

Presentation of the Economic Regulation Agreement *Aéroports de Paris*

March 15, 2006



AÉROPORTS DE PARIS

The following is a summary of the main provisions of the Economic Regulation Agreement entered into on February 6, 2006 between the French State and Aéroports de Paris. The participants are invited to read the whole agreement, a copy of which will be given to them. The whole agreement is also available on the Internet site of the Direction Générale de l'aviation civile: www.aviation-civile.gouv.fr

- 1. Architecture of the regulation and the Economic Regulation Agreement (ERA)**

P. Graff - CEO

- 2. ERA: Investments and Quality of Services**

- 3. ERA: Fee increases**



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An Economic Regulation in line with the best European standards

The economic regulation framework has been deeply clarified and modernized:

- 1** The multi-annual agreement offers the visibility and stability needed for airport activity
- 2** The fee increases are linked to the completion of an investment program and to commitments for the quality of service
- 3** The level of fees takes into account the return on invested capital

Regulation Mechanism

Law of April 20, 2005

→ “The level of fees takes into account the return on capital employed [...] The global amount of such fees cannot exceed the cost of services provided on the airport”

→ Maximum 5-year term multi-annual agreements

Decree on Regulation of July 20, 2005

→ List of principal fees subject to price cap

→ “The operator receives, taking into account anticipated changes in operating costs, estimated increase in revenues and investment programs and their financing, a fair return on invested funds, assessed in view of the WACC”

Order on Regulation of September 16, 2005

→ Definition of the “regulation perimeter”

→ Definition of ROCE

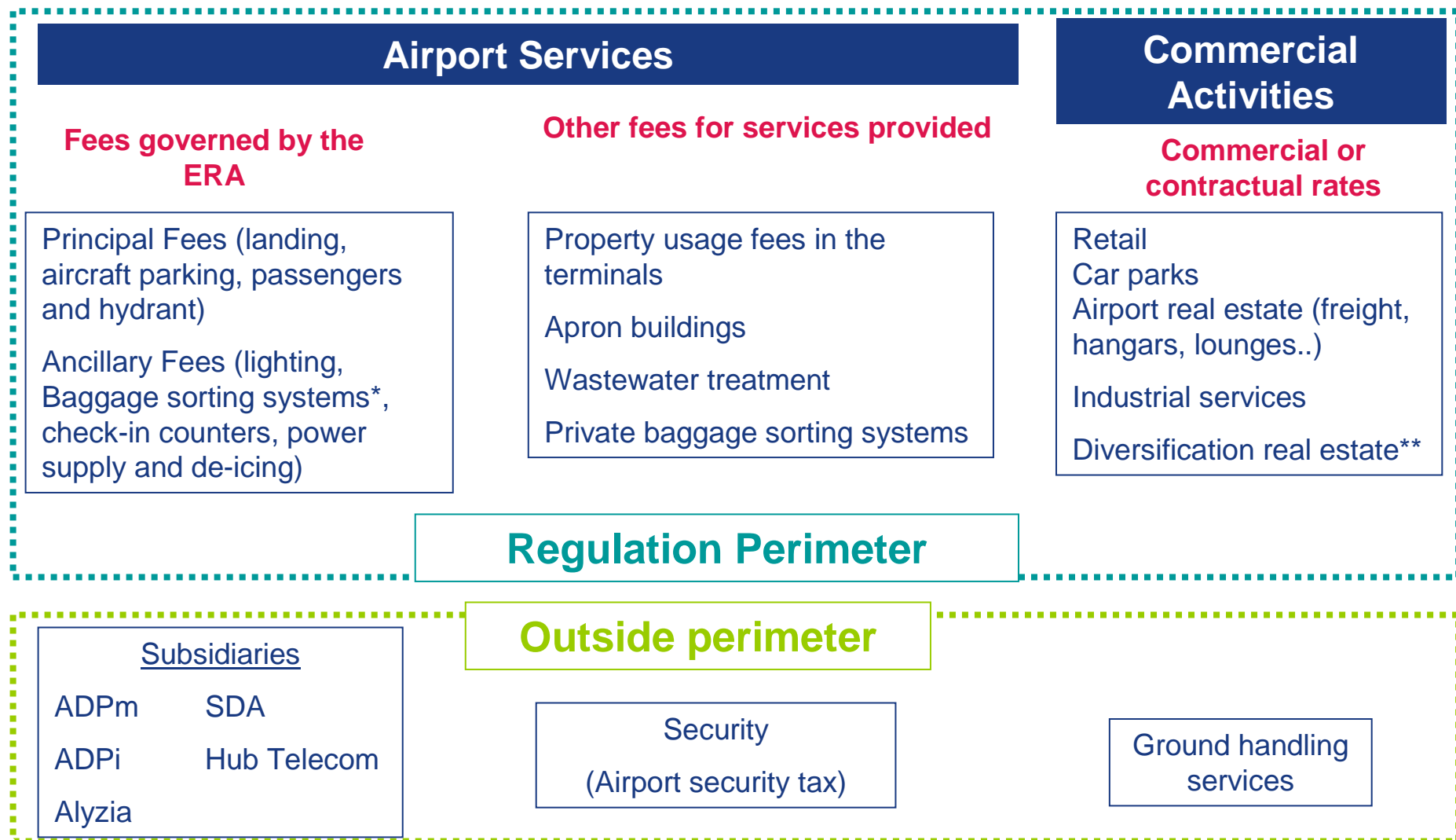
→ An adjusted single till may be possible : subsidizing airport services with revenues from commercial activities may be limited

Regulation Agreement

→ List of fees subject to price cap / Determination of price cap

→ Measuring of cross-subsidies (single till, possibly adjusted)

A first agreement with a price cap system



*Unless otherwise provided for in a user agreement

**On the second regulation agreement, the diversification real estate will be excluded from the regulation perimeter

The price cap system enables Aéroports de Paris to keep the profitability gains

- Aéroports de Paris will retain the **profitability gains** during the ERA period
 - Symmetrically, a **decrease** in profitability is entirely **borne** by the company
- **Aéroports de Paris is encouraged to control its charges and to develop its commercial activities**

