

State of the region: Europe

August 2021

Economy

GDP growth, selected economies

% change on a year ago	2020	Q4 2020	Q1 2021	Q2 2021
Germany	-4.9	-2.9	-3.2	9.2
Russia	-3.0	-1.8	-0.7	--
France	-8.0	-4.2	1.7	18.7
UK	-9.8	-7.3	-6.1	22.2
Italy	-8.9	-6.5	-0.7	17.3
Spain	-10.8	-8.9	-4.2	19.8
Turkey	1.8	5.9	7.0	--
Israel	-2.1	-0.1	0.8	15.0
Euro zone	-6.5	-4.6	-1.3	13.6
Eastern Europe	-3.1	-2.8	-1.3	8.3
World*	-3.5	-1.2	2.6	11.4

Source: Eikon Datastream * Market exchange rate basis

Exchange rates

end of period, # per US\$	2020	May-21	Jun-21	Jul-21
US\$ broad index	112.1	111.5	111.9	113.3
European euro (EUR)	0.81	0.82	0.84	0.84
Russian ruble (RUB)	74.0	73.4	73.1	73.1
British pound (GBP)	0.73	0.70	0.72	0.72
Turkish lira (TRY)	7.36	8.50	8.69	8.43
Israeli shekel (ILS)	3.21	3.25	3.26	3.23

Source: Board of Governors of the Federal Reserve System (US), Eikon Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2020	May-21	Jun-21	Jul-21
Crude oil (Brent)	43.4	68.4	73.5	74.4
Jet fuel	46.3	73.4	77.6	79.5

Source: Platts, Eikon Datastream (monthly average data)

Market

Revenue passenger-kilometers (RPKs)

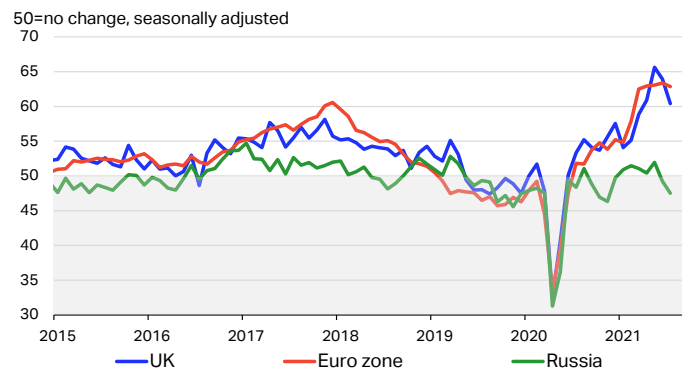
To aid understanding, we make % comparisons with pre-crisis 2019 period.

% ch vs. the same period in 2019	2020	Apr-21	May-21	Jun-21
Region (registration basis)				
Europe	-69.9	-81.5	-78.5	-69.2
World	-65.9	-65.2	-62.9	-60.1
Routes (segment basis)				
Russia domestic	-23.5	11.0	22.6	33.0
Within Europe	-70.7	-89.0	-85.2	-74.0
Europe - North America	-80.4	-89.8	-88.0	-81.2
Europe - Asia	-79.0	-92.3	-92.7	-91.0
Europe - Middle East	-73.2	-85.8	-82.4	-81.9
Europe - Africa	-68.4	-75.0	-71.1	-64.3
Europe - South America	-71.8	-89.0	-89.4	-87.1

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

- Slow air travel recovery continued for another month amidst modest improvements in both domestic and international travel. Industry-wide revenue passenger-kilometres (RPKs) fell by 60.1% (vs. June 2019) compared with a 62.9% decline in the previous month.
- European carriers reported a 69.2% RPK contraction vs. June 2019 – a robust improvement on the 78.5% decline in the previous month but still one of the

Business confidence - manufacturing PMIs



Source: Markit

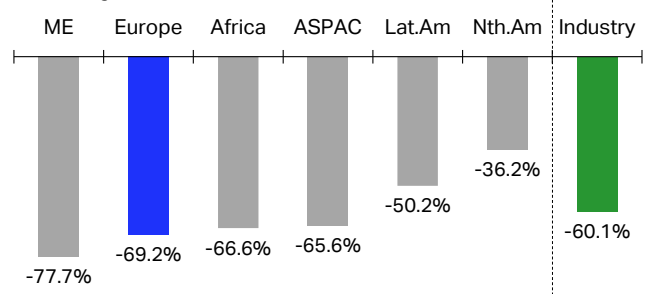
- Robust Q2 GDP growth results and elevated manufacturing PMIs confirm that economic activity has continued to recover from the pandemic effects in the UK and Eurozone. However, the manufacturing sector contracted in Russia for the second consecutive month amidst weak demand and inflationary pressures.
- The trade-weighted US dollar index picked up by 1.3% in July. Amongst the key regional currencies, the TRY was the main mover, ending the month up 3%.
- Oil and jet fuel prices continued to trend upwards in July, putting extra pressure on airlines' financials. The increase was driven by recovering global economic activity and uncertainty about Opec+ production deal.

weakest outcomes amongst all regions. The underperformance vs. the rest of the industry is attributed to muted international travel, which represented a large share of European carriers' traffic before the crisis.

- Russia was the best performer by far amongst the key domestic markets, posting a 33% RPK expansion compared with the pre-crisis levels. That said, new sanitary restrictions in some popular domestic tourism destinations such as Black Sea resorts might weigh on passengers' willingness to travel in the coming months.

