

23 March 2011



**DAA Response to Commission for Aviation Regulation's
Consultation on Regulatory Accounts**

Table of Contents

Executive Summary	3
Introduction	6
1. Principles underlying regulatory accounts	7
2. DAA Regulatory Accounts current form	12
3. Future form of Regulatory Accounts	18
4. Recommended next steps	30
Appendix I – Regular information provided by DAA to the Commission	31
Appendix II – Summary of Consultation responses	33

Executive Summary

DAA welcomes the opportunity to comment on the future of regulatory accounts and will work with the Commission to develop a position that enhances alignment with the principles of better regulation, as outlined in the Commission's CP5/2010 consultation paper. We have set out in this response the significant strengths of the current form of DAA's Regulatory Accounts, along with proposals for change that will build on those strengths.

Current form of Regulatory Accounts

We have prepared our Regulatory Accounts in accordance with the requirements set out in section 28 of the Airport Regulation Act 2001 since its inception and we have worked with the Commission to conform with those requirements and provide an independent audit report. This approach led to the current format of our Regulatory Accounts which have served as an effective base for regulatory reporting and continue to be fit for purpose.

We are of the view that the format of the Regulated Accounts should remain firmly grounded in the statutory financial statements format and that this principle is critical to the achievement of the audit requirement in section 28 of the Airport Regulation Act, 2001.

Similarly, we do not consider that a change to the current Regulatory Accounts format to include a standalone balance sheet for Dublin Airport is appropriate. This view is based on considerations of proportionality, relevance, and cost. More importantly we believe that such investment would be of limited benefit, as there are certain key limitations to the usefulness of a standard balance sheet format for the purposes of regulatory accounting. Of specific relevance to the Commission and stakeholders is the Regulated Asset Base, which we do not prepare or have transparency over the assumptions used in its preparation.

During the process of the development of our response to CP5 we have revisited the current Regulatory Accounts format and also considered the regulatory accounting approaches adopted by airports in other jurisdictions as well as the approach taken by IAA.

Future form of Regulatory Accounts

We acknowledge that the current form of the Regulatory Accounts could be enhanced to better reflect the principles of better regulation. The enhancements that we are proposing are as follows:

- Additional information in respect of the performance against the building blocks of the price determination;
- Disclosure of the attributable net debt position of Dublin Airport and the Funds from Operations;
- Additional information relating to the return achieved on the Regulated Asset Base of Dublin Airport; and
- Other considerations which may have an impact on the format of the Regulatory Accounts.

On the basis of the points raised in CP5, our own review of the regulatory accounting arrangements in place in other countries, and the consideration of the needs of the various stakeholders in Dublin Airport, we propose to voluntarily supplement the accounts under section 28 of the Airport Regulation Act 2001. This would be in the form of an additional section in the Regulatory Accounts that would serve as a financial performance review, and would supplement the profit and loss account that is currently included.

We consider that the key benefits of this approach to the Commission (and other stakeholders in Dublin Airport) are that the suggested financial performance review would provide more regular reporting of the performance metrics that the Commission considers in the price control process. This would allow the Commission both to better understand the tracking of DAA against its allowances during the regulatory period and also to have a better understanding of DAA's financial position and performance when it undertakes its price control process.

Conclusion and recommended next steps

In conclusion, we believe that our response to CP5 set out in this paper represents an enhancement to the current DAA regulatory reporting process, improving compliance with the principles of better regulation, dealing with concerns raised by stakeholders in the past as to the transparency and relevance of the Regulatory Accounts disclosures, and offering

additional information over and above that discussed within CP5. We have highlighted our recognition that regulatory reporting on a global scale has evolved significantly since the current format of the Regulatory Accounts was designed some 10 years ago.

We recognise that many of the points discussed in the body of this response are technical issues and therefore a joint working approach between DAA and the Commission to develop the proposals would be helpful by way of a meeting, potentially with the input of relevant advisors.

Introduction

This document is the Dublin Airport Authority's response to the Commission for Aviation Regulation's (the Commission) request for submissions in relation to Commission Paper 5/2010 – "Regulatory Accounts".

Abbreviations

For the purposes of this Consultation Response, the following abbreviations are used:

"CP5" refers to the Commission for Aviation Regulation's Commission Paper 5/2010 - Regulatory Accounts issued on 30 November 2010.

"DAA" or "we" refers to Dublin Airport Authority plc

"GAAP" refers to Generally Accepted Accounting Practice

"IFRS" refers to International Financial Reporting Standards

"Regulatory Accounts" refers to the Annual Regulated Accounts submitted by DAA to the Commission.

"The Commission" refers to the Commission for Aviation Regulation

Structure and content of our response

We have structured our response in the following sections, following the logic of CP5. We have responded to each of the questions raised in CP5 throughout this document.

Section 1 – Principles underlying regulatory accounts

Section 2 –Current format of DAA Regulatory Accounts

Section 3 – Future form of Regulatory Accounts

Section 4 – Recommended next steps

We note in section 2.8 of CP5 reference to the Ground Handling Directive (96/67/EC), EC Regulation 1107/2006 on reporting of provision of services for Persons of Restricted Mobility and EC Directive 2009/12 on Airport Charges and would highlight that our response in this paper refers only to the Regulatory Accounts required to be delivered to the Commission in accordance with the Aviation Regulation Act 2001.

Section 1 – Principles underlying regulatory accounts

1.1 Background and legislation

DAA has delivered regulatory accounts annually to the Commission since 2001, based upon a 31 December year-end. DAA is required to deliver regulatory accounts by the Aviation Regulation Act 2001 (section 28).

