Séminaire d’élaboration d’un Business Plan

Ryanair Plc.

Le 27 avril 2004

Professeur: M. Michel Allé
Assistant : M. Alexandre Schmitz

Eoin S. O’Cuilleanain
Gonzague della Falle
Felix Sobotka
Alexander Kleinert
Harold Dumont de Chassart
Mike Farrell
# Table of Contents

**Executive Summary** .................................................................................................................. 4

1. Purpose and scope of the Report ................................................................................................ 4
2. Methods ....................................................................................................................................... 4
3. Results ......................................................................................................................................... 4
4. Conclusion ................................................................................................................................... 4

**A Environment Analysis** ............................................................................................................ 5

1. Government Regulation ............................................................................................................... 5
2. Competition .................................................................................................................................. 6
3. External Forces ........................................................................................................................... 6

**B Industry Analysis** .................................................................................................................... 8

1. The Core Business ..................................................................................................................... 8
2. SWOT – Analysis ....................................................................................................................... 8
3. Porter’s Five Forces: Analysis of the Low – Cost Airline Industry .............................................. 10

**C. The Strategy** .......................................................................................................................... 11

1. What has Ryanair’s strategy been so far? .................................................................................... 11
2. Positioning ................................................................................................................................... 14
3. Objectives and Long Term Vision ............................................................................................. 14

**D. Action Plan** ............................................................................................................................ 17

1. Marketing Plan ............................................................................................................................ 17
2. Provision of Service .................................................................................................................... 17
3. Human Resources ....................................................................................................................... 20

**E. Financial Plan** .......................................................................................................................... 21

1. Financial Planning and Assumptions ....................................................................................... 21
2. Valuation of the company ........................................................................................................... 31
3. Scenario Analysis ...................................................................................................................... 34
4. Ratios .......................................................................................................................................... 37
5. Sensitivity Analysis .................................................................................................................... 37
6. Graphs .......................................................................................................................................... 38

**Appendices** ................................................................................................................................. 39

1. History ........................................................................................................................................ 39
2. The Management Team at Ryanair .............................................................................................. 40
3. Route Charges ............................................................................................................................. 42
4. Benchmarks ................................................................................................................................ 43

**Bibliography** .................................................................................................................................. 44
Executive Summary

1. Purpose and scope of the Report

This Business Plan develops Ryanair’s long term vision by verifying the Business Model and analysing future possibilities and threats. It demonstrates how the airline will have to perform and on which factors management has to focus in order to stay in a strong position in the low cost market. The Plan proposes options the company should pursue in the form of an action plan which outlines future strategies and how they will be carried out.

The Business Plan ranges from an industry analysis to an internal financial analysis. It integrates the impact of competition in the market of low fare airlines with our own financial viability.

2. Methods

The strategies put forward in the Plan have been developed through a range of financial analysis, scenario cases, research processes, forward thinking.

Interviews and analyst reports were also used to develop a set of Objectives. The following spreadsheets are used and are also interlinked so as to follow any change caused by a variation of any key variable in the Business Model.

- Income statement
- Balance Sheet
- Cash Flow Statement
- Depreciation calculations
- DCF
- DDM
- Sensitivity analysis

3. Results

As a result of the Free Cash Flow Model, the base case we propose would indicate a share price of €7.14. In our worst case scenario the share price is €2.30 and finally in the best case scenario it is €14.36. The sensitivity analysis works as a management tool in order to quickly react to any sudden changes of certain variables such as fuel costs, load factors and airport charges.

4. Conclusion

Based on results from the Scenario cases, which show vast differences between the best and worst cases, we can conclude that the industry is volatile and risky. The Sensitivity analysis shows us that the industry is very complex and thus management must take extreme care when making any decision. Rising airport and handling charges will not have a serious impact on Ryanair’s long term development as they affect all players in the industry and make it more difficult for them to compete with Ryanair. Therefore margins can be kept constant without affecting profits. Following this Business Plan will show strong performance over the next ten years.
A Environment Analysis

1. Government Regulation

The airline industry in Europe has always been fraught with regulation from both domestic governments and the European Union. Before the 1980’s there existed heavy restrictions on competition in this industry imposed by individual countries trying to protect their national airlines. A liberalised bilateral agreement in the 1980’s between Ireland and the UK was a huge stepping stone for the deregulation of the industry. Also during the 1980’s the E.U. set about deregulating the industry and an array of liberalisation measures followed that were to be applied throughout its territories. The result of the E.U. implementations has been that since 1997 any E.U. airline can operate anywhere within the E.U. without restriction.

More recently the E.U. is trying to forge a bilateral agreement with the US to replace the individual agreements that have been already made between some individual states and the US. Also, an area that has received much publicity lately is the Subject of State Aid. The E.U. has the power to control any aid given to a business if it encourages discrimination or is contrary to competition unless the aid has been sanctioned by the E.U. In such cases where aid has been given the E.U. can order repayment of the amount given. The latest decision by the European Commission regarding the case at Charleroi meant that Ryanair must payback some of the aid granted by both the Walloon Region and BSCA. This part of the aid was regarded as State Aid which is no longer allowed under E.U. competition law. It concluded however that some of the aid given was legitimate and did not have to be repaid as it was compatible with the private market investor principle. This decision has farther reaching implications than the repayment of aid however. The Commission hopes that the decision will ensure “full competition between carriers out of regional airports” and “that the advantages granted at a particular airport are not discriminatory and benefit from a greater transparency”.

Competition and Antitrust Law also plays a significant role in determining the boundaries of the industry. “It is a general principle of EU competition law that no agreement may be concluded between two or more separate economic undertakings that prevents, restricts or distorts competition in the common market or any part of the common market. Such an arrangement may nevertheless be exempted by the European Commission, on either an individual or category basis. The second general principle of EU competition law is that any business or businesses having a dominant position in the common market or any substantial part of the common market may not abuse such a dominant position. Ryanair is subject to the application of the general rules of EU competition law as well as specific rules on competition in the airline sector”.

Since Ryanair is an Irish Carrier by nationality it is also subject to the rules and regulations of the Irish government. The three primary regulators for the airline industry in Ireland are the Department of Transport, the Irish Aviation Authority and the Joint Aviation Authority.

---

1 Within the meaning of Article 87(1) of the EC Treaty
2 Public CCE Decision Ryanair; Brussels, 3 February 2004, pg 1
3 Public CCE Decision Ryanair; Brussels, 3 February 2004, pg 2
4 Principally, Council Regulation (EEG) 3975/87, as amended.
2. Competition

- Flag Carriers
- Independent Airlines
- Franchises
- Charter
- Other Modes of Transport

Since the introduction of all the previously mentioned liberalisation measures and competition policies, competition in the airline industry exploded, especially in the last ten years. Also, with more of these measures on the horizon it is likely that competition will continue to grow as new entrants seek to take advantage. However, even though there have been an abundance of new entrants many have not lasted. This is mainly due to the reactions of the existing players who ousted many of them with sustained price competition and other such measures. Also the slot system in operation in many major airports meant that new players couldn’t get a strong foothold from the beginning.

In order to take a look at the competition in this industry it is necessary to divide the players into four main categories. These four categories can be described as follows: flag carriers, independent airlines, franchises of major airlines and charter operators. “The flag carriers, which fly intercontinental routes as well as those within Western Europe, include both those that have traditionally been heavily dependent on aid from their respective governments (including Air France Group ("Air France"), Alitalia S.p.A. ("Alitalia"), Aer Lingus, and Iberia, S.A.) and "commercial" flag carriers such as British Airways, KLM, Scandinavian Airline System ("SAS") and Lufthansa AG ("Lufthansa") that have operated with no or little state aid in recent years. The independent carriers include low-fares carriers, such as Ryanair and easyJet Plc ("easyJet"), and carriers providing "frills" services more comparable to those of the flag carriers but at slightly lower fares than the flag carriers, such as British Midland Airways Ltd. ("British Midland"). Certain small carriers, including Virgin Express, have become franchises of major airlines, sharing some ticketing and other distribution systems with the flag carriers. (the flag carriers often use these smaller independent airlines as franchises to compete with the low cost carriers because their cost base doesn’t allow them to compete effectively on short-haul routes) Charter flight operators are significantly more established and more competitive in Europe than in the United States, with many charter operations being owned by major travel groups or commercial airlines.”

