02

Market context

This chapter looks at aviation growth in the context of market conditions, airline operations, the demand for travel in different destinations and the travel needs of the Airport's catchment area.

Passenger and aircraft volumes
Passenger numbers have grown strongly by 9.1 million to 13 million in the five years to the end of 2017 – a 43% increase. Over the same period air transport movements (ATMs) have grown from under 88,000 to nearly 119,000 – a 35% increase.

Growth in the number of passengers per aircraft
The higher growth rate for passengers than ATMs is because aircraft are carrying more passengers. In 2007, there were on average 87 passengers per aircraft compared to an average of 113 passengers in 2016. Using proportionately fewer aircraft means that we have been able to make more efficient use of the Airport's runway and stands.

Airline market developments
Aviation continues to grow globally. The Asia-Pacific market is the strongest growth market, driven particularly by increased domestic traffic in China and India. This strength is offset by rising costs in fuel and infrastructure and industrial relations issues with pilots and crew which continue to put pressure on airline profitability.

Growth within the mature European market has been more modest. However, looking ahead, the fleet order books of European airlines indicate consistent and significant growth over the next 15-20 years, particularly in the narrow-bodied aircraft market. The low-cost sector has dominated growth in the last 20 years and this trend looks set to continue, with Ryanair and EasyJet setting out ambitious growth plans in the next 2-3 years. Scheduled carriers, such as Lufthansa (Eurowings), Air France (Joon) and Iberia (Iberia Express), are also introducing their own low-cost services to meet this demand.

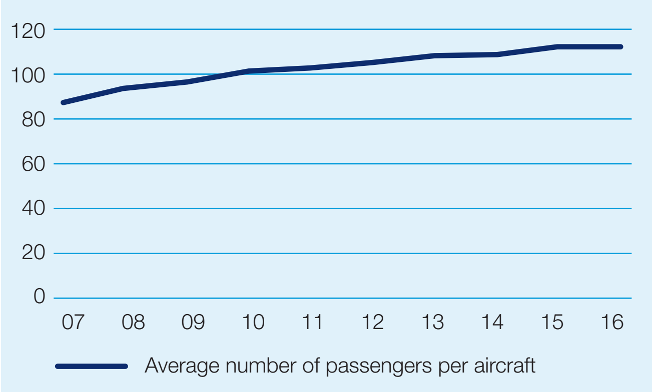
Disruption is also creating new options in the traditional long-haul market, with the Airbus A320 NEO and Boeing 737 MAX aircraft families opening up viable point to point long-haul routes which would previously have been served by wide-bodied aircraft through hub airports. At the same time, the latest generation of wide-bodied aircraft, such as the Boeing 787 Dreamliner and Airbus A350 are replacing the Boeing 777 and 747 and making more point to point long-haul routes economic.

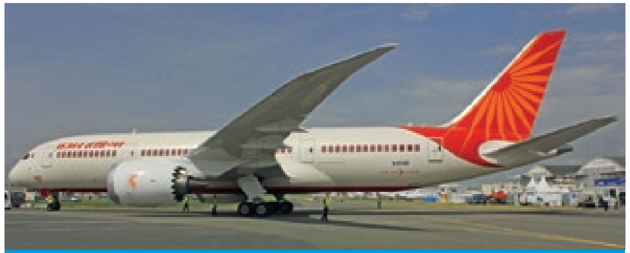
With the market evolving to create even more choice of routes for passengers and stimulating ever increasing demand for air travel, Birmingham Airport will continue to expand our wide range of scheduled and charter services to long-haul, short-haul and domestic destinations, with quality full-service and low-cost airlines. This will include a greater proportion of low-cost services and the introduction of low-cost long-haul routes.

Passenger and aircraft volumes

Calendar year	Passengers (million)	Air Transport Movements
2013	9.1	87,674
2014	9.7	95,667
2015	10.2	97,037
2016	11.6	110,693
2017	13.0	118,500

Average number of passengers per aircraft

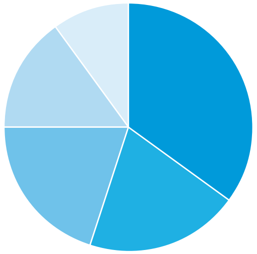




Air India
Links Birmingham with Delhi and Amritsar

Airline	Passenger (millions)	% of Passengers
Ryanair	2.15	17.5%
FlyBe	2.10	17.1%
Tui Airways	1.40	11.4%
Jet2	1.34	10.9%
Thomas Cook Airlines	0.78	6.3%
Emirates	0.71	5.8%
Lufthansa	0.52	4.3%
KLM	0.42	3.4%
EasyJet	0.35	2.9%
Aer Lingus	0.27	2.2%

Breakdown of services



Low-Cost	35%
Full-service Scheduled	20%
Domestic/Regional	20%
Charter	15%
Long-haul	10%

Our top 10 airlines

The Airport has a diverse portfolio of around 50 airlines with no one sector being dominant. Our airline customer base allows flexibility for growth in our network. Long-haul makes up 10%, Charter 15%, Domestic/Regional 20%, Full-service Scheduled 20% and Low-Cost 35%.

