



This report is sponsored by



ACI EUROPE is the voice of Europe's airports, representing over 400 airports in 46 European countries. Our members handle 90% of commercial air traffic in Europe, welcoming nearly 1.5 billion passengers, over 17 million tonnes of freight and over 20 million aircraft movements each year. Based in Brussels, we lead and serve the European airport industry and maintain strong links with other ACI regions throughout the world.

ACI EUROPE 6, Square de Meeûs, 1000, Brussels, Belgium

www.aci-europe.org

#### © Copyright ACI EUROPE 2011

This document is published by ACI EUROPE for information purposes. It may copied in whole or in part, provided that ACI EUROPE is mentioned as the source and it is not used for commercial purposes (i.e. for financial gain). The information in this document may not be modified without prior written permission from ACI EUROPE.

# **Introduction & Methodology**

For the second time, ACI EUROPE presents its ECONOMICS REPORT on the key financial and economic characteristics of the European airport industry. The 2010 edition of the report provides an overview of the developments in such diverse categories as airport revenues, costs and planned capital investments by European airport operators. In spite of the economic crisis in 2009 and the various disruptions to air traffic in 2010, this year's ECONOMICS REPORT reveals the resilience of European airport operators in extremely challenging trading conditions.

The data used in this survey summarises the economic and financial results of European airports in the **reporting year 2009**. Over 190 airports responded to the survey conducted by ACI WORLD for the ACI ECONOMICS SURVEY 2010, accounting for 77% (1.085 million passengers) of total European passenger traffic. In addition, further information from different ACI EUROPE surveys supplemented the analysis in this report<sup>1</sup>.

### **Contents**

The ACI EUROPE ECONOMICS REPORT 2010 highlights key developments in the following main economic fields:

- **Traffic development**: An unprecedented downturn in 2009, followed by a gradual and uneven recovery in 2010.
- **Airport income**: Non-aeronautical revenues remain a key revenue source.
- Aeronautical revenues: Increasingly coming from passengers.
- Non-aeronautical revenues: Ongoing diversification of activities.
- **Airport operating costs**: Personnel and security account for the highest share.
- **Capital expenditure**: The effect of the crisis becomes visible.
- > Total costs & profitability: 41% of European airports loss-making in 2009.



Live, Smile and Fly!

TAV Airports is the leading airport operator in Turkey and among the major players of the global airport business. Recently celebrating its 10th year, TAV Airports operates 10 airports in four countries, serving more than 420 000 flights and 48 million passengers in 2010. Through its subsidiaries, TAV Airports provides integrated solutions in all areas of airport operations. Aiming at reaching an annual 100 million passengers in the next decade with sustainable growth, TAV Airports strongly invests in social responsibility projects, arts and education. As of 2011, TAV Airports operates Istanbul Ataturk, Ankara Esenboga, Izmir Adnan Menderes and Antalya Gazipasa airports in Turkey, Tbilisi and Batumi airports in Georgia, Monastir and Enfidha airports in Tunisia; Skopje and the Ohrid airports in Macedonia.

### 1 BUSINESS CONTEXT

In 2009, the European airport sector was severely affected by the global economic and financial crisis. Over 86% of European airports lost air traffic over the full year. Whereas the biggest impact of the crisis was felt in the first and second quarters, the last months of 2009 saw a gradual improvement of the situation.

However, after a promising rebound of traffic over the first months, the year 2010 was marked by exceptional events that strongly affected the aviation sector. In April and May 2010, the eruption of the Eyjafjallajökull volcano in Iceland brought most parts of European airspace to a halt. Industrial action by air traffic controllers and airlines in various European countries heavily impacted air traffic at several points during the year. In addition, exceptionally heavy snowfalls in December 2010 led to severe disruptions in the pre-Christmas period. These events significantly slowed down the recovery in air traffic and had a negative impact on airport revenues.

As noted in the previous edition of this report, secondary hubs and smaller regional airports were particularly affected by the decline in traffic in 2009. In contrast, major hub airports were able to limit the decrease in traffic, in particular due to the resilience of transfer traffic and their broader portfolio of airlines and destinations.

