11 Ryanair Holdings, plc — 2011

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RYAAY

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In October 2011, Ryanair began "Child Free" flights in response to a Europe-wide passenger survey showing that over half would pay higher fares to avoid other people's children. Ryanair's director of communications, Stephen McNamara, stated, "When it comes to children, we all love our own but would clearly prefer to avoid other people's little monsters while traveling." According to McNamara, it was not operationally possible to divide the cabins into "adult" and "family" areas as some of the survey respondents had suggested. The child-free flights would be on high-frequency routes only.

Ryanair recently proposed removing rows of seats to be replaced by 15 rows of vertical seats. At the time, Stephen McNamara invoked a poll of 120,000 passengers, 80,000 of whom responded they would opt for "standing room" if the tickets were free, while 40 percent would opt for the service for half-price tickets. An earlier proposal would remove two toilets on short-haul aircraft and charge passengers one Euro for using the remaining third toilet. Even more surprising was CEO O'Leary's proposal that one of the two pilots on Ryanair aircraft be replaced by a computer and one member of the cabin crew on all flights be trained to land the plane. But, despite frequent, seemingly ludicrous suggestions, the airline outperforms its competitors, and many actions that appeared risky or foolhardy at the time (such as ordering new planes when the market collapsed after the 9/11 attacks) later turned out to be quite astute.

History

Ryanair was founded in 1985 and has its headquarters at the Dublin Airport in Ireland. Flights began between Ireland and the United Kingdom in 1986 as the new airline's Dublin-London route challenged the British Airways-Aer Lingus duopoly. After severe financial losses in 1990, Ryanair restructured, adopting the Southwest Airlines business model, and became the pioneer of the low-fares model in Europe. The next years showed growth from 745,000 passengers in 1990 to 72.1 million as of March 31, 2011. Ryanair Holdings was incorporated in 1996 as a holding company for Ryanair Limited. Today, Ryanair operates more than 1,500 flights per day from 44 bases and across 27 countries, connecting 160 destinations throughout Europe and Morocco.

Ryanair grew from 51 employees in 1985 to more than 8,000 employees today. Based on passengers carried, Ryanair is Europe's largest low-cost carrier and second-largest airline. It is also the world's largest carrier of international passengers and the fifth-largest carrier of both international and domestic passengers. As it continues to grow, Ryanair faces challenges in its use of ancillary fees as a means of maintaining revenue growth while keeping ticket prices low. Externally, increasing legislation and financial distress in Europe threaten to adversely affect its business model and raise the cost of operations.

Throughout this case, "Ryanair" refers to both Ryanair Holdings and Ryanair Limited, which are managed as an integrated unit with the same board of directors and executive officers. The fiscal year for the company means the 12 month period ending on March 31. The *Annual Report* refers to Form 20F filed with the Securities and Exchange Commission and covers the fiscal year ending March 31, 2010. Updated financial and operating information is given in *Ryanair Full Year Results 2011*, which contains data for the fiscal year ending March 31, 2011 (preliminary and unaudited).

Internal Factors

Mission and Vision

Ryanair has no published mission or vision statement, but its *Annual Report* and website statements imply a vision and mission. A vision statement is what a company wants to become, which for Ryanair is to "firmly establish itself as Europe's leading scheduled passenger airline through continued improvements and expanded offerings of its low-fares service."

A mission statement answers the question "What is our business?" Ryanair answers by stating that "Ryanair seeks to offer low fares that generate increased passenger traffic while maintaining a continuous focus on cost-containment and operating efficiencies." The extensive statements of its strategy (Exhibit 1) and its charter (Exhibit 2) explain the main elements of its business model and its relationship with customers.

EXHIBIT 1 Key Elements of Ryanair's Strategy

1. **Low Fares**—targets fare-conscious leisure and business travelers who might otherwise use a substitute form of transportation
2. **Customer Service**—emphasis on better punctuality, fewer lost bags, and fewer cancellations than rivals
3. **Frequent Point-to-Point Short-Haul**—secondary airports near major metropolitan areas with "no-frills"
4. **Low Operating Cost**—use of single aircraft type, productive work force, use of contractors, choice of airports with competitive costs
5. **Use of the Internet**—all ticket purchases and check-in via Internet
6. **Commitment to Safety and Quality**—low-cost operating strategy does not extend to safety, maintenance, or quality assurance
7. **Ancillary Services**—revenues are enhanced with hotel bookings, car rentals, and other nonticket revenues as well as baggage and other charges
8. **Focused Criteria for Growth**—growth based on an explicit plan with a focus in Europe
9. **Responding to Current Challenges**—responses to increasing fuel costs and reduced economic growth

Source: Annual Report, Ryanair Holdings PLC (Form 20F filed with U.S. Securities and Exchange Commission), July 20, 2010, http://www.ryanair.com/doc/investor/2010/20F_2010.pdf.

