

USERS' CONSULTATION

2018 AIRPORT CHARGES UPDATE

Questions & Answers

Q. The sum of the fees proposed by ADR for passenger and hand bag security (€ 3,18 + € 2,51 = € 5,69) is more than double than the one proposed, for example, by SEA for the same items (€ 2.75). It would be useful to know whether ADR did conduct an analysis of the reasons for such a difference, which for us does not appear to be justified by different standards of security or quality.

A. Security charges: key figures and allowed costs

- Unit charges for passenger and hand luggage checks for 2018 is seen down by 4.8% vs 2017. Meanwhile baggage check charge for 2018 increases by 10.6%. The combined effect represents a rise of +1.4%, less than forecast inflation.
- With respect to 2016, the increase in 2018 combined security charges is seen at 12%. Relative to this, it is worth stressing that direct capex spending in security services in 2016-17 stands at €22.5 mln (more than 70% of which pertaining to baggage check). The allowed costs stemming from these account for roughly half of the abovesaid increase, the remainder depending on investment spending indirectly allocated to the services (compliant with ENAC's rules for certified unbundled regulatory accounts) and an increase in operating costs associated with higher quality and wider perimeter of operations (see below for description).

Actions to improve quality and efficiency of the security processes.

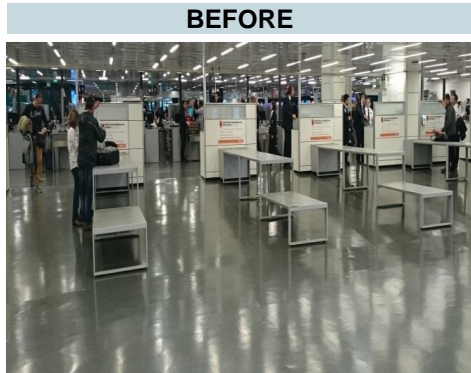
During 2016-17 ADR and its 100%-controlled ADR Security have implemented several actions to improve quality and efficiency of the security processes. Below we list some of the key initiatives split for: (i) Passenger and hand bag security; (ii) Hold baggage check.

(i) Passenger and hand bag security

n.	Topic	Intervention	n.	Description
1	Infrastructure	De-Stress Area	1.1	> Created new De-Stress areas after Security Check at Terminal 3 (departure and transit): in addition to comfortable seating and soft lighting, installed relaxing images of vegetation on the walls.
		Layout Waiting Area T3	1.2	> Reconfigured layout of waiting area of Terminal 3, optimizing the available space.
		Fast Track Terminal 1	1.3	> At Terminal 1 , created a new Security Check reserved to passengers who bought "fast track" service.
2	Process	Technology improvement	2.1	> A new delivery system - "QUEUE BEATER" - has been installed at FCO, allowing up to 4 passengers to prepare simultaneously.
			2.2	> New technology - XOVIS - is being implemented, in order to monitor real-time waiting time and make predictive analysis.
		Preparation Area	2.3	> Stands for the collections of unallowed items are positioned before Security Checks.
		Short Connections	2.4	> Created a fast lane reserved to passenger in transit with short connections through Security check and passport control.
		Pax Track	2.5	> Implemented automatic reading of boarding pass before entering the waiting area, Which allowed an improvement in the estimates of the presentation curves.
3	Communication	Monitor	3.1	> At Security checks installed monitors above each lane, displaying information about availability and number of the lane, in addition to a forecast of waiting time.

Please see below some examples of the achievements.

DE-STRESS AREA



QUEUE BEATER



A new delivery system, called "QUEUE BEATER" has been installed at FCO, allowing up to 4 passengers to prepare simultaneously.

PREPARATION AREA



Stands for the collections of unallowed items are positioned before Security Checks at all terminals.

