

FINAL TRANSCRIPT

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AER - Q1 2008 AerCap Holdings N.V. Earnings Conference Call

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PRESENTATION

Operator

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

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

Good day everyone and welcome to the first quarter earnings call of AerCap. My name is Peter Wortel and with me today are Klaus Heinemann, AerCap's 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.

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Further information concerning issues that could materially affect the performance related to forward-looking statements can be found in AerCap's Earnings Release dated May 9th, 2008. A copy of the Earnings Release and conference call presentation are available on our website at www.aercap.com. This call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay.

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

Klaus Heinemann - AerCap Holdings N.V. - CEO

Good morning, everybody. I'd like to welcome you to the first quarter 2008 earnings conference call for AerCap Holdings NV. To start with our earnings per share, as usual adjusted for non-cash charges relating to the mark-to-market of our interest rate cap and stock based compensation for the \$0.71 for the first quarter. This gives us an excellent start towards achieving our ambitious 2008 EPS growth that we are targeting. More importantly, some of the fundamentals for the global aviation industry have now been affected by the turmoil in the financial markets, the slowdown in the US and higher fuel prices that we've seen over the last month and weeks and today. And we've already seen a number of the weaker airlines, mostly in the US, moving into Chapter 11, some of them actually ceasing operations right away.

Percent passenger traffic growth for the full year 2007 was at 7.4% but has now dropped to around 4.8% in early 2008. Airline revenue growth was 7.3% for the full year 2007 but is now expected to be below 5% in 2008. Airline financial performance improved significantly in 2007. However, the higher fuel prices and the US recession are expected to reverse a large portion of this improvement in 2008, especially for US based airlines.

Despite the issues, the industry as a whole is still expected to grow significantly, we assume in the 4 to 5% corridor globally. You'll have an important thing to remember that despite the headlines this is still going to be a growth environment, albeit slower. And again, on a global basis, IATA expects the global aviation industry to remain profitable, albeit at a reduced level.

For AerCap itself this more challenging environment represents an opportunity to demonstrate the built-in strength of our business model. Higher fuel prices and further delays in the delivery of new technology aircraft built from Boeing and Airbus continue to increase the need and demand for state of the art fuel efficient aircraft like those we have in our order book and that are available between now and 2012. This can be seen through our strong placement activity of our forward order book during the last three months and also importantly by our ability to swiftly deal with redeployment of the Skybus aircraft that we took repossession of during the last couple of weeks.

I am happy to say that all six aircraft have already been LOI-ed with new airlines as per today and we expect to put these aircraft back with the new clients into revenue services later this quarter. So that shows you really that situations like Skybus are situations that the AerCap platform is designed to deal with and it does deal with it also in circumstances like today.

On the remaining order book we are currently marketing remaining 2010, 2011 and 2012 delivery positions and we are encountering no change in global demand for these state of the art aircraft. All of our remaining order positions, inclusive of those in 2012 are now in discussion with airlines that we expect to lead to LOIs and lease contracts throughout the remainder of this year.

The strength of the AerCap business model is, therefore, clear. Through our purchasing activity we have created a portfolio whose cost is significantly below the values of these aircraft suggested by external appraisers resulting in our high leasing yields. Our hedging strategy through the use of caps instead of swaps protects us against rising interest rates but has allowed significant interest cost savings as the rates have decreased over the last quarter helping us to further improve our margins. Our decision to retain all earnings has given us independence from equity markets while allowing us to support our contracted growth during the coming years plus allowing for additional opportunistic purchases. Our access to financing needed for this growth

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remains robust at acceptable terms. We closed two more financing transactions in April, as we've announced earlier, and our other financing initiatives remain on track for the second quarter.

AerCap's strong operating performance during the first quarter 2008 was again evidenced through the completion of numerous aircraft and engine transactions. In the first quarter 2008 AerCap executed 39 new lease agreements or letters of intent, delivered 7 aircraft and 10 engines to lessees, purchased 19 aircraft and sold 8 mostly old aircraft. The number in our aircraft portfolio is now at 320. And our strong global distribution capability is achieved with more than 100 clients now in nearly 50 countries.

With that, I'd like to hand over to Keith Helming, our CFO, who will take you through the detail of the financial performance for the quarter.