EXHIBIT 2 Ryanair Passenger Fares, Punctuality, and Service Commitment (Charter)

1. Offer the lowest fares at all times on all routes.
2. No fuel surcharge imposed on any fare.
3. Honor the agreed fare after payment.
4. Notify passengers of known delays, cancellations, and diversions.
5. Minimize the number of passengers facing delays.
6. Allow reservation changes.
7. Respond quickly to passenger complaints and provide prompt refunds.
8. Take measures to speed up check-in.
9. Minimize the number of passengers who are involuntarily denied boarding.
10. Provide passenger information through its website.
11. Provide the following information at the time of booking: scheduled departure and arrival time, airport/terminal of departure/arrival, and the terms and conditions attached to the fare to be paid.

Source: "Ryanair Passenger Charter," Ryanair website, http://www.ryanair.com/en/about/passenger-charter.

Code of Ethics

Ryanair's "Code of Business Conduct & Ethics 2010" gives ethical guidelines about the company's work environment, business activities, financial reporting, company property, conflict of interest, law and regulations, disciplinary action, and reporting procedures. The code is summarized as follows:

> Ryanair is committed to conducting business in an ethical fashion that complies with all laws and regulations in the countries in which Ryanair operates. As employees and representatives of Ryanair, we must consider how our actions affect the integrity and credibility of the Company as a whole. This Code of Business Conduct & Ethics sets out the principles that constitute our way of doing business.

Over the years, Ryanair has been accused of questionable practices, particularly its use of controversial or misleading advertisements that appear to violate its ethics code, specifically its statement of "Fair Dealing" (below), which is part of that code.

> Ryanair does not seek competitive advantage through illegal or unethical business practices. All employees/directors should endeavour to deal fairly with customers, competitors and employees. No employee/director should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any unfair dealing practice.

Several complaints have been filed against Ryanair with the Advertising Standards Authority (ASA), the U.K.'s independent regulator of advertising. *BBC News* reported that in 2008, Ryanair faced an ASA probe asserting that it made exaggerated claims about the availability of flights at advertised prices that did not include taxes and fees. Other allegations were that Ryanair:

- Claimed that its flight from London to Brussels was faster and cheaper than traveling by the Eurostar train.
- Played down the effect of aviation on the environment by claiming that the industry accounts for just 2 percent of carbon dioxide emissions (its code of ethics states that the airline will do business in an environmentally responsible way).
- Suggested that people buying tickets via online agent Lastminute.com were being ripped off.
- Used a model in schoolgirl-style clothes with the headline "hottest back to school fares."

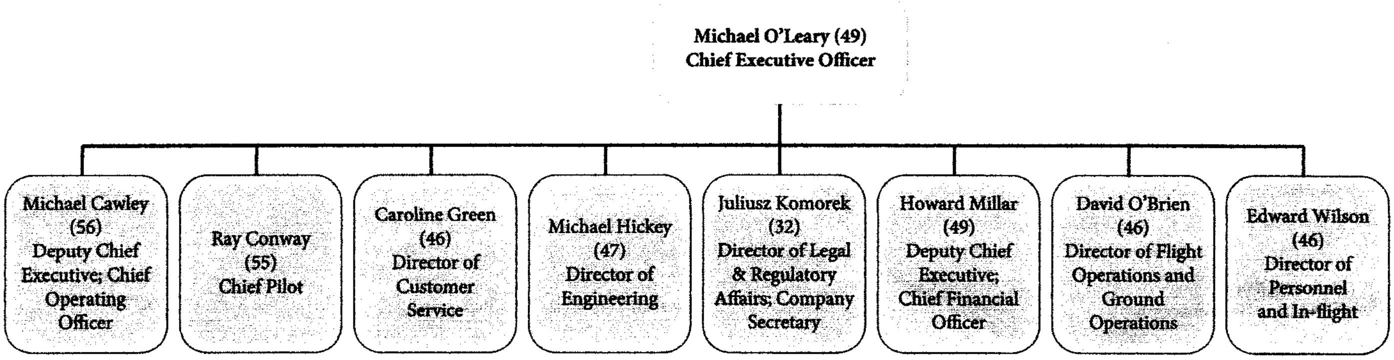
Even Ryanair acknowledges its controversial advertisements by its website statement that it engages in "punchy advertising that sometimes gets us in trouble." In 2011, the ASA criticized a Ryanair advertisement featuring a bikini-clad woman promoting trips to a "place in the sun." The ASA argued that some of these places had as little as three hours of sunshine per day. Would these advertisements be appropriate given Ryanair's own policy against "misrepresentation of the facts?"

Top Management

There are 10 directors of Ryanair, including CEO Michael O'Leary. Nine directors are independent under the standards set forth in the NASDAQ rules. Essentially, an independent director has no material interest in the company (for example, being an employee or manager in that company, or having any direct business relationship with the company such as being a customer or supplier).