3. External Forces

- SARS
- Gulf War II
- Oil Prices
- Economic Downturns

The airline industry has always been susceptible to changes around it and the last few years have thrown many obstacles in its path. From the outbreak of Foot and Mouth in the UK to the SARS epidemic in Asia, from the terrorist attacks of 9/11 to the War in Iraq, all of which caused a global economic downturn, the industry has had a torrid few years and most of the major airlines have been running at a loss. Income elasticity of demand for air transport is high meaning a small decrease in GDP will cause a disproportionately larger decline in flying. Also with stricter ruling
on state aid the major airlines have well and truly suffered leaving huge gaps of opportunity for the smaller low-cost airlines.
B Industry Analysis

1. The Core Business

The Company operates a low-fares scheduled passenger airline serving short-haul, point-to-point routes primarily between Ireland and the U.K. In operation since 1985, the Company began to introduce a low cost operating model under a new management team in the early 1990s. Ryanair operates 74 aircraft including 41 Boeing 737-800 “next generation aircraft, 21 Boeing 737-200, 6 Boeing 737-300 (Buzz Fleet), 6 BAE 146 (Buzz fleet), the Company offers approximately 475 scheduled short-haul flights per day serving 84 locations in the U.K., Ireland and continental Europe. Offering widely-available low fares, Ryanair will have carried more than 23 million passengers during the calendar year 2004. Milestones achieved so far this year include overtaking Easyjet to become Europe’s largest airline in terms of passengers, overtaking British Airways’s UK/Europe traffic to become “Britain’s favourite airline”, selecting two new bases at Rome and Barcelona, cumulative after tax profit margin which continues to be over 20% and a closing cash balance of €1.12 billion! By generating an average scheduled flown passenger load factor of approximately 78% and average scheduled passenger yield of EUR0.052 per available seat kilometer (“ASK”) and focusing on maintaining low operating costs (EUR0.038 per ASK), Ryanair achieved a net margin of 28% on operating revenues of EUR843 million for the fiscal year ended March 31, 2003. The market's acceptance of Ryanair's low-fares service is reflected in the "Ryanair Effect" - Ryanair's history of stimulating significant growth in annual passenger traffic on the new routes it has entered since 1991. On the basis of the CAA Statistics and statistics released by the International Civil Aviation Organization (the "ICAO"), the number of scheduled airline passengers travelling between Dublin and London increased from approximately 1.7 million passengers in 1991 to more than 4.4 million passengers in 2002. Each international route Ryanair has entered since 1991 has recorded significant traffic growth in the period following Ryanair's commencement of service, with Ryanair capturing the largest portion of such growth on each such route. Although a variety of factors contributed to this increase in air passenger traffic, including the relative strength of the Irish, U.K. and European economies, management believes that the most significant factor across all its European routes in such growth has been Ryanair's low-fares service.

2. SWOT – Analysis

Strengths:

• Brand name: Ryanair through its 14 years in the LCC market has developed a very well recognised brand name.
• Benefits from low airport charges: These aid the low cost base Ryanair benefits from.
• Has first mover advantage on regional airports (e.g. Charleroi): Acts as a barrier to entry
• Internet site (94% bookings) www.ryanair.com: Lowers the cost of distribution as over the phone bookings are more costly. Eliminates the need of travel agents
• High seat density:

5 Q3 2004 report, Ryanair
All Boeing aircraft: *A uniform fleet saves on maintenance and training costs*

Fast turn-around:

High Service performance: *Punctual, high rate of flight completion, low baggage loss, these give a good image of the company’s reliability.*

Modernised fleet which leads to less expensive maintenance: *Will become more uniform with only one model (737-800), also newer planes will require less maintenance.*

High aircraft utilization: *Ryanair flies its planes for longer thus generating more revenue from its assets.*

Fuel and other risks hedging.

Small headquarters: *Low on overheads*

Point to point: *No hub and spoke, lowers cost as no through services required.*

**Weaknesses**

- Prone to bad press: *Ryanair is perceived as arrogant and the slightest incident gets a lot of press coverage.*
- Niche market: *Restricted expansion possibility*
- Distance of some regional airports from advertised destination: *Over time customers may find this a big inconvenience.*
- Poor service: *People skills.*
- Ryanair is extremely sensitive to changes in charges (increase in fare value)

**Opportunities**

- EU enlargement: *There will be a lot of new destinations opened up*
- Still potential to capture market share: *The LCC market share could more than double*
- Benefits from less exposure to geopolitical risks: *As only really operates in Europe*
- Economic slowdown actually helps Ryanair- changes in corporate culture, ‘steals’ customers from traditional carriers as they seek lower fares.

**Threats**

- Dependence on oil markets: *Fuel costs depend on the oil market.*
- Dependence on economic cycle
- Increase of low fare competition
- European court decision: *This may make expansion more difficult and costs rise in the future.*
- Limited growth on the South European market
- Regional airports gain bargaining power for “second round”.
- Customers are very price sensitive
- Ryanair and Easyjet limit one another’s growth “rout wise”, need for peaceful co-existence, or routes could become battleground (e.g.: London-Rome)
- Face increase in air traffic control charges. As more planes fly in the sky.
- Powerless to prevent introduction of duty for fuel or environmental charges: *This would reduce its growth potential as it relies on price stimulation.*
3. Porter’s Five Forces: Analysis of the Low – Cost Airline Industry

Bargaining Power of Suppliers

- Boeing are RA’s main suppliers
- Only 2 possible suppliers of planes – Boeing and Airbus
- Switching costs from one supplier to the other is high because all mechanics and pilots would have to be retrained.
- Price of aviation fuel is directly related to the cost of oil (Ryanair controls these through hedging).
- Regional Airports have little bargaining power as they are heavily dependant on one airline
- Bigger airports, where Ryanair’s competitors operate, have greater bargaining power. Ryanair’s policy is to try and avoid these airports.

Bargaining Power of Customers

- Customers are price sensitive
- Switching to another airline is relatively simple and is not related to high costs (Internet-all airlines are online)
- Customers know about the cost of supplying the service
- No loyalty

New Entrants

- Some barriers to entry:
- High capital investment,
- Restricted slot availability makes it more difficult to find suitable airports.
- Immediate price war if encroaching on existing LCC route.
- Need for low cost base
- Flight Authorisations

Threat of Substitutes

- No brand loyalty of customers
- No ‘close customer relationship’
- No switching costs for the customer
- Other modes of transport, e.g. Eurostar, TGV, Eurolines, Ferries, Cars etc.

Competitive Rivalry

- The LCC market is highly competitive
- Most cost advantages can be copied immediately
- Low levels of existing rivalry as the two major low-cost airlines have avoided direct head to head competition by choosing different routes to serve
- However if any company does decide to compete on the same basis as Ryanair there will be heavy pressure on prices, margins, and hence on profitability
- Not much differentiation between services. Price is the main differentiating factor
C. The Strategy.

1. What has Ryanair’s strategy been so far?

Ryanair’s objective has been to establish itself as Europe’s leading low-fares scheduled passenger airline through continued improvements and expanding offerings of its low-fares service. Ryanair aims to offer low fares that generate increased passenger traffic. A continuous focus on cost-containment and operating efficiencies is a vital part of the Ryanair way of doing things. Here are the key elements which make up Ryanair’s strategy:

- **Low fares:** These are used to stimulate demand, they target fare conscious leisure or business travellers who might otherwise not travelled at all or use other methods of transport such as car, coach or trains. Ryanair sells it seats on a one-way basis unlike most traditional carriers this change came into effect in November 2001. Ryanair sets its fares on the basis of the demand for particular flights and by reference to the period remaining to the scheduled date of departure. 70% of seats on a flight are sold at the minimum available fare assigned for the route, once these are filled the price per seat rises6. Ryanair’s Dublin to London (Stansted) is its most popular route in terms of passenger volume; with fares ranging from €19.99 to €169.99 (can be lower during special promotions). In September 2003, Ryanair launched a fare promotion offering a total of two million seats on certain routes for “free” (excluding government taxes and passenger service charges) for travel during the period between September 2003 and December 17, 2003. These campaigns are very useful to bolster Ryanair’s low fare image.

- **Frequent Point-to-Point Flights on Short-Haul Routes.** Ryanair provides frequent point-to-point service on short-haul routes to secondary and regional airports in and around major population centers and travel destinations. The average flight time has been 1.1 hours with an average route length of 746 kilometres in 2003. Ryanair’s flew an average of approximately 1.94 round trips daily per route. The choice of only flying short-haul routes allows Ryanair to offer frequent service, while eliminating the necessity to provide "frill" services otherwise expected by customers on longer flights. Point-to-point flying (as opposed to hub-and-spoke service used by the traditional carriers) allows Ryanair to avoid the costs of providing through service for connecting passengers, including baggage transfer and transit passenger assistance costs. This is one of the key differences between Ryanair and traditional carriers.

- **Choice of routes:** Ryanair favours secondary airports with convenient access to major population centers (e.g. London Stansted Airport) and regional airports (e.g. Brussels-South Charleroi airport). Firstly these have more competitive access and handling costs but also provide a higher rate of on-time departures, fewer terminal delays and faster turnaround times (it is much quicker to land, unload and reload passengers and luggage and take off again at smaller less congested airports then at a major airport such as Zaventem or Heathrow which have to accommodate many planes at the same time). The fast turnaround is a key element in Ryanair’s efforts to maximize aircraft utilization. Ryanair’s average turnaround time for the fiscal year ended March 31, 2003 was approximately 25 minutes. This has allowed the possibility to fit in two extra flights a day.

