2019 Charges: Proposal

Introduction

August 2018

- **2019 Charges: Key Issues**

- **Costs per Aircraft**

- **Focus on RMP Service**

- **Allowed Costs and Parameters of Regulated Charges**

- **Background Information on ADR-ENAC Economic Regulation Agreement**

Regulated Charges Update for 2019

- 2019 represents the third year of the current 2017-21 regulatory period and the annual update of the regulated charges is part of the 5-yr tariff evolution calculated *ex-ante* in 2016 and by then represented to the users in consultation. Article 22 of the Economic Regulation Agreement («ERA») sets in 5 years the duration of the periods between reviews of the tariff parameters.
- The abovesaid *ex-ante* evolution foresaw a rise of the average FCO charges (2017: 30.8 €/pax, 2021: 35.1 €/pax) due to the planned investment plan. Specifically for 2019, the average payment amount was expected to be 32.6 €/pax.
- The update of the 2019 charges now in consultation for FCO provides evidence of ADR's effort to optimize the investment plan for spending and timing in consideration of the actual demand. Adding to this a review of timing of authorization procedures have also contributed to reducing the level of 2018 investment spending compared to planned amount. This results in a lower value of the «k»(1) parameter, which reduces the average charge to 31.1 €/pax (1.5 €/pax below the ERA's forecasts for 2019).
- However, the investment plan in implementation leads to forecast increases in regulated charges, in particular for 2020 and 2021. The increases will be a function of the actual finalization of the investments and can be expected in 2-3 €/pax depending on the construction timing of the fourth runway whose approval procedure is currently suspended and awaiting reboot.
- In the current scenario of investments and traffic volumes, moreover, the upward trend in charges in 2020-21 is expected to be followed by a significant decline at the start of the following 5-yr period (2022). This is due to the mechanisms of the 5-yr tariff evolution that ensure the maintenance of the correlation between allowable costs and regulated revenues that in turn triggers a discontinuity in charges between a regulatory period and the other of a sign (+/-) opposite to that of the underlying traffic trend.
- Against this backdrop, for the consultation on the updating of FCO's 2019 regulated charges, ADR represents a proposal that includes the option of a substantial tariff stability in the 3-yr 2019-2021 period (foreseeable even beyond), in compliance with the provisions of the ERA and consistent with the long-term evolution of "value for money" of the airport services to users.
- This option of substantial long-term tariff stability is here represented as part of the proposal to 2019 update of the regulated charges also with the aim to receive the opinion of the Users. This option may be chosen as definitive proposal according to the feedback that will be offered in consultation and any further assessments that ADR will be able to make in the coming months. In any event, its application remains conditional on the approval by ENAC and to the related implementation discipline aimed at maintaining necessary correlation between service costs and revenues.

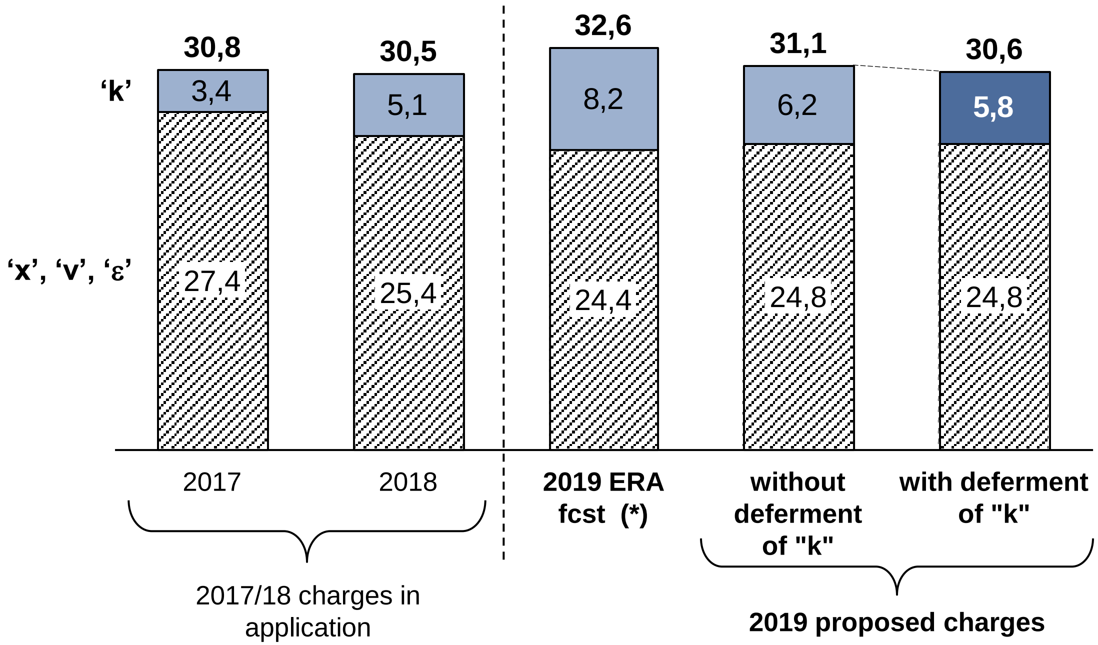
(1) k: component of regulated charges as indicated in the ERA aimed to cover allowed costs tied to new infrastructures

Regulated Charges Update for 2019

- As in previous years, the main elements included in the information set made available to airport users are ADR's proposal for updates to the charges for the services subject to regulation (Annex 9 of the ERA) and the progress of the investment plan, with particular reference to full year 2018 which impacts the «k» component of the proposal.
- For 2018 forecasts for new investments point to a lower value than originally reported in the 2017-21 plan prepared in 2016 for the update envisaged by ERA. This is mainly result of the authorization delays as well as optimizations / rescheduling in progress linked to the traffic scenario and to operational requirements.
- The remainder of the information set covers monitoring of quality and environmental protection indicators (Annex 10 of the ERA) which together constitute the «ε» component of the proposed charges: the performances achieved in the relevant 12-month period (July 2017-June 2018) lead to the recognition of the maximum bonus onto regulated charges.
- Even after the impact of the quality and environment bonus, the 2019 avg charge forecast for Fiumicino is in all cases lower than the ERA forecasts for 2019 (pls see 2017-21 ERA update): compared to avg charge currently applied, avg charge in proposal shows a modest increase (about 2%) or alternatively, in case of application of tariff stability measures, almost nil increase.
- The 2019 charges for the commercial aviation of Ciampino are in line with ERA's forecasts and slightly higher than the current year, after the significant reduction achieved both in 2017 and 2018.

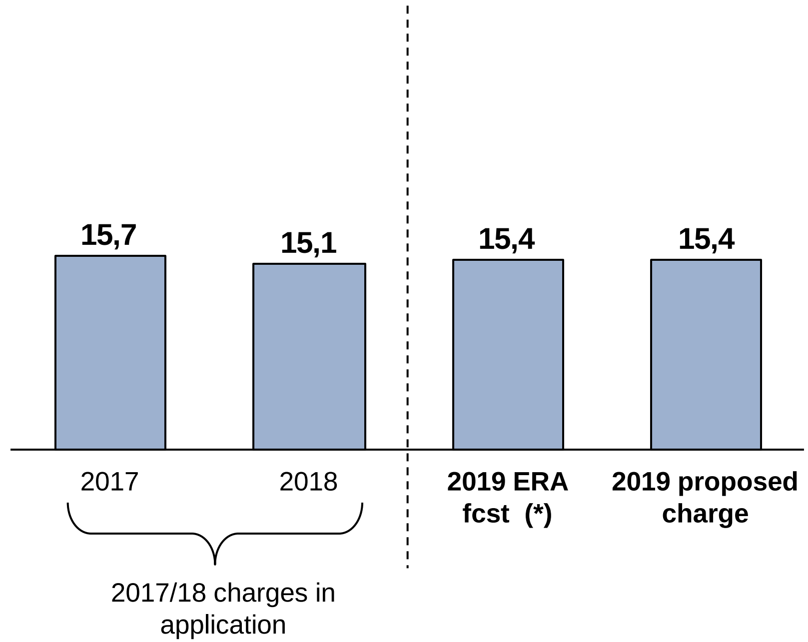
2019 Charges Update: further into the second 5-year period (2017-2021)

FCO avg charge (€/paying pax)



CIA avg charge (€/paying pax)

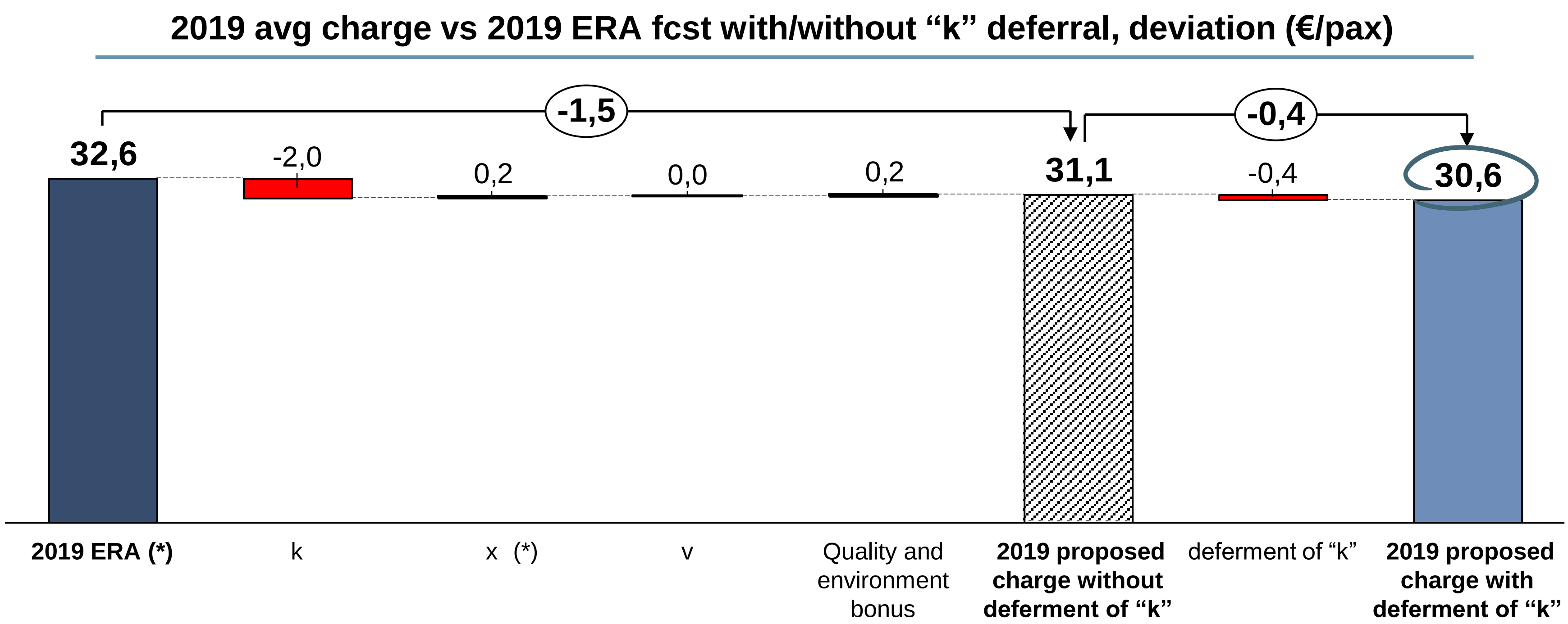
Commercial Aviation (CA)



