STATE OF THE REGION: EUROPE

FEBRUARY 2016

Economy

GDP growth, selected countries

%change on a yr ago	2014	2015Q1	2015Q2	2015Q3
Germany	1.6	1.1	1.6	1.7
Russia	0.7	-2.1	-3.8	-3.7
France	0.2	0.9	1.1	1.1
UK	2.8	2.5	2.3	2.1
Italy	-0.4	0.1	0.6	0.8
Turkey	2.9	2.5	3.8	4.0
Israel	2.7	3.2	2.3	2.5
Euro zone	0.9	1.3	1.6	1.6
World*	**2.7**	**2.6**	**2.7**	**2.5**

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US$	2014	Nov-15	Dec-15	Jan-16
US$ broad index	111.3	121.1	122.4	125.2
European euro (EUR)	0.83	0.95	0.92	0.92
Russian ruble (RUB)	58.4	66.2	73.2	75.7
British pound (GBP)	0.64	0.66	0.68	0.71
Turkish lira (TRY)	2.34	2.91	2.92	2.96
Israeli shekel (ILS)	3.91	3.87	3.90	3.96

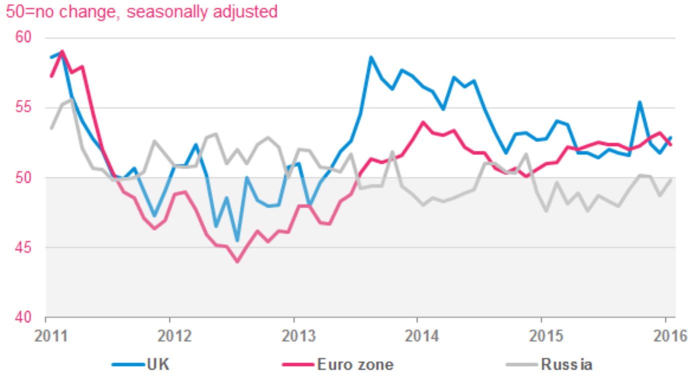
Source: Datastream, XE

World oil and jet fuel price

US$/barrel	2015	Nov-15	Dec-15	Jan-16
Crude oil (Brent)	52.4	44.3	38.0	30.7
Jet fuel	64.0	55.7	45.4	39.1

Source: Platts, EIA

Business confidence - manufacturing PMIs



Source: Markit

- Outcomes were mixed for regional business confidence indicators this month, with the Eurozone giving back some of its recent gains & both the UK & Russia improving after a recent dip.
- The US$ began 2016 where it left off, rising 2.3% in Jan. Amongst the key regional exchange rates, the RUB & GBP fell 3.5-4% vs the US$ in the month, while the TRY & ILS were down a more modest ~1.5%mom.
- World oil & jet fuel prices maintained their downwards trajectory in Jan. Brent crude prices were down ~19% (US$7.30) & jet prices fell 14% (US$6.40) in the month. Compared with levels of a year ago, prices are down ~50-55%, respectively.

Market

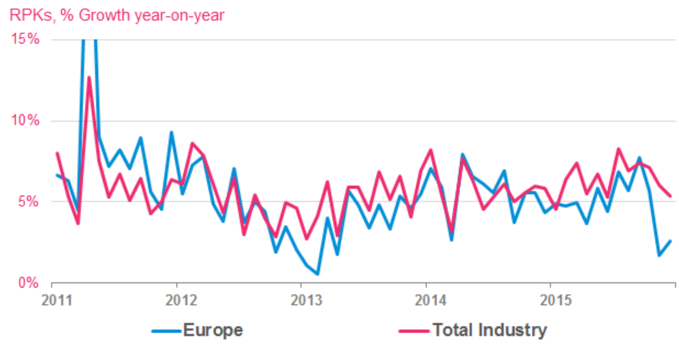
Revenue passenger kilometers (RPKs)

%change on a yr ago	2014	Oct-15	Nov-15	Dec-15
Region (registration basis)				
Europe	5.7	5.7	1.7	2.6
World	5.7	7.1	6.0	5.4
Routes (segment basis)				
Russia domestic	9.8	6.8	-7.1	-3.4
Within Europe	6.9	9.6	9.1	8.9
Europe - North America	2.7	6.4	4.2	3.4
Europe - Asia	2.6	6.9	1.8	0.6
Europe - Middle East	8.9	11.1	8.0	8.8
Europe - Africa	0.4	2.0	1.4	2.5
Europe - South America	3.0	2.0	1.0	-0.1

Source: IATA Statistics

- RPK growth for European airlines recovered a little in Dec, to end the year up a moderate 2.6%yoy. That said, this outcome is less than half the pace of growth of the global industry overall, at a robust 5.4%.
- Again, we caution that these yoy data continue to be influenced by recent industrial action within the region, as well as the demise of Transaero.
- The impact of the latter is most obvious in the domestic Russia data, where RPKs recovered some of the sharp fall in Nov but remain 3.4% lower than a year ago.
- In contrast, Within Europe & Europe-ME both ended 2015 on a strong note, with yoy RPK growth of 8.9% & 8.8%, respectively.
- For the two largest inter-regional groupings, Europe-NthAm showed solid pax growth of 3.4%yoy in Dec, but Europe-Asia eased further, to just 0.6%, weighed down, in part, by the economic slowdown in China.

