



IRISH AVIATION AUTHORITY

ANNUAL REPORT

2017



IAA highlights 2017



Top quartile globally for civil aviation safety oversight



1st among global ANSPs for safety maturity



Safely managing significant expansion of Irish AOC fleet



Customer satisfaction rating 90%



Customer charges amongst the lowest in Europe



IAA receives no state funding

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Key Figures

TURNOVER



€193.4m

OPERATING PROFIT

€33.5m

NET ASSETS



€212.0m

DIVIDEND FOR 2017



€19.5m

OVERFLIGHTS



0.8%

DOMESTIC TRAFFIC



3.3%

LICENCES



6.1% to 12,233

AIRCRAFT ON IRISH REGISTER



8.1% to 1,340

DRONES REGISTERED

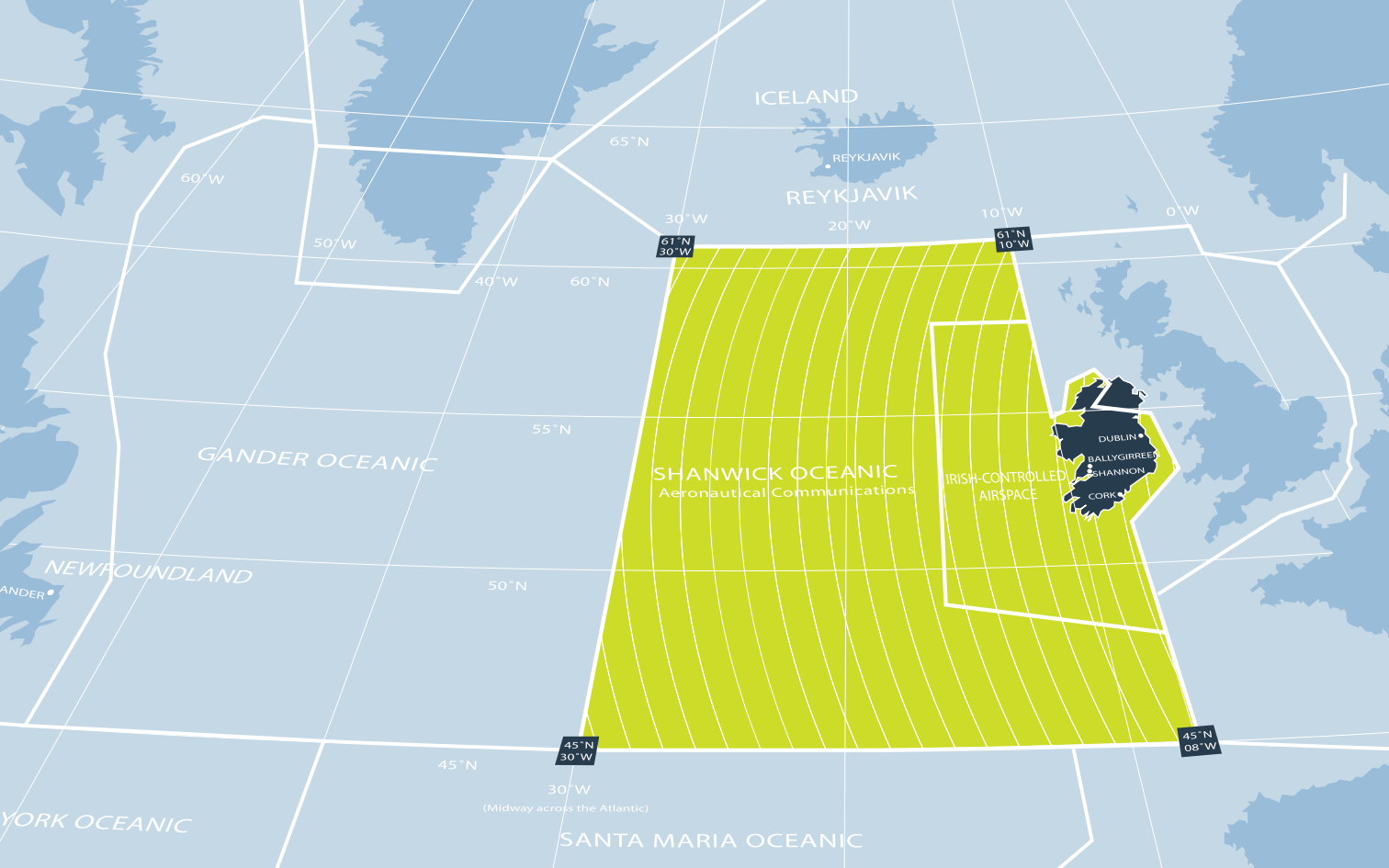


8,600

AVERAGE EMPLOYEES




666



AIR NAVIGATION SERVICES IN THE NORTH ATLANTIC


What we do




Civil Aviation
Safety Regulation



Aviation Security



Air Traffic
Management



Commercial
Activities

Financial and operating highlights 2017



FINANCIAL HIGHLIGHTS

	2017 €'000	2016 €'000	% Change
Turnover	193,442	191,921	+0.8%
Operating profit	33,540	39,490	-15.1%
Profit after tax	26,267	32,115	-18.2%
Dividends paid	9,248	7,430	+24.5%



AIR TRAFFIC ACTIVITY

	2017 Number	2016 Number	% Change
En Route overflights	343,977	341,082	+0.8%
Terminal commercial traffic	255,019	246,816	+3.3%
North Atlantic communications	500,684	476,790	+5.0%



EMPLOYMENT

	2017	2016	% Change
Average number employed	666	652	+2.1%



CUSTOMER CHARGES

	2017 €	2016 €	% Change
En Route overflight	29.54	29.67	-0.4%
Airport terminal traffic	171.69	180.18	-4.7%
North Atlantic Communications	45.00	45.00	0.0%
Safety Regulation	No change	+1.5%	

Chairman's statement



I am pleased to present the Irish Aviation Authority's (IAA) annual report for the financial year ending 31 December 2017.

Anne Nolan | Chairman

Introduction

The IAA regulated effectively in 2017 and delivered a safe and efficient air traffic control service to its airline customers.

In late 2017, the IAA selected a new Chief Executive, Mr. Peter Kearney. At the time of writing, his contract is in the course of being finalised with the Minister for Transport, Tourism and Sport. The board is fully confident that Mr. Kearney will lead the management and staff of the IAA through the challenges and opportunities ahead.

Safety Regulation

Safety is our number one priority. During the year, the IAA provided effective regulatory oversight of the civil aviation industry in Ireland. The IAA has a comprehensive oversight programme and a number of audits, inspections and checks were carried out throughout the year. In 2017, the European Aviation Safety Agency (EASA) conducted audits in the areas of flight simulator training devices and approved pilot training organisations. Each of these audits confirmed that the IAA is fully compliant with EASA requirements.

In continuous monitoring audits by ICAO (International Civil Aviation Organisation) the State has achieved a very high effective implementation score and is ranked in the top quartile in Europe and globally.

The significant expansion of the Irish AOC (air operator certificate) holders' fleet, up 20% in the twelve months to 31 December, was managed safely.

Air Traffic Management

The IAA handled higher levels of traffic in 2017 than in 2016. En route overflights increased by 0.8% to almost 344,000 flights. Traffic on the North Atlantic increased by 5.0% to over 500,000 flights while terminal commercial traffic increased by 3.3% to 255,000 movements. A safe and efficient service was provided to all of our airline customers. The IAA's charges continue to be one of the lowest in Europe and an independently conducted survey of our top 33 customers resulted in a customer satisfaction rating of 90.12%.

In 2017, the IAA met its performance targets in the areas of safety, capacity, environment and cost-efficiency as set out by the Single European Sky performance scheme 2015 to 2019. In a CANSO/ EUROCONTROL safety maturity survey,

IAA achieved a top score when compared with European and global air navigation service providers.

Financial Performance

The IAA, in 2017, recorded another strong financial performance. Consolidated profit before tax was €31.1 million and profit after tax was €26.3 million. The Group's net assets improved by €82.7 million to €212.0 million principally due to a reduction in the IAA's defined benefit pension fund deficit which reported an improvement in the discount rate used to measure pension liabilities.

Dividend

The board are very pleased to confirm that a dividend of €19.5 million will be paid to our shareholders in respect of 2017. This includes a special dividend of €12.0 million, made possible by the IAA's success in managing its business efficiently and effectively.

Corporate Governance

The board adheres to the highest standards of corporate governance. In 2017, the IAA, in pursuit of its governance objectives, was compliant with the 2016 Code of Practice for the Governance of State Bodies. The IAA reviews its policies and procedures on a continual basis to maintain compliance.

Separation

During the year the Minister for Transport, Tourism and Sport announced that he intends on separating the regulatory and service provision functions of the IAA. This will be a significant project and the challenge will be to achieve a seamless separation which does not impact on either our regulatory or our service provision activities. We will pursue this matter further with the Department in 2018.

Acknowledgements

I would like to thank my board colleagues for their effective contribution to the IAA in 2017. Mr. Kevin O'Driscoll's term of office expired in September. I would like to thank him for his dedicated service. I would like to thank the Minister for Transport, Tourism and Sport, Mr. Shane Ross TD, for his support during the year. Our former Chief Executive and board member, Mr. Eamonn Brennan, resigned at the end of the year to take up a position as Director General of EUROCONTROL. I would like to acknowledge Eamonn's strong leadership of the IAA and his contribution to its success over the years. His new appointment is a strong endorsement both of his personal leadership record as well as the important global role that Ireland plays in civil aviation. To the staff of the IAA, I would like to thank you for your continued commitment and dedication.



Anne Nolan
Chairman

Chief Executive's review



Safety is our number one priority and so I am pleased to report that 2017 was another safe year in the regulation of the civil aviation industry in Ireland and in the delivery of air traffic control services in Irish-controlled airspace.

Peter Kearney | Chief Executive Designate

Safety Regulation

2017 has seen the IAA maintain its position as a highly regarded safety regulator, overseeing the safety of the Irish civil aviation industry which, today, includes almost 1,400 aircraft on the Irish register, 15 air operators, 24 licensed aerodromes and nearly 13,000 licensed personnel.

The number of aircraft operated by the main Irish AOC (aircraft operator certificate) holders increased in 2017 by 20% to 643 aircraft as follows:

RYANAIR 420	NORWEGIAN AIR INTERNATIONAL 69	AER LINGUS 49	ASL AIRLINES (IRELAND) 43
CITYJET 40	STOBART AIR 19	SAS IRELAND 3	

SAS Ireland was granted an Irish AOC in December 2017 while, last summer, Norwegian Air began transatlantic operations from Ireland.

Safety Oversight Programme

The IAA has a comprehensive oversight programme, consisting of audits, inspections and checks (proficiency and medical) to ensure that organisations and individuals comply with applicable safety requirements and standards. A risk and performance-based approach is used in the oversight of civil aviation in order to focus the IAA's resources towards the areas of greatest safety concern. In addition, approved organisations are required to implement safety management systems in order to manage the risks specific to their own operations.

