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PRESENTATION

Operator

Welcome to today's AerCap First Quarter 2018 Financial Results Conference Call. (Operator Instructions). This call is being webcast, and an audio version of the call will be available on the company's website. The call is also being recorded for replay purposes. I would now like to hand the call over to Joseph McGinley, Head of Investor Relations. Please go ahead, sir.

Joseph McGinley

Thank you, Operator. Welcome to the first quarter 2018 conference call. With me today is our Chief Executive Officer, Aengus Kelly, and our Chief Financial Officer, Peter Juhas.

Before we begin today's call, I would like to remind you that some statements made during this 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 May 3, 2018. A copy of the earnings release and conference call presentation are available on our webcast at aercap.com. This call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay. I will now turn the call over to Aengus Kelly.

Aengus Kelly

Thank you, Joe. Good morning, everyone, and thank you for joining us for our 2018 first quarter earnings call. I am pleased to report another quarter of consistent earnings and profitability. During Q1, we generated earnings per share of $1.72 and net income of $265 million. These results were driven by a strong underlying performance of the business.

During the [first] quarter (corrected by the company after the call), the AerCap platform executed 114 aircraft transactions. This is 2 transactions per working day and includes 28 widebody transactions. Our utilization rate was 98.3% which was slightly below our 2017 level of 99.1% due to high number of aircraft transitions during the quarter. As these aircraft deliver, we expect our utilization rates to return to 99%.

We continue to see above average demand for aircraft globally, evidenced by another strong start to the year in terms of passenger traffic growth, with IATA reporting an increase in March RPKs of 9.5% growth year on year. This sustained demand for lift continues to help our placement activity. We have now placed approximately 95% of our new deliveries through the end of 2019 and around 80% through 2020. This gives us significant visibility to future revenues and profits. On the new aircraft side, we took delivery of 7 aircraft in Q1 which was less than expected. The reduced level of deliveries was primarily due to delays from the engine manufacturers. At this stage of the year, it is too early to say how many aircraft, if any, will slip into 2019. However, we do expect our deliveries to be more weighted towards the second half of the year.

We remained active sellers of mid-life aircraft in the quarter, selling 21 of our owned aircraft with an average age of 12 years. The sales volume was higher than normal in the first quarter as most of the aircraft we sold came from a large portfolio sale we announced in December. We will continue to sell aircraft this year and expect to achieve our target of $1.5 billion of aircraft sales. Our sales activity is likely to be weighted towards the first half of the year. The continued deliver of new technology aircraft has increased our remaining lease term to 6.9 years which gives us strong visibility into the future. The average age of our owned fleet is 6.8 years, down from 7.3 years in March, 2017.

We expect this to move towards the low 6s over the next couple of years as new aircraft deliver. At a macro level, there has been an increase in oil prices with West Texas Intermediates at circa $67 a barrel. While this will have some impact on airlines' profitability, it has not yet impacted demand for aircraft and may increase the demand for new technology airplanes. Interest rates in the US also continue to move upwards with the 10-year Treasury hitting 3% for the first time since 2014 last week. We believe our business is well positioned to deal with the rising rate environment as we remain well hedged through a combination of fixed rate debt and interest rate swaps and caps. As these rate rises are being driven by a strong economy, this reflects a broadly positive environment for our airline customers focused on the US market. Higher rates also improved the relative merit of leasing versus buying as the vast majority of our customers will have a lower credit rating than we do, thus making outright purchases more expensive to fund. We may also in time see some more opportunities in the sale-leaseback market for that reason.

One area we'd like to highlight is the number of aircraft transitions that have taken place since the beginning of the year. We believe these illustrate the true power of the AerCap platform. Since January, we have transitioned 6x 777s, 5x A330s, and over 20x narrow body aircraft to new lessees. Each of these transitions require significant planning, engineering and reconfiguring expertise. All of which add tremendous value to the company. Our ability to manage all of this in-house, significantly reduces risk for our shareholders and sets AerCap apart from the rest.

On the liability side of our business, we closed $2.9 billion of debt facilities in the first quarter at attractive prices. We continue to manage our balance sheet conservatively, ending the quarter with $10.8 billion of available liquidity, which is equivalent to 150% of the next 12 months' usage of cash. Our share repurchase program continued during the quarter. In Q1, we repurchased 5.9 million shares at a discount to book value for a total of $305 million. This brought the total number of shares repurchased since June 2015 to approximately 70 million shares, which is one third of the company. All this was done while we significantly delivered the business. We are also announcing today a new share repurchase program of $200 million that will run through the end of September.

