

# FINAL TRANSCRIPT

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## **AER - Q2 2007 Aercap Holdings N.V. Earnings Conference Call**

Event Date/Time: Aug. 07. 2007 / 9:30AM ET

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## CORPORATE PARTICIPANTS

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*AerCap Holdings - VP, IR*

**Klaus Heinemann**

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**Keith Helming**

*AerCap Holdings - CFO*

**Gus Kelly**

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## CONFERENCE CALL PARTICIPANTS

**Gary Liebowitz**

*Wachovia Securities - Analyst*

**Mike Linenberg**

*Merrill Lynch - Analyst*

**Mark Schroder**

*J.P. Morgan - Analyst*

**Gary Chase**

*Lehman Brothers - Analyst*

**KC Ambrecht**

*Millenium Partners - Analyst*

**Andrew Light**

*Citigroup - Analyst*

## PRESENTATION

**Operator**

Please go ahead.

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**Peter Wortel** - *AerCap Holdings - VP, IR*

Good day, everyone. Welcome to the conference call. With me today are Klaus Heinemann, CEO, Keith Helming, CFO, and Gus Kelly, the treasurer of the group.

Before we begin, I want to remind you that 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.

Further information concerning issues that could materially affect the performance related to forward-looking statements can be found in AerCap's earnings release dated August 7, 2007. A copy of the earnings release is also available on our website at AerCap.com.

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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.

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**Klaus Heinemann - AerCap Holdings - CEO**

Good morning, everybody. I'd like to welcome everyone to the Second Quarter 2007 Earnings Conference Call for AerCap Holdings NV. We are very pleased to speak with you today about AerCap and our business.

I'd like to begin with the financial results. For the second quarter of 2007, our net income was \$58.2 million, excluding a non-recurring charge to expense from the issuance of securitization bonds. As we told you during the first quarter earnings call, we had issued on the 8th of May, at a time when terms and conditions were optimal, \$1.66 billion worth of 25-year legal maturity bonds, at *libor plus 26*, resulting in the refinancing of the majority of our debt instruments.

With hindsight, obviously, the timing of that was as good as you can possibly imagine. \$24 million was the charge that we had to take, non-recurring, in order to take those non-amortized debt issuance costs from the previous debt instruments. This is balanced by around \$16 million estimate of annual cost savings in interest from the reduced margins. And the extended maturity, of course, gives us protection from a liquidity perspective.

Earnings per share on this basis were \$0.68 for the quarter. We are obviously pleased with both the second quarter and first half year results for 2007. And we believe the solid performance continues to reflect the strength and flexibility of AerCap's business model.

Let me talk for a moment about industry fundamentals for the aviation industry. The fundamentals remain very positive, with strong demand and tight supply for modern aircraft such as the ones that AerCap owns and has on order. This is driven by, first of all, the global replacement needs for aging aircraft. This replacement need is being accentuated by the increased requirements for fuel efficiency and, in the future, also for CO2 emission efficiency.

Secondly, by continuing strong passenger growth in AerCap's core markets -- Europe, the Middle East and Africa and Asia-Pacific -- and there, I believe, the solid financial performance shown by the majority of the airlines around the globe. By the way, this assessment of industry fundamentals, you should read not only for 2007 because our business model, which causes us to place with airlines future deliveries to up to 18 months, allows us to look into the market environment as the airlines globally see it today out to 2009.

We are, during the last few weeks, wrapping up our remaining placements for 2009 on the new order book. And therefore, we have the ability to look forward to what, globally, airlines think about future market developments. So, this is not just a snapshot of where we are today. This is a snapshot on where airlines believe the market will be in the coming years. I think an important point to make because we have, with our forward-placing capability, that ability to look forward into what the airline industry thinks will happen.

For AerCap, there are three very important points to be aware of and remember. First, we do not rely on the capital markets to grow either debt or equity. We have achieved this independence, and that is by design. On the equity side, for example, you will see that our equity through retained earnings grew by 14% in the first half of this year, showing the strength of our ability to create our own equity to continue growing without dependence on these markets, if need be.

We took, obviously, advantage of the strong capital markets in the second quarter in refinancing the majority of our debt. And as a result, we have nearly \$2 billion of open and available lines of credit and cash to fund new purchases and growth.

