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PRM charges' update meeting for FCO and CIA

Meeting starts at 11:03

Attendees:

- ADR: Alessandra Sansone, Fabio Soleri, Marco Gravagno
- ADR Assistance: Giovanna Giua, Francesco Sanjust
- ITA Airways: Rita Gaglione
- EasyJet: Francesco Rado
- Ryanair: Regan Tilson and Adam Kehoe
- American Airlines: Bernardino de Angelis (in presence)
- Delta Air Lines: Erica Valt
- Qatar Airways: Cristian Dattilo
- Lufthansa: Daniela Rotoli
- IATA: Nicoletta Masi and Ana Gomez
- IBAR: Luciano Neri
- Users' committee of FCO: Marco Calvarese (Emirates) (in presence)
- Users' committee of CIA: Elia Pistola
- UDICON – Unione per la Difesa dei Consumatori: Alessandro Ligotti

Verified delegates:

- Aerolineas Argentinas delegates Luciano Neri
- Latam delegates Luciano Neri
- Iberia delegates Marco Calvarese
- Luxair delegates Luciano Neri
- Swiss International Air Lines delegates Daniela Rotoli
- Austrian Airlines delegates Daniela Rotoli
- Brussels Airlines delegates Daniela Rotoli

ADR:

- reminds that today's meeting will end with voting on the proposals presented in the abovesaid material
- reminds that voting is reserved to legitimate delegates that – at the start of the meeting – account for around 60% of FCO WLU and 90% of CIA WLU (details in final table)
- introduces today's discussion by reviewing the consultation material available on ADR's users' consultation web pages since Nov. 11
- opens the Q&A session

Easyjet - Requests more detail on level of recovery of 2020-21 deficits in 2022 and 2023 relative to figures already represented in the slides

ADR – Replies that in 2022 ADR had no chance to recoup any portion of the deficit cumulated in 2020-21. This was mostly due to last year’s users’ rebuffing of ADR’s proposal to lift charges to 1,55 / pax (FCO) that triggered ENAC’s intervention that allowed a lower raise in charges (1,47 / pax) and only effective from May 15. In hindsight, on updated figures for fiscal year 2022 the combination of volumes/applicable charges and costs turned into an unfortunate further loss of € 0,9 mln in 2022 attributable to PRM service

Easyjet – How we reconcile the above-said deficits with net profit we see in ADR Assistance’s annual reports?

ADR – Replies that ADR Assistance’s annual report is relevant for costs of service in users’ consultations, but not for revenue and net profit. This is because ADR Assistance – a wholly-owned sub of ADR:

- is entrusted by the parent company with the responsibilities to perform the PRM assistances on its behalf
- has a contractual relationship with the parent company whereby every year (with subsequent quarterly reviews) an “equilibrium” cost per assistance is negotiated on budgeted costs/assistance volumes in order to provide the company with a financial shield on volume risks (for more on this matter please consult the presentation)

Once again, all operating costs of the service that are shared to you for consultation purposes are taken from the annual report of ADR Assistance for maximum transparency.

Easyjet - Requests more detail on how deficit is carried forward each year (ie. revalued/indexed)

ADR – Replies that ADR uses inflation revaluation as portrayed yearly by the Italian gov’t in the DEF (Documento di Economia e Finanza)

IBAR – Stresses that it wrote a letter in past days to highlight that traffic forecast on which the charge update for FCO is predicated seem low, especially in the light of recent statements of ADR’s CEO at Roots indicating that summer 2023 is seen in line with 2019

Easyjet – Shares IBAR views and follows up with some indications to provide more substance to the bearishness of ADR’s traffic forecast for FCO in 2023

ADR – Replies that ADR is forecasting a 79% recovery in 2023 relative to 2019 that is a very positive sign of relief. ADR’s CEO correctly said that summer 2023 will be particularly good on current understanding (summer months will touch 97% recovery on 2019) but this leaves a large portion of the year to potentially wild fluctuations. As S&P recently stated in a sector report, the industry is facing macro challenges in 2023 as cost inflation continues to escalate and disposable incomes are under pressure throughout Eurozone. FCO is to remain below the avg level of traffic recovery among EU airports due to the loss of a large portion of transit traffic formerly run by AZ.

Easyjet – Was your traffic consulted with ART or ENAC?

ADR – This question allows us to remind you all that ADR is unfortunately NOT within a regulatory period of price controls, thus our 2023 traffic estimate has not been reviewed neither by ENAC (for purposes of approval of capex plan) nor ART.

Ryanair – What is your methodology for traffic forecasts? Did you consult with airlines?

