

26th July, 2001

Mr Bill Prasifka
Commissioner for Aviation Regulation
Commission for Aviation
36 Upper Mount Street
Dublin 2

Ryanair's Submission Regarding the Commission for Aviation Regulation's Draft Determination (CP6/2001)

Dear Bill,

Section 33 of the Aviation Regulation Act, 2001, (the "Act") clearly sets out the regulatory objectives in respect of airport charges which obliges the Commission as follows;

"In making a determination the Commission shall aim to *facilitate the development and operation of cost effective airports which meet the requirements of users*".

As the initial written submissions of the users and many of the oral presentations at the recent public hearings¹ confirmed, there is a high degree of unanimity amongst the users of the regulated airports that the facilities have consistently been over specified, are cost and operationally ineffective, and have been developed at excessive cost - which is in turn being recovered from users through excessive prices. There is also unanimity among users that Aer Rianta has failed to consult with them and has failed to meet their requirements. Users have confirmed their requirements of (i) significantly lower costs; (ii) significantly more efficient use of the existing facilities; and (iii) unanimous opposition to the profligate and vastly over specified capital expenditure proposals put forward by Aer Rianta for Dublin, Cork and Shannon airports for the next ten years.

The recent economic down turn in Ireland and abroad and the stagnation and decline in traffic growth in the past two years (due to Aer Rianta's doubling of charges) make the achievement of the regulatory objectives all the more crucial to the continued viability of the air transport sector and the Irish economy as a whole. In this respect, ourselves and other users have called on the Commission to tightly regulate Aer Rianta in order to ensure the development and operation of cost effective airports which meet the requirements of users.

The Act clearly provides the Commission with all of the necessary tools and considerable discretion to tightly regulate Aer Rianta and to achieve the regulatory objectives. Section 32 of the Act allows the Commission to reduce airport charges and Section 33 details 10 factors to which the Commission must give "*due regard*" but these are clearly secondary to the regulatory obligation of "*developing cost effective facilities*" which "*meet the requirement of users*". The Commission itself has recognised in CP6 that "*the extent to which reliance on any one of the factors contributes to the achievement of the statutory objective is a matter for the Commission to determine.*" This is not entirely the case. The Commission is **obliged** to give the maximum due regard to those factors which (i) facilitate

¹ We attach a copy of our oral presentation on 18th July 2001 as part of our formal submission.

cost effective airports and (ii) meet the requirements of users. It therefore contravenes the legislation that the Commission has in CP6 failed to rely on those factors that would achieve the regulatory objectives (i.e., meeting the requirements of users) but instead places an over-reliance those that maximize the capex of, the returns of, and the discretion given to, Aer Rianta.

The Commission's draft proposals set out in CP6/2001 therefore fail to "*meet the requirements of users*" and will also fail to "*facilitate the development and operation of cost effective airports.*" Unless these proposals are substantially amended in the final determination in order to fulfil the regulatory obligations, the Commission will be in breach of these obligations and therefore subject to legal challenge under Section 38 of the Act.

In order to facilitate the Commission in substantially amending the proposals in CP6 (to ensure that it fulfils its regulatory obligations under Section 33 of the Act), we set out below Ryanair's requirements as a major (second largest) user of all three of the regulated airports.

1. Capex Requirements at the Three Airports

Ryanair and others have repeatedly criticised the extraordinarily profligate capex spending by Aer Rianta in the past and have urged the Commission to take a very strict approach to Aer Rianta's proposed future development of the regulated airports. However, the fact that the Commission has in CP6 "*proposed that Aer Rianta be allowed to cover by way of airport charges the cost of the recoverable capex programme, the details of which are set out in annex IV*" is testimony to the complete failure of the Commission to meet the requirements of the users or to facilitate the development and operation of cost effective airports. The Commission's proposals to allow Aer Rianta to spend almost **£500 million** at Dublin, **£100 million** at Cork and **£84 million** at Shannon (most of it in outright opposition from the users) are clearly in breach of Section 33 of the Act.

As one of the main users of the three airports we, and indeed our passengers (who are also "*users*" under the Commission's own definition) require that the Commission disallow the entirety of this capex programme until such time as it has been detailed to the defined airport users (airlines, passengers, cargo shippers and ground handlers) and an agreement has been obtained from all or a majority of these users that this programme actually meets their requirements.

