IAA
ÚDARÁS EITLÍOCHTA NA hÉIREANN
IRISH AVIATION AUTHORITY

Appendix 2: Review of daa's Cost Allocation Methodology for the Dublin Airport Regulated Entity

July 2026

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1. Introduction and Context

Introduction and Executive Summary

1.1 This document reviews the methodology for cost allocation into the regulatory till for the Dublin Airport regulated entity. The purpose of this review is to ensure that the principles guiding the cost allocation methodology employed by the airport operator, daa, are appropriate, and whether there is a reason to adjust how costs are allocated to the regulated entity, both with the determination cost assumptions made by the IAA, and then subsequently by daa in its reporting against those assumptions in the regulated entity accounts. This review is conducted in advance of the sixth determination of Dublin Airport's maximum level of airport charges that daa may levy during the period commencing from 1 January 2027.

1.2 In summary, our draft assessment is that the allocation methodologies adopted continue to be largely appropriate. As outlined below, there are a small number of cost centres where we consider that the 100% allocation to the Regulated Entity was inappropriate, however these cost centres were empty in 2025, which is the base year for our Opex forecast. Consequently, no adjustments have been made to the reported 2025 actual costs of the Regulated Entity, however we consider that any actual costs in these cost centres over 2027 to 2031 should only be partially allocated to the Regulated Entity.

Context

1.3 Dublin Airport is operated by daa, a commercial semi-state airport company based in Ireland. In addition to operating Dublin Airport, daa group also operates Cork Airport, plus subsidiaries in airport management (DAA International) and travel retail (Aer Rianta International). It also owns Dublin Airport Central, a multi-purpose business park located adjacent to the airport. By convention, the regulated entity within daa group is referred to as 'Dublin Airport'.

1.4 As a result, daa is required to provide a detailed breakdown of how it allocates its cost base between the Dublin Airport regulated entity, and its other operations. Given the single till structure, this covers both aeronautical and non-aeronautical activities at the airport. It is therefore relevant to assess how this allocation has been applied, and whether the methodology used to allocate costs to the regulated entity is consistent with the IAA's principles for economic regulation of Dublin Airport; and in particular that there is no material cross-subsidisation between Dublin Airport, and daa group.

2. Review of daa's Cost Allocation Methodology for the Dublin Airport Regulated Entity

Introduction to daa Cost Allocation

2.1 daa group is comprised of multiple business units with separate financial statements. The Dublin Airport regulated entity accounts are derived from the daa group accounts by taking the line items in the financial statements for daa plc, daa Finance plc, daa Operations Limited, DASL Limited, and ASC Limited. Intercompany elements are removed where relevant to avoid the double-counting of revenues and costs.

2.2 daa splits its financial reporting into business units, each comprising staff and non-staff operating expenses. Business units are split between different locations; Dublin, Cork, head office, Dublin Airport Central (DAC)[1], and Aer Rianta International (ARI).

2.3 Costs in the Dublin location are all included in the regulatory till, while costs in the Cork location are not included in the till. Activities in the head office location are 'central' costs that are incurred across all geographic locations; hence, there is a need to determine the proportion of costs for these activities that relate to the regulated entity for inclusion in the till. Activities in the DAC location are not included in the regulatory till; the lands associated with DAC were exited from the till in 2015.[2]

2.4 Therefore, the focus of the cost allocation methodology is on the central costs incurred in the head office location, which is covered in more detail below. In addition, the methodology for allocating assets and depreciation, investment costs, cross-charges between the regulated entity and DAC, financial costs, and net debt is analysed. The 2024 accounts have been used as the basis for this review.

Head Office Location Cost Allocation

DAA Cost Allocation Methodology

2.5 Each of DAA's head office business units identifies activity drivers that determine the share of costs incurred to be included in the regulated entity's cost base. These business units and their drivers for cost allocation are stated in Table 2.1 below, together with the application of those drivers as per the 2024 accounts.

