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ACI EUROPE
ECONOMICS REPORT 2011

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INTRODUCTION

For the third time, ACI EUROPE presents its annual ECONOMICS REPORT on the key financial and economic characteristics of the European airport industry.

This edition – based on 2010 data – provides an overview of the developments in such diverse categories as airport revenues, costs and planned capital investments by European airport operators. Despite a significant recovery in air traffic and a dynamic revenue environment, the profitability of Europe's airports has been affected by the on-going sovereign debt crisis, given their capital-intensive nature and the limited opportunities to pass through these costs in very competitive trading conditions.

Despite a significant recovery in air traffic and a dynamic revenue environment, the profitability of Europe's airports has been affected by the on-going sovereign debt crisis, given their capital-intensive nature and the limited opportunities to pass through these costs in very competitive trading conditions.

CONTENT

The ACI EUROPE ECONOMICS REPORT 2011 highlights key developments in the following main economic fields:

TRAFFIC DEVELOPMENT: Strong passenger growth in 2010/2011, but uncertainty for freight traffic.

AIRPORT REVENUES: Significant revenue increase (+9%) on the back of a recovery in passenger traffic, yet only 16% is directly paid by airlines.

AERONAUTICAL REVENUES: 67% of aeronautical revenues are coming from the passengers.

NON-AERONAUTICAL REVENUES: Dynamic growth led by retail, advertising and real estate & property.

AIRPORT COSTS: significant costs increase (+9%), driven by capital costs and continued regulatory burden.

OPERATING COSTS: Stable costs vs. increased revenues – mostly attributable to internal cost cutting.

CAPITAL EXPENDITURE: On-going crisis impact resulting in lower infrastructure investments (-19%).

TOTAL COSTS & PROFITABILITY: 48% of European airports were loss-making in 2010.

1. BUSINESS CONTEXT

THE YEAR 2010 WAS MARKED BY a gradual recovery of air traffic in Europe after the economic and financial crisis of 2009. While passenger traffic grew by a healthy **+4.2%**, the recovery of freight traffic was extremely dynamic at **+18.7%**. However, the rebound in passenger traffic was affected by two exceptional events: the volcanic ash crisis of April/May 2010, and exceptionally harsh winter conditions over Western Europe in December 2010.

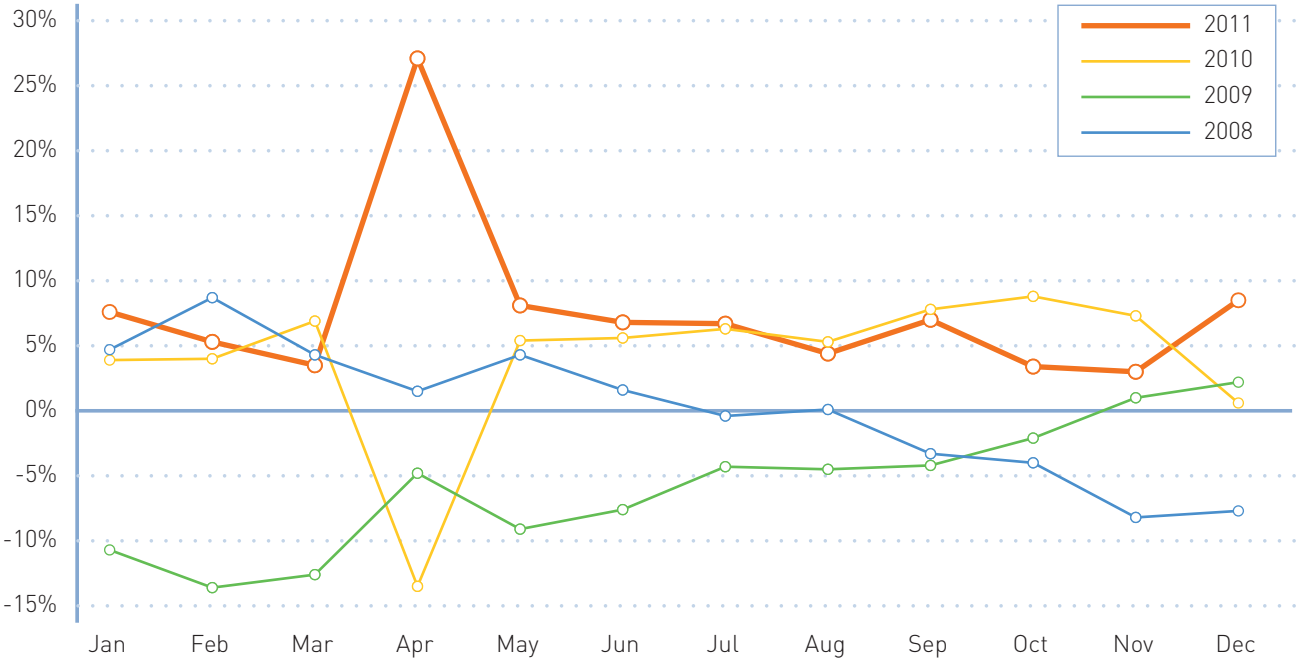
The year 2011 showed a reversed picture: very dynamic growth in passenger traffic at **+7.3%** and weaker growth in freight traffic at **+1.4%**. With Europe's airports welcoming more than 100 million additional passengers compared with 2010, passenger traffic showed a strong resilience in the context of an unprecedented sovereign debt crisis and weakening economies in most of Europe. Conversely, freight traffic – an important indicator of economic activity – experienced a major slowdown in 2011. Growth rates for freight traffic were indeed negative in 6 of the 12 months in 2011.