Annex IV of CP6/2001 provides broad categories of what the Commission has permitted as the "*recoverable capex*" at Dublin Airport. Despite requests by Ryanair and other users, the Commission has refused to specify what has been included or excluded from this recoverable capex. Here again the Commission is clearly in breach of Section 33 of the Act because until the users are informed as to what is included in this capex we cannot reasonably be expected to inform or advise the Commission of our requirements. However, Ryanair is aware from other discussions with Aer Rianta of the general nature of some of what is proposed at Dublin Airport in particular. We therefore wish to make the Commission aware of our requirements in relation thereto.

- a) We require the Commission to disallow any recovery of the proposed £23 million for the category "*Access/Egress/Roads*". There is no justification for the cost of these facilities being borne either by Aer Rianta or airport users, when roads are clearly a matter for provision by the Government. Equally and in accordance with Section 33(a) it is a requirement of the users, "*on whom the airport charges may be levied*" that no recovery for spending on access/egress roads be allowed. This would also unfairly

penalise air passengers, when other competing forms of transport, such as ferry companies or railway passengers, are not expected to pay for the recovery of the cost of access/egress roads at the ferry ports or train terminals.

- b) We require that the Commission exclude the proposed £170 million capex for “*terminal building*”. We believe that most of this extraordinarily profligate expenditure relates to a second terminal and it is clear that users have no requirement for a second Aer Rianta terminal at Dublin Airport in the medium or even longer term. The current capacity of the terminal is over 20 million passengers per annum (30 million if the agreed Pier D facility is added) whereas current throughput is less than 15 million. Furthermore, Aer Rianta has not consulted with its users on the need for, or the cost of, constructing additional terminal space. It is also clear that there are users, such as Ryanair (among others), who are willing to fund the development of a second terminal at no additional cost to Aer Rianta and therefore any further expenditure by Aer Rianta on a second terminal building is excessive and unnecessary capex. Finally, if and when a second terminal building is required by the airport users, this could be constructed at a far more modest cost of approximately £40 to £50 million. The proposed spending of £170 million clearly contravenes the regulatory objective to facilitate the development of cost effective airports which meets the requirement of users.
- c) We require that the Commission exclude the £34 million allocated for “*New Piers*”. Again, this is not required by the users of Dublin Airport. The major users are in agreement that (the existing user-designed) Pier D should be constructed as the next pier development at Dublin Airport. It is quite clear that the users do not require another £34 million to be wasted by Aer Rianta on new piers at Dublin Airport, given that Pier D can be constructed at a cost of some £15 million. Again, the regulatory objective to facilitate the development of cost effective airports is being contravened. Furthermore, Ryanair has offered to pay for its construction, and it will immediately add capacity of approximately 8 to 10 million passengers as compared to the current throughput of approximately 2.5 million in Pier C. Given that all of the users require more contact stands immediately (as confirmed in the recent SH&E report) and Pier D will provide 12 such stands within 11 months at a cost of only £15 million, the Commission must exclude the entire category of “new piers” in order to force Aer Rianta to meet the unanimously agreed requirements of the users.
- d) We require the Commission to exclude the proposed £152 million of capex for “*Stands & Airfield*”. It is clear that most of this expenditure is destined for the construction of the proposed “second runway”, which is opposed by all of the principal users at Dublin Airport as it is currently unnecessary given the current, ongoing under utilisation of the 2 existing runways at Dublin. Section 33(c) mandates “*the efficient and effective use of all resources by the airport authority*”. The Commission’s approval of this spending, despite the substantial under utilisation of existing runway capacity and despite the unanimous opposition of users, is a clear breach of the Commission’s obligations under Sections 33 and 33(c).
- e) We require the Commission to exclude the ridiculous proposal to spend £102 million on “*Rail*” at Dublin Airport as this cannot possibly be justified by the Commission “*as facilitating the development and operation of cost effective airports which meet the requirements of users*”. The absurd nature of this proposed spending is evidenced by the fact that even Aer Rianta planners have not been able to explain to users the purpose or necessity of this project and have not even appointed consultants or examined the likely cost of this incredible testimony to Aer Rianta’s wasteful spending. The Commission cannot allow Aer Rianta to spend or recover £102 million as this is not

cost effective and is opposed by all users. We believe that the Commission has included this ridiculous category with the intent of appeasing users by removing it in the final determination. However, removing this category alone would fall far short of fulfilling the Commission's regulatory objectives.

