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PRESENTATION

Operator

Welcome to today's AerCap Holdings Fourth Quarter and Full Year 2017 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 will now hand the call over to Joseph McGinley, Head of Investor Relations. Please go ahead, sir.

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

Thank you, operator, and hello, everyone. Welcome to our fourth quarter 2017 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 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 February 14, 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.

I will now turn the call over to Aengus Kelly.

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

Thank you, Joe. Good morning, everyone, and thank you for joining us for our 2017 fourth quarter earnings call. I am pleased to report another quarter of consistent earnings and profitability. During Q4, we generated earnings per share of $1.67 and net income of $266 million. For the full year, EPS of $6.43 and net income of $1.1 billion.

During Q4, the AerCap platform successfully executed 100 aircraft transactions, including 46 leases, 25 purchases, and the sale of 29 aircraft, more than 1 transaction every day. Our utilization rate remained high during the year at over 99%. We continue to see good demand for aircraft on a global basis, evidenced by another year of strong RPK growth of 7.6% per IATA. As we look into 2018, we expect to see this growth trend continue. We have not observed a decline in demand due to the recent increase in oil prices. Of course, it should be noted that, for many carriers, a significant portion of the rise in oil prices has been offset by U.S. dollar weakness. During 2017, we saw significant demand in the Europe, Middle East and Africa region, and the return to growth in the Russian market.

We remained active sellers of mid-life aircraft in the quarter, selling 27 owned and 2 managed aircraft. These aircraft had an average age of 14 years. We achieved an average gain on sale of approximately 8%. We also agreed to sale of an $800 million portfolio of 21 aircraft to Peregrine Aviation, an investment entity established by NCB Capital, which is a subsidiary of the largest bank in Saudi Arabia. We expect the sales of the individual aircraft to close primarily in Q1 2018. This along with the continued delivery of new technology aircraft has reduced the average age of our fleet to 6.8 years at the end of 2017, down from 7.4 years 12 months earlier. We expect this to move towards the low 6s over the next couple of years. Our average remaining lease term is also trending positively. It now stands at 6.9 years, up from 6.4 years 12 months ago.

In relation to aircraft purchases, we expect to deliver approximately $6 billion of aircraft assets in 2018, reinforcing the return to asset growth, which began again in Q4. This level of delivery may be impacted by recent developments on the Pratt & Whitney geared turbofan engine. It is too early to say what impact this latest issue will have on our 2018 delivery profile. What we can say is that the A320neo is delivering excellent fuel burn savings for our customers, and it continues to be in demand. This is evidenced by the strength of our forward order placements. AerCap has now placed 178 A320neos. As a result of the demand we see for the aircraft, we exercised a follow-on option for 50 A320neos in December.

On the liability side of our business, we continue to lengthen the average tenor of our debts. Our last 4 unsecured bond deals raised $3 billion at attractive rates with a 5-year, a 7-year and 2 10-year maturities. We continue to manage our balance sheet conservatively, ending the year with $9.6 billion of available liquidity and an adjusted debt/equity ratio of 2.8:1. Our share repurchase program continued during the quarter. We repurchased 5.3 million shares for $272 million, which brings the total number of shares repurchased since June 2015 to approximately 64 million shares at a cost of $2.8 billion. This gives an average price of $44.08 per share and has resulted in over 30% of the company being repurchased. We're also announcing a new share repurchase program of $200 million.

Of course, with such a large portfolio, we always have issues with individual customers. However, on a global basis, we continue to see robust demand for aircraft both from airlines and investors, as well as a support of financing environment both from the banks and the capital markets.

With that, I will hand it over to Pete before we have the Q&A session.

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

Great. Thanks, Gus. Good morning, everyone. I'll start on Slide 5 of the presentation. For the fourth quarter, our reported net income was $266 million. For the fourth quarter of 2016, we had higher than the normal net income of $365 million, due primarily to a couple of large one-time items, including a termination fee and a gain on a note receivable that was repaid earlier than we had expected.

