

Annex A to Decision no. 119/2017 of 28 September 2017

Regulatory items for definition of the concession scheme and toll charging system of A5 (Turin-Ivrea-Quincinetto), A4/5 (Ivrea-Santhià), Turin Ring Road System, Turin-Pinerolo connection and A21 (Turin-Alessandria-Piacenza) motorway sections.

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BACKGROUND

Article 37 of Decree-Law No 201 of 6 December 2011, converted, with amendments, into Law No. 214 of 22 December 2011, while establishing the Transport Regulation Authority (hereinafter the Authority) within the framework of the regulatory activities on public utilities services pursuant to Law No 481 of 14 November 1995, provided *inter alia* that the Authority attends to the following:

- “ensuring, according to methods that encourage competition, production efficiency and cost containment for users, businesses and consumers, as well as equitable and non-discriminatory access to rail, port, airport and toll motorway infrastructures (...), as well as with respect to national, local and urban mobility of passengers and freight, including that related to stations, airports and ports;” (paragraph 2 (a));
- “where it is deemed necessary with respect to the conditions of competition which are actually in place in the individual markets of national and local transport services, setting the criteria to determine charges, fees and tolls to be applied by the parties concerned, taking into account the need to ensure the economic equilibrium of the regulated businesses, the efficiency of operation and the cost containment for users, businesses and consumers” (paragraph 2 (b));
- “checking the correct application of the criteria set out under (b) by the parties concerned” (paragraph 2 (c));
- “in relation to the different services and infrastructures, defining the minimum rights and entitlements (including compensation) that may be claimed by users from infrastructure managers and service providers” (paragraph 2 (e));
- “determining the criteria for the financial reporting of regulated entities” (paragraph 3 (b)).

Further, under paragraph 2 (g), the Authority shall provide “with particular reference to the motorway sector, [for] establishing, for new concessions, toll charging systems based on the price-cap method, with determination of X productivity indicator every five years for each concession; defining concession schemes to be included in tender notices for management or construction, as well as tender schemes which motorway concessionaires are required to comply with for new concessions; defining optimal management areas of toll motorway sections so as to promote the plural management thereof and foster competition by comparison”.

Section III of Legislative Decree No 50 of 18 April 2016 and following amendments and additions (hereinafter: Code), implementing Directive No 2014/23/EU of the European Parliament and of the Council of 23 February 2014 on the award of concession contracts, illustrates the systematic regulation of concession contracts.

In the course of the proceeding initiated by Decision No 83/2017 of 31 May 2017, and with regard only to the new concession pertaining to the following motorway sections with an overall length (km) of 320,85 km)

- A5 - Turin - Quincinetto - Ivrea (km 51.29);
- A4/A5 - Ivrea - Santhià (km 23.65);
- Turin Ring Road System (km 56.38);
- Turin - Pinerolo connection (km 24.63);
- A21 - Turin - Alessandria - Piacenza (km 164.90);

the following items were identified for the definition of the concession scheme to be included by the concession-granting authority in the tender notice (Part I), as well as the toll charging system based on the price cap method and on the determination of the five-year productivity indicator X (Part II).

Not covered by these measures are the institutions relating to administrative, contractual and non-contractual aspects of the tender procedure and of the conduct and performance of the concession within the remit of the concession-granting authority; in particular, the latter shall ensure that the exercise of its powers be connected with the content of Part I and Part II here below.

I – ITEMS FOR THE DEFINITION OF THE CONCESSION SCHEME

The concession scheme to be included by the concession-granting authority in the tender notice, pursuant to Article 37 (2) (g) of Decree-Law No 201 of 6 December 2011, converted, with amendments, into Law No 214 of 22 December 2011, for the concession of A5 - Turin-Ivrea-Quincinetto, A4/A5 - Ivrea-Santhià, Turin Ring Road System, Turin - Pinerolo connection and A21 Turin-Alessandria-Piacenza motorway sections, contains, in particular, the following provisions.

1. Scope of contract

1.1 The concession scheme, along with the definition of actual charging levels, defines the services to be awarded to the concessionaire, at least according to the following:

- a) management and economic exploitation of motorway infrastructures by the concessionaire for the concession period;
- b) design of works and/or extraordinary maintenance work;
- c) construction of works and/or extraordinary maintenance work;
- d) any activity related to the management of motorway infrastructures, including those to be constructed;
- e) ordinary maintenance of motorway infrastructures, in accordance with the provisions of the final design and of the maintenance work programme.

The services referred to under (b) and (c) shall be detailed in the time schedule attached to the concession agreement, together with the maintenance work programme referred to under (e).

Fines and penalties charged to the concessionaire, provided for in the agreement and its annexes, shall be proportionate to the seriousness of the infringement, without prejudice to the adjustments provided for by the charging system.

1.2 With respect to the scope of contract, the parties also agree that the cost of the works approved by the concession-granting authority, as resulting from the Economic and Financial Plan *[being a separate annex to the agreement]*, except for the cases of review which are expressly provided for, shall be fixed and invariable.

2. Concession period

2.1 The total concession period, which shall be calculated from the date of registration by the Court of Auditors of the Decree of the Minister of Infrastructure and Transport, in agreement with the Minister of Economy and Finance, approving the concession agreement, is structured in accordance with the following steps (to be specified in terms of number of months/years):

- a) design of works and/or extraordinary maintenance work to be carried out;
- b) construction of works and/or extraordinary maintenance work to be carried out;
- c) management of motorway infrastructures covered by the concession over the entire concession period.

2.2 For concessions lasting more than five-year Art. 168 (2) of Legislative Decree no. 50/2016 shall apply.

3. Allocation of traffic revenue risk

- 3.1 In this respect, including for the purpose of defining the actual charging levels, the concession scheme shall provide that:
- a) as for the operational risk, the traffic risk is to be borne by the concessionaire based on the traffic estimate resulting from the outcome of tender activities;
 - b) the concessionaire is bound to charge the economic effects related to traffic revenue risk exclusively on the motorway section affected by the traffic risk.
- 3.2 The parties therefore agree that, in case the actual traffic volumes should be lower than the estimated values resulting from the application of the methods referred to under (5) of Part II, as reported in the relevant table of the Economic Financial Plan, the concessionaire shall not be entitled to apply for a review of the plan.

4. Quality of service targets

- 4.1 In this regard, for the purpose of defining the charging levels, the concession scheme:
- a) identifies both the general quality levels referred to the whole set of performance indicators and the specific quality levels of each performance indicator *[both included in separate annexes to the agreement]* to be provided to users, which the concessionaire undertakes to comply with, including any measures adopted by the Authority in the future;
 - b) provides that the estimated and actual values for each performance indicator be transmitted at least annually to the concession-granting authority and to the Authority;
 - c) provides that the Service Charter, which the operator is required to draw up and update each year, properly implement the minimum rights and entitlements, including compensation rights, that may be claimed by users from concessionaires, as identified by an Authority's Decision pursuant to Art. 8 of Decree-Law No 1 of 24 January 2012, converted with amendments into Law No 27 of 24 March 2012.

5. Risk allocation during design and construction

- 5.1 The economic and financial equilibrium is a prerequisite for a correct risk allocation.
- 5.2 In this respect, along with the definition of actual charging levels, the concession scheme specifies that the risks pertaining to the stages of design (in case only a framework of requirements is included in the tender) and construction shall be borne by the concessionaire and shall include at least the following categories:
- a) design risk;
 - b) delivery/operation risk;
 - c) risk of increase in the input prices or risk of inadequate or unavailable inputs compared to those in the design;
 - d) risk of incorrect assessment of costs and time schedule;
 - e) risk of breach of contractual obligations by suppliers and subcontractors.
- 5.3 Risks arising from delay or non-approval of the project are borne by the concession-granting authority only where the delay or non-approval are exclusively attributable to the latter.

