

FINAL TRANSCRIPT

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AER - Q1 2007 Aercap Holdings N.V. Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the AerCap Holdings first-quarter 2007 earnings conference call.

During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be opened for questions. (OPERATOR INSTRUCTIONS). This conference is being recorded today, Tuesday, May 15, 2007.

I would now like to turn the conference over to Peter Wortel, Vice President of Investor Relations. Please go ahead, sir.

Peter Wortel - *AerCap Holdings - VP IR*

Good day, everyone. This is Peter Wortel of AerCap's Investor Relations. With me today are Klaus Heinemann, AerCap's CEO, and Keith Helming, CFO.

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

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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 the performance related to forward-looking statements can be found in AerCap's earnings release dated May 15, 2007. A copy of the earnings release is also available on our Web site at AerCap.com.

This call is open to the public and is being webcast simultaneously at AerCap.com and will be archived for replay.

Now, I will turn the call over to Klaus Heinemann. Klaus, please go ahead.

Klaus Heinemann - AerCap Holdings - CEO

Thank you, Peter, and good morning, everybody. I'd like to welcome everyone to the first-quarter 2007 earnings conference call for AerCap Holdings NV. We're very pleased to speak with you this morning about AerCap's business developments during the first quarter of 2007.

But before we do that, I would like to formally introduce Peter Wortel, recently appointed as Vice President in charge of Investor Relations for AerCap Holdings NV. Peter came to us from the Nielsen Company, formerly known as VNU, where he was VP in charge of Investor Relations. I'm sure you will be getting to know him better over the coming months and hopefully find that a useful addition to our Investor Relations effort.

I'd like to begin with a few brief comments about our first-quarter performance and the industry environment. For the first quarter of 2007, our net income was US\$60.5million with earnings per share of \$0.71. We are pleased with the results and believe the solid performance in the first quarter of 2007 continues to reflect the strength and flexibility of our unique business model.

Industry environment remained very strong in the first month of 2007, similar to that seen in 2006. We continue to see strong demand and tight supply for aircraft with airline passenger growth now at around 6.5%, which is well ahead of the initial estimates for the year of 5%. High passenger numbers and load factors are expected throughout 2007 at this point, driven by the strong growth of airlines in emerging markets, growth for low-cost carriers globally, and a turnaround for the U.S. airline industry back to some form of financial health. Other than a slowdown in growth rates for the air cargo market, we see no slowdown in 2007 of the factors that impacted 2006 and made it such a strong year.

Since the last time we presented, AerCap executed on two key objectives of our overall business plan. First of all, we completed a refinancing of debt on 70 aircraft on May 8 of this year through the issuance of 1.66 billion of securitized bonds, which will provide significant savings to one of our largest cost areas, interest cost.

In addition, we signed an agreement yesterday with Airbus for a firm order of an additional 10 new A330-200 aircraft. You will recall that AerCap ordered 20 new aircraft of this type in December of last year, and we very swiftly placed 13 of those 20 aircraft with customers in the first four months -- in the four months since we ordered them. That encouraged us to extend this order. These contracted purchases, along with previous orders, provide us with a very strong investment pipeline for future growth, as you know.

I would now like to turn over the discussion to our Chief Financial Officer, Keith Helming, who will provide a detailed review of our financial and operating performance. Keith?

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Keith Helming - AerCap Holdings - CFO

Thank you, Klaus. Good morning, everyone.

I will begin with our first-quarter net income. As Klaus indicated, our net income was \$60.5 million in the first quarter of 2007, including the impact from a change in our maintenance accounting. This is an increase of 70% over first-quarter 2006 net income. The increase was driven by the same important factors I discussed previously, which include the growth in our portfolio, driven by purchases of aircraft and other aviation assets, higher sales activity coming from both the acquisition of AeroTurbine and the sale of aircraft driven by portfolio optimization, along with benefits from improved lease rates and leveraging of our cost base.

The net income impact from changes in our maintenance accounting policy is reflected in both the 2006 and 2007 first-quarter net income results. This required change was necessary as a result of the issuance of a position paper by the Financial Statement Accounting Board, which amended certain provisions in the AICPA Industry Audit Guide. As shown in the press release, we have adjusted our prior-period results to reflect this change.