The recovery in air traffic experienced in 2010 and 2011 growth was not matched by aircraft movements - reflecting the focus on yields instead of capacity by airlines. Overall movements at European airports decreased by -0.2% in 2010 and only increased by +4.1% in 2011.

After two years of major difficulties, passenger traffic is now again above the pre-crisis levels from 2008. However, it must be kept in mind that there have been significant disparities in growth rates between national markets – largely reflecting the local impact of the sovereign debt crisis and national aviation taxes.

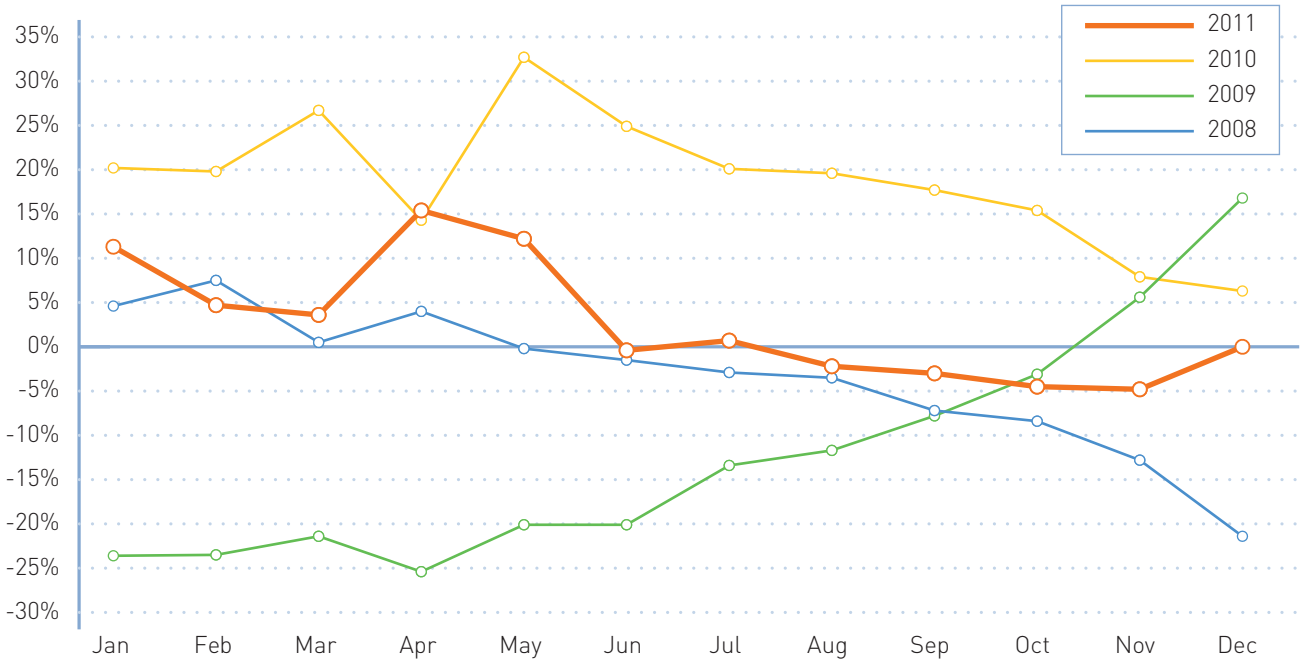
After two years of major difficulties, passenger traffic is now again above the pre-crisis levels from 2008.

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



[2] Source: ACI EUROPE and ACI WORLD traffic reports.

Graph 2
Overall freight growth in Europe



2. AIRPORT INCOME

IN TOTAL, THE REVENUES of European airport operators amounted to **€30.4 billion in 2010**. This corresponds to an **increase of 9% compared to 2009, in large part driven by non-aeronautical revenues**.