For the full-year 2017, our net income was $1,076,000,000 compared to $1,047,000,000 in 2016. Our diluted earnings per share for the fourth quarter was $1.67 compared with $2.01 in the fourth quarter of 2016, which was also higher than normal, due to the same factors as net income. For the full year, we saw an increase of 16% in our EPS from $5.52 in 2016 to $6.43 in 2017. This was primarily driven by strong earnings as well as the repurchase of 48.7 million shares during 2016 and 2017.

On Slide 6, over the past year, we've seen a 16% increase in our book value per share from $49.33 in 2016 to $57.20 at the end of the year. Again, that's been achieved through a combination of strong earnings as well as substantial share repurchases over the past year. During 2017, we repurchased 23.7 million shares for just over $1.1 billion; and as Gus mentioned, since June of 2015, we've bought back over 30% of our outstanding shares.

On Slide 7, our total revenue was $1,263,000,000 for the fourth quarter and $5,037,000,000 for the full year. Our basic lease rents for the fourth quarter were $1,035,000,000. As we've seen in prior quarters, basic lease rents decreased primarily due to the sale of mid-life and older aircraft over the past year, which reduced the average age of our fleet. Our maintenance revenues for the fourth quarter were $163 million, a slight increase over the past year. We had higher than normal maintenance revenues in both the fourth quarter of 2016 and the fourth quarter of 2017. In 2017, this was driven primarily by lease terminations, including as a result of the Monarch Airlines default. Some of the benefits that we saw come through the maintenance revenue line were offset by higher leasing expenses this quarter and will also be offset by additional leasing expenses in 2018 related to these aircraft. Our net gain on sales was $49 million for the fourth quarter compared to $59 million a year ago. In the fourth quarter, we continued to sell mid-life and older aircraft at attractive prices. For the full year, we had $229 million of gains on sales of around $2.4 billion. Our other income was $17 million for the fourth quarter, a decrease from $89 million last year. As I mentioned earlier, the other income line was elevated in the fourth quarter of 2016 as a result of those one-time items.

Turning to Slide 8, our net interest margin was $760 million for the quarter and $3,096,000,000 for the full year. Our average lease assets were down for the full year, but were up by about $550 million for the fourth quarter of 2017 compared to the fourth quarter of 2016. This was due largely to the ramp up of deliveries in the fourth quarter. During 2017, we took delivery of $5.3 billion worth of new aircraft, including over $2 billion in the fourth quarter alone, and we sold $2.4 billion of older and mid-life aircraft during the year. The net effect of this activity was to bring down the average age of our fleet from 7.4 years at the end of 2016 to 6.8 years at the end of 2017. Since the new aircraft have lower yields than older aircraft, when we sell older aircraft and replace them with deliveries of new aircraft, this reduces our overall yield as well as our net spread. Now, of course, we've been selling these order aircraft to improve the quality of our fleet, we've also reinvested the proceeds from selling these aircraft at a premium to book value to fund a significant amount of share buybacks at a discount to book value. Our net spread was 8.8% for the fourth quarter, 9% for the year, which is in line with the guidance we gave at our Investor Day in November. In addition to the decrease in average age, the other factor that impacted our net spread for the full year was the increase in our average cost of debt from 3.7% to 3.9%, as we continued to issue new longer term bonds that replaced expiring shorter term ILFC notes.

Slide 9, here are some additional detail on our aircraft sales activity during the quarter. During the fourth quarter, we sold 27 of our owned aircraft that were an average of 14 years old. We also placed 2 aircraft on long term leases and reclassified them from operating to finance leases. As Gus mentioned, in December, we announced the sale of an aircraft portfolio to NCB Capital, and our sales in the fourth quarter included 4 aircraft from that portfolio. We expect most of the remaining aircraft sales from this portfolio to be completed during the first quarter of 2018. Our net gain on sales was $49 million for the quarter and $229 million for the full year. This represents a margin of 8% for the quarter and around 10.5% for the full year. Our ability to sell significant amounts of older and mid-life aircraft at a gain illustrates the strong demand for these assets that we continue to see from investors. Over the long term, gain on sales have generally been in 5% to 10% range, although, as you've seen, it can move around a fair amount, depending on the composition of the asset sales. The fourth quarter was a record one for aircraft in terms of both the number of aircraft deliveries and the amount of CapEx. In the fourth quarter, we took delivery of 25 new aircraft, including 15 from the A320neo Family, 4 Airbus A350s and 6 Boeing 787s. That brought our total deliveries for the year to 58 aircraft and our total CapEx for the year to $5.3 billion.

