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Airport industry reports improving financials, shifting connectivity, but...

For immediate release

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Athens, 21 June 2016: The European airport industry gathers in Athens today and tomorrow, for the ACI EUROPE Annual Congress & General Assembly, hosted by Athens International Airport (AIA). This year sees the membership of ACI EUROPE celebrate 25 years as the united voice of the airport industry at European level.

As is customary at this event each year, ACI EUROPE addressed the immediate and longer term outlooks for its 500-strong airport membership spanning 45 countries.

AIR TRAFFIC DEVELOPMENTS

For the second consecutive year, 2015 saw a strong growth in air traffic with European airports welcoming in excess of **100 million** additional passengers over 2014. This resulted in more than **1.95 billion** passengers using airport facilities across the continent.

While traffic remains dynamic in 2016, the terrorists attacks in Brussels have taken their toll on passenger demand, with an estimated **2 million passengers** lost as a direct result of these attacks. This means a -0.5% impact on cumulative passenger traffic growth since January – which is thus standing at **+6.4%** instead of +6.9%.

This summer, traffic growth looks set to be focused on intra-European routes, where Low Cost Carriers are adding capacity and increasing market shares. Growth on Intercontinental routes has generally slowed down, on the back of emerging markets' economic woes and security concerns over Europe as a destination. The main exceptions remain routes to the Middle East and North America, with the later seeing traffic stimulated by US airlines adding capacity and Low Cost Carrier penetration.

Olivier Jankovec, Director General of ACI EUROPE said: *"With improving economic conditions in the Eurozone and oil set to remain affordable, there should be momentum for continued growth in air traffic. However, passenger demand has softened as of April - with some markets clearly more exposed than others. Whether this weakness is an outlier or an indication that we might be at the top of a cycle remains to be seen. What is certain is that downturn risks are increasing and that they are mainly of a geopolitical nature - with terrorism, mounting political instability and this week's Brexit referendum topping the list."*

IMPROVING ECONOMIC & FINANCIAL PERFORMANCE

The financial performance of Europe's airports keeps improving, with the industry's average return on invested capital (ROIC) now standing at **+7.2%** - in line with the cost of capital. However, airports in the EU and those in the Eurozone are underperforming (respectively +6.4% and +6.1%), even more so when compared to airports in emerging markets (+12.2%).

Jankovec commented *"The improvement in airports' finances continues to be driven primarily by strong cost discipline, rather than revenue*

growth. Operating costs per passenger have gone down by an impressive -6.7% since 2008, while revenues have increased by just +1.6%. This really tells you one thing – that competitive pressures are keeping airports on their toes.”*

Airports being fixed & capital-intensive assets, investment cycles weigh disproportionately on their finances and often make the difference between being loss or profit making. Size is another decisive factor. Smaller airports are often unable to be profitable on a lasting basis, due to their inability to achieve economies of scale and generate revenues at a level covering their full costs. While 51% of Europe’s airports are loss making, that percentage reaches 77% for those with less than 1 million passengers per annum.

CHANGING PATTERNS OF AIRPORT CONNECTIVITY

The evolving dynamics and structure of the aviation market are leading to changing air connectivity patterns for Europe. The 2016 *Airport Industry Connectivity Report* released today by ACI EUROPE reveals that the continued rise of Low Cost Carriers & point-to-point services and the relative retrenchment of legacy carriers & hub and spoke services has led to an unusually strong growth in direct connectivity (+4.5%) this year.

Conversely, indirect connectivity and hub connectivity have barely increased (+0.4% and +1%). This is unprecedented as direct connectivity growth usually yields even larger indirect and hub connectivity gains. Led by Frankfurt, Amsterdam-Schiphol and Paris-Charles de Gaulle, the major European hub airports** remain global leaders – offering the best and most diversified hub connectivity of the worlds’ hub airports. This reflects their role as vital providers of Global air connectivity for Europe. However, most of the growth in air connectivity in 2016 is happening at smaller hubs and other mid-sized airports. Meanwhile, very large airports° - and especially the major hubs - are experiencing a decrease in both their total air connectivity levels (direct & indirect connectivity) and hub connectivity levels.

TRADITIONAL AIRPORT SEGMENTATION BLURRING

These developments are pointing to a rebalancing in connectivity between the different segments of the airport industry, eroding the distinction between previously very distinct categories of airports. All of which is indicative of increasing airport competition.

Jankovec said *“Whatever their size or location, Europe’ airports increasingly end up chasing the same airlines – especially Low Cost ones and non-European Full Service Carriers, as these are the ones most likely to offer growth opportunities. Combined with aircraft technology redefining route development possibilities, this means that the traditional segmentation of the airport industry is blurring – and that airport competition is increasing in both scope and intensity.”*

Airport competition has already moved upmarket along with Low Cost Carriers and hub competition is on the increase – not just with non-European mega hubs but also within Europe. As shown by the 2016 *Airport Industry Connectivity Report*, some European large and medium-sized airports have been seizing new opportunities, developing into niche & aspiring hubs – with some of them posting significant increases in hub connectivity over the past years. These include Brussels, Dusseldorf, Lisbon, Helsinki, Istanbul-Sabiha Gocken, Keflavik, Dublin and Athens. Jankovec added: *“There is no doubt that hub competition is on the increase, and that there is more to come. Looking ahead, we are seeing potentially more disruption coming not just from Long haul Low cost*

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operations, but also from Low Cost Carriers starting to feed into other airlines or even within their own networks. This could bring massive changes to European aviation. For airports, this would probably provide more network resilience and could be the next frontier in terms of traffic growth. But this would also redefine what being a hub means – opening up new opportunities to airports which until now probably never thought of themselves as a hub. Ultimately, its means we are set to move towards a more hybrid airport market.”

ENDS

This year’s event is attended by over 350 delegates including airport CEOs, representatives of airlines, the European Commission, national governments and others.

* Figures cited are per passenger in real terms, since 2008.

The *ACI EUROPE Airport Industry Connectivity Report 2016* is now available here: <https://www.aci-europe.org/component/downloads/downloads/4685.html>

** The Majors hub airports include: Frankfurt, Amsterdam-Schiphol, Paris-Charles de Gaulle, Istanbul-Ataturk, London-Heathrow and Munich.

° Category 1 airports – with more than 25 million passengers per annum.

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*ACI EUROPE is the European region of Airports Council International (ACI), the only worldwide professional association of airport operators. ACI EUROPE represents close to **500 airports** in 45 European countries. In 2014, our member airports handled over 90% of commercial air traffic in Europe, welcoming more than **1.8 billion passengers, 18.4 million tonnes of freight** and **21.2 million aircraft movements**. These airports contribute to the employment of **12.3 million people**, generating **€675 billion each year (4.1%) of GDP** in Europe.*

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