There are nine executive officers as illustrated in Exhibit 3. Mr. O'Leary has served as a director since November 1988, deputy chief executive from 1991 to 1994, and CEO since January 1, 1994. O'Leary restructured Ryanair around the Southwest Airlines model. In 1991, he went to Dallas to meet Southwest executives and took the lessons back to Ryanair. While he embraced a few central aspects of Southwest's model (a single aircraft, secondary airports), he went much further with the constant drive to keep costs down. In particular, the extensive use of ancillary fees to balance the low ticket prices became a trademark of Ryanair and now forms a core element of its low-cost strategy.

EXHIBIT 3 Ryanair's Executive Officers



Source: *Annual Report,* Ryanair Holdings PLC (Form 20F filed with U.S. Securities and Exchange Commission), July 20, 2010, http://www.ryanair.com/doc/investor/2010/20F_2010.pdf.

O'Leary is known for his aggressiveness, outrageous public statements, and insults to almost any group or individual who gets in the way of Ryanair, including customers who complain about poor service. He has been accused of making outlandish suggestions (for example, to have standing passengers on aircraft or to replace one of the pilots with a computer) to gain publicity. But, despite giving the impression of being a loose cannon, industry experts say he is an astute strategist who has created a singular focus on cost control that competitors have been unable to imitate. He leads by example—stays in budget motels, has no Blackberry, and flies on Ryanair. His office is sparse and the company headquarters in Dublin is a drab 15,000-square-foot building. Prior to becoming CEO, O'Leary was a conventional dresser who avoided the limelight. On becoming CEO, however, he changed his wardrobe to jeans and became more outspoken and flamboyant.

O'Leary's gross salary in 2010 was €595,000 plus a bonus payment of €241,000. O'Leary's contract may be terminated by either party with 12 months notice.

Strategy

Ryanair's primary means of achieving its objective to become Europe's leading scheduled passenger airline is to offer lower fares than competitors. The nine elements of its strategy are shown in Exhibit 1. While Ryanair's leading strategy is lower cost (through its operations), it also seeks to differentiate itself (through certain aspects of customer service) and raise revenues on nonticket items (through ancillary services) as a means of offsetting the lower fares. Its strategy has generated some controversy, especially with respect to ancillary fees (which the airline has been accused of concealing) and customer service (which has been reduced in some areas, or which may only be available for a fee).

Five key value chain activities make up the main elements of strategy: 1) operations, 2) human resource management, 3) customer service, 4) use of the Internet, and 5) ancillary revenues. These value chain activities show how Ryanair organizes its internal activities to implement its strategy.

Operations

The primary method of cost control is the use of a single model of aircraft (the Boeing 737-800), which allows minimization of training and maintenance costs, efficient management of spare parts inventory, and more flexible scheduling of flight crews. Because this model aircraft is widely used, flight crews are more readily available for hire. In addition, because Ryanair purchases a large number of aircraft from Boeing, it can negotiate price concessions.

Other cost saving aspects of operations are the use of secondary and regional airports that offer competitive prices, the use of outdoor boarding stairs instead of jetways, having all passengers check in on the Internet, and the introduction of a checked-bag fee, which reduces the number of bags carried by passengers, handling costs, and the number of check-in desks. Ryanair frequently has agreements with secondary and regional airports that its fees be based on traffic volume. Airports are chosen because of low costs of operating out of that airport rather than for market reasons.

Ryanair's short-haul focus also enhances the low-cost strategy as it allows flights to be conducted without meals, movies, and other in-flight services that would be expected on longer flights. While some aspects of operations have a negative effect on customer service (e.g., the distance of the secondary airport from the main cities and the cost of checked baggage), there are positive aspects such as less congested regional airports, which permit more frequent on-time arrivals, quicker turnarounds, and more frequent on-time departures. Quicker turnarounds and more frequent on-time departures are also enhanced because the airline offers neither connecting flights nor the transfer of baggage to other flights, whether operated by Ryanair or not.

Human Resource Management

A second activity contributing to lower costs is the productivity-based incentive system. Flight attendants receive commissions for onboard sales and, along with pilots, payments based on the number of hours or sectors flown. For the 2010 fiscal year, productivity-based incentives accounted for approximately 39 percent of a typical flight attendant's total earnings and 37 percent of a typical pilot's total compensation. The cost of customer service is reduced by outsourcing ticketing and other services at airports. For these services, Ryanair has been successful in negotiating fixed-price, multi-year contracts.

Under the Irish Aviation Authority (IAA) rules, pilots are limited to 100 flight-hours per 28-day cycle, 300 flight-hours every three months, and 900 flight-hours per fiscal year. For fiscal 2010, the average flight-hours for Ryanair's pilots were approximately 64 hours per month and approximately 758 for the complete year. There is a risk to the productivity-based incentive system if these standards are made more stringent (i.e., if the allowed flight hours are reduced).