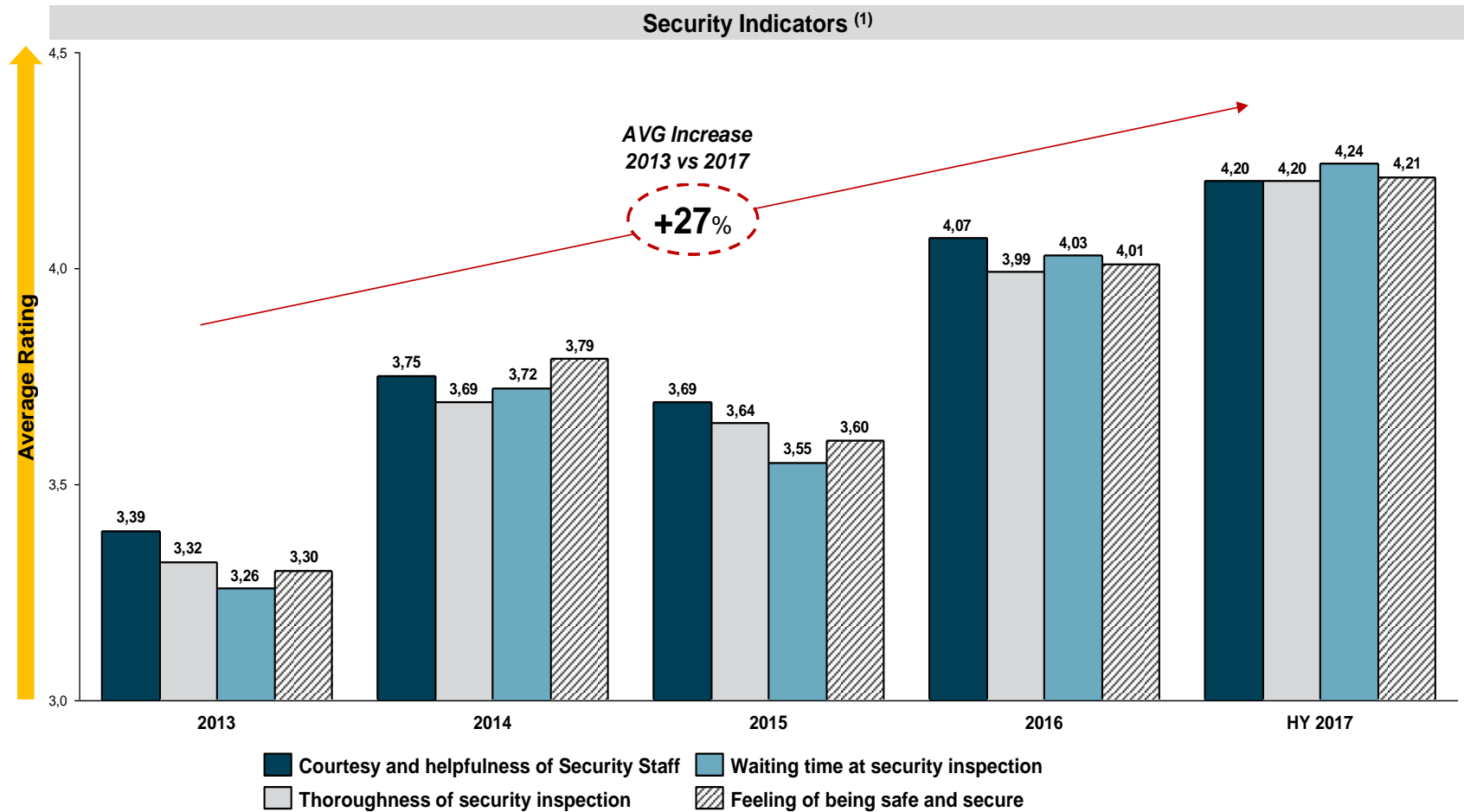
FAST LANE



Created a fast lane reserved for passenger in transit with short connections through Security check and passport control. Access is reserved for passengers in transit with departing flight within 60 minutes.

These actions – coupled with former years’ initiatives – have allowed for a significant improvement in perceived quality and quality output.