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Second, with our contracted order book, we have already established a minimum level of growth of 15% per annum through the end of this decade. And as I've said before, this is underpinned by equity generation that allows us to sustain that going forward throughout the remainder of this decade, without being dependent on the equity market being friendly to us.

And third, the important profit fundamentals of our industry, like lease rates and terms, remain positive and strong, as observed during the second quarter. In terms of new highlights, we registered 20 million of our existing shares with the Security and Exchange Commission, effective July 31, 2007, which were subsequently sold by companies controlled by funds and accounts affiliated with Cerberus in the secondary offering that closed yesterday, August 6th. The registration increased the percentage of our shares held by public shareholders from 31% to 54%. AerCap did not receive any of the proceeds of the offering.

I'd now like to turn over the discussion to our CFO, Keith Helming, who will provide a detailed review of our financial and operational performance.

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**Keith Helming** - *AerCap Holdings - CFO*

Thank you, Klaus. I'll begin with our second quarter net income.

As Klaus indicated, our net income was \$58.2 million in the second quarter of 2007, excluding the impact from a non-recurring charge in interest expense resulting from the issuance of the securitized bonds. This is an increase of 67% over second quarter 2006 net income. The increase was driven by the growth in our lease portfolio, higher sale activity coming from both the acquisition of AeroTurbine, plus the sale of three aircraft to help improve the mix of our portfolio, plus benefits from improved lease rates and the leveraging of our cost space.

Earnings per share were \$0.68 in the second quarter, again excluding the impact from the non-recurring charge to interest expense, up from \$0.45 in second quarter of 2006. Earnings per share were \$0.40 in second quarter, including a non-recurring charge to interest expense. The number of outstanding shares is still currently at \$85 million, with no impact from the secondary offering.

The next chart highlights some key components of our net income. These items include the non-recurring charge to interest expense, the mark-to-market adjustments on derivatives which hedge against interest rate risks, as well as charges for share-based compensation. The amount of net income in second quarter of 2007, excluding these items, is \$51.8 million, as compared to \$27 million in second quarter of 2006, an increase of 92%.

Total revenue in the second quarter of 2007 was \$247 million, and grew 51% as compared to the second quarter of the prior year. This growth is driven by an increasing aircraft lease portfolio, the acquisition of AeroTurbine, plus other items including the settlement of a bankruptcy claim for Northwest Airlines, which is included in our Other Revenue line. Income class classified as other revenue comes from various sources, and has averaged around \$6 million per quarter over the past two years.

Total sales revenue in the second quarter of 2007 was \$84 million. The sales revenue related to aircraft was \$59 million, and the sale of engines and parts totaled \$25 million for the quarter. During the second quarter, we sold an A321, a Boeing 737-400, and a Boeing 737-200 in order to help improve the makeup of our portfolio.

In addition to the sales of aircraft in the second quarter, during the third quarter we have completed the sale of three 13-year-old A330s, an A300, plus another Fokker sale. As a result, our 2007 sales plan for aircraft is essentially complete.

Total lease revenue in the second quarter of 2007 was \$141 million. This amount includes basic rents, any excess maintenance rent, which are remaining upon lease termination, maintenance rents collected on our short-term engine leases, and end-of-lease compensation payments received from certain lessees based on the condition of the equipment when returned. The amount

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of maintenance rent and end-of-lease compensation payments recorded as revenue in any given quarter is generally based on the number of lease terminations within that quarter.

Total lease expenses in the second quarter of 2007 were \$9.7 million. This amount includes any payments we make to the lessee for maintenance events, transition costs incurred for re-leases, repossession expenses, plus other leasing-related expenses. The amount of leasing expenses in any given quarter is based on the timing of maintenance events, re-leases, every possession activity within that quarter.

AerCap's total expenses for the second quarter of 2007 were \$79 million. This amount includes depreciation, amortization, leasing and SG&A expenses. The increase in expenses in 2007 was 34% versus the prior year, of which more than half related to the acquisition of AeroTurbine. This compares favorably to the increase of 51% for revenue growth over the same period. Expenses as a percent to revenue decreased from 36% to 32% over these periods. This productivity gain shows our ability to continue to leverage our costs as we grow.

