

## Aéroports de Paris welcomes the agreement with the government on the draft 2016-2020 Economic Regulation Agreement

Aéroports de Paris and the French State have reached an agreement on a new Economic Regulation Agreement (ERA) covering the 2016-2020 period. On 29 July 2015, the Board of Directors of Aéroports de Paris authorised its Chairman and CEO to sign the ERA with the French State in the coming days.

The balance achieved **confirms the industrial strategy of Aéroports de Paris** in the service of Paris and the broader aviation sector. In view of the crisis affecting the sector in Europe, the transformation of its leading players, the accentuation of competitive pressure from rival airports and the emergence of new consumption patterns, Aéroports de Paris must unceasingly improve the competitiveness of its airports.

To face these new challenges, the new agreement for 2016-2020, based on an unchanged regulated scope<sup>1</sup>, has the following main characteristics:

- an assumption of **average traffic growth of 2.5% per annum**;
- an **investment programme of €3.0 billion on the regulated scope<sup>1</sup>**, with an emphasis on the optimisation, maintenance and upgrading of facilities, in addition to operational robustness;
- a **strong commitment** in terms of service quality, with the introduction of seven “quality standard” indicators subject to penalties, three “excellence” indicators, notably for connecting passengers, combined with financial incentives in the form of bonuses and penalties, and five monitoring indicators with no financial impact;
- a **moderation in tariffs increases** to an average of 1.0% per annum plus inflation, including a tariff increase limited to CPI in 2016,
- a **new tariff structure** designed first to improve the price competitiveness of intercontinental and connecting traffic and to facilitate airline load factors by reducing the weight of passenger fees and revising landing fees, second to exempt overnight parking so as to encourage the basing of aircraft in Paris, and lastly to make the fee schedule more comprehensible by unifying the financing of the treatment of connecting baggage;
- the implementation of **incentives** in growing markets and for efficient airlines; with the aim of fostering the development of connecting traffic and boosting airlines’ operational performance;
- the establishment of a new adjustment factor based on the **volume of the operating expenses** (excluding amortisation and taxes) of the regulated scope.

Together, these elements should result in a fair return on the capital employed on the regulated scope by 2020, with the alignment of the return on capital employed of the regulated scope with the Group’s weighted average cost of capital, estimated at 5.4%.

Augustin de Romanet, Chairman and CEO of Aéroports de Paris, said:

*“The agreement reached by Aéroports de Paris and the government on the 2016-2020 ERA is the result of a long period of collaboration between players in the aviation industry and our stakeholders, during which all Aéroports de Paris employees were mobilised. In a constantly shifting environment, Aéroports de Paris must actively address the major challenges of competitiveness, attractiveness and growth.*

*2016-2020 ERA gives visibility over 5 years to an investment programme of €3 billion for the regulated scope, an unreached level up to now. The emphasis will be brought on the maintenance of infrastructure, the optimization of terminals and the efficiency of the hub, through the conquest of our customers, passengers and airlines. Tariffs will increase by only inflation in 2016. They will increase over the 2016-2020 period at an annual average rate of 1% above price index, i.e. a lower amount than in the two previous ERA, despite investments up by 70%. This agreement is very good news for territories, that will generate many job creations and an increased attractiveness for Paris and the Ile-de-France area.”*

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<sup>1</sup> The regulated scope is defined by Article 1 of the Decree of 16 September 2005 on fees for services provided at airports, as amended on 1 January 2011 by the decree of 17 December 2009.

## Introduction

Despite its many assets, a robust business model and significant growth potential, Aéroports de Paris is faced with heightened competition in air transport, leaving it confronting a major challenge in terms of competitiveness.

In that context, Aéroports de Paris released on 19 January 2015 its public consultation document containing a set of measures based on a search for improved competitiveness built on a new pricing structure, strong financial discipline and a proactive search for traffic to meet these new challenges. Following the publication of these proposals, stakeholders were able to submit their observations to government services. The opinion of the Airport Consultative Committee on the proposal, requested by the government on 23 April 2015, was published in the Official Journal dated 27 June 2015.

