STATE OF THE REGION: NORTH ASIA

JUNE 2016

Economy

GDP growth, selected countries

<table>
<thead>
<tr>
<th>% change on a yr ago</th>
<th>2015Q3</th>
<th>2015Q4</th>
<th>2016Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>6.9</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Chinese Taipei</td>
<td>0.6</td>
<td>-0.8</td>
<td>-0.9</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2.4</td>
<td>2.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Mongolia</td>
<td>2.3</td>
<td>2.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Emerging Asia</td>
<td>6.6</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>World*</td>
<td>2.6</td>
<td>2.6</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: Datastream*  Market exchange rate basis  Estimate

Exchange rates

<table>
<thead>
<tr>
<th>end of period, # per US$</th>
<th>2015</th>
<th>Mar-16</th>
<th>Apr-16</th>
<th>May-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>USS broad index</td>
<td>124.4</td>
<td>121.5</td>
<td>119.5</td>
<td>120.8</td>
</tr>
<tr>
<td>Chinese renminbi (CNY)</td>
<td>6.49</td>
<td>6.45</td>
<td>6.48</td>
<td>6.58</td>
</tr>
<tr>
<td>Taiwanese dollar (TWD)</td>
<td>32.9</td>
<td>32.2</td>
<td>32.3</td>
<td>32.6</td>
</tr>
<tr>
<td>Hong Kong dollar (HKD)</td>
<td>7.8</td>
<td>7.8</td>
<td>7.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Mongolian tughrik (MNT)</td>
<td>1993</td>
<td>2046</td>
<td>2013</td>
<td>1991</td>
</tr>
</tbody>
</table>

Source: Datastream, XE

World oil and jet fuel price

<table>
<thead>
<tr>
<th>US$/barrel</th>
<th>2015</th>
<th>Mar-16</th>
<th>Apr-16</th>
<th>May-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil (Brent)</td>
<td>52.4</td>
<td>38.2</td>
<td>41.6</td>
<td>46.9</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>64.0</td>
<td>44.9</td>
<td>48.2</td>
<td>54.6</td>
</tr>
</tbody>
</table>

Source: Platts, EIA  Monthly average data

Business confidence - manufacturing PMIs

John 50-no change, seasonally adjusted

Market

Revenue passenger kilometers (RPKs)

<table>
<thead>
<tr>
<th>% change on a yr ago</th>
<th>2015</th>
<th>Feb-16</th>
<th>Mar-16</th>
<th>Apr-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region (registration basis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>8.7</td>
<td>10.1</td>
<td>5.1</td>
<td>7.3</td>
</tr>
<tr>
<td>World</td>
<td>6.5</td>
<td>8.6</td>
<td>5.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Routes (segment basis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China domestic</td>
<td>11.0</td>
<td>8.2</td>
<td>3.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Asia - Europe</td>
<td>3.4</td>
<td>4.0</td>
<td>0.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Within Asia</td>
<td>8.5</td>
<td>8.8</td>
<td>4.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Asia - Nth America</td>
<td>5.8</td>
<td>9.3</td>
<td>1.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Asia - Middle East</td>
<td>8.3</td>
<td>9.8</td>
<td>7.2</td>
<td>7.0</td>
</tr>
<tr>
<td>Asia - S/W Pacific</td>
<td>6.1</td>
<td>5.4</td>
<td>-0.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>Asia - Africa</td>
<td>-1.2</td>
<td>11.5</td>
<td>7.3</td>
<td>7.8</td>
</tr>
</tbody>
</table>

Source: IATA Statistics  NB Asia-Pacific incl North Asia

RPK growth for the Asia-Pac airlines moved higher in Apr, bucking the global trend of further easing. RPKs are up a brisk 7.3%yoy for the region’s carriers, well above the 4.6% growth rate of the global industry average.

As expected, RPK growth in the China domestic market rebounded sharply in Apr, to 9.5%yoy, as the impact of events in early 2015 dropped out of the calculation.

Amongst the larger inter-regional markets, both Within Asia & Asia-NthAm are showing healthy growth above 5%yoy; the size of the rebound in the latter is notable.

However, the key Asia-Europe market is up just 1% on a year ago; part of this weakness may be being reflected in the strong 7%yoy growth on Asia-Middle East routes.

Growth in air passenger volumes

RPKs, % Growth year-on-year

Source: IATA Statistics
Growth in air freight volumes returned to positive territory in Apr, after two consecutive months of yoy contraction. FTKs are up 3.2%yoy industry-wide & a marginal 0.1% for Asia-Pac carriers.

The rebound in both global & regional carrier FTK volumes partly reflects some of the disruptions from early 2015 (incl. the US west coast seaport disruption) dropping out of the yoy calculation. That said, there

Asia-Pac carriers, a full 1pp improvement on the same time a year ago. Even so, the regional outcome sits below the industry-wide 8.1% margin, which continues to be driven by the performance of Nth American carriers.

Developments in (yoy) pax yields were mixed this month. However, yields in both the China domestic market & on key regional routes continue to show widespread declines compared with a year ago. This comes despite the recent reversal of trends in both oil/jet fuel prices & the US$ exchange rate.

Industry
Capacity growth and load factors

<table>
<thead>
<tr>
<th>ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK</th>
<th>2015</th>
<th>Feb-16</th>
<th>Mar-16</th>
<th>Apr-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>6.7</td>
<td>9.9</td>
<td>6.5</td>
<td>7.0</td>
</tr>
<tr>
<td>World</td>
<td>78.6</td>
<td>79.0</td>
<td>78.5</td>
<td>78.4</td>
</tr>
<tr>
<td>Freight</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>6.7</td>
<td>4.0</td>
<td>4.1</td>
<td>2.8</td>
</tr>
<tr>
<td>World</td>
<td>54.0</td>
<td>45.9</td>
<td>52.6</td>
<td>52.5</td>
</tr>
<tr>
<td>Airline EBIT margins*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% revenues</td>
<td>2013</td>
<td>2014</td>
<td>2015Q1</td>
<td>2016Q1</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>2.3</td>
<td>2.8</td>
<td>6.4</td>
<td>7.4</td>
</tr>
<tr>
<td>Industry</td>
<td>4.1</td>
<td>5.2</td>
<td>5.9</td>
<td>8.1</td>
</tr>
</tbody>
</table>

Source: IATA Statistics, Asia-Pac incl North Asia

Asia-Pac airlines have grown pax capacity by 7.0% over the past year, well up on the industry average of 4.9%. the industry PLF eased a little in Apr, to 79.1% & remains above the regional outcome which was broadly unchanged, at 78.4% this month.

The converse applies on the freight side of the industry. Freight capacity for the Asia-Pac carriers is up a modest 2.8%yoy, well below the robust 6.6% growth at the industry-wide level. The regional FLF was also effectively unchanged at 52.5% this month, retaining the 9pp gap above the industry outcome of 43.5%.

The latest Q1 data show an EBIT margin of 7.4% for Asia-Pac carriers incl Nth America.

Airline EBIT margins*