AIRPORTS COUNCIL INTERNATIONAL

Traffic, Connectivity, Financials & Business Transformation

(July 2023)

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%)**.

[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**[2].

  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.

[2] Preliminary data.