

State of the region: Europe

Economy

GDP growth, selected countries

| % change on a yr ago | 2018 | Q4 2018 | Q1 2019 | Q2 2019 |
|----------------------|------------|------------|------------|------------|
| Germany | 1.5 | 0.6 | 0.9 | 0.4 |
| Russia | 2.3 | 2.7 | 0.5 | -- |
| France | 1.7 | 1.1 | 1.2 | 1.3 |
| UK | 1.4 | 1.4 | 1.8 | 1.2 |
| Italy | 0.7 | 0.0 | -0.1 | 0.0 |
| Spain | 2.6 | 2.3 | 2.4 | 2.3 |
| Turkey | 2.6 | -3.0 | -2.6 | -- |
| Israel | 3.4 | 2.9 | 3.2 | -- |
| Euro zone | 1.9 | 1.2 | 1.2 | 1.1 |
| World* | 3.2 | 2.8 | 2.7 | 2.5 |

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

| end of period, # per US\$ | 2018 | May-19 | Jun-19 | Jul-19 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 128.5 | 128.7 | 128.3 | 127.8 |
| European euro (EUR) | 0.87 | 0.90 | 0.88 | 0.90 |
| Russian ruble (RUB) | 69.37 | 65.14 | 63.08 | 63.43 |
| British pound (GBP) | 0.79 | 0.79 | 0.79 | 0.82 |
| Turkish lira (TRY) | 5.29 | 5.84 | 5.78 | 5.56 |
| Israeli shekel (ILS) | 3.74 | 3.63 | 3.57 | 3.50 |

Source: Datastream

World oil and jet fuel price

| US\$/barrel (period ave.) | 2018 | May-19 | Jun-19 | Jul-19 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent) | 71.7 | 70.4 | 63.2 | 64.3 |
| Jet fuel | 86.4 | 84.4 | 76.5 | 80.4 |

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

| % change on a yr ago | 2018 | Apr-19 | May-19 | Jun-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Europe | 7.0 | 6.9 | 5.3 | 5.7 |
| World | 6.9 | 4.3 | 4.7 | 5.0 |
| Routes (segment basis) | | | | |
| Russia domestic | 10.1 | 10.4 | 10.6 | 10.3 |
| Within Europe | 8.3 | 9.6 | 8.1 | 8.6 |
| Europe - North America | 4.4 | 7.5 | 6.9 | 6.5 |
| Europe - Asia | 7.1 | 8.5 | 10.4 | 6.8 |
| Europe - Middle East | 4.9 | 4.6 | -0.7 | 11.1 |
| Europe - Africa | 6.7 | 9.6 | 8.0 | 14.6 |
| Europe - South America | 8.5 | 7.6 | 7.2 | 5.8 |

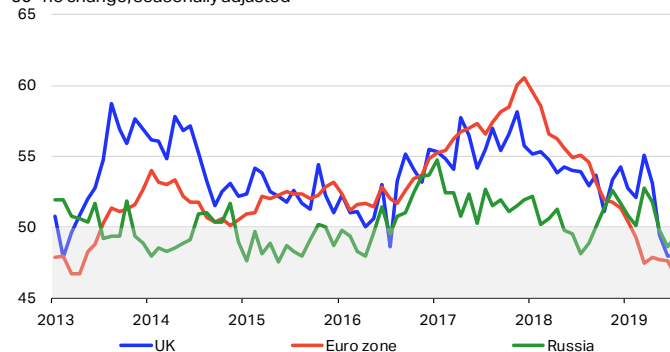
Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide revenue passenger kilometres (RPKs) increased by an even 5.0% over the 12 months to June, the best outcome since February. That said, the pace remained a little slower than the 20-year average growth rate of around 5.5%.
- Airlines in Europe continued to outperform the industry-wide outcome in terms of RPK growth in June, with pax volumes lifting to 5.7% y-o-y.

