

# FINAL TRANSCRIPT

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## **AER - Q3 2007 Aercap Holdings N.V. Earnings Conference Call**

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Nov. 08. 2007 / 9:30AM, AER - Q3 2007 AerCap Holdings N.V. Earnings Conference Call

## CORPORATE PARTICIPANTS

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*Aercap Holdings N.V. - IR*

**Klaus Heinemann**

*Aercap Holdings N.V. - CEO*

**Keith Helming**

*Aercap Holdings N.V. - CFO*

**Franciska Lucien**

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## CONFERENCE CALL PARTICIPANTS

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*Wachovia Securities - Analyst*

**Alex Loanzon**

*Merrill Lynch - Analyst*

**Jamie Baker**

*J.P. Morgan - Analyst*

**Mark Streeter**

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**Christine Min**

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## PRESENTATION

**Operator**

Good morning. My name is Carmen and I will be your conference operator today. At this time, I would like to welcome everyone to the AerCap quarterly earnings conference call. (OPERATOR INSTRUCTIONS). Thank you. I will now turn the call over to Mr. Peter Wortel. Please go ahead, sir.

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

Good day, everyone. With me today are Klaus Heinemann, the CEO and Keith Helming, the CFO of AerCap.

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. In addition, this conference call contains time sensitive information that reflects management's best judgments 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.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 AerCap Holdings N.V. Earnings Conference 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 November 8, 2007. A copy of this earnings release is also available on our Web site at [www.AerCap.com](http://www.AerCap.com). This call is open to the public and is being webcast simultaneously at [www.AerCap.com](http://www.AerCap.com) and will be archived for replay.

Before I turn the call over to Klaus Heinemann, I would like to say that we will also present at the lunch for investors and analysts in New York at noon today. Amongst other things, we will talk about the interest rate hedging policy of AerCap, and a presentation on that subject will be made public on the website later today. Klaus, please go ahead.

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

Thank you very much, Peter, and good morning to everyone and thank you for your continuing interest in AerCap. I would like to welcome you to the third-quarter 2007 earnings conference call for AerCap Holdings N.V.

Our financial and operating performance in the third quarter of 2007, which we'll discuss in a moment, was once again very strong. The solid performance continues to reflect the strength and flexibility of our business model, particularly in our leasing business. The earnings strength and growth can be seen in the year-to-date adjusted net earnings growth of 48% from US\$120.1 million for the first nine months 2006 to US\$177.4 million for the first nine months of the current financial year.

The fundamentals for the global aviation industry remain very positive despite the turmoil in the financial markets that we are all observing at the moment. Global passenger traffic growth for the first eight months of 2007 was 7.2%. Interesting enough, IATA has just published the number for September at just above 8% so we continue to see a pickup of global passenger traffic, not a slowdown. Load factors are being maintained at exceptionally high levels. In addition, freight traffic growth has picked up in recent months as well from the around 5% year-over-year growth pattern.

Airline financial performance has improved steadily this year in particular outside the United States. And please bear in mind, 90% of our lease revenues are generated outside the domestic U.S. market. Fuel prices, although at historical high levels, have to date neither impaired passenger demand nor impaired the financial performance of airlines. I think this is an important marker that probably a year ago very few people would have dared to forecast that the industry can sustain profitably these type of fuel levels.

For AerCap, the important profit fundamentals of our industry, lease rates, term and aircraft values remain positive and strong. Our business growth plan remains on track with committed purchases in 2007 approaching \$1 billion. Our access to capital needed for growth is well-established. Our decision to retain all earnings has given us independence from equity markets while sustaining our contracted growth during the coming years without further necessity for equity raising exercises. Even with the recent concerns in the debt markets, we were able to close on a new funding facility in October from a major credit institution, the \$182 million facility funds predelivery payments of our new A330 Airbus order of 30 aircraft.

AerCap is in a strong operating position with a unique business model as evidenced through the successful completion of numerous aircraft and engine transactions year to date. For the first three quarters of 2007, AerCap signed and executed 68 new aircraft lease agreements or letters of intent, delivered 25 aircraft and 38 engines to lessees, purchased 29 aircraft and 11 engines and sold 15 older aircraft and 19 engines.