In total, passenger traffic at all European airports fell by -5.3% in 2009, whereas it increased by +4.2% in 2010. Reflecting severe capacity cuts by many airlines, overall movements at European airports decreased by -7.1% in 2009 and by -0.2% in 2010. However, it should be noted that despite growth throughout 2010, traffic remained below the pre-crisis level of 2008. In addition, it is noteworthy that the rebound in traffic was not experienced across all markets in Europe, partly due to the aggravating financial crisis in certain countries (e.g. Ireland, UK and Greece), and partly due to the burden of national aviation taxes.

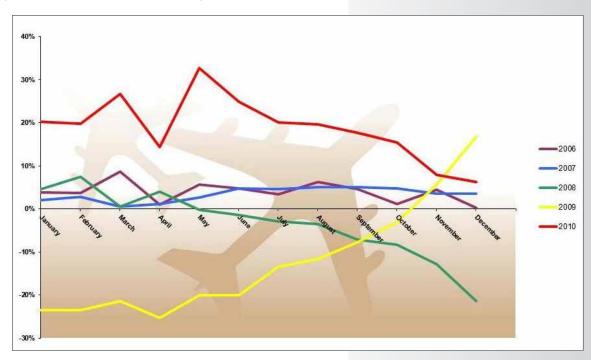
Along with difficult trading conditions in 2009 and 2010, European airports were once more confronted with strong competitive pressures from airlines on airport charges. This reflects the fact that the balance of the airport/airline-relationship is increasingly shifting in favour of airlines. **Vis-à-vis an individual airport, airlines can have a very strong market position** – a development that is further accelerated by the ongoing market concentration of network carriers, and the success of Low-Cost Carriers (LCCs), which are able to redeploy their aircraft and crews throughout Europe at very short notice.

"Smaller regional airports were particularly affected by the decline in traffic in 2009. In contrast, major hub airports were able to limit the decrease in traffic, in particular due to the resilience of transfer traffic"



Graph 1 – Passenger growth in Europe (year on year)<sup>2</sup>

For the same periods, freight traffic as a direct indicator of economic activity fell by a staggering -13.1% in 2009, while 2010 saw strong growth of +18.7%. This rebound in freight traffic is a direct reflection of the fact that the economic recovery in Europe has been mainly driven by exports rather than domestic consumption.



Graph 2 – Freight growth in Europe (year on year)

# 2 AIRPORT INCOME

The revenues of European airport operators totalled €27.8 billion in 2009, representing a decrease of roughly -4% compared to results in 2008. These revenues are split into the different revenue categories: aeronautical revenues, non-aeronautical revenues and ground handling.

Total Revenues	€27.8 billion	100%
Aeronautical Revenues	€13.9 billion	50% (53% excl. GH)
Non-Aeronautical Revenues	€12.1 billion	44% (47% excl. GH)
Ground-Handling Revenues	€1.8 billion	6%

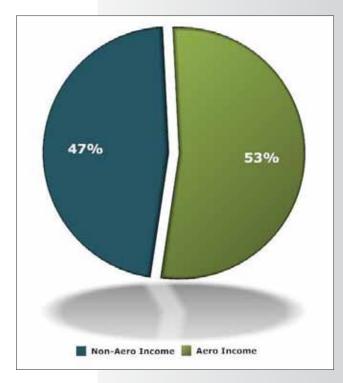
It is noteworthy that **revenues from ground handling activities**, directly provided only by a minority of airports in Europe - mainly in Germany, Austria and Italy – **decreased significantly by over 20% in 2009, compared to the financial year 2008**. The liberalised market for ground handling services in the EU remains very competitive indeed, with airlines and third-party handlers occupying a strong market position (airports account only for approx. 15% of the ground handling market). Any further liberalisation of the market through a revision of the EU Ground Handling Directive in 2011 would only intensify the pressure on ground handling services providers and risk jeopardizing the overall quality of service at European airports. Ultimately, the viability of many service providers would be at stake, in this key operational field for European airports.

Table 1 – Distribution of revenues at all European airports in 2009

"Airports are largely dependent on additional non-aeronautical revenues to finance their operations and to invest in their infrastructure"

The total ratio between aeronautical revenues and non-aeronautical revenues (excluding ground handling revenues³) remains stable in 2009 compared to the previous year. Aeronautical revenues, i.e. charges paid by airlines and passengers, accounted for 53% of total airport revenues, whereas non-aeronautical revenues such as retail, car parking or advertising income, represented 47% of total airport revenues. Hence airports are largely dependent on additional non-aeronautical revenues to finance their operations and to invest in their infrastructure. Furthermore, without a sufficient level of non-aeronautical revenues, airports would not be in the position to offer competitive airport charges to airlines and passengers.

