

Economic Regulation Agreement

CONSULTATIONS WITH THE USERS

2016 TARIFF PROPOSAL

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1 Method of calculating tariffs

The regulatory framework: ENAC - ADR Economic Regulation Agreement

- The regulatory framework set out in the Economic Regulation Agreement approved with Prime Ministerial Decree of 21 December 2012 provides a coordinated set of clear, transparent and long-lasting rules with the purpose of funding the investment plan to develop the Rome airport system with private capital
- The principles on which the Economic Regulation Agreement is based:
 - **centrality** of the investment plan, both short and long-term
 - **regulatory period** lasting 10 years in order to foster effective planning of the infrastructural development, divided into two tariff sub-periods each 5 years long
 - **"dual till" system**
 - **definition** of productivity, efficiency and quality goals for the exclusive services supplied
 - **updating criteria** of the fees regulated in line with the international best practices on the basis of: **actual service costs**, mid-term traffic forecasts, investment plan and quality improvement objectives
 - **annual updating** of the regulated fees with changes that guarantee that correlation of the costs is kept

Method of calculating regulated fees

- Calculation of the Economic Regulation Agreement tariffs is based on the principles of correlation with service costs implemented by Directive 2009/12/EC and on the methodology set out in CIPE Resolution 38/2007 (so-called “price cap”) which was then adopted with the enforcing ENAC Guidelines (December 2008)
- The methodology requires:
 - **Identification** of the costs allowed in the base year, including fair remuneration of the net invested capital
 - **Development** of the costs allowed in a regulatory sub-period (2012-2016) – as regards the infrastructures that already exist in the base year - depending on:
 - growth in volumes of traffic served (with it being certain that transfer of the "traffic risk" to the operator corresponds to fees for the user within pre-established thresholds)
 - efficiency and flexibility for the traffic required by ENAC
 - depreciation of the invested capital existing in the base year by determining amortisation and depreciation in tariff defined based on the remaining useful life of the capital
 - projected inflation
 - Admission of costs for **new investments and regulatory (or other) discontinuity expected**
 - admission dependant on ENAC verification of the actual making of the investments with effectiveness in tariff "moved" to the next year, including operating costs tied to the new making and/or other specific discontinuities

Method of calculating regulated fees

Subject

Correlation with costs, efficiency, quality of service, environmental protection

- This tariff proposal was drawn up in conformity with the criteria of orientation to costs for infrastructures and services, as well as efficiency promotion, sanctioned by Directive 2009/12/EC, adopted in Italy with Law 27/2012 (previously founding principles of CIPE Resolution 38/2007 and the ENAC Guidelines)

Net Invested Capital ("RAB") and "k" tariff parameter

- The value of capital recognised for tariff purposes is calculated based on the revalued book value as at 2012 of the assets allocated to the regulated services as identified by the certified Regulatory Accounts
- The tariff update envisaged on an annual basis sets out to align the costs recognised in the tariff with the investments actually made, adjusting what is envisaged ex ante (see annex 9 to the Economic Regulation Agreement)
- The tariff update proposal for 2016 therefore includes the costs admitted for the 2015 ADR investments on the basis of the year-end preliminary forecast values

Recognised remuneration

- When the first Economic Regulation Agreement five-year tariff period started, ENAC determined the parameters that make up the recognised return on the capital that will be updated every five-year period. The real pre-tax WACC for the 2012-16 period is 11.91%
- An increase of the real pre-tax WACC is planned on the new works having particular strategic and environmental value, in line with other regulated sectors

Method of calculating regulated fees

Subject

Operating costs and their admission in the tariff

- The operating costs relating to the regulated services fall within the dynamics of the tariff for the value specified in the certified Regulatory Accounts as at 2010 revalued to the projected inflation to make it 2011 "current value" and are updated for the sub-period based on: (i) inflation rate net of the efficiency objective; (ii) flexibility of the individual cost items as traffic varies

Required quality improvements

- An annual mechanism of bonuses/penalties up to 0.6% of regulated revenues is envisaged if the values of the quality/environmental protection indicators shared with ENAC are recorded above/below the tolerance interval
- Based on the reports presented to ENAC, ADR would have reached the allowed bonus concerning the past 12 months
- ADR instead proposed to ENAC to suspend its effectiveness in the tariff temporarily

Other costs admitted in the tariff: "v" parameter and other minor effects

- Discontinuity of operating costs for new regulatory measures and recovery of the quality gap with already defined programmes are admitted to the tariff subject to ENAC's verification
- For emerging costs due to programmes pursuant to Art. 37.2 of the ERA, new rules on safety standards, and lost revenues regarding travelling personnel pursuant to Law no. 164 of 11 Nov. 2014, ADR considered to start application in the tariff only after the final report with reliable data, without prejudice to its rights to the full recovery of the admitted costs as provided for in the Economic Regulation Agreement
- Recovery of the lost income due to delayed application of the new regulated fees is envisaged (60 days after the ERA takes effect)