Airport income usually stems from three categories of income: Aeronautical revenues, non-aeronautical revenues and ground handling. It should be noted, however, that ground handling services are directly provided only by a minority of airports in Europe (representing 16% of the market in 2010), as the market was gradually liberalised in 1998. Consequently, ground handling revenues remained stable in 2010 compared to 2009, while the other revenue categories increased significantly.

Aeronautical revenues, i.e. charges paid by airlines and passengers, accounted for 52% of total airport revenues in 2010, whereas **non-aeronautical revenues** such as retail, car parking, real estate and advertising income represented 48% of total airport revenues in 2010.[3] The ratio of aeronautical revenues/non-aeronautical revenues has therefore slightly changed compared to the previous year (2009: 53% aeronautical revenues, 47% non-aeronautical revenues), reflecting ever increasing competitive pressures and the continued "commercialisation" of Europe's airports.

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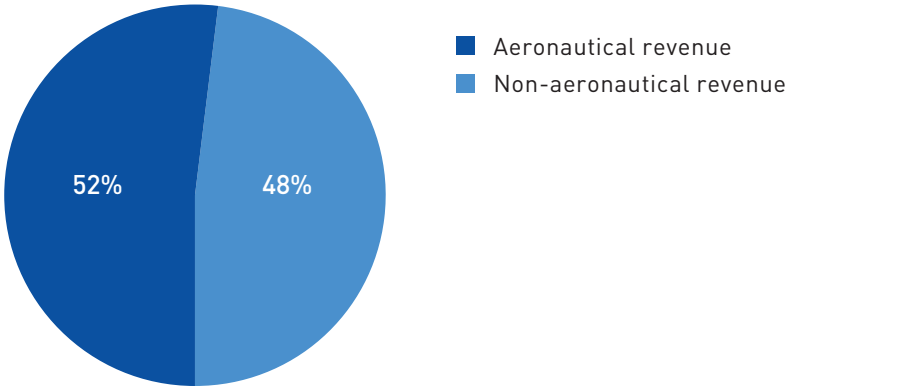
Table 1
Distribution of revenues at all European airports in 2010

TOTAL REVENUES	€30.4 BILLION	100%
Aeronautical revenue	€14.8 billion	49% (52% excl. GH)
Non-aeronautical revenue	€13.8 billion	45% (48% excl. GH)
Ground-handling revenue	€1.8 billion	6%

[3] Excluding ground handling revenues - 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 or non-aeronautical revenues in the framework of this report.

These results show again the growing dependence of airport operators on additional commercial revenues to finance their operations and to invest in 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.

Graph 3
Total revenues at European airports excluding ground handling





2.1 AERONAUTICAL REVENUES

Aeronautical revenues amounted to €14.8 billion at European airports in 2010, constituting an increase of +7% 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, and **passenger-related charges** levied on a per passenger basis.

Airline-related charges are paid by the airline for the use of the runway (landing charges), the parking of aircraft (parking charges) and other aircraft-related infrastructure at the airport. These charges are usually based on the weight of the aircraft.

Passenger-related charges are usually paid by the passenger to the airport, mainly for the use of the terminal. In order to simplify passenger processing at the airport, these charges are included in the ticket price and levied by the airline on behalf of the airport - as recommended by ICAO in its Policy Guidance document 9082. **They are therefore only pass-through costs for airlines and are not part of their operating costs** – hence the requests of many airlines to put more weight on passenger-related charges in an airport's charges structure. Furthermore, a portion of these charges are actually retained by airlines and neither transferred to airports nor refunded to passengers, without any legal basis (in case of "no show" passengers for example).

Overall, passenger-related charges accounted for 67% of total aeronautical revenues, while airline-related charges represented only 33% of aeronautical revenues at European airports. Since 2008, this ratio has shifted significantly towards passenger-related charges – which means that the bulk of aeronautical revenues are now generated by the passenger.

2.1.1 THE RATIO OF AIRLINE-RELATED / PASSENGER-RELATED CHARGES

The trend of putting more weight on airline-related charges in the charges structures of European airports has continued in 2010. Overall, passenger-related charges accounted for 67% of total aeronautical revenues, while airline-related charges represented only 33% of aeronautical revenues at European airports. Since 2008, this ratio has shifted significantly towards passenger-related charges – which means that the bulk of aeronautical revenues are now generated by the passenger.

Table 2
Components of aeronautical revenues 2008-2010 (in %)

	PASSENGER-RELATED CHARGES	AIRLINE-RELATED CHARGES
2008	58%	42%
2009	61.5%	38.5%
2010	67%	33%

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, a decline in passenger numbers, for example during an economic crisis, translates into a direct and immediate reduction of the related charges paid to the airport. For these reasons, the proportion of passenger/airline-related charges goes up to 80:20 at some European airports.