---

6 Interview with David Gering, Manager of BeNeLux
that would not be possible with a 60 minute turnaround time\textsuperscript{7}. This allows Ryanair to not only save on costs but also adds tremendously to revenues. The 25 minute vs. 60 minute turnaround time in effect adds €4.4million in incremental revenue per aircraft per year.

\begin{itemize}
  \item \textbf{Low Operating Costs}. Management believes that Ryanair's operating costs are among the lowest of any European scheduled passenger airline. There are four main expenses which Ryanair is able to control and/or reduce and therefore works hard to do so: (i) aircraft equipment costs; (ii) personnel expenses; (iii) customer service costs; and (iv) airport access and handling costs:

    \begin{itemize}
    \item [(i)] \textit{Aircraft Equipment Costs}: Ryanair's initial strategy for controlling aircraft acquisition costs was to purchase used aircraft of a single type, however this no longer became viable. In March 1998, Ryanair announced that it would start purchasing new Boeing 737-800 "next generation" aircraft. The 737-800s represent the latest generation of Boeing's 737 aircraft and share certain basic attributes in common with Ryanair's current fleet. Although Ryanair's acquisition of the 737-800s has already, and will continue to significantly increase the size of its fleet from that in 1998 and thus significantly increase its aircraft equipment and related costs (both on an aggregate and per aircraft basis), management believes that its strategy of limiting its fleet primarily to three variants of a single type of aircraft from a single manufacturer enables it to limit the costs associated with personnel training, maintenance and the purchase and storage of spare parts, as well as allowing greater flexibility in the scheduling of crews and equipment. Management also believes that the terms of the Boeing contracts are very favourable to Ryanair.\textsuperscript{8}

    \item [(ii)] \textit{Personnel Expenses}: Ryanair endeavours to control its labour costs by continually improving the productivity of its already highly-productive work force. Remuneration for employees emphasizes productivity-based pay incentives, including commissions for on-board sales of products for flight attendants and payments based on the number of hours or sectors flown by pilots and cabin crew personnel within limits set by industry standards or regulations fixing maximum working hours, as well as participation in Ryanair's valuable stock option programs.\textsuperscript{9}

    \item [(iii)] \textit{Customer Service Costs}: Ryanair has entered into agreements on competitive terms with third party contractors at certain airports for passenger and aircraft handling, ticketing and other services that management believes can be more cost efficiently provided by third parties. Management attempts to obtain competitive rates for such services by negotiating multi-year contracts at prices that are fixed or subject only to periodic increases linked to inflation. The development of its own reservations centre and internet booking facility has allowed Ryanair to eliminate travel agent commissions. For the fiscal year ended March 31, 2003, Ryanair generated virtually all of its scheduled passenger revenues through direct sales, with direct telephone reservations and sales through Ryanair's website generating approximately 6% and approximately 94% of the total, respectively.\textsuperscript{10}

    \item [(iv)] \textit{Airport Access Fees}: Ryanair attempts to control airport access and service charges by focusing on airports that offer competitive cost terms. Management believes that Ryanair's record of delivering a consistently high volume of passenger traffic growth at many of these airports has allowed it to negotiate favourable contracts with such airports for access to their facilities. Ryanair further endeavours to reduce its airport...
  \end{itemize}
\end{itemize}

\textsuperscript{7} Average Turnaround Time for traditional carriers; NCB Stock Brokers Ryanair Company Report, p. 2, 22 September, 2003.

\textsuperscript{8} As filed with the Securities and Exchange Commission on September 30, 2003, p.24.

\textsuperscript{9} As above

\textsuperscript{10} As above
charges by opting, when practicable, for less expensive gate locations as well as outdoor boarding stairs rather than more expensive jetways.

- **Maximizing the use of the Internet.** During January 2000, Ryanair converted its host reservation system from the BABS (British Airways Booking System) to a new system hosted by Accenture. The Skylights system allows internet users to access Ryanair’s host reservation system and to make and pay for confirmed reservations in real time through Ryanair’s Ryanair.com website. Since the launch of the Skylights system, Ryanair has heavily promoted its website through newspaper, radio and television advertising. As a result, internet bookings have grown rapidly, accounting for in excess of 94% of all reservations on a daily basis as of September 2003. It is also a great asset in terms of producing ancillary revenues (see Ancillary Services).

- **Commitment to Safety and Quality Maintenance.** Ryanair’s commitment to safety is a primary priority of the Company and its management. This commitment begins with the hiring and training of Ryanair’s pilots, cabin crews and maintenance personnel and includes a policy of maintaining its aircraft in accordance with the highest European airline industry standards. Ryanair has not had a single incident involving major injury to passengers or flight crew in its 19-year operating history. Although Ryanair seeks to operate its fleet in a cost-effective manner, management does not seek to extend Ryanair’s low cost operating strategy to the areas of safety, maintenance, training or quality assurance. Routine aircraft maintenance and repairs is carried out in house while currently contracting heavy airframe maintenance, engine overhaul services and rotatable repairs to contractors, these contracts will be under review.

- **Ancillary Services:** Ryanair offers a variety of ancillary, revenue-generating services including on-board merchandise, beverage and food sales, accommodation reservation services, advertising, travel insurance, car rentals and rail and bus tickets. Ryanair distributes car rentals, accommodation services and travel insurance through both its website and its traditional telephone reservation offices. Management believes that providing these services through the internet allows Ryanair to increase sales, while at the same time reducing costs on a per unit basis. Ancillary revenues, excluding charters, increased by 68.1% (2002: 44%) and now accounts for 11.7% of total revenues compared to 9.4% in 2002.

- **Focused Criteria for Growth:** Building on its success in the Ireland-U.K. market and its expansion of service to continental Europe, Ryanair intends to follow a manageable growth plan targeting specific markets. Ryanair introduced its first routes to continental Europe in the spring of 1997 and now serves a total of 62 continental destinations (incl. Scandinavia) from Dublin, London (Stansted), Glasgow (Prestwick), Shannon, Brussels (Charleroi), Frankfurt (Hahn), Stockholm (Skavsta), Milan (Bergamo), Rome (Ciampino) and Barcelona (Girona).
2. Positioning

Ryanair has the purest form of low cost airline in Europe. Ryanair boasts many No.1’s:
- No.1 for passenger traffic- over 23m for 2004 - overtaking Easyjet.
- No.1 for passenger growth- 50% + this year
- No.1 for European routes (149) and bases (11)
- No.1 for customer service delivery- punctuality, flight completion and fewest lost baggage

So as we can see from the above representation Ryanair is the most radical low cost airline, it differs from the closest competitor on the graph (i.e. Easyjet) because it uses secondary airports to lower its cost base whereas Easyjet does not. Virgin Express is nearly stuck in the middle; it still offers seat allocations… Aer Lingus is an interesting case as it has been gradually getting closer to the low cost model on its short haul flights. Ryanair comes out as the purest low cost carrier.

Also in appendix is a comparison of Ryanair against other LCC and traditional carriers based on some key operational measures. (Revenue, employee/passenger, revenue/employee…).

3. Objectives and Long Term Vision

To have the largest amount of routes and the lowest fares of any European Airline without compromising our business model; to outperform every other carrier on all fronts including quality of service. Ryanair also aspires to uphold a high level of growth

We feel that Ryanair’s strategy up to date has been the key factor in its huge success. So to that end we would intend to carry on applying all of these strategies for the foreseeable future.

As has been seen in the past in the United States there is only room for one or two major players in the low-cost airline industry. Southwest Airlines have approximately 50% of the market share in the states. In Europe 88% of the market is dominated by the two major players; Easyjet and Ryanair. However, within the European Airline Industry as a whole the low-cost carriers only represent 7% of total market share, far less than the 25% of their American counterparts. Experts
predict that the maximum potential market share in Europe is limited to about 14%\textsuperscript{11} in the next 5-10 years but that is only if Ryanair continue to limit service to Western Europe. Ryanair’s success to date has been partly due to the fast pace at which the industry has been developing and since this market will not grow as fast in the future Ryanair must seek other ways to expand in order to sustain their top performance. In order to do this several options must be taken into account. The options Ryanair have are as follows:

1. **Increase the Frequency of Existing Routes**

The European low cost carrier (LCC) market is by no means exhausted. At the moment Ryanair have an average of 3.88 flights per day per route. This figure, compared to Easyjet and traditional carriers, is very low. This means that Ryanair are loosing out on business passengers who need more flexible timetables. If Ryanair were to increase the frequency on some of their routes they could effectively steal some of the passengers from the traditional carrier’s thus increasing market share.

2. **Open New Routes in Europe**

There are many viable routes still un-served by low-cost carriers. In order for a route to be viable there must be at least 32,000 passengers per year. Research must be carried out to find viable routes before the competition. As well as opening routes to un-served destinations, Ryanair can also open routes where the competition is a more expensive traditional carrier thus attracting customers with the cheaper, no-frills option. In 2002, 33% of routes were served by only one low-cost carrier, an increase of 33% on the previous year’s figures.

3. **Develop Its Smaller Continental Operating Bases**

With the low-cost market from London saturated, Ryanair must look to their other operating bases to expand their network. Dublin, Brussels, Hahn, etc… can all be developed. Although there is not the same demand outside of London there is still sufficient demand to make a sizable profit.

4. **Expand into Central/Eastern Europe**

Eastern Europe is fast becoming a hotspot for tourists and business travellers alike due to the continuing expansion of the E.U. Ryanair however doesn’t serve any of these popular destinations. Other low-cost airlines have set up there already, such as Sky Europe, but not all routes have been exhausted. There is still plenty of opportunity in this area.