The outlook for airport revenues in 2010 paints a more positive picture. Despite the volcanic ash crisis in April/May 2010 and the winter travel disruptions, results already published by major European airport operators suggest an increase in revenues. It should be noted that it is mainly the non-aeronautical revenue stream that has driven this increase. This is a direct reflection of growing consumer confidence in many European countries and, at the same time, continuous competitive pressure on airports to keep their airport charges at a low level.



Graph 3 – Total revenues at European airports 2009



#### 2.1 AERONAUTICAL REVENUE

Aeronautical revenues amounted to €13.9 billion at European airports in 2009, decreasing by -3% compared to last year.

Aeronautical revenues are composed of a number of different charges that relate to the operation of the airfield and the terminal. They can be split in **two major categories**: airline-related charges levied on a per aircraft basis (i.e. landing charges, parking charges, etc), usually based on the weight of the aircraft, and **passenger-related charges** levied on a per passenger basis.

**Passenger-related charges** are paid by the passenger to the airport, e.g. for the use of the terminal. However, to simplify passenger processing at the airport, these charges are generally included in the ticket price and transferred by the airline to the airport. They are therefore only pass-through costs for airlines and are **not** part of their operating costs – hence the many airline requests to put more weight on passenger-related charges in an airport's charges structure.

<sup>3</sup> As ground handling revenues cannot be attributed clearly to the categories of aeronautical or non-aeronautical revenues and, at the same time, do not reflect the revenue situation at most European airports, these revenues are excluded from further analysis of aeronautical or non-aeronautical revenues in the framework of this report.

In light of difficult trading conditions in 2009, European airports sought to safeguard their own competitive positions and to proactively respond to the needs of their customers, by reconsidering their charging policy vis-à-vis the airlines. As a consequence, almost 70% of European airports either lowered their charges or kept them stable in 2009.

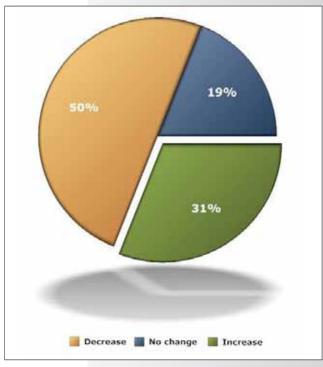
Overall, passenger-related charges accounted for 61.5% of total aeronautical revenues in 2009 (compared to 58% in 2008), while airline-related charges represented only 38.5% of the aeronautical revenues of European airports (compared to 42% in 2008). The bulk of aeronautical revenues are therefore generated by the passenger.

Against the background of wider airport revenues, it becomes apparent that airline-related charges accounted for only 19% of total airport income in 2009 (compared to 21% in 2008; see also page 8). This reflects the fact that aircraft-related charges usually represent only around 3.5% of a network carrier's total operating costs.<sup>4</sup>

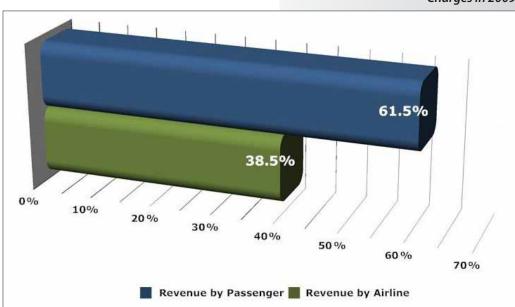
It should be kept in mind that a higher proportion of passenger-related charges in an airport's charges structure leads to a **direct risk-sharing between airports and airlines**. While airlines pay a lower charge for their aircraft, any decline in passenger numbers, for example during an economic crisis, translates into a direct and immediate reduction of the corresponding charges paid to the airport. For these reasons, the proportion of passenger/airline-related charges can go up to 80%/20% at some European airports. Many airports used this tool to support airlines during the economic crisis in 2009.

Another key driver along the further shift away from airline-related charges consists of requests from certain airlines to unbundle passenger-related services, i.e. to pay for parts of airport infrastructure (baggage sorting systems, air bridges etc.) on a strict per-usage basis. LCCs in particular have focused on this in recent years. Whereas a per-aircraft charge does not allow for a separate billing of these services, passenger-related charges can reflect this differentiation. However, such a charging method impacts the overall charges structure at an airport (especially in relation to centralized infrastructure) and does not necessarily cater for the needs and interests of all airlines at an airport.

