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AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

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May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

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PRESENTATION

Operator

Good morning, my name is Lakeesha, and I will be your conference operator today. At this time, I would like to welcome everyone to the AerCap First Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. (Operator Instructions). At this time, I would like to turn the call over to Mr. Peter Wortel, Vice President of Investor Relations. Sir, you may begin your conference.

Peter Wortel - AerCap Holdings N.V. - VP of IR

Thank you very much. Good day, everyone. Welcome to the 2010 First Quarter Results Conference Call. With me today are Klaus Heinemann, the CEO, Keith Helming, the CFO, and Gus Kelly, CEO of AerCap Inc.

I would like to mention that after this conference call, instead of hosting a group lunch to discuss the results, as we usually do, we will instead host an investor and analyst day presentation at the New York Palace to review strategy and execution for both Group and divisional levels for 2010 and beyond.

The presentation given there will be webcasted and slides will be made available via the website shortly before the start of the lunch, around noon New York time. More information regarding this event is contained within a registration link in today's earnings press release, and can also be found on the website.



May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

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 performance related to forward-looking statements can be found in AerCap's earnings release dated May 7, 2010. 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. I'll now turn the call over to Klaus.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Thank you very much, Peter and good morning and thank you for joining us for AerCap's 2010 First Quarter Results Conference Call. We're happy to report a strong set of results. There is now clear evidence that the market is recovering, and our robust performance during the economic crisis has left us well positioned as we enter into a new cyclical upturn for our industry.

During the first quarter of 2010, our revenues increased by 75%, a clear indication that the aircraft trading market is regaining strength and that liquidity has entered this particular segment that is also important to AerCap for our continuous effort of portfolio optimization.

Our net profits ex-items grew by 48%. Importantly, our cash position increased by 38%, despite the fact that, as you know, we are going at this moment through a very ambitious Capex program. And our lease portfolio grew by 71% to US\$7.2 billion during the last 12 months.

For the remaining quarters of this year, we have further portfolio growth of US\$1.3 billion contracted and placed, which will bring our total lease portfolio to a roundabout US\$8.5 billion by year end, but Keith will go into those numbers during the Investor Day in some more detail.

Our net spread, which is the margin earned on our leased assets after interest expense, was US\$133 million for the first quarter, representing an increase of 18% over the same period in 2009, highlighting our ability to deliver profitable growth in every environment. We're also witnessing continuous growing airline traffic volumes and yields, as well as a material improvement of aircraft trading activities as indicated by our completion of five aircraft and three engine sales during the first quarter alone.

Demonstrating that there is now growing liquidity in the market, this is particularly true for zero to five year old narrowbodies and mid-sized widebodies, which form the core of AerCap's portfolio. I should add to this, this is not true yet for old out of production aircraft where we see a continuation of a lack of trading liquidity.

We have, as you know, a globally diversified client base, and we are materially present in the main areas of market growth. During the first three months of 2010, we took delivery of a record number of 12 aircraft, which underlines the capacity and solidity of our operational franchise in dealing with a Capex program of that size during a single quarter.

We are witnessing a market recovery among our emerging market clients in Asia, Latin America, Russia and India, all markets in which we are materially represented. We are also witnessing improvements among most of our low cost carrier clients, no matter where they are in the world, and in particular also now in the North American market.



May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

We remain a highly liquid business with strong cash flows and a solid track record for securing capital from a diverse range of sources that now also includes major Asian banks, not only in China, but also in Singapore.

So far, in 2010, we have already raised a further US\$350 million in new funding, bringing the total amount of debt accessed by AerCap to US\$5.3 billion over the past two years, a period when the credit markets were supposedly being shut. This underlines creditors' belief in AerCap's business model, and the aircraft that we own and their collateral performance. The strong level of funding enables us to continuously grow and optimize our portfolio, which improves our revenues mix and decreases the average age of our aircraft portfolios.

We are happy to have completed our share-for-share transaction for Genesis Lease during the first quarter. The deal was closed only five days before the end of the quarter, and so the deal will not be fully reflected in our P&L until the second quarter, while of course on the balance sheet it is already fully reflected. As we have mentioned before, the Genesis deal is a very exciting one for AerCap, as it enhances our cash generation over the next years, enabling us to pursue further growth objectives.

Before I conclude my introduction, let me quickly summarize our operational highlights for the first quarter of 2010. During the first quarter, AerCap executed lease agreements and letters of intent for six aircraft. We delivered 12 aircraft and 12 engines to lessees. We purchased 20 aircraft and five engines, and sold five aircraft and three engines.