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 on a strict per-use basis** (baggage sorting systems, air bridges etc.). This has been particularly the case for Low-Cost Carriers (LCCs) in recent years. Whereas a per-plane charge does not allow for a separate billing of these services, passenger-related charges can reflect this differentiation. However, this charging method impacts the overall charges structure at an airport (especially in relation to Centralised Infrastructure[4]) and does not necessarily cater for the needs of all airlines at an airport.

When factoring in all airport revenues, airline-related charges only accounted for 16% of airport income in 2010 - a significant decrease compared to the figure of 19% in the previous year. It is for this reason that aircraft-related charges usually represent only around 3.5% of a network carrier's total operating costs.

When factoring in all airport revenues, airline-related charges only accounted for 16% of airport income in 2010 - a significant decrease

[4] Centralised infrastructure refers to ground handling services 'whose complexity, costs or environmental impact does not allow of division or duplication, such as baggage sorting, de-icing, water purification and fuel-distribution systems' (EU Ground Handling Directive 96/67/EC).

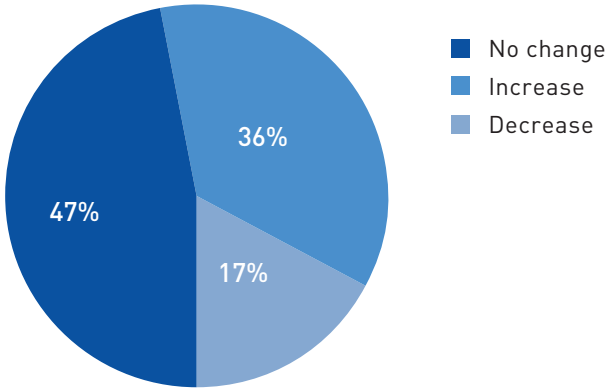
compared to the figure of 19% in the previous year. It is for this reason that aircraft-related charges usually represent only around 3.5% of a network carrier's total operating costs.[5]

2.1.2 THE DEVELOPMENT OF AIRPORT CHARGES IN 2010

As highlighted in the previous edition of this report, European airports reacted to the difficult trading conditions in 2009 by reconsidering their charging policy *vis-à-vis* airlines – not least to safeguard their own competitive position in light of increased competitive pressure from airlines on airport charges. **With regard to individual airports, airlines can indeed have a very strong market position** – a development that is further accelerated by the on-going market concentration of network carriers and the success of LCCs, which are able to redeploy their aircraft and crews throughout Europe at very short notice. As a consequence, almost 70% of airports either lowered their charges or kept them stable in 2009.

In 2010, European airports followed again a guarded approach on airport charges in the context of what remained a fragile economic environment. While several airports increased their charges in order to finance the modernisation and development of their facilities or to meet refinancing needs, the majority of European airports were able to keep their charges stable or lower them. This situation partly reflects a decrease in capital expenditure (see section 3.2).

Graph 4
Development of airport charges in 2010



However, given the need to further invest in Europe's airport infrastructure in the years to come – passenger traffic is expected to almost double by 2030 – a continuous decrease or freeze of airport charges is neither feasible nor desirable from a public policy point of view.

2.2 NON-AERONAUTICAL REVENUES

The competition between European airports to attract airlines and passengers to their airport has increased tremendously over the last decade.[6] Moreover, the consolidation around three global airline alliances and the extraordinary growth of LCCs have led to a shift of power in the airport-airline relationship. Airports have become under intense pressure to keep their airport charges at a low level – **as a consequence, charges paid by airlines to airports do not cover the full costs of the infrastructure they use**.

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[5] 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 significantly higher proportion of their costs for these carriers.

[6] See Airport Competition, Copenhagen Economics 2012, available at www.aci-europe.org

