

SWEDAVIA'S AIRPORT CHARGES 2018

Swedavia's decision

The Group Management for Swedavia, as the managing body¹ of the common charging system for Swedavia's Airport Network, has decided;

to implement a harmonised passenger charge from **1 January 2018** in order to comply with EU requirements,

and to **decrease** the average total charge level at Swedavia's airports by **0.5 percent** from **15 January 2018**. The reduction includes a one-time adjustment of 70.5 MSEK (accounting for the proposed charges decrease and traffic risk sharing of 2017) without which the charges adjustment is an overall increase of 2.2 percent. The decrease of 0.5 percent is effective until 14 January 2019.

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¹ In accordance with the Act (2011:866) on Airport Charges, the Act (2000:150) on Ground Handling and the EC No 1107/2006 "PRM".

1**SUMMARY**

The consultation process for 2018's airport charges consisted of nine meetings to which we received written responses from ten airport users/representatives. We have carefully considered all feedback received prior to making the price decision which has resulted in a reduction of airport charges 2018 of 0.5 %. The reduction includes a one-time adjustment without which the charge adjustment is an overall increase of 2.2 %. The charge increase of 2.2 % will come into effect 15 January 2019, unless otherwise decided after the consultation process for airport charges 2019.

The charge adjustments at Swedavia's individual airports are in the interval of -1.2 % to 5.5 %. The charge decision 2018 contains the following changes:

1. Harmonisation of the passenger charge
2. Reduced passenger charge at Stockholm Arlanda Terminal 3
3. Adjustment of the take-off charge at 10 airports
4. Adjustment of the ground handling infrastructure and PRM charges
5. Return to cost coverage for the terminal navigation charge (TNC) at Göteborg Landvetter
6. Updated level of the slot coordination charge
7. Introduction of volume discount
8. Return of unused biofuel funds from 2016
9. Revised traffic risk sharing program
10. Introduction of investment risk sharing
11. Updated WACC
12. Swedish Transport Agency supervision charge

The positive traffic development is anticipated to continue in 2018. The number of passengers is expected to reach 44 165 111 (+4.6 %), following a passenger growth of 7.0 % in 2017. Swedavia expects the proposed Swedish aviation tax to have a relatively small effect on air travel in 2018.

2**INTRODUCTION**

The consultation process for 2018's airport charges began 14 September when Swedavia's initial proposal and Consultation Framework was sent out. The first meeting was held 21 September 2017, and a total of nine consultations meetings were hosted by Swedavia during September and October. All meetings are listed in chapter 5. During the process Swedavia received formal written responses from ten airport users or representatives. Swedavia has responded to the feedback received in a document distributed to the consultation participants 10 November 2017.

The new charges are valid as of 15 January 2018, with the exception of the harmonised passenger charge which is taken into effect 1 January 2018 in order to

comply with EU requirements. The updated price list will be published on our website swedavia.com in December 2017.

We have carefully considered all feedback received, both written and expressed during the consultation meetings. Every year Swedavia strives to enhance the consultation process. Some of the changes we have made in the autumn 2017 are:

- Recalculated the WACC upon request of airport users
- Removed the proposed increase in the emission charge based on input from the airport users
- Reduced the investment portfolio for 2018 based on input from the airport users
- Retracted the proposal of the off-peak incentive on the expressed request of the airport users
- Introduced a new target for operative cost (OPEX) development
- Launched a process for improving the consultation of investments together with airport users at Stockholm Arlanda AUC
- Revised the traffic- and investment risk sharing programmes to include changes for the actual outcome of the calendar year. Deviations occurring after the price decision has been made will be adjusted for in next year's price decision
- Added an additional central consultation meeting as requested by airport users
- Held a local consultation at Umeå Airport as the number of yearly passengers exceeded 1 million and self-handling by airlines occur
- Shared further information based on wishes from the airport users, such as OPEX, CAPEX and revenue per airport, and calculation of average rebate per passenger in the traffic risk sharing scheme
- Updated the contents of the Consultation Framework based on feedback from the previous year. The updates included e.g. calculations of ground handling and PRM charges, and statistics of capacity usage at Stockholm Arlanda and Göteborg Landvetter

Swedavia has a strategy to promote efficient use of capacity and reduce the environmental impact of air travel. The proposals for an off-peak incentive and an increase of the emission charge were made to support this strategy. Swedavia has considered user requests and retracted the proposals this year; this does not however mean that Swedavia's position has changed. Proposals supporting Swedavia's strategy on these areas are likely to be featured already in next year's consultation.

3 THE TOTAL ADJUSTMENT OF AIRPORT CHARGES

The total charge adjustment of -0.5 % at Swedavia's Network of ten airports equals an annual charge reduction of 12.2 MSEK. With Swedavia's Q4 traffic forecast decided after the consultation meeting 26 October 2017, the total adjustment of airport charges has gone from -0.8 % to -0.5 %. The difference between -0.8 % and -0.5 %, combined with the retracted off-peak incentive and the updated traffic risk sharing programme 2017 equals 14.5 MSEK. These funds have been redistributed into a reduction of the passenger handling infrastructure charge. This measure is expected to benefit all type of airport users.

