

CONVENZIONE – CONTRATTO DI PROGRAMMA ENAC ADR

CONSULTAZIONI UTENTI

PROPOSTA TARIFFARIA 2017 - 2021

*Risposte alle osservazioni preliminari degli Utenti alla
proposta tariffaria 2017-2021*

Incontro con gli Utenti del 5.10.2016

Risposte a osservazioni IATA (1 di 37)

Q1: As outlined in previous submissions the pre-determination of tariff rules and formulas in the concession until June 2044 is of concern to the users and contradicts the principles of the European Airport Charges directive, especially as those rules have not been consulted. A consultation process becomes obsolete if the key parameters are not subject of the discussion and already pre-determined

We therefore request an open and transparent consultation on all elements serving as a basis for determining the level and structure of airport charges in line with the Airport Charges directive

A1: Tariff rules in ADR's Economic Regulation Agreement (ERA) were submitted to users' consultation in 2012. ADR's tariff structure is based on internationally recognised criteria of correlation with the costs of infrastructures and services, as well as efficiency fostering provided by Directive 2009/12/EC and Italian law n. 27/2012. Since December 2012 – when the ERA came into effect – these have not changed reflecting a general interest of providing a coherent set of transparent and stable rules, valid until the end of ADR's concession (June 2044) for encouraging medium and long term development of a key national airport infrastructure.

The purpose of this year's consultation is to update users on:

- the progress of the investment plan and correlated traffic forecasts;
- the relevant changes to allowable costs (RAB and allowed returns; allowed opex; others) for the forthcoming 5-yr period 2017-21;
- the new action plan to improve quality of service and protection of the environment

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Risposte a osservazioni IATA (2 di 37)

A1: Relative to updates on the investment plan, compliant to ENAC's guidelines "procedura di consultazione tra gestore ed utenti aeroportuali per i contratti di programma in deroga e ordinari" of October 2014, during "bridge year" 2016 ADR has submitted to users' consultation the progress of the investment plan with details on interventions foreseen in the 2017-21 period. All relevant information is included in document "2017-2021 fee update; Users consultation: investments", see in particular "the 2017-21 five-year period".

Infrastructure development plans reflect continued expected growth in traffic. For updated traffic forecasts please consult document "Forecast of the traffic trend of the Capital airport system".

Relative to updates on allowable costs in the tariff evolution for 2017-21, users have access to all relevant information compliant to articles 6 and 7 of the EU Directive and ENAC's guidelines in the two documents titled: "ADR Economic Regulation Agreement: Users consultation on the proposal of 2017-2021 fee update; Preliminary Information" and "2017-21 Tariffs: allowable costs in 'base year' and proposed fees for regulated services".

Relative to new action plan to improve quality of service and protection of the environment relevant documents are "Environmental protection Plan for the fee period March 2017 – February 2021" and "Quality indicators and action plan for the fee period March 2017 – February 2021".

All abovesaid relevant documents are available through ADR's web site, please visit:
<https://www.adr.it/web/aeroporti-di-roma-en-/tariff-proposal-2017/2021>

Risposte a osservazioni IATA (3 di 37)

Q2.: As outlined in our previous submissions the continuous increase in airport charges at FCO by 6.3%p.a. on average and 4.5% p.a. for CIA in the previous period is a huge concern for the users, especially as market conditions have already changed during this period and have not been considered (e.g. in the application of the cost of capital). We positively recognize the announced decrease in airport charges of 5% for FCO in 2017, but remain concerned about the following increase of 3.8% per year on average. Furthermore we would like to understand where the decrease and where an increase in the specific charges level will be applied.

A2: ADR's 2017-21 update of FCO's average unit tariff for regulated services show a tight correlation between foreseen increases and new investments in the period that shall contribute to further improvements in the quality of service.

You can find all relevant details on foreseen changes in specific charges at pp. 11-13 of presentation titled "allowable costs in 'base year' and proposed fees for regulated services".

Risposte a osservazioni IATA (4 di 37)

Q3: Based on our analysis not all carriers will see a decrease in charges in 2017, but rather an increase already as of 2017 and an even higher increase in the following year compared to the average 3.8%. It would be helpful if you can provide an analysis of the changes in turnaround costs for different aircraft types per year

A3: ADR made available analyses of new tariff impact per single aircrafts at pp. 16-17 of presentation titled “ADR Economic Regulation Agreement, Users consultation on the proposal of 2017-2021 fee update: Preliminary Information”.

Risposte a osservazioni IATA (5 di 37)

Q4:. We are concerned about the planned shift from passenger related charges to fixed charges (in the provided scenario passenger related charges will drop from 77% to 73%) and we request to keep at least the current ratio for the next 5 year period

A4 : ADR's tariff system provided for by the 2012 ERA is predicated – among others – on allocation of allowable costs to single regulated services, rather than basket of services.

Allocations are:

- compliant with ENAC's guidelines and based on objective parameters;
- applied by ADR in its regulatory accounts and
- verified by certified accountants and ENAC.

Risposte a osservazioni IATA (6 di 37)

Q5a: While the document outlines the different parameters used for the WACC calculation and we see an improvement compared to the previous period, we need further information on how those parameters have been defined (sources, methodology) and request a proper consultation on the individual parameters, given the importance of the WACC on determining the level of charges

a)The Risk Free Rate sees an improvement over the last period however economic reality in Europe reflects a strong tendency towards further lowering of rates. The ECB rate, which sets the interest rates for Italy as well, is negative and while Italian bonds may yield slightly higher than other financially more robust bonds from other countries, the proposed rate of 2.82% is much too high. The Italian bonds will surely follow the trend set by the ECB

A5a. : The sharp decline in the ten-year BTP yields in recent years is mainly due to the effect of unconventional macro-economic policies that have been implemented by the European Central Bank (ECB) to combat the economic and financial crisis that hit Europe. However, compared to the reduction in yields there has not been a corresponding reduction in the country risk as perceived by investors. Yields on government bonds, corrected so as to properly include the country risk of Italy, are higher than current market values.