In order to help everyone understand how this will affect our financial results going forward, we estimate that the incremental impact to the bottom line for full-year 2007 will be comparable to the same amount seen in 2006, which is approximately a \$20 million increase after-tax. About half of this increment impacts us in the first quarter of 2007 with the remainder expected in the last three quarters of the year. For 2008, we estimate the incremental impact to be approximately half the 2007 amount. I will discuss a few more details on this topic at the end of the presentation.

In order to help better track trends in our operating results, we provided a net income analysis of which segments certain extraordinary items. These items include the mark-to-market adjustments for our derivatives, which hedge against interest-rate risk, as well as the share-based compensation we discussed in our last earnings call. The amount of net income, excluding these items, in the first quarter of 2007 is \$65 million. This amount includes the impact from the change in maintenance accounting and also includes a strong quarter of profit margin from sales and other revenue items. The amount of profit margin from sales and other revenue items in the first quarter of 2007 achieves nearly a third of our full-year 2007 target.

Earnings per share were \$0.71 in the first quarter of 2007, as compared to \$0.45 in first quarter of 2006. The number of outstanding shares is still currently at 85 million and was 78 million last year prior to the issuance of additional shares in our IPO.

Total revenue in the first quarter of 2007 was \$310 million and grew 123% as compared to the first quarter in the prior year. This growth is driven by an increasing aircraft lease portfolio, and the acquisition of AeroTurbine, plus other items.

Total sales revenue in the first quarter of 2007 was \$149 million. The sales revenue relating to aircraft was \$96 million, and the sale of engines and parts totaled \$53 million for the quarter. During the first quarter, we sold three Fokker aircraft, an A330 and a Boeing 767-200.

AerCap's total expenses for the first quarter of 2007 were \$71 million. This amount includes depreciation, amortization, leasing and SG&A expenses. The increase in expenses was 54% versus the prior year, of which more than half related to the acquisition of AeroTurbine. This compares favorably to the increase of 123% for revenue growth over the same period. Expenses as a percent of revenue decreased from 33% to 23% over these periods. This productivity gain shows our ability to leverage our costs as we grow.

Our blended tax rate for the first quarter of 2007 was 14.3%. The rate for our aircraft assets was approximately 13%, driven primarily by the Ireland and Netherlands tax jurisdictions. For our engines and parts assets, the tax rate, at 38%, reflected primarily the U.S. tax rate.

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AerCap's assets have grown 27% over the past 12 months, since the end of the first quarter of 2006. Total assets on the balance sheet are \$4 billion at March 31, 2007. The growth in our assets has been driven by an increasing aircraft lease portfolio, plus a much larger engine lease portfolio, as a result of the acquisition of AeroTurbine. The number of aircraft in our portfolio is now 341, including owned aircraft, managed aircraft, and aircraft on order, under contract or subject to LOI. The number of engines owned or under contract is 71.

Our acquisition activity has remained strong. We completed \$248 million of purchases during the first quarter of 2007, including 17 aircraft. For the full year 2007, we have purchase commitments of \$746 million of assets, including the amounts completed in the first quarter. The purchase commitments for the full year include 40 aircraft.

The portfolio management metrics of our aircraft lease portfolio also remain strong. The utilization rate continues at a high 97% rate. The yield generated by aircraft lease portfolio was at approximately 18% for the first quarter of 2007.

Average terms of our contracts continue to increase. The average term of new leases entered into during first quarter of 2007 on our existing portfolio was 64 months. Although we did not contract any leases on forward placements during the first quarter, we did sign LOIs for 13 A330s with average lease term of 118 months. The amount of lease revenue for 2007, as already contracted, is currently at 124% of the actual amount we had in 2006. Any additional purchases this year would increase this amount even further.

AerCap's cash balance at the end of the first quarter was \$240 million, including restricted cash. Operating cash flow was \$19 million for the first quarter of 2007. The available lines of credit at March 31 aggregated \$1.1 billion. These amounts exclude the benefits from our recent refinancing, which I will discuss in just a moment.