We are also delighted to welcome Aeroflot, the Russian national flag carrier, as a new customer this past quarter as they continue their rapid expansion and fleet renewal taking advantage of the Russian economic circumstances.

By the way, this is just one of 15 new airline clients that AerCap has added to its already large portfolio of global client names during this year. Other names added as new clients this year include Aer Lingus, the Irish flag carrier; TAP, the Portuguese flag

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 Aercap Holdings N.V. Earnings Conference Call

carrier; Royal Jordanian, the Jordanian flag carrier; and Air Arabia, which is the most successful low-cost carrier in the Middle Eastern environment.

We're very pleased with all these aspects of our performance as you can see and I would like to hand over to Keith Helming, our CFO, to take you through the detail of the financial and operating performance.

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

Thank you, Klaus. Good morning, everyone. I will begin first with our net income performance.

Our total net income for third quarter 2007 was \$48.6 million. However, more importantly, our net income excluding non-cash charges relating to the mark-to-market of our interest rate caps and share-based compensation was \$58.1 million during this period and was approximately \$4 million higher than the consensus estimate on this basis. We focus on this measure because we believe this measure is a better reflection of our true operating performance. As a reminder, (technical difficulty)

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**Operator**

Ladies and gentlemen, today's conference will resume momentarily. Until that time, your lines will again be placed on music hold.

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

Operator? What is happening?

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**Operator**

I'm not sure. Your line is moderated and open.

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**Franciska Lucien** - *Weber Shandwick*

We have confirmation that it is and we have somebody listening in who can hear it.

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**Operator**

We can't hear anything on this end except who's speaking. He just kind of cut out.

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**Franciska Lucien** - *Weber Shandwick*

Okay. We will go ahead and hold for you guys to reconnect.

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**Operator**

Thank you. You may resume.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 AerCap Holdings N.V. Earnings Conference Call

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

Okay, thank you.

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

Excuse for the interruption. Our net income through the first three quarters of 2007 was \$143.3 million. Net income excluding charges relating to the mark-to-market of our interest rate caps, share-based compensation, and the bond issuance in second quarter was \$177.4 million during this period. This amount was up 48% over the first three quarters of 2006, as Klaus mentioned.

Total earnings per share were \$0.57 in third quarter 2007, including all the charges. Earnings per share were \$0.68 during this period excluding the previously referenced charges. This amount was approximately \$0.05 higher than the consensus estimate on this basis. Our earnings per share through the first three quarters of 2007 were \$1.69. Earnings per share excluding the previously referenced charges were \$2.09 during this period.

Total revenue in third quarter 2007 was \$336 million and grew 12% as compared to third quarter of the prior year. Leasing revenue growth was even stronger and was up 23% over third quarter 2006.

Total lease revenue in third quarter 2007 was \$137 million. This amount includes basic rents, maintenance rents, and end of lease compensation payments. Basic rents are up 26% over 2006 and are driven by the growth in our lease assets and the continued strength of lease rates in the current economic environment. Maintenance rents, which are recorded as revenue, are those amounts which are remaining upon lease termination plus maintenance rents collected on our short-term engine leases.

End-of-lease compensation payments are amounts received from certain lessees based on the condition of the equipment upon its return to us. The amount of maintenance rents 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 sale revenue in third quarter 2007 was \$187 million. The sale revenue related to aircraft was \$165 million and the sale of engines and parts totaled \$22 million for the quarter. During the third quarter, we sold three A330s, a Boeing 757-200, and MD87 and two Fokker 100 aircraft.

In addition to the third-quarter sales of aircraft, we also have completed an agreement for the sale of an A300 freighter plus a letter of intent for the sale of seven owned Fokker 100 aircraft, all of which are expected to close in either fourth quarter 2007 or first quarter 2008. We also have two A330s on lease with purchase options at current market values, which will be executed in 2008.

AerCap's total SG&A expenses for the third quarter 2007 were \$25 million, and this amount excludes costs for share-based compensation. The increase in expenses in 2007 was 6% versus the prior year. Expenses as a percent of revenue decreased from 7.8% to 7.4% over these periods. This productivity gain continues to reflect our ability to leverage our costs as we grow.