The overall charge adjustment is driven by:

- Increased operating expenses (OPEX) in 2017 and 2018
- Commercial revenues increasing in total but decreasing per passenger, in line with a general negative trend for the market
- Large increase of operative capital due to Swedavia's investments in new airport infrastructure

Still, a decrease in charges is possible thanks to:

- A positive traffic development for 2017 and forecasted for 2018
- Reduced OPEX per passenger
- Reduced WACC level as well as the one-time reduction of 70.5 MSEK

The one-time reduction for the charges 2018 consists of the proposed but non-implemented charges decrease for 2017 (including traffic risk sharing 2016 and return of funds for the biofuel incentive), and the traffic risk sharing for 2017 (which according to the Q4 traffic prognosis presented in the consultation meeting 26 October amounts to 47.1 MSEK). This amount is deducted from the charge level 2018 and will not affect future price decisions². As of 15 January 2019, the passenger charge will increase by 3.2 SEK per passenger (70.5 MSEK/21.8 MPAX) to reach the unadjusted charge level of 2.2 %. Unless otherwise decided in a new price decision, following consultations with the airport users.

The average charge level for Swedavia's airport network is calculated as the total estimated cost base for airport charges, terminal navigation charges, ground handling infrastructure charges and assistance service (PRM) charge divided by the estimated number of departing passengers (excluding infants and crew). The total average charge per passenger equals 117.8 SEK in 2018, down from 118.4 SEK in 2017.

Swedavia continues to apply a Single Till for the Airport Operations (i.e. excluding Swedavia Real Estate) at network level in 2018, with adjustments being made to the charge structure and individual charge levels. The charge decision

² However, as described in section 4.9, the actual outcome of the traffic risk sharing program for 2017 will be inserted into the price decision for 2019 if it deviates from 47.1 MSEK.

contains the following adjustments recurring from the decision taken for 2017 but not yet introduced:

1. Harmonisation of the passenger charge
2. Reduced passenger charge at Stockholm Arlanda Terminal 3
3. Adjustment of the take-off charge at 10 airports
4. Adjustment of the ground handling infrastructure and PRM charges
5. Return to cost coverage for the terminal navigation charge at Göteborg Landvetter
6. Updated level of the slot coordination charge (formally not part of Swedavia's price decision)
7. Introduction of volume discount
8. Return of unused biofuel funds from 2016
9. Revised traffic risk sharing program
10. Introduction of investment risk sharing

In addition to the recurring adjustments, the charges decision for 2018 includes the following new adjustments:

11. Updated WACC
12. Swedish Transport Agency supervision charge

As previously mentioned, the proposed off-peak incentive and emission charge increase have been retracted.

These adjustments and changes are described in chapter 4. Items and charges which are not specifically listed will remain unchanged from the previous price list from 2016.

When reducing the charge level 2018, Swedavia decides for a net decrease in charges for the fourth year in a row³ and maintains an average charge level 20 % lower than competing and similar airports in Europe.

³ -3.7 % in 2015, -0.8 % in 2016 and -1 % in 2017 (not introduced)

3.1 Effect on Swedavia's 10 Airports

Airport	Swedavia's Charges in Total (MSEK)		
	Estimated Amount (for corresponding full year 2018)	Change	Percentage Change
Stockholm Arlanda	1 779.8	-20.8	-1.2%
Göteborg Landvetter	422.2	-3.8	-0.9%
Bromma Stockholm	160.5	8.0	5.5%
Malmö	139.5	0.9	0.7%
Luleå	59.6	1.4	2.4%
Umeå	50.8	1.7	3.4%
Åre Östersund	22.3	0.3	1.0%
Visby	18.6	0.0	0.0%
Kiruna	13.2	0.0	0.1%
Ronneby	10.8	0.1	0.8%
Swedavia in Total	2 679.3	-12.2	-0.5%

Total charge adjustments at individual airports in Swedavia's airport network

3.2 Cost development and traffic forecast

The Price Model for Swedavia's airport network calculates the cost base for charges 2018 based on the following parameters and their estimations:

Operative Capital

Swedavia's operative capital is expected to increase 18.6 % (2 242 MSEK) in 2018. The increase is mainly driven by investments to meet the capacity needs of existing and new traffic.

Weighted Average Cost of Capital - WACC

A new WACC level of 5.9 % before tax is applied on operative capital in Swedavia's cost base 2018.

Operating Costs

Operating costs (OPEX) are expected to increase with 4.0 % (168 MSEK) in 2018. The increase in absolute value is driven by traffic growth; however OPEX per passenger, adjusted for operational leases and own personnel in investment projects, is expected to decrease substantially, going from 194 SEK per departing passenger in 2016, to 189 SEK in 2017 and to 185 SEK in 2018 (-2.1 %).

As a tool to manage the development of operating costs, Swedavia has introduced a new target. OPEX should not increase more than the sum of 40 % of the passenger growth and half the inflation.

Swedavia considers the continued reduction of OPEX per passenger to be of high strategic importance to deliver value to the airport users.

Depreciations

Depreciations are expected to increase 8.4 % (82 MSEK) in 2018. The increase is due to a growing asset base and assets being depreciated at a faster rate than projected when buildings need to be removed to give space for the development programs.

Revenue from Commercial Services and other Operating Income

Revenues from commercial activities and other operating income are expected to increase by 2.4 % (55 MSEK) in 2018.