Consultation material

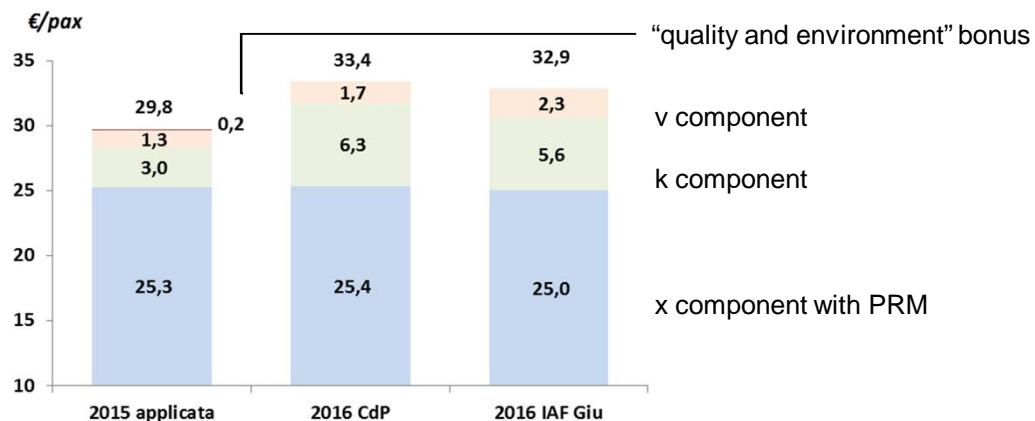
- With reference to the main parameters of the tariff update provided for by Art. 37-bis of the Economic Regulation Agreement, ADR refers the reader to the **consultation material**, and in particular:
 - Update of the "**k**" **parameter** (new investments for everything pertaining to the regulated services)
 - "**Sheet A**" which provides a summary
 - Update of the "**epsilon**" **parameter** (bonus/penalty for quality and environmental protection)
 - As previously reported, the economic impact is not included in the tariff proposal for 2016
 - **Tables** containing the summary data
 - "**Report** on the performance of the first year of the quality and environmental protection play for the Rome airports, Fiumicino and Ciampino"
 - Tariff update by service
 - **Sheets** providing a summary by airport showing 2013 and 2014 tariff values by service and by arrangements (update of Annex 9 to the Economic Regulation Agreement)

2 **Tariff updates: summary data by airport**

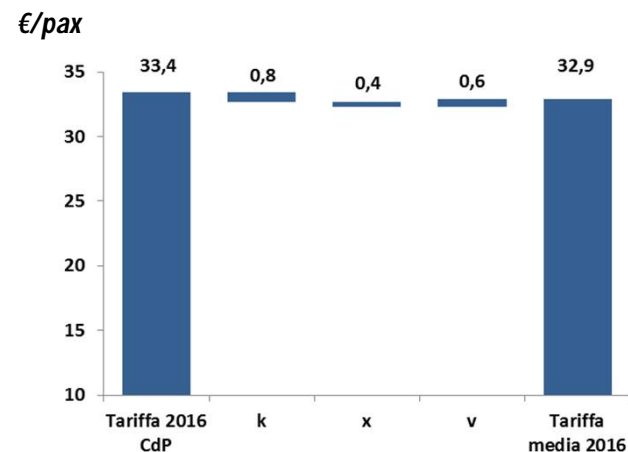
Applied methodology: FCO tariff update

- The update of the average Fiumicino tariff for 2016 follows
- Annex 9 to the Economic Regulation Agreement originally set it at € 33.40 per passenger paying the fees (maximum revenues / passengers paying the fees provided for in the ERA for 2016)
- What results from the tariff update proposal is a value of € 32.90/passenger, which corresponds to a 1.6% decrease of what was estimated

2015 FCO tariff vs 2014 and vs ERA



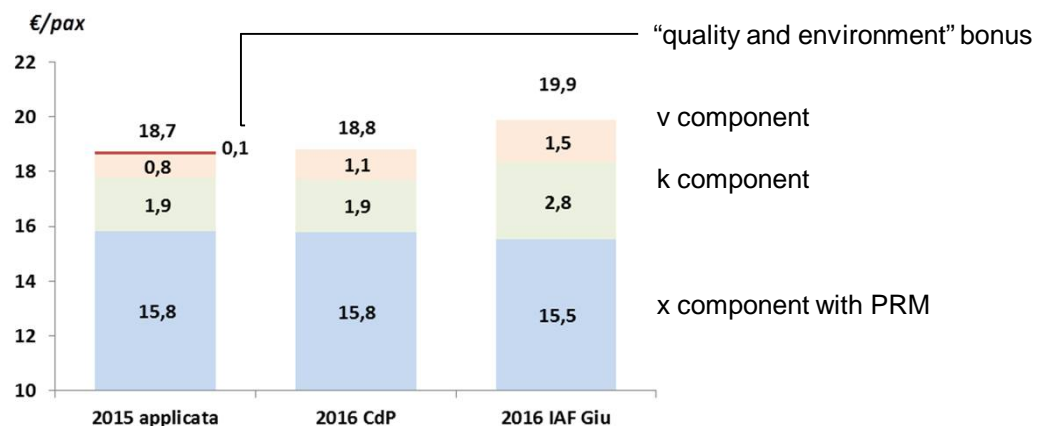
2015 FCO tariff vs ERA, deviations



Applied methodology: CIA tariff update

- The update of the average Ciampino tariff for 2016 follows
- Annex 9 to the Economic Regulation Agreement originally set it at € 18.70 per passenger paying the fees (maximum revenues / passengers paying the fees provided for in the ERA for 2016)
- What results from the tariff update proposal is a value of € 19.90/passenger, which corresponds to a 5.5% increase of what was estimated

2015 CIA tariff vs 2014 and vs ERA



2015 CIA tariff vs ERA, deviations