The agreement approved by the Board of Directors of Aéroports de Paris confirms the proposed industrial strategy, notably for long-haul and connecting traffic. For the 2016-2020 period, Aéroports de Paris has sought to make this agreement an instrument for the development of air traffic and local economic development:

- by focusing on the optimisation of existing facilities;
  - by positioning itself as a company out to conquer traffic;
  - by improving its competitiveness in terms of costs and prices;
  - by creating value for the benefit of its customers, partners, shareholders and employees, based on a stabilised regulatory framework.
1. **An optimised investment programme of €3.0 billion for the regulated scope, emphasising the optimisation, notably for the Paris-Charles de Gaulle hub, maintenance and upgrading of facilities, in addition to operational robustness**

The regulated scope investment plan aimed at achieving this goal will be significantly greater, rising from €2.0 billion over the 2011-2015 period to €3.0 billion over the 2016-2020 period. This increase is justified notably by priorities relating to:

- **the optimisation of facilities** to improve operational performance, productivity and service quality, with the amalgamation of terminals: South and West terminals at Paris-Orly, and terminals 2B and 2D and the terminal 1 international satellites at Paris-Charles de Gaulle;
- **a major effort on maintenance and upgrading of certain facilities** to ensure safety and operational robustness, with major renovations to Paris-Orly, the renovation of terminal 2B and the start of the renovation of terminal 2D at Paris-Charles de Gaulle, and the repair and upgrading of several runways at both airports;
- and the **competitiveness of the Paris-Charles de Gaulle connecting hub**, accompanying airlines in their quest to improve operational efficiency, through in particular the building of a baggage sorting system of Halls L and M of terminal 2E of Paris-Charles de Gaulle.

The respect of this investment plan will be sanctioned by tariffs penalties, both on the timing of highly important investments and the effective use of investment budgets earmarked for recurring expenditure, service quality and sustainable development.

## 2. The gain of traffic, particularly international and connecting traffic, notably through the revision of the pricing policy and greater service quality

The ERA is based on the **assumption of average growth in passenger traffic of 2.5%** per year over the 2016-2020 period. This assumption reflects the moderate economic growth outlook of the eurozone and the prospects for growth in destination areas, which are brighter than those of the eurozone, particular as regards long-haul routes. It is accompanied by an asymmetric price adjustment clause to offset, if necessary, any differences noted in traffic.

In this context, the **development of international and connecting traffic** is central to Aéroports de Paris's industrial strategy. The existence of a hub is vital to attract and expand international traffic, which is profitable for airlines and airports alike. The existence of a hub is a critical success factor for a world-class metropolis, as well as being a major source of employment and economic growth. But while the connecting market is growing, French airports are losing market share in the face of fierce competition, not only from new international hubs but also from competing European hubs.

To meet this challenge, Aéroports de Paris aims to leverage all means to develop traffic during the 2016-2020 period, including:

- a **new tariff structure** designed first to improve the price competitiveness of intercontinental and connecting traffic and to facilitate airline load factors by reducing the weight of passenger fees and revising landing fees, second to exempt overnight parking so as to encourage the basing of aircraft in Paris, and lastly to make the fee schedule more comprehensible by unifying the financing of the treatment of connecting baggage;
- the **implementation of incentives** in growing markets and for efficient airlines. Aéroports de Paris has included in particular in this agreement an incentive in favour of connecting traffic and an incentive for more intensive use of infrastructure, rewarding the rapid rotation of aircraft. Aéroports de Paris has proposed that the costs related to these measures aimed at promoting the growth of traffic will not be included in the calculation of the return on capital employed of the regulated scope;
- the **development of an increasingly differentiated passenger experience** based on better service quality.

All those measures complete favourably the exemption of civil aviation tax on connecting passengers adopted by the Parliament, that was supported by Aéroports de Paris.

## 3. Enhanced competitiveness through an unprecedented effort to control recurring expenses, in the service of price moderation

While promising its customers robust and top-ranking service, Aéroports de Paris has proposed the implementation during the 2016-2020 period of measures needed to ensure its competitiveness in terms of costs and prices.

The financial discipline to which the company has voluntarily submitted is the guarantee of the efforts it intends to make in the service of the overall competitiveness of its airports. This discipline is also a key factor for its independence and to protect its value-creating business model for its shareholders. In addition to a policy of a strict limitation of general pay increases and the assumption of the non-replacement of one departing employee out of every two, Aéroports de Paris has set an additional structural savings target to ensure that the company plays its full part in the effort to obtain a fair return on capital employed. Together, these efforts represent a target reduction of 8%<sup>1</sup> in expenses per passenger between 2015 and 2020.

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<sup>1</sup> In constant euros

Aéroports de Paris's proactive and ambitious proposal in terms of cutting operating expenses should also help contain price increases over the 2016-2020 period. Aéroports de Paris has proposed the adoption, for the prices covered by the next ERA (effective 1 April 2016), of a **price moderation policy within the investment programme**. This moderation will result in an average annual increase in fees of **1.00% above inflation over the 2016-2020 period**, including a tariff increase limited to inflation in 2016, compared with 2.2% above inflation in the last two years of the 2011-2015 ERA.

