Lack of transparency and collaboration between airport users and managing bodies in setting airport charges. ADR failed to meet obligation to set charges according to objective, transparent and non-discriminatory criteria.

A.:
ADR believes these claims to be unsubstantiated.

With specific indication to the consultation procedures referred to in Article 6 of the Directive, it should first be noted that the current European regulations:

- provides for the introduction of adequate methods for a transparent and constructive debate between the involved parties,
- does NOT provide that decisions pertaining to the determination of airport fees are subject to a preliminary "consent" by the airport users.

Paragraph 2 of Article 6 of the Directive establishes that the airport manager, by his/her own reasoned assessment, may deviate from divergent claims made by users.

It is worth recalling that the European legislator has intended the provisions of the Directive to be without prejudice to national regulations which have opted for a mechanism for the determination or approval of airport charges by a public body appointed for this purpose (please see paragraph 5 of Article 6).

As for lack of transparency ADR believes that during annual consultations users are provided with information having depth and breadth which go well beyond the requirements of Article 7 of the Airport Charges Directive. Reading through the tables which ADR makes available, users can find all elements of allowable costs (updated) and the updated values for the single components of the tariff formula. This allows for comparisons with the values determined at the beginning of the 5-yr regulatory period.

Finally, all formulas applied to determine regulated charges on an annual basis are available by consulting the full text of the ERA (Economic Regulation Agreement). Thorough text of the ERA and its appendices are available on the ENAC website.

ADR's reliance on the "Contratto di Programma" (CDP) further diminishes the claimed consultation process. ADR's utilization of pre-set parameters (WACC, OPEX, CAPEX), and charges that are pre-approved by ENAC, demonstrably fails to take the views of users into consideration, as is required by the ACD.

A.:
ADR believes these claims to be unsubstantiated. Methodology regulating price calculations, as provided for by the ADR-ENAC ERA (Economic Regulation Agreement), is based on EU best practices and the updating of the pricing parameters occurs at clearly identified intervals that define the "regulatory periods". At each regulatory review (ie. before the start of a new regulatory period), ADR makes users aware of the quantitative/qualitative elements that are due to be updated.

All details are provided in the ERA:

- traffic plan for a five-year period
- correlated review of the investment plan for a five-year period in the framework of a more comprehensive ten-year/concession life horizon
- updates of indicators and targets for the quality plan and for environmental protection for a five-year period
- eligible operating costs for a five-year period

- cost of capital for a five-year period representing an element of certainty for both airport managing body and users

In more general terms, it is worth stressing the importance of a regulatory setting system that ensures certainty on regulations in the long-term, a key element for ADR to re-launch a wide-ranging investment plan for the airports in Rome and to keep operating costs and cost of capital under control.

ADR's ERA, which provides some derogations with respect to the general provisions of other agreements that have been signed in Italy (as required by ENAC for national airport systems with more than 8 million passengers and in compliance with Law no. 102 of 3 August 2009), incorporates the general principle, valid both for EU and Italian legislations, of adjusting tariffs to the efficiency-related costs sustained by the airport operator.

The new tariff system, moreover, was introduced to fill a ten-year gap of lack of links between costs and tariffs, remunerates costs which are certified by third party via objective/transparent process and allows supervisory body ENAC to sanction breaches.

Both text of the ERA and its appendices are available on ENAC's website.

ADR makes unnecessary investments, the cost of which is passed to users.

A.:
ADR's investments are progressing in line with the 10-year plan approved by ENAC at the onset of the 2012-21 10-year regulatory period, save for amendments requested by the Ministries (see also the addendum to the ERA issued in 2012) and a degree of flexibility that is foreseen in the ERA and has been already applied in former years, resulting in reduction of regulated charges relative to ERA forecasts. In compliance with ERA rules, ENAC oversees plan application to sanction any contract breaches unless fully justified by the airport managing body.

Annually, during the consultation process, ADR and users exchange views on the state of capital expenditures as users receive a significant amount of information. In 2016, during consultations for 2017 charges and parameters for the 2017-21 5-year period, users' feedback was functional in partially modifying ADR's projections on future capex and – consequently – prospected charges.