5. **Expand into North Africa**

Routes to North Africa are also very popular for both tourists and North Africans who have immigrated to Europe. SN Airlines currently dominates the traffic from Brussels to North Africa but they are neither a low-cost airline nor a traditional carrier. By offering truly low-cost flights to these destinations Ryanair could easily capture this market share. Our aim is to seek out and start negotiations with potential airports in these countries.

6. **Aggressively seek to take market share from the Charter Market**

\textsuperscript{11} The McKinsey Quarterly 2002, number 4, p.88
The Charter market represents a huge 25% of overall European traffic. Ryanair must aggressively attack this market by heavily promoting D.I.Y. holidays instead of package tours. With the increasing popularity of the Internet and the decreasing popularity of Travel Agents, this is a market that must not be overlooked. Ryanair has already begun to provide small packages for its destinations and we aim to bolster this side of the business.

7. **Customer Service Overhaul**

Ryanair has had a remarkable track record for its ‘tangible’ customer service (punctuality, flight completion etc) however the perception of the ‘softer’ side of its customer service has not always been good with much bad press. With this in mind Ryanair, while maintaining its strict rules and regulations, must make an adjustment in this area.

8. **Continue to find ways of reducing costs**

Although Ryanair has the lowest cost base of any of its competitors, we believe that the Company can continue to lower its cost base as it grows albeit at a lower pace.

9. **Ryanair 100% online**

Ryanair will continue to use the internet as its primary point of sale. Over the next 5 years the aim is to have 100% of bookings via the internet so as to eliminate the costly call centres.
D. Action Plan

1. Marketing Plan

Product
Ryanair will continue to offer the same service while increasing flight frequency and choice of routes (see Provision of Service below)

Price
Ryanair will continue to lower its fares. The Company will continue to increase the number of seats it sells for free (excluding taxes and charges). This has been the strategy for generating growth up to now and has proved very successful.

Place
In order to discourage the remaining few passengers from booking via the call centres Ryanair will place an extra charge on call-centre bookings and will introduce reductions for online reservations. This is in line with Objective 10.

Promotion
Ryanair will use the introduction of a new fleet of Boeing 737-800’s “next generation” aircraft as an opportunity to rejuvenate the image of the airline. There is a perception that because Ryanair is a low-cost service, it is also a low quality service. To correct this perception we will launch an exceptionally intense marketing campaign (radio, newspapers and television (this is a one off)). We will also include a modernising of our staff’s ‘look’ as well as our fleet. A newer more fashionable uniform will be selected. We believe that although it does not fit neatly into our current model it will be a relatively inexpensive exercise in the long term which would help enormously in improving the public’s perception on Ryanair. We will emphasize throughout that the “upgrade” will not be followed with an increase in fare prices.

2. Provision of Service

Suppliers and Sub-contractors
With our continually growing fleet we intend to renegotiate our maintenance contracts, as the increase in the fleet increases our bargaining power with these contractors.

When we move to open new destinations, we will be ensuring we get the best possible deal with the airport we select while complying with the E.U. regulations. We will also review all our current arrangements to ensure they meet our criterion.

Capacity
Ryanair’s capacity is to increase by 112 planes in the next ten years. The following indicates when Ryanair is due to take delivery of these planes and how they will be deployed.

<table>
<thead>
<tr>
<th>Year</th>
<th>Retired</th>
<th>New 737-800’s</th>
<th>Total increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>2004</td>
<td>5 (737-200)</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>2005</td>
<td>5 (737-200)</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>2006</td>
<td>5 (737-200)</td>
<td>19</td>
<td>14</td>
</tr>
<tr>
<td>2007</td>
<td>6 (737-200)</td>
<td>19</td>
<td>13</td>
</tr>
<tr>
<td>2008</td>
<td>19</td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>2009</td>
<td>19</td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>2010</td>
<td>14</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>2011</td>
<td>7</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>2012</td>
<td>4</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>2013</td>
<td>3</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>(21)</td>
<td>145</td>
<td>124</td>
<td></td>
</tr>
</tbody>
</table>

With this large order of aircrafts Ryanair is set to expand rapidly in the coming years. We will, after having taken delivery of the 112 compulsory purchase planes, exploit a further 33 of the options so as to allow for continual growth after 2009. The delivery schedule above, as determined by the long-term strategy of the Company, will be explained.

First of all, it is necessary to point out that Ryanair, during this period, will be retiring 21 of their existing aircraft. Secondly, a further 10 aircraft will be put aside as spares as regulations require that one in every 15 planes act as a spare\(^{12}\). This leaves 114 planes to be allocated. There are two general allocation possibilities: a) Existing route and base expansion and b) new routes.

We will follow the structure as laid out in the in points 1-5 in “Objectives and Long Term Vision”.

1. Increase the Frequency of Existing Routes

   - Add an extra 3 planes to existing routes from London Stansted. The Stansted airport is running at capacity at peak times so only an additional three planes are possible.
   - Add an extra 4 planes to existing routes from London Luton. Luton provides a good alternative for the company to expand their London base.
   - Add an extra 10 planes to Dublin Airport. Current problems are being worked on between Ryanair and the airport authorities (Aer Rianta) so expansion at this base is planned.
   - Add an extra 7 planes to the Spanish routes currently served and one or two other popular holiday destinations to take market share from Charter Companies.

2. Open New Routes in Europe

---

\(^{12}\) NCB Stockbrokers, Company Report, Ryanair, 22/09/03, pg 12
• After the launch of over 70 routes in Europe last year, new, viable routes are becoming increasingly difficult to find. Nevertheless Ryanair plans to allocate an extra 25 planes to new routes over the coming 10 years. Approximately 10 new routes will be opened per year over four years and then about four routes per year for the next six years. (See ‘allocation of planes’ below).

3. Develop Its Smaller Continental Operating Bases

• In the past few years new operating bases have sprung up all around Europe. Frankfurt (Hahn), Milan (Bergamo) and Barcelona (Girona), among others, have all become very popular with potential to grow. An additional 30 planes have been allocated to these new bases in order to bolster their position over the coming years.

4. Expand into Eastern Europe

• The Eastern European market will be served by three bases. These three bases will each serve 7 destinations resulting in a network of 21 routes. The frequency of these routes will increase in the next ten years but they will begin with between 1 and 2 flights per day. Eight planes will be needed to serve these routes. We will also be adding the relevant languages (e.g. Polish…) to the Ryanair.com website.
• A decision will be taken next year on the viability of implementing a base in one of the new E.U. member states.

5. Expand into North Africa

• The North African market will be served originally from 2 continental bases. Each base will serve four destinations in North Africa, once per day. This will result in a network of eight routes to begin with. The frequency of these flights will continue to grow during the next ten years and the number of European bases is expected to double. We forecast that approximately 8 new planes will be needed over 10 years.

6. Unallocated Aircraft

• The 15 unallocated aircraft are those which are scheduled for delivery in 2010-2013. These planes will be allocated to either existing or new routes in these years however as yet it is impossible to forecast where. A continuous trend analysis will be carried out between now and then and the planes will be allocated based on the results of this analysis.

### Allocation of Planes

<table>
<thead>
<tr>
<th>Destination</th>
<th>Units</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding Firm Order Sept ‘03</td>
<td></td>
<td>112</td>
</tr>
<tr>
<td>Options to be Exercised</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td>Replacements</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Spares</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Existing Routes</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>New European Routes</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Continental Operating Bases</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>North Africa</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>130</strong></td>
<td><strong>145</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>(130)</strong></td>
</tr>
<tr>
<td>Unallocated Units</td>
<td></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>

### 3. Human Resources

**Training**

In conjunction with the marketing efforts to improve Ryanair’s image (see above), will re-train all of our frontline staff in people skills. These training modules will help them to deal better with customers especially with their complaints and ensure the effort to upgrade Ryanair’s service is achieved. The training will be done over the years 2005/06.
E. Financial Plan

1. Financial Planning and Assumptions

1. Methodology

In the following part of the work we describe our financial planning for the estimation period. The assumptions and formulas we used are explained and justified. The lines highlighted in the sheets indicate that they can be changed during the scenario and the sensitivity analysis.

2. Income Statement

Operating Revenues

Scheduled Revenues

The Scheduled Revenues represent Ryanair’s main revenues and are directly linked to the total number of passengers flown by the Ryanair fleet. In the financial forecast we estimate this figure using the following equation:

\[
\text{Scheduled Revenues} = \text{Total nr. of passengers} \times \text{avg. ticket price}
\]  
(Eq. 1)

In which the total number of passengers can be obtained by using the equation:

\[
\text{Total number of passengers} = \text{Nr. of active aircrafts} \times \text{avg. nr. of seats per aircraft} \times \text{load factor} \times \text{total nr. of flights per aircraft}
\]  
(Eq. 2).

The number of active aircrafts depends on the acquisition of new aircrafts and the disposal of old aircrafts. Next, we have to take into account that 1/15 of the total number of aircraft have to stay on the ground for maintenance reasons. Therefore we have to multiply the total number of planes by 14/15 to obtain the number of active planes. The development of the fleet is indicated in the action plan and in the income statement of the financial plan. In order to homogenize the fleet, Ryanair only purchases Boeing 737-800’s in the future and retires all its Boeing 737-200’s by 2007.

