



IRISH AVIATION AUTHORITY
ANNUAL REPORT 2012



IAA PERFORMANCE 2012

GATE-TO-GATE COST EFFECTIVENESS

€366 PER FLIGHT HOUR;
EUROPEAN AVERAGE €419

DIVIDEND TO
SHAREHOLDERS
IN 2013 €5.0M

CUSTOMER SATISFACTION
RATING 91%

INTERNATIONAL
INCOME 75%

EN ROUTE CHARGES
2012 ↓ 8.9%
AIRPORT ATC CHARGES
2012 ↓ 21.0%



**EN ROUTE CHARGES
LOWEST IN EUROPE IN 2013**

**IAA RECEIVES
NO STATE FUNDING**

**ICAO SAFETY OVERSIGHT
AUDIT 3RD IN EUROPE**

**COOPANS ATM SYSTEM
THE MOST ADVANCED IN EUROPE**

**OPERATING PROFIT
↑ 27.5% to €22.9M
TOTAL ASSETS
↑ 2.9% to €213.1M**

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ANNUAL REPORT 2012

AIR NAVIGATION SERVICES IN THE NORTH ATLANTIC





FINANCIAL AND OPERATING HIGHLIGHTS





FINANCIAL AND OPERATING HIGHLIGHTS

	2012 €'000	2011 €'000	% Change
Financial Highlights			
Turnover	175,010	179,036	-2.2%
Operating Profit	22,852	17,923	+27.5%
Total Assets	213,143	207,128	+2.9%

	2012 Number	2011 Number	% Change
Air Traffic Activity			
En Route Overflights	301,293	300,408	+0.3%
Terminal Commercial Traffic	196,566	195,905	+0.3%
North Atlantic Communications	400,480	403,534	-0.8%

Employment			
Average Number Employed	679	695	-2.3%

	2012 €	2011 €	% Change
Customer Charges			
En Route Overflight	30.08	33.01	-8.9%
Airport Terminal Traffic	160.24	202.74	-21.0%
North Atlantic Communications	45.00	44.10	+2.0%
Safety Regulation	No change in Fees Order since 2008		

IAA en route customer charge is the lowest in Europe in 2013



DIRECTORS AND OTHER INFORMATION



DIRECTORS AND OTHER INFORMATION

Directors

Ms Anne Nolan
Chairman

Mr Eamonn Brennan
Chief Executive

Ms Lorraine Burke

Mr Pat Dalton

Mr Ernie Donnelly

Dr Rosheen McGuckian

Mr Michael Norton

Mr Geoffrey O'Byrne-White

Secretary

Ms Aideen Gahan

Auditor

KPMG
Chartered Accountants
1 Stokes Place
St Stephen's Green
Dublin 2

Bankers

Allied Irish Banks, p.l.c.
40/41 Westmoreland St
Dublin 2

Bank of Ireland
2 Burlington Plaza
Dublin 4

Solicitors

A & L Goodbody
IFSC
North Wall Quay
Dublin 1

Registered office

The Times Building
11-12 D'Olier Street
Dublin 2
Tel: +353-1-671 8655
Fax: +353-1-679 2934
Website: www.iaa.ie

Registered number

211082

Senior management

Eamonn Brennan Chief Executive	Aideen Gahan Company Secretary	Kevin Humphreys Safety Regulation	Paddy Kennedy Corporate Affairs
Anthony Eiffe Internal Audit	Philip Hughes Commercial, Technology and Training	Peter Kearney ATM Operations and Strategy	Brendan Mulligan Human Resources

Attendance at 2012 board and committee meetings

Director	Board meetings attended	Max number of board meetings director could have attended	Number of committee meetings attended	Max number of committee meetings director could have attended
Anne Nolan Chairman	6	6	3	3
Eamonn Brennan Chief Executive	6	6	1	1
Lorraine Burke	6	6	3	3
Pat Dalton	6	6	6	6
Ernie Donnelly	3	3	0	0
Peter G Ledbetter	5	5	4	4
Rosheen McGuckian	6	6	4	4
Michael Norton	5	6	2	2
Geoffrey O'Byrne-White	5	6	3	3
Claire O'Donoghue	-	-	-	-



**CHAIRMAN'S
STATEMENT**



Safety is the primary objective of the Irish Aviation Authority (IAA). In 2012, the IAA regulated effectively the civil aviation industry in Ireland and, on 1 January 2013, assumed responsibility from the Department of Transport, Tourism and Sport, for the oversight of civil aviation security in the State.

As a provider of air navigation services, 2012 was a successful year. The IAA delivered a strong financial performance and the board is pleased to propose the payment of a dividend to its shareholders of €5.0 million, including a special, once-off, dividend of €2.0 million. The IAA is a self-financing commercial semi-State company and does not receive any financial support from the Exchequer.

A weak European economic outlook, high oil prices and a financially fragile airline industry mean that 2013 is likely to be a challenging year. Recent European traffic reports forecast a decrease in international traffic levels. This will impact on the IAA as it provides air traffic services to over 90% of all aircraft travelling from Europe to North America.

Operating Environment

The IAA operates to the highest international safety standards set down by the International Civil Aviation Organisation (ICAO); the European Aviation Safety Agency (EASA); the European Union (EU); EUROCONTROL and the European Civil Aviation Conference (ECAC).

As an air navigation service provider, the IAA continued with its programme of initiatives designed to deliver financial benefits to our airline customers through savings in fuel burn and lower CO₂ emissions. These operational efficiencies are dealt with in more detail in the Chief Executive's review.

2012 was a significant year for the implementation of Single European Sky (SES). A regulatory performance scheme was introduced with EU-wide performance targets for capacity, environment and cost-efficiency. The Ireland/UK FAB (Functional Airspace Block), the first FAB to be established in Europe, has provided over €70 million of savings to airline customers so far.

The IAA will plan for, and manage, the many objectives and challenges it faces in the years ahead. In particular, it will:

- continue to provide efficient safety regulation and security oversight for the Irish aviation industry to the highest international standards
- remain a safe, efficient and cost-effective air navigation service provider
- remain at the leading edge of technological change in the aviation industry
- embrace the opportunities of the Single European Sky initiative
- maintain Ireland's leading position in aviation.

I am confident that the IAA will meet these objectives and will continue to demonstrate its professionalism in the provision of safe, cost-effective and innovative air traffic services.

Financial Performance

As mentioned above, the IAA delivered a strong financial performance in 2012 against a backdrop of significant economic challenges and continued uncertainty in the Eurozone area.

There was some increase in air traffic activity of en route overflights and terminal commercial traffic while North Atlantic communications flights decreased over the previous year. En route overflights increased by 0.3% to just over 301,000 flights, combined terminal commercial traffic at Cork, Dublin and Shannon increased by 0.3% to over 196,500 movements while North Atlantic communications traffic fell by 0.8% to just over 400,000 flights.



Anne Nolan
Chairman

Operating profit was €22.9 million, up from €17.9 million in 2011. While turnover fell by 2.2% to €175.0 million, operating expenses were reduced by 5.6% to €152.2 million. Total assets increased by 2.9% to €213.1 million while shareholders' funds increased to €49.8 million, up from €24.9 million last year. The pension liability – FRS 17 basis – improved to €127.3 million due to better than expected returns on pension fund assets although the discount rate used to value pension fund liabilities decreased when compared with last year.

Corporate Governance

The IAA is committed to maintaining the highest standards of corporate governance. Our compliance procedures are outlined in the directors' report.

Acknowledgements

I would like to thank my board colleagues for their contributions to the efficient working of the IAA in 2012. Ernie Donnelly was appointed to the board on 24 May 2012 by the Minister for Transport, Tourism and Sport. In November 2012, Peter G Ledbetter retired from the board. Peter made a highly valued contribution to the IAA throughout his term of office. I also wish to express my appreciation to Aideen Gahan for her dedicated and professional service as company secretary.

My thanks also go to the Secretary General of the Department of Transport, Tourism and Sport, Mr Tom O'Mahony; and the Assistant Secretary, Mr John Fearon, together with their staff, for their assistance and support during 2012.

The performance of the IAA has been, and continues to be, extremely impressive and, on behalf of the board, I would like to acknowledge the work and commitment of the management and staff. Their expertise and experience are vital assets to the IAA and their contributions to the success of 2012 are very much appreciated. I wish to acknowledge the inspirational leadership of the Chief Executive, and board member, Eamonn Brennan, in delivering on the many achievements of the IAA during the year.

I also want to thank the Minister for Transport, Tourism and Sport, Mr Leo Varadkar TD, for his support for our work programme and activities during the year.

Anne Nolan
Chairman



CHIEF EXECUTIVE'S REVIEW



CHIEF EXECUTIVE'S REVIEW

2012 was another strong year for the IAA. We continued to maintain our strategic focus – compliance with the highest international safety standards, remaining one of the most cost-effective and efficient air navigation service providers in Europe, maintaining our financial independence, operating the best air traffic management (ATM) technology and continuing to develop strategic alliances to meet the challenges posed by Single European Sky (SES). Traffic activity showed little growth when compared to last year but, despite this, the IAA's operating profit was up 27.5% on 2011. As a result, I am pleased to report that a dividend, to the shareholders, of €5.0 million has been proposed by the IAA's board of directors.



Eamonn Brennan
Chief Executive

Safety Regulation

Aviation-safety standards are set internationally by the International Civil Aviation Organisation (ICAO); and, in a European context, by the European Aviation Safety Agency (EASA); the European Union (EU); EUROCONTROL; the European Civil Aviation Conference (ECAC); and, in the North Atlantic, by the North Atlantic Systems Planning Group (NAT SPG).