Alongside this, DAA as a corporate entity is also required to file annual audited statutory accounts by the Companies Acts. The format of the statutory accounts is closely prescribed, and the accounts must be prepared under either Irish GAAP or IFRS (in DAA's case, Irish GAAP).

To date, DAA's Regulatory Accounts have closely followed the format and accounting policy guidelines of its statutory accounts, with some additional disclosure around industry-specific metrics. DAA is strongly in favour of maintaining this consistency between the Regulatory Accounts and the statutory accounts on the basis that it provides ease of reconciliation, decreases costs of preparation and satisfies the requirements of section 28 of the Aviation Regulation Act, 2001.

We note that certain information which is currently included in the full Regulatory Accounts that are prepared by DAA and submitted to the Commission is not currently made public on the basis of confidentiality.

DAA also reports to the Commission under a variety of other requirements. These include, but are not limited to:

- People with Reduced Mobility.
- Quality of service.
- Detailed Airport Charges information and compliance report.

A full list of the reports that DAA provides to the Commission on a regular basis is provided in an annexe to this response. DAA also responds to the Commission's requests for further information as and when they arise.

1.2 The role of audit

DAA is required by the Companies Acts to ensure that its statutory accounts include an auditors' report. DAA's Regulatory Accounts are also subject to audit, as required by section 28 of the Aviation Regulation Act 2001. The auditor will have a role to play in the regulatory accounts process to the extent that the Commission requires some form of independent verification or assurance over the information provided to it by DAA. Section 28 of the Aviation Regulation Act 2001 would indicate that the accounts which are prepared for the purposes of regulation must be audited.

Whilst our view is that the assurance provided by an independent audit report is important to a reader of the Regulatory Accounts (and indeed is required under the Aviation Regulation Act), we do note that the nature of this assurance is linked to both the format and the information contents of the Regulatory Accounts. Any proposed changes to either the format or the information contents of the Regulatory Accounts as a result of this consultation process should fully consider the impact that those changes may have on the quality of assurance that an independent audit report is able to provide. We comment further on the role of audit in the Regulatory Accounts process in Section 3.

1.3 Principles of better regulation

In CP5 the Commission refers to the principles described in the Irish Government White Paper “Regulating Better”, which was an output from the Better Regulation Task Force in January 2004. The Commission indicates that in dealing with the consultation responses and deciding upon the way forward it will be guided by these principles. In summary, these principles are:

- *Necessity* – Are the rules and structures of regulation necessary and valid?
- *Effectiveness* - Regulation should be focused and minimise side effects;
- *Proportionality* – Regulators should intervene only when necessary, with remedies appropriate to the risk posed;
- *Transparency* – Regulators should be open, ensuring effective consultation takes place to take into account stakeholders’ views and expertise. The regulation should be clear to all.
- *Accountability* – Regulators must be able to justify decisions with clear explanations of how and why decisions have been reached, and be subject to public scrutiny.
- *Consistency* – Rules and standards must be joined up and implemented fairly.

We strongly endorse the use of these principles, both in the Commission’s work generally and also specifically in relation to this consultation. We have considered the alternative options for the future form of Regulatory Accounts proposed by the Commission in its consultation paper against these principles, and refer to them as necessary throughout this paper.

Section 3.9 of CP5 sets out that a key principle underpinning DAA’s Regulatory Accounts should be:

“In sectors where the focus is not on promoting competition with the incumbent operator, the emphasis appears to be on ensuring that regulatory accounting arrangements provide consistency and transparency in order to monitor performance against the assumptions underlying current price caps and also to inform future price caps”.

This context is fundamental to the role DAA performs and underlies our view on the future form of the Regulatory Accounts set out in Section 3 of this response.

1.4 Purposes and users of the Regulatory Accounts

We note the comments made by the Commission in paragraphs 3.7-3.10 of its consultation paper. We agree with the Commission's summary of the purposes of Regulatory Accounts. In our view, the primary users of DAA's Regulatory Accounts are the Commission, the airlines, and the passenger.

We also note the following comments from the UK Inter-Regulatory Working Group (a cross-industry working group that was set up to identify and develop areas of consistency within published regulatory accounts):

"The main purpose of regulatory accounts should be to provide financial information about regulated businesses for use by the regulator, industry, investors, consumers and other stakeholders. This would enhance the information available within the industry and aid in the assessment of the stewardship of management and informing economic and financial decisions.

Applications of regulatory accounts could include:

- *Monitoring performance against the assumptions underlying current price controls;*
- *Informing future price control reviews and other regulatory decisions that require financial information such as setting determined prices;*
- *In the relevant markets, assisting in the detection of certain anti-competitive behaviour such as unfair cross-subsidisation and undue discrimination at the appropriate level within the business concerned;*
- *Assisting in comparative competition;*
- *Assisting in monitoring financial health; and*
- *Improving transparency in the regulatory process as regulatory accounts are the main source of regular, published and audited financial information about regulated companies.*

Emphasis each regulator adopts will depend upon specific circumstances prevailing in the industry concerned."

Given the specific role of DAA, the emphases from this list that most apply to DAA's regulatory accounts environment are: monitoring performance against price controls; informing future price control reviews; and improving transparency in the regulatory process. Again, these principles underlie our view on the future form of the Regulatory Accounts set out in Section 3 of this response.

In conclusion, CP5 notes that in assessing any responses or in proposing how to move forward the Commission will be guided by the principles of better regulation. We too have used these principles in our assessment, and our view of how each of the options meets these principles is noted below. We have set out in Sections 1 and 2 of this response what we understand by the principles of better regulation, and how we assess DAA's current Regulatory Accounts align with these principles.