We have global connections via the three leading airline alliances, Star, Oneworld and SkyTeam, as well as with Emirates and Qatar.

Our top 10 airlines by passenger volume in the calendar year to September 2018 are listed in the table on the left.

Meeting the travel needs of the passenger

Our catchment area has a unique set of requirements which we strive to meet. Nearly a third of residents in the West Midlands Combined Authority are of minority ethnic origin, bringing a rich cultural mix to the region[5]. This unique diversity is reflected in demand for air travel with 82% of passengers travelling for leisure purposes to popular holiday destinations or visiting friends & relatives (VFR), with a particularly strong connection to the Indian subcontinent. As part of our strategy to continually improve our offer for our local catchment area, in February 2018 we launched the UK's first direct route to Amritsar in the North of the Punjab region of India.

The Airport also has the highest proportion of business demand of any UK airport other than Heathrow and London City, with 18% of our passengers travelling for work. This is a hugely important market for us and is served by our frequent scheduled flights between Birmingham and the key European business centres.

Looking over the next 15 years, the rapidly growing professional sector in Birmingham is predicted to lead to an increased demand for business travel and with the youngest average population age of any core city in the UK[6], Birmingham's demand for low cost city breaks and leisure destinations continues to grow. The Airport also aims to support inbound tourism, highlighting the attractions of the region including Stratford upon Avon, Warwick and Coventry City of Culture 2021.

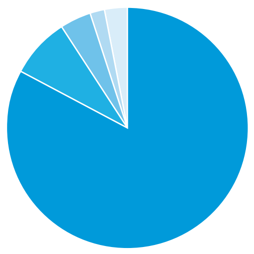
Scheduled and long-haul carriers make up 30% of our business and are key to providing global connectivity for our region. Birmingham currently serves over 490 destinations either direct or on a one-stop basis through hubs in Europe and the Middle East. The increase in hub traffic to India, China and South East Asia over the last three years underpins our aspiration to develop new connections to cities such as Mumbai and Hong Kong. Connectivity to North America is also important, through hubs such as Dublin, Madrid, Amsterdam and Paris, or potentially direct from Birmingham with an existing scheduled carrier or one of the emerging low-cost long-haul operators.

Over the next 15 years, we will continue to broaden our route network with unserved hub markets in Europe, such as Riga, Helsinki and Lisbon. The transatlantic market, so long considered to be mature, is now evolving with new low-cost long-haul carriers. Birmingham Airport's strategy clearly prioritises the development of such services to meet demand from across our region, offering new affordable and convenient routes to passengers who currently are forced to travel longer distances to fly from other airports.

[5] Office for National Statistics report published in March 2017
[6] 2016 Mid-year population estimates, Birmingham City Council

Destination	Business	Leisure	Total
Europe	19%	81%	83%
Asia	6%	94%	8%
Middle East	20%	80%	2%
North America	18%	82%	3%
Rest of the World	6%	94%	4%

