

Opening Statement to the Oireachtas Committee on Transport, Tourism and Sport

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I thank the Chairman and the members of the Committee for inviting me to attend today's meeting.

It has been a privilege to serve as Chairman of Shannon Group plc since its establishment on September 5th, 2014.

I am pleased that the Minister for Transport, Tourism and Sport, Deputy Ross, has asked me to attend here today in respect of my reappointment to the role as Chairman.

I am very focussed on the importance of Shannon Group to life in, and the economy of, the Mid-West and West of Ireland and to the Irish economy generally. It has been a great pleasure for me to work with Minister Ross and his predecessors, his Department and the Shannon Group Board in defining the strategic direction for Shannon Group in alignment with national policy objectives and in ensuring that our strategy is implemented successfully.

I look forward to continuing to work to ensure that Shannon Group delivers successfully as a key catalyst for growth and connectivity in Ireland, particularly for the Mid-West and West.

Personal Background

Before talking about Shannon Group, it may be helpful to outline briefly my own background and experience. I am from County Clare. I grew up New Quay, in north Clare, in the heart of the Burren on the Wild Atlantic Way.

I attended secondary school in Lisdoonvarna. After the Leaving Certificate, I studied law in University College Dublin and qualified as a solicitor in 1979. Since then, I have worked with the European Commission in the Directorate General for Financial Institutions and Taxation in Brussels, in general practice with a law firm in Galway and, in 1988, I joined Guinness Peat Aviation Group plc, GPA, in Shannon where I worked in various senior management roles, including Chief Legal Officer and Head of the Commercial Department. The GPA diaspora has played a significant role in establishing Ireland as a world leader in aircraft leasing and financing.

My background is in the aviation industry and I have extensive experience in aircraft leasing and financing in particular. In addition, over the years, I have gained comprehensive board and corporate governance experience with Irish and international companies in various sectors. My other current principal non-executive board directorships include Total Produce

plc, Eir and I am Chairman of Origin Enterprises plc. I was formerly a non-executive board director of a number of companies including: Fyffes plc from 2003-2006, Bank of Ireland from 2007- 2012, Concern from early to mid- 2002's and I was Chairman of Bord Gáis/Ervia from 2009-2015. I live in Limerick City.

Shannon Group Establishment

I would now like to turn to the establishment of Shannon Group plc. The State Airports Act 2004 put in place the legal mechanism for the separation of Shannon Airport from the Dublin Airport Authority (DAA). In May 2012, the Government made the decision to separate Shannon Airport from the DAA and merge it with a restructured Shannon Development. I was initially appointed Chairman of Shannon Airport Authority plc in 2013 pending the establishment of Shannon Group plc in 2014. Following the enactment of the State Airports (Shannon Group) Act, 2014, Shannon Group plc, a new commercial semi-state company with a clear strategic and commercial mandate, was established on the 5th September 2014.

Then and Now

Then

It is opportune at this time to reflect on the challenges faced by Shannon Group at its formation, both in terms of market dynamics and the status and condition of its assets.

- By 2012, there was an increasing concentration of airline/passenger traffic into Dublin Airport. Between 2006 and 2012, Shannon Airport's market share declined from circa 12 per cent to just over 5 per cent whilst at the same time Dublin Airport saw its market share increase from circa 73 per cent to 80 per cent. In that time period, Shannon lost two thirds of its passengers and passenger throughput was down at 1.39 million in 2012.
- In 2012, Shannon Airport's infrastructure required significant upgrade to rectify historic under-investment in both the terminal building and the airfield. A significant portion of the runway needed resurfacing. Likewise, significant investment was required throughout the terminal building to improve the passenger experience and to meet safety and security standards including upgrades to departure gates, transit lounges and essential equipment like fire tenders.
- The Group's property company inherited a portfolio in need of significant regeneration due to a history of material underinvestment. In 2014, only 43 per cent of the property portfolio was occupied, due to the poor condition of the buildings. Significantly, 20 per cent of properties in the Shannon Free Zone were identified as needing upgrade, while an additional 21 per cent were deemed not fit for purpose and required demolition.