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

Good morning everyone. I would like to run you through the highlights here of the first quarter of 2008 financial performance. Our total net income for the first quarter of 2008 was \$50.9 million. More importantly our net income excluding the non-cash charges relating to the mark-to-market of our interest rate caps and stock based compensation was \$59.9 million during this period, which was approximately \$2 million higher than the consensus estimate on this basis.

We had a negative mark-to-market again in this quarter because interest rates decreased further during the quarter. Net income in first quarter 2008 was lower compared to first quarter of 2007. This decrease was driven primarily by lower maintenance, sales and other revenue, which do not occur evenly throughout all quarters. First quarter 2007 had a much larger amount of these revenues than the other quarters in 2007.

Total earnings per share were \$0.60 in first quarter 2006 including all charges. Earnings per share were \$0.71 during this period excluding the previously referenced charges. Again, this amount was approximately \$0.02 higher than the consensus estimate on this basis.

The growth in our net spread was strong in the first quarter of 2008. Net spread, or margin, is the measure we discuss during our Investor and Analyst Day last month. This measure is the difference between basic lease rents and interest expense, again excluding the non-cash charges relating to the mark-to-market of the caps. During the quarter basic rents increased 7% compared to the same period in 2007. At the same time interest expense, excluding the non-cash charges, increased-- excuse me, decreased 11%. This resulted in a net spread of \$86 million in first quarter 2008 compared to \$73 million in first quarter 2007 and that's an increase of 18%.

Part of our basic lease rents relate to floating rate leases. The rentals on these leases decrease when interest rates drop. At the same time our interest expense decreases the same amount offsetting the drop in basic rents and keeping margins intact. In first quarter 2008 our leased assets grew 10% compared to the first quarter 2007. This growth in leased plus the benefit we receive from using interest rate caps are the key drivers behind the 18% growth in that spread.

The margin percent in the first quarter 2008 was 10.4% compared with the 9.7% for the same period in 2007. The improvement is primarily the result of the benefits received from using interest rate caps for hedging purposes.

Total revenue in first quarter 2008 was \$295 million and was lower compared to first quarter 2007. This decrease was largely driven by a lower amount of other revenue in first quarter 2008. Other revenue in first quarter 2007 included \$10.7 million relating to the elimination of a guarantee liability, which did not occur in first quarter 2008.

Total sale revenue in first quarter 2008 was \$143 million. The sale revenue relating to aircraft was 118 million and part sales totaled 25 million for the quarter. During the first quarter we sold one Fokker, 100 aircraft, a Dash 8, an MD-82, 737 300, an

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A330-200 and three A320 aircraft. The gain from sale of aircraft in first quarter 2008 was \$26 million compared to \$27 million in first quarter 2007.

AerCap's leasing expenses and SG&A for first quarter 2008 was \$41 million compared to \$37 million in first quarter 2007. These amounts exclude the cost for stock based compensation. Approximately one-half of the increase was a result of the higher Euro US dollar exchange rates. The other half in SG&A increases in first quarter 2008 was due primarily to costs relating to maintaining SOX 404 compliance plus other additional resources we had to add as a public Company.

Our blended tax rate for first quarter of 2008 was 8.3%. The tax rate on our aircraft assets was 8% and the tax rate on our engines and parts was approximately 14%. We do still expect the blended tax rate for the full year 2008 to be lower than 2007 but in the range of 10 to 11%.

AerCap's total assets have grown 14% in first quarter of 2008 as compared to first quarter of 2007. Total assets on the balance sheet are \$4.6 billion at the end of the first quarter of 2008. The number of aircraft in our portfolio is 320, including owned aircraft, managed aircraft and the aircraft on order, under contract or subject to LOI. The decrease in units since the end of the first quarter of 2007 is largely driven by the sale of Fokker and managed aircraft as part of our portfolio improvement strategy. The number of engines owned or under contract was 71 at the end of the first quarter of 2008.

We have \$1.2 billion of committed purchases of aviation assets for the full year 2008 of which 277 million closed in first quarter 2008. The number of aircraft purchases for full year is expected to be 50, including the purchase of a 21 aircraft portfolio which is subject to a signed letter of intent. The portfolio management metrics of AerCap's leased portfolio remains solid. The utilization rate was 99.5% for first quarter of 2008. The yield generated by our aircraft lease portfolio was approximately 18% again for the first quarter of 2008.

