AIRPORTS COUNCIL INTERNATIONAL



ACI EUROPE
ECONOMICS REPORT 2009

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Introduction & Methodology

European airports play a key role in the European economy – not only by providing one of the pillars of the European transport infrastructure, but also as competitive dynamos for local and regional economic growth. Today, airports in Europe have become businesses in their own right, supporting and often defining the local economy they are located in.

For the first time, ACI EUROPE publishes an annual survey on the key financial and economic characteristics of the airport industry in Europe – the **ACI EUROPE ECONOMICS REPORT 2009**. The aim of this report is to provide policymakers with an overview of the economic environment airports operate in, present detailed information on the costs and revenues of European airports while underlining the strong contribution of the airport industry to growth and employment in Europe.

The data used in this survey is based on the survey conducted by ACI WORLD in the framework of the ACI ECONOMICS SURVEY 2009. It reflects the economic and financial results for the **reporting year 2008**. In total, 219 European airports contributed to the data collection, representing 1.223 billion passengers, or 82% of total European passenger traffic. In addition, aggregated data from the ACI EUROPE 2008 Key Performance Indicator Database and recent ACI EUROPE surveys have been used to complement the reported data.[1]

Contents

The 1st ACI EUROPE REPORT 2009 provides information on the following key economic indicators:

Traffic development:
the impact of the crisis on European airports

Airport income:
the importance of non-aeronautical revenues

Aeronautical revenues:
the low contribution of aircraft/airline-related charges

Non-aeronautical revenues:
a necessary diversification of activities

Airport costs:
security as main cost driver

Capital expenditure:
necessary investments in infrastructure despite the crisis

Airport employment:
a strong contribution to the local and national economy

[1] All data provided in US$ was converted into € using the exchange rate as of 1 January 2009 (1€=1.3955 US$) to ensure the consistency of data.

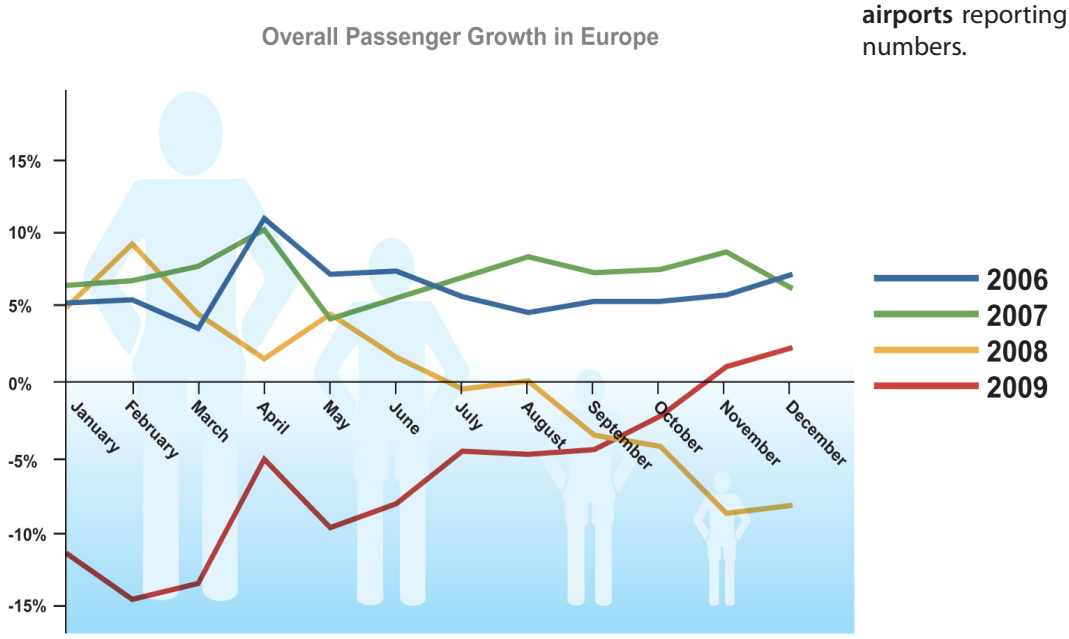
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1 BUSINESS CONTEXT