ADR – We shall provide separate information on methodology (please see a specific post on Q&A in our consultation website)

ITA – Traffic passenger is also in our opinion too shy for 2023 and ITA will play a significant role with new flights to FCO growth. Plus, can you come back on your inflation/deficit calculation

ADR – Looks forward to ITA's returning to historical levels. Highlights figures on how ADR deployed inflation in deficit updates

IATA – 2020 and 2021 are not years to compare to in the future. 2019 would be the basis for any cost, traffic, and assistance comparison. It is said that a 4% increase follows a 4% increase in assistance. Where are all the digitalization efforts to reduce the cost per assistance? Could you share your plans to increase automatization in PRM service and at the airport in general?

2019 vs. 2023:

- The number of assistances per FTE decreases from 79.7 to 51.8 euros/FTE. A decrease of 53% in productivity (assistance per FTE)
- In terms of cost per assistance, it goes from 0.51 euros/assist to 0.73 Euros/assistance, an increase of 43% of the cost. How is this related to efficiency and digitalization?

ADR – 2020 and 2021 are obviously NOT significant for comparison purposes and are reported in our slides simply for completeness of our representation of recent trends to users.

Staff costs and total costs of the service are fully detailed in the material shared with you. ADR Assistance's staff cost has proved more rigid than at other airports around EU, but this has enabled ADR to overcome summer peaks and consequent operations' stress more brilliantly than elsewhere.

In recent years Fiumicino's terminals have been subject to significant changes and within it the evolution of the construction sites has led to different allocation of carriers resulting in different – at times less efficient – operating conditions from those in 2019. The lower level of activity that we still experience at FCO raises the weight of fixed costs of centralised component of the service. The distribution of PRM traffic by time slot does not allow for full saturation of the personnel for the management of operations' peaks.

We struggle to keep ADR Assistance efficient vis-a-vis our competitors while at the same time maintaining our strong commitment to quality of the service. In 2023 we foresee a gradual return to the trend on past decade when costs per assistance was consistently reduced, but this has to cope with the pace of recovery and the enlargement of FCO surfaces that for PRM service is a significant driver of costs.

More on this in a specific post on Q&A in our consultation website.

Emirates – Traffic passenger is also in our opinion too shy for 2023 at 34 mln (total pax). Is there room to revise your estimate?

ADR – Replies that our traffic forecasting team will brief on applied methodology; our estimate complies with indications of our CEO; a 1 mln more on total traffic would trigger 7c of lower charges.

Ryanair – Stresses that pre-notification of FCO is a relevant element of costs on which no transparency has been given. Also, various airports around EU have triggered modulation of PRM charges on pre-notification levels. Plus, your application of inflation to costs is something we have not seen elsewhere

ADR – Replies that pre-notification of FCO are at 58% in 2022 (jan-oct) (was 60% in 2019) but ADR does not see this as a significant driver of costs. ADR has contemplated in the past (pre-COVID) the idea of introducing modulation of PRM charges on pre-notification levels but decided to wait on more comprehensive evidence. On this please also see a separate note as a back-up to these minutes (material not displayed during the meeting).

Separately, replies that ADR does NOT apply inflation to overall costs (once again costs are detailed from ADR Assistance's budget) but does it exclusively on deficit as it tries to cover the loss linked to time value. Events that led to the much delayed charge increase at FCO of last year were unfortunate. ADR aims to recoup the incurred deficit in a fair amount of time at no further financial losses for the company while at the same time trying to alleviate impact on users.

Easyjet – Stresses labour cost / FTEs to assistance inefficiencies of FCO

ADR – Replies that staff costs and total costs of the service are fully detailed in the material shared with you.

ADR closes Q&A session and calls for a 5-minute break

ADR:

- reconvenes the meeting
- thanks all participants for extensive and lively discussion
- in the wake of significant criticism of ADR's traffic forecast for 2023 that inform charges update calculation, requests users to make available more updated inputs to allow for a review of traffic assumptions that led to the shared paying passenger figure for 2023 in FCO standing at 17,05 mln that is perceived as too low by users
- in this light, separately submits to users the yearly traffic information requests
- to avoid prolonging indefinitely the consultation process, kindly requests users to make this information available within 10 days from today's meeting (Nov. 24)
- pledges to consider the inputs that will be received as confidential information
- pledges to consider potential changes to the abovesaid traffic forecast for FCO in case indications unknown to ADR emerge from received information
- informs that should the above-said traffic forecast be re-considered, users shall be duly informed of publication of updated consultation material (including revised charge proposal) and of a new meeting's date by no later than mid-December
- informs that – alternatively – it shall update users on the closing of the consultation and transfer of all relevant information to ENAC for supervisory activity on the outcome of today's meeting

- commits to sending to individual users the minutes of the meeting no later than November 27 and reminds that minutes shall be dully signed by all legal representatives (minutes shall be subsequently published on ADR's consultation webpages)
- calls for casting the votes on today's discussed charges update proposals for FCO and CIA