Against this backdrop, in recent years Italian regulators – following practices already implemented abroad – have adopted specific correction factors to estimate the “risk-free rate” (RFR) on government bond yields net of the effect of “quantitative easing” (QE) policies which have lowered yields:

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Risposte a osservazioni IATA (7 di 37)

A5a.:

- In **Dec. 2015** **AEEGSI** calculated real (ie. net of inflation) RFR for regulated services in gas and electricity of 150 bps as the sum of 50 bps for EU Risk Free Rate and 100 bps of Country Risk for Italy. In nominal terms on grounds of gov't's expected inflation of 1.5% AEEGSI's Risk Free Rate equals to 3%;
- Between **Mar. 2013 and Jan. 2014** in the UK the Civil Aviation Authority (**CAA**), the Office of Rail Regulation (**ORR**), **Ofgem** and **Ofcom** have provided upwards re-calculation of RFR in WACC determinations to offset the temporary impact of QE (longer time intervals for hist avg.; market observations of forward rates and longer-dated bonds; etc.);
- In **Nov. 2015** the French energy regulator (**CRE**) has adopted an average of market observations of French government bonds of different maturities (including 30-year bonds) on a 7-yrs time horizon;
- In **June 2016** the Portuguese gas regulator **ERSE** has determined RFR as 5-year average of AA or above EU gov'ts' bond yields + a country risk premium of 168 bps for Portugal.

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Risposte a osservazioni IATA (8 di 37)

A5a.: In compliance with provisions in ADR's ERA and at the same time taking into account the need to use market yields on the ten-year BTP calculated net of temporary depressive effects of the ECB's monetary policy, ADR has calculated two alternative RFR estimates for application in the 2017-2021 tariff period:

1. Average of the benchmark ten-year BTP yields in the 12 months of the Base Year, ie. from January to December 2015, increased by 100 basis points to reflect only the temporary effects of the latest ECB interventions as the QE, amounting to **2.7%**.
2. Average of the benchmark ten-year BTP yields in the 12 months of the Base Year, ie. from January to December 2015, increased by 220 basis points to reflect the overall effects of macroeconomic policies adopted by the ECB which reduced the benchmark ten-year BTP yield starting from August 2011, without reducing the perceived risk to the country, amounting to **3.9%**.

In conclusion, the yield on risk-free assets – or Risk Free Rate – used in the final calculation of the WACC for the 2017-2021 tariff period corresponds to the low part of the identified range (2.7-3.9%) and amounts to 2.82%. This value is consistent with the average of the daily returns of the benchmark ten-year BTP for the period March 2013-February 2016.

Risposte a osservazioni IATA (9 di 37)

Q5b: b)The asset beta is reflecting a value often used by European WACC determinations and is as such acceptable. What is fully unacceptable is any form of asset beta increase as defined for Italy with an additional beta. This requires an explanation and certainly elimination

A5b. : ADR's equity beta for 2017-2021 period has been updated using the methodology identified in the ERA. The estimate of the beta was carried out on the sample of listed European companies used as reference for the beta estimate for 2012-2016 period (Copenhagen, Frankfurt, Paris, Venice, Vienna, and Zurich airport operators as peers) with one sole exception: Venice airport was removed from the sample as its stock was found much less liquid than those of other airports, leading to distorted calculation.

The equity beta of ADR was then increased by the a corrective factor of 0.3 as described in Annex 20 of the ERA that is a measure valid until 2021 and therefore not subject to update before the next regulatory review that will cover the decade 2022-2031.

The corrective factor applied to equity beta for 2013-21 was predicated upon specific country risk or specific risks to ADR (traffic; investment plan) that cannot be 'captured' in the peers' average beta.

Risposte a osservazioni IATA (10 di 37)

Q5c: c) The equity risk premium has increased over the previous period. While in line with total equity returns The equity risk premium has increased over the previous period. While in line with total equity returns principles an increase may look theoretically viable, the current economic situation in Europe does not justify such a set. On the contrary, investors looking for any returns other than negative or zero rates, the equity risk premium in the current environment has to be lower than previously

A5c:The Equity Risk Premium (ERP) is the reward requested by market participants for the incremental risk of equity investment compared to risk-free assets. ADR's ERA has provided a value for 2012-16 tariff period, initially set equal to 4%. This is to be subsequently updated on the basis of the most recent regulatory rulings on the ERP in various reviews for regulated services in infrastructure and utilities sectors.

Most recent surveys and regulatory reviews lead to an ERP in the 5-5.35% range¹:

- **ART** (rails; airports) set it at 5%;
- Autorità per l'energia elettrica, il gas e il sistema idrico (**AEEGSI**) recently ruled for 5,5% real (6,97% nominal assuming gov't inflation est. of 1,5%).

¹ Delibera n.64 by Autorità di Regolazione dei Trasporti (ART) of Sept. 2014 gave indication of ERP equal to 5%. AEEGSI, in delibera 583/2015/R/COM of Dec. 2015, gave indication of ERP equal to 5,5%.

Risposte a osservazioni IATA (11 di 37)

Q5d: d) The debt premium, as determined via the cost of debt, is unjustifiably high. For the same reason as before, the current environment does not justify such high rates. The ECB currently buys as well company bonds and the Italian companies have the possibility to leverage this situation for ultra-low cost of debt.