The old Boeing 737-200’s have 130 seats and the new Boeing 737-800’s have 189 seats\(^{13}\). With these figures and the current structure of our fleet, we can calculate an average number of seats per aircraft.

We forecast the total number of passengers by using a certain given load factor per year. After calculating the total number of passengers, we can obtain the total operating costs.

The average ticket price will be calculated based on the average cost per ticket (total operating costs divided by total passengers) plus a fixed margin of 54% for 2004 (in order to obtain a load factor of 0.81) which will drop to 45% in the years 2005 and 2006, then to 40% in 2007 and 2008, then

\(^{13}\text{www.ryanair.com}\)
to 35% in 2009 and 2010 and will finally stabilize at 30% for the following years. This margin influences the ticket price and therefore the demand which is represented by the load factor in our model.

Since the load factor depends on the average price per ticket but also influences the average ticket price via the total operation costs, we have a circulating formula in the sheet. In order to overcome this problem we introduced an iteration formula with the observed load factor and the plugged load factor. The obtained load factors can be seen in the Excel Sheet. They range between 0.81 for 2004 to 0.86 in 2012.

Although we plan to open new routes in Europe and North Africa, the potential decrease of the load factor is overcompensated by the predicted annual growth of passengers and the strong position of Ryanair on the existing routes. Furthermore, the impact of the new routes on the portfolio of total routes will not be significant since the proportion of the number of new routes to the total number of routes is marginal.

The total number of flights per aircraft can be obtained from data of the year 2003. By solving equation 2 for the total number of flights per aircraft we get

\[
\text{Total nr of flights per aircraft} = \frac{\text{Total nr of passengers}}{(\text{avg. nr. of seats per aircraft} \times \text{load factor} \times \text{nr. of aircrafts})}
\]

(Eq. 2a).

For the year 2003 we obtain a number of 2189 flights per aircraft. The total number of flights is also influenced by the average turnaround time. We expect to be able to keep the turnaround of our planes at a minimum of 25min, even with the acquisition of the new 132 planes and the opening of new routes from 2004 to 2013. But since Ryanair has already announced the end of charter activities in order to increase capacity for the scheduled flights we assume that the number of flights per aircraft is going to increase.

In addition, we assumed that the revenues from charter would be 10% lower than the revenues that could be generated with the same capacity in the scheduled flights business due to the larger buying quantity and the therefore higher bargaining power of travel agencies compared to individuals.

We arrive at a value of 2238 flights per aircraft for the year 2004 which is an equivalent of 6.1 flights per aircraft per day (compared to 5.9 in 2003). We will keep that figure constant until the end of the estimation period.

**Ancillary Revenues**

Besides the Scheduled Revenues, Ryanair generates further revenues which are grouped in the position “Ancillary Revenues”. They consist of the following positions:

**Car Hire**

We assumed that Ryanair receives an average fee of €60 from Hertz for every car hired via their homepage. From that figure and the car hire revenues from 2003, we conclude, that 2.9% of all passengers are hiring a car via Ryanair’s homepage. For the following year we assume that the figure will remain constant at 3%.
In-flight Revenues

In-flight Revenues have been €1.5 / passenger in 2003. We expect this figure to be constant for the whole estimation period since we don’t believe that the passenger’s consumption habits on board are likely to change.

Internet Income

Internet Income has increased 472% from 2001 to 2002 and 252% from 2002 to 2003. We expect this income to grow 150% from 2003 to 2004, 50% in 2005 and 2006, 25% in 2007 and 10% from 2008 onwards.

Non-flight scheduled revenues

The average non-flight scheduled revenue over the last four years has been 3.4% of scheduled revenues. We assume that this percentage will remain constant for the entire estimation period.

Charter

As previously announced by Ryanair during the fiscal year 2003 ending on 31st March 2003 the Charter Business will be shut down by the beginning of the fiscal year 2004. This was done to increase capacity in the scheduled passenger business. Therefore we assumed that for the year 2004 these capacity gains will be shown in an increase of flights per aircraft and year which will increase the total number of passengers per year and the scheduled revenues (see above).

Operating Expenses

Staff Costs

The position “Staff Costs” is divided into Flight and cabin crew costs and other staff costs. The costs for flight and cabin crew depend on the number of flights and cabin crew per aircraft, the total number of aircrafts and the average cost per head for flight and cabin crew. The average number of cabin crew per airplane has been 18 in 2003 and is going to be stable over the forecasting period. The average cost per head for flight and cabin crew was €76,700 in 2003.

For the other staff, costs depend on the number of other staff and the average cost per head which was calculated from historical figures. The number of other staff increases by 1.5% due to the growing overall activity.

For both, flight and cabin crew and other staff, we plan to raise the salary at a rate of 2% per year starting in 2005 in order to guaranty healthy industrial relations.

In addition we have been considering a general increase of all salary related to the increase of revenues to create an incentive for all employees. But for now, we have not taken it into account.
**Maintenance, Materials, and Repairs**

In general, the maintenance costs for the new Boeing 737-800’s are roughly 34% lower than the maintenance costs for the old Boeing 737-200’s (in 2003: €458,000 / 737-800 vs. €695,000 / 737-200).

For the Boeing 737-800’s we assume an increase from 0% in 2004 to 1.6% in 2013 due to an aging effect and a decrease of 2% in 2004 to 0% in 2013 due to higher bargaining power during renegotiations of the maintenance contracts and the rising homogeneity of the fleet.

For the Boeing 737-200’s we forecast an increase of 2% due to aging effects until all of the aircrafts are retired by the end of the year 2006.

**Marketing costs**

Ryanair’s internet site has been really effective since 2000. The internet booking growth took 70% in that year, which had a significant impact on the distribution costs. The distribution costs decreased every year as an explanation for the reduction of the overall ‘marketing and distribution costs’. However, a basic level of marketing is needed as to maintain the level of passengers constant while an incremental amount of marketing is needed in order to increase the number of passengers, especially when new routes are being opened.

Marketing expenditures are going to rise steadily by 10% p.a. until the end of 2009 in the aim of filling the new planes. From 2009 to 2013 this amount is going to be reduced by 5% p.a. and from then on it will remain unchanged. There will be an exception. In 2006 there will be a 25% increase indicating the intensive marketing campaign that will take place and in 2007 we will adjust this high figure back by a decrease of 5%.

The increase of marketing costs in the first years can be also seen due to the fact, that we expect that airports such as Charleroi in Belgium will not subsidize Ryanair by free advertisement.

**Aircraft Rentals**

No aircraft rental charges will have to be paid from 2003 on since Ryanair will own all of its aircrafts by then.

**Route Charges**

The route charges depend on the total number of flights and the amount paid for each flight. The amount paid for each flight depends on:

- The length of the portion of route flown over each state
- The unit rate of the states over-flown (different states have different unit rates)
- The size of the aircraft (measured here: the square root of the Maximum Take-Off Weight (MTOW))
We calculate the route charges as follows:

\[ r = t \times N \]  \hspace{1cm} (Eq. 3)

with

- \( r \): route charge
- \( t \): unit rate of charge
- \( N \): number of service units corresponding to the flight

and

\[ N = d \times p \]  \hspace{1cm} (Eq. 4)

with

- \( d \): distance factor with respect to the airspace of the Flight Information Regions falling within the competence of the Contracting State
- \( p \): weight factor for the aircraft concerned\(^{14}\).

The distance factor \( d \) can be obtained by dividing the number of kilometres in the great circle distance between the aerodrome of departure and the aerodrome of first destination by 100. The weight factor \( p \) has to be calculated as:

\[ p = \sqrt{\frac{\text{max. take-off weight}}{50}} = 1.2247 \]  \hspace{1cm} (Eq. 5)

With the maximum take-off weight given as 75 metric tons\(^{15}\). We calculate an average unit rate \( t \) for all countries\(^{16}\). The number of average kilometres per flight is expected to increase since we are launching new and longer routes to Central Europe and North Africa. But this increase is going to slow down and finally will be eliminated by the year 2008 because the added routes are not exceeding the then current average distance.

In order to avoid inefficiencies, e.g. avoiding routes that include “expensive” states in terms of unit rates which might lead to longer routes than necessary and therefore to higher fuel consumption and more polluting, the European Union is planning to introduce a Common Unit Rate for every member country.

Following this idea, we assume for the unit rate a one time decrease in the first years because of the European Regulation of common Unit Rates for each member. We then expect a constant increase due to European Regulations to protect the environment by reducing pollution due to air transportation.

---

\(^{14}\) Central Route Charges Office EUROCONTROL, Conditions of Application of the Route Charges System and Conditions of Payment, November 2002 Doc. No. 02.60.02/1 (BP)

\(^{15}\) www.eurocontrol.int; see also Appendix “Route Charges”

\(^{16}\) IAA - Corporate - Irish Air Navigation Route Charges; www.iaa.ie/corporate/charges/; table of unit rates per country
Airport and Handling Charges

Airport Charges

The Airport and handling charges have historically been €4.35/passenger. On the one hand we assume that many of the existing airports used by Ryanair depend heavily on the revenues generated by Ryanair and that we will add small and cheap airports in Eastern Europe and North Africa in the future. Therefore we expect the airport charges to drop slightly. But since we have to take into account that the European Commission has decided to end all exaggerated subsidies from local governments to Ryanair through their airports in order to reduce distortions in competition, we expect the average airport charge for all airports to rise. We assume that the increase due to the Commission’s decision will outweigh the gains from Ryanair’s large bargaining power with the airports. We adopt in our base case that the charges will increase by 10% over the estimation period.