Most Ryanair employees are represented by unions, and the company currently has a negotiated pay freeze for fiscal 2011 affecting all employee groups. In addition, certain positions may be eliminated in the future, which could lead to deterioration in labor relations and affect the airline's operations.

Customer Service

Ryanair's stated approach to customer service is the deliberate reduction of services in some areas (e.g., free checked bags, meals, flights to major airports) while raising it in others (e.g., on-time departures and arrivals, fewer lost bags). Ryanair claims on its website and in its *Annual Report* that, according to the Association of European airlines, it has better punctuality, fewer lost bags, and fewer cancellations than its peer group in Europe. This achievement is attributed to Ryanair's focus on these services and its operations from uncongested secondary airports. The airline believes that customers prefer fewer services plus extra fees as needed for meals and other items in exchange for low fares. Exhibit 2 summarizes the "Ryanair Passenger Fares, Punctuality, and Service Commitment" (Charter) published on its website.

The Air Transport Users' Council, however, claims that in 2009, Easy Jet and Ryanair had the most complaints of any major European airline and cancellations, missing bags, and denied boarding were top complaints. In addition, other observers view Ryanair's customer service as poor. For example, in a recent *Businessweek* article entitled "Ryanair's O'Leary: The Duke of Discomfort," even CEO O'Leary suggests that customer service is poor:

> In exchange for cheap fares, he [O'Leary] says, passengers will put up with just about anything. On Ryanair, that can include high luggage fees, relentless in-flight sales pitches for smokeless cigarettes and scratch-off lottery games; minimal customer service; bad, expensive food; cramped seats; and flights to secondary city airports that are sometimes hours from the actual city.

In the same article, O'Leary criticizes competitors for treating budget travelers with a level of courtesy that they do not receive elsewhere, nor expect when traveling. O'Leary believes that customers will endure discomfort and indignity as long as they get to their destination cheaply and with their suitcases.

Ancillary Revenues

The emphasis on ancillary revenues sets Ryanair's strategy apart from other low-cost carriers. It is central to the low-cost strategy as it allows the airline to make up the revenues lost through lower ticket prices. Ancillary revenues are defined as revenues beyond the sale of a ticket and include sales of related items such as hotel reservations or car rental, as well as charges for food, checked baggage, priority boarding, and other items. Ryanair has been particularly creative in coming up with new means of generating ancillary revenues. For example, in 2009, the company announced the sale of smokeless cigarettes to ensure that passengers get their "fix" of nicotine without lighting up.

The company's website contains offers for car hire, travel insurance, hotels, airport transfer, credit cards, hostels and bed and breakfasts, cruise holidays, villas and apartments, campsite holidays, and others. Ryanair has contracts with companies to handle the services marketed on the website and receives a fee from these companies. For example, in the contract with Hertz Corporation, Hertz handles all rentals marketed through Ryanair's website in exchange for a per-passenger fee paid to Ryanair. Recently, Ryanair teamed up with a travel-media company to sell targeted advertising that will appear on its boarding passes.

Ancillary revenues are also generated by charging fees for just about anything. For example, there are fees for priority boarding, reserved seats, for airport boarding card reissue, checked baggage, excess baggage, infant equipment, sports equipment, musical instruments, and many others. A recent new fee is a £2 charge to cover the cost of cancellations and delays in 2010 such as the Icelandic volcanic ash, heavy snow, and strikes in Spain and France. One controversial fee is the boarding pass reissue fee (charging €40/£40 for a passenger who fails to print out his boarding pass), which has been ruled illegal by a judge in Barcelona. Without the charge, Ryanair argues that it would have to employ numerous handling agents to reissue boarding passes.

The *2010 Amadeus Guide to Ancillary Revenue* categorizes Ryanair as one of the "Ancillary Revenue Champs" and estimates that for 2010, worldwide ancillary revenues would be $22.6 billion. *The Irish Examiner* newspaper reported that Ryanair's ancillary revenues for 2009 were €663 million, more than any European airline, and in the top five ranking of airlines around the world (the top three are United, American, and Delta). Ryanair's ancillary revenues grew by 21 percent to €802 million for fiscal 2011.

Use of the Internet—Booking, Check-in, and Boarding

Passengers must book and pay for fares on the Ryanair website or call center. An administrative fee applies to all bookings made through the call center and also to web bookings made without using Ryanair's free payment method (MasterCard Prepaid Debit Card). Flights are booked one-way only and tickets may be changed for a fee but cannot be cancelled. Passengers must check in online from 15 days before the flight up to four hours before departure time. An online check-in fee applies to all tickets booked (€6/£6 for flights booked online and €12/£12 for those made via the call center or at the airport). After checking in, the boarding pass must be printed and presented at boarding. No changes can be made to passenger name(s), flight dates, times, or route once the check-in is completed. Seating is not assigned unless "Reserved Seating" has been purchased (on the website) or where passengers have indicated that they need special assistance. Passengers who have purchased "Priority Boarding" (also from the website) may board before others provided they arrive at the gate no later than 30 minutes before boarding. Refunds are possible only in the event of a flight cancellation or the death of an immediate family member (within 14 days of the travel date).