AerCap's debt balance at March 31 was \$2.7 billion, and the average cost of our debt in the first quarter of 2007 was 7.1%. Our debt-to-equity ratio stood at 3.3-to-1 at the end of the first quarter. Since then, we have completed two important refinancings of debt. First, we refinanced approximately \$1.5 billion of existing debt through the issuance of securitized bonds. In addition, we improved the terms of our existing \$1 billion warehouse line of credit. This warehouse line of credit is used to fund deals quickly and used as a short-term form of financing as we build up assets for our next securitization. The average spread on this facility was reduced by approximately 95 basis points and the revolving term period was lengthened by two years. The securitization refinancing included 42 aircraft from our prior ALS securitization vehicle, plus 28 other aircraft financed by other forms of commercial debt. The amount refinanced totaled \$1.5 billion.

In addition, we increased that leverage on these assets by \$130 million. The \$1.66 billion of total new debt was achieved through the issuance of G-3 notes, which were wrapped and rated AAA. In addition to the G-3 notes, an unrated E note was issued and retained by AerCap. The spread reduction on refinanced debt was approximately 105 basis points.

The savings generated by the reduction in spread will be approximately \$16 million per annum and over \$90 million throughout the expected term of the debt. Also, with the additional leverage and release of blocked cash on the refinanced assets, we generated additional free cash of approximately \$150 million that can be used to fund new growth.

We incurred new fees of approximately \$34 million on the refinancing of debt. Of these fees, \$26 million will be amortized over the term of the debt and were included in the calculation of the overall spread reduction.

In second quarter of 2007, we will also expense \$8 million for prepayment and other fees related to the refinancing and will write off approximately \$18 million of unamortized fees from the refinanced debt. The write-off is a one-time, non-cash charge. The after-tax impact of both the fees and the write-off will be \$23 million in second quarter of 2007.

With regard to our maintenance accounting, a mandatory change was required as a result of the issuance of a FASB staff addition, which amended certain provisions relating to the accounting for planned maintenance in our industry audit guide. The principle amendment was the elimination of any sort of "accrue in advance" methodology. In some leases, we provide a top-up contribution

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to the maintenance costs incurred by the lessee. Previously, AerCap's policy was to accrue this cost at the inception of the lease. The staff position, or FSP, eliminated this accrue in advance methodology and requires the costs to be recorded when actually incurred. The change is not voluntary. However, it does better align the recognition of expense with the cash outlay. We have adjusted prior periods for this required change and the effect for the full year 2005 was a decrease in net income of approximately \$18 million and was an increase in net income of approximately \$21 million for the full year of 2006.

Now, I would like to provide a few updated comments as it relates to the outlook for 2007. Our purchases for 2007 are on track for an amount equal to or greater than that achieved in 2006. The amount of sales revenue as a percent of total revenue is still expected to be higher than 2006, considering the strong demand in the market. The cost of debt in 2007 is expected to be lower than 2006, excluding the one-off costs from refinancing and the impact from mark-to-market on our derivatives. The blended tax rate is expected to be lower than 2006 at approximately 15%, and the net income impact from the change in maintenance accounting for the full year 2006 again is expected to be comparable to 2006.

In summary, we achieved another strong quarter and a good start to 2007. Once again, I would like to express my thanks for the opportunity to talk to you today about the AerCap business. With that, I would like to turn it back over to our CEO, Klaus Heinemann. Klaus?

Klaus Heinemann - AerCap Holdings - CEO

Thank you very much, Keith.

As you all just saw, we really had a good start to the year 2007. I am really excited to see our business model that we created over the last couple of years to show financial results in particular on the performance side, on the financial performance side. We are really well on our way for another strong year of growth through purchases of aviation assets at levels that we feel are accretive to our earnings. Our profit performance in the current period continues to be strong.

So, thank you again for this opportunity to discuss AerCap. I would like now to open for questions.

QUESTIONS AND ANSWERS

Operator

Thank you, sir. We will now begin the question-and-answer session. (OPERATOR INSTRUCTIONS). Mike Linenberg, Merrill Lynch.

