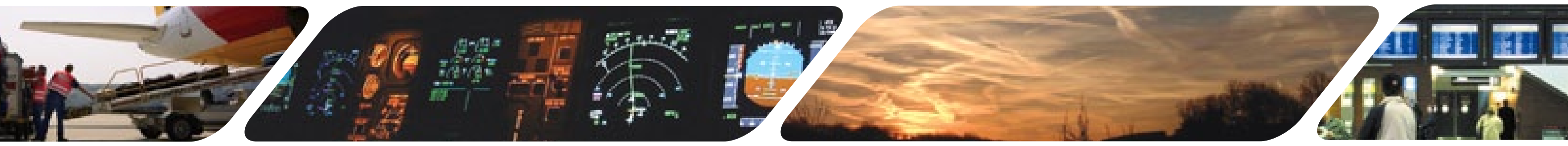
Update on the Crisis

ACI EUROPE
AIRPORTS COUNCIL INTERNATIONAL

RENEWED CALL FOR COMPETITIVE RELIEF MEASURES



NOVEMBER 2009

RENEWED CALL FOR RELIEF MEASURES TO REINFORCE EUROPEAN AVIATION'S COMPETITIVENESS

More than a year into the global economic and financial crisis, European airports continue to be severely affected. The unprecedented fall in passenger and freight traffic combined with record increases in external costs have resulted in the worst ever trading conditions in 2009, significantly affecting financial performance.

This report provides an update on the impact of the crisis on European airports, following the crisis relief strategy issued by ACI EUROPE in March 2009: *Empower Europe's Airports to Boost Economic Recovery*.

Documenting the extent of the traffic decline and the deterioration of the financial performance of European airports, this report also chronicles the far-reaching measures they have taken to address the crisis and renews calls for relief measures.

- **DO NOT ADD COSTS FOR THE AVIATION INDUSTRY**
  - Reconsider and suspend all pending EU regulatory initiatives adding costs
  - Abolish national taxes on aviation
  - Withdraw existing restrictions to the carriage of liquids, aerosols and gels (LAGs) under conditions that are fully compatible with efficient airport operations, committing appropriate public financing
  - Require Member States to finance national aviation security measures
  - Free Air Navigation Service Providers from the cost-recovery system imposed by national regulations
- **INCENTIVISE AIR TRAFFIC RECOVERY**
  - Extend from 3 to 5 years the authorised duration of start-up aid granted for the opening of new routes from regional airports
  - Establish a Pan-European and Mediterranean Aviation Area by 2010
  - Pursue EU aviation negotiations with the US and initiate negotiations with Brazil, Russia, India and China by 2010
- **KEEP FOCUSED ON LONG-TERM CHALLENGES**
  - Reconsider economic oversight of airports to ensure that they are financially incentivised to modernise and develop their infrastructure

AIR TRAFFIC SEVERELY DEPRESSED IN 2009

Unlike previous crises, European airports have experienced a sharp and entrenched decrease in air traffic, impacting all markets. As of October 2009, the sector was heading into the 14th month of consecutive decline in both passenger and freight traffic.

- Over the period January-September 2009:
  - **Passenger traffic declined by -7.7% and freight traffic by -19.8%.** The downturn reached its peak in February 2009, with passenger traffic down by close to -14% and 93% of European airports reporting declining traffic.
  - **82% of European airports reported declining traffic.**
  - **44 million passengers lost for the top 25 European airports** (collectively these airports account for close to 50% of the continent's air traffic).
  - **3 years of growth lost for European airports** as passenger traffic over that period fell just below 2006 levels.

- Major hubs tended to be comparatively less affected than other airports, mainly due to the strength of their local market and better performance from their connecting traffic (on average, close to 2% differential compared to point-to-point traffic).

