

# FINAL TRANSCRIPT

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**AER - Q4 and FY 2007 AerCap Holdings N.V. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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**Klaus Heinemann**

*AerCap Holdings N.V. - CEO*

**Keith Helming**

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*Wachovia Securities - Analyst*

**Gary Chase**

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**John Stilmar**

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**Andrew Light**

*Citigroup - Analyst*

**Jamie Baker**

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**Alex Loanzon**

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## PRESENTATION

**Operator**

At this time I would like to welcome everyone to the AerCap quarterly earnings conference call. (Operator Instructions) Mr. Wortel, you may begin your conference.

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

Good day everyone. Welcome to AerCap Holdings Fourth Quarter 2007 and Full Year 2007 Results Conference Call. With me today are Klaus Heinemann, the CEO and Keith Helming, the 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. 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 February 27, 2008. A copy of the Earnings Release and conference call presentation are available on our website at [aercap.com](http://aercap.com). This call is open to the public and is being webcast simultaneously at [aercap.com](http://aercap.com) and will be archived for replay.

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Now I would turn the call over to Klaus Heinemann. Klaus?

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

Thanks, Peter. Good morning everybody. I would like to welcome everyone to the Fourth Quarter 2007 Earnings Conference Call for AerCap Holdings N.V. We are really excited about our financial and operating performance in 2007, as Keith will outline in a moment. This outstanding performance continues to reflect the strength and the flexibility of the business model that we have chosen and, of course, also the professional dedication of the around about 400 people that are all part of the AerCap team. I'd just like to talk about that in a little more detail in a moment.

Let me start by having a brief glance at the fundamentals for the global aviation industry. We have not yet been in any material way affected by what we are seeing in the financial markets. Passenger traffic growth for the full year 2007 was at 7.4% and load factors reached an industry record globally of 77%, indicating that capacity has during 2007 grown slower than passenger and cargo growth. Airline revenue growth is expected to slow somewhat as a result of the financial markets situation to around 5% in 2008. These are IATA, the Global Aviation Organization's forecasts, which will be somewhat lower than in 2007 but still be growth above their long-term trend lined at around 3.5 to 4%.

Importantly airline financial performance, in particular outside the United States, has improved significantly in 2007. Some of you may have seen this morning the record announcement of Lufthansa as one of the largest European carriers this morning. Fuel prices, therefore, are being passed on at this stage to the passengers without materially impairing growth and we, therefore, anticipate together with the industry analysts that as a whole the airline industry will remain substantially profitable in 2008.

For AerCap itself there are no signs that the robust demand for state of the art and most fuel efficient aircraft is slowing, as evidenced by our ability to place all new aircraft coming up for delivery from Airbus in 2008 and 2009 and to either fully executed letters of intent on which deposits are paid or signed lease agreements. We are currently marketing 2010 and 2011 positions with success and see no weakening of demand for this period either at this stage.

We believe importantly the benefits of AerCap's business franchise model are becoming clearer. Our purchasing savvy has helped create a portfolio whose cost is significantly below the values of these aircraft suggested by external appraisers. This low cost basis has allowed us to achieve one of the strongest leasing yields in the industry, and after all this is what this business is about. It is very simply about lease revenue generated as a percentage of the total aircraft portfolio that we have and we believe we have one of the strongest factors with 18% among our industry peers.

Our hedging strategy importantly through the use of caps instead of swaps protects us against driving interest rates but correlates our largest cash cost item, interest expense, to movement by the Fed for the existing and for the future portfolio when interest rates decrease as they have done in the first quarter of this year. Our decision to retain all earnings and not pay a dividend has given us independence from equity markets while sustaining our contracted growth during the coming years plus allowing for additional opportunistic purchases if we see them.

Our access to financing needed for growth is well established. We closed a \$1.7 billion securitization in May last year and, even with the recent concerns in the debt market, were able to close a number of important credit facilities during the fourth quarter of 2007 at very favorable conditions for us.

