STATE OF THE REGION: EUROPE

JANUARY 2018

Economy

GDP growth, selected countries

%change on a yr ago	2016	2017Q1	2017Q2	2017Q3
Germany	1.9	2.1	2.3	2.8
Russia	-0.2	0.5	2.5	1.8
France	1.1	1.1	1.8	2.2
UK	1.8	1.8	1.5	1.5
Italy	1.1	1.3	1.5	1.7
Spain	3.3	3.0	3.1	3.1
Turkey	3.2	5.3	5.4	11.1
Israel	3.9	3.8	3.0	3.0
Euro zone	1.8	2.1	2.4	2.6
World*	**2.3**	**2.6**	**2.8**	**2.8**

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US$	2016	Oct-17	Nov-17	Dec-17
US$ broad index	127.7	120.0	120.3	120.0
European euro (EUR)	0.95	0.86	0.84	0.83
Russian ruble (RUB)	60.4	58.4	58.4	57.7
British pound (GBP)	0.81	0.75	0.74	0.74
Turkish lira (TRY)	3.52	3.80	3.93	3.79
Israeli shekel (ILS)	3.84	3.52	3.49	3.48

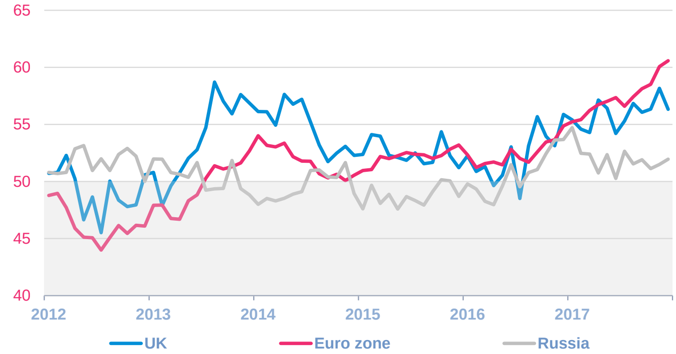
Source: Datastream, XE

World oil and jet fuel price

US$/barrel	2016	Oct-17	Nov-17	Dec-17
Crude oil (Brent)	52.4	57.5	62.7	64.4
Jet fuel	64.0	69.7	73.9	76.3

Source: Platts, EIA Monthly average data

Business confidence - manufacturing PMIs



Source: Markit

- Business confidence in the Eurozone moved higher again this month, but the UK measure unwound its Nov. increase. In Russia, a small monthly gain was supported by higher oil prices, but the broadly sideways trend of recent months remains in place.
- On a trade-weighted basis, the US$ pared last month's gains, returning to its Oct level. The US$ index is down 6%yoy. In Dec, the TRY was the biggest mover, gaining 3.5% vs the US$. In yoy terms, the TRY was the only currency to fall, down almost 8%. The EUR gained 12%yoy, followed by the ILS & GBP, both up ~9%yoy.
- Oil & jet fuel prices trended higher in Dec, ending 2017 with a 3%mom gain to US$64 & US$76 respectively. Both prices are up more than 20% in yoy terms.

Market

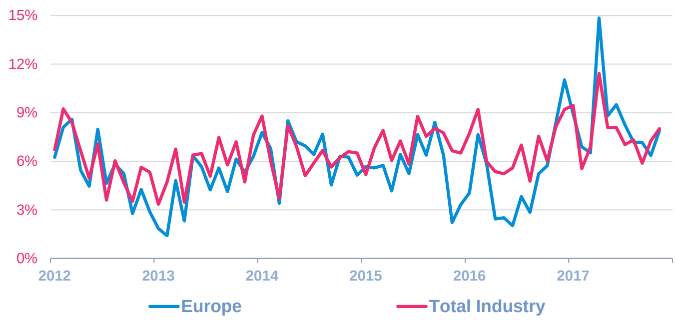
Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Sep-17	Oct-17	Nov-17
Region (registration basis)				
Europe	4.6	7.2	6.4	7.9
World	6.7	5.9	7.3	8.0
Routes (segment basis)				
Russia domestic	2.5	7.3	6.7	7.6
Within Europe	8.2	11.6	10.2	10.6
Europe - North America	2.5	3.3	1.6	2.7
Europe - Asia	1.8	7.5	6.3	9.9
Europe - Middle East	9.9	6.4	6.5	3.1
Europe - Africa	1.8	6.5	6.5	9.6
Europe - South America	3.5	4.7	3.4	9.2

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

- Industry-wide RPKs grew by 8.0%yoy in Nov. – the fastest pace in 5 months & up from 7.3% in Nov. Pax volumes are carrying solid momentum into the year-end & look set to deliver another year of above-trend growth.
- For European carriers, RPK growth rebounded this month, rising to 7.9%yoy, in line with the pace of the overall industry aggregate.
- Russia domestic RPK growth also recovered somewhat this month, with pax volumes now a robust 7.6% higher than their level of a year ago.
- Of the key international markets, Within Europe continues to lead the pack, with yoy growth of 10.6%. Nov. saw growth on the Asia, Africa & Sth America markets lift solidly, with all now up 9-10%yoy. A more modest performance is evident for Nth America & the Middle East with RPKs up ~3%yoy in both.

