Commission for Aviation Regulation
An Coimisiún um Rialáil Eitlíochta

Proposed changes to the regulatory accounts

Commission Note 1/2011

16 November 2011

Commission for Aviation Regulation

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1. Introduction

1.1 This paper sets out proposed revisions to the format of regulatory accounts the Dublin Airport Authority (the DAA) and the Irish Aviation Authority (the IAA) produce. We previously published a consultation paper in late 2010 inviting stakeholders to comment on possible changes to the regulatory accounts.[1]

1.2 Three parties – the DAA, the IAA and KPMG – responded to that consultation paper. Aer Lingus reserved comment.

1.3 The DAA acknowledged that the current form of the regulatory accounts could be augmented and proposed a number of enhancements. In particular, it volunteered to provide an additional section that would serve as a financial performance review and to supplement the profit and loss account with additional information. This would give the Commission and other interested stakeholders more regular reporting of the performance metrics that the Commission considers when making a determination. The DAA suggested working jointly with the Commission to develop specific proposals and address the technical issues that may arise.

1.4 The IAA thought that the current format of regulatory accounts were expensive to produce and did not provide adequate benefit to readers. Instead, it outlined what it considered to be more meaningful financial information on the terminal cost base that it might provide: staff costs, other operating costs, depreciation, cost of capital and exceptional costs (if any) as well as previous years' historical data and forecast data. It also outlined some additional information that might be included, such as descriptions and explanations of differences between actual expenditure and assumptions in the determination. It did not believe an audit was necessary. The IAA thought that its proposals would comply with Single European Sky II (SES II) reporting requirements.

1.5 KPMG provided a number of comments relating to the possible role of auditors in regulatory reporting. It observed that there was a cost to the regulated entities of producing such documents and getting independent assurance. It observed that the structure of audit and assurance reporting had evolved considerably since the current format and content of the DAA and IAA's regulatory accounts were determined. It referred to various documents that might be relevant. Finally, it commented on the importance of the independence of the auditor if the assurance report is to provide value.

1.6 On the basis of these responses, we concluded that there was merit in undertaking further work, but committed to consulting further before implementing any changes. The rest of this note outlines the changes we propose to make.

1.7 For the DAA, we propose revising the format of the regulated accounts so that they provide additional information that will make it easier to compare out-turns with the assumptions used at the time of the preceding determination. For the IAA, we have not proposed a revised format for the regulatory accounts, but instead propose to end the requirement that the IAA produce such accounts given the information it separately has to publish to comply with the SES II package. We will still require an audited statement of revenues the IAA collected for aviation terminal services. Actual templates for future reports are included in annexes to this report.

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[1] See Commission for Aviation Regulation (2010) "CP5/2010: Consultation on Regulatory Accounts" www.aviationreg.ie.

1.8 The final section of this report provides information for parties wanting to comment on our proposals. Such comments should focus on the proposed new format and whether they represent an improvement on the status quo.

2. Future DAA Reporting Requirements

2.1 This section sets out our proposals for future reporting requirements for the DAA.

2.2 The proposed future regulatory accounts of the DAA build on the existing accounts. Parties content with the current format for the regulatory accounts should be comforted by the fact that the revised accounts will continue to contain all the information previously included in the published extracts. In addition, it is proposed to include:

- A financial review of the outturn performance compared to the forecasts used at the time of the last airport charges determination;
- Commentary describing how the DAA has complied with the price cap in the notes to the accounts;
- An appendix providing data on the categories of operating costs included in the rolling scheme introduced in the most recent determination; and
- An auditor's report.

2.3 Perhaps the most significant development is the financial review of outturn performance against forecasts used at the time of the last determination. For each of the so-called building blocks – passenger numbers, operating costs, commercial revenues, and capital expenditure – the DAA will provide the outturn level and compare it with the forecast used by the Commission at the time of the last determination. Previously, such comparisons required work on the part of the reader or, in the case of capital expenditure, were not possible. The DAA will be responsible for any commentary included in the financial review section.

2.4 The financial review will also include some financial ratios for Dublin airport. When looking at financeabiltiy in determinations, to date we have focussed on financial ratios for the DAA Group, such as its FFO: debt ratio. The proposal to include financial ratios for Dublin airport only does not imply that we have concluded that financeability should be assessed with regard to a hypothetical Dublin airport only rather than the DAA Group; that is something to be considered at the time of the next determination. Instead, the decision to report financial ratios for a hypothetical Dublin airport only entity is motivated by two considerations. First, the regulatory accounts relate to a subset of the DAA Group's activities, and therefore it is easier and more straightforward for them to be prepared and audited if the financial ratios relate to a Dublin airport only entity than to the DAA Group. Second, including ratios for Dublin airport arguably increases the total stock of information available to interested parties concerning financing since the DAA Group accounts already provide information about the Group's finances. We are satisfied with the method that the DAA will use to calculate and report financial ratios, but note that there is scope for different approaches to calculate such ratios and that at the time of a determination it is possible that parties will want to argue about how best to estimate a given ratio for the purposes of assessing financeability. We will expect the DAA to make clear in the regulatory accounts if it has changed its approach to calculating a particular ratio and indicate how this change would have affected reported ratios calculated in earlier years.