AerCap's strong operating performance during 2007 was evidenced through the completion of numerous aircraft and engine transactions. This is what 400 people can produce.

For the full year of 2007 AerCap executed 81 new aircraft lease agreements or letters of intent, delivered 33 aircraft and 51 engines to lessees, purchased 40 aircraft and 18 engines and sold 24 mostly old and fuel inefficient aircraft and 22 engines. The number of aircraft in our portfolio is now 316. We leased to more than 100 customers in nearly 50 countries around the world.

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So you really see that the machine is working and the capacity that it has is put to good use. We are very pleased, therefore, with all aspects of our performance in 2007.

I am now turning over to Keith Helming, our CFO, who will take you through the detail of the fourth quarter and annual performance.

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

Thank you, Klaus. Good morning everyone. Let's begin with our net income performance. Our total net income for fourth quarter 2007 was \$45.1 million. Our net income excluding non-cash charges relating to the mark-to-market of our interest rate caps and share based compensation was \$57 million during this period and was approximately \$6.5 million higher than the most recent consensus estimate on this basis. As you know these mark-to-market adjustments are non-cash charges. The share based charges are relatively constant and in the range of \$2 to \$2.5 million after tax per quarter. The mark-to-market of interest rate caps is required because caps do not receive hedge accounting like swaps. As you know, we use caps to hedge against rising interest rates.

In addition caps allow us to take advantage of decreases in interest rates. In this quarter, as it was in the prior quarter, we had a negative mark-to-market because interest rates have dropped. The mark-to-market reflects an acceleration of the cost of the hedges because of the lower rates. In stable rate environments the mark-to-market will be close to neutral and with increasing rates the mark-to-market would be positive. We believe that proper way to measure a performance is by excluding this non-cash charge or income and I'll discuss the cash benefits we received from the use of caps later in the presentation.

Our net income for the full year 2007 was \$188.5 million. Net income excluding charges relating to the mark-to-market of our caps and share based compensation was \$210.6 million during this period. This amount was up 23% over full year 2006. Total earnings per share were \$0.53 in the fourth quarter 2007 including all the charges. Earnings per share were \$0.67 during this period excluding the previously referenced charges. This amount was approximately \$0.08 higher than the consensus estimate on this basis. Our earnings per share for the full year 2007 were \$2.22. Again, earnings per share were \$2.48 during this period excluding the previously referenced charges.

Total revenue in fourth quarter 2007 was \$285 million and grew 34% as compared to fourth quarter of the prior year. Basic lease rents, which reflect our strong lease rates, were \$126 million for the quarter and were up 16% over fourth quarter 2006. In first quarter of 2008 we expect this number to increase to \$129 million and we should see this continue to grow as our order book delivers. For the full year 2007 total revenue was up 44% versus full year 2006 and basic lease rates were up 26% over the same period.

Total sales revenue in third quarter 2007 was \$138 million. The sales revenue relating to aircraft was \$115 million and the sale of engines and parts totaled \$23 million for the quarter. During the third quarter we sold 5 Fokker 100 aircraft, a Dash 8, an A300 Freighter and an A321 aircraft. In addition to the fourth quarter sales of aircraft, we also have signed agreements or letters of intent for the sale of 6 A320 aircraft, 2 Fokker 100 aircraft, an A300 Freighter, an MD83 and a DC8, all of which are expected to close in 2008.

AerCap's total leasing expenses for fourth quarter were \$5 million consisting primarily of maintenance costs paid by us, the lessor. AerCap's total SG&A expenses for full year 2007 were \$105 million. This amount excludes costs for share based compensation. The increase in revenue outpaced the increase in SG&A expenses during 2007 despite a significant amount of initial costs relating to the implementation of Sarbanes Oxley and other one off costs. We expect this cost ratio to continue to improve as we grow.