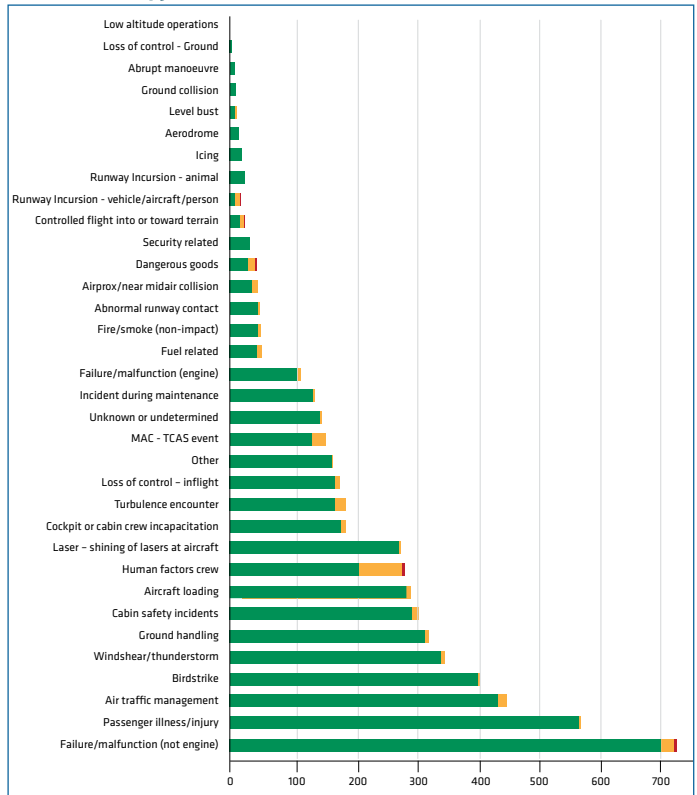
The Safety Regulation Directorate (SRD) of the IAA oversees and regulates the implementation of these standards for the Irish civil aviation industry and its activities are, in turn, subject to independent audits by these organisations. In 2012, we continued to maintain high standards of safety in the civil aviation industry in full compliance with international standards.

A good reporting system is a vital element of safety culture and demonstrates a commitment to continuously improve safety in aviation by proactively reviewing events and ensuring safety hazards are acted upon. In 2012 the IAA received over 6,674 safety occurrence reports, as the graph below shows, from Irish aviation organisations, over 96% of which describe incidents where all safety barriers were completely effective.

A very small population of all incidents are risk bearing and action and mitigation are taken on these to prevent re-occurrence. For full details see the Aviation Safety Performance Review 2012 on our website (www.iaa.ie).

The IAA actively promotes the implementation of safety-management systems throughout the airline and aircraft maintenance industries, at licenced aerodromes, and in the provision of air navigation services.

Occurrence Type 2012



There were 1,196 aircraft on the aircraft register at the end of 2012, comprising 746 large aircraft (an increase of 34% since 2009) and 450 small aircraft; 14 operators have an Irish Air Operator's Certificate (AOC), with a total fleet of 438 aircraft of various sizes. The number of Irish aircraft on overseas "dry leases", or in storage, was 322 at year-end. The IAA also approves facilities for training, maintenance, manufacturing and storage.

The five largest AOC holders: Aer Arann, Aer Lingus, Air Contractors, CityJet and Ryanair operated 674,044 flights in 2012 and marks twelve years of consistent growth.

The IAA was recently assigned responsibility by S.I. (Statutory Instrument) 551 of 2012 for the oversight of civil aviation security in the State. This responsibility covers inspection and audit of airports, air carriers, cargo companies, airport suppliers and suppliers of in-flight services.

The General Aviation Safety Council of Ireland (GASCI) was established in 2012 with support from the IAA. GASCI is a volunteer body made up of representatives from all sections of the general aviation community in Ireland. The IAA also has a representative on the council. GASCI promotes safety in general aviation and plans to establish a voluntary occurrence reporting system for the general aviation community.

Financial Performance

Despite a continuing weak economic climate, uncertainty in Europe and the fragile state of the aviation industry, the IAA's financial performance was very strong. Air traffic activity across all of its services was as follows:

- *En route overflights* – throughout the 451,000 square kilometres of Irish-controlled airspace – amounted to 301,293, an increase of 0.3% over 2011.
- *Terminal movements* – the combined number of terminal commercial aircraft movements at Cork, Dublin and Shannon – amounted to 196,566, an increase of 0.3% over 2011.
- *North Atlantic communications* – served by the IAA's High Frequency (HF) communications centre at Ballygirreen – provided 400,480 flights with high-frequency voice communications services, a decrease of 0.8% over 2011. The centre is responsible for communications via long-range radio, with up to 1,200 transatlantic crossings per day.

Monthly traffic updates are available on our website (www.iaa.ie).

Recent commentary from IATA (International Air Transport Association) suggests an improvement in the airline industry with stronger revenues being driven by higher air travel volumes and some growth in air freight. The airline industry is forecast to make profits of US\$10.6 billion, although margins remain low, with the European and North American carriers earning 40% of this total. This is encouraging news as 75% of our revenues are generated from our international business. However, Europe is vulnerable to the continuing Eurozone crisis and this is reflected in recent traffic reports from EUROCONTROL which forecast a decline in European flights in 2013 due to the weakness of the economic outlook in Europe. This trend has been borne out in the first few months of this year with lower levels of traffic activity in both en route and on the North Atlantic when compared with 2012.

The IAA's financial results for 2012 reflect the efforts made to reduce operating costs, resulting in an operating profit of €22.9 million, an increase of 27.5% over 2011.

Turnover

IAA revenues were €175.0 million, down from €179.0 million in the previous year, a decrease of 2.2%. Overflights and communications revenue amounted to 75% of turnover and related to aircraft, most of which did not land in Ireland.

En route navigation services (overflights) accounted for €112.6 million, or 64.4% of turnover, while North Atlantic communications services accounted for €17.8 million, or 10.2% of turnover.

Turnover from terminal navigation services, provided to aircraft for approach, landing and take-off at Cork, Dublin and Shannon airports accounted for €21.5 million, or 12.3% of turnover.

Turnover from fees received on behalf of the safety regulation functions carried out by the IAA, such as registration and certification of aircraft, aircraft personnel, aircraft-operating and maintenance organisations and aerodromes amounted to €20.0 million, or 11.4% of turnover.

Turnover from fees generated from commercial activities accounted for €1.4 million, or 0.8% of turnover.

Costs

Operating expenses amounted to €152.2 million and represented 87% of turnover in 2012, as compared to 90% in 2011.

Balance Sheet

Tangible fixed assets decreased by 9.2% to €92.1 million. Current assets increased by 14.5% to €121.1 million, up from €105.7 million in 2011 due to an improvement in aviation industry activity. Total assets grew by 2.9% to €213.1 million.

The net pension liability – FRS 17 basis – remains significant and amounted to €127.3 million in 2012, an improvement of €5.2 million when compared with 2011. The improvement in the year reflects higher than expected returns on pension fund assets, contributions to the fund by both the staff and the company, offset by the effect of a lower discount rate used to value the pension fund liabilities. We have a pension agreement in place, agreed with staff representatives and accepted by the

Pensions Board, which aims to return our pension fund to solvency in 2018, following which a comprehensive review of pension arrangements will be carried out. The terms of this agreement, which have been outlined in previous reviews, includes increases in employee and employer pension contributions and pensionable pay freezes/pay caps provisions. In addition, a hybrid pension scheme was introduced for new employees from 1 January 2012. This scheme includes both a defined benefit and a defined contribution element.

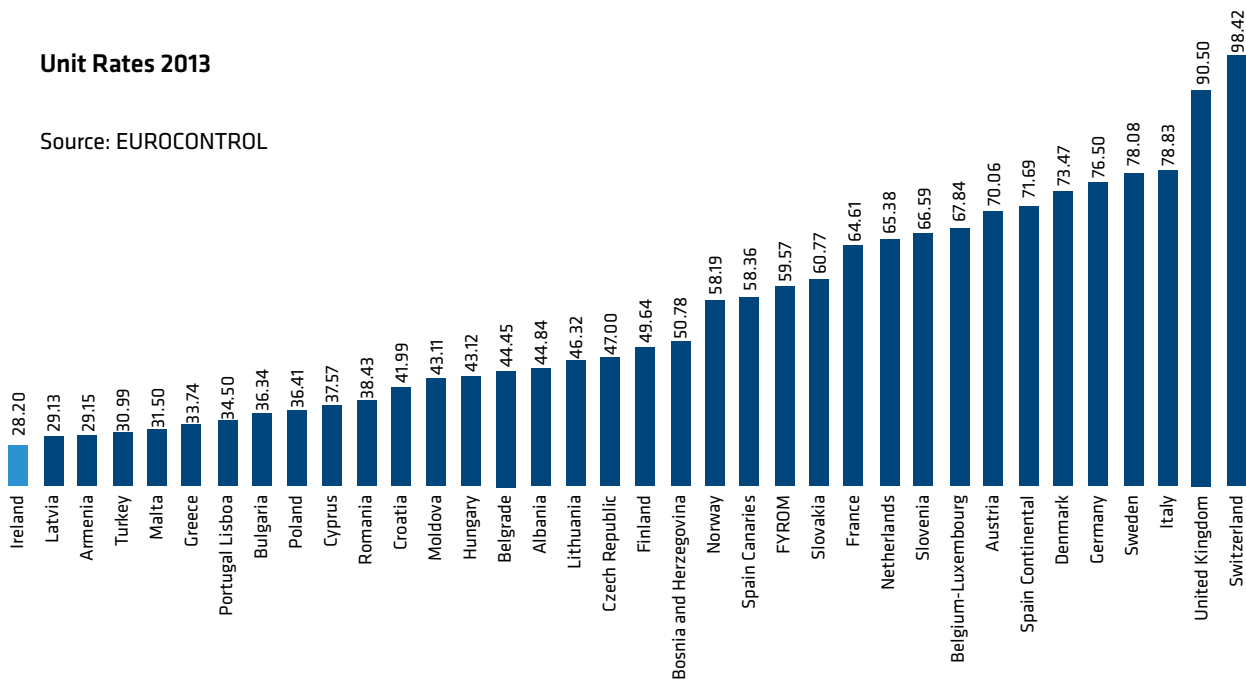
One of the key strategic objectives of the IAA is to provide a cost-effective service. In 2013, the IAA's en route customer charge is the lowest amongst the EUROCONTROL charging States, as the graph below shows.