The average term of new aircraft leases entered into during first quarter 2008, inclusive of letters of intent, was 116 months and the average term entered into during first quarter of 2008 on our existing portfolio was 70 months. And the amount of lease revenues for 2008 that has already contracted is currently at 110% of the actual amount in 2007.

At the end of first quarter 2008 AerCap's debt balance was \$3 billion and our debt to equity ratio was 3.0 to 1. During the quarter our book equity amount exceeded the \$1 billion mark for the first time. In the quarter the average cost of debt was 5.4% and, as you can see, over the past 12 months our funding costs have decreased an average of 150 basis points across our entire portfolio. Again, this decreasing cost of funding is reflective of decreasing interest rates and the use of interest rate caps for hedging purposes.

AerCap's cash balance at the end of the first quarter 2008 was \$197 million excluding restricted cash. Operating cash flows, which is reduced for interest costs, were \$69 million for the first quarter of 2008. During the month of April we closed a total of \$338 million in new financings relating to the pre-delivery payments we make in our forward order aircraft. Including these new financings the available lines of credit aggregate approximately \$2.2 billion. This available financing includes revolving lines of credit, funding from the European export credit agencies that is available for our purchases of new aircraft from Airbus and the financings for pre-delivery payments on our order book.

Okay I'll finish up now with an update on the outlook for 2008. Committed purchases of aviation assets for the full year 2008 are \$1.2 billion. The 2008 basic lease revenue is expected to increase approximately 12% over 2007. The decrease from the 15% previously discussed is a result of lower rentals on floating rate leases. Again, the lower revenue amounts on the floating rate leases is completely offset by lower interest expense. We still expect 2008 sales revenue to be comparable with 2007 and the average cost of debt in 2008 is expected to be around 5% or lower and the tax rate, as I mentioned before, is expected to reach 10 to 11%. Return on equity is still in and around the 20% level.

Okay those are the financial highlights for the first quarter. Thanks for listening and I'll turn it back over to Klaus.

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

Thanks, Keith. As you can see, we feel very comfortable with the first quarter financial performance and, as I said at the beginning, we believe that this is a good start into the EPS growth for 2008 that our Board expects.

And with that, I'd like to open up the Q and A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Gary Liebowitz with Wachovia Securities.

Gary Liebowitz - *Wachovia Securities - Analyst*

Klaus, at the April 3rd Investor Conference you were talking about a handful of your customers that you would put on I guess a watch list. Can you tell us if that list has gotten longer over the last six weeks or so and then can you specifically address Asiana Airlines, which is reportedly in some trouble with given where fuel prices are?

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

Well, first of all, the watch list is not growing. The watch list has reduced because of our successful repossession of the Skybus aircraft. These aircraft have been taken well short of the 60-day Chapter 11 time limit into our possession there in our Goodyear facility at this moment. They are all placed with new lessees and we have six executed LOIs that we are transitioning into lease agreements at this moment and these aircraft are being prepared for new revenue service with their new airlines.

With respect to Asiana, I am not quite sure where this headline comes from but Asiana is one of our oldest clients. They have had a completely flawless payment record for over 10 years with us. They are in no financial difficulty whatsoever and the only remark that came from the President was probably nothing else but a reminder to the Union that they should not get over excited but there is no situation that we are aware of in Asiana that would give us a reason for concern. As a matter of fact, you might have seen that Asiana just concluded an additional purchase of 777s with Boeing as well. Asiana is actually within the Korean environment and the stronger performance flag carrier of the two.

Gary Liebowitz - *Wachovia Securities - Analyst*

And then one or two for Keith, Keith can you address the increase to the accounts receivable compared to the end of last year. It seemed like a pretty significant jump and was that mostly at the AeroTurbine level or was that in the core leasing business?

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

Yes the increase was attributable just to one thing. We closed an aircraft sale late on March 31st, all the legal documents and the sale was effectively completed but the money didn't hit the account until April 1st, so that's the receivable that you see on March 31st.