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As previously disclosed, we completed a tax restructuring during the fourth quarter 2007, which reduced our overall blended tax rate for full year 2007 to 11.8%. The rate for our aircraft assets was approximately 10% and it was 35% for our engine and parts assets. We expect the effective tax rate for the next several years to be slightly lower than that of full year 2007.

AerCap's assets have grown 12% during 2007 as compared to the end of 2006. Total assets on the balance sheet are \$4.4 billion at December 31st, 2007. The number of aircraft in our portfolio is now 316 including owned aircraft, managed aircraft, the aircraft on order, under contract or subject to LOI. The decrease in units since the end of 2006 is largely driven by sales of Fokker and managed aircraft as part of our portfolio improvement strategy. The number of engines owned or under contract is 69, up from 57 at the end of 2006.

We completed \$788 million of purchases during full year 2007, including 40 aircraft. We didn't reach the \$1 billion of purchases, as previously mentioned, because a number of deals carried over year end into 2008. However, for 2008 we already have purchase commitments of \$683 million of assets, including 25 aircraft.

The portfolio management metrics of our aircraft lease portfolio continues to be strong. The utilization rate was 98.4% for full year 2007. The yield generated by our aircraft lease portfolio was approximately 18% for the full year 2007, which is well above industry standard. The average term of new aircraft leases entered into during full year 2007, inclusive of letter of intent, was 107 months. The average term entered into during full year 2007 on the existing portfolio was 72 months and the amount of lease revenue for 2008 that is already contracted is currently at 108% of the actual amount in 2007.

At December 31st, 2007 AerCap's debt balance was \$2.9 billion and our debt to equity ratio was 3.0 to 1 based on book equity amount of \$950 million. AerCap has a very effective liability management approach. The average cost of our debt in the fourth quarter 2007 was 6.4%. Over the past twelve months our funding costs have decreased an average of 120 basis points across our entire portfolio. This decrease in cost of funding is reflective of both the types of debt we were able to access, as well as our hedging strategy. The issues relating to MBIA and the other mono lines have no impact for AerCap on its existing debt structures. As it relates to new issuances, AerCap has been the largest issuer of unwrapped bonds in the industry and we have confidence in our ability to continue.

As a result of our hedging strategy, the benefits we receive when interest rates drop are significant. As previously mentioned, AerCap uses caps to hedge against interest rates, increases in interest rates, and caps have an initial cost but the use of caps allow for the benefits of lower rates. Also, caps unlike swaps will never require a cash collateral. Our all in interest costs in 2007 was 6.7% and this is expected to drop to roughly 5.5% in 2008 based on the current outlook for interest rates. As a result, the estimated interest cost savings in 2008 and following years is approximately \$35 million of cash savings per annum.

AerCap's cash balance at the end of 2007 was \$242 million, excluding restricted cash. Operating cash flows, which is reduced for interest costs, were \$206 million for full year of 2007. As previously mentioned, we closed a total of \$440 million of new financings during fourth quarter 2007 and extended the term of our \$1 billion revolver by one year to May of 2014. The available lines of credit at December 31st aggregate at \$2.1 billion, which consisted of revolving lines of credit, funding from European export credit agencies as available for our purchases of new aircraft from Airbus and financing for pre-delivery payments on our order book.

The contracted purchases over 2008 and 2009 are \$1.8 billion. The amount of debt financing that we need to fund these purchases is \$1.6 billion, which is available to us through our existing warehouse line or financing from European export credit agencies. We will use either these existing sources of financing or alternative sources of financing to fund these purchases. The cash requirement in 2008 and 2009 needed for these purchases will be approximately \$200 million, which is in addition to pre-delivery payments of approximately \$100 million paid in previous years. This cash requirement in 2008 and 2009 will be provided by existing cash balances or through the use of operating cash flows generated over this period.