Table 2.1: DAA Head Office Business Units Cost Allocation Methodology

Business Unit	Activity Driver	Cost Allocation (% of Business Unit Total)
Organisation Capability	FTE by area	75.5%
Reward		75.1%
Talent Acquisition & Training		75.3%
HR Systems & Processes		75.3%
Employee Relations		75.0%
Career Development Centre		72.8%
CPO		75.8%

[1] DAA's head office and DAC 'locations' are geographically in Dublin, but presented separately in DAA's financial accounts to isolate activities relating to the regulated entity (i.e. the 'Dublin' location).
[2] See Commission Paper 3/2014: Guidance on the Till Exit of Lands Associated with Dublin Airport City, https://www.iaa.ie/docs/default-source/car-documents/2014-12-10-cp3-dublin-airport-city-valuation-and-till-exit.pdf?Status=Master&sfvrsn=bbac14f3_0

Business Unit	Activity Driver	Cost Allocation (% of Business Unit Total)
WSO		75.4%
HRIS & Deputy CPO		76.2%
HRIS Project Costs		73.6%
Staff Facilities	FTE by area (excluding Cork)	93.8%
HR - Long Term Absence	Based on FTEs on long term absence	49.6%
Pension	FTE by area (excluding DAAi)	77.7%
daa LABs	Average of Windows logons, Oracle Users and Headcount	75.3%
IT&T		78.6%
CCDO	100% Dublin	100.0%
Chief Security Officer		100.0%
EASA		100.0%
Security		100.0%
Security Training		100.0%
Runway Project (Dublin airport)		100.0%
Sustainability (10612)	Allocation provided by the staff of the business unit. Representing time, projects or focus per area	65.0%
Sustainability (10715)		60.0%
Secretariat		55.0%
Group Legal		85.0%
Board		57.6%
Group Strategy		50.0%
Group Internal Audit		55.1%
Shared Services		68.0%
Finance Department		77.5%
Communications		80.0%
CX & Board	Weighted average (excluding ARI) of gross margin, non-pay costs and FTEs	73.9%
Procurement	Capex & Opex spend by area (excluding ARI)	90.3%

Source: DAA

2.6 Where staff costs are allocated by FTE per area, the number of FTEs directly allocated to Dublin Airport is divided by FTEs directly allocated to all relevant areas. For some business units this may exclude certain areas of the group; for example, some HR business units do not provide services to DAAi, so the cost allocation does not include the FTEs allocated to DAAi in the calculation.

2.7 The slight differences in the cost allocations where the activity driver is FTEs per area is driven by specific costs in each business unit that are associated with that area, despite being based on the same driver.

2.8 For the staff facilities business unit, Cork is excluded from the cost allocation calculation because the business unit only provides services to areas that have offices in Dublin, using the same logic as described above.

2.9 For the pension business unit, DAAi is excluded from the cost allocation calculation because the amount allocated out of the pension business unit was immaterial (approximately €3k).

2.10 For the IT business units which use the activity driver of average logons, users, and headcount per business unit, this calculation is conducted across the entire DAA group, with the exception of international locations in ARI International and DAAi which have their own local software licences and are not centrally controlled.

2.11 Dublin Airport first stated that the security and EASA business units are allocated 100% to

Dublin because these business units are located in Dublin, and Cork Airport has its own equivalent business units. As a result, the cost allocation follows the existing business unit split by geography.

2.12 For the business units where the cost allocation is provided by staff (such as time, projects, or focus by area), this is provided by the business unit manager with an estimate of time spent by staff by applying weightings and advice on the percentage of total cost allocated.

IAA Assessment

2.13 The different approaches taken by DAA in allocating costs to the regulated entity from its head office business units generally reflects each of the different activity drivers associated with the business unit's roles. For example, allocating a split of costs by FTE in each area for the HR and staff-related business units is reasonable given their remit. IT business units using the number of logons and users of software is also appropriate as it directly correlates with the activity the IT business unit allocates to the regulated entity.

2.14 DAA's cost allocation approach covers the areas of the group only where costs are incurred or services provided from the relevant business unit (as described above). This is an appropriate approach; dividing the number of FTEs in each business unit by the total number of FTEs in the whole DAA group would lead to a lower than appropriate cost allocation key in the situation where not all areas of the DAA group incur costs or receive services from the business unit in question.

2.15 We noted that, if the security and EASA activities were solely related to Dublin Airport and Cork Airport had its own separate equivalent cost centres, then they should be allocated to the 'Dublin' location, rather than 'Head Office' first and then being 100% allocated to the regulated entity. Dublin Airport then explained that they are not solely related to Dublin Airport, but that most of those cost centres had a zero balance in 2024, with the exception of security, where a total cost of €1.8m was assigned 100% to Dublin, *'based on resource focus on security at Dublin Airport'*. In 2025, the head office cost in the security business unit was allocated 90% to Dublin Airport and 10% to Cork Airport, based on a high level assessment of the respective resourcing requirement in relation to Cork as against Dublin.

