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PRESENTATION

Operator

Good day, and welcome to the AerCap Second Quarter 2018 Financial Results Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Joseph McGinley, Head of Investor Relations, AerCap. Please go ahead.

Joseph McGinley - *AerCap Holdings N.V. - Head of IR*

Thank you, operator, and hello, everyone. Welcome to our second quarter 2018 conference call. With me today is our Chief Executive Officer, Aengus Kelly; and our Chief Financial Officer, Pete Juhas.

Before, we begin today's call, I would like to remind you that some statements made during this conference call, which 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. AerCap undertakes no 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 can be found in AerCap's earnings release dated July 30, 2018. A copy of the earnings release and conference call presentation are available on our website at aercap.com.

This call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay. We will shortly move into our earnings presentation and we'll have time at the end for Q&A. As a reminder, I'd ask that analysts limit themselves to one question and one follow-up.

I will now turn the call over to Aengus Kelly.

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Thank you, Joe. Good morning, everyone. Thank you for joining us for our 2018 second quarter earnings call. I'm pleased to report another quarter of strong earnings and profitability. During the quarter, we generated earnings per share of $1.70 and net income of $254 million. Both of which were driven by strong underlying performance of the AerCap business.

Our platform remains very active in Q2, executing 90 aircraft transactions, including 17 widebodies. Our utilization rate improved to 98.9% as the last of our Monarch and Air Berlin aircraft transition to new lessees. We continue to see robust demand for aircraft, as passenger traffic continues to grow at a healthy clip. IATA reported 6.8% for PK growth for the first 5 months of this year with load factors for the month of May above 80% for the first time. And the full year demand outlook continues to be strong at 7%. We believe there is a natural ceiling to the efficiency gains driven by higher load factors and densification, which should support future demand for new aircraft in the coming years.

We took delivery of 20 new aircraft in the second quarter composed of 787-9s, A350-900s, and A320neos and A321neos. These aircraft types are the most in demand of the new technology aircraft. The A350 recently received certification by the Chinese aviation authority, and we expect to begin delivering A350 to our Chinese customers in the third quarter. We expect to take delivery of 50 aircraft in the second half of the year, bringing our 2018 CapEx to around $6 billion, which will drive our top line growth.

Sticking with the OEMs and new aircraft, we believe that the recently announced partnership between Embraer and Boeing will enhance the competitiveness of the Embraer E2. This is because the program will benefit from both Boeing's marketing power with airlines and their ability to drive cost savings from suppliers.

On the trading side, we are active sellers of mid-life and older aircraft in the quarter, disposing of 30 owned aircraft with an average age of 13 years. The delivery of new technology aircraft coupled with the sales of mid-life and older aircraft has decreased our average age to 6.6 years, down from 7.3 years in June 2017. We expect this to move towards the low 6s by the end of 2020 as we deliver over 200 new technology aircraft in that time frame.

Our average remaining lease term continues to increase and is now 7.1 years, up from 6.4 years a year ago, providing us with strong visibility into the future. This long remaining lease term provides significant stability to our future earnings and cash flows.

At a macro level, we continue to see a broadly healthy environment for our airline customers, notwithstanding the rise in oil prices. In the past 3 months, oil prices have been relatively range bound with WTI now approximately $68, $69. However, there have been some notable moves on the FX side in certain countries, particularly in Turkey and Brazil, which has somewhat magnified the impact of oil price moves for domestic carriers in those countries. These devaluations can, however, provide an inbound impetus for tourism helping yields in those areas. More generally, while the rising fuel prices over the past year has clearly had some impact on airlines profitability, it has not risen to a level where we believe it will cause major problems for the airlines, as it reflects a global economy that continues to do well.

On the liability side of our business, we closed $2.7 billion of debt facilities in the first quarter, at attractive pricing. We continue to manage our balance sheet conservatively, ending the quarter with $11.7 billion of available liquidity. We ended the quarter with a leverage ratio of 2.8:1, which we feel is appropriate for the business and remains within our target range of 2.7 to 3x.

Our share repurchase program continued during the quarter. In Q2, we deployed over $100 million in buying our own stock. This brought the total number of shares repurchased in the first half of 2018 to almost 8 million shares for just over $400 million, and the total since June 2015 to over 72 million shares, which is 34% of the company. We've approximately $140 million remaining from our May authorization. We will, of course, continue to look at the allocation of our excess capital on an ongoing basis.