As well as the principles of better regulation, in forming our responses to CP5 we have given consideration to four key questions that form the basis of the attributes that the Regulatory Accounts should possess. These are:

- What is required to be delivered by DAA under the current applicable legislation? For the purposes of regulatory accounting, we believe that this is the Aviation Regulation Act 2001, specifically section 28.
- What can be provided by DAA based on both its legal/corporate structure and its accounting systems?
- What is relevant to be included in the Regulatory Accounts, bearing in mind both the intended users of the Regulatory Accounts and the information provided by DAA to the Commission in other formats?
- What type of independent audit opinion may it be possible to obtain for the different options under consideration for the Regulatory Accounts?

We have considered each of the suggestions made by the Commission in CP5 having regard to these four questions, and we have commented throughout Section 3 on the extent to which the different options for the future Regulatory Accounts address these questions.

Section 2 – DAA Regulatory Accounts current form

2.1 Current form of Regulatory Accounts

As noted above, the current form of DAA submitted Regulatory Accounts is consistent with the annual statutory accounts as amended for additional disclosure in relation to Passenger Numbers, Employee Numbers, Persons with Reduced Mobility and Cargo Services Charges. DAA has complied with the requirement to submit Regulatory Accounts since this requirement was introduced in 2001.

DAA Regulatory Accounts currently include the following:

- Statement of Director’s responsibilities;
- Report of the independent auditor;
- Statement of accounting policies;
- Separated Profit and Loss Account (complete with disclosure of the financial performance of non-regulated activities on a line by line basis);
- Statement of total recognised gains and losses;
- Reconciliation of movement in shareholders’ funds
- Corporate Balance Sheet;
- Corporate Cash Flow Statement; and
- Notes to the accounts, including the majority of the information required under the statutory accounts including separation of profit and loss notes into the regulated and non-regulated entity elements, pension cost notes and full balance sheet notes.

Under section 28 of the Aviation Regulation Act 2001, the Commission requires

“...accounts to be kept in such a manner as the Commission may determine, in respect of the activities regulated by the Commission, separate from its other activities, and shall produce annual audited accounts in respect of its regulated activities.”

This requirement does not specify the exact format of the accounts to be prepared but instead focuses on the relevance of the separated Regulatory Accounts and the requirement for an audit. The current form of the Regulatory Accounts was developed between DAA and the Commission and met the criteria for regulatory accounting at the time of their development. However we acknowledge in Section 3 of this response that some specific enhancements could be made which could possibly improve the ability of the Regulatory Accounts to meet the current principles of better regulation.

2.2 Audit Report Requirement

As outlined above, the current form of the Regulatory Accounts is close to that of the statutory accounts. The rationale for this similarity in format was driven by the requirement for an audit report to be provided on the accounts.

A traditional audit report is one that is given on a set of financial statements which have been prepared in accordance with an accounting framework, for example, Irish GAAP or IFRS. By virtue of the fact that an accounting framework is being complied with, it is possible to give a 'true and fair view' or 'fairly presents' type audit opinion.

DAA currently includes an audit report within the Regulatory Accounts, the opinion of which, in the most recently issued accounts, states that those accounts

"...have been properly prepared in accordance with the accounting policies..."

Hence, the inclusion of the current balance sheet arose from DAA and the Commission's interpretation of the requirement to have an audit report at the time of the initial derivation of the Regulatory Accounts. This requirement, without clarity of the specific audit requirement, drove conformity with an accounting framework and the inclusion of a balance sheet. In addition, the current balance sheet reflected the fact that initially there was a price cap for the three airports as a whole. It is noted that a legal entity balance sheet does not exist for the Regulated Entity and hence there is no separate balance sheet for that entity.

As further discussed in Section 3 below, we are of the view that it is necessary to include a balance sheet in any revised form of Regulatory Accounts in order to meet the audit requirements of section 28 of the Aviation Regulation Act, 2001. However, the question remains that if a balance sheet was not included, would this meet the definition of accounts under the Act, and thereby satisfy the audit requirement in the Act? As discussed further in Section 3 below, we are prepared to engage further with the Commission on this issue.

2.3 Benchmark Analysis

Experience from wider sectors and other regulated airports

When considering the appropriateness of the current form of Regulatory Accounts, we sought guidance from the reporting processes adopted by other sectors and airports in other jurisdictions as well as a consideration of the approach taken by the Irish Aviation Authority ("IAA") in reporting to the Commission.

Other sectors' experience

In undertaking our research, we noted that the UK Government's Green Paper on utility regulation, 'A Fair Deal for Consumers', suggested that there would be benefits in companies producing regulatory accounts in a more standardised format. In particular, this would facilitate wider understanding of regulatory issues. Following the Green Paper, an inter-regulatory working group was set up to identify and develop areas of consistency within published regulatory accounts.

The UK inter-regulatory working group's mandate covers those businesses regulated by the members of the working group. These businesses are active in gas, electricity, rail, telecommunications, water and sewerage and airport and air traffic control services, within the UK. Obligations to prepare regulatory accounts are usually only placed on companies with monopoly or significant market power in these industries. We note that the specific circumstances of the Irish airport sector is somewhat different to other regulated sectors due to the cross-subsidisation impact of the single till approach and the small number of sector participants. This should be borne in mind when assessing the learning points for DAA from other sectors.

Regulatory accounts may assist regulation in a variety of ways, depending on market structure and regulatory emphasis. The applications of regulatory accounts are set out in detail in Section 1.3 above but are repeated below for the benefit of consideration against our current form of Regulatory Accounts:

- Monitoring performance against the assumptions underlying a current price control;
- Informing future price control reviews and other regulatory decisions that require financial information such as setting determined prices;
- In the relevant markets, assisting in the detection of certain anti-competitive behaviour such as unfair cross-subsidisation and undue discrimination at the appropriate level within the business concerned;
- Assisting in comparative competition;
- Assisting in monitoring financial health; and
- Improving transparency in the regulatory process as regulatory accounts are the main source of regular, published and audited financial information about the regulated companies.