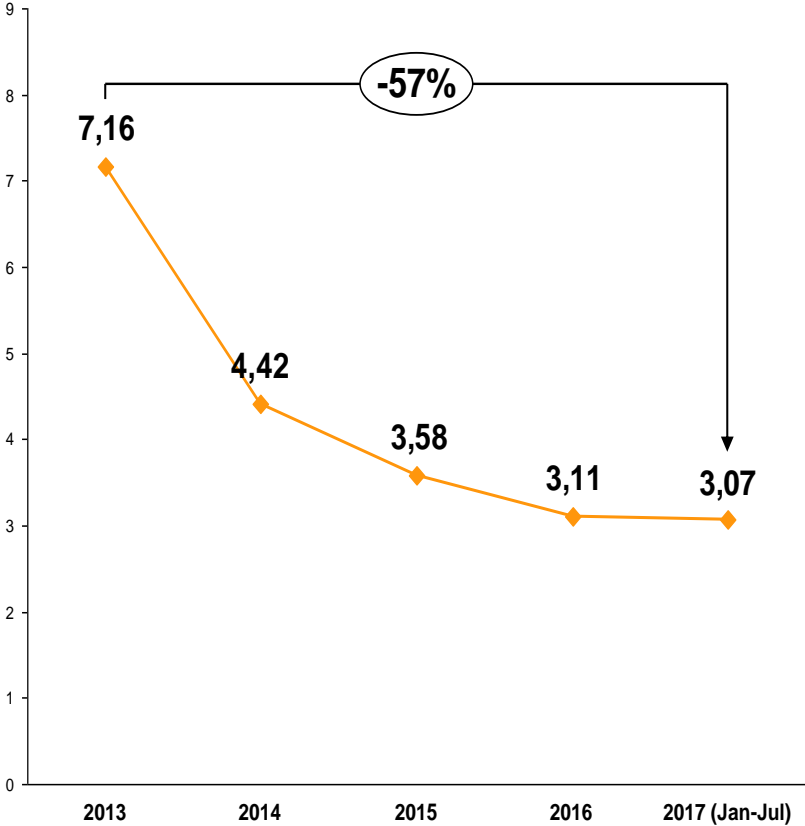
PERCEIVED QUALITY



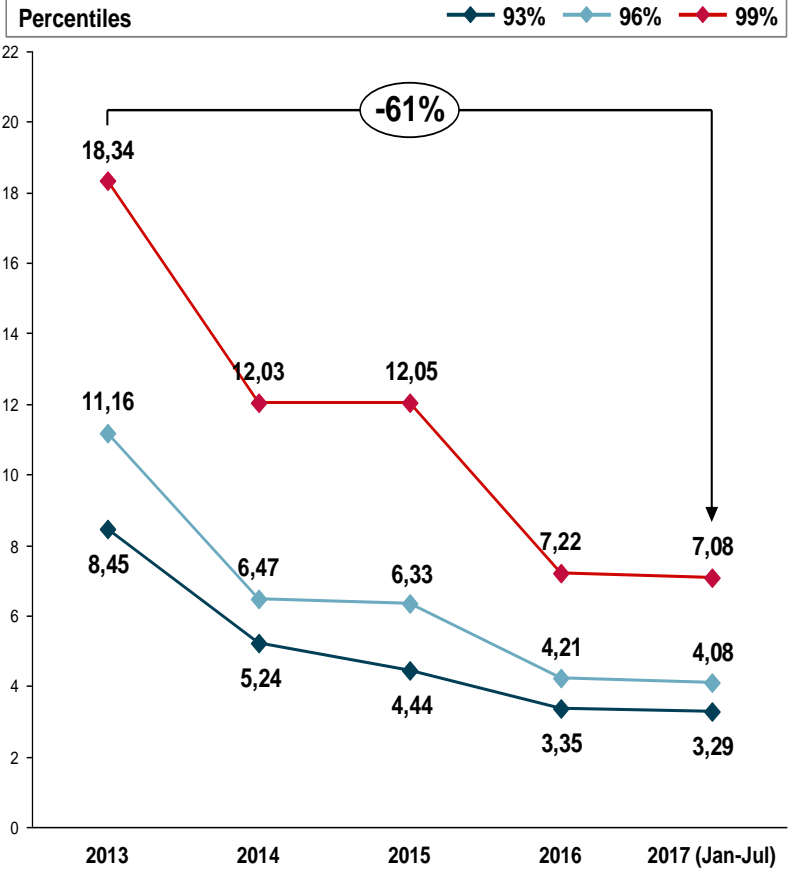
Source: Airport Council International (ACI) – Scale: from 1 (poor) to 5 (excellent)

QUALITY OUTPUT

Waiting time (min, sec) – 90% of the cases ⁽¹⁾



Waiting time (min, sec): Percentiles ⁽¹⁾



Source: PRAGMA (to 7/2017); IQM and MG Research (onwards)

ADR's achievements are clearly evident when comparing key performance measures with SEA.