- f) We require the Commission to exclude the £84 million proposed capex at Shannon Airport. This does not meet the requirements of the users of Shannon and does not facilitate the development and operation of a cost effective airport at Shannon. In view of the excessive cost of the new terminal at Shannon (much of which has already been disallowed by the Commission), it is clearly unnecessary and a breach of Section 33 of the Act to allow any further capex at Shannon when it fails to meet the requirements of and is opposed by the users of Shannon.
- g) We require the Commission to exclude the proposed £100 million capex at Cork Airport. This capex has yet to be explained to users, we have no idea what is proposed and it therefore cannot possibly meet with our requirements, never mind facilitate the development and operation of a cost effective airport at Cork.

Given the record of unnecessary and profligate capex by Aer Rianta in recent years, the only way in which the Commission can aim to “*facilitate the development and operation of cost effective airports which meet the requirements of users*” in the short term is to exclude **any** further capex from being added to the RAB and thereby require Aer Rianta to agree the requirement for and the cost of development of any proposed further capex at the regulated airports with the users, **prior to it being allowed by the Commission**. Users should also be provided the opportunity to finance or part finance such projects in order to promote capital cost efficiency and to avoid capex being recovered from users in the form of higher charges.

2. Valuation of Aer Rianta's Assets

It is the requirement of Ryanair (and also a requirement of the regulatory objective to facilitate cost effective airports) that Aer Rianta's assets be valued at their current written down historical cost (net of grants) subject to the following further deductions.

- a) The new terminal building in Shannon must be valued at zero, because there was clearly no user requirement for it given the significant over capacity of the terminal facilities at Shannon Airport. The new terminal was built for political and regulatory (to inflate the RAB) reasons. It does not facilitate the development and operation of cost effective airports that meet the requirements of users and its entire cost should be excluded from the valuation of Aer Rianta's assets.
- b) The cost of Pier C must be written down to £15 million for valuation purposes, which equates to the cost of a “cost effective” pier that would meet the requirements of users, had it been designed along the lines of the agreed Pier D.
- c) The cost of the 6-bay extension should be reduced in value by 50% to reflect the additional costs incurred as a result of the totally unnecessary development of the underground baggage handling facility, which is neither efficient nor cost effective and which substantially adds to the operational burden placed upon users as a result of being run alongside a ground level baggage facility in the old terminal. Such a mark-down would also reflect the fact that neither Ryanair nor Aer Lingus, the two main users at Dublin Airport (who together account for 70% of the passenger users of

Dublin Airport), actually use or benefit from this profligate and ineffective terminal extension.

Such a devaluation of these assets would also send a clear signal to Aer Rianta that in future all such capital projects **must** comply with the regulatory objectives of Section 33 of the Act, namely to “*meet the requirements of the users*” who are ultimately expected to pay for them, whilst at the same time facilitating “*the development and operation of cost effective airports*”.

Furthermore, Ryanair requires that **all** of Aer Rianta’s assets be included in the regulatory single till. This means that assets such as the Great Southern Hotels Group and Aer Rianta International must also be included in Aer Rianta’s asset base, because clearly a disposal of some or all of these assets in the near to medium term will enable Aer Rianta pay down a significant proportion of its debt or fund any further capital expenditure requirements at the regulated airports and will enable/assist Aer Rianta to develop and operate “*cost effective airports*” which “*meet the requirements of users*”.

3. Aer Rianta’s Allowable Rate of Return

We require that Aer Rianta’s allowable rate of return be fixed at 4% per annum for each of the next five years. This is slightly less than the market (i.e., competitive) rate of return available for prime property investments in the Dublin market at present and reflects the favourable, monopoly status of Aer Rianta, its lower costs of funds due to its “AAA” (government quality) debt rating and the lack of any competitive alternative property development at the three regulated airports. It also incentivises Aer Rianta to reduce costs and enhance the efficiency of its existing facilities by setting a slightly lower than market ROR rate. This will also incentivise Aer Rianta to promote and encourage traffic and cargo growth to improve its income and actual rate of return.

The Commission is empowered to set a lower than market rate of return on capital under Section 32(6)(b), which permits the Commission to “*operate to restrict increases in any such charges, or to require reductions in them, whether by reference to any formula or otherwise*”. Setting the rate of return at a level that forces Aer Rianta to become more efficient in the development and operation of cost effective airports and in financing (or reducing) its capex achieves the regulatory objectives.