2.5 The proposed format of the regulatory accounts means henceforth we will not have to undertake a separate exercise with the DAA to confirm compliance with the price cap. Instead, the DAA's regulatory accounts will include a note describing how it has complied with the cap. These regulatory accounts will be audited. We do not anticipate publishing separate price-cap compliance reports in future years.

2.6 There are three aspects of the current determination where the Commission has indicated how it plans to treat differences between forecast and out-turn forecast levels. These relate to capital expenditure, revenues from fees for access to installations (ATI fees) and certain categories of operating costs included in a rolling scheme. Appendix 3 in the proposed regulatory accounts will provide transparency concerning differences between out-turn and forecast levels of operating costs for the different categories included in the rolling scheme. The financial review will provide out-turn data on aggregate capital expenditure, while Note 1 to the accounts concerning turnover will have information on revenues from ATI fees.

2.7 The proposed abridged regulated accounts include an independent auditor's report. To date, only the full regulatory accounts have included an auditor's report.

2.8 We do not plan to publish materials relating to unregulated parts of the DAA Group, including Cork and Shannon airports. The published extracts from the regulatory accounts will relate to Dublin airport, and provide the information that we think is relevant for regulatory purposes. A profit and loss account providing details on how Dublin airport has performed will be included in the published extracts. In contrast, we will not publish a separate balance sheet and cash flow statement for Dublin airport, since the balance sheet and cash flow statement will include data relating to unregulated activities. Other information that we will receive in the audited regulatory accounts but not publish includes:

- Statement of total recognised gains and losses;
- Reconciliation of movement in shareholders' funds; and
- Notes on and forming part of the regulated entity accounts as they pertain to items not included in the published extracts.

2.9 For the purposes of making a determination governing airport charges at Dublin airport, we do not believe that the material excluded from the abridged accounts is important. We have not previously relied on such information when setting Dublin airport price caps, but its inclusion in the unabridged regulatory accounts will facilitate an audit of the numbers that are of interest.

2.10 *Annex A* contains a template showing the format we propose for future published regulatory accounts for the DAA. This information will be provided annually and placed on our website. This information should not be viewed as the totality of information that will be made available to stakeholders. The DAA has to comply with transparency requirements arising from the European airport charges directive. Moreover, when making a determination we will seek additional information from the DAA where we believe that will be helpful. Stakeholders will have an opportunity then to outline particular information that they believe the Commission should seek and review. Experience suggests that it will not be possible today to identify all the information that might be helpful at the time of a determination since the issues of most interest change over time.

3. Future IAA Reporting Requirements

3.1 We propose ending the requirement that the IAA produce regulatory accounts; instead we will require the IAA to provide us with the same information that it currently has to provide to EUROCONTROL under the SES II framework. The material that will be in the public domain for the IAA can be found at http://ec.europa.eu/transport/air/single_european_sky/ans/ans_terminal_en.htm.

3.2 We have accepted the IAA's argument that it is difficult to justify the expense of the IAA providing regulatory accounts, for the two reasons the IAA offered. First, the price cap governing aviation terminal services relates to a relatively small sum of money annually. The risk that the costs of regulation will exceed any benefits from economic regulation is correspondingly higher when dealing with activities that are relatively small economically. Second, air traffic controllers have to report annually on costs relating to both en route and terminal services under the current SES II arrangements. These reports provide more detailed information than the regulatory accounts provide. Consequently, the incremental benefits, in terms of increased information, from requiring regulatory accounts appear to be very small.

3.3 Currently there are two documents published for each Member State relating to terminal costs and charges in compliance with the SES charging regulation.[2] One report provides outturn and forecast data on costs, broken down by nature (staff, other operating costs, depreciation, cost of capital, and exceptional items) and by service (air traffic management, communication, navigation, surveillance, search and rescue, aeronautical information, meteorological services, supervision costs, and other state costs). The second document provides additional commentary on how these costs were calculated and the rationale for the levels observed.

3.4 The data relating to the IAA's terminal costs will enter the public domain within six months of the year end. We will expect the IAA to provide us with the same materials for terminal costs that it provides to the European authorities as soon as it has prepared them. For Irish regulatory purposes, we require the data be prepared and sent to us no later than six months after year end in a format suitable to place on our website.

3.5 The one auditing requirement that we will impose on the IAA relates to price-cap compliance. We will require the IAA to provide an audited statement confirming that it complied with the price cap in the previous year. We will expect this statement within six months of year end, and intend to publish it on our website. We will cease preparing separate compliance reports.

3.6 Should the reporting requirements under SES II regulations cease, or change radically, we may re-introduce a requirement that the IAA produce regulatory accounts.

In CP5/2010, we committed to develop proposals for the future format of regulatory accounts consistent with the principles of better regulations. We believe that the revised format for the regulatory accounts that we have proposed satisfy these criteria:

Necessity. We believe that it is necessary that some information be placed in the public domain on a regular basis so that interested parties can monitor how the IAA and DAA's performance compares with the assumptions at the time of the last determination. We also believe that it is necessary to have auditors confirm that the two bodies have complied with the price cap.

