



STATE OF THE REGION: EUROPE

DECEMBER 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2016Q1	2016Q2	2016Q3
Germany	1.5	1.8	1.7	1.7
Russia	-3.7	-1.2	-0.6	--
France	1.2	1.4	1.2	1.1
UK	2.2	1.9	2.1	2.3
Italy	0.6	1.0	0.8	1.0
Turkey	4.0	4.7	3.1	--
Israel	2.6	2.3	3.6	3.8
Euro zone	1.9	1.7	1.6	--
World*	2.3	2.2	2.1	2.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Sep-16	Oct-16	Nov-16
US\$ broad index	122.4	121.8	122.9	125.8
European euro (EUR)	0.92	0.89	0.91	0.95
Russian ruble (RUB)	73.2	63.0	63.4	64.2
British pound (GBP)	0.68	0.77	0.82	0.80
Turkish lira (TRY)	2.92	3.00	3.10	3.44
Israeli shekel (ILS)	3.90	3.75	3.83	3.84

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2015	Sep-16	Oct-16	Nov-16
Crude oil (Brent)	52.4	46.6	49.5	44.7
Jet fuel	64.0	55.4	61.2	57.0

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

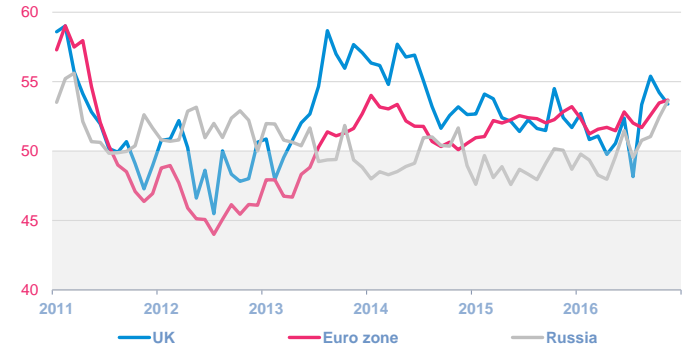
%change on a yr ago	2015	Aug-16	Sep-16	Oct-16
Region (registration basis)				
Europe	5.0	2.3	4.7	5.3
World	6.5	4.3	7.1	5.8
Routes (segment basis)				
Russia domestic	6.2	-2.7	0.6	2.5
Within Europe	8.6	5.6	7.2	7.9
Europe - North America	3.8	2.4	2.6	0.6
Europe - Asia	4.0	-1.5	3.2	1.4
Europe - Middle East	11.3	5.0	9.2	3.9
Europe - Africa	-1.1	-1.9	2.8	1.9
Europe - South America	2.0	5.8	4.8	2.4

Source: IATA Statistics

- ➔ Annual growth in industry-wide RPKs eased back to 5.8%yoy in October, from above 7% in Sep. European airlines bucked this global trend, however, with the pace of growth rising further, to a robust 5.3%yoy. Europe was the only IATA region to show an acceleration in (yoy) RPK growth in Oct.
- ➔ Russia domestic RPKs continued to show improvement this month, notwithstanding a downward revision to last month's data. Traffic volumes are currently 2.5% higher than their level of a year ago.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



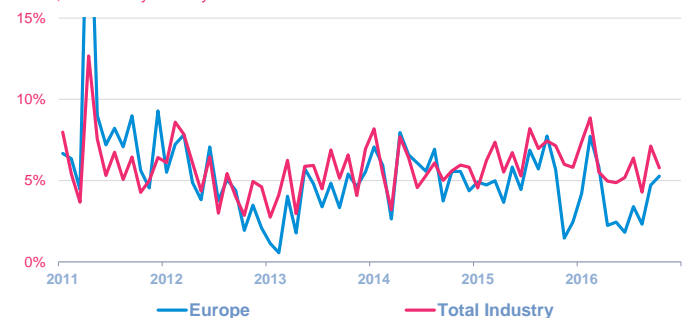
Source: Markit

- ➔ Business confidence in the UK pared some of its recent strong gains, but the upwards trend in the euro zone & Russia (now at its highest level since 2011) continued.
- ➔ The US\$ surged in Nov, rising a sizeable 2.4% on a trade-weighted basis. Amongst the main regional currencies, the TRY fell more than 10% against the US\$ in the month, mainly on domestic concerns. The EUR fell 3.6% while the GBP bucked the trend, rising 2%mom.
- ➔ Oil prices were unsettled in Nov ahead of the OPEC meeting, ending the mth down ~US\$5/bbl. The fall was short-lived, however; prices swiftly moved back above US\$50 following the OPEC agreement on production.