So in summary, our business continues to perform well, underpinned by a strong traffic environment for our customer base. We continue to actively trade aircraft, taking advantage of our global reach, and remain proactive in pacing our new aircraft deliveries. We expect to invest approximately $15 billion in new technology aircraft between now and 2020. That CapEx will be focused on the most desirable variants of the new technology aircraft. These aircraft will enhance our fleet and will position AerCap for long-term growth.

With that, I will hand it over to Pete for a detailed review of our financial results.

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

Thanks, Gus. Good morning, everyone. I'll start on Slide 5 of the presentation. Our net income was $254 million for the second quarter and our diluted earnings per share was $1.70. The decrease in net income was primarily due to lower other income, as well as lower gain on sale of assets compared to the second quarter of 2017.

Last year, other income was higher than normal in the second quarter, as a result of contractual payments related to a lease termination agreement with one of our lessees. The increase in earnings per share was primarily driven by our lower share count as we repurchased close to 25 million shares from April 2017 through June 2018.

On Slide 6, as a result of our excellent operating performance and disciplined allocation of capital over the past year, our book value per share has increased 12% from $53.06 to $59.25. Our book value per share as of June 30 was impacted by divesting of shares related to the long-term incentive plan that we put in place in 2017. We repurchased $100 million worth of stock in the second quarter, bringing our total repurchases through June 30 to around $415 million. We currently have around $140 million remaining in our existing share repurchase authorization. And as Gus mentioned, we look at allocation of our excess capital on an ongoing basis. So we'll continue to look at share repurchases and other ways to deploy excess capital over the remainder of the year.

On Slide 7, our total revenue for the second quarter was $1,195m0 and basic lease rents for the second quarter of $1,023m. As we've seen over the past few quarters, basic lease rents decreased primarily due to the sale of mid-life and older aircraft over the past year, which improved the average age of our fleet to 6.6 years.

In addition, we're continuing to have some impact in the quarter due to the transitioning of the remaining Air Berlin and Monarch aircraft to new lessees, which reduced basic lease rents because the aircraft had not yet been delivered to the new lessees. We expect our basic lease rents to grow in the second half of this year and through next year as our CapEx ramps up.

Our maintenance revenues for the second quarter were $108 million, which was slightly higher than last year. Our net gain on sales was $51 million for the second quarter compared to $70 million a year ago. In the second quarter, we're continuing to sell mid-life and older aircraft at attractive prices and we're continuing to see strong demand from buyers of used aircraft.

Our other income was $12 million for the quarter, which was a decrease from last year. This was due to the lease termination payments that we recognized in the second quarter of 2017, which led to much higher other income during that quarter.

On Slide 8, our net interest margin was $734 million for the quarter and our net spread was 8.4%. The primary driver of the decrease from 2017 was the lower age of our fleet. Both of these metrics were also affected somewhat by the ongoing transitions of the Air Berlin and Monarch aircraft during the quarter, as I mentioned. Our average cost of debt was 4.1% for the quarter and increased from 3.9% last year and 4% in the first quarter of this year.

As we're continuing to take delivery of new technology aircraft and sell older and mid-life aircraft, we're continuing to reduce the average age of our fleet, which was 6.6 years at the end of June, down from 7.3 years last year. We're also increasing the average remaining lease term of our aircraft, which was 7.1 years at the end of the second quarter, an increase from 6.4 years.

As Gus mentioned, we expect the average age to decrease to below 6s. Our depreciation rate has also been coming down over time as our fleet gets younger. Our net spread less depreciation for the quarter was 3.2% compared to 3.1% for the second quarter of 2017.

Slide 9, our net gain on sales was $51 million for the quarter as we sold 30 of our owned aircraft with an average age of 13 years for around $740 million. We also placed 4 older aircraft on long-term leases and reclassified them as finance leases. Our gain on sales margin for the quarter was around 7%. We closed this quarter with around $250 million of held for sale assets, which is lower than we've had over the past 2 quarters. So at this point, we expect our sales volume to be lower during the second half of this year. At this point, I'd estimate a sales number of between $1.75 billion and $2 billion for the full year. We took delivery of 20 aircraft in the second quarter, including 15 A320 and A321neos, 1 A350-900, and 4 787s.