Breakdown of destinations



Europe	83%
Asia	8%
Rest of the World	4%
Middle East	2%
North America	3%

Connectivity

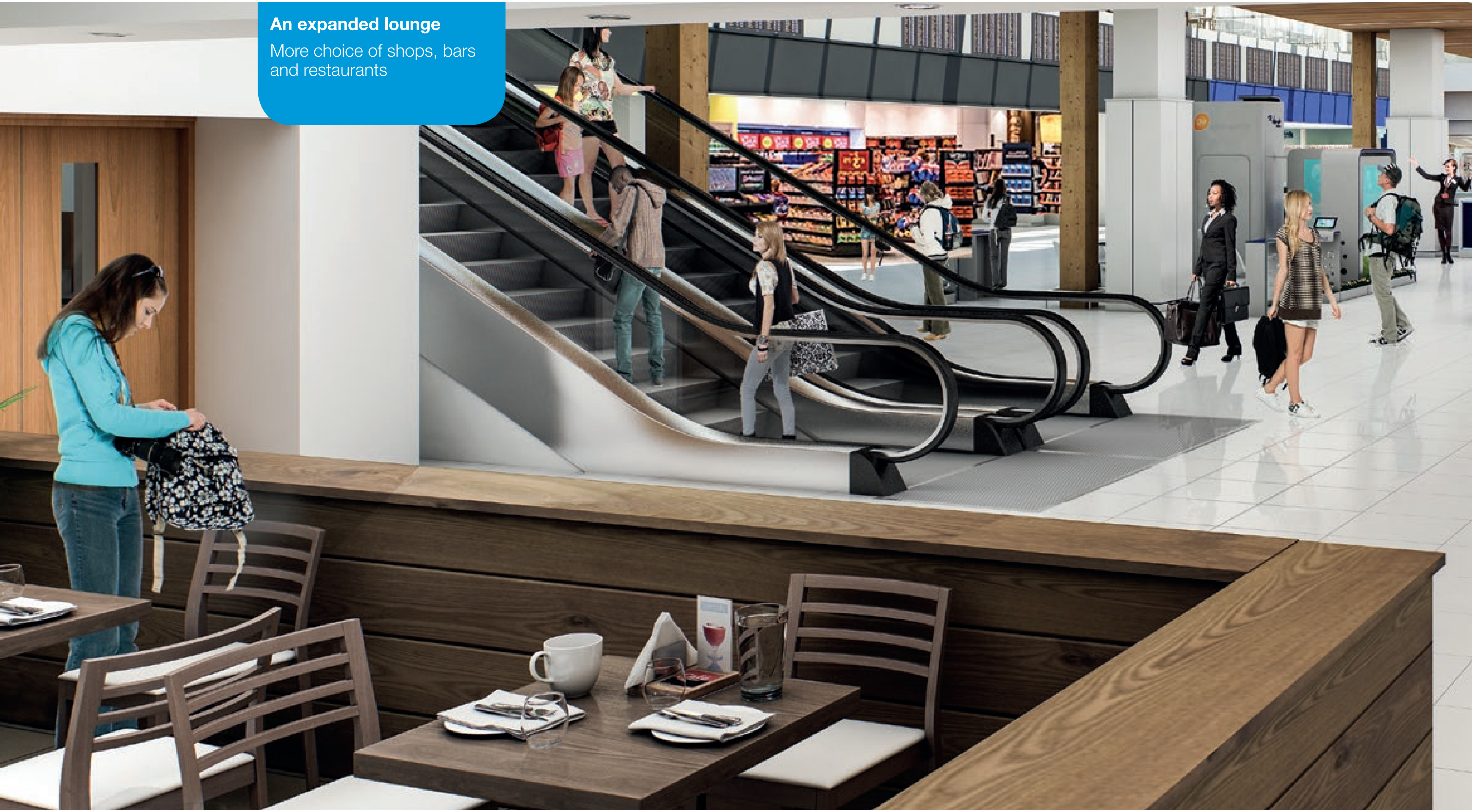
Birmingham Airport offers direct connectivity across Europe, to two points in the Middle East and to India, Pakistan and Turkmenistan. Currently, Europe makes up 83% of the traffic, 8% is to Asia, 2% to the Middle East, 3% to North America and 4% to the Rest of the World. The key markets are Dubai, India, Spain, Ireland, Germany, France as well as destinations within the UK. The table on the left sets out the destinations of both business and leisure travellers broken down into regions of the world.

We track which routes are most commonly flown by Midlands residents from other UK airports either because they are not served from Birmingham, or not with enough frequency. These form a significant part of the Airport's aviation strategy in the short to medium-term as we work with airlines to increase our route portfolio.

Our traffic base is well diversified in terms of both market segments and airlines, including the capacity to serve aircraft of sizes up to the A380. This provides an attractive and wide range of long-term growth opportunities and supports a resilient traffic performance through the economic cycle. Our operational efficiency and capability is reflected in being named the 'World's Most Punctual Airport' in 2016.

Cultural diversity
This region has a proud and richly diverse cultural identity

Qatar Airways
Provides connectivity to the Middle East hub in Doha



An expanded lounge

More choice of shops, bars and restaurants

"In the years ahead, we will be working with Birmingham Airport to develop trade links with Commonwealth countries as we look to expand prosperity for the city and the region.

Paul Faulkner
CEO, Greater Birmingham Chambers of Commerce