

Economic Regulation Framework of Aéroports de Paris : current status and prospects

1st February 2010

Current economic regulation framework

The economic regulation framework has been clarified and modernized

Prior to the IPO (2006), a formal regulation scheme was put in place

- ERA: innovation introduced in 2005 by Art. L.224-2 of the French civil aviation code
- Long-term agreement (CRE) offering visibility and stability necessary for airport activity and investments : 5-Year contract
- Fee rate changes are linked to the completion of an agreed investment program and to quality of service commitments
- Fees pricing takes into account a fair return on invested capital
- Possibility of pre-financing schemes, but not used on the first ERA

Price cap mechanism put incentives to foster economic performance

The price cap takes into account :

- A fair return on capital employed given the massive 2006-2010 investment program (+25mPax terminal capacity added)
- An expected improvement of the economic performance of AdP

In return AdP is allowed to retain the excess profit generated beyond the economic trajectory anticipated in ERA

- But symmetrically underperformance entirely borne by the company
- ADP is incentivized to keep its costs under control and to develop its economic performance

Legal framework and main provisions

A regulatory framework giving visibility and incentive to performance

- A long-term regulatory approach (at most 5 years) improving economic visibility and investment conditions
- A price cap principle encouraging improved performance
- Possibility of providing for adjustments to the regulated scope

