

STATE OF THE REGION: EUROPE

AUGUST 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q4	2016Q1	2016Q2
Germany	1.4	1.3	1.8	1.7
Russia	-3.7 [†]	-3.8	-1.2	-0.6
France	1.2	1.3	1.3	1.4
UK	2.2	1.8	2.0	2.2
Italy	0.6	1.1	1.0	0.7
Turkey	4.0	5.7	4.8	--
Israel	2.5	2.2	2.0	--
Euro zone	1.6	1.7	1.7	1.6
World*	2.5	2.3	2.2	2.1

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	May-16	Jun-16	Jul-16
US\$ broad index	122.4	120.8	121.2	121.9
European euro (EUR)	0.92	0.90	0.91	0.90
Russian ruble (RUB)	73.2	66.2	64.0	66.1
British pound (GBP)	0.68	0.69	0.76	0.75
Turkish lira (TRY)	2.92	2.95	2.88	2.99
Israeli shekel (ILS)	3.90	3.85	3.86	3.81

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2015	May-16	Jun-16	Jul-16
Crude oil (Brent)	52.4	46.7	48.3	45.0
Jet fuel	64.0	54.6	58.0	53.4

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

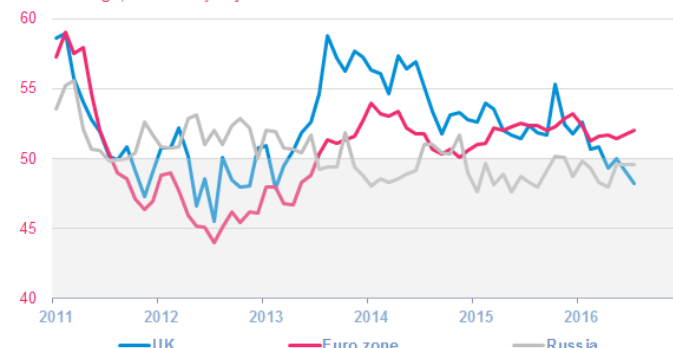
%change on a yr ago	2015	Apr-16	May-16	Jun-16
Region (registration basis)				
Europe	5.0	2.2	2.4	2.0
World	6.5	4.8	4.8	5.2
Routes (segment basis)				
Russia domestic	6.2	1.9	-3.5	0.7
Within Europe	8.6	4.4	6.3	5.5
Europe - North America	3.8	1.5	0.8	1.9
Europe - Asia	4.0	1.0	-2.9	-0.9
Europe - Middle East	11.3	8.1	7.2	-0.1
Europe - Africa	-1.2	-0.2	-0.2	-7.2
Europe - South America	2.0	2.7	2.0	1.7

Source: IATA Statistics

- ➔ RPK growth in yoy terms eased in Europe in Jun, in contrast to the gain for the industry overall. Pax volumes are now 2.0% higher yoy for European carriers & up a robust 5.2% industry-wide.
- ➔ For Europe, confidence & demand has been affected by the various terrorist acts. Individually, such disruptions typically have only a transitory impact, but repeated events can have a cumulative effect. Travelers from Asia appear to be particularly sensitive to such events.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



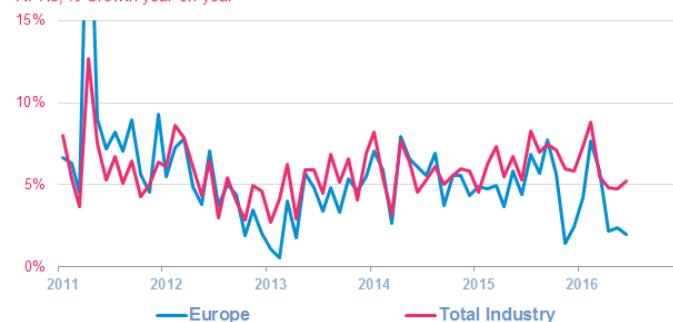
Source: Markit

- ➔ The UK economy grew by a robust 0.6% in Q2 (2.2%yoy) but the sharp fall in business confidence following the Brexit vote highlights concern at the referendum outcome. In Russia, GDP improved again but the economy has still contracted by 0.6%yoy.
- ➔ The (trade-weighted) US\$ ticked up a little again in Jul, gaining 0.6%. The GBP was steady in the month overall after the Jun fall. The EUR & ILS rose 1.2% against the US\$, while the RUB & TRY fell 3.2 & 3.7% respectively.
- ➔ The world price of oil & jet fuel fell in Jul – the first month since Jan when oil prices reached a 12-year low. Prices fell 7-8% in the month on the back of rising inventories, to US\$45 & US\$53 for oil & jet respectively.