6. Charging regulation and related information obligations

6.1 The concession scheme, through the use of appropriate annexes, provides that:

- a) charging system;
 - b) drafting of cost accounting system and regulatory accounting of motorway activities, to be reconciled with the general accounting drawn up in accordance with existing legislation;
 - c) keeping of a separate regulatory accounting for any activity other than that referred to under(b);
 - d) transmission of the relevant data to the concession-granting authority and to the Authority;
- are regulated according to the criteria and methods specifically defined by the toll charging system for motorway sections covered by the concession (cf. Part II).

7. Review of Economic and Financial Plan

- 7.1 The Economic and Financial Plan contains all the information to be supplied by the concessionaire to the concession-granting authority, which is necessary for the analysis and assessment of the cost-effectiveness and financial sustainability of the concession.
- 7.2 In this respect, including for the definition of the actual charging levels, the concession scheme provides that the Economic and Financial Plan may be reviewed, through a re-determination of the conditions of equilibrium¹, only in case of events affecting economic and financial stability which are not attributable and not related to the risks allocated to the concessionaire.
- 7.3 Matters that cannot be attributed to the concessionaire are: a) ensuing legislation or regulation that may affect even indirectly the economic and financial equilibrium; b) cases of force majeure to be indicated in the concession scheme so as to highlight their absolutely exceptional nature; c) assumptions that the financial economic equilibrium is compromised as a result of any modifications of the concession agreement referred to in Art. 175 (1) through (4) of the Code, except in case of amendments made by the concessionaire.
- 7.4 As to the provision concerning the cases of review of the Economic and Financial Plan, the parties also agree that the addendum scheme containing the relevant review proposal, together with any relevant documentation, shall be sent to the Authority for an opinion within its area of responsibility.

¹ As for the assessment of cost-effectiveness and financial sustainability, as defined in article 3 (1) (fff) of Legislative Decree no. 50 of 18 April 2016, (i.e. the Code) the concession-granting authority refers to the following indicators:

- financial sustainability
 - DSCR (Debt Service Cover Ratio);
 - LLCR (Long Life Cover Ratio);
- assessment of the ability of the project/investment to generate wealth and profitability for the economic operator:
 - IRR (Internal Rate of Return);
 - NPV (Net Present Value).

II. TOLL CHARGING SYSTEM

Part 1

1. General principles

- 1.1 The toll charging system is based on the assumption that the joint granting of concessions for the motorway sections specified above shall be the result of a tender procedure based on the most economically advantageous tender.
- 1.2 Once the tenderers are informed, in the tender dossier, about the initial maximum charging level and the associated estimated traffic volumes, as indicated by the concession-granting authority, as well as about the value of the efficiency improvement X indicator for the operational charge component, as established by the Authority (ref. paragraph 17), the initial average unit charge proposed by the tenderers, which is subject to the price cap mechanism and is built on autonomous traffic forecasts based on the levels indicated by the concession-granting authority, constitutes one of the relevant parameters for the assessment of the most economically advantageous tender.
- 1.3 When establishing the criteria underlying the tender procedure and, in particular, the initial maximum charging level, the concession-granting authority applies the principles and criteria provided by the Authority to determine the operational charge component.
- 1.4 The charging system is characterised by:
 - a) a five-year regulatory period;
 - b) a grouping of the activities, as follows:
 - b.1) activities which are directly subject to charge regulation;
 - b.2) activities which are not directly subject to charge regulation, that are relevant for the purpose of allocating the extra-profitability generated by the performance of ancillary activities (cf. paragraph 3.1.b);
 - b.3) activities which are not relevant for the charging system;
 - c) identification of the methods for determination of toll charges, through:
 - c.1) application of the price cap method, with determination of X productivity indicator every five years, such method being applied to the initial charge level set by the concession-granting authority and/or resulting from the competitive procedure;
 - c.2) identification of the perimeter of the concessionaire's eligible costs and of the criteria for the related evaluation;
 - d) definition of the obligations borne by the concessionaire in terms of accounting separation and related regulatory accounting system.

2. Definitions

- 2.1 **Concession period:** lifetime of the concession, set by the concession-granting authority, which serves as a basis for drawing up the Regulatory Financial Plan and the Economic and Financial Plan.

- 2.2 **Regulatory period:** five-year period, after which both the price cap and WACC parameters are updated, together with the Financial and Economic Plan and the Regulatory Financial Plan, in compliance with the principles and criteria set out in this document.
- 2.3 **Price cap:** method used to determine and update charges, that sets a constraint to the maximum level of the average annual increase of charges, for each year of the regulatory period, by also applying to the operational charge component the X productivity indicator.
- 2.4 **X productivity indicator:** annual adjustment percentage factor of the operational charge component which is applicable for each regulatory period (and, where appropriate, modulated within the same period), which is set by the Authority also on the basis of the ‘minimum efficiency gain target’ as resulting from the evidence of the “stochastic frontier efficiency” model used in Decision no. 70/2016. The indicator is re-determined at the end of each regulatory period, including on the basis of final traffic volumes.
- 2.5 **Reversible assets:** assets to be transferred free of charge to the concession-granting authority upon expiration of the concession. They are depreciated each year on the basis of their residual life span, which coincides with the concession period.
- 2.6 **Non-reversible assets:** largely consisting of tangible assets such as buildings, vehicles, furniture, office furniture, office equipment, which cannot be transferred free of charge to the concession-granting authority upon expiration of the concession. They are depreciated in each year on the basis of their residual life span and value.
- 2.7 **Stochastic frontier efficiency model:** model adopted by the Authority to identify - on the basis of benchmarking analyses built on the historical data set of national motorway concessionaires - their efficient costs as a function of the length (km) of the operated motorway sections.
- 2.8 **Regulatory Financial Plan:** financial and regulatory unified planning model which is drawn up by the concessionaire in accordance with the model adopted by the Authority (Annex - Table 2), to be attached to the concession scheme and updated annually for verification of compliance of the charging system adopted by the concessionaire.
- 2.9 **Notional items:** positive or negative notional charge components, which are targeted at ensuring the gradual charge variation, including for the purpose of avoiding imbalances in the system.

3. Identification of relevant activities

- 3.1 For the purpose of regulating the charging system, the concessionaire’s activities are divided into:
- a) **Motorway activities:** activities relating to design, construction, operation and ordinary and extraordinary maintenance of motorway sections intended for road traffic;
 - b) **Ancillary activities:** activities linked to the commercial exploitation of motorway areas and premises, which are not related to road traffic, including (i) fuel and lubricant distribution services and commercial and catering services in rest areas, (ii) ducts; (iii) road signs and information boards; (iv) technology and information services;
 - c) **Non-relevant activities:** activities other than those referred to under (a) and (b).
- 3.2 The toll charging system relates to motorway activities only, subject to the takeover of extra-profits from ancillary activities, as referred to under paragraph 9 below.

4. Application of the price cap method

- 4.1 The charge resulting from the application of the price cap method is aimed at ensuring:
- a) annual dynamics of the operational charge component as per paragraph 5.3 which is consistent with the achievement of a productivity recovery target;
 - b) that, with reference to the concession period, the concessionaire achieves, in compliance with the cost-orientation principle as recognised by the concession-granting authority on the basis of the principles and criteria laid down by the Authority (cf. Part 2), a profitability equal to the pre-tax rate of return on capital referred to under paragraph 14, where the concession-granting authority opts for a revaluation of the assets, or a profitability equal to the pre-tax nominal rate of return on capital referred to under paragraph 14, where the concession-granting authority opts against the revaluation of the assets, with respect to investment:
 - made on (non-reversible) operating assets of the concessionaire, where relevant and efficient;
 - made on (reversible) assets under concession, including handover costs.
- 4.2 The correct application of the charging system is checked annually by the Authority. After transmission of the Regulatory Financial Plan by the concession-granting authority, the Authority shall, in particular, verify the following conditions:
- a) application of the price cap method, referred to under paragraph 15, to the operational charge component as per paragraph 5.3;
 - b) equivalence of the discounted value of the expected toll revenues, related to the construction charge component, and of expected eligible costs related to investments, obtained by discounting the relevant amounts at the nominal rate of return on capital as provided for under paragraph 14.6;
 - c) zeroing of the discounted value of any notional items, referred to under paragraph 22, obtained by discounting the relevant amounts at the nominal rate of return on capital as provided for under paragraph 14.6;
 - d) compliance with the eligibility principles and criteria referred to in Part 2.