4 major economically-interlinked goals

Investment policy

- Associated with incentives aimed at meeting opening deadlines

Service quality

- With quantified objectives and financial incentives

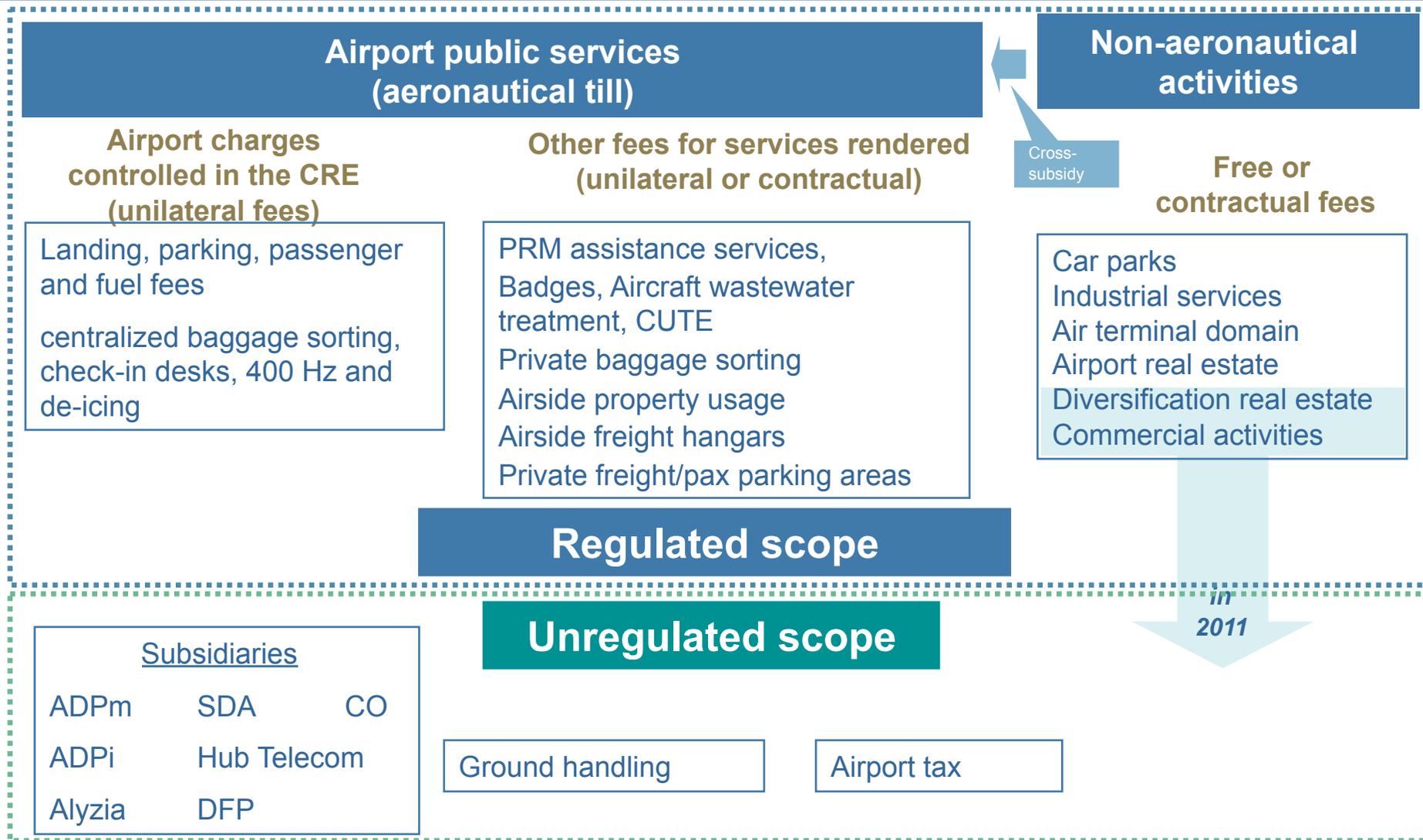
Average change in airport fees

- Price cap established on the criterion of fair return on capital employed in regulated activities

Changes to the regulated scope

- Reduction of non-aeronautical activities contribution in the regulated scope in 2011