Effectiveness. The proposed format of the accounts is targeted on information of most relevant for the purposes of setting price caps for Dublin airport and aviation

[2] EC Regulation No 1794/2006.

terminal services. The proposed revisions to the DAA’s regulatory accounts address the fact that the current format was developed at a time when all three State airports were subject to price-cap regulation.

Proportionality. We believe the proposals are proportionate, ensuring that information relevant for the regulation of airport charges is published on a timely basis so that all stakeholders are informed, without requiring a significant increase in the work the DAA must undertake to provide such information. In the case of the IAA, we have ended the requirement to provide separate regulatory accounts because such a burden appears disproportionate.

Transparency. This paper is a further opportunity for stakeholders to comment on our proposals. We previously consulted with the industry on the issue of regulatory accounts when we published CP5/2010. Parties can now see how the proposals will change the format of published regulatory accounts for the DAA by comparing the contents included in Annex A with the current format of regulatory accounts available on our website.

Accountability. The proposals clearly identify what information the IAA and DAA are responsible for preparing, and what they need to get audited.

Consistency. We are not aware of any anomalies that these proposed changes to the regulatory accounts cause. The proposals will result in published regulatory accounts for the DAA that provide additional information that is often found in similar documents provided by other entities subject to price cap regulation, but which to date has not been found in the DAA’s published regulatory accounts. In the case of the IAA, it will be providing the same information that other air navigation service providers in Europe have to provide.

4. Responding to this Paper

4.1 Parties are invited to provide comments on the Commission’s proposals for future reporting requirements of the DAA and the IAA. We are interested in receiving comments on the specific proposals contained in this paper rather than more general observations – CP5/2010 previously provided parties with an opportunity to comment generally on the format of regulatory accounts. Parties objecting to the changes we propose should set out clearly what their objections are. In doing so, they are invited to describe how their objections might best be overcome.

4.2 All responses will be carefully considered before we reach a final decision on whether to persist with the existing regulatory accounts or adopt the approach outlined in this document (possibly with minor amendments). We anticipate that any changes to the regulatory accounts will take effect immediately. In particular, any regulatory accounts for 2011 will be consistent with the conclusions arising from this consultation process.

4.3 Responses to this consultation paper should be titled “Response to Regulatory Accounts Proposals” and should be received no later than Wednesday 30 November 2011 at 5pm, and should be sent to

John Spicer
Commission for Aviation Regulation
3rd Floor, Alexandra House
Earlsfort Terrace
Dublin 2.

By email to info@aviationreg.ie

By fax to 00-353-1-6611269

4.4 Respondents should be aware that the Commission is subject to the provisions of the Freedom of Information legislation. It is the usual practice to place all submissions received on our website. If submissions contain confidential material, it should be clearly marked as confidential, and a version of the submission should be provided which can be used for publication.

4.5 The Commission may also include the information contained in responses in reports and elsewhere as required. Ordinarily, the Commission does not edit this material. Any party submitting information to the Commission shall have sole responsibility for the contents of such information and shall indemnify the Commission in relation to any loss or damage of whatsoever nature and howsoever arising suffered by the Commission as a result of publication or dissemination of such information either on its website, in its reports or elsewhere.

4.6 While the Commission uses best endeavors to ensure that information on its website is up to date and accurate, the Commission accepts no responsibility in relation to and expressly excludes any warranty or representations as to the accuracy or completeness of the contents of its website.

Annex 1:

Dublin Airport Authority plc
Extract from
Regulated Entity Accounts

Year Ended 31 December 2011

Dublin Airport Authority plc – Financial Review and Extract From Regulated Entity Accounts

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Dublin Airport Authority plc – Financial Review and Extract From Regulated Entity Accounts

Statement of directors' responsibilities of Dublin Airport Authority plc for the Financial Review and Extract from Regulated Entity Accounts

The Commission for Aviation Regulation ("CAR") is the statutory body established to regulate, inter alia, certain aspects of the aviation sector in Ireland. Pursuant to the Aviation Regulation Act of 2001 ("the Act"), the Commission is required to make determinations ("Regulatory Determinations") governing the maximum levels of airport charges that can be levied at Dublin Airport by Dublin Airport Authority plc ("the Company" or "DAA") as the airport authority.

Pursuant to Section 28 (1) of the Act, the Commission has requested that DAA prepare accounts showing its regulated activities, as defined, separate from its other activities ("Regulated Entity Accounts"), made up to a year-end date of 31 December, the corresponding date to which the statutory accounts of the Company are made up. At the discretion of the Commission, extracts from these Regulated Entity Accounts may be published. The directors of DAA are responsible for preparing both the full Regulated Entity Accounts and these extracts from the Regulated Entity Accounts.