- Likewise, the Shannon Heritage portfolio required significant investment. Key strategic regional sites such as Bunratty Castle and Folk Park and King John's Castle needed to revitalise their tourism offering to boost visitors to the region.
- The importance of aviation to the Mid-West region has been well recognised regionally given that Shannon was home to several aviation related companies. However, no formal mechanism existed to promote and grow the sector both for Ireland and the region.

Now

Since 2014, Shannon Group has been on a transformative journey not only for the organisation but also for the region. I am pleased to say that we have made real progress. Over the last five years, Shannon Group improved its profitability and sustainability, grew passenger and visitor numbers, and developed enticing property solutions for Foreign Direct Investment (FDI) and indigenous companies.

- In the six years since separation from daa, Shannon Airport passenger numbers have increased by 34 per cent to 1.86 million by the end of 2018. This has been achieved against the backdrop of a very competitive aviation environment and reverses five years of consecutive passenger decline prior to 2013. The growth in connectivity provided by the Airport is a key enabler for investment, with ESRI research finding that access to airports is particularly important for high-tech FDI and knowledge intensive firms. Currently circa 40 per cent of FDI companies are within the airport's catchment indicating that Shannon Airport has a fundamental role in delivering the Ireland 2040 ambition of effective economic and regional development.
- Over that same period since separation, more than €40 million has been invested at the Airport out of our own resources to transform the consumer offering and to meet safety and security standards. Critically among these projects was the €15 million runway resurfacing. The project has safeguarded Shannon's most fundamental asset for the next 20 years but also a critical asset for all in the aviation world, given that Shannon is the main European [ETOPS] approved diversionary airport for North Atlantic medical and technical emergencies. The latest project underway is the construction of a new aircraft hangar, the first to be built in Ireland in 20 years and due for completion later this year. International Aerospace Coatings (IAC) has contracted to lease this facility once completed and plan to create up to 100 direct jobs.
- A key priority for the Group since its inception has been the regeneration of our property in the Shannon Free Zone. Since 2015, €41 million has been invested which has resulted in the delivery of over 650,000 sq. ft of new or upgraded office,

manufacturing and warehouse facilities, many of which meet the highest property [LEED Gold and NZEB] standards. This investment by Shannon Commercial Properties has reaped dividends with occupancy rates now of over 90 per cent in its properties in the Shannon Free Zone. We have succeeded in attracting key anchor tenants such as Jaguar Land Rover, who have established a software engineering centre of excellence for their worldwide operation to develop next generation electric and autonomous cars. They currently employ 250 people, and lease two buildings from the Group. Shannon Free Zone is home to over 170 companies employing over 8,000 people and is one of the region's core industrial assets. The international connectivity provided by the Airport is one of the key factors in the successful growth of the Shannon Free Zone.

- At **Shannon Heritage**, the company has succeeded in almost doubling the number of attendees across our visitor sites to over 926,000. We invested €5 million in upgrades to Bunratty Castle and Folk Park and are planning a further major investment at the site. We have also expanded the portfolio of visitor attractions managed by Shannon Heritage so that it now also includes four attractions in Dublin; GPO Witness History, Malahide Castle & Gardens, and the latest additions, Newbridge House & Farm and the Casino Model Railway Museum at Malahide. Shannon Heritage is Ireland's leading commercial operator of tourism attractions. In total, the company manages eight visitor attractions and four evening entertainment options located in the Mid-West and in Dublin.
- Recognising the importance of encouraging and supporting industry clusters to promote job creation and economic growth, the Group established the International Aviation Services Centre (IASC) as a brand to promote and expand the existing aviation cluster at Shannon. Since IASC was formed the aviation cluster has grown from 40 companies to 83 companies. Today some 3,000 employees are working in aviation-related companies in the region. The successful work carried out by IASC has also been recognised internationally with its appointment as the first Irish member of the elite European Aerospace Cluster Partnership (EACP). This recognition elevates the international status of the Shannon cluster and provides an opportunity for firms within the cluster to cooperate on a European level.
- Building on the spirit of innovation synonymous with Shannon, the Group has actively encouraged and embraced innovation. The Group launched the Gateway Hub in the Shannon Free Zone to provide dedicated co-working space in the Shannon Free Zone for start-up companies. We also worked with stakeholders to establish 'Propeller Shannon' - an aviation/aerospace start-up accelerator programme to drive the development of aviation start-ups and provide an opportunity for companies to tap into the Mid-West's unique aerospace ecosystem.