Fleet—Environmental Issues and Safety

Ryanair has a fleet of 272 Boeing 737-800 jets. It is one of the youngest fleets, with an average age of 2.94 years and none older than 8 years (as of March 31, 2010). Each aircraft has a capacity of 189 passengers, is capable of longer flights, and has more sophisticated avionics than the previous 737-200 aircraft. Winglets are installed wingtips to reduce fuel consumption. The company has orders for 56 new aircraft expected to be delivered over the next two years.

Ryanair boasts that its modern fleet contributes to less fuel use, pollution, and noise, and the airline is strongly opposed to a charge on emissions. The airline believes that a charge on emissions will increase air fares, reduce competition, and help the larger carriers, which have less efficient aircraft and fly into more congested airports (which have longer taxiing times and holding of flights), which contribute to fuel waste and pollution.

There have been no passenger or flight crew fatalities in 25 years of operation. The company's board has an air safety committee to oversee safety practices. The airline trains its flight crews using programs approved by the Irish Aviation Authority. Each Boeing 737-800 is equipped with an Operational Flight Data Monitoring system, which provides reports on deviations from normal operating procedures on any flight.

Operating Performance

Revenue Passenger Miles (RPMs) is the total number of passengers multiplied by the miles flown and is a useful measure of an airline's market share. Ryanair's RPMs increased 14.4 percent from 39,202.3 million in the 2009 fiscal year to 44,841.1 million in the 2010 fiscal year.

Available Seat Miles (ASMs) is the number of seats in the active fleet multiplied by the number of miles flown and is a capacity measure. ASMs are a function of the fleet size, mix of seats (first, business, and economy seats), the average length of flights, and the turnaround time of the aircraft. Ryanair's ASMs increased 13.5 percent from 47,102.5 million in the 2009 fiscal year to 53,469.6 million in the 2010 fiscal year.

The load factor is RPM divided by ASM and measures the percentage of available capacity that is taken by revenue paying passengers. Once the load factor exceeds the break-even point (which varies by airline), the airline becomes profitable. Ryanair's load factor for fiscal 2009 was 81 percent (break-even 79 percent), and for fiscal 2010 was 82 percent (break-even 73 percent).

Average yield per RPM (frequently referred to as just "yield") is the average passenger revenue received for each revenue passenger flown. Airlines should only be compared on the basis of yields if their mix of flights is similar. International flights tend to have lower yields but tend to be more profitable (because of lower costs), while domestic flights might have higher yields but be less profitable (because costs are higher). Also, airlines with a higher proportion of first class and business seats will have higher yields than a low-cost carrier, which will tend to have only one seat class. For Ryanair, yield decreased from €0.060 in 2009 to €0.052 in 2010, attributable to an increase in seat capacity, poor economic conditions, increased price promotions, and the adverse strengthening of the U.K. pound sterling against the Euro.

Cost per Available Seat Mile (CASM) is expressed as the number of cents to operate each ASM (operating costs divided by ASMs) and is frequently used to compare costs across airlines. For Ryanair, CASM was €0.058 for fiscal 2009 and €0.047 for fiscal 2010.

Finally, the average booked passenger fare was €40.02 in 2009 and €34.95 in 2010. Ancillary revenues per booked passenger were €10.21 in 2009 and €9.98 in 2010.

Financial Performance

Balance sheets and income statements for the last two years are given in Exhibits 4 and 5. Note that for the year ended March 31, 2011, Ryanair reported a 26 percent increase in profits to €400.7 million, compared to €318.8 million in the year ended March 31, 2010. Total operating revenues increased by 21 percent to €3,629.5 million, primarily due to a 12 percent increase in

EXHIBIT 4 Ryanair Holdings plc and Subsidiaries Condensed Consolidated Preliminary Balance Sheet as of March 31, 2011 (000,000 omitted)

	Mar. 31, 2011	Mar. 31, 2010
	€	€
Noncurrent assets		
Property, plant and equipment	4,933.7	4,314.2
Intangible assets	46.8	46.8
Available for sale financial assets	114.0	116.2
Derivative financial instruments	23.9	22.8
Total noncurrent assets	5,118.4	4,500.0

(continued)