Traffic Forecast

The trend of positive traffic development has continued in 2017, with a 7.0 % projected increase in total passengers. The passenger traffic forecast for 2018 (Q4, presented at the consultation meeting 26 October) is in total 44 165 111 passengers or 21 861 730 departing passengers excluding infants and crew. Compared to 2017, this is an increase of 4.6 %. The 2018 passenger figures below include an expected effect of -0.5 % as a result of the proposed Swedish aviation tax.

Airport	Departing Passenger Traffic (excl. crew and infants)			
	2017 Forecast	2018 Forecast	Change	Percentage Change
Stockholm Arlanda	13 317 636	13 994 490	676 854	5.1 %
Göteborg Landvetter	3 355 975	3 471 885	115 910	3.5 %
Other Airports	4 229 569	4 395 355	165 786	3.9 %
Swedavia in Total	20 903 180	21 861 730	958 550	4.6 %

Swedavia's passenger forecast 2017-2018

4 ADJUSTMENT OF PRICE MODEL, CHARGING STRUCTURE, AND INDIVIDUAL CHARGES

This section contains the changes carried out in 2018 accompanied by; descriptions of the decision, the purpose of the changes, views expressed by airport users and Swedavia's motivation.

4.1 Harmonisation of the Passenger Charge

Decision

The current differentiation in the passenger charge between domestic and international passengers will be removed at all Swedavia airports as of 1 January 2018. The change of charge levels is based on each airport's total revenue for the passenger charge (international and domestic) divided by the total number of passengers; hence the change for Swedavia is revenue neutral. The passenger charge levels as of 2018 are listed in the table below:

Year	2016				2018	
	International		Domestic		All Traffic	
	Regular	Transfer	Regular	Transfer	Regular	Transfer
Stockholm Arlanda	97	58	55	33	89	53
Stockholm Arlanda Terminal 3	n/a	n/a	55	33	66	40
Göteborg Landvetter	69	43	48	29	64	38
Bromma Stockholm	108	65	60	36	66	40
Malmö	56	34	48	29	52	31
Luleå/Umeå	71	n/a	49	n/a	51	n/a
Kiruna/Östersund/Visby/ Ronneby	71	n/a	48	n/a	48	n/a

Passenger Charge in SEK per airport

The reduction of the passenger charge for transfer passengers remains 40 % at Stockholm Arlanda, Bromma Stockholm, Göteborg Landvetter and Malmö airports.

Purpose

A harmonisation of the passenger charge fulfils the requirements of the EU Commission (formal notice 2014-4136 given to Sweden 26 September 2014), for Swedavia to abolish a differentiation of domestic and international passenger charges. The formal requirement was addressed to Stockholm Arlanda which exceeded the limit of five million yearly passengers. Since the notice, Göteborg Landvetter has also exceeded the limit of five million yearly passengers. Since Swedavia has an Airport Network, the passenger charge at each of the ten airports will be harmonised.

Views from the airport users

Swedavia first communicated the upcoming harmonisation of the passenger charge in 2014. Therefore this necessary step comes as no surprise to the airport users. Some airport users have argued that all charges should be imposed 1 April 2018, when Swedavia usually introduces changes in the price list. Other airport users have argued that Swedavia is already late in harmonising the passenger charge and should introduce the harmonisation as soon as possible.

Swedavia's motivation for the decision

Swedavia has since 2014 informed the airport users about the requirements from the EU Commission. Swedavia has until the end of 2017 to abolish the differentiation between international and domestic passenger charges. Therefore, the decision is to implement the harmonised passenger charges as of 1 January 2018.

4.2 Reduced Passenger Charge at Stockholm Arlanda Terminal 3

Decision

Swedavia introduces a reduced passenger charge at Stockholm Arlanda Terminal 3, with the charge level of 66 SEK. A 40 % reduction of the passenger charge for transfer passengers will also be applied, resulting in a transfer charge of 40 SEK.

The terminal is only available for traffic within Sweden, according to requirements of the Swedish Customs, and has limitations when it comes to aircraft size. For a full list of allowed aircraft models and more information, please see Arlanda's Airport Regulations⁴, *A-12-2013 Appendix Tables aircraft parking stands and push-back procedures*.

Purpose

Arlanda Terminal 3, which has a lower standard of infrastructure and service than the other Arlanda terminals, is handling less than 1 % of Arlanda's total passenger volume. The use of capacity at the terminal is low; it is estimated that it can handle at least double as many yearly passengers with current infrastructure. The reduced passenger charge aims at creating motivation for existing traffic at Arlanda Terminal 4, which is crowded, to relocate to terminal 3, as well as for new traffic to be established.

Views from the airport users

The airports users who have expressed opinions about a reduced passenger charge have wished for it not to be introduced with the argumentation that the amount of traffic that can move from Terminal 4 to 3 is limited due to the restrictions on aircraft size and that the effect of the proposal therefore is questionable. Other airport users state that the terminal should be open for Schengen or non-Schengen traffic instead of today's domestic traffic.