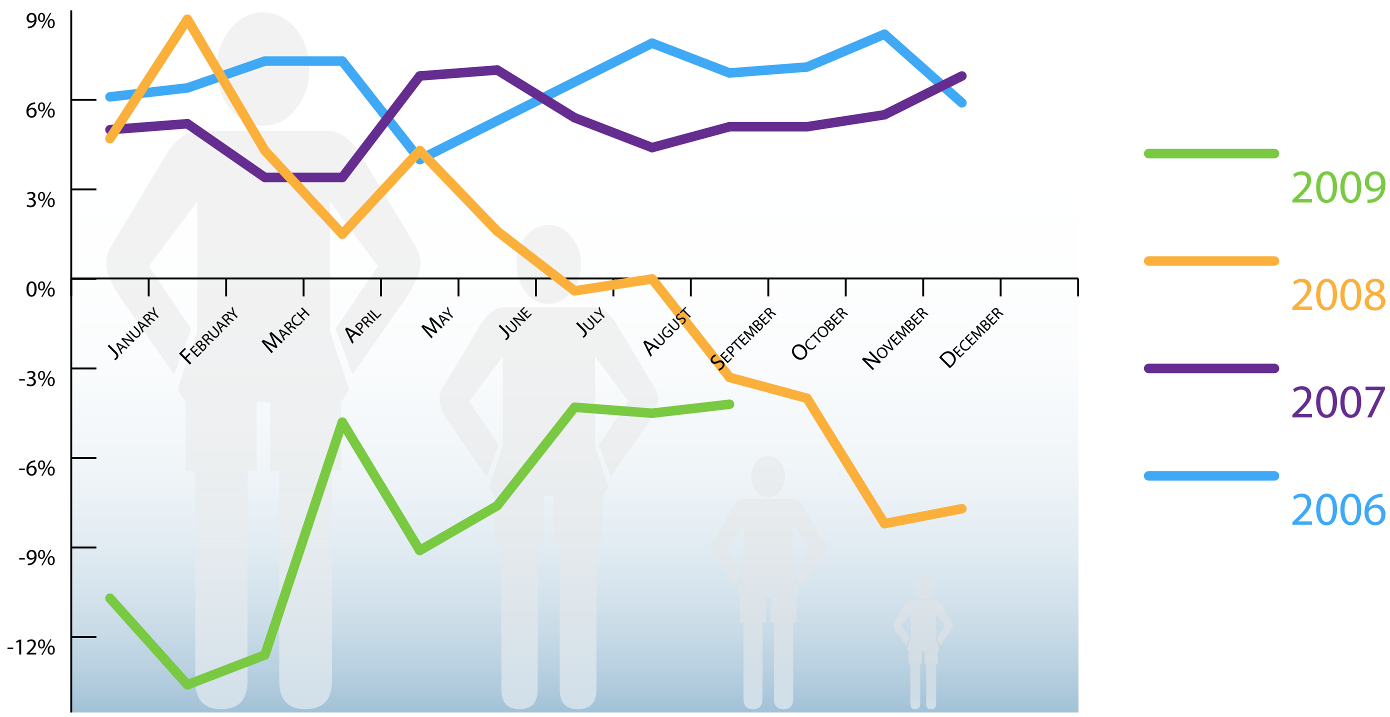
Secondary hubs and large/medium regional airports tended to be more affected, while small regional airports only randomly performed better thanks to growth opportunities offered by low cost airlines. However, in the occasional cases were growth has taken place, this has often been at the expense of other airports, as airlines reposition their aircraft and crews.

Overall, regional airports have been particularly vulnerable, due to their dependence on a limited number of airlines and routes.

- Airports in markets like Spain, Ireland, the United Kingdom and the Baltic States (with the notable exception of Latvia) were particularly hard hit, reflecting the exposure of these national economies to the global crisis.

Contrary to what happened in the first months of the crisis, airports in Eastern and Central Europe are now more affected than those in Western Europe.

COMPARATIVE MONTHLY PASSENGER TRAFFIC EVOLUTION YEARS 2006/2009



TOWARDS A SLOW RECOVERY

Although traffic remained depressed during the peak summer months, there are tangible signals that the traffic downturn is bottoming out and that aviation may be heading towards a recovery.

- While more than 70% of European airports still reported declining passenger traffic in August and September, this is a marked improvement over earlier in the year, indicating that **more airports are returning to growth**. This growth is almost exclusively driven by low cost airlines.

- After staying seven months in a row below the -20% barrier, **freight traffic also showed signs of recovery, posting -11.7% in August and -7.8% in September**. This is an encouraging development given the fact that freight traffic tends to be a barometer for international trade.

● Preliminary figures for October confirm a trend towards **a slow and gradual traffic recovery in the winter, mainly driven by low cost airlines**.