These accounts represent an extract from the Regulated Entity Accounts of accounting policies, profit and loss account and associated notes as they pertain to Dublin Airport and are consistent with the full Regulated Entity Accounts which have been provided to the Commission. The full Regulated Entity Accounts are based on the statutory financial statements for the year ending 31 December 2011 of the relevant legal entities comprising the Regulated Entity. They have been prepared solely to present fairly for the Regulated Entity results and cashflows for that year, and the financial position as at the year end. They have been prepared in accordance with the Statement of Accounting Policies on pages 4 to 9 to present fairly the profit and loss account, balance sheet and cashflows of the Regulated Entity as set out in accordance with the Basis of Preparation as described on page 4.

In preparing the statutory financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the entity will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and of the DAA Group, of which the Regulated Entity forms part, and to enable them to ensure that the statutory accounts of those entities making up the Regulated Entity comply with the Companies Acts, 1963 to 2009. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the DAA Group and to prevent and detect fraud and other irregularities.

The directors are responsible for establishing and maintaining the system of internal control throughout the Company and DAA Group of which the Regulated Entity is a part including controls to enable the Company to comply with Regulatory Determinations as these affect maximum airport charges. The system of internal control comprises the ongoing processes for identifying and evaluating and managing significant risks faced by the DAA Group in pursuing its business objectives. Such a system is designed to manage rather than eliminate the risk of failure and therefore can only provide reasonable and not absolute assurance that the DAA Group will achieve those objectives or that the DAA Group would not suffer material misstatement or loss.

On behalf of the Board

Director Director Date

Dublin Airport Authority plc – Financial Review and Extract From Regulated Entity Accounts

Financial review of the outturn performance of the regulated entity compared to the CAR Determination Forecast

for the year ended 31 December 2011

All references to forecasts by CAR refer to the forecasts contained in the 2009 'Determinations on the Maximum Level of Airport Charges at Dublin Airport' (4 December 2009) as amended by 'Decision of the Commission further to Referral by the 2010 Aviation Appeal Panel' (30 July 2010)

Passengers and aeronautical revenue

Passengers in Dublin Airport for 2011 were x million, which is x million or x% below the CAR passenger forecast of x million.

The lost revenue to Dublin Airport of the passenger variance against the CAR forecast at the price cap of €x was €x million.

Commercial revenue

Commercial revenue in Dublin Airport for 2011 was €x million, which is €x million or x% higher than the commercial revenue forecast of €x million set by CAR.

The commercial revenue per passenger of €x achieved was €x higher than the forecast of €x set by CAR. Improved facilities, better promotions and initiatives such as shop and collect are the main reasons for the increase. This improvement of €x million in passenger spend mitigates the reduction in volume of €x million (x million passengers by €x).

Operating expenses

Operating expenses in Dublin Airport for 2011 were €x million, which was €x million or x% below the cost forecast of €x million set by CAR

Payroll costs, at €x million, are €x million or x% below the CAR forecast. €x million of this is in the existing facilities due to the successful implementation of Cost Recovery Programme that the DAA undertook in 2010.

Non-payroll costs, at €x million, are €x million or x% below the CAR forecast. Non-payroll cost relating to existing facilities were €x over the projected cost, mainly due to increased cost from snow and ice.

Capital expenditure

Capital expenditure at Dublin Airport was €x million. €x million related to the CIP 2006 – 2009. Capital expenditure for 2011 as per the CAR capital allowance is €x million. The variance between these amounts is principally due to the CAR straight line profiling of DAA capital expenditure.

FFO: Net debt

The FFO: Net debt ratio for Dublin Airport was x% based on an FFO for the year of €x million and attributable net debt at the balance sheet date of €x million.

Financial review of the outturn performance of the regulated entity compared to the CAR Determination Forecast (continued)

for the year ended 31 December 2011

Funds from operations is calculated as EBITDA less net interest and taxes paid with operating lease costs added back.

FFO	**2011**	2010
	€000	€000
EBITDA	**x**	x
Interest paid	**(x)**	(x)
Interest received	**x**	x
Tax paid	**(x)**	(x)
Cashflow from operations	**x**	x
Operating lease	**x**	x
Funds from operations (FFO)	**x**	x
Net debt		
Dublin Airport	**x**	x
FFO : net debt	**x%**	x%

Return on capital

The return on the Dublin Airport regulated asset base (RAB) for the year was x% (2010: x%). Earnings before interest and tax (EBIT) were €x million (2010: €x million) and the average RAB for the year per the CAR Determination Forecast is €x million (2010: €x million).

This return is below the 7% cost of capital afforded to Dublin Airport per the CAR Determination Forecast and a further €x million (2010: €x million) of EBIT would be required to achieve such a return.

Director Director Date

Independent Auditor's Report to the Directors of Dublin Airport Authority plc on the Extract from the Regulated Entity Accounts

The accompanying Extract from the Regulated Entity Accounts, which comprise the summary profit and loss account of Dublin Airport for the year ended 31 December [2011] and related notes, are derived from the audited Regulated Entity Accounts of Dublin Airport Authority plc ("the Company") for the year ended 31 December [2011] prepared by the Company for submission to the Commission for Aviation Regulation ("CAR") as required by the Aviation Regulation Act of 2001. We expressed an unmodified audit opinion on those accounts in our report dated X March [2012]. [Those accounts, and the Extract from the Regulated Entity Accounts, do not reflect the effects of events that occurred subsequent to the date of our report on those accounts.]