EXHIBIT 4 **continued**

	Mar. 31, 2011	Mar. 31, 2010
	€	€
Current assets		
Inventories	2.7	2.5
Other assets	99.4	80.6
Current tax	0.5	–
Trade receivables	50.6	44.3
Derivative financial instruments	383.8	122.6
Restricted cash	42.9	67.8
Financial assets: cash > 3 months	869.4	1,267.7
Cash and cash equivalents	2,028.3	1,477.9
Total current assets	3,477.6	3,063.4
Total assets	8,596.0	7,563.4
Current liabilities		
Trade payables	150.8	154.0
Accrued expenses and other liabilities	1,217.0	1,088.2
Current maturities of debt	333.8	265.5
Current tax	–	0.9
Derivative financial instruments	125.4	41.0
Total current liabilities	1,827.0	1,549.6
Noncurrent liabilities		
Provisions	96.9	102.9
Derivative financial instruments	8.3	35.4
Deferred tax	267.7	199.6
Other creditors	126.6	136.6
Noncurrent maturities of debt	3,315.6	2,690.7
Total noncurrent liabilities	3,815.1	3,165.2
Shareholders' equity		
Issued share capital	9.5	9.4
Share premium account	659.3	631.9
Capital redemption reserve	0.5	0.5
Retained earnings	1,967.6	2,083.5
Other reserves	317.0	123.3
Shareholders' equity	2,953.9	2,848.6
Total liabilities and shareholders' equity	8,596.0	7,563.4

Source: "Ryanair Full Year Results 2011," Ryanair website, http://www.ryanair.com/doc/investor/2011/q4_2011_doc.pdf.

EXHIBIT 5 **Ryanair Holdings plc and Subsidiaries Condensed Consolidated Preliminary Income Statement for the Year Ended March 31, 2011 (000,000 omitted)**

	Mar. 31, 2011	Mar. 31, 2010
	€	€
Operating revenues		
Scheduled revenues	2,827.9	2,324.5
Ancillary revenues	801.6	663.6
Total operating revenues - continuing operations	3,629.5	2,988.1

	Mar. 31, 2011	Mar. 31, 2010
	€	€
Operating expenses		
Staff costs	371.5	335.0
Depreciation	273.0	235.4
Fuel & oil	1,226.7	893.9
Maintenance, materials, & repairs	93.9	86.0
Aircraft rentals	95.2	95.5
Route charges	410.5	336.3
Airport & handling charges	490.9	459.1
Marketing, distribution, & other	151.6	144.8
Icelandic ash–related cost	–	–
Total operating expenses	3,113.3	2,586.0
Operating profit - continuing operations	516.2	402.1
Other income/(expenses)		
Finance income	27.2	23.5
Finance expense	(92.2)	(72.1)
Foreign exchange loss	(0.6)	(1.0)
Loss on impairment of available for sale financial asset	–	–
Gain on disposal of property, plant, & equipment	–	2.0
Total other expenses	(65.6)	(47.6)
Profit before tax	450.6	354.5
Tax on profit on ordinary activities	(49.9)	(35.7)
Profit for the year - all attributable to equity holders of parent	400.7	318.8
Earnings per ordinary share (in € cent)		
Basic	26.97	21.59
Diluted	26.89	21.52
Weighted average no. of ordinary shares (in Ms)		
Basic	1,485.7	1,476.4
Diluted	1,490.1	1,481.7

Source: "Ryanair Full Year Results 2011," Ryanair website, http://www.ryanair.com/doc/investor/2011/q4_2011_doc.pdf.

average fares, an 8 percent increase in passenger numbers, and a 21 percent increase in ancillary fees. Gross cash increased by €127.2 million to €2,940.6 million. Adjusted basic EPS rose to 26.97 from 21.59 as of March 31, 2010.

Total operating expenses rose by 20 percent to €3,113.3 million, primarily as a result of increased fuel prices but also because of increased hours flown. Fuel costs (39 percent of total operating costs) increased by 37 percent to €1,226.7 million. Unit costs excluding fuel increased by 3 percent and including fuel rose by 11 percent. The operating margin rose 1 percent to 14 percent, while operating profit increased by 28 percent to €516.2 million. The income statement (Exhibit 5) shows all operating expenses for the airline.

These figures represent unaudited consolidated financial information prepared in accordance with International Financial Reporting Standards (IFRS) principles. The figures exclude exceptional items of €29.7 million (pretax) reflecting the closure of airspace in April and May 2010 because of the volcanic eruptions in Iceland. The exceptional items for the year ended March 31, 2011, amounted to €13.5 million, reflecting the impairment of the Aer Lingus shareholding. For this reason, the income statement is labeled "Pre Exceptional Results" in accordance with the way in which Ryanair presented its operating and financial results.

External Factors

Government Regulation

COMMISSION FOR AVIATION REGULATION (CAR) The CAR is responsible for issuing operators licenses subject to EU law, and the CAR may revoke licenses. Ryanair's current operator's license became effective on December 1, 1993. The CAR is also responsible for deciding whether an airport should be "fully coordinated," effectively granting it control over the issuing of slots (a time reserved for arrival and departure of a particular airline flight). Ryanair has in the past challenged the CAR's decision to designate Dublin Airport as fully slot-coordinated.