August 2019

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



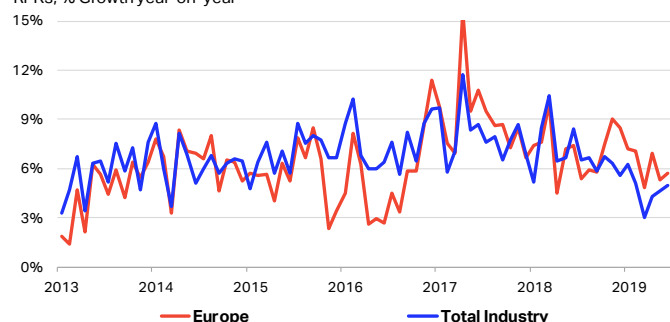
Source: Markit

- Business confidence deteriorated further in the UK and the Eurozone stemming from heightened concerns of a no-deal Brexit and a weaker economic backdrop. While business confidence in Russia improved slightly, the index is still in contractionary territory as domestic demand conditions remain weak.
- On a trade-weighted basis, the US\$ eased by 0.3%, its second consecutive monthly decrease. Among the major regional currencies, the Euro and Pound both lost value despite the interest rate cut from the US Fed as markets are pricing a similar move from ECB.
- Jet fuel and crude oil prices continued to be volatile following signs of weakening in the global economy and tensions in the Middle East.

- Passenger demand remained solid in the domestic Russia market, posting the 11th consecutive month of double-digit growth, with the support of lower fares.
- Demand in the region's main international markets remained broadly robust. The (largest) market Within Europe maintained its strength, with an 8.6% y-o-y rise in passenger volumes. For the smaller markets, RPK growth on Europe-Africa routes jumped to double digit levels, while Europe-Middle East rebounded following a modest slow-down in the previous month.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

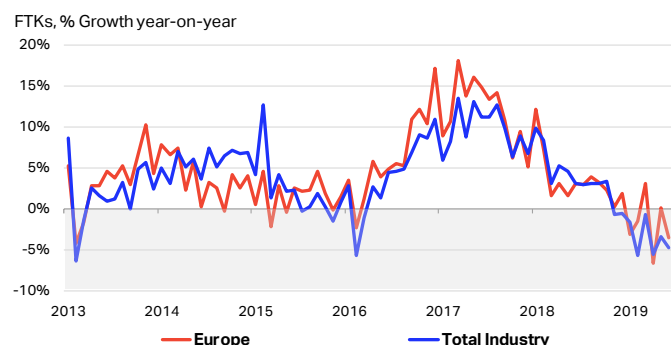
| % change on a yr ago | 2018 | Apr-19 | May-19 | Jun-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Europe | 3.4 | -6.6 | 0.1 | -3.6 |
| World | 3.6 | -5.6 | -3.5 | -4.8 |
| Routes (segment basis) | | | | |
| Europe - Asia | 1.1 | -6.0 | 1.9 | -4.0 |
| Europe - North America | 3.3 | -7.0 | -2.9 | -5.1 |
| Europe - Middle East | 3.7 | -7.4 | -7.1 | -7.0 |
| Europe - Africa | -0.4 | -0.1 | 3.4 | -0.6 |
| Europe - South America | 9.1 | -2.8 | 2.3 | -5.5 |
| Within Europe | 8.5 | -23.6 | 3.8 | -3.5 |

Source: IATA Statistics Note: historical data may be subject to revision

- Additional tariff increases in the ongoing US-China trade dispute that came into effect on June 1st are likely to have contributed to the further fall in annual FTK growth rate in June (volumes down 4.8% y-o-y).
- For Europe, freight volumes declined by 3.6% y-o-y following the stability in the previous month. The moderation in economic growth and deterioration in business confidence has been the main reasons behind the region's weak performance.