Al Swanson - Merrill Lynch - Analyst

It's actually Al Swanson on behalf of Mike. My first question is, you know, we recently saw TerraFirm purchase Pegasus Aviation. I wanted to find out if you had any comments on the acquisition. Have you taken a look at it as well or --?

Klaus Heinemann - AerCap Holdings - CEO

Good question because, as we discussed during the road show, we do believe that there will be a degree of consolidation within the industry as we move forward. Yes, we did look at Pegasus, but Pegasus, from our perspective, did not provide the synergies that we would be interested in. As you know, our focus is very much on new aircraft, is very much on our ability to order directly from the manufacturer and take advantage of the volume discounts that we achieve in that context and from that perspective, the combination of the old Morgan Stanley Ansett Worldwide business that is the core of the TerraFirm operations and Pegasus is something that we do not believe would be accretive to our business model.

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Al Swanson - Merrill Lynch - Analyst

Okay, I see. Just my second question is, you know, as your leases come up for renewal and new agreements are -- you know, (inaudible), I'm wondering if you could comment on the current lease environment out there?

Klaus Heinemann - AerCap Holdings - CEO

Well, the lease environment is continuing to reflect what we see in the market. That is an extreme undersupply of equipment, which, as you know, the manufacturers cannot really rectify this side of the decade. So as more and more airlines become aware of it, and some airlines are, quite frankly, starting to panic a little bit about it as people are starting to focus on the reflecting requirement for the U.S. legacy carriers, we continue to see improvements, both on rentals but also importantly on the other terms and conditions, return conditions of aircraft, the sheer term of the fixture. You see it very clearly in our averages for fixtures moving up well past the 100-month line now for new equipment. So, the market continues to reflect a somewhat unique environment in which there is a prolonged -- from today's perspective, a prolonged imbalance in favor of the supply side of the business.

Al Swanson - Merrill Lynch - Analyst

That's across both narrow body and wide bodies as well?

Klaus Heinemann - AerCap Holdings - CEO

That is absolutely across both areas. The only exception we really see to that are on less fuel-efficient, older equipment, in particular the McDonnell Douglas MD80 family of aircraft, and the Fokker aircraft that, as you know, we have exited to a large extent. These aircraft do not benefit really, show any benefit. But otherwise, it's really across the line and across the age spectrum.

Al Swanson - Merrill Lynch - Analyst

Okay, thank you very much.

Operator

Gary Liebowitz, Wachovia Securities.

Gary Liebowitz - Wachovia Securities - Analyst

Thank you. Good morning, gentlemen. Keith, we are halfway through the second quarter. Can you tell us how asset sales are shaping up?

Keith Helming - AerCap Holdings - CFO

Yes. We have a number of deals that are currently in the works. You know, we haven't completed the deals yet but we are on track in the second quarter for what we expect to complete for the second quarter.

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Gary Liebowitz - Wachovia Securities - Analyst

You would characterize the first quarters as unusually heavy for asset sales and maybe not as strong a second quarter?

Keith Helming - AerCap Holdings - CFO

Well, we have kind of a certain target that we try to achieve for the full year. We talked about our total revenues having about 40% to 45% of sales-related type revenue, so we took a significant step towards that in the first quarter. We also had another, other revenue item that was significant in the first quarter as well. So based on our estimates, the first quarter was probably a little bit more than a typical 25% ratio.

Gary Liebowitz - Wachovia Securities - Analyst

Okay. Also, can you give us some more details on the A330s that you just announced yesterday, when do you expect to take delivery of them? Do your calculations suggest that the lease rates that you've been earning on your current portfolio are consistent with what you can earn on these ten A330s?

Klaus Heinemann - AerCap Holdings - CEO

Keith, should I take that?

Keith Helming - AerCap Holdings - CFO

Yes, please.

Klaus Heinemann - AerCap Holdings - CEO

Well, first of all, the majority of the A330 order will deliver this side of the decade. There are some positions that will move into the first couple of years of the next decade, but as you know, the manufacturers are very sensitive to disclose individual delivery position timing.

Gary Liebowitz - Wachovia Securities - Analyst

So many of the ten that you announced yesterday will in fact deliver before 2010?

