

Aéroports de Paris

A proposal to promote the competitiveness of the air transport sector to the benefit of passengers, local areas and employment

The principal measures in the 2016-2020 Economic Regulation Agreement proposal



Augustin de Romanet

Chairman and CEO of Aéroports de Paris



The air transport industry is one of the principal drivers of international growth and one of the French economy's greatest assets. It contributes in a decisive way to the country's attractiveness and competitiveness. Everything must therefore be done to strengthen this industry, which is facing competition and new passenger demands, and to transform its growth into new business and new jobs for the Paris region. Aéroports de Paris will play its full part in this endeavour.

The industry is growing and creating new jobs, but the changes underway are intensifying competition among airlines, and among major cities and their airports to capture global growth.

Airports can no longer be considered as protected players.

Against this background, the 2016-2020 Economic Regulation Agreement that we put forward here takes on a new dimension: that of a tool to win market share and create value for the entire industry. We have drawn on all of the levers we have at our disposal to ensure the consistency, effectiveness and fairness of this proposal. The investment programme has been carefully tailored to the requirements in terms of capacity, safety and quality. The pricing structure project has undergone in-depth changes and will foster the development of international and connecting traffic. The productivity effort Aéroports de Paris is ready to deploy is unprecedented.

These concrete proposals reflect our trust in our business model and in its capacity to attract traffic, create value, generate and spread growth with amongst others, the neighbouring areas, and to continually adapt to changes in our environment.



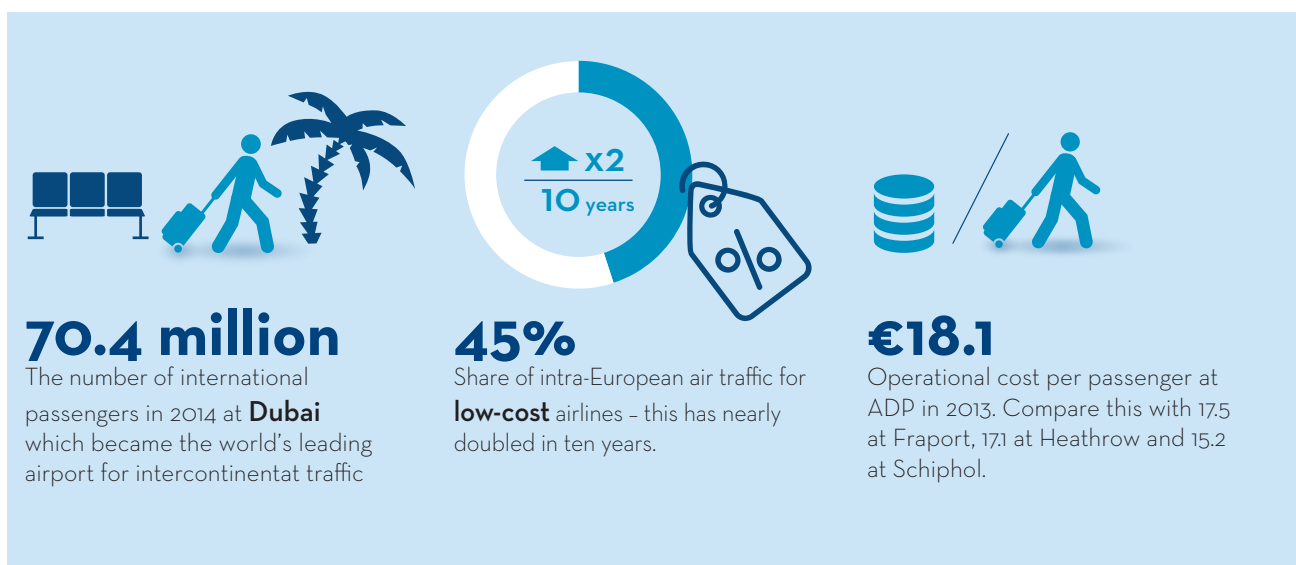
Competing airports and a changing industry

Air transport, the foundation of the Group's business, is confronted with transformations which have impacts on the traditional model of European airports and airlines. While global air traffic continues to increase, it is shifting from western countries towards Asia and the emerging countries. For example, while today, on average, one tourist in 14 in the world is Chinese, this ratio will increase to 1 in 5 by 2030

In addition, **traditional airlines are facing increasing competition** from low-cost airlines in their short- and medium-haul market, and, more recently, from the Gulf airlines in the intercontinental market to Asia and Africa.

This two-fold competition from low-cost airlines and new entrants from outside Europe increases the competitive pressure on traditional European airlines and transport hubs, increasing their fragility. Today, the competitive strength of airlines is becoming more dependent on what the airport has to offer; the most important being the airport's capacity to support airlines as they grow, to help them control their operational costs, the robustness of its operations, the level of airport fees, and hospitality and quality of service.

In this context, Aéroports de Paris has a dual challenge: to stay competitive and attractive. This is particularly challenging because of its fragmented infrastructure, some ageing buildings, higher running costs compared to some similar airports, airport fees that are generally competitive but held back by a structure that is ill-adapted to intercontinental traffic, connecting traffic and hampers airline performance.



Why regulate airport activities through an Economic Regulation Agreement (ERA)? What is the objective?