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Gary Liebowitz - Wachovia Securities - Analyst

Okay and then one more for you, can you estimate the impact of the lower interest rates on your basic lease rents in the quarter?

Keith Helming - AerCap Holdings N.V. - CFO

In terms of dollars?

Gary Liebowitz - Wachovia Securities - Analyst

Yes.

Keith Helming - AerCap Holdings N.V. - CFO

It's about \$2 million, 2 to \$3 million.

Operator

Michael Linenberg from Merrill Lynch.

Michael Linenberg - Merrill Lynch - Analyst

Just a clarification on the CapEx, I think Keith you indicated that the plan for this year is 1.2 billion.

Keith Helming - AerCap Holdings N.V. - CFO

Right.

Michael Linenberg - Merrill Lynch - Analyst

And, of course, up to this point you're right there, 1.236 with the-- if you close the TUI purchase. Now that said though I think you've indicated that that TUI purchase you envision it being a 50/50 JV with a partner, so should we think about that even if that deal is closed that there will be additional CapEx in 2008 or are we basically done with the TUI purchase?

Keith Helming - AerCap Holdings N.V. - CFO

Well, first of all we haven't mentioned the name of any portfolio. It's a 21 aircraft portfolio and that's really all we can talk about at this point, but with regard to the purchase it's included in the 1.2 billion. At the moment we're suggesting that we're completed for the full year. We'll meet our plans. We'll meet our targets with the 1.2 but obviously we find additional purchases that make sense to do, we find new capital to go with it, we would do it obviously.

Michael Linenberg - Merrill Lynch - Analyst

Okay good that's helpful and then just my second question on Skybus as of the last information available it looked like that there were 4 airplanes that you were on the hook for but then I think maybe sort of in the midst of the shutdown there was a 5th one coming in. Can you talk about just the process, and this is both for Keith and Klaus? How many months do you think

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that those airplanes are off lease, the potential remarketing costs? What are the remarketing costs maybe per aircraft and maybe even lease revenues associated with them? Just at least ballpark, so we can kind of model the potential foregone lease revenue and the fact that there may be some associated costs in the June quarter out with remarketing these airplanes.

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

I am happy to do that. I mean there are 5 aircraft involved. And one aircraft would have been delivered in June but we terminated that lease because they triggered a financial covenant already earlier before they filed so 6 aircraft had to be remarketed. First of all, as I said, all of these placement discussions have been concluded and LOIs have been executed. And rental levels, by and large, are at the same level we had with Skybus, no higher, no lower. Individually 2 are higher and 4 are-- 2 are lower and 2 are practically at the same level but for all 6 together the rental levels are no different from the ones we had contracted with Skybus.

With respect to down time, we here our Goodyear facility comes in because we are in complete control of prioritizing these aircraft and putting them back into the revenue service. We anticipate at this moment that down time and remarketing costs should not materially exceed the security deposits we hold. That's our current anticipation.

Michael Linenberg - *Merrill Lynch - Analyst*

Okay that's super helpful. Thanks, Klaus.

Operator

David Chamberlain from Oppenheimer Capital.

David Chamberlain - *Oppenheimer Capital - Analyst*

That was my question. Thanks a lot.

Operator

Andrew Light from Citi.

Andrew Light - *Citigroup - Analyst*

Just a clarification on Skybus. How do you count for the revenue? I mean, if you receive the revenue from the security deposit you just put those regular revenue or was it going to be like a one-off item sometime after the quarter?

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

Yes actually the security deposit would be treated as effectively lease revenue. For maintenance reserves that we hold, that would be basically offsetting maintenance costs.

Andrew Light - *Citigroup - Analyst*

And Genesis has also had a couple of planes with Skybus and they took a \$1 million charge I think related to maintenance. Would that be a similar figure you'd have in mind?

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

No again, with the down time and the cost that we expect as result of the Skybus situation in second quarter the security deposits and maintenance reserves that we have will effectively offset it, so it should have no income impact in second quarter.

Andrew Light - *Citigroup - Analyst*

And there was nothing in first quarter because these charges are in the first quarter.

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

Sorry?

Andrew Light - *Citigroup - Analyst*

There was no charge in the first quarter because Genesis--

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

No, no. Well, they were at Skybus or ATA?