Next slide, our maintenance rights expenses were $76 million for the fourth quarter, down from $95 million for the fourth quarter of 2016. This was driven by the level of maintenance activity as well as the lower maintenance rights intangible asset balance. Our other leasing expenses were $66 million for the quarter, an increase from $49 million last year. This was primarily the result of expenses related to the Air Berlin and Monarch defaults. And as discussed at the Investor Day, we will have some costs associated with these going into 2018. Our SG&A expenses were $96 million for the quarter, basically flat compared to the fourth quarter of 2016. We've been putting in place a new equity awards program to replace the old program from 2014 that is maturing. The overall cost of the new program will be lower, but there is some [front-end loading] expenses associated with the new program that led to a higher stock-based compensation expense in the fourth quarter. For the full-year 2018, we expect stock-based comp expense to be in line with 2017, but it will be front-loaded with about 2/3 of that expense coming in the first half of the year. Overall, we expect our SG&A expense to be down slightly in 2018 compared to 2017. We had asset impairments of $10 million this quarter. This is primarily related to lease terminations and was more than offset by maintenance revenue recognized as a result of these terminations.

Slide 11, we continue to maintain a very strong liquidity position. As of December 31, we had available liquidity of $9.6 billion. Together with our operating cash flows, that gives us total sources of $12.8 billion, which is 1.4x our cash needs of $9.3 billion over the next 12 months. This amounts to excess coverage of around $3.5 billion.

So to wrap up, 2017 was another year of strong operating and financial performance for the company. We completed 402 aircraft transactions, more than 1 a day. We continued to improve the quality of our fleet by selling $2.4 billion of mid-life and older aircraft and taking delivery of 58 new technology aircraft. We've placed around 95% of our forward order book through the end of 2019. We generated over $5 billion of revenue, over $3 billion of operating cash flow, close to $1.1 billion of earnings and record EPS of $6.43, and we returned over $1.1 billion of capital to create long term value for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Catherine O'Brien from Deutsche Bank.

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

So I'm just going to ask one and then I'm going to hand it over to my colleague, Mike Linenberg for a follow up. So do you think, if we do see rates start to rise, some of the capital that has more recently been attracted to the business for the relative yields might start to exit? And if they do, do you think the more established leasing companies have the capacity to pick up the aircraft that could come to the market? Or do you think there might end up being some distortion?

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

I think some of the capital here is to stay, Catherine, but I do think there's quite a few tourists in the sector who have arrived here due to the paucity of yields available in other asset classes. So as other asset classes, the yields on those increase, I have no doubt that we will see money leave the sector. I do think we'll see an increased opportunity for people like ourselves, if we do continue to see rising rates.

Michael Linenberg

Gus, just -- Mike Linenberg here. I want to ask you, this was a comment that you made at a conference a few weeks ago, and I don't know if it was out of context or not, it was your view on Boeing's this new mid-market airplane. You talked about how you thought that it would be targeted more towards leisure dominated seasonal routes and therefore it'll be tough to get a wider user base. Is that -- I mean, is that your thoughts? I mean -- and how did you come to that conclusion or maybe that was even taken out of context, because when I saw that I thought that was -- it just -- it didn't seem right but maybe there's more to it?

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

It's slightly out of context, Mike. But let me just brief you the comment on the airplane. I would say that we are leasing many airplanes into the market where that aircraft will go. That mission is done by A330s, 767s and A321s, mainly older 767s and A330s. For a new airplane to successfully dislodge those very reliable tried and tested assets, it will have to come in at a competitive price.

Michael Linenberg

Okay. So it's a crowded space and they're going to have to differentiate themselves in order to get a bite from someone like yourselves. Okay, that makes sense.

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

No problem.

Operator

(Operator Instructions) We will now take our next question from Jason Arnold from RBC Capital Markets.

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

I was just wondering if you can speak about how the $800 million Peregrine sale came to fruition. Was this a marketed portfolio versus kind of an inbound from them? And then, should we expect a similar gain on sale on those aircraft as we have seen recently?