A regulatory framework to balance the relationship between airports and airlines

Historically, suppliers of public services in France have held a dominant position on their local markets and often enforced pricing policies that did not satisfy customers. In order to further the public interest and ensure fair competition, it was decided to regulate their activities; i.e. for the airports, to establish rules governing their investments and their dealings with their airline customers.

Since 2006, aeronautical activities, the core business of Aéroports de Paris, have been regulated through a multi-year contract, known as the Economic Regulation Agreement (ERA), that had been finalised between Aéroports de Paris and the French government, after extensive consultation with airlines and other interested parties.

	Regulated perimeter	Non-regulated perimeter
Aeronautical activities	<ul style="list-style-type: none"> • Airport fees (passenger, landing, and parking) • Ancillary fees ⁽¹⁾ (check-in, baggage, de-icing, etc.) 	<ul style="list-style-type: none"> • Revenue from airport security and safety
Non-aeronautical activities	<ul style="list-style-type: none"> • Car parks • Industrial services • Airport terminal rental • Airport real-estate 	<ul style="list-style-type: none"> • Retail • Real-estate diversification • Subsidiaries and shareholdings

(1) Except for the assistance fee for persons with reduced mobility (PRM).

This economic regulation framework provides the visibility and the stability needed to ensure the fair funding of aeronautical activities and encourages improved performance in the Group's different activities through an "adjusted till system". This adjusted till system has the merit of balancing out the responsibilities between the airport and airlines:

- the airport is encouraged to control costs for regulated activities, and, consequently, to improve its operational efficiency and become more competitive to the benefit of airlines; notably by self-financing part of the investments, thanks to the productivity of the airport operator;
- for the airlines, the increases in tariffs are directly justified by the investments that are necessary for them and that are made by the airport so as to allow them to control their operational costs and to support the growth of air traffic.

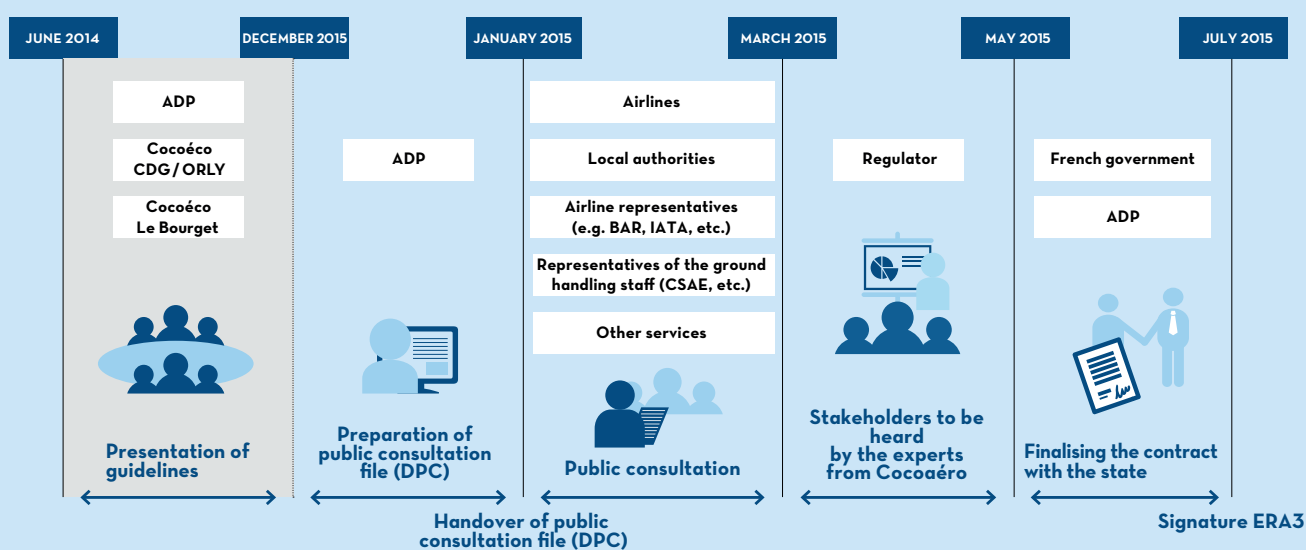
The ERA is signed for a five-year period, and aims to:

- mark the company's commitment to investments in regulated activities: a detailed investment programme (developing capacity, rehabilitation/maintenance, road access, etc.);
- define the quality of service objectives set for the company;
- cap airport fees (landings, passengers, parking, etc.): this price cap is defined in relation to a budgetary path linked to traffic growth, investment choices, the airport's operational costs and capital costs.

A key opportunity to engage in discussions with the entire airport community

Preparation of the ERA covering the 2016-2020 period is a key opportunity for Aéroports de Paris to engage in discussions with the French government, the airlines and other stakeholders. The consultation process and discussions, which began in the autumn of 2014, should lead to an agreement being signed in July 2015 (see calendar below).

Indicative calendar of negotiations for 2016-2020 Economic Regulation Agreement



In the 2016-2020 ERA, Aéroports de Paris has established four main priorities:

- to continue to improve the performance of its airports **by optimising its existing facilities;**
- to position itself as **a company out to conquer traffic by making Paris a destination of preference;**
- to improve **its competitiveness in terms of costs and prices;**
- to create **value for its customers, partners, shareholders and employees.**

Revision of the pricing policy to attract airlines and passengers

In the 2016-2020 ERA attracting customers is clearly a top priority in association with a revision of the pricing policy to encourage and support airlines in providing a passenger experience founded on outstanding service quality.