Indications for the following ERAs

Evolutions of the regulation perimeter provided for by the order on regulation of September 16, 2005:

- **Diversification real estate excluded from the regulation perimeter**
- “...an agreement [...] may provide **that profits from the commercial activities could be partially taken into account..**”

How the first ERA works

Investments

- Estimates of € 2.5 billion of investments**
- Commitments to open certain installations at fixed dates

Quality of Services

- Commitment of Aéroports de Paris :
- reach certain levels of quality of services in areas primarily within its control (10 indicators)

Adjustments / revision depending on the amount of investments completed

Bonus / Penalty Mechanism

Rates

Aéroports de Paris is authorized to increase airport fee rates:
inflation + 3.25% per pricing period*
ADP free to increase one fee more than the rest of tariff basket

Adjustments depending on traffic

Revision Mechanisms

Reference traffic scenario : + 3.75%

Regulatory and Economic Environment



1. Architecture of the regulation and the Economic Regulation Agreement (ERA)

2. ERA: Investments and Quality of Services

P. Graff - CEO

3. ERA: Fee Increases



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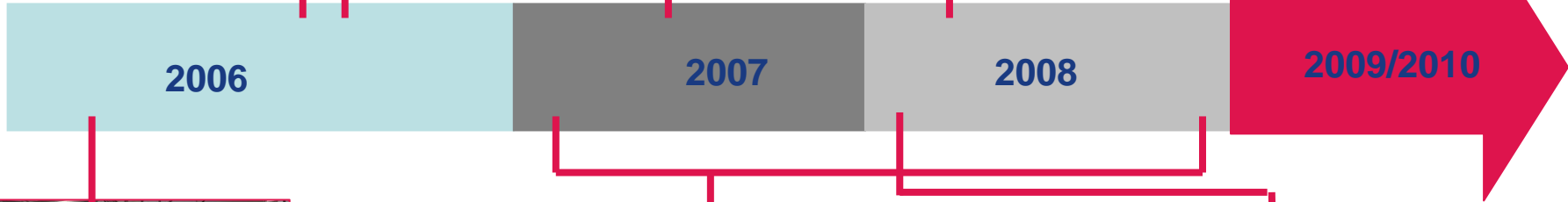
An Investment Program to take advantage of traffic growth

Investments in the Regulated Perimeter (€M - € 2006)	2006	2007	2008	2009	2010	2006 - 2010
Capacity	377,2	311,1	148,5	149,4	181,1	1167,3
Restructuring	53,9	54,8	41,5	36,0	21,3	207,5
Current Investments	153,3	143,2	145,3	131,6	113,8	687,2
Real Estate Development (excluding diversification)	16,7	20,3	20,1	20,6	20,6	98,3
Real Estate Diversification	11,2	13,5	13,4	13,8	13,7	65,6
Project planning and implementation costs	62,7	53,9	45,8	44,1	45,3	251,7
TOTAL	675,0	596,8	414,6	395,6	395,8	2477,8

Investment Program

Installations delivery schedule

Increase in Capacity



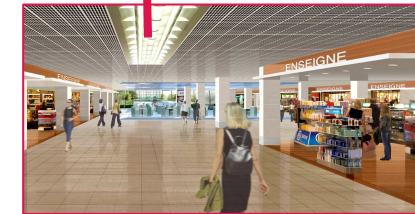
S4: beginning of works



Hall 2 Orly Ouest



CDG1



Orly Sud

Restructuring

Objectives for Quality of Services

Indicators

The objectives for quality of services are based upon **10 indicators**:

→ chosen because of to the high degree of responsibility assumed by the airport operator

→ and that broadly cover the scope of activities of the airport operator

Availability of equipment	Passengers' Satisfaction	Miscellaneous
Aircrafts parking stands Airbridges Electro-mechanical equipment Luggage carousels Flight information systems	Cleanliness in terminals Direction signs and information on flights Availability of luggage trolleys	Timely responses to complaints Realizations of the number of parking stands in contact with terminals

1. Architecture of the regulation and the Economic Regulation Agreement (ERA)

1. ERA: Investments and Quality of Services

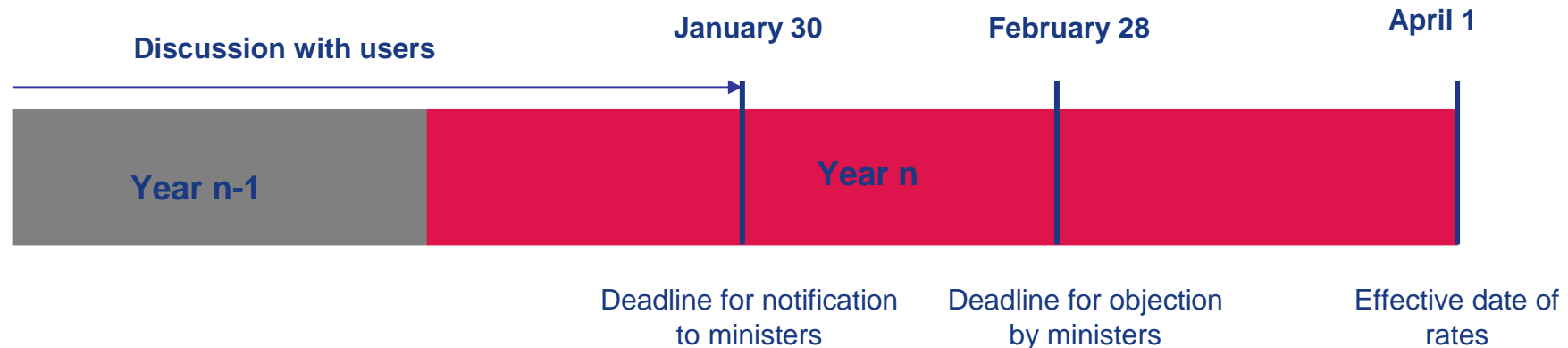
2. ERA: Fee Increases

L. Galzy - CFO



AÉROPORTS DE PARIS

Annual Schedule of Fee Rate Fixing

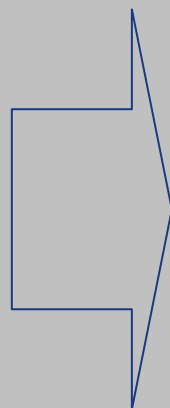


- Users are informed and consulted on the investment program, the evolution of the fee breakdown and the evolution of the quality of services
- If the first proposal made by Aéroports de Paris is not approved by the Ministers in charge of the Economy and of Civil Aviation due to non-compliance with the rules set for by the ERA, ADP may make **a second proposal**. This new proposal **may contemplate compensating for the loss in revenue resulting from the delay** in effectiveness of the new rates.

