PRESS RELEASE, 24 October 2019

COMMISSION FOR AVIATION REGULATION PUBLISHES ITS DETERMINATION ON DUBLIN AIRPORT CHARGES FOR 2020-2024, AN AVERAGE 11% REDUCTION

Today (Thursday, 24 October 2019) the Commission for Aviation Regulation publishes its fifth Determination on the maximum level of Airport Charges at Dublin Airport. The average price for the period 2020-2024 will be €7.87 (€7.50 in the first two years, increasing to €8.32 by the end of the period). This is an 11% reduction to the 2019 price cap of €8.81.

	2020	2021	2022	2023	2024	Average
Maximum Revenue per Passenger	€7.50	€7.50	€7.88	€8.12	€8.32	€7.87

This price cap will allow Dublin Airport collect €1.4bn from Airport Charges over the 5 years, and we estimate a further €1.4bn from commercial revenues. It allows for up to €2.3bn in capital investment in the period.[1] We are fully supportive of all capital projects.

Launching the decision Cathy Mannion, Commissioner said:

> *"Our decision allows Dublin Airport provide passengers with a high quality service while delivering key pieces of national infrastructure which will significantly increase the capacity of the airport. We allow for €2.3bn of investment which will deliver an airport capable of serving 40m passengers per year at a level of service in line with international standards.*
>
> *Working with our Passenger Advisory Group we have put in place 22 quality of service measures compared to the 9 that were in place in 2009. For the first time, we have specific measures focusing on passengers who may require extra assistance. Dublin Airport will pay a penalty if they fail to meet these standards."*

CAR has introduced new high-powered financial penalties to incentivise Dublin Airport to deliver its proposed capital investments, as planned and on time. If Dublin Airport does not proceed with certain proposed projects the price cap is reduced.

This price level is in the best interests of passengers and airlines as it will:

- Deliver efficiently priced airport services
- Incentivise a high quality of service for passengers at the airport
- Ensure those requiring additional assistance also receive a high quality of service
- Incentivise the delivery new infrastructure, including hub infrastructure
- Encourage competition amongst airlines by providing efficiently priced new capacity
- Lead to lower air fares and more seat supply
- Increase connectivity, in particular, more marginal routes will become viable

[1] €1.9bn in the 2020 Capital Investment Plan and €360m in previously approved projects which have not commenced or are not completed.

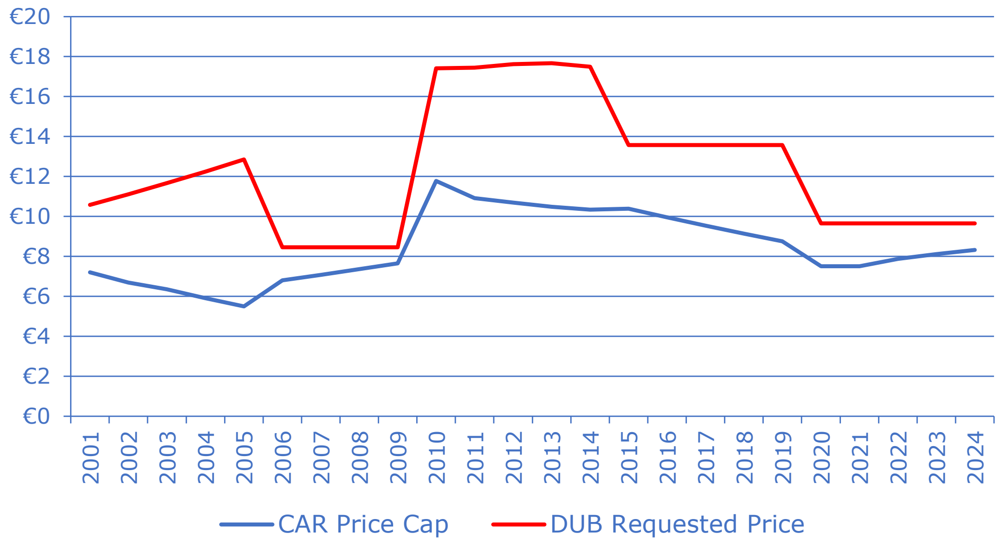
Role of the Commission

About 90% of all passengers in Ireland fly through Dublin Airport and most do not have a real choice. This means that Dublin Airport, left unchecked, could set higher prices than if they were competing with another airport. This would not be in the best interests of passengers and airlines. Airlines and passengers using the airport tend to want a high quality of service at an efficient price, i.e. no higher than is required to deliver that service.