ERA I (2006-2010) : single till
ERA II 2011-2015 : adjusted till



ERA I : Two categories of fees and two distinct price caps

“Principal Fees”

- Landing Fee
- Parking Fee
- Passenger Fee

Category 1 “Rate basket”

Annual price cap:

$$PP(n) = CPI + 3.25\% + \text{adjustments}$$

“Ancillary Fees”

- Check-in and boarding counter Fee
- Shared baggage sorting system Fee*
- CDG Centralized de-icing Fee**
- Electric power supply Fee

Category 2 “Rate basket”

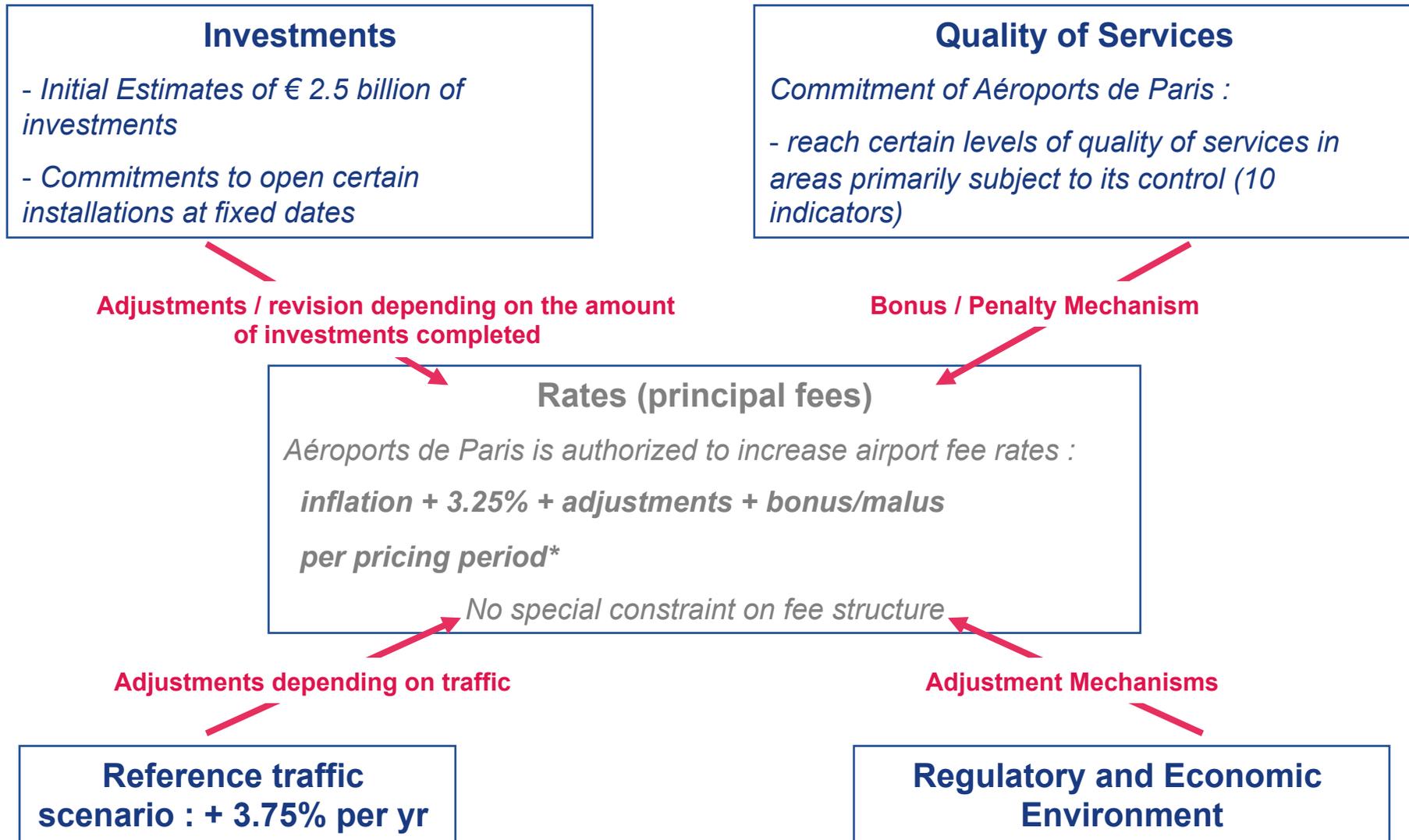
Annual price cap:

$$PA(n) = CPI + 3.25\%$$

* The pricing of which is not provided for by an agreement

** in CDG only

How the first ERA works



*From April 1 to March 31, except for 2006-2007 (from May 15 to March 31)

An incentive to raise quality of service level through a bonus / penalty scheme

The ERA I sets the maximum and minimum level for each indicator each year and above / below which the bonus / penalty is capped

- Availability of aircraft parking stands
- Availability of air bridges
- Availability of electro-mechanical equipments
- Availability of luggage carousels
- Availability of flight information systems
- Satisfaction of passengers on cleanliness in terminals
- Satisfaction of passengers on direction signs and information on flights
- Satisfaction of passengers on availability of luggage trolleys
- Timely response to complaints
- Realization of the number of aircraft parking stands in contact with terminals

For each indicator:

Maximum bonus / penalty = 0.05%

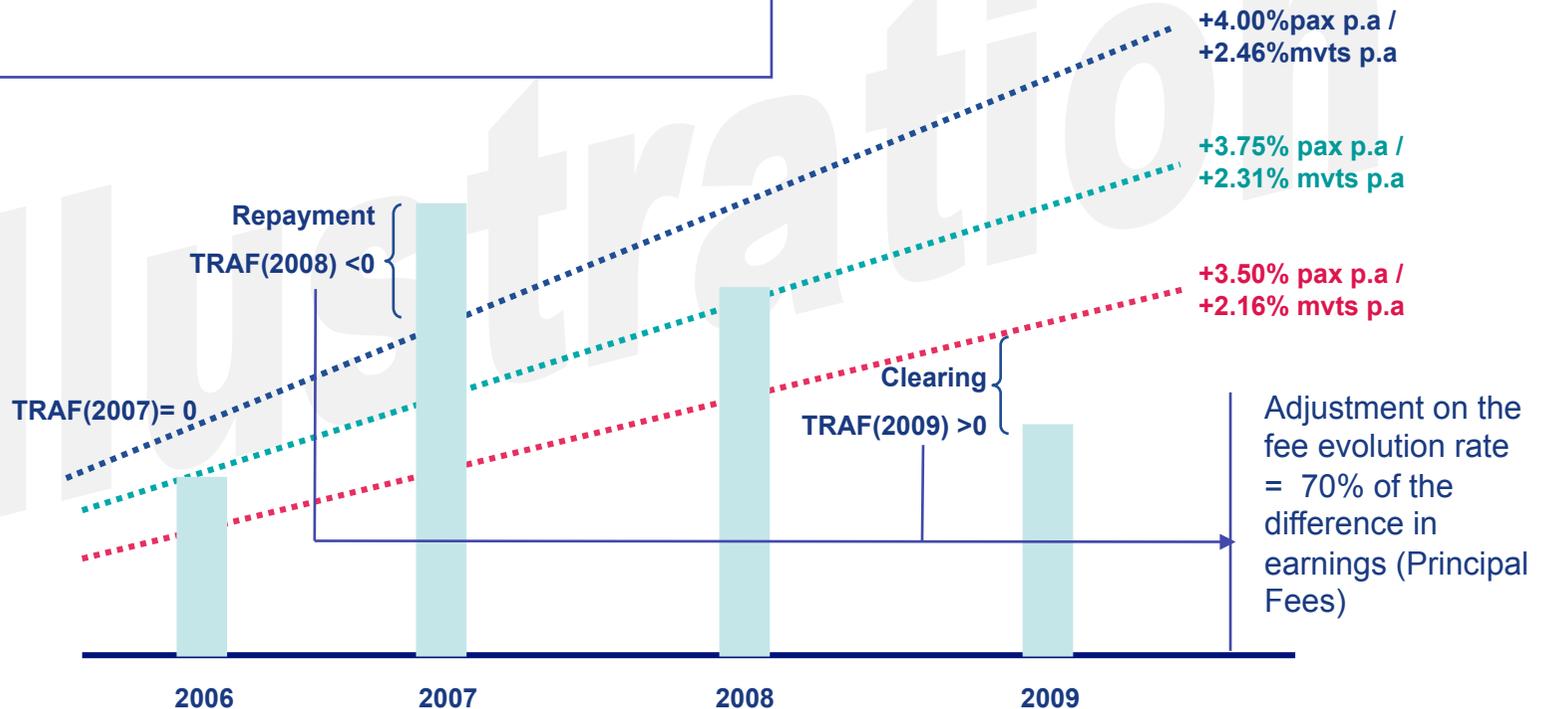
Maximum bonus / penalty = 0.5%

ERA I : Traffic risk sharing mechanism

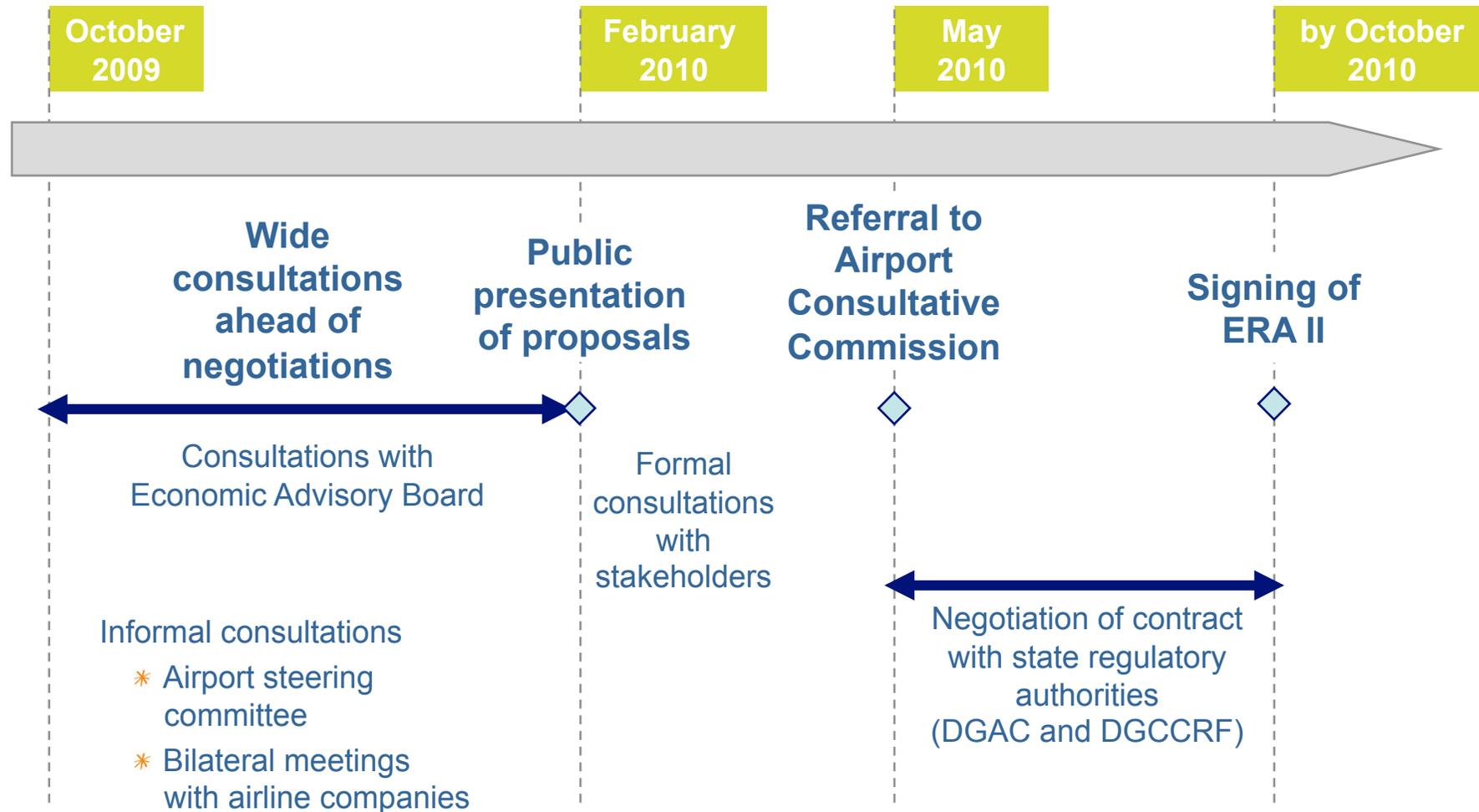
“TRAF” Adjustment factor

No correction if the traffic evolution remains within a agreed cumulative traffic range

- Composite traffic indicator based on a weight of passenger / ATM (60% / 40%)
- “Franchise” range corresponding to an annual growth in traffic of +3.50% / +4.00% and in ATMs of +2.16% / 2.46%



General timeline and process for negotiating 2011-2015 Economic Regulation Agreement (ERA II)



Fundamentals of the regulation 2011-2015: Improved competitiveness and fair value sharing

1. **Firm commitment toward improving service quality and customer satisfaction, with ambitious objectives**
 - Maintaining the delivery schedule for Satellite S4, despite the traffic slowdown, in order to use it as major leverage in service quality
 - Renovation and capacity optimisation policy
 - Improving operational performance by implementing best practices and developing the service offering
2. **Productivity gains and cost control**
3. **Increase fee competitiveness by reduced fee increases, notably in relation to those planned at other major European airports**
7. **Ability to step up the investment programme if required**

In return: a fair share between ADP and its customers of the value created through the company's efforts encouraging performance both in aviation and outside aviation