Effective safety management is dependent on the identification of appropriate measures of safety performance. The main high-level measures of safety performance in Ireland are published in the Annual Safety Review (<https://www.iaa.ie/safety/safety-performance1>). The State Safety Plan 2017 – 2020 includes the mitigating actions the IAA is taking to address the main safety risks that emerge from the analysis of the data, both Irish and European.

The number of fatal accidents and fatalities continued to decline during 2017 worldwide. In Ireland, sadly, there was one fatal accident involving an Irish operator in March 2017 at Black Rock, Co Mayo resulting in two fatalities and two missing and one fatal accident, also in March 2017, at Knockahavaun, Co Waterford involving a general aviation aircraft.

Occurrence Reporting

Through the State Safety Programme for Ireland, the IAA has committed to implement and promote safety occurrence reporting as a key pillar of safety risk management. The objective of safety reporting is to contribute to the improvement of air safety by ensuring that relevant information on safety related events is identified, collected, collated and analysed, allowing the proactive identification of safety risks and the subsequent targeting of these risks to mitigate any possible undesired outcome. EU regulations require both aviation organisations and aviation authorities to implement mandatory and voluntary occurrence reporting systems. The occurrence reporting culture of Irish air operators is amongst the best in Europe based on a recent EU wide survey in this regard.

Consistent with the performance of recent years, the IAA received over 10,000 occurrence reports from air operators, air navigation service providers, airport operators, airworthiness organisations and individuals in 2017. Each individual report is risk classified and analysed to identify potential safety hazards. A follow-up investigation is conducted of each report in conjunction with the reporting organisation.

This investigation is based on the assessed risk and may involve a detailed investigation of an individual or group of high risk reports, or trend monitoring of low risk events. 93% of the occurrence reports submitted to IAA in 2017 were classified as low risk.

In order to contribute to risk management at the EU level, each report is subject to detailed data quality and completeness checks by the IAA before the report is transferred to the European central repository. All reports submitted to the IAA are processed with due regard to the confidentiality and data protection provisions in EU and Irish legislation.

Chief Executive's review (continued)

EASA Audits

In 2017, two standardisation audits were carried out by the European Aviation Safety Agency (EASA). The audits addressed the areas of flight simulator training devices and approved pilot training organisations. Each of these audits confirmed that the IAA is fully compliant with EASA requirements.

ICAO Safety Audits

The International Civil Aviation Organisation (ICAO) engages in continuous monitoring audits of the State, including the IAA. The State has achieved a very high effective implementation score and is ranked in the top quartile on both a European and global basis.

Basic Regulation

The primary EU regulation (Basic Regulation) that governs civil aviation in EU Member States was updated in 2017 and is expected to be published in the European Journal in mid-2018. The new regulation will extend the role of EASA and will present both threats and opportunities to the IAA and the Irish aviation industry alike in the years ahead.

Single European Sky (SES) Reference Period 3

Preliminary consultations have commenced in relation to the SES performance and charging schemes ahead of the implementation of the third reference period (RP3), which will start in 2020.

Drones

It is a legal requirement for drones heavier than 1kg to be registered in Ireland. Currently, there are 8,600 drones and model aircraft on the IAA's drone register. We continue to promote drone safety awareness issues through various campaigns.

Separation of Functions

In 2017, the Minister for Transport, Tourism and Sport announced his intention to separate the regulatory and service provision functions of the IAA. We will work with his Department, in 2018, to develop an appropriate plan.

Security Oversight

As the appropriate authority in Ireland for the purposes of EC Regulation 300/2008 (Common rules in the field of civil aviation security) the IAA is responsible for ensuring that regulatory requirements are implemented by airport operators, air carriers and regulated entities involved in cargo, mail, in-flight and airport supplies. State authorities with a role in aviation security are also subject to compliance monitoring. More than 400 organisations come within the scope of the IAA's regulatory role.

Maintaining compliance is a cornerstone of effective aviation security and the 2017 results in Ireland were consistent with previous years. In addition to compliance activities, the IAA conducted workshops, risk assessments, coordination actions and provided technical support to European and national committees and working groups. Certification was also re-launched for the more than 2,000 persons requiring certification by the IAA for their aviation security duties.

Air Traffic Management

Traffic levels continued to increase with 2017 recording an increase of 0.8% in en route overflights, a 5.0% increase in North Atlantic communications flights and a 3.3% increase in terminal commercial traffic, when compared with 2016. Commercial traffic at Dublin airport increased by 4.0% while traffic at Shannon airport increased by 0.8% and decreased at Cork airport by 1.3%. The IAA provided a safe and efficient service to these flights while maximising employee productivity and efficiencies. There were no en route delays attributable to the IAA and slot adherence measures for terminal traffic remained significantly above the European average.

With traffic levels forecasted to remain strong, headcount is planned to increase to ensure that the IAA's safe and efficient service is maintained. With this in mind, a number of student air traffic controller programmes are planned for 2018 and 2019 as well as direct recruitment of experienced operational staff.

Performance

In a key measure of safety management systems standard of excellence, conducted by CANSO/ EUROCONTROL, in 2017 the IAA achieved the highest safety maturity score of the participating

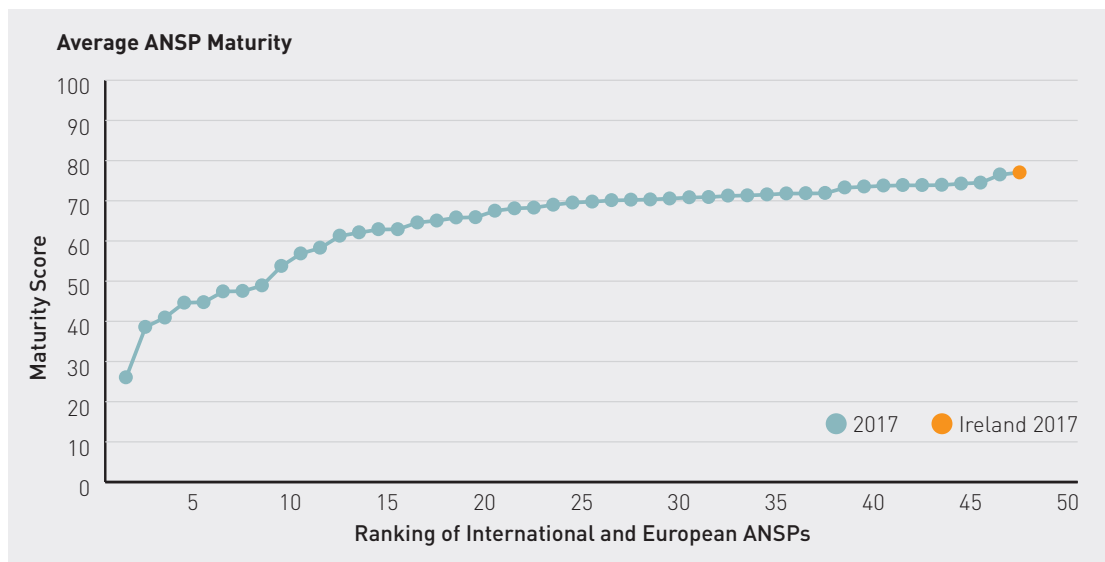
European and International air navigation service providers.

In the last published reference period 2 safety key performance indicator annual Effectiveness of Safety Management (EoS_M) assessment, conducted by EASA (European Aviation Safety Agency), the IAA's air navigation service provider (ANSP) was assessed with a safety maturity of 92%, the joint highest score of the European FAB (functional airspace block) ANSPs.

During the year, new safety intelligence tools were implemented to facilitate safety investigations of occurrence and performance monitoring and to enhance the analysis of incidents.

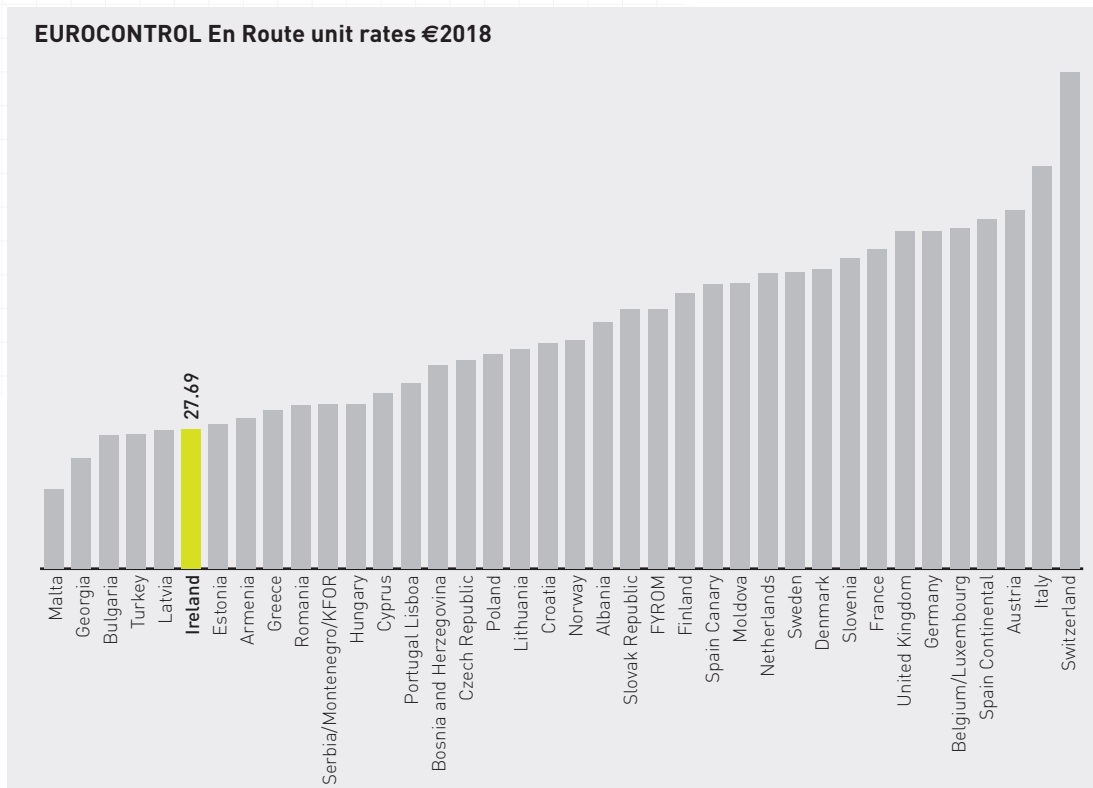
In 2017, the IAA met its targets under the Single European Sky (SES) performance scheme under the headings of safety, capacity, environment and cost efficiency. 2017 was year three of a five-year determination period.

In an annual, independently conducted survey of the IAA's top 33 customers, the IAA received a customer satisfaction rating of 90.12%. This survey measured safety, innovation, financial cost effectiveness, service delivery and customer relationship management. A customer action plan, based on comments received as part of the survey, will be followed up in 2018.



Chief Executive's review (continued)

Our en route charges continue to be one of the lowest in Europe. The graph below shows the 2018 charges for all EUROCONTROL member states, approved in December 2017:



Innovation

Work has commenced on a new visual control tower at Dublin airport. This tower is required to facilitate the daa's plans to build a parallel runway. Single runway operations are planned from the new tower in the first half of 2020 and parallel runway operations in 2021.

