



STATE OF THE REGION: EUROPE

FEBRUARY 2018

Economy

GDP growth, selected countries

%change on a yr ago	2016	2017Q2	2017Q3	2017Q4
Germany	1.9	2.3	2.7	2.9
Russia	-0.2	2.5	1.8	--
France	1.1	1.9	2.3	2.4
UK	1.9	1.9	1.7	1.5
Italy	1.1	1.5	1.7	1.6
Spain	3.3	3.1	3.1	--
Turkey	3.2	5.4	11.1	--
Israel	3.9	3.2	3.2	2.9
Euro zone	1.8	2.4	2.8	2.7
World*	2.4	2.9	3.2	3.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Nov-17	Dec-17	Jan-18
US\$ broad index	120.0	120.3	120.0	117.2
European euro (EUR)	0.83	0.84	0.83	0.80
Russian ruble (RUB)	57.7	58.4	57.7	56.3
British pound (GBP)	0.74	0.74	0.74	0.71
Turkish lira (TRY)	3.79	3.93	3.79	3.75
Israeli shekel (ILS)	3.48	3.49	3.48	3.42

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Nov-17	Dec-17	Jan-18
Crude oil (Brent)	54.2	62.7	64.4	69.1
Jet fuel	65.6	73.9	76.3	82.0

Source: Platts, EIA Monthly average data

Market

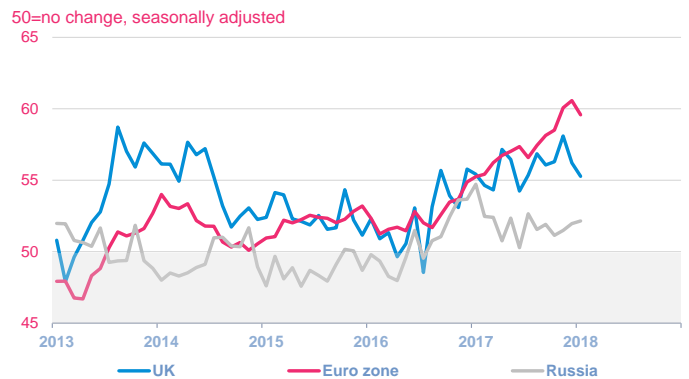
Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Oct-17	Nov-17	Dec-17
Region (registration basis)				
Europe	8.2	6.3	7.9	6.1
World	7.6	7.2	8.2	6.2
Routes (segment basis)				
Russia domestic	10.1	6.7	7.6	8.6
Within Europe	10.8	10.4	10.7	8.5
Europe - North America	4.1	1.9	2.7	0.4
Europe - Asia	9.5	6.1	9.8	7.1
Europe - Middle East	6.6	6.5	3.1	3.6
Europe - Africa	6.8	6.5	9.6	6.9
Europe - South America	6.0	3.4	8.3	8.8

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

- Industry-wide RPKs grew by 7.6% in 2017; another year of above-trend passenger growth, well ahead of the 10yr average pace of 5.5%. Growth was supported by a broad-based lift in global economic conditions as well as stimulus from lower airfares (mainly earlier in the year).
- For European carriers, RPK growth outpaced the industry average over the course of 2017, increasing by a robust 8.2%.

Business confidence - manufacturing PMIs

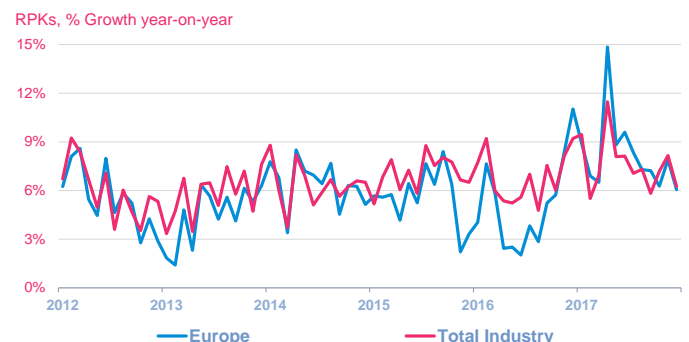


Source: Markit

- Business confidence in both the Eurozone & the UK declined a little this month, although both remain at elevated levels, consistent with robust economic activity over the next 6 months. In Russia, another modest monthly gain in business sentiment was supported by higher world oil prices (more below).
- On a trade-weighted basis, the US\$ eased again in Jan, down 2.3% in the month. The main European currencies all shifted higher vs the US\$ in Jan, with the GBP & EUR leading the way, up 4.7% & 3.5% respectively.
- Brent crude oil prices reached a 3yr high in Jan, supported by OPEC-led production cuts and a weaker US dollar. Oil & jet fuel prices both rose by ~7.5% in the month, to around US\$70 & US\$80 respectively.

- Russia domestic RPK growth accelerated to 10.1% in 2017, up from just 2.4% in 2016 & its strongest result since 2014 (prior to the collapse of Transaero).
- Of the region's key international markets, Within Europe was the standout in 2017, also delivering a double-digit increase in RPKs, at 10.8%. Routes to/from Asia weren't far behind, growing by 9.5%, but the important Nth American market showed a more modest pace of expansion, with growth of 4.1% last year.