Handling Charges

Historically, the charge per passenger has been €3.05. In contrast to the airport charges we expect that the Commission’s decision will not have an impact on the evolution of these costs. But for the reason mentioned above concerning Ryanair’s bargaining power we project a decrease of handling charges by 0.5% p.a. until the year 2010 and no change from then on.

Fuel and Oil Costs

These costs are directly proportional to the fuel consumption of the planes and the fuel price. The price for the Jet A1 today is €0.88/Gallon (€0.23/Litre)

The position “fuel and oil costs” does not only consist of the actual consumed kerosene multiplied by the consumption per total flown km and average passenger per plane, but also of the oil for the planes, the fuel and oil consumed by other vehicles and fuel overhead costs. We therefore calculated a historical proportion of the kerosene consumption costs to the total fuel and oil costs and kept this percentage constant for the future. With this proportion we can estimate the total fuel and oil costs by knowing the fuel price of the relevant year.

The Boeing 737-200 consumes 0.030 Litre/kilometre-passenger while the Boeing 737-800 has a consumption rate of 0.021 Litre/kilometre-passenger due to the use of new motors and new winglets which have better aero dynamical properties.

We then multiply the price by the fuel consumption (per kilometre-passenger) and multiply that amount by the total number of kilometres and by the average number of passengers inside the craft.

The fuel consumption even for the Boeing 737-800 will decrease slightly due to the new technology of the motors and the winglets and longer flight distances, while the fuel price’s evolution will be uncertain and unexpected. Hence, Ryanair is hedging for 90% of its fuel costs which will keep the change in fuel price insignificant.

Other Costs

Other costs per passenger have decreased from €5.1 in the year 2000 to €3.8 in 2003. This means a historical average change of around 7%. For the following years we predict that other costs per passenger will still drop by 5% p.a. due to economies of scale and other overhead cost reductions.

---

17 Telephone interview with the Investor’s relations department of Ryanair
**Depreciation and Amortisation**

Aircrafts

According to the 2003 annual report, the old Boeings 737-200 have been fully depreciated. The new annual depreciation is thus calculated only on the basis of the new Boeing 737-800.

We take a purchase price per aircraft of $32m which is significantly below the basic price of “the 2002 Boeing contract” (US$50,885,100). This price is due to the fact that Ryanair made half of all Boeing orders in 2002, so it had a high bargaining power since the general demand for aircrafts as been very low.

“The depreciation change per aircraft per annum will be based on the net cost to the Company of the aircraft less an amount to be set aside for pre-paid maintenance and a 15% residual value calculated on the original net cost of the aircraft. The resultant value is depreciated on a straight line basis over a 23 year life. This policy is consistent with the existing policy adopted by the Company in relation to the existing Boeing 737-800 fleet and is, in the opinion of the Directors, a conservative accounting policy appropriate for the business.”

An estimated $10m is attributed to the cost of the first major maintenance check (both engine and airframe overhaul). The residual value is 15% of the purchase price or $4.8m. Deducting both the pre-paid maintenance and the residual value leaves $17.2m to be depreciated over 23 years (or $748,000 per annum). Assuming the average major engine and airframe overhaul occurs when the aircraft is ten years old (likely between 8-12 years old) results in a per annum maintenance amortisation charge of $1.0m. Combining depreciation and amortization results in a per annum depreciation and amortization charge of $1.75m or $17.5m over ten years. So the written-down book value at year ten is $14.5m or 45% of the original value.

Other assets

Following Ryanair's strategy to minimize other than aircraft investment in fixed assets, the investments in buildings and hangars, plants and equipment as well as in fixtures and fittings are growing only by 10% per year. Ryanair does not differentiate this position between buildings and hangars, although buildings have an annual depreciation rate of 5% and hangars of 20%. Since we do not know the proportion between the two groups of investment we assume that buildings and hangars are depreciated at the annual rate of 5%. Plant and equipment is depreciated over 5 years (20%) and fixtures and fittings have the same depreciation rate of 20% p.a.

Investments in motor vehicles grow by 15% per year in order to keep the total other fixed assets low. The position “Motor vehicles” is depreciated within 3 years (annual depreciation rate of 33.33%).

In order to switch from cumulated depreciation to annual depreciation we start in the year 2000 by subtracting the cumulated depreciation from the historical costs. We repeat this for the year 2003 and calculate the difference between the two figures which represents the depreciations made during these years, adjusted for acquisitions and disposals. Then, we subtract the annual depreciations of the assets acquired during these years and obtain the portion of depreciation for the existing assets before 2000 for the years 2000-2003 and distribute it over the rest of the investments life.

---

18 see also Excel Sheet “Depreciation”
19 Ryanair holding plc, Purpose of Purchase of up to 150 Boeing "next generation" 737-800 aircraft, Notice of extraordinary general meeting, 18 July 2002.
20 Ryanair Conservative accounting policies; Davy stockbrokers; Equity Note, 28 February 2003.
Other Income

Foreign Exchange gains / losses

Ryanair's exposure - both directly and indirectly - to currency risk is probably greater than for any other Irish plc. This is because much of its cost base is in the US dollar, while none of its income is. Its main exposures arise from its dollar-based fuel costs and the cost of dollar deposit obligations on aircraft. The other main non-euro exposure arises from its sterling revenue receipts out of Britain. However, the company has a comprehensive hedging strategy in place, which mitigates the short-term impact of currency movements on its earnings. Since the exchange rates are not predictable, the gain/loss on foreign exchange cannot be estimated. Here, also, Ryanair hedges against these uncertainties. We will therefore assume for simplicity’s sake that the gain/loss on foreign exchange will be 0.

Gain / Loss on disposals of fixed assets

The gain/loss on disposal of fixed assets is calculated as the difference between the disposal price and the residual book value of the depreciated aircrafts. The disposal price of the Boeing 737-200 is around €2.448m\(^2\), while the residual book value is €0.816m. The difference is a gain of €1.632m per aircraft in the period 2004-2006.

Interest receivable and similar income

We assume that we will receive an interest rate of 3% p.a. for all our cash and liquid resources.

Interest payable and similar charges

The interest we have to pay in the future depends on the amount of interest bearing debt and the interest rate. We assume from historical figures that the interest rate we have to pay on our debts is going to be 6% and constant. Since the interest payables influence the profit of the financial year and the profit will influence the amount of new debt we have to take on (or the amount of old debt we can reimburse) and therefore the interest payable for the year, we have a circular formula. We learned to solve this problem by doing iteration with the interest to be paid (observed) and the interest to be paid (plugged) on the average debt of the period. In the case where the average debt is negative (that means we have paid off all our debt and have started to lend money to someone else) our interest rate is not longer 6% but 3% since we assume we will not get an interest rate of 6% on our loans.

Dividends and payout ratio

Although Ryanair refuses to pay any dividends at the moment or in the foreseeable future, we decided to distribute dividends beginning in the year 2009 with a payout ratio of 50%. We will keep that payout ratio until the year 2012 and increase it to 70% for the year 2013. The decision to distribute dividends came from the results of the financial forecasting. We obtained large amounts of excess cash which should not remain in the company or given out as loans, but should be distributed to the shareholders in order to improve the Corporate Governance situation for Ryanair and make the stocks more attractive to investors.

3. Cash Flow Statement

\(^2\) Ryanair Conservative accounting policies, Davy stockbrokers, Equity Note, 28 February 2003.
Cash flow from operating activities

The Cash flow from operating activities consists of the net profit, depreciation and amortisation, and the working capital requirement. The working capital requirement is calculated as:

\[
\text{Working capital requirement} = (\text{Accounts receivables} + \text{Other assets} + \text{Inventories}) - (\text{Accounts payable} + \text{Accrued expenses and other liabilities} + \text{provisions of other liabilities and charges} + \text{Accounts payable due after one year})
\]  
(Eq. 6)

Cash flow from investing activities

This flow consists of the capex and the disposals of fixed assets. The capex is calculated as:

\[
\text{Capex} = (\text{Total fixed assets at end of year } t - \text{Total fixed assets at the end of year } t-1) + \text{Depreciation in the year } t - \text{disposals of fixed assets in year } t
\]  
(Eq. 7)

The sum of these two flows gives us the Free Cash flow for the year.

Cash flow from financing activities

This flow consists of the dept variation and the dividends paid. Due to the fact that we keep our cash balance constant we fix the change in cash at the amount of zero. Therefore, the change in debt is the figure that will change and balance the cash flow statement since the sum of the three cash flows is the change in cash and has to be zero.

4. Balance Sheet

Fixed Assets

Tangible Assets

Tangible Assets are calculated using the depreciation figures mentioned above.

Financial Assets

Since the year 2002 Ryanair has no investments in other companies. We will not change this policy.