⇒ adjusting the regulated perimeter
by removing commercial activities in addition to those of diversification real estate

- An opportunity for Aéroports de Paris to:
 - increase its **financial strength** and its **investment capacity**
 - position itself in a virtuous circle providing a **strong incentive to favour the development of traffic and commercial business activities**
- An opportunity for the airline companies serving Paris to :
 - benefit from a **competitive fee policy**
 - increase their **operational efficiency on the ground**

Adjusted Till : A virtuous regulation system

- **A greater incentive for the competitiveness** of the group benefitting its customers :
 - a fair share between Aéroports de Paris and air carriers of the value created through the company's efforts and growth in the business: efforts undertaken with regard to retail activities and traffic growth would bring value to ADP, unlike the single-till system
 - helping to establish a direct and strong incentive for Aéroports de Paris in the value created from growth in the business to boost its competitiveness and attractiveness with regard to its customers in order to promote conditions in favour of traffic growth
 - a significant motivational factor for the company and its employees to continue dynamically with efforts undertaken with regard to retail activities, thus promoting customer satisfaction

- **A genuine lever for the development of the business, investment and employment:**
 - investments to develop and improve the terminals combined with reasonable profitability in aviation and the prospect of creating value across the retail business increasing Aéroports de Paris' incentive to invest and thereby promoting business growth
 - for this reason, switching over to a dual-till approach as recommended by the working group chaired by Claude Martinand in 2002*
 - a major issue for employment: retail and catering businesses represent nearly 7,000 jobs at CDG and ORY, quasi-proportionate to the volume of activity

- **A price signal on fees that has a more direct link to infrastructure and services costs and their development, promoting economically sound and responsible behaviour :**
 - for this reason, adjusting the regulated scope as recommended by the Cour des Comptes in 2008

* Working group bringing together a panel of economists and the relevant state departments