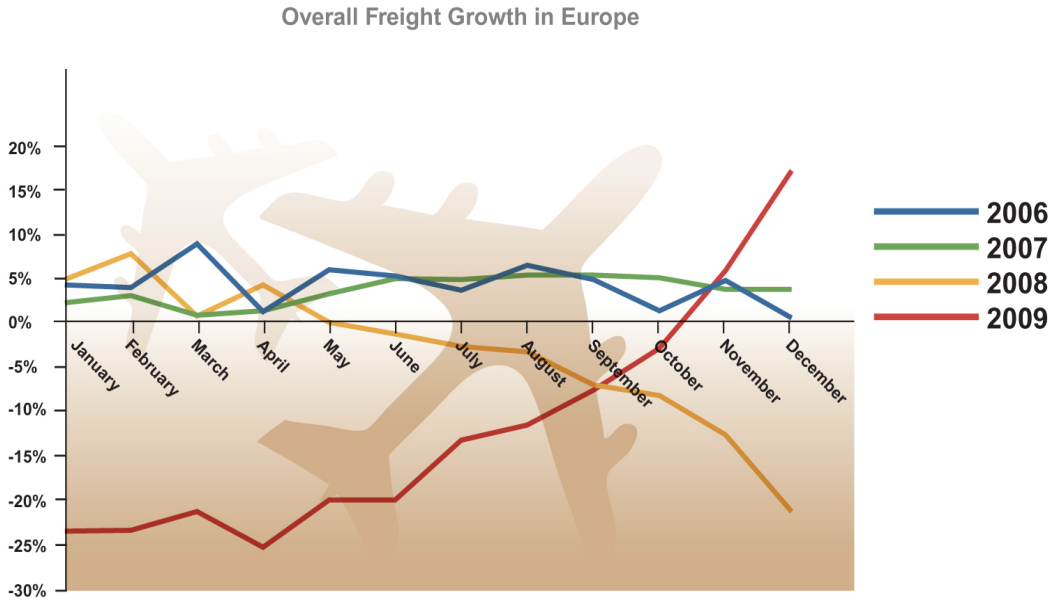
The European aviation sector has been badly hit by the economic and financial crisis, starting in mid-2008. Passenger and freight traffic collapsed at most European airports. While major hubs tended to show more resilience in the crisis, secondary hubs and smaller regional airports were particularly hit – and remain largely exposed to structural changes in the market place. This increasingly involves airline network concentration as result of consolidation of legacy carriers and flexible redeployment of aircraft and crews by Low-Cost-Carriers (LCCs) – both factors leading to heightened competition between airports.

Graphic 1 – Passenger growth in Europe (year-on-year)[2]



For the same periods, **freight** as a direct indicator of economic activity fell by **-4% in 2008 while 2009** saw a massive decrease of freight volumes by **-13.1%**.

Graphic 2 – Overall freight growth in Europe



The impact of the crisis on both aeronautical revenues (i.e. airport charges) and non-aeronautical revenues (i.e. commercial revenues) became quickly apparent in the second half of 2008 and significantly deteriorated in the course of 2009 at many European airports.

In total, **passenger traffic in 2008** fell by -0.2% at European airports. In **2009, passenger figures decreased by -5.9%**, with **86% of all European airports** reporting falling passenger numbers.

[2]Source : ACI EUROPE Traffic report ; sample representing approx. 80% of total passenger traffic.

2 AIRPORT INCOME

For the year 2008, European airports reported total revenues of €29.2 billion, split into the different categories aeronautical revenues, non-aeronautical revenues and groundhandling revenues.

Table 1 – Distribution of revenues at all European airports in 2008

TOTAL REVENUES	**€29.2 billion**	**100%**
AERONAUTICAL REVENUE	€14.3 billlion	49% (53% excl. GH)
NON-AERONAUTICAL REVENUE	€12.6 billion	43% (47% excl. GH)
GROUND-HANDLING REVENUE	€2.3 billion	8%

When analysing the total revenues of European airports, it should be noted that **only a minority of airports still provide groundhandling services themselves**, representing 8% of total airport revenues (in particular in Germany). Indeed, since the liberalisation of the market in the 1990s, ground handling has become a very competitive market increasingly dominated by airlines and third-party handlers.

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 the further analysis of aeronautical and non-aeronautical revenues in the framework of this report.