Capacity at Dublin airport is a key issue for the IAA with air traffic controllers routinely managing in excess of 700 commercial movements on a daily basis throughout the summer of 2017. Initiatives such as Point Merge, reduced arrival-departure-arrival spacing, High Intensity Runway Operations (HIRO) improvements and continuous dialog with stakeholders have allowed runway throughput to be maximised and an efficient and environmentally-friendly service to be maintained.

We continue to work with our FAB (functional airspace block) partner, NATS in the UK, and together we have implemented an advanced system which significantly reduces delays for aircraft and passengers travelling to London Heathrow. The initiative also delivers fuel and CO₂ emission savings.

In 2017, we expanded our Free Route Airspace (FRA) model to include en route low-level airspace. The IAA now has one of the most efficient and effective FRA implementations in Europe. Expanding FRA to en route low-level airspace was an enabler for Phase 1 of the Borealis alliance FRA implementation plan.



The Borealis alliance comprises nine air navigation service providers including the IAA.

Once implemented in full, the FRA implementation plan will see free route airspace available to more than one third of Europe's air traffic network.

To complement the first phases of Single Person Operations (SPO), the second phase was implemented in 2017. In addition, following a comprehensive review and simulation, enhanced airspace and sectorisation changes have been completed to ensure en route operations remain highly flexible and efficient.

The IAA also implemented a number of enhancements to CPDLC (Controller-Pilot Data Link Communications) message-set in 2017. As a result, the Shannon area control centre is now one of the largest datalink users in Europe. We will continue to explore and expand the message-set available to enhance safety and capacity of en route operations.

2017 also saw the installation of new voice communications technologies at our communications centre at Ballygirreen. ISAVIA (Iceland) has also implemented similar technologies so that both air navigation service providers can co-operate in the provision of virtual HF/VHF (high-frequency/very high-frequency) communications in the joint airspaces, a first in global HF communications technology.

Partnerships



The COOPANS air traffic management system continues to operate very successfully in the five participating countries, Sweden, Denmark, Austria, Croatia and Ireland. A continuous programme of upgrades is planned as part of the COOPANS roadmap. No other group in Europe is close to achieving the same level of technical co-operation. In March 2018, NAV Portugal was approved as a candidate member of COOPANS with the expectation that they will become full members at a future date.



During the year, the Group increased its shareholding in Aireon to 4.83% on a preferred basis (6% on a post redemption basis) having completed its agreed schedule of investment. Aireon is developing a space-based global air traffic surveillance system using ADS-B (automatic dependant surveillance broadcast) which will transform air traffic management capabilities by providing global real-time air traffic surveillance and tracking to air navigation service providers (ANSPs) and aviation stakeholders.

Aireon ALERT (Aircraft Locating and Emergency Response Tracking) is a free global emergency tracking service that will be operated by the IAA from our North Atlantic centre at Ballygirreen. Registrations for this service are expected to commence shortly.



In 2017, the IAA, along with Naviair (Denmark) and LFV (Sweden), increased its shareholding in Entry Point North AB (EPN) to 33 $\frac{1}{3}$ %. A leading provider of air traffic management training solutions, EPN, through its subsidiary Entry Point North Ireland DAC, provides air traffic control training to the IAA.



The IAA and NATS continue to work well together in delivering projects that result in savings to the airlines in terms of reduced fuel burn, time and environmental benefits. We continue to monitor the impact that Brexit could have on the future direction of the FAB (functional airspace block).

Chief Executive's review (continued)



The IAA, through the COOPANS alliance, is a member of the SESAR Deployment Alliance. This alliance has taken on the SESAR Deployment Manager role to develop and maintain the Single European Sky Air Traffic Management (SESAR) Deployment Programme.

Financial Review

The Group delivered a strong financial performance in 2017. Higher levels of traffic, coupled with a continued focus on productivity and cost management has resulted in a Group operating profit of €33.5 million and profit after tax of €26.3 million. The Group's liquidity position remains strong, enabling the IAA to meet the demands of its significant capital expenditure programme.

Dividend

A dividend, in line with the IAA's dividend policy, of €7.5 million, has been approved by the board. The board has also agreed that, in recognition of the strong financial performance of the IAA over the last number of years, a special dividend of €12.0 million will also be paid to the shareholder, bringing the total dividend payable in 2018 to €19.5 million.

Financial highlights	2017 €'m	2016 €'m
Turnover	193.4	191.9
Operating profit	33.5	39.5
Profit before tax	31.1	39.1
Tax charge	(4.8)	(7.0)
Profit after tax	26.3	32.1
Dividend paid	9.2	7.4

Turnover

Turnover has increased by 0.8% to €193.4 million. 87% of revenues are generated by the provision of air traffic control and voice communications services, provided in 451,000 square kilometres of Irish-controlled airspace and 2.2 million square kilometres on the North Atlantic respectively, while safety regulation activities accounted for 10% of total revenues.

En route revenues of €120.2 million accounted for 62% of total revenues and relate to air traffic control services provided, in the main, to aircraft that don't land in Ireland. En route traffic has, in recent years, significantly exceeded original forecast levels as demand for air travel has increased with the improvement in European economies while fuel prices have remained competitively low. In 2017, the IAA had one of the lowest en route charges in Europe.

Terminal revenues are generated from the provision of approach, landing and take-off services at the State airports – Cork, Dublin and Shannon. Terminal revenues accounted for 13% of total revenues and, at €25.1 million, represented an increase over last year's revenue of 1.9%. This increase is mainly driven by significant growth at Dublin airport.

North Atlantic communications revenue in 2017 was €22.3 million, an increase of 5.0% over 2016. Contributing 11% to total revenues, IAA's communications centre at Ballygirreen handled, on average, almost 1,400 flights per day in 2017 with the busiest day recorded being June 24 when 1,684 flights were supported by the IAA.

The safety regulator oversees a civil aviation industry in Ireland which, at 31 December 2017, included, 1,340 aircraft on the Irish register, 15 air operators, 12,223 licences issued to pilots, engineers, air traffic controllers and radio officers and 24 licensed aerodromes. Fees are charged in accordance with the Irish Aviation Authority Fees Order 2015 and, in 2017, these amounted to €20.0 million, an increase of 11.3% over 2016.

Included in commercial revenue is €3.3 million charged to Entry Point North Ireland DAC for training services provided by the IAA, on an arms-length basis, during the year.

Operating Expenses

Operating expenses of €159.9 million have increased by 4.9% or €7.5 million. Almost half of this increase is explained by higher staff costs attributable to increases in headcount and general pay increases (as part of a five-year collective agreement 2015 to 2019). Costs of training have increased by almost 13% while operating and maintenance costs have increased by 25% compared to the previous year. Depreciation costs have also increased as the asset base has increased in 2017. As a percentage of turnover, operating costs were 83% compared to 79% in 2016.

Operating Profit

Operating profit in 2017 was €33.5 million, a reduction of 15.1% on the previous year, explained, principally, by higher operating costs.

Balance Sheet

Consolidated net assets improved from €129.3 million in 2016 to €212.0 million in 2017. This improvement was mainly due to a significant improvement in the company's defined benefit pension liabilities which decreased by 46.4% or €64.4 million on a net basis. The discount rate used to value pension fund liabilities increased in 2017 while mortality assumptions were re-assessed to align with evidence of lower levels of mortality improvements than initially expected. The IAA's main defined benefit schemes – 'The Irish Aviation Authority Staff Superannuation Scheme 1996' and 'The Irish Aviation Authority Staff Superannuation Scheme 2008' – are subject to a funding proposal which is due to expire at the end of 2018. These schemes are closed to new entrants since the end of 2011 at which time all new employees joined the IAA's hybrid pension scheme. In 2017, the employer made total pension

contributions of €19.9 million while employees contributed €3.3 million.

Consolidated fixed assets were €77.2 million at the end of the year, compared to €79.9 million at the end of 2016. The IAA is committed to its capital investment programme and has a technology strategy in place to support future investments. Financial fixed assets of €23.7 million comprise the Group's investments in Aireon and Entry Point North AB. Shareholdings in both investments increased in 2017.

Human Resources

Employee wellbeing remained a priority in 2017 and a number of wellbeing initiatives, aimed at managing physical and mental health, were made available to staff through our 'iHealth Positive Matters' employee wellbeing programme. The IAA marked National Wellbeing Day by hosting lunchtime talks by AWARE on mental health awareness.

The new industrial relations architecture developed from the IMPACT/IAA Collective Agreement (2015 – 2019) has been effective in maintaining a stable industrial relations environment. The Agreement, which is overseen by an independent Internal Disputes Resolution Board (IDRB), provides for annual general round pay increases in return for productivity measures and co-operation with change management initiatives.

A pension recovery plan, implemented in 2011, for the purpose of eliminating the minimum funding standard deficit in the defined benefit pension schemes by 2018, continues to be 'on track'. Furthermore, the funding standard position of the pension schemes improved significantly in the latter part of 2017 on the back of favourable increases in bond yields and good returns on equity markets. The challenge of funding a risk reserve of between €40-€50 million from January 2019 will now become a priority and management will continue to engage with staff representatives on the best way forward.

Chief Executive's review (continued)

2017 was a busy year for training and development with many programmes made available to management and staff. In addition, on-line training programmes were rolled out on data protection and cyber security.

Staff numbers increased in 2017 with average headcount of 666. Recruitment was active across all business units and a new class of student air traffic controllers commenced in 2017.

The IAA was the recipient of a higher distinction award from the National Irish Safety Organisation at their 2017 annual awards night. This is the second year in succession that the IAA has been recognised for excellence in occupational safety management.

Industry Support

The IAA continued to play its part in promoting the aviation industry in Ireland through its sponsorship of the Bray and Foynes airshows. It also sponsored an aviation gala ball held in support of the Irish Historic Flight Foundation (IHFF). The events were a huge success.

During the year the IAA supported the first National Civil Aviation Development Forum conference. The IAA also supported the implementation of large parts of the National Aviation Policy.

Other

Brexit

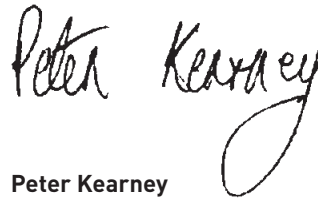
Brexit will have potentially significant implications for aviation and air navigation services. The current uncertainty around Brexit is causing concern for the IAA and across the wider aviation industry in Ireland. Ireland and the UK share a close relationship in the co-ordination and provision of air navigation services and the regulation of civil aviation, both of which will need to be addressed. An economic slowdown as a result of Brexit could affect air traffic growth levels. There is a concern that in the absence of

new air traffic agreements between the UK and EU, there could be an impact on Ireland's air traffic connectivity, while there could be an increase in regulatory burden if regulatory standards diverge between the EU and UK. As mentioned earlier, the future of our FAB relationship with the UK will also need to be resolved. All of these areas are being closely monitored.