Current Assets

Cash and Liquid resources

Cash and liquid resources are a residual figure from the Cash-flow Statement. Since we assume not to have any change in cash in the Cash Flow Statement, the amount of cash in the Balance Sheet is going to remain constant until the end of the estimation period. We hold the Cash and Liquid resources constant as we feel it provides a very good safety blanket for the Company in the event or ‘worse case’ scenarios occurring.
Accounts Receivables

Accounts Receivables are calculated by subtracting provisions for doubtful debts from the Trade Receivables. We measure the Trade Receivables as a percentage of the Operating Revenues. For the year 2003 this percentage has been 1.8%. We predict this figure to be constant. The provisions for doubtful debts will be the historical average percentage of 3% on the Trade Receivables.

Other Assets

Other assets such as prepayments and interest receivables will grow at the rate of 10%.

Inventories

The position ‘Inventories’ consists of aircraft spares and duty free and other inventories. Aircraft spares per aircraft have historically been constant at €400,000. We assume this figure to be constant and multiply it by the number of aircrafts in the following years. The duty free and other inventories are directly linked to the in-flight revenues. We assume a 5% rate of the in-flight revenues to calculate the figures for the future years.

Current Liabilities

Accounts Payable

We use the percentage “accounts payables per operating revenues” to calculate the figure for this position in the future. In 2003 this ratio was 7.3%. We assume this percentage to be constant in the future.

Accrued expenses and other liabilities

Accrued expenses and other liabilities consist of the positions ‘Accruals’, ‘Taxation’, and ‘Unearned revenue’.

Accruals have been 5.72% of Operating Revenues in 2003. We will adapt this figure in the forecast. Taxation is directly linked to Ryanair’s expected tax payment. Historically, it has been about 2.2 times the tax paid on total profit, which will remain constant for the estimation period. Unearned revenue has historically been 15% of Total operating revenue. We assume this rate not to change in the future.

Current maturities of long term debts

Since we simplify our debt structure in order to be able to calculate the iteration of the interest payable, this position and the position “long term debt” will go down to 0 by the year 2004. All debts that are held by the company will be represented by the position “short term borrowings (loans)”.

Short term borrowings (loans)

As mentioned above, this position will contain all borrowings/loans that are taken by the company. It is calculated as the sum of all three positions from the previous year plus the change of debt calculated in the Cash Flow Statement for the current year.
Other liabilities

Provisions for liabilities and charges

Unexpected expenses could be charged to Ryanair in the next years due to the decision of the European Commission. The subsidies that Ryanair received especially at Charleroi Airport might have to be repaid. This represents an amount of approximately €13.5m in total. Since Ryanair made an appeal to the decision, it is still uncertain when the fine will have to be paid. However, Ryanair can build provisions for charges coming in the next years. Therefore we increase the provisions by the amount of €13.5m in 2004.

Accounts payable due after one year

Accounts payable due after one year are assumed to be constant with the amount for the year 2003, since these accounts are very rare and few people will accept such a long payment period.

Long Term Debt

As mentioned above, the position “long term debt” is already transferred to the position “short term borrowings (loans)” in order to simplify the iteration of interest payments. Therefore this position will be 0 from year 2004 on.

In the previous years Ryanair has financed the purchase of its new aircrafts with cash and new debts. We will change the policy and will pay the purchase of aircrafts only with the cash and other liquid resources from 2005 on since we will have a large amount of cash inflow in the following years. From the year 2005 on we will be able to repay our debts and finally from the year 2011 on we will have paid off all debts and will be able to lend the residual.

Shareholder’s funds equity

Shareholder’s funds equity comprises called-up share capital, the share premium account, and the profit and loss account.

The called-up share capital will not change since we will not raise new equity in the future. The share premium account will therefore remain unchanged as well. The profit and loss account will be increased by the retained earnings of the year taken from the income statement (Profit for the financial year x Retention ratio = Profit for the financial year x (1 – Payout ratio).

2. Valuation of the company

In order to estimate Ryanair’s enterprise value we used two different models:

1. The Discounted Cash Flow Model (DCF)
2. The Dividend Discount Model (DDM)

---

22 Public CCE Decision Ryanair; Brussels, 3 February 2004
**The Discounted Cash Flow Model (DCF)**

The first model explains the current value of the company as the sum of the discounted expected future cash flows. The expected future cash flows are discounted with a discount factor which includes a discount rate and the number of years in which the cash flow will be generated.

The value of the company can be calculated using the following formula:

\[
Value = \sum_{t=1}^{\infty} FCF_t \times DF_t
\]

(Eq. 8)

with

\[
DF_t = \frac{1}{(1 + \text{wacc})^t}
\]

(Eq. 9)

we obtain

\[
Value = \sum_{t=1}^{\infty} \frac{FCF_t}{(1 + \text{wacc})^t}
\]

(Eq. 10)

In our case we have a forecasting period of 10 years until the year 2013. This leads to the formula:

\[
Value = \sum_{t=1}^{10} \frac{FCF_t}{(1 + \text{wacc})^t} + \frac{\text{residualvalue}}{(1 + \text{wacc})^{10}}
\]

(Eq. 11)

with the residual value defined by and calculated with the Gordon-Shapiro Growth Model:

\[
\text{residualvalue} = \frac{FCF_{10} \times (1 + g)}{(\text{wacc} - g)}
\]

(Eq. 12)

with:

- \( \text{wacc} \): weighted average cost of capital
- \( g \): the anticipated growth of dividends from the year 2013 on.

The wacc is calculated as:

\[
\text{wacc} = R_e \times \frac{E}{(E + D)} + R_d \times (1 - \text{TaxRate}) \times \frac{D}{(E + D)}
\]

(Eq. 13)

with

- \( R_e \): the expected return on equity
- \( E \): the book value of total equity
- \( D \): the book value of total debt so that \( E + D \) = total sum of the balance
- \( R_d \): the interest rate to be paid on the debt
**Tax Rate:** the current tax rate in order to take into account the tax effect\(^2\).

The expected return on equity is estimated using the Capital Asset Pricing Model (CAPM):

\[
R_e = R_f + \beta (R_m - R_f)
\]

(Eq. 14)

where

- \(R_f\): the current risk-free rate\(^2^4\)
- \(\beta\): the regression coefficient that indicates how much the price of the asset changes with a change in the whole market\(^2^5\)
- \(R_m\): the average observed return of the market\(^2^6\)

We obtain an enterprise value of €5,609,207,000. After subtracting the book value of debt and dividing by the total number of outstanding shares (755,055,000 shares) we arrive at a price of €7.14/ share in our basic case. At a current stock price of €5 on the ISE\(^2^7\) we can conclude that with our hypotheses we have just found a mispriced stock. Due to that fact we would recommend to buy the share. For our most pessimistic case we obtain €2.3 (a strong “sell” recommendation) and for our most optimistic case a price of €14.36 (a strong buy recommendation).

**The Dividend Discount Model (DDM)**

The Dividend Discount Model uses the discounted expected future dividends instead of the Free Cash Flows to estimate the enterprise value. Instead of the wacc it uses the Return on equity \(R_e\) as the discount rate. The residual value is calculated the same as in the DCF but the growth factor of dividends \(g\) from year 2013 on is not the same since the retaining of the earnings will create growth opportunities which have to be taken into account. The DCF formula therefore changes as follows:

\[
Value = \sum_{t=1}^{10} \frac{Dividend_t}{(1 + R_e)^t} + \frac{\text{residualvalue}}{(1 + R_e)^{10}}
\]

(Eq. 15)

and the residual value

\[
\text{residualvalue} = \frac{Dividend_{10} * (1 + g^*)}{(wacc - g^*)}
\]

(Eq. 16)

Since the value calculated using the DDM should be the same as the value estimated with the DCF we decided to adjust the expected growth of the dividends from year 2013 on by using the function “goal seek” in Excel on the price found with the DDM. We obtain a \(g^*\) of 10.8% in our basic case. This figure is possible, since the growth e.g. in the year 2010 has been 10.43% and

\(^{23}\) The current tax rate for Ryanair is 9.5%.

\(^{24}\) 5-year German Government Bond at 4% found on http://www.onvista.de

\(^{25}\) beta of 0.805 for the Ryanair stock on the Irish Stock Exchange (ISE) in Dublin found on http://finance.yahoo.com

\(^{26}\) The calculated average annual return of the ISE over the last ten years; figures found on http://finance.yahoo.com

\(^{27}\) Stock Price on the 26th of April 2004; found on http://finance.yahoo.com
2013 it has been 5.27%. Especially with the large amount of cash generated by Ryanair every year this figure can be explained. For the worst case we get a g* of 9.67% and for the best case 8.63%.

3. Scenario Analysis

Worst Case

Operating Expenses

Salaries
If the staff are successful in gaining Trade Union representation Ryanair could experience an increase of 2% per year in salaries

No. increase of other staff
New staff needed for marketing, EU regulations (eg. Safety regulations requiring an extra crew member on each flight.) Accounting, IT

Increase Maintenance costs of 737-200’s - ageing
Aviation Authority regulations could change regarding the maintenance of older aircraft causing an increase in costs of 3% per year until the 737 200’s have been completely phased out in 2007

Decrease costs of 737-800(economies of scale)
Bad management of maintenance capabilities could reduce the economies of scale exploited. This could lead to Ryanair gaining only 1.5% cost savings per year.