Our total CapEx for the quarter was $1.5 billion, making this our second highest quarter ever from a delivery standpoint in terms of both the number of aircraft and the amount of CapEx. For the full year 2018, we expect our total CapEx to be around $6 billion, with 50 aircraft expected to deliver during the second half of the year. So we're entering into a period of higher CapEx and asset growth. We expect around 1/3 of the remaining deliveries will occur in the third quarter and around 2/3 in the fourth quarter. This will drive our return to growth in basic lease rents.

Next slide. Our maintenance rights expense was $35 million for the second quarter, down from $90 million in 2017. This was driven by a lower level of maintenance activity, as well as lower balance of the maintenance rights intangible asset, which has been coming down over time. The maintenance rights intangible asset has come down from approximately $2 billion in March 2017 to around $1.2 billion today.

Our other leasing expenses were $68 million for the quarter, an increase from $46 million last year, this was somewhat higher than normal due to expenses related to the Air Berlin and Monarch transitions, which at this point are basically complete.

Our SG&A expenses were $85 million for the quarter, basically flat over last year. And for the second half of the year, we'll see a significant decrease in our stock-based compensation expense.

On Slide 11, we continue to maintain a very strong liquidity position. As of June 30, we had available liquidity of $11.7 billion, which is a record level for us, as we enter into a period of higher CapEx. Together with our operating cash flows, that gives us total sources of $14.9 billion, which is 1.3x our cash needs of $11.1 billion over the next 12 months. This amounts to excess coverage of around $3.8 billion. And we ended the quarter with a debt-to-equity ratio of 2.8:1, which is in the middle of our target range.

So to wrap up, we had a strong second quarter. We're continuing to make good progress in placing our new aircraft and we're now around 85% placed through the end of 2020. We're continuing to deploy our excess capital and closed on $2.7 billion of financing. And we ended the quarter in a very strong liquidity and capital position. And we're now entering a growth phase, where we expect to see our aircraft assets grow by around $2 billion by the end of this year and by over $2 billion more next year, which will drive growth in our revenues and our earnings going forward.

And with that, now we'll turn it over for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will now take our first question of Helane Becker of Cowen and Company.

Helane R. Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Just a couple of questions. One, when you're saying -- just one clarification point, $2 billion more this year in the growth phase and then $2 billion total next year. Did I hear that correct?

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

Yes. Helane. We'll see another -- we will see our flight equipment grow by $2 billion during the remainder of this year and then by an additional $2 billion on top of that next year. So a total of $4 billion by the end of 2019.

Helane R. Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Right. So key CapEx is 2020?

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

No, that's a net number. I'm giving you a net number. So how much our flight equipment assets will grow from now until the end of 2019. Our total CapEx for this year should be around $6 billion and next year around $5.5 billion.

Helane R. Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got you. Okay. Thanks for that clarifying point, Peter. I appreciate it. And then just one other question. In terms of demand, are there any like markets that you're noticing strong versus weaker demand? And any demand from U.S. airlines that you're -- or North American airlines that you're seeing?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Sure. Helane, the demand is fairly robust around the world. I would say that for the last 1.5 years or so, certainly for used airplanes be it EMEA market, European, Middle East, Africa had led the way, but we still see solid demand out of the U.S. as well not at the levels we saw a couple of years ago, I think it's fair to say but we still see some reasonable demand. The same out of China. You have countries with specific issues where you may have a significant weakening of a currency, or such as I mentioned, in Brazil for example, and Turkey, the demand is a little bit more muted there. But on a global basis, traffic is good, and there is good stable demand for used aircraft and new aircraft.

Operator

(Operator Instructions) We will now take our next question from Mike Linenberg of Deutsche Bank.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Peter and Gus, two questions, with respect to the net interest margin, it's now come down to 8.4%, obviously, it's a function of mix. The planes are getting -- your fleet is getting younger. You're at 6ish, I think, Gus, you indicated that over the next couple of years with the amount of CapEx new aircraft coming in, it will be well below 6, on one hand. On the other hand, I do think that there was a piece of that, that was impacted by Air Berlin and Monarch. So I'm trying to get a feel, is the net interest margin as we think out of the next year or 2, are we going to get that down to about 8% or the high 7s? But is that on a much bigger asset base? If you could just give us some color around that?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Pete, do you want to start that?