So in summary, our portfolio of aircraft continues to perform well underpinned by a strong traffic environment for our global customer base. We have been active in placing our new aircraft deliveries which reduces risk and increases our earnings visibility. This also gives us the confidence to continue to buy back stock and drive shareholder value.

With that, I will hand it over to Pete to go through the financials.

Peter Juhas

Thanks, Gus. Good morning, everyone. I'll start on Slide 5 of the presentation. For the first quarter, our net income was $265 million, an increase from $261 million in the first quarter of 2017. Our diluted earnings per share was $1.72, an increase of 16% from last year. The increase in net income was primarily due to higher gain on sales which was partially offset by the impact of the Air Berlina and Monarch terminations in the second half of 2017 which led to lower lease revenues in the quarter and higher leasing expenses. The increases in earnings per share was driven by our lower share count as we repurchased close to 30 million shares from the beginning of 2017 through the end of March, 2018.

On Slide 6, over the past year, we've seen an increase in our book value per share of $8.40 from $51.20 to $59.60 at the end of March. That represents a 16% increase which has been achieved through a combination of strong earnings as well as significant share repurchases over the past year. As Gus mentioned, we have now repurchased one third of AerCap's outstanding shares.

On Slide 7, our total revenue was $1.219 billion for the first quarter, a slight decrease from 2017. Our basic lease rents for the first quarter were $1.033 million. Basic lease rents decreased primarily due to the sale of midlife and older aircraft over the past year which reduced the average age of our fleet. In addition, the lower utilization caused by the transitioning of the Air Berlin and Monarch aircraft to new lessees during the first quarter also reduced basic lease rents. Our maintenance revenues for the first quarter were $87 million, about the same as last year. Our net gain on sales was $89 million for the quarter compared to $47 million a year ago. In the first quarter, we continued to sell midlife and older aircraft at attractive prices and we continued to see strong demand from buyers of used aircraft. Our other income was $9.5 million for the quarter, which was the decrease from last year. During the first quarter of 2017, we recognized other income related to lease termination payments from a lessee which led to higher other income last year.

Turning to Slide 8, our net interest margin was $742 million for the quarter and our net spread was 8.5%. Both of these were affected by the transitions of the Air Berlin and Monarch aircraft as I mentioned. For the full year we expect our net spread to be around 8.5% which is consistent with the guidance we gave at our investor day last November. Our net spread less depreciation for the quarter was 3% which is also in line with our Investor Day guidance.

As we continue to take delivery of new technology aircraft and sell older and midlife aircraft, we're reducing the average age of our fleet which was 6.8 years at the end of March. We're also increasing the average remaining lease term of our aircraft which was 6.9 years at the end of the first quarter. And as Gus mentioned, we expect the average age to drop to the low 6s by the end of 2019. Since new aircraft generally have lower yields than older aircraft, this reduces our overall yield as well as our net spread. But by selling these older aircraft and replacing them with the new technology aircraft, we're improving the quality and the liquidity of our fleet. We're also reinvesting the proceeds from these sales at a premium to book value to fund a significant amount of share repurchases at a discount to book value.

On Slide 9, our net gain on sales was $89 million for the quarter as we sold 21 of our owned aircraft with an average age of 12 years for around $760 million. This included 13 narrow body aircraft and 8 widebodies. We also placed 2 aircraft on long term leases and reclassified them as finance leases. Our gain on sale margin was higher than normal in the first quarter and for the rest of this year we expect the margin to be more in line with historical levels. We took delivery of 7 aircraft in the first quarter. That was 2x A320neos, 2x A350s and 3x 787s.

Turning to slide 10, our maintenance rights expenses were $54 million for the quarter, down from $73 million in 2017. This was driven by the level of maintenance activity as well as the lower balance of the maintenance rights intangible asset. Maintenance rights intangible has come down from around $2.1 billion at the beginning of 2017 to around $1.35 billion today. Our other leasing expenses were $79 million for the quarter, an increase from $49 million last year. This was higher than normal due to expenses related to the Air Berlin and Monarch transitions. During the second quarter, we expect leasing expenses to remain at about this level due to additional transition costs for these aircraft and then return to normal after that.

Our SG&A expenses were $86 million for the quarter, slightly higher than the first quarter of last year. This was due to a temporary increase in share based compensation expense due to the timing of the vesting of our old equity awards program and the new replacement program we've put in place. Most of the old awards vest during the second quarter. So basically, we're seeing a higher stock-based compensation expense in the first two quarters of this year followed by a significant drop in the second half of the year since the overall cost of the new replacement program is lower.

For the second quarter, we expect stock-based comp expense to be about the same as in Q1 and for the full year we expect it to be a little lower than in 2017. Overall, we expect our SG&A expense to be lower in 2018 than in 2017.