The value based on data provided by external appraisers of our currently owned aircraft plus our committed forward ordered aircraft is approximately \$9 billion. For these same aircraft assets the total amount of either booked value or the initial cost is

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approximately \$7.5 billion. It's easy to see that the value is based on information compiled by the appraisers is roughly \$1.5 billion in excess over book values or costs, none of which is reflected in our current book value of equity line.

I will close now with just a couple of comments as related to the outlook for 2008. For purchases of aviation assets in 2008 we are again targeting around \$1 billion for the full year, of which nearly \$700 million is already committed. 2008 basic lease revenue is expected to increase approximately 15% over 2007. 2008 sales revenue is expected to be comparable with 2007, of which roughly 50% is already subject to letters of intent or contracts.

As a result, the mix between lease revenue and sales revenue will continue to shift toward lease in 2008, as well as future periods, which will further improve the quality of earnings. The average cost in debt in 2008 is expected to be around 5.5% and the 2008 tax rate is also expected to be slightly lower than 2007.

Lastly, the return on equity is still expected to be around 20%. We expect to go into more detail for 2008 and beyond at our Investor and Analyst Day scheduled for April 3rd. To finish up I will just add that we are very proud of our 2007 results.

Thanks for listening in and I'll turn it back over to Klaus Heinemann.

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

Thanks so much, Keith. I hope this shows you a little bit why we are so optimistic about the business model that AerCap has chosen and its performance capability. It can perform well in all environments and we are, therefore, looking forward to another strong year of performance in 2008. We are also looking forward to the opportunities on the investment side that the financial turmoil that we're seeing in the markets will provide during 2008. Our business model is geared, our liquidity is geared towards taking advantage of that and that's why we are very optimistic about 2008 as far as our financial performance is concerned.

With that, I am happy to open up to the Q and A now.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Michael Linenberg of Merrill Lynch.

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**Alex Loanzon** - *Merrill Lynch - Analyst*

This is actually Alex on behalf of Mike. I just had a quick question regarding your debt obligations in 2008. Can you just remind us of that figure?

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

Good morning, Alex. I'd pass it over to Keith.

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

I'm sorry. I didn't hear the question.

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

Debt obligations in 2008?

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

The debt obligations in 2008 approximate-- the repayment of debt approximates \$300 million.

**Alex Loanzon** - Merrill Lynch - Analyst

\$300 million, okay. And, Keith, could you just remind us of the amount available under your UBS credit facility, how much is still left?

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

Well, it's a \$1 billion revolver and almost all of it is undrawn at this point.

**Alex Loanzon** - Merrill Lynch - Analyst

Okay and then just finally on the ECA side, is that still-- is that partially withdrawn or--?

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

Well, we have some available funding yet from the ECAs and more than likely we're going to use that available funding for the A330 orders that are coming in fourth quarter of 2008 and 2009.

**Alex Loanzon** - Merrill Lynch - Analyst

Okay great. Thanks a lot and great quarter.

**Operator**

Gary Liebowitz of Wachovia Securities

**Gary Liebowitz** - Wachovia Securities - Analyst

Keith, can you just go over again the aircraft that you have LOIs for? I heard 6 A320s and can you just go over the rest of that list? And also, could you tell us for the ones that have been LOI'd or contracted how the gross margins look?

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

Yes well, we have signed agreements or letters of intent for the sale of 6 A320 aircraft, 2 Fokker 100 aircraft, an A300 Freighter, an MD83, a DC8 and the margins, again, are going to be in the range between 20 and 25%, so I think our average for 2007 was around 23%, so we expect that to be comparable in 2008.

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**Gary Liebowitz** - Wachovia Securities - Analyst

All right and these A320s are the ones that are in your portfolio already?

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

Yes.

**Gary Liebowitz** - Wachovia Securities - Analyst

There's been some talk that lease rates for sort of the intermediates single aisle family of aircraft like A330s have seen a real rebound, in part due to 787 delays and I guess you're placing some of those for 2010 already. Klaus, are you seeing sort of better than expected lease rates on those relative to maybe single aisle planes?