More in general, ADR's ERA provided for urgent and necessary interventions required to avoid reaching the saturation threshold of the Fiumicino airport and laid the foundations for an improvement in operating efficiency and quality of services to passengers. The new tariff system, moreover, came in late 2012 to fill a ten-year gap, remunerates costs certified in an objective manner and allows the ENAC to sanction any breaches.

ERA allows ENAC to have incisive tools to carry out its role of supervision and control over the implementation of investments and in terms of quality and environmental protection that the airport operator undertakes to carry out during the contractual period.

The amount of the works envisaged in the investment plan presented by ADR for the entire concession period is around 11 billion euros, with 1.5 bln approved by ENAC for the elapsed period 2012-18.

Additionally, the claimed cost-relativity of the charges set by ADR should be clear and evident to all airport users, they must bear scrutiny in all of their elements, and be understood by airport users.

A.:
ADR endeavours to represent to users the full set of figures that make up for the allowable costs (operating costs and capital costs). All formulas applied to determine regulated charges on an annual basis are available by consulting the full text of the ERA. The thorough text of the ERA and its appendices are available on the ENAC website.

Annually, ENAC performs a rigorous scrutiny of the actual amount of capital expenditures before allowing them into tariffs, whilst ADR produces updated tables that elaborate the single components of the regulated charges per each regulated service.

Please provide the calculation methodology utilized to obtain the WACC. The proposed 8.52% (pre-tax) WACC utilized by ADR is substantially above the industry standard of 5% or below. We oppose this factor being pre-set and that ADR is not open to adjusting it until the next regulatory period.

A.:
In autumn 2016 during consultations for 2017 – 2021 charges, ADR has fully described the methodology used for WaCC calculation and shared with airport users the details of all parameters considered into the WaCC formula. They have been defined in compliance with the ERA provisions by which the international best practices have been introduced in Italy (parameters of the formula reflect aspects of country risk and the specific market conditions to the company). Finally, components of the WaCC are updated every five years and are fully described in ADR's presentation material.

In particular, in ADR's case allowed cost of capital has to reflect the exposure of the company to the business risk of its main carrier as this may affect traffic forecasts.

Please breakdown the methodology and elements that comprise the 'flight based' and 'pax based' elements of the graph found in the 2019 Charges: Proposal Introduction on slide 16.

A.:
Analysis shown in slide 16 has been held to carry out an estimate of the cost of service per single aircraft at Ciampino, assuming application of the proposed tariffs for 2019 compared to those in force in the previous years (2017 and 2018).

More in detail, aircraft model is "Boeing 737" with specific characteristics as follows:
- 67 tons
- 161 carried passengers
- «Flight based» features service Landing & Take – off
- «Pax based» features services: Boarding pax charge; Security charge; Bag security charge; Reduced mobility pax charge

Graphs on slide 11 should include a comparison to the 2018 charges level, not simply the overarching ERA 17-21. Please provide this.

Please see below with 2018 charges currently in application.

Charges / pax (€)	**2018**	**2019 std**	**2019 "diff k"**
Boarding Pax	16,7	16,8	16,7
Pax Security	2,7	2,8	2,7
Bag Security	1,9	1,9	1,9
LTO	5,9	6,2	5,9
Others	3,3	3,4	3,4
FCO (tot/pax)	**30,5**	**31,1**	**30,6**

Since labour is the primary cost element for delivering PRM services, there should not be such a large disparity between two airports in the same city. If ADR is unable to provide justification for the FCO PRM charge being 420% higher than CIA's, then the FCO PRM charges must be lowered, at a minimum, to the same level as CIA. As such:

- Please provide a quantitative explanation for FCO and CIA's increases in PRM charges
- Please provide justification for the price disparity between the two airports
- Please provide a breakdown of the elements used to calculate PRM and their weight – i.e. staff costs, number of staff, equipment and facility costs
- Please confirm that ADR will hold a separate PRM consultation as is expected by the regulation

A.:
The costs of the assistance service to the PRM passenger managed by ADR Assistance (100%-owned by ADR and set up in 2008 for the management of this service) do not derive from the unbundling of regulated costs of the airport operator. In fact, PRM costs are easily identifiable from the financial statements of ADR Assistance. The allocation of costs to the two airports is made on the basis of the full time equivalent operating with a fixed base in FCO and CIA.