5. Average unit charge

- 5.1 The average unit charge is the average unit price, expressed in euro per vehicle*km, of the tolls charged by the concessionaire on the different classes of vehicles and types of motorway sections, weighted by traffic volumes.
- 5.2 The average unit charge is determined after deduction of:
- a) what the concessionaire is required to pay to entitled persons, i.e.:
 - a.1) annual fee pursuant to Art. 1 (1020) of Law No 296 of 27 December 2006, set at 2.4 % of net toll revenues;
 - a.2) extra-charge referred to in Art. 19(a) of Decree-Law no. 78/2009, converted into Law no. 102/2009, as amended by art. 15 (4) of Decree-Law no. 78/2010, converted into Law no. 122/2010;
 - a.3) taxes;

- b) extra-charges for equipment used for upgrading road infrastructures as referred to in Art. 34 (2) of Legislative Decree No 285 of 30 April 1992.

5.3 The unit average charge of the period is the sum of two components:

- a) **operational charge component (T_G):** aimed at providing evidence, under the Financial and Economic Plan and the Regulatory Financial Plan attached to the tender, (i) that, on the basis of the initial charging level proposed in the tender and of the X productivity indicator, the revenue stream, which is discounted by applying the pre-tax nominal rate referred to in paragraph 14, as evaluated in connection with traffic volumes, is equal to the level, estimated by the concessionaire, of the flow of its operating costs (including ordinary maintenance and costs for new investments), as discounted by applying the pre-tax nominal rate referred to in paragraph 14; and (ii) of the recovery of capital costs (depreciation and return on capital) related to those operating assets of the concessionaire which are not reversible upon expiration of the concession;
- b) **construction charge component (T_K):** aimed at allowing the recovery of capital costs (depreciation and return on capital) related to those assets which are reversible upon expiration of the concession, including handover costs to be paid to the (previous) outgoing concessionaire and the cost of the works realised in connection with the investment plans covered by the concession.

Such average unit charge, for each t year of the concession period, can be illustrated as follows:

$$T_t = T_{G,t} + T_{K,t}$$

5.4 For the average unit charge T_t relating to t year, the following condition shall apply:

$$T_t = \frac{\sum_{i=1}^n p_i^t q_i^t}{\sum_{i=1}^n q_i^t}$$

where p_i^t and q_i^t are the charges per kilometre and the kilometres relating to vehicles belonging to the i -th of n elementary charging classes, in t year, respectively.

5.5 For the correct evaluation of the charging components referred to under paragraph 5.3:

- the level of management costs C_G is determined according to the following formula:

$$C_G = (C_o - E_{aa}) + C_{a,nr} + C_{rc,nr}$$

- the level of construction costs C_K is determined according to the following formula:

$$C_K = C_{a,r} + C_{rc,r}$$

where:

C_o = operating costs, including ordinary maintenance and costs for new investments;

E_{aa} = extra-profit from ancillary activities, as specified under paragraph 9;

$C_{a,nr}$ = depreciation costs related to those concessionaire's operating assets, which are not reversible upon expiration of the concession;

$C_{rc,nr}$ = costs of return on capital related to those concessionaire's operating assets which are not reversible upon expiration of the concession.

$C_{a,r}$ = depreciation costs related to those assets which are reversible upon expiration of the concession;

$C_{rc,r}$ = costs of return on capital related to reversible assets upon expiration of the concession.

For the purpose of determining the above charging components, the analytical method used for traffic forecasts shall be characterised by transparency and reproducibility. Further, it shall be such to allow the persons entitled thereto to make simulation, sensitivity and risk analysis.

The cost components mentioned above are defined in Part 2.

- 5.6 The average unit charge has to be estimated *ex ante* separately for each of the components referred to under paragraph 5.3 above, on an annual basis and for the entire concession period, as provided for under paragraphs 15 and 18.

6. Modulation of charges

- 6.1 Based on the average unit charge for each year of the concession period, the concessionaire, in compliance with existing legislation, is entitled to determine, within the constraints of the invariance of total revenues, the specific charges for the different classes of vehicles and types of motorway sections.
- 6.2 The concessionaire may also agree further modulation of charges in addition to those referred to under paragraph 6.1 with the concession-granting authority, which may include, but are not limited to:
- a) different and/or more comprehensive classification of vehicles, also gradually overriding the “axle-gauge” principle, as provided for by inter-ministerial decree no. 2691 of 19 December 1990;
 - b) classification of vehicles according to environmental impact, in accordance with the provisions of Legislative Decree no. 7/2010, as amended;
 - c) classification of motorway sections based on assessment criteria concerning predominant use, incidence of construction and/or maintenance costs, traffic level;
 - d) breakdown by time slots (e.g.: *peak/off-peak*);
 - e) daily differentiation (e.g.: working days/holidays);
 - f) type of traffic (e.g.: modal/intermodal);
 - g) facilitations for frequent users.
- 6.3 The modulation of charges shall comply with criteria of equity and non-discrimination of users.

Part 2

7. General criteria for eligibility of costs

- 7.1 Eligibility of operating and capital costs for charging purposes, as regulated by this Decision, is subject to the following general criteria:
- a) **relevance:** costs and other negative economic components shall be considered to be eligible if, and to the extent that, they are related to motorway activities and additional activities referred to under paragraph 3;
 - b) **adequacy:** costs and other negative economic components are considered eligible if, and to the extent that, it is verified that they are reasonable as against the pre-determined purposes. The adequacy is assessed on a case-by-case basis, with respect to planned targets, historical trends and repercussions of multiannual commitments during the concession period;
 - c) **accrual principle:** costs and other negative economic components are eligible if they are related to the relevant accrual period;
 - d) **allocation in the income statement:** operating costs and other negative economic components are eligible if, and to the extent that, they are allocated into the income statement of the relevant accrual period;
 - e) **separateness:** the different elements included in the individual cost items shall be reported separately;
 - f) **comparability of values:** the values reported in regulatory accounting documents referred to in Part IV shall be comparable with the items included in the Regulatory Financial Plan;
 - g) **data verification:** the costs indicated in the regulatory accounting documents, referred to in Part IV, shall be verifiable by reconciliation with the data resulting from general accounting and annual financial statements.

8. Eligibility criteria of operating costs

- 8.1 For the purpose of allocation and eligibility of operating costs, with reference to the financial statements of the concessionaire, the costs allocated under items 6, 7, 8, 9, 11 and 14 referred to in Article 2425 of the Civil Code, or similar items in case of adoption of IAS/IFRS international accounting standards shall be taken into consideration.
- 8.2 The types of cost specified here below are non-eligible costs for regulatory purposes and under no circumstances they may be considered within the perimeter of operating costs:
- a) financial charges;
 - b) taxes, except for regional tax on productive activities (*Imposta Regionale sulle Attività Produttive - IRAP*) on labour cost and local taxes;
 - c) provisions of any kind;
 - d) value adjustments in respect of tangible and intangible assets;
 - e) extraordinary charges, i.e. charges which, in the light of the criterion of relevance, are not attributable to the ordinary production process of motorway activities as referred to under paragraph 3.1.a.;
 - f) charges of any kind arising from non-compliance with rules and regulations.

9. Treatment of margins from operating activities

9.1 The amount of operating costs is calculated after deduction of the extra-profits from ancillary activities referred to under paragraph 3.1.b.

The extra-profit is determined by the difference, minus a reasonable profit which is approximated as equal to the rate of return on invested capital under paragraph 14.6, between:

- a) revenues from such activities;
- b) sum of operating costs and any depreciation, which are allocated to the same activities, that are eligible under the criteria set out herein.

10. Net Invested Capital (NIC)

10.1 The net invested capital (NIC), quantified as at the first January of each year of the regulatory period, is represented by the amounts relating to the following tangible and intangible fixed assets, net of depreciation, provided they are recognised by the concession-granting authority:

- a) **non-reversible assets**, related to initial allocation or acquired during the concession, provided they are necessary for the motorway operation;
- b) **reversible assets**, related to investments made during the concession and including handover costs to be paid to the outgoing concessionaire.