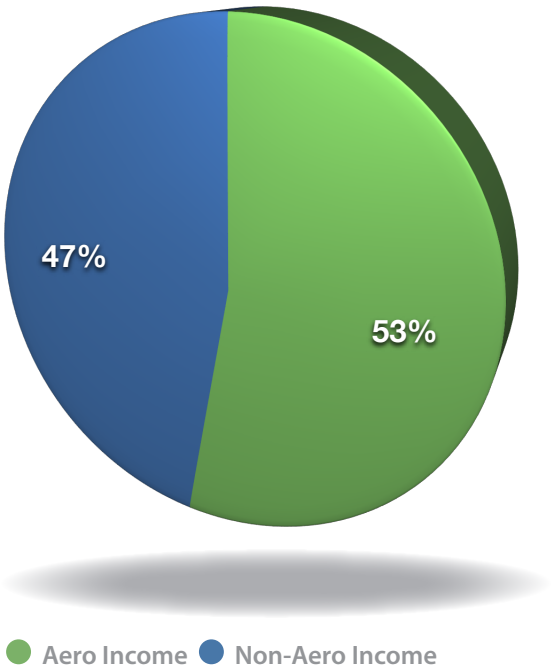
By analysing the total revenues of airports excluding ground handling revenues, it is interesting to note that **non-aeronautical revenues accounted for 47% of total airport revenues in 2008** – including revenues stemming from airport retail, car parking or property income. This confirms the trend that airports are largely dependent on non-aeronautical revenues to finance their operations and invest in much needed infrastructure modernisation and development – a key factor for offering a competitive level of airport charges to their customers.

Graphic 3 – Total revenues at European airports excluding ground handling

In 2008/2009, European airports were particularly hit by the economic and financial crisis. Preliminary accounts published by several airports hint at a substantial decrease of revenues due to the crisis. **Aeronautical revenues** suffered from declining passenger numbers, directly reflecting the worsening economic conditions. At the same time, **non-aeronautical revenues** at airports were impacted by reduced passenger spending. However, a limited number of European airports were able to increase retail revenues thanks to the extension and development of their retail offer just before the crisis.

When looking at the total income of airports, it is interesting to note that **only 21% of total airport revenues were aircraft/airline-related in 2008**, i.e. stemming from aircraft-related charges paid by airlines (see below). Consequently, the financial burden for airlines in relation to airport charges is limited – according to the Association of European Airlines, representing major European network carriers, airport charges accounted for around 3.5% of total operating costs in 2008. However, given that low-cost carriers have a different cost structure, airport charges tend to represent a significantly higher proportion of their costs for these carriers.

Total Revenues at European airports 2008



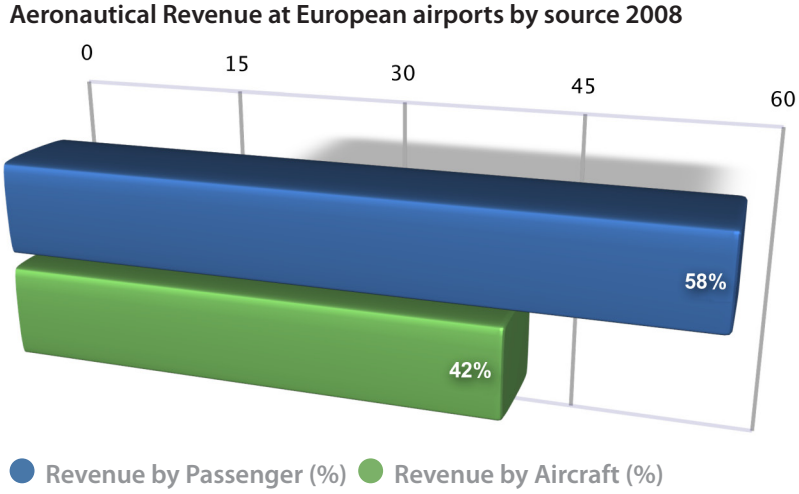
2.1 AERONAUTICAL REVENUE

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: aircraft/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 **charges levied on a per passenger basis**.

Passenger 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 included in the ticket price and transferred by the airline to the airport. Without this industry practice, airport operators would be required to collect these charges at the airport from every passenger before departure, which would cause considerable inconvenience and delays.

In Europe, **passenger-related charges accounted for 58% of total aeronautical revenues**, while airline charges only contributed 42% of aeronautical revenues to the airport.

Graphic 4 – Aeronautical revenues by source 2008



Putting more weight on passenger charges in an airport's charges structure means **a direct risk-sharing between the airport and the airline**. Fewer passengers lead to a direct and immediate reduction of the charges paid to the airport, as aircraft-related charges represent a smaller proportion of total charges. Therefore, the airport assumes part of the risk of a new route or a decline of passengers due to the crisis.