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

The transaction itself came about through a series of one-on-one discussions that we had, it did come actually from an inbound call initially, but there was a portfolio of aircraft that we were looking to move, and then we've got a great working relationship now with our partners at NCB Capital, and so we were delighted to be able to close the deal.

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

Great. And then, on the gain on sale side, I mean, 5% to 10% seemed kind of within that range?

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

Yes, that's the range.

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

Okay. And then, I guess, another one on the rising rate question. Key input into determining lease rates is interest rates, so maybe you can speak a bit on how you expect lease rates to trend here assuming this isn't another false start on the upside on rates?

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

Yes. Now assuming that it isn't another false start exactly, and then what you see is that for the forward lease agreements coming off our forward order, all of those will have an interest rate adjustment component to them. So if rates rise, then there is a corresponding rise in the lease rental to offset the rise in rates. Now more generally then on used airplanes, there tends to be about a 6-month lag between the rise in rates and the rise in lease rates, it'll also have a 6-month lag on the way down as well, but it will only impact a few airplanes, it won't have any material impact. The key really is not the magnitude that they get, the ultimate level that they get to, but it's the velocity they move at. And if we see a reasonably controlled grind higher of lease rates that will be a good thing, we're assuming that, that reflects a stronger global economy with improved GDP outlook will lead to some inflation of the asset value also. And as I mentioned earlier, it will probably lead to the departure of some of the tourist capital that has come into the space. But of course the big risk would be if you haven't hedged yourself before rates began to rise and you're running an open book, which, as you know, AerCap does not.

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

Excellent. Great color. Like you said, I mean obviously a good thing to be asset rich and have inflation potential kick in. So thanks for the color.

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

No problem.

Operator

Our next question comes from Gary Liebowitz from Wells Fargo Securities.

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

Gus, it looks like your utilization in the fourth quarter was down around to 98% or so. Just wondering as you re-market some of the Air Berlin and Monarch planes, how quickly can you get that back up to your usual sort of mid-99 level?

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

Yes, Gary, that should be coming up; and you're right, that's the primary driver of the -- during the fourth quarter as we transitioned those aircraft. So we should see it going back up to 99% for the -- 99% plus during 2018.

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

By mid-2018, all those planes will be back in service?

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

Yes, they should be, if not before.

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

Okay. And also Gus, just a broad question, I mean there's been a lot of chatter out there about possible lessors looking to sell portfolios or large pieces of their portfolio. Can you just go over your appetite for large-scale M&A and would you entertain deals that are not as accretive to earnings as buying back your own stock?

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

Gary, look, we're always looking at allocation of capital. There are 4 avenues for us. We can do sale leasebacks in the markets, we can buy from the manufacturers, we can buy another company, we can buy ourselves. I'm excluding repayment of debt, because we have delevered quite a bit over the last few years. And so we're always looking at what's the most attractive alternative. And we've been very disciplined stewards of capital. If we believe that buying ourselves is a greater benefit to the company long term, then we'll do that. But, look, we look at all the different opportunities, be it sale leasebacks. If interest rates rise a bit, I think we'll see more opportunity there. And the OEMs, at the moment, they're fairly full. On the M&A, we haven't seen much yet in that regard. Over the last couple of years, we've looked at all the different processes, but we've been very disciplined, Gary. So you can see our behavior over the last 3 years and we didn't pull the trigger on any of the M&A processes and bought back 30% of AerCap instead.

Operator

Our next question comes from Helane Becker from Cowen.

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

Just a question on the delivery schedule as I look at -- I guess, it's Slide 16. The E2s and the E190s that are delivering beginning next year, can you just talk about the appetite you're seeing for those aircraft? Number 1. And number 2, can you just comment -- I don't think you did, or at least I didn't see it in the press release, what percent of the order book you are placed forward at this point?

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

Sure. On the E2s, we've now -- we've got either under lease contract or LOI 40% of the E2 order book. So there is -- and there's quite a number of discussions going on out there around the world. I think it's clear that the recent acquisition or the acquisition that is in progress of Bombardier by Airbus validates the space and of course the public interest that Boeing has expressed in Embraer also validates the space. In terms of the placement activity on an overall basis, we have placed many airplanes way into the future, but if you just look out over the next 24 months to the end of 2019, we're 95% placed.