- For FCO the proposal for 2019 charges update also includes the possibility of applying unchanged charges against 2018 for the main services (ipax, landing / take-off, securities) by deferring the «k» component as foreseen by the ERA:
  - in both cases the average unit charge is lower than the level set for the same year by ERA
  - opting for tariff stability provides for an average lower charge compared to the "standard" option of -**0,45** €/pax equal to -1.4% which would make avg charge of the current year substantially unchanged vs current year
- At FCO, for 2019 the «k» component is expected to decrease relative to ERA’s fcst values due to lower investments compared to ERA targets; depending on the options for 2019 updated charges, the «k» component is within the range of 6.2 - 5.8 €/pax (vs ERA’s 8.2 €/pax)
- At CIA for the Commercial Aviation segment (shown in figure), the average unit charge in consultation is in line with ERA’s forecast for the same year, slightly higher (+2%) than avg charge applied in 2018 but still below the level in 2017 **(-0.3 €/pax)**

(*) excluding quality+environment premium

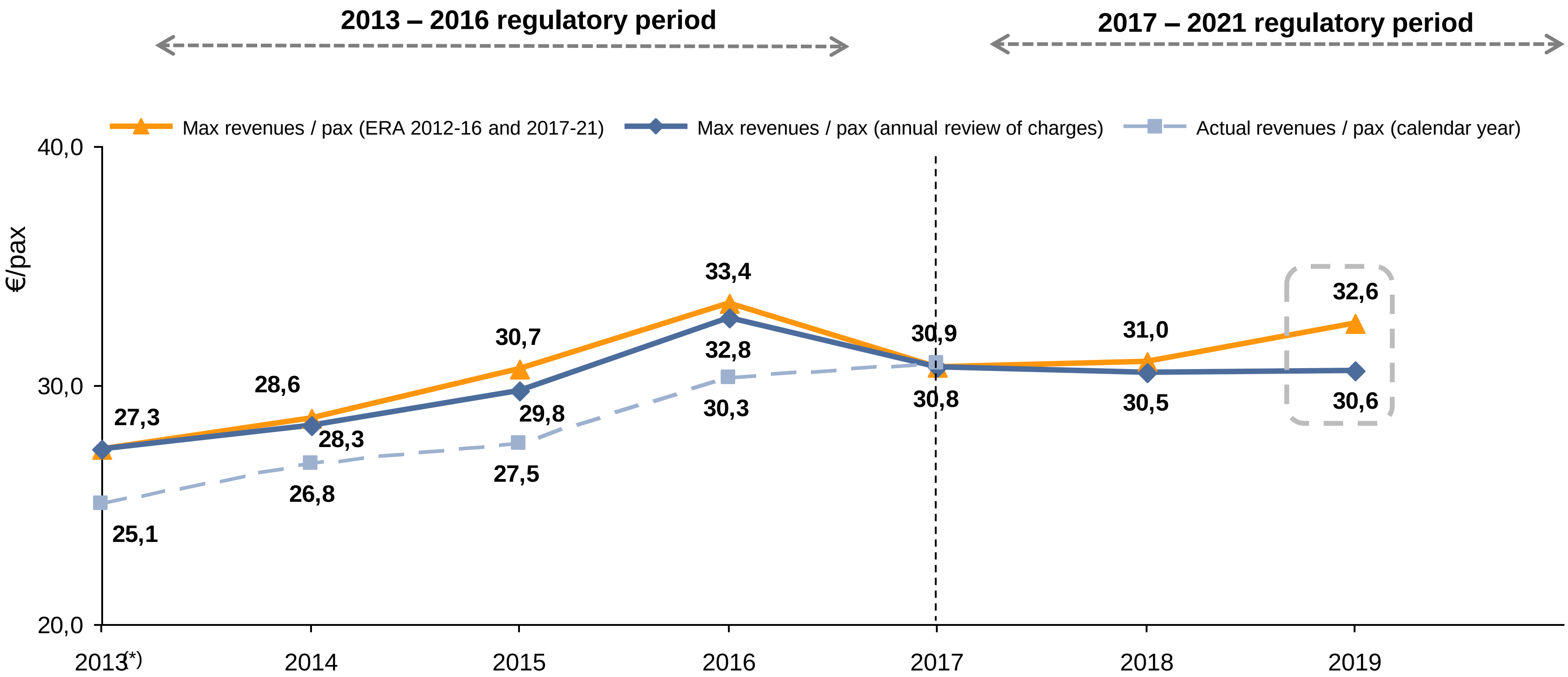
FCO: 2019 charges update vs ERA’s Fcst (2017-21 ERA update)



- Relative to ERA’s fcst, it can be seen that the current deviation from the capex plan approved by ENAC is naturally reflected in a decrease in the «k» component which allows to recover capital costs on the investments (on amounts verified and allowed by ENAC)
- The lower «k» - only partially offset by the achieved quality and environment bonus and the increase in costs for the RPM service - results in a negative variance vs. the avg charge forecast for 2019 in the ERA update (-1.5 €/pax or – 4,7%)
- For 2019 ADR also provides for a tariff stability option on the main regulated services:
  - ✓ the option of tariff stability foresees an average lower fee worth **-0.45 €/pax** (equal to -1.4%) vs the option with no deferral of part of «k»
  - ✓ in this scenario, the negative variance to avg charge forecast for 2019 in the ERA update rises to -6.1%

(*) excluding quality+environment premium worth 0,2 €/pax

FCO 2013-2019: Allowable Revenue per Pax vs ERA Fcst

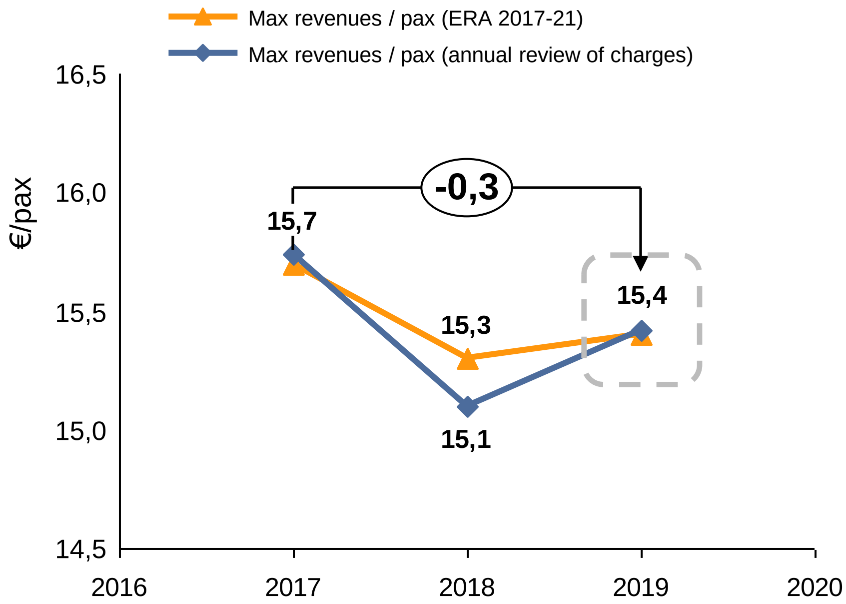


- At FCO in 2013-19 the unit charge for regulated services (allowed revenues / pax) shows an average growth (CAGR) of 2.2% (from 27.3 €/pax to 30.6 €/pax). This is in spite of the significant investments in higher capacity (+7 million pax p.a. capacity in the period) and much enhanced quality of service (ACI «Overall Satisfaction Index» from 3.31 to 4.35, ie. from worst to best result of the panel in the period)
- Charges proposal for 2019 is predicated – among others – on an inflation est of 1,5% which contributes to determining a possible average charge of 30.6 €/pax (in the option that provides for tariff stability)
- Actual revenues / pax in each year reflect some price reductions on minor services (in particular regulated rents) and traffic mix/volumes that differ from ERA estimates

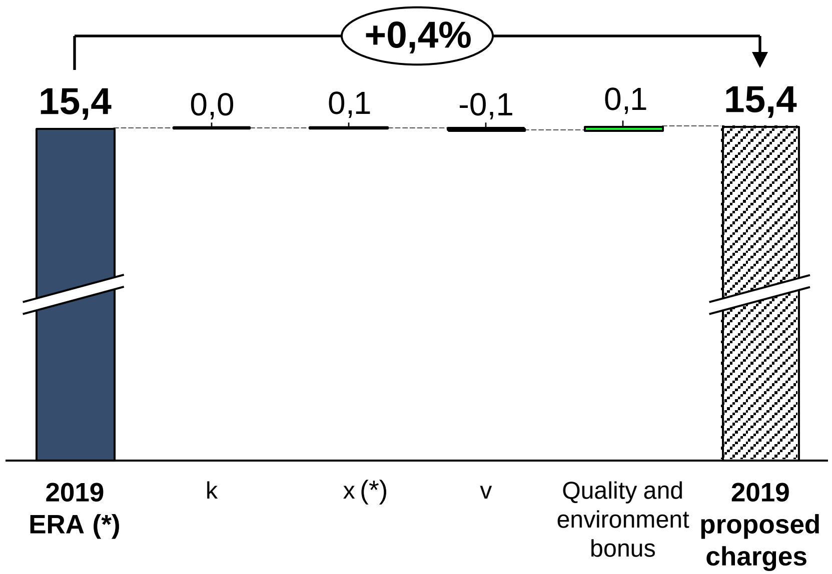
(*) the average charge for 2013 recorded in the calendar year is affected by two months (January, February) in the absence of application of the ERA

CIA (CA): 2018 Charges Update vs ERA's Fcst (2017-21 ERA Update)

CIA (CA) 2019 vs 2018, deviation (€/pax)



CIA (AC) 2019 vs CDP 2019, deviation (€/pax)