Two categories of fees and two distinct price caps

The “Principal Fees”

- Landing Fee
- Aircraft Parking Fee
- Passenger Fee
- Fuel Fee



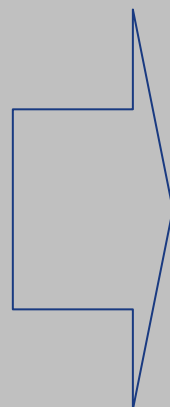
Category 1 “Tariff basket”

Annual price cap:

$$PP(n) = CPI^{***} + 3.25\%$$

The “Ancillary Fees”

- Runway Lighting Fee
- Check-in and boarding counter Fee
- Baggage handling Fee*
- Centralized de-icing Fee**
- Electric power supply Fee



Category 2 “Tariff basket”

Annual price cap:

$$PA(n) = CPI^{***} + 3.25\%$$

Rate Increase Formula

Determination of the tariff grid for the year 2010

Reference Tariff Grid for Year 2010

Reference Tariff Grid for Year 2009

X
Traffic for Year 2008

X
Traffic for Year 2008

Estimated increase
permitted by the ERA

$$\text{GTRP}(2010, \text{Traffic}(2008)) = \text{GTRP}(2009, \text{Traffic}(2008)) \times (1 + \text{PP}(2010))$$

Increase permitted by the ERA

Reference Tariff Grid for Year 2010

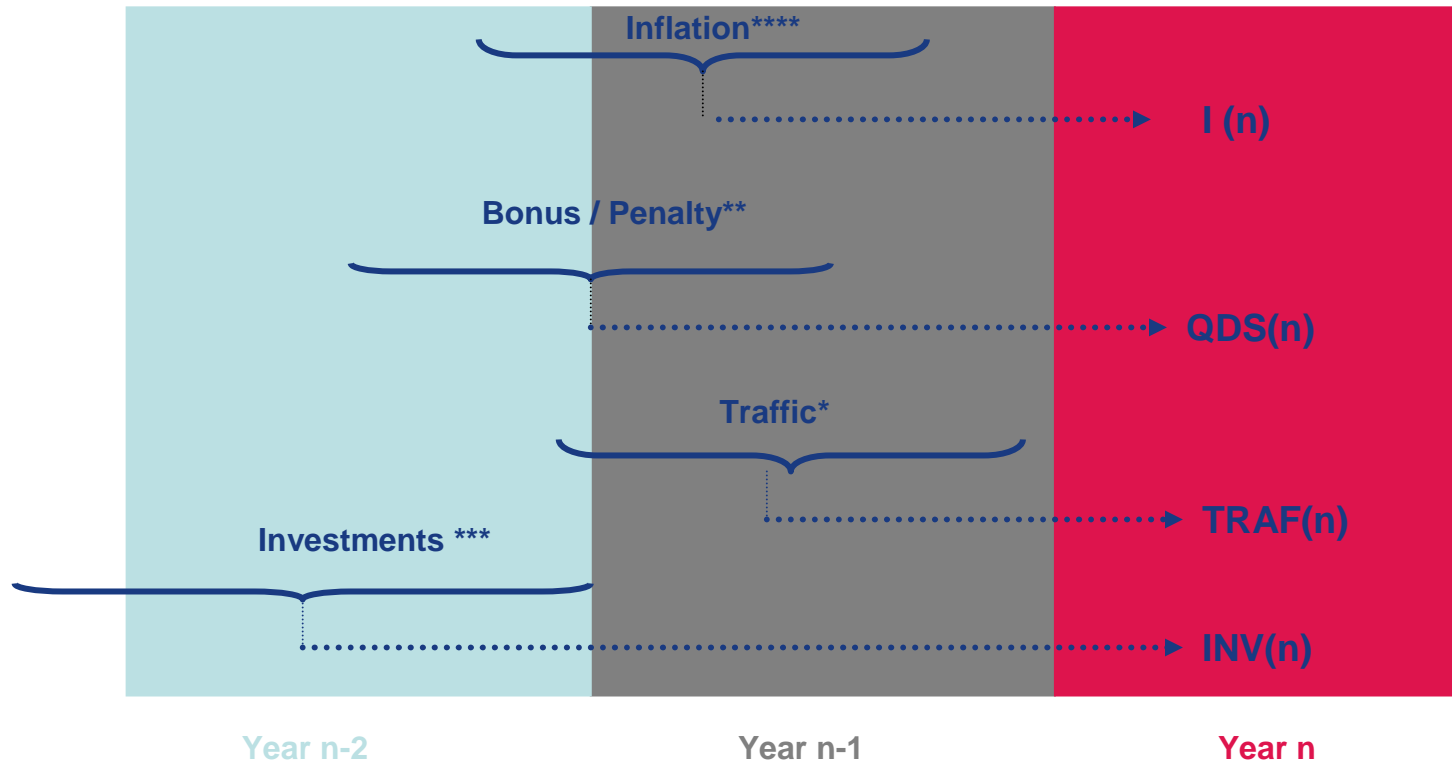
Traffic adjustment: TRAF
Bonus/ penalty adjustment: QDS
Investment adjustment : INV

Adjusted Tariff Grid for Year 2010

Parameters Retained for Adjustment Determination

Information Availability

Rate Determination for the Year n



18 - DF¹ From December 1 n-2 to November 30 n-1
 *** see below / valid only for prices 2010