Indeed, capacity increases planned by these airlines for the winter continue to contrast with the on-going capacity reductions/freezes by network airlines. Interestingly, some low cost airlines have grown not only at regional and secondary airports, but also at major airports that are not capacity constrained - like Easyjet at Paris-Charles de Gaulle and Milan-Malpensa airports.

● **ACI EUROPE is now forecasting an overall decrease of -7% for passenger traffic and -15% for freight traffic at European airports in 2009.** This is a slightly upward revision of its previous forecast dated June 2009 (-8% for passenger traffic and – 16% for freight traffic).

Based on this estimate, **European airports will have lost more than 105 million passengers by the end of the year**, compared to 2008.

● A sustained traffic recovery is unlikely before mid-2010. **ACI EUROPE is therefore predicting marginal growth for the first half of 2010 and a more sustained rebound only for the second half.**

WORST EVER TRADING CONDITIONS & SEVERELY IMPACTED FINANCIAL PERFORMANCE

The unprecedented traffic decline experienced since September 2008 coupled with the financial nature of the crisis has severely affected the financial position of European airports. In this regard, European airports are in an unfavourable position compared to their peers in other world regions. This is mainly due to the fact that they are much less dependent on public financing and that they have had to increasingly rely on capital markets.

● Falling passenger numbers have translated into both **falling aeronautical revenues** (charges paid for the use of the infrastructure by airlines and passengers) and **falling commercial revenues** (retail, parking, real estate and property, advertising, car rental concessions, etc).

- **At the top 25 European airports, aeronautical revenues and commercial revenues have decreased by up to -16% and -18% respectively during the first half of 2009.** Even sharper decreases have been experienced at regional airports.

- **Overall, retail sales at European airports decreased by -10% during the same period.** 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.

● **Along with a slide in revenues, external costs have substantially increased.** First and foremost, **capital costs**, as investors and credit rating agencies have held a more prudent view of infrastructure assets as a direct result of the crisis.

Now considered as more exposed to competitive pressures, airports have been reclassified as more volatile assets - with their potential for low cost traffic development being given increased consideration. In recent months, several airports have suffered credit ratings downgrades, while others are facing negative outlooks.

These developments have resulted in the **decreasing availability and higher costs of external financing**. This is a significant challenge given that airports are extremely capital-intensive businesses - capital expenditure typically accounts for 30% to 40% of their total costs and is committed over long periods (by comparison, capital expenditure by airlines accounts for 15% of total costs).

● In addition, security costs stemming from burdensome EU regulations and even more stringent national security measures continue to heavily impact airports' costs. Security alone now accounts for up to 35% of airports' operating costs. On average, 41% of airport staff is now security related. Yet, contrary to other world regions and despite the fact that it is clearly a State responsibility, the financing of aviation security in Europe rests mainly with airports.

● Unsurprisingly, the combination of lower revenues and higher external costs has severely impacted the financial performance of European airports.

EBIT for the top 25 European airports in the first half of 2009 has shrunk by an average of -20% to -30%, with decreases reaching up to -97%.

The situation is worse for regional and smaller airports, with some even facing the prospect of bankruptcy.

STRONG FOCUS ON COST CUTTING

Cutting costs has been a top priority for all European airports over the last 12 months. However, margins for cost reductions are more limited compared to other segments of aviation, like airlines. This is due to the inherent specificities of the airport business, in particular a very high proportion of fixed costs.

Airport facilities need to be kept up and running with guaranteed service levels for airlines and passengers. **Closing part of a runway or part of a terminal is clearly not an option.**

● Yet, airports have taken **bold steps to reduce internal costs**, mainly through:

- 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 salary freezes.

- **Unprecedented staff reductions, reaching up to -30% of the workforce.** Such drastic cuts have been implemented at several airports including **-25% at Amsterdam-Schiphol, -20% at Dublin Airport, -5% at Manchester Airport, -30% at SEA Milan airports and -20% at Glasgow-Prestwick airports.**

  Considering the already low labour intensity of airports and the fact that staffing levels are mostly dictated by regulatory requirements, these measures speak volumes about the far-reaching restructuring efforts undertaken to weather the crisis.

● Beyond internal costs, European airports have also looked at **reducing their planned capital investments.** Hence, since September 2008, **the top 25 European airports have reduced their capital expenditure programme by €2.8 billion**.