Our blended tax rate for third quarter 2007 was 16%. The rate for our aircraft assets was approximately 15%, driven primarily by the Ireland and Netherlands tax jurisdictions but with the heavier concentration coming from the Netherlands this quarter because of the sale of certain aircraft located in the Netherlands. For our engine and parts assets, the tax rate is 34.8%, reflecting primarily the U.S. tax rate.

AerCap's assets have grown 20% over the past 12 months since the end of third quarter 2006. Total assets on the balance sheet are \$4.3 billion at September 30, 2007. The growth in our assets is reflective of our increasing lease portfolio. The number of aircraft in our portfolio is now 325, including owned aircraft, managed aircraft, the aircraft on order, under contract, or subject to LOI. The number of engines owned or under contract is 65.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 AerCap Holdings N.V. Earnings Conference Call

Our acquisition activity has remained strong. We completed \$519 million of purchases through the first three quarters of 2007, including 29 aircraft. For the full year 2007, we have purchase commitments of \$854 million of assets, including the amounts completed in the first three quarters. In fourth quarter, the remaining \$335 million of the committed amount will be purchased plus any other new deals we may complete this year. Purchase commitments for the full year include 41 aircraft.

The portfolio management metrics of our aircraft lease portfolio also remained strong. The utilization rate continues at a high 97.8% rate. The yield generated by our aircraft lease portfolio was approximately 18% for the first three quarters of 2007. Average terms of our contracts continued to increase. The average term of new aircraft leases entered into during three quarters of 2007, inclusive of letters of intent, was 104 months. The average term entered into during the first three quarters of 2007 under our existing portfolio was 75 months. And the amount of lease revenue for 2008 that is already contracted is currently at 108% of the same amount in 2007.

AerCap's cash balance at the end of third quarter was \$272 million, excluding restricted cash. Operating cash flows in third quarter 2007 were \$60 million. The available lines of credit at September 30 aggregated approximately \$1.8 billion, primarily through revolving lines of credit and funding from the European Export Credit Agencies, which is available for our purchases of new aircraft from Airbus.

As mentioned previously, we closed on a PDP funding facility of \$182 million in October. 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 rely on the capital markets.

At September 30th, 2007, AerCap's debt balance was \$2.8 billion and our debt-to-equity ratio was 3.1 to 1. The average cost of our debt in third quarter 2007 was 6.8%. Over the past 12 months, our funding costs have decreased an average of 50 basis points across our entire portfolio. In addition, our debt balance has grown only 13% while assets have grown 20% and our debt-to-equity ratio has declined significantly over the past year, further strengthening our balance sheet.

I will finish now with a couple of brief comments as relates to the outlook for 2007. Our contracted purchases for 2007 are still on track for an amount equal to or greater than that achieved in 2006, which is nearly \$1 billion. Also, the amount of gains from sale in fourth quarter is expected to be comparable to the quarterly average you saw during the first three quarters of 2007.

In summary, we had another strong financial performance in the third quarter and are quite pleased with it. Thanks again for the opportunity to talk to you today about the AerCap business and I'll now turn it back over to our CEO, Klaus Heinemann.

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

Thank you very much, Keith. As you can see, the operating business model that AerCap has created continues to perform well in the current environment, the market continues to perform well, and we are positioning ourselves opportunistically for the future. We are well on our way to another strong year of growth through purchases of aviation assets, for example in the last quarter of this year, we will take delivery of five brand new aircraft from our Airbus order, which were all coming in the last quarter.

So that will give a nice boost to the fourth quarter. The financial performance of the current year as Keith has outlined, is and remains strong. There is no reason for any pessimism in our business nor from what we can see, today, for the aviation industry on a global basis. That's all we've got on our side to tell you this morning on the third quarter and on year-to-date and with that, we would like to turn over to the Q&A.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 Aercap Holdings N.V. Earnings Conference Call

## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS). Gary Liebowitz, Wachovia Securities.

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### Gary Liebowitz - Wachovia Securities - Analyst

Good morning, gentlemen. Can you comment on the gross margin in the quarter of about 19%? It's a little bit lower than it has been. Maybe what some of the factors there are or perhaps we're finally seeing fuel prices take their toll on the values of out-of-production aircraft?

