

Sirius Aviation Capital

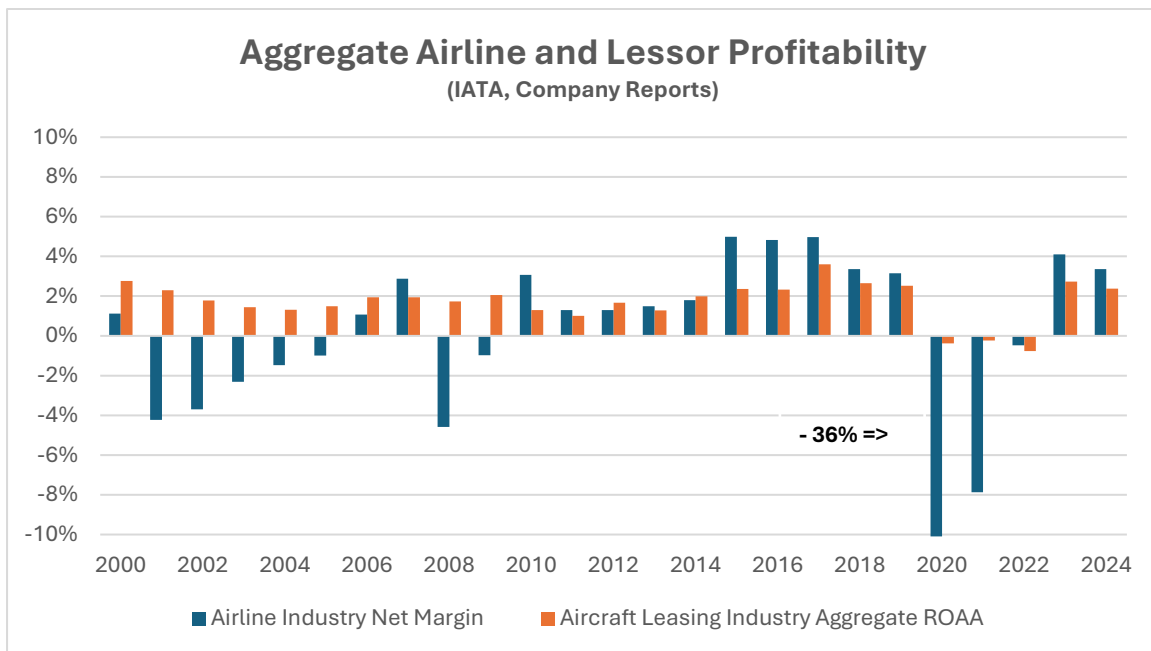
Air Transport Industry Update Q3 2025

- **SPECIAL TOPIC – Aircraft Leasing Industry Update**
- Macro-Economic Background
- Traffic and Aircraft Demand
- New Aircraft Supply
- Airline Industry Financial Performance

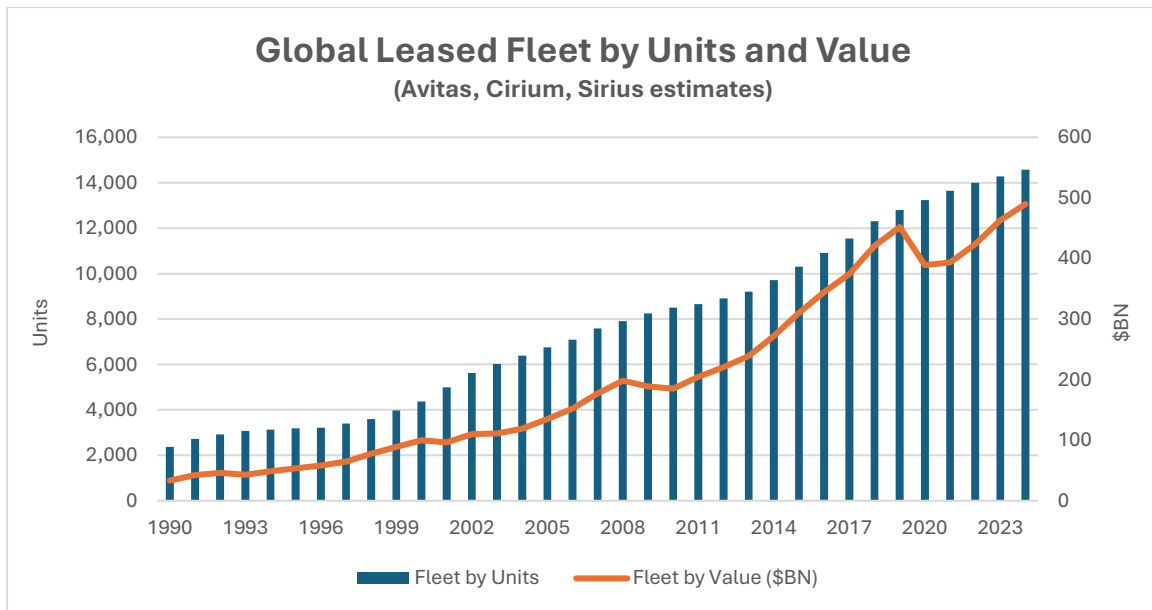
Aircraft Leasing Industry Update

2024 was another good year for most aircraft lessors after the recovery in 2023 from three years of losses driven by Covid and Russian aircraft expropriation. We measure lessor profitability using return on assets as these are financial businesses rather than industrial or service businesses where margin on sales is more appropriate. Although the measures used are not strictly the same the profitability of the aircraft leasing industry clearly falls within a much narrower range than for the airlines.

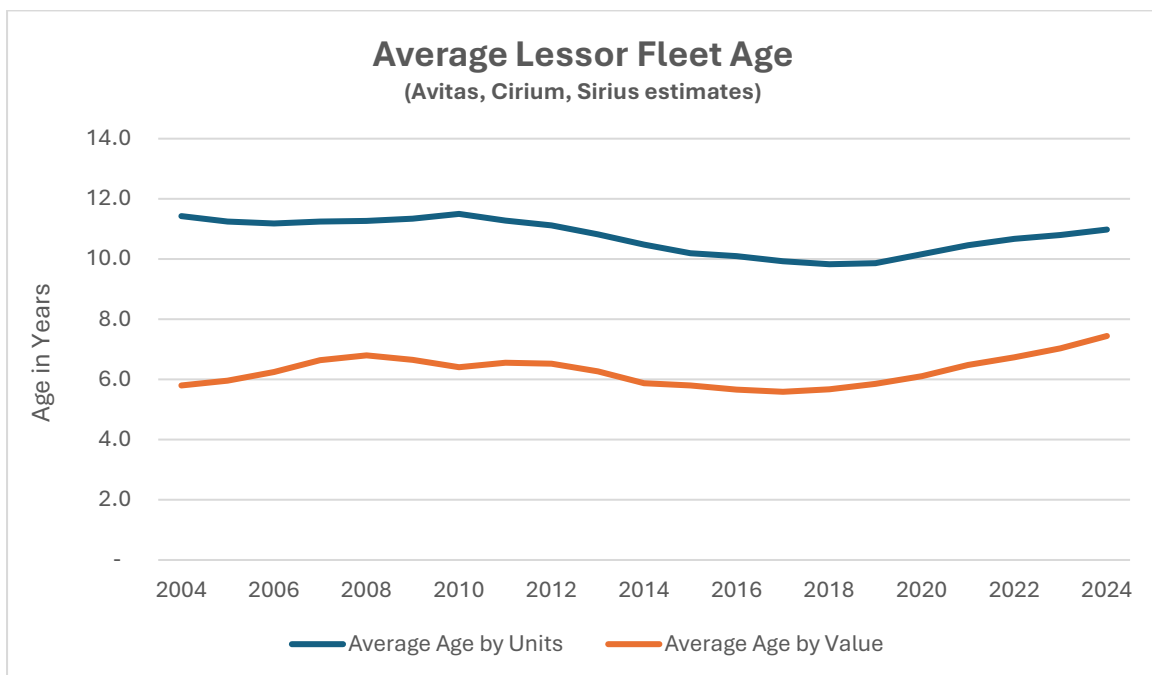
We aim to capture as much data as possible on lessors, but this must be done on a case-by-case basis as there is no industry association like IATA providing aggregate financial information. Some very significant lessors are integrated divisions of their parent organisations and do not provide meaningful stand-alone financial statements¹.