Financial

- Since the establishment of Shannon Group, we have prudently managed our finances. Over our first four full years of operation (2015-2018) Shannon Group has grown turnover from over €65 million to over €77 million, an increase of 19 per cent. Over the same period, Group earnings before interest, tax, depreciation and amortisation (EBITDA) grew from €6.8 million to €12.7 million, an increase of 85 per cent.
- Since the formation of Shannon Group we have invested a total €80 million in capital projects. Addressing the historic underinvestment in the terminal and air field has seen Shannon Airport spend circa €34 million in the four years to 2018. The regeneration of the Shannon Commercial Properties portfolio saw approximately €41 million invested in property solutions, whilst Shannon Heritage has invested close on €5 million across in its heritage sites. By the end of this year, we will have invested in excess of €100 million across the Group out of our own resources.

The success achieved to date reflects the ability of the Group to unlock the material synergies from the combination of the international connectivity provided by Shannon Airport, along with the tourism and industrial property portfolios of Shannon Heritage and Shannon Commercial Properties.

Shannon Group is a major economic asset in and driver of the Irish economy particularly in the Mid-West and West. A 2016 external study undertaken by W2 Consulting found that the Group's activities support over 46,500 jobs annually, generate an economic impact of €3.6 billion per year, and contribute €1.1 billion to the Exchequer. The Group is a key enabler for tourism, FDI and our exporting indigenous industry.

Future Plans

Recognising the profound impact of Shannon Group, it is clear that it is uniquely placed to act as a catalyst for further economic growth through its mix of business activities. The Group's new Strategic Plan (2019-2023) positions us for further growth over the next five years which will bring substantial benefits to the local, regional and national economy, and has recently been approved by the Department.

Our plans are aligned with the Government's Ireland 2040 plan to ensure that Ireland grows in a more balanced and sustainable manner and which will allow the regions to achieve their potential.

Ireland 2040 specifically recognises that *'the effectiveness of our airports will be vital to our survival, competitiveness and future prospects'* and notes the need to *'leverage further international connectivity to drive future growth'*. A key priority for the Group will be

maintaining and growing existing airline services and attracting new routes. We have a dedicated route development team working very closely with our airline partners.

Through our geographically diverse heritage product portfolio and through the connectivity provided by the Airport, the Group has an opportunity to support Fáilte Ireland in developing the objectives of driving regionality and seasonality in the tourism sector. The Group's ambition to develop must-see attractions and expand and develop new air services will assist in creating clear and compelling reasons for tourists to visit different parts of the country.

The Group's property strategy is focused on the continued development of a diverse property portfolio to provide appropriate, innovative and competitive property solutions that will deliver a property ecosystem that is conducive to employment growth and support the continued development of the aviation cluster for Ireland.

Each of our Shannon Group businesses are projected to experience further growth however, we are also mindful of the challenges that we face.

Challenges

Connectivity & Growth of Passenger Numbers

2019 has been a challenging year for the Airport and the region due to the unexpected grounding of the Boeing 737 MAX Jet aircraft, which accounted for the loss of 13 weekly flights equating to 120,000 seats this year from Shannon to North America. Due to the high level of services Shannon had secured with Norwegian and Air Canada, both of whom use MAX Jet aircraft, the airport is and will be disproportionately affected. We are working hard to replace these flights.