10.2 Subject to what is specified in this Part, in order to determine the net invested capital, the following items are eligible for charging purposes, with reference to the entire concession period:

- a) costs that may be charged to items B-I (1. formation expenses; 2. development costs; 3. industrial patent rights and rights of use of intellectual property; 4. concessions, licences, trade-marks and similar rights; 6. fixed assets under construction and advances; 7. other) and B-II (1. land and buildings; 2. plant and machinery; 3. industrial and commercial equipment; 4. other assets; 5. assets under construction and advances) of article 2424 of the Civil Code, after deduction of any residual value upon expiration of the concession or of the residual life span;
- b) net working capital represented by the balance of inventories, trade receivables and trade payables.

10.3 Where the concession-granting authority opts for a revaluation of the NIC, the concessionaire shall use the following revaluation indices:

- a) Gross fixed capital formation deflator to increase the value of non-reversible assets at the beginning of the concession period;
- b) planned inflation rate under measure 14.1 to increase the asset value within the concession period.

11. Eligibility criteria of investments

11.1 Eligible for charging purposes, with reference to the whole regulatory period, are the following investments which are made/contributed and entered into the financial statements:

- a) investments in reversible assets, covered by the concession on the basis of the indications supplied by the concession-granting authority, as described in the Financial Regulatory Plan;
- b) investments in non-reversible assets, which are strictly necessary for to motorway activities, as described in the Financial Regulatory Plan;

- c) further investments in reversible assets, which may be included in addendums to the concession agreement, if agreed upon by the concession-granting authority.

11.2 The following eligibility criteria shall apply as to the components here below:

- a) fixed financial assets are not recognised;
- b) the value of goodwill is not recognised (item B.I (5) of Article 2424 of the Civil Code);
- c) costs for research and development, as well as industrial patent rights and intellectual works are recognised only for the part which can be referred to commitments deriving from the concession, provided they are approved by the concession-granting authority;
- d) costs for concessions, licences and trademarks are recognised only if they are related to items directly pertaining to motorway activities;
- e) non-reversible tangible assets are recognised only if they are related to expenditures which are necessary for the performance of motorway activities, provided they are approved by the granting-concession authority.
- f) fixed assets and work in progress are eligible for remuneration depending on the respective degree of completion;
- g) costs of design which is defined on the basis of the framework of requirements are allowed only after approval of the detailed design.

12. Principles for quantification of investments in reversible assets

12.1 As regards the quantification of the investments in reversible assets, which are eligible for charging purposes, the following principles shall apply:

- a) the investment value should be consistent with the “Guidelines for assessment of investments in public works in the areas within the remit of the Ministry of Infrastructure and Transport” submitted to the Inter-Ministerial Committee for Economic Planning (CIPE) at its meeting of 1 December 2016, as provided for by Legislative Decree No. 228/2011, which are preliminary to the Multiannual Planning Document;
- b) the investment cost resulting from detailed design, as determined net of any public contributions and assessed having regard to the reasonableness of the technical and economic solutions proposed, is the reference value for the concessionaire, for the purpose of identifying the maximum eligible expenditure;
- c) for each investment, in case final expenditure is higher than the value resulting from detailed design, the extra-cost can be considered as eligible only if it is due to force majeure and third-party liability. The proof of the existence of these specific circumstances is borne by the concessionaire, while the concession-granting authority shall verify on a case-by-case basis that the circumstances are true;
- d) where the amount of the investment resulting from the final design, approved by the concession-granting authority, is higher than the corresponding value of the initial detailed design, the difference shall be borne by the concessionaire, unless this is due to third-party liability or force majeure;
- e) the approval of the final design by the concession-granting authority is relevant for procedural purposes only; consequently, for the sole purpose of the expenditure eligibility, the amount indicated in the initial detailed design remains binding, with the exception of the amendments approved by the concession-granting authority within the statutory time-limits.

13. Criteria for determination of capital cost for charging purposes

13.1 The following costs are recognised for charging purposes:

- a) costs of repayment of capital which is directly invested in motorway activities, according to the related depreciation expenses;
- b) cost of return on invested capital.

13.2 For the purpose of determining the cost of capital the following criteria shall apply:

- a) depreciation of reversible assets is recognised on the residual period of the underlying concession, taking into account any residual value upon its expiration;
- b) depreciation of non-reversible assets is recognised on the basis of economic and technical rates which are established in accordance with the principles of the Civil Code, taking into account residual life span and value upon expiration of the concession.

The Cost of return on capital is determined on the basis of the rate of return on invested capital referred to under paragraph 14, multiplied by Net Invested Capital, net of the related depreciation allowance. Return on Net Invested Capital, Net Invested Capital and related depreciation allowance are expressed in line with what provided by the concession-granting authority under paragraph 4.1. Therefore, a real pre-tax return shall be applied to a Net Invested (nominal) Capital and related (nominal) depreciation expressed at revalued amounts; conversely, a nominal pre-tax return shall be applied to a Net Invested Capital and related depreciation expressed at non-revalued values (historical costs).

14. Rate of return on invested capital

14.1 The return payable to the concessionaire on the Net Invested Capital referred to in paragraph 10 is determined by applying the method based on the weighted average cost of financing sources, equity and debt capital, which is commonly estimated by applying the Capital Asset Pricing Model (CAPM) method based on the following formula:

$$R = g \cdot \frac{R_d (1 - t)}{1 - T} + (1 - g) \cdot \frac{R_e}{1 - T}$$

where:

R_d = allowed cost of debt;

R_e = allowed cost of equity;

g = % of financial debt (gearing);

$(1-g)$ = % of equity;

t = tax shield, i.e. corporate income tax (IRES) rate;

T = income tax rate, composed of IRES+IRAP;

R = nominal pre-tax Weighted Average Cost of Capital (**WACC**), i.e. rate of return on capital before tax; this rate is converted into real terms by applying the Fisher formula:

$$R_{real} = \frac{1 + R}{1 + \bar{P}} - 1$$

where:

P = arithmetic average of the planned inflation rates for each year of the regulatory period as from the last available Economic and Financial Planning Document.

14.2 The allowed cost of equity shall be determined according to the following relation:

$$R_e = rfr + \beta_e \cdot erp$$

where

R_e = allowed cost of equity;

rfr = risk-free rate;

β_e = equity beta (quantitative measure of non-diversifiable systematic risk of an equity stock);

erp = equity risk premium.

14.3 The average cost of debt is what would be paid by a company based on market conditions to obtain financing. This indicator has two components, risk-free rate and debt risk premium, which takes account of the default risk and is associated to corporate rating, based on the following relationship:

$$R_d = rfr + dp$$

where:

R_d = average cost of debt;

rfr = risk-free rate;

dp = debt premium.

14.4 WACC variables are divided into endogenous and exogenous variables in the motorway sector, i.e. variables that are derived in whole or in part from the financial and economic decisions of the companies operating in the sector and variables which do not depend on these decisions, but rather on the dynamics of national and international markets.

Included in the first category are financial structure, debt-risk premium, *beta* coefficient, while the second category includes risk-free rate, equity risk premium and tax rate. Actually, risk-free rate and tax rate result from the cost of public debt and from the tax policies of the national government, whereas market premium is derived from the overall performance of the market in which the company operates.

14.5 For the quantification of the above variables the following criteria shall apply:

a) financial structure (gearing)

The main indicator of the financial structure, used for WACC calculation, is the gearing which measures the ratio of financial debt to total financing sources. The gearing of the sector is calculated based on the average of the last five years of all Italian motorway concessionaires' data.

Its value is **0.43**.

b) debt premium - dp

The cost of debt in the sector is determined on the basis of the ratio of financial costs to financial debt of all motorway concessionaires. The reference period is considered to be five years; account is taken of the average gross financial debt of the period with reference to financial debts, excluding intra-group entries and relations with partners. With regard to financial costs,

the income statement item "interest income and other financial charges" is taken into consideration, with reference to the financial debt under examination.