Airport fees are paid by the airlines. On average, they account for less than 5% of a traditional airline's operational costs. The airline includes these costs in its fares, in accordance with changes in other costs (fuel prices, staff costs, etc.), competition and profit objectives. On a given route, the airport fees are divided up between the airports at each end.

■ An airport fees pricing policy that favours the airlines

Faced with growing competitive pressure from airports in Europe and the Gulf, Aéroports de Paris must continuously improve its price competitiveness.

While the level of airport fees is competitive overall (compared to similar European airports) thanks to an ongoing price control policy, the current structure favours short- and medium-haul flights and puts long-haul flights and connecting flights departing from Paris at a disadvantage. Consequently, airport fees per passenger on a wide-body intercontinental flight leaving Paris are 68% more expensive than on a medium-haul Schengen flight. However, this difference is 28% in Frankfurt, 19% in Amsterdam and only 10% in London.

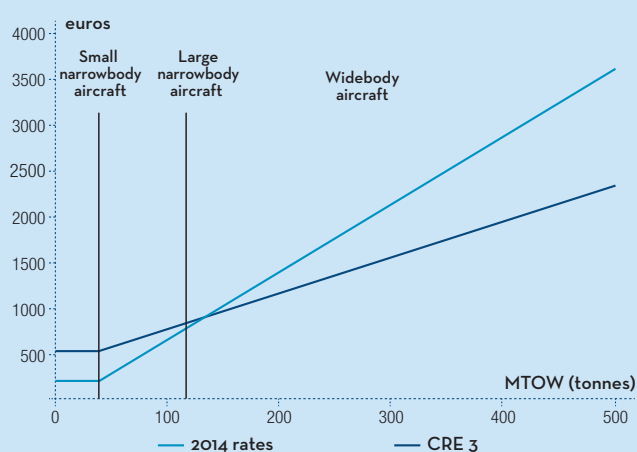
Aéroports de Paris proposes to substantially revise its pricing policy to foster the development of long-haul and connecting flight traffic, to reward companies that use its facilities more by way of incentive measures, and to provide greater clarity for airlines. The Group will target its three main fees (passenger, landing and parking) and proposes to lower fees for passengers across the board (on Schengen and international routes alike) and even exonerate aircraft based in Paris from overnight parking fees.

zoom

A PRO-ACTIVE SEARCH FOR TRAFFIC

By restructuring prices and combining lower passenger fees with changes to the landing fee curve, Aéroports de Paris will promote airline performance by maximising their payload and increasing the attractiveness of Paris for international traffic. As a result, widebody aircraft will see a fall in their fees over ERA3, compared to ERA2, while the operational performance of large narrowbody aircraft will be rewarded through a deduction for faster turnarounds.

Restructuring of landing fees



■ A passenger experience founded on service excellence

An airport should not just be a place to pass through, but also a vibrant “place to be”. Aéroports de Paris wants to offer passengers a unique experience and make the time spent at the airport as enjoyable as possible.

In order to achieve this, the Group is putting an emphasis on continuous improvements to facilities (clear directions, making connections easier, new baggage facilities, improving road access, etc.) and most importantly, offering a wide range of outstanding services with **priority given to customer service and connecting flights**.

Aéroports de Paris wants to be as highly recognised for the quality of its amenities and customer service as it is for its engineering, airport management and shops. There are plans to deploy, especially for foreign tourists, **new disembarkation bridges that provide travel information in the passenger’s language about the continuing journey, interactive orientation and information systems, and solutions to make the passenger route more fluid**, while also continuing to renovate the oldest boarding lounges and bring them up to meet the highest international standards. Another new feature will be **a centre for long connections at Paris-Charles de Gaulle, which is to open in 2016** and which will include hotel and restaurant services, relaxation areas and a variety of original, free services in the international zone.

■ Setting the example with its financial discipline and productivity gains

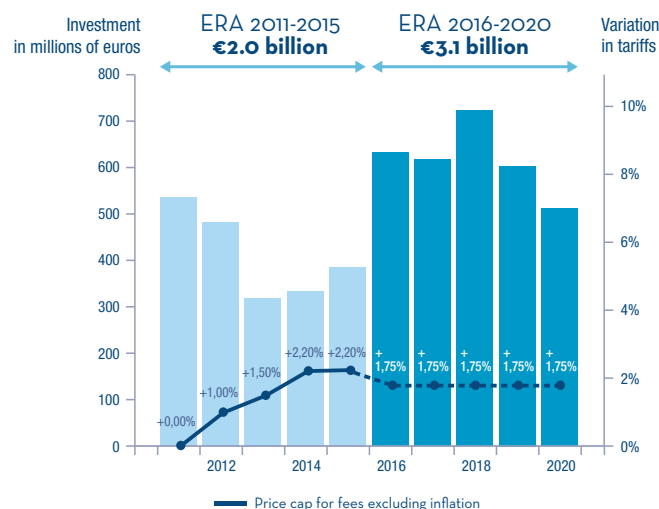
For Aéroports de Paris, cost control in regulated activities, but also non-regulated activities, is a guarantee of competitiveness and profitability. For the airlines, it is a determining factor for moderate pricing.