The IAA will continue to provide safe and cost-effective en route, terminal and communications services at charges that are as competitive as possible, while maintaining its high standards of service.

EUROCONTROL En route unit rates €

Unit Rates 2013

Source: EUROCONTROL



Air Traffic Management

The primary objective of the Operations directorate, responsible for the provision of air navigation services, is to provide a safe, efficient and reliable air traffic management service, at a competitive charge, which meets the needs of its customers.

COOPANS

A key enabler of the Operations strategy is our air traffic management system, COOPANS, the common air traffic management (ATM) system of Austria, Croatia, Denmark, Ireland and Sweden. COOPANS has been successfully implemented in all countries with the exception of Croatia which is due to “go live” in 2014. Further upgrades of the ATM system are planned for November this year to take account of European Commission requirements. A COOPANS roadmap of future requirements and a delivery schedule has been established for the period 2014 – 2023. This roadmap, which has been evaluated by an independent consultant, takes account of anticipated changes required to ensure that COOPANS remains fully compliant with the SESAR (Single European Sky ATM Research) deployment programme.

Corporate Safety Strategy

A new Corporate Safety Strategy 2012 – 2015 has been approved. It sets clear targets and processes for operational safety improvements in the years ahead, both in an IAA and in a FAB (Functional Airspace Block) context.

Point Merge

As part of the optimisation of Irish airspace and its associated procedures, the Operations directorate successfully implemented several initiatives in 2012 including “Point Merge”, a system for managing aircraft arrivals at Dublin airport. “Point Merge” allows aircraft to make a continuous descent approach to the runway, reducing, if not eliminating, the need to put aircraft in traditional holding patterns and reducing fuel burn and CO₂ emissions. Dublin was the second European airport to introduce “Point Merge” and the system was the recent winner of the “Innovation in Action” award by the Chartered Institute of Logistics and Transport 2013.

Y124

A new early morning route – Y124 – for certain Dublin departures to London, and other European airports, was also introduced in December, thereby reducing congestion

in UK airspace and optimising the early morning departure flow from Dublin airport.

AFTN Message Handling System

In September, the IAA's North Atlantic communications facility at Ballygirreen successfully migrated to an advanced AFTN (Aeronautical Fixed Telecommunication Network) Message Handling System. The new system is both an AFTN Switch and ATS (Air Traffic Services) Message Handling System. This is the fourth upgrade of AFTN Systems in Ballygirreen since 1967 and represents a huge leap forward in technology. The new system is a highly reliable, proven solution, installed at a number of locations around the world. This is part of the IAA's continued strategy to invest in advanced technological solutions that help provide safe, enhanced and cost-effective services to our customers.

Competitiveness

The IAA continues to contribute to a European reduction in ATC delays as well as lower en route charges through the implementation of the State's National Performance Plan 2012 – 2014, adopted by the European Commission in 2012.

Our competitiveness at European level is strong. In 2013 our overflight charges are the lowest in Europe. EUROCONTROL ACE (ATM Cost-Effectiveness) report, published May 2012, reported our overall gate to gate (total) cost-effectiveness as €366 per flight hour against a European average of €419. In 2012 we made significant progress on delivering cost efficiencies to our customers with reductions in charges across the major service delivery areas.

Changes in charges 2012/2013

	2012	2013
Overflight rate reduction	▼ 8.9%	▼ 6.3%
Airport ATC rate reduction	▼ 21.0%	▼ 4.1%
North Atlantic communications charges	▲ 2.0%	No change
Safety Regulation fees	No change since 2008	No change since 2008

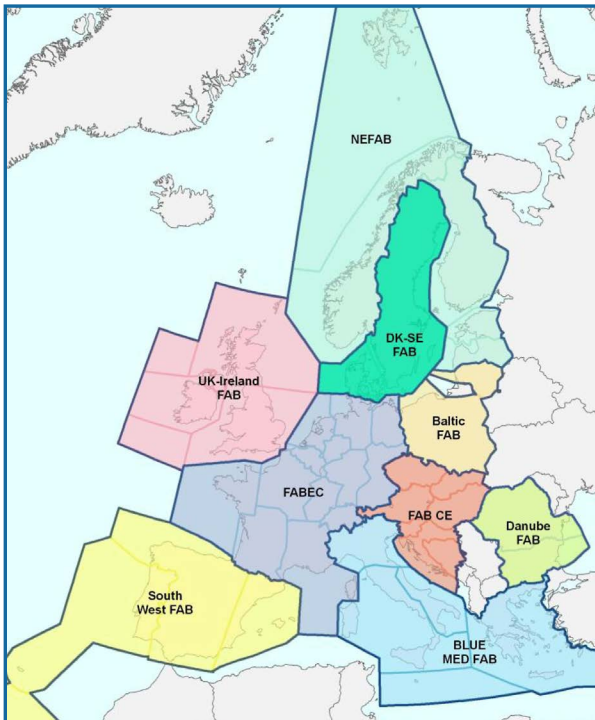
Strategic Alliances

The IAA remained active throughout 2012 in various international fora, contributing, in particular, to the Single European Sky regulations and the ICAO (International Civil Aviation Organisation) 12th Air Navigation Conference. We continue to actively contribute, and to influence, where possible, the implementation of the SES Package II+ through the various committees of CANSO, EUROCONTROL and the European Commission.

Ireland/UK FAB

Single European Sky (SES) II came into effect in 2012. The SES initiative of the European Commission provides a legislative framework to meet future safety, capacity and efficiency needs at a European level. In this context, the Functional Airspace Block (FAB) initiative between the IAA and NATS UK continues to report significant benefits to our airline customers in the form of direct routings, fuel savings and reduced CO₂ emissions. In 2012, network management across the FAB was introduced resulting in reduced delays. A successful simulation also took place to validate the concept of cross-FAB airspace management in certain high level sectors.

European FAB Structures



International Alliances

We continued to monitor SESAR developments through our membership of NORACON (North European and Austrian Consortium). The IAA's membership of BOREALIS, a formal commercial alliance, established in June 2012, comprising nine North-European air navigation service providers, allows for collaboration on various ATM (air traffic management) projects for the purpose of delivering efficiencies and reducing costs and reducing the impact of aviation on the environment. During the year, a Memorandum of Understanding was signed with NAV Portugal and discussions have commenced on a feasibility study exploring the possibility of providing joint operations similar to that already in place with ISAVIA, the Icelandic air navigation service provider.

Other Developments

Customer Care

Our airline customers supported us strongly in 2012 and our customer scores from our Top Twenty customers recorded high levels of satisfaction with all our services.

Top 20 Customer Scores 2012

	Satisfaction Rating
Safety	94.7%
Financial Cost Effectiveness	87.0%
Service Delivery	89.0%
Innovation	88.9%
Customer Relations	95.0%

Aviation Policy for Ireland

The IAA was pleased to facilitate, and organise, in December 2012, on behalf of the Department of Transport, Tourism and Sport, an Aviation Policy for Ireland conference to which over 400 delegates attended. Ireland punches way above its weight in world aviation – 25% of all aircraft leased in the world are leased out of Dublin; the Irish are recognised innovators – the first large aviation-leasing outfit in the world, GPA, was put together in

Ireland; Ireland is home to the largest low-cost carrier in Europe; some of the major innovations in aircraft engine technology, maintenance and financing are driven by Irish entrepreneurs. Ireland must capitalise further on the value of this vital sector.

ISO 9001:2008

The IAA was re-certified to the ISO 9001:2008 standard for quality management in 2012. We have held this standard for 15 consecutive years, having been one of the first air navigation service providers (ANSP) in Europe to receive certification back in 1997.

Human Resources

Following extensive discussions with staff representatives, a number of cost containment and productivity measures were agreed and introduced during the year. These measures are delivering positive results, particularly in the areas of manpower planning and payroll management. We will continue to look for further savings in keeping with our corporate challenge of remaining cost-effective in a performance regulatory regime.

A programme of random testing for drugs and alcohol was introduced during the year for all staff. The key objective of this programme is to promote the safety, health and welfare of IAA employees and demonstrates to the public, and industry generally, the commitment of the IAA to operate to the highest international safety standards.

As part of our commitment to maintain a high performance culture in the IAA, a new performance management system, Managing Performance and Development (MPD), has recently been introduced, following extensive consultation and taking account of industry best practice.

Finally, I am pleased to report that, in 2012, a number of important initiatives in the area of communications were implemented, notably, the installation of Electronic Notice Boards in all locations, the launch of our new intranet, "AV8", and the introduction of Open Forums which facilitate informal meetings between staff and my management colleagues.

Acknowledgements

On behalf of management, I would like to place on record my thanks for the work carried out by the Department of Transport, Tourism and Sport under the direction of Mr Tom O'Mahony, Secretary General; and Mr John Fearon, Assistant Secretary, together with their colleagues.

I would also like to thank my management colleagues and all of the staff for their hard work in delivering another successful year. I wish to acknowledge also the support, guidance and encouragement extended to all IAA management and staff from our Chairman, Anne Nolan, and her Board colleagues.

We are a safe, innovative company, recognised by our airline customers as being responsive to their operational requirements. We have a high safety oversight ranking, the lowest en route user charges in Europe and are focused on cost-efficiency in the provision of all our services. We are profitable, debt-free and financially independent with one of the most advanced air traffic management systems in the world. I look forward to 2013 in the knowledge that the IAA is well positioned for future success.

Ní neart go cur le chéile agus tada gan iarracht.

Go raibh maith agaibh.



Eamonn Brennan
Chief Executive



**FINANCIAL
STATEMENTS**



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Irish Aviation Authority ("IAA") for the year ended 31 December 2012.

