



**AÉROPORTS DE PARIS**

*The world is our guest*

**Press Release**

Paris, 17 December 2014

## **Aéroports de Paris**

### **2016-2020 Economic Regulatory Agreement: A proposal to promote the competitiveness of the air transport sector**

In the face of the current difficulties in the European air transport sector, along with the changes in its main players, the growing competitive pressure among European airports and new consumer behaviours, Aéroports de Paris, which held its board of directors on 17 December 2014, proposes to implement, through the upcoming Economic Regulatory Agreement (ERA) covering the 2016-2020 period, a package of measures to promote the competitiveness of Paris and broadly, of the air transport sector.

**Based on the assumption of traffic growth of 2.5%<sup>1</sup> on average per year, the proposal of Aéroports de Paris for the 2016-2020 ERA hinges on:**

- **A selective but ambitious CAPEX<sup>2</sup> programme of €3.1 billion across the regulated scope<sup>3</sup>, primarily focused on optimisation, maintenance and compliance of installations and on operational robustness;**
- **Traffic conquest, in particular international and connecting traffic, thanks to a thorough review of the tariff policy and a greater quality of service;**
- **Increased competitiveness through an unprecedented effort to control operating expenses<sup>4</sup> of the regulated scope (growth limited to 2.5% including inflation on average per year, in the context of increased activity and surface area), in order to maintain a moderation in tariffs with a proposal of yearly tariffs increase of CPI<sup>5</sup> + 1.75%<sup>6</sup>;**
- **The objective to bring the ROCE<sup>7</sup> of the regulated scope in line with the WACC<sup>8</sup> of the Group (estimated at 5.8%) in 2020, based on a stabilised regulatory framework.**

Augustin de Romanet, Chairman & CEO of Aéroports de Paris, made the following statement:

*"Air transport is facing transformations which have a major impact on the traditional model of European airports and airlines. Within this sector, there is ever-growing competition among airports, which can no longer be considered as protected players. Accordingly, Aéroports de Paris must continuously improve its services and the competitiveness of its airports for the benefit of its customers, partners and territories, in order to increase its capacity to capture global growth in support of Ile-de-France economy and of regional employment.*

*The proper balance of the next ERA relies on the research of a greater competitiveness relying on a new tariffs structure, a strong financial discipline and proactive research of traffic, especially long haul and connecting one.*

*Aéroports de Paris' proposal for the 2016-2020 ERA is a well-balanced proposal, made by a conquering Group. It combines the deployment of an ambitious investment programme, a return on capital employed of the regulated scope in line with the weighted average cost of capital of the Group in 2020, and important productivity efforts allowing moderation in tariffs to promote the competitiveness of the sector."*

<sup>1</sup> +2.4% excluding the favourable impact of the removal of the civil aviation tax on connecting passengers, provided by the 2014 Amended Finance Act, currently discussed

<sup>2</sup> Capital expenditures

<sup>3</sup> The regulated scope is defined in article 1 of the decree of 16 September 2005 pertaining to fees for services rendered at the aerodromes, modified on 1 January 2011 by the decree of 17 December 2009

<sup>4</sup> Internal and external expenses of the regulated scope, excluding depreciation and amortization and taxes

<sup>5</sup> Consumer price index

<sup>6</sup> CPI + 1.85% per year excluding the favourable impact of the removal of the civil aviation tax on connecting passengers, provided in two phases by the 2014 Amended Finance Act, currently discussed

<sup>7</sup> Return on Capital Employed

<sup>8</sup> Weighted Average Cost of Capital

## Foreword

For the Aéroports de Paris Group (the "Group"), the preparation of the ERA is a key opportunity to engage in discussions with its customers, partners and employees. After the in-depth consultation of air carriers in 2014 and the hearing of their expectations and priorities, Aéroports de Paris presented its policy proposals to airlines and their representatives within the Consultative Economic Commission (Cocoéco). These proposals concern the main lines of the next ERA covering the 2016-2020 period.

Aéroports de Paris will publish a more detailed proposal document early 2015, which all stakeholders will be able to comment on. The public consultation relating to Aéroports de Paris' proposal feeds the institutional debates on the overall competitiveness of the air transport sector, and in particular its contribution to the French economy.

The regulatory agreements are important drivers of change for the Group. Since 2006, when the first ERA came into force, Aéroports de Paris thus radically modernised its infrastructures, in particular Paris-Charles de Gaulle hub, increasing the airport's capacity by nearly 30 million passengers and significantly improving the satisfaction of its customers, passengers and airlines.