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

Gary, this is Keith. I can comment on the margin for the third quarter. It's around 20% or just under 20%. And that's driven primarily from the fact that we did have a few older aircraft in the sales this quarter. In the fourth quarter, as I mentioned, we're going to have a comparable quarter there for sales as you saw during the first three quarters of the year. Those sales are going to have a lot higher margin. And I think again, for the full year, you'll see the 22 to 23% average margin for our full year 2007.

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

Gary, to add to this very briefly, the continuation of passenger growth, as I said, for September, IATA has now given a number of 8%, continues to exceed supply of aircraft. And, therefore, we continue to see aircraft values even for out-of-production aircraft at this stage moving upwards and not downwards. It is all driven by the fact that we continue to see on a global basis passenger growth that exceeds current capacity and capacity additions that come from manufacturers.

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### Gary Liebowitz - Wachovia Securities - Analyst

Klaus, on that point, could you comment on the lease rates that you are seeing I guess on the most recent data point, which would be the six A320s to Aeroflot, how those compare to say lease rates from say a year ago?

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

Well, again, the lease rates in isolation may be moderate in their increase. Important is the tenor of the fixation. Again, these transactions are transactions that fix over ten to 12 years. And that is really where the strength of the market comes out because ideally the airlines would wish to fix this between six and eight years. Our ability to push this further is really where the strength of the market comes out and where if you so wish, we take significant risk out of the market because for that entire period, we shift the utilization risk to the airline.

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### Gary Liebowitz - Wachovia Securities - Analyst

Okay. And one more before I get back in the queue. And that is the committed aircraft purchases for the year now total 41. I think last quarter was 44. Did something slip out of the plan?

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

Yes, there was an LOI at the AeroTurbine level for three older aircraft that slipped there. But we still expect the 41 to increase in the fourth quarter.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 AerCap Holdings N.V. Earnings Conference Call

**Gary Liebowitz** - Wachovia Securities - Analyst

Okay, thank you.

**Operator**

Mike Linenberg, Merrill Lynch.

**Alex Loanzon** - Merrill Lynch - Analyst

It's actually Alex Loanzon on behalf of Mike. I just had a quick question. With regards to what's going on in the credit markets and the monoline insurers, can you comment on your securitizations going forward for the Company?

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

Right now, we are always in the debt markets trying to get additional funding, so we're looking at various opportunities for the funding of our forward order from Airbus. We are working and looking at opportunities with banks. We are also looking at various opportunities in the securitization market. So we haven't seen that market shut down and we think there's opportunities still available in that market and we continue to pursue those opportunities.

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

I think if I could add to Keith's remark right here, there's also one other thing that you need to bear in mind, and that is AerCap, as you recall, the largest issuer into this market historically has, in the past, also issued bonds that were placed on their own inherent rating without insurance wraps. You cannot do that at the 90% plus advance rate levels that we've seen in May of this year when we went to the market. But the capability for an issuer with a track record to issue into the market without an insurance wraps is there and is proven in our case.

**Alex Loanzon** - Merrill Lynch - Analyst

Okay. And just another quick question. I noticed there was a drop-off in other revenue and also on the leasing expenses side. Could you just reconcile those numbers?

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

On the leasing expense side, again, that particular line item generally correlates to transition activity. So in the quarter, there was just less activity in terms of termination and rollovers in terms of leases. So it was light in the third quarter. You will see it pick up again in the fourth quarter similar to the levels you saw in the first half of this year.

And in terms of other revenue, that particular line item also is somewhat volatile quarter in, quarter out, so there was just no revenue items that came through in the third quarter.

**Alex Loanzon** - Merrill Lynch - Analyst

All right. Thanks very much.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 AerCap Holdings N.V. Earnings Conference Call

**Operator**

Jamie Baker, J.P. Morgan.

**Jamie Baker** - J.P. Morgan - Analyst

good morning. It's actually Jamie and Mark Streeter. Mark, you want to kick off?

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

Yes, a question for Keith. When you mentioned the 108% figure 2008 lease revenue contracted versus 2007, is that an apple-to-apples comparison, same pool, same number of aircraft?

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

Yes, it's based on the contracted amounts of leasing activity we have. So if we did no more purchases from this point forward, leasing revenue in 2008 would grow 8% versus 2007. But obviously we're not going to stop there.

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

But that is -- just to be clear, that is on the exact same number of aircrafts. That's really a mark-to-market if you will from '07 to '08 plus 8% on the portfolio?