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

Sure, sure. Mike, yes, that's right. And just to clarify one thing that you said a second ago, we expect the average age to go down to about 6 years, but at this point not to go below 6 years. So it should end up around 6 years over 2019, 2020. In terms of where the net spread will go, I think that's right, I think it will go down to about 8% and that's consistent with what we've talked about before. And that will be off a much larger asset base because as we mentioned we'll be growing the amount of flight equipment both this year and next year and through 2020 as well.

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

And Mike, it's also worth noting, however, that if the fleets get younger, the depreciation rates go down a bit too. So as Pete referenced in his comments, our net spread less depreciation is actually slightly higher than it was 12 months ago.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Great. Great point. It was good you pointed that out. Second question, we now have fuel prices at least in dollar terms up 30%, 40%, some say 50% year-over-year and obviously, those are -- you're paying in currencies that have traded down against the dollar. They're seeing bigger increases. I know about a year over the last year or so, you were seeing pretty good uptake from carriers on renewing leases on some of the older airplanes. Have you now seen -- has that pace slowed down, customers coming back to you and wishing to renew some of the older aircraft. Has it been noticeable given that recent run up in fuel prices? Any sort of anecdotes or trends that you're seeing on that thought would be great?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Mike, overall, the portfolio has then -- obviously, we've done a lot of work to the portfolio over the last 4 years. And we see pretty strong demand across the board for our portfolio right now even with fuel at these levels. Airlines are still making money. There's a few countries, that I mentioned in my prepared comments, where the FX has amplified the impact of oil, and I mentioned Turkey and Brazil. But overall, no, we still see pretty strong demand. I can tell you if we had more A320s and we could move them in the morning. Same for 737s and they'd be the older variant.

Operator

We will now take our next question from Gary Liebowitz of Wells Fargo.

Gary Steven Liebowitz - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Gus, can you talk about any changes you've seen with regard to your ability to fuller placed planes into China, as a result of some of the escalating tariff threats?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Gary, we certainly continue to place airplanes, the campaigns that are ongoing at the moment are more focused on Airbus, it will be fair to say. But we have seen no slowdown in the appetite for the new technology assets. We're in the middle of several campaigns in China right now. So overall, there is a focus on the Airbus side, but we don't see any overall slowdown yet. And it should be worth noting -- in fact, (inaudible) of note, Gary, it's worth noting, look, an airline cannot change its lease in anything less than 5 or 6 years and the costs associated with changing a fleet is enormous. So we see absolutely no evidence whatsoever of any airline contemplating a move from Boeing to Airbus because of this trade dispute.

Gary Steven Liebowitz - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. Secondly, I think in the past you've mentioned that you have some Airbus planes, I believe, A350s that are awaiting certification from the Chinese authorities for them then to service. Has there been any moment there? And can you talk about what your -- how many planes you have awaiting to go into China?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Sure, Gary, I mentioned that the A350 recently received certification by the Chinese aviation authority. So we expect to deliver about 3 -- give or take 3 A350s in the coming months into China and probably about 4 or 5 by the end of the year.

Operator

We will now take our next question from Jason Arnold of RBC Capital Markets.

Jason Michael Arnold - *RBC Capital Markets, LLC, Research Division - Director in the Equity Research and Senior Equity Research Analyst*

I know your approach to sales has been relatively opportunistic. So I was just curious if you could comment on gauge perhaps, how much more of the older ILFC book remains is being highly likely to be sold or any kind of further color around your views on the secondary market sales?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Sure, Jason, I think, look, we've done an awful lot of selling over the course of the last 4 years and the portfolio is in very good shape now. And as we said on the first quarter earnings call, we expected to do the vast majority of our aircraft sales for this year in the first half of the year and that's the case. As Pete alluded to in his comments, we've done about 70% of our sales for the year already. And the portfolio is in reasonably good shape now. We feel it's a very strong portfolio and we see strong demand for us. So I don't expect then the same level of sales as we've seen over the last several years to be occurring as we go forward.

Jason Michael Arnold - *RBC Capital Markets, LLC, Research Division - Director in the Equity Research and Senior Equity Research Analyst*

Okay. And it's safe to say that there's still plenty to prune there I guess if the opportunities arise though in the context...