Andrew Light - *Citigroup - Analyst*

Good question.

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

I think it was ATA.

Andrew Light - *Citigroup - Analyst*

Okay fair enough. I've got a couple more questions. Can you just let me know how many planes you have yet to place for '09 and '10 both in the lease expiries and new deliverers?

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

On new deliveries 2009 all is placed, 2010 about two-thirds are placed. On existing rollovers I don't have the exact number because they-- we do not engage clients typically that early but I would think it is a number that would be certainly less than 5% of the portfolio, i.e. sort of 10 to 15 aircraft that are still open in 2009. In most of those cases these include aircraft that actually will not go out to further leases but that will either be sold at the end of the lease or importantly will go to Goodyear for parting out. Those aircraft that are relatively new are mostly done. To just give you one example, we had a large UK tour operator where we had 4 A321s, so that was a large exposure in the portfolio. They expire in 2009. They were all renewed with the same lessee for another 6 years to 2015 a few weeks ago.

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Andrew Light - Citigroup - Analyst

Okay, just a final one on you say you're comfortable with Asiana and so I think you've got an even bigger exposure to WizzAir. Are you also as comfortable with that, particularly given I see that Sky Europe for example has some liquidity issues recently?

Klaus Heinemann - AerCap Holdings N.V. - CEO

Yes. I mean we have no reason to believe that WizzAir has any liquidity issues, quite to the contrary as its competitors are rapidly leaving the market in Poland as well as Hungary and they are achieving market shares in those markets at this moment that otherwise you would only expect flag carriers to do. I mean WizzAir, for example, has 40% of the Polish market in Poland as well. It's 50 million people and so these models here in Europe, just like Ryanair tend to perform reasonably well also in a high fuel cost environment.

Operator

Patrick Rathje with National Securities.

Patrick Rathje - National Securities - Analyst

Yes this is for Keith or Klaus, it doesn't really matter. If you can try to clarify because I am mostly representing this to a big base of retail people, the decision for AerCap to obviously to be a non-dividend paying Company, now where and when would you suggest that I could expect to start looking for that particular value of not paying out the dividend? I love the story but I can't really find it in the price of the stock. Could you tell me, give me a little bit of an idea where I should start looking for that because I compare it to the competitors that are out there that are paying the dividends and they are good questions. I am glad I will be able to ask them from you. Thanks.

Keith Helming - AerCap Holdings N.V. - CFO

Well, I mean in terms of where you'll see the benefit I'm not sure exactly what you're implying by that but what we talked about last month in our Investor and Analyst Day is that we have a lot of contracted growth over the course of the next 4 years and we have significant amount of the financing effectively underway and we feel very confident that most of that will be completed shortly. So what that indicates and what that suggests is that our earnings per share growth over the next 4 to 5 years will be around 15%, 10 to 15% so with continued growth in earnings and continued performance longer term we would expect that to be represented in the stock price.

Operator

Gary Chase with Lehman Brothers.

Gary Chase - Lehman Brothers - Analyst

I wanted to just sort of check your thoughts right now on where the secondary market is. You know the situation at least for some airlines is looking a little more grizzly. Have you seen any nervousness in some of the smaller players or any opportunities that an accelerating opportunity set in terms of ability to acquire used aircraft or existing portfolios?

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

Well, the answer to that is yes. The market is getting more nervous. Some selling pressure is starting to show but it is starting to show exactly where we expected. You may recall that at the Investor Day I said I expect with higher fuel costs and recessionary impact a bifurcation between different aircraft types, so where we see a specific softening in the market and purchase opportunities starting to arise is at the 737 classics market.

On state of the art existing generation narrow bodies or wide bodies there is no sales pressure and if somebody has to sell for liquidity reasons, these transactions tend to go pretty damn close to full market price. But on older classics we are starting to see pressure. We are holding back here a little bit because we believe this pressure will build over the year and prices will come down further. So it will probably be into the third quarter before you see us taking opportunities there predominantly for AeroTurbine and Goodyear.

Gary Chase - *Lehman Brothers - Analyst*

And can you give us a sense, Klaus, of what order of magnitude we're talking about? How much have things changed in some of those?