- ➔ With Nov. marking the one-year anniversary of the collapse of Transaero, the annual comparison will step up sharply next month; we anticipate that yoy RPK growth for Russia domestic is likely to exceed 15%.
- ➔ Amongst key markets, Within Europe is easily the standout performer, with RPK growth rising to almost 8% in Oct. Despite a sizeable easing this month, Europe-Middle East growth remains solid, at ~4%.
- ➔ RPKs on routes between EUR & both Nth America & Asia slowed to just 0.6% & 1.4% respectively this month.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Aug-16	Sep-16	Oct-16
Region (registration basis)				
Europe	-0.2	6.6	12.5	13.4
World	2.2	4.7	6.6	8.2
Routes (segment basis)				
Europe - Asia	-4.9	2.3	7.4	10.7
Europe - North America	-2.1	2.7	10.0	9.0
Europe - Middle East	8.2	3.8	4.6	16.1
Europe - Africa	0.4	-5.6	-4.4	-5.4
Europe - South America	-2.9	1.7	4.5	13.6
Within Europe	-2.5	16.9	34.0	63.9

Source: IATA Statistics

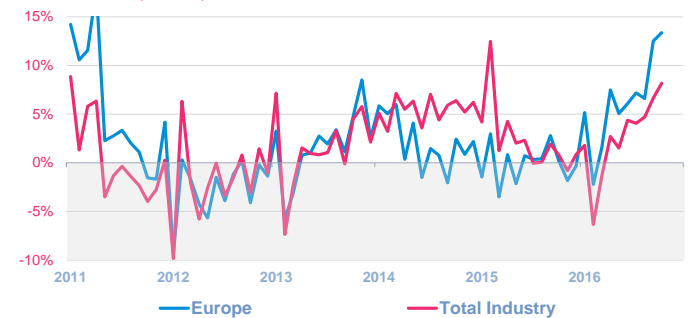
- At odds with passenger volumes, growth in industry-wide freight volumes moved higher in Oct, building on last month's gain. Global FTKs are now a hefty 8.2% higher than a year ago; the strongest rate in more than 18mths.
- For the European carriers, FTK growth also moved a little higher this month, to 13.4%yoy – the strongest rate amongst all of the IATA regions. The region's cargo-only carriers continue to do well, while Turkish Airlines has

performed strongly this year despite domestic turmoil.

- Two of the top three freight markets for Europe (Asia & Middle East) are growing at a double-digit yoy pace, with the 3rd (Nth America) not far behind. This growth has underpinned the strong aggregate performance of the region's carriers.
- In clear contrast is the subdued performance of Europe-Africa routes, where FTKs are down a solid 5.4%yoy.

Growth in air freight volumes

FTKs, % Growth year-on-year



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2015	Aug-16	Sep-16	Oct-16
Passenger					
Europe	ASK	3.9	3.7	4.9	5.7
	PLF	81.3	86.3	84.3	82.5
World	ASK	5.6	5.6	6.6	6.3
	PLF	80.2	83.7	81.2	80.1
Freight					
Europe	AFTK	4.9	5.8	6.6	5.9
	FLF	44.8	41.6	44.7	47.9
World	AFTK	7.0	4.6	4.4	3.6
	FLF	43.8	40.6	43.7	46.2

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

- European carriers have increased capacity by 5.7% & 5.9% for pax & freight, respectively over the past year. The former is moderately below the overall industry rate of 6.3%yoy but the latter is well above the 3.6% rate.
- The region's carriers continue to post load factors which exceed the industry average for both the pax (82.5% vs 80.1%) & freight (47.9% vs 46.2%) segments.
- The latest Q3 financials show a strong operating (EBIT) margin performance by the European carriers – currently the strongest across all IATA regions. At 19.4%, this figure represents a modest improvement on a year ago & sits ~3.5pp above the overall industry average.

Airline operating (EBIT) margins*

%revenues	2014	2015	2015Q3	2016Q3
Europe	2.0	5.3	18.6	19.4
Industry	4.7	8.3	16.1	15.9

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

- Across the main markets for European airlines, pax yields remain well down on their level of a year ago, typically in, or very close to, double-digit decline.
- Russia domestic pax yields remain the exception, up 13% vs a year ago, bolstered in part by the recent appreciation of the RUB vs the USD.

Passenger yields, excl. surcharges & ancillaries

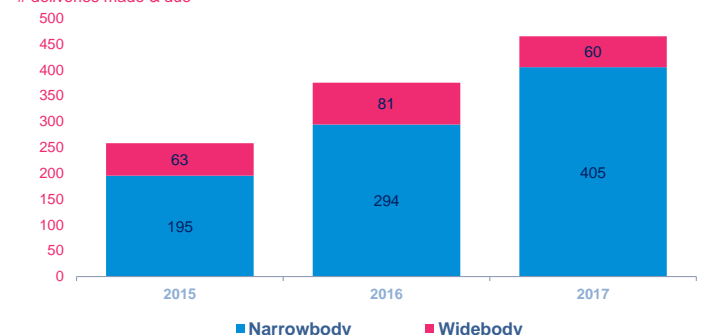
%change on a yr ago	2015	Aug-16	Sep-16	Oct-16
Russia domestic	-38.9	18.3	23.0	13.0
Within Europe	-16.3	-7.1	-8.5	-10.0
Europe - North America	-8.5	-11.5	-10.0	-9.5
Europe - Asia	-0.2	-10.2	-8.4	-9.4
Europe - Middle East	-11.8	-14.3	-13.7	-13.2
Europe - Africa	-17.2	-6.9	-7.9	-9.2
Europe - South America	-19.5	-15.8	-14.8	-14.3

Source: IATA PaxIS

- Aircraft deliveries to the region's carriers in 2017 are set to continue the recent upwards trend, consistent with a degree of optimism for the industry outlook.

Aircraft deliveries to Europe (latest data)

deliveries made & due



Source: Ascend