Principal activities, financial results and review

The IAA is committed to providing – on a sound commercial basis – safe, efficient and cost-effective air navigation and regulatory services which meet the needs of its customers.

Details of the financial results of the IAA for the year are set out in the profit and loss account on page 27 and in the related notes.

The information required by Section 13 of the Companies (Amendment) Act, 1986 – on the development of the business and important events – is included in the Chairman's Statement and Chief Executive's Review. As described therein, the performance of the IAA in the current year was again positive, with profit for the financial year of €10.0 million on turnover of €175.0 million.

In monitoring the IAA's performance the directors and management have regard to a range of key performance indicators as set out in the Chairman's Statement and Chief Executive's Review, notably:

Key performance indicators	2012	2011
	Number	Number
En route overflights	301,293	300,408
Terminal commercial traffic	196,566	195,905
North Atlantic communications	400,480	403,534

The IAA's vision is founded on five key results areas – safety regulation, Air Traffic Management ("ATM") safety, service excellence, financial and stakeholder relations – which drive its objectives in its day-to-day performance. The key risks and uncertainties facing the future development of the IAA include

- maintenance and improvement of safety standards
- further development of the Functional Airspace Block and Single European Sky regulations
- adverse economic and market conditions

- separation of the service provision and safety regulation functions

- IAA's significant reliance upon its IT infrastructure.

The directors have developed a range of strategies to address these and other risks faced by the IAA. The Corporate Governance Statement, on pages 16 to 21, sets out the IAA's policies and approach to risks and the related internal control procedures and responsibilities.

Directors

Ms Claire O Donoghue retired from the board on 9 January 2012. Mr Ernie Donnelly was appointed to the board on 24 May 2012. Mr Peter G Ledbetter retired from the board on 12 November 2012.

Interests of directors and secretary

The directors and secretary who held office at 31 December 2012 had no interests in the shares of the IAA at the beginning of the year or at the date of their appointment (if later) nor at the end of the year. The directors of the IAA are appointed by the Minister for Transport, Tourism and Sport and hold office for such term as the Minister specifies when making the appointment, but not for a period exceeding four years.

Corporate governance

The directors are committed to maintaining the highest standards of corporate governance. The IAA complies with the Code of Practice for the Governance of State Bodies and conforms, as far as possible, and on a voluntary basis, to the 2010 UK Corporate Governance Code ("2010 Code") and to the Irish Corporate Governance Annex ("the Irish Annex").

Principles of good corporate governance

The directors are accountable to the IAA's shareholders – the Minister for Transport, Tourism and Sport and the Minister for Public Expenditure and Reform – for good corporate governance. This report describes how the relevant principles of good corporate governance, set out in the Code of Practice for the Governance of State Bodies, the 2010 Code and the Irish Annex, are applied.

The Board

The board comprises seven non-executive directors and one executive director who were appointed by the Minister for Transport, Tourism and Sport. The directors hold office for such term as the Minister specifies when making the appointment, but not for a period exceeding four years. The board has considered designating an individual director as the senior independent director, but in view of the manner of appointment of directors, has concluded that this is not appropriate.

The board is responsible for the proper management of the IAA. It takes the major strategic decisions and retains full and effective control, while allowing the chief executive and his senior management team sufficient flexibility to run the business efficiently and effectively within a centralised reporting framework.

The board has reserved certain items for its review, including safety; the approval of the annual financial statements; budgets; the corporate plan; management accounts; significant contracts; significant capital expenditure and senior management appointments.

All new directors, on appointment, take part in an induction course, where they receive financial and other information about the IAA and the roles of the board and board committees. This process typically includes meetings with key senior executives. Throughout their time in office, the directors are provided with regular information on all aspects of the business. Reports and papers are circulated to the board and its committees on a timely basis.

Regular meetings of the board are held throughout the year. The number of meetings held by the board in 2012 was six. These meetings were attended as follows:

Director	Date of appointment	Board meetings attended	Max number of board meetings director could have attended
Anne Nolan Chairman	13 June 2010	6	6
Eamonn Brennan Chief Executive	8 September 2011	6	6
Lorraine Burke	30 November 2009	6	6
Pat Dalton	30 November 2009	6	6
Ernie Donnelly	24 May 2012	3	3
Peter G Ledbetter	Retired during year	5	5
Rosheen McGuckian	23 June 2009	6	6
Michael Norton	6 October 2011	5	6
Geoffrey O'Byrne-White	10 December 2010	5	6
Claire O'Donoghue	Retired during year	-	-

The board members have access to the advice and services of the company secretary who is responsible to the board for ensuring that board procedures are followed, and applicable rules and regulations are complied with. The IAA's professional advisors are available for consultation by the directors as required. Individual directors may take independent professional advice, if necessary, at the IAA's expense.

The chairman leads the board in the determination of its strategy and in the achievement of its objectives. The chairman determines the agenda of the board, ensuring its effectiveness, and facilitates the effective contribution of each director. The specific skills, expertise and experience of the board are harnessed by matching these skill sets to the board's consideration of strategic

DIRECTORS' REPORT (continued)

and operational issues, where individual board members bring their specific competencies to bear, and also to the requirements of each board committee and the determination of the membership of those committees. The chairman and management maintains effective communication with the shareholder. The roles of the chairman and chief executive are separate.

The board evaluated its performance during the year, examining the effectiveness of the board and how it was managed, its strategic foresight and stewardship. The board conducted a separate end of year evaluation of its performance, measuring it against its strategic objectives, considering the achievements and identifying any areas where the board could improve its planning or procedures, and also identifying training needs. The board uses a similar process to evaluate the performance of committees each year. The board has considered a more formal process for evaluation of individual directors, including the appointment of an external facilitator, but in light of the manner of appointment of directors, has concluded that such evaluation would not be appropriate at this time.

All of the non-executive directors are independent of management. The remuneration of the executive director, who has a service contract, was approved by the personnel, appointments and remuneration committee and a proportion of that remuneration was performance-related and, in this way, was linked to the IAA's and the individual's objectives. Fees for directors are determined by the Minister for Public Expenditure and Reform. The disclosures made in these financial statements relating to directors' emoluments and pension information are those required under the Code of Practice for the Governance of State Bodies.

The board uses four committees:

1. Audit
2. Finance, planning and strategy
3. Personnel, appointments and remuneration
4. Investment planning

to assist in the effective discharge of its responsibilities.

Audit committee

The audit committee operates under formal terms of reference, which were reviewed during the year. The committee held four meetings during 2012. The

members of the committee and the number of meetings attended were:

Members	Meetings attended	Eligible to attend
Peter G Ledbetter (1)	3	3
Pat Dalton	4	4
Rosheen McGuckian (2)	4	4

(1) Mr Peter G Ledbetter was Chairman up to the date of his retirement from the board on 12 November 2012

(2) Acting Chairperson on 30 November 2012

The committee may review any matters relating to the affairs of the IAA, other than safety matters which are reserved to the board. It reviews the annual financial statements, reports of the internal auditor, the accounting policies, proposed changes in accounting policies, compliance with accounting standards, the accounting implications of major transactions and the appointment and fees of the external auditor.

It reviews the IAA's risk-management strategy and control processes and considers:

- the resources and co-ordination of those involved in the identification, assessment and management of significant risks faced by the IAA
- responses to the significant risks which have been identified by management and others
- monitoring of the reports from management
- maintenance of a control environment directed towards the proper management of risk
- annual reporting procedures.

The external auditor meets with the committee to plan and subsequently review the results of the annual audit of the IAA's financial statements. The audit committee considers the independence of the external auditors on an annual basis and has adopted a policy governing the provision of non-audit services by the external auditor. The internal auditor reports directly to the audit committee.

Meetings are usually attended by the chief executive,

director of finance, head of internal audit and representatives from operations, information technology, insurance, health and safety, legal and compliance, by invitation, as appropriate.

The audit committee reports to the board, usually at quarterly intervals, or more frequently should the need arise.

During 2012, the audit committee reviewed:

- draft financial statements for 2011 prior to recommending them for approval to the board
- a report from the external auditors on its audit of the financial statements
- corporate risk register 2012-2013 including the key risks to the business and consideration of the adequacy of the system of risk identification and assessment
- the effectiveness of financial, operational and compliance controls and risk management processes
- internal audit plan for 2012 and internal audit reports
- effectiveness of the internal audit function
- external audit plan including the scope of the audit
- corporate governance compliance
- audit fees and non-audit fees payable to the external auditor
- its own terms of reference.

Finance, planning and strategy committee

The finance, planning and strategy committee operates under formal terms of reference and met once during the year. The members of the committee and number of meetings attended were:

Members	Meetings attended	Eligible to attend
Anne Nolan, <i>Chairman</i>	1	1
Eamonn Brennan	1	1
Lorraine Burke	1	1
Geoffrey O'Byrne-White	1	1

The committee may review any matters relating to the

financial management of the IAA. It reviews the annual capital and operating budgets, treasury policy, insurance and banking and financing arrangements.

Personnel, appointments and remuneration committee

The personnel, appointments and remuneration committee operates under formal terms of reference and met twice during the year. The members of the committee and the number of meetings attended were:

Members	Meetings attended	Eligible to attend
Anne Nolan, <i>Chairman</i>	2	2
Lorraine Burke	2	2
Geoffrey O'Byrne-White	2	2

The committee determines and approves the remuneration of senior management, having availed of independent advice from a remuneration consultant who had no other connection with the IAA. The committee also approves senior management appointments. Details of directors' fees and emoluments are set out in note 6 of the financial statements in accordance with the requirements of the Code of Practice for the Governance of State Bodies.

Investment planning committee

The investment planning committee operates under formal terms of reference and met twice during the year. The members of the committee and the number of meetings attended were:

Members	Meetings attended	Eligible to attend
Pat Dalton, <i>Chairman</i>	2	2
Peter G Ledbetter (1)	1	1
Michael Norton	2	2

(1) Mr Peter G Ledbetter retired on 12 November 2012

The committee considers the IAA's strategy in relation to capital investment and related expenditure.