In conclusion, we see that the WACC post tax needs to be significantly below 5% and closer to 3%, as currently seen in several European environments

A5d : The cost of debt capital is the sum of the risk-free rate of return (RFR) and a premium determined for each 5-year period on the basis of objective industry-specific and company-specific conditions of access to debt capital.

During the first tariff period ADR gained access to credit lines, due after 2021, for a total amount of approximately € 800 million. This amount is net of the “minimum liquidity reserve” which represents the cash holding that credit rating agencies indicate as necessary in order to maintain ADR’s current rating. This reserve amounts to approximately € 100 million.

ADR’s cost of debt capital in Base Year 2015 – net of interest income on cash balances – is approximately € 43 million. The rate of return on average debt balances (start and end of year), expressed as a percentage, is thus about 5.2%. This value reflects the actual cost of debt incurred by ADR in the year and is below the estimated cost of debt for the first 5-year period of 7.2% by about 200 basis points (please see WACC details for 2013-16), explained by the reduction of interest rates recorded over the last year as a result of QE, and the efficient management of financing needs by the company.

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Risposte a osservazioni IATA (12 di 37)

A5d :

This Base Year's cost of debt was then adjusted downwards to take account of the estimated costs for the opening of a new line of funding for a further € 130 million at a fixed market rate of 2.4%.

The debt premium is calculated as the difference between the cost of debt and the RFR. The cost of debt is complemented by 30 basis points, which corresponds, on the basis of available evidence, to the lower between 30 basis points (please see ERA, article 39.3) and the administrative costs of credit lines which for ADR currently amount to 32 basis points.

In conclusion, for 2017-21 tariff period the overall cost of debt, calculated on the basis of the cost of existing lines and new line of financing including the issuance costs, amounts to 5.11%.

Risposte a osservazioni IATA (13 di 37)

Q5d: In conclusion, we see that the WACC post tax needs to be significantly below 5% and closer to 3%, as currently seen in several European environments

A5d : ADR's nominal post-tax WaCC for 2017-2021 amounts to 6.4%.

In a recent ruling of December 2015 AEEGSI has determined nominal post-tax WaCCs (real WaCCs adjusted for first inflation of 1.5%) in a 4.5-5.4% range.

WACC nominale post tax per servizi regolati dei settori elettrico e gas nel primo sotto periodo regolatorio (2016-2018)

	Elettricità		Gas				
	Trasmissione 2016-2018 [A]	Distribuzione e misura 2016-2018 [B]	Stoccaggio 2016-2018 [C]	Rigassificazione 2016-2017 [D]	Trasporto 2016-2017 [E]	Distribuzione 2016-2018 [F]	Misura 2016-2018 [G]
WACC nominale post-Tax (inflazione 1,5%)	4,5%	4,7%	5,3%	5,4%	4,6%	5,0%	5,4%

Risposte a osservazioni IATA (14 di 37)

Q6: The Masterplan has not been consulted with the users and the attached documents are outlining information only, without the opportunity for the users to have a proper consultation on investments, understanding the business case, level of services planned, asset replacement, alternative options, phasing strategy, etc.

A6: As a preliminary remark, it is worth reminding that in Dec. 2011 ADR presented to users' consultation the investment plan aimed at the completion of FCO South over the 2012-2021 period. This has received ENAC's approval with the signing of the ERA in Oct. 2012 and has subsequently (Aug. 2013) been awarded ministerial approval with Valutazione di Impatto Ambientale.

In June 2016 ADR has submitted to ENAC its airport infrastructure plan for 2017 – 2044.

In consulting users on the progress of the infrastructure plan since 2012 ADR has provided detailed updates on a yearly basis: to that aim, for the purposes of the current consultation process, ADR has published consultation document “2017-2021 fee update; Users consultation: investments”, see in particular “the 2017-21 five-year period”.

Risposte a osservazioni IATA (15 di 37)

Q7: How does the 5 year CAPEX plan fit into the long term strategic Master plan?

A7: The 2017-2021 investment plan is integrated within the planning approved by ENAC and by other competent bodies. In particular, the capex includes the start of all activities needed to carry out the works envisaged in the Master Plan to 2044 approved by ENAC in October 2015.

Consistent with the above and in line with traffic forecasts, in the period 2017-2021 ADR expects the design and construction of the fourth runway and the commencement of the design activities aimed to the development works of the planned FCO North expansion.

Please see slides at pages 33-34 of consultation document “2017-2021 fee update; Users consultation: investments” for more information.

Risposte a osservazioni IATA (16 di 37)

Q8 : What is the strategy for FCO South (long-term, capacity interacting with new terminal in the future)?

A8: The question seems to focus more on the long-term prospects for the South premises and as such foreseeable economic impacts are more relevant for future regulatory periods, outside the scope of this year's consultation process .

Said this, it is worth stressing:

- The entry into operation of the new Terminal North planned in 2028 will ensure a significant increase in capacity at Terminal level.
- Targeting to combine operating standards in all areas of the airport, ADR will intervene on the South Terminals for upgrades and reconfiguration.
- ADR is evaluating different hypotheses in relation to the operating model that at the moment include comprehensive restructuring interventions with suitable closures and/or capacity reduction at some boarding areas. (ADR shall proceed gradually with the implementation of these actions after the entry into operation of the new North Air Terminal).

Risposte a osservazioni IATA (17 di 37)

Q9: Have alternative scenario been assessed to improve the runway utilization (e.g. change of regulation, adjustments to the East/West runway to be used as a taxiway linked to the parallel runway system)?