This report is made solely to the Company's directors, as a body, in accordance with the terms of our engagement letter. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's directors as a body, for this report, or for the opinions we have formed.

The Extract from the Regulated Entity Accounts do not contain all the disclosures required by Accounting Standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland applied in the preparation of the audited financial statements of the Company. Reading the Extract from the Regulated Entity Accounts, therefore, is not a substitute for reading the audited financial statements of the Company.

Directors' responsibility for the Extract from the Regulated Entity Accounts

As described on page [X], the directors of the Company are responsible for the preparation of the Extract from the Regulated Entity Accounts in accordance with the criteria agreed by the Company with CAR.

Auditor's responsibility

Our responsibility is to express an opinion on the Extract from the Regulated Entity Accounts based on our procedures, which were conducted in accordance with International Standards on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements".

Opinion

In our opinion, the Extract from the Regulated Entity Accounts derived from the audited Regulated Entity Accounts of the Company for the year ended 31 December [2011] is consistent, in all material respects, with those accounts in accordance with the criteria agreed by the Company with CAR.

[Auditor signature]
[Date]

Dublin Airport Authority plc – Financial Review and Extract From Regulated Entity Accounts

Statement of accounting policies

for year ended 31 December 2011

Background

Pursuant to section 28 of the Aviation Regulation Act 2001, DAA is required to produce audited annual accounts in respect of its regulated activities which shall be submitted to the Commission. The format and content of these accounts has been agreed with the Commission and the full Regulated Entity Accounts have been submitted by DAA to the Commission. As also agreed with the Commission, and at their discretion, extracts from the full Regulated Entity Accounts may be published by the Commission. The accounts on pages 5 to 14 represent an extract from the Regulated Entity Accounts of accounting policies, profit and loss account and associated notes as they pertain to Dublin Airport and are consistent with the full Regulated Entity Accounts which have been provided to the Commission. The financial statements have been prepared in accordance with the following accounting polices.

Basis of Preparation

The format and content of the Regulated Entity Accounts was determined following consultation with the Commission on the form of accounts required from the DAA per Commission Paper 5/2010 issued on 30 November 2010.

For the purpose of preparing the full Regulated Entity Accounts pursuant to Section 28(1) of the Aviation Regulation Act 2001, the Regulated Entity comprises Dublin Airport Authority plc (the Company) and four of its subsidiaries, ASC Airport Services Consolidated Limited, DAA Airport Services Limited, DAA Finance plc and DAA Operations Limited. Subsidiary undertakings of Dublin Airport Authority plc not forming part of the Regulated Entity are not consolidated for the purpose of these accounts.

The full Regulatory Entity Accounts have been prepared by consolidating the audited single company accounts of Dublin Airport Authority plc, ASC Airport Services Consolidated Limited, DAA Airport Services Limited and DAA Operations Limited for the year ended 31 December 2011 and audited financial information for DAA Finance plc for the year ended 31 December 2011.

The full Regulated Entity Accounts are prepared in accordance with generally accepted accounting principles under the historical cost convention and comply with financial reporting standards of the Accounting Standards Board, as promulgated by Chartered Accountants Ireland.

State Airports Act 2004 and Separation of Cork and Shannon Airports

In 2003, the Government announced its intention to restructure the Company, the necessary legislative basis for which is set out in the State Airports Act 2004 (“the 2004 Act”), pursuant to which it is proposed that the Group will, in the future, cease to own Shannon and Cork airports (the “Restructuring”). In December 2008, the Minister for Transport (“the Minister”) announced the deferral until 2011 of a decision on the Restructuring given the very difficult circumstances in the aviation sector.

Pending the completion of the Restructuring, all assets and liabilities of Cork and Shannon airports remain within the Company as does ultimate responsibility for the management, operation and development of these airports. Following the Restructuring, Cork Airport Authority plc (“CAA”) and Shannon Airport Authority plc (“SAA”), which are owned by the Minister for Finance but are not part of the Group, will act as fully independent and legally autonomous airport authorities for Cork and Shannon airports respectively. Pending this, and pursuant to the 2004 Act, the Company has entered into a management agreement with each of CAA and SAA for the performance of certain of its functions in relation to Cork and Shannon airports respectively.

Statement of accounting policies *(continued)*
for the year ended 31 December 2011

Profit and Loss Accounts

The results for Dublin Airport are shown separately from the results of those attributable to all Other Activities that have an insufficient nexus to the operating activities of Dublin Airport and hence do not form part of the regulatory or single till. Shannon and Cork Airports, international investments and other international activities (Aer Rianta International cpt) and property related joint venture and associated undertakings fall outside the regulatory till. Costs associated with the proposed development of Dublin Airport City have, in line with DAA's response to Commission Paper 6/2008 and correspondence with the Commission, also have been excluded from the results of Dublin Airport and included under Other Activities. All costs (and where appropriate, revenues) of the Regulated Entity have been allocated to the airports (Dublin, Shannon and Cork) as set out below:

- Shared and head office activities

  All costs (and where appropriate, revenues) of shared and head office activities are allocated to the airports. Where direct attribution is not possible the revenue and cost is apportioned between each airport on a basis that reflects the causality of the cost with allocations as appropriate. Cost causality implies that costs are attributed to businesses in accordance with the activities which cause the costs to be incurred.