IRISH AVIATION AUTHORITY (IAA) The IAA is responsible for overseeing the safety and technical aspects of aviation in Ireland and issuing operator's certificates to carriers. The IAA's regulatory authority includes the following: air safety; aircraft certification; personnel licensing and training; maintenance, manufacture, repair, air worthiness, and operation of aircraft; implementation of EU legislation; aircraft noise; and ground services. Each of Ryanair's aircraft must have a Certificate of Airworthiness issued by the IAA, and this certificate may be amended or withdrawn if the airline fails to comply with statutes, rules, and regulations relevant to the industry.

DEPARTMENT OF TRANSPORTATION (DOT) The DOT is responsible for implementation of EU and Irish legislation and international standards relating to air transportation. Of importance to Ryanair, in 2005 the DOT enacted legislation in response to EU legislation requiring compensation and assistance to passengers in the event of denied boarding, flight cancellation, and long delays (EU 261).

Ryanair views the EU 261 regulations as "unfair and discriminatory" because they force airlines to pay compensation to passengers as well as cover other costs in circumstances beyond the control of the airline, such as air traffic control strikes or failure by airports to clear snow from runways. Ryanair argues that compensation in such circumstances should be limited to the ticket price paid as is required for train, coach, and ferry operations. (The regulation itself states that airlines are not responsible for passenger compensation for events beyond the airline's control.) In the case of denied boarding, cancellation, or long delay (which is deemed the same as a cancellation), short-haul airlines such as Ryanair would be required to pay €250 per passenger (for inconvenience to that passenger). Airlines are also required to reroute or refund the ticket and may be required to provide meals, accommodation, and other amenities to passengers. Ryanair has already paid out claims of £88 million related to the above events last year and justifies its added £2 fee by the costs associated with EU 261. The airline, however, stands to earn up to £150 million per year from this fee, nearly twice the £88 million already paid out.

Fuel

Fuel represented 34.1 percent of total operating expenses for fiscal 2010 (43.8 percent in 2009). Ryanair actively engages in fuel hedging (for example, purchasing future fuel supplies at a set price to minimize losses should prices increase). It is limited in its ability to pass on fuel increases to passengers and has made a commitment in its charter not to impose a fuel surcharge on any fare.

Ryanair is 90 percent hedged for fiscal year 2012 at $820 per metric ton (1,000 kilograms or 2,204.62 lb.), or about $82 per barrel. This represents a 12 percent price increase over last year but is below current prices. The airline anticipates higher oil prices next winter coupled with the refusal of some airports to offer lower charges. This may result in the grounding of aircraft rather than risk financial losses. Although Ryanair expects traffic to grow overall in fiscal 2012, it does anticipate a reduction in the winter. It expects its full year fuel costs to increase by approximately €350 million.

Airline Industry and Competition

The European airline industry is highly competitive with a number of low-fare (e.g., easyJet, Air Berlin, and Germanwings), traditional (e.g., British Airways, Lufthansa, and Air France), and charter airlines (e.g., Monarch Airlines and Titan Airways). Charter flights are offered by low-fare as well as traditional airlines, and some charter airlines (e.g., Monarch) offer scheduled services. Airlines compete on fares, time and frequency of services, service quality (e.g., number of on-time departures and arrivals, frequency of lost baggage, and frequency of involuntary denied boardings), amenities such as frequent flyer programs, and reputation. Ryanair believes that state-owned competitors have advantages because of subsidies and other state aid provided to them. In addition, the EU-U.S. Open Skies Agreement that took effect in 2008 allows U.S. carriers to offer services in the intra-EU market, which results in increased competition.

Although Ryanair boasts having the lowest fares, a survey in May 2011 by *The Telegraph* showed how the cost of a flight on a low-cost carrier can escalate when all fees are added and make prices on a traditional carrier such as British Airways more competitive. The survey was of return flights for a family of four from London to Madrid traveling on the same dates in August with two checked bags, golf clubs, and a cot, and paying with a debit card. The fares were as follows: Ryanair £271.92; easyJet £275.92; and British Airways £476.20. While Ryanair had the lowest fare, the costs went up substantially once all fees were added. To Ryanair's ticket cost would be added an online check-in fee (£48), luggage fees (£80 plus £80 for golf clubs and £20 for the travel cot), administration fees (£48), and the new delay/cancellation fee (£16) for a total cost of £563.92, the highest of the three carriers.

Exhibit 6 gives the full breakdown of all costs. While this survey represents a snapshot of a particular trip and might not be applicable to all trips, it makes the point that Ryanair is not always the cheapest way to travel and passengers must consider the added fees before making the ticket purchase. To the extent that passengers become more familiar with the complex Ryanair fee structure, it may place Ryanair at a disadvantage compared to low-fare and traditional airlines, as illustrated in this survey.