This metamorphosis was made possible by the unprecedented motivation of the Group's employees, and carried out in a difficult economic context. For this reason, since 2010, Aéroports de Paris has been committed to maintaining a moderate tariff policy along with stringent financial discipline.

For the upcoming 2016-2020 ERA, Aéroports de Paris wishes to step up this strategy:

- by focusing on the optimisation of existing installations;
- 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.

## Passenger traffic growth assumption over the 2016-2020 period

Concerning the change in passenger traffic over the 2016-2020 period, the proposal of Aéroports de Paris takes into account the moderate eurozone economic growth prospects along with growth prospects in the regions of destination, which are more dynamic than in the eurozone, in particular for long-haul routes.

Based on these factors, Aéroports de Paris has opted for the assumption of **growth in passenger traffic of 2.5%<sup>1</sup> on average per year** over the 2016-2020 ERA period.

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<sup>1</sup> +2.4% excluding the favourable impact of the removal of the civil aviation tax on connecting passengers, provided in two phases by the 2014 Amended Finance Act, currently discussed



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**1. A selective but ambitious CAPEX programme of €3.1 billion across the regulated scope, primarily focused on optimisation, maintenance and compliance of installations and on operational robustness**

Aéroports de Paris has the required infrastructure to cope with the growth in world traffic. It also has a solid economic model and considerable potential, given its land reserves and its unique positioning across the entire airport value chain. That is why Aéroports de Paris means to make the most of its resources. To this effect, the consolidation of its fundamentals has been set as a priority in the 2016-2020 ERA.

Consequently, the CAPEX programme for the regulated scope is set to increase significantly, going from €2.0 billion over the 2011-2015 period to €3.1 billion over the 2016-2020 period. This rise is mainly due to priorities relating to the following:

- the **optimisation of installations**, to improve operational performance, productivity and the quality of service, with the deployment of the terminal junction logic: at Paris-Orly, between the South and West terminals; at Paris-Charles de Gaulle, between terminals 2B and 2D and between the international satellites of Terminal 1;
- a **major effort to maintain and bring installations into compliance with regulatory requirements** in order to ensure the safety and operational robustness with important refurbishment in Paris-Orly, and the renovation of Terminal 2B and the start of the renovation of Terminal 2D at Paris-Charles de Gaulle, and the renovation and regulatory upgrade of several runways at both airports;
- the **competitiveness of the hub of Paris-Charles de Gaulle**, by going with airlines in their research of operational efficiency improvement ;
- the **improvement of road access** to the airports and the **preparatory work for the CDG Express**.

**2. Traffic conquest, in particular international and connecting traffic, thanks to a thorough review of the tariff policy and a greater quality of service**

With considerable international and connecting traffic, Aéroports de Paris is up against stiff competition. A hub is essential to attract and develop international traffic, which is profitable for the airlines as well as the airports. The hub is a critical success factor for a world-class metropolis and is a major source of employment and economic development. Yet, while the connecting market is growing, French airports are losing market share, not only to the new international hubs, but also to competing European hubs.

To tackle this challenge, Aéroports de Paris proposes to use all the levers at its disposal over the 2016-2020 period to develop traffic. These levers include:

- A **thorough review of the tariff policy** aimed on the one hand, at reducing the share of passenger fees in order to improve the competitiveness of intercontinental traffic, on the other hand, at removing overnight parking charges to improve the attractiveness of Paris as an aircraft base, and finally, at making the price scale clearer;
- The **set-up of incentives** on high-growth markets and for high-performance companies. In particular, Aéroports de Paris proposes to account for the whole impact, by not including them in the computation of the return of the regulated scope, of an incentive measure to promote connecting traffic and of an incentive measure to promote a greater use of infrastructure rewarding a fast rotation of aircrafts ;
- The **development of an increasingly innovative and unique passenger experience** based on a greater quality of service.

### 3. Increased competitiveness through an unprecedented effort to control operating expenses of the regulated scope in order to maintain moderation in tariffs

While guaranteeing a robust, high-quality service for its customers, Aéroports de Paris proposes to implement the required measures over the 2016-2020 period to ensure its competitiveness in terms of costs and prices.