- Exceptional items

  The exceptional item in 2009 relating to the cost of fundamental restructuring has been allocated to the airports based on the number of applicants from each airport and the associated costs.

- Interest

  Interest on borrowings and deposits attributable to subsidiary undertakings not forming part of the Regulated Entity or otherwise relating to the cost of fundamental restructuring arising from activities or investments outside of the single or regulatory till have been excluded from the airport allocation. Such interest is included within Other Activities in the profit and loss account and taxation adjusted accordingly. Regulated Entity interest payable has been allocated to the airports on the basis of intra-group borrowings attributable to these airports and interest receivable has been allocated on the basis of deemed cash balances.

- Taxation

  The tax charge attributable to the airports, comprising corporation tax and deferred tax, has been allocated by pro-rating the current year tax charge/credit (excluding tax on exceptional items) by reference to the profit/loss before exceptional items and tax of the individual airports. Tax on exceptional items is specifically allocated to the airport where the exceptional items arise.

  Amounts receivable or payable for group tax relief from subsidiaries not forming part of the Regulated Entity, where applicable, in excess of the relevant tax value are included within other operational income or expense and excluded from the amounts allocated to each airport.

Statement of accounting policies *(continued)*
for the year ended 31 December 2011

Turnover

Turnover represents the fair value of goods and services, net of discounts, delivered to external customers excluding value added tax. Where the provision of a service is delivered over a time period, turnover is recognised proportionately to the time elapsed.

Financial Assets

Income from financial assets is recognised on a receivable basis in the profit and loss account. Investments in entities (subsidiaries, joint ventures and associates) not forming part of the Regulated Entity are shown in the balance sheet as financial fixed assets and are stated at cost less provisions for impairment in value with income from such assets included under other activities. Other financial fixed assets are also carried in the balance sheet on the same basis.

Foreign Currency

Transactions arising in foreign currencies are translated into euro at the rates of exchange ruling at the date of the transactions or at contracted rates. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the contracted rates or at year-end rates of exchange. The resulting profits or losses are dealt with in the profit for the year.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on invoice price on an average basis for all stock categories. Net realisable value is calculated as estimated selling price less estimated selling costs.

Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation and any impairment losses. Depreciation is calculated to write off the cost of tangible fixed assets other than land and assets in the course of construction on a straight line basis over the estimated useful lives as follows:

Terminal complexes	10 - 50 years
Airfields	10 - 50 years
Plant and equipment	2 - 20 years
Other property	10 - 50 years

Assets in the course of construction are transferred to completed assets when substantially all the activities necessary to get the asset ready for use are complete.

Borrowing costs incurred up to the time that separately identifiable major capital projects are ready for service are capitalised as part of the cost of the assets. Where appropriate, cost also includes own labour costs of construction, related architectural and engineering services and directly attributable overheads.

Where a tangible fixed asset is to be withdrawn from use, the depreciation charge for that asset is accelerated to reflect the asset's remaining useful life based on the period between the date of the decision to withdraw the asset and the forecast date when withdrawal will take place.

Statement of accounting policies *(continued)*
for the year ended 31 December 2011

Tangible Fixed Assets and Depreciation (continued)

On an annual basis, the Company estimates the recoverable amount of its tangible fixed assets based on the higher of their net realisable values or the present values of future cash flows expected to result from their use. For the purposes of this review, Dublin, Cork and Shannon airports combined are considered to form one income-generating unit. Where the recoverable amount is less than the carrying amount of the assets the Company recognises an impairment loss in the financial statements.

In estimating the present values of future cash flows the discount rate used is the pre-tax discount rate that reflects the time value of money and the risk specific to the income generating unit.

The cash flows are taken from the Company's ten year business plan. The main components of the business plan are:

- Earnings projections based on expected passenger numbers, revenues and costs
- Capital investment and working capital projections

Added to these cash flows is a terminal value including an estimate of the full remuneration for all regulated assets, some of which has been deferred due to the regulatory profiling of future revenues.

The main assumptions that affect the estimation of the value in use are continuation of the current regulatory regime without material change, the passenger growth rate and the discount rate.

Capitalisation of Interest

Interest incurred from commencement of activities on separately identifiable major capital projects up to the time that such capital projects are ready for service is capitalised as part of the cost of the assets.

Taxation

Corporation tax is provided at current rates and is calculated on the basis of the results for the year adjusted for taxation purposes.

Full provision without discounting is made for all timing differences at the balance sheet date in accordance with Financial Reporting Standard 19 (FRS 19) "Deferred Tax". Provision is made at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax assets are recognised to the extent that they are regarded as recoverable based on the likelihood of there being suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Statement of accounting policies *(continued)*
for the year ended 31 December 2011

Pension and Other Post-Retirement Obligations

The Company operates contributory pension schemes, covering the majority of its employees. The schemes are administered by Trustees and are independent of the Company.