Many European airports pro-actively supported the airlines during the economic crisis in 2008/2009 by further shifting the balance to passenger related charges, with these charges making up to 80% of aeronautical revenues at some airports.

This trend is also a result of the growth of the market share of low cost carriers whose business model is clearly focused on reduced/minimal aircraft-related charges, thus shifting the cost of using the airport infrastructure to the passenger. This in turn has significant implications for airports, as airport income is increasingly reliant on passengers and related business activity, in and around the airport premises.



2.2 NON-AERONAUTICAL REVENUES

Given the increasing competition between airports and strong pressure on airport charges by airlines, **non-aeronautical revenues have become increasingly important for European airports over the last years**.

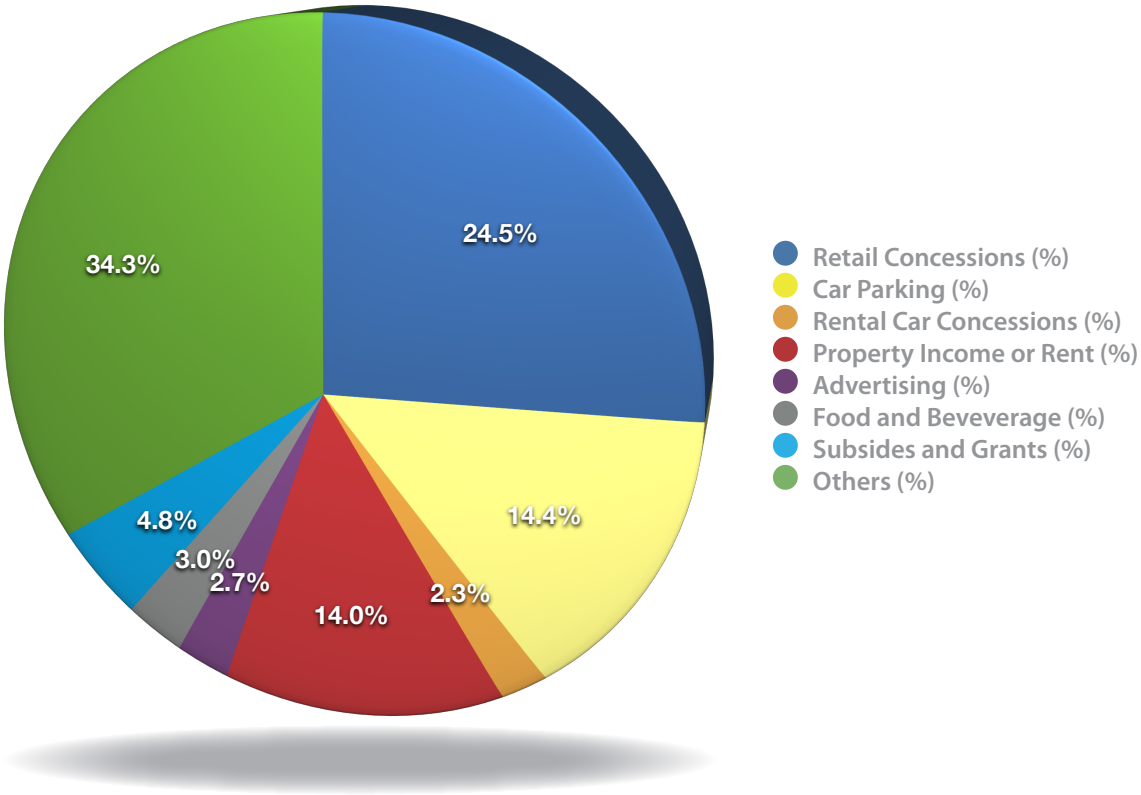


Even in a dual till environment where aeronautical and non-aeronautical revenues are kept separate, non-aeronautical revenues can significantly reduce operating costs for aircraft operators at an airport. Profits from **non-aeronautical revenues are reinvested in airport infrastructure, reducing the 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 Europe, concessions from airport retail constituted the single largest contribution to non-aeronautical revenues (24.5%), followed by car parking and income from property or rent (14% and 14.4% respectively). The category 'other' revenue reflects the very diverse nature of the non-aeronautical revenues category (34.3%).[3]

Graphic 5 – Non-aeronautical revenues by source

Non-aeronautical Revenues at European Airports by source 2008 in %



It is important to recall that **without the contribution of non-aeronautical revenues, many European airports would not be in a position to offer a competitive level of airport charges to their customers**. Commercial practices by some low-cost carriers that strictly limit the number of carry-on bags that passengers can take onboard, thus preventing them to carry separately goods purchased at the airport, are therefore directly affecting retailing activities. As such, they are threatening the commercial viability of agreements with these carriers on low airport charges.