Acknowledgements

I would like to thank our Chairman, Ms Anne Nolan, and the board for their support during the year. I would like to thank Mr Graham Doyle, Secretary General, and Mr Fintan Towey, Assistant Secretary, and their staff at the Department of Transport, Tourism and Sport for their assistance throughout the year.

Finally, to our employees, I would like to thank you for the important role played by everyone in delivering our many achievements in 2017. We look forward to 2018 knowing that, whatever the challenges, we can, as a team, continue to make the IAA the success that it has been to date.



Peter Kearney

Chief Executive Designate

Directors and other information

DIRECTORS

Ms. Anne Nolan (*Chairman*)
 Ms. Marie Bradley
 Mr. Ernie Donnelly
 Mr. Pascal Fitzgerald
 Mr. Basil Geoghegan
 Mr. Michael Norton
 Mr. Geoffrey O'Byrne-White

SECRETARY

Ms. Aileen Gahan

AUDITOR

KPMG

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Bank of Ireland

2 Burlington Plaza
 Burlington Road
 Dublin 4

Danske Bank

3 Harbourmaster Place
 IFSC, Dublin 1

SENIOR MANAGEMENT

Peter Kearney
Chief Executive Designate
 Gerald Caffrey
Acting Head Corporate Affairs
 Anthony Eiffe
Internal Audit
 Aileen Gahan
Company Secretary
 Billy Hann
*Acting Director ATM Operations
 and Strategy*
 Maeve Hogan
Director Finance
 Philip Hughes
*Director Commercial,
 Technology and Training*
 Ralph James
*Director Safety and Security
 Regulation*
 Brendan Mulligan
Director Human Resources

Attendance at 2017 Board and Committee Meetings

	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
DIRECTORS				
Ms. Anne Nolan Chairman	8	8	2	2
Mr. Eamonn Brennan former Chief Executive	6	8	-	1
Ms. Marie Bradley	8	8	4	4
Mr. Ernie Donnelly	8	8	3	3
Mr. Pascal Fitzgerald	7	8	4	4
Mr. Basil Geoghegan	7	8	2	2
Mr. Michael Norton	8	8	3	3
Mr. Geoffrey O'Byrne-White	7	8	4	5
Mr. Kevin O'Driscoll	5	5	2	2

Directors' report

The directors present their annual report together with the audited consolidated and company financial statements of the Irish Aviation Authority ("the IAA", "the Company") and its subsidiary undertaking (with the Company and the subsidiary being together "the Group") for the year ended 31 December 2017.

Principal activities, risks and uncertainties, financial results and dividends

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. The information required by Section 327 of the Companies Act 2014 – a review of the business of the Company – is included in the Chairman's Statement and Chief Executive's Review.

Details of the Group's financial results for the year are set out in the consolidated profit and loss account on page 28 and in the related notes. As described therein, profit for the financial year was €26.3 million (2016: €32.1 million) on turnover of €193.4 million (2016: €191.9 million). During the year the Company declared and paid a final dividend of €9.2 million (€0.52 per share) for fiscal 2016 (2016: €7.4 million (€0.42 per share)).

In monitoring the Group'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	Group and Company	
	2017 Number	2016 Number
En route overflights	343,977	341,082
Terminal commercial traffic	255,019	246,816
North Atlantic communications flights	500,684	476,790

The IAA's vision is founded on six key results areas – safety regulation, air traffic management ("ATM") safety, security, service excellence, financial and stakeholder and customer 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 and security standards
- ▶ compliance with European regulations while maintaining high standards of safety and service
- ▶ separation of the safety regulation and service provision functions
- ▶ adverse economic and market conditions
- ▶ effect of Brexit on regulation and Single European Sky
- ▶ IAA's significant reliance upon its technology and communications infrastructure.

The directors have developed a range of strategies to address these and other risks faced by the IAA. The corporate governance section of this directors' report, on pages 17 to 22, sets out the IAA's policies and approach to risks and the related internal control procedures and responsibilities.

Directors

The names of the directors who served during the year are set out on page 15. Except as set out below, they served for the entire year. Mr. Basil Geoghegan's term of office expired and he was re-appointed to the board on 20 May 2017. Mr. Kevin O'Driscoll's term of office expired on 16 September 2017. Mr. Eamonn Brennan resigned from the board on 13 December 2017.

Interests of directors and secretary

The directors and secretary who held office at 31 December 2017 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, unless re-appointed by the Minister thereafter.

Corporate governance

The directors are committed to maintaining the highest standards of corporate governance. For the year under review, the IAA, in pursuit of its governance objectives, complied with the Code of Practice for the Governance of State Bodies, issued in August 2016. The IAA has put in place appropriate measures to comply with this Code and continually reviews its policies and procedures to ensure continued compliance. A report on compliance with the Code was made to the Audit and Risk Committee.

This report describes how the relevant principles of good corporate governance, set out in the 2016 Code of Practice for the Governance of State Bodies, are applied.

The Board

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 comprises seven directors. Each director is 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, unless re-appointed by the Minister thereafter. 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.

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.

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

Directors' report (continued)

Regular meetings of the board are held throughout the year. The number of meetings held by the board in 2017 was eight. These meetings were attended as follows:

	Date of appointment (*or re-appointment)	Board meetings attended	Max number of board meetings director could have attended
Anne Nolan, <i>Chairman</i>	13 June 2014	8	8
Eamonn Brennan, <i>former Chief Executive</i>	Resigned during year	6	8
Marie Bradley	13 June 2014	8	8
Ernie Donnelly	24 October 2016	8	8
Pascal Fitzgerald	1 August 2014	7	8
Basil Geoghegan	20 May 2017*	7	8
Michael Norton	6 October 2015	8	8
Geoffrey O'Byrne-White	23 April 2015	7	8
Kevin O'Driscoll	Retired during year	5	5

Effectiveness of the Board

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 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 maintain effective communication with the shareholder. The roles of the Chairman and Chief Executive are separate and are set out in a policy approved by the board. All of the non-executive directors are independent of management.

Throughout their time in office, the directors are provided with regular information on all aspects of the business. The Chief Executive 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. Reports and papers are circulated to the board and its committees on a timely basis.

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 board has approved a code of conduct for both the board and the IAA's employees and this is available on the Company's website. The board also has a conflicts of interest policy in place and it considers actual and potential conflicts of interest on an ongoing basis.

The board conducted an end of year review 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 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.

The board uses four committees to assist in the effective discharge of its responsibilities:

- 1 Audit and risk
- 2 Finance
- 3 Personnel, appointments and remuneration
- 4 Investment planning

Audit and risk committee

The audit and risk committee operates under formal terms of reference, which were reviewed during the year. The committee held four meetings during 2017 (*2016: four*), each of which were chaired by Ms Marie Bradley. Committee members also include Mr Pascal Fitzgerald and Mr Geoffrey O'Byrne-White.

Meetings are usually attended by the director of finance, head of internal audit and representatives from operations, human resources, information technology, insurance, health and safety, legal and compliance, by invitation, as appropriate. The internal auditor reports directly to the audit and risk committee.

The committee may review any matters relating to the affairs of the IAA, other than safety and security oversight matters which are reserved to the board. It reviews the annual financial statements, reports of the internal auditor, reports of the external 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 Group financial statements. Procedures are in place to ensure an appropriate relationship with the external auditor. During the year, the committee met privately with the external auditor, without management present. The audit and risk committee considers the independence of the external auditor on an annual basis and has adopted a policy governing the provision of non-audit services by the external auditor. This policy considers the nature and extent of the services provided and the fees earned for audit and non-audit work. These fees are set out in note 6 of the financial statements. No issues arose in the year.

During the year, the audit and risk committee completed a self-assessment evaluation of its performance. The committee reports to the board, annually and at quarterly intervals, or more frequently should the need arise.

During 2017, the audit and risk committee reviewed:

- ▶ draft financial statements for 2016 prior to recommending them for approval to the board
- ▶ a report from the external auditor on its audit of the financial statements for the year ended 31 December 2016

Directors' report (continued)

- ▶ audit fees and non-audit fees payable to the external auditor
- ▶ corporate risk register 2017-2018 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 reports for 2017 and internal audit plan for 2018
- ▶ external audit plan for 2017 including the scope of the audit
- ▶ draft financial statements to 30 June 2017
- ▶ the policy and process in place in respect of the directors' compliance statement
- ▶ compliance with the 2016 Code of Practice for the Governance of State Bodies
- ▶ its own terms of reference.

Finance committee

The finance committee operates under formal terms of reference and met once during the year (2016: *once*). Mr Basil Geoghegan chaired the committee. Ms Anne Nolan is a member of the committee and Mr Eamonn Brennan was a member until his resignation on 13 December 2017.

The committee may review any matters relating to the financial management of the IAA. It reviews the annual capital and operating budgets, treasury policy, banking and financing arrangements and matters relating to dividend policy. The committee reports to the board following its meetings.

Personnel, appointments and remuneration committee

The personnel, appointments and remuneration committee operates under formal terms of reference and met once during the year (2016: *twice*). Ms Anne Nolan is Chair of the committee and the other members are Mr Basil Geoghegan and Mr Geoffrey O'Byrne-White.

The committee determines and approves the remuneration of the Chief Executive and 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.

Investment planning committee

The investment planning committee operates under formal terms of reference and met three times (2016: *three*) during the year. The committee is chaired by Mr Michal Norton. Mr Ernie Donnelly is a member of the committee. Mr Kevin O'Driscoll was a member up to the date of his retirement on 16 September 2017.

The committee considers the IAA's strategy in relation to capital investment and related expenditure. It reports to the board following its meetings.

Internal control

The board is ultimately responsible for the Group'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.

The IAA's system of internal control comprises those controls established in order to provide reasonable assurance regarding the safeguarding of assets and the maintenance of proper accounting records and reliable financial information for use within the business or for publication. The board, whether directly or through the audit and risk committee, has reviewed the effectiveness of the systems of internal control covering financial, operational and compliance controls and risk management systems. This review took place on 23 March 2018 and is effective up to the date of approval of the financial statements.

The IAA has a strong internal control framework in place which includes the following:

- ▶ board committees with clearly defined terms of reference
- ▶ a schedule of matters that are reserved to the board
- ▶ a code of conduct, approved by the board, which provides practical guidance for all staff
- ▶ a clearly defined organisational structure with appropriate segregation of duties and limits of authority
- ▶ clearly defined responsibilities with appropriately qualified staff performing these duties
- ▶ a corporate risk management framework
- ▶ 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
- ▶ a comprehensive planning process that delivers a five-year corporate plan, reviewed by the shareholder and approved by the board
- ▶ monitoring of actual performance against budgets and reporting on variances to the board on a monthly basis
- ▶ an internal audit function which reviews key financial systems and controls and general operations and makes recommendations, where appropriate
- ▶ an audit and risk 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
- ▶ a policy to cover oversight of IAA's wholly-owned subsidiary

- ▶ policies and procedures for the reporting and resolution of suspected fraudulent activities.

These controls were reviewed by internal audit during the year as part of its annual work programme. Internal audit reports directly to the audit and risk committee on the operation of internal controls, other than safety and security oversight controls which are reserved to the board, and makes recommendations for improvements, if appropriate.