** From July 1 n-2 to June 30 n-1

**** From October 1 n-2 to September 30 n-1



3 types of adjustments on different perimeters

(M€ - € 2006)	2006	2007	2008	2009	2010
TOTAL	675,0	596,8	414,6	395,6	395,8
TOTAL excluding real estate diversification	663,8	583,3	401,2	381,8	382,1
Investments ("INV" factor)	232,7	217,4	211,2	196	180

Current investments : if the actual spent amount over 2006-2008 is lower than 95% of the amount planned for in the ERA
 → **Mechanical adjustment on rates for 2010**

Investments excluding real estate diversification: each year, from 2007, if the actual spent amount since 2006 has been lower than 75% of the amount planned for in the ERA
 → ADP and the State review the need to revise the ERA

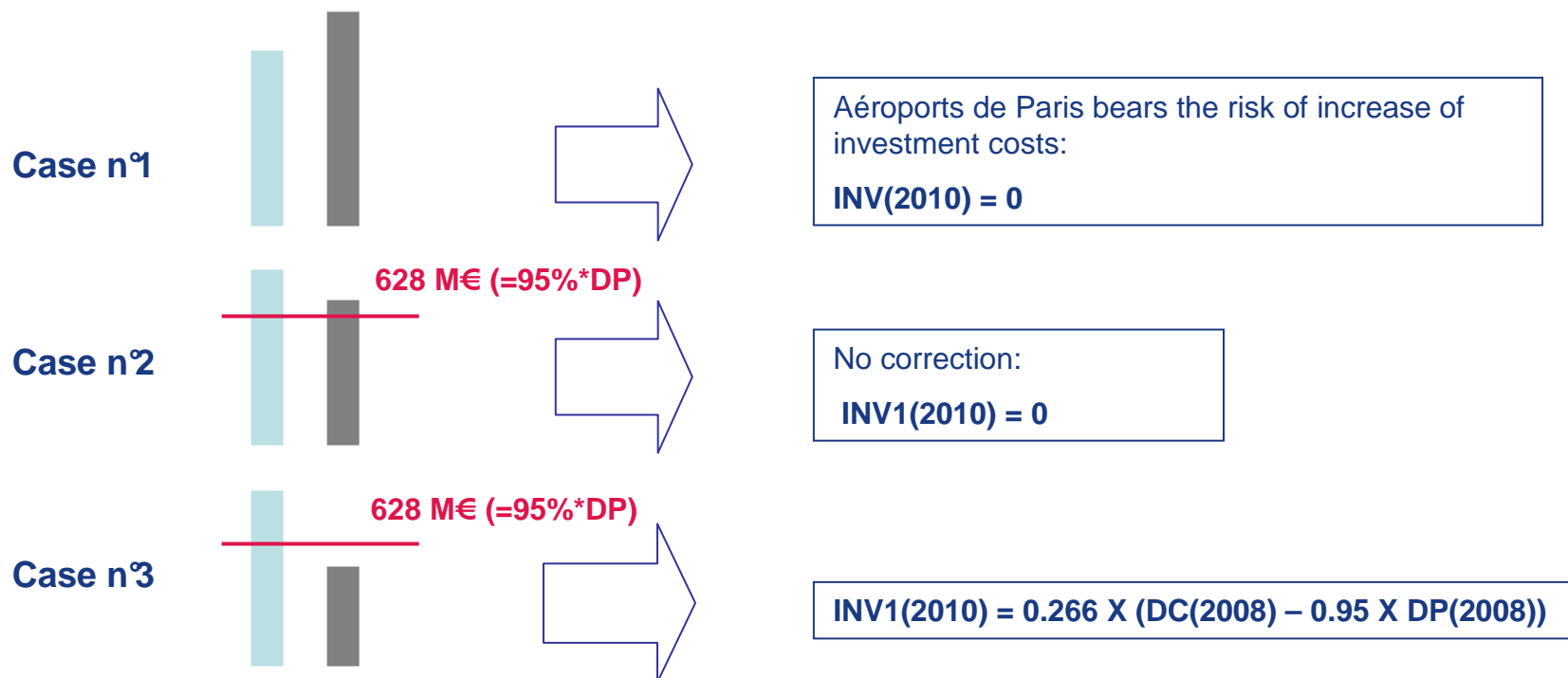
New investments: if to answer to the users' needs, ADP brings forward an investment (excluding real estate diversification) of more than €20 M over 2006-2010,
 → **With the State's consent, ADP may adjust the rates so as to offset the estimated cost increase**

Investments

Mechanical adjustments on current investments

Investments in the regulated perimeter (M€ - € 2006)	2006	2007	2008	Total 2006-2008
Total	675,0	596,8	414,6	1686,4
Investment taken into account for the INV factor (DP)	232,7	217,4	211,2	661,3

- Cumulated investments (2006-2008) planned for by the ERA (DP)
- Cumulated investments (2006-2008) actually spent (DC)



Quality of Services

System of bonus / penalty

The ERA 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

Realisation of the number of aircraft parking stands

in contact with terminals

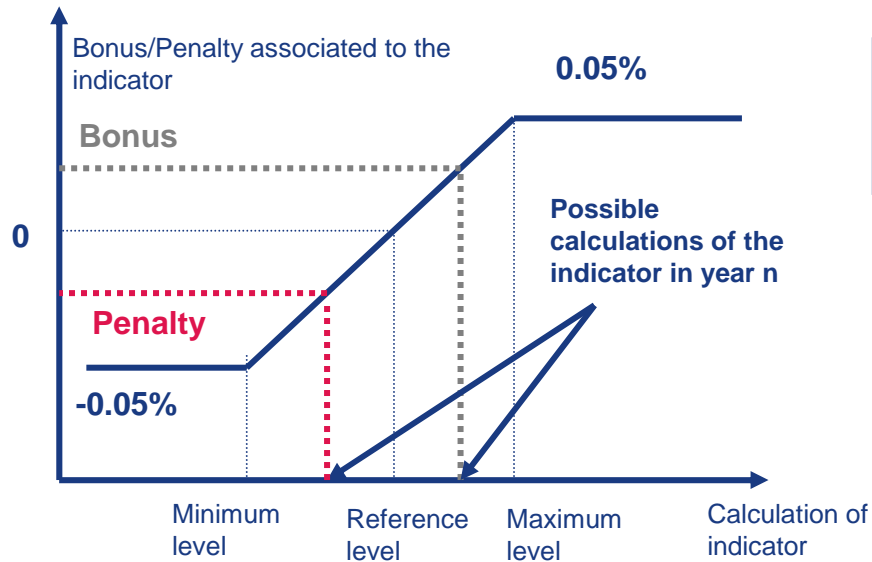
For each indicator:

Maximum bonus / penalty = 0.05%

Maximum bonus / penalty = 0.5%

Quality of Services

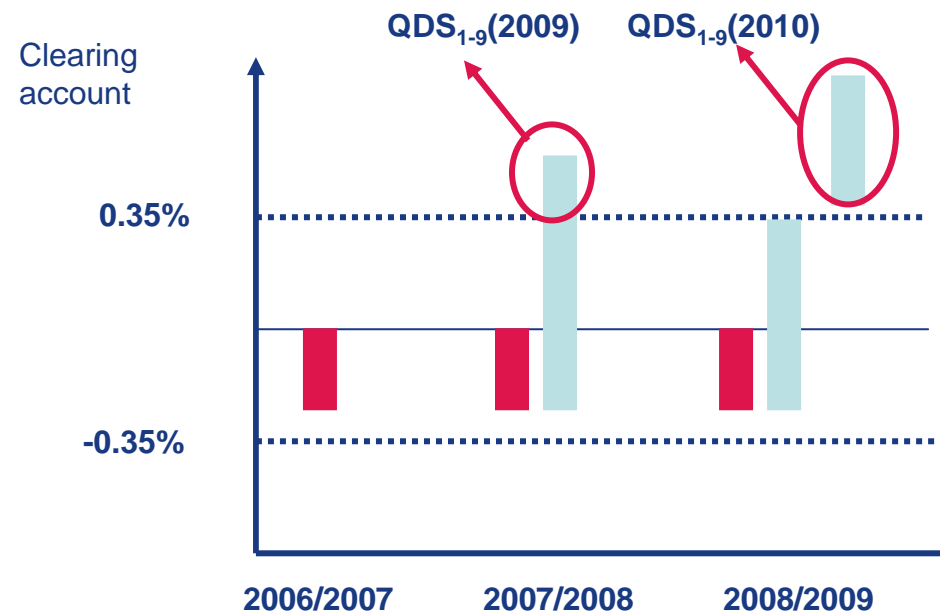
Corrective Factor: Bonus / penalty



Calculation of bonus / penalty $BI_i(n)$ associated to each of the 10 indicators

For the 9 indicators of availability / satisfaction (associated bonus / penalty of 0.05% by indicator)

→ Clearing account system



Exception : the “new aircraft parking stands in contact with terminals” indicator (0.5% associated bonus/ penalty), gives rise to adjustment upward or downward as from the following year (no clearing)