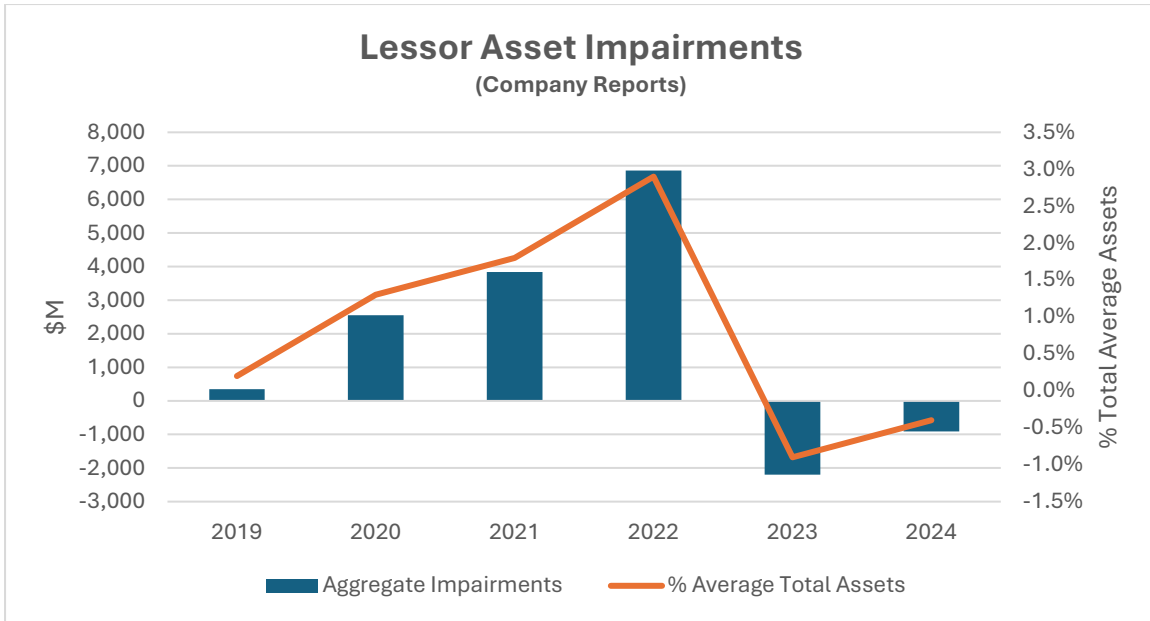
Before we discuss underlying financial performance in more detail, we should note that it remains challenging for large lessors to grow their balance sheets, mainly due to the disruption of new aircraft deliveries particularly at Boeing. There has also been some impact from cyclical changes in aircraft values although this has largely worked its way through the system (the chart below uses Avitas Market Values where available). This increases competition between lessors in the new aircraft market as there are fewer deals available although Boeing's improved recent performance (see below) holds out the prospect of greater supply in 2025 and beyond.



One side effect of the reduced level of new acquisitions is that the lessor fleet is ageing. This matters because an older fleet is likely to have higher levels of off-lease aircraft which may or may not be offset by higher rental income relative to aircraft book value. As the chart below shows age on a unit basis is consistently higher than on a value basis, which is the more meaningful metric for analysing lessors. Average age by value has continued to rise to its highest level in the last 20 years although the increase in new aircraft deliveries means this trend should moderate in future.

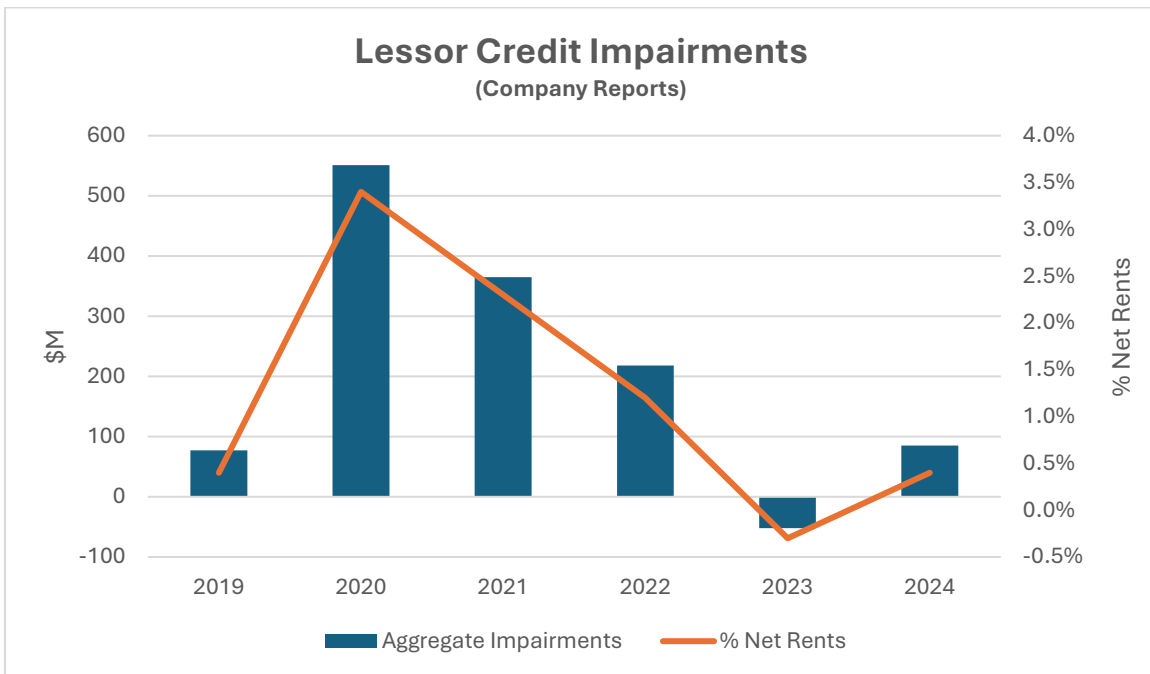


Asset impairments and write-backs have had a huge impact on aggregate industry results from 2020 as shown in the chart below. Insurance settlements in respect of aircraft expropriated by Russia continued to benefit lessor profits in 2024 and there have been several positive court rulings that mean this will continue in 2025 (although not all lessors treat these amounts in the same way we consistently classify them as negative impairments which is the most common approach).



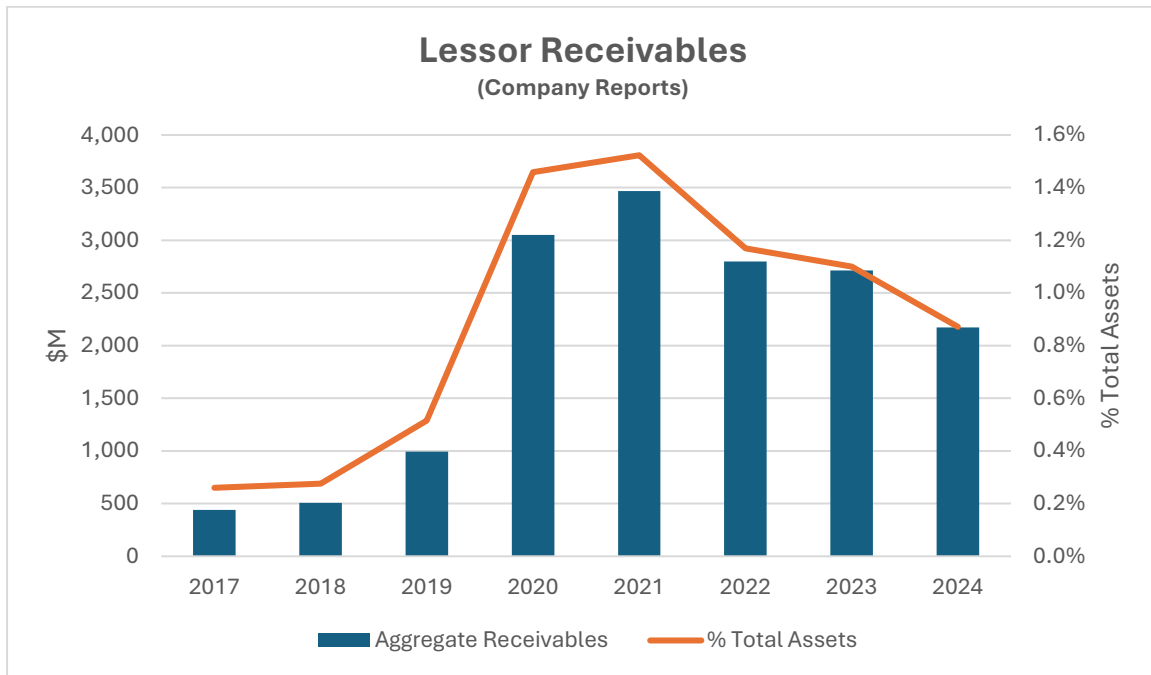
It is a measure of the defensive financial strength of the industry that there has been very little financial distress in this period. Two lessors sought court protection, NAC and Voyager, which both had niche asset strategies based on regional and widebody aircraft respectively. None of the major lessors with more diverse aircraft fleets suffered a credit rating downgrade.

The level of credit impairments across the industry went negative in 2023, presumably due to reversals of provisions made in prior years. This reversed in 2024 and we don't expect it to happen again as at this stage most rental deferrals granted by lessors during the pandemic will have been collected or written off.