Our blended tax rate for the second quarter of 2007 was 14.1%. The rate for our aircraft assets was approximately 12%, driven primarily by the Irish and Netherlands tax jurisdictions. For our engines and parts assets, the tax rate is 34.8%, reflecting primarily the U.S. tax rate.

AerCap's assets have grown 23% over the past 12 months, since the end of the second quarter of 2006. Total assets on the balance sheet are \$4.4 billion at June 30, 2007. The growth in our assets is reflective of our increasing aircraft lease portfolio, plus a larger engine lease portfolio resulting from the acquisition of AeroTurbine. The number of aircraft in our portfolio is now 346, including owned aircraft, managed aircraft, and the aircraft on order, under contract or subject to LOI. The number of engines owned or under contract is 64.

Our acquisition activity has remained strong. We completed \$459 million of purchases during the first half of 2007, including 28 aircraft. For the full year 2007, we have purchase commitments of \$799 million of assets, including the amounts completed in first half. The purchase commitments for the full year include 44 aircraft.

The portfolio management metrics of our aircraft lease portfolio also remain strong. The utilization rate continues at a high 97.4% rate. The yield generated by our aircraft lease portfolio was approximately 18% for the first half of 2007.

Average terms of our contracts continue to increase. The average term of new aircraft leases entered into during the first half of 2007, inclusive of some LOIs, was 100 months. The average term entered into during the first half of 2007 under existing portfolio was 72 months. The amount of lease revenue for 2007, that's already contracted, is currently at 124% of the actual amount we had in 2006. Any additional purchases in 2007 would increase this amount even further.

Now, I'd like to discuss the funding side of the business and our access to capital. As most of you are aware, we completed the issuance of approximately \$1.7 billion of securitized bonds on May 8th of this year. The refinancing included 42 aircraft from our prior ALS securitization vehicle, plus 28 other aircraft financed by other forms of commercial debt. This was achieved through the issuance of G3 notes, which were wrapped and rated AAA. The spread reduction on refinanced debt was approximately 105 basis points and will generate savings of \$16 million per annum, and over \$90 million throughout the expected term of the debt. Also, we generated additional free cash of approximately \$150 million that can be used to fund new growth.

In the second quarter of 2007, we expensed \$8 million for pre-payment and other fees relating to the refinancing, and wrote off approximately \$19 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 is \$24 million in the second quarter of 2007.

We also improved the terms of our existing \$1 billion warehouse line of credit. The average spread in the facility was reduced by approximately 95 basis points, and the revolving term period was lengthened by two years. This warehouse line is available through 2013 and does not have any covenants or MAC clauses, and cannot be pulled.

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The available lines of credit at March 31st aggregated \$1.9 billion, and include the \$1 billion warehouse line, another revolver for the AeroTurbine business of \$200 million, and approximately \$700 million of available funding from the European Export Credit Agencies for our purchases of new aircraft from Airbus.

AerCap's cash balance at the end of the second quarter was \$250 million, excluding restricted cash. Operating cash flow in the second quarter of 2007 was \$77 million. As you can see, with the available lines of credit, our cash balance, and our ability to generate operating cash flows, we have access to a significant amount of liquidity without having to access the capital market.

AerCap's debt balance at June 30th was just under \$3 billion, and the average cost of our debt in the second quarter of 2007 was 6.9%. The average cost of debt in future quarters is expected to be reduced further as a result of the refinancing.

I'd now like to provide a few comments with regard to our hedging policy. The way we hedge ourselves against interest rate risks is through the use of caps. The caps we purchased are essentially at the money and protect us against increases in interest rates. In addition, unlike flops, caps allows to take advantage of decreases in interest rates which generally correlates to worsening economic conditions. This decrease in our largest cost item is a significant protection in a down-turn.

And finally, I'd like to provide a few updated comments as it relates to the outlook for 2007. Our purchases for 2007 are on track for amounts equal to or greater than that achieved in 2006. And our sales revenue, as a percent of total revenue, is still expected to be higher than 2006, considering a strong demand in the market.

The cost of debt in 2007 is expected to be lower than 2006, excluding the one-off cost from refinancing and the impact from mark-to-market on the derivatives. The blended tax rate you could expect to be lower than 2006, at approximately 14% to 15%. And ROE is expected to be in the range of 20% to 25%.