We also disassembled six aircraft and seven engines through our AeroTurbine subsidiary. The number of aircraft in our owned and to-be-delivered portfolio is now 338, and 88 engines, that are either owned, on order, under contract, or letter of intent, or managed by us. This does of course include the 54 aircraft that AerCap added through the merger with Genesis, and these 54 aircraft are still managed by GECAS and the respective transactions are not included in the activity stated.

To conclude my introduction, we continue to be very happy with the achievements throughout a very difficult period that AerCap was able to show. We are in good shape, and we are very well positioned to capture the growth we expect to see in the market, as we are at the beginning of a new up cycle in our industry. Our balance sheet is strong. Our total cash position grew by 38% to US\$440 million, and our debt equity ratio has improved from 3.6 to 3.3.

I'd just like to stress this again, you know this is happening while we are going through a heavy Capex program, so it shows you the strengths of the underlying business that allows us to deleverage and to increase our cash position while we are investing in brand new aircraft. AerCap is therefore now firmly established as the leading independent global aviation lessor.

I once again reiterate our commitment to delivering significant long-term value to our shareholders, who by investing in AerCap, invest in a company with a strong balance sheet, long term contracted lease revenues, strong cash balances, a proven track record of raising finance from all funding sources available to the industry in all regions of the world. A growing asset base that consists of new, efficient and in-demand aircraft, and a solid global client base and funding sources that all represent the optimum of diversity that you can expect of this industry. On that note, I would like to hand over to Keith, who will take you through the details of our financial and operating performance for the quarter.

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

Thank you Klaus. Good morning everyone. I'll take you through the highlights now of the first quarter financial performance. My first chart clarifies how the Genesis transaction impacted our financial numbers in the first quarter. The deal was closed on March 25th, and is fully reflected in our balance sheet, and the full details are provided in our press release.

As a result of this transaction, total assets increased by US\$1.6 billion, total debt increased by US\$1 billion, equity increased by roughly US\$400 million, and other liabilities inclusive of maintenance reserves and security deposits increased by approximately US\$200 million. There is no impact to the first quarter 2010 income statement other than one line reflecting a US\$300,000 gain from the amalgamation.



May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

The number of shares used for the earnings per share calculation was also not impacted. In addition, the transaction is reflected in just one line in the first quarter 2010 cash flow statement. Beginning in the second quarter of 2010, the impact from the Genesis transaction will be fully reflected in both our income and cash flow statements. Also, the integration requirements from the deal are progressing well and are expected to be completed during the second quarter.

Okay, net income, our total net income in first quarter 2010 was US\$34.4 million. Net income excluding non-cash charges relating to the mark-to-market of our interest rate caps and share based compensation was US\$46.7 million, up from US\$31.5 million in first quarter of 2009.

Total earnings per share were US\$0.40 in first quarter 2010 including all items. Earnings per share were US\$0.55 during this period excluding the non-cash charges.

Total revenue in first quarter 2010 was US\$364 million, up from US\$209 million in first quarter of 2009. Basic rents increased to US\$166 million, up from US\$141 million over the same period in 2009. In addition, sales revenue was strong in first quarter 2010, up significantly over the prior year.

Net spread in the first quarter 2010 was US\$133 million, up 18% over the prior year. The net spread margin percent was 9.8% in first quarter 2010, down from first quarter 2009, but the 9.8% is comparable to the last three quarters of 2009. The net spread margin was 10.2% for full year of 2009, and 10.1% in the fourth quarter of 2009.

The decrease in net spread in first quarter 2010 is driven by the impact from the purchase of new aircraft, which has a lower net spread percent in the initial years of the lease. The average age of the portfolio has decreased to 5.3 years versus 7 years in first quarter 2009, which reflects the impact of the new aircraft purchases.

Total sales revenue in first quarter of 2010 was US\$182 million. Revenues relating to the sale of aircraft was US\$141 million. The sale of engines was US\$8 million, and part sales were US\$34 million. Full gain from sales in first quarter 2010 was US\$26 million on a pre-tax basis as compared to US\$8 million in the first quarter of 2009.

Total amount of leasing expenses and SG&A for the first quarter of 2010 was US\$44 million as compared to US\$50 million in first quarter of 2009. These amounts excluded the cost for share based compensation. Leasing expenses were lower in first quarter 2010, as compared to the same period in 2009, and were driven by a decrease in cost related to the airline defaults, which occurred in 2008.