Klaus Heinemann - AerCap Holdings - CEO

No, of the 30 -- because we increased by 10, so it is now a 30 aircraft order. Of the 30 aircraft, the majority will deliver this side of the decade, and then there will be some positions in 2011-2012.

Gary Liebowitz - Wachovia Securities - Analyst

Okay, thanks.

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Klaus Heinemann - AerCap Holdings - CEO

Right, but the A330 continues to benefit as the most modern, current generation aircraft from the fact that there's a deep delay, as you know, in the delivery and the development of the A350, a successor model from Airbus, and there are no delivery positions to be had well into the next decade with Boeing's new successor, 787. So this really causes many airlines to look at the current state-of-the-art aircraft which is available, which is the A330, both in its 200 and 300 versions.

Gary Liebowitz - Wachovia Securities - Analyst

Okay. Keith, what did you say the utilization rate was during the quarter?

Keith Helming - AerCap Holdings - CFO

It was 97%.

Gary Liebowitz - Wachovia Securities - Analyst

Okay. Now, last year was 99%. Can you just explain what happened there?

Keith Helming - AerCap Holdings - CFO

Yes, sorry, Klaus.

Klaus Heinemann - AerCap Holdings - CEO

Keith, go ahead please.

Keith Helming - AerCap Holdings - CFO

We had five aircraft which delivered, redelivered, if you will, toward the end of the fourth quarter/early first quarter, and then didn't go back out on lease until the end of the first quarter/early second quarter. So the drop in the quarter was really reflective of the timing of the delivery/redelivery activity on those five aircraft. But four of the five aircraft have been put out on lease again, and the other one is close.

Gary Liebowitz - Wachovia Securities - Analyst

Okay. Just one last one -- I guess for '07, are there any -- how many planes do you have still that you need to place for this year, and do you have a number for '08? I would assume most of '08 obviously is placed by now.

Klaus Heinemann - AerCap Holdings - CEO

Well, '07 is obviously completely closed. '08, on the order book, we have one position left that we leave open as a teaser to get people to look at a string of leases with us, but really, we are now focused very much in the placement on 2009-2010.

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Gary Liebowitz - Wachovia Securities - Analyst

Okay, thank you very much.

Operator

Ken Posner, Morgan Stanley.

Ken Posner - Morgan Stanley - Analyst

Thank you. I have a couple of questions. Let me just make sure I get my arms around the accounting change, although I think that's probably not the most important question. If the accounting change boosted revenue by \$20 million in '06, are you saying, Keith, that you should expect a lift of \$20 million in '07? Is that what you are saying?

Keith Helming - AerCap Holdings - CFO

Yes, roughly speaking, that's correct. It's not impacting revenues. It's really more related to the cost side of the equation. So cost, effectively, will decrease by that amount, and the 20 million is after-tax. But your point is right; 2007 should be roughly the same as 2006.

Ken Posner - Morgan Stanley - Analyst

I had thought it would have been flowing through lease revenue. That's clearly not correct. What line item on the cost side does it flow through?

Keith Helming - AerCap Holdings - CFO

Other leasing expenses.

Ken Posner - Morgan Stanley - Analyst

Great. Turning to more substantive issues, can you give us some sense of lease rates today versus last quarter or a year ago? I don't know if we have a same-store measure or a same-airplane measure. I guess, if you now took a new A320 today and a comparable credit lessee how would the rate compare to three months, six months, a year ago?

Klaus Heinemann - AerCap Holdings - CEO

Well, Ken, let me start with what is, for us, the baseline on new aircraft. That is that we pass on the annual escalation that the manufacturer reflects in his pricing. Now, we exceed that escalation typically over and above what we actually pay in escalation to Airbus. So from that perspective, you know, we continue to pass on more than what we actually pay for 2007 delivery versus a 2006 delivery, for example. But other than that, it really -- where we now see the key advantage coming through is the ease with which we can accommodate longer fixtures of leases.