In summary, our financial performance was strong in the second quarter. Once again, I'd like to express my thanks for the opportunity to talk to you today about the AerCap business. And with that, I'd like to turn it back over to Klaus Helming.

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**Klaus Heinemann** - AerCap Holdings - CEO

Thank you, Keith.

As you just saw, we've had an excellent first half in 2007. \$0.68 per share for the second quarter, excluding the one-time non-recurring charge. This charge of \$24 million in the light of what has happened since in the debt market shows that our decision in May of this year to incur them and to refinance the majority of our debt into a 25-year legal maturity bond, with libor plus 26 basis points, was the right decision. It reflects the conservative attitude of our Board when it comes to liquidity issues, which are an issue from time to time in the industry. It allows us to retain our earnings power independent from these markets.

Our profit performance in the current period continues to be strong. And we feel very comfortable with the earnings growth through purchases of aviation assets that are all accretive to our earnings throughout the remainder of this year.

Thank you again for this opportunity to discuss AerCap. I would now like to open the call for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (OPERATOR INSTRUCTIONS). Gary Liebowitz, Wachovia Securities.

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**Gary Liebowitz** - Wachovia Securities - Analyst

Well, hello, gentlemen.

**Klaus Heinemann** - AerCap Holdings - CEO

Good morning, Gary.

**Gary Liebowitz** - Wachovia Securities - Analyst

Hey, Keith, again, the utilization rate came in, it looks like, around 97% for the quarter, and historically it's been more like 99% or so in good times. And I know in the first quarter you had some planes that were transitioning, but was it the same thing that happened in the second quarter? And how do you see utilization rates playing out the rest of the year?

**Keith Helming** - AerCap Holdings - CFO

Yes. Generally, I think 98% is probably what you see on average over the longer haul. It's 97.4%. It did come up finally from first quarter. We still had a couple of aircraft in transition which have now been effectively placed to where they're going to go.

**Gary Liebowitz** - Wachovia Securities - Analyst

Yes.

**Keith Helming** - AerCap Holdings - CFO

So, you'll see improvements in that in the second half of 2007.

**Klaus Heinemann** - AerCap Holdings - CEO

Gary, if I could comment to that. This was mostly driven by a single aircraft. It was an 8330 that was unleased -- sorry, A330 -- that was on lease with Air Madrid. This aircraft, Air Madrid was closed down by the -- sorry -- the Spanish authorities in December of this year. We repossessed this aircraft within a few days.

We have placed it onto a new lease with the Belgian flag carrier SN Brussels, at a better lease [tenor] and a higher lease rental than with Air Madrid. And the old transition from the moment Air Madrid defaulted to the moment it was flying again in revenue services at SN Brussels in Belgium was about three and a half months.

So, it shows you that our model, which is capable of coping with these sort of situations, works. Spain, for the lawyers among you, is not exactly the easiest repossession environment. We got the aircraft out there within days. So, it shows you that the machinery does what it is meant to do in an environment like this. But, of course, you will find a very short-term temporary dip in the utilization line, especially for modern wide-body, as you would expect.

**Gary Liebowitz** - Wachovia Securities - Analyst

Okay, thanks. And I guess that answers my second question about the repossession expense of \$1.5 million--.

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**Klaus Heinemann** - *AerCap Holdings - CEO*

--It's all related to that--.

**Gary Liebowitz** - *Wachovia Securities - Analyst*

--It's all related to that A330?

**Klaus Heinemann** - *AerCap Holdings - CEO*

And for a wide body, it's not bad, is it?

**Gary Liebowitz** - *Wachovia Securities - Analyst*

Okay. Now, my other question was, Klaus, you mentioned that you had very fortunate timing with securitization at the rate that you were able to close that deal. It's a little hypothetical, but if you had to come to the market again today with a similar portfolio--.

**Klaus Heinemann** - *AerCap Holdings - CEO*

--Um-hmm--.

**Gary Liebowitz** - *Wachovia Securities - Analyst*

--What kind of changes in the terms do you think we would see? And that assumes you can get the deal done.

**Klaus Heinemann** - *AerCap Holdings - CEO*

Well, I'd like to hand that question to Gus, actually, because there is -- this is not a hypothetical question because that's Babcock and Brown came in the last couple of days with a portfolio. So, we can answer that with some degree of reality.