The board confirms that, for 2017, and up to the date of approval of the financial statements, there is a process for identifying and managing risks and that an appropriate system of internal control is in place and that these systems operated effectively in the year. No material weaknesses or frauds were identified during the course of the review of the effectiveness of the system of internal control.

Risk management

The Board has overall responsibility for the Group's approach to risk. It approves the risk management framework and monitors its effectiveness through both the audit and risk committee and directly through the board.

An on-going process exists for identifying, evaluating and managing the significant risks faced by the IAA. This process is reviewed regularly 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.

Directors' report (continued)

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. Management reports regularly to the board on the key risks inherent in the business and on how these risks are managed.

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 and risk committee, whose role it is to review, on behalf of the board, the key risks, other than safety and security oversight, 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 and risk committee on a quarterly basis. The audit and risk 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 and risk committee presents its findings to the board on an annual and on a quarterly basis or more frequently should the need arise.

Remuneration

Fees for directors are determined by the Minister for Public Expenditure and Reform. The remuneration of the Chief Executive, 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. The disclosures made in these financial statements relating to directors' fees and emoluments are set out in note 6 and are those required under the Companies Act 2014 and the 2016 Code of Practice for the Governance of State Bodies.

Business and financial reporting

The board recognises that it has responsibility for the preparation of the annual report and financial statements and for ensuring that the financial statements give a true and fair view of the Group's financial performance and financial position at the year-end. The Chairman reports regularly to the Minister for Transport, Tourism and Sport on all developments, operational, financial and commercial, affecting the IAA.

The 2016 Code of Practice for the Governance of State Bodies provides for specific financial information to be disclosed. In 2017, the IAA incurred travel and subsistence costs of €2.0 million, shared between domestic travel and subsistence costs of €0.9 million and international travel and subsistence costs of €1.1 million, staff welfare costs of €0.1 million and consultancy costs of €0.3 million. This information is reasonably stated in all material respects.

Going concern

The directors, after making enquiries, believe that the Group and the Company have 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.

Accounting records

The directors believe that they have complied with the requirements of Section 281 to 285 of the Companies Act 2014 with regard to maintaining adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the finance function. The accounting records of the Group are maintained at The Times Building, 11-12 D'Olier Street, Dublin 2.

Relevant audit information

The directors believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the Group's statutory auditors are aware of that information. In so far as they are aware, there is no relevant audit information of which the Group's statutory auditors are unaware.

Directors' compliance statement

The directors, in accordance with section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section arising from the Companies Act 2014 and tax laws ('relevant obligations'). The directors confirm that:

- ▶ a compliance policy statement has been drawn up setting out the Company's policies with regard to such compliance;
- ▶ appropriate arrangements and structures that, in their opinion are designed to secure material compliance with the Company's relevant obligations, have been put in place; and
- ▶ a review has been conducted, during the financial year, of the arrangements and structures that have been put in place to secure the Company's compliance with its relevant obligations.

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 2013 (S.I. No. 580 of 2013).

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 2017 substantially all payments were made within the appropriate credit period. 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.

Post balance sheet events

On 23 March 2018, the board proposed the payment of a dividend of €19.5 million (€1.09 per share) (2016: €9.2 million (€0.52 per share)). This includes a special dividend of €12.0 million (€0.67 per share).

Political donations

There were no political donations made during the year that would require disclosure under the Electoral Act, 1997.

Auditor

In accordance with Section 383(2) of the Companies Act 2014, the auditor, KPMG, Chartered Accountants, will continue in office.

On behalf of the board:

Anne Nolan	Marie Bradley
Chairman	Director

23 March 2018

Statement of directors' responsibilities

in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the 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 they have elected to prepare the Group and Company financial statements in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* as applied in accordance with the provisions of the Companies Act 2014.

Under company law the directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's profit or loss for that year. In preparing each of the Group and Company 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;
- ▶ state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the financial statements of the Group comply with the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company 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 Act 2014.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company'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

Marie Bradley
Director

Independent auditor's report

to the members of The Irish Aviation Authority

1. Report on the audit of the financial statements

Opinion

We have audited the Group and Company financial statements of The Irish Aviation Authority ('the Company') for the year ended 31 December 2017, which comprise the consolidated profit and loss account, consolidated and company statement of other comprehensive income, the consolidated and company balance sheets, the consolidated statements of changes in equity, the consolidated cash flow statement and the related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

In our opinion, the Group and Company financial statements:

- ▶ give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2017 and of the Group's profit for the year then ended;
- ▶ have been properly prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- ▶ have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and the Company in accordance with ethical requirements that are

relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the directors' report, the statement of directors' responsibilities, Chairman's statement and Chief Executive's review. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Independent auditor's report (continued)

Based solely on our work on the other information;

- ▶ we have not identified material misstatements in the directors' report;
- ▶ in our opinion, the information given in the directors' report is consistent with the financial statements;
- ▶ in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

Opinions on other matters prescribed by the Companies Act 2014

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

In our opinion the accounting records of the Group were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

Matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made. We have nothing to report in this regard.

Under the 2016 Code of Practice for the Governance of State Bodies (the "Code") we are required to report to you if the statement regarding the system of internal control required under the Code, as included in the directors' report on pages 20 and 21 does not reflect the Company's compliance with paragraph 1.9(iv) of the Code or if it is not consistent with the information of which we are aware from our audit work on the financial statements and we report if it does not.

2. Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company'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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Eamon Dillon

**for and on behalf of
KPMG**

Chartered Accountants, Statutory Audit Firm

1 Stokes Place
St Stephens Green
Dublin 2
Ireland

23 March 2018

Consolidated profit and loss account

for the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Turnover – continuing activities	2	193,442	191,921
Operating expenses	1, 20	(159,902)	(152,431)
Operating profit – continuing activities		33,540	39,490
Interest receivable and similar income	4	11,165	14,453
Interest payable and similar charges	5	(14,152)	(14,893)
Share of profit of associate	9	581	108
Profit on ordinary activities before taxation	6	31,134	39,158
Tax on profit on ordinary activities	7	(4,867)	(7,043)
Profit for the financial year		26,267	32,115

Consolidated statement of other comprehensive income

for the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Profit for the financial year		26,267	32,115
Other comprehensive income/(loss)			
Re-measurement of the net defined benefit liability	20	70,310	(41,763)
Related deferred tax (liability)/asset	14	(8,789)	5,220
Cash in excess of pension service costs	20	6,134	9,714
Foreign exchange differences on translation of foreign operations		(1,991)	845
Other comprehensive income/(loss) for the year		65,664	(25,984)
Total comprehensive income for the year		91,931	6,131

Consolidated balance sheet

at 31 December 2017

	Note	2017 €'000	2016 €'000
Fixed assets			
Tangible assets	8	77,181	79,879
Financial assets	9	23,723	23,382
		100,904	103,261
Current assets			
Debtors	10	52,337	69,266
Short term deposits		186,678	109,997
Cash and cash equivalents		33,417	66,669
		272,432	245,932
Creditors: amounts falling due within one year	11	(36,814)	(30,019)
Net current assets		235,618	215,913
Total assets less current liabilities		336,522	319,174
Creditors: amounts falling due after more than one year	13	(37,155)	(29,146)
Provisions for liabilities			
Retirement benefit obligations	20	(87,365)	(160,709)
Net assets		212,002	129,319
Capital and reserves			
Called up share capital	15	22,675	22,675
Profit and loss account		190,473	105,799
Currency reserve		(1,146)	845
Shareholders' funds – equity		212,002	129,319

On behalf of the board:

Anne Nolan

Chairman

Marie Bradley

Director

Company balance sheet

at 31 December 2017

	Note	2017 €'000	2016 €'000
Fixed assets			
Tangible assets	8	77,181	79,879
Financial assets	9	15,218	14,573
		92,399	94,452
Current assets			
Debtors	10	58,792	74,648
Short term deposits		186,678	109,997
Cash and cash equivalents		32,993	66,663
		278,463	251,308
Creditors: amounts falling due within one year	11	(36,719)	(29,649)
		241,744	221,659
Net current assets			
		334,143	316,111
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	13	(36,323)	(28,215)
Provisions for liabilities			
Retirement benefit obligations	20	(87,365)	(160,709)
		210,455	127,187
Net assets			
Capital and reserves			
Called up share capital	15	22,675	22,675
Profit and loss account		187,780	104,512
		210,455	127,187
Shareholders' funds – equity			

On behalf of the board:

Anne Nolan
Chairman

Marie Bradley
Director

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Called up share capital €'000	Profit and loss account €'000	Currency reserves €'000	Total equity €'000
Balance at 1 January 2016	22,675	107,943	-	130,618
Comprehensive income				
Profit for the financial year	-	32,115	-	32,115
Other comprehensive (loss)/income	-	(26,829)	845	(25,984)
Total comprehensive income for the year	-	5,286	845	6,131
Transactions with shareholders recognised directly in equity				
Dividends	-	(7,430)	-	(7,430)
Balance at 31 December 2016	22,675	105,799	845	129,319
Balance at 1 January 2017	22,675	105,799	845	129,319
Comprehensive income				
Profit for the financial year	-	26,267	-	26,267
Other comprehensive income/(loss)	-	67,655	(1,991)	65,664
Total comprehensive income/(loss) for the year	-	93,922	(1,991)	91,931
Transactions with shareholders recognised directly in equity				
Dividends	-	(9,248)	-	(9,248)
Balance at 31 December 2017	22,675	190,473	(1,146)	212,002

Company statement of changes in equity

for the year ended 31 December 2017

	Called up share capital €'000	Profit and loss account €'000	Total equity €'000
Balance at 1 January 2016	22,675	107,943	130,618
Comprehensive income			
Profit for the financial year	-	30,828	30,828
Other comprehensive loss	-	(26,829)	(26,829)
Total comprehensive income for the year	-	3,999	3,999
Transactions with shareholders recognised directly in equity			
Dividends	-	(7,430)	(7,430)
Balance at 31 December 2016	22,675	104,512	127,187
Balance at 1 January 2017	22,675	104,512	127,187
Comprehensive income			
Profit for the financial year	-	24,861	24,861
Other comprehensive income	-	67,655	67,655
Total comprehensive income for the year	-	92,516	92,516
Transactions with shareholders recognised directly in equity			
Dividends	-	(9,248)	(9,248)
Balance at 31 December 2017	22,675	187,780	210,455

Consolidated cash flow statement

for the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Cash flows from operating activities			
Profit for the financial year		26,267	32,115
<i>Adjustment for:</i>			
Depreciation of tangible fixed assets	8	14,529	14,080
Interest receivable and similar income	4	(11,165)	(14,453)
Interest payable and similar charges	5	14,152	14,893
Share of profit of associate	9	(581)	(108)
Taxation	7	4,867	7,043
		48,069	53,570
Decrease/(increase) in debtors		7,896	(5,565)
Increase in creditors		17,311	17,624
		73,276	65,629
Tax paid		(4,590)	(5,575)
		68,686	60,054
Net cash from operating activities			
Cash flows from investing activities			
Acquisition of tangible fixed assets		(13,054)	(14,110)
Acquisition of financial assets	9	(3,158)	(7,798)
Dividends received	9	637	-
Investment in short term deposits		(76,681)	(84,461)
Interest received		26	73
		(92,230)	(106,296)
Net cash used in investing activities			
Cash flows from financing activities			
Interest paid		(273)	(335)
Dividends paid	16	(9,248)	(7,430)
		(9,521)	(7,765)
Net cash used in financing activities			
Net decrease in cash and cash equivalents			
Cash and cash equivalents at 1 January		66,669	120,310
Effect of exchange rate fluctuations on cash held		(187)	366
		33,417	66,669
Cash and cash equivalents at 31 December			

Notes

forming part of the financial statements

1 Accounting policies

The Irish Aviation Authority ("IAA", "the Company") is a private limited company formed under the Irish Aviation Authority Act, 1993 (the "IAA Act"), and registered under the Companies Act 2014. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements and have, unless otherwise stated, been applied consistently to all periods presented in the financial statements.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102"). The presentation currency of these financial statements is Euro. All amounts in the financial statements have been rounded to the nearest €1,000.