Turning to Slide 11, we continue to maintain a very strong liquidity position. As of March 31, we had available liquidity of $10.8 billion which was a record level for us. Together with our operating cash flows, that gives us total sources of $14 billion, which is 1.5x our cash needs of $9.2 billion over the next 12 months. This amounts to excess coverage of around $4.8 billion.

So to wrap up, we had a strong first quarter with EPS up 16% year-over-year. We continued to make progress in placing our aircraft and we redeployed the excess capital we generated to repurchase around 6 million shares at a significant discount to book value. We closed on $2.9 billion of financing and we ended the quarter in a very strong liquidity and capital position. With that, now we'll turn it over for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Gary Liebowitz, Wells Fargo.

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

Thank you, Operator. Hi, guys. Gus, I was wondering if you could give us an update on your 787 placements. It looks like in your annual report you implied that for new 787 leases, some of them are going out on as short as 8 years. Is that the new normal in the widebody market?

Aengus Kelly

No, it's not, Gary. The average lease term on our 787s is close to 12 years. The placement activity has gone extremely well. We've placed over half of the order that we placed in June of last year, so that market is very robust and 12 years is the average, not 8.

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

Okay, thanks for clarifying that. Also, can you talk about the purchase leaseback market? It's been a while since you've done anything there. Are the economics you're seeing on those types of deals getting any better or should we realistically just assume that for 2018, substantially all of your CapEx is going to be the new aircraft that are on order?

Aengus Kelly

I think the majority of our CapEx will go to the new aircraft on order. The last time we did a purchase leaseback transaction in the open market where we actually agreed to terms was December, 2013. In that time of course, we've grown to be the biggest, most profitable leasing company in the world without having to touch the PLB market. Now if the PLB market does come back, we will be active. We think the thing that might change it, as I referenced, are higher interest rates of course, a tightening of funding more so, and liquidity would really be the thing that would drive it. But I think for the rest of the year, I would imagine that the vast majority of our free cash will be used to fund the contracted CapEx off the order book as well as some share buybacks.

Operator

Catherine O'Brien, Deutsche Bank.

Catherine M. O'Brien - *Deutsche Bank AG, Research Division - Research Analyst*

Good morning, gentlemen. So just one question on the Air Berlin and Monarch aircraft. Have those -- are those remarketing efforts done? We're just going through some of the reconfigurations still in the second quarter? Or are there some aircraft left to be placed?

Aengus Kelly

All the aircraft are placed. A few of them are still going through a reconfiguration but they should all be delivered in this quarter.

Catherine M. O'Brien - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, great. And then just given that Air Berlin was a low-cost carrier flying widebody aircraft, were those reconfiguration costs higher than AerCap's typical reconfiguration costs on a widebody aircraft?

Aengus Kelly

the problem with Air Berlin was that it was low fare, but high cost. So the issues with the Air Berlin cabin all were not that significant because the cabin was highly specked and more in line with what it's significant shareholder envisioned the passenger experience should be which is Etihad. So actually, the cabin was very highly spec'd.

Catherine M. O'Brien - *Deutsche Bank AG, Research Division - Research Analyst*

Interesting. And if I could just ask one more, do you think if we see the US enter into some type of trade war situation with China that would impact the planes you're able to place in China? Have you had any conversations on this type of scenario with your Chinese airline lessees?

Aengus Kelly

It's very difficult to say what type of impact a trade dispute would have. One thing I think we can be sure of is that the growth in the Chinese market will continue and that demand will get filled by aircraft either from Airbus or from Boeing aircraft provided by lessors I suspect. But it is impossible to say at this stage what impact if any a trade dispute will have on aircraft.

Operator

Mark DeVries, Barclays.

Mark C. DeVries - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Gus, we've been increasingly hearing from investors who are kind of concerned about the production ramp at the OEMs and the risk they may oversupply the market. I'd be interested in hearing your thoughts on that risk. And any potential implications for the value of your fleet.

Aengus Kelly

Certainly at the moment, the big concern is can they actually produce what they promised to produce let alone overproduce. Look, as I've said before, the OEMs are in the end a rational duopoly. They will supply as many aircraft as the market can take, but they will not supply the market with such a surplus of airplanes that it will cause a cannibalization of their own customer base. What I mean by that is, if an airline had 100 airplanes on order and is expected to take 50 next year and the market isn't there for it, the airline will go back to Boeing or Airbus and say, I can only take 30. Boeing and Airbus will say, fair enough, but your cost goes up for all your aircraft and you have to order a few more in a few years' time. That's the way it works. And we've seen that behavior time and time again. The alternative is for Boeing and Airbus to say to that customer, no, you're going to take all 50. Then one of two things will happen. Either that customer will go into bankruptcy and his order will be lost, or an airline in his region beside him who is competing against him or her will go into bankruptcy and their order will be lost. So the rational duopoly in the end has always managed to match the supply and demand with as much as the market can take. But we don't see significant periods of oversupply because of that dynamic of the rational duopoly.