Swedavia's motivation for the decision

Stockholm Arlanda has a capacity problem with full terminals, especially at peak times. The fact that Swedavia in this situation has one terminal which has potential to ease the situation at Terminal 4 is a possibility that needs to be explored. During the consultation meetings, the airport users have been encouraged to come with alternative suggestions for how the number of passengers can be increased at Terminal 3, with the existing infrastructure. No qualified suggestion has been received. A reduced passenger charge is what Swedavia believes can create short- midterm change and improve capacity usage

⁴ <https://www.swedavia.net/en/Arlanda/Airport-Regulations/>

at Stockholm Arlanda. Swedavia has an ongoing dialog with the Swedish Customs but so far Terminal 3 and 4 remains open for domestic traffic only.

4.3 Adjustment of the Take-Off Charge at all 10 airports

Decision

The minimum take-off charge at all airports is increased from 250 to 500.

In addition, due to the reallocation of ramp costs into the take-off charge, charge levels at Stockholm Arlanda, Göteborg Landvetter, Malmö and Bromma Stockholm have been further adjusted.

Airport	Passenger Flights					Non Passenger Flights			
	Minimum	MTOW 0-25	MTOW 25-100	MTOW 100-175	Capped MTOW 175-	Minimum	MTOW 0-25	MTOW 25-175	Capped MTOW 175-
Stockholm Arlanda	500 (250)	10	20	10 (15)	2 500	500 (250)	10	35	5 500
Göteborg Landvetter	500 (250)	20 (10)	30 (22)	20 (15)	4 250	500 (250)	15	40	6 375
Bromma Stockholm	500 (250)	25 (15)	50 (35)		8 125	500 (250)	25 (20)	60 (50)	9 625
Malmö	500 (250)	20 (15)	40 (35)	30 (25)	5 750	500 (250)	20	55 (50)	8 750
Luleå	500 (250)	20	50	30	6 500	500 (250)	20	55	8 750
Umeå	500 (250)	20	50	30	6 500	500 (250)	20	55	8 750
Åre Östersund	500 (250)	20	50	30	6 500	500 (250)	20	55	8 750
Visby	500 (250)	20	50	30	6 500	500 (250)	20	55	8 750
Kiruna	500 (250)	20	50	30	6 500	500 (250)	20	55	8 750
Ronneby	500 (250)	20	50	30	6 500	500 (250)	20	55	8 750

Take-off charge in SEK per tonne. New charges in bold, parentheses show previous charges

Purpose

The increase of the take-off charge is made due to (1) reallocation of costs from the ramp handling infrastructure charge, (2) to increase the proportion of tonne related charges to encourage a high load factor for better capacity usage and less impact on the environment, and (3) the increase is motivated from a cost perspective. Smaller aircraft mostly use the same infrastructure and runway as the larger aircrafts and an increased minimum take off charge is better reflecting the actual cost.

Views from the airport users

In relation to the reallocation of ramp costs, some airport users have expressed a wish for more insight into Swedavia's cost allocations. One airport user has suggested further cost increases for smaller aircrafts as a mean to promote maximal use of facilities. Other airport users have previously expressed the opinion that the proportion of passenger related charges should be kept high since they are included in the "tax box", hence they are paid by the traveller directly in the ticket price.

Swedavia's motivation for the decision

See purpose.

4.4 Adjustment of the Ground Handling Infrastructure and PRM charges

Decision

The charges for ground handling infrastructure and PRM have been set according to the principle of cost coverage for 2018. One exception has been made for the passenger handling charge where the 14.5 MSEK, described in the introduction chapter of this document, have reduced the charge level. The funds have been allocated based on the principle of each airport's share of the total passenger handling cost.

The ramp handling charge has now a reduced cost base compared to 2016, in total 68 MSEK. Costs which have been reallocated from the ramp handling charge to take-off are; apron/ramp, field maintenance (airside), and related share of overhead and group costs.

The adjustments made to the charges are shown in the table below, bold figures indicate a change compared to the previous price level.

Airport	PRM		Ground Handling Infrastructure Charges							
			Passenger Handling		Ramp Handling		Glycol Handling		Fuel Handling	
	2016	2018	2016	2018	2016	2018	2016	2018	2016	2018
Stockholm Arlanda	3.8	3.8	12.4	19.7	8.1	1.8	0	0	13.39	11.5
Göteborg Landvetter	4.2	6.1	12.0	11.0	16.0	6.3	8.7	6.2		
Bromma Stockholm	3.3	5.3	3.8	5.5	7.2	8.1	6.25	5.7		
Malmö	3.9	4.0	6.0	7.2	9.1	5.8	1.8	2.3		
Umeå	1.7	3.7	n/a	0*						
Luleå	2.4	4.1								
Åre Östersund	1.6	2.6								
Visby	1.4	1.3								
Kiruna	1.8	2.3								
Ronneby	2.8	3.2								

Updated Ground Handling Infrastructure and PRM charges in SEK

*Passenger Handling Infrastructure Charge will be levied at Umeå Airport starting 2018. To facilitate for airport users, Swedavia will charge 0 SEK for 2018, creating time to ensure correct cost allocations, while also allowing Ground Handling Agents at the airport to properly prepare for invoicing.

Purpose

The Ground Handling Infrastructure and PRM charges for 2018 are based on cost coverage (with a one-time exception to the Passenger Handling charge) and therefore adjusted with every new price decision. The cost associated to both ramp handling and take-off charges have now been 100 % allocated to the take-off charge. The purpose is to allocate the costs to the product where it is most relevant.