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

Great. All my other questions were asked and answered.

Operator

Our next question comes from Ross Harvey from Davy.

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

I've got 2. So firstly [on that] delivery schedule, I noticed that there was 5 aircraft for the MAX that are now scheduled for 2018 delivery versus 2019, which was previously guided at the Q3. I'm just wondering what's behind that. And in the context of the GTF issues, could there be further change in that delivery schedule? And maybe you might just talk about how much you can actually potentially benefit from those engine issues around your unplaced aircraft for 2018 and 2019? And just a short one for Pete, can you just discuss any further funding plans that you might have for 2018 and particularly in a context of the expected rate increases?

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

Sure, Ross. Let me start with the move of MAXs, that was really just due to a customer wanting to accelerate those, so we were able to do it for them. So that worked out well. In terms of funding -- and then I'll let Gus comment more generally on the GTF. In terms of the -- in terms of our funding for the year, so as you saw, as Gus mentioned, we've done some longer term funding, we tried to front load that, but we will be -- we do expect to come back to the market with the number of unsecured bond deals during the year and then we've got a bunch of secured funding to do. So given that it's a pretty heavy CapEx year for us, we'll be back to the market a number of times.

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

Turning to the GTF, to answer your question, it is a minority share of the population that's impacted, with a total of 43 engines and 32 aircraft, of which 21 aircraft have one of the engines on them. So the vast majority of the aircraft remain in service. The impact for us in our delivery schedule, as I said in my prepared comments, it's just too early to tell at the moment and we are working with Pratt & Whitney and through the issues though. Now, of course, it does improve demand to some extent for existing aircraft that are available right now, but it's very rare that you have an A320 available for lease in the current year, i.e., in 2018, as you know, we place all our airplanes 12 to 24 months out.

Operator

Our next question comes from Justine Fisher from Goldman Sachs.

Justine Beth Fisher - *Goldman Sachs Group Inc., Research Division - Fixed Income Analyst*

The first question I have is on the E2 placements. I was wondering if you could give us a bit of color about the mission that those aircraft are going to serve. I mean, are they replacing other aircraft of similar size, or are replacing aircraft for those airlines that were previous generation Embraers, or are those customers saying, great, we can -- we found a new mission for this circa 100-seat market and it's going to open up a new market for us, because -- and I -- I'm asking to just get a little more color around how much demand there is for aircraft of that size for growth markets as opposed to just maybe just replacing old technology?

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

Well, it's not a 100-seat market, and the E2-195 is where most of the activity is. And in a 2-class configuration, you're in the mid-120s; and in a very dense configuration, you'll get up to 144. So it's not the 100-seat market. What we are seeing, of course, what is generating some interest in it is that Boeing and Airbus have left that market space sub-150 seats. And so we are seeing demand there and for customers who are looking at that 120 to 140 seat space, and it's a mixture of missions, some are connecting into a hub in a large domestic market, others are with the GTF engine on-board and the fuel burn that it brings are looking at some longer missions. So it's a mix.

Justine Beth Fisher - *Goldman Sachs Group Inc., Research Division - Fixed Income Analyst*

Okay. Do you think that Boeing and Airbus left that market because it wasn't -- they just didn't see the demand or because they have production lines where they can make a lot more money selling the larger variants of their narrow bodies?

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

It's a combination of factors, Justine. The other thing that we have to remember is that the heart of the Boeing and Airbus families is the 320 and the 737. So those airplanes do well when they're up-gauged, they improve the weight and efficiency. But when they're down-gauged, they become heavy airplane like an A319, an A318 and a 737, and they're not as efficient. So that's one of the reasons Boeing and Airbus left that because of the fact their planes are not as efficient because their derivatives are the bigger airplane going into a smaller market.

Justine Beth Fisher - *Goldman Sachs Group Inc., Research Division - Fixed Income Analyst*

Okay, that's interesting. And then, I have another question on lease terms and this is something that we've been asking a few lessors to try and get color around the situation. But are you guys seeing lease terms have to change in the aircraft that you're placing as we see a more competitive environment? We haven't heard as much about this a year or 2 ago, but then over the last few months, I've heard a lot more about lessors having to give up some maintenance reserves or end-of-lease payments or upside-downside payments with airlines, are you guys having to change those terms in your negotiations?