A9: Fiumicino features a traffic constituted by a daily schedule pattern of peak usage hours in which number of flights cannot be raised. The new runway is the outcome of a process of analysis of alternative scenarios covering benefits achievable on operations and capacity issues as well as an assessment of impacts on the territory.

The choice of the final location for the new runway has been carried out through in-depth analysis of different options capable of satisfying the essential requirements which provided the basis of the technical analysis or:

- respect for the landscape and environmental constraints
- reduction of the areas necessary for the development
- compliance with the legislative requirements to achieve improvements in capacity and safety.

SEGUE

Risposte a osservazioni IATA (18 di 37)

A9: Initially, solutions that included only changes to the current flight infrastructure were analyzed. Only at a later stage the localization process of the future new runway was started.

The runway 07/25 represents a key infrastructure for the provision of new capacity and the purpose of limiting the impact of noise on the territory:

- Located parallel to runway 16L / 34R, it will enable to increase airside capacity by about 40% in the time band of departure peaks and by about 50% in the arrival peaks
- It will allow to maximize the take-off towards the sea, thus avoiding flying over urban areas which are located south of the airport.

Please see slides at pages 44-46 of consultation document “2017-2021 fee update; Users consultation: investments” for more information

Risposte a osservazioni IATA (19 di 37)

Q10: Please explain the process used in regards to the incremental WACC applied for strategic projects and what is the process to determine which part of CAPEX is considered as strategic value

A10:

As provided for in annex 22 of the ERA, the additional remuneration is allowed for investment in infrastructure needed for the expansion of capacity which meet specific requirements.

The additional remuneration is allowed for investment in infrastructure needed in order to encourage the increase of the currently congested capacity, as well as interventions aimed at raising level of service quality and safety.

The incremental WaCC shall be applicable upon investment completion.

Risposte a osservazioni IATA (20 di 37)

Q11: Please provide further details on the split between regulated and non-regulated RAB and the allocation keys used for the allocation (e.g. investments for new access roads in front of the terminal, ADRs new headquarter, parking lots in the East Area, multi-level parking garage F, long-term parking, upgrades of concession areas, etc.)

A11: Split of capital costs among various airport services is carried out by ADR in its certified regulatory accounts and it depends on specific cost centres assigned to the single interventions within an investment project. Infrastructures with specific aims are directly allocated to the relevant service. In case of general intervention on terminal buildings – eg. extraordinary maintenance on terminal buildings – the relevant driver for allocation is the ratio of square meters of a service to total terminal building area as reported in the last certified regulatory accounts.

Examples:

- | | |
|-----------------------------------|---|
| 1. Multi-level parking garage F: | 100% non-reg |
| 2. Long-term parking: | 100% non-reg |
| 3. Commercial concession: | 100% non-reg |
| 4. Aiside (strips; aprons): | 100% reg (RAB) |
| 5. BHS, HBS, RX, Loading Bridges: | 100% reg (RAB) |
| 6. Terminal: | 85% reg on square meters occupied by services |

Risposte a osservazioni IATA (21 di 37)

Q12: Please provide further information on the assumed level of intra and inter terminal connectivity, MCT and baseline airline terminal occupancy to understand the planned investments for HBS and BHS (enabling T1 check-in for L-haul carriers)

A12: The sizing of terminal infrastructures is developed to ensure Service Level C 'Optimum' according to IATA standards in reference to traffic in every time slot of the building usage. At page 37 of "2017-21 investments" presentation you can find the progression of terminal capacity in relation to passenger traffic

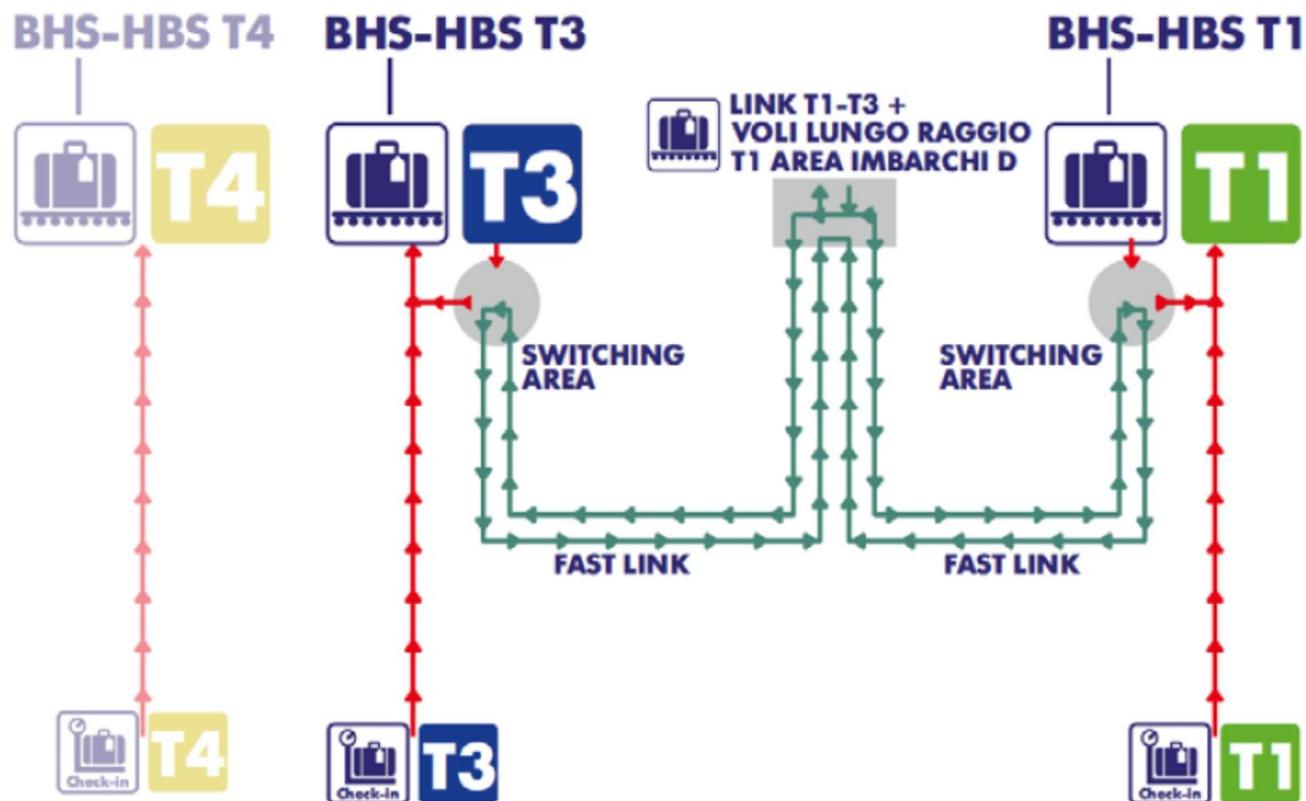
In addition to the entry into operation of the new infrastructures, focused work to encourage passengers flows will cover all subsystems. For example, security checks in transit at the current transit area will be expanded in early 2017 to raise the capacity for monitoring, maximizing the use of one-stop security process. Interventions also include passport control system in transit (also expected by summer 2017).