Mark C. DeVries - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Can you give us some color on how we should expect the pace of buybacks over the course of the year? I think you mentioned sales may be a little bit more frontend loaded in the year and deliveries a little bit more backend loaded. So should we expect buybacks to kind of curtail a little bit as we get towards the end of the year?

Peter Juhas

We had estimated excess capital for the year of around $700 million at our Investor Day last year. So I think that's probably still a good number. And if you think of most of that being used for buybacks, that's probably the best estimate to use. So when you think of the buybacks that we did in the first quarter, which were $305 million, you'd expect that to be somewhat frontend loaded as well.

Operator

Susan Donofrio, Barclays Capital.

Susan Marie Donofrio - *Macquarie Research - Senior Analyst*

Two questions. One is, I just wonder if you can share your thoughts on whether you are starting to see the impact on leased rental yields from the rising interest rate. And I'm wondering if you can also share your thoughts on whether there is a difference between the midlife planes versus any placements.

Aengus Kelly

In general, across the board, you are seeing a rise in lease rates to correspond with interest rates. On certain contracts it's immediate. For example, where we have placed an airplane with a customer that's delivering in the future and the contract is already in place, there's an automatic increase in the lease rate for every basis point increase in the underlying index which may be the 7-year swap rate. On the used aircraft types, it takes a lag generally of about 6 months or so for that to flow through, but we're starting to see that to flow through on the used aircraft pretty quickly actually.

Susan Marie Donofrio - *Macquarie Research - Senior Analyst*

Great. And then just an unrelated question, are you seeing any change in demand from customers related to the recent rise in oil prices?

Aengus Kelly

On a global basis, no is the short answer, as I said. WTI has crept up to around the $67 a barrel level, but overall, we have not seen any diminution in demand on a global basis for aircraft as a result of this. The airlines are still able to operate at very profitable levels at this level of fuel.

Operator

Scott Valentin, Compass Point.

Scott Jean Valentin - *Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst*

Peter, I think you mentioned gain on sale in the first quarter was elevated and that's going to return back to historical norms. Can you remind us or tell us what the first quarter gain on sale margin was? And then kind of what a historical normal range is? Is it 5% to 8% if I recall correctly?

Peter Juhas

It was around 13% for the first quarter of this year. I think 5% to 8% is a reasonable range long term.

Scott Jean Valentin - *Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst*

You mentioned obviously the Air Berlin and the Monarch planes having an impact on margin this quarter on rental revenue. Can you quantify that at all? So when we think about maybe 3Q being the first full quarter of those aircraft being back in service, we can kind of determine what the benefit would be?

Peter Juhas

Sure. It was about a 20 basis points hit in terms of the lease rate yield. And I would say, as Gus mentioned, you'll probably see some of that in the second quarter as well and then once all the places have delivered, then that would go away.

Scott Jean Valentin - *Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst*

Gus, you mentioned the purchase leaseback market not being attractive yet. Are there any M&A opportunities? There were some I guess call them rumors if you want about some fairly large portfolios being available for sale. I don't know if that's changed recently, I don't know if you want to comment on any M&A opportunities you guys are seeing out there.

Aengus Kelly

No. We look at all the different opportunities that are out there and we haven't found any that are more attractive than how we've been deploying capital ourselves through the order book and through the buyback program. But as I said, of course, we look at all the opportunities.

Operator

Rajeev Lalwani, Morgan Stanley.

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

Gus, a question for you. Can you just talk about the prospects for the A330 in your fleet? Obviously we've all seen the production cuts announced by Airbus. I was just wondering about any implications there.

Aengus Kelly

Look, you have to separate end of line airplanes, be it A330s, 777s, 737NGs, A320s. They're all going to struggle if you buy an end of line airplane. There will be an issue later on. However, the A330 and the NG, the 320, the 777, those midlife airplanes are highly in-demand across the world. We expect the 330, particularly with Rolls Royce powered engine, to be the preeminent used widebody airplane for the long term as we look out the next 10 to 15 years. It is the ubiquitous airplane. It is the 767 of its time.

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

Thanks. Just as a follow-up, Gus, can you talk about the dialogue you're having with customers when their aircraft is coming off of lease? Have they been tending to lean towards extending those leases, just letting them expire, getting new aircraft? And if they are extending, what do the terms tend to look like?

