

Q&A, meeting of Dec. 20th

In the following pages, we provide answers to Easyjet questions received on December 16th, On Dec. 19th we were also reached by a letter of IBAR that touches on issues related to operations' costs that were raised by Easyjet. In providing answers you can find below we made efforts to embrace both easyJet's and IBAR's queries.

Q. At the most recent meeting of the Technical Table on PRM service (3 December), in which easyJet participated, it was clear that one of the major obstacles to the efficiency of the service is the lack of pre-notification by some non-EU carriers that make vain efforts and investments of the airport operators. Since 2018 easyJet has proposed to ADR to introduce an efficient tariff modulation for the PRM service, that is meant to reward virtuous carriers having higher pre-notification levels.

A. Firstly, let me express our disagreement with the initial statement whereby lack of pre-notification by some airlines would make for a significant obstacle to airport managers' efforts to improve efficiency, as per statements within the abovesaid Technical Table. Indeed, we just received minutes of the Technical Table on PRM service of 3 December referred to by Easyjet and we could not find any explicit indication of Easyjet's claim.

On the topic, we invite users to re-read the material we published in the wake of the first hearing of Nov. 24 (pls see pages 7-8 at the following link: [Presentazione standard di PowerPoint \(adr.it\)](#))

We refer specifically to the following statement herewith: "In the last years pre-COVID the deployment of PRM dedicated staff increasingly reflected 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".

This – as said more times in recent years – is the main reason that ADR puts forward for not pursuing charges to reward carriers with top pre-booked assistance ratios. ADR has also pledged to constantly monitor the matter for potential re-assessment of the abovesaid position in near future.

As a follow-up to this topic, Regan Tilson of Ryanair insisted that ADR should provide evidence that efficiency levels cannot be raised in case of rise of pre-booking.

Fabio Soleri replies that ADR:

- is glad to reply to specific requests of any numerical information;
- is glad to reiterate the statement already expressed in past PRM consultation meetings ("ADR Assistance's costs are planned efficiently, providing for very limited savings in the event of marginal increases in the overall ratio of pre-booked assistances")
- argues that users who expressed favor for the abovesaid charges modulation have not yet provided any evidence that rising pre-booking level do indeed trigger operations' cost savings
- is happy to share with users more information on ADR's operations' cost planning activities (please see below)

ADR, alike other tier-one airport managers around Europe, had to resort to planning methodologies on staff deployment for PRM assistance, in light of inadequacy and incompleteness of feed coming from carriers for that purpose. On a monthly basis, ADR Assistance provides ADR's internal team in charge of traffic forecasts

with detailed information on PRM volumes for each flight (carrier, route, time, aircraft). Said information set is processed and turned into a feed back to ADR Assistance consisting in estimates of “PRM load factor” by single flight. Maximum granularity of analysis is provided on one-month ahead for planning operations, slightly lower on one-year ahead for budget considerations.

Q. We note that even in the reviewed ADR’s proposal in discussion today, the airport manager continues to use planned inflation to inflate 2020-22 losses. It is clear that the current inflation rate is not oriented towards the cost of money of the airport manager, which stands at 1-2%. By directly attributing to the airport's losses a theoretical interest rate equal to inflation, the proposed charge is no longer correlated to the operator's costs, thus in violation of Article 8(4) of Regulation (EC) No. 1107/2006. We also believe that, since the PRM is a social service, ADR should not mechanically apply the recovery of losses through the PRM tariff as these losses were not generated by carriers or passengers, but by government-imposed limitations of airport operations.

A. Firstly, let me reiterate our thorough disagreement with part of the content of the contribution above insofar easyJet claims that (i) the proposed charge would not reflect full cost correlation; (ii) ADR’s cost of money stands at 1-2%.

(i) In calculating ADR is simply applying the criteria set forth by ENAC in its communication of August 2020.
(ii) quoted cost of money refers to “surface” cost of one single bond issue of ADR. Indeed, bond issues performed by ADR during 2020-21 benefitted from historically low interest rates and with an avg all-in cost of around 2% contributed to lowering overall cost of debt of the airport manager. Unfortunately, in more recent months cost of debt issues of airport managers around Europe has significantly gone up, in the wake of rising world interest rates and lower investors’ confidence in the sector after COVID.