Airlines face competition from ground transportation such as high-speed rail systems that are quite extensive in Europe and sea transportation (which in Ryanair's case would be more relevant to travel between Britain, Ireland, and continental Europe, as well as travel to Morocco).

The Single European Sky proposal (SES) launched by the European Commission in 1999 could have broad effects on the European airline industry. According to *The Wall Street Journal*, in 39 European countries there are 39 national agencies plus Eurocontrol, with 64 control centers. The European system has twice as many bureaucrats and support staff than in the United States and operating costs are 75 percent higher than the FAA's, largely because of labor costs. Ryanair's £2 fee that was recently added was in part to cover costs that it incurred because of a strike in 2010 by Spanish air traffic controllers. These controllers were earning an average of half a million dollars and went on strike after an attempt by the Spanish government to cut those salaries to below $300,000. Resistance to a Europe-wide system similar to the FAA in the United States is in part explained by the desire to protect pay systems such as in Spain. EU officials state that the SES will end such pay abuses, cut delays, and reduce fuel consumption and pollution.

EXHIBIT 6 Cost Comparison of Ryanair, easyJet, and British Airways for Family of Four, London to Madrid, in August 2011

Cost Item	British Airways	Ryanair	easyJet
Ticket price	£479.20	£271.92	£275.92
Online check-in	n/a	£48	n/a
Delay/cancellation*	n/a	£16	n/a
Administration fee	n/a	£48**	£8
Two checked bags	free up to 23kg	£80 up to 15kg	£44 up to 20kg
Travel cot	free	£20	free
Golf clubs	free	£80	£50
Total cost of trip	**£479.20**	**£563.92**	**£387.17**

*£2 fee per passenger per flight added to compensate claims for last year's flight delays and cancellations due to volcanic ash, heavy snow, and ATC strikes

**Avoidable if use MasterCard Prepaid Booking Card otherwise £6 per passenger per flight (Ryanair), avoidable for easyJet if use Visa Electron

Source: Oliver Smith, "Ryanair to earn £1.25 billion from extra charges," *The Telegraph*, May 6, 2011, http://www.telegraph.co.uk/travel/travelnews/8497343/Ryanair-to-earn-1.25bn-from-extra-charges.html.

The Future

On May 23, 2011, the airline released the *Ryanair Full Year's Results 2011*, in which CEO Michael O'Leary pointed out the following highlights:

- Profits rose 26 percent to €401 million
- Traffic grew 8 percent to 72 million
- 40 new aircraft (year-end fleet was 272 aircraft)
- 8 new bases: El Prat, Gran Canaria, Kaunas, Lanzarote, Malta, Seville, Tenerife, Valencia (total 44 bases)
- 328 new routes (total of over 1,300 routes)
- Customer service further improved (number one on-time airline)
- Dividend of €500 million paid to shareholders (€846 million returned to shareholders over the last three years)

The highlights show an airline that has grown, been profitable, and made returns to its shareholders. But, are there risks associated with rapid growth? If passenger numbers do not materialize to keep up with the fleet expansion, Ryanair could experience overcapacity and be forced to lower its prices to attract more passengers. It would also face difficulties to pay for its expanded fleet of aircraft. Fuel prices are expected to rise in 2012. Increasing legislation, in particular EU 261, could have continuing adverse effects on Ryanair. One new piece of legislation taking effect in January 2012 is the European Union's emissions trading scheme. Under this requirement, airlines must pay for the carbon dioxide they emit. Estimates are that airlines are likely to pay about €1.4 billion for carbon permits in 2012, rising to €7 billion by 2020. A certain number of permits will be issued free to each airline, but they will have to buy permits on the open market for emission beyond the allowed amount. Other challenges faced by Ryanair are:

1. How sustainable is the strategy of low ticket price plus extensive fees as consumers become more educated about Ryanair's fee structure?
2. Will customers continue to put up with the poor overall customer service in exchange for lower ticket prices, faster turnarounds, and a higher percentage of on-time departures and arrivals?
3. Will increasing customer complains about the airline's services and advertising bring more restrictive legislation for the airline?
4. Does Ryanair's strategy provide an opportunity for a "differentiated" low-cost entrant, perhaps a low-fare carrier with a softer touch?

On May 24, 2011, Ryanair deliberately flew an aircraft (without passengers) through Scottish airspace that was closed because of a recent volcanic eruption in Iceland. Ryanair's reason was to demonstrate that there was no safety threat to aircraft in this area and the designation of it as a "red zone" by the U.K.'s Civil Aviation Office was flawed. In response, the U.K.'s transportation secretary stated that radar tracking of the aircraft showed that it did not fly though any part of the designated red zone. Is this another in a series of publicity stunts by Ryanair, or does it have a point that the flight restrictions were unnecessary?

Prepare a three-year strategic plan for CEO O'Leary at Ryanair.