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

Well, the precursor is always the lease rental development and if you look at lease rental development and you take a 15-year plus age 737 400 you know about 6 months ago that would have received a rental level of around \$160,000 per month. This is now more in the neighborhood of \$120,000 per month, i.e. a 25% decline. I would expect this decline to be mirrored in current market values, once with the usual time delay there is established, and I expect this to continue, so I think we could expect in this arena market value declines that exceed 25%. But, as I said, I think there is some further pressure to come, especially as US legacy carriers increasingly phase out classics and our preferred strategy here is to hold our horses for a moment and see what happens in the third or fourth quarter.

Gary Chase - *Lehman Brothers - Analyst*

And could you just give us a sense as well about you've taken down a portfolio of these 21 aircraft that you referred to. How do the economics of that transaction compare with what you've been able to generate historically in the secondary market?

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

Well, first of all this portfolio contains an important quantity of 737 800s. As you know, there was an imbalance in our portfolio because of the history of AerCap towards Airbus, which management has always tried to address. This is an excellent opportunity to address that and to create a portfolio of 737 800s that together with previous purchases we've made will then exceed 20 aircraft, so it's a nice portfolio in its own right but the rental yield that we expect on this one sits within the range that we have for the totality of the portfolio.

Gary Chase - *Lehman Brothers - Analyst*

And then one last one if I could, you know when you talk about things like an ability to offset declining values in lease rates or I don't know, maybe some of it's even built in contractually with interest rates. That sounds good for current earnings but I am just wondering you know because there's also going to be a time you've shed portions of the flow that you had aside from brand new aircraft and there were at least at some point you had indicated there's always a point in the cycle where you want

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to sort of rebuild the portfolio too. Sounds like we're not there yet because all of the change in values is really just a function of rates. Is that fair or--?

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

I think that that is fair at this moment but we do anticipate that the market will get a little bit more edgy, especially for out of production aircraft, but we are not quite there yet.

Gary Chase - *Lehman Brothers - Analyst*

Okay I appreciate the color, guys.

Operator

John Stilmar with FBR Capital Markets.

John Stilmar - *FBR Capital Markets - Analyst*

Klaus, it's a question more for you. As we've seen a lot of the problems and airlines have been concentrated at least to date in the United States, are you seeing a geographic difference in ability to place aircraft such that I mean are there regional differences that make it easier or harder to place aircraft today?

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

Well, there are very clearly regional differences in performance and, as I've said before, and one has to be careful not to assess the global aviation market through the eyes of the domestic US market, which has its own specific set of issues. For example, all Skybus aircraft we refer to earlier have been placed outside the United States, 2 in the European arena, 2 in the Middle Eastern arena and 2 in the Caribbean arena. So outside the United States and there is much less worrying picture and a much greater ability of airlines to pass on higher fuel costs. Please bear in mind that even the big European legacy carriers, the Air France's, KLM's, Lufthansa's of this world had good 1st quarter results. For example in the case of Lufthansa that were record results so we are not talking exactly about a recessionary impact in these markets and some of the markets, especially some of the emerging markets in Eastern Europe and in Asia, continue to grow quite significantly, so it's really a diversified picture region by region and the US should not be taken as a yard stick.

John Stilmar - *FBR Capital Markets - Analyst*

Wonderful and then in terms of the US, well maybe not US airlines but clearly as revenues come down and profitability comes down domestically and maybe with energy prices where they are maybe airline profitability is coming down according to IATA, does that actually present more of an opportunity for the leasing business in and of itself because now part of the value proposition that you offer is capital, which may be a little bit more scarce in the airline industry?

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

Yes that is correct. I also listened to what John McMahon had to say in his earnings call over this one at Genesis and I agree with him that as airlines are more cautious about their cash position, which they are, they tend to look at alternatives to replace or expand capacity that is cash neutral.

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John Stilmar - *FBR Capital Markets - Analyst*

Great and then of the last question and maybe it's just a little technical but it has to do with burn rates or fuel efficiency in and of itself and under today's obviously the fuel efficiency percentages that you sort of stated historically was around when oil and energy was-- or oil prices were around \$80 to \$90 a barrel. Now as we're up in \$120 a barrel do you have any sense for what the differential is in fuel efficiency or profitability between sort of the A320 or modern fuel efficient and the Boeing modern fuel efficient aircraft versus the classics and even the MD80s are sort of the lower grade quality.

