STATE OF THE REGION: EUROPE

MARCH 2017

Economy

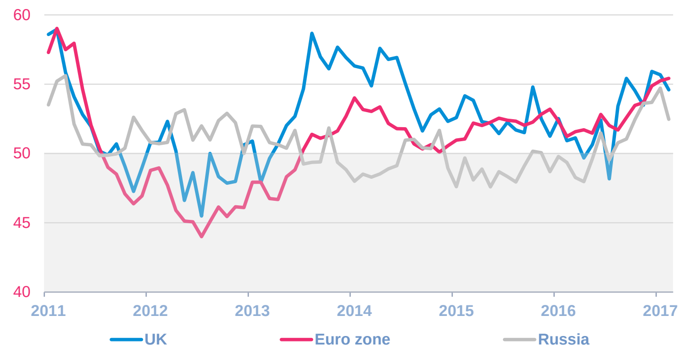
GDP growth, selected countries

%change on a yr ago	2015	2016Q2	2016Q3	2016Q4
Germany	1.5	1.8	1.7	1.8
Russia	-3.7	-0.6	-0.4	--
France	1.2	1.1	1.0	1.2
UK	2.2	1.7	2.0	2.0
Italy	0.7	0.8	1.0	1.0
Spain	3.2	3.4	3.2	3.0
Turkey	6.1	4.5	-1.8	--
Israel	2.6	3.7	4.0	4.8
Euro zone	1.9	1.6	1.8	1.7
World*	**2.3**	**2.1**	**2.2**	**2.4**

Source: Datastream * Market exchange rate basis † Estimate

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Despite some recent moderation in the UK & Russia, overall business confidence in Europe remains elevated, underpinned by a general improvement in the economic backdrop, including in Russia.
- The US$ eased a little in Feb, down ~1.5% on a trade-weighted basis. Amongst the main regional currencies, the TRY bounced back this month, rising by 4% vs the US$. The ILS gained 3.5% & the RUB was up 2.8%. The EUR & GBP, however, both fell against the US$, down 1.7% & 1.3%, respectively.
- Until recently, Brent crude oil prices have been relatively stable in the months following their Dec surge, rising just 0.5% in Feb to US$55/bbl. Jet fuel prices increased by 2.2% in the month, to US$65/bbl.

Exchange rates

end of period, # per US$	2016	Dec-16	Jan-17	Feb-17
US$ broad index	127.7	127.7	127.6	125.8
European euro (EUR)	0.95	0.95	0.93	0.94
Russian ruble (RUB)	60.4	60.4	60.1	58.4
British pound (GBP)	0.81	0.81	0.79	0.80
Turkish lira (TRY)	3.52	3.52	3.78	3.63
Israeli shekel (ILS)	3.84	3.84	3.77	3.64

Source: Datastream, XE

World oil and jet fuel price

US$/barrel	2016	Dec-16	Jan-17	Feb-17
Crude oil (Brent)	52.4	53.3	54.6	54.9
Jet fuel	64.0	62.6	63.6	65.0

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

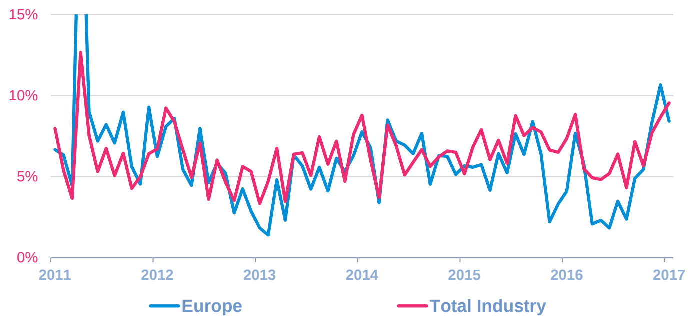
%change on a yr ago	2016	Nov-16	Dec-16	Jan-17
Region (registration basis)				
Europe	4.6	8.4	10.7	8.4
World	6.3	7.7	8.7	9.6
Routes (segment basis)				
Russia domestic	2.5	15.5	13.4	15.4
Within Europe	7.8	8.5	13.9	11.5
Europe - North America	2.6	0.9	3.2	1.2
Europe - Asia	1.8	4.5	9.3	6.4
Europe - Middle East	9.9	11.9	12.7	10.3
Europe - Africa	1.8	5.0	6.8	3.3
Europe - South America	3.5	4.1	4.6	3.5

Source: IATA Statistics

- Industry-wide traffic volumes began the year strongly, with RPK growth lifting to 9.6%yoy in Jan, the strongest start to a year since 2005. As usual at this time, we note that Chinese New Year can impact the data; potentially adding ½pp to annual growth on this occasion.
- While European RPKs eased somewhat back from their Dec pace & slipped below the industry-wide rate, growth in pax volumes remains strong, up 8.4%yoy.
- The Russia domestic market has maintained its recent performance, with double-digit RPK growth of 15.4%yoy. The recovery over the past year means traffic is back close to the trend of before the demise of Transaero.
- Within Europe & Europe-Middle East pax volumes have also increased at a double-digit pace over the past year, up 11.5% & 10.3%yoy, respectively. The Europe-NthAm, market, however, remains lackluster, with RPKs up just 1.2%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