- Downward pressure on FTKs accelerated across the key international markets in the region this month. FTKs growth in Europe-Asia and within Europe turned to negative following a promising performance in the previous month.
- The pace of downward movement in FTKs folded in Europe-NthAm. Europe-Middle East route continued to be worst performer among all regions with a y-o-y decline of 7.0%.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago | | 2018 | Apr-19 | May-19 | Jun-19 |
|---------------------------|------|------|--------|--------|--------|
| LF: % of ASK/AFTK | | | | | |
| Passenger | | | | | |
| Europe | ASK | 6.2 | 5.6 | 4.6 | 4.6 |
| | PLF | 84.6 | 85.1 | 83.7 | 87.5 |
| World | ASK | 6.5 | 3.3 | 2.7 | 3.3 |
| | PLF | 81.9 | 83.0 | 81.6 | 84.4 |
| Freight | | | | | |
| Europe | AFTK | 3.5 | 3.7 | 3.3 | 2.8 |
| | FLF | 54.8 | 50.0 | 51.4 | 49.8 |
| World | AFTK | 4.9 | 1.7 | 1.4 | 2.6 |
| | FLF | 49.3 | 46.3 | 46.8 | 45.4 |

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

- The industry saw a record-high passenger load factor (PLF) for the month of June as the pace of capacity growth continued to be slower than that of demand. The story was less positive on the freight side with the FLF well below that of June 2018 (48.9%).
- European airlines also posted a record high PLF for June, rising by 1.0ppt compared to a year ago. For freight, the load factor eased following a moderate increase observed in May.
- The initial Q2 2019 airline financial data point to an improvement in industry-wide profitability vs a year ago. However, there are regional differences and the

profitability remains under pressure for European carriers with the EBIT margin 0.8ppt lower compared to Q2 2018.

- Passenger yields remained under pressure in June, which is in line with regional profit outcome. Russian domestic market was the major underperformer with ~23% y-o-y decline. Yields in the larger Europe-Asia market deteriorated at an accelerated pace in June.

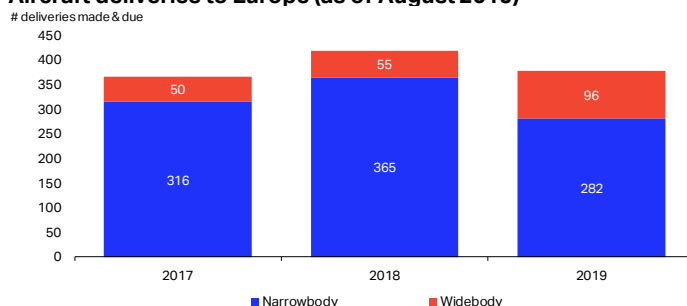
Passenger yields (US\$, excl. surcharges & ancillaries)

| % change on a yr ago | 2018 | Apr-19 | May-19 | Jun-19 |
|------------------------|------|--------|--------|--------|
| Russia domestic | -6.1 | -2.8 | -3.9 | -22.5 |
| Within Europe | 4.4 | -8.7 | -10.6 | -9.0 |
| Europe - North America | 5.3 | -7.5 | 0.2 | -3.1 |
| Europe - Asia | 0.9 | -10.0 | -1.2 | -8.9 |
| Europe - Middle East | 2.5 | -2.6 | -3.2 | -3.2 |
| Europe - Africa | 3.7 | -7.5 | -11.8 | -7.3 |
| Europe - South America | -1.5 | -22.7 | -18.8 | -20.1 |

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data indicate a modest decline in the number of jet aircraft deliveries scheduled for the European carriers in 2019 vs 2018.

Aircraft deliveries to Europe (as of August 2019)



Source: Ascend

Airline operating (EBIT) margins*

| % revenues | 2017 | 2018 | 2018Q2 | 2019Q2 |
|------------|------|------|--------|--------|
| Europe | 7.9 | 6.2 | 9.7 | 8.9 |
| Industry | 7.5 | 5.8 | 10.3 | 10.9 |

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