From our research of a variety of regulated businesses in the UK, it is clear that the level of disclosure required in their regulatory accounts varies significantly. In addition, it is clear that the level of disclosure in many sectors is not comparable with the disclosure requirements of

airports, whose regulatory statement disclosure is related primarily to the first two of the objectives set out above. As a result, we believe that the regulatory report by airports in other jurisdictions would be a more relevant direct comparison to our future requirements for our Regulatory Accounts than a comparison against other industry sectors.

Airport sector regulatory experience

Our research of airport industry regulation found that the level of disclosure varies significantly with location.

In the UK, for example, the CAA regulated airport accounts consist of a detailed financial review where the financials are compared to the previous year, a performance review which has similar content to an income statement and notes to the performance review. In addition, the CAA regulated airports are required to disclose considerably more information regarding regulatory asset base (“RAB”). We do not believe that it is possible to provide a similar level of RAB reporting as we are not responsible for the preparation of the RAB for the purposes of the price determination model and do not have transparency as to the assumptions used by the Commission to develop the RAB valuation. DAA would welcome the opportunity to engage with the Commission on the preparation of the RAB valuation.

In airports regulated by the ACCC in Australia they have to additionally disclose a balance sheet and cashflow statement while they do not need to analyse the financials in comparison to the previous year. In the United States every airport regulated by the FAA fills out the same brief form (5100-127) and no notes are attached.

In Continental Europe there is a lack of any publically available regulated accounts and information is particularly sparse on the relevant regulator’s websites. In Europe the regulation is not always done centrally for an entire country, for example in Germany the regulation is split into regions thus Frankfurt airport is regulated by the Hessian Ministry of Economy, Transport and Regional Development and this could cause additional variances in disclosure.

A summary of our research findings are set out below

Regulator	Regulatory accounts disclosure level	Operational performance reporting	Reporting against price control model?	Regulatory accounts audited?
Civil Aviation Authority (UK)	<ul style="list-style-type: none"> • P&L Account • Cashflow statement • Notes 	Yes	No	No
Australian Competition and Consumer Commission (Australia)	<ul style="list-style-type: none"> • P&L Account • Balance Sheet • Cashflow Statement 	Yes	Yes	Yes
Direction Générale de l'Aviation Civile (France)	<ul style="list-style-type: none"> • P&L Account • Balance Sheet 	Yes	No	No (DGAC can request an audit)
Federal Aviation Administration (USA)	<ul style="list-style-type: none"> • P&L Account • Balance Sheet 	No	No	No

Comparison to IAA regulatory accounts

In addition to the research performed on other sectors and jurisdictions, we also researched the approach taken by IAA in its regulatory accounts. Whilst it is not significant to the nature of DAA's consultation response, we do note that IAA does present a separate balance sheet for the regulated business. As we set out in Section 3.2, we do not consider that the inclusion of a standalone balance sheet for Dublin Airport is appropriate, based on considerations of proportionality, relevance, and cost.

Conclusion from our research

The level of disclosure seems to vary depending on the location and type of business however in the UK, Australia and US there seems to be consistency within industries. This may not be the case in Continental Europe but this is unconfirmed due to the difficulty in

obtaining regulated airport accounts. In the development of our analysis we noted the reference material in the appendix to CP5, but expanded the peer group to cover a wider analysis of experience globally.

On the basis of the lack of consistency in the approach adopted across the airport industry in other jurisdictions our view is that the form of regulatory accounts is principally a matter for agreement between the regulated business and the relevant regulator. Our response and comments in Section 3 below reflect this approach however we have included within our proposals those practices from airports in other jurisdictions that we consider most relevant to DAA in this response to CP5.

2.4 Summary

We have prepared our Regulatory Accounts in accordance with the requirements set out in section 28 of the Airport Regulation Act 2001 since its inception and we have worked with the Commission to conform with those requirements and provide an independent audit report. This approach led to the current format of our Regulatory Accounts which has served as an effective base for regulatory reporting for a number of years. During the process of the development of our response to CP5 we have revisited the current Regulatory Accounts format and also considered the regulatory accounting approaches adopted by airports in other jurisdictions as well as the approach taken by IAA. We acknowledge that the current form of the Regulatory Accounts could be enhanced to more appropriately reflect the principles of better regulation and we have identified in Section 3 in more detail some areas where compliance with the principles of better regulation could be enhanced. However, whilst recognising some case for change may exist, we are confident that are working from a solid base such that no major overhaul is necessary.

Section 3 – Future form of Regulatory Accounts

Introduction

The Commission's consultation paper sets out four possible options that the Commission has identified for the future form of Regulatory Accounts. These are, in the order presented in the consultation paper:

1. Cease collecting Regulatory Accounts
2. Continue with the current arrangements
3. Update current format of regulated accounts
4. Overhaul the information requirements

We consider that the distinction between options 3 and 4 is not clear, with there being no definition provided in the consultation paper of when an 'update' becomes an 'overhaul'. For that reason, we have chosen for the purposes of this response to group these two options together under the heading 'Change in required format and information'. For clarity, the three options that we have assessed in this response are as follows:

1. Cease collecting Regulatory Accounts
2. Continue with the current arrangements
3. Change in required format and information

These will be referred to as options 1, 2, and 3 in this response. We address each option in turn below.