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

We're certainly never going to give up EOL payments, whether you collect them through ongoing maintenance reserves or you collect them at the end of the lease is a different matter. You have to recognize, of course, Justine, that we're not dealing the credit quality of the industry that was there 12 years ago, when you had an industry that was habitually losing money. We now have an industry where the average credit quality of the carrier is far superior that only people can look back and say, I was getting maintenance reserves 12 years ago on a carrier, that carrier is a very different airline today. And so that is one of the elements that has led to a restructuring of some of the security packages for certain airlines, but under no circumstances are we waving return conditions.

Justine Beth Fisher - *Goldman Sachs Group Inc., Research Division - Fixed Income Analyst*

Okay. And then last question along that line. Do you guys feel that when you are in the market selling assets, you can get a premium for assets with those very -- sort of well written leases attached, maybe those leases were written a few years ago with -- that have better maintenance return conditions or something like that? Can you get a premium -- a better premium above the metal, because you guys have those leases and the buyers are more willing to buy those leases, because they have some better older terms on them?

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

I think what goes into a lease is a lot more than that, how well a lease is written. And there are many, many clauses within a lease around security, around enforceability of your rights, around security package that you're allowed -- that your lenders put on the assets. So it's not just about return conditions that will be very simplistic look at it. I would say that a well written lease ensures execution certainty, a poorly written lease particularly when it comes to operating covenants around what the lessee is allowed to do with the airplane, you may well get a bit on the airplane, but when it comes to close, buyers may shy away. So there is a mix of things when it comes in to closing a lease. But clearly, of course, just -- if you just have an absolute higher level of cash coming off the lease in lease rental, then you're going to get more for it, that's a fact.

Operator

(Operator Instructions) We will take our next question from Scott Valentin from Compass Point.

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

Just wanted to focus on SG&A. I appreciate the color on the -- share-based compensation, the changes there. But looking at the linked quarter from the third quarter, I think the SG&A excluding share-based comp was about $58 million, and then for this quarter it jumped to $67 million -- just over $67 million. Just wondering if there's anything one-time in there, or if it's just a true-up of some other expenses, some accruals?

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

Sure. Really it was one-time items, really employee-related ones and a few costs related to our kind of final costs coming out of our move from Amsterdam to Dublin. Those are really the drivers of it.

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

The increase about, call it a $9 million increase linked quarter, most of that was kind of one-time in nature?

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

Yes, I look at that all as one-time.

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

Okay, all right. And then, in terms of the $6 billion of CapEx, do you have a -- I assume the cadence will be more back-end loaded given potential neo issues, is that a fair (inaudible) be 70% back-end, the second half of the year, 30% in first half?

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

It will be more spread throughout the year, but depending on the delivery delays that could push it back. Last year was very back-end loaded, and we took delivery of 25 at the end, out of 58 during the fourth quarter. So it's more spread out than that.

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

Okay, all right. And then, just a final question on the Peregrine sale, you actually had the large start to the year, the $800 million transaction. How should we think about the billion dollars that you guys talked about on Investor Day? It seems like you guys will go above that, assuming the environment stays about where it is and gain on sale premiums are coming in between 5% and 10%, is that fair assessment as well?

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

Yes. So for this in -- at Investor Day, we talked about for this year, for 2018, $1.5 billion of sales, that's what we projected. I think that we'll still be -- we're still on track for that amount. I wouldn't assume it's going to be more than that for the year, but I do think, at this point, I would assume that that's front-end loaded. So I think $1.5 billion is still a good number.

Operator

Next question comes from Kristine Liwag from Bank of America Merrill Lynch.

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

In the quarter, depreciation expense as a percent of your flight equipment ticked down. Is 1.3% on a quarterly basis a fair run rate going forward or was there timing that affected this in the quarter?

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

Yes, it did tick down. I mean, it's ticking down really because of the new aircraft that we've got coming in. So if you look -- if you go back to our Investor Day, Kristine, I think that the 5.5% that we estimated for 2018 overall, that's a blended rate for the whole year and that includes the maintenance rights amortization that's probably -- that's still a good number to use.