Aéroports de Paris wants to set an example by reducing the effort required of airlines to keep prices down. The Group is ready to begin an unprecedented productivity drive while maintaining its rigorous financial policy. Rising operational charges will be capped in the regulated perimeter to an annual average of 2.5% (including inflation). **Aéroports de Paris’ drive for productivity will allow it to keep tariffs down, and will ultimately exceed the effort demanded by the airlines.**

Thanks to its financial discipline, the Group will be able to keep airport fees down with a price cap of CPI⁽¹⁾ +1.75%, which is lower than the last two years of the 2011-2015 ERA (CPI + 2.2%).

Concurrently, investments in regulated activities will be over €1.1 billion and **traffic in 2016-2020 is forecast to grow +2.5% on average per year.**

(1) Consumer prices index



+1.75%

On average per year

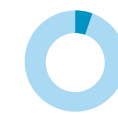
The price cap (excluding inflation) proposed in the 2016-2020 ERA. Compare this with +2.2% in the last two years of 2011-2015 ERA.



40%

Percentage that airport fees represent in ADP turnover.

The three main airport fees are passenger, landing and parking fees.



Less than 5%

Average proportion of airport fees in the profit and loss statement of a traditional airline.



+2.5 %,

Hypothetical annual growth in traffic for the 2016-2020 period.

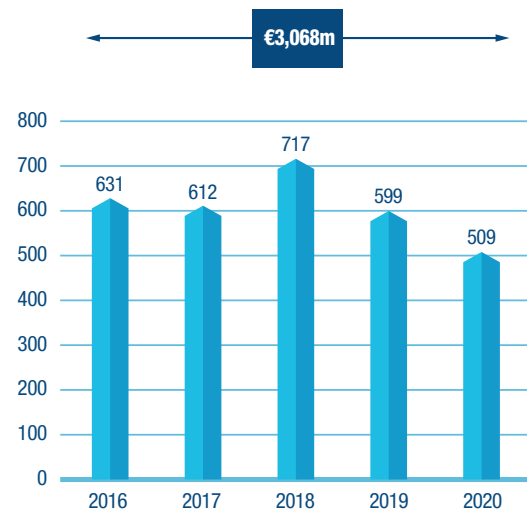
An ambitious investment programme designed to enhance competitiveness

Aéroports de Paris proposes an investment programme of 3.1 billion euros (2014 euros) for airport activities in Paris for the 2016-2020 period, compared to 2 billion euros in the 2011-2015 ERA.

Carefully targeted to suit requirements in terms of capacity, safety and quality, the investment programme is exceptional in terms of its scale and the large number of projects that will be conducted within a built-up environment without interrupting airport operations.

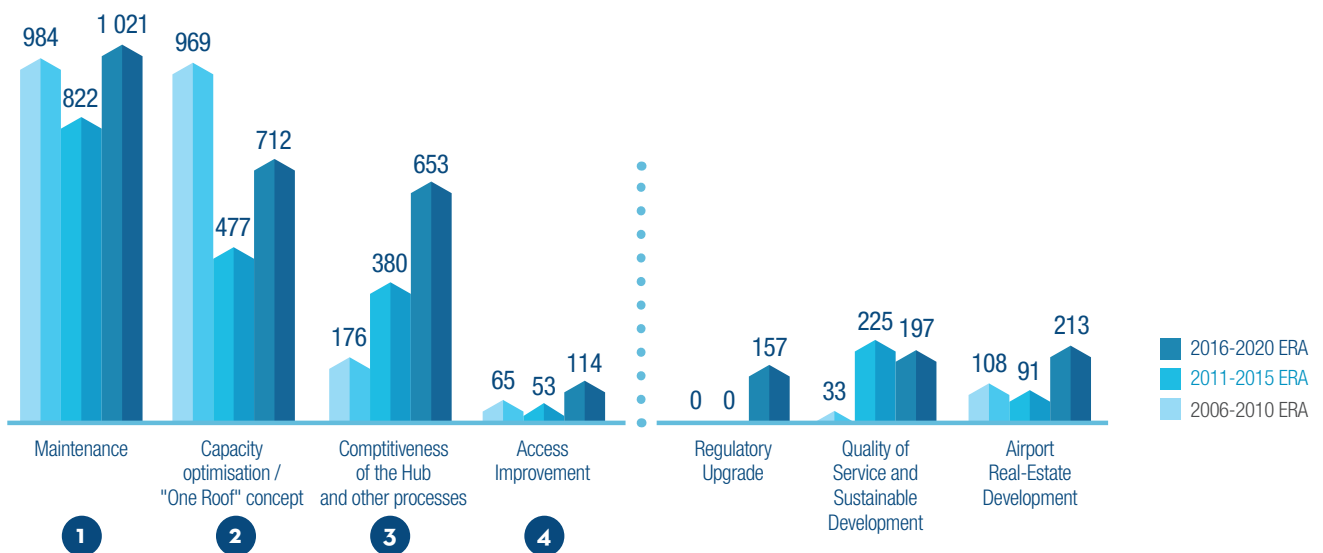
In addition to the project's operational complexity, today's challenge is designing and building better, faster and cheaper.