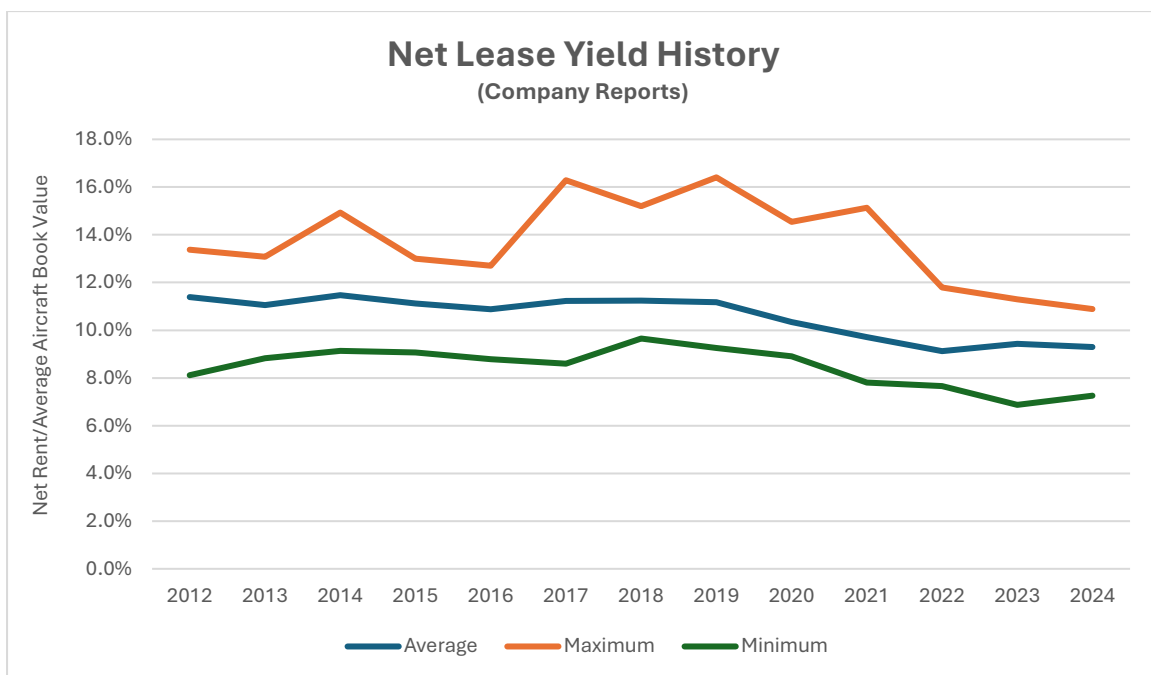


Absent future major shocks we would expect these numbers to remain at low levels in future as was the case before 2020. Lessors are rightly very focussed on the integrity of their assets and associated records so physical possession is more important than “running the meter”, especially with a mobile asset that can be redeployed to earn revenue elsewhere. This means

that early lease termination is a common element of managing a delinquent lessee so rent no longer accrues and therefore does not have to be written off.

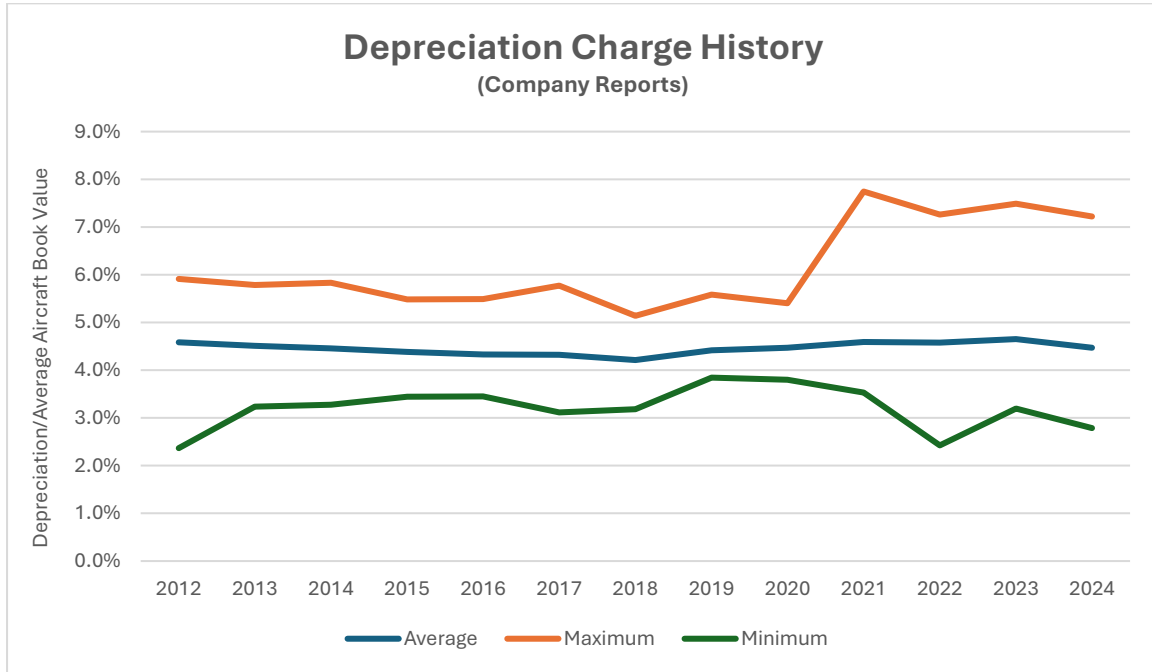


However, the level of receivables across the industry remains at a high level compared to 2019 and before. We define receivables broadly and typically include items such as notes receivable as well as overdue amounts as the former often arise when rents are formally rescheduled. At under 1% of total assets this does not represent a major threat to the industry but is perhaps surprising given the recovery in airline profitability after 2021. The slow pace of decline is at least partly attributable to recent airline restructurings as some lessors have seen an increase in this balance sheet item from 2023.

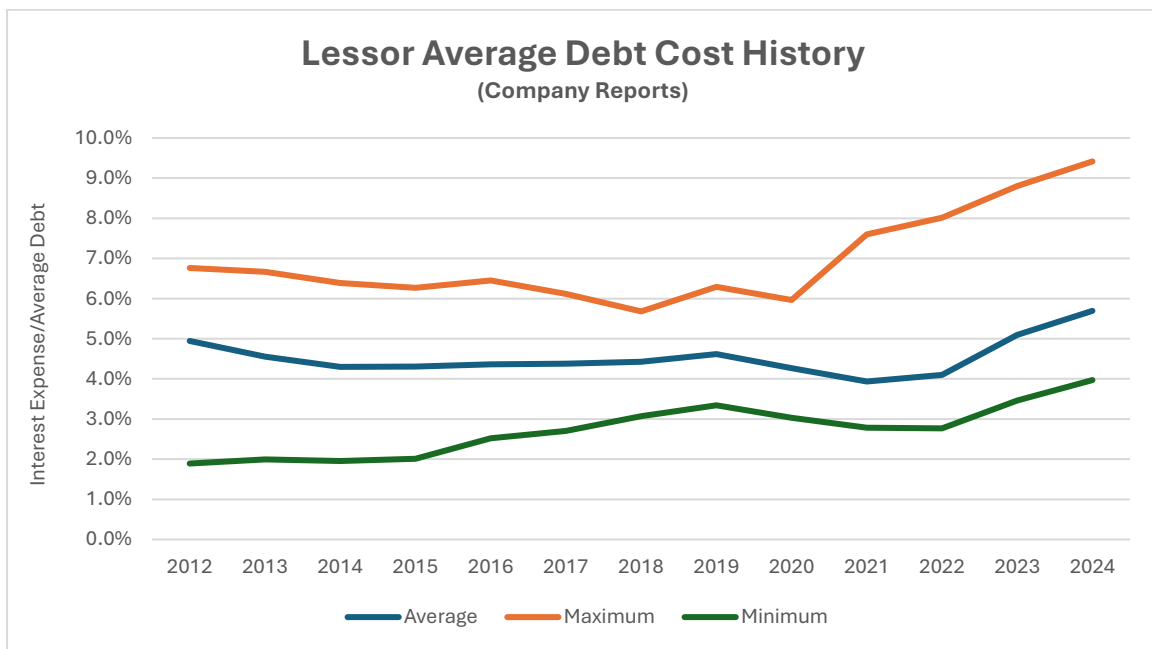


We believe net lease rental yield is a key measure of underlying performance. This ratio is the net rent earned by the lessor excluding maintenance income etc. as a percentage of average

aircraft book value and is analogous to rental yield in commercial propertyⁱⁱ. The chart below shows the range of yields achieved by the group of lessors we follow over the last 14 years. This ratio has started to recover after a significant decline since 2019, but it is not a strong recovery as one would expect a moderately higher yield if only because of fleet ageing in the intervening five years. Part of the context here may be that there has been little change in depreciation charges relative to aircraft book value.



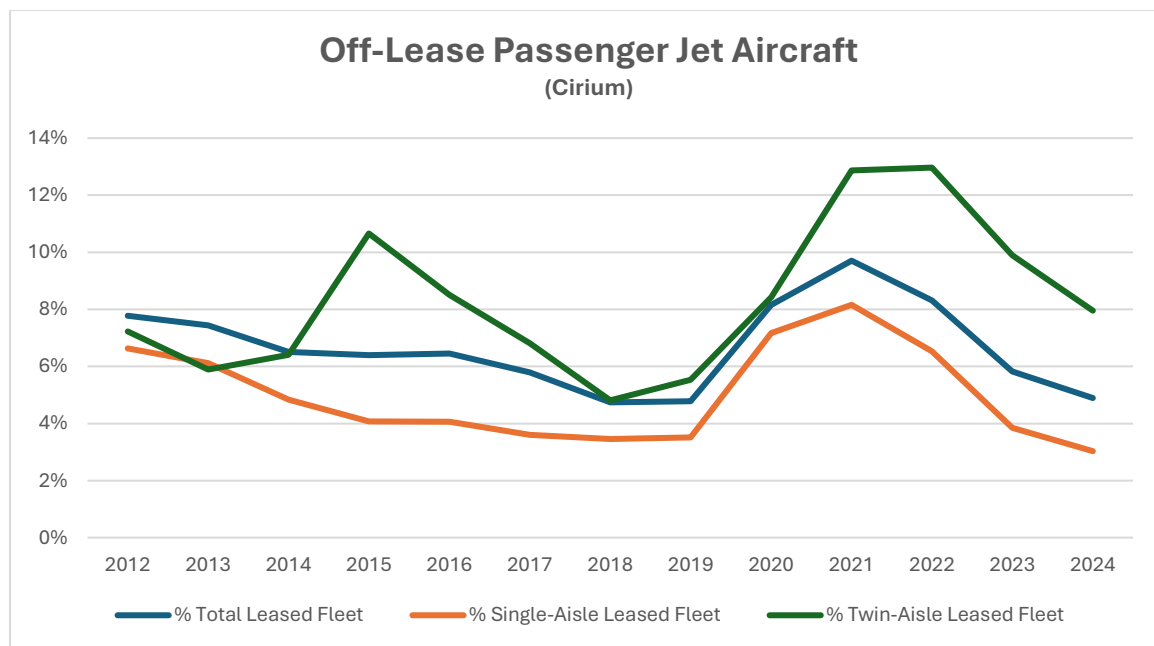
The recovery in yield also needs to be considered in the light of changes in interest costs. Interest expense is a key part of aircraft lessors’ cost of sales - they seek to pass on any increases to their airline customers in higher rents and are likely to pass on decreases by way of lower rents due to competitive pressures.