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

Yes that is correct and we are not only placing 2010, we are also placing 2011 now and there is very clearly a correlation between the 787 delay and the demand for the A330 because the A330 when it comes to current state of the art fuel efficient aircraft, it's the closest match to the 787 and what really starts to hurt the 787 is not the delay as such but the uncertainty as to the exact future delivery date that Boeing can commit itself to with the various airlines because that is starting to cause problems for their fleet planning horizons and that's allowing us to enter into significant discussions to look at the A330 as an alternative.

**Gary Liebowitz** - Wachovia Securities - Analyst

Okay and one more before I get back in the queue, I think you mentioned \$1.8 billion of CapEx for '08 and '09. Does that include pre-delivery payments?

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

No it does not. Pre-delivery payments would be in addition to that.

**Gary Liebowitz** - Wachovia Securities - Analyst

About \$800 million?

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

No the pre-delivery payments are around \$600 million for the two years.

**Operator**

Gary Chase of Lehman Brothers.

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

Just a quick nit before I get to my real question here, Keith. Do you happen to have what the cost of goods sold was on aircraft sold during the quarter and if not, could you maybe distribute that following the call just so we know what the aircraft margin was versus AeroTurbine.

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

Yes we're happy to do that. We'll distribute it.

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

The-- when you guys think of this \$1 billion target, how much of that, Keith, is new aircraft on the order book?

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

Well, in both 2000-- well, 2007 and 2008 it was between \$500 to \$600 million was coming from the order book itself.

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

Okay so we were thinking around 600 million for 2008. You had I think, if memory serves, a couple hundred million in deals kind of spill over from the fourth quarter into the first, so is it safe to think of a couple hundred million dollars is sort of what you're targeting to do at some point during the year that you don't really have your arms around at this stage?

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

That's right. That's right. I mean if you think about the \$1 billion I mean the profile is likely, like that \$600 million is committed already. A significant portion is the order book itself-- excuse me, while \$700 million is committed. And then also AeroTurbine is around \$150 to \$200 million typical purchases per annum and then the remainder would be additional aircraft purchases like you said, roughly \$200 million that we don't have yet an idea where that's going to come from.

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

That-- if I could just add this to Keith's remark, discussions that are currently going on about potential acquisitions-- and these are typically acquisitions not from airlines but liquidity driven acquisitions from other financial institutions-- show us that because these discussions involve packages of \$400 to \$500 million worth of aircraft that the \$200 million really is if any of these discussions comes to fruition an easy target to reach and exceed.

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

Okay so-- because I thought we heard Aircastle last week sort of talk to that part of the market still being a tough environment and still very competitive and so maybe what I would ask you, Klaus, is in light of what you just said do you think the terms are still as economical as they have been for you historically?

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

I think they are actually not as-- not only as economical that but they are even improving. But what you need in order to execute on them is cash on the ready. To give you one example, during the first quarter this is something we closed in January. We bought 2 aircraft for just under \$80 million. The requirement of the financial institution was we need cash in the escrow account on the 21st.

As you know, our warehouse facilities as those of our competitors are collateralized facilities so it took us a few days to take that into the warehouse, so for anybody who hasn't got \$80 million of cash in the bank account, this would have been an opportunity with excellent economics that you can take avail yourself of. That is one of the reasons why we maintain the cash position because some of these or practically all of these opportunities at this moment are liquidity and not industry driven and therefore, require the ability if need be to force bigger discount from the seller by being able to put cash on the table at very short notice.

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

And then just one last one, of the billion that you're talking about in sales revenue for next year, should we assume a different mix or composition between aircraft and engines and parts or is it going to be pretty similar?

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

It should be pretty similar. It's half or roughly \$0.5 billion for 2008.

**Operator**

John Stilmar of FBR Capital Market.

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

John, are you on the line? He is not. Could the operator give us the next question then please?

**Operator**

Gary Liebowitz of Wachovia Securities.