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

No, it's not a mark-to-market. It would include any new purchases that we have, for example, in the fourth quarter, so it's contracted revenue.

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

Okay. Now, is there any way you can give us a sense for -- we always ask this and I know you are reluctant and your peers are reluctant to give this. But is there any way to get a sense for what the mark-to-market is on the portfolio? Do you study and have a sense for you're 5% below market, 10% below market? If you were -- if everything was rolling today and you were releasing everything today?

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

Just so you understand, we are always putting contracts in place for forward orders, for example, for 2009 and 2010, so those lease rates are contracted in, in the current environment, which is obviously quite strong.

On our existing portfolio, we have all our 2008 rollovers effectively contracted. So all of that is effectively in place. So I think you are asking on what that pickup will be in 2008 and 2009 and 2010, that's something that we don't particularly publish.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 AerCap Holdings N.V. Earnings Conference Call

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

Okay. Thought we'd ask though! On the funding issue, you mentioned that the securitization markets are open in different forms and at different prices and we would still agree with that. But it sounds like you and probably most of your competitors are going to have to rely more on the bank market rather than say the public capital markets. And if that is true, I'm wondering if you are concerned at all about bank appetite for aircraft financing or export/import or any of the other sort of non-ABS means in which you can raise debt capital? Are you seeing any signs of weakness or any signs of a pullback from those other important sources of capital?

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

If I could come in here for a moment, I think you see that our business model has never entirely relied on a combination of securitizations and warehouse facilities. It has always been a mix of significant reliance on the European export guaranteed credits, which are fully available; they are designed without price adjustment to take care of credit crunches. In order to avail yourself of that market, importantly, you have to be a buyer of brand-new aircraft from the manufacturer unless, otherwise that market is not available to you.

Also you have to have a track record with these guys. We have that. Secondly, European and Asian banks react differently to U.S. banks. AerCap has traditionally very strongly maintained relationships with European and Asian banks and not only with the U.S. banks. And all those banks remain open to business and importantly, they recognize AerCap as a long-standing existing client not one that for the first time comes to them because other funding opportunities are drying up.

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

I'll just add that's exactly right. We do have a very diversified source of funding if you will. And we are constantly, as I mentioned before, pursuing all of these opportunities. And in some cases, it's more opportunistic in one area versus the other. So even if there wasn't something more available in the capital markets, again, we have almost \$2 billion of open funding already. We have our cash balance and we have the high level of operating cash flows that we're generating annually. So we could cover and fund our contracted growth level. So any new funding effectively that we put in place here is just going to add to our growth in future years.

**Operator**

Christine Min, Calyon Securities.

**Christine Min** - *Calyon Securities - Analyst*

Good morning, gentlemen. I have a question regarding the competitive field in terms of asset growth and available aircraft in order to grow. Are you seeing any impact of the tight credit market on the weaker players and the impact on possible availability for aircraft in general?

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

I wish I could say yes because I'm waiting for that as a purchase opportunity, but the answer to it is any sale that even begins to look like a distressed sale, the most recent one was the BCI situation that had to liquidate because of the SEC action against the investors, you have four or five experienced players in the market instantly looking into that and bidding for that. So at this moment, the volume of distressed situations where because of liquidity situations of the owner assets come onto the market and need rapid execution, is not big enough to give a downward movement. That may change and we are waiting for that

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 Aercap Holdings N.V. Earnings Conference Call

situation because it would be a nice addition to our existing purchase growth from the Airbus order. But at this moment there is no sign of it. Any opportunity for an aircraft sale in a distressed situation causes instant attention of ourselves and our competitors.

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**Christine Min** - *Calyon Securities - Analyst*

Okay, that was very helpful. And then, just on the interest rate, the effective rate, should we be modeling in a 6.8 type rate going forward?

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

Obviously, that's reflective of our current environment, but rates have come down slightly here. So again we would expect on a cash basis, to continue to see decreases in our interest rate overall.

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**Christine Min** - *Calyon Securities - Analyst*

Okay. Thanks very much.

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**Operator**

Gary Chase, Lehman Brothers.