SG&A costs increased slightly in the first quarter 2010 as compared to the same period in 2009. The SG&A savings expected from the Genesis transaction will be reflected in our second quarter 2010 results. Leasing expenses were US\$11 million in the first quarter 2010, down from US\$19 million in first quarter of 2009. The largest driver that decreased in leasing expenses in the quarter was a US\$6 million reduction in default related costs.

Our blended tax rate for first quarter 2010 was a charge of 10%, the tax rate for our aircraft assets was a charge of 11.3%, and the tax impact relating to our engine and parts assets was positive.

Our capital assets have grown 50% in first quarter of 2010 as compared to the prior year. Total assets on the balance sheet are US\$8.7 billion at the end of the first quarter.

As mentioned previously, growth in assets of US\$1.6 billion related to the Genesis transaction, and the remaining US\$1.3 billion of growth reflects primarily aircraft deliveries from our forward order. The number of aircraft in our portfolio is 338, including owned aircraft, managed aircraft and the aircraft on order, under contract or subject to LOI. The number of engines owned or under contract was 88 at the end of the first quarter 2010.



May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

We completed US\$900 million of purchases of aviation assets in first quarter 2010, including the purchase of 20 aircraft. For the remaining three quarters of 2010, we expect an additional US\$1.3 billion of committed purchases of aviation assets. Number of aircraft purchases for full year 2010 is expected to be 47, which again relates primarily to our forward order aircraft.

The utilization rate was maintained at 98.9% for the first quarter of 2010. The yield generated by our aircraft lease portfolio was 12.9% for the first quarter 2010. The decrease versus first quarter 2009 is primarily the result of lower interest rates, plus the delivery of new aircraft which initially have a lower yield. The average term, new leases for new aircraft entered into during the first quarter 2010 inclusive of letters of intent was 144 months. The average term entered into during first quarter of 2010 for new leases on our existing portfolio was 62 months.

AerCap's free cash balance at the end of the first quarter 2010 was US\$226 million. Our total cash balance including restricted cash was US\$440 million at the end of the first quarter. Operating cash flows were US\$138 million for the first quarter of 2010.

At the end of the first quarter 2010, AerCap's debt balance was US\$6.1 billion, and our debt equity ratio was 3.3 to 1. Our book equity amount is now nearly US\$1.9 billion. The average cost of our debt in the first quarter 2010 was 2.6%. Again, this low cost of funding is reflective of the lower interest rate environment, and the use of interest rate caps for hedging purposes in past years.

With regard to our 2010 financial outlook on a combined company basis, committed purchases of aviation assets for the full year 2010 is expected to be approximately US\$2.2 billion. This amount is US\$3.5 billion including the acquisition of the Genesis aircraft portfolio.

2010 basic rents are expected to increase 60% over 2010. 2010 gain from aircraft sales are expected to be approximately 25% higher than 2009, due primarily to the already committed sales of forward order A330s and A320s. The average cost of debt in 2010 is expected to be approximately 4%. The 2010 blended tax rate is expected to be approximately 10%, and the 2010 ROE is expected to be comparable to that of 2009.

The financial outlook for second quarter 2010 is expected to be generally the same for most items as seen in first quarter 2010 or as described for full year of 2010. However, the impact from aircraft sales and other small one-offs which are not evenly spread throughout the various quarters will be approximately US\$0.06 EPS in second quarter of 2010 versus the US\$0.15 recorded in the first of quarter 2010. Okay, those were the financial highlights for the first quarter of 2010, and I'll turn it back over to Klaus.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Thanks so much, Keith, and we are ready for the Q&A. Is the operator there for the Q&A?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And your first question comes from the line of Gary Liebowitz.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Hi gentlemen.



May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Hey, Gary.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

So, I was wondering if you could give us an update on some of the liquidity initiatives that you've talked about before, and now that the Genesis deal is closed, are you more actively seeking, perhaps a new equity partner or to refinance ALS I or any other things that you might be considering?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Well, Gary, at this moment, I think you know Genesis together with the UBS cash facility that was raised simultaneously -- as I said, we have now over US\$400 million in cash. So, that is nearly one third of our market capitalization worth. And so we are at this moment not increasing that balance at all, because it is more than sufficient, and we will show that later today on the Investor Day, to cover the remaining Capex program in 2010, 2011.