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

Order mark-to-market impact would be you know, given we've had about 150 basis point decline since the start of the year?

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

Gary, could you repeat the question because we couldn't hear most of it?

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

I am just curious if you have a sense what the mark-to-market charge might be in the first quarter, given the already declining LIBOR rates we've seen year-to-date?

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

It will probably be similar to what you saw in the fourth quarter.

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

Okay and also, Klaus, I think last quarter you talked about maybe some interesting opportunities coming out of the Chinese JV. Do you want to break any news today?

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

Well, I have come off our annual accounts approval Board meeting at 4 o'clock in the morning New York time with our Chinese partners and the JV has closed its first financial year 2007 with a profit, which for Chinese joint ventures is unusual. And also importantly, as I indicated earlier, we were trying to achieve delivery positions that the Chinese government had contracted with Airbus for 2009 and 2010. The joint venture was successful in that. It got an assignment of 12 of the aircraft were initially geared, aimed towards the Chinese airlines. During 2009/2010 all of these aircraft are already placed by the joint venture, so I am very pleased with the progress that the Chinese joint venture is making.

**Operator**

Andrew Light of Citigroup.

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

When you say you placed your new orders for '08 and '09, do you also have any lease expiries that need to be wrapped up or is that done as well?

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

Yes 2008, as far as lease expiries are concerned, is done. There is nothing left open. 2009 we have around 5% of the portfolio that we are still in discussion with, so that is around 15 aircraft that are still open but all of those are involving active discussions either to sell or to extend or to find a new lessee. At this moment most discussions, quite frankly, are simply extending existing leases with the same client, which is from our perspective the ideal situation because it saves transition cost on the technical side.

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

And can I have a follow-up? On the Aircastle call I know the view there was that perhaps aircraft values would soften around 5% later this year due to relatively few transactions at the moment. Would you concur with that kind of order of magnitude? I've got a second final question. When do you think roughly you'd be in the market again looking to buy new aircraft or extend your new aircraft orders? Is the pricing that Airbus and Boeing are offering reasonable at the moment or is it unrealistic?

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

The pricing is reasonable and we have had discussions with both Boeing and Airbus. The pricing indications we have been given is reasonable. What is not so reasonable are the delivery dates. We are talking 2013/2014 onward. We are ordered until

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2012. My focus this year will be on investment opportunities that will come from the financial turmoil not on placing new orders because, quite frankly, the 2013-14-15 horizon for my taste is a little far out and I think there will be other opportunities that will give us growth and returns that are more attractive and more near term.

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**Andrew Light** - Citigroup - Analyst

And the outlook for used aircraft prices this year?

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

I think you will find a distinction this year between state of the art fuel efficient and not state of the art, i.e. previous generation aircraft not so fuel efficient. In the second segment I do expect a gradual weakening. This is one of the reasons why we have and are kicking these aircraft actively out of our portfolio. On the brand new state of the art aircraft I don't see any weakening whatsoever because the current inflation, i.e. escalation passed on by the manufacturers exceeds actually this 5% number. So I think you will find the market falling into two categories that might have a distinctly different performance.

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**Andrew Light** - Citigroup - Analyst

Thanks very much, very helpful.

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**Operator**

John Stilmar.

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**John Stilmar** - FBR Capital Market - Analyst

Congratulations on a great quarter. Just a quick question with regards to aircraft values in and of themselves and I believe Andrew touched on it, but as we start looking forward into the tail part of 2008 and even dare we say 2009, how should we be thinking about the margin going into sort of the latter part of '08 to 2009, given your sort of the cleansing of the older, less fuel efficient aircraft on one side that may avail yourself to a purchase opportunity? Shall we also be thinking about maybe a little bit weakness in the margin or how shall we be thinking about that in terms of the sale business?