4. Additional Requirements of Users

In addition to the three above areas, on which you have asked us to respond, we also wish to make the Commission aware of additional requirements of Ryanair and also to make you aware of the current and prospective needs of those on whom the airport charges may be levied in accordance with Section 33 of the Act:

- a) As noted above, we require the Great Southern Hotels and Aer Rianta International to be included in the regulatory till. This will maximise the efficiency of the working capital within Aer Rianta and enable Aer Rianta to maximise the efficiency with which any further capex is financed. This is necessary to comply with Section 33(e) of the Act.
- b) We require that the proposed maximum permitted revenue per work load unit (RWU) of IR£4.96 at Dublin Airport be reduced by 50% to reflect the current proven inefficiency of Dublin Airport when compared to the best of its peer group airports, namely Copenhagen. The Commission acknowledged in CP6 that Copenhagen is a strong

comparator airport. The Commission also noted that Copenhagen Airport opened a new terminal in 1999 (similar to DUB) and did not increase rates and charges for several years leading up to 2000. Given that the average air fares charged to and from Dublin Airport are lower than at Copenhagen (and are in fact the lowest in Europe), it is the requirement of the users at Dublin Airport (the airlines and passengers) that the efficiency at Dublin Airport be the best in Europe and the charges at Dublin Airport reflect the best possible practice (i.e., be the lowest) in Europe.

Furthermore, although the Commission included three US airports in its benchmarking exercise, it nevertheless failed to take these into account when calculating the inefficiency of Aer Rianta. Given the success of deregulation in the US and its resulting pressure on airports to increase their efficiency and reduce their prices, these airports should have been factored into the calculation of Aer Rianta's inefficiency. These airports are also relevant given the extent of low fares competition in the US and greater availability of low fares competition at Dublin Airport.

As noted above, the Commission is clearly permitted under Section 32(6)(b) of the Act to impose such a reduction in the RWU. The Commission is also permitted to make such a finding in accordance with Sections 33(a), (c), (e), (g), (h) of the Act.

- c) We require that the level of maximum permitted RWU at Cork and Shannon be reduced to half the maximum permitted RWU at Dublin Airport in accordance with Section 33(d) of the Act. This states that the Commission "*shall have due regard to the contribution of the airport to the region in which it is located*".

Since both Cork and Shannon airports have the capacity to make an enormous contribution to the regions in which they are located, the Commission is duty bound to maximise the requirements of users at these two airports. Users at both of these airports require significantly lower costs than those that prevail at Dublin because of the need to offer lower prices to passengers and cargo operators in order to attract passenger and cargo business to Cork and Shannon, which will in turn aid regional development and the decentralisation of traffic away from Dublin Airport (which accounts for 76% of all passenger traffic in the Republic).

- d) We require that the above maximum permitted RWU at each of the three airports is subject to an (RPI minus 7%) annual adjustment each year for the next five years, in order to promote further cost reductions and efficiencies at the three regulated airports. Such a formula is permitted under Section 32(6)(b) of the Act and is further permitted under Sections 33(a), (c), (d), (g) and (h) of the Act. As noted in our oral presentation, commercial entities operating in a competitive market place are forced to continually reduce their costs and improve their efficiency. The Commission must impose similar market type realities upon Aer Rianta in order to facilitate the development and operation of cost effective airports which meet the requirements of users.
- e) We require that a specific sub-cap be imposed in the Commission's final determination by restoring the Pier A discount of 25% to all passengers and traffic using the A Pier facility. This is clearly permitted under Sections 32(6)(a)(ii) and 32(6)(b) of the Act and complies with the objectives set out in Sections 33 (a), (c), (g) and (h). Indeed, Aer Rianta itself has recognised the lower cost and inferior nature of the Pier A facility with its own Pier A discount (or "sub-cap") in recent years and there is no justification for its removal. Aer Rianta is currently discriminating against users of low cost facilities by imposing the same prices on users of these facilities as are levied for users of superior, higher cost facilities.

- f) We require that the Commission reject the representations made by Aer Rianta under the Act in so far as they seek to obtain approval for its capex programmes at the three airports that do not meet the requirements of users and because they are wildly profligate and will prevent the development and operation of cost effective airports. Examples of this include Aer Rianta's representations in connection with a second terminal, the new second runway and the proposed internal railway system at Dublin Airport. The Commission is clearly empowered to reject any such representations by Aer Rianta in accordance with Section 32(8) of the Act.
- g) Finally, Ryanair requires that the Commission reject all of the representations made by Aer Rianta in so far as they relate to price or cost increases to be levied on users of the regulated airports. Any such price or cost increases will clearly contravene the regulatory objectives specified in Section 33 of the Act because they are directly opposite to the stated requirements of the users.