3.1 Cease collecting Regulatory Accounts

The option to remove the obligation on DAA to produce and submit Regulatory Accounts appears to us to have several weaknesses. The option goes against several of the principles of better regulation, most obviously transparency and accountability. The only merit of this option appears to be a reduction in the cost of compliance, but even this benefit appears to be poorly aligned with the proportional requirements placed upon a regulated entity to meet the information needs of its stakeholders.

While we would note that this option is essentially within the power of the Commission to implement or not (since the Commission has the legislative power to specify what is to be reported by us), section 28 of the Aviation Regulation Act 2001 requires us to prepare annual accounts that are subject to audit. On this basis, we do not consider that option 1 is a viable alternative.

We agree with the principle that DAA as a regulated entity should provide some form of accounts or financial information to the Commission, and as such we do not consider that ceasing the collection of Regulatory Accounts would be appropriate.

3.2 Continue with the current arrangements

We set out in Section 2 of this response our views on how DAA's current Regulatory Accounts align with the principles of better regulation. In many ways, DAA's current Regulatory Accounts remain fit-for-purpose, particularly in that the separated accounts largely reflect the layout of the statutory accounts (and are therefore cost effective to produce), are able to be readily reconciled back to the company's account ledgers, and are in line with Irish GAAP. The Regulatory Accounts are also subject to annual audit, and are amended compared to a standard statutory accounts format to show certain key industry-specific metrics such as passenger numbers.

However, we do acknowledge that it has been some time since the current reporting arrangements were put in place and it is now appropriate to re-examine the format and contents of the annual Regulatory Accounts that we provide to the Commission. We also acknowledge that regulatory reporting by airports in other jurisdictions and in other industries both in Ireland and in other jurisdictions has evolved since the current arrangements were put in place in 2001, and this provides an additional trigger for re-examination of DAA's reporting requirements.

We acknowledge that the current form of the Regulatory Accounts could be enhanced to better reflect the principles of better regulation. The enhancements that we are proposing are as follows:

- Additional information in respect of the performance against the building blocks of the price determination;
- Disclosure of the attributable net debt position of Dublin Airport and the Funds from Operations;
- Additional information relating to the return achieved on the Regulated Asset Base of Dublin Airport; and
- Other considerations which may have an impact on the format of the regulatory accounts

In particular, we agree with the Commission's point in its consultation paper that additional information could be presented in the Regulatory Accounts around the assumptions and forecasts in the most recent determination and the performance against that determination.

Performance reporting

Provision of summary performance information as part of a financial review would further enhance the transparency and the effectiveness of our Regulatory Accounts compared to the current arrangements. We consider that a key area of improvement that could be made to the current arrangements would be to include information on the actual performance in the past year against the forecast (i.e., the allowance specified by the Commission). This could be presented for a number of reporting areas, and is discussed in more detail in Section 3.3 below.

We note that the fundamental role of accounts is stewardship, i.e. reporting historical performance and comparison with prior period(s). Information relating to performance against historical regulatory determinations can also fall within this. Comparisons with budgets or forecasts are more problematic from a stewardship reporting perspective and also from an audit perspective; they can best be dealt with by way of high level reporting as part of a financial review with more in depth matters, where relevant, being with by way of separate reporting.

Balance Sheet

Similarly, we also acknowledge that more information on the net debt attributable to Dublin Airport may increase the reader's understanding of Dublin Airport's financial position. We comment in Section 3.3 below on certain specific balance sheet line items that we suggest would be useful additions to the current reporting format.

However, we do not consider that the inclusion of a standalone balance sheet for Dublin Airport is appropriate. This view is based largely on the question of proportionality and relevance – Dublin Airport is not a standalone legal entity and we do not maintain a separate balance sheet for each airport (Dublin, Cork and Shannon), and to move to that basis would be very costly and time consuming for the annual regulatory reporting process. More importantly we believe that such investment would be of limited benefit, as there are certain key limitations to the usefulness of a standard balance sheet format for the purposes of regulatory accounting. Of specific relevance to the Commission and stakeholders should be

the RAB and the performance of the assets contained within the RAB against the price determination allowances. Further detail is set out below as to how the balance sheet differs from the RAB and why the balance sheet disclosure may not be directly relevant:

- A balance sheet is a quantitative summary of a company's financial condition at a specific point in time, including assets, liabilities and net worth. The first part of a balance sheet shows all the productive assets a company owns, and the second part shows all the financing methods (such as liabilities and shareholders' equity).
- As far as the regulated entity is concerned the “productive assets” are the fixed assets at the RAB value and not the net book value and the “financing methods” are net debt. A comparison of these shows the ultimate solvency of the regulated entity.
- The regulated element of our business upon which the price determination allows us to make a return (i.e. the RAB) is not reflected in the Regulatory Accounts balance sheet for a number of reasons:
 - The fixed assets are shown at historic cost rather than indexed historic cost.
 - The RAB uses three different methods of depreciation while the GAAP derived statutory accounts use only straight-line depreciation.
 - The net book value of fixed assets includes the full cost of all assets purchased whilst the RAB excludes some assets and has not allowed the full cost of some assets.

Based on the above considerations we remain of the view that there is no significant merit in incurring the costs and effort of developing a separable balance sheet for Dublin Airport as the relevant price determination information is the RAB, which we do not prepare or have transparency over the assumptions used in its preparation. We are also of the opinion that the key information held by DAA that is of use to a reader of the Regulatory Accounts (including the Commission) can be found in the company balance sheet and the separate disclosure of attributable net debt for Dublin Airport.