As you may recall, we typically would talk last year about in the corridor of six to nine years. We now start literally every discussion with the 10 to 12-year corridor. For example, on the recent placements of the A330s, in most cases, we could accommodate the 12-year corridor. That is very important to us because that means less transitioning costs; it also means the step-down in rentals that you would typically anticipate, otherwise after six or nine years, is now contractually excluded.

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Ken Posner - Morgan Stanley - Analyst

Right. But it also means -- would it be fair to say that you don't want to put out short-term leases. You are not going to count on further rapid escalations in lease rates from this point in time?

Klaus Heinemann - AerCap Holdings - CEO

No. I think we -- that is no longer the case. Here, clearly, as you can see from what we are doing, we now believe that we are sufficiently close to the peak, we are certainly past our initial investment assumptions. Therefore, we believe it's in the best interest of the Company and shareholders to, at this stage, lock in these terms for as long as we can.

Ken Posner - Morgan Stanley - Analyst

Thank you.

Operator

Gary Chase, Lehman Brothers.

Gary Chase - Lehman Brothers - Analyst

Good morning, guys. Just a couple of questions. First, I apologize, Keith. I just want to make sure that I get the issue straight around the quarter and the accounting change. Did I hear you that it's roughly a \$20 million impact to '07? Did you not say half of it in the first quarter, so about 10 million and the rest spread through the remaining quarters of the year?

Keith Helming - AerCap Holdings - CFO

Yes, roughly speaking, that's correct. It's not an evenly distributed number because it's based on, effectively, when these events happen. So it's not an even distribution throughout the year, or even on a quarterly basis.

Gary Chase - Lehman Brothers - Analyst

But it was roughly 10 million in the quarter?

Keith Helming - AerCap Holdings - CFO

Roughly, yes, on the expense side, yes.

Gary Chase - Lehman Brothers - Analyst

So an approximate \$0.10 impact to the reported number, okay. Great.

A couple of other questions for you, just as further cleanup. You know, we are looking at the AeroTurbine profit contribution. When you look at the aircraft gains and you kind of back out the gross profit contribution from the sales revenue, that is outside of the aircraft gains you back into the AeroTurbine numbers, it looks like they were running a high single digit margin, which

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is a little bit below what we were anticipating. Could you maybe walk us through what is going on at AeroTurbine there, or is that just kind of a seasonal thing that we ought to expect in the future?

Keith Helming - *AerCap Holdings - CFO*

Based on -- AeroTurbine actually had a reasonably good quarter for sales. I mean, overall AerCap had a very strong quarter on sales and AeroTurbine contributed to that. The margin was a little bit lower than what we typically have experienced. It primarily related to the sale of an old 767-200 that we indicated. The reality is that the book value on that particular asset, which is high relative to purchase accounting that was put into effect for AeroTurbine, the price that was achieved on that particular asset was a good price. The margin you see was really a function of purchase accounting. But the margins that we saw previously with AeroTurbine -- and again the overall margin of 20% to 25% I think is something you should expect going forward.

Gary Chase - *Lehman Brothers - Analyst*

Okay, so just skewed by that 767. Thank you for clarifying that.

Keith Helming - *AerCap Holdings - CFO*

Yes.

Gary Chase - *Lehman Brothers - Analyst*

I wondered as well if you could just comment quickly on the state -- and maybe this is a question for Klaus. You know, as you purchase assets in the open market, you know you talked about being on track for that number greater than last year. What are the economics looking like? You said they are still accretive, but I mean, are they as compelling as what you were facing, say, three and six months ago in terms of your ability to purchase assets economically?

Klaus Heinemann - *AerCap Holdings - CEO*

No, the market is clearly reflecting, as you would expect at this stage, the awareness of all players that we are in a situation that I previously described as the industrial Goldie Locks. So we do see, in many areas, a tightening of pricing beyond what we are prepared to accept.

So, what we really rely on now is two things, first of all more than ever our existing contract purchases with Airbus, but also the globality of our reach in trying to go into arenas that are less crowded than the U.S. market where we see the competitiveness in many cases exceeding what we would consider to be accretive to our business.

So we are, at this moment, for example, in discussions with a couple of Asian carriers with respect to refueling, and we are in discussions in the European arena. In the U.S. arena, quite frankly, in most bidding situations, we find that the pricing that is achieved goes beyond what we consider to be prudent.