For schemes accounted for as defined contribution, contributions are accrued and recognised in operating profit in the period in which they are earned by the relevant employees.

For the schemes accounted for as defined benefit schemes:

- The difference between the market value of the schemes' assets and actuarially assessed present value of the schemes' liabilities, calculated using the projected unit credit method, is disclosed as an asset/liability on the balance sheet net of deferred tax (to the extent that it is recoverable).
- The amount charged to operating profit is the actuarially determined cost of pension benefits promised to employees earned during the year plus any benefit improvements granted to members during the year.
- The expected return on the pension schemes' assets during the year and the increase in the schemes' liabilities due to the unwinding of the discount during the year are shown in finance costs/income in the profit and loss account.
- Any differences between the expected return on assets and that actually achieved and any changes to the liabilities due to changes in assumptions or because actual experience during the year was different to that assumed, are recognised as actuarial gains and losses in the statement of total recognised gains and losses.

The Company has certain unfunded retirement benefit liabilities which are accounted for as defined benefit arrangements.

Operating Leases

Expenditure on operating leases is charged to the profit and loss account on a basis representative of the benefit derived from the asset, normally on a straight-line basis over the lease period.

Capital Grants

Capital grants are treated as deferred income and amortised over the expected lives of the related fixed assets.

Statement of accounting policies *(continued)*
for the year ended 31 December 2011

Derivative Financial Instruments

The principal objective of using derivative financial instruments, including forward exchange contracts, forward rate agreements and interest rate swaps, is to hedge the Group's interest rate and currency exposures. Where these derivative financial instruments hedge an asset, liability or interest cost reflected in the financial statements, the cost of the hedging instrument is included in the carrying amount together with the income and expenses relating to the asset and liability. Where the derivative is a hedge of future cash flow, the gains and losses on the hedging instruments are not recognised until the hedged future transaction occurs.

Cash and Liquid Resources

Within the cash flow statement, cash is defined as cash, deposits repayable on demand and overdrafts. Other deposits with maturity or notice periods of over one working day, but less than one year, are classified as liquid resources.

Debt and Finance Costs

Debt is initially stated at the amount of the net proceeds after deduction of finance and issue costs. Finance and issue costs are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount.

Dublin Airport Authority plc – Financial Review and Extract From Regulated Entity Accounts

Profit and loss account – Dublin Airport

for the year ended 31 December 2011

	Note	2011 €000	2010 €000
Turnover	*1*	x	321,600
Operating costs			
Cost of sales		x	(30,172)
Payroll and related costs	*2*	x	(100,010)
Materials and services	*3*	x	(73,439)
Depreciation and amortisation	*4*	x	(53,406)
Other operational (expense)/income		x	-
Operating profit/(loss) – continuing operations		x	64,573
Costs of fundamental restructuring	*5*	x	-
Profit/(loss) before interest and tax		x	64,573
Net interest (payable)/receivable		x	(36,145)
Profit/(loss) on ordinary activities before tax		x	28,428
Tax (charge)/credit on profit/(loss) on ordinary activities		x	(3,379)
Profit/(loss) on ordinary activities after tax		x	25,049
Transfer to appropriation account		x	-
Profit/(loss) after appropriation		x	25,049

On behalf of the Board

Director Director Date

Notes on and forming part of the Regulated Entity Accounts

for the year ended 31 December 2011

1 Turnover	**2011 €000**	**2010 €000**
Airport charges	x	170,068
Property and concessions	x	41,452
Direct retailing and retail/catering concessions	x	80,688
Car parking	x	24,934
Other activities	x	4,458
	x	321,600

Airport charges

Airport charges are charges levied in respect of the landing, parking or taking off of an aircraft including the supply of airbridges, charges levied in respect of the arrival at or departure from an airport by air of passengers, or charges levied in respect of the transportation by air of cargo to or from an airport.

	2011 €000	**2010 €000**
Runway	x	73,814
Aircraft parking	x	12,757
Airbridge	x	636
Passenger charges	x	86,159
Security charges	x	-
Traffic / route incentive schemes	x	(3,298)
	x	170,068

Price cap outturn

The Commission for Aviation Regulation regulates the level of revenues that the Dublin Airport Authority may collect in airport charges levied on users of Dublin Airport. The Commission achieves this by setting a maximum level of airport charges per passenger that can be collected at Dublin Airport.

The average airport charge per passenger in 2011 was €x (2010: €9.26). The passenger numbers through Dublin Airport for the year were x million (2010: 18.43 million).

The airport charges levied during 2011 for Dublin Airport were €x million (2010: €170.76 million). In 2010, an amount of €0.69 million in respect of a prior period over accrual relating to Persons with reduced mobility ("PRM") revenue was released to the profit and loss account.

Persons with reduced mobility ("PRM")

For Dublin, PRM charges of €x million (2010: €2.3 million) are included in passenger charges within airport charges as they form part of the price cap pursuant to CP 4/2009 (Determination on Maximum Levels of Airport Charges at Dublin Airport).