Aéroports de Paris SA Investment programme of the 2016-2020 ERA – Regulated scope
(in millions of euros (2014 euros), excluding financial investments)



The investment programme is focused on **four key priorities**:

Changes in the Aéroports de Paris SA investment programme, between the ERA of 2006-2010, 2011-2015 and 2016-2020 ERAs – Regulated scope (in 2014 € millions)





€2 billion
Investment programme budget for regulated activities in the 2011-2015 ERA.

➤



€3.1 billion
Investment programme budget for regulated activities in the 2016-2020 ERA.

1 A drive to maintain and upgrade certain facilities

Aéroports de Paris proposes to invest massively in the upkeep of its buildings rather than letting them decay until demolition and reconstruction are necessary. The **proposed investments in maintenance and to achieve regulatory compliance for certain facilities will amount to more than 1 billion euros**. The amount proposed for Paris-Orly is particularly significant, with a budget of almost three times that allocated in the previous ERA.

Plans for Aéroports de Paris also include:

- The **renovation of Terminal 2B** at Paris-Charles de Gaulle, which covers 39,900 sqm and includes a technical phase and a functional phase linked to the 2B/D connection project;
- Start of **renovation of Terminal 2D** at Paris-Charles de Gaulle, after the renovation of 2B (towards the end of the ERA);
- The **rehabilitation of runways and airside facilities** at both airports, for example the redevelopment of runway safety areas to reduce damage when aircraft leave the runway or landings are too short;
- The **renovation of several aircraft stands** located at Paris-Charles de Gaulle and Paris-Orly, as well as creating new aircraft areas at Paris-Charles de Gaulle.

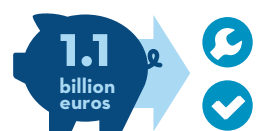
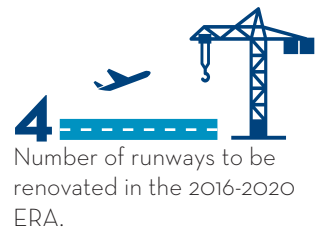
2 Optimisation of facilities to provide greater comfort and more amenities for passengers

The **main aim of the optimisation of facilities is to reconnect fragmented terminals and create overall harmony**. The situation is particularly dire at Paris-Charles de Gaulle, which partially explains why the rate of overall passenger satisfaction for arrivals is still lower than the European norm, despite significant improvement since 2012, with a rate of 88.1% of satisfied passengers in mid-2014, compared to 86% in 2012.

This optimisation process consists of work to connect the terminals (the “One Roof” idea) and create modern airports that are more welcoming for passengers. Included in the planned works:

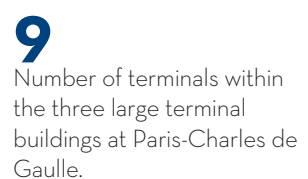
- the creation of a **34,800 sqm building between the current Terminals 2B and 2D at Paris-Charles de Gaulle**, which will allow it to accommodate an additional 1.2 million passengers
- **the merger of the international satellites in Terminal 1 at Paris-Charles de Gaulle**, which will allow it to accommodate 1.2 million more passengers
- the construction of a **connecting building covering 80,000 sqm between the south and west terminals at Paris-Orly**. This is the most spectacular of the projects in the airport’s modernisation plan launched in 2012, called “Paris-Orly-nouvel envol”, and will allow the airport to accommodate 3.5 million more passengers.

These investments, amounting to approximately 712 million euros, will improve flexibility, operational robustness and quality of service. They will also reduce the operational costs of the Group and the airlines. Lastly, they will allow Paris-Charles de Gaulle and Paris-Orly to meet their requirements in terms of additional capacity between now and ERA3, since Phase 1 of the future Terminal 4 at Paris-Charles de Gaulle is not expected to be fully operational before the end of ERA4 (2021-2025).

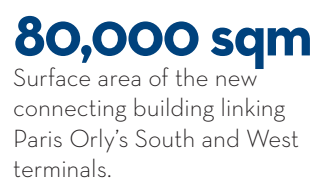


More than €1 billion

Investment envelope for maintenance and bringing certain facilities into regulatory compliance.



€712m
Estimated investment for all the projects aimed at increasing capacity in 2016-2020 - twice the amount of 2011-2015.



3 Enhanced competitiveness of the Paris-Charles de Gaulle hub to capture traffic

From 2007 to 2013, the Paris-Charles de Gaulle hub lost roughly 3,000 connecting flight opportunities to the benefit of other European hubs. **Over the next five years, Aéroports de Paris intends to prioritise the development of long-haul and connecting flight traffic**, mainly by setting up incentives and through investment in critical areas like baggage systems. This will allow it to support airlines as they strive to increase their efficiency.

The main operations that aim to improve the hub's competitiveness in the 2016-2020 ERA include:

- **for terminals:** the deployment of automatic docking systems, automatic check-in desks and «self-boarding» counters to help airlines to automate the ground process – a requirement for reducing costs and improving their operational efficiency.
- in aeronautical areas: **the creation of remote wide-body aircraft areas** (aircraft parking areas), **optimisation of the baggage sorting capacity in terminals 2E-2F.**

highlights

370 million passengers

Potential number of passengers in the world that could use Paris-Charles de Gaulle as a hub for connecting flights.



20,800

Possible connecting flights per week, under 2 hours in duration, between medium- and long-haul flights at Paris-Charles de Gaulle (source / AF).

