s, on the 767s I think they are very optimistic. On the [A320s], or the 737NGs, I think at the moment they are pretty much spot on.

The important thing is appraisers typically lags six, nine months behind reality. Because we are so active as a trading party in the market we have data points that has -- that are as real time as possible.

Gary Chase - *Barclays Capital - Analyst*

Would you venture a guess as to what the real number is, if not 20, is it 10, is it 5, 15?

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Klaus Heinemann - AerCap Holdings N.V. - CEO

Certainly -- it's certainly a positive number to net book value. But it's a little difficult to say, because once again we are not talking about the spot market. If I sell an aircraft, I don't sell an aircraft that is free and unencumbered. I sell an aircraft that is encumbered by a lease contract.

And in most cases that encumbrance through a lease contract, makes it a much more tradable valuable asset. If I deliver, as I've just contracted next year, an A320 to Air France, and it's on lease with them for 10 years, the potential market who buys this aircraft are in fact people who buy a 10-year Air France contracts performance plus a residual assumption on the aircraft.

So you have to be very cautious because what appraisers always are talking about is the trading value of an unencumbered aircraft we hardly ever sell one. Most of the aircrafts we sell are subjected to, in some cases, materially significant lease contract cash flows.

Gary Chase - Barclays Capital - Analyst

Thank you very much.

Klaus Heinemann - AerCap Holdings N.V. - CEO

Sure.

Operator

Your next question comes from the line of Nicholas Cavallaro with Morningstar.

Nicholas Cavallaro - Morningstar - Analyst

Hi, gentlemen, my question has been answered. Thank you.

Operator

Your next question comes from the line of Barry Haimes with Sage Asset Management.

Fritz von Carp - Sage Asset Management - Analyst

It's Von Carp again, and two questions, if you don't mind. Where are the values of, let's say, the newer planes versus a year ago or two years ago or whatever. Have they fallen -- can you put some number on where you think those values are just in the market, first off?

Klaus Heinemann - AerCap Holdings N.V. - CEO

Okay. Well, again, please distinguish between a distressed placement and an ordinary placement. What I mean by that is, if I have today an A320 aircraft that has just been subjected, as I just said to a 10-year lease with Air France, I don't see any impairment of previous peak assessments of its value. The same is true if I have, for example, an A330 aircraft that will deliver to an Asian carrier on a 12-year lease. No impairment whatsoever, all right.

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In the distressed market, in other words if I repossess an aircraft, even if it's new, and I try to sell it in this market without a lease attached on an in-production aircraft, I'd probably see today an around 10% reduction from the appraised value. But that's only in the distressed situation.

Where most of the value reductions are coming from are out-of-production aircrafts, as I said before, the entire MD80 family, the entire 737 Classic family, the entire 767 family, the 747 family, those are aircraft types where in some cases -- in all cases you see deterioration of valuations, and in some cases they are material.

Fritz von Carp - Sage Asset Management - Analyst

Yes. In the -- on the older planes, right, I understand that. You said that in the -- of a new plane in the distressed, you have to repossess it and find a new home for it.

Klaus Heinemann - Aercap Holdings N.V. - CEO

Yes.

Fritz von Carp - Sage Asset Management - Analyst

You said 10% from the appraised value, but maybe those appraised values have changed over time. I'm trying to get a feel for what the value's done over time.

Klaus Heinemann - Aercap Holdings N.V. - CEO

Okay. Well, let me give you a benchmark number, right, for --

Fritz von Carp - Sage Asset Management - Analyst

Please.

Klaus Heinemann - Aercap Holdings N.V. - CEO

-- an A320. An A320 with a prime lessee, with a long lease contract attached to it, at the peak of the market would have achieved \$43 million, \$44 million, right? Now, with a second- to third-rate lease attached to it, which is sometimes where you need to go to -- if you place quickly an aircraft in a distress situation, bearing in mind that the most stable airlines tend to have planning horizons that are stable as well -- you are possibly talking about \$39 million. That's the sort of range you are talking about.