However, several factors are also limiting margins of manoeuvre:

- Capital expenditure programmes related to regulatory and maintenance requirements are difficult to postpone, while already committed capital expenditure can usually not be cancelled without heavy financial penalties.

- Cancelling investments in new capacity has a direct impact on the long-term commercial and operational strategy of an airport. This negatively affects surrounding communities and the local/regional economies.

  Long lead times in airport development and the fact that air traffic will double by 2030, mean that airports need to be ready for the rebound.

- Delaying investments in new capacity also involves risks as regards granted planning permissions. Moreover, such delays can also be opposed by airlines based at the airport.

  This was recently the case at Frankfurt airport, where Lufthansa opposed delaying a €700 million investment for a dedicated terminal extension.

Therefore, European airports have confirmed the bulk of their capital investments – standing at €50 billion for 2008-2013.

RESPONSIVE AND RESPONSIBLE TOWARDS AIRLINES

All European airports have reconsidered their charging policies vis-à-vis airlines. In doing so, they have primarily sought to **safeguard their own competitive position**, in close consultation with their airline customers. This is about limiting as much as possible the impact of the crisis on their own route network - both in terms of destinations and frequencies.

Contrary to airlines, airports cannot move to a stronger market location: they can only make their market location stronger.

ACI EUROPE has conducted a survey on the evolution of 2009 charges at nearly 200 European airports, which clearly shows that, wherever possible, airports have been extremely responsive towards airlines:

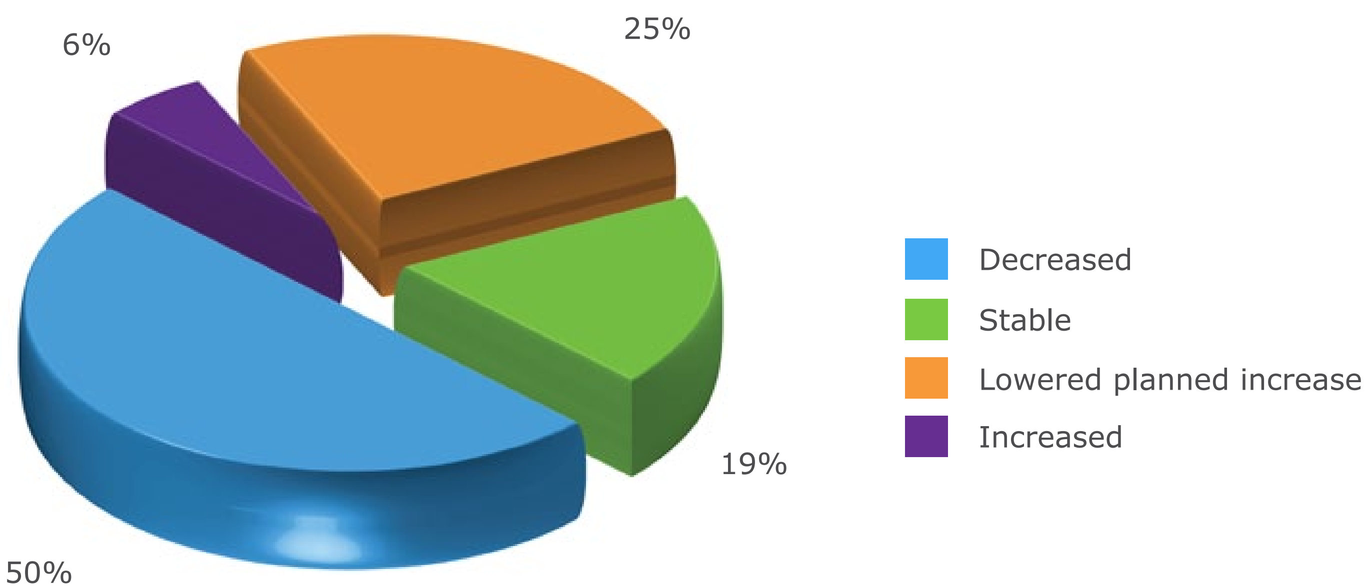
- **94% of airports (180), decreased their charges (95), froze them (36), or reduced initially planned increases (49).**
- Only 6% (12), kept initially planned increases in their charges, but almost systematically below inflation. These airports were simply not in a condition to freeze or reduce their charges due to already competitive charges' levels and significant capital investments programmes.