Publishing additional information

We do acknowledge that additional information could be provided as set out more fully in Section 3.3 below. We also note that certain information which is currently included in the full Regulatory Accounts that are prepared by DAA and submitted to the Commission is not currently made public on the basis of confidentiality. The Regulatory Accounts that are published are currently an extract of the full Regulatory Accounts, comprising significantly

less information than is provided by DAA to the Commission. We recognise that this restriction is not helpful to the aim of transparency, and we would be prepared to re-consider with the Commission what information is treated as confidential and therefore whether the published version of the Regulatory Accounts could be expanded. There is the opportunity to extend the scope and transparency of the current published Regulatory Accounts without increasing the cost or complexity of the preparation of those Accounts, and we would be happy to engage with the Commission to review this.

Other considerations

We also note that the current format of the Regulatory Accounts includes certain information which is not of particular use to a reader, and we would question the value of its continued inclusion. This would include (but may not be limited to) the Directors' Report and certain of the detailed notes to the accounts. These items are more suited to reporting on a business which is a standalone legal entity, and consideration should be given to remove these from the Regulatory Accounts on the basis of necessity and proportionality. Depending upon the proposed reporting format that emerges from this consultation process, we would welcome the opportunity to discuss this issue further with the Commission.

In any assessment of changes to the current form of Regulatory Accounts there are a number of important factors to consider as follows:

- IFRS: DAA currently prepares its annual report on the basis of Irish GAAP; the Regulatory Accounts that are currently presented to the Commission are based on the annual report. The Accounting Standards Board has issued an exposure draft which proposes that current Irish GAAP will be abolished and replaced by a new framework, based broadly on International Financial Reporting Standards ("IFRS"), in 2013. That framework will require entities to prepare financial statements either in accordance with full IFRS or the Financial Reporting Standard for Smaller Entities ("FRSME"). The first period of such accounts, based on the mandatory timeline, would be the year ended 31 December 2014, and therefore any agreed arrangements for the Regulatory Accounts (whether that is a change to the current arrangements or not) needs to take this into account.
- CP4/2010: This consultation paper has been issued by the Commission to invite stakeholders to comment on whether and how the regulatory till at Dublin Airport should be defined. The outcome of this consultation, to the extent that it recommends a change to the current single till arrangements, may impact significantly the financial reporting of

DAA, both in terms of the format of the company's financial statements and the nature of its day-to-day transaction accounting.

- Separation of Cork and Shannon Airports: In 2003, the Government announced its intention to restructure DAA, the necessary legislative basis for which is set out in the State Airports Act 2004. It is proposed that DAA will, in the future, cease to own Shannon and Cork airports. In December 2008, the Minister for Transport announced that the decision on restructuring is to be deferred until 2011. Following any restructuring, Cork Airport Authority plc and Shannon Airport Authority plc, which are owned by the Minister for Finance but are not part of DAA, will act as fully independent and legally autonomous airport authorities for Cork and Shannon airports respectively.

The above factors have the potential to require further changes to the Regulatory Accounts. Notwithstanding this, DAA is proposing to make the changes outlined in section 3.3 below.

3.3 Change in required format and information

In this section, we build upon our view set out in Section 3.2 that some change to the current regulatory accounting arrangements is now appropriate. We acknowledge that stakeholders in Dublin Airport are keen to receive more and different information on financial performance to that currently reported, and we also acknowledge that the regulatory accounts used by the airport sector in other countries have evolved since the last change to our regulatory reporting in 2001. We are keen to move towards a regulatory accounting environment that aligns with the principles of better regulation and are therefore recommending that change is appropriate at the current time. As noted in the Introduction section, we have judged our responses in this section in four ways:

- What is required to be delivered by DAA?
- What can be provided by DAA?
- What is relevant to be included in the Regulatory Accounts?
- What type of independent audit opinion may it be possible to obtain?

We consider that it is not appropriate to differentiate between, as per CP5, an 'update' and an 'overhaul', and we have grouped together both options in this section. Rather, we propose changes to the Regulatory Accounts as falling in four categories:

- Format of accounts
- Information requirements

- Requirement for audit
- Guidelines for regulatory accounting.

We address each of these in turn below.

3.3.1 Format of accounts

Our consideration of potential changes that may be required to the current format of the Regulatory Accounts is based upon the principle that the format of those accounts should adhere as closely as possible to the format of the audited statutory accounts. In our view, this will maximise the effectiveness and the consistency, and minimise the cost of the regulatory accounting process. However, there are a number of key points in relation to regulatory accounts format that we would make in response to CP5:

- We are in favour of the addition of a new section in the Regulatory Accounts that would provide a review of the financial performance of Dublin Airport in the past regulatory year. This would be a standalone section, and would complement the information currently provided in the profit and loss account and the notes to the accounts. In addition to the information provided within the statutory accounts, the format of the financial performance review would be high level but consistent with the Commission's model. Details of the suggested contents of this review are set out in Section 3.3.2 below.
- As discussed in Section 3.2, we are strongly in favour of retaining the current company balance sheet, rather than including a standalone balance sheet for Dublin Airport on the basis of relevance to the regulatory process, proportionality, and cost. In addition, there are certain key limitations to the usefulness of a standard balance sheet format for the purposes of regulatory accounting. Of specific relevance to the Commission and stakeholders is the Regulated Asset Base, which we do not prepare or have transparency over the assumptions used in its preparation.
- We consider that it may be appropriate to exclude from the Regulatory Accounts certain items of information which are not of particular use to a reader. This has been considered further above at Section 3.2 These would include (but may not be limited to): the Directors' Report and certain of the detailed notes the accounts.
- We will engage further with the Commission regarding more comprehensive publication of the Regulatory Accounts once the other considerations identified in this response have been resolved.