Internal control

The board is ultimately responsible for the IAA's system of internal control and for monitoring its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

An ongoing process exists for identifying, evaluating and managing the significant risks faced by the IAA. This process accords with the Turnbull Guidance, is regularly reviewed by the board and has been in place for the year under review and up to the date of approval of the annual report and financial statements.

The board has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. Management is responsible for the identification and evaluation of significant business risks and for the design and operation of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources, including control breakdowns, disruptions in information systems, competition, natural catastrophes and regulatory requirements.

A process of corporate-risk workshops and review has been established which provides for a documented and auditable trail of accountability. These procedures are relevant across IAA operations and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the board. This process is facilitated by internal audit, which also provides a degree of assurance as to the operation and validity of the system of internal control. Planned corrective actions are independently monitored for timely completion.

Management reports regularly on its review of risks, and how they are managed, to the audit committee, whose role it is to review, on behalf of the board, the key risks, other than safety, inherent in the business and the system of control necessary to manage such risks, and to present their findings to the board. Internal audit independently reviews the risk-identification procedures

and control processes implemented by management, and reports to the audit committee on a quarterly basis. The audit committee reviews the assurance procedures to ensure that an appropriate mix of techniques is used to obtain the level of assurance required by the board. The audit committee presents its findings to the board on a quarterly basis or more frequently should the need arise.

The chief executive also reports to the board on behalf of management on major changes in the business and the external environment which affect significant risks. The director of finance provides the board with monthly financial information. Where areas for improvements in the system are identified, the board considers the recommendations made by management and the audit committee.

The IAA's system of internal financial control comprises those controls established in order to provide reasonable assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and reliable financial information for use within the business or for publication.

The board has reviewed the effectiveness of the systems of internal control covering financial, operational and compliance controls and risk management systems. The IAA has a strong control framework in place which includes the following:

- a code of ethics, approved by the board, which provides practical guidance for all staff
- a clearly defined organisation structure with appropriate segregation of duties and limits of authority
- clearly defined limits and procedures for financial expenditure including procurement and capital expenditure
- a comprehensive system of financial reporting, accounting, treasury management and project appraisal
- comprehensive budgeting systems with annual budgets approved by the board
- monitoring of performance against budgets and reporting on it to the board on a monthly basis

- an internal audit function which reviews key financial systems and controls and general operations
- an audit committee which approves audit plans and deals with significant control issues raised by internal or external audit and which reviews and recommends the year-end financial statements for approval by the board
- policies and procedures for the reporting and resolution of suspected fraudulent activities.

Compliance statement

The directors confirm that the IAA has been in compliance with the Code of Practice for the Governance of State Bodies. It has also been in compliance with the relevant main supporting principles of the 2010 Code and the Irish Annex, during 2012, subject to the following where voluntary compliance with the 2010 Code and the Irish Annex is not considered necessary for the IAA given the manner of appointment of directors, the shareholding structure of the IAA and existing board procedures:

- processes and procedures for appointment of the chairman and directors
- senior independent director and independence considerations
- evaluation of the performance of individual directors
- separate meetings of the non-executive members of the board
- chairmanship of the personnel, appointments and remuneration committee

Going concern

The directors, after making enquiries, believe that the IAA has adequate resources to continue in operation for the foreseeable future and that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Prompt payment of accounts

The IAA complies with the requirements of relevant prompt payment legislation. The IAA also complies with the European Communities (Late Payment in Commercial Transactions) Regulations 2002 (S.I. No. 388 of 2002).

The IAA's standard terms of credit taken, unless otherwise specified in specific contractual arrangements, are 30 days from receipt of invoice, or confirmation of acceptance of the goods or services, which are the subject of payment. During the year ended 31 December 2012 substantially all payments were made within the appropriate credit period as requested. The IAA continually reviews its administrative procedures in order to assist in minimising the time taken for invoice query and resolution. These procedures provide reasonable but not absolute assurance against material non-compliance with the regulations.

Accounting records

The directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990, with regard to books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the IAA are maintained at The Times Building, 11-12 D'Olier Street, Dublin 2.

Post balance sheet events

The board proposed the payment of a dividend of €5.0 million (€0.28 per share), including the payment of a special dividend, on a once-off basis, of €2.0 million (€0.11 per share).

Electoral Act, 1997

The IAA made no political donations during the year.

Auditor

In accordance with Section 160(2) of the Companies Act, 1963, the auditor, KPMG, Chartered Accountants, will continue in office.

On behalf of the board:

Anne Nolan
Chairman

Eamonn Brennan
Chief Executive

26 March 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the IAA's financial statements in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable Irish law and the accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland as amended for the collection of pension costs included in en route and terminal navigation service charges, as explained in the 'basis of preparation' note on page 25. The charge for defined benefit pension obligations is accounted for on a cash basis, rather than on a service cost basis, in the profit and loss account for the year-end. This is adjusted through the statement of total recognised gains and losses (STRGL). While such treatment is a departure from Financial Reporting Standard 17 "Retirement Benefits" (FRS 17), the directors consider this necessary in order that the financial statements present a true and fair view of the results for the year and the financial position of the IAA at the balance sheet date.

The IAA's financial statements are required by law to give a true and fair view of the state of affairs of the IAA and of the profit or loss of the IAA for that year. In preparing the 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 financial statements on the going concern basis unless it is inappropriate to presume that the IAA 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 IAA and which enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2012. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the IAA and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a directors' report that complies with the requirements of the Companies Acts, 1963 to 2012.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the IAA's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board:

Anne Nolan
Chairman

Eamonn Brennan
Chief Executive

26 March 2013

We have audited the financial statements ("financial statements") of the Irish Aviation Authority for the year ended 31 December 2012 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

This report is made solely to the IAA's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the IAA's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the IAA and the IAA's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities on page 22, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company circumstances and have been consistently applied and adequately

disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the IAA's affairs as at 31 December 2012 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2012.

Accounting for pension costs

As explained in the statement of accounting policies on page 25 the IAA departs from full compliance with the reporting requirements of Financial Reporting Standard 17 "Retirement Benefits" (FRS 17). The pension charge and related income equalisation for defined benefit pension obligations is accounted for on a cash basis, rather than on a service cost basis, in the profit and loss account. This is adjusted through the statement of total recognised gains and losses. The directors consider this necessary in order that the financial statements present a true and fair view of the results for the year and the financial position of the IAA at the balance sheet date. Our audit opinion is not qualified in this regard.

Matters on which we are required to report by the Companies Acts 1963 to 2012

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

INDEPENDENT AUDITOR'S REPORT (continued) to the members of the Irish Aviation Authority

The financial statements are in agreement with the books of account and, in our opinion, proper books of account have been kept by the IAA.

In our opinion, the information given in the directors' report is consistent with the financial statements.

The net assets of the IAA, as stated in the balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the IAA.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2012 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Caroline Flynn

for and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm

26 March 2013

1 Stokes Place, St Stephen's Green, Dublin 2

STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the IAA's financial statements, with the exception of accounting for pension costs as described in the following paragraphs.

Basis of preparation of financial statements

The financial statements are prepared under the historical cost convention and applicable law and Irish generally accepted accounting practice which includes compliance with the financial reporting standards of the Financial Reporting Council, as promulgated by the Institute of Chartered Accountants in Ireland, except for the departure from full compliance with Financial Reporting Standard 17 "Retirement Benefits" (FRS 17).

True and fair view override

Ireland is a party to a multilateral agreement (EUROCONTROL) relating to the collection of en route navigation service charges. Under Section 47 of the Irish Aviation Authority Act, 1993, the IAA performs this function on behalf of the State. Differences in income and costs arising from traffic volume risk and cost risk sharing are recovered from or returned to users of en route navigation services by amendment of charges in later years.

The definition of costs was clarified in 2007 specifically to include all cash payments to pension funds, whereas previously, parties to the agreement were only entitled to recover the accounting pension charge. Under the provisions of FRS 17, companies are not permitted to charge cash payments to the profit and loss account and must only record the accounting pension charge, as determined by the schemes' actuary.

In order that the results of the IAA and the balance sheet present a true and fair view, the directors believe that it is necessary to depart from the requirements of FRS 17 and include all cash contributions made to the pension fund in operating expenses in each financial year and to record an offsetting credit in the statement of total recognised gains and losses (STRGL) to reflect cash paid in excess of the actuarially determined service cost. The IAA is of the view that this approach is necessary in order that the statutory financial statements accurately reflect the International Civil Aviation Organisation and EUROCONTROL charging principles and the Irish Aviation Authority Act, 1993.

The impact of the departure is described in the pension costs note below.

Turnover

Turnover represents the amounts received, and receivable, in respect of services provided to customers, together with fees received in respect of statutory regulatory functions performed in discharge of safety regulation requirements.

En route and terminal revenues

As described above, the IAA is entitled to recover differences between income and costs relating to en route navigation service charges where these differences arise from traffic volume risk and cost risk sharing. Differences arising are provided for in an income equalisation account and are adjusted against income arising from en route activity. Income from terminal navigation charges, relating to approach, landing and take-off services, is equalised in a similar manner. Amounts are accrued in turnover and recognised as either receivables or payables in the balance sheet.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation. Depreciation is calculated to write off the cost of each fixed asset, including equipment purchased as part of an installation, on a straight line basis over its expected useful life, at the following annual rates:

Buildings	5%
Completed installations and other works	8 $\frac{1}{3}$ % - 12 $\frac{1}{2}$ %
Office equipment	20% - 33 $\frac{1}{3}$ %

Assets are depreciated from the date they are commissioned for use.

Assets under construction/installations in progress are carried at historical cost and are not depreciated until they are brought into use.

Leased assets

Operating lease rentals are expensed as they accrue over the periods of the leases.