The debt premium calculated as above is **1.59 %**.

c) beta coefficient (β), as a measure of systematic risk

The *beta* coefficient is a measure of non-diversifiable systematic risk of a company operating in a given market.

This value is determined through a comparative analysis of the so-called *comparable companies*, i.e. of the *beta* coefficients of other comparable companies or industries.

Having identified the *equity beta*, they have been netted of their specific financial leverage (*delevering*) and a notional leverage has been applied, in order to take into account an efficient financial structure. For this purpose, the *beta* assets (β_a) of each company considered were derived by using the *delivering* standard methodology referred to in the following formula:

$$\beta_a = \frac{\beta_e}{(1 + (1 - t) D/E)}$$

where:

β_a = asset beta;

β_e = equity beta;

t = corporate tax rate of comparable company (tax shield);

D/E = financial leverage.

The *asset beta* is given by the arithmetic mean of the *asset beta* of each company in the reference sample. In order to apply the notional leverage, the *asset betas* as identified above are 'relevered' so as to obtain the *equity beta* to be attributed to the motorway industry.

The relevering is carried out based on the D/E ratio, as defined according to the notional parameters related to the motorway sector, according to the following formula:

$$\beta_e = \beta_a * [1 + (1 - t) * \left(\frac{D}{E}\right)]$$

The *equity beta* so calculated is **0.83**.

d) risk-free rate (*rfr*)

The risk-free rate (*rfr*) is calculated as the arithmetic average of the daily gross returns of the ten-year BTP (long-term Italian Treasury bond), a benchmark provided by the Bank of Italy with reference to the twelve months prior to the starting date of the regulatory period.

The risk-free rate on the date of drafting of this document is **1.80 %**.

e) equity risk premium - *erp*

The equity risk premium (*erp*) is the excess return, compared to a risk-free investment, of an investment in equities, which by its own nature handles risk capital and is thus given by the difference between total return on the stock market and return on risk-free financial assets. The equity risk premium is **5.5%**.

f) tax rates (t, T)

2017 Italian Stability Law amended the IRES rate which was updated to 24%, while the IRAP tax rate remained unchanged at 4.82 %.

Thus: $t = 24\%$ and $T = 28.82\%$.

- 14.6 The nominal WACC resulting from the application of the above parameters (with values estimated in June 2017) is **6.64%** for the first regulatory period. For the following regulatory periods, each component will be re-determined, without prejudice to the method described. The relevant values in the Financial and Economic Plan and in the Regulatory Financial Plan shall be updated accordingly.

Part 3

15. Dynamics of operational charge component

- 15.1 The annual estimate of the operational charge component shall not exceed the value resulting from the following dynamics:

$$T_{G,t+1} \leq T_{G,t} \cdot (1 + \hat{P}_{t+1} - X_{t+1})$$

where:

$T_{G,t+1}$ = level of operational charge component, as determined upon conclusion of the concession agreement with reference to the year $t + 1$; in particular, as to $t = 0$ it is assumed

$$T_{G,t+1} = T_{G,tender}$$

where:

$T_{G,tender}$ = level of operational charge component provided by the successful tenderer, which is less than or equal to the maximum initial charge level as defined by the concession-granting authority in the tender;

$T_{G,t}$ = level of operational charge component in force in year t ;

\hat{P}_{t+1} = planned inflation rate for year $t + 1$, as determined according to paragraph 16;

X_{t+1} = coefficient of productivity gain from efficiency improvement for year $t + 1$, as referred under paragraph 17.

16. Planned inflation rate

- 16.1 Variable \hat{P}_{t+1} , with reference to charge updating formula under paragraph 15, coincides with the planned inflation rate for the year of application of the charge, as resulting from the last available Economic and Financial Document of the Italian Government at the beginning of each regulatory period.
- 16.2 If the available data do not cover the entire life of each regulatory period, the concessionaire may refer to the data of the last year for which the planned inflation rate is available, to be used as an estimate for the remaining years of the regulatory period.

17. Targeted productivity gain from efficiency improvement

- 17.1 With regard to the charge updating formula referred to in paragraph 15, X_{t+1} is the coefficient of the annual productivity gain, to be determined every five years, in accordance with the provisions of Art. 37 (2) (g) of Decree-Law No. 201/2011.
- 17.2 In order to calculate the productivity gain coefficient, the Authority initially quantifies the target of production efficiency recovery, including on the basis of benchmark analyses on efficient costs starting from the concessionaires' historical data, in accordance with the analysis method defined in its Decision No. 70/2016. Based on this analysis, the Authority has identified, with specific reference to the motorway sections covered by the concession, the overall percentage of X^* recovery which is applied in the first five years and annually broken down by individual annual efficiency rates X_t (except for the first year), so that:

$$\prod_{t=2}^5 (1 - X_t) = 1 - X^*, X_t > 0, \forall t$$

The Authority determined that X_t productivity indicator is 1.5% for the first regulatory period.

- 17.3 The criteria and methodologies referred to in paragraph 17.2 shall be applied to the following regulatory periods, by carrying out new estimates based on the dataset update with the latest available data, including on the basis of regulatory accounting reporting as referred to in Part IV, starting from the first year and according to the following formula:

$$\prod_{t=1}^5 (1 - X_t) = 1 - X^*, X_t \geq 0, \forall t$$

- 17.4 Where the last regulatory period, as a result of the total concession period, consists of a number of years n lower than 5, the concession-granting authority, having consulted with the Authority, may distribute the overall percentage of X^* recovery, as determined for the previous five years, based on the following formula:

$$\prod_{t=j}^{5+n} (1 - X_t) = 1 - X^*, X_t \geq 0, \forall t$$

where $j = 2$ if the regulatory period consisting of a number of years n lower than 5 is the second one, $j = 1$ in all other cases.

- 17.5 In the framework of the activities to determine every five year the efficiency improvement coefficient referred to in Art. 37 (2) (g) of Decree-Law no. 201/2011, where a new overall percentage of X^* recovery should be determined, the Authority shall provide for the necessary adjustments. The relevant values in the Financial and Economic Plan and in the Regulatory Financial Plan shall be updated accordingly.

18. Dynamics of construction charge component

- 18.1 The annual estimate of the construction charge component is based on the following formula:

$$T_{K,t+1} = \frac{C_{a,r,(t+1)} + C_{rc,r,(t+1)} + PF_{K,t+1}}{V_{t+1}}$$

where:

- $C_{a,r,(t+1)}$ = depreciation costs, referred to year $t + 1$, related to reversible assets upon expiry of the concession, as set out in the Regulatory Financial Plan, being determined in accordance with the provisions of paragraph 13 (2) (a);
- $C_{rc,r,(t+1)}$ = costs of return on capital, referred to year $t + 1$, related to reversible assets upon expiry of the concession, as set out in the Regulatory Financial Plan, being determined in accordance with the provisions of paragraph 13 (3);
- $PF_{K,t+1}$ = (positive or negative) amount of the notional items referred to under paragraph 2.9, as defined *ex ante*, so as to ensure the gradual variation in the construction charge component during the concession period, in compliance with the principle of financial neutrality;

V_{t+1} = traffic volumes as per *ex ante* forecasts, referred to year $t + 1$, as set out in the Regulatory Financial Plan.