10 minutes

Time saved between connecting flights for each of the 10,000 daily passengers using the single security checkpoint system between Terminals 2E and 2F since it opened in 2013.



€653m

Planned investment cost over 2016-2020 for baggage sorting systems, wide-body aircraft areas, renovation of lounges, deployment of docking systems, etc.

4 Improve access between Paris and its airports

The Paris airports are at the centre of a network of roads, motorways and dense regional rail connections (two RER train stations at Paris-Charles de Gaulle, RER and Orlyval stations at Paris-Orly). This is supplemented by internal links within the airports such as the CDGVal automated rail shuttle at Paris-Charles de Gaulle.

In a globalised economy, good airport access is one of the prerequisites to develop a major city's economy and tourism. **Yet, France is lagging behind significantly in this area, especially in comparison to some of its direct competitors** (London, Amsterdam, etc.).

To close this gap, the 2016-2020 ERA provides for:

- the widening and developing of roads to Paris-Charles de Gaulle - the main access network to the west (mainly used by passengers) and the secondary access network to the east (mainly used by employees);
- the acquisition of two new trains for CDGVal, which will allow an additional 1.2 million passengers to be accommodated;
- the preparatory work for the CDG Express with the construction of a rail tunnel under Runway 4 and the development of the multimodal train station. Besides these works on the edge of the airport, the other expenses related to the CDG Express (total estimated cost of which is 1.7 billion euros) are not concerned by the ERA investment programme.

The construction of the CDG Express constitutes a strategic priority for the group; by 2023, this rail link will provide a 20-minute non-stop service between the Gare de l'Est train station and the airport.



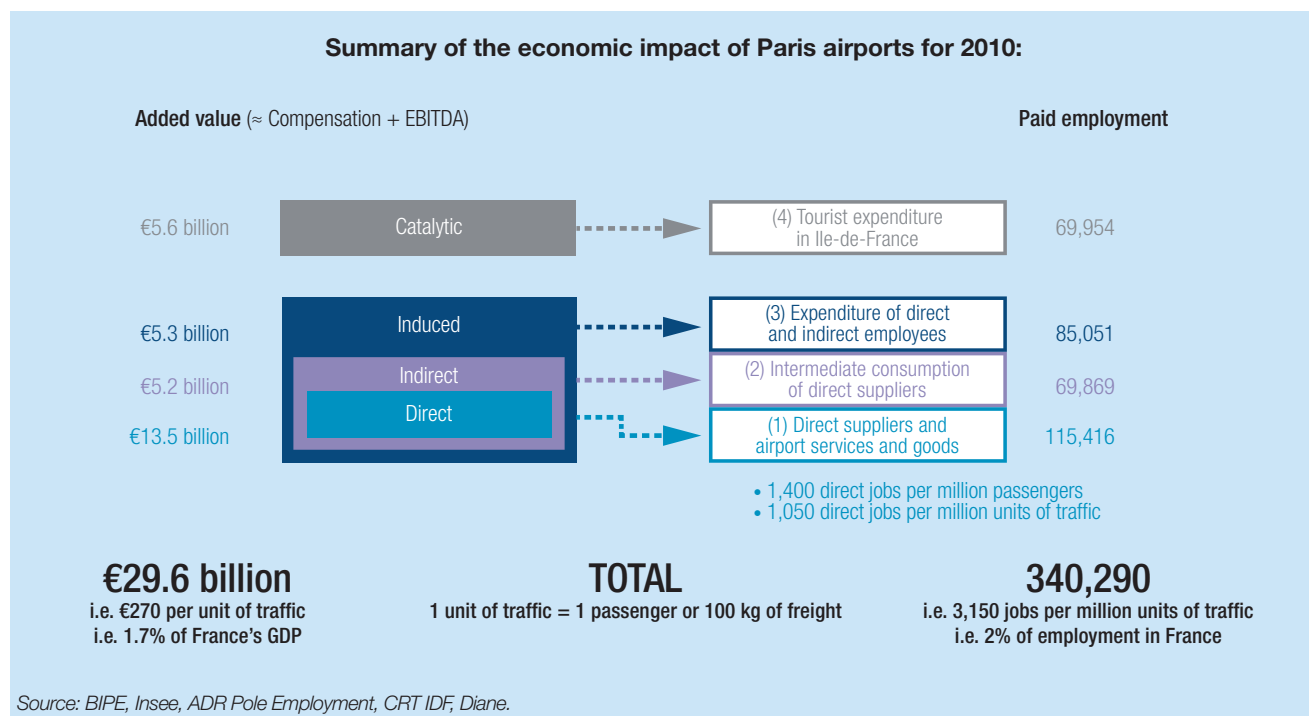
Overall, the 2016-2020 Economic Regulation Agreement is designed to increase traffic to Paris, improve passenger comfort and quality of service and improve the operational efficiency of airlines through an ambitious investment programme. These investments are made possible through increases in traffic and an unprecedented effort by Aéroports de Paris to increase its productivity and reduce airport fees, notably, through an aggressive pricing strategy. The development of the location of businesses in the Paris region, particularly around our airports, is correlated with traffic trends and our own growth. This regulation agreement will therefore generate more jobs and more economic activity for the benefit of neighbouring communities.