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

Great. And broadly speaking, as your fleet gets younger, how does your depreciation policy change? And also, is there particular age in which these new airplanes will have some sort of break in their metal value that you're expecting?

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

Yes. So the policy itself doesn't change. I mean, the way we approach it is, when we get new aircraft, we put them on the standard depreciation rate, which is in a 25-year useful life to 15% residual value. And then what happens is, as they get older, to particularly early at 15 years, when aircraft are coming up to 15 years, we look at all of them and assess them to say, does -- should we accelerate depreciation on this aircraft. And that's because, at that point, we have a much better idea about remaining useful life of that aircraft, it may be on an end of life lease, for example, where there's no -- the return condition is low and that type of thing. And so, I'd say it's really the 15-year plus, where you see it, generally speaking. But there are instances where even before that, we'll have an idea on the future useful life of the aircraft, and we will accelerate depreciation. And bear in mind that we did do that on a lot of them. When we did the ILFC acquisition, we did put a number of aircraft on accelerated depreciation at that point. But generally speaking, I'd say it's around the 15-year mark where you start to see it changing.

Operator

Our next question comes from Kevin Crissey from Citigroup.

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

I was hoping you could discuss airline profitability around the world and how it factors into your business decisions. By this, I mean, collectively the airlines around the world are doing better than they have historically on average, and I'm wondering whether you think that's something that you plan to assume that is going to continue or you're factored into your decisions on the fleet and assume that maybe there will be a return to the mean, which is lower return on invested capital for the airlines in currently?

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

We do think that there has been a significant improvement in the way most of the world's airlines are managed. Historically, airlines were viewed as a public good and were subject to interference by the state or other entities, and were not run for profit. Therefore, most management teams at the time, the highlight of their management was to buy airplanes from Boeing and Airbus and put capacity into the system, and just continue the problem. Over the course of the last 10 years, because of deregulation, the sale of state-owned carriers and a more general awareness that this industry, if managed properly, can actually generate a sustainable return on capital has made airline managers, I think, far more aware of all the costs and their structure and very keen to see what is the best way to add capacity to ensure that they continue with this run of profits. So I would be fairly optimistic the current generation of airline management will be judicious in how much capacity they add and how they source that capacity, because they do believe that they can generate a sustainable return on their equity for their shareholders and not for the shareholders of Boeing and Airbus.

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

And maybe to follow that up, I think you had a slide at Investor Day that talked about the utilization. It was an example. I think it was the 320 utilization and how being used more and basically more effectively and it suggested that there's an increased need for more aircraft, because you kind of run out of opportunity on the efficiency side, but it made me think that if they're better managers -- if there were better managers, I was thinking that they should be instead of increasing volume, they should be raising price. If my asset is being used entirely efficiently and I'm out for profits, why would I go buy more assets like -- that seems like it would be old style of airline management as opposed to raising fare. So maybe if I could talk -- if you could talk about the balance of airlines are smarter, whether they should be raising fares or going for more capacity?

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

Look, I think when it comes to the slide we showed, we showed there were 2 ways for airlines to increase the efficiency of the existing assets they had. One was to increase the daily utilization of the aircraft, which has been done; and secondly was to densify the airplanes and sell more seats. Now, as it goes to adding additional capacity beyond that, I think you're going to -- we look at on a global basis, we're not focused on any one market at all and there can be variations in a given domestic market or an international market or a section of the international markets. But we would say, overall, that airlines are far more judicious when they add capacity than they have been in the past.

Operator

Our next question comes from Scott Valentin from Compass Point.

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

Just a quick housekeeping question. What's the right tax rate to use for '18? I know in the press release you say for '17 it was 13.3%, that reflects the U.S. -- the change in U.S. tax law. Is that 13.3% a good number to use for '18 as well?

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

Yes, I think that's probably a good number to use. It will be somewhere around there, 13% -- between 13% and 13.5%. let's say.

Operator

Ladies and gentlemen, as there are no further comments, I would like to turn the call back to our speakers for any closing comments. Please go ahead.

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

Thank you very much, everyone, for joining us for the call. We look forward to speaking to you again in 3 months' time.

Operator

This concludes today's conference. Thank you for your participation. You may now disconnect.