5. Conclusions

It is Ryanair's belief that the Commission for Aviation Regulation clearly has the power under the Aviation Regulation Act 2001, and in particular Section 33, to achieve the regulatory objective of giving the maximum regard to the requirements of the users of the regulated airports. Indeed, as the Commission itself recognises, it is **obliged** to "*facilitate the development and operation of cost effective airports which meet the requirements of users*". The Commission must also give maximum regard to the current uncompetitiveness at the regulated airports and the failure of Aer Rianta in recent years to consult with its users or to facilitate or meet the requirements of those users.

The Commission is empowered under the legislation, has the talent in terms of personnel, and possesses the vision and leadership to make its first determination a benchmark for other aviation regulators around the world, and for regulators of other uncompetitive state monopolies in this country. The Commission's current proposals fail to do so and the Commission therefore has not achieved the regulatory obligations.

Ireland, its economy and its tourism prospered greatly from 1985 to 1999 as a result of promoting deregulation, competition, lower access costs and lower fares to/from this island. In doing so, these government policies clearly met the requirements of the ultimate users of the airports - passengers – and they responded in their millions, which in turn has made the regulated airports among the most profitable in the world (on a profit per passenger basis). The Commission has the power to return Ireland to this favourable access cost regime and indeed the Act obliges the Commission to do so. Moreover, it is only by doing so that the Commission can comply with its obligations to meet the regulatory objectives as specified by the Oireachtas in Section 33 of the Act, i.e., "*by facilitating the development and operation of cost effective airports which meet the requirements of users.*"

Should the Commission fail to meet its obligation to deliver these regulatory objectives in its final determination, then its determination will inevitably be challenged under Section 38 of the Act by one or a number of the users of the regulated airports, and will be overturned.

Yours sincerely,

Jim Callaghan
Head of Regulatory Affairs

4th July, 2001

Mr Bill Prasifka
Commissioner for Aviation Regulation
Commission for Aviation Regulation
36 Upper Mount Street
Dublin 2

Dear Bill,

Happy 4th of July to you.

Enclosed are a couple of articles regarding the success of Southwest Airlines in the States and the massive cost savings they have brought to customers and business. The USA Today article also graphically illustrates what happens in markets where low fares airlines are absent.

We are still grappling with your draft determination but thus far fail to see how it can possibly lead to the kind of competitive environment present in the US, which promotes lower costs and competition at airports, with associated cost savings passed on to consumers in the form of lower fares. Your current proposals allow for increased costs at all three regulated airports and for the airport monopoly to continue to develop over-specified, costly facilities, which will in turn lead to even higher costs.

In the end, it is Irish consumers and tourism that will be the losers.

Yours sincerely,

Jim Callaghan
Head of Regulatory Affairs

Enclosures

Schedule:

USA Today 10A Business Travel

Barrons – 2nd July 2001

3rd July, 2001

Mr Bill Prasifka
Commissioner for Aviation Regulation
Commission for Aviation Regulation
36 Upper Mount Street
Dublin 2

Dear Bill,

Consultation Regarding Aviation Terminal Services Charges

I refer to your consultation paper regarding Aviation Terminal Service Charges in Ireland (CP5/2001). Given the abject failure of the “consultation” process on the issue of airport charges and the fact that the Commission is clearly unwilling to regulate the Aer Rianta monopoly in the interests of users and consumers, we see little point in wasting any more valuable time in protracted consultation on this latest issue.

The result of the Commission’s four months of considering the disastrous situation at the Aer Rianta controlled airports is that you now propose substantial increases in the charges at these airports -- on top of a **doubling** of the charges by Aer Rianta in the two years immediately prior to your empowerment. This is completely unjustifiable in the context of your findings that Aer Rianta is **30% more inefficient** than comparable airports and that they have been engaged in **substantial gold plating** with respect to both past and planned capex.

Furthermore, your pricing proposals make no reference to the urgent need to promote low cost access to Ireland, a point that was addressed in almost all of the submissions made during the “consultation” process. On the whole, your proposals, if implemented, would lead to higher costs to and from Ireland, irreparably damaging any prospects of traffic and tourism growth, particularly at Cork and Shannon, where you propose unjustifiable price increases of **over 30%**.