3.3.2 Information requirements

On the basis of the points raised in CP5, our own review of the regulatory accounting arrangements in place in other countries, and the consideration of the needs of the various stakeholders in Dublin Airport, we are prepared to supplement our regulatory accounts reporting under section 28 of the Airport Regulation Act 2001 on the following basis. We propose to include an additional section in the Regulatory Accounts that would serve as a financial performance review, and would supplement the profit and loss account that is currently included. This financial performance review would include:

- A. Outturn performance against regulatory forecast
- B. FFO:Net Debt
- C. Return on RAB

Our considerations on each of these areas are set out below.

A. Outturn performance against regulatory forecast.

Specific proposed disclosures are:

- Actual performance in the past regulatory year against determination forecast (i.e., the allowance specified by the Commission) based on the format provided in Commission's financial model.
- Reporting of this performance against three of the key building blocks in the price determination, namely:
 - Passenger Numbers
 - Commercial Revenues
 - Operational Costs
- Summary explanation to be provided on the variances of actual performance compared to forecast.
- This is not expected to be a replica of the outturn cost performance on a line-by-line basis against the financial model as is prepared for the price control process as this is deemed to be excessive and also not suited to the purposes or format of the Regulatory Accounts.
- We do not propose that disclosure or assessment of actual performance compared to prior year would be necessary, as we deem comparison against regulatory forecast to

be more relevant and informative and do not believe that the Regulatory Accounts are the primary vehicle for detailed variance analyses.

- The remaining building block to be addressed is capital expenditure. However, while an annual outturn review would ordinarily be beneficial, due to the straight line profiling of capital expenditure in the determination this would add little value. In addition, any assessment of actual capital expenditure within the regulatory period is at risk of being misleading due to differences in timing of actual expenditure compared to the Commission's financial model's assumptions. A detailed outturn review by project at the end of the determination period would be more relevant.

B. FFO:Net Debt

Specific proposed disclosures are:

- Disclosure of funds from operations as a proportion of net attributable debt as at the last day of the past regulatory year.
- The Regulatory Accounts currently disclose net debt attributable to Dublin Airport. We propose to supplement this with a statement of funds from operations for Dublin Airport.
- As well as contributing to the overall increase in transparency and relevance of the Regulatory Accounts, reporting of this performance metric will improve the monitoring of the financeability of the regulatory business, which is key to both DAA and the Commission and other stakeholders.

C. Return on RAB

Specific proposed disclosures are:

- Disclosure of the return on the Dublin Airport regulated asset base for the past regulatory year which would be based upon actual earnings before interest and tax (EBIT) per the Regulatory Accounts profit and loss account, and the average RAB for the year per the Commission Determination Forecast.
- As the RAB valuation is maintained by the Commission rather than DAA, we are not able to disclose the actual RAB balance rolled-forward on an annual basis. Therefore, we propose to use the forecast RAB per the latest Determination in order to provide a guide to DAA's achieved return in the year.

We consider that the key benefits of this approach to the Commission (and other stakeholders in Dublin Airport) are that the suggested financial performance review would provide more regular reporting of the performance metrics that the Commission considers in the price control process. This would allow the Commission both to better understand the tracking of DAA against its allowances during the regulatory period and also to have a better understanding of DAA's financial position and performance when it undertakes its price control process. We also consider that the financial performance review would increase the relevance and usefulness of the Regulatory Accounts for all readers.

Other information beyond the building blocks – e.g. PRM reporting – as noted in the Introduction section are already reported elsewhere and we do not consider that there is a need to repeat these in the Regulatory Accounts.

3.3.3 Role of audit

As noted in Section 2, a review of section 28 of the Aviation Regulation Act 2001 would appear to legislate that the accounts which are prepared for the purposes of regulation must be audited. As a result, whilst the inclusion of an independent audit report may have in any case been favourable to provide confidence to readers of the Regulatory Accounts, the current legislation would appear to make it mandatory.

Furthermore, any change to the format or content of the Regulatory Accounts in the future will also have to be considered from an audit perspective. Currently the Regulatory Accounts contain an audit report which provides the level of assurance that the accounts have been 'properly prepared in accordance with'. If the Regulated Entity Accounts were to be amended such that they did not constitute a set of financial statements, or where additional non-financial information is included, then this type of opinion would be more difficult to achieve.

With regard to the performance review proposed in Section 3.3.1 above, it is likely to prove difficult to obtain an assurance report on it given its narrative nature and the inclusion of non – GAAP and other non financial measures. However, it may be possible to require that the auditors review the statement and report where they consider there to be an inconsistency between the performance review and the Regulatory Accounts. Such form of reporting would be similar to that required in respect of the Director's Report currently included in a set of statutory financial statements.

Who should the auditor represent?

In respect of general limited companies, the Companies Acts explicitly state that the auditor shall report to the members of the company. Whilst section 28 of the Aviation Regulation Act, 2001 requires that the separated accounts are audited, it does not clearly articulate to whom the auditor should report. That section simply states that those accounts should be submitted to the Commission within a set period of time.

Therefore, one might take the view that the auditors should report to whomever they have been contracted by. In practice, that is likely to be a constituent who is regulated by the Commission, DAA in this case. However, there is a practice whereby the auditor also addresses the audit report to the industry regulator. That is currently the case for the current form of DAA Regulatory Accounts and occurs in other industries also such as Energy.

In conclusion, the engagement of an auditor is a prerequisite to DAA being able to satisfy its requirements pursuant to section 28 of the Aviation Regulation Act 2001. Furthermore, any changes to the Regulatory Accounts in the future must therefore, be auditable to ensure that such assurance can still be obtained over the revised format of the Regulatory Accounts.