**Gus Kelly** - *AerCap Holdings - Group Treasurer*

Yes. Thanks, Klaus. Gary, it's Gus here. Yes, the evidence is that the market is still there. Babcock are back in the market with their securitization transaction. So, we definitely would not believe the market is shut down. The market is certainly open. We believe leverage points are still the same level. That's really one of the key points.

The spread may have widened out by a few basis points, but we're talking about seeing high single digits to maybe low double digits. So, in terms of the overall cost of capital, it's still something that's extraordinarily bearable for a company like us.

**Klaus Heinemann** - *AerCap Holdings - CEO*

But, they have gone up. I mean--.

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**Gus Kelly** - *AerCap Holdings - Group Treasurer*

--Yes--.

**Klaus Heinemann** - *AerCap Holdings - CEO*

--Babcock and Brown paid, if I'm not mistaken, what about--?

**Gus Kelly** - *AerCap Holdings - Group Treasurer*

--Ten basis points--.

**Klaus Heinemann** - *AerCap Holdings - CEO*

--Ten basis points more than we did for their execution which, on a \$1.6 billion, that's not to be ignored.

**Gary Liebowitz** - *Wachovia Securities - Analyst*

Okay. And one last one, Klaus. How are the capacity of utilization at your Miami and your Goodyear facilities going? I saw that you might be sending an A340 to Goodyear for part-out?

**Klaus Heinemann** - *AerCap Holdings - CEO*

Um-hmm. The A340 is already in Goodyear. We are currently looking what exactly to do here. But, the facility is fully utilized. It completed in the second quarter of this year.....its first heavy check on an aircraft that we serviced, that we repossessed from Varig on behalf of the owner. And that was then placed with the U.S. Marshall Service here, quite a demanding client when it comes to the technical standard of the aircraft. And the Goodyear facility came through that process with flying colors.

**Gary Liebowitz** - *Wachovia Securities - Analyst*

Okay, thank you very much.

**Operator**

Thank you. Mike Linenberg, Merrill Lynch.

**Mike Linenberg** - *Merrill Lynch - Analyst*

Yes. Good day, all. I guess, Keith, you had listed the number of aircraft that you had sold in the June quarter. And you had indicated that there were a few more that were sold in the September quarter, and that that was what it would be for 2007.

Now, when I look at your balance sheet, it looked like you had about \$158 million of assets held for sale. How much of that shows up in 2007? How much of that should we anticipate over the next six months? And is that -- those aircraft must be reflected in those numbers.

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**Keith Helming** - AerCap Holdings - CFO

Yes, they are. What you see on the balance sheet in the second quarter, as classified as held for sale, are effectively those aircraft that we've contracted for sale in the third quarter. The deals did not get completed until the third quarter.

**Mike Linenberg** - Merrill Lynch - Analyst

Okay. So, then, that said, we should see that show up in 3Q, or does some of that also show up in--?

**Keith Helming** - AerCap Holdings - CFO

--No, it'll effectively all show up in 3Q as sales revenue.

**Mike Linenberg** - Merrill Lynch - Analyst

Okay. And then, in the fourth quarter, it doesn't sound like -- is it going to be a very low number?

**Keith Helming** - AerCap Holdings - CFO

Well, again, each quarter, though, we do have a portion of our sales revenue which relates to our AeroTurbine business, which is pretty consistent quarter in and quarter out.

**Mike Linenberg** - Merrill Lynch - Analyst

Okay.

**Keith Helming** - AerCap Holdings - CFO

In terms of aircraft sales in the fourth quarter, you may see a Fokker sale. But, beyond that, it'll probably be limited. Again, we're working on deals that are more likely going to close in the first half of 2008.

**Mike Linenberg** - Merrill Lynch - Analyst

Okay. And then, my second question, when you start taking delivery of the A330s, can you just update us? Now that you're looking at an order book of 30 airplanes, can you update us on the time of delivery, when those airplanes start, and how they're spread out over, I think it's, like, a three or four year period?

**Klaus Heinemann** - AerCap Holdings - CEO

Twenty of the thirty aircraft will deliver in 2009, 2010. And 10 aircraft will deliver 2011, 2012. So, the majority, this side of the decade. All of them will be placed this side of the decade because the wide bodies are typically placed 24 months in advance. Out of the 30 aircraft, 13 are placed, with executed and deposited airlines.