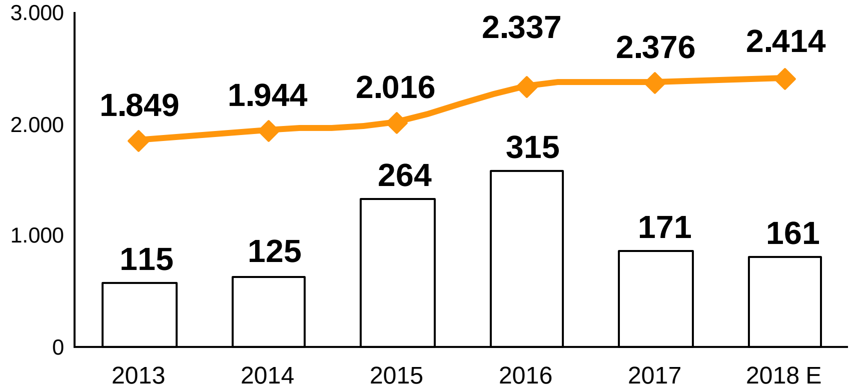


- At CIA for Commercial Aviation (shown), 2019 average unit charge in consultation is in line with the provisions for the same year from the ERA and slightly higher (+2%) than avg charge in application in 2018 but still below the level applied in 2017 **(-0.3 €/pax)**
- This happens despite the consideration for component ε (quality and environment bonus) which adds € 11c on the average unit charge and is never represented *ex-ante* (excluding premium ε -0.4% vs ERA)
- Charges proposal for 2019 is predicated – among others – on an inflation est of 1,5%
- In 2017 – at the start of ERA's II 5-yr period – a new specific tariff structure was introduced for general aviation – not represented in the graph – in order to allow for a more accurate correlation to the specific costs (pls see update of Annex 9 to ERA for more)

(*) excluding quality+environment premium of 0,11 €/pax

Investments and RAB in 2013-2019

2013-2018 RAB(*) and REG Capex (€ '000)



	2013	2014	2015	2016	2017	2018 E
(**) FCO	123	161	314	402	180	187
(**) CIA	7	8	8	26	12	14
(**) SYS	130	169	322	428	192	201
(**) SYS cum	130	299	621	1.049	1.241	1.442

(*) values of FCO+CIA and representing year-end RAB

(**) capex REG+NO-REG; real estate investments not included

Strategic Projects in Capex Plan in 2016-18 (***)

		Incremental WaCC		
Infrastructure	Completion of work	High	Medium	Opex k (if relevant)
Avancorpo T3	2016	X		X
BHS Molo E	2016	X		X
BHS T1	2016	X		X
Sistema aerostazioni est (piazzali 200)	2016	X		
Macchine RX BHS T1	2016	X		
Piazzali in area ovest 1ªfase	2017		X	
Sistema aerostazioni est (area check-in)	2017	X		
Sistema aerostazioni est (piazzali 300)	2018	X		

(***) please see annex 22 to the ERA for more details on projects and methodology

- At the start of 2019 the value of ADR's RAB is estimated at 2.41 € bln (1.80 € bln at ERA start, values at the airport system) for a 33% increase compared to investments allocated to reg services equal to 1.15 € bln (capex to the reg services in 2013-2018, of which 0.65 € bln of capex REG in the 2016-2018 three-year period)
- At the end of 2018 the unfolding of the investment plan will have determined a portion of RAB (7.5% of the total) that will benefit from the recognition of an incremental WaCC due to the high strategic value of the related projects
- In clearly defined conditions set forth in ERA's art. 36 allowable costs for regulated charges calculations include operating costs (utilities, ordinary maintenance, cleaning, others) associated to the start-up of new significant infrastructures within a 5-yr tariff period (in ADR's 2019 charges proposal this item accounts for 1,3% of total allowable costs)

An Option Aiming At Charges Stability

- ADR represents a possible alternative to "standard" charges update which is compliant to the ERA provisions and would allow substantial stability of charges in the three-year period 2019-21 (and before a foreseeable drop in charges in 2022). This represents an alternative to significant increases in "standard" charges (up to 2-3 €/pax) that would otherwise be expected due to the volume of investments.

- The proposed application provides for a gradual recognition of the costs for investments made in 2019-2021 (deferral of portion of the parameter "k" with recovery in subsequent years). The application covers the 4 main services (ipax, landing / take-off, securities) representing approx. **90%** of the regulated revenues.

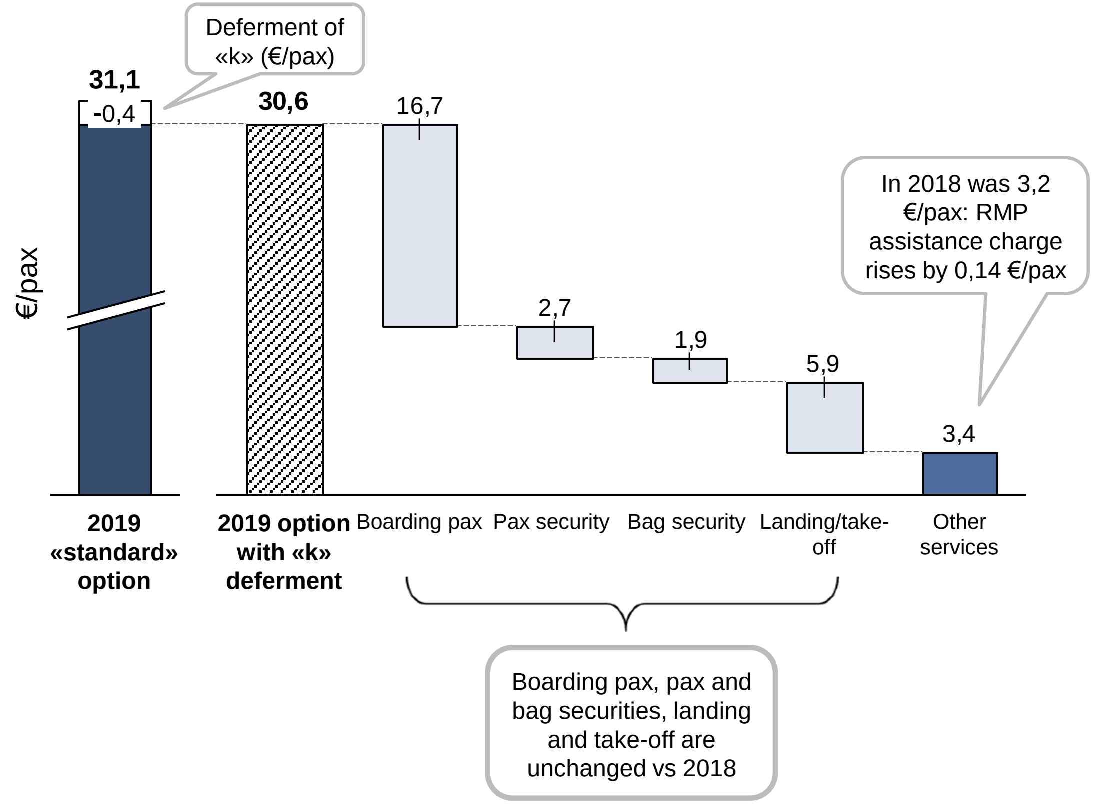
- For the purpose of recovering deferred costs, the principle of correlation between regulated revenues and costs of airport services is respected over a longer time span (2019-2026) which covers the entire next five-year regulatory period.

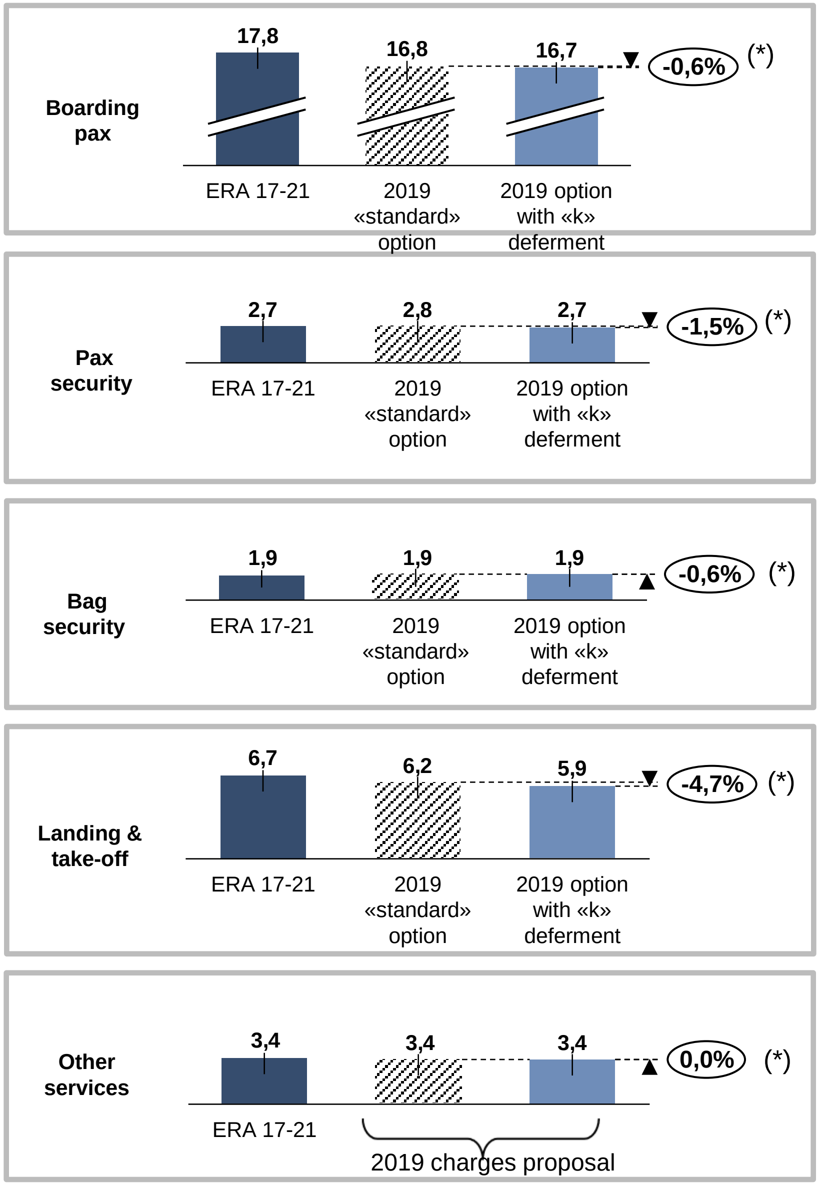
- In detail, the proposal that foresees stability of charges includes:
  - charges in 2019-2021 substantially unchanged compared to 2018, achieved through deferment of portion of the parameter "k";
  - assessment of the costs relative to "k" not included in the allowed revenues for 2019-2021 and deferred to the 2022-2026 five-year period;
  - recovery of the portion of "k" costs deferred through the parameter "x"(1) in the 2022-2026 regulatory period in application of the ERA rules, so as to ensure correlation with the costs over the entire time span (2019-2026).

- This application shall be subject to specific implementing rules for the purpose of valuing and updating the annual portion of deferred "k" and the related method of recovery on subsequent years. The abovesaid rules will be preliminary to the approval by ENAC of the 2019 charges that will take place by December 31st.