2016			
	FCO	LIN	MPX
Q7J. Courtesy and helpfulness of security staff	4,07	3,54	3,83
Q7K. Thoroughness of security inspection	3,99	3,42	3,71
Q7L. Waiting time at security inspection	4,03	3,17	3,86
Q7M. Feeling of being safe and secure	4,01	3,05	3,72
2017 1 SEM 2017			
	FCO	LIN	MPX
Q7J. Courtesy and helpfulness of security staff	4,20	3,49	3,84
Q7K. Thoroughness of security inspection	4,20	3,40	3,71
Q7L. Waiting time at security inspection	4,24	3,34	3,77
Q7M. Feeling of being safe and secure	4,21	3,34	3,71

Scale: from 1 (poor) to 5 (excellent)

Finally, we stress that:

- ADR's FCO is Italy's airport of choice for transit passengers. This creates the need of a dedicated security gate that requires staff of 50 full-time equivalents to be operated at ADR's quality standards
- With the aim of improving passengers' flows ADR has dedicated resources to improve passport control system processes. This has covered a wide range of interventions (improved passengers' signage, introduction of electronic passport readers and re-shaping of interested e-gate areas).

(ii) Hold baggage check

In last few years spending on check baggage line has accounted for the majority of investments in security services:

- 2 new luggage control facilities at Terminal 1 and Terminal 3 that replaced the previous equipment, now inadequate to handle traffic volumes
- gradually replacing all the single control machines used in the aforementioned installations, passing from EDS-Standard 2 machines to EDS-Standard 3 machines (Real Time Tomography), thus anticipating the substitution deadline requested by European legislation.

Today, the Rome Airport System is organized in 5 progressive security levels and is able to guarantee the highest levels of security for luggage embarked onboard of aircrafts.

Q. Relative to Fiumicino, we note that the fees proposed for check-in counters have increased by approximately 8% compared with 2017, even though no improvement seems to have been made on infrastructures and related facilities during the same period. We therefore ask for a clarification of the nature of such an increase.

FCO's check-in desks see an increase of 8% in unit charges for 2018. Such an increase is due to a rise in allowable costs linked to investments for new gates in boarding areas B and E. It should be noted that check-in desks and gates belong to the same tariff basket.

The abovesaid increase in unit charges is lower than what previously anticipated by ADR for the same year. During last year's users' consultation the publication of the ERA's 2017-21 aviation service charges was showing an expected increase of 12%.

Q. While we do appreciate the effort made by AdR to improve the level of transparency during consultation meetings in 2016, we have consistently raised concerns that key elements have been predetermined in AdR's ERA and excluded from the consultation process, contrary to the European Charges Directive. As referenced in previous consultation responses, this refer in particular to the calculation methodology of charges evolution with a defined formula setting values for efficiency elasticity on the Opex calculation, calculating the WaCC and parameters used, allocation keys for cost and asset allocation between the regulated and non-regulated area, quality indicators and targets as well as investment strategies outlined in the Masterplan but not consulted with the user to date.

These concerns remain as the backdrop for the 2017-18 charges and investment plans, that we obviously would like to address.

A. As stated in last year's consultation, **key elements of ADR's Economic Regulation Agreement (ERA)** were defined on the basis of internationally recognised criteria of correlation with the costs of infrastructures and services, as well as efficiency fostering provided by EU Directive 2009/12/EC and Italian law n. 27/2012. Moreover, they have been submitted to users in 2012's consultation process in compliance with the principles of EU Directive on airport charges.

In general terms, ERA represents a general interest of providing a coherent set of transparent and stable rules, valid until the end of ADR's concession (June 2044) with the aim to encourage medium and long term infrastructure development of Italy's largest airport operator.