"Almost 70% of European airports either lowered their charges or kept them stable in 2009"



Graph 4 – Development of Airport Charges in 2009



Graph 5 – Aeronautical revenue at European airports by source in 2009

<sup>&</sup>lt;sup>4</sup>According to figures from the Association of European Airlines (AEA) in 2008. Given that low-cost carriers have a different cost structure, airport charges tend to represent a higher proportion of their costs.



### 2.2 NON-AERONAUTICAL REVENUES

In today's liberalised European aviation market, airports fiercely compete with each other to attract new air carriers. In addition, the consolidation process around three global airline alliances and the tremendous growth of LCCs have led to a shift in the balance of power in the airport-airline relationship in recent years. Airports have become under intense pressure to keep charges at a low level – as a consequence, the charges paid by airlines to airports do not cover the full costs of the infrastructure being used.

Therefore, non-aeronautical revenues have become vital for the economic viability of airports. This is particularly the case for airports with a high proportion of LCC traffic – in return for very low airport charges these carriers pledge to bring additional passengers to an

airport. Those passengers are expected to generate additional revenues for the airport through purchases in shops and other services at the airport (e.g. car parking). Against this background, some LCC's on-going practice of restricting the carry-on luggage allowance to one single bag, and prohibiting additional separate shopping bags from airport retail, is contradictory and threatens the viability of these business models.

Without the contribution of non-aeronautical revenues, airports would often not be able to offer a competitive level of airport charges to their customers – the passengers and the airlines. It should be noted that **even in a dual till environment** where aeronautical and non-aeronautical revenues are kept separate, **non-aeronautical revenues can significantly reduce operating costs for aircraft operators at an airport**. Profits from non-aeronautical revenues are reinvested in airport infrastructure, reducing the need for airports to borrow money on capital markets and thus lowering capital costs for the airport. In addition, such profits result in better credit ratings, again leading to lower costs of capital.

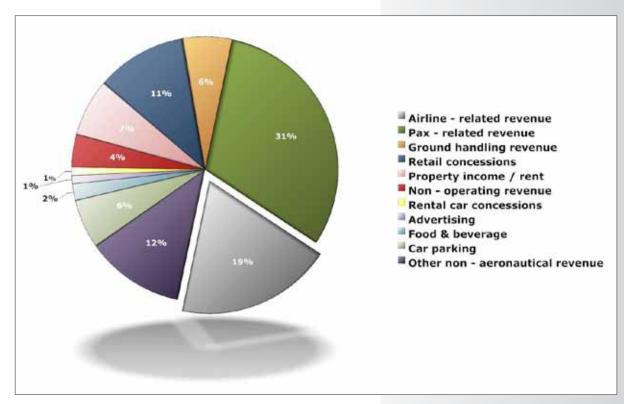
In the reporting year 2009, non-aeronautical revenues totalled €12.1 billion, a decrease of -4% compared to the previous year. As with the previous year, the single largest category in non-aeronautical revenues was income from airport retail concessions (28%), followed by revenues from property (18%) and car parking (14%).

It is noteworthy that not all categories of non-aeronautical revenues decreased in 2009. Whereas revenues in car parking and advertising suffered from the general economic climate, revenues in the retail sector remained largely stable. Unexpectedly, revenues from Food & Beverage did increase compared to 2008, reflecting an increased focus and development on and of that category.

<sup>5</sup> Excluding non-operating income. The category 'other' revenue reflects the very diverse nature of the non-aeronautical revenues category. These revenues can include sources such as asset divestments and other exceptional items, interests, utility charges and other service provisions, fuel concessions and ground transport.

Non-Aeronautical Revenues	100%
Retail Concessions	28%
Food & Beverage	5%
Car Parking	14%
Rental Car Concessions	3%
Property Income / Rent	18%
Advertising	2%
Others	30%

Table 2 – Non-aeronautical revenues by source 2009<sup>5</sup>



Taking into consideration all sources of airport revenues, it becomes apparent that passenger-related aeronautical revenues and income from commercial activities constitute the bulk of revenues at European airports. The most important commercial areas taken together (retail, property income, car parking) already account for roughly 25% of total revenues. This trend is likely to continue in the years to come, given the persisting pressure on aeronautical charges at European airports.