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**Mike Linenberg** - Merrill Lynch - Analyst

Okay, great. And then, just one last one. Keith, I want to make sure that I heard you correctly. I know that the non-recurring charge this quarter is \$24 million after tax. Pre-tax, it sounded like it was \$27. I heard \$19 plus \$8. Is that right?

**Keith Helming** - AerCap Holdings - CFO

That's correct. The pre-tax charge, which appears in the interest expense line is \$27 million. The after-tax impact is the \$24 million.

**Mike Linenberg** - Merrill Lynch - Analyst

Perfect, thanks. Good quarter, guys.

**Klaus Heinemann** - AerCap Holdings - CEO

Thank you.

**Keith Helming** - AerCap Holdings - CFO

Thanks.

**Operator**

Thank you. Jamie Baker, J.P. Morgan.

**Mark Schroder** - J.P. Morgan - Analyst

Hi, it's [Mark Schroder]. Jamie Baker's on the line, as well. Keith and Klaus, you've done a good job running through liquidity and getting that message across. But, it seems like it's falling a little bit on deaf ears in the market place with you and some of your competitors.

And I'm wondering, and I think probably all of us on the phone on the sales sides are probably getting some questions, about the cycle, and just the demand for aircraft, and where we stand right now in light of what's going on with this liquidity crisis in the U.S. here and, perhaps, in some of the global trends outside of the U.S.

And I'm wondering if we can just take a giant step back here and talk a little bit, or get your comments a little bit more on where we are in the cycle right now, and whether or not anything has changed materially over the past couple of quarters that should make us think about the aircraft cycle differently than the way people were thinking about this, say, earlier in the year.

**Klaus Heinemann** - AerCap Holdings - CEO

Yes, a very good question. This is why I mentioned earlier in the earnings call that we actually have the benefit, like our competitors, to look pretty much towards the end of the decade because we are done with 2009. We are now starting to place 2010.

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So, we have an ability to read what the global industry believes their demand for modern capacity is throughout the remainder of this decade. And there is absolutely nothing in there in the second quarter that shows any signs of weakness, quite to the contrary.

The fact that post the Paris air show in June of this year, the market did realize that they can't get modern fuel efficient capacity this side of the decade from the manufacturers unless they're ordered by now, and many of them are not, as you know, especially some of the U.S. Legacy carriers, as well. And that they only have a limited number of positions that AerCap holds, and some of our competitors.

So, we've seen continuing extraordinarily strong demand for these remaining positions. And as I've said, this is looking forward. This is not 2007. This is looking forward into 2009, even now 2010. And there is no easing of that demand visible whatsoever.

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**Mark Schroder** - *J.P. Morgan - Analyst*

Great. And I just want to take the opposite approach with my follow-up here, and maybe Gus is the appropriate person to answer this, or Keith. But, just drilling down very specifically on the ABS market, and I know you referenced the Babcock deal. And we've been following that closely.

But, have you had any discussions, Keith or Gus, with the monoline insurers about their appetite to provide wraps on your ABS deals, or just on aircraft deals, in general? Because for those that are paying attention to the credit markets, their costs of borrowing, certainly on an implied basis, have blown out. Yet, we look at that Babcock deal, it was still able to get done. But, that was probably circled off well before some of these monolines spreads have blown up.

So, I'm just wondering if you're worried at all about the appetite to get AAA RAP deals done, if you've had any conversations with the monolines about their appetite for that product?

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**Gus Kelly** - *AerCap Holdings - Group Treasurer*

Jamie, it's Gus here. We're in continuous dialogue with the monolines. And this is where, really, the track record of AerCap is being the originator of the aircraft ABS market, and the single largest issuer in the ABS market comes to the floor in dealing with the monolines and with the rating agencies -- they see AerCap's track record over the last 10 years in this sector.

And that gives them confidence in us, financial confidence. And we are in discussions continuously with the monolines, and does not appear to be any drop-off in their appetite to do business with AerCap.

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**Keith Helming** - *AerCap Holdings - CFO*

Including now.

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**Gus Kelly** - *AerCap Holdings - Group Treasurer*

Including right now.

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**Mark Schroder** - *J.P. Morgan - Analyst*

Great. That's good news. Thank you, appreciate the comments.