One should not expect changes in interest rates to immediately feed through into aircraft lease rates as the relationship between them is more than a little “sticky” and tends to be hard to identify separately from the impact of changes in aircraft supply and demand. Lessors typically have significant medium-term fixed-rate borrowings to hedge their fixed-rate leases, so their cost of debt is relatively stable. Despite these caveats it would be reasonable to expect a greater increase in rents to have occurred in 2023-2024 given the rise in interest rates and the increased age of the fleet.

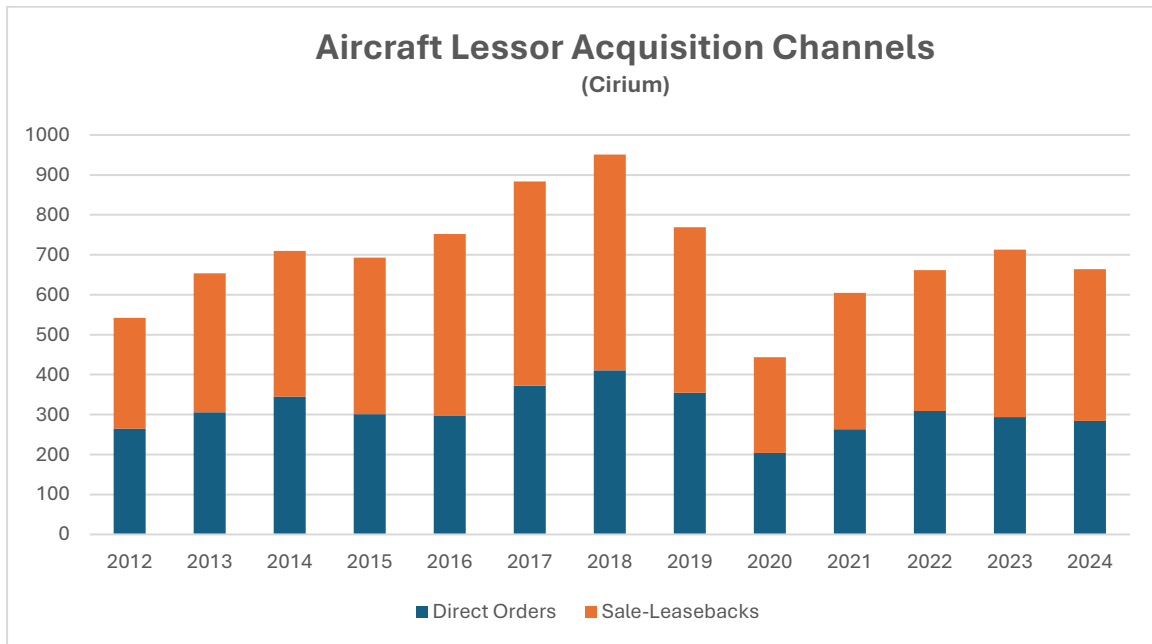
One might speculate that part of the reason for this is the number of high-value young single-aisle aircraft in storage, especially those powered by the P&W GTF engine. However, this is mainly a cost to the airline operators involved rather than lessor owners as aircraft that are out of service due to unscheduled engine maintenance remain on lease and continue to accrue rent, although this obviously may change if the airline fails.

The real problem for lessors is aircraft that are off lease, which is analogous to a commercial real estate “void”ⁱⁱⁱ. The level of off-lease aircraft is low overall by historic standards, but this conceals a big divergence between the levels for single-aisle and twin-aisle aircraft. The latter are experiencing much higher levels of off-lease status and this would be more of a drag on the top line for their lessors, although this will be somewhat offset by the lower number of such aircraft in lessors’ fleets.



Although off-lease aircraft probably play some role, it seems plausible that the slow recovery in rental yield is mainly caused by increased competition in the new aircraft market as lessors continue to pursue asset growth. This is most acute in the market for the sale and leaseback of new aircraft delivered to airlines. Although many large lessors have their own order books and are probably able to place these aircraft at attractive returns (if the OEMs can deliver them on time), these order books cannot be increased in the short term due to the large backlogs at Airbus and Boeing. Thus, nearly all these lessors and some smaller competitors seek to buy new aircraft from airlines as well and over time this acquisition channel account for more USD volume than direct orders. Anecdotal evidence suggests that the pro-forma returns on these transactions remain similar to those that prevailed before the increase in interest rates that

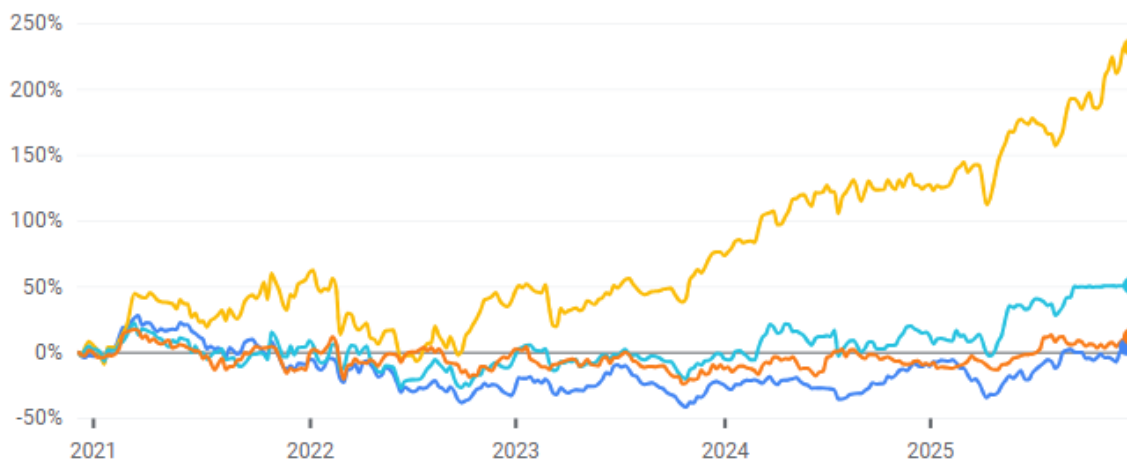
started in 2022 and our analysis suggests that this anecdotal evidence has plenty of basis in fact.



The chart below compares the performance of the NYSE Arca Global Airline Index with the three largest public aircraft lessors over 5 years. The lessor stocks have all outperformed the airline industry during this period which encompasses both the latter part of the pandemic and Russia’s invasion of the Ukraine.

NYSE Arca Global Airline Index vs Major Aircraft Lessors

(Google Finance)



NYSE Arca Global ...	1,590.61	+57.53	↑ 3.75%	
AerCap Holdings N...	\$140.07	+\$97.84	↑ 231.68%	×
Air Lease Corp	\$64.05	+\$21.49	↑ 50.48%	×
Boc Aviation Ltd	\$73.80	+\$7.60	↑ 11.48%	×

Amongst the lessors the most notable development is the outperformance of AerCap. It would be easy to attribute this to the acquisition of GECAS, as AerCap's earlier acquisition of ILFC saw its share price virtually double when the transaction was announced. However, the GECAS acquisition was announced in early 2021 and the outperformance only started in 2023. Another explanation that does not really make sense is business growth as AerCap's balance sheet has shrunk since 2021 whereas Air Lease and BOC Aviation have both grown.