Quality of Services

Indicator no. 10 – New aircraft parking stands in contact with terminals



S3

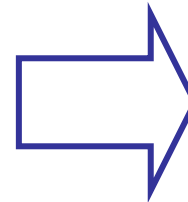


CDG2E



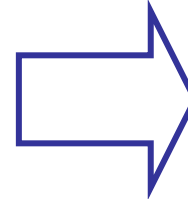
CDG1

Opening in time



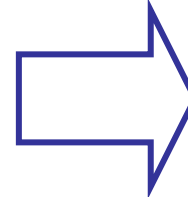
Bonus = 0 %

Opening 2 quarters in advance



Maximum bonus = 0.5%

Opening with a delay of 2 quarters

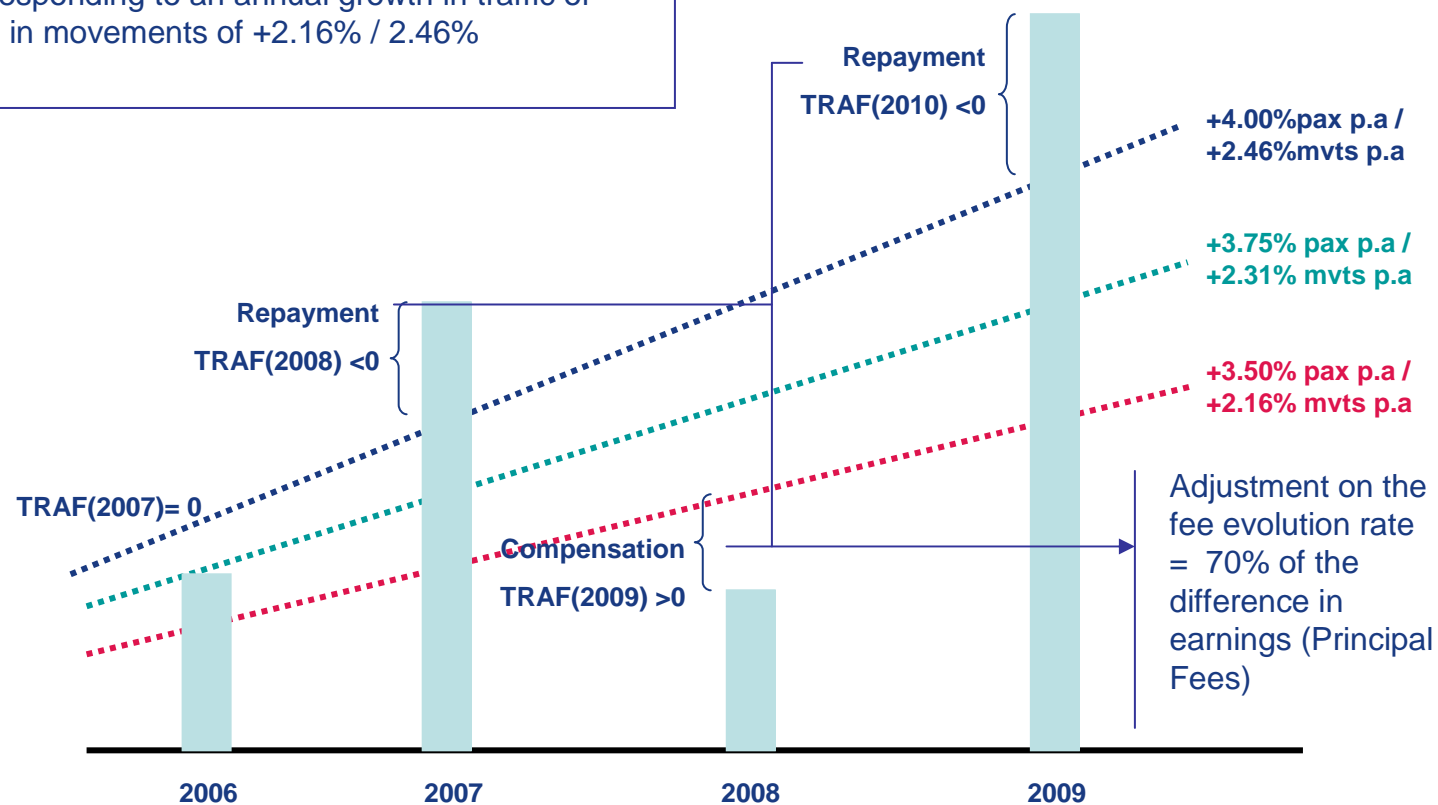


Maximum penalty = - 0.5%

Traffic Adjustment factor

No correction if the traffic evolution remains inside a given range

- Evolution of “compounded” passenger / movement traffic index (weighted 60 / 40)
- “franchise” range corresponding to an annual growth in traffic of +3.50% / +4.00% and in movements of +2.16% / 2.46%



Other non-mechanical adjustments *Without revision of the ERA*

The fee change cap may be modified, without specific amendment, in the event that:

1. Aéroports de Paris must be remunerated by airport fees for **services** previously covered **by other revenues (ex: Tax)** or **not existing when the ERA is signed**, which would represent an annual cost **exceeding €10 M**
2. **Legislative or regulatory provisions** specific to airports would result in additional costs or savings **exceeding €10 M**
3. An **investment** would be **brought forward** compared to the ERA schedule and would result in an increase **exceeding €20M** in the program for the 2006-2010 period

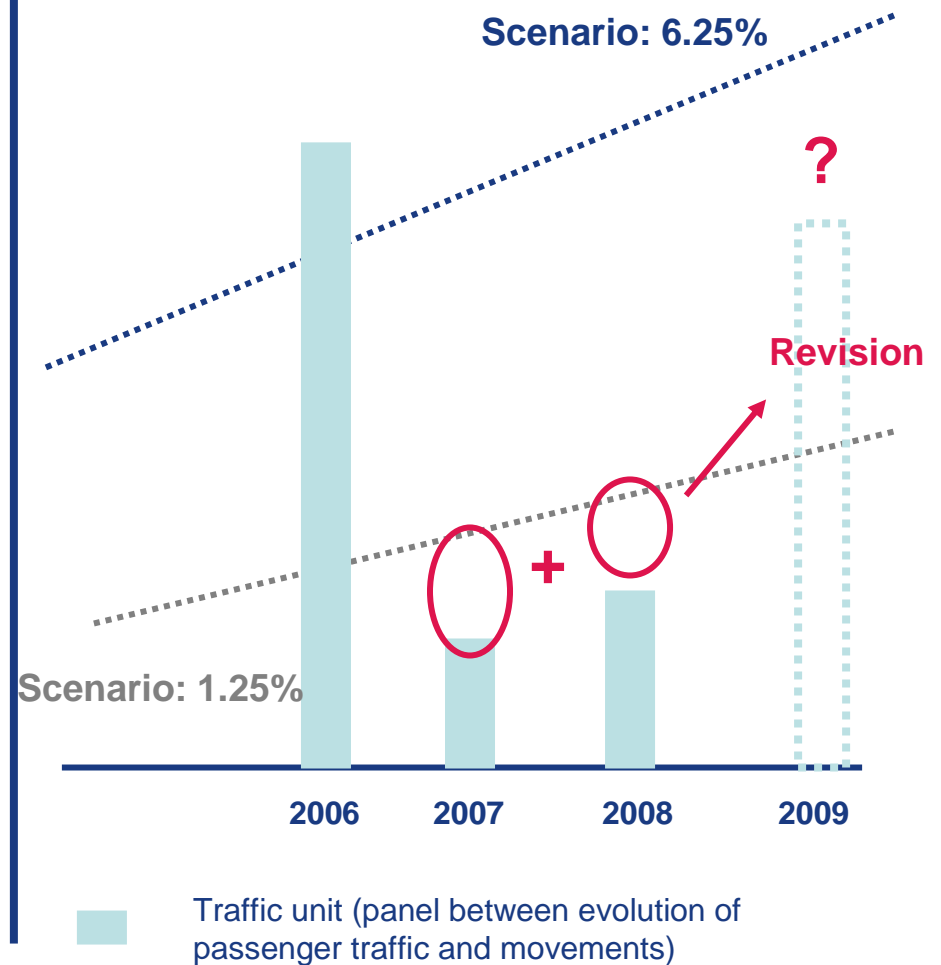
In such case, **Aéroports de Paris** may review the rate increase cap so as to **pass on the additional costs**, subject to a French State veto right on the proposed adjustments (after consultation of the economic consultative commission).

Other non-mechanical adjustments




Events of early possible revision of the ERA

The State and Aéroports de Paris shall meet to study a possible revision in the event that:




1. **traffic** has departed for more than 2 consecutive years from a traffic range (passengers (6.25% - 1.25%) and movements (3.85% - 0.77%))
2. **Investment actual** expenses (excluding real estate diversification) cumulated since the beginning of the agreement are lower, as from 2007, than 75% of the amount initially set
3. At the request of a party, a “**new situation** would reflect a substantial modification of the economic conditions of the agreement”.