Summary of votes

Please see below table with voting outcome

CIAMPINO	
Proposal Accepted (Present)	0,0%
Abstained	0,0%
Absent	10,8%
Proposal Rejected	89,2%
	100,0%
Proposal Accepted (Abstained, Absent, Present)	10,8%
Proposal Rejected	89,2%
	100,0%

FIUMICINO	
Proposal Accepted (Present)	0,0%
Abstained	4,9%
Absent	41,7%
Proposal Rejected	53,5%
	100,0%
Proposal Accepted (Abstained, Absent, Present)	46,5%
Proposal Rejected	53,5%
	100,0%

Meeting ends at 13:15

BACK-UP: further Q&A material produced by ADR post-meeting

a. ADR made available by mail to users more slides covering costs and traffic estimates (said material shall be published on the consultations' webpages ASAP)

b. More in-depth considerations on pre-notification and impact on costs

European rules make sure passengers with reduced mobility (PRM) receive free of charge assistance at EU airports. Regulation 1107/2006 on the rights of PRM travelling by air states that support given by airports and airlines must be free for them and that costs of said assistance "should be financed in such a way as to spread the burden among all passengers using an airport".

Comments made in the meeting of 24 Nov. on structure of costs and alleged impact on it of level of pre-booked assistance at an airport are an opportunity to share thoughts on the state of PRM service at the Fiumicino airport.

Initially, ADR re-affirms that it calculates PRM charges according to ENAC guidelines of August 9, 2018 which are centered around transparency, non-discrimination and correlation to costs. As all of you well know, ADR's PRM charges apply to all departing passengers.

Despite pre-COVID impressive achievements in quality enhancements delivered at a fair price¹, ADR remains committed to improving key performance indicators of its PRM service, whilst at the same time providing for full recovery of costs. During consultation on 2019 charges we anticipated the possible introduction of differentiated PRM charges to reward carriers with the highest ratio of pre-booked assistance ("pre-notification"). Subsequently, we made further analyses into the matter and received feedback from stakeholders with significant PRM experience (eg. participants in "Comitato Utenti"). Considering evidence gathered and negative stakeholders' feedback, at that time ADR decided not to further pursue this option.

Demand-side issues – PRM travel rights vary considerably depending on the airline one chooses and on the final destination of the flight. While all IATA member airlines should comply with IATA resolution 700 (Acceptance and Carriage of Incapacitated Passengers²) European and Non-European Air Carriers are subject to different regulations depending on the final destination of the flight which identify different responsibilities in providing accessibility services to people with reduced mobility.

Differing regulations create diverging carriers' behaviours in assuming PRM responsibilities. This in turn crystallizes diverging track records between carriers as for pre-notification of service to airport managers. Evidence that ADR has collected:

- indicates that US carriers have consistently and significantly underperformed Fiumicino's average in 2017-2019 on assistance pre-booking percentages;
- suggests that such a significant performance gap is rather a structural feature and could hardly be addressed through price incentives.

¹ Since 2013 ADR has consistently outpaced targets of PRM service's performance indicators set out according to its Regulation Agreement (indicators are consulted with users and supervised by ENAC). Across the same period, per pax PRM charge has grown by an average of 1,5%, broadly in line with inflation, and has remained in line with EU peers' average.

² Incapacitated Passengers shall be defined as those with physical or mental disability or with a medical condition, who require individual attention or assistance on enplaning/deplaning, during flight and during ground handling which is normally not extended to other passengers. This requirement will become apparent to service providers from special requests made by the passengers and/or their family or by a medical authority, or from obvious abnormal physical or mental conditions observed and reported by airline personnel or industry-associated persons (travel agents, etc.).

The latter is reinforced by regulatory constraints to tariff flexibility at ADR that – on grounds of correlation to costs for the specific service – limit the above said price incentives to a tiny fraction of the overall airport cost of an aircraft's turnaround (as PRM charges accounts for roughly 5% of avg comprehensive charge, PRM modulation for the best performing on pre-booking is due to remain limited in overall price impact).

Supply-side issues – In the last years pre-COVID the deployment of PRM dedicated staff increasingly reflects the track record of PRM ratio (PRM assistance as a ratio to total passengers) as derived from daily flight schedule. After COVID disruption ADR aims to quickly return to this. Complementing this, ADR is increasingly pursuing efficiency enhancement in PRM service costs resorting to contract flexibility that allows for longer work-shifts at peak periods and in week-ends.

This implies that PRM service costs – as taken in transparency from the financial accounts of fully dedicated, 100%-owned subsidiary ADR Assistance – are planned efficiently, providing for very limited savings in the event of marginal increases in the overall ratio of pre-booked assistances.

Temporary issues – Finally, ADR's decision not to further pursue charges to reward carriers with top pre-booked assistance ratios has to be associated also to temporary conditions (unpredictability of traffic trend in near future; further infrastructure expansion creating temporary service inefficiencies) and could be re-assessed in the future.

In the meantime, we welcome your contribution to ADR's thinking process on this very sensitive subject.