Introduction

1.1 Pursuant to Section 28 of the Aviation and Regulation Act 2001, as amended (the "2001 Act"), daa is required to produce audited annual accounts *"in such a manner as the IAA may determine"* in respect of its regulated activities which shall be submitted to the IAA within 6 months of the end of the accounting year.[1]

1.2 In line with Section 28 of the 2001 Act, the IAA consulted on and finalised Commission Note 1/2011 (CN1/2011) which provides an agreed structure for the format of the Regulatory Accounts.[2] CN1/2011 built on the former reporting format, while providing for the inclusion of:

- A financial review of the outturn performance compared to the forecasts used at the time of the last airport charges determination;

- Commentary describing how daa has complied with the price cap in the notes to the accounts;

- An appendix providing the data on the categories of operating costs included in the rolling scheme introduced in the most recent determination; and

- An auditor's report.

1.3 The IAA received daa's 2023 Regulated Accounts in June 2024. Whilst in daa's view the 2023 accounts were produced in a manner consistent with the IAA requirement, the IAA does not agree, and a number of consistency issues have been identified. These consistency issues have not resulted in a requirement to restate the primary statements in the regulated accounts. The adjustment is solely to the commentary within the Financial Review section:

- The comparison to the IAA forecasts used in the last airport charges determination is inconsistent and does not follow the methodology outlined with respect to the treatment of inflation.[3] The Third Interim Review of the 2019 Determination in relation to 2023-2026 (the "2019 Determination") provides a method for the treatment of inflation which includes a 'Z factor' to allow for the reconciliation of forecast inflation with outturn inflation on an n+2 basis. This methodology is used to calculate the price cap for compliance purposes. The building blocks underpinning the price cap for 2023 against which daa is reporting compliance were inflated by 14.4%, as was the price cap itself, which has driven daa's reported aeronautical revenues and everything which flows from it. The Regulated Accounts provided by daa, however, inflate the IAA forecasts by actual outturn inflation (11%), thereby accruing the Z factor, which is inconsistent with the

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[1] Up to and including 30 April 2023, the Commission for Aviation Regulation (CAR) was responsible for discharging some of the regulatory oversight functions which are now the responsibility of the IAA. The ANTA 2022 provided for the dissolution of the CAR and the transfer of its responsibilities, functions, and staff to the IAA. For ease of reference, all references to the decision processes and/or documents of the IAA in the period up to 1 May 2023 should be understood to refer to those of CAR.

[2] 2005 Regulated Entity Accounts

[3] final-decision-on-the-maximum-levels-of-airport-charges-at-dublin-airport-2023-2026.pdf

2019 Determination, the format agreed by CN1/2011, and the regulated accounts received in previous years where such adjustments are not accrued for comparison purposes. The approach followed by daa is also inconsistent across building blocks, as, for example, the Z factor is being accrued in relation to Opex and commercial revenues, but not capital costs.

- While the IAA recognises some regulated entities do take an accruals approach in the production of their Regulated Accounts, it is complex and requires a fully consistent methodology.

- The Regulated Accounts mis-state the cost of capital for 2023 allowed by the 2019 Determination as being 4.22%. The cost of capital for Dublin Airport for 2023 was 4.35%, which is 13 basis points (bps) greater than the cost of capital included in the daa Regulated Accounts. It follows that the required Earnings Before Interest and Tax (EBIT) which would equate to the efficient level of the real cost of capital, as stated on page 5, is therefore incorrect.

1.4 The IAA asked daa to provide revised accounts for 2023 in which these issues are addressed, however daa has not done so. Consequently, the IAA is appending this note to the front of the daa 2023 Regulated Accounts to provide an accurate and internally consistent representation of the outturn financial performance relative to the forecasts in the 2019 Determination, and to correct the efficient level of the real cost of capital. This note should be read in conjunction with the Regulated Accounts for 2023. daa has committed to providing the 2024 Regulated Accounts in the format specified by the IAA under CN1/2011 which will ensure continuity and consistency, and allow an accurate comparison of outturn performance to forecast performance over time. The IAA has not edited the text in the following section, beyond providing a correct representation of the IAA's forecasts. The text continues to reflect Dublin Airport's view of the driver(s) of outturn performance and variance relative to the forecast.

Table 1: Overview of Financial Performance[4]

	Actual Performance €m	IAA Forecast (14.4% CPI) €m	Variance €m
Aeronautical Revenue	278.7	275.0	3.7
Commercial Revenue	355.8	316.0	39.8
Operating Expenses	(355.9)	(348.6)	7.3
EBITDA	**278.6**	**242.5**	**36.1**

[4] Note: The IAA Aeronautical Revenue forecast does not include quality of service adjustments. Dublin Airport has not exceeded the level of revenue which it is allowed to collect for the year ended 31 December 2023. The price cap in 2023, including quality of service and inflation adjustments, was €8.46, with Dublin Airport under recovering by €0.15 per passenger.

Financial review of the outturn performance of Dublin Airport compared to the IAA Determination Forecast
for the year ended 31 December 2023

1.5 The following financial review compares Dublin Airport results and attributable financial information with the IAA forecasts. All references by the IAA refer to the forecasts contained the 'Decision on an Interim Review of the 2019 Determination in relation to 2023-2026'.

1.6 The IAA forecasts have been inflated in line with the percentage change in the Consumer Price Index between February 2022 and October 2022, plus a forecast for inflation in 2023, which yields a figure of 14.4%. This is the rate of inflation used in arriving at the final price cap for 2023 of €8.46, and follows the methodology provided in the 'Decision on an Interim Review of the 2019 Determination in relation to 2023-2026'.