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**Operator**

Thank you. Gary Chase, Lehman Brothers.

**Gary Chase - Lehman Brothers - Analyst**

Good morning, everybody.

**Klaus Heinemann - AerCap Holdings - CEO**

Good morning, Gary.

**Gary Chase - Lehman Brothers - Analyst**

Just had a couple of quick ones for Keith, and then one for Klaus on the market. When you talk about the \$158 million in assets that's held for sale, Keith, is that relative to the \$170 million you refer to in the F1 for sales revenue in 3Q?

**Keith Helming - AerCap Holdings - CFO**

Yes, that's correct. It's part of the \$170.

**Gary Chase - Lehman Brothers - Analyst**

Okay. And then, the -- it's part of the \$170, meaning that's the book value of assets and the \$170 is the proceeds?

**Keith Helming - AerCap Holdings - CFO**

No, the \$158 is the sales proceeds for those aircraft.

**Gary Chase - Lehman Brothers - Analyst**

Oh, okay.

**Keith Helming - AerCap Holdings - CFO**

It doesn't include all of the aircraft. There's more aircraft there.

**Gary Chase - Lehman Brothers - Analyst**

And then, the \$9 million -- or the F1 often references a \$9 million gain. Is that what was booked in the quarter, and the Other Revenue line was \$9 million?

**Keith Helming - AerCap Holdings - CFO**

Yes, that's correct. It appears in the Other Revenue line, and that's the Northwest claim that I mentioned.

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**Gary Chase** - *Lehman Brothers - Analyst*

And then, I guess the question for Klaus, or for both of you guys, there's a lot of talk about what's happening in terms of liquidity in the credit market. The flip side of that -- and I think I've heard you lament a lot of entry by, I think, what you would refer to as marginal players in this market.

Do you think that there's then enough strain and stress to actually create some secondary market opportunity for you looking forward? Do you think you'll have an opportunity to bid on some portfolios, potentially with less competition, or to maybe take some people that are newly in the market out of their exposure?

**Klaus Heinemann** - *AerCap Holdings - CEO*

Well, it's a little early to tell. But, certainly, we start to see some signs of strain with the less experienced, smaller players, and we are in the position I always wanted this company to be in, to take advantage if the occasion arises with our existing liquidity of over \$2 billion, with over \$250 million of cash, because it allows us to act very quickly if need be. Our bids will not be subject to funding, and that is the position I want to be in.

If these opportunities will arise depends on where the market is going in the next couple of months or so. But, we are certainly having our radar screen on high definition on this one to pick up on situations as they might arise. And there is some early indications that, indeed, we might see one or two opportunities as people who are exposed in bridge funding structures may not be able to execute until -- that their Genesis style IPO plus securitization.

**Gary Chase** - *Lehman Brothers - Analyst*

Okay. And then, just lastly on AeroTurbine, when you look at the gross margin contribution from the engine and component sales in the quarter, is that part of the business living up to your expectations? And what's kind of the outlook there, looking forward?

**Keith Helming** - *AerCap Holdings - CFO*

Yes. I mean, well, first of all, the integration of AeroTurbine into the business model has gone very well. We still keep them as, essentially, a subsidiary, but they're integrated in terms of financial systems. We put a new inventory system in, as well. So, we gained a lot of operating efficiencies since we bought them.

They're effectively -- we don't effectively show the results to the public, but we do have an internal plan, an internal budget. And they're meeting all those expectations this year. So, they're on track in terms of their financial performance and their operating performance.

**Gary Chase** - *Lehman Brothers - Analyst*

Okay. Thanks very much, guys.

**Klaus Heinemann** - *AerCap Holdings - CEO*

Thank you.

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**Operator**

Thank you.KC Ambrecht, Millenium Partners.

**KC Ambrecht** - *Millenium Partners - Analyst*

Hi, thank you very much for taking the question. A good quarter.

One thing I've noted for now is that people think the lease revenues, while they're up 25% year-over-year, they're up less in the quarter. Keith did a good job of kind of walking through that.

What's a reasonable kind of growth rate we should expect in leases considering that you guys are kind of -- you talk about the supply and demand, Klaus, of the aircraft's leasing cycle with the extending terms, high utilization rates and the new planes coming on. So, what's a reasonable kind of lease growth rate we should expect?