(1) «x»: component of the tariff linked to the regulated costs of the company in the so—called "base year" of a five-year regulatory period

Regulated Charges: Break-down



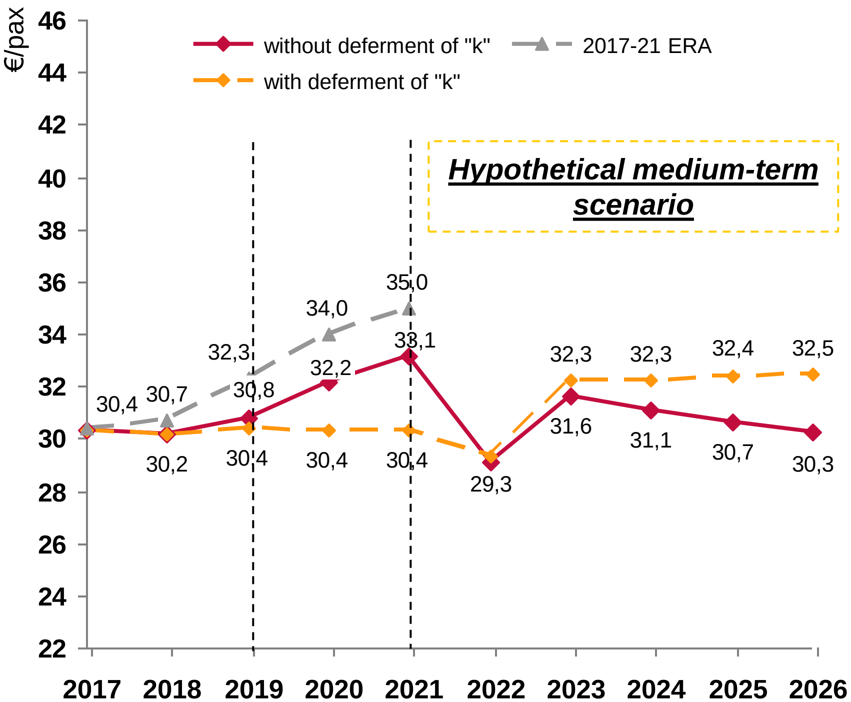


- The proposed application to achieve tariff stability foresees the deferral of portion of the component «k» for the 4 main services that represent approx. 90% of regulated revenues
- For each service concerned, deferment represents a specific percentage reduction compared to the "standard" proposal

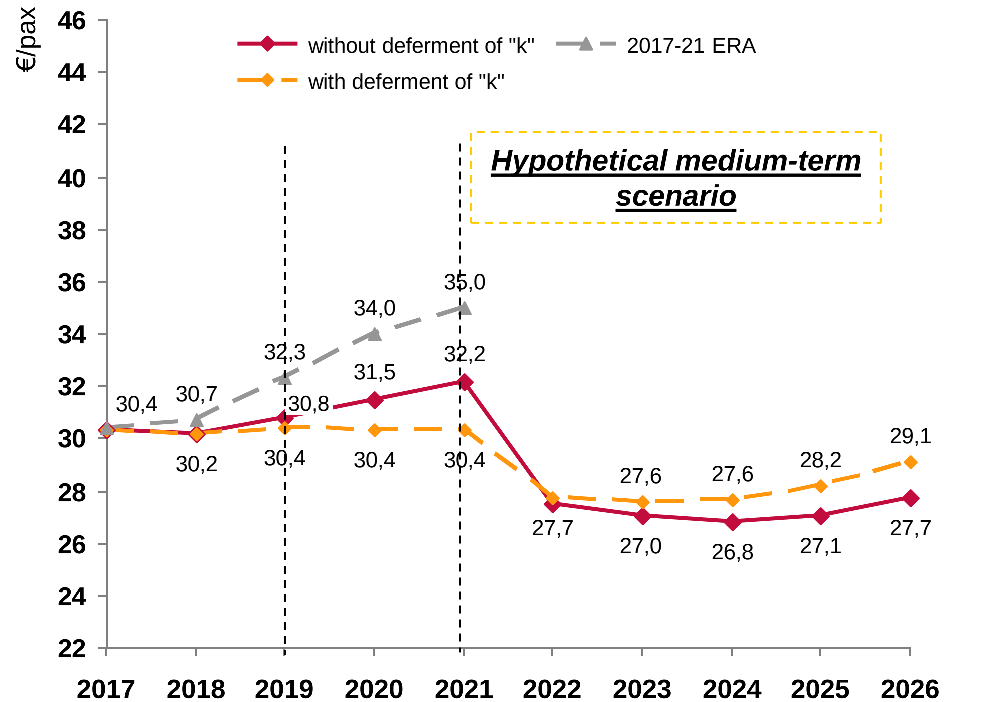
(*) vs «standard» option for 2019 charges

Charges Stability in Medium-Term

Charges(*) for Intra-UE O&D, 4th runway in 2022



Charges(*) for Intra-UE O&D, sensitivity 4th runway in 2026



- In 2019-21 the option that foresees stability of charges provides for the recovery of the share of deferred costs related to the "k" within the parameter "x" of the following five-year regulatory period (2022-2026)
- In figure above we have represented two medium-term hypothetical scenarios for intra-EU fees (excluding transits) with differing timing of construction for runway 4 (operations from 2022 or 2026) and which include among the main assumptions: (i.) CAGR 2017-26 of pax traffic equal to + 3%; (ii.) continuous improvements in the efficiency of the financial structure and operating costs per pax (the latter metric already highlights ADR among the top performers in the EU)
- It is worth highlighting that the evolution of charges expected from 2022(1) is largely a function of the hypothesis of completion of the authorization procedure for the 4th runway (currently suspended and awaiting restart), while the cost component that will allow the recovery of the portion of «k» deferred is scarcely significant (2.5-3% of the five-year allowed costs)
- The application of the mechanism that offers substantial tariff stability in 2019-21 is subject to the definition of the technical details to guarantee recovery of the portion of «k» deferred, consistent with correlation between costs and revenues over the relevant period

(*) excludes regulated office rents

(1) underlying values (capex, opex, cost of capital, others) will be consulted upon at the next regulatory review for the period (2020)

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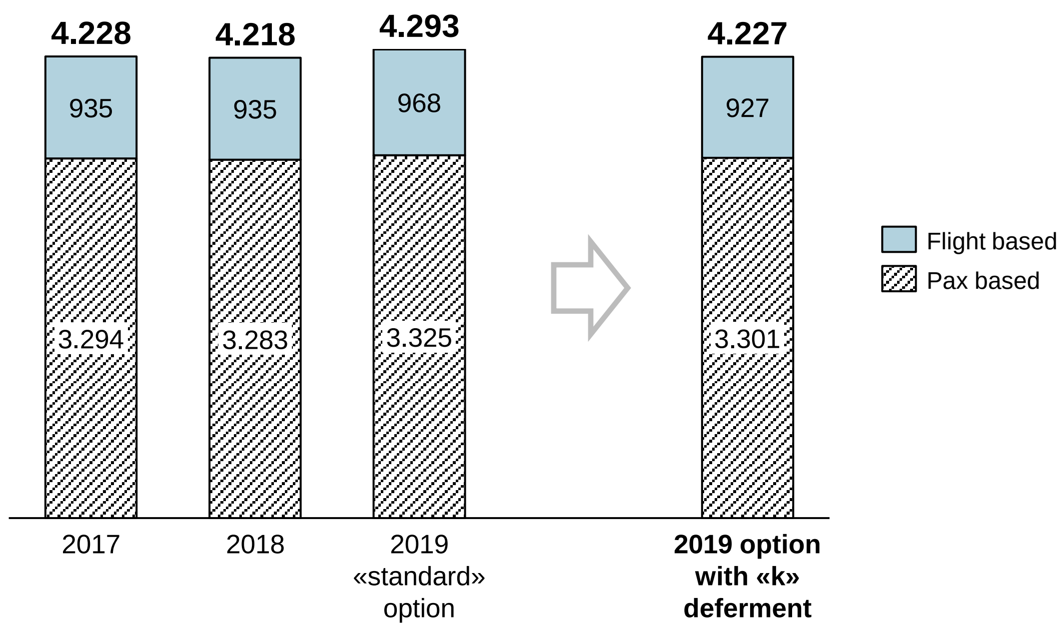
FCO: Costs per Aircraft (UE)

hp: A320, 74 Mtow, 79% LoadFactor (136 pax) + Loading Bridge

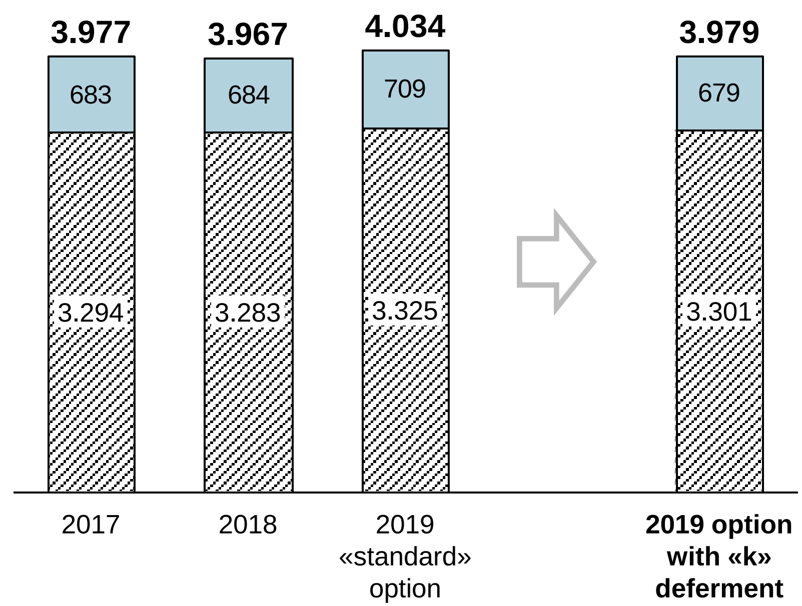
PEAK hours

in € (reg avio) [(*)]



OFF-PEAK hours

in € (reg avio) [(*)]