2016	2017	2018	2019	2020	CAGR <sup>1</sup> 2016-2020
CPI <sup>2</sup> + 0.00%	CPI + 1.25%	CPI + 1.25%	CPI + 1.25%	CPI + 1.25%	CPI + 1.00%

Given the importance of controlling recurring expenses on the regulated scope in the balance of the agreement, and to mark Aéroports de Paris's commitment, penalties may apply once the ceiling on expense volumes set by the objective is breached. A new price adjustment factor based on control of the volume of the operating expenses of the regulated scope, indexed against traffic and inflation, has been included in the agreement.

#### 4. The objective of aligning the return on capital employed of the regulated scope with the Group's WACC<sup>3</sup> by 2020 on the basis of a stable regulatory framework

Without changing the definition of the regulated scope, Aéroports de Paris will adjust, as from 2016, following the review of cost accounting keys performed by the Airport Consultative Committee (Cocoaéro)<sup>4</sup>, methods of asset allocation and expenses on shared terminal surfaces and roads and access.

The terms of the ERA imply the achievement in 2020 of a return on capital employed of the regulated scope equal to the Group's weighted average cost of capital, putting into practice the legislative principle of fair return on capital.

Ultimately, and thanks to the balance between the efforts required of each stakeholder, the agreement will combine the achievement of an ambitious investment plan, a **return on capital employed of the regulated scope equal to the Group's weighted average cost of capital (5.4%) in 2020** and price moderation for the benefit of airlines.

<sup>1</sup> Compound Annual Growth Rate

<sup>2</sup> Consumer Price Index

<sup>3</sup> Weighted average cost of capital

<sup>4</sup> Notice Official Journal of October 24, 2014

*Next publications:*

- Next results publication:
  - **Wednesday 29 July 2015:** 2015 half year results
- Next traffic publication:
  - **Thursday 13 August 2015:** July 2015 traffic

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Aéroports de Paris builds, equips and operates airports, which include Paris-Charles de Gaulle, Paris-Orly and Paris-Le Bourget. In 2014, Aéroports de Paris accommodated over 93 million passengers at Paris-Charles de Gaulle and Paris-Orly, 2.2 million tonnes of cargo and mail, and more than 41 million passengers through airports managed abroad.

Boasting an exceptional high-traffic geographical location, the Group pursues a strategy aimed at developing its passenger capacities and improving its quality of service. Moreover, it intends to develop its retail offering and its real estate. In 2014, the Group's revenue amounted to €2,791 million and its net income was €402 million.

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**Appendix**  
**Comparison of the main elements of 2016-2020 ERA**  
**compared to Public Consultation Document published on 19 January 2015**

	Aéroports de Paris public consultation document <sup>1</sup>	2016-2020 ERA
<b>Traffic</b>	+2.5% CAGR <sub>2016-2020</sub>	
<b>Tariffs</b>	CPI + 1.75% CAGR <sub>2016-2020</sub>	CPI + 1.0% CAGR <sub>2016-2020</sub>
<b>Incentive measures</b>	3 incentive measures : O/D Pax :€ 5M/year Connecting Pax. : €5M/year Rapid turnaround: €5M/year	
<b>Tariff structure</b>	Rebalancing profiles of the 3 main fees (passenger, landing and parking) in favor of long haul traffic and airlines performance	
<b>Quality of service</b>	7 standard quality indicators sanctioned by a price penalty 3 excellence indicators sanctioned by a bonus/penalty	
<b>Traffic adjustment factor</b>	Buffer zone between two paths +2%/year et +3%/year. Dissymmetric adjustment +0.2%/-0.5%	
<b>OPEX adjustment factor</b>	Factor based on the regulated scope's cost/revenue ratio, with a penalty applied to the pricing period of the year 2020 if the ratio calculated in 2018 exceeds 60%	Factor based on a volume of operating expenses Penalty imposed in 2020 if the volume in 2018 is higher than a predicted change based on traffic and inflation
<b>CAPEX adjustment factor</b>	INV1 : Incentive for ADP to meet a schedule for carrying up out development projects	Milestones adjusted for the determination of INV1 penalties Additional adjustment (factor INV2), which may apply on the 2020 pricing period. It aims at taking into account a possible reduction of expenses
<b>Regulated CAPEX</b>	€3.1bn between 2016 and 2020	€3.0bn between 2016 and 2020
<b>WACC</b>	5.8%	5.4%

<sup>1</sup> Available on [www.aeroportsdeparis.fr](http://www.aeroportsdeparis.fr)