A responsible player, with strong local roots

The business activity of the Paris airports largely benefits the local, regional and national economy. According to the latest study conducted by the BIPE (bureau for economic information and forecast) in 2011, with €29.6 billion of added value in 2010, the overall economic activity generated by the Paris airport system was 5.8% of the Ile-de-France (Paris region) GDP, i.e. 1.7% of French GDP. A total of €13.5 billion are injected into the French economy through the wages, purchasing and investments of the players present at Paris-Charles de Gaulle, Paris-Orly and Paris-Le Bourget airports.

With 340,300 jobs, the economic activity generated by the presence of the Paris airports represents 8.3% of paid employment in Ile-de-France, i.e. 2% of paid employment in France. The direct employment associated with companies present at the airports represents 1/3 of these jobs, i.e. 115,400 jobs, of which 96% are long-term contracts.

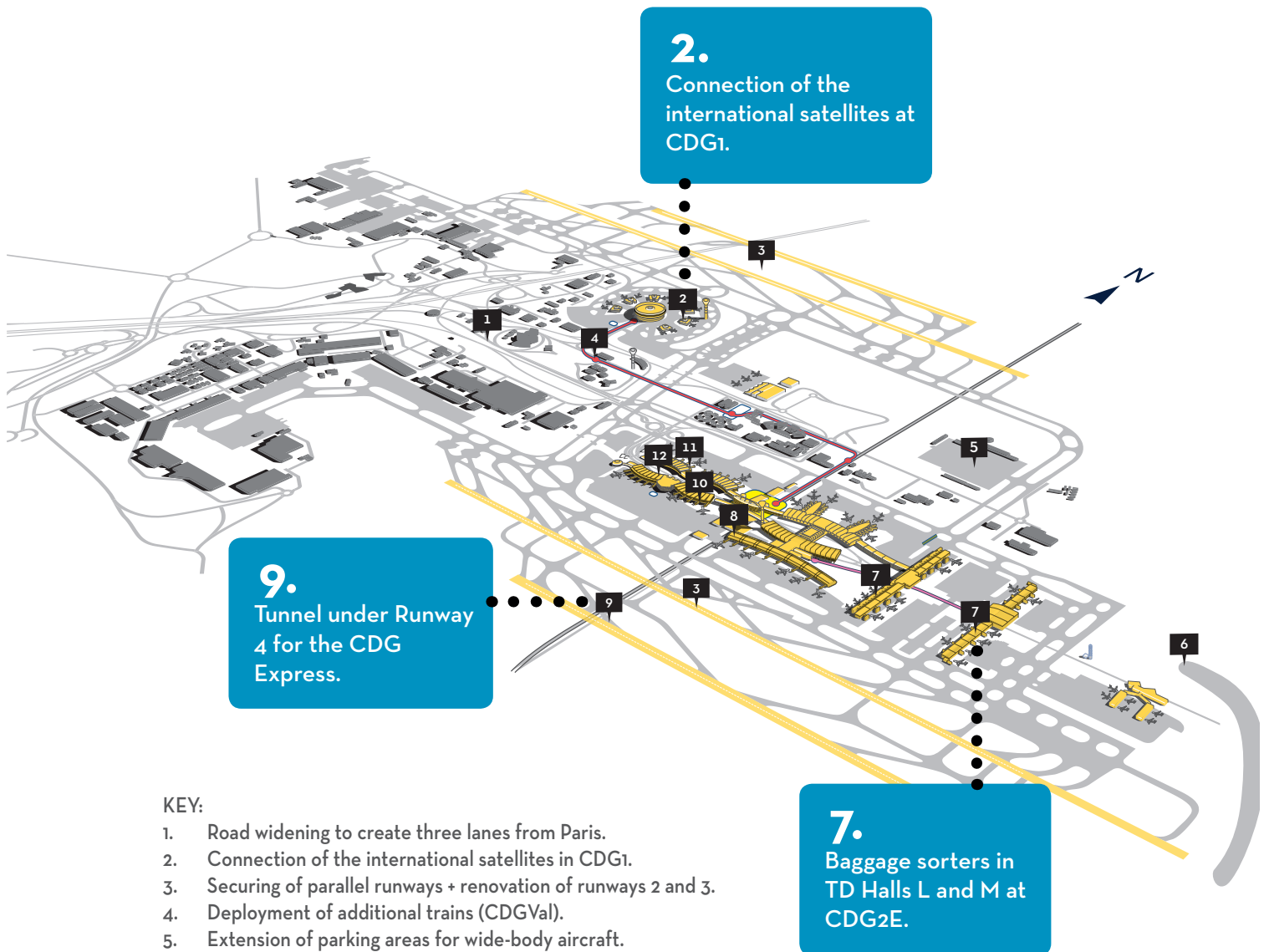
Growth in employment at the Paris airports is seven times more dynamic than in the entire Paris region. For Paris-Charles de Gaulle Airport alone, 20,591 direct jobs have been created in 15 years (1995-2010). As soon as traffic grows by one million passengers, 1,400 direct jobs (or 4,100 jobs in total) are created.



In 2010, the number of international customers who visited Ile-de-France and used Paris-Charles de Gaulle and Paris-Orly airports came to 11.6 million passengers, i.e. 15% of foreign visitors arriving in France. In order to satisfy all passengers (French and international) in terms of goods and services, 70,200 paid jobs are required in Ile-de-France. The two main Paris airports contribute 14% to paid employment linked to tourism in Ile-de-France.