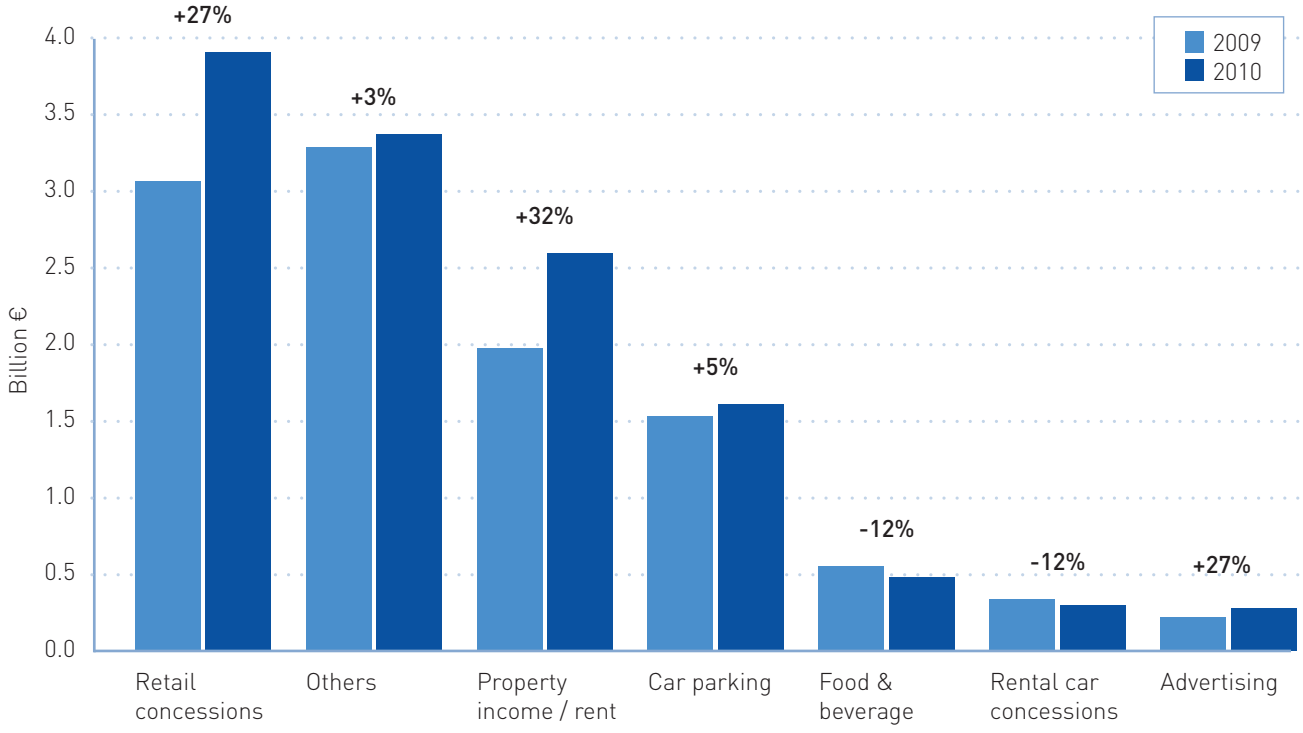
Table 3
Non-aeronautical revenues by source 2010

NON-AERONAUTICAL REVENUE[7]	100%
Retail concessions	31%
Food & beverage	4%
Car parking	13%
Rental car concessions	2%
Property income / rent	21%
Advertising	2%
Others[8]	27%

Therefore, non-aeronautical revenues are vital for the economic viability of an airport. 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, which are supposed to generate additional commercial revenues through purchases in shops and the use of other services at the airport (e.g. car parking). Against this background, the practice of some LCCs prohibiting passengers from carrying their airport purchases separately from their carry-on luggage is threatening 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 – passengers and airlines. It should be noted that **even in a dual till environment**

Graph 5
Change in non-aeronautical categories 2009/2010 (%)



[7] Excluding non-operating income

[8] 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.

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. In addition, such profits allow for improved credit ratings, again leading to lower costs of capital.

In the year 2010, non-aeronautical revenues at European airports amounted to €13.8 billion, an increase of +14% compared to the previous year. This increase reflects renewed consumer confidence in many European markets following the economic crisis of 2009.

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Table 4
Non-aeronautical revenues by source 2010

TOTAL AIRPORT REVENUES	100%
Airline-related aeronautical revenues	16%
Passenger-related aeronautical revenues	32%
Ground handling revenue	6%
Retail concessions	13%
Food & beverage	2%
Car parking	5%
Rental car concessions	1%
Property income / rent	9%
Advertising	1%
Other non-aeronautical revenue	11%
Non-operating income	4%

The single largest category in non-aeronautical revenues remains income from airport retail concession, accounting for 31% of non-aeronautical revenues. It is noteworthy that in absolute numbers, revenues from retail concessions increased by €850 million compared to last year. Property & rent accounted for 21% and car parking for 13% of non-aeronautical revenues. Revenues increased in all categories in absolute numbers, except food & beverage and rental car concessions.

When factoring in **all sources of airport revenues**, income from **passenger and visitor-related services** (passenger-related charges, revenues from retail concession/F & B, car parking and rental car concession) constitute the majority of revenues at European airports – 53% of all revenues. This trend is likely to continue in the years to come, given the persistent pressure on aeronautical charges exercised by airlines.