Cargo services charges

No separate charges in respect of cargo were levied during the year other than charges generally applicable to the landing, parking or taking off of cargo aircraft (including the supply of airbridges), which are disclosed as airport charges.

Access to installations ("ATI")

Pursuant to S.I. No. 505/1998 - Regulations Entitled European Communities (Access To The Groundhandling Market At Community Airports) Regulations, 1998, DAA is required to seek approval from the Commission for changes to ATI fees. At Dublin Airport ATI fees comprise fees for check-in desks. Included in property and concessions turnover above are ATI fees for check-in desks of €x million (2010: €2.1 million).

Notes *(continued)*

for the year ended 31 December 2011

2 Payroll and related costs

	2011 €000	2010 €000
Wages and salaries	x	90,209
Social welfare costs	x	8,316
Pension costs	x	5,172
Other staff costs	x	365
	x	104,062
Staff costs capitalised into fixed assets	x	(4,052)
Net staff costs	x	100,010

3 Materials and services

	2011 €000	2010 €000
Repairs and maintenance costs	x	13,402
Rents and rates	x	12,716
Energy costs	x	3,550
Technology operating costs	x	5,769
Insurance	x	2,277
Cleaning contracts & materials	x	2,341
CUTE operating lease costs	x	1,188
Fees and professional services	x	8,597
Marketing & promotional costs	x	4,321
Aviation customer support	x	298
Telephone print and stationery	x	716
Employee related overheads	x	3,055
Other overheads	x	5,429
PRM service provider	x	3,790
Travel & subsistence	x	511
Car park direct overheads	x	3,464
CAR costs	x	2,015
	x	73,439

Notes *(continued)*
for the year ended 31 December 2011

4 Depreciation and amortisation

	2011 €000	2010 €000
Depreciation and loss on retirements and disposals of fixed assets	**x**	54,195
Amortisation of capital grants	**x**	(789)
	x	53,406

5 Exceptional items

Costs of Cost Recovery Programme ("CRP") and related pension credit

In 2009, in response to significant challenges in the business environment, a CRP was developed following consultation with staff and staff representatives, to address fundamental changes to the cost base. The CRP included a voluntary severance scheme, reductions in pay, further pay pauses and changes in work practices. The estimated cost of the programme of €x million (before tax) was charged to the profit and loss account in 2010. The impact on the taxation charge was to reduce the tax charge by €x million.

An additional €2.8 million has been charged to exceptional items in 2010, reflecting an increase in the estimated cost of the CRP.

Arising from the implementation of the CRP, a number of staff who previously had entitlements (including, inter alia, the Early Retirement Obligation (see Note 24)), left the service of the Company. This resulted in a curtailment gain of €2.8 million for the purposes of FRS 17 "Retirement Benefits" and was credited to exceptional items as it arises directly from the CRP, the cost of which has been charged to exceptional items.

6 Approval of Regulated Entity Accounts

The Regulated Entity Accounts were approved by the Board on [DATE].

Dublin Airport Authority plc – Financial Review and Extract From Regulated Entity Accounts

Appendix 1 – Passenger numbers

	2011	**2010**
Embarking	x	9,217,274
Disembarking	x	9,204,048
Transit	x	9,742
	x	18,431,064

Appendix 2 - Employee numbers

	2011	2010
Average Full-time Equivalents	x	1,797

Appendix 3 – Rolling incentives

Pursuant to the rolling incentives introduced for some categories of operating costs, as outlined in paragraphs 6.82 to 6.84 of CP4/2009, the following information is disclosed:

	2011 Payroll €000	2010 Payroll €000
Dublin Airport payroll costs include		
Airfield services	**x**	3,421
Car parking	**x**	2,325
Property and other commercial activities	**x**	3,088
Support services (Dublin)	**x**	944
Total payroll costs include:		
Shared costs	**x**	14,177

Dublin Airport Authority plc – Financial Review and Extract From Regulated Entity Accounts

Appendix 4 – Excluded information

The following information which has been included in the full Regulated Entity Accounts that have been submitted to the Commission has been excluded from these extracted Regulated Entity Accounts, on the grounds of relevance to the regulated business.

“Other Activities” column in the profit and loss account which relates to the non regulated activities
Statement of total recognised gains and losses
Reconciliation of movement in shareholders’ funds
Balance sheet
Cash flow statement
“Other Activities” column in the profit and loss account notes 1, 2, 3 and 4
Note 6 Interest
Note 7 Tax on profit/loss on ordinary activities
Note 8 Tangible fixed assets
Note 9 Fixed assets – financial
Note 10 Subsidiary undertakings
Note 11 Debtors
Note 12 Creditors: amounts falling due within one year
Note 13 Creditors: amounts falling due after more than one year
Note 14 Capital grants
Note 15 Financial liabilities
Note 16 Provisions for liabilities
Note 17 Deferred tax liability/(asset)
Note 18 Reconciliation of net assets
Note 19 Called up share capital
Note 20 Reconciliation of operating profit to net cash inflow from operating activities
Note 21 Reconciliation of net cashflow to movement in net debt
Note 22 Analysis of net debt
Note 23 Pensions