The role of the Commission is to look after the interests of passengers and establish what the right price should be based on a detailed assessment of evidence provided to it by the airport, airlines and all other interested parties. This is very different to two parties negotiating a price for goods or services.

This decision will save passengers and airlines €320m, bringing the total to €2.1bn

The chart below shows the prices requested by Dublin Airport, since 2001, in each of the five Determinations together with the numbers that we approved.



Source: CAR Determinations, daa submissions to CAR, real 2018 prices

Taking the period as a whole, our approach to regulation has meant passengers and airlines will have saved about €2.1bn by 2024, €320m between 2020 and 2024. This provides a significant economic benefit to the Irish economy as a whole and the tourism sector and enterprise in general which benefit from lower air fares, more seat supply and greater connectivity.

Quality of Service Targets

While the consumer has benefited from lower charges, quality of service has not been sacrificed. In the 2009 Determination we introduced a quality of service regime which ensured that either the airport maintain the level of quality experienced by the passenger or face financial penalties. For the period 2015-2019 the targets in most cases were made more demanding, in line with improvements achieved at the airport in recent years.

In advance of this decision, we established a Passenger Advisory Group composed of organisations representing the diversity of passengers at Dublin Airport. Working with this group, we have increased the total number of targets to 22. Examples of new measures include maximum wait times for passengers requiring assistance and availability of lifts, escalators and travellators. In addition to the services provided to all passengers, we will now focus on those passengers that may require additional assistance and passengers arriving into Ireland. €0.36 of the price cap in any year is at risk if standards are not maintained at a high level.

Price Decision Compared to our Draft Decision[2]

The Commission has decided that the average price will be €7.87 per passenger compared to €7.50 in our draft decision. The chart below sets out the key reasons for the increase in price.

Operating Costs

The Commission continues to think that Dublin Airport could and should be more efficient. However, on the basis of further information provided, we decided to provide for a higher operating cost allowance generally, and also more time to become more efficient. We use Dublin Airport's 2019 operating costs as a starting point and expect the airport to achieve efficiencies we have identified by 2024. This represents a five-year glidepath. We have allowed Dublin Airport recover up to an additional **€0.56 per passenger** in operating costs.

Commercial Revenues

The revenue that Dublin Airport earns from activities such as retail and car parks is used to reduce passenger charges. Since making our draft decision, we have updated our assessment of how much revenue per passenger Dublin Airport is likely to earn from commercial revenues. The impact of this is to reduce charges by an average **€0.23 per passenger**.

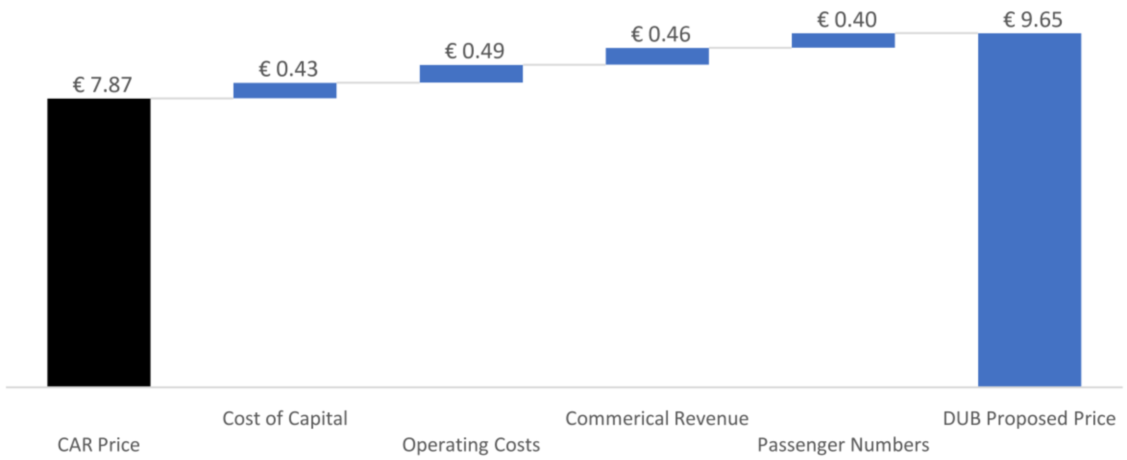
Capital Costs

We have allowed Dublin Airport recover slightly more capital costs than we included in our draft decision. This amounts to **€0.04 per passenger**.

[2] The chart provides an indication of financial impacts rather than a precise calculation as effects can impact on each other.