Aengus Kelly

It's a mix. It will change customer by customer what they're doing is dependent on their order book, what they see in their region, etc. But overall on a long-term basis, we still see a big portion of the lessees continue to extend the airplanes. Because in an extension of course, you avoid the downtime associated with a transition, you'll generally share that benefit with the lessee in an extension. But overall, there's no difference really to the historical trends on extensions versus releases. But as I mentioned, you saw the true power of the AerCap platform in the first quarter when we transitioned 6x 777s, 5x A330s and over 20 narrow body aircraft. No one in the world has that kind of expertise except AerCap.

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

That's a fair response. So I guess in the event that they're actually extending those leases, what do the terms tend to look like? Is that something that you prefer to do because the terms are attractive? Or not so much?

Aengus Kelly

At the margin you prefer to extend because you avoid the downtime and the additional transition cost. But look, if the alternative is a better deal, you're going to do it. And the key thing about investing in AerCap which is different to so many other platforms, particularly on the widebody different to anyone else, is we are not at the mercy of a customer who wants to extend. All the customers know that AerCap can and will take airplanes back if we don't like the terms. That really separates us and that's the power of the platform versus anyone else in the industry.

Operator

Jason Arnold, RBC Capital Markets.

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

I know you mentioned the new deliveries this year are second half weighted. But I was just curious if you could speak to the dollar value of the aircraft you expect to deliver in Q2 2018. And then perhaps comment on what component of 1Q 2018 deliveries that were planned are now coming in 2Q or later?

Peter Juhas

Sure, Jason. So for the full year, we still expect it to be about $6 billion of CapEx. And I'd say it will all depend on how extensive the delivery delays are, but at this point we expect to get maybe $1.7 billion in the second quarter and then the rest of it will be in the second half. That's our estimate today, although that could obviously change depending on how extensive the delays are.

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

Okay. Thanks for the color there. Then I guess as a follow-up, you mentioned the strong IATA data out this morning for March. Load factors continuing to kind of march up here recently here in the data as well, and I guess I was just curious if you would comment on how should we expect this to manifest into your business? Presumably at some point higher aircraft values and lease rates would be kind of a demand driven expectation. But maybe you could just kind of comment on your thoughts around that as well.

Aengus Kelly

Sure, Jason. Look, if you look at our forward placement activity, that's really where it manifests itself. We only give you the percentage placed out to the end of 2020. But we have placed airplanes in 2021, 2022 and as far out as 2023. And that's where you really see that growth in traffic manifesting itself.

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

Then I guess presumably for the secondary market as well, I mean it seems like that would suggest that the fleet values, etc. would be something that would be moving upward or have some sort of upward momentum. Would that be a fair statement?

Aengus Kelly

I think so. But I think if you look at our track record as well over the last 44 quarters, we've made money selling airplanes pretty much every quarter. So I think that's a strong indicator of the resilience of our aircraft values and then at the moment, yes indeed, there is a strong bid for airplanes in the used market which further accentuates those profits.

Operator

Helane Becker, Cowen.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

I just have 2 questions. One is, is the aircraft sale to Spirit included in the first or second quarter aircraft sales number?. Or are they coming every quarter?

Peter Juhas

that would be in the second quarter. Yeah, that would be in the second quarter, Helane.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Perfect. Then my other question, Gus, as you think about your business and seeing aircraft, have you also thought about the idea of setting up sidecars like some of the other lessors have done? And putting those aircraft into those and earning management fees? Or is that just not a business you prefer not to be in? Thank you.

Aengus Kelly

We've been bigger than anyone else except GCAS for most of our existence, so we have more experience in doing these than anybody else and we still have quite a number of them with the Chinese government, with investment funds, with banks in the US and Europe, and also most recently with a bank in Saudi Arabia that you saw us do a large deal with. So we certainly do them. Historically, the reasons to do these have been very good reasons. It's to alleviate pressure on the balance sheet because you have significant CapEx coming. And it's been to generate -- this is originally why we used them, if you will, if you go back when we started doing them in the mid-90s and into the early 2000s, also at that time there wasn't a very deep funding market in the banking market or at the unsecured market didn't really exist. So you needed to find an alternative form of funding there to fund the business. The second reason than to do it is to generate gain on sale which is primarily what GECAS used it for over the years. The actual revenue you get off it is never worth it. We've been doing it for longer than anyone. If you think about the revenue line, you get -- to generate -- if you take $1 billion of assets, say you generate $100 million of lease revenue, you might get at most $5 million, $6 million, which isn't going to get anywhere close to covering the SG&A associated with the cost of that.