Regulation of ADP vs. BAA and Fraport – Framework

	 AÉROPORTS DE PARIS	 BAA	 Fraport
Current Perimeter	Single till in first period	Single till	Dual till
Possible Evolution	Exit of part of real estate in second contract Possibility to limit subsidies from non-aviation in second contract	Single till maintained in next quinquennium?	None
Regulator	Ministries of Economics and Civil Aviation	Civil Aviation Authority (CAA)	State of Hesse, Ministry of Economics
Duration	2006-2010	2003-2008	2002-2006

Regulation of ADP vs. BAA and Fraport – Economic Data

	 AÉROPORTS DE PARIS	 BAA	 Fraport
Basis	ROCE to reflect WACC	Return on RAB	Aviation Costs + “reasonable return“
WACC	NA	7.75% (pre-tax and inflation)	10% (pre-tax)
Tariff increase (standard)	+3.25% + inflation	HEA: +6.5% + inflation GAT: +0% + inflation STAN: +0% + inflation	+2%
Risk of traffic (adjustments)	70% compensation (up and down) beyond threshold	No compensation	1/3 compensation
Quality of service (adjustments)	Bonus / penalties	Penalties only	None
Investment (adjustments)	Various (see details)	Triggers, BAA carries overruns	Fee-cap agreement

A favorable ERA matched with Aéroports de Paris ambitions

The ERA of the first five-year period:

- 1** Structured under the regime of **single till** ... that **encourages** Aéroports de Paris to **develop its commercial activities** (in particular diversification real estate) and to control its expenses
- 2** Authorizing an increase in **fee rates** by **inflation + 3.25%...** ... to give Aéroports de Paris the means to **develop its industrial project** (€2.5 billion of investments within the regulated perimeter)
- 3** Set based on an assumption of growth in **traffic of 3.75% per year...** ...with adjustment mechanisms
- 4** Setting objectives for **quality of services** ... along with an **incentive bonus/ penalty system**
- 5** With future evolution prospects in the regulation perimeter

Annexes



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Structure of the Economic Regulation Agreement

- Title I: Purpose and Scope of Application of the Agreement
- Title II: Investments and Quality of Services
- Title III: Pricing
- Title IV: Discussion with Users
- Title V: Terms and Conditions of Performance of the Agreement
- Title VI: Miscellaneous Provisions

Impact of Corrective Factors

Prices 2006

Prices 2007

Prices 2008

Prices 2009

Prices 2010

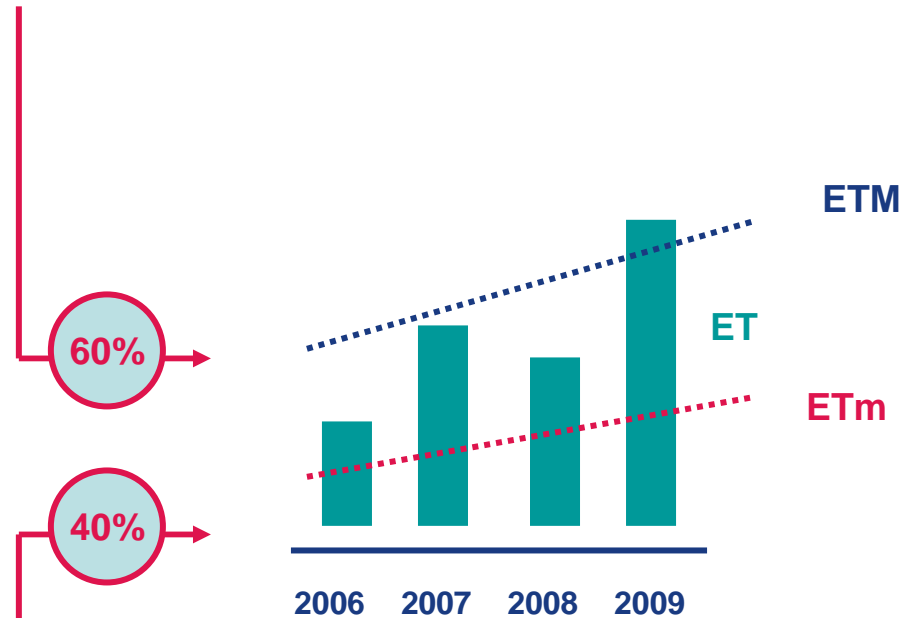
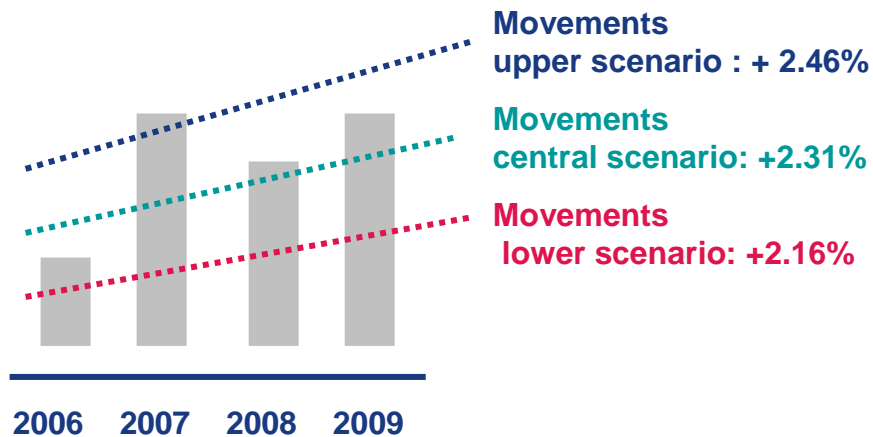
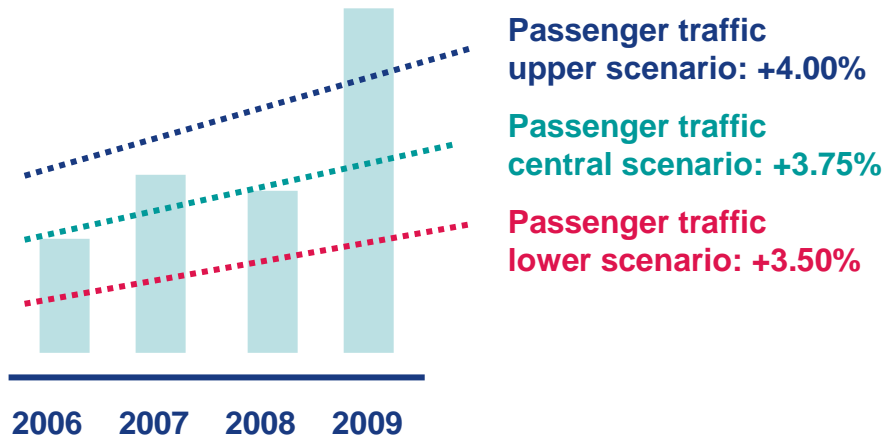
Traffic Factor: TRAF