Growth in air passenger volumes



Source: IATA Statistics

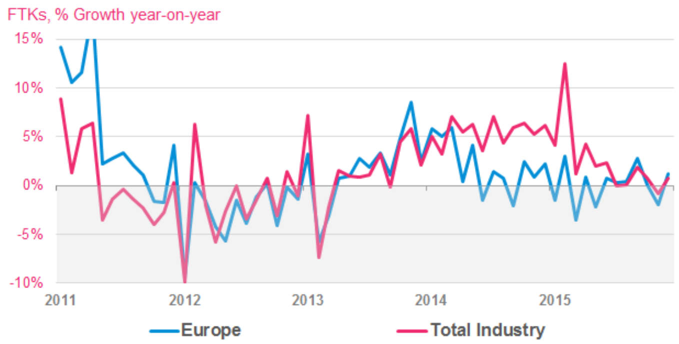
Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Oct-15	Nov-15	Dec-15
Region (registration basis)				
Europe	2.0	0.0	-1.9	1.2
World	5.5	0.7	-0.8	0.8
Routes (segment basis)				
Russia domestic	-1.3	-9.9	9.2	13.7
Europe - Asia	-0.6	-3.5	-5.5	-1.7
Europe - North America	2.5	-2.4	-5.1	-1.1
Europe - Middle East	2.7	9.6	9.0	14.4
Europe - Africa	6.4	-4.1	-9.7	-3.4
Europe - South America	0.6	-11.4	-12.3	-13.2
Within Europe	7.2	-11.9	-10.0	-14.5

Source: IATA Statistics

- Growth in freight volumes for the European carriers returned to positive territory in Dec, following the Nov disruption, rising 1.2%yoy. This very modest growth rate for the region's carriers nonetheless exceeds the overall industry figure of just 0.8%yoy.
- At the segment level, Russia domestic FTK growth accelerated further in Dec, with volumes now up a strong 13.7%yoy.
- Amongst the main international routes, a double-digit FTK growth rate for Europe-Middle East over the past year is the outlier – FTK growth across all of the other main regional pairings is negative in yoy terms.
- The magnitude of the declines vary widely, from 1-2% in the larger markets between Europe & both Asia & NthAm, to 13-15% for Within Europe & Europe-SthAm.

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		2014	Oct-15	Nov-15	Dec-15
Passenger					
Europe	ASK	5.1	3.4	-0.6	2.8
	PLF	*80.4*	*82.9*	*78.8*	*77.7*
World	ASK	5.5	5.3	4.3	5.3
	PLF	*79.6*	*80.4*	*78.0*	*78.8*
Freight					
Europe	AFTK	3.0	5.6	2.1	7.3
	FLF	*47.0*	*44.9*	*49.2*	*45.8*
World	AFTK	4.4	6.4	4.6	6.5
	FLF	*45.8*	*44.6*	*47.0*	*43.9*

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

- European carriers have increased ASKs by a modest 2.8% over the past year. In Dec, the pax load factor was 77.7%. Both of these figures are below the industry-wide outcomes of 5.3%yoy growth in ASKs & a PLF of 78.8%.
- The converse holds on the freight side: European carriers increased capacity by a hefty 7.3%yoy & returned a FLF of 45.8% in Dec. The industry-level figures were 6.5% AFTK growth & a FLF of 43.9%.
- The initial estimate of the Q4 operating (EBIT) margin for European carriers 9.0%, a solid improvement on the 5.9% margin of a year ago, but well down on the 15.3% figure for the industry overall.

Airline EBIT margins*

%revenues	2013	2014	2014Q4	2015Q4
Europe	3.5	3.4	5.9	9.0
Industry	4.1	5.2	10.2	15.3

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

- Passenger yields on the majority of key routes remain in double-digit decline compared with their level of a year ago. In part, this reflects the significant developments in both exchange rates & oil prices over this period. The trend improvement in Russia domestic yields over recent months continued into the year-end.

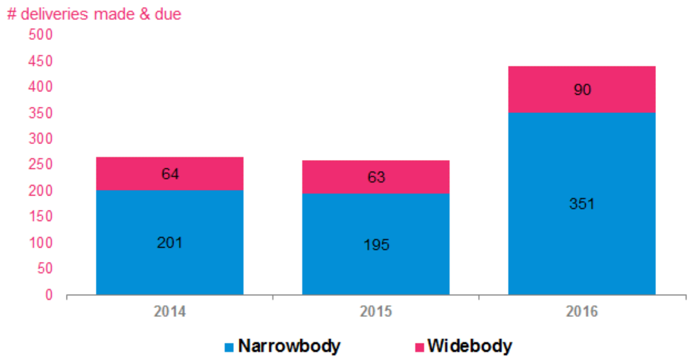
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2014	Oct-15	Nov-15	Dec-15
Russia domestic	-14.4	-38.4	-27.0	-17.9
Within Europe	-4.2	-14.4	-14.1	-15.2
Europe - North America	-2.3	-10.0	-7.2	-9.8
Europe - Asia	-0.1	-17.1	-16.3	-15.0
Europe - Middle East	-5.6	-10.1	-11.3	-11.1
Europe - Africa	-2.7	-17.3	-15.4	-11.7
Europe - South America	-2.9	-20.4	-22.1	-24.4

Source: IATA PaxIS

- The latest schedules data point to a strong increase in the number of aircraft deliveries to the Europe region in 2016, compared with both 2014 & 2015. The increase is driven primarily by a significant increase in the number of narrowbody deliveries.

Aircraft deliveries to Europe (latest data)



Source: Ascend