Bear in mind that in about six weeks time, at the end of June, we are through with the majority of the 2010 Capex program, because most of the deliveries were focused on the first two quarters of the year. So, there is simply no need for additional capital short of an investment opportunity in this market, that would be so compelling, that it would justify raising further cash.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

I understand you have the capital for your remaining current Capex program, but you must be looking out to maybe 2012 or 2013, and in the past you've mentioned that the order backlog to some of the troubled lessors might be potential acquisition candidates.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

I'm dealing with some of that, and there are -- we are not at zero additional Capex. There are transactions that are in the making. There are specific sale and leasebacks that effectively deal with the inability of the market to deal with some of these funding situations that we are actively pursuing, some of which will close in the second quarter of this year, and we will show them to you at that point in time.

So, this does include already, after taking advantage of further growth opportunities that come from a still somewhat dislodged market, but inclusive of these opportunities that we're taking advantage of, our cash positions still suggests that there is no further activity at this moment necessary.

Gary Liebowitz - *Wells Fargo Securities - Analyst*

Okay, thanks for clearing that up. Also, Klaus, you've made your position on the re-engined narrowbody pretty clear, but I wonder as you talk to your customers, the operators, what kind of feedback are you getting from them in terms of their interest in the aircraft?

May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

Klaus W. Heinemann - AerCap Holdings N.V. - CEO & Executive Director

Illogical feedback. What they like, a 15% improvement of operating fuel efficiency, yes, what they like, the very likely 20% increase in lease rentals that goes with it, obviously not, so if you could give them an improved, more fuel efficient aircraft at the same lease rentals, they'd love it, so I think the market is really undecided here at this moment.

And by the way, I believe that the most interesting aspect of this is the most recent comments by Boeing as to that it appears to be the more sensible solution to strive for a completely new narrowbody towards the backend of this decade. I think that is a very sensible approach to the issue that ultimately, I believe, will find much more consensus among all industry players, lessors and airlines than the re-engining situation.

Gary Liebowitz - Wells Fargo Securities - Analyst

Okay, and then just one for Keith. Just to clarify your guidance for basic rents in 2010 of 60%, that assumes only the nine months of Genesis and only the aircraft that you currently have commitments to purchase net of asset sales, I guess?

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

That's correct, yes.

Gary Liebowitz - Wells Fargo Securities - Analyst

Okay, thank you.

Operator

And your next question comes from the line of Scott Valentin.

Scott Valentin - FBR Capital Markets - Analyst

Good morning and thanks for taking my question.

Klaus W. Heinemann - AerCap Holdings N.V. - CEO & Executive Director

Good morning.

Scott Valentin - FBR Capital Markets - Analyst

Klaus, just wanted to get your thoughts, Europe clearly is a volatile situation right now, but there is a pretty high exposure in the portfolio to European based carriers. I just wanted to get your thoughts on where you see Europe going over the next couple of years, and then should we expect a shift in the portfolio maybe more towards the growth markets, you mentioned Russia and India and Latin America?

Klaus W. Heinemann - AerCap Holdings N.V. - CEO & Executive Director

Yes. And first of all, if you look at our European exposure, it includes Russia, and Russia is actually a very substantial part of it. We will give you some detail of that later today during the Investor Day.

May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

Now, on the European situation, here is my take on it. First of all, this is a repeat performance of Dubai. You have all day coverage by CNBC with Mr. Roubini sort of on the front seat, and a reporter, you know, reporting about 200 demonstrators outside the Greek capital, right? I said, at the time, look at Dubai in context, the entire debt of Dubai is about as big as that of CIT and look how CIT restructured, without any hiccup in the market.

So, I think this is completely blown out of proportion in the first instance, and it will come down. But coming to the effects of it, it is actually showing that the Euro zone, and the membership of Greek and Portuguese carriers, for example, in the Euro zone, protects us. If I look back historically where I have had problems with lessees, those were the situations where there was a deep collapse of the currency, because they were not part of the dollar or the Euro zone, which then made it impossible for the airlines, even if they were performing in the country, to serve the US dollar denominated obligations.

A prime example of that was 2003 in Brazil when the Brazilian currency collapsed. You know GOL and TAM, which are well managed, well run profitable airlines, at that moment had to cease to serve their debt, because there was no way that they could cope with a local currency that was collapsing by 30%, 40%, 50% or more.