As for the baggage handling systems, the new plant at the Terminal 1 and the plant on apron level of pier will significantly elevate the ability to process. The systems will be intertwined to facilitate connectivity as shown in the attached scheme.

SEGUE

Risposte a osservazioni IATA (22 di 37)

A12:



At pages 38 and 39 of “2017-21 investments” presentation you can find further information.

Risposte a osservazioni IATA (23 di 37)

Q13: Please outline your strategy and position of a link of the BHS between T1 and T2

A13: The investment on a link of the BHS between T1 and T3 is confirmed and currently in its design stage. The intervention remains subject to necessary tunnel predispositions to be designed and approved according to the latest regulations.

The initiative involves the construction of a connecting tunnel between the two HBS/BHS systems. It will reduce traffic on airside roadsystem with significant benefits on airport operations and reduced minimum connecting time.

At pages 97 of “2017-21 investments” presentation you can find further information

Risposte a osservazioni IATA (24 di 37)

Q14: The 2017-21 investment plan is focusing on 3 areas and we would like to see the business plan for all three areas to justify the investments, the principle of balancing capacity and demand across Terminals and Runways and Aprons

A14: ADR sees its development plan as an outline of the future airport infrastructure that will be capable to accommodate rising traffic flows whilst offering higher quality of service. As presented in the document “2017-2021 fee update; Users consultation: investments” the plan’s encompass several interventions and has as key objectives:

- Provide for capacity expansion of FCO South
- Improve the quality of service
- Ensure environmental protection

In this light, the presentation elaborates on the need for interventions on Terminals; Runways and Aprons; Restructuring and extraordinary maintenance.

In the section from page 55 the presentation highlights investment rationale for each major intervention indicating expected benefits as well as current status and expected amount.

Risposte a osservazioni IATA (25 di 37)

Q15: The 2017-21 investment plan is focusing on 3 areas and we would like to see the business plan for all three areas to justify the investments, the principle of balancing capacity and demand across Terminals and Runways and Aprons

A15: The airside terminal infrastructure of Fiumicino will be handled according to procedures that provide for dynamic allocation of boarding gates by maximizing the use of fingers with advantages in terms of service offered to passengers and airlines.

Such “call forward “ operations provide for the communication to passengers of boarding gate on the basis of the actual operating conditions of the terminal and flights.

Discomforts due to "gate changes" are thus reduced. All common departure lounge areas will be configured appropriately with monitors showing updates on flights to clearly indicate to the passenger the exact time of the call at the gate. In this way the passenger can wait for the flight in a comfortable environment with quality interiors and appropriate service offering.

SEGUE

Risposte a osservazioni IATA (26 di 37)

A15: The call forward will first be implemented in the departure lounge of Terminal 3 according to below indicated criteria:

- single indication for all the boarding areas of Non-Schengen flights (area E) with benefits of clarity for originating and transfer passengers;
- boarding gate communicated subsequently through the displays, as well as through ADR's corporate website and dedicated apps;
- before the gate communication the following information will be explained for each flight: scheduled departure time, estimated time of departure (with possible delays) and indication of when the boarding gate will be announced.

Risposte a osservazioni IATA (27 di 37)

Q16: What is the total no. of parking positions available at peak, levels of pier service and assumed airline tows vs today?

A16: In the 2017-2021 period the plan foresees the construction of aircraft stands maximizing loading bridge usage, consistent with the international status of Fiumicino.

More in details, works will give an increase of 66 stands; those served by loading bridges will grow from current 36 to 74, thus more than doubling.

The sizing of the parking areas in terms of number and aircraft type was performed using the methodology of ICAO's "Airport planning manual" and subsequently verified through a simulation with Simmod Plus software.