Gary Chase - *Lehman Brothers - Analyst*

But you can still -- you think there are opportunities in the secondary market?

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Klaus Heinemann - AerCap Holdings - CEO

There are opportunities, but you need the machinery and that can really reach into areas other than the crowded areas. If you're trying to bid -- you know, somebody mentioned on the call earlier Pegasus. To me, the outcome is clear; it is a clear reflection of the situation as we find it at the moment in the U.S. market. So that doesn't mean that the same applies if you go into Malaysia or into Japan, necessarily, but in the U.S. market, more often than not, we now find that our criteria cause us to turn down situations.

Gary Chase - Lehman Brothers - Analyst

Just one last one for Keith -- on the SG&A line, was there any impact there from share-price appreciation, or is that kind of a good run-rate going forward?

Keith Helming - AerCap Holdings - CFO

On the share-based compensation, yes, that's a good run-rate for the quarterly amount that you'll see in 2007.

Gary Chase - Lehman Brothers - Analyst

Okay, thanks for the additional color, guys.

Operator

(OPERATOR INSTRUCTIONS). Jamie Baker, JPMorgan.

Pakhi Eder - JP Morgan Chase - Analyst

This is actually Pakhi Eder on behalf of Jamie. Is it possible to break out the \$248 million of purchases between aircraft and engines? Secondly, can you talk a little bit more about the other revenue line and what to expect going forward?

Keith Helming - AerCap Holdings - CFO

Yes, I mean, I think we might have had some difficulty with the slides, when we were going through the script, but on the purchases, the \$248 million is broken out between aircraft and engines and airframes as well. So of the 248, 209 related to aircraft and 39 related to engines and airframes.

Pakhi Eder - JP Morgan Chase - Analyst

Okay.

Keith Helming - AerCap Holdings - CFO

Then on the other revenue line, you know, that's a good question. I mean, the other revenue line tends to be a little bit lumpy, just like perhaps sales revenue is. On an annual basis, last year for example, I think we were averaging around \$5 million a quarter. This quarter, obviously, we had a significant amount because of one particular transaction. I think that annual amount that you saw in 2006 is a number, again, that you could probably peg for 2007.

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Pakhi Eder - *JP Morgan Chase - Analyst*

Okay, thank you very much.

Operator

(OPERATOR INSTRUCTIONS). Gary Chase, Lehman Brothers.

Gary Chase - *Lehman Brothers - Analyst*

Thanks, just a quick follow-up as well, Keith, for you on the refinance savings you were talking about. Two questions -- one, we should expect those to kick in, in the next quarter or so. Obviously you've outlined the charges; we will be mindful of those. But in terms of run-rate, interest costs, those should start kicking in at that 16 million annual clip, beginning in the next quarter. Correct?

Keith Helming - *AerCap Holdings - CFO*

That's correct, from May 8, forward, yes.

Gary Chase - *Lehman Brothers - Analyst*

The other question around that is that is inclusive of the fact that you've extracted some cash from that vehicle, correct? In other words --

Keith Helming - *AerCap Holdings - CFO*

No, the cash itself is outside of that \$16 million benefit that we were referring to. The cash itself just gives us the ability to, again, like we said, grow to invest in other assets. So obviously we find great uses for the cash. The benefit from this refinancing will be even better.

Gary Chase - *Lehman Brothers - Analyst*

Right, I guess that's what I'm driving at, is the interest expense will go down despite the fact you have the additional cash to use?

Keith Helming - *AerCap Holdings - CFO*

That's right.

Gary Chase - *Lehman Brothers - Analyst*

Great. Thanks very much.

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Operator

Greg Regan, Cedar Hill Capital.

Greg Regan - Cedar Hill Capital - Analyst

Could you just address the leverage issue and what you're comfortable with in terms of leveraged targets, either equity-to-assets or debt-to-equity, however you would want to frame that?

Keith Helming - AerCap Holdings - CFO

Yes. We look at things really from a debt-to-equity point of view. As I mentioned in the discussion of the balance sheet, our leverage was 3.3-to-1 at the end of the first quarter last year. Prior to the IPO, we were around 4.5-to-1.