Operator

Jamie Baker, JPMorgan.

Nishant Mani - *JP Morgan Chase & Co, Research Division - Analyst*

This is Nish Mani on for Jamie. I wanted to ask you a question about lease duration and what you're seeing in the order book. If we assess kind of on a relative basis what the average duration of your leases that you've booked over the past kind of quarter or 2, relative to what they were last year, I mean directionally have leases gotten shorter? Have they stayed roughly the same? Have they gotten longer? I would love to get some color on that.

Aengus Kelly

They're broadly the same. But what we do show is the total remaining lease term from our entire book is 6.9 years which is I think probably the longest in the industry. Even though we have an older fleet than some. We see the new aircraft lease terms still trending close to 12 years on average. There have been a few at 10, but the majority are 12 years.

Nishant Mani - *JP Morgan Chase & Co, Research Division - Analyst*

On the shorter end, to Gary's question earlier, is that kind of more focused on the widebody segment? Or are you seeing --

Aengus Kelly

No, not at all. I'd say the exception to the rule, and I'm telling you, if you look at our total lease term for our whole book, it's 6.9 years. That's where we are at the moment which is longer I believe than anyone else in the industry. And on the new aircraft side, it's pretty much 12 years with the odd one of 10 years, but pretty much 12 years across the board.

Operator

Kristine Liwag, BofA Merrill Lynch.

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

Gus, for the aircraft that you've placed in your forward order book, can you discuss the interest rate escalators in the lease rates that you have placed in your contracts? Essentially, what is a common interest rate benchmark used for your escalators with your airline customers? And is there a spread that you can keep if you can keep the increase in your borrowing cost lower than that benchmark?

Aengus Kelly

Look, generally it's based off a 7-year swap. So you don't play the indices and trade that. Your average duration of our book, as you just heard me say, is 7 years. So 7 years is the index to use. In terms of what it's supposed to represent is the impact of a 1% move in interest rates. You need that compensated for by an increase in your lease revenue. At a very simple level, if you had an airplane worth say $30 million and you were levered 4:1, you would need $20,000 a month increase for 1% move in interest rates which is $24 million divided by 12 divided by 100, $24 million being 80% of the $30 million. And that's how it works. But it's not something you use to make a margin out of.

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

I see. So then that interest rate escalator that they have in that contract, it's not adjusted for credit quality?

Aengus Kelly

No, of course not, that's in the base rent. You'll factor that into your base rent, not into the interest rate adjustment.

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

Okay, that makes sense. Then at this point, you've taken delivery of about 50 A320neos and you have another 51 coming this year. What's the average lease premium you're able to garner for the NEO versus a CEO?

Aengus Kelly

It varies across the board, but you're definitely going to be getting 15% if not more, 15% to 20% depending on the terms.

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

That's helpful. And then lastly, were there any offsets in maintenance rents from the Air Belin and Monarch lease terminations that we should be aware of? So then when we think about that higher lease cost, is there a net number that we should factor in?

Peter Juhas

No, Kristine. I think as we look at maintenance revenues on a normalized basis, I think they're around $80 million a quarter typically. So it was a little higher this quarter at $87 million, but not much, so it's pretty close to normal on the revenue side. It was elevated by about $30 million across everything by about $30 million on the expense side. So leasing expenses would tend to be around $50 million barring any unusual events. And they are about $80 million this quarter.

Operator

Ross Harvey, Davy.

Ross Harvey - *Davy, Research Division - Transport, Distribution and Logistics Analyst*

You've crossed off a lot of my questions, so I'll just take a chance to ask 2 more strategic ones. The first is something you discussed at CMD, both in the context of rising rates, increasing fuel, and some of your peers are discussing the benefits of younger fleets. Can you just discuss any updated thoughts you have on what the right mix for AerCap is around younger fleets versus risk balancing particularly as you come across the next couple of years and what you think about that? And the second question is on aircraft sales and I guess this is in the context again of the rising rates. They're kind of 45, 50 bps above where they would have been at the time of the CMD in November in terms of that 10-year Treasury yield. Has there been any impact on the institutional investors that would have looked to acquire aircraft from you in that 8 to 15-year range? Has there been any change in their thinking given the rising interest rates? Thanks.