2.16 There are a number of business units which are horizontal across the group and do not have clear drivers. For these business units (including sustainability, secretariat, legal, board, strategy, internal audit, shared service, finance, and communications), the cost allocation for the regulated entity is taken based on the staff reporting their allocation of time, projects, or focus on activities related to the regulated entity or otherwise.

2.17 Conceptually, this approach is generally reasonable. In practice, it is challenging to identify allocation keys for business units' costs which are fully reflective of the extent to which those activities are driven by the different locations/activities.

2.18 We do not consider it to be appropriate for Head Office safety or security costs to be allocated 100% to Dublin Airport. However, that does not lead to any substantive cross-subsidisation within the 2025 baseline, where no such costs were allocated 100% to Dublin Airport. We consider that it would aid transparency and replicability if such costs were allocated on the basis of an objectively defined allocation key. Given low materiality, this could be based on a simple allocation key such as the split in passengers between Dublin and Cork Airport.

2.19 We note for example that many of the cost allocations to the regulated entity where this approach is taken appear to be approximations rounded to the nearest 5% of total costs (sustainability, secretariat, legal, strategy, and communications). This would indicate that the cost allocation is not exactly precise as other allocation methodologies are, however, it may be unreasonable or impractical to require greater precision in the cost allocation for these business units; doing so may amount to false precision in any case and the impact on the regulatory till of doing so would be limited.

Allocation of Financial Income/Expense and Taxation

DAA Cost Allocation Aethodology

2.20 The allocation of financial income/expenses and taxation is derived from the sum of these line items in the financial statements that comprise the regulated entity. As is the case with the income statement, any revenues and costs related to Dublin Airport are allocated to the Dublin location (the regulated entity), while costs for Cork or other activities are allocated accordingly and not included in the regulatory till.

IAA Assessment

2.21 The allocation of financial income/expenses and taxation is a result of the cost allocations to the regulated entity; as such there is no distinct cost allocation methodology. It is appropriate to allocate financial income/expenses and taxation in line with the wider cost allocation between the regulated entity and other business units of daa group; the financial income/expenses and taxation is therefore consistent with the activities included in the regulated entity accounts.

Allocation of Investment Costs, Assets and Depreciation

DAA Cost Allocation Methodology

2.22 Investment costs for tangible assets are paid for centrally, but the total cost is split into the Dublin regulated entity and Cork airport. In 2024, in daa plc there was a cost of €201.9m on tangible assets of which €197.4m was Dublin (regulated entity) and €4.5m for Cork Airport. This split between Dublin and Cork is based on the geographic location where the tangible assets are located. The depreciation for the tangible assets is allocated to the regulated entity accordingly.

2.23 Investment costs for intangible assets follows the same methodology as tangible assets; the inclusion of assets and their relevant depreciation in the regulatory till is based on the locations where the intangible assets are used. This means that costs for Cork-specific projects are allocated to Cork and not included elsewhere. In the 2024 regulated entity accounts, the combined value of intangible assets for Dublin Airport and other activities is presented but not split out due to materiality. In 2024, the additions for intangible assets totalled €19.6m.

2.24 The allocation of investment properties on the balance sheet is based on the locations where the properties are located, with those located at Dublin airport included in the regulated entity balance sheet (with the exception of DAC, which exited the till in 2015). The fair value movement for these assets is included in the income statement on the same basis (i.e. the location of investment properties). Capital expenditure on investment properties is held centrally, and the investment properties are allocated to each location when investment properties are completed.

IAA Assessment

2.25 The allocation of investment costs for tangible assets based on their location is appropriate, given that there is a clear basis to determine where the tangible assets are located. Where there are shared investment costs between Dublin and Cork, the methodology is appropriate to determine the proportion of investment costs that are applicable to the regulated entity. The calculation of depreciation costs based on these allocations is also appropriate.