The holding company is included in the consolidated financial statements and is considered to be a qualifying entity under FRS 102. The following exemptions under FRS 102 in respect of certain disclosures for the holding company financial statements have been applied:

- ▶ No separate holding company cash flow statement with related notes is included;
- ▶ Key management personnel compensation has not been included a second time.

Under Section 304 of the Companies Act 2014 the Company is exempt from the requirement to present its own profit and loss account.

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

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 IAA Act, 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 costs to be taken into account for the purpose of the EUROCONTROL agreement are defined in the EUROCONTROL charging principles and in the EC Charging Regulations in a manner that includes all cash payments to pension funds. Consequently, the directors have determined that it is appropriate to incorporate all cash contributions made to the IAA's pension fund in operating expenses to the extent they exceed the pensions charge determined in accordance with FRS 102 *'Employee Benefits'*, and to record an offsetting credit in the statement of other comprehensive income ("OCI"), in order to present a true and fair view of its comprehensive income and its assets, liabilities and financial position. Further details of the impact of this accounting treatment is shown in the employee benefits accounting policy on pages 38 and 39.

Notes (continued)

1 Accounting policies (continued)

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that investments in associates are accounted for using the equity method in the consolidated financial statements (and at cost less impairment in the Company financial statements) and other financial fixed assets are measured at fair value.

1.2 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its 100% owned subsidiary, IAA North Atlantic Inc., up to 31 December 2017.

A subsidiary is an entity that is controlled by the holding undertaking. The results of the subsidiary undertaking are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

An associate is an entity in which the Group has significant influence, but not control, over the operating and financial policies of the entity. Significant influence is presumed to exist when the investor holds between 20% and 50% of the equity voting rights. The Group's share of the profits or losses of associates is included in the consolidated profit and loss account and its interest in its net assets is recorded on the balance sheet using the equity method.

In the Company financial statements, investments in subsidiaries and associates are carried at cost less impairment.

1.3 Turnover

Turnover represents the amounts received, and receivable, in respect of services provided to customers, together with fees received, and receivable, 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 accrued/deferred income 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 accounted for in a similar manner. Amounts are accrued in turnover and recognised as either receivables or payables in the balance sheet.

Deferred revenue

The IAA recognises revenue for certificates of airworthiness, charged annually on aircraft based in the EU, in line with its monitoring and performance obligations on a straight line basis over a twelve month period.

1 Accounting policies (continued)

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation and accumulated impairment losses. 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. The carrying amounts of tangible fixed assets are reviewed at each reporting date to determine whether there is any indication of impairment.

1.5 Financial fixed assets

Associates are those entities in which the Group has significant influence, but not control of the financial and operating policies. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting. Under the equity method of accounting, the Group's share of the post-acquisition profits or losses of its associates are recognised in the Group profit and loss account. The Group's interest in the net assets of associates are included as investments in associates in the Group's balance sheet at an amount representing the Group's share of the fair value of the identifiable net assets at acquisition plus the Group's share of post-acquisition retained profits or losses arising on the Group's investment.

In the Company financial statements, investments in associates are carried at cost less allowance for any impairment in value of individual investments.

Other financial fixed assets are recognised initially at the transaction price. At the end of each reporting period the investment is measured at fair value with changes in fair value recognised in profit or loss, unless the fair value cannot be reliably measured, in which case cost is used.

1.6 Leased assets

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

1.7 Foreign currencies

Transactions arising in foreign currencies are translated into the functional currency at the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the year-end rate of exchange. The resulting profits and losses are dealt with in the profit and loss account for the year.

Notes (continued)

1 Accounting policies (continued)

The results of foreign operations are translated into Euro at the average exchange rates for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. The assets and liabilities of foreign operations are translated into Euro at the exchange rates ruling at the year-end date. Foreign exchange differences arising on retranslation are recognised in other comprehensive income.

1.8 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 reporting date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Group's taxable profits and its results, as stated in the financial statements, which 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 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.

1.9 Employee benefits

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.

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

- (a) the actuarially determined cost of pension benefits promised to employees for service during the year plus any benefit improvements granted to members during the year (current/past service cost), and
- (b) 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, and
- (c) the net interest on the net defined benefit liability comprising interest cost on the defined benefit obligation and interest income on plan assets.

The difference between the interest income on assets and the return 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 re-measurement gains and losses in the statement of other comprehensive income ("OCI"). The OCI includes an offset amounting to the additional pension charge, described in paragraph (b), expected to be recovered under the provisions of the EUROCONTROL agreement as described on page 35.

1 Accounting policies (continued)

The Group and Company thus departs from the requirements of FRS 102 in order that the results comply with the requirements of the agreements under which its operations are governed and, in the context of these agreements, that the financial statements give a true and fair view. The impact of the departure is to increase the pension cost by €6,134,000 (2016: €9,714,000) above the actuarially determined service costs, for recovery under the charging mechanism in the year ended 31 December 2017, and to record an offsetting credit in the OCI, thereby maintaining the profit and loss reserves and assets, liabilities and financial position of the Group and Company in line with the requirements of FRS 102.

1.10 Basic financial instruments

Trade and other debtors and creditors

Trade and other debtors are recognised initially at transaction price plus attributable transaction costs. Trade and other creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost, using the effective interest method, less any impairment losses in the case of trade debtors.

Cash, cash equivalents and short term deposits

Cash represents cash held at banks and available on demand. Cash equivalents are highly liquid investments (other than cash) that are readily convertible into known amounts of cash, typically cash deposits ranging from one day to three months. Short-term deposits represent cash deposits ranging from three months to one year. Cash and cash equivalents and short term deposits are recorded initially at fair value and then subsequently stated at amortised cost and are categorised as loans and receivables.

2 Turnover

	2017 €'000	2016 €'000
<i>Activity</i>		
En route	120,150	122,413
Terminal	25,136	24,674
North Atlantic communications	22,325	21,255
Safety regulation	20,026	17,994
Exempt air traffic	1,566	1,691
Commercial	4,239	3,894
	193,442	191,921

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

Notes (continued)

3 Staff numbers and costs

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

	2017 Number	2016 Number
Operations	450	446
Technology and training	60	64
Safety regulation	100	91
Corporate services	56	51
Total employees	666	652

The aggregate payroll costs of these persons, included in the profit and loss account, were as follows:

	2017 €'000	2016 €'000
Wages and salaries	64,007	61,384
Social welfare costs	5,162	4,744
Other compensation costs	338	35
Pension costs – current service cost (note 20)	13,728	10,552
Pension costs – defined contribution (note 20)	90	70
Pension costs – additional cash cost (note 20)	6,134	9,714
Other post-employment costs (note 20)	320	333
	89,779	86,832

3 Staff numbers and costs (continued)

The number of employees paid in excess of €50,000 are categorised into the following bands:

	2017 Number	2016 Number
€50,000 - €75,000	127	138
€75,001 - €100,000	121	120
€100,001 - €125,000	174	198
€125,001 and over	154	111

4 Interest receivable and similar income

	2017 €'000	2016 €'000
Foreign exchange gain	-	235
Bank interest	-	45
Other interest	173	160
Interest income on defined benefit assets	9,774	11,797
Dividend income from other financial assets	1,218	2,216
	11,165	14,453

5 Interest payable and similar charges

	2017 €'000	2016 €'000
Bank loan facility fees	288	290
Bank interest	93	-
Interest expense on defined benefit liabilities	12,574	14,603
Foreign exchange loss	1,197	-
	14,152	14,893

Notes (continued)

6 Statutory and other information

	2017 €'000	2016 €'000
Directors' remuneration		
<i>Fees paid to directors</i>		
Ms. Anne Nolan (<i>Chairman</i>)	22	22
Mr. Eamonn Brennan (<i>former Chief Executive</i>)	-	-
Ms. Marie Bradley	13	13
Mr. Ernie Donnelly	-	-
Mr. Pascal Fitzgerald	13	13
Mr. Basil Geoghegan	13	13
Mr. Michael Norton	13	13
Mr. Geoffrey O'Byrne-White	13	13
Mr. Kevin O'Driscoll	9	13
	96	100

In aggregate, expenses paid to, or paid on behalf of, directors, in respect of services as director were €22,001 in total during 2017 (2016: €8,140). These expenses primarily related to travel and subsistence/accommodation.

	2017 €'000	2016 €'000
Emoluments and pension contributions relating to the former chief executive's contract of employment		
- annual basic salary	232	232
- performance-related remuneration paid in respect of previous year	-	-
- other taxable benefits	147	62
- pension contributions	50	50
	429	344

The former chief executive, Mr Eamonn Brennan, resigned from the IAA on 29 December 2017. He voluntarily waived 10% of his official salary in each year 2009 to 2017. 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 former chief executive in respect of years 2010 to 2017. Following his resignation, a payment of €81,000 was made to the former chief executive in full and final settlement of all matters arising from his employment with the IAA. Mr Eamonn Brennan resigned from the board on 13 December 2017. He did not receive a director's fee.