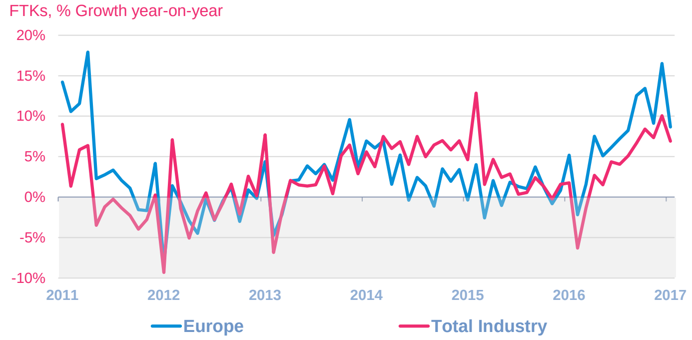
Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Nov-16	Dec-16	Jan-17
Region (registration basis)				
Europe	7.6	9.1	16.5	8.7
World	3.8	7.3	10.0	6.9
Routes (segment basis)				
Europe - Asia	3.9	6.2	15.4	8.8
Europe - North America	2.6	7.6	9.1	8.6
Europe - Middle East	7.1	15.2	19.5	17.9
Europe - Africa	-5.5	-2.5	-1.2	-0.4
Europe - South America	1.2	2.9	6.5	1.6
Within Europe	23.8	33.1	47.2	37.0

Source: IATA Statistics

- The 6.9% annual increase in global FTKs in Jan marked an easing from the double-digit pace of Dec, but was still well ahead of the 5yr average rate (3.0%). The impact of Chinese New Year is again a relevant consideration in Jan & Feb data.
- Following a very strong 16.5% outturn in Dec, FTK growth for the European carriers eased back in Jan. Nonetheless, at a brisk 8.7%yoy rate, it remains solidly above the overall industry result.
- The two largest freight markets for Europe (Asia & Nth America) are both growing in line with the overall regional aggregate.
- The two fastest growing markets, at 18%yoy & 37%yoy, respectively, are the smaller Europe-Middle East & Within Europe markets.
- In contrast, growth on routes between Europe-Africa remains in (slightly) negative territory compared with a year ago, with freight volumes down 0.4%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	Nov-16	Dec-16	Jan-17
Passenger					
Europe	ASK	4.4	7.1	7.2	7.0
	PLF	*82.4*	*80.0*	*80.6*	*79.4*
World	ASK	6.3	6.5	6.7	8.0
	PLF	*80.5*	*79.0*	*80.5*	*80.2*
Freight					
Europe	AFTK	6.7	4.9	5.9	3.3
	FLF	*44.5*	*48.3*	*49.7*	*44.0*
World	AFTK	5.3	4.8	3.3	3.5
	FLF	*43.0*	*47.3*	*46.2*	*42.1*

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

- European carriers have increased both pax & freight capacity by a little less than the overall industry rate over the past year. European carrier ASKs are up 7.0%yoy vs 8.0% industry-wide & AFTKs are up 3.3%yoy vs 3.5%.
- The load factor outcomes for Jan are mixed. The European carrier PLF is a little below the industry-wide 80.2%, but the FLF, despite having eased in Jan, is ~2pp above the industry figure of 42.1%.
- The latest Q4 financial data show an EBIT margin of 4.9% for the European carriers, a full percentage point lower than that of the same sample of airlines a year ago. The overall industry figure has also eased over the past year – slipping 2pp to 10.2% – but remains more than double the outcome for the European carriers.
- Pax yields, with the exception of Russia domestic, are still well down on a year ago. For Russia dom., yields are up strongly on the weak outcomes from early 2016, but remain at a low level compared with 2012-14.
- In constant exchange rate terms, there are emerging signs that industry-wide yields may have bottomed.

Airline operating (EBIT) margins*

%revenues	2014	2015	2015Q4	2016Q4
Europe	2.0	5.3	5.9	4.9
Industry	4.7	8.3	12.3	10.2

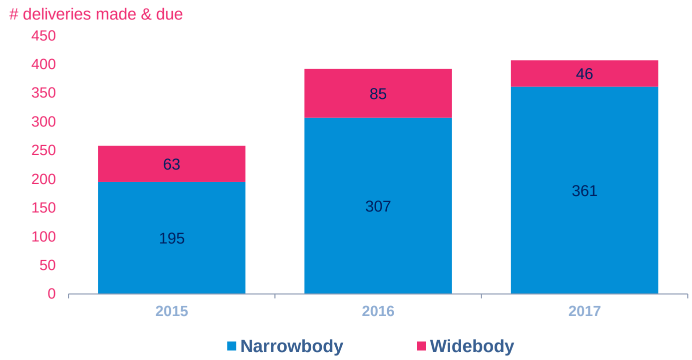
Source: Airline Analyst * constant sample basis, not seasonally adjusted

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Nov-16	Dec-16	Jan-17
Russia domestic	6.1	-2.5	-5.2	10.4
Within Europe	-7.6	-9.4	-10.4	-10.4
Europe - North America	-8.3	-13.3	-10.5	-9.7
Europe - Asia	-10.3	-10.0	-8.1	-8.5
Europe - Middle East	-11.5	-12.4	-11.2	-14.4
Europe - Africa	-8.3	-12.6	-12.5	-13.3
Europe - South America	-17.5	-11.4	-6.9	-6.6

Source: IATA PaxIS

Aircraft deliveries to Europe (latest data)



Source: Ascend