STATEMENT OF ACCOUNTING POLICIES (continued)

Foreign currencies

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

Taxation

Corporation tax is provided for on the profit for the year at the current rates. Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the IAA's taxable profits and its results, as stated in the financial statements, that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Pension costs

The IAA provides pensions to its employees under four superannuation schemes. Three of these schemes are defined benefit schemes: "The Irish Aviation Authority Staff Superannuation Scheme 1996" – for staff whose employment commenced prior to 1 April 2008; "The Irish Aviation Authority Staff Superannuation Scheme 2008" – for staff whose employment commenced from 1 April 2008 to 31 December 2011; "The Irish Aviation Authority Hybrid Pension Plan 2012" – for staff whose employment commenced since 1 January 2012. For the schemes, the difference between the market value of the schemes' assets and the actuarially assessed present value of the schemes' liabilities, calculated using the projected unit credit method, is reported as an asset/liability on the balance sheet, net of related deferred tax (in respect of any deferred tax asset, to the extent that it is recoverable).

The amount charged to the profit and loss account is the total of:

- (a) the actuarially determined cost of pension benefits promised to employees during the year plus any benefit improvements granted to members during the year (current/past service cost)
- (b) 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 rate, such amounts being included in financing costs, and
- (c) an additional charge to operating expenses reflecting the difference between the actuarially determined pension charge (current/past service cost) included above and total cash payments to the pension fund in the year.

Any differences between the expected return on assets and what was actually achieved, and any changes in 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 statement of total recognised gains and losses includes an offset amounting to the additional pension charge, described in paragraph (c) above, expected to be recovered under the provisions of the EUROCONTROL agreement as described on page 25.

The IAA thus departs from the requirements of FRS 17 in order that the results present a true and fair view and comply with the requirements of the agreements under which its operations are governed. The impact of the departure is to increase the actuarially determined service cost by €19,479,000 (2011: €32,797,000) for recovery under the equalisation mechanism in the year ended 31 December 2012, and to record an offsetting credit in the STRGL, thereby maintaining the profit and loss reserves and net assets of the IAA in line with the requirements of FRS 17.

The IAA also operates a defined contribution pension scheme: "The Irish Aviation Authority Defined Contribution Pension Plan 2012" – for staff whose employment commenced since 1 January 2012. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of 2012.

Cash flow statement

Cash for the purpose of the cash flow statement represents cash held at bank available on demand.

Liquid resources comprise bank fixed deposits with maturities of greater than one day. These deposits are readily convertible into known amounts of cash.

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
Turnover - continuing activities	1	175,010	179,036
Operating expenses		(152,158)	(161,113)
Operating profit - continuing activities		22,852	17,923
Interest receivable and similar income	3	571	669
Interest payable and similar charges	4	(522)	(742)
Net finance expense	5	(8,199)	(3,684)
Profit on ordinary activities before taxation	6	14,702	14,166
Tax on profit on ordinary activities	7	(4,652)	(6,297)
Profit for the financial year	22	10,050	7,869

On behalf of the board:

Anne Nolan
Chairman

Eamonn Brennan
Chief Executive

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
Profit for the financial year	22	10,050	7,869
Adjustments in relation to defined benefit schemes:			
Actuarial gains/(losses) on plan assets	21	27,709	(25,529)
Experience gains/(losses) on scheme liabilities	21	10,168	(9,582)
Effect of changes in actuarial assumptions	21	(43,225)	(39,764)
		(5,348)	(74,875)
Related deferred tax asset	14 (ii)	668	9,360
Cash in excess of pension service cost	2	19,479	32,797
Total recognised gains/(losses) for the financial year	23	24,849	(24,849)

BALANCE SHEET

at 31 December 2012

	Notes	2012 €'000	2011 €'000
Assets			
Fixed assets			
Tangible assets	8	92,079	101,401
Current assets			
Debtors	9	31,600	31,385
Cash at bank and in hand		89,464	74,342
		121,064	105,727
Total assets		213,143	207,128
Equity and liabilities			
Capital and reserves			
Called up share capital	15	22,675	22,675
Profit and loss account	22	27,088	2,239
Shareholders' funds – equity	23	49,763	24,914
Non current liabilities			
Creditors: amounts falling due after more than one year	12	-	9,321
Provisions for liabilities and charges	14	172	524
Current liabilities			
Creditors: amount falling due within one year	10	35,891	39,862
Pension liability net of tax – FRS 17 basis	21	127,317	132,507
Total equity and liabilities		213,143	207,128

On behalf of the board:

Anne Nolan
Chairman

Eamonn Brennan
Chief Executive

CASH FLOW STATEMENT

for the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
Net cash inflow from operating activities	(see below)	41,715	42,421
Returns on investments and servicing of finance	16	(125)	(112)
Net taxation paid		(3,379)	(3,544)
Capital expenditure	16	(8,089)	(6,739)
Net cash inflow before financing		30,122	32,026
Financing	16	(15,000)	-
Increase in cash in year	17	15,122	32,026

Reconciliation of operating profit to net cash inflow from operating activities

	2012 €'000	2011 €'000
Operating profit	22,852	17,923
Depreciation of tangible fixed assets	16,173	24,189
Decrease in debtors	1,063	618
increase/ (decrease) in creditors	1,615	(309)
Loss on disposal of tangible fixed assets	12	-
Net cash inflow from operating activities	41,715	42,421

1	Turnover	2012	2011
	Activity	€'000	€'000
	En route	112,650	113,649
	Terminal	21,469	25,245
	North Atlantic communications	17,832	17,592
	Safety regulation	19,967	19,520
	Exempt air traffic	1,713	2,001
	Commercial	1,379	1,029
		175,010	179,036

The IAA's turnover is primarily derived from aviation-related services and statutory functions provided in the Republic of Ireland.

2 Staff numbers and costs

The average number of persons employed by the IAA during the year, including executive directors, analysed by category, was as follows:

	2012	2011
Operations	457	477
Technology and training	74	76
Safety regulation	92	86
Finance, human resources, corporate affairs and others	56	56
Total employees	679	695
Student air traffic controllers	44	41
Trainee aeronautical radio officers	-	2

NOTES (continued)

2 Staff numbers and costs (continued)

	2012	2011
The aggregate payroll costs of these persons were as follows:	€'000	€'000
Wages and salaries	64,036	65,620
Social welfare costs	4,274	4,065
Pension costs – current service cost (note 21)	6,099	3,557
Pension costs – past service cost (note 21)	(2,190)	(1,736)
Pension costs – defined contribution	6	-
Pension costs – additional cash cost †	19,479	22,761
	91,704	94,267

† Pension costs – in 2011 additional cash cost is net of a pension-related amount of €10,036,224 which was accrued in 2010 and paid over to the pension fund in 2011. Total additional cash costs recorded in the statement of total recognised gains and losses amounted to €32,797,032 in 2011.

Student air traffic controllers undergoing training are included in the above payroll costs and non-executive directors are excluded.

3 Interest receivable and similar income

	2012	2011
	€'000	€'000
Bank interest	429	540
Other interest	142	129
	571	669

4 Interest payable and similar charges

	2012	2011
	€'000	€'000
On bank loans and overdrafts	522	742
	522	742

5	Net finance expense	2012	2011
		€'000	€'000
	Expected return on plan assets (note 21)	15,268	17,688
	Interest on plan liabilities (note 21)	(23,467)	(21,372)
		(8,199)	(3,684)

6	Statutory and other information	2012	2011
		€'000	€'000
	Directors' remuneration		
	Fees paid to directors		
	Ms Anne Nolan (Chairman)	22	22
	Mr Eamonn Brennan (Chief Executive)	-	10
	Ms Lorraine Burke	13	13
	Mr Pat Dalton	13	13
	Mr Ernie Donnelly	-	-
	Mr Peter G Ledbetter	11	13
	Dr Rosheen McGuckian	13	13
	Mr Michael Norton	13	3
	Mr Geoffrey O'Byrne-White	13	13
	Ms Claire O'Donoghue	-	13
		98	113

In aggregate, directors were reimbursed expenses of €3,526 in total during 2012 (2011: €4,832).

NOTES (continued)

6 Statutory and other information (continued)	2012	2011
	€'000	€'000
Emoluments and pension contributions relating to the chief executive's contract of employment		
- annual basic salary	232	232
- performance-related remuneration paid in respect of previous year	-	-
- other taxable benefits	46	46
- pension contributions	79	79
	357	357

The chief executive is a member of the defined benefit superannuation scheme "The Irish Aviation Authority Staff Superannuation Scheme 1996" in common with other staff members. The chief executive voluntarily waived 10% of his official salary in each year 2009 to 2012 and waived his board fees from December 2011. The IAA operates a Department of Finance approved performance-related pay scheme for all chief executives of commercial semi-State bodies that provides for a long and short term performance-related pay element based on pre-agreed objectives. No performance-related pay was paid to the chief executive in respect of 2010, 2011 or 2012.