3. AIRPORT COSTS

2010 SAW EUROPEAN AIRPORTS tightly curbing those costs within their control, with higher passenger numbers but stable operating expenditure and significantly decreased capital expenditure. In contrast, capital costs – due to difficult trading conditions in the financial markets – increased significantly.

European airports were able to reap the benefits of comprehensive cost reduction and restructuring programs which were initiated during the financial and economic crisis of 2009.

3.1 OPEX

In the reporting year 2010, total operating expenses of European airports remained stable compared to the year 2009, amounting to **€18.6 billion**. In light of growing passenger numbers in 2010, European airports were able to reap the benefits of comprehensive cost reduction and restructuring programs which were initiated during the financial and economic crisis of 2009. This had a direct positive impact on full year results of many European airport operators, without providing full relief to the remaining difficulties of regional airports in reaching profitability.

The largest single cost item at an airport remains staff costs, accounting for 38% of total operating expenses. It should be noted that staff costs have decreased by **10%** or **€800 million** compared to the year 2009 - a direct reflection of internal cost cutting at many airports. This is even more remarkable when taking into account that staffing levels at airports are directly influenced by externally imposed regulatory requirements. Therefore, it will be important to ensure that overall quality of airport operations is not jeopardised by the on-going pressure on prices and costs by airlines, for example in the ground handling sector.

The second largest position in operating costs in 2010 was earmarked for outsourced services (18%), followed by maintenance costs and administration.

Table 5
Operating costs structure 2010

TOTAL OPERATING EXPENSES	100%
Personnel	38%
Contracted services	18%
Materials/equipment/supplies	5%
Communications/energy/waste	6%
Insurance/claims/settlement	1%
Maintenance	8%
Lease/rent/concessions	5%
General & administrative	7%
Other	11%

By separating the total operating costs in functional cost areas, the results for 2010 show that terminal & landside operations constitute the most important cost category for European airports (29%). **Security operations remain an important cost factor, accounting for 27% of total operating costs**. Europe's airports spent over €5 billion on security alone. ACI EUROPE expects the proportion of security costs to remain relatively high in the foreseeable future given the lack of significant progress in reforming the aviation security system and achieving more efficiency.

Table 6
Functional cost areas

TOTAL OPERATING EXPENSES	100%
Airside operations	20%
Terminal and landside operations	29%
Airport security	27%
Administration	16%
Sales and marketing	4%
Other	4%

Administrative costs have gone down by 17% in 2010 compared to 2009, which reflects the overall reduction in staff costs in areas without prescribed regulatory requirements (see above).

When considering the different airport revenue streams, it should be noted that **airline-related charges covered only 27% of airports' total operating expenses**. This ratio has been decreasing steadily since the first edition of this report – from 31% in 2008. Even when factoring in **all aeronautical charges**

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(both airline and passenger-related), European airports had an **under-recovery of almost €4 billion** of their operating expenses. This result confirms the trend that airports largely depend on passenger and visitor-related services and commercial revenues.

3.2 CAPITAL EXPENDITURE

The looming capacity crunch at European airports remains a key concern in Europe. In its latest long-term forecast from December 2010, EUROCONTROL expects air traffic to almost double by 2030.[9] However, existing infrastructure at European airports cannot accommodate this expected traffic volume – congested airports and massive delays in the whole European air traffic network would be the consequence. Therefore, the investment in new infrastructure and the modernisation of existing facilities must remain a priority in the coming years, in particular given the long lead times for these investments.

However, after a significant decrease in capital expenditure in 2009 (€-2.1 billion compared to 2008), investment in airport infrastructure further decreased in 2010 – contrary to the more optimistic scenario in last year's edition of this report. In total, investment by European airports decreased by 19% to €7.2 billion. Capital expenditure is only expected to recover pre-crisis levels by 2012.

Table 7
Capital expenditure 2010-2016

CAPITAL EXPENDITURE OF EUROPEAN AIRPORTS	
2010	€7.2 billion
2011	€7.6 billion
2012	€9.9 billion
2013-2016	€33.4 billion

[9] EUROCONTROL Long-Term Forecast, Flight movements 2010-2030, EUROCONTROL, December 2010 - available at: http://www.eurocontrol.int/documents/eurocontrol-long-term-forecast-flight-movements-2010-2030

The main reasons for the continuous decrease of capital expenditure are a more cautious traffic outlook coupled with retreating public financing, difficulties in accessing capital markets and increased capital costs (see section 3.3). This increases the risk of a disconnection between the present level of airport investment and medium to long-term traffic forecast requirements.

3.3 CAPITAL COSTS & TOTAL COSTS

European airports are capital-intensive businesses, requiring major capital investments to finance new infrastructure and modernise existing facilities. In the light of retreating public funding of airport infrastructure, access to capital markets is fundamental. Hence capital costs generally constitute a major element of an airport's total costs.