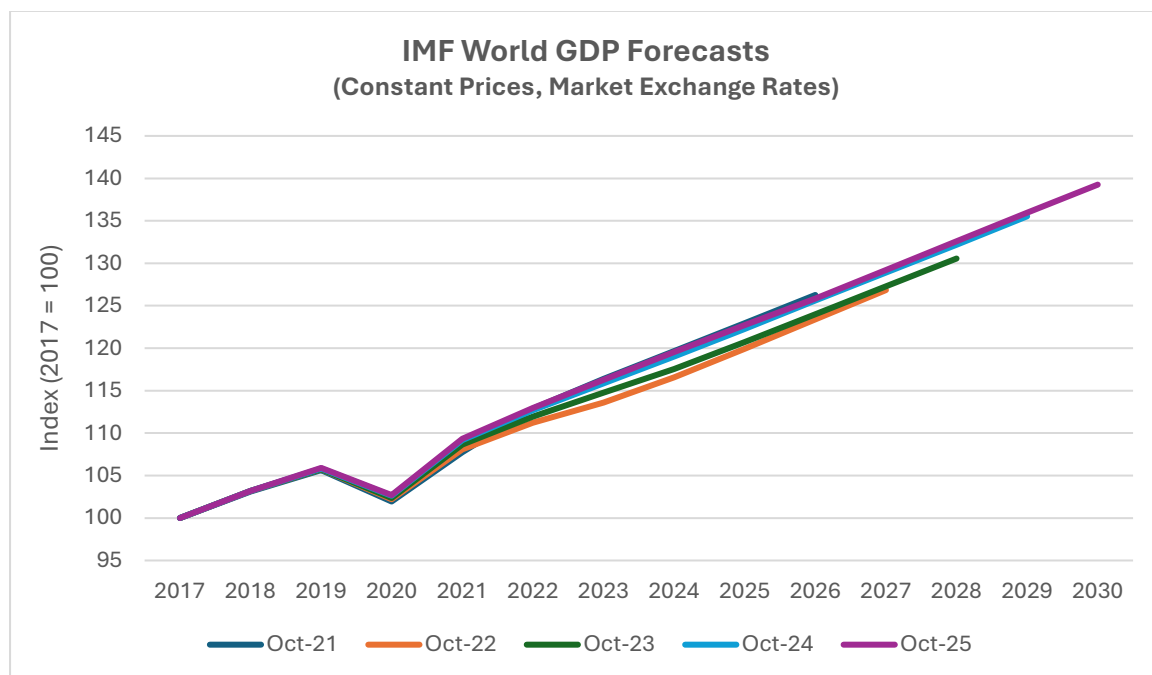
Where AerCap really differentiates itself from its comps is through its aggressive programme of share repurchases, which it has recently supplemented by instituting a regular dividend. From 2016 to 2024 AerCap spent slightly more than \$8 billion buying back its own shares compared to its 2016 market capitalization of \$7.3 billion (its current market capitalization is \$23.4 billion). AerCap's execution of this strategy has been driven by strong operating cash flow and its ability to consistently sell aircraft at a profit, and it has also benefitted remaining shareholders by executing most share repurchases at a discount to book value per share. Even now its share price to BV ratio is only 1.3X.

A modest price to BV ratio is not unusual for asset-heavy businesses including hotel and real estate companies as well as aircraft lessors. BOC Aviation trades at a price to BV ratio of 1.0X, and Air Lease at 0.9X. The relative discount for Air Lease is more striking as the company agreed to be sold to a consortium of Sumitomo Corporation, SMBC Aviation Capital, Apollo and Brookfield in an all-cash transaction announced at the beginning of September 2025.

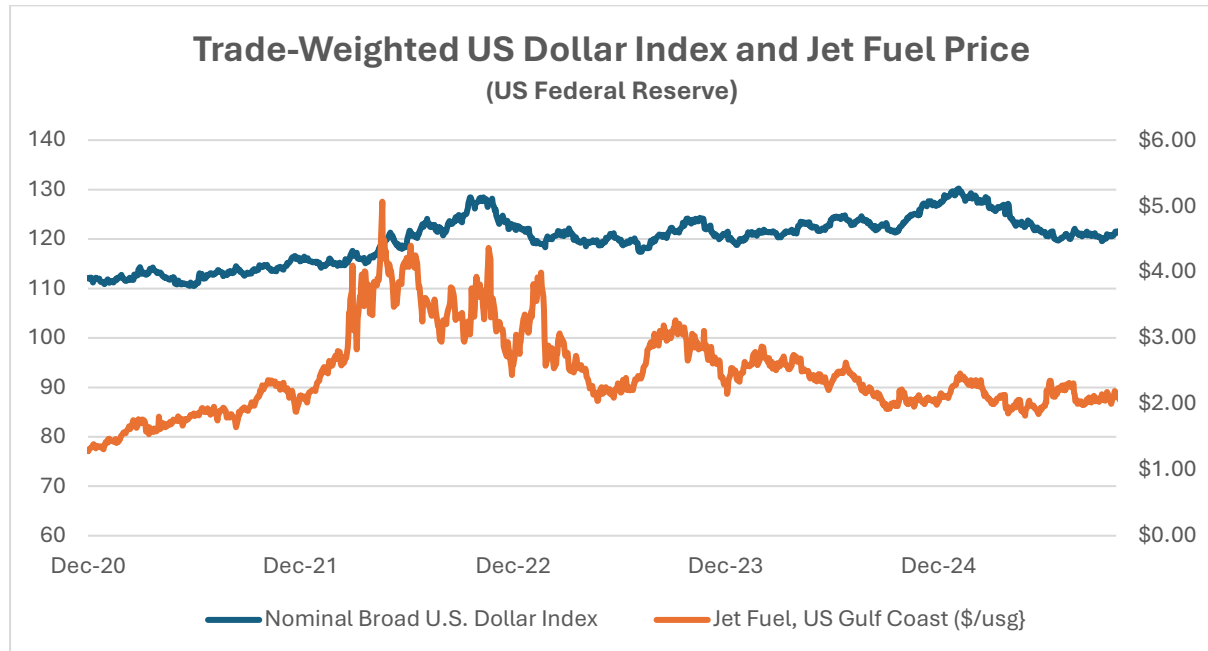
Regular Topics

Macro-Economic Background

Despite the "trade wars" initiated by the US this year the IMF has not materially changed its World GDP forecast in its latest World Economic Outlook published in October 2025, and its first forecast for 2030 shows a similar level of growth to prior years.



Economic growth is a key driver of long-term growth of air travel. However, since early 2020 its impact has been overshadowed by the fall and recovery in traffic associated with the pandemic. In time the influence of overall economic conditions on air travel is likely to reassert itself, but industry forecasts published by Airbus, Boeing and IATA assume much higher rates of traffic growth than GDP growth over the rest of the 2020s as the former catches up to its long-term trend (see our Q1 2024 Industry Update for a more detailed discussion).

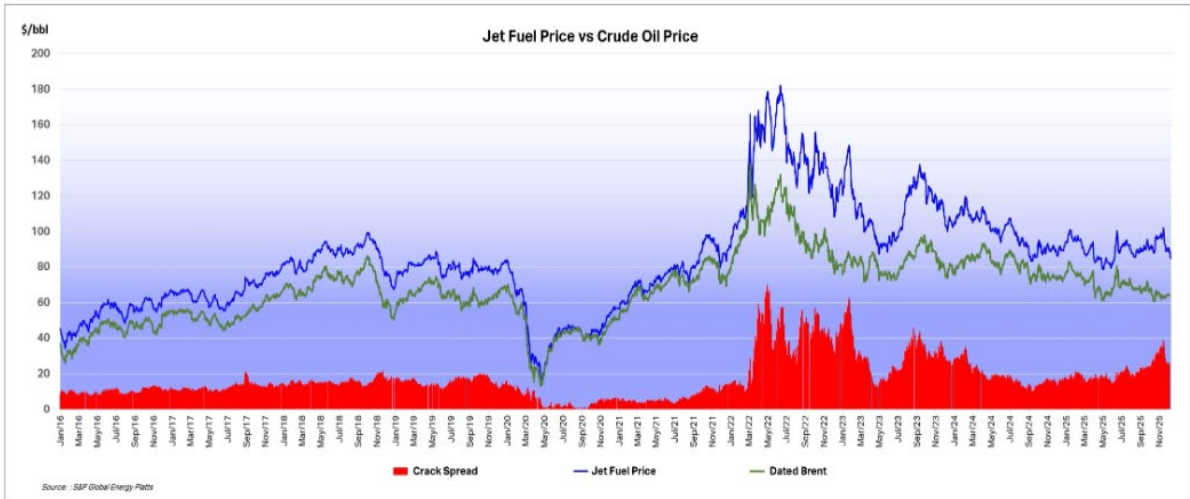


Two key macro variables have been moving in favour of the airline industry in recent months. The cost of jet fuel has recently increased to a little over \$2.0 per gallon, as weak crude oil prices are outweighed by the high level of the “crack spread” which is nearly \$22 per barrel. The US Dollar has also weakened which also helps airlines outside the US for dollar-denominated costs such as fuel, aircraft rents and aircraft spares.

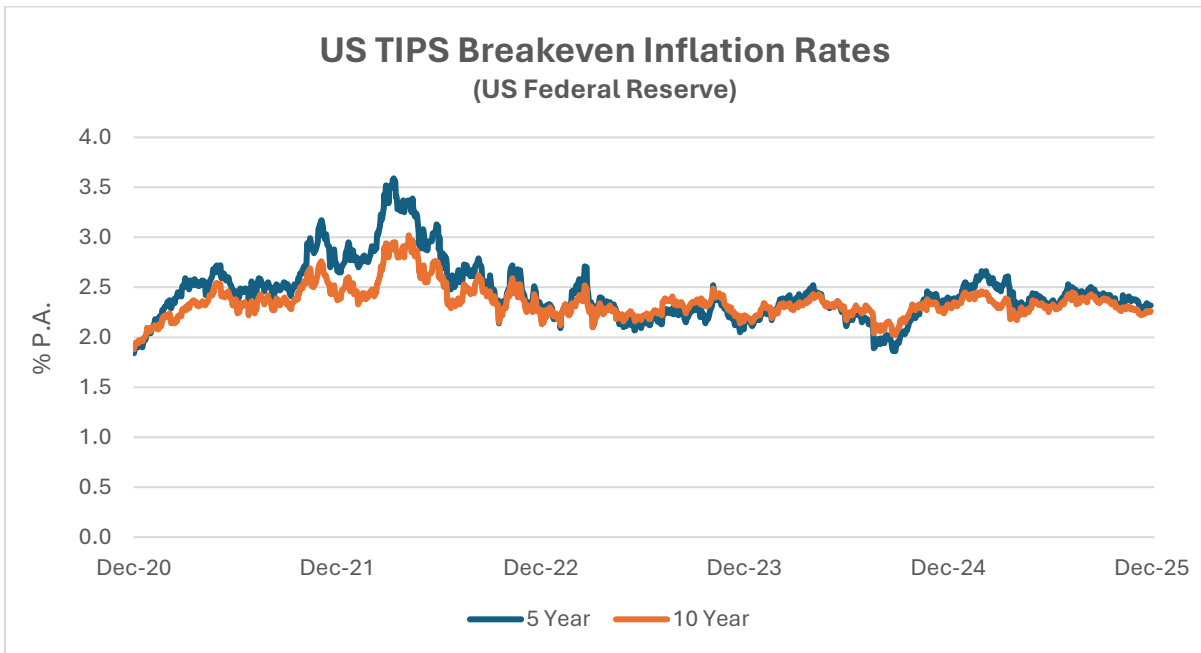
The continuing high level of the “crack spread” is a very striking feature of the current industry environment. We have no expertise in the jet fuel market, but the following extract from IATA’s Global Outlook for Air Transport (December 2025) provides some level of explanation.