Views from the airport users

The airport users have expressed concerns regarding the increased PRM charges and urges Swedavia to find ways of assuring that the service is only utilised by people in need of it and to reduce the “no show” rate.

The increase of ground handling charges are creating a larger risk for the ground handling companies since the invoice from Swedavia is addressed to them and they in turn invoice the airlines and have a period where there is a cost but no income. The ground handlers have therefore asked Swedavia if the invoice can be sent directly to the airlines, alternatively that some costs included in the ground handling infrastructure charges are allocated to the passenger- or take-off charge.

Swedavia’s motivation

The Act on Ground Handling (SFS 2000:150) and Regulation (EC) No 1107/2006 – rights of disabled persons and persons with reduced mobility when travelling by air, states that Swedavia can levy charges for the provided infrastructure and services. According to Swedavia these charges shall cover the costs they create. As all charges were not fully cost based in the previous price list the effect on individual charges seems large. Another reason is the activation of development programs which are contributing to the cost increases. The purpose of reallocating ramp costs is to meet the challenges of the ground handling companies as well as allocating the costs to the most relevant charge. As the passenger handling infrastructure charge is reduced by 18 MSEK the majority of airport users will receive a reduced charge.

4.5 Return to cost coverage for Terminal Navigation Charge at Göteborg Landvetter**Decision**

Up until 2014, Göteborg Landvetter was part of the *Common European Charging Scheme* for air navigation services. This scheme credited the outgoing balance of a year, two years later. This meant that the outgoing balance for 2014 was credited in 2016 and that was the last credit. From here on the Terminal Navigation Charge (TNC) at Göteborg Landvetter is based on the principle of cost coverage. The charge per service unit as of 15 January 2018 is 871 SEK.

Purpose

The purpose is for the revenue from the Terminal Navigation Charge at Göteborg Landvetter to cover the corresponding costs for providing the service.

Views from the airport users

The TNC at Göteborg Landvetter has increased and the airport users have commented that they perceive the development as unfortunate and would prefer a lower charge.

Swedavia’s motivation for the decision

See ‘Purpose’.

4.6 Updated level of the Slot Coordination Charge (formally not part of Swedavia's price decision)

Decision

The level of the slot coordination charge has been revised for this year to reflect the new traffic and cost forecasts. Furthermore, from start of the summer schedule 2017 Göteborg Landvetter was upgraded to a slot coordinated level 3 airport. This means that the airport is coordinated by the external non-profit organisation Airport Coordination Sweden (ACS) and included in the charging system for the Slot Coordination Charge, which has included Stockholm Arlanda and Bromma Stockholm airports from 2016. Furthermore, with the summer schedule 2017 all movements require a slot at Bromma Stockholm, not only commercial movements as previously, but also General Aviation.

Airport	Slot Coordination Charge
Stockholm Arlanda	14.40
Bromma Stockholm	14.40
Göteborg Landvetter	14.40

Charge level 2018, SEK per departure

Purpose

The purpose of slot coordination is to facilitate for ACS to handle the increased number of departures and allocate slots according to the IATA Worldwide Slot Guidelines. The charge levels are updated with each price decision to reflect traffic and cost development.

Views from the airport users

A suggestion was made at the consultation 2016 to keep Göteborg Landvetter as a Level 2 coordinated airport and solve congestion problems with schedule adjustments. Views were otherwise generally positive at the consultation meeting where the adjustment was presented.

Swedavia's motivation for the decision

The slot coordination charge is set by ACS and communicated in Swedavia's consultation process each year. In 2017 it was decided to upgrade the airport Göteborg Landvetter to a Level 3 coordinated airport since the schedule adjustment measures that had been put in place had not sufficiently solved the problem with lack of capacity and congestion.

4.7 Introduction of volume discount

Decision

Swedavia has decided to introduce of a volume discount, in addition to the existing discount programmes; Passenger Increase Bonus (PIB) and New Destination Discount (NDD). The volume discount is based on the total number of yearly departing passengers for an airline group at all ten Swedavia airports.

The discount levels have been lowered compared to the initial proposal communicated in the Consultation Framework.

Airline groups with more than 500.000 departing passengers receive a discount on their passenger charge. More passengers entitles to a higher discount, starting with 2.5 % up to 12.5 % according to the table below.

Number of departing passengers	Discount on passenger charge
1 - 500 000	0.0 %
500 001 - 1 000 000	2.5 %
1 000 001 - 1 500 000	5.0 %
1 500 001 - 2 000 000	7.5 %
2 000 001 - 2 500 000	10.0 %
2 500 001 -	12.5 %

Volume discount per passenger interval

The volume discount is incremental which means that only those passengers in an interval receive the corresponding level of discount. For example, if an airline group has 1 400 000 departing passenger in a year, for the first 500 000 passengers no discount is granted, for passenger 500 001 to 1 000 000 2.5 % is granted, and for passenger 1 000 001 to 1 400 000 5 % is granted.

The discount is paid out after the year is completed and is based on the average passenger charge (including transfer discount) per airline group at all ten Swedavia airports. Volume discount is not granted for passengers qualified for New Destination Discount or Passenger Increase Bonus. Passengers eligible for these incentives are subtracted from the amount used to determine the level of volume discount per airline or group.