**Klaus Heinemann** - *AerCap Holdings - CEO*

Well, we show you the asset growth at 15% minimum. That is contractually assured through our order book throughout the rest of this decade. On top of that, opportunistic buying takes the asset growth into the 25% bracket.

Bearing in mind that we continue to see a firming of lease rentals and an extension of the lease fixtures, I would be very disappointed if lease rental revenue was not at least increased in line with asset growth, but I expect it actually to significantly exceed that.

And please bear in mind, also, this has a significant impact on the current market value of the portfolio because the way the market measures current market value of aircraft is basically the net present value of lease rentals for the length of the contract fixture, plus residual at the end of that contract. So, as the contract fixtures extend, and as the rentals increase, logically the MPV of the contract, which forms the core of the current market value of an aircraft, is continuing to go upwards.

**KC Ambrecht** - *Millenium Partners - Analyst*

Okay. Thank you very much. It sounds good. Thank you.

**Klaus Heinemann** - *AerCap Holdings - CEO*

Thanks.

**Operator**

Thank you. Andrew Light, Citigroup.

**Andrew Light** - *Citigroup - Analyst*

Hi, good morning. Regarding the placements in 2009, can you give me an idea of roughly the uptake in absolute lease rentals for those aircraft that you hope to achieve?

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**Klaus Heinemann** - *AerCap Holdings - CEO*

Well, we're -- as I said, over the last few days, we have completed 2009. We are done with that. The last few positions disappeared. Actually, we approved that on our operational meeting on Monday, our weekly meeting.

And we have seen this -- please bear in mind, this is the core activity of our business, the A320 family aircraft, on a typical A320 brand new delivered. We have seen during this quarter these rentals exceeding, in some cases significantly, the \$400,000 per month mark.

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**Andrew Light** - *Citigroup - Analyst*

All right, okay.

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**Klaus Heinemann** - *AerCap Holdings - CEO*

And that compares to guidance we gave during the IPO days in the last quarter of last year, of the corridor of around \$350,000 to \$375,000.

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**Andrew Light** - *Citigroup - Analyst*

Right. Okay, thanks. Can I ask a question on the engine leasing business? I think you are going through a strategic review of that, potentially--.

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**Klaus Heinemann** - *AerCap Holdings - CEO*

--Yes--.

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**Andrew Light** - *Citigroup - Analyst*

--Extending or expanding that. Can you give me an update on that? And secondly, is there any way you can reduce the tax rate in the engine leasing business, perhaps by basing engines in Ireland?

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**Klaus Heinemann** - *AerCap Holdings - CEO*

Well, you're correct. The engine leasing business is a core focus of our opportunistic growth, in addition to the core aircraft order book for two reasons.

The first one is, as we expand, we will shift this business into Ireland. You might have noticed in the press release that the new Chief Executive that we hired from Willis is based in Shannon, Ireland.

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**Andrew Light** - *Citigroup - Analyst*

Yes.

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**Klaus Heinemann** - *AerCap Holdings - CEO*

We have our core operations for leasing in Ireland, anyhow. So, I expect additions, certainly, to be in a different tax environment, and expect that these additions are being actively pursued because the review is finalized. The review has come to the conclusion that this will further leverage the particular skill set of AeroTurbine.

Because AeroTurbine is not only this assembly of aircraft and MRO business and Goodyear, it is also very importantly an engine lease business, which is their core competency. And we want to leverage and expand on that. So, I'd be quite disappointed if I wouldn't be able to say something about this extension during the remainder of this year.

**Andrew Light** - *Citigroup - Analyst*

Okay, thanks a lot.

**Operator**

Thank you. (OPERATOR INSTRUCTIONS). And we have no further audio questions. At this time, I'd like to turn it back to management for concluding comments.

**Klaus Heinemann** - *AerCap Holdings - CEO*

Okay. Well, thank you very much for attending this earnings calls. I hope we got the message across that we are, and remain, optimistic about the industry. We are, and remain, optimistic about AerCap's performance within the industry. And we've done what we can to insulate ourselves from anything unexpected on the liquidity side. We are strong there, at liquidity, as we possibly can be.

And with that, I'd like to thank you for your attention. And I'm looking forward to a good call for the third quarter.

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