Growth in air passenger volumes



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Oct-17	Nov-17	Dec-17
Region (registration basis)				
Europe	11.8	6.0	9.9	5.0
World	9.0	5.4	8.2	5.7
Routes (segment basis)				
Europe - Asia	11.0	2.3	8.2	6.4
Europe - North America	10.2	7.5	9.4	3.2
Europe - Middle East	11.0	8.9	1.8	-0.1
Europe - Africa	2.4	3.6	6.3	6.6
Europe - South America	7.8	7.1	11.6	13.3
Within Europe	32.9	16.2	25.5	25.5

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

- Industry-wide FTKs grew by 9.0% in 2017, up from 3.6% in 2016 & the strongest annual result since 2010. Air freight outperformed global goods trade by the widest margin since 2010, driven by the inventory restocking cycle & buoyant demand for manufactured exports.
- European airlines posted the 2nd fastest rate of FTK growth of all regions in 2017, at 11.8% (vs Africa's 25%).

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK	2017	Oct-17	Nov-17	Dec-17
Passenger				
Europe ASK	6.2	4.6	5.7	4.4
Europe PLF	83.9	84.3	81.6	81.5
World ASK	6.3	6.0	6.3	5.8
World PLF	81.4	80.9	80.3	80.7
Freight				
Europe AFTK	5.9	2.8	5.1	3.2
Europe FLF	46.4	48.4	49.7	49.7
World AFTK	3.0	2.7	4.2	3.3
World FLF	45.5	47.1	48.7	46.8

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

- The industry-wide pax load factor increased by 0.9% in 2017, taking it to a record calendar-year high of 81.4%. Even so, the PLF for European airlines was higher, at 83.9% for the year overall; the strongest performance across any of the IATA regions.
- With air freight demand growing 3x faster than capacity in 2017, the freight load factor for the industry increased by a sizeable 2.5pp in 2017. As on the pax side, the FLF performance of the European carriers also outshone the industry-wide figure, by ~1pp, at 46.4%.
- The initial Q4 financial data indicate a steady performance compared with a year ago. The EBIT margin for the European carriers was a solid 7.7%, down

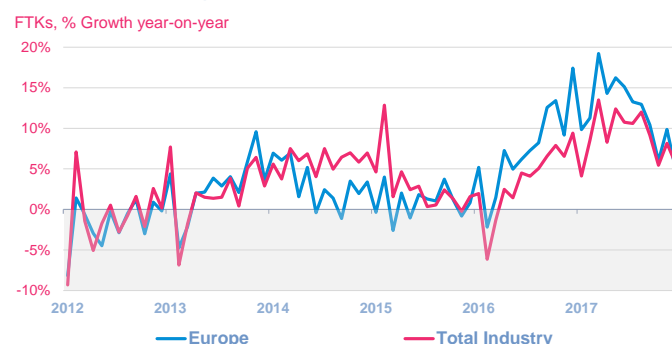
Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q4	2017Q4
Europe	5.4	6.1	8.0	7.7
Industry	8.5	8.8	10.9	10.7

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

- Each of the 3 largest international freight markets for European airlines (Asia, Nth America & the Middle East) all grew freight volumes at a double-digit pace in 2017, between 10-11%.
- Overall, however, the fastest growing market was the (smaller) Within Europe, where FTKs increased by 33% in 2017 as a whole.

Growth in air freight volumes



Source: IATA Statistics

slightly on the 8.0% of Q4 2016, & somewhat below the industry-wide result of 10.7%.

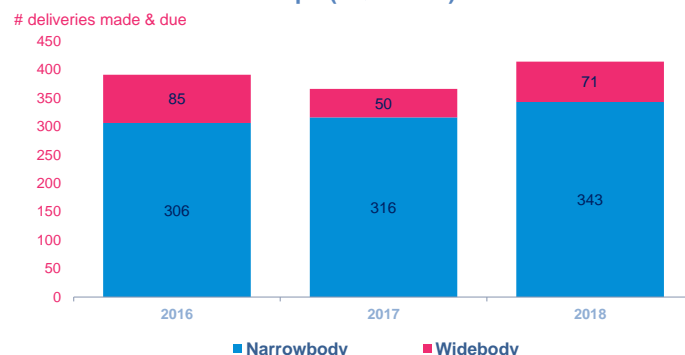
- Industry-wide pax yields remain broadly unchanged vs a year ago. Notwithstanding the expected variation, the region's key markets all are currently showing pax yields that are above their level of a year ago.
- Russia domestic & Europe-Sth America are the two standouts, with double-digit increases of 18.4% & 15.9%yoy, respectively. More subdued yield growth of 3-4% is evident on routes between Europe & both Africa & the-Middle East.

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

%change on a yr ago	2016	Oct-17	Nov-17	Dec-17
Russia domestic	5.2	9.6	14.3	18.4
Within Europe	-8.5	2.4	5.2	6.3
Europe - North America	-8.5	4.7	7.5	8.3
Europe - Asia	-10.8	3.2	6.6	7.0
Europe - Middle East	-12.2	-2.1	1.0	4.3
Europe - Africa	-8.8	-2.3	1.3	2.9
Europe - South America	-17.4	16.1	15.2	15.9

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

Aircraft deliveries to Europe (1Q18 data)



Source: Ascend