Typically, what you'll see over the course of the ups and downs in the industry is something akin more to 4-to-1 on average, but you know, right now, we are generating a lot of cash, so right now, the leverage -- and because we took the money from the IPO to delever our balance sheet, we are a little bit below that level. But when the industry turns and we start finding even more opportunities for acquisitions, the leverage may increase again to the 4 to 5 level. But it would always hover somewhere around in that range.

Greg Regan - Cedar Hill Capital - Analyst

Okay, perfect. Thank you.

Operator

Gary Liebowitz, Wachovia Securities.

Gary Liebowitz - Wachovia Securities - Analyst

Klaus, when we were out at Goodyear earlier this year, you were commenting that a lot of planes were not coming into the shop because airlines were flying them as much as they could and the workflow might not have been what you had really wanted. Has that changed at all in the last few months?

Klaus Heinemann - AerCap Holdings - CEO

Well, on the Goodyear side, we have started to utilize the swing capacity in Goodyear for maintenance work on our own aircraft. As you will recall from the visit, we had a 737-400 in there, that we manage on behalf of a securitization vehicle. That aircraft, by the way, has finalized its heavy check; it was one of the first heavy checks that the AeroTurbine and Goodyear facility produced for an aircraft that we manage ourselves. It was delivered last week, actually, to the U.S. Marshal Service where it will be used to have a single-ticket flight (inaudible) back home from the United States.

So the facility is doing what it is meant to do, and that is to give us the capacity to dismantle aircraft, which as you know it is doing, and then the use the free-swing capacity to direct business that otherwise we would direct to third-party MRO. That is what you have to bear in mind here, that the capacity of the Goodyear facility, in relationship to our portfolio, is such that it would just mean a minor adjustment of redirecting business that we currently give to non-owned MROs to fill the entire capacity if there should be holes because of the lumpiness of the dismantling business.

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Gary Liebowitz - Wachovia Securities - Analyst

Thank you.

Operator

(OPERATOR INSTRUCTIONS). Mike Linenberg, Merrill Lynch.

Mike Linenberg - Merrill Lynch - Analyst

I just had a quick follow-up. Just could you comment on the engine lease rate environment also? I mean, I guess we realize like aircraft is very strong. I'm just wondering if you can comment just on the engine side of the business.

Klaus Heinemann - AerCap Holdings - CEO

Yes, well, as you know, at this moment, most of our engine portfolio is on the so-called spot market. This is a market that is being utilized by airlines to bridge engine requirements caused by their own engines going into their regular overhaul business. That market remains very strong and it is anticipated by most market participants that this will become stronger in 2008-2009 as there is a significant increase of number of engines, especially on the CFM side, that are scheduled to go into overhaul. So, we do anticipate this market to continue to show increasing strength. This is one of the reasons why we are expanding it.

In addition to that, you may have seen our recent announcement that we hired one of the senior executives from Willis who is commissioned to look at build-versus-buy analysis for our term engine lease business, because we consider this to be an excellent synergy with the AeroTurbine repair and trading business and their spot lease business and with our own capacity to order engines in bulk, which we obviously need to do as part of our overall aircraft purchasing model.

Mike Linenberg - Merrill Lynch - Analyst

Okay, thank you very much.

Operator

Thank you. At this time, we have no further questions. I'd now like to turn the conference back to management for closing remarks.

Klaus Heinemann - AerCap Holdings - CEO

Okay, well, thank you very much, everybody. As you can see, it's an exciting market and it's an exciting time for us to see our business model really to kick into gear and to produce what we all anticipated it would. So, we're looking forward to the next quarterly call. Thank you very much for attending. Good talking to you. Good-bye.

Keith Helming - AerCap Holdings - CFO

Thanks, everyone.

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Operator

Thank you. Ladies and gentlemen, this concludes the AerCap Holdings first-quarter 2007 earnings conference. If you'd like to listen to a replay of today's call, please dial 1-800-405-2236 or internationally at 303-590-3000. Please use access number 11088128. Thank you for your participation today. You may now disconnect.

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