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

Well, first of all, as far as 2008 is concerned because virtually everything is contracted and a great deal is already contracted on the sales side either, we know where the margins are and there is no deterioration. 2009 there's still a few open positions, all of which are under discussion with the market. None of them indicate a downward trend on lease rentals and, therefore, margins, so I do expect during 2008 and 2009 for the existing portfolio a widening of our margin because of the hedging policy that allows us to take the funding costs down while the revenue line will stay where it's contracted.

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**John Stilmar** - FBR Capital Market - Analyst

Absolutely a fair point and, Klaus, can you help me just provide a little bit more context with regards to the secondary market? When you talk about financial turmoil is it just a lack of buyers and if I am a willing seller is it the-- are the willing sellers selling by virtue of the fact of freeing up capital in larger financial institutions or what is the impetus for the selling of aircraft if there really is a lack of buying capital that's out there? It seems like-- can you help reconcile those two dynamics for me in sort of the tenor of really what is the secondary market and who really are the sellers here?

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

Yes well the willing seller that makes sense to us from purchase economics is typically a distressed seller, so it's a seller that has to sell for reasons of his liability side. It's typically a financial holder of aircraft assets and not an airline. That's where the distressed sales are coming from, so they are highly motivated.

**John Stilmar** - *FBR Capital Market - Analyst*

And my final question that comes back to liquidity in the debt market, as we-- you know, obviously insurance companies and some of the larger European banks have been a historical provider of debt capital. Has there been any change in the willingness to provide it? Obviously spreads have widened but base rates themselves have come down so your overall funding costs haven't really changed tremendously but I am curious as to the willingness to provide capital in the future. Obviously you guys have executed transactions and you have the export credit facilities. I am just wondering sort of your view about the broader market as a whole.

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

Well I give that to Keith in a moment to talk in detail about it but bear in mind the important factor here is AerCap has a historically always bifurcated its approach on the liability side, not only relying on the capital markets but also relying heavily on in particular the European banking market, so we have well established long standing creditor relationships with the European banking community. Keith?

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

And those particular relationships, the interest that we're seeing from those banks we really have not changed in that quite frankly I mean the appetite is as big as it always has been. I mean we're looking at a number of transactions, one connected to a capital market takeout, but European bank in the middle of a transaction, and we're looking at possible financing on some portfolio purchases. So, again, these banks have not-- their appetite has not dropped at all but obviously outside of these relationships outside of the European community there has been a more limited desire to finance the aircraft.

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

If I could just add something to that because we are not only focusing on the European side. We are also focusing on the Chinese side with the joint venture. The entire funding requirement for these 12 aircraft that the joint venture could acquire from Airbus are being satisfied at from a Western perspective below market margins from Chinese banks, so we are very actively also pursuing banking relationships through the joint venture and outside the U.S. and European arena.

**John Stilmar** - *FBR Capital Market - Analyst*

Great. Thank you all, gentlemen, and congratulations.

**Operator**

Gary Chase.

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

Keith, the SG&A line for the fourth quarter looked like kind of an uptick from the third when you exclude the-- even when you exclude the stock based compensation, which I actually don't think changed much from the third to fourth. Are we on kind of a new run rate or was there something in the quarter that moved that expense higher than it should be looking forward?

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

Yes there's a-- in the full year 2007 there is about 10 million of SG&A that I would call one offs and non-recurring probably, well most of it relating to the stocks implementation and of that 10 million almost half of it occurred in the fourth quarter itself, so the fourth quarter would not be a fair representation of the run rate of our costs going forward.

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

In addition to that the fourth quarter typically reflects the annual bonuses, which--

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

And the bonus financial as well.

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

Performance were not exactly on the low side.

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

Well, that's the high class problem I guess. The other thing I wanted to ask is we read a lot about the MBIA and such and in the past you've said they were willing to or that you had had discussions suggesting that they might be willing to continue partnering with you looking forward. I notice when you talked about that you said that you are the largest issuer outside of the wrap market. Is the plan looking forward that you'll not be able to access that or is there-- or are you still having discussions that suggest that might be an economical option for you?