“...the crack spread, is a function not only of the price of Brent, but also of competition for production space at the refineries.

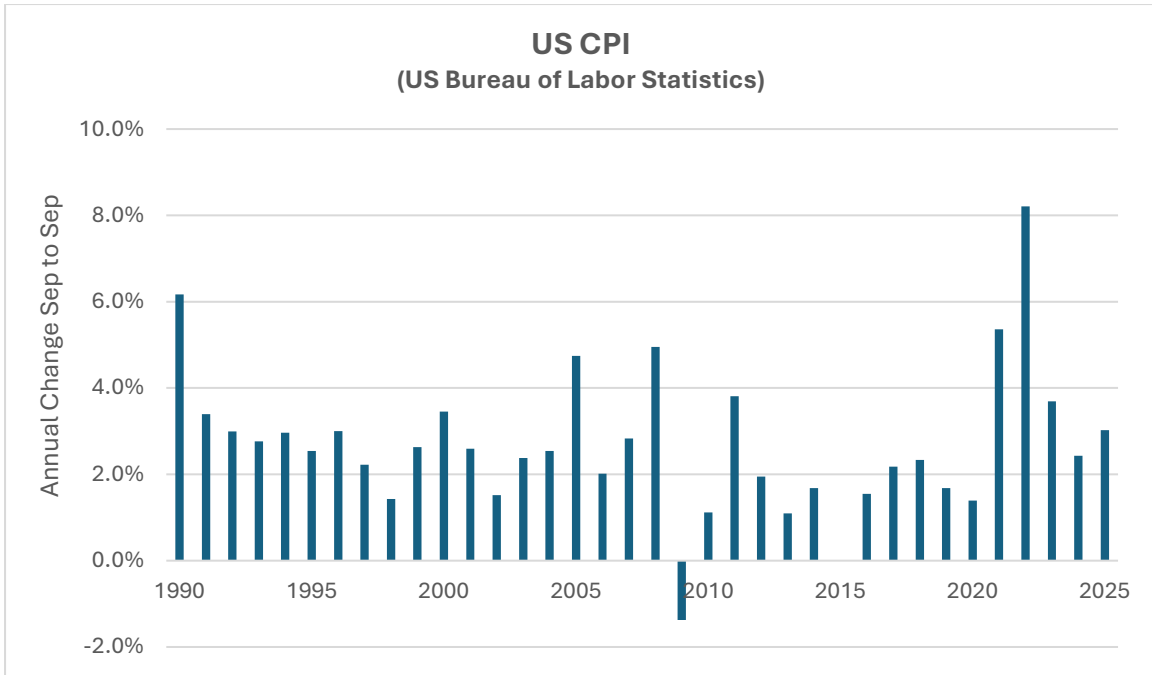
Demand for jet fuel is projected to grow by nearly 4% in 2025 and 3% in 2026. Nevertheless, jet fuel represents a mere 9% of total global refined output and is not a priority for refineries. Instead, refineries optimize their product mix by prioritizing the production of other refined products, notably diesel and gasoline, due to higher demand and profit margins. Diesel production, in turn, competes with (non-refined) LNG (liquified natural gas) and its price developments. These factors, along with strong freight activity, seasonal heating demand, and a significant decrease in Russian refinery activity, have tightened middle distillate balances.”



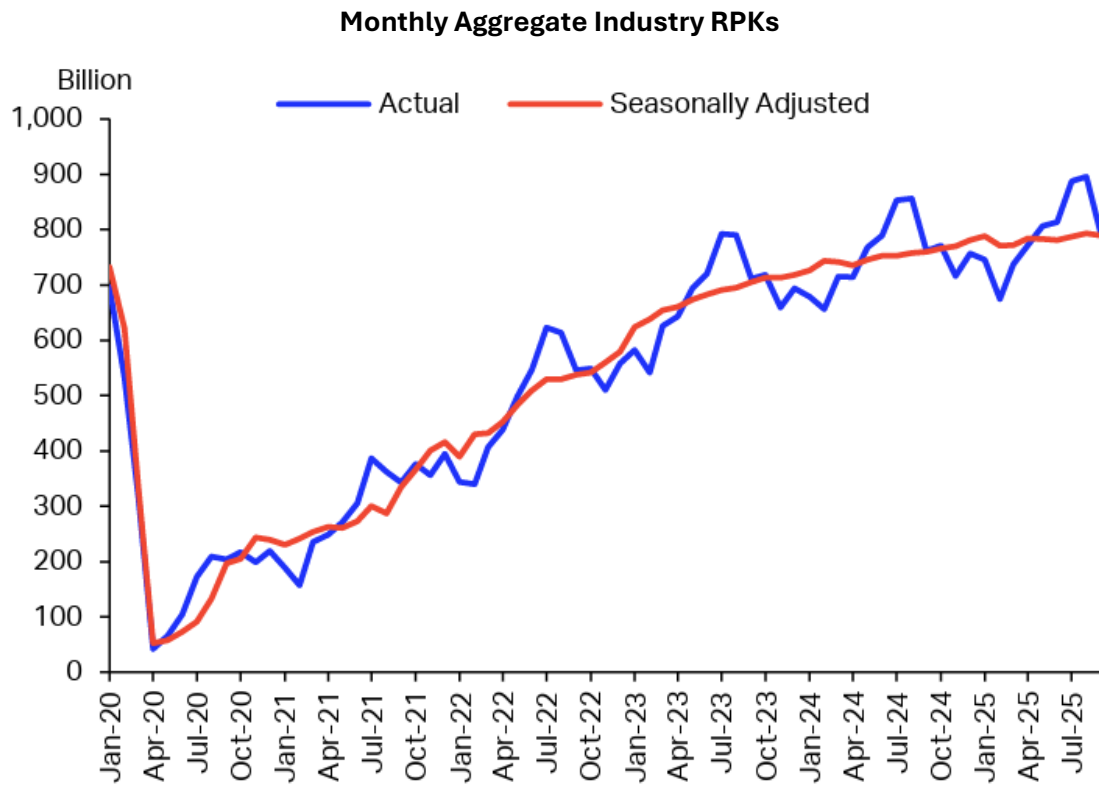
Another indicator that is potentially important to aircraft investors is the breakeven inflation rate on US Treasury Inflation-Protected Securities (TIPS). This indicator measures inflation expectations and it matters because used aircraft values are strongly influenced by the cost of new aircraft and over time this cost is linked to US Dollar inflation. In the short term this linkage is driven by escalation clauses in aircraft purchase contracts and in the long term by the general input cost environment for the aircraft manufacturers. The chart below compares the breakeven rate for 10-year and 5-year TIPS.



Although medium or long-term inflation expectations have never gone higher than 3.5%, actual inflation experience has been much higher in the last few years. This has led to higher appraised values for new aircraft. If tariffs are applied to aircraft and/or aircraft components this is likely to increase the cost of new aircraft.

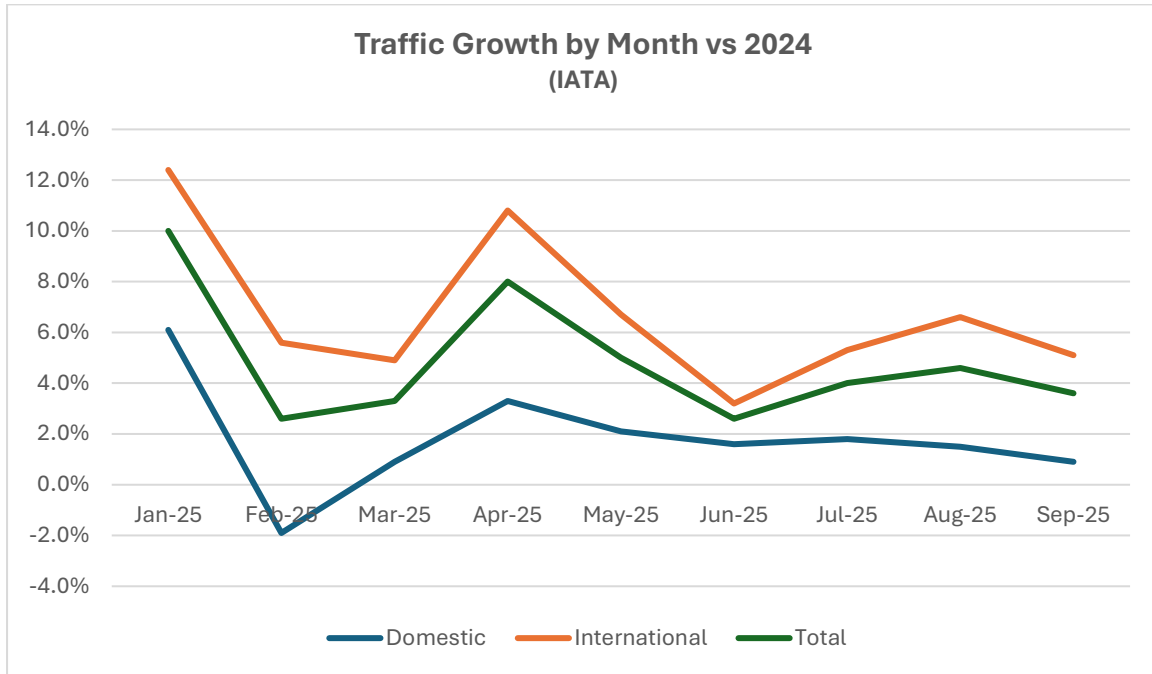


Traffic and Aircraft Demand



Source: IATA Sustainability and Economics, IATA Information and Data - Monthly Statistics

Although 2024 saw traffic recover strongly to above pre-pandemic levels, after a very strong start traffic growth weakened throughout the first nine months of 2025 although RPKs^{iv} overall were up 4.8% and a slightly lower increase in ASKs^v allowed for a modest improvement in load factor.