- ➔ Russia domestic RPKs returned to positive yoy growth in Jun after a short-lived fall, now running at a 0.7%yoy pace. Seasonally adjusted data show that pax volumes have now recovered the level of Sept 2015, prior to the collapse of Transaero.
- ➔ Within Europe RPKs are up a robust 5.5%yoy in Jun, easily the best performer amongst the international routes. Conversely, Europe-Africa RPK growth dropped sharply, with pax volumes now a sizeable 7.2% lower than a year ago.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Apr-16	May-16	Jun-16
Region (registration basis)				
Europe	-0.2	7.5	5.1	5.1
World	2.2	2.7	1.5	4.3
Routes (segment basis)				
Europe - Asia	-4.9	5.9	1.5	2.4
Europe - North America	-2.1	-0.8	-1.3	1.5
Europe - Middle East	8.2	7.8	2.7	0.8
Europe - Africa	0.4	-4.7	-11.7	-9.0
Europe - South America	-2.9	5.8	3.6	-2.3
Within Europe	-2.5	13.8	8.8	12.4

Source: IATA Statistics

- Industry-wide air freight growth accelerated in Jun to 4.3%yoy – its fastest pace in more than a year. For the European carriers, even though the (yoy) growth rate was unchanged in Jun, FTKs continue to outperform the industry average, up a robust 5.1% on a year-ago.
- Overall, Q2 has been a sound one for European FTKs, corresponding to an improvement in the main German export orders barometer & giving a tentative indication of having broken out of the subdued range they have occupied since mid-2010.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2015	Apr-16	May-16	Jun-16
Passenger					
Europe	ASK	3.9	2.0	3.1	2.7
	PLF	81.3	79.8	80.3	82.9
World	ASK	5.6	5.1	5.6	5.6
	PLF	80.2	79.2	78.8	80.7
Freight					
Europe	AFTK	4.9	5.9	6.0	4.9
	FLF	44.8	46.1	44.0	44.3
World	AFTK	6.3	5.7	4.5	4.9
	FLF	44.1	43.6	42.4	43.1

Source: IATA Statistics. Note: LF=seasonally adjusted load factor. ASK=available seat kilometers. AFTK=available freight tonne kilometers

- At 2.7%yoy, pax capacity growth for the European carriers is currently running at around half the rate of the industry overall (5.6%). PLFs ticked up in Jun, with the regional figure remaining above the industry average (82.9% vs 80.7%).
- For freight, European carriers increased capacity at the same pace as the overall industry over the past year (4.9%). The regional FLF sits a little above the industry average at 44.3% vs 43.1%.
- The initial Q2 operating margin for the region's airlines was a robust 7.5%, up on the 6.7% figure from a year

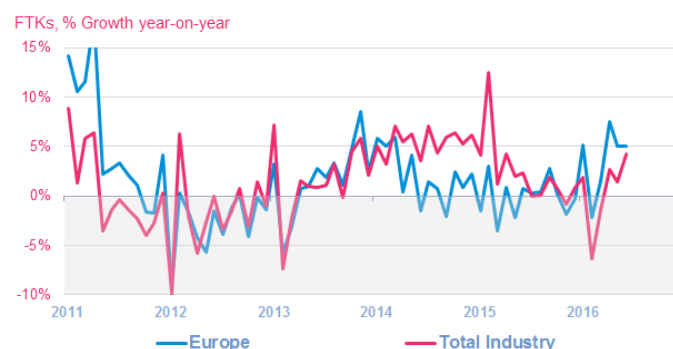
Airline EBIT margins*

%revenues	2014	2015	2015Q2	2016Q2
Europe	2.0	5.3	6.7	7.5
Industry	4.7	8.3	13.0	13.6

Source: Airline Analyst * constant sample basis, not seasonally adjusted

- Amongst the largest freight markets, Europe-Asia FTKs are up 2.4%yoy & Europe-NthAm returned to positive, albeit modest, growth in Jun, at 1.5%. The (smaller) Within Europe market is currently showing the strongest growth, at 12.4%yoy.
- Despite the pick-up in industry-wide growth in Jun, the outlook for global air freight continues to face the now familiar headwinds including ongoing sluggish economic growth & heightened risks in the aftermath of the Brexit vote, as well as the broader weakness in world trade.

Growth in air freight volumes



Source: IATA Statistics

ago. At the industry level, the operating margin is currently 13.6%, led by the continued strong performance of the Nth American carriers.

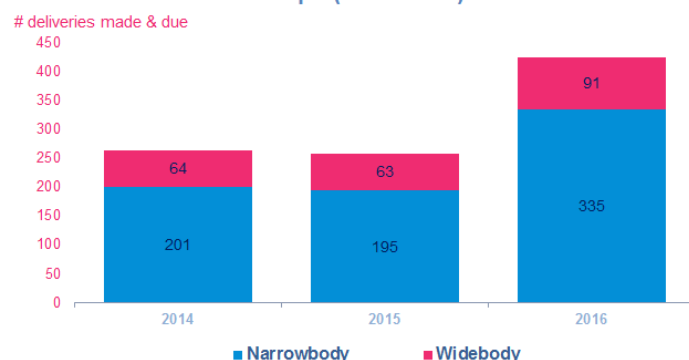
- Passenger yields in the main domestic & international markets are generally well down on a year ago, many in, or close to, double-digit decline. The exception is domestic Russia yields which are up 11%yoy – but are still at low levels compared with the 2012-14 period.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Apr-16	May-16	Jun-16
Russia domestic	-39.2	5.9	8.6	11.0
Within Europe	-16.3	-4.0	-3.3	-4.0
Europe - North America	-8.5	-2.5	-4.2	-6.5
Europe - Asia	-0.2	-8.0	-8.6	-8.9
Europe - Middle East	-11.8	-7.8	-9.3	-13.0
Europe - Africa	-17.2	-4.2	-3.3	-8.3
Europe - South America	-19.5	-19.9	-19.0	-19.2

Source: IATA PaxIS

Aircraft deliveries to Europe (latest data)



Source: Ascend