Price Decision Compared to Dublin Airport's Figures[3]

According to latest figures, Dublin Airport's submission adds up to an average €9.65 per passenger.[4] The chart below shows the main reasons for the difference between their number and our decision.



Cost of Capital

We carried out a detailed review of the cost of capital, and as part of this looked at what other regulated companies are allowed to earn. We decided that Dublin Airport should earn 4.22% on investments while its latest request was for 5.8%. This amounts to €**0.43 per passenger**.

Operating Costs

We think Dublin Airport can become more efficient and the difference between the money requested and the amount we have decided to provide for is **€0.49 per passenger**.

Commercial Revenue

Dublin Airport does not think it will generate as much commercial revenue (e.g. from retail and car parks) in each year as we suggest. As commercial revenue offsets airport charges, it is Dublin Airport's view that we have applied too great a corresponding reduction, driving a difference equal to **€0.46 per passenger**.

Passenger Numbers

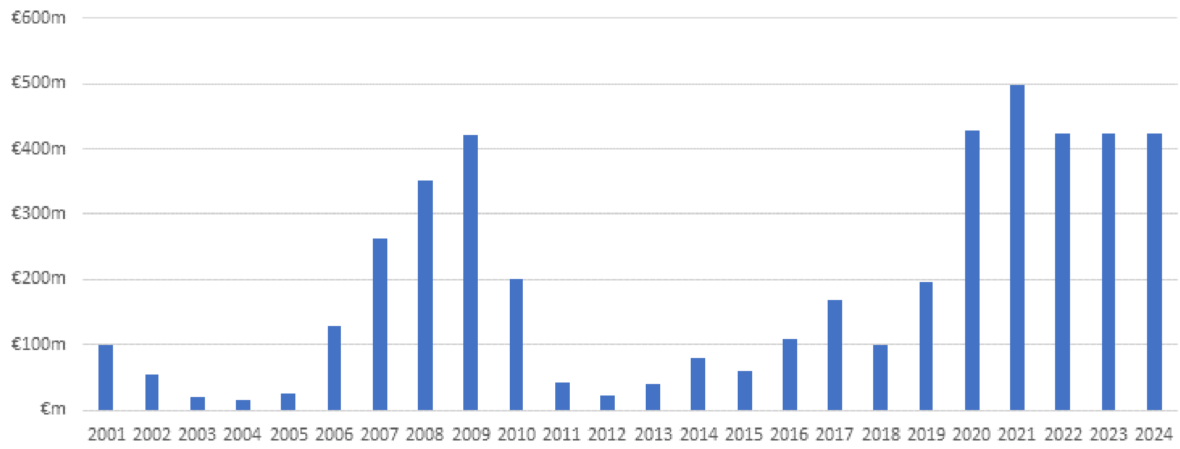
Passenger numbers are an important component of the price. If there is a fixed sum of money to be recovered, spreading this across fewer passengers leads to a higher price. Dublin Airport's forecast provides for 32.9m passengers in 2020 increasing to 36.1m in 2024 (a 2% growth rate). Our assessment is that the 2020 figure should be 34m rising to 38.1m in 2024 (a 3% growth rate). The difference between what Dublin Airport has asked for and what we consider reasonable is €**0.40 per passenger.**

[3] The chart provides an indication of financial impacts rather than a precise calculation as effects can impact on each other.
[4] We have received a number of different price proposals from Dublin Airport.

Investment Programme, Reprofiling Trigger and Stagegate Process

The chart below shows that the investment programme is ambitious. Throughout the next period, we will monitor delivery of the plan against programme and budget. We are introducing a ***reprofiling trigger*** to reduce the price in a year if it becomes clear that a key element of Dublin Airport's programme is not progressing substantially in line with plans.

Outturn and Forecast Capital Expenditure, 2001-2024



We are also implementing a ***Stagegate process***. This is designed to ensure business cases for key projects remain robust as design and costings become more certain. It provides airlines further opportunities to reassess business case should the fundamentals change and also provides greater flexibility for design and costings to adjust as the project develops.

Financeability and Delivery of 2020-2025 Capital Plan

We appointed Centrus Advisors Limited to carry out a detailed financeability assessment of Dublin Airport's ability to deliver its 2020-2025 capital plan. Based on Centrus' advice, representations received and our own judgment we have made certain adjustments to the figures. In our view, the prices set out in this decision enable Dublin Airport to generate timely cash flows from airport charges and raise investment grade debt to maintain and develop the airport infrastructure in an efficient manner.

Ends

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