3.3.4 Guidelines for regulatory accounting

In its CP5 paper, the Commission raises the question of whether it should develop a set of regulatory accounting guidelines (RAGs). The example of the UK is referenced, where RAGs are commonly used in regulated sectors. We think it is worth noting that the nature and purpose of RAGs in the UK varies widely by sector. In certain sectors (for example, rail), the RAGs specify the accounting policies that are to be used in the preparation of the regulatory accounts, and replace either GAAP or IFRS as the primary accounting reference for all reporting to the regulator. In these cases, the RAGs are often designed to facilitate more useful reporting around sector-specific items such as the way financial information is collected and analysed, the roll forward of the RAB, net debt and corporation tax, and disaggregation of the costs and income.

However, in other sectors (for example, electricity and gas) the RAGs stand alongside GAAP as an additional set of accounting guidelines. The regulatory accounts in those sectors are prepared in accordance with UK GAAP, with one amendment to change how customer contributions to fixed assets are reported. The RAGs only come into effect in relation to the annual cost and revenue reporting exercises, which are separate to the regulatory accounts, and tend to focus on very detailed definitions of cost line items.

Therefore, there is no single model of how RAGs would work in practice when applied to DAA. We have therefore considered the merits of introducing RAGs by considering their specific application to the airport sector in Ireland, and we do not consider that there is a need or justification for implementing sector specific RAGs at this time.

It is DAA's view that it is most effective and cost efficient for the format of the Regulatory Accounts to align as closely as possible with that of the company's audited statutory accounts. The statutory accounts are prepared as required by company law, and in accordance with the Companies Acts and either in accordance with Irish GAAP (as is currently the case) or in accordance with International Financial Reporting Standards and Article 4 of the IAS Regulation (as may be the case in the future). Therefore, we do not consider that there is an obvious case to develop a set of RAGs for the Commission at this point.

Section 4 – Recommended next steps

We view this consultation response as the first step in the development of the revised Regulatory Accounts format and guidelines. Accordingly, we propose that a joint working approach should be taken to the development of the revised Format of Accounts and we further propose that we undertake further dialogue with the Commission in relation to the specific conclusions arising from all responses to CP5.

We recognise that many of the points discussed in the body of this response are technical issues and therefore a joint working approach between DAA and the Commission to resolve the proposals would be helpful by way of a meeting, potentially with the input of relevant advisors.

Following the completion of this exercise, the Commission could undertake a final consultation on the proposed format of Regulatory Accounts to ensure all stakeholders remain involved in the process to its completion.

We recognise that our proposals will need further dialogue with the Commission and we look forward to the outcome of your current deliberations and working forward together to a position of mutual benefit.

Appendix I – Regular information provided by DAA to the Commission

Statistical Return

- Requirement under Council Directive 96/67/EC and subsequent Statutory Instrument No. 505 of 1998
- Report provides details in relation to the following: Total passengers broken out per airline for Dublin, Cork and Shannon airports and total freight movements and operators for each of the three airports
- Submitted annually with quarterly updates sent (with a 3/6 month time lag)

Price Cap Compliance Statement

- Submitted annually
- Audited
- Confirmation of Dublin Airport's average aeronautical revenues per passenger for a particular regulatory year versus the price cap set by the Commission
- A detailed breakdown of Dublin Airport's aeronautical revenues by charge for a particular regulatory year

PRM Regulated Entity Accounts

- Requirement under EU Regulation EC 1107/2006
- Audited annual overview of charges received and expenses made, at each of Dublin, Cork and Shannon Airports, in respect of the assistance provided to persons with reduced mobility (PRMs) for each year
- Submitted annually to the Commission, Airport Users' Committees and Disability Groups

Service Quality Monitoring Reports

- Requirement under CP4/2009
- Report provides details in relation to: Maximum daily security queue times, Outbound baggage facility, Inbound baggage facility and Airports Council International (ACI) Surveys
- Submitted monthly

Slot Co-ordination information

- Slot coordination meeting minutes provided (usually 4 times a year)
- Number of aircraft movements for previous year (annually)

Ad-hoc Requests

- Passenger/movement figures
- Operational information (e.g. push back times etc.) to assist the Commission in responding to passenger complaints and queries
- Regulatory reviews –substantial historical and projected information submitted

Appendix II – Summary of Consultation responses

We have set out below summary of the questions that the Commission raised in its CP5 consultation paper, along with a reference as to how we have answered each question in this response.

Question	Response Location
What should the purpose, if any, of regulated entity accounts in the case of DAA and the IAA?	Section 1.4
Do the current sets of accounts serve this purpose?	Sections 3.2 and 3.3
What purpose, if any, do you think the current style of regulated entity accounts serve that is not already provided by the statutory accounts?	Sections 2 and 3.3
Who are the primary users of regulated accounts?	Section 1.4
Is there a role for auditors in regulatory reporting and if so what? Who should the auditors represent?	Section 1, 2 and 3
Should the annual reports be designed to permit annual comparisons of out-turns with regulatory forecasts?	Section 3.3.2
Should the Commission develop a set of regulatory accounting guidelines, perhaps in consultation with the industry?	Section 3.3.4
Should the Commission continue collecting separated accounts from the DAA and the IAA?	Section 3
If the Commission does decide to continue collecting separated accounts, what changes to the current form should be made, if any?	Sections 3.2 and 3.3
Is there a rationale for requiring different forms of information in any separated accounts that are provided?	Not clear what the question is, but recommendations re format in Section 3. No specific format provided – preference is to deal with this through further engagement with the Commission
How would parties rank the four options described above?	Not specifically answered, but a clear recommendation set out in Section 3

<p>Respondees to set out why they might believe the concurrent consultation on Commission Paper CP4/2010 should not run parallel should set out their comments including views on sequencing.</p>	<p>Section 3.2</p>
<p>Respondees to highlight any developments affecting information provision in the industry.</p>	<p>Section 2.3</p>