



‘RISE ABOVE’ – AVOLON PUBLISHES 2022 OUTLOOK PAPER

2022 ‘Fearless Forecasts’ predicts continued aviation recovery, as the lessor share of the large commercial aircraft fleet surpasses 50%

Dublin | 18 January 2022: Avolon, the international aircraft leasing company, issued its annual outlook paper for 2022 titled ‘Rise Above’. Co-authored by Jim Morrison, Head of Portfolio Management, and Rosemarie O’Leary, Head of Counterparty Risk, the paper reviews the key trends in the aviation industry for airlines, manufacturers, and lessors, identifying themes that will shape the year ahead and setting out Avolon’s ‘Fearless Forecasts’ for 2022.

2022’s seven forecasts are set out below and the full paper is available at: <https://www.avolon.aero/newsroom-and-thoughts>

Jim Morrison, Head of Portfolio Management commented: *“Aviation’s recovery unfolded in 2021 as anticipated, with vaccines offering a springboard for the easing of government restrictions and re-openings of economies around the world. This allowed many of us to pass an important milestone, boarding our first plane in a post-pandemic world. It is clear from the re-opening that the importance of air travel to society, and the global economy, remains undiminished.*

Aviation’s resilience was demonstrated again in 2021, with airline operating losses halving to \$54 billion as airlines positioned themselves to capitalize on the pent-up demand evident in the market. Looking ahead, the strong economic growth forecast for 2022 will drive a further recovery in demand for air travel. While we are confident in recovery, it will be a gradual and uneven recovery that will vary region-by-region. In 2022, a strong recovery in international air traffic will follow the domestic air travel rebound of 2021, bouncing back to 70% of 2019-levels by year-end.”

Rosemarie O’Leary, Head of Counterparty Risk commented: *“Aircraft lessors will continue to be an integral part of the recovery, supporting airlines as they seek to restore their balance sheets, re-fleet, and grow. As airlines begin deleveraging and transitioning to asset-light business models, the lessor share of the commercial fleet will grow as they fund new deliveries.*

Beyond the recovery, environmental considerations will remain central to the aviation agenda for the period ahead. The aviation sector continues to focus on reducing emissions and committing to decarbonization. Solutions to support further decarbonization, such as sustainable aviation fuels, are progressing but policies must be structured to ensure that adoption is economically viable. Emission-free flight is also on the horizon. Aerospace innovation is accelerating with the development of electric powered aircraft which provide a glimpse into the sustainable future of flight.”

2022 ‘Fearless Forecasts’

- 1. International air traffic recovery in 2022 will mirror domestic in 2021:** Governments will increasingly trust vaccines and treatments to remove restrictions, accessing the benefits of air travel while retaining pandemic resilience. Strong international air traffic recovery will follow, rebounding to 70% of 2019-levels by year-end.
- 2. Operational challenges, not demand shortage, limits aviation’s growth:** A talent shortage has emerged. Recalls and new recruits will be common in 2022 but pilots, flight attendants, and mechanics require training while incumbent manufacturers are competing with new upstarts in an engineering talent war. Supply chain limitations delays re-activating stored aircraft and maintenance slot capacity will further challenge a return to full capacity.



3. **Cargo drives airlines to profits:** Freight accounted for more than a third of airline revenues the past two years, a three-fold increase to its normal share. Seaport congestion, supply chain recovery, and e-commerce growth will continue to drive strong demand for air cargo. Another strong year for air cargo paired with continued passenger market improvements, may be enough to return the airline industry to profitability in 2022.
4. **Lessors share of large commercial aircraft fleet surpasses 50%:** Lessors are filling the funding gap for new deliveries, while enabling airlines to access equity in owned assets. With a decade of deleveraging and decarbonization ahead for airlines, leasing will enable asset-light business models. As the unassailable leader in aircraft finance, lessors are integral to the health of airlines and manufacturers.
5. **Full-scale prototypes of ten all-electric aircraft will fly:** A new era of aerospace innovation is accelerating. A handful of electric vertical take-off and landing (eVTOL) prototypes flew in 2021 with more to come in 2022. Disruptive technologies start small before growing to attack incumbents' fortresses. Watch out for expanding customer bases as the technology is proven and performance is enhanced.
6. **Outlook for 2030 SAF production quadruples as projects are funded in 2022:** Demand for SAF is strong but supply is limited. Policies must be structured to ensure economics stack up against other renewable fuels. Blending mandates and production incentives will ensure long-term demand, enabling airlines to sign-up for offtake agreements. With revenues secured, projects will be financed, and construction started, growing SAF production capacity exponentially.
7. **The price of carbon credits doubles again:** Net-zero targets imply emission avoidance will not be enough to decarbonize aviation. The global voluntary offset market could be worth \$50 billion by the end of the decade, up from \$300 million in 2018. The Taskforce on Scaling Voluntary Carbon Markets is enabling this growth by crafting market standards to create certainty over the value of carbon credits and liquidity that creates price transparency. The price of mandated EU carbon permits will continue to rise as demand increases from re-opening economies while supply is squeezed.

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About Avolon

Headquartered in Ireland, with offices in the United States, Dubai, Singapore, Hong Kong and Shanghai, Avolon provides aircraft leasing and lease management services. Avolon is 70% owned by an indirect subsidiary of Bohai Leasing Co., Ltd., a public company listed on the Shenzhen Stock Exchange (SLE: 000415) and 30% owned by ORIX Aviation Systems, a subsidiary of ORIX Corporation which is listed on the Tokyo and New York Stock Exchanges (TSE: 8591; NYSE: IX). Avolon is the world's second largest aircraft leasing business with an owned, managed and committed fleet, as of 31 December 2021 of 824 aircraft.

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