	2012	2011
	€'000	€'000
Auditor's remuneration (including expenses)		
- audit	50	50
- other assurance	19	22
- tax advisory services	8	10
- other non-audit	3	28
Depreciation	16,173	24,189
Met Eireann charges	8,176	7,687
Rentals payable under operating leases – buildings	4,609	2,527
Rentals payable under operating leases – other	119	135

7 Tax on profit on ordinary activities	2012	2011
	€'000	€'000
Corporation taxation	3,594	1,979
Deferred tax (credit)/charge (note 14):		
- Origination and reversal of other timing differences	(352)	679
- Origination and reversal of pension timing differences dealt with in the profit and loss account	1,410	3,639
	4,652	6,297
Current tax reconciliation		
Profit on ordinary activities before tax	14,702	14,166
Expected current tax at 12.5% (2011: 12.5%)	1,838	1,771
Effects of:		
Expenses not deductible for tax purposes	358	73
Depreciation in excess of capital allowances	195	793
Income not taxable at standard rate	171	136
Notional finance expense on pension	1,025	461
Other timing differences	7	(1,255)
Total current tax charge	3,594	1,979

NOTES (continued)

8 Tangible fixed assets

	Buildings €'000	Completed installations and other works €'000	Installations in progress €'000	Office equipment €'000	Total €'000
Cost					
At beginning of year	30,464	156,292	3,095	6,733	196,584
Additions in year	-	156	6,199	508	6,863
Brought into use in year	-	2,576	(2,719)	143	-
Disposals in year	-	(29,257)	-	(956)	(30,213)
At end of year	30,464	129,767	6,575	6,428	173,234
Accumulated depreciation					
At beginning of year	11,656	79,166	-	4,361	95,183
Charge in year	1,522	13,640	-	1,011	16,173
Disposals in year	-	(29,245)	-	(956)	(30,201)
At end of year	13,178	63,561	-	4,416	81,155
At 31 December 2012	17,286	66,206	6,575	2,012	92,079
At 31 December 2011	18,808	77,126	3,095	2,372	101,401

9 Debtors

	2012 €'000	2011 €'000
Trade debtors	25,537	27,466
Prepayments and accrued income	5,010	3,543
Other debtors	274	320
Value added tax	81	56
Income equalisation due after one year - terminal	698	-
	31,600	31,385

10	Creditors: amounts falling due within one year	2012	2011
		€'000	€'000
	Trade creditors	1,153	735
	Other creditors including tax and social welfare (note 11)	2,088	2,752
	Accruals and deferred income	21,798	16,594
	Income equalisation – en route	10,852	4,781
	Bank loans (note 13)	-	15,000
		35,891	39,862
11	Taxation and social welfare included in other creditors	2012	2011
		€'000	€'000
	Corporation tax	244	29
	PAYE/PRSI	1,844	2,723
		2,088	2,752
12	Creditors: amounts falling due after more than one year	2012	2011
		€'000	€'000
	Income equalisation – en route	-	9,321
		-	9,321
13	Bank loans	2012	2011
		€'000	€'000
	Within one year	-	15,000

NOTES (continued)

14	Deferred tax liabilities	Ref	2012	2011
			€'000	€'000
	Deferred taxation – excluding pension-related	(i)	172	524
	Deferred taxation – pension-related	(ii)	(18,188)	(18,930)
			(18,016)	(18,406)
	Less deferred taxation included in pension liability		18,188	18,930
			172	524
(i)	Deferred taxation – excluding pension-related			
	At beginning of year		524	(155)
	(Credited)/charged to profit and loss account (note 7)		(352)	679
	At end of year		172	524
	The provision at the end of the year represents the full potential liability and arises on timing differences between capital allowances and depreciation and on general accruals.			
(ii)	Deferred taxation – pension-related		2012	2011
			€'000	€'000
	At beginning of year		(18,930)	(13,209)
	Changes in actuarial assumptions		(668)	(9,360)
	Charged to profit and loss account (note 7)		1,410	3,639
	At end of year		(18,188)	(18,930)
15	Called up share capital – equity		2012	2011
			€'000	€'000
	(Authorised, allotted, called up and fully paid)			
	17,858,000 ordinary shares of €1.27 each		22,675	22,675

16	Gross cash flows	2012	2011
		€'000	€'000
	Returns on investments and servicing of finance		
	Interest paid	(625)	(689)
	Interest received	500	577
		(125)	(112)
	Capital expenditure	2012	2011
		€'000	€'000
	Payments to acquire tangible fixed assets	(8,089)	(6,739)
		(8,089)	(6,739)
17	Financing	2012	2011
		€'000	€'000
	Repayment of bank loans	(15,000)	-
		(15,000)	-
17	Reconciliation of net cash flow to movement in net funds	2012	2011
		€'000	€'000
	Increase in cash in year	15,122	32,026
	Repayment of debt	15,000	-
		30,122	32,026
	Movement in net debt in year	30,122	32,026
	Net funds at beginning of year	59,342	27,316
	89,464	59,342	
	Net funds at end of year	89,464	59,342

NOTES (continued)

17 Reconciliation of net cash flow to movement in net funds (continued)

Analysis of net funds	At 1 January 2012 €'000	Cash flow €'000	At 31 December 2012 €'000
Cash at bank and in hand	74,342	15,122	89,464
Bank loans due within one year	(15,000)	15,000	-
Net funds	59,342	30,122	89,464
Reconciliation to balance sheet			
Cash at bank and in hand	74,342		89,464
Bank loans due within one year	(15,000)		-
	59,342		89,464

18 Related parties

In common with many other government bodies, the IAA deals in the normal course of business with other government bodies and departments, such as Dublin Airport Authority plc, Electricity Supply Board ("ESB"), the Department of Transport, Tourism and Sport and Met Eireann. In addition, in the normal course of business, the IAA transacts with certain Irish banks which have become wholly or partially owned by the Irish State. All of the IAA's transactions with such banks are on normal commercial terms.

The ultimate controlling party is the Department of Public Expenditure and Reform.

19 Commitments	2012 €'000	2011 €'000
(i) Capital commitments		
Future capital expenditure approved by the directors		
Not contracted for	41,394	49,771
Contracted for	7,254	2,682
	48,648	52,453

19 Commitments (continued)

(ii) Operating lease commitments

	2012		2011	
	Buildings €'000	Motor Vehicles €'000	Buildings €'000	Motor Vehicles €'000
Expiring:				
Within one year	-	22	-	24
Between one and two years	-	17	-	81
Between two and five years	98	62	98	42
More than five years	3,268	-	4,041	-
	3,366	101	4,139	147

20 Contingent liabilities

The IAA has an outstanding equal pay claim, initiated in 1998, from a union representing clerical staff. This claim is being considered by the Labour Court and is being vigorously opposed by the IAA. The outcome of this process cannot be determined with reasonable certainty and consequently it is not possible to quantify the outcome of the claim. No provision has been made in the financial statements in respect of this claim.

21 Pension information

Pensions for all permanent employees, whose employment commenced prior to 1 January 2012, are funded through two defined benefit pension schemes and the assets accumulated are vested in independent trustees.

The IAA undertakes actuarial valuations of the defined benefit pension schemes at least every three years. The date of the latest actuarial valuation is 1 January 2012 and covers all accrued benefits. This valuation was conducted by qualified independent actuaries.

The valuations employed for FRS 17 purposes have been based on the most recent funding valuations for the schemes adjusted by the independent actuaries to allow for the accrual of liabilities up to 31 December 2012 and to take account of financial conditions at this date. The valuations used for FRS 17 purposes have been completed using the projected unit method, and assets for this purpose have been valued at market value.

The actuarial reports, which are available to members of the schemes, are not available for public inspection.

The IAA has no unfunded schemes. There are no outstanding or pre-paid contributions at year-end.

NOTES (continued)

21 Pension information (continued)

(i) Principal actuarial assumptions

	2012 Projected unit	2011 Projected unit
Weighted average assumptions to determine benefit obligations		
Expected rate of return on plan assets *	4.60%	4.89%
Expected return on plan assets at beginning of period *	4.89%	5.86%
Discount rate	4.20%	5.10%
Rate of compensation increase (staff/senior staff) †	1.85%	3.00%
Rate of price inflation	1.85%	2.00%
Rate of pension increase	1.85%	2.00%

* The expected rate of return on assets for 2012 and 2013 has been reduced by 0.6% to reflect the pension levy paid in 2012 and payable in 2013.

† This is the long-term assumption applicable from 2015 onwards.

Change in accounting estimate

During the year, the IAA, with input from its actuarial consultants, refined its estimate of the discount rate used for the purposes of the computation of the defined benefit liabilities. The refinement included a significant extension of the bond data included in the population from which the discount rate is derived as well as a refinement of the approach used to extrapolate the available bond data out to the duration of the pension scheme obligations.

As a result of the refined methodology adopted, the discount rate which would have been derived as 4.4%, decreased to 4.2%. The effect of this change at the balance sheet date was to increase the present value of scheme liabilities from €486.0 million to €506.4 million based on the discount rate of 4.2% adopted.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on the standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year-old to live for a number of years as follows:

	2012	2011
Life expectancy for a male member from age 65 on post-retirement mortality table used to determine benefit obligations for:		
Current active and deferred members	25.6	26.2
Current pensioner members	22.4	23.0
Life expectancy for a female member from age 65 on post-retirement mortality table used to determine benefit obligations for:		
Current active and deferred members	26.6	27.2
Current pensioner members	23.9	24.5

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

21 Pension information (continued)

(ii) Amounts recognised in the balance sheet

	2012	2011
	€'000	€'000
Present value of wholly or partly funded obligations	(506,391)	(457,969)
Fair value of plan assets	360,886	306,532
Deficit	(145,505)	(151,437)
Related deferred tax asset	18,188	18,930
Net liability	(127,317)	(132,507)

(iii) Movements in fair value of plan assets

	2012	2011
	€'000	€'000
Fair value of plan assets at beginning of year	306,532	289,303
Expected return on plan assets	15,268	17,688
Actuarial gains/(losses) on plan assets	27,709	(25,529)
Employer contributions	23,338	34,618
Member contributions	3,912	4,049
Benefits paid from plan	(15,873)	(13,597)
Fair value of plan assets at end of year	360,886	306,532

(iv) Movements in present value of defined benefit obligations

	2012	2011
	€'000	€'000
Benefit obligation at beginning of year	(457,969)	(394,978)
Current service cost	(6,049)	(3,557)
Past service cost	2,190	1,736
Interest on plan liabilities	(23,467)	(21,372)
Member contributions	(3,912)	(4,049)
Experience gains/(losses) on liabilities	10,168	(9,582)
Losses due to actuarial assumption changes	(43,225)	(39,764)
Benefits paid from plan	15,873	13,597
Benefit obligation at end of year	(506,391)	(457,969)

NOTES (continued)

21 Pension information (continued)

(v) Components of pension cost

	2012 €'000	2011 €'000
Expense recognised in the profit and loss account		
Current service cost	(6,049)	(3,557)
Past service cost	2,190	1,736
Additional cash cost	(19,479)	(32,797)
Interest on plan liabilities (note 5)	(23,467)	(21,372)
Expected return on plan assets (note 5)	15,268	17,688
Total pension cost recognised in the profit and loss account	(31,537)	(38,302)

Analysis of amounts recognised in statement of total recognised gains and losses		
Actuarial losses immediately recognised	(5,348)	(74,875)
Cumulative amount of actuarial losses immediately recognised	(167,610)	(162,262)

(vi) Plan Assets

The asset allocations as at 31 December 2012:

	2012 Percentage of plan assets	2012 Expected return on plan assets	2011 Percentage of plan assets	2011 Expected return on plan assets
Equity securities	57.6%	6.7%	55.3%	7.1%
Bond securities	37.9%	3.0%	37.1%	3.1%
Property	-	-	3.1%	6.1%
Cash and other	4.5%	4.5%	4.5%	4.6%
	100.0%	4.60%	100.0%	4.89%

Description of basis to determine the overall expected rate of return on assets:

To develop the expected long-term rate of return on assets assumption, the IAA considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted, based on the schemes' asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio. The result was then reduced by 0.6% to reflect the pension levy payable in 2013 giving a net expected return of 4.6%.