6 Statutory and other information (continued)

	2017 €'000	2016 €'000
Auditor's remuneration - group		
- audit	50	50
- other assurance	41	23
- tax services		
- compliance	23	41
- advisory	4	46
- other non-audit	80	13
Total auditor's remuneration - group	198	173
Auditor's remuneration - company (included above)		
- audit	50	50
- other assurance	41	23
- tax services		
- compliance	7	26
- advisory	4	19
- other non-audit	5	13
Total auditor's remuneration - company	107	131
Depreciation	14,529	14,080
Met Éireann charges	9,745	9,497
Rentals payable under operating leases - buildings	3,888	3,887
Rentals payable under operating leases - other	120	139

7 Tax on profit on ordinary activities

	2017 €'000	2016 €'000
Analysis of tax charge in the year		
<i>Current tax</i>		
Corporation tax	4,556	5,283
Adjustments in respect of prior periods	(1)	(2)
	4,555	5,281
<i>Deferred tax</i>		
Origination and reversal of timing differences	311	1,763
Adjustments in respect of prior periods	1	(1)
	312	1,762
Tax on profit on ordinary activities	4,867	7,043

Notes (continued)

7 Tax on profit on ordinary activities (continued)

	2017 €'000	2016 €'000
Profit and loss total tax reconciliation		
Profit on ordinary activities before tax	31,134	39,158
Expected current tax at 12.5% (2016: 12.5%)	3,892	4,895
<i>Effects of:</i>		
Permanent differences	663	1,094
Expenses not deductible for tax purposes	500	319
Income not taxable at the standard rate	67	129
Corporation tax in respect of prior years	(1)	(3)
Deferred tax in respect of prior years	1	-
Effect of foreign tax	(255)	609
Tax on profit on ordinary activities	4,867	7,043

8 Tangible fixed assets

	Buildings €'000	Completed installations and other works €'000	Installations in progress €'000	Office equipment €'000	Total €'000
Group and Company					
Cost					
At beginning of year	30,464	147,754	26,170	10,645	215,033
Additions in year	-	28	11,536	267	11,831
Brought into use in year	-	6,148	(7,417)	1,269	-
Disposals in year	-	(6,952)	-	(4)	(6,956)
At end of year	30,464	146,978	30,289	12,177	219,908
Accumulated depreciation					
At beginning of year	19,272	108,090	-	7,792	135,154
Charge in year	1,522	11,713	-	1,294	14,529
Disposals in year	-	(6,952)	-	(4)	(6,956)
At end of year	20,794	112,851	-	9,082	142,727
At 31 December 2017	9,670	34,127	30,289	3,095	77,181
At 31 December 2016	11,192	39,664	26,170	2,853	79,879

9 Financial fixed assets

	Interest in associate €'000	Other financial assets €'000	Total €'000
Group			
At 1 January 2016	993	13,834	14,827
Additions	-	7,798	7,798
Foreign exchange movements	-	649	649
Share of profit of associate	108	-	108
<hr/>			
At 31 December 2016	1,101	22,281	23,382
Additions	645	2,513	3,158
Foreign exchange movements	-	(2,761)	(2,761)
Dividends received	(637)	-	(637)
Share of profit of associate	581	-	581
<hr/>			
At 31 December 2017	1,690	22,033	23,723
<hr/>			
		2017 €'000	2016 €'000
Company			
Interest in associate, at cost		1,384	739
Ordinary shares in subsidiary undertaking, at cost		13,834	13,834
<hr/>			
		15,218	14,573

The IAA has a 33 $\frac{1}{3}$ % interest in Entry Point North AB, Box 30, SE-230 32, Malmö-Sturup, Sweden, a provider of air traffic management training solutions. This interest was acquired on 20 December 2013 (25%) and on 28 June 2017, the IAA acquired a further 8 $\frac{1}{3}$ %.

The Group has invested in aggregate, €22.0 million (2016: €22.3 million) into the equity capital of Aireon LLC, a company developing space-based global air traffic surveillance systems. The investment in Aireon LLC is held through a 100% owned subsidiary undertaking, IAA North Atlantic Inc., 108 West 13th street, Wilmington, New Castle county, 19801, USA. On 27 July 2017, IAA North Atlantic Inc. acquired a further 0.6% of the equity of Aireon LLC bringing the total equity shareholding to 6% (2016: 5.4%) on a post-redemption basis.

None of the shares of the above subsidiary undertaking are listed. In the opinion of the directors the shares in, and loans to, the company's subsidiary are worth at least the amounts at which they are stated in the balance sheet.

Notes (continued)

10 Debtors

	Group		Company	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Trade debtors, net	33,911	36,869	33,911	36,869
Prepayments and accrued income	2,487	3,249	2,487	3,249
Other debtors	3,567	2,722	367	395
Corporation tax	252	-	252	-
Other taxes	-	908	-	425
Value added tax	257	4,259	257	4,259
Deferred tax asset (note 14)	11,863	21,259	11,863	21,259
Due from subsidiary undertaking	-	-	9,655	8,192
	52,337	69,266	58,792	74,648

Debtors of €15,063,000 (2016: €23,585,000) in the Group and debtors of €11,863,000 (2016: €21,259,000) in the Company fall due after more than one year.

Amounts owed by subsidiary undertaking are interest free, unsecured and payable on demand.

Included in trade debtors are amounts past due of €21,054,000 (2016: €23,511,000) of which €5,924,000 (2016: €6,002,000) is provided for within bad debt provisions.

11 Creditors: amounts falling due within one year

	Group		Company	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Trade creditors	1,677	2,356	1,677	2,356
Other creditors including tax and social welfare (note 12)	580	1,675	580	1,675
Accruals	11,370	15,183	11,275	14,813
Deferred income	23,187	10,805	23,187	10,805
	36,814	30,019	36,719	29,649

12 Taxation and social welfare included in other creditors

	Group		Company	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
PAYE/PRSI	-	143	-	143
Corporation tax	-	683	-	683
Relevant contracts tax	4	7	4	7
Professional services withholding tax	92	238	92	238
Deferred tax liability (note 14)	484	604	484	604
	580	1,675	580	1,675

13 Creditors: amounts falling due after more than one year

	Group		Company	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Deferred income	35,114	26,816	35,114	26,816
Deferred tax liability (note 14)	2,041	2,330	1,209	1,399
	37,155	29,146	36,323	28,215

14 Deferred tax asset

	Ref	Group		Company	
		2017 €'000	2016 €'000	2017 €'000	2016 €'000
Deferred tax liability- excluding employee benefits-related- (current)	(i)	(1,316)	(1,535)	(484)	(604)
Deferred tax asset – employee benefits-related (non-current)	(ii)	10,654	19,860	10,654	19,860
Deferred tax asset – buildings – (non-current)		1,209	1,399	1,209	1,399
Deferred tax liability – buildings – (non-current)		(1,209)	(1,399)	(1,209)	(1,399)
Deferred tax asset, net		9,338	18,325	10,170	19,256

Notes (continued)

14 Deferred tax asset (continued)

(i) Deferred taxation – excluding employee benefits-related

	Group		Company	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
At beginning of year	(1,535)	(592)	(604)	(592)
Credited/(charged) to profit and loss account (note 7)	105	(898)	120	(12)
Effect of foreign exchange	114	(45)	-	-
At end of year	(1,316)	(1,535)	(484)	(604)

The deferred tax liability at the end of the year represents the full potential liability arising on timing differences.

Included in deferred taxation – excluding employee benefits-related – is €832,000 (2016: €931,000) in the Group and €Nil (2016: €Nil) in the company due after more than one year relating to income taxable at an agreed future date.

(ii) Deferred taxation – employee benefits-related

	Group		Company	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
At beginning of year	19,860	15,504	19,860	15,504
Changes in actuarial assumptions recognised in OCI	(8,789)	5,220	(8,789)	5,220
Charged to profit and loss account (note 7)	(417)	(864)	(417)	(864)
At end of year	10,654	19,860	10,654	19,860

15 Called up share capital — equity

	2017 €'000	2016 €'000
Group and Company		
Authorised, allotted, called up and fully paid		
17,858,000 ordinary shares of €1.27 each	22,675	22,675

16 Equity dividends paid

	2017 €'000	2016 €'000
Group and Company		
Declared and paid during the year		
Final dividend for 2017: €0.52 per share <i>(2016: €0.42 per share)</i>	(9,248)	(7,430)

17 Related parties

Group and Company

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 (“daa”) plc., Shannon Airport Authority Ltd, Electricity Supply Board (“ESB”), the Department of Transport, Tourism and Sport and Met Éireann. 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.

In 2014, the IAA entered into a commercial arrangement to provide air traffic management training services to Entry Point North Ireland DAC, a 100% owned subsidiary of Entry Point North (EPN) AB, an associate of the IAA (note 9). Entry Point North Ireland DAC also provides air traffic management training services to the IAA on an arm’s-length basis. During the year, the IAA earned revenue of €3.3 million *(2016: €3.1 million)* and incurred costs of €7.1 million *(2016: €6.4 million)* in transactions with Entry Point North Ireland DAC. As at 31 December 2017, there is a net receivable balance due from Entry Point North Ireland DAC amounting to €3.1 million *(2016: €5.1 million)*.

Total compensation of key management personnel in the year amounted to €2.2 million *(2016: €2.1 million)*.

Notes (continued)

18 Commitments

	2017 €'000	2016 €'000
Group and Company		
(i) Capital commitments		
Future capital expenditure approved by the directors:		
Not contracted for	61,074	44,602
Contracted for	32,081	3,591
	93,155	48,193

(ii) Operating lease commitments

The total of future minimum lease payments under non-cancellable operating leases are as follows:

	2017 Buildings €'000	2017 Motor Vehicles €'000	2016 Buildings €'000	2016 Motor Vehicles €'000
Group and Company				
<i>Payable:</i>				
Within one year	3,603	68	3,592	111
Between one and five years	12,539	59	12,571	90
More than five years	29,260	-	32,564	-
	45,402	127	48,727	201

19 Contingent liabilities

Group and Company

The IAA has an outstanding equal pay claim, initiated in 1998, from a union representing clerical staff. This claim has been referred to 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.

20 Employee benefits

	2017 €'000	2016 €'000
Group and Company		
Defined benefit pension liability (see A below)	85,234	158,878
Supplementary ex-gratia pension liability (see B below)	2,131	1,831
Total retirement benefit obligations	87,365	160,709

The pension entitlements of employees arise under a number of defined benefit schemes, the assets of which 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 valuations is 1 January 2015 and covers all accrued benefits. These valuations were conducted by qualified independent actuaries.

The valuations employed for FRS 102 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 2017 and to take account of financial conditions at this date. The valuations used for FRS 102 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 with the exception of the supplementary ex-gratia liability. There are no outstanding or pre-paid contributions at year-end.

A. The Irish Aviation Authority Defined Benefit Schemes

	2017 Projected Unit	2016 Projected Unit
(i) Actuarial assumptions		
<i>Weighted average assumptions to determine benefit obligations</i>		
Discount rate	2.10%	1.90%
Rate of general compensation increase (staff/senior staff) [†]	1.65%	1.50%
Rate of price inflation	1.65%	1.50%
Rate of pension increase [†]	0.00%	0.00%

[†]This is the long-term assumption in respect of staff/senior staff increases. The board decided, given the current deficit position of the Schemes, and communicated to all staff and pension trustees, that there will be no further increases granted on pensions payable under the Schemes with effect from 1 January 2015.

Notes (continued)

20 Employee benefits (continued)

(i) Actuarial assumptions (continued)

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:

	2017	2016
<i>Life expectancy for a male member from age 65 on post-retirement mortality table used to determine benefit obligations for:</i>		
Current active and deferred members	24.0	25.1
Current pensioner members	22.3	22.9
 <i>Life expectancy for a female member from age 65 on post-retirement mortality table used to determine benefit obligations for:</i>		
Current active and deferred members	26.0	27.2
Current pensioner members	24.2	24.9

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.