The level of components $C_{a,r,(t+1)}$ and $C_{rc,r,(t+1)}$ derives from the application of the respective determination criteria (described in paragraph 13) to the regulatory net invested capital, as calculated on the 1 January of each year, as follows²:

$$C_{a,r,(t+1)} = CIN_{r,(t+1)} \cdot \frac{1}{t_{conc} - t}$$

$$C_{rc,r,(t+1)} = CIN_{r,(t+1)} \cdot R_c$$

where:

$CIN_{r,(t+1)}$ = value of regulatory net invested capital, referred to reversible assets upon expiry of the concession, as at the 1st January of year $t + 1$, as determined on the basis of the following;

t_{conc} = concession period in years;

R_c = rate of return on net invested capital (WACC), as determined on the basis of the provisions under paragraph 14;

The dynamics of net invested capital during the concession period is determined as follows³:

$$CIN_{r,(t+1)} = (CIN_{r,t} - C_{a,r,t} + I_t) \cdot (1 + \hat{P}_t)$$

where:

$CIN_{r,(t+1)}$ = value of regulatory net invested capital, referred to reversible assets upon expiry of the concession, as at 1 January of year $t + 1$;

$CIN_{r,t}$ = value of regulatory net invested capital, referred to reversible assets upon expiry of the concession, as at 1 January of year t ;

$C_{a,r,t}$ = depreciation expense, referred to year t , related to reversible assets upon expiry of the concession, as valued on 1st January of the same year t and entered into the Regulatory Financial Plan; planned annual investment % for year t does not determine depreciation in the same year for that investment;

I_t = planned annual investment for year t , with reference to the projects covered by investment plans, as reported in the Regulatory Financial Plan, which are allowed according to the criteria under paragraph 10.3;

P_t = planned inflation rate for year t , as determined in accordance with paragraph 16;

As for $t = 0$ (i.e. at the beginning of the concession period), the value of CIN_r , corresponds to handover costs, if any, paid by the outgoing concessionaire.

² The formula refers to the option for revalued NIC and real WACC. Conversely, appropriate adjustments shall be made in case of option for NIC at historical cost and nominal WACC.

³ The formula refers to the option for revalued NIC and real WACC. Conversely, appropriate adjustments shall be made in case of option for NIC at historical cost and nominal WACC.

19. Adjustment of average unit charge

19.1 The average unit charge as referred to in paragraph 5.6, which is determined *ex ante* in accordance with the procedures under paragraphs 15 and 18, is adjusted annually as a result of the annual monitoring, referred to in paragraph 23, concerning quality of services and implementation of investments, as follows:

$$T_{t+1}^* = T_{G,t+1}^* + T_{K,t+1}^*$$

with

$$T_{G,t+1}^* = T_{G,t+1} \cdot (1 - \Delta T_{G,t+1}) \cdot (1 + Q_t) \qquad T_{K,t+1}^* = T_{K,t+1} + \Delta T_{K,t+1}$$

where:

- $T_{G,t+1}^*$ = level of operational charge component referred to in paragraph 15, as calculated in year t and actually applicable by the concessionaire for year $t + 1$;
- $T_{G,t+1}$ = level of operational charge component, as determined upon conclusion of the concession agreement with reference to year $t + 1$;
- $\Delta T_{G,t+1}$ = variation of operational charge component arising from any non-incurrence of operational costs as estimated *ex ante* and pertaining to planned investments, because of non-implementation or delayed implementation thereof;
- Q_t = positive or negative adjusting coefficient of operational charge component, calculated in year t and deriving from the application of reward/penalty systems referred to in paragraph 20, with reference to service quality assessment;
- $T_{K,t+1}^*$ = level of construction charge component calculated in year t and actually applicable by the concessionaire for year $t + 1$;
- $T_{K,t+1}$ = level of construction charge component referred to in paragraph 18, as determined upon conclusion of the concession agreement with reference to year $t + 1$;
- $\Delta T_{K,t+1}$ = level of (positive or negative) additional construction charge component, calculated in year t and related to the application of:
 - the system referred to in paragraph 21, with respect to the implementation of investments, which takes into account the share of investments actually made compared to those planned, and any related penalties;
 - any necessary variations of notional items referred to in paragraph 22, so as to ensure, in accordance with the principle of financial neutrality, the gradual charge variation during the concession period.

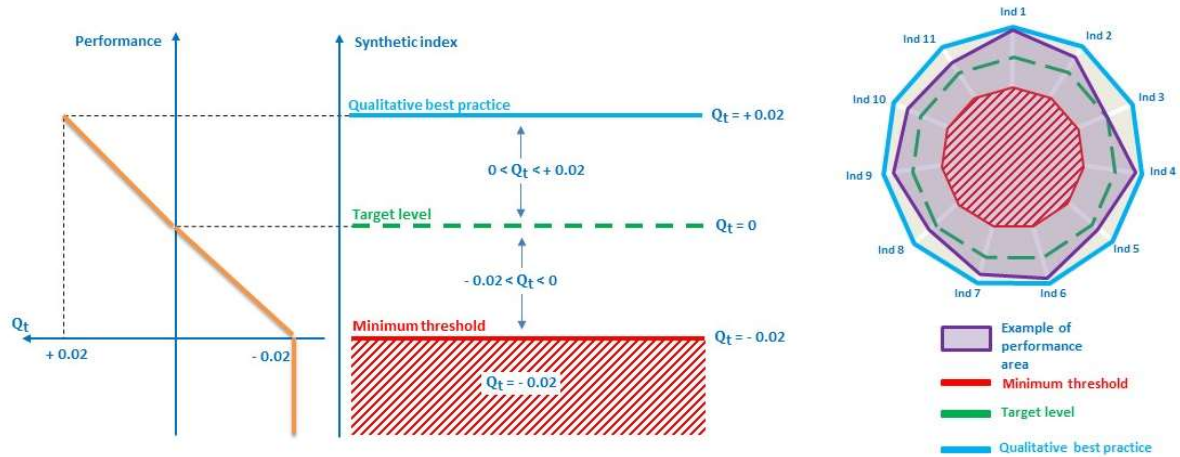
20. Reward/penalty system for service quality assessment

- 20.1 With regard to the charge updating formula referred to in paragraph 19, variable Q_t is the positive or negative adjusting coefficient of the operational charge component $T_{G,t+1}$ to be applied for year $t + 1$, calculated in year t .
- 20.2 The symmetric reward/penalty system is based on a panel of indicators, as described in the following paragraphs.
- 20.3 The charge variation associated with variable Q_t shall fall within the following lower and upper limits:

$$\min(Q_t) = -0.02$$

$$\max(Q_t) = +0.02$$

20.4 The reward/penalty system and the associated quality standards are showed in the following figure relating to the synthetic index which is calculated as a weighted average of all j -th indicators (cf. paragraph 20.9).



20.5 With reference to the figure above, three different quality levels (hereinafter quality thresholds) are defined for each j -th indicator:

- minimum threshold ($l_{q_{\text{Minimum threshold}}, j}$): threshold at which the reward/penalty system assumes a minimum value of $\min(Q_t) = -0.02$.

This threshold should be determined by the concession-granting authority on the basis of minimum quality standards for the j -th indicator, which in no case may be lower than the corresponding values observed in the past. This threshold is aimed at discouraging the concessionaire to assume performance levels falling below the minimum standards required and acceptable for users;

- target level ($l_{q_{\text{target}}, j}$): threshold identifying the frontier at which the reward/penalty system is reversed and does not impact on the charge.

This threshold shall be determined by the concession-granting authority on the basis of the average quality standards which are required for the j -th indicator;

- qualitative *best practice* ($l_{q_{\text{Best practice}}, j}$): threshold identifying the maximum frontier at which the charge variation due to quality assumes the maximum value $\max(Q_t) = +0.02$. This threshold shall be determined by the concession-granting authority on the basis of the highest quality standards for the j -th indicator that may be identified on the international motorway market, or shall be 100% for indicators defined on a percentage basis.

The threshold is aimed at achieving performances representing optimal reference levels for the motorway sector; for such achievement the motorway concessionaire receives an additional reward over the charge variation as determined by the price cap system.

20.6 As for quality thresholds, the following should be taken into account:

- the thresholds must be determined *ex ante* and for each year by the concession-granting authority on the basis of the foregoing principles;

- the concession-granting authority is responsible for assessing whether it is appropriate to determine on a tender basis the quality levels, for each indicator, by assuming as a tender basis a minimum threshold, which is defined in accordance with the principles referred to in paragraph 20.4.