For more on this, please see table on the reconciliation of costs for 2017 financial statements which is published as slide 4 of the document "2019 Charges Proposal: Additional Information on PRM service" (http://www.adr.it/web/aeroporti-di-roma-en-/charges-proposal-2019).

The annual tariff proposal is based on the following calculation elements: Cost per airport of the PRM service (opex, amortization and remuneration) with the addition of any higher / lower costs for the deficit / (surplus) in the financial year (estimated). For this purpose see slides 6 (FCO) and 7 (CIA) of the above document.

More in detail on FCO:

- ✓ 2017: a surplus of € 99 thousand was returned as lower costs in the 2018 forecast. (Costs € 17,298 thousand vs. revenues invoiced by ADR SpA of € 17,396 thousand). Personnel costs (80.5% of the total) include IRAP for its non-deductibility component and are offset by the recovery of costs for ADR Assistance personnel temporarily serving for parent ADR.
- ✓ 2018 forecast: personnel costs increased by 10% due to the increase in FTE's (from 298 to 325) due to the increase in assistance recorded at the airport (+ 10% PRM / 1000 pax index). The year-end forecasts indicate a 2018 deficit of about 970 thousand euros to be recovered in 2019.
- ✓ 2019 Bdg: the recovery of the estimated 2018 deficit, linked to an increase in costs of approximately 3%, results in a 2019 unit price of € 0.99/passenger from 1 March. See slide 18 of the document published in August 2018 "2019 Charges Proposal: introduction".

More in detail on CIA:

- ✓ 2017: a surplus of € 107 thousand was recorded, returned as lower costs in the 2018 forecast. (Costs € 261 thousand vs. revenues invoiced by ADR SpA of € 368 thousand).
- ✓ 2018 forecast: substantial balance between costs and revenues. Personnel costs increased compared to 2017 due to the opening of a reception hall during the first half of 2018.
- ✓ 2019 Bdg: the full-year effect of the increase in staff in the PRM reception room (fte's 2019 vs 2017 + 43% approx) is recorded. The cost of personnel (84% of the total) is impacted more than in the case of FCO to maintain required dedicated PRM staff in the opening hours of the airport.

The charges' difference between the two airports derive mainly from facts that make them not comparable and have a relevant bearing on costs:

- ✓ The staff number required to perform the service in line with quality targets of the two airports,
- ✓ This is in turn consequence of infrastructure differences of the two airports (number of terminals and extension of the areas to be covered for the provision of the service),
- ✓ The number of reception rooms provided for in the various intermediate stages of the PRM boarding / disembarking / transfer of aircraft,
- ✓ Average assistance index differing significantly in the two airports.

Please see slide 12 of "2019 Charges Proposal: Additional Information on PRM service" ("Other Information") (*http://www.adr.it/web/aeroporti-di-roma-en-/charges-proposal-2019*) for summary information on:

- ✓ SERVICE MANAGEMENT
- ✓ FACILITIES AND INFRASTRUCTURES
- ✓ STAFF AND COSTS

We confirm that as usual any ruling concerning the PRM charge will be discussed in a specific meeting with the representatives of the Users Committee of the two airports. For this consultation process meeting is set for October 24, 2018.

ADR has failed to cease its discriminatory practice of heavily subsidizing transfer passengers with revenue from point-to-point airlines. The disproportional discounts currently in place results in a significant competitive advantage for inefficient carriers. Please provide quantitative evidence for transfer passengers being eligible for a enormous 65% discount to direct flights on the PSC.