[3] 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.

3 COSTS

3.1 OPEX

Total operating expenses of European airports amounted to **€19.2 billion in 2008**.

Security costs constitute the single largest item of operating expenses at European airports. The security measures introduced both at EU and at national level since the terrorist attacks in September 2001 required airports to make high investments in new security equipments and qualified staff at airports. It should be noted that the distribution of responsibilities in the area of aviation security and the respective cost recovery varies considerably within the European Union. **In total, security staff and equipment represented 32% of total airport operating costs**.

Personnel (excl. security staff) is the second largest cost item, representing 24.5% of airports operating expenses. This relatively low proportion also reflects the fact that airports are less labour-intensive, but more capital-intensive – runways and terminals are large infrastructure projects requiring substantial investments.

Other costs include items such as rental or concession fees to the government as well as administration, consulting and legal costs.

Table 2 – Operating expenses at European airports in 2008

Total operating expenses	**€19.2 billion**	**% of total operating expenses**
Security (incl staff)	€6.2 billion	32%
Personnel (excl security)	€4.7 billion	24.5%
Maintenance	€1.9 billion	10%
Sales&Marketing	€0.4 billion	2%
Energy&Waste	€1.2 billion	6.5%
Insurance	€0.2 billion	1%
Other costs	€4.6 billion	24%

To put these results into perspective, aircraft/airline-related revenues only covered 31% of total operating costs in 2008. Hence airports largely finance their operations through passenger-related charges and revenues from commercial activities. Even if all aeronautical revenues (both passenger- and aircraft/airlines-related charges) are factored in, airports had an **under-recovery of €4.9 billion of operating expenses in 2008**.

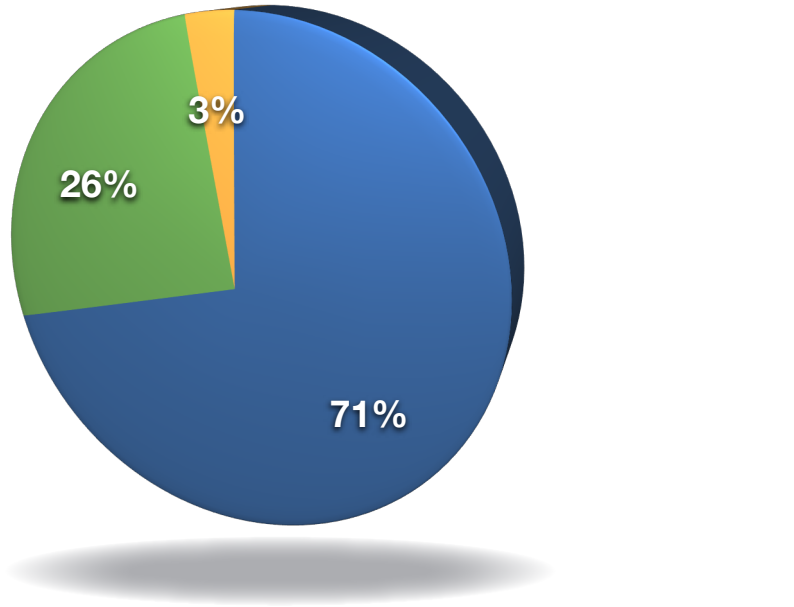
It should also be noted that airports have a **very high proportion of fixed operating expenses** – it is not possible to shut down part of a runway or of a terminal in case of a downturn in traffic. During the **economic crisis 2008/2009**, airports undertook major efforts to reduce costs, but were limited by operational constraints to further limit operating expenses. This included longer intervention periods in non-critical maintenance activities, outsourcing, re-negotiation of subcontractor's terms and conditions, reduction in non operative/business critical expenditure and substantive staff reductions (please see chapter 5). **At the same time, revenues declined considerably in 2009, putting additional pressure on the balance sheet of many airports.**

3.2 CAPITAL COSTS

European airports are capital-intensive industries, requiring major capital investments for new infrastructure (see chapter 4 for an overview of committed capital expenditure programs). As a consequence, capital costs constitute a major element of total airport costs. **In 2008, European airports incurred €7.1 billion of capital costs, representing 26% of total costs.**

Graphic 6 – Total costs at European airports, including capital costs

Total costs at European airports by source 2008



Due to the economic crisis and the turmoil on financial markets, **capital costs increased at many European airports in 2008/2009**. While airports were generally still considered as sound assets by investors, credit ratings for several airports were downgraded in the course of the crisis. In addition, some airports faced increasing difficulties to get the necessary funds to (re-) finance already committed infrastructure projects.