Purpose

The volume discount has been designed to encourage long-term stable growth for a range of airlines. The discount reflects the effect of more volume and economies of scale for Swedavia. The intervals have been made to encourage airline groups below the entry level of 500 000 departing passengers to grow to reach the first level, and for airline groups with enough passengers to qualify for the discount to grow further and reach the next interval. Both segments together can by e.g. increasing their load factor, add more departures at existing routes, or establish new routes, create a long-term stable volume growth. Airlines with many passengers are strengthening Swedavia as a hub and are feeding traffic within and outside Sweden.

Long-term stable volume growth in Swedavia's airport network reduces our business risk. Swedavia's business is characterized by a large proportion of fixed

infrastructure cost, which means that an increased number of passengers naturally create cost efficiencies when the cost is split on more departures and/or passengers. In addition, with more passengers we are facing capacity challenges and there is a risk that the investment plan becomes volatile. At times, new investments can create redundant capacity, at a large cost, and on the other hand some periods are characterized by lack of capacity and a phase of planning. In investment heavy periods, which Swedavia is currently facing, large long-term commitments from airlines result in a substantially lower risk that investments are not optimally dimensioned or executed at the wrong time.

Views from the airport users

When the proposal of a volume discount was discussed, the airport users expressed opinions of both for the proposal and against it. The supporters mention that it is important and that commitment from the airlines should be encouraged, both when it comes to number of departures and feeding the hub with passengers. Also, it is mentioned that a prospering foundation should be provided where airlines with many passengers can develop further and expand. The airport users supporting the incentive programme have expressed disappointment regarding the reduced discount per interval compared to the initial proposal.

Those opposing the volume discount have expressed that the first interval of the discount is too hard to reach, that it is a limited number of airlines reaching the highest level, and that the already fierce competition between airlines is now becoming unfair when the price for the same route can vary between airlines. Also, the airport users opposed to the discount have expressed the opinion that the volume discount is discriminatory and unlawful. The suggestion to create an alternative discount program for seat load factor has also been received.

Swedavia's motivation for the decision

The aim of the volume discount is to create long-term stable growth and reduce the business risk by better planning for future capacity needs. The program is designed to be inclusive, transparent and non-discriminatory by making the conditions to participate the same for all airlines. It is inclusive since 63 % of all Swedavia passengers qualify for the discount, and about 15 airlines (being part of six airline groups) are estimated to receive volume discount in 2018.

The decision to lower the discount per passenger from the initially proposed levels was made in light of the recent rapid traffic growth, which has stretched the budget for the discount. The total discount in the current design now amounts exactly to the level of the initial proposal made in 2016. This also balances the volume discount in size towards the already existing programs for Passenger Increase Bonus and New Destination Discount.

The intervals are made to encourage further growth. Based on currently forecasted passenger numbers, there would be about 15 airlines at the entry level and three at the highest levels in 2018.

Regarding the argument that the volume discount creates unfair competition; Swedavia has the same price list and incentive offer for all airlines. The programme is open for all airlines and applies at all Swedavia's 10 airports.

4.8 Return of unused biofuel funds from 2016

Decision

In 2016, Swedavia introduced an incentive program for biofuel. In total 5 MSEK were allocated which the airlines could apply for as a contribution when they used biofuel.

When Swedavia proposed the program in 2015, the airline users opposed that the program would be financed by airport charges. With the environment in mind and the thought that once in place the funds would be used, Swedavia decided to go ahead with the incentive program for biofuel.

At the end of 2016 the result was that no qualified airline had applied for the incentive program and the full 5 MSEK remains. Swedavia proposed to return the funds in 2017 but since the price decision was not implemented the decision is therefore to return the unused funds of 2016 into the airport charges of 2018 and not allocate any new funds in 2018.

Purpose

To reinsert the unused funds for biofuel and review the forms of environmental charges and discounts.

Views from the airport users

All airport users welcome the reinsertion of the unused 5 MSEK. However, the users also make it clear that the environment is important and they are positive to continuing discussions on how we together can make a difference. It was not the initiative to encourage biofuel itself that they opposed, rather that it was financed through airport charges. Some airport users have expressed the view that the return of the funds should include interest.

Swedavia's motivation for the decision

The environment, both on and around the airports, as well as generally in Sweden, is and will continue to be a top priority for Swedavia. The introduction of the biofuel program had good intentions but no effect, since no airline participated. Swedavia will carry on the work to support the reduction of emissions and noise on and around our airports.

The retroactive adjustments being made in 2018, for biofuel and traffic risk sharing does not include interest since Swedavia's cash holdings do not return profit with the current negative interest rates.

4.9 Revised Traffic Risk Sharing Program

Decision

The traffic risk sharing program was introduced in 2016 to handle traffic forecast deviations between what was consulted and the actual outcome for a specific year. Every passenger deviating from the forecast was in 2016 eligible for 40 SEK, in cases of both traffic increases and declines. Would Swedavia's forecast be lower than the outcome, Swedavia inserts 40 SEK per passenger in the price calculation, and in case of a higher forecast, a deduction of 40 SEK per passenger is made.

40 SEK was the estimated marginal effect per passenger for the program in 2016. The decision for 2018 is to, instead of using marginal effect, take the yearly actual charge level per departing passenger (117.8 SEK in 2018) as a base and reduce the amount with the average discount per additional passenger (52 SEK). This means that the eligible amount per passenger for 2018 will be 66 SEK.