So, from that perspective actually, the membership of Greece in the Euro zone is very good news, because it then allows our Greek customer, we have only one with two aircraft there, Aegean, to continue to serve its obligations because they are not subjected to what I call the sort of Brazilian collapsing currency situation. So, it's actually good news for our lessees, as long as you assume that this will not have a long-term very negative, i.e. recessionary impact on Europe Inc. as such, which I don't believe. Because Europe Inc. is an export economy, it is competing very hard with the United States and with Japan for global exports. And the decrease of the euro that we've seen over the last few weeks, while nobody will say this on an official political level, is extremely good news for the European export industries, for Airbus, for the entire car industries, for the heavy machinery industries, everybody who is competing with GM and Ford and Boeing and Caterpillar and all the rest, it's good news. So, I do not take CNBC and Mr. Roubini as a proxy of what is happening there. Sorry, that I was venting a little bit here.

Scott Valentin - *FBR Capital Markets - Analyst*

No, I appreciate the color, very helpful. Keith, a question for you, on the hedging program, just trying to get a sense, maybe Europe delayed any increase in rates for some time, but just trying to get a sense, when rates do eventually rise at some point, how is the hedging program in place and where is kind of the rate caps, kind of the average rate caps set?

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

Yes, first of all, we'll go in a lot of details this afternoon, again, at the Investor Day presentation, but right now, we're using a lot of fixed rate funding to hedge against interest rates. So, a number of our deliveries are being handled that way. We still are using caps to a certain degree, but the caps that are -- that were put in place in prior years, there's about US\$2 billion or US\$3 billion of notional amounts there, and the average strike rate there is about 4%. So, we'll talk about what that means relative to rise in interest rates, if it happens later this year or in 2011.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

We will have a detailed breakdown of the entire hedging policy and the P&L exposure for the presentation later today.

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

There's a number of items in our debt, again there's fixed rate financing that has no interest rate exposure. There's floating rate debt that's associated with floating rate contracts, which have no interest rate exposure. There's capital lease obligations- that



May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

has no interest rate exposure, as well as pre-delivery payment debt as well. So, there is US\$2 billion of debt there that has no interest rate exposure.

And the caps that we're putting in place today are obviously at the level of interest rates today. So, again there's limited amount of exposure on caps that we've put in place in prior years. And that if the interest rate environment went up to the level of those caps -- those strike rates, they would -- in 2011 for example, it would be about a 50 basis point impact on our net spread percentage.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay, thanks.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

If I could just add to that, because as we told you when we took you through the guidance for 2010, we assume that LIBOR -- three months LIBOR for 2010 would be on average 75 basis points.

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

Right.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

We're half way through the year and we are still only at about 35 basis points, and I don't think that the Fed has the stamina at this moment to push up the short end. So, I think actually the reality for 2010 will look significantly better than our assumptions that we used for our budgeting effort.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay, so the 4% guidance in there, I assume the 75 basis points along with some fixed rate financing being added to the portfolio?

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

That's right, that's right.

Scott Valentin - *FBR Capital Markets - Analyst*

Okay, okay, thanks very much.

Operator

And your next question comes from the line of Brandon Oglenski.

Brandon Oglenski - *Barclays Capital - Analyst*

Good morning gentlemen.

May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Good morning.

Brandon Oglenski - *Barclays Capital - Analyst*

Keith, very quickly on the 2010 financial outlook. I think you had mentioned that aircraft sales are going to be up 25% on A330s and A320s. Is the majority of this coming in the second quarter?

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

Well, we had a pretty strong first quarter. We had two A320s which we sold in the first quarter, and we had one A330, but we do have a couple other A330s that will happen in the latter part of the year, some in second quarter. And then we also have a number of deals, a couple of deals that we're working on, that are in the LOI stage, which may happen this year as well.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

If I could just add to that. We are also seeing, because of the increase of liquidity that is coming back into the market, and all of that liquidity is interested in the same product, which is new or near new aircraft with long-term leases to prime lessees associated with it. That is being reflected now in significant upwards pressure on the pricing, because there is now competition for these aircraft by newly formed pools of capital that is coming into the sector.

If this continues, we would, during this year already, reach a level where probably from our perspective, the NPV of future profits on these aircraft is not higher than what we could gain right up front if we sell on delivery, and if this trend continues only a little further, we might increase that a little bit in the second half of the year.

Brandon Oglenski - *Barclays Capital - Analyst*

And so the majority of these sales are coming out of the forward order book then?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Yes.