The financial discipline to which the company voluntarily commits, demonstrates the efforts it intends to make in promoting the global competitiveness of its airports and moving toward moderation in tariffs for airlines. This discipline is also a key factor for its independence and to protect its value-creating business model for its shareholders. Based on a strict limited overall wage increases and the assumption of the non-replacement of one out of two departing employees, an additional target has been set at Aéroports de Paris for structural savings, so as to take all its share in the effort made to obtain a fair return on the capital employed. All of these efforts are expected to give rise to an increase in the operating expenses of the regulated scope **out to 2.5%, including inflation, on average per year**, i.e. limited to the anticipated increase in traffic.

The ambitious, proactive proposal of a control in Aéroports de Paris' operating expenses makes it possible to limit tariff increase over the 2016-2020 period. For the tariffs covered by the next ERA (from 1 April 2016), Aéroports de Paris proposes to implement a **moderate tariff policy considering the CAPEX programme**. This moderation policy would result in an average annual growth of **CPI+1.75% in tariffs during the 2016-2020 period**, compared to CPI+2.2% for the last two years of ERA 2011-2015.

| 2016                     | 2017        | 2018        | 2019        | 2020        | CAGR <sup>1</sup><br>2016-2020 |
|--------------------------|-------------|-------------|-------------|-------------|--------------------------------|
| CPI <sup>2</sup> + 1.75% | CPI + 1.75%                    |

Considering the importance of control of operating expenses of the regulated scope in the proper balance of the agreement, as well for moderation in tariffs as for the improvement of the profitability of the regulated scope, Aéroports de Paris proposes to create a new adjustment factor on tariffs based on the cost rate, i.e. the weighting of costs in the income statement for the regulated scope. To mark Aéroports de Paris' commitment to reduce this cost rate, this pricing penalty should apply when the reduction target is not reached.

### 4. The objective to bring the ROCE of the regulated scope in line with the WACC of the Group in 2020, based on a stabilised regulatory framework

Within the framework of the five-year ERA signed with the French Government, Aéroports de Paris is allowed to increase the tariffs of its main airport fees and those of certain ancillary airport fees within a set limit. The fee level takes account of the return on capital employed and makes it possible to gradually improve the profitability of the regulated scope. These tariff increases are associated with the implementation of a capital CAPEX programme and commitments concerning the quality of service.

For the 2016-2020 ERA, Aéroports de Paris proposes to set the target of bringing the profitability of the regulated scope into line with the weighted average cost of capital of the Group in 2020, in order to comply with the legislative principle of a fair return on the capital employed.

Without changing the definition of the regulated scope, Aéroports de Paris will adjust, starting in 2016, its allocation methods of assets and costs on common areas and access and roads, following the review of allocation keys in cost accounting made by the Airport Consultative Commission (Cocoaéro)<sup>3</sup>.

At the end of the road, through all of the efforts asked to every stakeholder in this proposal, the ERA combines the deployment of an ambitious CAPEX programme with a **rate of return of the regulated scope in line with the weighted average cost of capital of the Group (5.8%) in 2020**, and moderation in tariffs for airlines.

The proposal of Aéroports de Paris is a well-balanced proposal, made by a conquering company, promoting the development of air transport sector, economy and employment.

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

<sup>2</sup> Consumer price index

<sup>3</sup> Official Journal of 24 October 2014

### **Release dates**

- **December 2014 traffic figures:** 14 January 2015
- **2014 annual results:** 19 February 2015 (after Paris Stock Exchange closing)

### **Forward-looking statements**

*This press release does not constitute an offer for the sale of securities in the United States or any other country. This presentation includes forward-looking statements. These forward-looking statements are based on data, assumptions and estimates deemed reasonable by Aéroports de Paris. They include information relating to Aéroports de Paris' financial position, earnings and business. These data, assumptions and estimates are subject to risks (such as those described in the Registration Document filed with the French financial markets authority on 31 March 2014 under number D.14-0251, as well as its update filed with the same authority on 2 October 2014 under number D.14-0251-A01) and uncertainties, some of which are beyond the control of Aéroports de Paris and are difficult to anticipate. They may lead to significant differences between actual results and those forecast or suggested in these statements.*

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Aéroports de Paris builds, develops and manages airports, including Paris-Charles de Gaulle, Paris-Orly and Paris-Le Bourget. In 2013, Aéroports de Paris handled more than 90 million passengers and 2.2 million tonnes of freight and mail at Paris-Charles de Gaulle and Paris-Orly, and 43 million passengers in airports abroad. Boasting an exceptional geographic location and a major catchment area, the Group is pursuing its strategy of adapting and modernising its terminal facilities and upgrading quality of services; the Group also intends to develop its retail and real estate businesses. In 2013, Group revenue stood at €2,754 million and net income at €305 million.

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