The year 2010 saw a **+23% increase in capital costs** despite a significantly lower level of capital expenditure as previously shown. **Overall, capital costs amounted to €9 billion, representing 31% of total airport costs**.

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This massive increase in capital costs reflects continued investor wariness and dysfunctional capital markets – which remain risk-adverse and less drawn to long-term airport strategic investments.

The attractiveness of the European airports as an asset class remains impacted by several factors including:

- The unresolved sovereign debt crisis, a weak economic environment and the prospect of higher fuel prices – all resulting in an uncertain air traffic outlook.
- The lack of a supportive policy and regulatory framework for aviation (e.g. aviation taxes, difficult and uncertain planning processes for new infrastructure, lack of legal certainty as regards existing infrastructure, increases in regulatory driven costs in the field of security and safety).
- Negative perception of aviation in relation to sustainability issues.

Indeed, despite improved traffic figures in many markets, several airports were downgraded by rating agencies in the course of 2010. As of September 2011, none of the European airports rated by Standard & Poor's had a positive outlook.[10] It should be noted that the rating of publically-owned airports are linked to the solvency of their shareholders, and can be directly impacted by possible downgrades – a particular problem for several airports within the context of the sovereign debt crisis.

As of September 2011, none of the European airports rated by Standard & Poor's had a positive outlook.

Table 8
Total costs in 2010

TOTAL COSTS	100%
Operating expenses	65%
Capital costs	31%
Taxes & other fees	4%

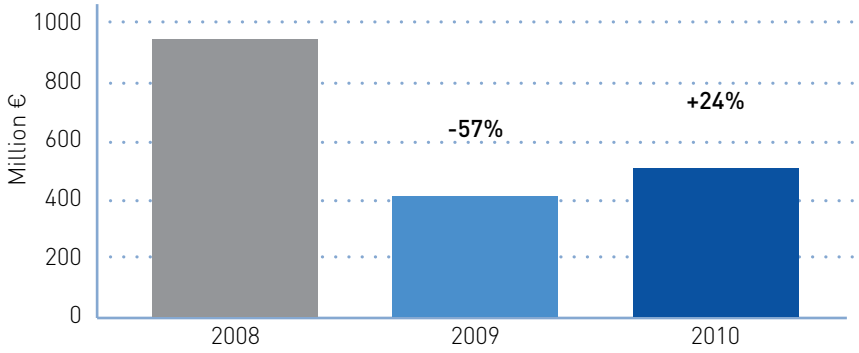
[10] Source: Standard & Poor's ratings

In addition to increased capital costs, taxes and other fees paid by airport operators have almost tripled between 2009 and 2010 and now account for 4% of total airport costs. This disproportionate increase is totally at odds with the reality of airport economics. It reflects the impact of fiscal austerity and the accompanying tax burden increase across Europe.

3.4 PROFITABILITY

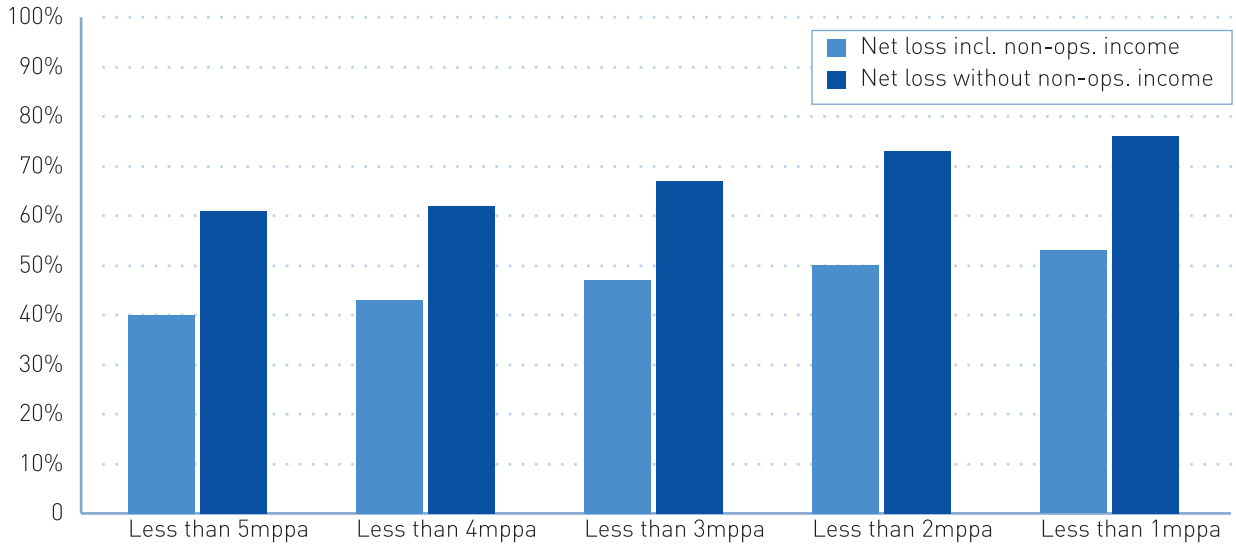
The economic viability of the European airport industry remains a cause for concern. While 41% of Europe's airports were loss making in 2009, the recovery in air traffic experienced in 2010 has not led to an improvement of the situation. On the contrary, 48% of Europe's airports were loss making in 2010 – a significant deterioration in terms of economic viability.