The latter has far-reaching ramifications. ADR fully supports the concept of PRM as a social service (thus our choice to allocate limited capital stock and no corporate G&A costs to PRM). However, we argue that in no circumstances coverage of financial costs (ie. return on capital and allowable losses adjusted to current costs) should remain below a reasonable risk-adjusted return that shall always consider capital structure behind service operations (never 100% debt-funded).

Furthering on this topic, let me express my personal view that revolves around the empirical evidence so far that pandemic losses without proper regulatory intervention are altering the risk/return trade-off (equilibrium) that through last two decades has attracted investors to airports.

For now, not surprisingly, airlines do not seem to care much and focus on airports’ financial survival, continued low cost of debt (although much higher than before) and pre-pandemic allegedly “high” level of profits at airports. But that to me misses THE point: if investors’ appetite of airports’ asset diminishes, we all face a future of higher costs (higher costs of capital) AND less investments in needed capacity/innovation, potentially triggering a vicious circle.

Conversely, if we all (airports and airlines) agree on the above and embrace this as a new challenge, then pandemic may also be remembered as THE starting point of a more collaborative effort to address areas where improvements are much needed and are within reach.

Said all this, should we apply the claimed 2% cost of capital to cumulated deficit carry-fwd, updated deficit would decline by around €/mil 640, that – given the proposed percentage of deficit recovery embedded in ADR’s reviewed proposal would make it for an impact of 1.5 CENT / pax on prospected 2023 paying pax volume.

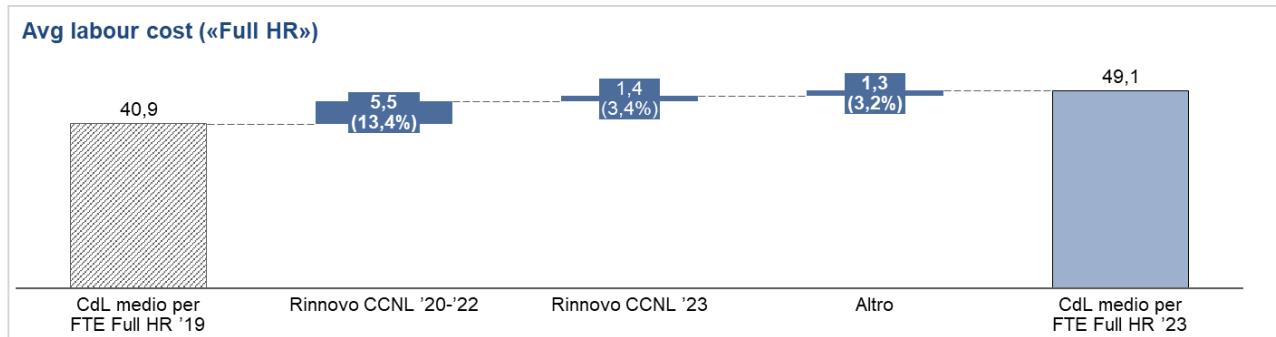
Q: What government bonuses and compensations AdR Assistance received in 2020-22 and how much they reduced service costs.

A: In the 2020-2022 period, ADR Assistance benefited from social safety nets to compensate for the drop in demand for assistance linked to the generalized reduction in traffic during the pandemic period. These shock absorbers were used gradually, following the trend of the actual demand for PRM assistances and – in compliance with the law provisions – they were used post full disposal of staff holidays.

Q: We require that AdR communicate to carriers what the average salary increase is in 2022-23 for AdR and AdR Assistance employees

Q: As you all know the relevant national framework contract is about to expire (end December 2022) and the determinations for its renewal were elaborated by applying inflation rate of the two-year period 2022-2023 (6.2%) to the salary base plus other minor elements. Determinations for renewal at the parent company ADR are predicated on analogous considerations.

Comparing 2023 with 2019, we stress a unit cost differential of 20% (from 40.9k to 49.1K Euros) which is the outcome of two stages of nation-wide contract re-negotiation (in 2020 and 2022), to which minor other factors (mainly, a change in portion of contracts from part-time to full-time) add up as in table below. The previous update of the CCNL dates back to January 2020 and was signed after about 2 years of contractual holiday in 2018 and 2019.