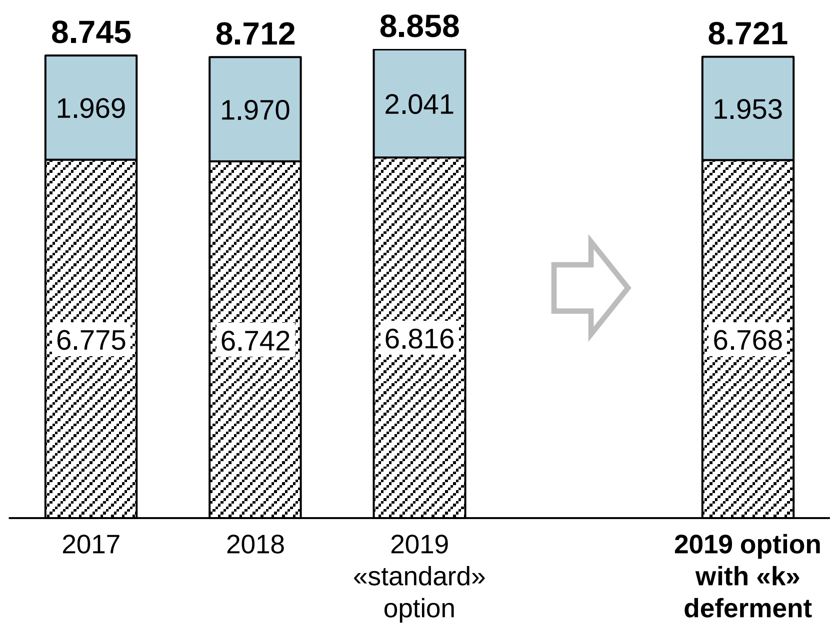
(*) excludes check-in desks and parking

FCO: Costs per Aircraft (exUE)

hp: A332, 231 Mtow, 75% LoadFactor (194 pax) + Loading Bridge

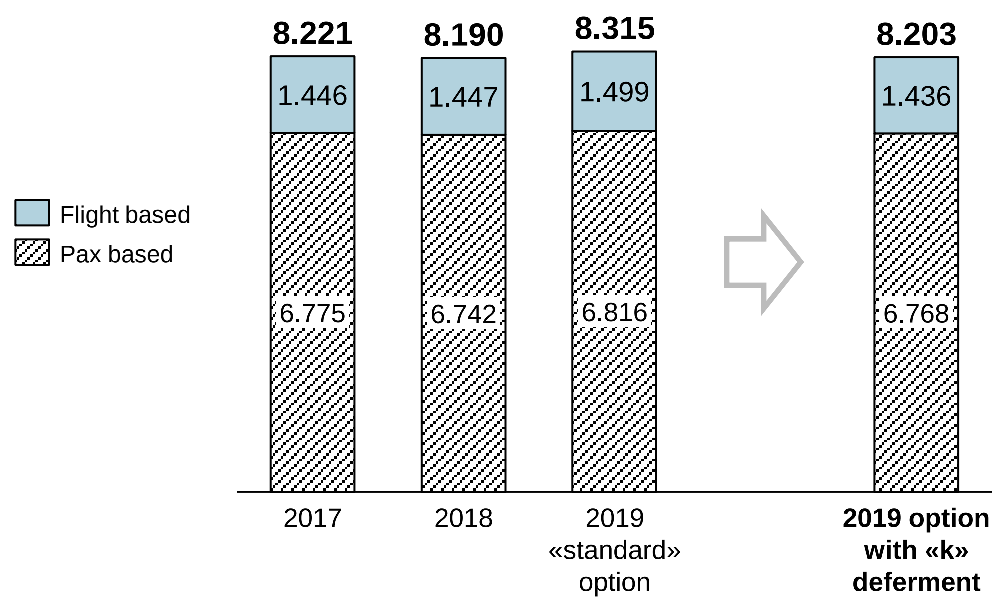
PEAK hours

in € (reg avio) (*)



OFF-PEAK hours

in € (reg avio) (*)



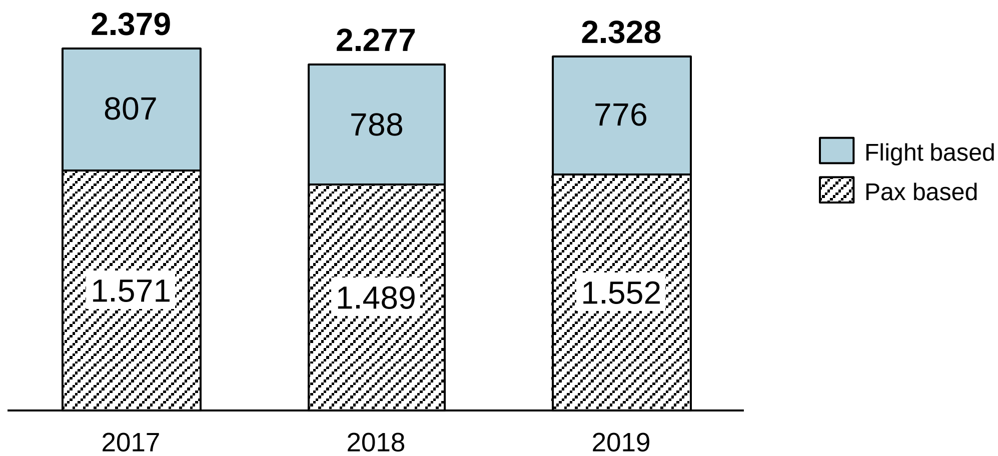
(*) excludes check-in desks and parking

CIA: Costs per Aircraft (UE)

hp: Boeing 737, 67 Mtow, 85% LoadFactor (161 pax)

«Boeing 737»

in € (reg avio) (*)



(*) excludes check-in desks and parking

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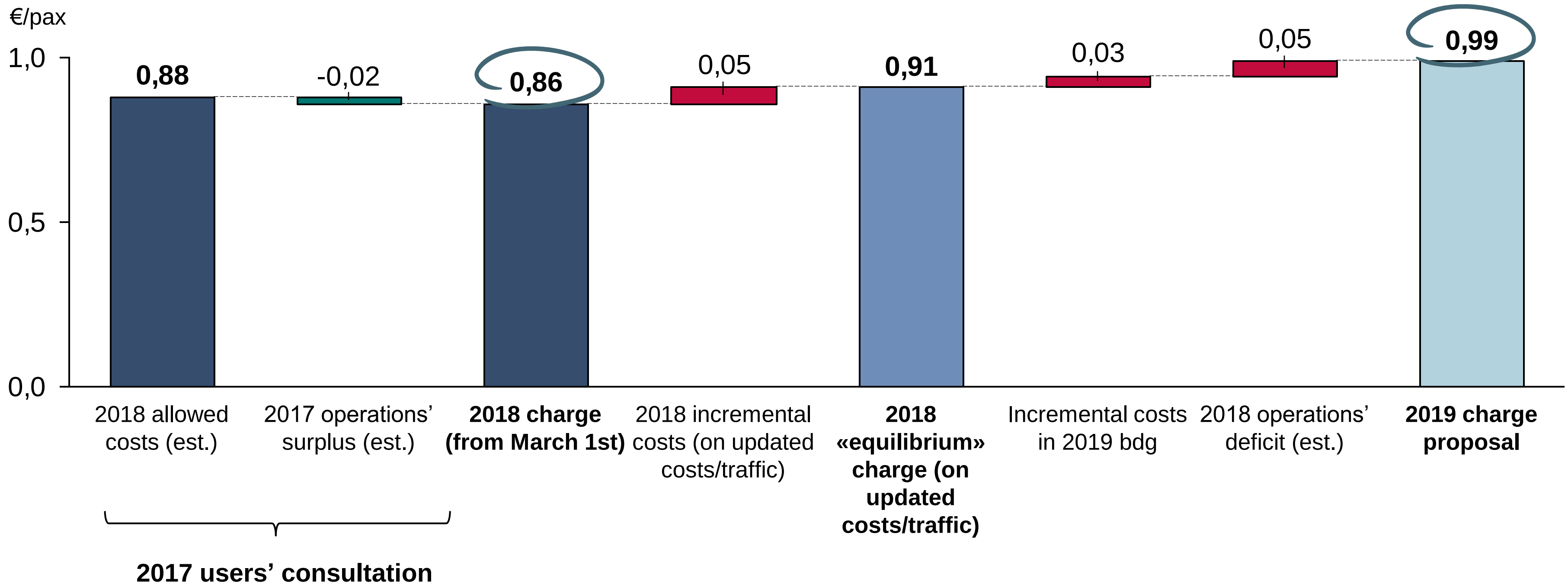
FCO RMP: Proposed Charge for 2019

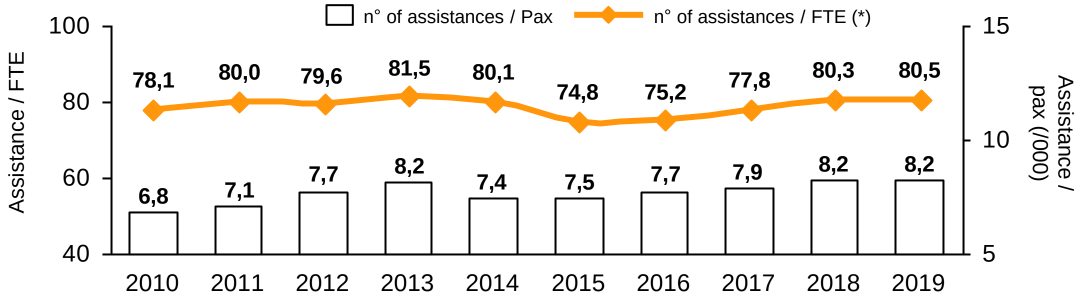


Updated estimates for 2018 show that the current FCO RMP charge (0.86 €/pax) does not fully represent the underlying cost structure (0.91 €/pax), above all due to a higher increase in assistance numbers relative to paying traffic

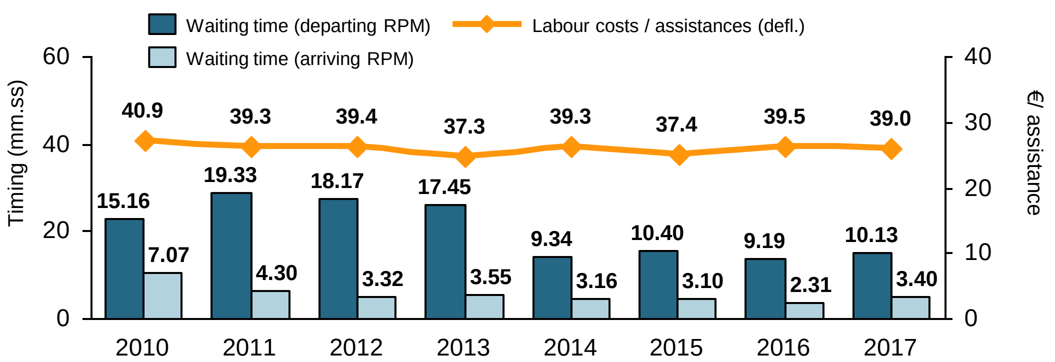
In compliance with the principle of correlation between costs of the service and revenues – which in the case of RMP is applied with rolling rebalancing on the following year – the abovesaid differential transfers to the proposed charge for 2019 (from 1 March) an increase of 5c €/pax (inclusive of the economic impact in January-February)

For 2019 the proposal of 0.99 €/pax does not consider the recovery of the staff costs dedicated to the service offered to RFI (about 1c € /pax) and assumes the postponement at the beginning of 2019 of the purchase of 2 ambulifts