A.:
ADR is simply applying a tariff articulation – as foreseen in the ERA – in relation to a service in which it is bound to the revenue-cap. Moreover, ADR complies with a general correlation to costs with respect to the passengers in transit by using –among others– square metres as the approach for defining discount to transits as correlation between square metres and cost of services is strong. It is a known fact that these passengers have a different, less "intensive", use of the airport terminal infrastructures and do not use all of them.

Same criterion is used for allocating the RAB and operating costs (for example maintenance and utilities) and ADR's investments in the terminal infrastructures are not biased to favouring neither point to point nor hub carriers.

Furthermore, this is a practice applied in various other European airports and any carrier can consider the possibility of managing interconnecting traffic.

Ryanair opposes the 2% overall increase in charges proposed for Ciampino airport, largely caused by the 58% increase in PRM. Given the decrease in charges in 2018, and a lack of decline in the Ciampino forecasts and performance, the increase is not justified. Additionally, during the 2012 to 2017 period Ciampino saw higher growth rates than Fiumicino (5.5% vs 2%), and higher growth than was forecast (by 400,000 passengers), which should be reflected in the charges. This reasonable expectation is solidified by the expected continued growth which will be led by the low cost carriers. ADR must set the Ciampino charges back at the €15.1 max revenue per pax level.

A.:
On a general note, regulated services' charges are calculated on the basis of the five-year dynamics of the allowed costs as certified in the base year of each regulatory period. Operating costs have eligibility in tariff dynamics based on the elasticity determined by ENAC to the expected growth in traffic. Added to these are costs deriving from new investments ("k" parameter of the formula) or from new regulatory provisions ("v" parameter of the formula). Allowable costs for new investments are recognized only upon scrutiny by ENAC and can be part of charges calculation in the year following that of expenditure.

Moreover, unit charges are calculated on the basis of the forecast traffic in the five-year regulatory period (*ex-ante*). Thus, adjustments to unit charges in consideration of actual traffic are not foreseen by ERA, save for exceptions clearly illustrated in art. 45. The risk of lower than forecast traffic rests entirely on the airport manager, whilst carriers have the benefits of a simpler and more predictable charges updating process. For a summary of actual vs forecas traffic in the first regulatory period (2012-16) please see table below.

Work Load Unit (WLU)	CIAMPINO AIRPORT					
	2012	2013	2014	2015	2016	2012-2016
ERA	5.138	5.155	5.173	5.188	5.201	25.856
Actual	4.669	4.917	5.182	5.992	5.543	26.302
Actual vs ERA	(469)	(238)	9	804	342	446
Var %	*(9,1%)*	*(4,6%)*	*0,2%*	*15,5%*	*6,6%*	*1,7%*

Work Load Unit (WLU)	FIUMICINO AIRPORT					
	2012	2013	2014	2015	2016	2012-2016
ERA	39.484	40.173	40.761	41.330	41.875	203.622
Actual	38.175	37.359	39.723	41.684	43.179	200.120
Actual vs ERA	(1.309)	(2.814)	(1.038)	354	1.304	(3.503)
Var %	*(3,3%)*	*(7,0%)*	*(2,5%)*	*0,9%*	*3,1%*	*(1,7%)*

Also please bear in mind that inefficiencies of the manager from higher operating costs than those included in the "x" parameter represent a risk borne by the airport manager itself.

During the first five-year regulatory period, Ciampino airport changed its status from Civil / Military to 100% Civil. This has resulted in regulatory obligations with a consequent increase in costs to be borne by the airport manager on extension of the concession perimeter. These costs were fully allowed into tariff dynamics only at the start of the five-year period 2017-2021 upon evidence from the 2015 Regulatory Accounts which formed the basis for the calculation.

More specifically, the modest 2% y/y increase in turnaround costs proposed for 2019 CIA charges results from increase in (i.) “k” parameter due to new investments verified by ENAC and (ii.) allowable costs to PRM service which have yearly updates to maximise cost correlation.

Turnaround costs for 2019 in proposal compares favourably both with 2016 and 2017 turnaround costs which were 10% and 2% higher, respectively. Finally, foreseen 2019 turnaround costs are in line with ERA expectations at the onset of the current regulatory period.