The programme has a threshold at forecast deviations of +/- 4 percentage points, meaning that no compensation is made for traffic deviations four percentage points below or above Swedavia's consulted traffic forecast.

The deviation of consulted and actual number of passengers multiplied with the eligible amount per passenger will be included in the next price decision taken. Deviations for 2018 will be carried into the charge year 2019. Since the price decision is made prior to knowing the actual outcome of a full year, all changes taking place after the price decision will be transferred into the next price decision. As an example, late deviations in 2017 will be reflected in the price level of 2019.

Purpose

To create a long term model for traffic risk sharing which can be updated yearly with the charge level, discounts and traffic forecast for the coming year. This new method also takes into account the full aspect of aviation charges and commercial revenues and costs, not as previously where only the aviation charges were included.

Views from the airport users

The airport users welcome the new methodology in the respect that the commercial business is included. However, the reduction for average discount per additional passenger was questioned by some airport users, where the users were of the opinion that the cost for discounts are already covered in the actual charge level, and that by removing 52 SEK (average rebate in 2018) the discount is taken into account twice.

Some airport users are also expressing concerns that the traffic forecast applied is kept low to benefit Swedavia and proposes that the prognosis should take the input from airlines into higher account.

Swedavia's motivation for the decision

Swedavia aims to simplify the methodology for calculating the eligible amount per passenger. There are no assumptions of marginal effect and we use the same figures as when determining the charge level of the year; it is possible to trace and recognise the figures.

The costs and revenues included in the cost base and actual charge level is based on the forecasted number of passengers. If the number of passengers deviate from the forecast the traffic risk sharing is catering for the additional cost and revenue each passenger brings. Therefore to reduce the eligible amount with the average discounts is not equal to a double deduction but reflects the actual net result each additional passenger brings.

In order to improve the risk sharing mechanism and provide complete accuracy, Swedavia has decided to as of 2017 make adjustments also for deviations in the forecasts taking place after the price decision has been made.

4.10 Introduction of Investment Risk Sharing

Decision

Swedavia's investments are part of the operative capital in the price model of which the capital cost is calculated. The consulted amount of investments naturally has an impact on the overall charge level. In the previous year's Swedavia has not, for different reasons, been able to invest as much as has been consulted. This means that the users have paid capital costs for projects which did not take place as planned within the charging year.

Therefore, in order to handle investment forecast deviations, Swedavia introduces an investment risk sharing as of 2018. This means that the deviating amount between consulted investments and actual outcome are returned in the following year. In detail this means that the effect on the charges are returned, which is the average capital cost. Below is an example detailing the programme:

Swedavia plans to complete investments for 2 billion SEK. These 2 billion SEK have an impact on the average operative capital with half the amount (which is half of the sum of the opening and closing balance). With a capital cost of e.g. 6 %, 60 million SEK are included in the cost base and affect the charges.

$$\frac{2\,000\,000\,000 \times 6\%}{2} = 60\,000\,000 \text{ SEK}$$

When the year is over, the actual investment amount became 1.5 billion SEK and Swedavia had net investments of 500 million SEK (2 – 1.5 billion SEK) which were planned but not started. The average capital cost for the deviations of 500 million SEK is 15 million SEK.

$$\frac{500\,000\,000 \times 6\%}{2} = 15\,000\,000 \text{ SEK}$$

The total capital cost for the deviation, in this example 15 MSEK, is returned to the cost base affecting the charges the following year. The method used to calculate the effect on charges is also used when calculating the retroactive adjustment.

The deviation can be both positive and negative, meaning that if the investment outcome is lower than consulted, Swedavia returns the funds to the users in the coming year by inserting the funds in the price model. In case the investment outcome is higher than consulted there is a ceiling of +5 %, which equals approximately a charge increase of 0.2 %, which Swedavia can add to the price model the following year. If the investments are expected to exceed +5 % a new consultation will be initiated.

The investment risk sharing program was planned to start 2017 but with the price decision disallowed by the Swedish Transport Agency, the program could not be introduced and is now planned to start 2018 instead. The consulted investment amount for 2018 will be compared to the actual outcome of 2018 and the deviation taken into consideration in the price level of 2019.

As for the traffic risk sharing program, deviations taking place after the price decision has been made will be reflected in the next charge decision. This means that deviations happening prior to the charge decision for 2018 will be adjusted in the charge level 2018, while deviations occurring after the price decision, will be adjusted in 2019.

Purpose

To reduce the effect of forecast deviations for investments by returning funds for investments that were not started or where less funds were spent than budgeted.

Views from the airport users

During the consultation process the airport users mentioned that it would be preferred if the investment forecast is correct instead of correcting the forecast the following year. A correct forecast gives the right charges for that specific year. There was also a concern that Swedavia is using the program to be able to invest more than consulted without any risk, since the following year's charges will be affected. Some airport users have urged Swedavia to set the ceiling to 0 %, while others propose to remove the 5 % limit as it might lead to Swedavia increasing the investment plan.

Airport users have expressed the opinion that the investment risk sharing is not taking deviations of individual investments into account, only the overall investment amount for all airports. This can lead to that the individual investments are replaced but the overall amount for investments is unaffected.