The key growth driver in 2025 has been international traffic in Asia-Pacific which previously lagged other markets in its post-pandemic recovery. This was significantly offset by weakness in both domestic and international North American traffic where volatile economic policy in the US appears to have had a negative impact on consumer confidence.

2025 growth has been below industry expectations and as a result commentators such as IATA have lowered their growth forecasts for 2026. Traffic growth relative to global GDP is well below historic levels and it remains to be seen if this is temporary or permanent.

Total Market 2025 vs 2024 – IATA Data (all figures in %)			
	9 Months to September 2025 vs 9 Months to September 2024		
	RPK Change	Load Factor Change	Load Factor Level (2025)
World	4.8	0.1	83.5
Africa	7.4	0.7	75.3
Asia-Pacific	7.7	1.2	84.2
Europe	4.2	0.0	48.3
Latin America	7.3	-0.5	83.1
Middle East	5.8	0.6	81.4
North America	0.1	1.5	83.0
Total Domestic	1.8	-0.1	83.7
Total International	6.7	0.2	83.3

International Markets 2025 vs 2024 – IATA Data (all figures in %)

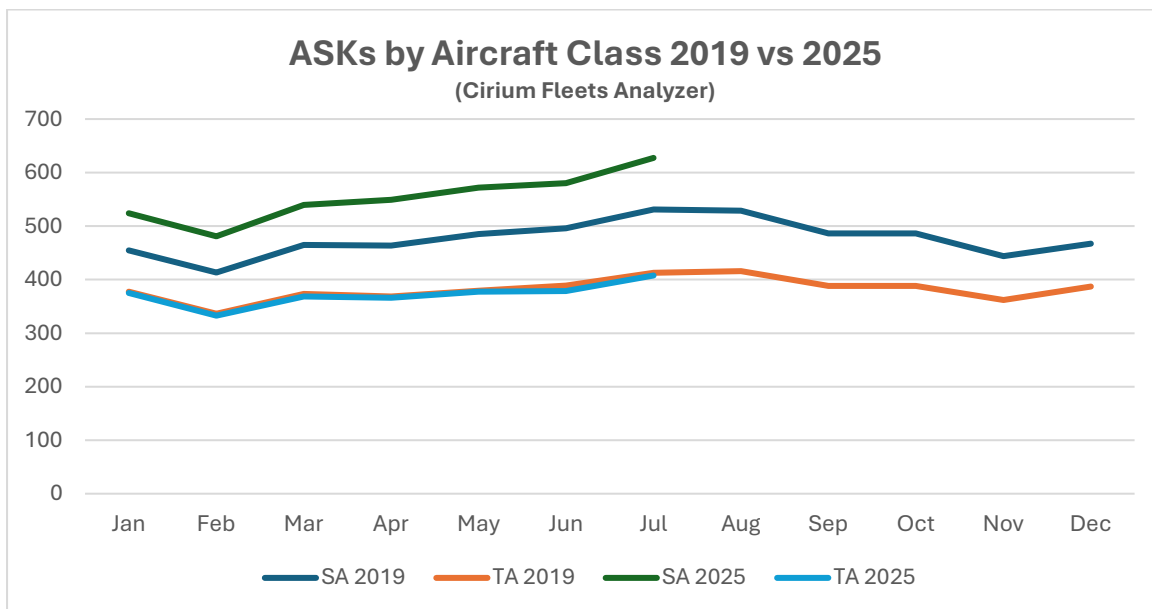
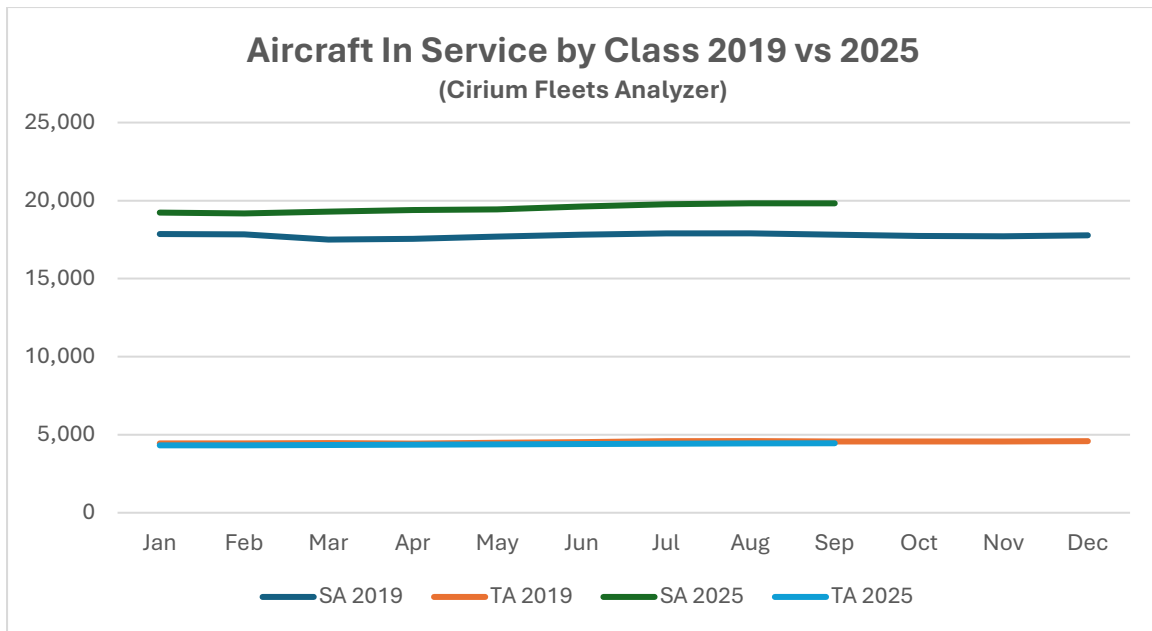
	9 Months to September 2025 vs 9 Months to September 2024		
	RPK Change	Load Factor Change	Load Factor Level (2025)
World	6.7	0.2	83.3
Africa	6.7	0.9	75.0
Asia-Pacific	11.5	0.7	84.5
Europe	5.2	0.0	83.6
Latin America	9.2	-1.6	83.5
Middle East	5.7	0.6	81.5
North America	1.5	-0.2	84.2

Select Domestic Markets 2025 vs 2024 – IATA Data (all figures in %)

	9 Months to September 2025 vs 9 Months to September 2024		
	RPK Change	Load Factor Change	Load Factor Level (2025)
World	1.8	-0.1	83.7
Australia	1.8	0.9	80.6
Brazil	11.4	1.5	82.7
China	4.2	1.7	84.4
India	6.2	-1.4	84.9
Japan	5.4	3.4	80.2
US	-0.7	-2.2	82.2

Although some short-haul aircraft serve international routes nearly all long-haul aircraft do so, and this is reflected in the relative demand for single-aisle (narrowbody) and twin-aisle (widebody) aircraft. Aircraft demand can be measured in terms of aircraft in service and ASKs, the standard measure of aircraft capacity deployed by airlines which indicates how intensively aircraft are being flown. Single aisle aircraft demand on both metrics is higher so far in 2025 than in 2019 whereas twin-aisle aircraft are in line.

The softer recovery for twin-aisle aircraft is mainly due to weak traffic to and from, and within the Asia-Pacific region. The figures by region in the tables above are based on airline domicile, so weak Europe to Asia traffic reduces recorded international RPKs in other regions. This short-term effect is accompanied by a very gradual long-term increase in single-aisle aircrafts' share of global airline capacity at the expense of twin-aisle aircraft, which is caused by better operator economics and an increase in the number of markets where single-aisle aircraft can be deployed because of the greater range of new technology aircraft such as the A320 Neo and the B737 Max.



New Aircraft Supply

Airbus Deliveries 9 Months to September 30th								
Aircraft Family	2018	2019	2020	2021	2022	2023	2024	2025
A220	21	33	18	34	34	41	45	62
A320	395	422	282	341	340	391	396	392
A330	31	34	9	11	21	20	20	20
A350	61	77	31	36	42	36	36	33
A380	8	5	-	2	-	-	-	-
Total	516	571	340	424	437	488	497	507

Airbus delivered slightly more aircraft in the first nine months of 2025 than in the same period in 2024 and continues to suffer from supply chain constraints. The biggest problems relate to engines - Airbus stated that they had 32 A320 family “gliders” at the end of September, i.e. finished airframes with no engines available to allow them to be delivered, compared to 60 in June. Airbus has recently reduced its guidance for total 2025 deliveries from 820 to 790 commercial aircraft and as usual there has been a ramp up of Q4 production with average deliveries of 75 per month in October and November compared to an average of 56 for January to September.