At pages 49 and 50 of "2017-21 investments" presentation you can find further information

Risposte a osservazioni IATA (28 di 37)

Q17: The outlined comment that “service levels are in-line with the best practices of European airports” is not a sufficient rationale to invest substantial funds in major infrastructure, instead a robust business case needs to be provided and level of services to be consulted and agreed with the airlines

A17: As for the investment plan ADR’s document “2017-2021 fee update; Users consultation: investments” – in compliance with art. 7 and 8 of the EU Directive – highlights for each project:

- ✓ Key drivers (e.g. capacity, service quality, regulatory compliance, etc.) and expected benefits;
- ✓ The latest changes intervened relative to the previous investment plan;
- ✓ The forecast costs and timeline of the project (construction period, when the new infrastructure will come into operational use).

More in general, to ensure that an optimal outcome is derived from substantial investments, consultation with users is very important for ADR. However it remains essential that the final decision on capital expenditure remains with the airport operator. In fact, a coherent and consistent investment strategy is needed to ensure efficient airport development and the airport operator is in a unique position to find the right balance between meeting immediate (and possibly temporary) needs of individual airlines versus long-term infrastructural needs and general interest of the travelling public.

SEGUE

Risposte a osservazioni IATA (29 di 37)

A17:

Moreover, to incentivize quality of service improvements ADR's ERA – reflecting best practices of several regulatory schemes in infrastructure and utilities internationally – provides for a bonus/ malus mechanism with marginal impacts on tariffs which is transparent and aims to reward/penalize the airport manager on over/underperformances vs targeted improvements.

Targeted improvements are measured by an index made of 18 indicators at FCO (12 for quality and 6 for environmental protection) and 17 indicators at CIA (12 for quality and 5 for environmental protection), the methodology of which is thoroughly explained in Annex 10 of the ERA. The single indicators and relevant targets – which have been updated for 2017-21 period – are included in the consultation material and can be found on ADR web site in the documents titled “Quality indicators and action plan for the fee period 2017-2021” and “Environmental Protection Plan for the fee period March 2017 – February 2021”.

Risposte a osservazioni IATA (30 di 37)

Q18: The amount of CAPEX planned in the next 5year period is twice as much as in the last 5year period – what measures are in place to ensure that this level of CAPEX, in case agreed with the users, can be delivered

A18: In 2012 – last year before the ERA – ADR realized investments totaling 53 million euro. Since the launch of the new rules (2013-2016) ADR has invested on average around 260 million euro. In 2016 only ADR is preparing to close at about 400 million euro of investments, or nearly 8 times the pre-ERA level.

These values give evidence that in the years since the ERA, ADR's organization and operating lines have been re-structured to ensure compliance with the commitments taken with ENAC and users in the implementation of the investment plan while ensuring the achievement of the set objectives of quality and environmental protection.

Moreover, as further protection to users ERA provides that allowable costs associated to capex occurs only upon capex realization (see the details on parameter k of the tariff formula in art. 36), ie. after verification of ENAC's technical structures and the certification by an auditing firm that the processing of the same in regulatory accounting is consistent with ERA rules. ERA finally provides for a system of penalties in case of failure or delay in the realization of the planned investments.

Risposte a osservazioni IATA (31 di 37)

Q19: Please explain how the traffic forecast is linked to the capacity development plan and the huge amount of CAPEX planned for a moderate traffic forecast of 2.3% p.a.

A19: Traffic forecast of 2.3% p.a. is related to FCO+CIA, whilst capex in CIA is expected to 38 million Euro. Traffic forecast – capex relation for FCO – where the vast majority of capex is expected in the 5-yr period – can be represented as follows: capex of 1.858 million Euro vis-à-vis traffic CAGR of 2.7% in the period.

FCO capacity analysis requires separate consideration of landside and airside issues with the latter – typically for all major airside expansion capex – showing a less linear relation with traffic in the short-medium run:

- terminal's capacity increase is in line with traffic forecasts as it is shown at page 37 of "2017-21 investments" presentation, confirming ADR's 'modular' approach to capacity expansion (only T1 extension and Boarding Area A of East terminal -- approx. 300 million Euro -- will be fully operational before 2021)
- runway system is expected to reach saturation no later than 2020/21 with possible 'optimization' interventions to be completed by 2021 (Bravo taxiway, worth approx. 80 million Euro; Apron east area worth approx. 100 million Euro); consequently, Runway 4" (approx. 500 million Euro) is planned to be completed by end-2021 freeing significant airside capacity needed for future years (at page 45-46 of "2017-21 investments" presentation you can find further evidence)

Risposte a osservazioni IATA (32 di 37)

Q20: The consultation should include a discussion on the development of the Opex, without solely referring back to pre-determined parameters and a formula based on inflation, traffic and elasticity.

A20: As for ADR's disclosure of relevant items under Airport Charges Directive and ENAC guidelines rules on users' consultations please see pages 26 and 23 of document "ADR Economic Regulation Agreement: Users consultation on the proposal of 2017-2021 fee update; Preliminary Information" which show (i) full breakdown of allowable operating costs in relevant 'base year' for tariff calculations; (ii) reconciliation with IAS operating costs in ADR's annual report

Risposte a osservazioni IATA (33 di 37)

Q21: Opex is increasing on average by 17% from the base year until 2021 across the various categories, please explain the main cost drivers for the increase

A21: EU's Airport Charges Directive is concerned with prices, not profitability. ADR provides users with significant information on opex in 'base year' for new tariff dynamic which is the relevant element for calculating allowable opex in the forthcoming 5-yr tariff period.

Formulas for calculating opex allowances in a 5-yr tariff period is provided in article 32 of ERA. This outlines a mechanism of elasticity of operating costs to changes in traffic and a factor of requested efficiency which is an international standard for several EU regulatory frameworks.

The foreseen increase in opex allowances of Fiumicino is mainly driven by traffic growth and the expected inflation rate (calculated at 1.5% as in the last Italian Gov't's Documento di Economia e Finanza available for the purpose of tariff proposal).