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

Yes, and again they'll be primarily second, third quarter at this stage.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Which by the way, just as an aside, also shows you that our assessment that we continuously give you and the mark-to-market of the portfolio, that the order book is deeply in the money, is not only an appraiser's theory, but it's reality, because we lock in this spread through these sales.

May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

Brandon Oglenski - *Barclays Capital - Analyst*

Well, and I guess off that, Klaus, I mean if this is true, then this is also pointing to higher lease rates in the future, is that something you guys are also seeing in your current negotiation?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Yes, we are starting to see higher lease rentals for brand new aircraft, simply because we've now seen a switch of demand where there are very few brand new aircraft available in the market during 2010, and there's an increasing number of carriers who actually wants to have additional capacity in 2010. So, yes, for brand new narrowbodies, you know the trend is now upwards.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay, I guess also coming off of that, then do you guys have any available capacity in 2010 or 2011?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

No.

Brandon Oglenski - *Barclays Capital - Analyst*

Not just the new order books, but also anything that might be rolling off, please?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

There are couple of roll-offs of all the aircrafts that we are more likely to sell, than to remarket, or at the far end, because there are still a couple of aircrafts there that we'll take to Goodyear, to AeroTurbine and sell as spares rather than continue to lease them. But in most cases, the core content of the portfolio, actually the lessees want to renew the leases, which is what we're doing.

I mean Gus will go through that later today, when he talks a little bit about the US side, but you see that here very clearly, that the US airlines now, for equipment that we have in our portfolio, choose to renew these leases and not return aircraft.

Brandon Oglenski - *Barclays Capital - Analyst*

Okay, thank you very much gentlemen.

Operator

The next question comes from the line of Andrew Light.

Andrew Light - *Citi - Analyst*

Oh hi there, good morning.



May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Hi Andrew.

Andrew Light - *Citi - Analyst*

Yes, I just [thought] that there's maybe a [subtle] change in your guidance for basic lease rentals of, I think, in February a 55% increase, and now it's at 60% increase. I was just wondering what was driving that.

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

Sorry Andrew, we didn't hear your questions.

Andrew Light - *Citi - Analyst*

On your financial outlook for 2010, you're now saying there's a -- will be a 60% increase in basic lease rent revenue, whereas the full year it was 55%, I was just wondering if that was a significant change in guidance?

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

It includes some additional sale leaseback opportunities that Klaus was referring to, where we're taking advantage of these situations in the market.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Exactly, our actual Capex is somewhat higher than previously shown, because there are few opportunities that we have taken advantage of, most of which will close, by the way over -- in the next two weeks, that is increasing this number.

Andrew Light - *Citi - Analyst*

Right, so it's really just reflects volume rather than rental rate?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Yes.

Andrew Light - *Citi - Analyst*

And your guidance for the second quarter, you say it will be roughly the same each line item. Will it be significant restructuring costs of Genesis in that quarter?

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

No, any costs associated with the deal was concluded in the first quarter, and it was netted against the gains from the amalgamation. So, you'll see just really operating income from the Genesis portfolio in the beginning of the second quarter.

May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

On redundancies, I mean old staff has been made redundant, so literally we've pushed the SG&A to zero. All of the costs that were associated with those redundancies have already been reflected in the first quarter result.

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

Yes.

Andrew Light - *Citi - Analyst*

So, no further restructuring costs associated with Genesis?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

No, you can't, I mean once you've eliminated all SG&A, you're done.

Andrew Light - *Citi - Analyst*

Right, okay, that's great. Thank you very much.

Operator

Your next question comes from the line of Rich Fitzgerald.

Rich Fitzgerald - *Castlepoint Capital - Analyst*

Hey guys, you touched on the rates a little bit earlier, and I guess we're going to talk about it later today. Is there anything in addition you can say now with regard to how you're managing kind of the liability side as the rate environment presumably moves up over the next, whatever it is, 18 to 24 months?

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

Again, with regard to our current hedging activity. We are putting in fixed rate financing, so where that looks -- cover the cost look efficient there, that's how we're securing the interest or the margin on those particular aircraft. We still are putting in some interest rate caps on some of our deliveries, and we're looking at opportunities where we might be able to restrike some of the older caps to a lower strike rate to help eliminate further some of the interest rate risk.