An increase in traffic and the growth of Paris airports are correlated with an increase in companies located in Ile-de-France. This influence even reaches as far as the region of Picardy.

Changes at Paris-Charles de Gaulle in the 2016-2020 ERA



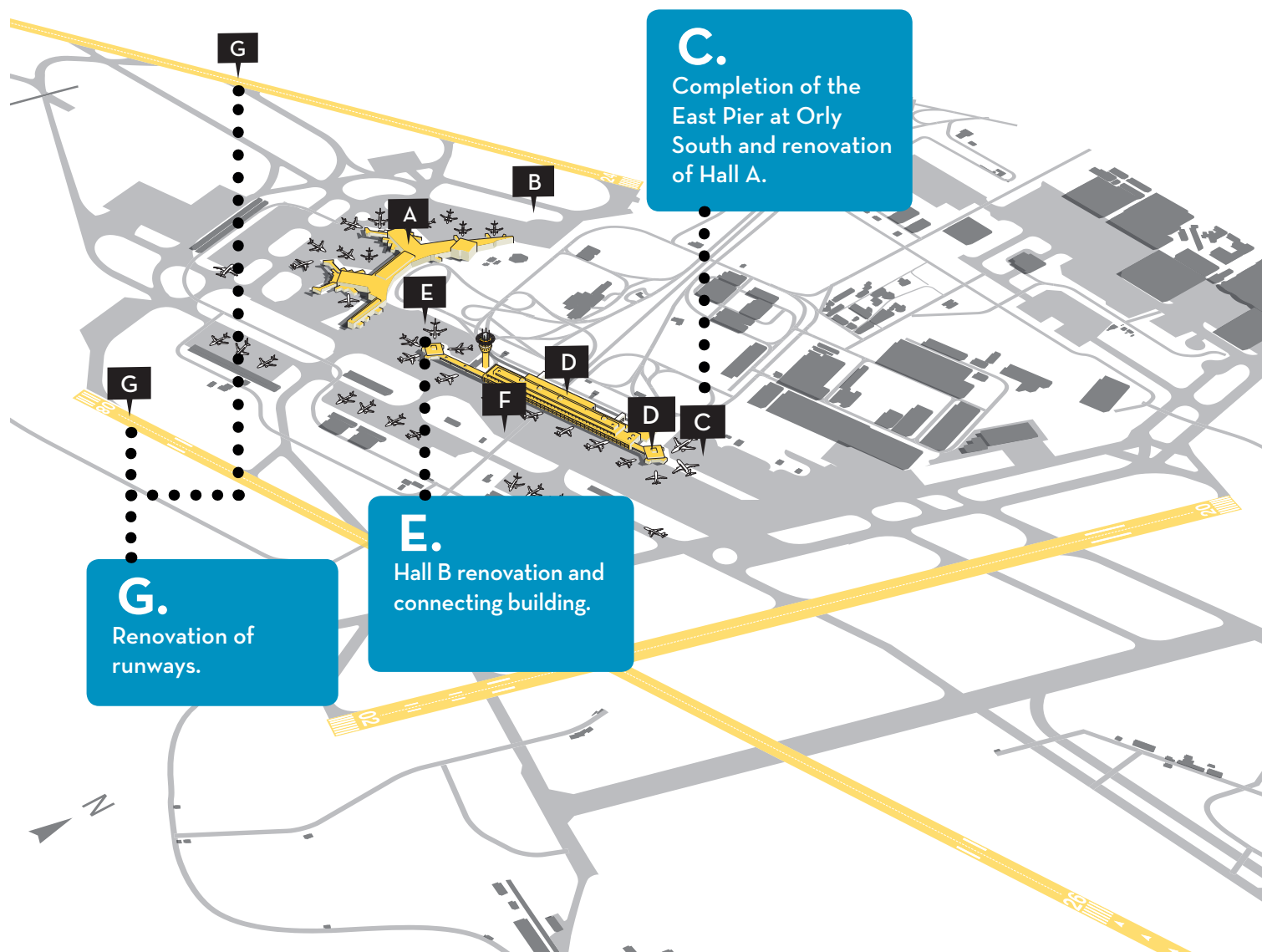
KEY:

1. Road widening to create three lanes from Paris.
2. Connection of the international satellites in CDG1.
3. Securing of parallel runways + renovation of runways 2 and 3.
4. Deployment of additional trains (CDGVal).
5. Extension of parking areas for wide-body aircraft.
6. Rainwater master plan.
7. Baggage sorters TD Halls L and M at CDG2E.
8. Creation of aircraft stands and adaptation of CDG2E.
9. Tunnel under runway 4 for the CDG Express.
10. Renovation of TBC1 and TBC2 baggage sorters.
11. Renovation of 2B and B-D connection.
12. Renovation of PAB car park.

Changes at Paris-Orly in the 2016-2020 ERA

KEY:

- A. RENOVATION OF THE PO CAR PARK.
- B. RELOCATION OF THE VIP PAVILION
- C. COMPLETION OF THE THE EAST PIER AT ORLY SOUTH AND RENOVATION OF HALL A.
- D. REDESIGN OF THE PASSENGER PROCESS.
- E. HALL B RENOVATION AND CONNECTING BUILDING.
- F. RENOVATION OF TAXIWAYS.
- G. RENOVATION OF RUNWAYS





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