Growth in passenger volumes, by region

RPKs, % change vs. Jun 2019



Source: IATA Economics

Cargo tonne-kilometers (CTKs)

To aid understanding, we make % comparisons with pre-crisis 2019 period.

% ch vs. the same period in 2019	2020	Apr-21	May-21	Jun-21
Region (registration basis)				
Europe	-13.9	11.9	5.9	6.7
World	-8.7	11.5	8.5	9.9
Routes (segment basis)				
Europe - Asia	-10.6	12.5	2.5	5.8
Europe - North America	-17.6	5.3	3.4	3.4
Europe - Middle East	-18.1	0.6	-1.3	-2.6
Europe - Africa	-20.2	-8.1	-9.7	-10.9
Europe - South America	-23.4	-14.5	-3.7	-2.8
Within Europe	-23.0	-1.0	-18.4	-11.2

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

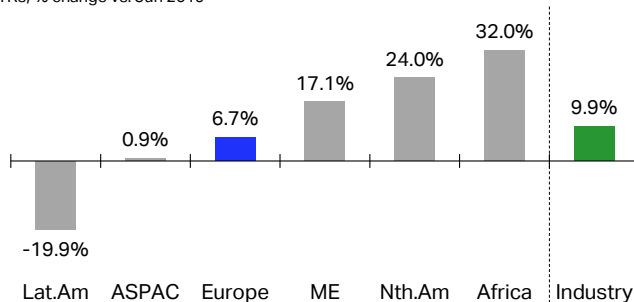
- June 2021 was another month of strong air cargo performance. Industry-wide cargo tonne-kilometres (CTKs) grew 9.9% compared to June 2019 and air cargo drivers point to further growth ahead.
- European airlines posted a modest improvement in CTKs, to 6.7% in June from 5.9% in May, versus the same months in 2019. Operating environment in the

region remains supportive. Manufacturing PMIs are notably strong in Eurozone and the UK, and persistent COVID outbreaks mean that a shift from manufacturing to services is not a big risk to air cargo at the moment.

- Amongst the region's key international markets, Europe-Asia experienced the fastest CTK growth, at 5.8% vs. June 2019. Europe-North America followed with a 3.4% expansion in cargo volumes.

Growth in cargo volumes, by region

CTKs, % change vs. Jun 2019



Source: IATA Economics

Industry

Capacity growth and load factors

To aid understanding, we make % comparisons with pre-crisis 2019 period.

ASK/ACTK: %ch vs. the same period in 2019, LF: % of ASK/ACTK	2020	Apr-21	May-21	Jun-21
Passenger				
Europe ASK	-62.4	-72.1	-69.4	-59.1
Europe PLF	68.3	56.3	58.9	65.8
World ASK	-56.7	-54.7	-54.1	-51.6
World PLF	65.1	63.9	66.1	69.6
Cargo				
Europe ACTK	-24.4	-18.1	-19.1	-15.0
Europe CLF	59.0	68.3	67.4	62.6
World ACTK	-21.1	-10.6	-11.2	-10.8
World CLF	54.2	58.1	57.7	56.5

Source: IATA Economics. Note: LF=load factor. ASK=available seat kilometers. ACTK=available freight tonne kilometers

- Although passenger load factors (PLF) recovered from the last year's record lows, they remained well below the pre-crisis levels in most regions. The industry-wide metric was at 69.6% – ~15ppts lower vs June 2019. The average PLF of European carriers was at 65.8%.
- Cargo load factors (CLF) remained exceptionally high in June. The industry-wide metric was at 56.5%, 10.7 ppts above June 2019 levels. At the regional level, European carriers reported the CLF at 62.6% - the second highest outcome amongst regions after Asia Pacific.
- Q1 2021 financial results confirmed that the start of the year was weaker than originally expected as new virus spikes paused or reversed air travel recovery in many important markets. European airlines' financials underperformed the rest of the industry. However, the initial Q2 results indicate that pressure on profitability eased slightly in the region as some markets started to reopen due to successful vaccine rollout.

Airline operating (EBIT) margins*

% revenues	2019	2020	2020Q4	2021Q1
Europe	4.8	-30	-50	-61
Industry	5.2	-28	-35	-41

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

- Despite stalling passenger demand and rising fuel prices, the global rate of cash burn slowed in Q1 2021 vs. Q4 2020 amidst rising bookings for future travel in some markets. At the regional level, European airlines also reported some improvement, but their cash outflow remained the highest amongst regions.

Airline cash flow*

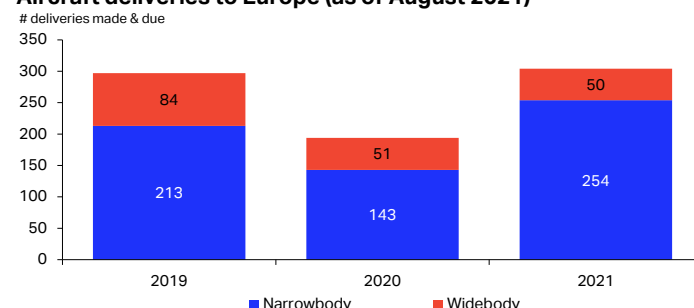
% revenues	Q4 2020		Q1 2021	
	Net cash flow ¹	Free cash flow	Net cash flow ¹	Free cash flow
Europe	-72	-76	-49	-64
Industry	-43	-56	-10	-26

¹From operating activities

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

- As of August 2021, the number of 2021 aircraft deliveries received by European carriers is expected to be 57% higher than in 2020 and broadly unchanged from 2019.

Aircraft deliveries to Europe (as of August 2021)



Source: Cirium Fleet Analyzer