This is why I am saying 10% is probably a good assessment of that distress. But you apply the same to a 767 or a Classic and you might go into the 20%, 30% range.

Fritz von Carp - Sage Asset Management - Analyst

Thank you. That's very helpful. And then let me ask just ask you again, I know you've answered this a couple of times, but if you wouldn't just mind helping me. The opportunities, you are going to raise some incremental cash above and beyond what you absolutely need through these joint venture sales or whatever, and you can use them on your -- for the liability side of your balance sheet. I'm sorry, can you just help me understand what you mean by that again?

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

Very straightforward. As I said -- this is why I said, this is if current trading levels of debt and equity remain, we would use that cash, and we would certainly ask the Board to approve that, for debt and share buybacks, because the returns you get on those at current trading levels exceed anything that I could possibly see in distressed investment opportunities on brand-new equipment.

Fritz von Carp - *Sage Asset Management - Analyst*

Okay. I would agree with you. Thanks very much.

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

Thank you.

Operator

You have a follow-up question from the line of Gary Liebowitz with Wachovia.

Gary Liebowitz - *Wachovia - Analyst*

Thanks. It looks like you have about 20 planes in your forward order book that are available for placement. Can you tell us are there any -- how many of those are in 2010? And a related question is how confident are you in your 2009 placements that the customer will actually be there to accept and fly the planes?

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

Okay. Well, the first one is the 20 remaining positions are equally distributed between 2010, 2011, and 2012. Secondly, do expect by the time we report the fourth quarter that this number will be smaller. And thirdly, do we expect delivery situations of contracted aircraft that may not be taken delivery of because the airline can't? At this moment the answer to that is none, but I would put that into the basket of reduced visibility.

If, as I said at the beginning, the actions taken by central banks and governments restabilize the financial markets, I don't see this as significant -- as a significant problem. If this restabilization is either delayed or doesn't happen, yes, I do see it as a potential risk.

Gary Liebowitz - *Wachovia - Analyst*

Okay. Thank you.

Operator

We have a follow-up question from the line of Mike Linenberg with Merrill Lynch.

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Mike Linenberg - Merrill Lynch - Analyst

Yes. Hey, Klaus, just one follow-up, and given your position in the industry and how you look at things nobody has really brought up the ILFC portfolio, and the fact that that's on the block. What sort of at least near-term impact -- there has been stuff written in the press, in the financial press, that may create some pressures. It may create some opportunities, plus you have an entity with, I believe, 180 airplanes on order and with a value of \$17 billion or \$18 billion. So I'm just -- any thoughts on that? And maybe how it may impact your business over the next couple of years?

Klaus Heinemann - Aercap Holdings N.V. - CEO

Well, first of all, we clearly observe what is happening to the industry leader, ILFC, very closely, and with a degree of concern, because you're right. In a worst case scenario for the ILFC outcome one could see a significant impact on the entire lessor industry.

However, the decision how this will pan out, I believe, from what I hear here in Manhattan and -- it's probably a political decision, and I am encouraged by the fact that ILFC has been given access recently to the Commercial Paper Fed program. So I am hopeful that both AIG and the US government understand that destabilization of this particular plan in the market would be very harmful first of all to the entire AIG effect -- effort will be very harmful to Boeing, and that we will see, therefore, a measured and patient resolution to this issue.

Mike Linenberg - Merrill Lynch - Analyst

Okay. Okay, very good. Thank you.

Operator

There are no further questions. Are there any closing remarks?

Klaus Heinemann - Aercap Holdings N.V. - CEO

From my side, and from Keith's side, thank you very much for joining us. For those of you who attend the investor lunch in a couple of hours we're very happy to go into more detail, and hopefully when we talk again to you in February for the fourth quarter, some of these restrained visibility issues will have resolved themselves on the good side of the equation.

So I remain ultimately, in the medium- or long-term, hopeful and optimistic, and I know that in this stressed situation the excellence of our operating platform which once again our shareholders own, we don't contract that out, will become very visible and that in the long term will also create value.

With that, I'd like to say thank you very much for joining us, and goodbye.

Operator

This concludes (technical difficulty).

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