4 CAPITAL EXPENDITURE

Capital expenditure at European airports totalled €11bn in 2008.

According to the survey conducted by ACI WORLD in mid-2009, these investments were expected to further rise in 2009 and to slightly decrease in 2010. Capital expenditure was expected to amount to **€12 billion in 2009** and is forecasted to reach **€10 billion in 2010**. It should be noted that these figures do not include new (greenfield) airports, but only include the modernisation and expansion of existing airport infrastructure.

Table 3 – Capital expenditure

CAPITAL EXPENDITURE OF EUROPEAN AIRPORTS	
2008	**€11 billion**
2009 (estimate)	**€12 billion**
2010 (estimate)	**€10 billion**

The **Economic and Financial crisis in 2008/2009** also affected capital expenditure projects at European airport. In 2009, airports reduced their planned CAPEX projects by ca. €2.8 billion, but confirmed most of their committed projects. Given that infrastructure programs usually involve a long lead time and air traffic is expected to double by 2030 according to Eurocontrol, airports do indeed need to invest in new infrastructure in a timely manner. At the same time, these large investment programs have acted as an **economic stimulus program in the current economic downturn**.



5 AIRPORT EMPLOYMENT

The financial and economic data reported in the framework of the ACI ECONOMIC SURVEY refer to the reporting year 2008. However, the employment data reflects the situation at European airports at the time of reporting, that is to say during the 2nd and 3rd quarter of 2009. **Consequently, employment figures already reflect the impact of the economic and financial crisis**.

In reaction to the crisis, many European airports have engaged in **major corporate restructuring programs**, often involving a substantial reduction of staff (going up to -30% at individual airports). Therefore, staff figures are lower than in previous years. On a general note, however, one should keep in mind that airports have a limited leeway to reduce staff, as many functions at an airport need to be performed independently of the actual passenger traffic (e.g. terminal maintenance, security etc.) and as staff levels tend to be regulatory driven (in particular by security and safety).

In this report, two categories of staff employment data are reported: those directly employed by the airport and total staff employed on the airport site (including non-airport employers).

Table 4 – Airport employment in 2008/2009

AIRPORT EMPLOYMENT		
	2008	2009 (preliminary)
Directly employed by airport operators	165.000	155.000
Total employees on airport site	1.200.000	1.100.000

As shown by these figures**, European airports have reduced their personnel by around 6% in 2009 on average**. At the same time, the total number of on-site employees decreased by around 8%. However, notwithstanding necessary adjustments in the economic crisis, the high number of employees both directly employed and on-site related to the activities of an airport confirms the key economic role airports play by supporting thousands of jobs in the local economy.

6 OUTLOOK

2009 was a difficult year for the entire aviation industry. The reported data from 2008 already reflects partially the strong impact of the crisis. In the coming weeks, European airports will publish their financial results for 2009. Given the strong decline of traffic in 2009 (-5.9% on average), **ACI EUROPE expects a significant impact both on revenues and costs for the reporting year 2009**. The employment figures in this report already hint at a major impact of the crisis on European airports in 2009.

With regard to the economic environment in 2010, **European airports expect a modest traffic recovery in the course of this year**. Many airports already announced positive traffic figures in the first months of this year. However, the impact of the volcanic ash crisis has seriously affected air traffic in April and to a lesser extent, in May. Moreover, there is still significant uncertainty as to whether the expected economic recovery in Europe will directly translate into a sustainable rebound for the aviation sector in 2010.

A new aviation market structure is emerging in Europe, as network carriers remain under pressure to review their business models and low-cost carriers continue to grow. Airports will need to adapt to this new market structure and face increasingly powerful customers. This will result in increased pressure on airport charges and with airlines increasingly able to flexibly deploy and relocate their aircraft and crews at the most competitive location.

At the same time, **airports need to focus on the long-term and invest in new infrastructure** in order to accommodate the expected traffic growth in the coming years. Access to finance, a supportive regulatory environment and a constructive collaboration with the airlines are therefore fundamental to tackle the challenges of the years ahead and to contribute to a sustainable growth of the aviation sector in Europe.