# 3 COSTS

### **OPERATING EXPENDITURE**

In the reporting year 2009, total operating expenses at European airports amounted to €18.6 billion. Compared to last year, this amount represents a decrease of approximately -3%. It should be kept in mind that airports generally incur a large proportion of fixed costs that cannot be cut at short notice - unlike an aircraft, a terminal cannot be parked in the desert until the crisis is over. However, many airports engaged in comprehensive cost reduction and restructuration programs during the economic crisis. As these programs were mostly implemented in the course of 2009,

the effects are only partially reflected in the 2009 data of this survey.

For the first time, the data collected for the ACI EUROPE ECONOMICS REPORT allows both a breakdown of operating costs both by the general cost structure and also by the different functional areas.

The largest single general cost item at airports remains staff costs, accounting for 42% of total operating expenses. It should be noted that the number of staff for various airport functions is determined (or significantly influenced) by externally imposed regulatory requirements. For instance, the Rescue/Fire and passenger search/security functions are normally two of the larger departments at an airport, and within these, national, European and international regulations/ standards play a major role in the determination of staffing levels.

Graph 6 – Airport revenues by source in 2009

"Passenger-related aeronautical revenues and income from commercial activities constitute the bulk of revenues at European airports. The most important commercial areas taken together already account for roughly 25% of total revenues"

Total Operating Expenses	100%
Personnel	42%
Contracted Services	23%
Materials / Equipment / Supplies	5%
Communications / Energy / Waste	6%
Insurance / Claims / Settlements	1%
Lease / Rent / Concessions	4%
General & Administrative	6%
Other	13%

The second largest general cost item in 2009 was outsourced services (23%), followed by costs for communications/energy/waste and administration (6%).

By separating the total operating costs in functional cost areas, the results for 2009 single out again security as the biggest functional cost area for European airports (29%). In light of expected developments in the field of aviation security at EU level (Screening of Liquids, Aerosols, Gels (LAGs); Explosive Detection Systems; Security scanners), ACI EUROPE expects the proportion of security costs to remain relatively high in the near future. In the absence of public funding for aviation security, these new technologies will add further costs for passengers and airlines.

Terminal and landside operations account for 24% of total operating expenses, while
airside operations and administration represent 19% of costs.

When considering the different airport revenue streams, it should be noted that
airline-related charges covered only 29% of airports' total operating expenses (-2%
compared to 2008). Even when factoring in <u>all</u> aeronautical charges (both airline
and passenger-related), European airports had an under-recovery of almost €5
billion on their operating expenses. This result confirms the fact that airports are
increasingly dependent on commercial revenues.

Total Operating Expenses (Incl. Staff)	100%
Airside Operations	19%
Terminal and Landside Operations	24%
Airport Security	29%
Administration	19%
Sales & Marketing	4%
Other	5%

Table 4 – Operating cost structure by functional cost areas



#### 3.2 CAPITAL EXPENDITURE

It is widely acknowledged that demand for air transport will massively increase over the next 20 years. According to a recent study by EUROCONTROL, air traffic in Europe will almost double by 2030.<sup>6</sup> Existing infrastructure at European airports will not be able to accommodate such traffic growth – congested airports and massive delays in the whole European air traffic network would be the consequence. Therefore, investment in new infrastructure and the modernisation of existing facilities must be a priority in the coming years, in particular given the long lead times for these investments.

"Airline-related charges covered only 29% of airports' total operating expenses. Even when factoring in all aeronautical charges, European airports had an under-recovery of almost €5 billion on their operating expenses"

However, the effects of the economic crisis were most visible in the area of capital expenditure at European airports. Whereas European airports invested €11

Capital Expenditure of European Airports		
2009	€8.9 billion	
2010	€8.7 billion	
2011	€8.2 billion	

billion in the modernisation and development of their infrastructure in 2008, the data for 2009 reveals a significant decrease in these investments. In total, European airports reduced their capital expenditure by - $\in$ 2.1 billion compared to 2008, totalling  $\in$ 8.9 billion in 2009. This decrease stems from the fact that several airports had to abandon and/or delay parts of their capital expenditure projects due to difficult market conditions.

In 2010 and 2011, European airports are expected to invest almost €17 billion in their infrastructure. With the expected recovery after the economic crisis, however, ACI EUROPE expects the volume of capital investment to increase in the coming years.