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

Keith or Klaus, when you stated in the guidance just a quick nit to kick off, when you stated in the guidance that you thought you'd be near that \$1 billion in acquisitions and the 850 that you've already got under contract or letter of intent, are you intending to convey that you will get close to the \$1 billion? Are you confident in that or is it that 850 is close to \$1 billion? I'm just trying to understand if we should expect the 150 or so beyond what you've already got contracted before we close the year?

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

I said already in earlier earnings calls I will be disappointed if we don't reach \$1 billion, and I'm telling you that I don't intend to be disappointed.

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

Okay. Could we just --

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

So in clear terms we expect that we will reach the \$1 billion.

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

We have a number of deals in the pipeline here that we are working.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 Aercap Holdings N.V. Earnings Conference Call

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

Okay. And that is going to be all a function of what you're doing in the secondary market, correct?

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

That is correct, yes. Because obviously the primary purchases from Airbus are baked into the 850 number.

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

Right. And if we could just roll that into 2008, I know your goal is to do in excess of \$1 billion again in 2008 or at least it was a while back. Obviously, the Airbus component of that really steps up next year, but you still have, at least the way we look at it, 4 to \$500 million of secondary market in order to get north of that \$1 billion target. How confident are you that you're going to be able to do that at economics that suit you?

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

Well as we have said in earlier calls, the difference between us and some of the competitors is that we really can look into every corner of the world for purchase opportunities. So some of the 737 new generations, for example, we added, we picked up with a small Icelandic carrier that probably most of you have never heard of, simply because we had an existing business relationship there. So we continue to look in all areas of the world. We are, for example, in discussion at this moment with the Indian flag carrier on something. And so our reach aids us to find opportunities and execute on them before others find them.

That's one thing that continues me to be optimistic that we should have no problem to find asset at acceptable terms. The second one is I actually do believe that the current credit crunch will eventually cause one or another of those who hold aircraft assets among other assets and might be in liquidity issues, to have to liquidate their portfolios, and I want to be ready for that, because in those situations, I expect that if I can offer a swift cash execution, I might be able to take pricing advantage into my portfolio.

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

And to add to that, on the secondary purchases, Gary, included in that 4 to \$500 million that you referenced, we also have AeroTurbine purchases, the parts business and the engines business, which they are doing annually roughly 150 to \$200 million of purchases. So that contributes significantly to that other piece of secondary volume.

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

Okay. And then if I could ask another question, I mean somebody asked earlier about the impact of energy prices on demand for aircraft of all sorts. And I know \$96 oil at the margin is going to increase demand for more fuel efficient aircraft at the margin. But I would also think, and we see it for sure with U.S. carriers, people are not going to fly as much as they might if energy prices were even in the 70s at this stage. And we've just had -- I know you cited traffic growth statistics, but those are kind of predating this huge run that we've had in energy prices.

Is there anything to suggest that at 96 or \$100 a barrel energy prices, if that becomes reality for 2008, do you think we will see some demand destruction for aircraft and a little bit of resistance on some of the lease rates?

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 AerCap Holdings N.V. Earnings Conference Call

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

I can only tell you what I see currently in the numbers. That's why I just mentioned the September numbers which have just come out. And September was a month where we saw fuel price going also to new records.

Now, an important issue here to remember is please do not see this only from the U.S. perspective. From the U.S. perspective, \$96 or \$97 is \$96 or \$97. If you are a non U.S. carrier, this is enormously cushioned by the deterioration of the dollar. So for non U.S. airlines, the fuel price increase is far less significant than U.S. airlines because of the deterioration of the U.S. dollar, which cushions some of that.

We are monitoring it at this moment. We're monitoring it all the time with our client base globally. And at this moment, there is no reduction of demand despite the fact that the airlines pass on all fuel increases straight down the line to the consumer.

Could that change at some point in time? It's difficult to predict, but please bear in mind most of our revenue comes from outside the U.S. and outside the U.S., the fuel price increases are far less significant than in the U.S. because they're counterbalanced by what happens in the currency.

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**Operator**

Jamie Baker, J.P. Morgan.

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

Gentlemen, it's Mark again. Just got cut off at the end of my last question. I just wanted to make sure that in talking about, it seems as if the market is overly fixated -- Klaus, just to your last point about you have a lot of U.S.-based analysts on the phone and so forth and people are looking at the U.S. securitization markets and those being very difficult. So when you talk about all the other global funding options for the Company, do any of those constrain you in any way from operating your portfolio more so than the constraints that you would have in funding yourself with a slug of your capital structure in aircraft ABS here in the States?