In all honesty Bill, the Commission has thus far failed to demonstrate any courage or appetite to change the high cost, profligate expenditure, and woeful service provided by Aer Rianta at the regulated airports. An opportunity of historic proportions will have been squandered unless your current proposals are radically altered and a clear mechanism for promoting traffic growth is imposed on Aer Rianta. They have already indicated (unsurprisingly) that they intend to impose the maximum charges on all operators, as we predicted.

Please note, that we will be participating in the public hearing on the 17th and 18th of July and will be airing these and other serious concerns raised by your draft determination.

Yours sincerely,

Michael O’Leary
Chief Executive

ab/MOL/7095

31st July, 2001

Mr Bill Prasifka
Commissioner for Aviation Regulation
Commission for Aviation
36 Upper Mount Street
Dublin 2

COMMISSION FOR
AVIATION REGULATION

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Fax. 6611296

Dear Bill,

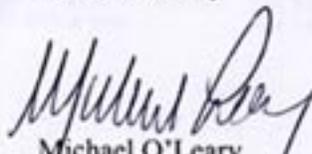
I thought you might find this morning's article in this morning's FT covering the results of the BAA interesting (copy attached).

This commentary highlights two features of relevance to the continuing problems at the Irish airports;

1. Stansted remains the fastest growing airport in Europe thanks to the expansion of low fare carriers - principally Ryanair - with the result that traffic growth at Stansted has remained unaffected by either the foot and mouth epidemic or the US economic downturn and,
2. the BAA is aiming to raise capacity at Stansted to 35 million a year "to exploit fully the existing single runway".

These figures confirm just how utterly needless and profligate, is the Aer Rianta plan to construct a new second runway (when the existing two runway infrastructure at Dublin is only accommodating 15 million passengers a year).

Yours sincerely


Michael O'Leary
Chief Executive
c.c. Jim Callaghan

BAA to spend £7bn in South-east
BAA, the airports operator, plans to spend nearly £7bn during the next 10 years to develop Heathrow, Gatwick and Stansted airports. Page 25; Lex, Page 20

BAA plans to spend £7bn on airports

By Kevin Done,
Aerospace Correspondent

BAA, the airports operator, said yesterday it was planning to spend nearly £7bn during the next 10 years to develop its three airports in the south-east of England at Heathrow, Gatwick and Stansted.

Mike Hodgkinson, chief executive, also said the group was "confident" it would receive planning approval for the building of a fifth terminal at Heathrow, one of the world's busiest airports, during the second half of the year.

The group would invest about £2.5bn in the project with work on the site expected to start early next year and completion scheduled for the end of 2007.

Terminal five will allow passenger volumes to rise to more than 80m from the 63.6m handled in the 12 months to the end of June.

BAA is expected to submit a planning application later this week to Uttlesford district council for permission to raise the capacity ceiling at Stansted from the current 16m passengers to approximately 25m a year.

Stansted is the fastest growing airport in Europe.

Traffic volumes have risen by about 23 per cent to more than 13m for the first time in the 12 months to the end of July largely thanks to the rapid expansion of low-cost carriers Ryanair, Go and Buzz.

It is aiming to raise capacity at Stansted later to 35m a year to exploit fully the existing single runway.

The group's seven UK airports handled a total of 11.8m passengers in June, an increase of 3.4 per cent on the same month last year.

This was an upturn after four months of minimal growth, as the impact of the foot-and-mouth outbreak on inbound tourism, in particular from the US and Ireland, began to tail off.

BAA also reported profits in the first quarter of the current financial year from April to June up 2.7 per cent from £148m to £152m, excluding exceptional items and its BAA McArthurGlen joint venture, Europe's largest developer of designer outlet shopping centres.

The results included for the first time accounting policy changes for retirement

benefits and deferred tax.

Group turnover in the first quarter fell by 2.5 per cent from £561m to £547m, while operating profits rose by 4.5 per cent from £154m to £161m.

Earnings per share rose by 2 per cent from 9.5p to 9.8p.

BAA's performance in the first quarter was supported by the strength of its retail operations.

There was a 9 per cent increase in net retail income including duty and tax-free sales, car parking and catering.

This offset growth of only 1.5 per cent in passenger volumes in the quarter, which were hit by the foot-and-mouth outbreak and the slowdown in US economic activity resulting in a fall in North Atlantic traffic.

Mr Hodgkinson said that

"more normal" growth in passenger volumes of about 1 per cent a year was expected to resume in the autumn.

The shares closed 5p higher at 666p.

Lex, Page 20