### **CAPITAL COSTS & PROFITABILITY**

European airports are capital-intensive businesses, requiring major capital investments to finance new infrastructure and modernize existing facilities. Given the budgetary constraints in most European countries, European airports largely seek to self-finance their capital expenditure programs. Therefore, access to capital markets is crucial in order to raise the necessary funds. Against this background, the cost of capital generally constitutes a major element of an airport's total costs.

In 2009, European airports incurred €7.3 billion of capital costs, representing 28% of total costs. This amount constitutes an increase of approx. +3% in capital costs compared to the reporting year 2008 and is a direct consequence of the difficult conditions within capital markets. The financial crisis and the drastic decline of air traffic in Europe led rating agencies to downgrade several European airports in the course of 2009 and 2010, resulting in additional pressures on the airport sector.

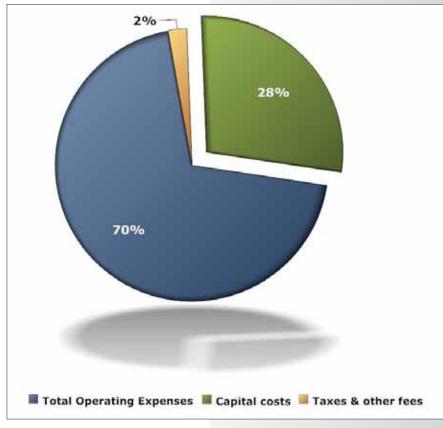
In the wake of the crisis, investors and capital markets have become more risk-

adverse and less attracted to long-term strategic investment. As a result, they have reconsidered airports as an asset class, due to a combination of factors:

- Given that airport investments are often large-scale infrastructure projects, high
  capital intensity is required over a long period of time. Furthermore, a first return
  on capital for investors may take as long as 10-20 years in some cases.
- The traditional correlation between GDP and air traffic variations suggests a decrease in passenger numbers during an economic crisis, with a correspondingly negative economic impact on the financial results of an airport.
- Publicly owned companies are affected by their proximity to the wider solvency of their shareholders, i.e. public budgetary difficulties create a negative impact on the credit rating/worthiness of publicly owned airports.
- Uncertainty as to the policy and regulatory framework for aviation (e.g. aviation taxes
  in some EU Member States; difficult and challenging planning processes for new
  infrastructure; increases in regulatory driven cost in the fields of safety and security).
- Negative perception of aviation in relation to sustainability issues.

Table 5 – Capital expenditure 2009 - 2011

"80 out of the 194 reporting airports were not profitable in 2009 — thus a staggering 41% of airports were loss-making"



Graph 7 – Total costs at European airports by source in 2009

"European airports reduced their capital expenditure by -€2.1 billion compared to 2008, totalling €8.9 billion in 2009. Looking at the economic viability of the European airport sector, the survey data shows that 80 out of the 194 reporting airports were not profitable in 2009 – thus a staggering 41% of airports were loss-making. This was particularly the case for smaller regional airports, many of which were heavily impacted by steep declines in air traffic.

## 4 OUTLOOK

After the severe impact of the economic crisis in 2009, the majority of European airports reported growing traffic in 2010. However, the rebound in traffic was not experienced across all markets in Europe. The more positive traffic developments in the first months of 2011 send a strong signal that the turning point for European air traffic has been reached.

However, a number of external factors are still causing much uncertainty. These include geo-political instability in North Africa and the Middle East, the global impact of the earthquake in Japan, and rising oil prices. Last but not least, Europe's ability to decisively step away from sovereign debt crises, and to boost domestic demand, will also be a key factor shaping the economic and financial position of European airports in 2011.

Against this background, ACI EUROPE remains cautiously optimistic in its forecast for air traffic in 2011 and expects passenger traffic to grow by approximately 6%, and freight traffic to grow by 5%.

Alongside other industry stakeholders, European airports are now confronted with a changing market structure and the consequences of the shift under way in global aviation. The rise of new aviation powers in the Middle East, Asia and Latin America is challenging the competitive position of European airports.

Against this background, a supportive regulatory environment which allows and incentivises airports to invest in the development of their infrastructure, which decreases operating costs (in particular as regards security and safety) and which provides new business opportunities through continued liberalisation of traffic rights, is a must.

"ACI EUROPE expects passenger traffic to grow by approximately 6%, and freight to grow by 5% in 2011"