20.7 The concession-granting authority shall verify annually the achievement of the target indicators over the regulatory period, by applying the following approach:

- each performance dimension shall be assigned by the concession-granting authority a weight of $P_{q,j}$, with $\sum_j P_{q,j}=1$;
- should all dimensions $I_{q,j}$ not fall individually above the minimum threshold, the concessionaire shall be penalised through a charge adjustment based on the application of the upper limit of 2% of the operational charge component;
- if all dimensions $I_{q,j}$ are above the minimum threshold and at the same time not all of them are above the “target level”, for each j -th indicator the following inequality shall be applied: $-0.02 \leq Q_{t,j} \leq 0$, where

$$Q_{t,j} = -0.02 \cdot \left(1 - \min \left[1; \frac{I_{q,j}}{I_{q_{target,j}}} \right] \right)$$

- if all dimensions $I_{q,j}$ are above the target level, for each j -th indicator the following inequality shall be applied: $0 \leq Q_{t,j} \leq +0.02$, where

$$Q_{t,j} = +0.02 \cdot \left(\min \left[1; \frac{I_{q,j}}{I_{q_{Best\ practice,j}}} \right] \right)$$

20.8 For the total charge variation linked to the quality of the synthetic indicator the following equation shall apply:

$$Q_t = \sum_{j=1}^{n\ indicators} P_{q,j} \cdot Q_{t,j}$$

20.9 The quality monitoring system shall include the identification, by the concession-granting authority, of at least a j -th indicator for each of the following thematic areas:

- average travelling speed of traffic flow;
- availability of infrastructures (construction sites, particularly in peak hours and holiday periods);
- free flow at toll stations (e.g. availability of automatic toll booths and efficiency of automatic toll collection with DSRC, i.e. Telepass system);
- road surface conditions (defects);
- dynamic update of information on variable message signs;
- provision of appropriate reserved rest areas (as compared to the total area) for vehicles for the carriage of goods⁴;

⁴ Thematic area identified also with regard to art. 24 (1a) of the Road Code, as introduced by Law No 120 of 29 July 2010 (Italian Official Gazette No 175 of 29 July 2010).

- use of *Intelligent Transportation Systems* (ITS), including for the purpose of securing greater efficiency of logistics and optimising the use of the infrastructure by light and heavy vehicles;
- availability of connectivity (radio-mobile) services and radio coverage on the motorway network, which are interoperable, open and in line with advanced and consolidated technologies in telecommunications;
- use of automatic systems for the structural monitoring of infrastructures (in particular, overpasses, retaining walls, embankments and motorway tunnels);
- use of free flow technologies for motorway toll collection which evolve towards interoperable solutions at Community level;
- customer satisfaction as to the levels of overall service and specific service for areas of interest as specified by the concession-granting authority;
- use of roadside safety barriers on account of their compliance with current technical regulations;
- use of noise barriers, for the implementation of the environmental Noise Action Plan provided for by Law No 447/95 and following implementing decrees.

20.10 The concessionaire shall report at least annually to the concession-granting authority and to the Authority about the monitoring results and the methodologies of data collection.

21. Charge adjustment related to realised investments

21.1 With regard to the charge adjustment referred to in paragraph 19, the component $\Delta T_{K,(t+1)}$ consists of two sub-components, as follows:

$$\Delta T_{K,(t+1)} = \Delta T_{I,K,(t+1)} + H_{K,(t+1)}$$

These sub-components satisfy different needs:

- the first sub-component ($\Delta T_{I,K,(t+1)}$) is related to the amount of unrealised investments and is calculated as follows:

$$\Delta T_{I,K,(t+1)} = -(1 - \alpha_t) \cdot T_{K,(t+1)}$$

with

$$\alpha_t = \sum_{a=1}^t (I_{R,a}) / \sum_{a=1}^t (I_{P,a})$$

where:

$T_{K,t+1}$ = level of charge construction component as determined at the time of the conclusion of the concession agreement with reference to the year $t + 1$;

α_t = share of actually realised investments, accumulated up to year t , compared to the amount of planned investments in the same period;

$I_{R,a}$ = amount of eligible costs for charging purposes, for year $t + 1$, relating to the investments actually realised, including any handover costs paid to the outgoing concessionaire;

$I_{P,a}$ = amount of eligible costs for charging purposes, for year $t + 1$, relating to planned investments at the time of the conclusion of the concession agreement, including any handover costs paid to the outgoing concessionaire;

- the second sub-component ($H_{K,(t+1)}$) is the applicable penalty where the delay in making the investments is attributable to the concessionaire, in order to discourage the postponement of these investments, without prejudice to the penalty systems provided for by the concession agreement, which can go as far as its withdrawal, and shall be determined as follows:

$$H_{K,(t+1)} = -(\gamma_t \cdot R_c) \cdot |\Delta T_{I,K,(t+1)}|$$

where:

- γ_t = share of unrealised investments for liability of the concessionaire, accumulated up to year t , compared to the total unrealised investments in the same period;
- R_c = rate of return on invested capital (WACC), as determined in accordance with the provisions of paragraph 14.

22. Notional items

- 22.1 In order to ensure the gradual charge variation, the concessionaire may provide *ex ante*, for each year of the concession period, the inclusion of positive or negative notional items, in order to anticipate or postpone the calculation of eligible costs compared to the actual year of accrual, provided that the principle of economic and financial neutrality within the concession period referred to under paragraph 4.2 is complied with. These *ex ante* notional items have been included in the formula referred to in paragraph 18.
- 22.2 In order to ensure the maintenance of economic and financial neutrality, the level of notional items, for the years from $t + 1$ to the end of the concession period, shall be recalculated annually on the basis of the systems for annual adjustment of the construction charge component. The component $\Delta T_{K,(t+1)}$ under paragraph 21 shall be further adjusted following this recalculation.

23. Annual monitoring of quality and investments

- 23.1 On the basis of final and pre-final data available on 30 September each year, the concessionaire shall provide the concession-granting authority with all necessary information for the determination of the additional charge component referred to under paragraph 19, as well as the resulting update proposal for the Regulatory Financial Plan.
- 23.2 the concession-granting authority carries out the necessary checks and by the 31 October each year at the latest, drafts a proposal for annual charge updating, containing, in particular, the determination of:
 - a) coefficients referred to in paragraph 20;
 - b) coefficients α_t and γ_t referred to in paragraph 21;
 - c) new calculation of notional items referred to in paragraph 22.
 The above proposal shall be forwarded to the Authority within the following 15 days.
- 23.3 In the exercise of the functions referred to in Art. 37 (2) (c) of Legislative Decree No. 201/2011, the Authority verifies the correct application of the principles and criteria set by the Authority itself, within 15 days of the receipt of the proposal made by the concession-granting authority.

Part 4

24. Obligations of accounting separation

- 24.1 By adopting the cost criteria defined in Part 2 and the attached regulatory accounting format, the concessionaire is required to allocate the income statement and balance sheet components, consistently with the annual financial statements:
- a) to each motorway section, as identified in the scope of the concession;
 - b) to each activity as defined under paragraph 3, specifying the transactions with related parties.
- 24.2 The motorway section-activity pair is the basic reference unit for the concessionaire for the purpose of fulfilling the accounting separation obligations.
- 24.3 For the purpose of drawing up the regulatory accounts, the above-mentioned income statement and balance sheet components may be relevant:
- a) directly and exclusively for a specific activity and motorway section;
 - b) for a number of motorway sections and/or activities, in this case to be allocated on the basis of specific cost drivers;
 - c) for all motorway sections and activities (including overhead expenses), in this case to be allocated on the basis of aggregate cost drivers.
- 24.4 The concessionaire provides for the direct and exclusive allocation of the income statement and balance sheet components which, based on documentary evidence, can be allocated objectively and exclusively to specific activities or motorway sections.
- 24.5 For the income statement and balance sheet components which are relevant for a number of motorway sections and/or activities, the allocation to each of them should be made as objectively and analytically as possible, based on cost drivers selected on the basis of their adequacy to measure resource consumption or asset allocation in the context of a specific activity or section. The cost drivers used shall be described in the explanatory notes to regulatory accounting.
- 24.6 As a general rule and in the absence of other criteria ensuring equal transparency and objectiveness, the pro-rata allocation per each section shall be based on one or more of the following parameters:
- recorded traffic volume;
 - transit;
 - length (km);
 - structural and altitude-related features of the motorway infrastructure;
 - degree of obsolescence of the motorway infrastructure and related facilities.
- 24.7 The income statement and balance sheet components which are attributable to all motorway sections and activities of the concessionaire, as well as those which cannot be otherwise assigned to different activities and/or motorway sections on the basis of relevant and objective cost drivers, are allocated to the different activities and/or motorway sections in proportion to the previously allocated quantities directly and on a pro-rata basis.
- ### 25. Information obligations to the concession-granting authority and the Authority
- 25.1 No later than 30 days after approval of the financial statements, the concessionaire is required to prepare and deliver annually to the concession-granting authority and the Authority:

- a) regulatory accounts, which are drawn up in accordance with the attached format and with the criteria set out in paragraph 24;
 - b) an explanatory report describing in detail the accounting methodologies adopted for cost valuation and allocation of income statement and balance sheet components.
- 25.2 The documents referred to in paragraph 25.1 shall be accompanied by a report, drawn up by an independent audit company, showing their compliance with the criteria outlined in this Part (so-called “Certification”).
- 25.3 The Authority considers the documents referred to in paragraphs 25.1 and 25.2 as confidential.
- 25.4 The concessionaire is required to draw up, before the conclusion of the concession agreement, and to annually update the Regulatory Financial Plan in accordance with the attached format.

ANNEXES

Table 1 - Regulatory accounting scheme

CONCESSIONAIRE:		MOTORWAY ACTIVITIES				ANCILLARY ACTIVITIES				Non-relevant activities	TOTAL	TOTAL related parties	
Year		Operation		Construction		Service areas			Information and technology services				Other ancillary activities
Section		Total	of which: towards related parties	Total	of which: towards related parties	Refuelling	Rest areas	Other					
1													
1.a	Gross revenues												
1.b	Charge quota reverted for concession or sub-concession (fee)												
1.c	Charge quota reverted for ANAS extra-fee												
1.d	Expenses for equipment circulation on motorways (Art. 34 Road Code)												
1.e	Other share of revenues reconveyed by law												
1.f	Grants for operating expenses												
1.g	Grants for expenditure on plant and equipment												
1	Net revenues	-	-	-	-	-	-	-	-	-	-	-	
2.a	Raw materials, consumables and merchandise												
2.b	Costs for services												
2.c	Costs for use of third party assets												
2.d	Cost of staff												
2.f	Other operating costs												
2.g	Change in inventories of raw materials, consumables and merchandise												
2.h	Other operating expenses												
2	Total operating costs	-	-	-	-	-	-	-	-	-	-	-	
2.1	Total operating costs net of share of revenues reconveyed by law	-	-	-	-	-	-	-	-	-	-	-	
3 = 1-2.1	Gross operating profit	-	-	-	-	-	-	-	-	-	-	-	
4.a	Depreciation of self-financed tangible assets	-	-	-	-	-	-	-	-	-	-	-	
4.a.I	Depreciation of self-financed tangible assets - revertible												
4.a.II	Depreciation of self-financed tangible assets - non-revertible												
4.b	Depreciation of self-financed intangible assets	-	-	-	-	-	-	-	-	-	-	-	
4.b.I	Depreciation of self-financed intangible assets - revertible												
4.b.II	Depreciation of self-financed intangible assets - non-revertible												
4.c	Depreciation of assets financed by public grants for expenditure on plant and equipment												
4	Total depreciation	-	-	-	-	-	-	-	-	-	-	-	
5 = 3-4	Gross profit before cost of Net Invested Capital	-	-	-	-	-	-	-	-	-	-	-	
6.a	Value of self-financed Net Invested Capital	-	-	-	-	-	-	-	-	-	-	-	
6.b	Value of Net Invested Capital financed with public grants												
6.c	WACC used for assessment of cost of Net Invested Capital		0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	
6= 6.a*6.c	Cost of self-financed Net Invested Capital	-	-	-	-	-	-	-	-	-	-	-	
7= 5-6	Net profit after cost of Net Invested Capital	-	-	-	-	-	-	-	-	-	-	-	
8 = 2 + 4 + 6	Total Costs	-	-	-	-	-	-	-	-	-	-	-	
9	Operating units (Vehicle km)												
10 = 8 / 9	Total Costs per operating unit	-	-	-	-	-	-	-	-	-	-	-	
11	Eligible total costs net of margin from operating activities	-	-	-	-	-	-	-	-	-	-	-	
12	Total margin from operating activities												
13	Quota of margin from operating activities to be deducted from eligible costs		100%										
14 = 11 - 12 * 13	Eligible total costs net of margin from operating activities	-	-	-	-	-	-	-	-	-	-	-	
15 = 14 / 9	Eligible total costs net of margin from operating activities per operating unit	-	-	-	-	-	-	-	-	-	-	-	
Composition of Self-Financed Net Invested Capital													
IMM.1	Formation expenses												
IMM.2	Development costs												
IMM.3	Industrial patent rights and intellectual property rights												
IMM.4	Concession, licenses, trademarks and similar rights												
IMM.5	Goodwill												
IMM.6	Assets under construction and advances												
IMM.7	Other												
MAT.1	Land and buildings												
MAT.2	Plant and equipment												
MAT.3	Industrial and commercial equipment												
MAT.4	Other assets												
MAT.5	Assets under construction and advances												
CCN	Net Working Capital												
Reclassification of Self-Financed Net Invested Capital													
IMM.A	Revertible-intangible assets												
IMM.B	Non-revertible intangible assets												
MAT.A	Revertible tangible assets												
MAT.B	Non-revertible tangible assets												
Investment expenditure accounts													
INV.IMM.DEV	Investment in revertible intangible assets												
INV.IMM.DEV.P	of which: quota financed by public contributions												
INV.IMM.NDEV	Investment in non-revertible intangible assets												
INV.IMM.NDEV.P	of which: quota financed by public contributions												
INV.MAT.DEV	Investment in revertible tangible assets												
INV.MAT.DEV.P	of which: quota financed by public contributions												
INV.MAT.NDEV	Investment in non-revertible tangible assets												
INV.MAT.NDEV.P	of which: quota financed by public contributions												
Reclassification of operating costs													
	Cost of staff												
	Consumables												
	Maintenance	-	-	-	-	-	-	-	-	-	-	-	
	of which: pavement												
	of which: stations												
	of which: tunnels												
	of which: green areas and cleaning												
	of which: winter needs												
	of which: other												
	Cleaning												
	Utilities												
	Other services from third parties												
	Overhead expenses												
	Costs for use of third party assets												
	Other expenses												
Other income statement items													
ON.FIN	financial costs												
PROV.FIN	financial income												

Table 2 - Regulatory financial plan

		P1 - First regulatory period					P2 - Second regulatory period				
		P1-A1	P1-A2	P1-A3	P1-A4	P1-A5	P2-A1	P2-A2	P2-A3	P2-A4	P2-A5
Expected traffic volumes	T										
OPERATIONAL CHARGE COMPONENT											
Eligible total operating costs	A										
Extra-profit from ancillary activities (deductible)	B										
Eligible net operating costs	C=A-B										
Non-reversible fixed assets as at 1/1	D										
Annual technical and economic depreciation	E										
Annual remuneration	F										
Eligible total cost of capital	G=E+F										
Total costs pertaining to operational charge component	H=C+G										
Unit operational charge component	I										
CONSTRUCTION CHARGE COMPONENT											
Handover costs	J										
Reversible fixed assets as at 1/1	K										
Work in progress as at 1/1	L										
Residual value upon expiry of the concession	M										
Total construction net invested capital	N=J+K+L-M										
Annual financial depreciation	O										
Annual remuneration	P										
Total costs pertaining to construction charge component	Q=O+P										
Unit construction charge component	R										
AVERAGE UNIT CHARGE – REVENUES - COSTS											
Annual notional items	S										
Average unit charge (with notional items)	W=I+R±(S/T)										
Annual % variation of average unit charge											
Expected traffic revenues	U=(I+R)*T±S										
Expected total costs	V=H+Q										
CASH FLOW ANALYSIS											
Net present value: expected traffic revenues											
Net present value: expected total costs											
Net present value: notional items											