The calculation methodology for charges evolution and the parameters to be used in the price-cap formula (eg. elasticity of opex to traffic aiming to introduce efficiency measures and build-up of WaCC components) were laid out in 2012 consultation process and have not been changed since the ERA came into effect.

With specific reference to the **consultation procedures** covered in Article 6 of the EU Directive, it should be noted that European regulations:

- do not require decisions pertaining to the determination of airport fees to be subject to a preliminary “consent” by the users concerned;
- establishes that the airport manager, by his/her own reasoned assessment, may deviate from divergent claims made by users (paragraph 2 of Article 6 of the EU Directive).

In this light, it seems useful to recall that the Directive has intended to be without prejudice to national legislations which provide for determination or approval of airport fees by a public body appointed for this purpose (please see paragraph 5 of Article 6 of the EU Directive).

With the aim of building a constructive and transparent discussion with users’, since the inception of ERA ADR have given access to all relevant information compliant to articles 6 and 7 of the EU Directive and ENAC’s guidelines. All information is available through ADR’s web site, including archived files of previous years’ consultations.

For further information pls visit: <http://www.adr.it/proposta-tariffaria-2018>.

Q. As we have stated in our previous consultation responses, a good start is to share the Business Cases for major investments with more detailed information on costs, benefits and the impact on charges i.e. per passenger. We request programme and project details are shared.

A. Relative to updates on the investment plan, compliant to EU Directive 2009/12/EC and ENAC's guidelines "Procedura di consultazione tra gestore ed utenti aeroportuali per i contratti di programma in deroga e ordinari" of October 2014, ADR has submitted to users' consultation the progress of the Investment Plan with details on interventions in 2017 with separate indication of spending/projects for FCO and CIA.

All relevant information is included in document "2018 Charges Update - Progress of Investment Plan", in the framework of the annual consultation for tariff update, which in compliance with art. 7 and 8 of the EU Directive, **highlights for each intervention:**

- Key drivers (e.g. capacity, service quality, regulatory compliance, etc.) and expected benefits;
- Latest changes intervened relative to the previous investment plan;
- Forecast costs and timeline of the project (construction period, timing of operational use).

ADR reaffirms that the final decision on capital expenditure should remain with the airport operator: 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.

Q. We will also take the opportunity to reinforce our request for more detailed consultation regarding the need of a 4th runway during the 2017-21 period. At this stage the case for a 4th runway is unproven based on our previous comments including: “Relatively small increases in traffic forecast demand raises the question whether a 4th runway is required in this investment period”.

A. The investment case for runway 4 – including an evaluation of physical constraints of the existing runway system operated in Fiumicino – was presented to users during last years’ consultation and is available on our web site.