	2017 €'000	2016 €'000
(ii) Amounts recognised in the balance sheet		
Present value of wholly or partly funded obligations	(625,804)	(671,631)
Fair value of plan assets	540,570	512,753
Net liability	(85,234)	(158,878)

	2017 €'000	2016 €'000
(iii) Movements in fair value of plan assets		
Fair value of plan assets at beginning of year	512,753	470,280
Re-measurement: return on plan assets less interest income	15,516	27,427
Interest income	9,774	11,797
Employer contributions	19,862	20,266
Member contributions	3,294	3,353
Benefits paid from plan	(20,629)	(20,370)
Fair value of plan assets at end of year	540,570	512,753

20 Employee benefits (continued)

	2017 €'000	2016 €'000
(iv) Movements in present value of defined benefit obligations		
Benefit obligation at beginning of year	(671,631)	(594,303)
Current service cost	(13,728)	(10,552)
Interest on plan liabilities	(12,574)	(14,603)
Member contributions	(3,294)	(3,353)
Re-measurement: actuarial gains/(losses)	54,794	(69,190)
Benefits paid from plan	20,629	20,370
Benefit obligation at end of year	(625,804)	(671,631)
	2017 €'000	2016 €'000
(v) Components of pension cost		
<i>Expense recognised in the profit and loss account</i>		
Current service cost (note 3)	(13,728)	(10,552)
Additional cash cost (note 3)	(6,134)	(9,714)
Interest income on defined benefit assets (note 4)	9,774	11,797
Interest expense on defined benefit liabilities (note 5)	(12,574)	(14,603)
Total pension cost recognised in the profit and loss	(22,662)	(23,072)
Amounts recognised in other comprehensive income		
Actuarial gains/(losses) immediately recognised	70,310	(41,763)
Additional cash cost	6,134	9,714
	76,444	(32,049)
Total for the year	53,782	(55,121)
Cumulative amount of actuarial losses recognised in other comprehensive income	(253,869)	(324,179)

Notes (continued)

20 Employee benefits (continued)

	2017 Amount of plan assets €'000	2016 Amount of plan assets €'000
(vi) Plan assets		
<i>The asset allocations as at 31 December:</i>		
Equity securities	220,917	206,155
Bond securities	218,035	217,857
Other	101,618	88,741
	540,570	512,753

Interest income on plan assets will be charged at 2.1% (2016: 1.9%).

	2017 €'000	2016 €'000
<i>Actual return on assets</i>		
Actual return on plan assets	25,290	39,224
		€'000

(vii) Other required disclosure amounts

Contributions expected to be paid by the IAA during 2018	20,015
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B. Supplementary ex-gratia pension liability

	2017 €'000	2016 €'000
At beginning of year	1,831	1,522
Amounts provided for supplementary ex-gratia pension liability	320	333
Payments made during the year	(20)	(24)
Amounts falling due after more than one year	2,131	1,831

This is a provision for supplementary ex-gratia pension payments, up to age 65, outside of the IAA pension schemes, to bridge the gap for certain employees who are eligible to retire between the ages of 60 and 65, however are not eligible for the state pension until they reach the state retirement age.

20 Employee benefits (continued)

C. The Irish Aviation Authority Defined Contribution Pension Plan 2012

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 year represents contributions payable by the IAA to the scheme and amounted to €90,212 (2016: €70,409).

21 Accounting estimates and judgements

Key sources of estimation uncertainty

The preparation of consolidated financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Estimates and judgements are based on historical experience and on other factors that are reasonable under current circumstances. Actual results may differ from these estimates if these assumptions prove to be incorrect or if conditions develop other than as assumed for the purposes of such estimates. The following are the critical areas requiring estimates and judgements by management.

Pension assumptions

The valuation of the defined benefit pension schemes is a significant estimate in the IAA's financial statements, particularly in the current uncertain market. Further details are given in note 20. The directors have reviewed and assessed as reasonable the assumptions made by independent professional actuaries in assessing the fair value of the defined benefit pension schemes.

22 Post balance sheet events

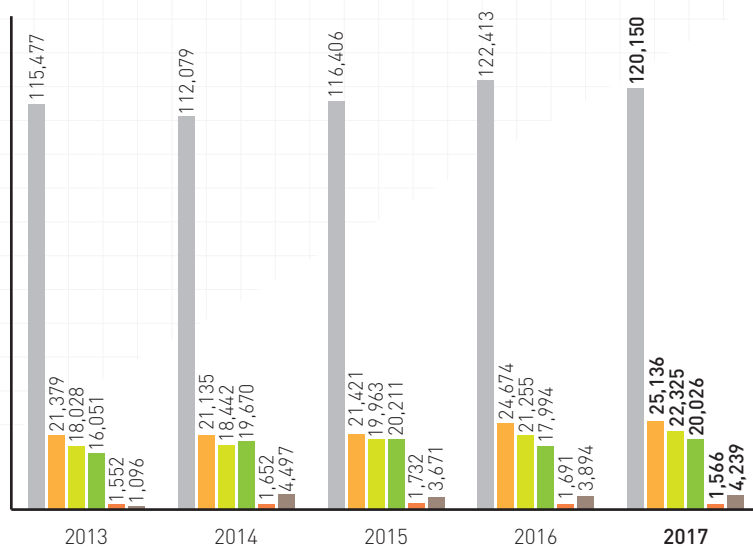
On 23 March 2018, the board proposed the payment of a dividend of €19.5 million (€1.09 per share) (2016: €9.2 million (€0.52 per share)). This includes a special dividend of €12.0 million (€0.67 per share).

23 Approval of the financial statements

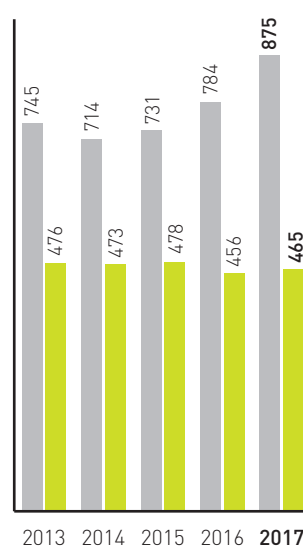
The financial statements were approved by the directors on 23 March 2018.

Five Year Summary 2013-2017

Turnover €'000



Registered Aircraft



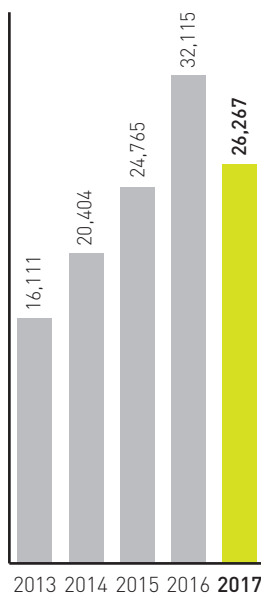
- En Route ■ Terminal ■ North Atlantic Communications
- Safety Regulation ■ Exempt Air Traffic ■ Commercial

- Large Aircraft
- Small Aircraft

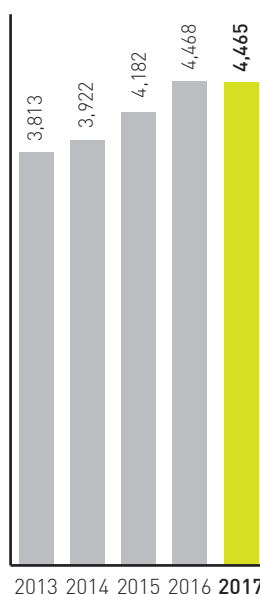
Operating Profit €'000



Profit after tax €'000



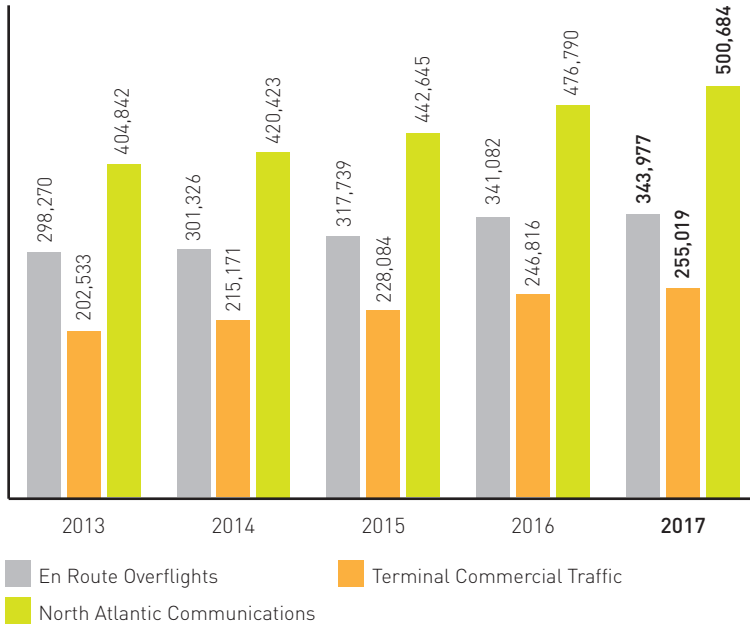
En Route Service Units ('000)



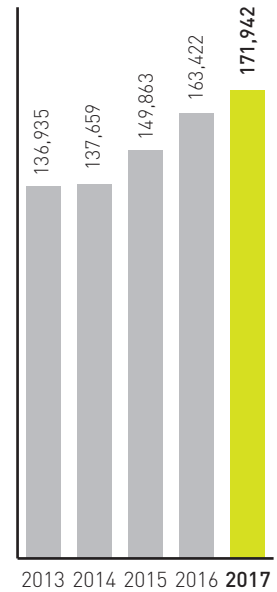
En Route Service Unit Rate (€)



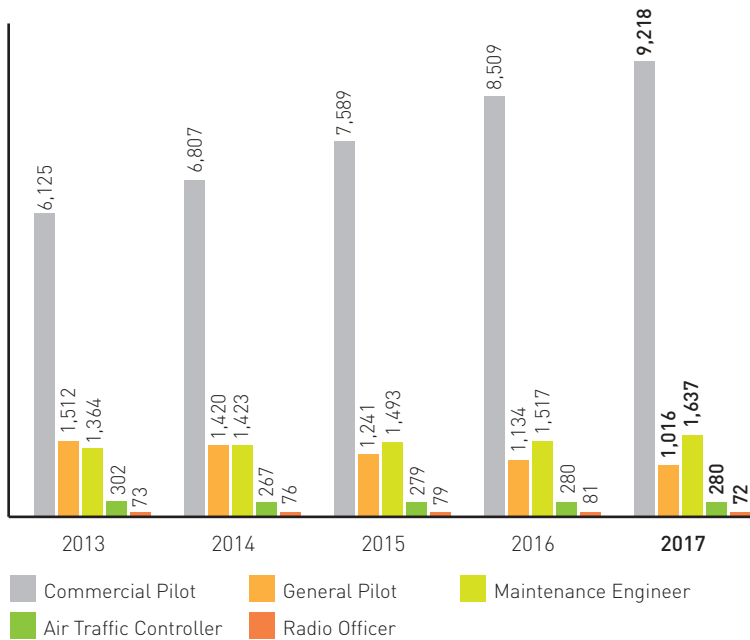
Air Traffic Activity



Terminal Service Units



Valid licences



Terminal Unit Rate (€)





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