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

Well, I think under the current circumstances a wrap provider is not going to bring a whole lot of value to a capital markets transaction. Where this goes in the future it's anybody's guess, so currently if we were going to try and execute a transaction, our view is that it would be through an unwrapped deal. And with the equipment that we have and with the diversification that we have with lessees and such we think we can get to a reasonable rating that would be an attractive package on an unwrapped basis.

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

If I could just add to that, MBIA obviously in our case has been a wonderful partner to us in the 2007 May 1.7 billion bond issue. By the way this bond is performing extremely well. When it comes to prospectus repayment versus actual repayment, we're way ahead of prospectus here. So, while I hope very much that at some point in time the insurance wrappers will become the supportive business partner that they have been,, I have to agree with Keith at the moment. At this moment we simply cannot count on them being there and therefore we are pursuing alternatives but I haven't given up the hope yet that at some point

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in time sort of they can use the expertise here again because when it comes to wrapping our bonds there's nothing wrong with the risk in that.

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**Operator**

Jamie Baker.

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**Jamie Baker** - *JPMorgan Chase & Co - Analyst*

The slide on I guess it's page 19 shows a fleet value in excess of book of 1.5 billion but that includes some level of undelivered aircraft, so presumably some assumptions as to how values hold up in the future. Of the 1.5 billion could you break that down between aircraft that you've already leased out relative to book versus the undelivered aircraft portion?

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

It's I would say roughly 700 million of the 1.5 is based on delivered.

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**Jamie Baker** - *JPMorgan Chase & Co - Analyst*

Okay excellent and secondly, again on the undelivered aircraft clearly it's a positive to have that pipeline but only if your purchase economics remain below what you ultimately lease the aircraft out for and I am sure you're not going to share with us what your purchase economics were but can you give us a feel for just how bad fundamentals would have to get, how far aircraft values hypothetically would have to fall before you were buying assets at a higher price than what you could actually lease them out for and generate a return?

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

They would have to fall further than historically inclusive of post 9/11 they have ever fallen for new state of the art aircraft.

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**Jamie Baker** - *JPMorgan Chase & Co - Analyst*

Excellent, excellent and finally, and I guess this echoes part of your opening comments, but one of your competitors has turned particularly cautious in regards to their ability to increase dividend payments and to grow accretively in the current economic market. Just given the economic conditions and the potential impact on leasing fundamentals from a weakening economy, can you just reiterate how AerCap kind of used this interplay between the economy and the leasing business? I know you touched on it briefly in your opening remarks.

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

Well, it is first of all there is a linkage. It is not so much with the economy, it is with the interest rates because at the end of the day lease rentals correlate with interest rates. So if the Fed takes the interest rates down, if the Fed therefore influences the long-term swap rates to come down it does have an impact on lease rentals because lease rentals do, with a time lag, correlate to it. That is why the hedging policy is so important because if I can preserve my margin, which I do because I hedge with caps and, therefore, I come down with my interest cost actually ahead of the lease rentals being impact, so I take advantage of the time lag here. Under those circumstances the impact, if anything, is a positive one but it completely depends on your hedging policy, so if we would have swaps I would share the views of my colleagues because my margin would be under pressure.

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Hedging policy is really crucial here and we paid over the last 12 months of price effects and having explaining to you guys why we have the mark-to-market because we can't get hedge accounting.

**Jamie Baker** - JPMorgan Chase & Co - Analyst

Right, right.

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

Because we believe it's the right policy and Mr. Bernanke has proven us right.

**Jamie Baker** - JPMorgan Chase & Co - Analyst

Excellent. Thanks for that color. I appreciate it.

**Operator**

(Operator Instructions)

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

It looks like they're done, operator, right?

**Operator**

Yes, sir, there are no further questions in queue.

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

Good. Well, thanks very much everybody and we are looking forward to welcome you for our Investor Day in April later here in New York.

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

Thanks everyone.

**Operator**

Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.

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