Growth in air passenger volumes



Source: IATA Statistics

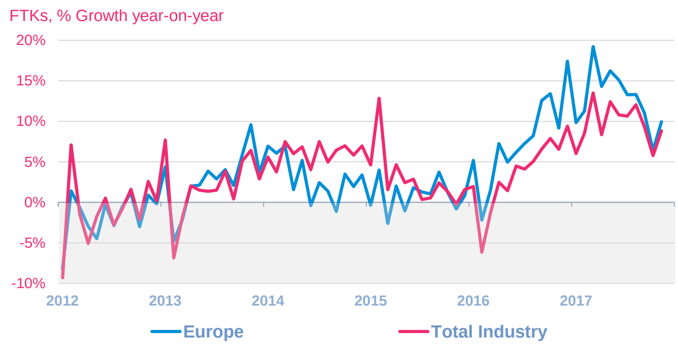
Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Sep-17	Oct-17	Nov-17
Region (registration basis)				
Europe	7.7	11.0	6.4	9.9
World	3.7	9.3	5.8	8.8
Routes (segment basis)				
Europe - Asia	3.9	8.7	2.4	8.3
Europe - North America	2.5	8.0	6.8	8.7
Europe - Middle East	7.1	13.9	8.9	1.8
Europe - Africa	-5.5	1.3	3.6	6.3
Europe - South America	1.2	12.0	5.1	9.9
Within Europe	23.3	28.2	16.2	25.5

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

- Global FTK growth accelerated to 8.8%yoy in Nov, up from 5.8% in Oct. Freight volumes remain on track to record their strongest year of growth since the post-GFC rebound in 2010.
- FTK growth for the European airlines similarly picked up this month, returning to a near-double-digit pace, at 9.9%, & retaining a (positive) gap above the overall industry-wide rate.
- Freight volumes continue to be supported by a favorable economic backdrop, with Eurozone manufacturers currently reporting that their export order books are growing at their fastest pace on record.
- The two largest markets, Asia & Nth America are growing briskly, at 8.3% & 8.7%yoy. The smaller Within Europe market remains the overall fastest growing, with FTKs up 25%yoy.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2016	Sep-17	Oct-17	Nov-17
Passenger					
Europe	ASK	4.7	5.4	4.7	5.8
	PLF	*82.4*	*86.3*	*84.3*	*81.5*
World	ASK	6.7	5.4	6.1	6.3
	PLF	*80.5*	*81.6*	*80.9*	*80.2*
Freight					
Europe	AFTK	8.0	5.9	2.5	4.7
	FLF	*44.0*	*45.1*	*48.7*	*50.0*
World	AFTK	5.4	3.4	2.8	4.0
	FLF	*42.9*	*45.8*	*47.2*	*49.1*

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

- The European carriers have increased pax capacity more slowly than the industry-wide rate over the past year, with ASKs up 5.8%yoy (vs 6.3%). The opposite is true for freight where the region's AFTKs are up 4.7%yoy (vs 4.0% industry-wide).
- Both the pax & freight load factors for the European airlines exceed the industry average, at 81.5% & an even 50.0% for the PLF & FLF respectively.
- The final Q3 financial data confirm the moderate improvement in the region's performance compared with a year ago, with the EBIT margin now at 19.7% vs 18.6% in Q3 2016. The region's performance also currently exceeds the industry-wide 14.7%. Note that

Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q3	2017Q3
Europe	5.4	6.1	18.6	19.7
Industry	8.5	8.8	15.0	14.7

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

the financial data are not seasonally-adjusted.

- Across the region's key markets, all are currently showing pax yields that are above their level of a year ago. Europe-Sth America & Russia domestic are the two standouts, with double-digit increases of 15% & 14%yoy, respectively.

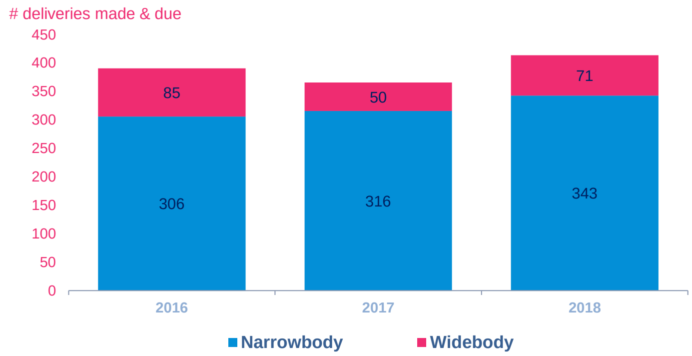
Passenger yields (US$, excl. surcharges & ancillaries)

%change on a yr ago	2016	Sep-17	Oct-17	Nov-17
Russia domestic	5.2	10.8	9.6	14.3
Within Europe	-7.6	3.1	2.4	5.2
Europe - North America	-8.3	1.9	4.7	7.5
Europe - Asia	-10.3	5.7	3.2	6.6
Europe - Middle East	-11.5	2.9	-2.1	1.0
Europe - Africa	-8.3	-0.6	-2.3	1.3
Europe - South America	-17.5	14.6	16.1	15.2

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

- The latest data point to a modest increase in the number of jet aircraft expected to be delivered to European airlines in 2018 vs 2017. Both narrow & widebody deliveries are expected to be higher this year.

Aircraft deliveries to Europe (1Q18 data)



Source: Ascend