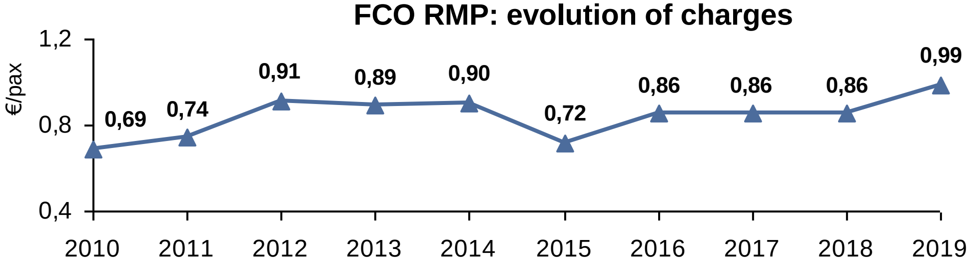
FCO RMP: 2010-2019



- Between 2010 and 2018 at FCO the trend in the RMP assistance / tot pax ratio is representative of market developments with the growth of low cost carriers (market share growing from 16% to around 25% in the period) which generally provide for lower RMP passengers volumes



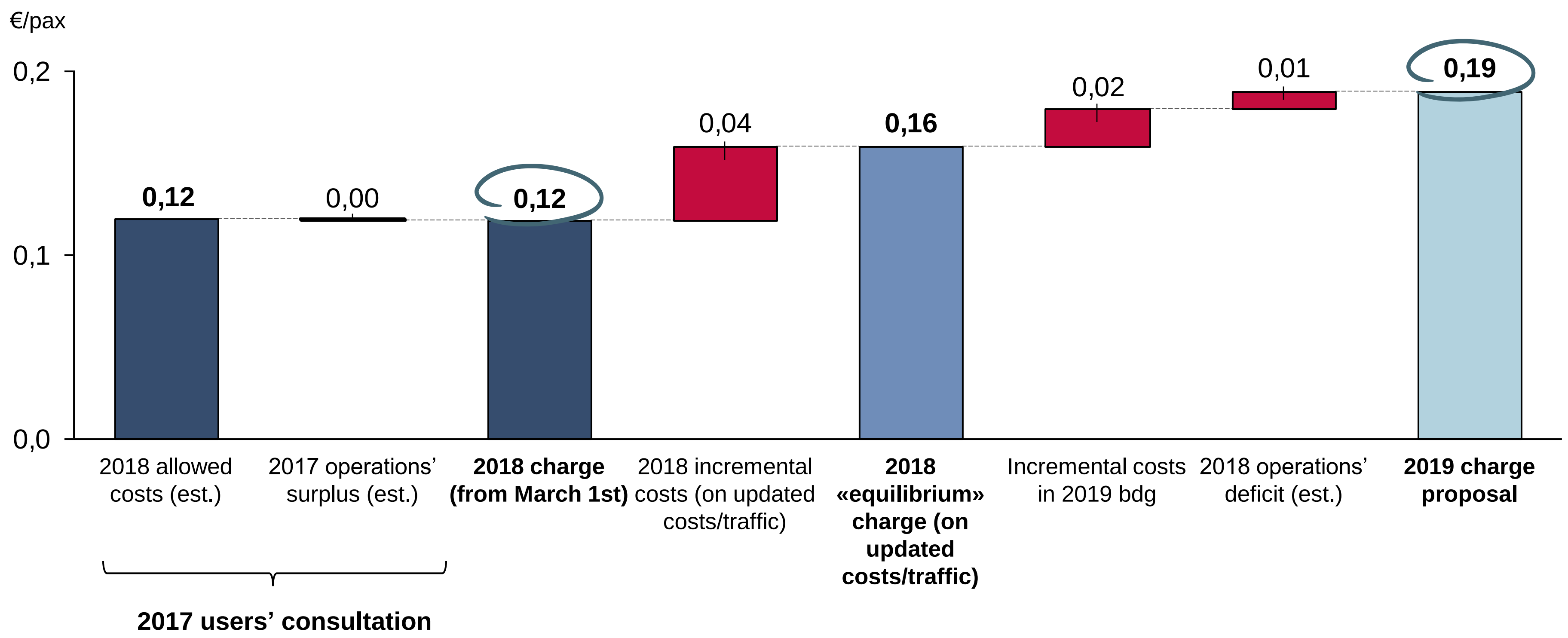
- Performances of the quality indicators showed significant improvements (waiting times approximately halved) absorbing the changed conditions of the infrastructure (expansion of the service areas) with no impact in terms of higher costs for users (net of inflation, the cost of labor for assistance is slightly down in the period)



- In the last three years the RMP charge has remained flat. In 2018, a growth in assistance volumes above expectations (with an increase in the ratio of assistances / pax) resulted in an increase in service costs above the applied charge of 0,86 €/pax with a consequent transfer of deficit to charge level proposed for 2019.

(*) Monthly average

CIA RMP: Proposed Charge for 2019



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Revenues from Regulatory Accounts: 2017, 2016

REGULATORY ACCOUNTS: REVENUES

(value in € '000)

	FIUMICINO		CIAMPINO		SISTEMA	
	2016	**2017**	**2016**	**2017**	**2016**	**2017**
Landing / take-off	116.613	111.293	19.050	19.031	135.663	130.323
Aircraft parking	5.627	3.500	719	575	6.346	4.076
Passenger boarding	333.258	336.681	16.417	17.632	349.675	354.313
Cargo Embarkation / Disembarkation	2.644	2.272	302	324	2.946	2.596
Passenger security	48.846	55.232	5.388	7.441	54.234	62.674
Baggage security	32.452	34.232	4.318	3.518	36.770	37.751
Loading bridge	17.550	19.862	-	-	17.550	19.862
De-icing	12	19	9	22	21	41
Check-in desks	11.672	7.746	421	375	12.093	8.122
Lost & Found	255	255	9	10	264	265
Real estate	8.256	8.515	756	784	9.012	9.299
ETV	124	123	-	-	124	123
RPM Assistance	17.394	17.397	431	368	17.825	17.765
TOT REGULATED SERVICES	**594.705**	**597.128**	**47.819**	**50.081**	**642.524**	**647.209**
TOT NON-REGULATED SERVICES	**205.799**	**217.454**	**11.469**	**12.495**	**217.268**	**229.949**
OTHERS	**-**	**-**	**-**	**-**	**6.830**	**5.849**
TOT REVENUES	**800.504**	**814.582**	**59.288**	**62.576**	**866.622**	**883.007**

Operating Costs from Regulatory Accounts: 2017, 2016

REGULATORY ACCOUNTS: OPERATING COSTS						
(value in € '000)	FIUMICINO		CIAMPINO		SISTEMA	
	2016	2017	2016	2017	2016	2017
Landing / take-off	36.228	38.047	5.182	6.270	41.410	44.318
Aircraft parking	1.076	1.029	288	351	1.364	1.380
Passenger boarding	133.668	142.540	9.829	11.327	143.497	153.867
Cargo Embarkation / Disembarkation	1.126	1.267	132	150	1.258	1.417
Passenger security	49.470	42.802	6.717	6.456	56.187	49.258
Baggage security	15.674	16.284	2.096	1.617	17.770	17.901
Simulation service	21	24	-	-	21	24
Loading bridge	6.593	7.761	-	-	6.593	7.761
De-icing	55	32	121	8	176	40
Check-in desks	2.701	2.650	304	276	3.004	2.925
Lost & Found	45	53	2	2	46	54
Real estate	3.666	3.632	377	463	4.043	4.095
ETV	95	90	-	-	95	90
RPM Assistance	16.997	17.554	529	493	17.526	18.046
TOT REGULATED SERVICES	**267.414**	**273.765**	**25.576**	**27.413**	**292.991**	**301.178**
TOT NON-REGULATED SERVICES	**65.604**	**67.030**	**4.806**	**4.644**	**70.411**	**71.674**
OTHERS					**3.991**	**(2.830)**
TOT REGULATED SERVICES	**333.019**	**340.795**	**30.383**	**32.056**	**367.393**	**370.022**

(*) intercompany item from ADR Assistance to ADR SpA, not relevant for tariff-making purposes

Net Invested Capital from Regulatory Accounts: 2017, 2016

REGULATORY ACCOUNTS: NET INVESTED CAPITAL (*)		
(value in € '000)		
FIUMICINO	**2016**	**2017**
Landing / take-off	531.391	559.528
Aircraft parking	10.805	13.828
Passenger boarding	1.097.201	1.317.568
Cargo Embarkation / Disembarkation	1.512	4.808
Passenger security	32.499	39.995
Baggage security	68.899	80.269
Simulation service	140	159
Loading bridge	53.714	74.270
Check-in desks	19.930	29.788
Lost & Found	795	1.004
Real estate	76.775	81.299
ETV	9.258	3.539
TOT REGULATED SERVICES (FCO)	**1.902.919**	**2.206.054**
CIAMPINO	**2016**	**2017**
Landing / take-off	76.779	90.340
Aircraft parking	688	657
Passenger boarding	25.732	28.622
Cargo Embarkation / Disembarkation	1.035	1.248
Passenger security	1.249	1.791
Baggage security	4.066	3.911
Check-in desks	619	721
Lost & Found	15	18
Real estate	2.578	3.440
TOT REGULATED SERVICES (CIA)	**112.760**	**130.746**
TOT REGULATED SERVICES	**2.015.680**	**2.336.800**
TOT NON REGULATED SERVICES	**1.428.668**	**1.519.024**
OTHERS	**1.162**	**9.973**

(*) ADR SpA (not including invested capital of 100%-controlled ADR Assistance)

Allowed Costs from Regulatory Accounts: 2017, 2016

REGULATORY ACCOUNTS 2017: ALLOWED COSTS					RE. ACC. 2016
(value in € '000)					
FIUMICINO	**OPERATING COSTS**	**DEPRECIATIONS**	**REMUNERATION**	**2017 TOT. COSTS**	**2016 TOT. COSTS**
Landing / take-off	38.047	30.091	48.298	**116.436**	**128.807**
Aircraft parking	1.029	948	1.283	**3.259**	**3.201**
Passenger boarding	142.540	71.999	118.400	**332.939**	**325.025**
Cargo Embarkation / Disembarkation	1.267	339	420	**2.026**	**1.429**
Passenger security	42.802	4.669	3.477	**50.949**	**57.263**
Baggage security	16.284	8.325	7.439	**32.048**	**27.668**
Simulation service	24	10	14	**48**	**47**
Loading bridge	7.761	5.713	6.627	**20.102**	**18.101**
De-icing	32	-	-	**32**	**55**
Check-in desks	2.650	1.664	2.671	**6.985**	**6.540**
Lost & Found	53	63	88	**203**	**190**
Real estate	3.632	5.239	7.027	**15.897**	**17.204**
ETV	90	6	302	**398**	**1.203**
RPM Assistance	17.554	-	-	**17.554**	**16.997**
TOT REGULATED SERVICES (FCO)	**273.765**	**129.065**	**196.045**	**598.875**	**603.731**
CIAMPINO	**OPERATING COSTS**	**DEPRECIATIONS**	**REMUNERATION**	**2017 TOT. COSTS**	**2016 TOT. COSTS**
Landing / take-off	6.270	5.120	7.699	**19.089**	**18.194**
Aircraft parking	351	113	56	**520**	**480**
Passenger boarding	11.327	2.947	2.475	**16.749**	**17.080**
Cargo Embarkation / Disembarkation	150	96	106	**352**	**333**
Passenger security	6.456	247	154	**6.856**	**7.027**
Baggage security	1.617	352	334	**2.303**	**2.941**
De-icing	8	-	-	**8**	**121**
Check-in desks	276	87	62	**425**	**462**
Lost & Found	2	2	2	**5**	**5**
Real estate	463	336	308	**1.107**	**1.016**
RPM Assistance	493	-	-	**493**	**529**
TOT REGULATED SERVICES (CIA)	**27.413**	**9.299**	**11.197**	**47.909**	**48.188**
TOT REGULATED SERVICES	**301.178**	**138.364**	**207.242**	**646.784**	**651.919**
TOT NON REGULATED SERVICES	**71.674**	**49.282**	**120.010**	**240.966**	**229.563**
OTHERS	**(2.830)**	**0**	**0**	**(2.830)**	**48.278**
RPM costs - ADR Assistance Srl profit & loss accounts					
Fiumicino	16.625	628	198	**17.451**	**17.046**
Ciampino	351	6	1	**358**	**452**

