AIR TRAFFIC PERFORMANCE

- Jan-May 2023 (vs. pre-pandemic – 2019): **-8.4%** for passenger traffic
  **-12.9%** for freight traffic

- The recovery in passenger traffic kept gathering pace this Spring, driven by leisure & VFR (Visit Friends/Relatives) demand which kept defying inflationary pressures and also boosted by significant capacity expansion from Ultra-Low Cost Carriers (LCCs).

  As a result, the month of **May** came closest to a full recovery at **-4.3%** compared to the same month in 2019 – with EU+ airports at -5.2% and non-EU+ airports at +1%.

- However, the recovery is far from uniform with **wide divergences in performance amongst national markets**:
  - Tourism-driven markets are clearly outperforming and had exceeded their pre-pandemic passenger volumes by May – including Iceland (+10.9%), Portugal (+10.6%), Greece (+9.1%) and Turkey (+8.7%). Markets benefiting from a traffic shift from Russia are recording impressive results, such as Uzbekistan (+97.9%) and Armenia (+85.5%).
  - Meanwhile markets most affected by the war in Ukraine or seeing a lower penetration of LCCs and/or weakness of their national carrier are clearly underperforming – including Finland (-31.7%), the Czech Republic (-23.4%) and Germany (-21.4%).

- Looking ahead, ACI EUROPE continues to forecast a **full recovery of pre-pandemic passenger traffic by 2025**.

  This reflects **significant downside risks** including: i) Macro-economic risks & lasting inflationary pressures - already reflected by the performance of freight traffic; ii) Delays in new aircraft deliveries and lack of spare parts impact airline capacity deployment; iii) Labour shortages; iv) Airlines exerting tight capacity management and focusing on yields; v) Geopolitical tensions.

CONNECTIVITY DEVELOPMENTS

- **Total air connectivity**\(^1\) remains **-16%** below pre-pandemic (2019) levels, thus underperforming the recovery in passenger traffic volumes.

  Just like for passenger traffic, this topline figure masks **significant divergences amongst national markets** - from Turkey at +19% to Belarus at -82%.

  It also masks the fact that while **direct connectivity** has almost recovered its pre-pandemic level (-4%), **indirect connectivity** remains well below (-22%).

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\(^1\) The total air connectivity index aggregates both the direct and indirect connectivity indexes.
This points to **structural changes in the European aviation market** - in particular Low-Cost Carriers (LCCs) having increased their direct connectivity by +12% since 2019, whereas Full-Service Carriers (FSCs) have decreased their direct connectivity by -13%.

- The relative retrenchment of FSCs has also led to **hub connectivity** remaining -25% below pre-pandemic – with systemic hub shrinkage and downgrades across the European market.

### FINANCIAL PERFORMANCE & INVESTMENT CRUNCH

- **After more than €50 billion in lost revenues** since 2019, European airports were back in the black last year – posting a **net profit of €6.4 billion**

  This was achieved primarily thanks to significant **cost efficiencies** (despite a challenging inflationary environment), **investments being slashed by -€5.5 billion** and airports seizing the momentum in consumer spending to **maximise the contribution of non-aeronautical revenues** – in particular from food/beverage and retail concessions.

  Yet, the financial situation of Europe’s airports remains challenging and uncertain due to both **structural cost increases** and **structural revenue pressures**:

  - **Debt and liabilities** remain a staggering €47 billion above pre-pandemic (2019) levels.
  - Along with debt servicing, **inflation has been driving external costs to record levels**, impacting both operating costs (up to +78%) and capital costs (+22%).
  - Despite the fact that the price of air travel for consumers has ballooned, charges paid by airlines for the use of airport facilities remain below **cost coverage**. While air fares have increased by +32% compared to pre-pandemic prices, airport charges are just +7% - meaning they have actually decreased in real terms.

  **This threatens the ability of airports to invest in decarbonization, digitalization and capacity where needed.** Looking at 2023 and up to 2025, Europe’s airports have already cut planned investments from €34.6 million to €18.4 million.

### BUSINESS TRANSFORMATION – *Resilience & Future Proofing*

- **Two concurrent determinants are challenging the airport business model:** i) the decarbonization imperative, and ii) the post-pandemic market reality – with relentless yet selective expansion of Ultra-LCCs and the relative retrenchment and consolidation of FSCs.

  These will result in continued competitive pressures in a context of slower traffic growth – meaning the key challenge for Europe’s airports will be **decoupling financial viability and profitability from volume growth**.

  This will require achieving growth in unit revenues and implies increases in user charges.

  Europe’s airports need to move towards a **new value creation model based on 3 pillars:** i) **Sustainability**, ii) **Innovation**, iii) **Diversification** – with the energy transition and their ability to become **energy hubs** at its core.

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2 Preliminary data.