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Sure. I mean, everything has a price obviously in it. But I think you got to be very careful about old does not mean bad and new does not mean good. An old airplane that is an A320, 737 is a highly desirable asset, probably more desirable than a brand-new version of it. The same is true of a 777. And new aircraft are not always as desirable either. So you need to make sure that you're focusing your portfolio on those aircraft that the market wants, and we are extremely focused on how we develop the portfolio and we feel that at the moment that portfolio is in high demand across the board.

Jason Michael Arnold - *RBC Capital Markets, LLC, Research Division - Director in the Equity Research and Senior Equity Research Analyst*

Excellent. And then just as a follow-up, any updated views on the A220, any change of perspective on the aircraft after the recent going ons?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

This on the neos?

Jason Michael Arnold - *RBC Capital Markets, LLC, Research Division - Director in the Equity Research and Senior Equity Research Analyst*

On the C Series, A220.

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Oh, the C Series, excuse me, sorry. Yes, well, I mean, look, of course, the C Series now being part of the A220 family has definitely made it a more formidable competitor than it was before. Having said that, as I said in my prepared comments, the fact that Boeing has now taken over the Embraer program means that it's on an equal footing. We do think that the fact that Boeing and Airbus have bought both of these programs and validates the aircraft tight and will certainly propel sales into the future.

Operator

We will now take our next question from Rajeev Lalwani of Morgan Stanley.

Rajeev Lalwani - *Morgan Stanley, Research Division - Executive Director*

Just, Gus, I wanted to follow-up. You made a comment earlier in regard to a question around trade dispute around just more focused on the Airbus side? Is that a focus from AerCap on the Airbus side? You're saying customers are more interested on the Asia side in Airbus over Boeing?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Look, I think at the moment in China, we see continued activity for new airplanes as I said. At the moment most of the campaigns are around Airbus equipment, but they are Airbus carriers. I want to be very clear, we don't see any evidence of Boeing customers, because of the trade dispute, switching to Airbus.

Rajeev Lalwani - *Morgan Stanley, Research Division - Executive Director*

That's helpful. And then as it relates to delays and engine issues with the neos and 787s, et cetera, what's the latest there, and overall and then the impact to AerCap?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

So again, we expect to take delivery of approximately 50 airplanes by the end of the year, that's our best estimate at the moment. It could have moved by 1 or 2 airplanes sure, but I don't think it will move by a material amount both -- I think certainly Pratt & Whitney have certainly got through the worst of it, and Rolls on the -- the Rolls issue is related to the Package C engine. And the engines that are being delivered at the moment are the TENs and they are doing fine. So I would say that the Pratt & Whitney stuff are the one that we're most focused on. But things seem to be through the worst of it. And it's worth noting that there is strong demand for that airplane and that engine. We see strong demand across the world, the fuel burn is excellent and as is the CFM product as well. But then we are seeing 17% fuel burn improvements on the 321 variant, which is much higher than expected. And Pratt & Whitney, of course, have to make sure they work on the reliability, but they are making progress on that. But the fuel burn, particularly, on the 321, if you can get it up for 4, 5 hour missions than it really does generate very big savings.

Operator

We will now take our next question from Moshe Orenbuch of Crédit Suisse.

Moshe Ari Orenbuch - *Crédit Suisse AG, Research Division - MD and Equity Research Analyst*

Could you talk a little bit about your thoughts on leverage given the improvement in both the age of the fleet, as well as the length of the lease term? Does that have any impact in your thoughts about where you would want to be either within your range or the range itself?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Pete, do you want to take that one?

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

Sure. So Moshe, as you know, we've targeted a range of 2.7 to 3:1, and we generally run somewhere in the middle of that range. We do think that what we've been doing to the fleet in terms of reducing the average age, taking the proportion of new technology aircraft up is a big credit positive. And so we do -- we will look to see some benefit from that, hopefully from the rating agencies. I think in terms of where we target though in terms of our range, we're going to stay with our 2.7 to 3:1.