Fiumicino opex avg increase is calculated at 2.4% in the five year-period and is equally split between forecast traffic growth and the abovesaid inflation rate.

A thorough explanation of the abovesaid methodology is represented at page 21 of the document "ADR Economic Regulation Agreement: Users consultation on the proposal of 2017-2021 fee update; Preliminary Information" available on the website.

Risposte a osservazioni IATA (34 di 37)

Q22: Please provide the source used for the applied inflation rate of 1.5%, the forecasted provided by the International Monetary Fund (IMF) is at 0.1 for the base year 2015, and forecasted to be 0.7% in 2017

A22: As provided for by ERA, article 32, the source used for the applied inflation rate is the “documento di economia e finanza 2016” (DEF):

http://www.dt.tesoro.it/modules/documenti_it/analisi_progammazione/documenti_programmatici/W-DEF_2016_Sez_I_PdS_2016.pdf

The ERA also provides that the inflation rate applied in the price cap formula shall be reviewed every year upon delivery of the final tariff proposal.

Consequently, in recent years a tariff update to account for changes in one-year fwd inflation expectations has become customary. The release of DEF's update of Sept. 29th – carrying an estimate for inflation in 2017 at 0.9% (down from previous 1.5%) – shall trigger a downward revision in ADR's unit tariffs for the 2017-21 period. ADR shall release it within the consultation's deadline of Nov. 7.

Risposte a osservazioni IATA (35 di 37)

Q23: Quality indicators and service level agreements are clearly a subject for discussion and agreement with the users – it can't be decided by the airport and the regulator without consulting the users, who are actually paying for a certain level of service in return to the airport charges

A23: Users have been provided with abundant qualitative/quantitative explanation as to the methodology used to revisit the performance index for the forthcoming 5-yr tariff period. The specific formula for the calculation of the over/underperformance and subsequent impact on tariffs is also publicly available in Annex 10 of ADR's ERA. All relevant consultation material has been provided more than 5 months ahead of the proposed implementation date for unit tariffs' update. The final decision shall be made public at least 2 months before this date.

Risposte a osservazioni IATA (36 di 37)

Q24: We don't agree on the fact that a bonus will be applied for over-achievements of quality and service targets – the appropriate level of service has to be consulted with the users in return for the charges that are paid, therefore there is no need for service and quality to be provided on top of the agreement and no bonus scheme should be applied

A24: ADR's ERA – reflecting best practices of several regulatory schemes in infrastructure and utilities internationally – provides for a bonus and malus mechanism with marginal impacts on tariffs which is transparent and aims to reward/penalize the airport manager on over/underperformances vs targeted improvements.

More in detail, this year the review of quality indicators that we present in this consultation process posed greater emphasis to measuring performances in those areas of airport services that are more appreciated by airport customers. In doing so, ADR has complied with ENAC latest guidelines both on selection of performance measures and percentage weight attributed to the single indicators.

Also, this year's material provided to you for consultation purposes is particularly rich in details of achievements of past years and actions plans for future improvements.

Risposte a osservazioni IATA (37 di 37)

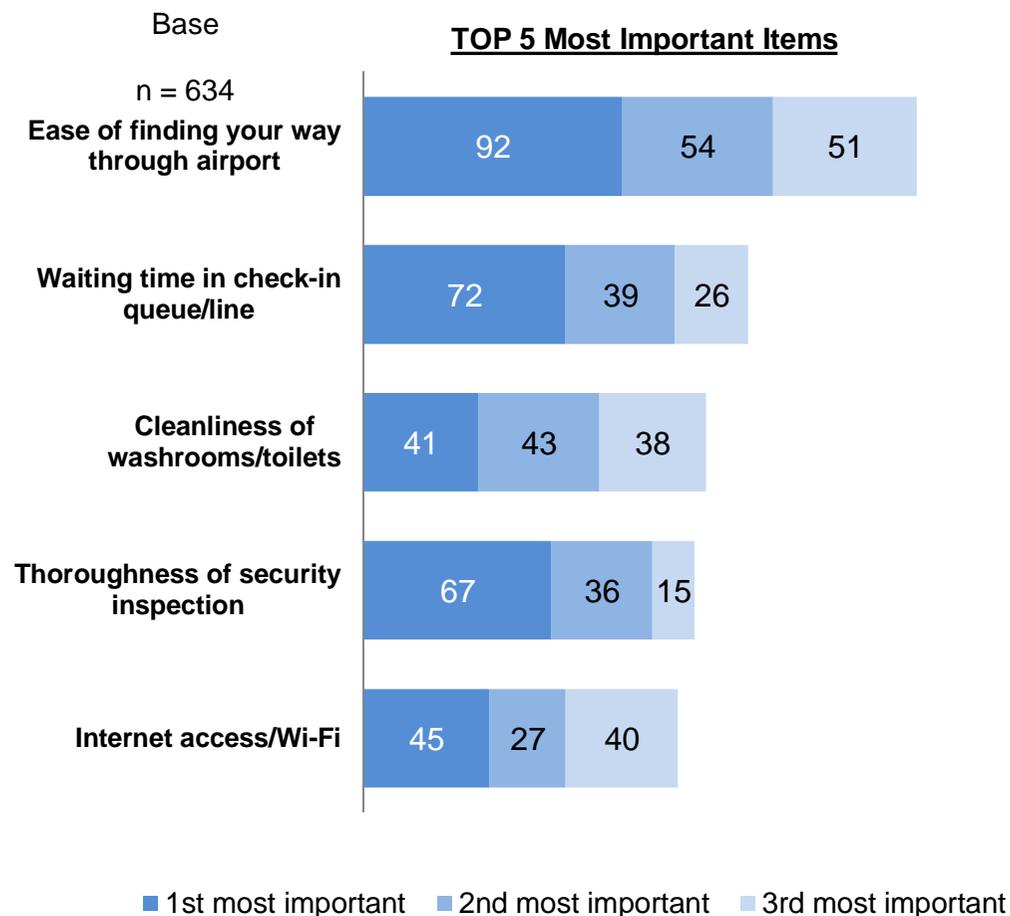
Q25: We suggest to initiate a dialogue and proper consultation on a service level agreement to be established for FCO and CIA defining the required level of service in return for the charges paid, targets for next 5 year period and how performance will be measured and discussed in an ongoing dialogue with the airlines