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

No. A clear no to that. All funding facilities today when it comes to the collateralization, are based on techniques that are similar to that used in the securitization markets, so there is no operational interference. We have restarted using European export credits. And once again, you can only use that if you buy directly from the manufacturer. So our list of competitors cannot take advantage of that. And to just give you an example, we're delivering next week an aircraft to Asiana and that will be funded by ECAs. 90% advance rate and LIBOR plus 25 basis points. No restrictions 12-year tenure.

We've always used it. It has always been a significant part of our liability structure. In situations like this, it comes in very handy. We don't even need to burden the funding facility that we have with UBS. We can keep that open and our nose clean there for purchases, opportunistic purchases, as they come along.

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**Jamie Baker** - J.P. Morgan - Analyst

It's Jamie Baker here. Can you just expand on the foreign, the exchange issue? Identify perhaps your level of non dollar costs? Just trying to figure anything here that reduces margins given the ongoing dollar weakness.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 AerCap Holdings N.V. Earnings Conference Call

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

Keith, do you want to take that?

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

Yes, the only place that we have exchange exposure is in our SG&A line. So roughly I would say roughly two-thirds to 75% is Euro based. But as you can see, our SG&A line relative to all our other costs is small, so the overall impact from the exchange rate is not significant.

**Jamie Baker** - J.P. Morgan - Analyst

Excellent. Thanks for taking our questions, gentlemen.

**Operator**

Monica Gabel, Goldman Sachs.

**Monica Gabel** - Goldman Sachs - Analyst

Can you please update us on what is the current difference between the book value and the market value of your aircraft assets? Thank you.

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

Keith, do you want to take that?

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

Yes, again, if you look at the appraised value of our aircraft, again, which is all public information, you can see and it depends on which appraisers you pick, but the three appraisers that we look at when you look at the average of them compared to our book value, again, it is roughly in that \$0.5 billion level. And these are the assets that are currently on our balance sheet and that does not include the forward orders that we have coming in through 2012.

**Monica Gabel** - Goldman Sachs - Analyst

Thanks very much.

**Operator**

Patrick Rathje National.

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 Aercap Holdings N.V. Earnings Conference Call

**Patrick Rathje** - *National - Analyst*

Great quarter. I got -- I see the internal financial questions have been addressed. About the stock itself, what can you share about Cerberus and the chance that maybe another secondary will be announced? It's just a rumor but we are trying to figure it out. Thank you.

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

Well, as you can understand, we cannot comment on shareholders, but what I can say is Cerberus remains with the directors on our Board, very actively involved in the development of our business. And we are in very close dialogue with them to determine business opportunities and development opportunities for the Company. So what I can tell you is that we continue to benefit from their attention, how to further develop our business.

**Patrick Rathje** - *National - Analyst*

I see. Okay.

**Operator**

Gary Liebowitz, Wachovia Securities.

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

Klaus, can you give us an update on the Dragon venture in China, when you expect to start placing assets there or any new developments on that front?

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

Well, two things. First of all, Dragon is already profitable. Secondly, it just took delivery of its second aircraft. Bear in mind they are only a few months in operations. And, on that one, I would be very disappointed if we haven't got some interesting news in the next few months because it has the full attention of our Chinese partner. And they are absolutely determined to make this a very significant part of the Chinese not only aviation scene, but financial services scene. And that encourages me to look at the development of that J.V. with great hopes.

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

Look forward to the interesting news.

**Operator**

That concludes today's portion of the Q&A. You may proceed with closing remarks.

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

That's all from our side. Thank you very much for the questions. And for those of you who intend to be at the lunch, we're happy to go into some more detail as Peter Wortel already said, what we're going to present at the lunch will also be on the Web site

Nov. 08. 2007 / 9:30AM, AER - Q3 2007 Aercap Holdings N.V. Earnings Conference Call

for those of who can't attend, please follow up on that one and other than that, as always, we are open for questions and calls anytime in between the quarter and look forward to talk to you early next year.

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**Operator**

This concludes today's earnings conference call. You may now disconnect.

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