Q: We note a strong discrepancy between the planning of AdR for higher costs in 2023 (+12% compared to 2019) and a lower level of assistance (-19% compared to 2019), a phenomenon to which no justification was provided by AdR.

A: As we elaborated already in the Q&A document in the wake of Nov. 24 meeting, overall level of costs has increased as a result of exogenous factors (lack of resources, inflation, renewal of the sector's national collective bargaining agreement).

Please see relevant material as discussed in previous meeting at pages 3-4 of the following link: [658e1809-1296-a07a-eabd-667195396dc3 \(adr.it\)](https://adr.it/1296-a07a-eabd-667195396dc3)

Q: Labour costs are particularly given weight on total costs (more than 85% in post-pandemic years, while at another national hub, by comparison, the weight is 68%).

A: This question represents for me an opportunity to re-emphasize our choices on cost allocation to the PRM service that makes up for a distinctive element of ADR, but an element that is not being fully appreciated or understood by users, eventually.

Thus, allow me to stress this further and let me say that ADR has made choices to elevate transparency of its PRM cost structure by:

1. creating a company entirely dedicated to the service – with a very lean organizational structure – to which to entrust the task of managing operations, quality and relevant institutional relations
2. avoid any allocation of general and structural costs (except for the very modest intercompany cost of administrative management that in 2022 weighed for € 160 thousand (€ 0.01 / pax)¹)

With regard to point 2 above, it is quite clear that comparisons between different structures of allowable costs are bound to give rise to misleading conclusions.

Q: We believe that labour costs for FTE cannot reasonably increase by +9% p.a. in 2023, i.e. +24% vs 2019. No explanation for this cost increase was provided during the consultation (2023 figure represents an estimate given that the number of FTEs expected for 2023 was not provided: we expect this to be communicated).

A: We argue that variations in the overall cost of labor must be analyzed with reference to "Full HR" costs, ie. the sum of FTE and additional working hours. We summarized trend in labour costs per FTE in graph in former page. Meanwhile, rise in cost between 2019 and 2023 is mainly triggered by unit cost rise attributable to the renewal of the CCNL.

Contradicting the claim made by easyJet, planned FTE and FTE Full HR for the financial year 2023 are indeed clearly indicated in the information document published on November 10th (please see document "Proposal of 2023 charges for PRM service" at link [Presentazione standard di PowerPoint \(adr.it\)](#), at page "FCO 2020 – 2023: Cost and Surplus/(Deficit)").

Q: ADR did not specify what level of productivity (KPI: number of assistance/FTE) it expects in 2023 and, consequently, whether the level of cost projected for 2023 is accompanied by a significant increase in the level of productivity. We also wonder how ADR can plan resources for 2023 without having an estimate of assistance and FTEs.

A: In order to ensure transparency on the charges' components, ADR has determined its costs taking into account level of staff usage according to (i) expected volume of assistance to be provided to passengers and (ii) a target productivity.

Both these elements of our calculation – I have to say regrettably, different from what easyJet has stated in the document we are duly providing feedback to – are represented in the information material shared with you on Nov. 24 (please see information material published on November 10th, at the following link: [Presentazione standard di PowerPoint \(adr.it\)](#), page "FCO 2020 – 2023: Cost and Surplus/(Deficit)").

We also provided to update the same for todays' second hearing (please see information material published on December 12th, at the following link: [2aca1f81-469d-895e-0753-e021523883e3 \(adr.it\)](#), page "FCO 2020 – 2023: Cost and Surplus/(Deficit)").

Productivity of 2023 expressed as a ratio between average monthly assistances and average FTE Full HR stands at 66.5x, on which it is worth noting:

- although impacted by the obvious operational discontinuities, comparison with 2022 shows an increase in productivity ratio of 29% (up from previous year's 51.8x)

¹ value included in item of cost termed "services from third parties", see publication of 24 November, page 33 "FCO – CIA 2020-2023: Details by nature of cost"



- comparison with 2019 shows a loss of productivity of -17% that on a like-for-like infrastructure basis (as explained in former meeting session) is reduced to -4.2%

the latter is attributable to operations' discontinuities on major works for terminal expansion and weight of services whose cost is unrelated to traffic (supervisory + dispatching activities + nightshift taskforce facility which on aggregate account for around 35% of total labour cost exp