Swedavia's motivation for the decision

The introduction of an investment risk sharing program is based on discussions from the consultation 2016. Swedavia shares the view of the users that the best option is if the forecast equals the outcome every year. We strive to achieve that, however we are not there yet and until then we see a need to put this program into place.

Since the users expressed concerns that Swedavia will “overinvest” we added a ceiling of +5 % of the consulted investment amount when designing the program. The intention from us has never been to use this program to invest more than consulted but to create fairness for the users.

The investments are part of the consultation process and Swedavia is taking measures to assure that investments are consulted correctly and an improved process has been initiated together with the airports users where Stockholm Arlanda is the first step. Changes to individual investments will be handled throughout the year at the local AUCs.

4.11

Updated WACC

Decision

For 2018 Swedavia applies a WACC of 5.9 % (before tax) in the price model. The WACC level will be revised and consulted, based on the methodology set 2017, with every new price decision.

Swedavia's WACC is calculated using the CAPM methodology for evaluating the required return on equity and the Hamada formula for deciding the systematic risk of Swedavia (the levered Beta value). The airport users who participated in the consultation process have received a detailed description of the parameters and how they are applied in the calculation.

Purpose

Due to changed market conditions since 2014 (when Swedavia's WACC was last changed), Swedavia shares the airport users view that there is a need to revise the WACC. To ensure that the WACC continues to reflect market conditions the level will be consulted prior to every new price decision.

Views from the airport users

Swedavia's target for return on capital and the WACC have been discussed in charges consultations for several years. Many users express the view that Swedavia's WACC does not reflect current market conditions, for instance regarding interest rates. Swedavia's WACC has been disputed in appeals against the charges decisions of both 2016 and 2017.

With the new calculation some airport users disagree with Swedavia's choice of benchmark airports when assessing the new Beta value, arguing that Swedavia has a lower risk than average due to Swedavia being owned by the Swedish state. The

same argument has also been raised regarding the debt premium and the market risk premium used.

Furthermore, one airport user has proposed that Swedavia lowers the WACC in investment heavy periods to counteract the effects for airport users.

Swedavia's motivation

The input from the airport users have been considered in the calculation of the new WACC. The methodology is planned to be used not only for 2018 but also for coming consultations. An openly available study conducted by PwC has been used as a source when establishing the market risk premium. This study is country specific for Sweden and published annually by a well-known independent organisation.

4.12 Swedish Transport Agency supervision charge

Swedavia decides to include the cost of the new supervision charge of Swedish Transport Agency (STA) in Swedavia's operating cost as of 1 January 2018.

Until recently, all activities of the Swedish Transport Agency (STA) related to the Act on Airport Charges were financed by tax. Since 1 July 2017 STA has decided to introduce a charge, in addition to the tax, which will be invoiced to Swedavia.

Activities financed by STA's new supervision charge;

- Participation at central consultations
- Participation at local consultations at airports with minimum 5 million yearly passengers
- Evaluation of consultation
- Manage feedback at and in relation to consultation
- Control of Swedavia's motivation for the airport charges decision.

The appeal process will continue to be financed through tax.

STA is charging 1.400 SEK per hour as of 1 July 2017 and they are estimating the time required per year to be 320 to 500 hours. The cost of the new STA charge will be included in Swedavia's operating costs as of 1 January 2018 and is set to the lower end of STA's estimate, i.e. 448.000 SEK (320 x 1400).

The estimated number of hours is likely to be revised when one year's cycle has been completed and prior to the next charge decision.

5 THE CONSULTATION PROCESS AND DISTRIBUTED MATERIAL

For all details of the price structures and adjustments of individual charges, please see the material that has been distributed and updated throughout the consultation process during September to November 2017. Please note that with the updated

process for Stockholm Arlanda AUC, the local consultation process at the airport carries on throughout the year.

The consultation process covered the following meetings and material:

Swedavia Consultation Framework	113 pages
Updated appendices to the Framework	38 pages
Consultation Meeting 1	September 21
Main presentation	38 pages
Meeting minutes	15 pages
Consultation Meeting 2	October 12
Main presentation	30 pages
Meeting minutes	15 pages
Consultation Meeting 3	October 26
Main presentation	38 pages
Meeting minutes	10 pages
Local Consultation Meeting 1	September 25
Stockholm Arlanda Airport AUC	
Main presentation	34 pages
Meeting minutes	5 pages
Action Points	3 pages
AUC Investment Plan 2017-09	Excel sheet
Local Consultation Meeting 2	October 11
Stockholm Arlanda Airport AUC	
AUC Investment Plan 2017-09 rev2	Excel sheet
Meeting minutes	6 pages
Local Consultation Meeting	September 29
Bromma Stockholm Airport AUC	
Main presentation	19 pages
Meeting minutes	4 pages
Local Consultation Meeting	October 2
Göteborg Landvetter Airport AUC	
Main presentation	43 pages
Meeting minutes	16 pages
Local Consultation Meeting	October 5
Umeå Airport AUC	
Main presentation	12 pages
Meeting minutes	3 pages

Local Consultation Meeting Malmö Airport AUC	October 11
Main presentation	60 pages
Meeting minutes	4 pages
Swedavias response to airport users and final adjustments	22 pages
Swedavia Price Decision Airport Charges 2018	23 pages

Participants of the consultation process may request material from any of the meetings listed above, by writing to consultation@swedavia.se.