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

We have not recalculated it since we've shown those numbers for \$120 but obviously what you should expect is that the less fuel efficient the model the more amplified the issue, so I think we gave you on the MD80's a number at the time of about 1.8 million in additional fuel burn per aircraft per year. I would expect that this number has now gone past 2 million, which is the reason that this aircraft is now in its final days and years. And on the classics importantly, what you're starting to see that a rather minor burn disadvantage is now turning into a significant one, which I think is the key reason why the classics are starting to come under pressure.

In addition to that, you obviously also see and recently in the US you saw that in the Southwest situation that a number of [Ad's], i.e. manufacturer prescribed inspection and maintenance requirements, as you would expect for older aircraft, tend to increase and that also at the same time increases maintenance cost. But we haven't re-quantified it. We will probably do that for our next presentations and re-run the numbers for \$120 per barrel but, as I said, generally simply think of it of amplifying the issues that we've stressed before.

Operator

[Michael Cohen] from [Senova Capital].

Michael Cohen - *Senova Capital - Analyst*

In your investor package back in late March or early April you had included a breakdown of the fleet and you broke it down as well by net investment value. Could you quantify for us about approximately how much of the portfolio you would deem to be sort of modern or fuel efficient and how much of what percent of the net investment value of the Company you would deem to be not fuel efficient and how you would see that changing over time?

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

Well, I don't have all the specific aircraft in front of me but I'll take the classic. I mean we did calculate the net book value and the impact on revenues on the classic side and that's about 3%, so it's a relatively insignificant amount of the portfolio today and, of course, we have our order book delivering this year and over the course of the next three to four years, so that's going to be the predominate portion of our portfolio in two and three years, so it's going to be a very, very high percentage of our total portfolio that is state of the art fuel efficient aircraft.

Michael Cohen - *Senova Capital - Analyst*

Sure I mean but just sort of looking at sort of the deck I mean what would you consider I mean because within your 320s I suppose some of them could be newer 320s and some of them could be older 320s. Should we assume that all of those are considered fuel efficient?

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

Yes the answer to that is yes because while there are marginal differences with the sort of upgrades, the fuel efficiency differential between the oldest family member and the youngest family member you're talking single-digit percentages while if you do a generational jump like from the classics to the NGs you're talking about a 20, 25% differential, so the differential between the oldest A320 and a brand new one delivered now is far less significant than between a previous model and the A320.

Michael Cohen - *Senova Capital - Analyst*

Okay and I mean are you guys working aggressively right now to try to continue to sell off some of what you would deem the sort of less fuel efficient pieces, especially if it's under current lease agreements?

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

Well there because I mean our exposure is so minimal to the classics now that what we are doing here actually and you will have also seen this on the MD80s that we are actually starting because those that we have in the portfolio will simply go into Goodyear and will be parted out at one point in time. Please bear in mind that the spare and spare engine demand is counter cyclical to what happens with the classics, for example, at this time. And it's very logical why that is because as everybody, every operator starts to phase out the trend obviously they stop to do full performance restorations on the aircraft that they only anticipate to use for another two or three years.

And, therefore, they start to focus much more on for example leasing in engines rather than doing a full performance restoration on two engines on a single aircraft that will set them back \$5 million, which is good for AeroTurbine or they will buy spares if they need them that are not brand new from the OEM but that are used spares because again it doesn't make sense for an aircraft that has only two or three years' life left to put a brand new spare in. Therefore, they have actually a sweet spot at this moment where these aircraft produce superb revenue on the spare side and on the spot engine lease market i.e. AeroTurbine's business and, therefore, those that we have are much more likely to go into part out at the end of the lease than being sold.

Michael Cohen - *Senova Capital - Analyst*

Great thank you for the detailed answer.

Operator

(Operator Instructions) There are no further questions. Are there any closing remarks?

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

Great. Well, thank you very much everybody and hope to talk to you soon. Thanks for joining the call today.

Operator

Thank you for participating in today's conference call. You may now disconnect.

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