Aengus Kelly

I'll answer the second part of the question first. The short answer is no, there is still very strong interest in aircraft as you just saw in the numbers we just printed there that they are at healthy margins as well that we're generating on the sales because these are highly investable assets. When it comes to what our view is of new and older airplanes, it's far more nuanced than saying new is good and old isn't. I think we prefer a bar-belled approach to it really where we're very happy to own A320neos, A321neos, Max8s, 787-9s, a few -8s, A350-900 and also the E2 variant. We believe they are the new aircraft that are in demand. We're not so sure about some of the other variants. And then when it comes to older airplanes, we're very happy to hold the older type of airplanes, say 8 years and older, of 320, 737, 76s or 75s, 777 and 330s. So we have more of a barbell view of how to construct a portfolio. We think where you are at risk is having some of the less in-demand new airplanes plus also holding those young variants of the current technology. Because they will be replaced at the backend of their lives by the new technology assets. Whereas if you're holding a 12-year old A320, you can be very confident that for the next 15 years, the A320 will be a key part of the global aviation market.

Operator

Moshe Orenbuch, Credit Suisse.

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

Maybe putting together a couple of the previous questions, you had kind of talked about the fact that you are going to have by sometime in 2019 a younger fleet that naturally will have somewhat lower yields and also longer lease lives. Is it something that you would consider, given that you said it doesn't seem like there's major changes in the environment that would make a large investment, external investment of interest that you could increase your leverage in that environment? Is that something you'd consider? And how do you think about that kind of over the course of the next year?

Aengus Kelly

Look, we think we look very carefully at leverage. We've given clear guidance on the leverage that we believe we should be in the corridor of 2.7x to 3x. We believe that's a leverage point that we can generate a fair return on equity for our equity investors and still maintain access to all the global financial markets with an investment grade rating. And we think we have to be very careful about that, the investment grade rating. In order to go above that 3x, there would have to be an extremely compelling reason in order to do that.

I should note, there was a query earlier on about some of the lease terms on some of the new airplanes. Of the total new airplanes placed, I would say 4 were shortened slightly to just below 10 years, but there was an increase in the lease rate corresponding to that.

Operator

Darryl Genovesi, UBS.

Darryl Genovesi - *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

Gus, my sense is that many of the replacement orders placed back early this decade when crude was above $100 a barrel, buy the time they were ultimately delivered ended up being for growth because crude had by then dropped below $50. I remember some 767-300s in particular, went through service extension programs. Then I also remember you guys specifically calling out some unanticipated lease extensions on older aircraft more broadly. I guess first off, would you agree with the generalization? And then second, I suppose service lives can't be extended indefinitely at any oil price, but now that we're back up above $70, would you anticipate that scrap rates pick up prospectively and that we basically get a larger portion of the forward order book that ends up going towards replacement?

Aengus Kelly

I think if you stay at these levels, that's probably true directionally. One of the things we have seen is a pickup in freight. And we're seeing a lot of airplanes, you mentioned the 767 family, and the impact Amazon is having on that market by taking so many out of the passenger side into the freight. So we're definitely seeing a pickup there. That's one thing that is happening. FedEx also moved the 757 market when they went into the freight business. So look, I think directionally that's probably true. I think it's a bit too early to call time on a number of these aircraft that have had a longer life. You have to remember as well, not every jurisdiction is hit the same by rising fuel. Against the Euro for example and those flying into the Euro zone, I mean that is the biggest travel block in the world, the whole Euro zone itself. And that currency 12 months ago was at 110. Now it's 120 odd give or take and was as high as 123. So the rise in fuel costs for that, for airlines focused in earning Euros, has not been nearly as much for those say earning dollars. So it is a mixed bag.

Darryl Genovesi - *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

Okay, the other thing I was going to ask you was whether it's kind of the 76s and 75s that are most likely at risk here, but it sounds like you're implying with the pickup that you're discussing in the freight market, that maybe that's not the case. So I guess if something were to come out at the margin, are there any particular aircraft types you would call out?

Aengus Kelly

Look, you're right, you say at some point of course on these airplanes, it isn't economically viable to extend them because the cost of refurbing the engines or refurbing the interior of the aircraft is, you're never going to get it back. So you're not going to overhaul RB211s and the engines on the 757 with full engine overhauls. You'll have to operate them for 10 more years to get that value back. So there's a natural end to these airplanes as well and that will come over the next several years.

Operator

Kevin Crissey, Citi.

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

Can you talk about what percentage of your airline customers are profitable today and how that compares to the past?

Aengus Kelly

Kevin, I think we can safely say that there are a lot more profitable than in the past across the board on that one. Look, without being glib about it, the vast majority of our customers are producing operating profits at this stage and have robust business models. We would hope that a number of them are not just making profits on the back of the movement in oil and that there were fundamental changes to how they operate the business. Which we believe that is the case for the vast majority of the airlines around the world, that how these businesses are run has changed dramatically over the course of the last 20 years.

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

Thank you. Does that have implications for the return conditions that they demand in your contracts?