2.26 It is understood that daa allocates the intangible assets to each location based on where projects are based; according to the regulated entity accounts, the intangible assets are comprised of computer software. This would imply that investments in computer software are concentrated in Dublin and Cork separately, and that investments are not made for software to be used at both Dublin and Cork airports. We note that the operating costs for the IT business unit in the head office location are allocated to the regulated entity and other daa business units in the group based on the proportion of logons/users of software in the Dublin location. Such an approach for computer software intangible assets may better reflect the use of intangible assets in each location and would also be broadly consistent with the approach for allocating IT operating costs in the head office location to the regulated entity.

2.27 We understand that the monies spent on Capex for investment properties is held centrally and not apportioned to the airports, however, investment properties are allocated to Dublin and other activities and the fair value adjustment on investment properties are captured within the regulated entity's income statement. It appears inconsistent that additions to investment properties are not also allocated between Dublin and other activities.

Allocation of Net Debt

DAA Cost Allocation Methodology

2.28 Net debt is allocated based on inflows and outflows of cash in the regulated entity. Income earned less expenses (i.e. EBITDA/cash from operating activities), Capex, working capital, net interest, pension restructuring, insurance and other restructuring, dividends, and taxation gives a net position. This net position is then netted against the rolling net debt opening position to get a closing net debt position.

IAA Assessment

2.29 As with the allocation of financial income/expenses and taxation, the allocation of net debt is a result of the cost allocations to the regulated entity, with the corresponding flows of cash in and out of the regulated entity used to calculate net debt. This is appropriate as the net debt is therefore consistent with the activities included in the regulated entity accounts.

Cross-Charges between the Regulated Entity and DAC

DAA Cost Allocation Methodology

2.30 The regulated entity and DAC each charge the other for the use of real estate and campus facilities. The purpose of the cross-charges is to reflect a full accounting separation between the regulated and non-regulated entity and ensure there is no cross-subsidisation between the entities.

2.31 DAC charges the regulated entity for the rental of buildings/land owned by DAC and used by the regulated entity. The cost of rental is based on the square meterage of the building/land rented by DAC and a corresponding rate per square metre. According to

Dublin Airport, rental rates for properties occupied are in line with market rates reviewed in line with other similar tenancies (generally every 5 years). The estate charge rate per sqm is the same as that charged to third party tenants.

2.32 The charges for each asset are detailed in Table 2.2 below.

Table 2.2: DAC Charges to the Regulated Entity

Asset	Reason for Occupation	2024 Charge (€)	Basis
Garden Maintenance Complex	Staff & operational requirements	29,188	Sqm * rate per sqm
Cloghran House	Staff	622,420	Sqm * rate per sqm
Maintenance Base	Staff & operational requirements	238,032	Sqm * rate per sqm
Taxi Rank	Operational requirement	148,750	Sqm * rate per sqm
Taxi Rank Café	Commercial revenue agreement	76,500	Sqm * rate per sqm
Cloghran House	Data Centre/Room	87,500	Sqm * rate per sqm
Land – Silver & Green Car Park	Staff car parking	300,519	% of regulated entity turnover
DAC 3	Staff	1,020,924	Sqm * rate per sqm
Parking	Staff	26,244	Rate per parking space
Total		**2,550,097**	

Source: daa

2.33 DAC also charges the regulated entity a service charge for the occupation of Cloghran House (€0.2m) due to Asset Care incurring costs for the maintenance of the building. As the regulated entity is the tenant of the building, this is charged back to DAC.

2.34 In the other direction, the regulated entity charges DAC with an estate charge per square meter for its property tenants utilising the campus estate and services, in relation to a total of 78,000 square metres.

2.35 The regulated entity also charges DAC with a facility management charge where Asset Care (a part of the regulated entity) maintains an asset on behalf of DAC. The charge per sqm is the same for all tenants, totalling 3,500 square metres.

2.36 The regulated entity also charges DAC a management fee for managing commercial agreements, which is recorded as commercial property miscellaneous revenue. The management fee is €12,245 per annum.

IAA Assessment

2.37 The cross-charges methodology set out between the regulated entity and DAC is appropriate in principle, in ensuring that there is no cross-subsidisation between the regulated and non-regulated entities as a result. Reviews to rental rates every 5 years is in line with other similar tenancies and appears to be a reasonable interval to keep rental rates charged in line with prevailing market rates.

2.38 While the review of rental rates takes place every 5 years, the approach to calculating the estate charges and facilities management charges to DAC and the frequency of reviewing these rates is not clear; it is not apparent the extent to which the charges per sqm are related to actual costs incurred.