Graph 6
Net results of Top 20 European airport operators[11]



Looking at the 2010 figures in more detail, it becomes apparent that mostly larger airports were able to generate profits in 2010. However, despite traffic recovering beyond 2008 levels, the profitability of the top 20 airport operators still remains far off 2008 levels. In light of the comprehensive cost-cutting measures in place, it is clearly the case that competitive pressures in the market remain fierce.

Graph 7
Profitability of regional airports below 5 million passengers per annum (mppa) (incl./excl. non-operating income such as public grants)



[11] Representing 157 airports

At the same time, the majority of smaller regional airports made losses in 2010 – and were often heavily dependent on public funding. This development is particularly problematic for the smallest airports (below 1 million passengers per year) with over 75% not profitable in 2010 without public subsidies and other non-operating income.



4. OUTLOOK

AFTER TWO DIFFICULT YEARS rocked by the economic and financial crisis, 2011 saw a dynamic recovery in air traffic with Europe's airports welcoming an additional 100 million passengers compared to 2010. While the performance of freight traffic was more subdued, overall demand for air transport showed a remarkable resilience against a background of weakening economic growth, mainly due Europe's sovereign debt crisis. As a result, aviation and airports in particular have played an important role in providing economic stimulus – a contribution largely ignored by policy makers and regulators.

The outlook for the year 2012 reveals a more worrying picture, with an accumulation of negative determinants directly affecting demand for air transport in Europe. The impact of the still unresolved sovereign debt crisis keeps growing, with weakening consumer and business confidence, and several European economies are now in recession. Renewed fuel price volatility, combined with damaging national aviation taxes and new costs stemming from the entry into force of the EU Emission Trading Scheme for aviation, are constraining demand and limiting airlines' appetite for capacity expansion.

Against this uncertain background, ACI EUROPE takes a cautious approach in its 2012 traffic forecast – reflecting stalled passenger traffic growth and decreasing freight traffic in the first Quarter. ACI EUROPE's forecast for the full year is **+2% in passenger traffic** and **–2% in freight traffic**.

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It should be noted that as occurred in 2011, we expect a contrast in the performance of national markets, with a clear divide between Western/Southern Europe and a much more dynamic Eastern/Northern Europe. However, the performance gap in air traffic between these two areas may be reduced, due to their economic interdependency.

Should the sovereign debt crisis remain unresolved and deteriorate further, with contagion scenarios becoming a reality in the second half of 2012, this forecast would need to be adjusted downwards. Such an outcome would have a direct impact on the economic and financial performance of Europe's airports – and therefore on their ability to contribute to regional and European economic development.

As this report details, these are challenging times for Europe's airports. Moreover, the current circumstances are further compounded by a global shift in the aviation market towards Asia and Latin America, where airports' roles as enablers of economic performance are increasingly recognised. If European aviation is to maintain its foothold and if Europe is to remain relevant in the global business context, an ambitious industrial policy for aviation at European level is needed urgently.



ACI EUROPE is the European region of Airports Council International, the only worldwide professional association of airport operators. ACI EUROPE represents over 400 airports in 46 European countries. Member airports handle 90% of commercial air traffic in Europe, welcoming more than 1.5 billion passengers each year.

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EVERY FLIGHT BEGINS AT THE AIRPORT.

METHODOLOGY

The data used in the 2011 report reflects the economic and financial results of European airports in the reporting year 2010. 157 airports responded to the survey conducted by ACI WORLD for the ACI ECONOMICS SURVEY 2010, representing 66% of total European passenger traffic (977 million passengers). In addition, further information from specific ACI EUROPE surveys supplemented the analysis in this report.

It should be noted that all data for 2010 was reported in US$, thus the comparability with previous years should be made with caution due to the on-going currency fluctuations during the economic crisis. All data was converted into € based on the exchange rate as of 3 January 2011 (1€=1.3348 $) in order to ensure the consistency of data.