	2012 €'000	2011 €'000
Actual return on assets		
Actual return on plan assets	42,977	(7,841)

21 Pension information (continued)

(vii) History of experience adjustments	2012	2011	2010	2009	2008
	€'000	€'000	€'000	€'000	€'000
Present value of scheme liabilities	(506,391)	(457,969)	(394,978)	(396,933)	(380,809)
Fair value of scheme assets	360,886	306,532	289,303	255,711	213,311
Deficit	(145,505)	(151,437)	(105,675)	(141,222)	(167,498)
Experience adjustments	2012	2011	2010	2009	2008
	€'000	€'000	€'000	€'000	€'000
Experience adjustments on scheme assets:					
Amount	27,709	(25,529)	11,936	21,919	(140,791)
Percentage of plan assets	7.7%	8.3%	4.1%	8.6%	66.0%
Experience adjustments on scheme liabilities:					
Amount	10,168	(9,582)	(1,239)	10,957	5,371
Percentage of plan liabilities	2.0%	2.1%	0.3%	2.8%	1.4%
(viii) Other required disclosure amounts				2012	2011
				€'000	€'000
Contributions expected to be paid by the IAA to the plan during the annual period beginning after the balance sheet date				22,600	23,244

The 'Irish Aviation Authority Hybrid Pension Plan 2012' was set up on 1 January 2012. Pensions for all permanent employees, whose employment commenced since 1 January 2012, are funded through a defined benefit pension scheme and the assets accumulated are vested in independent trustees.

There are no outstanding or pre-paid contributions at year-end.

(i) Amounts recognised in the balance sheet	2012
	€'000
Present value of wholly or partly funded obligations	(88)
Fair value of plan assets	88
Surplus/(deficit)	-
(ii) Movements in fair value of plan assets	2012
	€'000
Fair value of plan assets at beginning of year	-
Employer contributions	50
Member contributions	38
Fair value of plan assets at end of year	88

NOTES (continued)

21 Pension information (continued)

(iii) Movements in present value of defined benefit obligations	2012
	€'000
Benefit obligation at beginning of year	-
Current service cost	(50)
Member contributions	(38)
Benefit obligation at end of year	(88)

(iv) Components of pension cost	2012
	€'000
Expense recognised in the profit and loss account	
Current service cost	(50)

(v) Plan Assets

The asset allocations as at 31 December 2012

	2012 Percentage of plan assets	2012 Expected return on plan assets
Cash	100.0%	2.0%

(vi) History of experience adjustments	2012
	€'000
Present value of scheme liabilities	(88)
Fair value of scheme assets	88
Surplus/(deficit)	-

The IAA operates a defined contribution pension scheme 'The Irish Aviation Authority Defined Contribution Pension Plan 2012' which was set up on 1 January 2012, for staff whose employment commenced since that date. The pension charge for the period represents contributions payable by the IAA to the scheme and amounted to €6,067.

22	Reconciliation of movement in profit and loss account	2012	2011
		€'000	€'000
	Profit and loss account at beginning of year	2,239	27,088
	Profit for the financial year	10,050	7,869
	Other recognised gains and losses	14,799	(32,718)
	Profit and loss account at end of year	27,088	2,239

23	Reconciliation of movement in shareholders' funds	2012	2011
		€'000	€'000
	Shareholders' funds at beginning of year	24,914	49,763
	Total recognised gains/(losses) for the financial year	24,849	(24,849)
	Shareholders' funds at end of year	49,763	24,914

24 Approval of the financial statements

The financial statements were approved by the directors on 26 March 2013.

FIVE YEAR SUMMARY 2008 - 2012

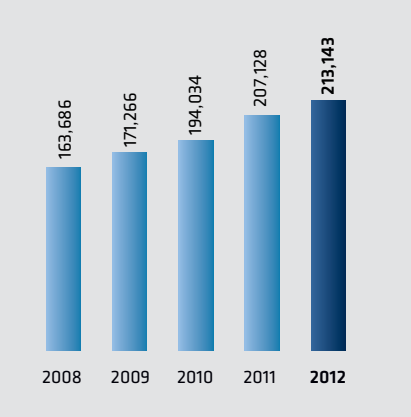
Turnover €'000



Profit €'000



Total Assets €'000

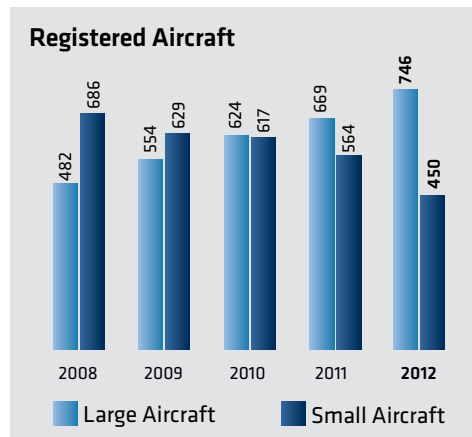
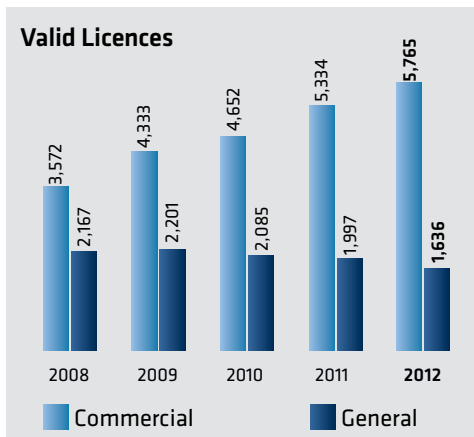
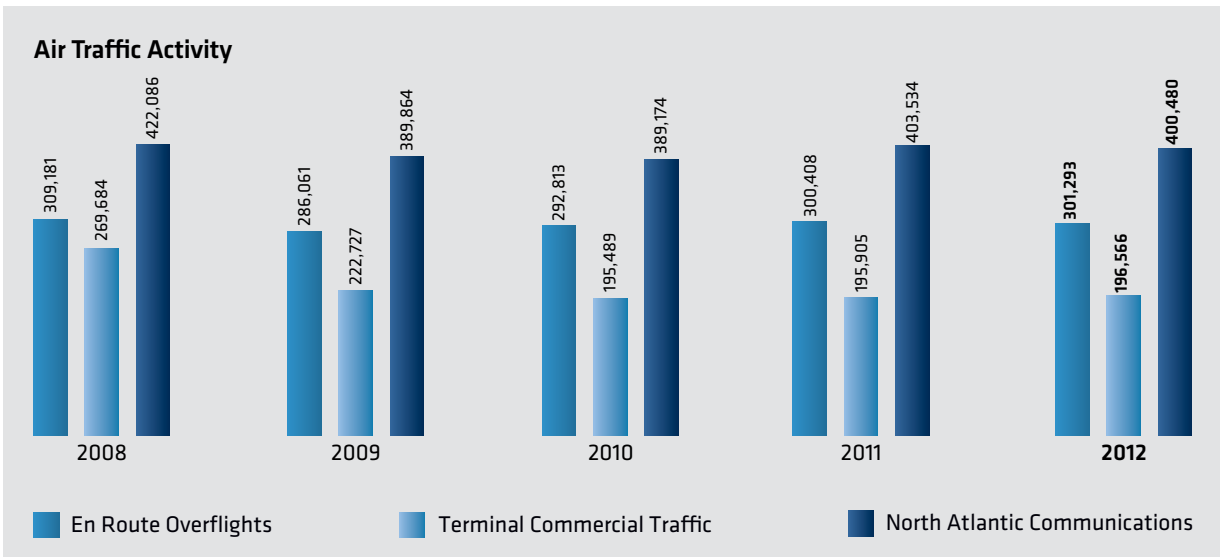
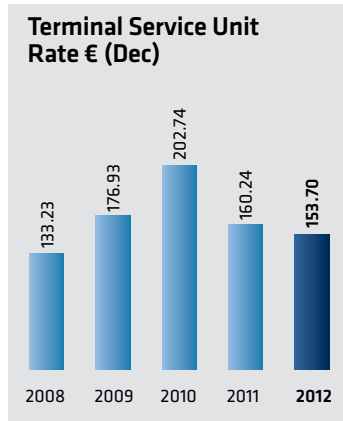
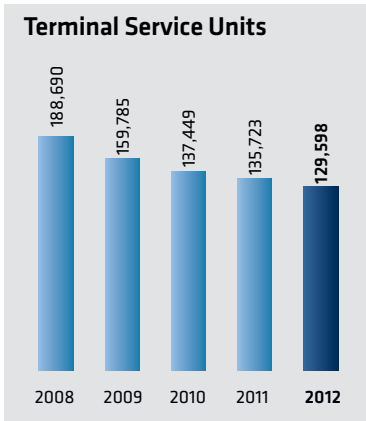


Total En Route Service Units ('000)



En Route Service Unit Rate € (Dec)







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