As some airlines' trade associations continue to ask for a general freeze in airport charges across Europe, they purposely ignore the fact that airports in Europe are no longer mere infrastructure providers used by governments to subsidise their national airlines. European airports are now businesses in their own right, facing increasing competitive pressures and responding to their shareholders.

Furthermore, with charges paid by airlines accounting for only 21% of total airport revenues, it is clear that **airlines still only pay a fraction of the full cost of the infrastructure they use.**

Apart from reconsidering their charging policies, European airports are also reviewing operational processes involving all their partners, including airlines, ground handlers and air navigation service providers. The objective is to **improve the efficiency of ground operations and lower related costs for airlines.**

Responsiveness to the Crisis: Airport Charges



RENEWED CALL FOR CRISIS RELIEF MEASURES

Aviation has been one of the hardest hit sectors in Europe by the global economic and financial crisis. Yet, little has been done to help the European aviation system weather the crisis and secure its long-term viability.

So far, the only aviation-specific measure adopted at **EU level** to address the impact of the crisis was the suspension of the airport slot-usage rule for the winter season (May 2009). This measure exclusively benefited incumbent airlines at highly congested European airports, potentially preventing a more effective and commercial use of airport capacity at a critical time.
Worryingly, a number of new and pending regulatory initiatives are likely to add costs for the sector, further impacting upon its competitiveness.

At **national level**, the Dutch Government was the only one to repeal its tax levied on departing air passengers (July 2009). This positive decision resulted from the damaging impact that the tax had on traffic at Dutch airports. In particular, Amsterdam-Schiphol airport started registering negative traffic figures as a direct result of the introduction of this tax.

While green shots in the European economy and improving business confidence are now giving reasons for cautious optimism, **aviation looks set for a slow recovery and significant structural market changes.** In this context, the fact that consumer confidence remains very low and that the financial crisis is giving way to an employment crisis is of particular concern - given the link between aviation and consumer spending.

In its March 2009 Crisis Relief Strategy, *Empower Europe's Airports to Boost Economic Recovery*, ACI EUROPE called for a number of **key measures to be urgently adopted at EU and national level**. More than 6 months later, these measures remain **legitimate and justified. They are aimed at reinforcing the long-term competitiveness and viability of the entire European aviation system.**

In addressing the impact of the crisis on the aviation sector, ACI EUROPE is therefore calling on the EU institutions and national governments to proactively support the following 3 objectives and implement the related key crisis relief measures.

• DO NOT ADD COSTS FOR THE AVIATION INDUSTRY

- **Reconsider and suspend all pending EU regulatory initiatives adding costs.**
- **Abolish national taxes on aviation.** Following the example of the Netherlands, taxes on departing air passengers in force in the **United Kingdom, Ireland and France** should be repealed.
- **Withdraw existing restrictions to the carriage of liquids, aerosols and gels (LAGs) under conditions that are fully compatible with efficient airport operations, committing appropriate public financing.**
- **Require Member States to finance national aviation security measures** going beyond the common EU baseline.
- **Free Air Navigation Service Providers from the cost-recovery system** imposed by national regulations.

• INCENTIVISE AIR TRAFFIC RECOVERY

- **Extend from 3 to 5 years the authorised duration of start-up aid granted for the opening of new routes from regional airports.**
- Accelerate EU aviation negotiations with all neighbouring countries to ensure the **establishment of a pan-European and Mediterranean Aviation Area by 2010**.
- **Pursue EU aviation negotiations with the US** and **initiate negotiations by 2010 with Brazil, Russia, India and China,** with the objective of full liberalisation of traffic rights and ownership and control restrictions.

• KEEP FOCUSED ON LONG-TERM CHALLENGES

- **Reconsider economic oversight/regulation of airports to ensure that they are financially incentivised to modernise and develop their infrastructure.** Notwithstanding the present crisis, Europe is still expected to face a severe airport capacity crunch by 2030, as passenger traffic will double by this time.

Over the last 15 years, the 450 airports of the European aviation network have acted as engines of economic growth for the communities and regions they serve. As Europe is more than ever looking at structural reform aimed at boosting competitiveness and job creation, the role that airports have the ability to play should not be overlooked, but fully capitalised upon.

European airports just need to be empowered to boost economic recovery.

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