A25: Several existing documents provide users with a strong web of transparent, consistent criteria and targets of performance on quality standards that are transparent, objective and non-discriminatory:

- ADR's ERA with the performance indicators of Annex 10;
- the third 'atto aggiuntivo' – which adds further indicators to compare ADR performances to those of EU peers on both FCO and CIA;
- ADR's service charter;
- FCO "minimi di scalo" (minimum requirements on level of service).

These documents cover the vast majority of measures of airport services' performance that can be of interest for airport users (according to ACI Europe surveys).

Top 5 Most Important Items (ACI Europe)



Notes:

Top 5: from Q8: "Which of the items listed in Question 7 are the 1st / 2nd / 3rd most important to you at this airport?"

The figures represent the number of respondents who mention the item.

Base is Respondents providing a valid response

Risposte a osservazioni Easyjet (1 di 5)

Q1: Looking at figures, as specified in the Investment Plan Annex it is important to understand the split among aeronautical/non aeronautical of the investment done in the airport:

- ✓ **875.444 € for all flight aviation infrastructure, we assume it is all regulated investment**
- ✓ **502.079 € for Terminals general works, it is not clear the above mentioned split**

More in general it is very useful to know how the split is for all investments by type of work reported in the document

A1: As for the two lines of capex breakdown of your specific interest:

- a) **€ 875.4 mln: airside infrastructures are allocated to the corresponding regulated services by 99%;**
- a) **€ 502.1 mln:**
 - a. **€ 74.0 mln of this are in centralised infrastructures which are 100% allocated to regulated services;**
 - b. **The remaining € 428.1 mln is 85% allocated to regulated services reflecting the evidence of key driver of allocation in last available regulatory accounts, i.e. square meters occupied by services.**

Risposte a osservazioni Easyjet (2 di 5)

A1: More in general, split of capital costs among various airport services is carried out by ADR in its certified regulatory accounts and it depends on specific cost centres assigned to a single capex intervention within an investment project. Infrastructures with specific aims are directly allocated to the relevant service. In case of general intervention on terminal buildings – eg. extraordinary maintenance on terminal buildings – the relevant driver for allocation is the ratio of square meters of a service to total terminal building area as reported in the last certified regulatory accounts.

Examples:

- | | |
|-----------------------------------|---|
| 1. Multi-level parking garage F: | 100% non-reg |
| 2. Long-term parking: | 100% non-reg |
| 3. Commercial concession: | 100% non-reg |
| 4. Airside (strips; aprons): | 100% reg (RAB) |
| 5. BHS, HBS, RX, Loading Bridges: | 100% reg (RAB) |
| 6. Terminal | 85% reg on square meters occupied by services |

Risposte a osservazioni Easyjet (3 di 5)

Q2: Is EXTRA EU tariff type considering short haul flights coming from European continent or is it restricted only to flights within the European Union?

A2: The tariff separation between INTRA and EXTRA EU does not concern the radius of flight, rather EU country membership of origin and destination airports. The only exception are flights to and from Switzerland, which although Switzerland does not belong to the European Union, pursuant to an Agreement of June 1999 in the area of civil aviation between Switzerland and the EU, are awarded EU status.

Q3: There is no evidence of Municipal Taxes, have these been eliminated?

A3: The additional charges imposed on passengers by local authorities are excluded from the allowable costs base and, consequently, from the tariff proposal submitted to users by the airport operator. These additional charges, in fact, are not to be found as part of the airport operator's costs in the financial statements.

Risposte a osservazioni Easyjet (4 di 5)

Q4: Can you confirm the Parking fee is no longer free for the first two hours slot?

A4: The first two hours of parking continue to remain free of charge as stated on page 15 of the "preliminary information" document published on the ADR website.

Q5: Landing and Take Off off-peak time slots have changed from 1100-1800 to 11.30-1500 & 1900-2100, can you confirm the reason behind this change please?

A5: Indication of take-off/landing fees for peak - off peak hours are shown on pages 13 and 14 of the document "preliminary information" published on the ADR website in the section on 2017 tariff proposal. Over the years of first application of the take-off/ landing fees determined according to the rules of ADR's ERA evidence emerged of changes in peak time usage (see representation on page 14). For the revision of the time slots to which the 'peak fees' are applicable ADR analyzed the track record of critical times.

The new timetable for the implementation of 'peak fees' (11: 30-15: 00 and 19: 00-21: 00) represents a total of 5.5 hours per day, down from the 8 daily hours of application over the period 2013-16.

Risposte a osservazioni Easyjet (5 di 5)

Q6: Can you confirm the de-icing rate and what this refers to please?

A6: We confirm de-icing updated fees as in the tariff proposal document for FCO and CIA. Increases in unit rates are mainly attributable to the fall in usage. The de-icing regulated fee is designed to cover the fixed costs for performing the activity. The de-icing liquid is always charged separately according to actual consumption.