Moshe Ari Orenbuch - *Crédit Suisse AG, Research Division - MD and Equity Research Analyst*

Got it. And kind of as a follow-up question, the competitive environment and its impact on lease rates as you're kind of looking at that. And they're saying some more of your larger competitors are going through more renewals in the latter part of this year and into '19. Any thoughts as to how the lease rates are kind of coming out?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

We haven't seen much of a change absent interest rates, of course, over the course of the last year. Particularly on the second-hand markets for good, used airplanes, there had been very robust demand. And on the neos -- and as people get them into service and the 78s, there is very strong demand at the moment. We haven't seen much of an impact in terms of lease rates over the last year or so, maybe a few percentage points, but that's tiny, it's only a couple of grand here or there. So we don't see much of an impact as yet there.

Operator

We will now take our next question from Vincent Caintic of Stephens.

Vincent Albert Caintic - *Stephens Inc., Research Division - MD and Senior Specialty Finance Analyst*

The net spread going to a 8% over time. I was actually wondering, if you could break that out by the components of the lease yields and the funding costs, interest rates are rising, the net spread is already at 8.4%. So would you say maybe that the compression further from here is maybe on the funding cost side or is it -- should we expect more yield compression with the average age already at 6.6 I think on going to low 6s? And also give us -- separately give us idea of depreciation rate going forward?

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

Sure, Vincent, so most of that is coming from on the lease rate factor side just given the age of the fleet, that's the bigger impact. On the interest rate side, we've seen -- obviously we've seen rates pick up a little bit, but if I look at it for this year, I think the average -- our average interest cost will be 4.1%. That's all in, obviously so that includes debt issuance costs and all those things impact of -- and impact of all of that. So, but I think that's probably 4.1% and that, that may climb a little bit over the next couple of years, but you now have to remember, it's only a small portion rolling in. So it takes pretty long for that to have a significant impact. And at the same time, as you mentioned that the depreciation rate will be coming down. So this year, I'd say probably around 5.3% for the year, and that will tick down in '19 and '20 as well as the fleet gets younger.

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

It is worth mentioning that our interest. Vincent, it's worth mentioning our interest expense that we quote is a fully loaded interest expense. We include the coupon, we include undrawn fees for the amount of liquidity we hold. We include upfront fees that are associated with arranging debt. And we also include if there is any discount on issuance of the debt that's also included. So it's a fully loaded fee, not just the coupon that we show. Because that is the true cost of debt, it is how much it cost you to actually issue it.

Vincent Albert Caintic - *Stephens Inc., Research Division - MD and Senior Specialty Finance Analyst*

Okay. Perfect. And one more question, if we could talk about the buyback program? If you could maybe give us an expectation for the full year? I know you have $140 million remaining. And then also I just noticed that the shares outstanding increased quarter-over-quarter, so the second quarter was higher than first quarter, if you could just explain that as well.

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Sure. Let me start with the buyback, and then I'll let Pete talk about the share count. So look obviously, we continue to buy shares, we deployed $100 million in the second quarter and $400 million overall. If you go back to, when you ask about guidance in the Investor Day last November, start of December, we said we would deploy $700 million. We have done $500 million of that because we put $100 million away to work in December. So we've done $500 million of that already, we have $140 million of our existing program. And as we generate excess capital and look at the alternatives, we still believe that the share buyback is an extremely compelling alternative. And as we generate excess capital, we will look very hard at using it for the share buyback program. Of course, you have to bear in mind that we do have CapEx of $15 billion, which will drive book value per share, which will drive net income, which will drive top line growth coming out of over the course of the next 2.5 years.

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

And on the second half of your question, Vincent, so the share count increased during the quarter and that was really due to we had share vesting in May, this was due I mentioned in my prepared remarks. So this was the program that was put in place 4 years ago in connection with ILFC acquisition. So those shares were 4-year cliff vesting. And most of them came due in May of this year. And so you saw some additional shares come in during the quarter.

Operator

We will now take our next question from Kevin Crissey of Citi.

Kevin William Crissey - *Citigroup Inc, Research Division - Director and Senior Analyst*

A quick question was related to why is this the time to be accelerating growth, maybe you could remind us of the strategy here? It feels a bit later in the economic cycle to have an acceleration of growth, but obviously things are going well globally.

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Kevin, this growth is coming from the order book that was put in place 5, 6 years ago. So it was contracted back then. They're atvery attractive prices and we believe it's extremely attractive growth for the business. It's focused on the most desirable variants of the new technology aircraft that's available. And we see extremely strong demand for these fuel-efficient airplanes in the world today.