Aengus Kelly

Not so much. The return conditions are pretty much set out. If we give a new airplane to someone, they're going to hand a new airplane back, either as new overhaul conditioned, or else pay the difference in cash to make us whole. And that hasn't changed. The only thing that changes really is that as the credit quality of airlines has improved, the necessity for them to pay full cash maintenance is reduced because you have to appreciate that their credit standing has increased significantly and the incidence of defaults have fallen substantially over the course of the last 20 years.

Operator

Reno Bianchi, Cantor Fitzgerald.

Reno Bianchi

I was wondering how many of your aircraft or any of your lessees have been impacted by the recent problem with the Trent 1000 engine and the CFF56?

Aengus Kelly

Sure. Let me deal with the Trent 1000 first. The Trent 1000 is the engine that powers the 78s, so the Rolls Royce 787s. There were 3 engine variants that are powering those airplanes today. There's what's called the Package B engine, the Package c, and then the most recent one, a TEN, Ten. Now the real problems at the moment are focused on the Package C engine. The reason is that there is a blade in those engines that is subject to inspection every 80 cycles. One cycle is when an airplane takes off and lands. Now, if the blade fails the inspection, then the engine has to come off wing, go into the shop and the blade has to be replaced. The problem at the moment is that there are not enough spare engines to cater for the incidence of failures of these repetitive tests every 80 cycles. So that is the key issue at the moment that Rolls Royce has to fix and that is what is driving most of the airplanes that are on the ground at the moment. A number of them are our airplanes. We are working with Rolls Royce and our customers to do all we can to minimize the impact of these AOGs for our customers at Rolls Royce. I should add, however, that on the TEN engine, which is the most recent and we hope the final variant of the Rolls Royce product, currently there is a life limited part that is subject to replacement at life end after 500 cycles. So it has to be replaced after 500 cycles. We do expect however, that the lifecycle of that particular part will increase to 3,600 cycles which is about a 6 to 7-year life and a normal life for this LLP. Assuming that that does occur, then the TEN engine should be fine. The problems really are more around the Package C engine. On the CFM side, yes there are delays associated with the LEAP engine at the moment, but as I said, it's too early in the year to say if the delays that we're seeing will lead to any airplanes being pushed into next year. We'll have to wait and see.

Reno Bianchi

I'm quite sure you are aware that since the beginning of March, in a fixed income market, your spread levels have widened quite a decent amount on a comparative basis versus all the other aircraft lessors. I am wondering whether because of this spread widening your propensity to finance your operations either in a public market or in a private market or the back market has changed at all.

Aengus Kelly

Not really, no. we don't see that spread widening that you refer to, particularly not at the long end or at the short end. There was a little bit at the 5-year mark, but not so much the long end. And certainly not in the secured market at all. At the most it's 10 to 15 basis points.

Reno Bianchi

That's fair enough. I was wondering, the recent change in the US tax corporate rates, the reductions in the corporate tax rates, do you think change the propensity of an airline to either own versus lease an aircraft in the US?

Aengus Kelly

Not really. At the moment we've just leads a lot of airplanes in the US market. I think that will have a marginal impact on an airplanes' decision to lease airplanes. The reasons why they lease airplanes are not so much driven by a marginal change in the tax rate. And certainly, look, on a global basis, the US tax rate has no impact.

Reno Bianchi

Fair enough. One very tiny question. You had 613 aircraft that were pledged at the end of 2017 and 353 then were unencumbered. Are those numbers changed materially at the end of the first quarter?

Peter Juhas

No, not materially.

Reno Bianchi

Okay, we'll wait for the 6K report. Thank you.

Operator

(Operator Instructions). Catherine O'Brien, Deutsche Bank.

Catherine M. O'Brien - *Deutsche Bank AG, Research Division - Research Analyst*

Thanks so much for the extra time. So just given your comments on the fact that you're already seeing interest rates start to find their way into the lease rates on used aircraft, should we assume that some of these transitions you've been doing in the quarter and have started on in the June quarter are at lease rates maybe a little bit higher than you would have expected say 6 months ago?

Aengus Kelly

Sure they are. But to be fair also, interest rates are higher, too. I'd say on a net-net basis, there's not much of a muchness.

Catherine M. O'Brien - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, but you're not seeing an impact of a lag so much as maybe you would have expected based on historical correlations?

Aengus Kelly

Certainly on the used 320s in particular and the 737s, we've seen it move through pretty quickly.

Operator

Thank you. That will conclude our Q&A session for today. I would like to hand the call back over to you for any additional or closing remarks.

Aengus Kelly

Thank you, Operator. And thank you all for joining us for the call. We look forward to speaking to you again in 3 months' time.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.