We are focused on addressing these challenges. This is a top priority for the Board and airport management. We have accelerated, intensified and refocused our efforts to grow connectivity, with a focus on routes of strategic importance for business and tourism in the Mid-West and West of Ireland. We are continuing to work with and support our existing airline partners to identify route development opportunities, and we are actively engaging with a range of airlines to deliver new routes and grow traffic at Shannon. We are working in even closer partnership with all relevant State agencies to help to provide enhanced connectivity.

Tourism Ireland provides vital co-operative marketing supports to airlines to help establish new routes. However, the lack of a strong focus and appropriate funding for regional access is hampering the development of critical routes for tourism, FDI and Ireland's indigenous exporting sector.

Trends in the growth in air traffic clearly highlight the need for a more targeted regional focus. While passenger numbers have increased in all airports in the period from 2012-2018, the majority of this growth has gone into Dublin which has accounted for 95 per cent of all new growth in air traffic, while their market share is now 85.7 percent. These trends pose serious concerns for general economic growth in the regions and highlight the need for targeted action to promote air access into the regions.

An improved mechanism to support airlines establishing new routes into the regions outside of Dublin is urgently required. Increased funding for Tourism Ireland's Regional Co-operative Marketing Support Scheme to support airlines in developing new routes in the region is vital.

Brexit

The ongoing uncertainty surrounding Brexit poses a significant challenge to the Irish economy. Currently European hub connectivity for the region is provided via Shannon to London Heathrow. Regardless of the form that Brexit ultimately takes, the lack of direct EU hub connectivity for the region is a significant concern. Connectivity from Shannon to an EU hub will be essential to maintain the region's competitiveness for inward investment and tourism and will be vital to support business access to new markets in Europe to mitigate against the fallout from Brexit.

Whilst the reaffirmation of the Common Travel Area provides comfort that in the short-term there should be no immediate impact on connectivity between Ireland and the UK, there is still a risk that in the event of a hard Brexit, a slowdown in economic activity could result in reduced traffic between the two countries.

The most recent Central Bank economic forecasts indicate that in the event of a disorderly Brexit, economic output will be 6 per cent lower after a ten-year period compared to a no-Brexit scenario. The regions outside of Dublin will be particularly exposed in the event of a hard Brexit with recent research by IBEC indicating that the Mid-West region has the highest proportion of its employment in Brexit exposed sectors such as the agri-food, aviation and tourism sector.

CEO Appointment

Our Group CEO, Matthew Thomas, left Shannon Group in June to take up a position in the UK and I would like to acknowledge his contribution to the Group during his tenure. On his departure, Mary Considine, Deputy CEO, assumed the role of Acting CEO for the Group.

It is a key task for the Board to ensure the Group has the necessary leadership at CEO level to lead it on to the next chapter of its development. The recruitment process for a CEO is under way and the timely and successful conclusion of this search is one of my immediate priorities.

Board, Management, Shareholder & Stakeholders

Finally, I would like to highlight the work of my colleagues on the Shannon Group board who have worked so well with me over the past five years to formulate a pragmatic but ambitious strategy for the Group which is aligned with national priorities and customer expectations. However, none of the success seen to date would be possible without a dedicated staff. We are fortunate to have talented people at Shannon Group and I would like to thank them for their hard work and commitment. It is thanks to them that since 2014, the Group has won over 50 regional, national and international awards. We have a policy of proactive collaboration with our stakeholders and I would also like to thank them for their continuing support.

In Summary

It is a privilege to be part of the next phase in Shannon Group's journey and work with the Board, CEO, the management team and the staff of the Shannon Group to continue to drive growth across the Group and to continue to fulfil the role of Chairman of the company for that period.

I would like to thank the Minister for Transport, Tourism and Sport, Shane Ross TD and his officials for their commitment and their on-going support for all aspects of our business.

I would again like to thank the Chairman and the members of the Committee for the invitation to appear before you today.

I am happy to answer questions you may have.

Ends