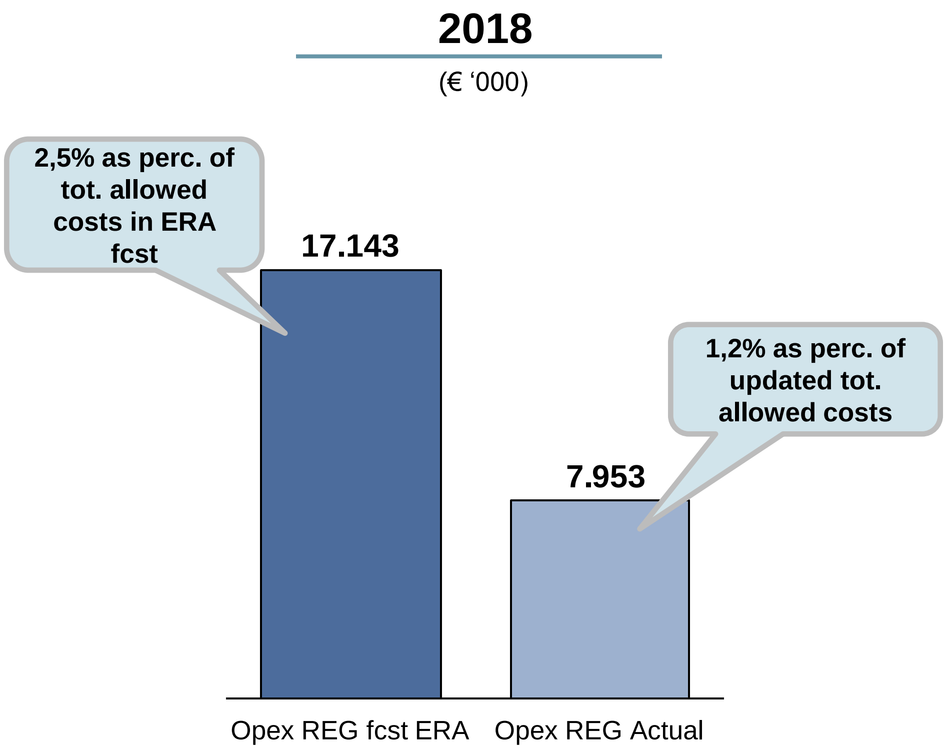
(*) intercompany item from ADR Assistance to ADR SpA, not relevant for tariff-making purposes

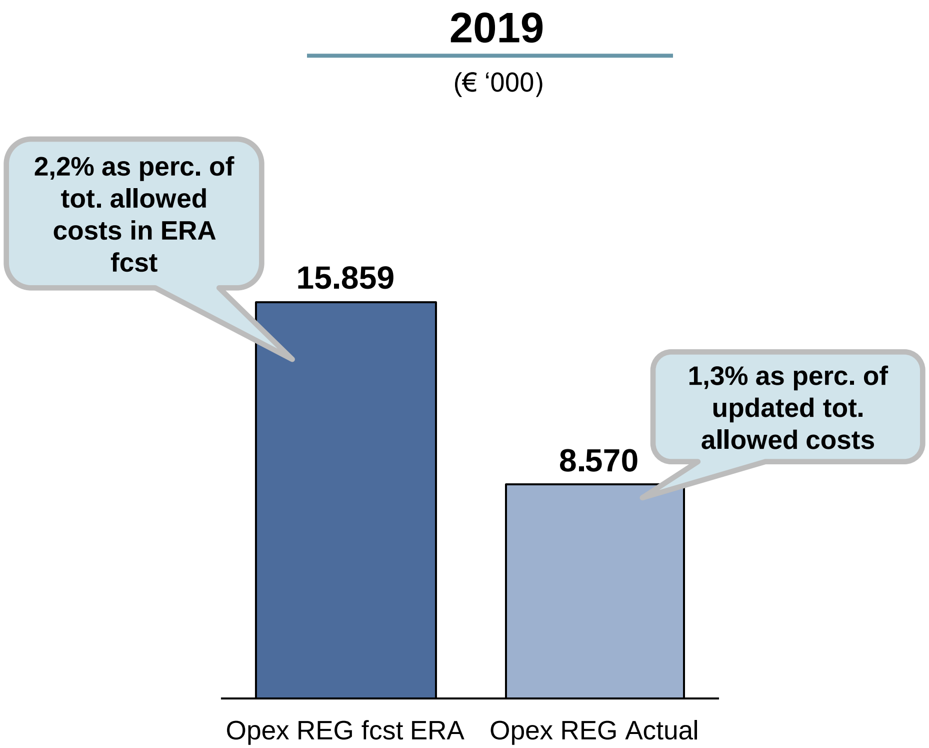
Components «x», «k» e «v» in Charges Evolution (2017, 2018, 2019)

	Component "x"	Component "k" (*)						Component "v" (**)					
	2017-2021	2017 CdP	2018 CdP	2019 CdP	2017 ACT	2018 ACT	2019 FRC	2017 CdP	2018 CdP	2019 CdP	2017 ACT	2018 ACT	2019 FRC
FIUMICINO													
Landing / take-off	8,1%	5,9%	12,7%	12,8%	5,5%	7,8%	9,1%	1,6%	1,9%	2,2%	1,5%	1,5%	2,2%
Aircraft parking	7,7%	22,6%	35,0%	44,2%	21,6%	22,8%	18,8%	-3,8%	0,0%	0,0%	-3,8%	-0,2%	0,0%
Passenger boarding	4,7%	15,8%	8,5%	7,8%	15,6%	6,4%	3,2%	-0,7%	0,0%	0,0%	-0,8%	-0,1%	0,1%
Cargo Embarkation / Disembarkation	2,5%	10,8%	12,7%	9,9%	8,8%	9,9%	2,8%	-1,5%	0,0%	0,0%	-1,6%	-0,6%	0,0%
Passenger security	2,3%	5,5%	3,4%	2,0%	5,2%	3,2%	2,0%	0,7%	0,0%	0,0%	0,6%	-0,1%	0,1%
Baggage security	2,9%	21,6%	8,6%	6,1%	28,0%	7,8%	1,2%	0,0%	0,0%	0,0%	0,2%	1,5%	0,2%
Simulation service	2,1%	11,8%	8,1%	4,2%	10,3%	8,1%	3,0%	3,4%	0,0%	0,0%	2,6%	-0,1%	0,0%
Loading bridge	13,4%	11,1%	7,8%	11,0%	11,0%	6,1%	4,2%	-0,6%	0,0%	0,0%	-0,6%	0,0%	-0,1%
De-icing	0,8%	0,0%	0,0%	0,1%	0,0%	0,0%	0,1%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Check-in desks	4,5%	11,3%	20,2%	5,8%	10,0%	17,4%	6,4%	-1,7%	0,0%	0,0%	-2,8%	-1,3%	1,1%
Lost & Found	4,4%	13,3%	9,3%	15,5%	12,8%	8,3%	5,9%	-4,5%	0,0%	0,0%	-4,6%	-0,2%	0,1%
Real estate	3,9%	13,3%	9,8%	7,9%	12,9%	6,6%	4,1%	-1,0%	0,0%	0,0%	-1,0%	-0,2%	0,0%
ETV	2,1%	0,4%	3,1%	0,3%	0,5%	2,1%	0,0%	0,1%	0,0%	0,0%	0,0%	0,0%	0,0%
CIAMPINO													
Landing / take-off	5,7%	16,3%	8,5%	8,9%	16,0%	2,6%	3,0%	0,2%	0,7%	0,8%	0,0%	0,2%	0,3%
Aircraft parking	3,7%	2,9%	2,8%	1,9%	2,5%	6,9%	73,7%	-0,2%	-0,3%	-0,4%	-0,5%	-0,6%	0,5%
Passenger boarding	8,7%	10,2%	5,7%	2,7%	8,5%	4,3%	9,8%	0,3%	-0,2%	-0,3%	-0,2%	-1,2%	-0,1%
Cargo Embarkation / Disembarkation	6,6%	14,5%	7,4%	7,2%	14,0%	3,3%	8,8%	-0,3%	-0,2%	-0,2%	-0,9%	-0,6%	-0,4%
Passenger security	1,0%	3,7%	1,4%	0,7%	2,9%	1,7%	1,6%	0,2%	-0,1%	-0,1%	0,1%	-0,3%	-0,2%
Baggage security	3,2%	3,2%	2,8%	1,4%	2,8%	38,8%	4,3%	0,3%	-0,2%	-0,3%	0,0%	-0,4%	1,9%
De-icing	-0,6%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Check-in desks	3,7%	10,4%	5,8%	2,4%	6,6%	3,5%	5,6%	0,9%	0,0%	0,0%	-0,2%	-2,1%	1,0%
Lost & Found	7,5%	22,5%	16,5%	5,4%	20,8%	5,0%	8,6%	-0,7%	-0,1%	-0,1%	-1,1%	-0,8%	0,1%
Real estate	8,9%	29,7%	7,8%	4,1%	24,4%	10,3%	5,2%	-0,1%	-0,2%	-0,2%	-1,0%	-2,2%	-0,2%

(*) «x» is unchanged through a 5-yr regulatory period; (**) «k» incorporates yearly actuals for allowed Capex and Opex; (***) «v» accounts for changes between fcsts and actual values on capex/opex (where applicable) and contribution to fire-brigade fund

FCO: Operating Costs for New Infrastructures in «k»





- Operating costs related to new infrastructures and communicated to ENAC for the same year are included in the tariff parameter «k» starting from the year following the expenditure to allow verification
- The above values provide an indication of the company's efforts to contain costs against the planned level and include cost reductions deriving from the closure of operations of Net 6000 and T5 (2017), T2 (2018).