But again, as we talked about before, we're getting a windfall, a slight windfall from the fact that interest rates are lower than some of the strike rates that we've put in place previously. But again, if the interest rates moved up to that level of the strike rate, the overall exposure in our portfolio is limited, and it's anywhere between 50 basis points to no more than probably 75 basis points.

May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

Rich Fitzgerald - *Castlepoint Capital - Analyst*

Okay, just a really quick follow-up. Do you guys have a targeted fixed floating breakout for both the asset and liability side going forward?

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

On the asset side, it's generally dictated by what the lessee is interested in, and whether or not they want a fixed rate contract or a floating rate contract. And there is not a targeted percentage on the liability side. Again, it's really the decision is typically made depending on what the interest rate environment looks like, what the costs are associated with caps, what the cost is associated with fixed rate funding, so that -- we're always trying to obviously minimize the cost of our funding, at the same time making sure that we have no real interest rate risk in terms of increasing interest rates.

Rich Fitzgerald - *Castlepoint Capital - Analyst*

Okay, thanks for the color and good job on the quarter.

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

Thanks.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Thank you.

Operator

And your next question comes from the line of Fritz von Carp.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Morning Fritz.

Fritz von Carp - *Sage Asset Management - Analyst*

Yes, good morning. I think most of my questions have been answered. Could you talk a little bit more about -- well, two questions. One is, could you talk a little bit more about Airbus's production rates and the narrowbody products? And you expressed some concern last quarter about whether that production rate was needed.

And then number two and I guess related is, I'm just really amazed at how much activity there is in putting groups of capital together to bid on airplane assets, the kind of assets you want. And I guess with our additional liquidity from the deal, you're maybe going to be involved in that. Could you just talk a little bit generally about the private capital activity?

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Yes. Well, first of all on the production side and that is true for both Boeing and Airbus. I think again, there is a significant delta between market perception and reality. As you can imagine, we are in close dialogue with both manufacturers on a continuous

May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

basis, and the reality is, in the narrowbody production, everything that is being produced inclusive of the production increase that Airbus has announced for 2010, 2011, and 2012, is pre-positioned with built-in aircrafts for, if you so wish, dicey clients who might not take delivery.

So, really, what we are looking at, is a market that is sold out into 2012, so anybody who is going out now, and wants to have more than one or two or three aircraft new deliveries is really looking, from what we understand, at late 2012 and mostly 2013 availability. So, there is no sign of what one would call over-production in the narrowbody segment that we can detect.

With respect to private equity coming into the market, the amounts are significant, some of which have been published, and have been shown. I mean there have been second tier players in the market who've been endowed with equity positions, not total funding positions, but equity positions of around US\$500 million, US\$750 million.

And below that, you have an increased activity of the players below the radar screen. So, I consider this to be significant. We are in discussions with everybody who is putting additional equity into play, and importantly we have the merchandise that they want, which is why you find that we are selling where others are not selling, because these guys are not interested in 10-year old 747s or 767s.

They're interested in brand new A330s or A320s or 737-800. That's what they're focused on, and that's the sort of merchandise that we can offer them, and this is why you see us trading and making money on these trades, because it's part of our portfolio content and part of our order book. So, it's a very focused market, it's a significant market, and we believe it will grow further as we move on.

Fritz von Carp - Sage Asset Management - Analyst

And just to make sure I'm clear is it fair to say that the majority of your portfolio of aircraft fits that description of the newer planes that are in demand?

Klaus W. Heinemann - AerCap Holdings N.V. - CEO & Executive Director

The vast majority. I mean we'll give you an updated breakdown of the portfolio at the Investor Day presentation later today, but you're talking about 90% of our portfolio hitting that particular sweet spot.

Fritz von Carp - Sage Asset Management - Analyst

Okay, thank you very much.

Klaus W. Heinemann - AerCap Holdings N.V. - CEO & Executive Director

Sure.

Operator

(Operator Instructions)

Klaus W. Heinemann - AerCap Holdings N.V. - CEO & Executive Director

Okay, looks like we're done. Peter, are there any others lined up?

May. 07. 2010 / 1:30PM, AER - Q1 2010 AerCap Holdings N.V. Earnings Conference Call

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

No.

Klaus W. Heinemann - *AerCap Holdings N.V. - CEO & Executive Director*

Okay, well thank you very much for joining us this morning, and I hope to see most of you at the Investor Day that starts at 12 o'clock at the New York Palace Hotel, looking forward to see you then. Thanks so much.

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

Thanks everyone.

Operator

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

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