Financial overview

1.7 In 2023, Dublin Airport passenger numbers recovered to 33.5m passengers, an increase of 5.4m on 2022 passenger levels of 28.1m.[5]

1.8 Dublin Airport's profit after taxation before exceptional items and related tax is €111.2 million, (2022: €58.9 million). Exceptional items decrease the profit after tax by €1.1 million (2022: increase profit by €3.2million).

Passengers and airport charges

1.9 Passengers in Dublin Airport for 2023 were 33.5 million (2022: 28.1 million), which is 1.8 million or 6% above (2022: 8.05 million or 22% below) the IAA passenger forecast for 2023 of 31.7 million (2022: 36.1 million).[5] In light of the impact of Covid-19 on the aviation sector, the IAA conducted three interim reviews of the 2019 Determination. The first review was concluded in December 2020, with the revised Decision outlining the price cap for compliance purposes for 2020 and 2021. A second interim review of the 2019 Determination concluded in December 2022 extending the determination period by two years to 2026 and outlining the price caps for 2023-2026. The final price cap for 2023 was €8.46 after adjusting for inflation and quality of service terms. Airport charges for the purpose of price cap compliance in 2023 amounted to €278.7 million (2022: 223.9 million).

Commercial revenue

1.10 Commercial gross margin (commercial revenue less cost of sales) in Dublin Airport for 2023 was €355.8 million (2022: €279.1 million), which was €39.8 million (2022: 23.7 million) higher than the IAA commercial revenue forecast of €316.0 million (2022: €302.8 million).

1.11 Commercial revenue per passenger of €10.61 (2022: €9.94) was 6.4% higher than the IAA forecast of €9.97 (2022: €8.38) reflective of the strong commercial

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[5] Includes Transfer, Transit, Unscheduled and Other Passengers

revenue performance relative to passenger numbers across the commercial revenue streams in particular car parks, car hire concessions and food and beverage (F&B). Retail is also performing strongly, continuing to benefit from the duty-free impact of Brexit.

Operating expenses

1.12 The operating expenses excluding cost of sales, depreciation, amortisation, exceptional items and government payroll supports in Dublin Airport for 2023 were €355.9 million (2022: €318.8 million), which was €7.3 million or 2.1% higher (2022: €0.9 million or 0.3% lower) than the IAA cost forecast of €348.6 million (2022: 319.6 million).

1.13 Operating expenses per passenger of €10.62 (2022: €11.35) was 3.5% lower (2022: 28% higher) than the IAA forecast of €11.00 (2022: €8.85) which is partly a function of the higher passenger numbers and the fixed and semi-fixed nature of Dublin Airport's operating cost base. Local authority rates have been recognised at the higher level pending resolution of an appeal that is ongoing. During 2023, Dublin Airport received no government support in respect of its payroll operating expenses (2022: €4.1 million) and these supports are shown separately and included as "Other income" in the income statement. In addition, Dublin Airport did not receive any waiver of its rates charge (2022: €6.9 million waiver).

EBITDA

1.14 Dublin Airport's Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA), excluding exceptional items and payroll government supports was €278.6 million (2022: €197.9 million), up €36.1 million (2022: down €78.3 million) on the implied IAA forecast of €242.5 million (2022: €276.2 million).

Capital expenditure

1.15 The CAR capital allowance for the current regulatory period is €3,043.1 million (excluding PACE (Programme of Airport Campus Enhancement)). Capital expenditure on regulatory till activities in 2023 at Dublin Airport was €201.3 million (2022: €151.7 million), of which €7.3 million is relating to Capital Investment Programme ("CIP") 2015 – 2019 (including North Runway), €21.6 million for PACE, and €172.5 million on CIP 2020 – 2026.

Funds from operations: net debt

1.16 The funds from operations (FFO): net debt ratio for Dublin Airport was 16.8% (2022: 18.2%) based on an FFO for the year of €164.8 million (2022: €173.8 million) and adjusted net debt attributable to the regulated activities at the balance sheet date of €983.6 million (2022: €956.5 million).

1.17 Funds from operations (FFO) is calculated based upon S&P Global Ratings' methodology and is defined as EBITDA after costs of fundamental restructuring, less net interest and taxes paid, with operating lease costs and payments made in respect of post-retirement benefits added back. Adjusted net debt for these purposes comprises the closing net debt position including pension obligations and the capital value of operating lease commitments allocated.

FFO	2023 €000	2022 €000
EBITDA	**278,607**	201,961
Interest paid	**(22,329)**	(25,544)
Tax (paid) /refund	**(92,350)**	336
Operating lease payments	**417**	402
Post-retirement benefit payments	**445**	143
Restructuring costs	**-**	(3,481)
Funds from operations (FFO)	**164,790**	173,817

Adjusted net debt	2023 €000	2022 €000
Closing net debt	**982,975**	955,770
Capital value of operating lease	**623**	682
Adjusted net debt	**983,598**	956,452
FFO: net debt	**16.8%**	18.2%

Return on RAB

1.18 The return on the Dublin Airport Regulated Asset Base (RAB) for the year was 6.5% (2022: 3.5%) which is above the cost of capital allowed by CAR of 4.35%. Earnings before interest and tax (EBIT), exceptional items and fair value increases on investment properties were €158.4 million (2022: €96.1 million). The average RAB for the year based upon the IAA Determination Forecast is €2,421.4 million (2022: €2,764.2 million). An EBIT of €105.3m would be required to achieve a return of 4.35%.