- 2019 Charges: Key Issues
- Costs per Aircraft
- Focus on RPM Service
- Allowed Costs and Parameters of Regulated Charges
- **Background Information on ADR-ENAC Economic Regulation Agreement**

ADR's Economic Regulation Agreement

- ADR's **ERA (Economic Regulation Agreement)** has been approved by the Civil Aviation Authority and Government between October and **December 2012** with the aim of defining a **coherent set of transparent and stable rules**, valid until the end of the concession (June 2044) for encouraging medium and long term development of a key national airport infrastructure.

- The **long-term certainty of the rules** is a fundamental pre-requisite for access to sources of financing in support of the company's infrastructure development plan.

- Tariff-making rules are fixed until the end of the concession and are based on tariff periods of five years with the aim to **correlate customers' fees to the costs of services subject to economic regulation**; the tariff-making framework is "RAB based" and inclusive of bonuses / penalties for achieved performances on environmental and quality indicators above / below set targets.

- The close of fiscal year 2016 marked the end of the first five-year tariff period and the start of the second (2017-21) with the first application of new tariffs by March 1, 2017.

- 2019 (from March) represents the third year of ADR's second five-year period under ERA rules: for 2019-21 ADR intends to consult users on the possible introduction of an application aimed at providing substantial stability of charges. In case of users' and ENAC's acknowledgment, the four most relevant regulated services (ipax; landing/take-off; security services) accounting for around 90% of total regulated revenue, shall have unchanged charges over 2018-2021.

- This proposal is linked to the trend of the charges in 2019-2021 which anticipates significant rises linked to new investments (up to 3 €/pax) to which a decline is expected to follow at the start of the following five-year regulatory period as a result of the application of ERA rules.

- The measure referred to above is provided for in Title II of the ERA and determines the postponement of part of the revenues attributable to the "k" component which allows recovery of the costs for new investments. Should this occur, the correlation between eligible costs and regulated revenues would be met over a longer time span than the five-year regulatory period and more precisely over the entire 2019-2026 period.

ERA: Key Economics

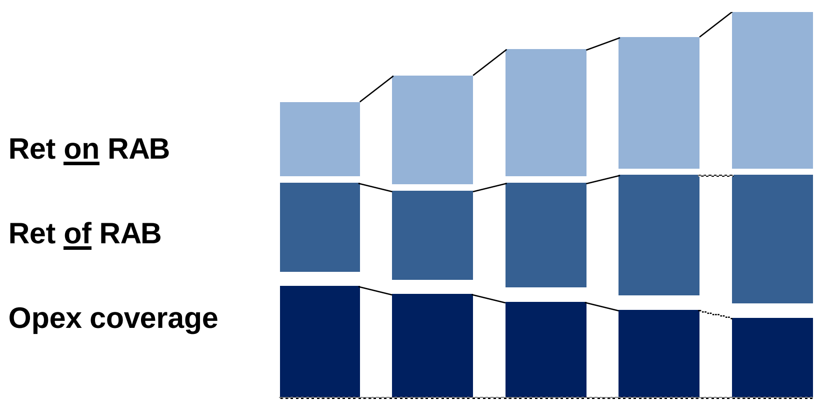
Clear and stable tariff rules to 2044	• The **tariff structure** is based on internationally recognised criteria of correlation with the costs of infrastructures and services, as well as efficiency fostering provided by Directive 2009/12/EC and Italian law n. 27/2012 • Regulatory period of **10 years**, divided into **5-year** tariff periods (eg. 2017-21), for updates of traffic, investment, quality targets and some elements of allowed return calculation (CAPM) • ERA provides for **annual tariff reviews with (i) ENAC** on new allowable costs stemming from verified progresses on capex plan (Oct-Dec for reviewing allowances; new tariff application since March) (ii) users to present progresses in the investment plan, quality achievements and the correlated impacts in tariffs in compliance with EU Directive on airport charges (2009)
RAB (Regulated Asset Base) and allowed returns	• **Asset value** upon which tariffs are recognised is determined on the updated book-value of the assets allocated to the regulated services, as identified by the company's certified Regulatory Accounts (for future tariffs, RAB is rolled-forward accounting for inflation revaluation); at end-2018 RAB should amount to Euro 2.4 billion in application of revaluation / depreciation rules set forth under ERA's art. 33 • For the second regulatory period (2017-2021) the proposed **real pre-tax WACC is equal to 8,52%** (was 11.91% in 2012-16) net of incremental returns allowed on new strategic infrastructures; ERA clearly defines all parameters and criteria for updates to allowed return on capital: vast majority of them shall be updated every five years (CPI – tax rate – asset beta – risk free rate – debt premium) or ten years (risk-specific "additional" beta – leverage)
Actual traffic vs forecast traffic	• **Traffic variations vs forecasts** included in the +/- 5% range will be for the benefit of/borne by ADR • Where the traffic registered in the five-year period is > +5% than forecasts: 50% of the higher income above 5% will be set aside for future investments with no impact in tariffs for remuneration/depreciation • Where the traffic registered in the five-year period is < -5% than forecasts: 50% of the lower income below -5% will be included in the allowed costs for tariff calculations in the following five-year period • **Yearly variations of +/- 6% vs forecast** entitle to rebalancing of tariff mechanism for the remainder of the regulatory period

How “Allowed” Costs Turn Into Tariffs

According to internationally recognized principles, the «Price-cap» regulation allows for coverage of costs and clarity of returns on capital employed:

- **«Start» Regulated Asset (RAB) and deployment of capex plan**
- **Return calculated with standard CAPM approach (WaCC)**
- **International reference for range of allowed depreciation charges**
- **Opex allowances on «base year» and implied efficiency enhancement target**

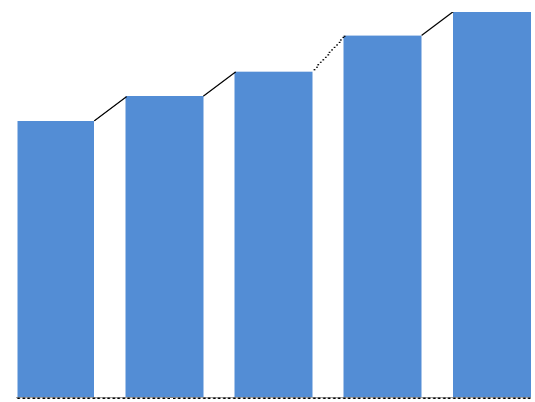
Allowed Costs



Within ea. tariff period evolution of allowed costs based on:

- Capex plan deployment
- Traffic volumes
- Efficiency enhancement

Regulated Revenues



PV of tariff period revs = PV of tariff period costs:

- On grounds of forecast volumes for tariff period …
- … tariff to equal PVs of regulated revs and of allowed costs
- Tariff within a tariff period may trend down on positive traffic dynamic

Tariff Mechanism Explained

- ☐ **The tariff of year i within each 5-year period is calculated in compliance with ERA's rules as follows:**

$$T_i = T_0 * (1 + P - x + k + v) * (1+\varepsilon)$$

Where:

To = previous year's tariff

P = forecast inflation rate (defined ex-ante on govt's latest financial planning document and updated on a yearly basis) (*)

x = annual change for the relevant 5-year period to guarantee allowed costs' equal to regulated revenues' on 5-year DCF computation (discounted at the nominal cost of capital implied in the regulatory real cost of capital)

k = increase in tariff arising from allowed costs of capex undertakings

v = increase in tariffs on new additional costs related to changes in legal framework or other non-recurring events

ε = bonus/penalty to account for over/under achievements relative to target level of quality of service and environmental constraints set for the 5-year period

(*) same inflation rate for nominal WaCC, RAB updates to nominal value and opex updates is used in determining *ex-ante* tariffs

The Allowed Cost of Capital for ERA's Second 5-yr Period: ADR's WACC in 2017-21

	II Regulatory Period (2017-2021)
(a) Risk-free rate (10-yr BTP)	2,82%
(b 1) Corporate debt premium	1,99%
(b 2) Cost of issuances	0,30%
(c) Cost of debt = (a+b1+ b2)	5,11%
(d) Effective tax rate	37,41%
(e) IRES	27,50%
(f) Pre-tax cost of debt = c*(1-e)/(1-d)	**5,92%**
(g) Equity Risk Premium	5,0%
(h) Gearing	57,0%
(i) Financial Leverage (D/E)	1,33
(l) Asset beta	0,57
(l1) Additional beta	0,30
(m) Equity beta = l * (1+i*(1-e)) + l1	1,41
(n) Post-tax cost of equity = a+(g*m)	9,9%
(o) Pre-tax cost of equity = n/(1-d)	**15,8%**
(p) Pre-tax nominal WACC = f * h+o*(1-h)	**10,15%**
(q) Post-tax nominal WACC = p * (1-d)	**6,35%**
(r) Inflation rate	1,50%
(s) Pre-tax real WACC = (1+p)/(1+r) - 1	**8,52%**

The methodology applied to define the real pre-tax WACC for the 2017-2021 period is described in detail in ADR's ERA (Articles 38-43) and in Annex 23.

The asset beta (equal to 0.57) is calculated as the average of weekly / monthly surveys carried out over periods of 3 and 5 years on the stock prices of a sample of comparable airports (Frankfurt, Paris, Zurich, Vienna).

Operating Costs As 'Allowable' Costs

- ERA (art. 32) provides for coverage of operating costs within the five-year tariffs through a regulatory mechanism that recognizes inflation, traffic and elasticity of its variations in costs, and - finally - an efficiency parameter:

$$\textit{Opex}_{\,t} = \text{Opex}_{\,t\text{-}1} * \textit{(1 + Delta traffic * cost elasticity) * [1 + P * (1-eff)]}$$

where:

- cost elasticities to traffic under ERA are represented by nature of cost (v. table; avg. elasticity "weighted" by nature of cost is 0.56); they would be asked to be zero in case of negative changes in traffic estimates in the five years
- P is the fcst govt inflation (as represented in 'DEF' issued in the 'base year', ie. 1.5%)
- "Eff" is the goal of efficiency set at 5% of the abovesaid inflation rate

- Any discontinuity in operating costs may be considered for tariff purposes, however limited to what is allocated to services subject to economic regulation, i.e:

✓ Costs spurred by changes in legislative framework in 'ex ante mode' (art. 37.1) or 'ex post' (art. 37.2)

✓ Costs on operations of new infrastructures: apply logic and rules of the tariff component 'k' limited to new works having 'infra-five years' start-ups

✓ Costs between 'base year' and start of new 5-year period: a verification of eligibility of operating costs occurred in the so-called 'bridge year' is foreseen

Cost Elasticities to Traffic

OPEX	Elasticity
Staff Cost	0,60
Raw Material	0,30
Maintenance	0,80
Cleaning	0,35
Utilities	0,40
Third party services	0,40
G&A	0,40