Aircraft Family	Current Announced Monthly Rate ^{vi}	Actual 9M-2025 Monthly Rate	Target Rate	Target Timeframe
A220	8	7.2	12	2026
A320	50	45.4	75	2027
A330	3	2.2	5	2029
A350	6	3.7	12	2028

There has been no change in Airbus’s medium-term production plans apart from a drop in the target 2026 monthly rate for the A220 from 14 to 12 (the current production figures in the table above include some external estimates as well as official Airbus guidance).

Boeing Deliveries 9 Months to September 30th								
Aircraft Family	2018	2019	2020	2021	2022	2023	2024	2025
B737	407	118	12	179	277	286	229	330
B747	5	5	2	4	3	1	-	-
B767	13	32	20	24	21	17	15	20
B777	37	33	15	20	18	17	11	29
B787	106	113	49	14	9	50	36	61
Total	568	301	98	241	328	371	291	440

Boeing’s deliveries increased significantly year-on-year across all aircraft programs. Also, there is a lot more clarity around actual production rates, so we have stopped estimating production rates adjusted for movements in inventory. Boeing achieved its initial target production rate of 38 per month for the B737 by June and has since secured FAA approval for an increase to 42. At the end of September aircraft in inventory were 5 in-production variants due for delivery to Chinese airlines by year end plus c. 35 -7 and -10 variants awaiting certification in 2026. Further increases in the B737 production rate are subject to additional FAA approvals and Boeing has not provided a definite timeframe for when they will occur, but management has said they expect future increases to come in increments of 5 aircraft per month.

The production target for the B787 is an increase from 5 to 7 by the end of 2025 with a further increase to 10 in 2026. By the end of Q3 production was around 7 per month and inventory had reduced to 10 aircraft.

In contrast to these successes planned entry into service for the B777-9 was again deferred, this time from 2026 to 2027.

Aircraft Family	Current Announced Monthly Rate	Actual 9M-2025 Monthly Rate	Target Rate	Target Timeframe
B737	38	36.7	42	2025
B767	3	2.2	3	-
B777	3	3.2	4	2027
B787	5	6.7	10	2026

Despite the B777X 2025 has seen Boeing make substantial progress in fixing its problems and it has regained its traditional lead in the twin-aisle market even if one doesn't include non-passenger deliveries. Barring unforeseen events Boeing should deliver over 600 passenger aircraft in 2026.

Other Deliveries 9 Months to September 30th								
Aircraft Type	2018	2019	2020	2021	2022	2023	2024	2025
C909/ARJ 21	3	8	12	17	13	12	25	14
C919	-	-	-	-	-	1	7	7
CRJ 700/900/1000	15	18	11	3	-	-	-	-
E-Jet/ E-Jet E2	60	57	18	32	27	40	42	47
Superjet 100	27	4	6	11	5	3	1	1
Total	105	87	47	63	45	56	75	69

The number of deliveries by other aircraft manufacturers fell in the first nine months of 2025 than in the same period in 2024, mainly due to a fall in deliveries by COMAC. Cirium has reported informal guidance that COMAC plans to deliver 30 C919s in 2025 compared to 13 in 2024 but this looks to be a challenge after only seven deliveries in so far this year.

Airline Industry Financial Performance

IATA released a new airline industry financial forecast in December 2025 as part of its semi-annual Global Outlook for Air Transport. The table below compares key metric estimates for 2025 with IATA's forecast published in December 2024 and its new forecast for 2026.

Forecast Date	December 2024	December 2025	December 2025
Forecast Period	2025 (Forecast)	2025 (Estimate)	2026 (Forecast)
RPKs (BN)	9,814	9,505	9,971
RPK Growth	8.0%	5.2%	4.9%
Passenger Load Factor	83.4%	83.7%	83.8%
Airline Industry Revenue (\$BN)	1,007	1,008	1,053
Change in Passenger Total Yield	-3.4%	-0.9%	-0.1%
Jet Fuel Price \$/b	87	90	88
EBITDAR (\$BN)	177.7	161.9	173.5
EBITDAR Margin	17.6%	16.1%	16.5%
Net Profit (\$BN)	36.6	39.5	41.0
Net Profit Margin	3.6%	3.9%	3.9%

We should start this discussion by noting that 2025 marks the first year when the airlines “officially” became a trillion-dollar industry, although they might in fact have got there a year earlier as IATA’s figures do not cover all industry participants – a milestone, nonetheless.

The key difference between the 2025 forecast and the estimated outcome for the year is that traffic growth was lower than expected (see more detailed discussion above). However, this did not materially hurt profitability as load factors increased, unit revenues (passenger yield) held up better than expected and the cost of fuel was only slightly higher than forecast. One interpretation of these figures is that the low level of new aircraft deliveries has given the airlines a bit more pricing power than would normally be the case. The forecast for 2026 is essentially more of the same, which is a very solid performance by historical standards.

NYSE Arca Global Airline Index vs S&P Global 1200 Index (Google Finance)



Airline stocks fell more heavily than the overall market in April, which is not surprising as the NYSE Arca Global Airline Index is heavily weighted towards US airlines, and the latter had published several profit warnings on the back of weak travel demand. Since April there has been a gradual recovery as the worst-case scenarios have failed to materialise.

The two big airline failures so far in 2025 have been Azul and Spirit Airlines. Azul’s bankruptcy is another example of how difficult it is to avoid this procedure if all one’s competitors have availed of it (GOL emerged from bankruptcy in June). Spirit has been the victim of a continuing adverse market for US low-cost airlines and its own failure to use its first bankruptcy to do more than just buy time (Spirit filed for bankruptcy in November 2024 and emerged from bankruptcy in March 2025). This time around management have said they plan to significantly shrink the airline to improve its future viability.

As expected the number of small airlines failing increased in the second half of 2025 after running at an abnormally low level before then. The table below omits two very small airlines that were reported as failing, Bees Airlines of Romania (January) and RAVN Alaska (August). In neither case was it possible to identify any aircraft they operated as of year-end 2024.

Airline Failures in 2025 (various sources)				
Airline	Country	Month	Aircraft Types	# Aircraft ^{vii}
SKS Airways	Malaysia	January	DHC-6-300	2
Air Belgium	Belgium	April	A330-200, B747-8	4
Joy Air	China	April	B737-800, MA60	28
Cityjet	Ireland	May	CRJ-900	6
Azul	Brazil	May	A321-200F, A320 Neo, A321 Neo, A330-200, A330-300, A330-900, ATR-72-600, B737-400F, E195, E195-E2	193
VoePass	Brazil	June	ATR72-500	11
Spirit Airlines	US	August	A319-100, A320-200, A321-200, A320 Neo, A321 Neo	213
Braathens Int. Airways	Sweden	September	A319-100, A320-200	7
PLAY	Iceland	September	A320 Neo, A321 Neo, B737-800	10
Eastern Airways	UK	October	ATR72-600, E170, Jetstream 41	14
Lumiwings	Greece	October	E195	1
SmartLynx Airlines	Latvia	October	A320-200, A321-200	6
Blue Islands	Guernsey	November	ATR72-500	4
New Pacific Airlines	US	November	B757-200, DHC-8-100, DHC-8-300	9

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End Notes

ⁱ Sirius has created the time series of aggregate aircraft leasing industry returns by based on public financial information in respect of the following companies: AerCap, Aircastle, Air Lease Corp., ALAFCO, Avation, Aviation Capital Group, Avolon, AWAS, BOC Aviation, CALC, CDB Aviation, DAE Capital, Fly Leasing, GECAS, Genesis Lease, ILFC, Intrepid/Voyager, Macquarie AirFinance, Nordic Aviation Capital, SMBC Aviation Capital and Truenoord. We have not included FTAI as it has a hybrid business model including significant engine and spare parts trading. We have excluded NAC from our aggregate profitability calculations for 2022 because their net income includes a \$2.6 BN gain on restructuring of financial liabilities and some other large one-off items.

ⁱⁱ For the purposes of calculating net rental yield we include assets such as maintenance rights and lease premiums in aircraft book value as both these items are allocations of amounts paid for used aircraft and their exclusion would inflate net lease yield compared to aircraft bought new. We have partially excluded ALAFCO (2023-2024) and NAC (2022-2024) from these calculations and our calculations of depreciation and interest costs for the same periods because:

- ALAFCO has been subject to an orderly wind-down in recent years and this has made this ratio very volatile due to the timing of aircraft sales.
- NAC's bankruptcy involved very substantial aircraft impairments relative to its total aircraft book value which have distorted this ratio.

ⁱⁱⁱ We estimate the number of off-lease aircraft by counting aircraft that are managed by "Finance & Professional" companies according to Cirium Fleets Analyser that are also operated by such companies i.e. they have no airline operator.

^{iv} RPKs is the acronym for revenue passenger kilometres, which is the product of the number of paying passengers times distance flown.

^v ASKs is the acronym for available seat kilometres, which is the product of the number of available seats flown times distance flown.

^{vi} Airbus normally quotes its production rates based on an 11.5-month year for single-aisle aircraft.

^{vii} Fleet numbers are as of December 31st, 2024.