Factor of Quality of Services: QDS

Investment
Factor: INV

Traffic Corrective Factor

Determination of a compounded traffic unit (passengers / movements)

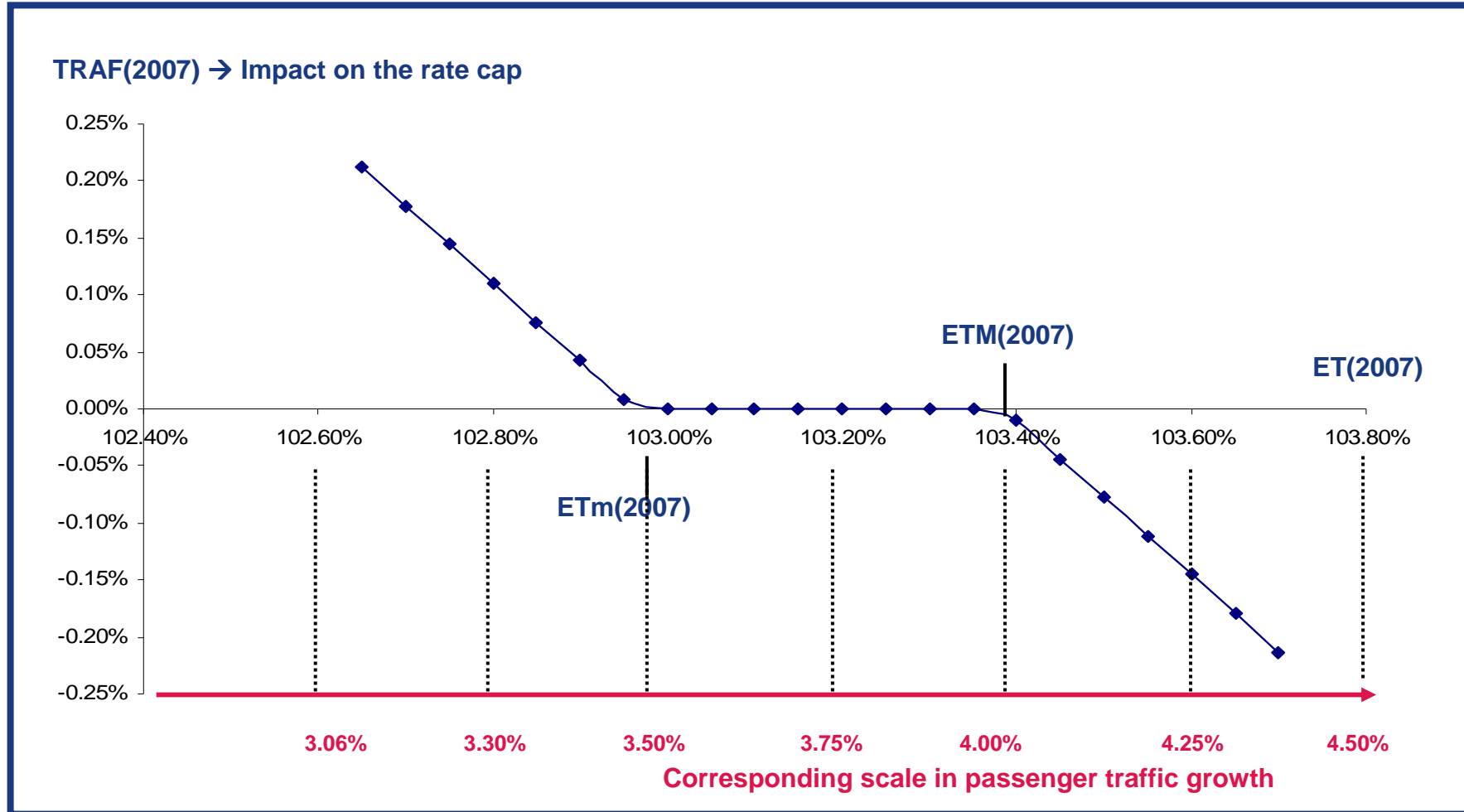


ETM and Etm are set in the ERA

They have been calculated homogeneously at ET

$$ET(n) = 0.6 \times \frac{PAX(n-1)}{PAX(2005)} + 0.4 \times \frac{MOUV(n-1)}{MOUV(2005)}$$

Traffic Corrective Factor



Revision or early termination of the ERA

Exceptional and Unforeseeable Circumstances – Revision Process

REASONS

If one of the parties considers that exceptional or unforeseeable circumstances result in a disruption of the economic conditions of the agreement

Search for agreement on the principle of revision or termination

Agreement → the parties determine the procedure of revision

Disagreement → referral of the airport consultative commission by the minister of civil aviation on the principle and procedure of revision or termination

Disagreement of the airport consultative commission on the need to revise → No revision of the ERA

Agreement of the airport consultative commission on the need to revise or terminate the ERA → the ministers of civil aviation and the economy order a revision of the ERA or put an end thereto according to the terms and conditions defined by the commission

Revision or Early Termination of the ERA

Specific Circumstances for a Revision of the agreement – Procedure of Revision

TRIGGERS

- Traffic outside the tunnel 1.25/6.25%
- Cumulated investments lower than 75% of the program provided for in the ERA
- New situation resulting in a substantial modification of the economic conditions of the ERA

Search for an agreement on the principle and procedure of revision

Agreement →
consultation of the airport
consultative commission
and either revision or not
as the case may be

Disagreement → referral of the airport
consultative commission by the minister of
civil aviation on the principle and
procedure of revision

**Disagreement of the
commission on the need to
revise** → No revision of the
ERA

**Agreement of the commission on
the need to revise** → Revision of
the ERA within 2 months in
accordance with the commission's
opinion

Contacts



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