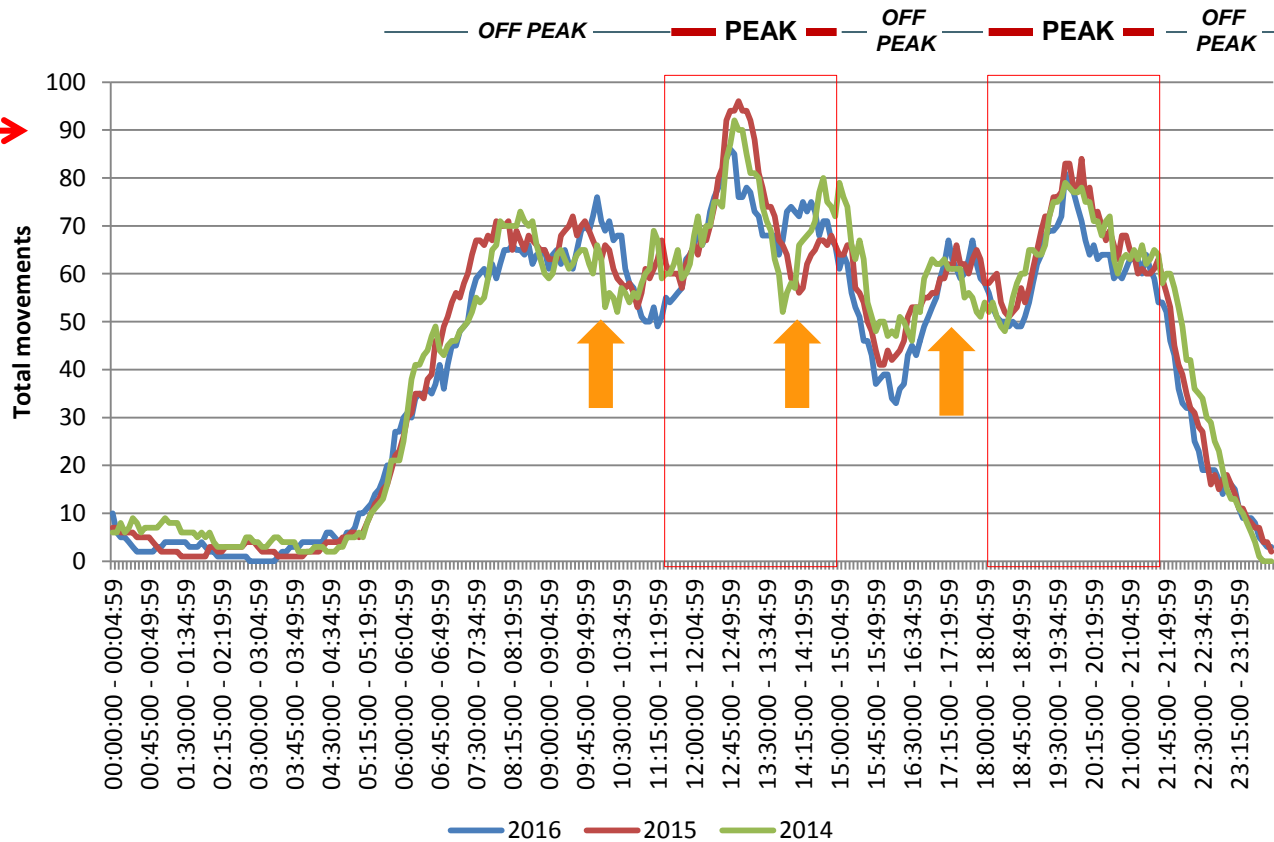
Pls see https://www.adr.it/documents/17615/10014558/Q+%26+A+_+capex.pdf/184052d1-5a3f-43c9-82ed-87007efa25da

As an addition to the above, we present an update to last year’s graph on capacity usage in runways’ peak hours.

Airside system at maximum capacity during peak hours

Hourly movements

Maximum capacity
90 mov / h



- Today Fiumicino faces severe capacity constraints in the most appealing time slots
- During 2016 movements increased also during off peak hours

Q. We request consultation and a detailed breakdown of scope, costs and specific project by project benefits regarding the items of 2017-18 investments.

A. Airfield/civil works

Given the current capacity of 90mov/hr, the application of the ICAO methodology (Airport Planning Manual - DOC 9184) allows us to estimate future apron requirement in approximately 135 stands (90 mov / h x 1.5 - average turnaround time).

As 131 stands are currently available, to avoid operational constraints ADR started works on “Piazzali Ovest Fase 2” project. The investment will allow for 138 stands as against 129 in the absence of intervention.

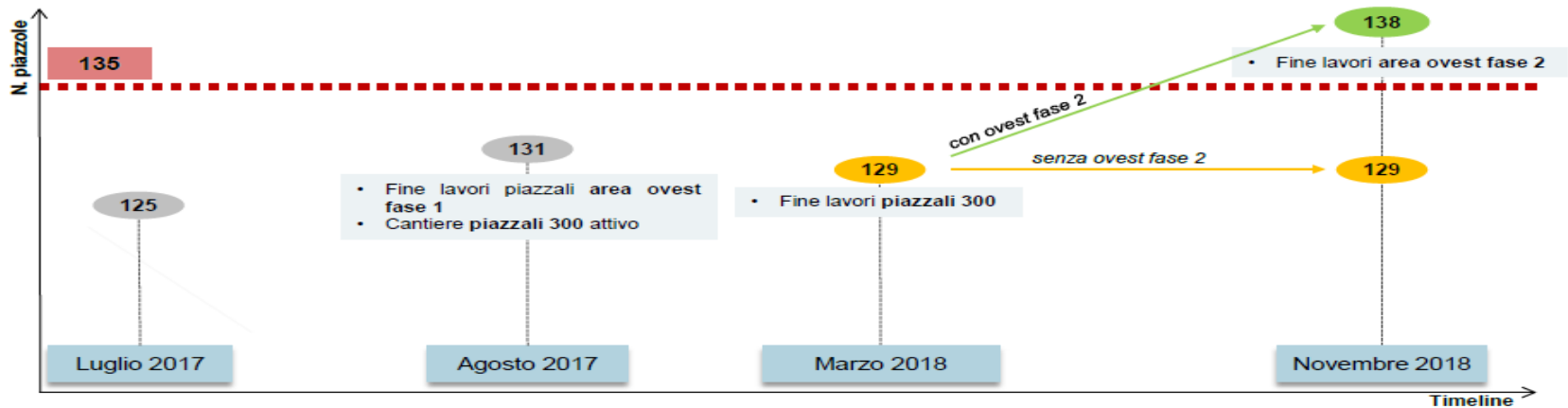
The project includes, *inter alia*:

- construction of a connection fitting with the taxiway A
- equipment of all the parking aprons with Visual Docking Guidance System

The advantages consist in:

- Increasing safety of entrance and stop phases
- Decrease in spacing between aircraft on contiguous stands, resulting in increased capacity
- Operations even under low visibility conditions and at night
- Increase capacity of ramp equipment areas and handlers logistic areas.

Project's Milestones



T1 BHS/HBS, AZ cargo conversion

Please note that what follows has already been presented in past years' updates on capex programme.

The foreseen configuration of the Fiumicino airport provides for a flexible and highly efficient infrastructure platform. In this framework during 2017 ADR has completed a new BHS / HBS automatic system in the former Cargo AZ building which is designed to handle originating and transit baggage volumes that insist on Terminal 1 with greatly enhanced operational efficiency at full capacity the system will be able to handle 10,800 bag/hr and will be connected to the T3 HBS-BHS system through service galleries.

Benefits of the investment include:

- Increase in the service level for handling originating and transit baggage volumes of Terminal 1;
- Increase in the capacity of the T1 in order to accept flights operated with Wide Body;
- Raising the level of infrastructural flexibility of the airport to cope with variations in traffic scenarios.

Restructuring

Below here we provide a description of the 3 major restructuring interventions on 2017 capex spending. In total these account for over half of restructuring spending for the year.

(i) Electric grid, high-medium-low voltage (underway)

Interventions on following areas:

- grid for equipment dedicated to runway lighting for raising level of service reliability
- high power transformer substation High to Medium Voltage

(ii) Runway 1 (completed)

The initiative envisages surface retraining and restoration of the slopes of the entire flight runway

(iii) Monitoring equipment for airport perimeter (underway)

New equipment to monitor the perimeter areas of the airport

Maintenance

Extraordinary maintenance (capex) is seen at around €50 mln for 2018. This compares with an average of €54 mln in the former years since the introduction of ERA (2013-16). In addition, taking into reference the ratio of maintenance capex to total capex, 2017 at around 23% still compares positively to 2013-16 average of 24.5%.

ICT

ICT spending shows a similar pattern in 2017 and past years since the introduction of ERA. ICT capital spending for the year is seen at less than €10 mln for 2018. This compares with an average of €8 mln in 2013-16, a negligible increase. When it comes to the ratio of ICT capex to total capex, 2017 at around 4% is broadly in line with past years' level.

New ADR's offices

The project's spending covers improvement of the existing office building used for AZ offices (12,000 m²) to be used as ADR's new headquarters. The choice to upgrade these state-owned assets significantly reduces the cost and time planned for the work as against other options previously under scrutiny.

Benefits include:

- Centralize offices of the main functions of ADR in a building suitable to deliver higher efficiency and lower running costs (improved space utilization of ADR's employees from ~65.000 m² to ~12.000 m²);
- Enhance employees capability to work and connect from every place in our airports in order to reduce commuting time between Fiumicino and Ciampino, terminals and offices, etc.;
- Introduce wider range of working spaces, thus higher operational efficiency;
- Renovate IT and collaboration equipment with dematerialization of paper-intensive processes and services to generate a higher productivity environment.