Kevin William Crissey - *Citigroup Inc, Research Division - Director and Senior Analyst*

Terrific. And if we could talk about -- you talk about the airlines with utilization and high utilization of their aircraft and high load factors being an impetus for further aircraft orders. In an environment with higher fuel prices, I'm just not sure why that wouldn't lead to have naturally higher fares as opposed to higher aircraft orders. Can you talk about that trade-off?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Well, there is huge growth in traffic around the world at the moment. And what we're seeing is congestion in airports and how airlines are dealing with that, they just have limited numbers of slots, is they are identifying their aircraft. So if you look at the density on an airplane that has occurred over the last 10 years, you'll see an increase in density of aircraft seats on aircraft every year. Now that's coming to a peak. There's only so many seats you can get on the fixed piece of real estate, that is the aircraft. So what we are seeing is because of that and we do see airlines say, okay, look I need to bring in more assets or bigger assets, and that's what's really driven I would say the surge in demand for the A321 as an example. If you go back 10 years, the real heart of the market was the 737-800/ A320 airplanes. Today, the A321 size airplane is taking half the market.

Operator

And we will now take our next question from Kristine Liwag of Bank of America.

Kristine Tan Liwag - *BofA Merrill Lynch, Research Division - VP*

We're seeing your restricted cash balance tick down in the past few quarters. Also we've seen a tick down in your lessee deposit liability. If I look at either of these metrics as a percent of flight equipment, there's also been a decline from 4Q17 to 1Q18 to this quarter. So first, are these relevant metrics to measure cash deposits from your customers? And second, has there been a change in your cash deposit requirements?

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

Kristine, thanks for your question. No, there has been no change in the requirements that we do. And I mean, these can bounce around the restricted cash, it's really due to some of the facilities that we've got. So those have been coming down. So it's really, I'd say that's not a very good metric to look at from that standpoint, it's really driven by some of our secured facilities, for example, so when we repay a secured facility then that frees up some of that restricted cash so the balance goes down.

Kristine Tan Liwag - *BofA Merrill Lynch, Research Division - VP*

And the lessee deposit liability?

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

Yes. No, I mean, there has been no change in our policy, that's just so that I wouldn't -- there is really nothing that you can take away from that, I don't think.

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

The other thing that happens there Kristine, is you have some lessees, if they can bring in an LC from a highly rated bank, of course, we'll facilitate that as well. And you do see a little bit of that as the credit of the airlines has improved a bit they're able to access lines of credit.

Operator

We can now take our next question from Gary Liebowitz of Wells Fargo Securities.

Gary Steven Liebowitz - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Pete, it looks like operating cash flow came in somewhat below recent quarters. Anything unusual Q2 worth calling out?

Peter L. Juhas - *AerCap Holdings N.V. - CFO*

No, it's a little lower for the first half of this year. Gary, you're right. And that was primarily due to the Air Berlin and Monarch transitions that we had. So really two things associated with that as I mentioned -- as I've mentioned on a few calls now. The Air Berlin and Monarch transitions took a while to happen. And as a result of that, when the aircraft are not haven't been delivered to the new lessee, you are not getting rent for that. So obviously that's lower. And then also, the expenses associated with those transitions. We paid them really over the first half of this year. So that was the biggest driver of that. There are few other smaller things, but that was really the main one. And going forward, we expect it to be around $3.2 billion per year. So it should go up again.

Gary Steven Liebowitz - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And maybe one for Gus. Gus, is it getting harder to find slots for aircraft reconfiguration, are we seeing transition times between lessees increased as a result?

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Well, Gary, there certainly was that in the first in the last 8 months of the year, because there were 2 good-sized bankruptcies, Air Berlin was a big airline. And when all those aircraft came out, in addition to Monarch airplanes, there was just a big strain put on MRO capacity on a global basis. It just wasn't ready for that number of airplane to hit us. So that did slow down the transitions for sure. I'd expect that, now that's pretty much cleared and those airplanes out of the system. So I'd expect that, we should resume to normal service in the fourth quarter, third -- fourth quarter of this year onwards.

Operator

It appears there are no further questions at this time. I would like to turn the conference back to our host for any closing remarks.

Aengus Kelly - *AerCap Holdings N.V. - CEO & Executive Director*

Thank you, operator, and thank you all for joining us for the call today. And we look forward to talking to you again in 3 months' time. Goodbye.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.