Increase of Maintenance Costs of 737-800(aging)
The costs of maintaining the new fleet could rise due to a badly aging fleet, storms etc.

Increase of Marketing Costs
Competition could increase on certain routes so Ryanair may need to launch a marketing offensive. Eastern European routes might not become as popular as expected so extra advertising may be needed. Low price doesn’t mean low quality. This idea needs to be communicated.

Increase of Unit Rates
The E.U. could introduce a common tariff in 2006 that is higher than the previous average tariff and it could increase every year by 2.5%

Decrease of Weight Factor
No change could occur here

Increase of Airport Charges
Airport charges could increase in many Government owned airports if there is an adverse E.U. ruling on the Charleroi case. A 100% increase in 2004 could ensue with an increase of 3% per year after that.

Increase Handling Charges
Handling charges could increase by 10% in 2004 and 3% per year after that if there is an adverse E.U. ruling on the Charleroi case. Charges could also go up due to increase in passenger numbers.
Average Flight Distance Increase
New destinations could cause an increase in Average Flight Distance of 10% for two years and 5% for three years and after that 0% per year.

Fuel Prices
Fuel prices could go up by 1% per year. Also the possibility of another War in 2007 for example could lead to an increase of 10% in oil prices. Fuel prices could then drop in 2008 by 5% after the War. From 2008 on we could have a 1% increase due to EU regulations on pollution. On top of the already mentioned 1% per year increase this could lead to a 2% increase per year from 2008.

Decrease of Other Costs per Passenger
The max fine over the Charleroi case could be €8.5 million. It will be included under this heading.

Dollar Exchange Rate
The Euro could constantly gain strength on the Dollar but the Dollar could increase value during the War in 2007 and could again lose value until 2011. From then on there is parity with the Euro.

Operating Revenues

Margins
Margin is 30% in 2004 and will drop to 25% in 2005 and to 20% in 2006 where it will remain until 2013.

Load Factor
Increased competition could mean that Load Factors will not be higher than 0.78. In time of war it will decrease to 0.73 as people could be more apprehensive of flying.

New Aircrafts
We could exploit the firm orders of new aircraft. None of the options could be exploited.

Number of Flights/Aircraft
Regional Airports could get busier causing the turnaround time to get longer. This could reduce the no. of flights/aircraft to 2,100 per year.

Average Car Rental Revenue/Passenger
Hertz could find new ways to promote car hire and so they could offer smaller margins to Ryanair. Average revenue per passenger could fall to €50 in 2004, €40 in 2005 and €30 from 2006 onwards as Hertz develop these methods

% of Passengers Renting a Car
Less people might rent a car as Ryanair passengers could become even more cost conscious. The % will drop to 2.5% of passengers.

In-flight Revenues/Passengers
Cost conscious customers could buy 10% less merchandise than before.

% of Increase in Internet Income
Internet usage could grow by 100% in 2004. From 2005 to 2007 the usage could grow by 25%. After 2007 the Internet growth could slow down as nearly everybody has started using the Internet.

% of Scheduled Revenue
The % of scheduled revenues could drop by 5% in 2004 and could continue to drop by 5% per year until 2013 where they could reach a level of 1.9% of Scheduled revenues. The non-flight scheduled revenues might not grow as fast as scheduled revenues.

Best Case

In this case, the scenario will reconsider all the assumptions taking the most optimistic possible outcomes into account.

The margin per ticket will be held at 60% until 2006 due to the advantageous cost structure. However, competition could reach similar low cost structure in 2007; for that reason will the margin come down to 50% afterwards.

The load factor will stay stable at 85% throughout the years thanks to the ever growing number of passengers making full use of the whole fleet.

The number of new Boeing 737-800 will increase as we exercise all the options we have as soon as we can. The maximum number of aircrafts (as to the contracts up to now) comes up to 200 in 2012; but in order to keep a regular growth (in passengers) in 2012 and 2013, 33 additional aircrafts will be bought in those “last” two years.

The number of flight per aircraft today implies an average turnaround time of 25 minutes (using the whole fleet) which is already optimal; the number of flight per aircraft cannot be better.

The average car rental revenue will stay at 60€ per passenger while the percentage of passengers needing a car is assumed to continue its historical growth to attain a 5% rate in 2008 and stay constant afterwards.

The in-flight revenues are supposed to increase due to the better in-flight offer/service so that a passenger will spend three euro per flight, on average.

The internet income will still grow consequently in 2004-2005 (150% growth), but will finally fall down to 10% in 2009, considering the maturity of this communication/distribution channel.

The percentage of average increase in salaries keep the low rate of 1.5% per year, a bit lower than the “European” average inflation rate.

Due to the good state of the old aircrafts, their maintenance costs will increase of 1% only, while the decrease of costs generated by the economies of scales (same new Boeing’s) will float around 2%.

The marketing costs should support the continuous increase of passengers and should cover the new routes, the increase of those costs stays constant at 10% over the years.

The unit rates will decrease until 2007 due to the entry of east-European countries (low rates), bringing the average unit rate at 54€ per country. They start growing in 2008 (1% per year) according to the project of harmonisation.
The EU Commission’s decision will affect only 18% of all passengers (those flying through public airports). The airport charges will thus increase slightly, up to 5,5€ per passenger in 2006, while the handling charges will slightly decrease due to Ryanair’s will to lighten the passenger’s luggage.

The future fuel price will stay at today’s price, in the best case.

The euro is still outperforming the dollar, we assume the €/$ rate to be 1,30 throughout the business plan-period.

The consequences of this scenario on the net results are quite enormous; in fact, these net results are 31% higher than the base case in 2004 and 131% higher in 2013. All debts are repaid by 2005, what allows us to distribute higher dividends as of 2006 (payout ratio of 60%).

4. Ratios

We have created a table of ratios in the Excel Sheet of the Basic Case, comparing different ratios (Financial, Operational and others) for every case of the Scenario Analysis.

5. Sensitivity Analysis

The procedure for this analysis will be held as follow; we will analyse the effect of a one-percentage change in the several variables on four main outcomes: the average ticket price, the number of passengers, the net profit and the valuation as to FCFM. All percentages are on a per-year basis, they reflect the variation in figures compared with the base case, a negative sign stands for a negative correlation with the variable (and vice-versa).

The margin per ticket has clearly a sensible effect on the average ticket price (0,3%) and consequently on the number of passengers (-0,1%). The valuation model is highly sensible to the margin (with a variation of 0,8%) while the net profit accordingly varies with 0,7%.

A change in the load factor implies a slight change (-0,1%) in the average ticket price (costs per passenger are higher) and is directly correlated to the number of passengers. The net profit is highly sensible to the load factor with a 1,55% change, while the FCF-Model grows with 1,9% for a positive change of the variable.

The fuel price has a moderate impact on the average ticket price (0,3%), what generates a negative correlation with the number of passengers (-0,1%). However, with a constant margin, an increase of fuel prices will have a positive effect on the net profit (0,18%) as well as on the FCF (0,21%).

The exchange rate has a direct influence on the fuel price, that is, when the euro appreciate, the fuel price decrease and the average ticket price fall down (-0,3%). The number of passengers varies with 0,1%, following the proportion. The acquisition and depreciation of the aircrafts are also sensible to the exchange rate, which is thereby positively correlated with the net profit (up to 0,3%) and the FCF calculation (0,25%).
The airport charges will have a strong influence on the average ticket price (up to 1.30%), keeping the margin constant, and will thereby diminish the number of passengers (up to -0.30%). However, as for the fuel price, the net profit will be positively correlated with the airport charges (up to 0.70), as well as the FCF (1.20%).

The handling charges will have an influence on the outcomes in the very same proportions as did the airport charges.

6. Graphs

In the Excel file for the Basic Case we present some graphs for the development of crucial figures such as number of passenger number of aircrafts, and others.
Appendices

Appendix 1: History

In operation since 1985, Ryanair has been in the low-cost airline sector since about 1990. At this time the new management team, which included the current CEO, began to remould the business model based on the low cost operating model of the American Company, South West Airlines. Thus, the low cost, low fare Ryanair of today was born.

In the following years Ryanair began to expand its route network from the Irish national market into Britain. By 1994, from its base in Dublin, the network included such provincial British destinations as Birmingham, Manchester and Glasgow. Also in 1994, Ryanair began to standardise its fleet by buying used Boeing 737 200’s and also began to phase out the leasing of planes. Further expansion into provincial Britain occurred in 1996 along with the investment from Irish Air, L.P., who became minority shareholders in Ryanair Holdings.

It wasn’t until after the initial public offering in June 1997 that Ryanair really began to expand throughout Europe. Over 160 routes have been established and hubs have been set up all around the continent in London (Stansted), Glasgow (Prestwick), London (Luton), Shannon, Brussels (Charleroi), Frankfurt (Hahn), Milan (Bergamo), Stockholm (Skavsta), Rome (Ciampino) and Barcelona (Girona) airports. Ryanair also increased the frequency on many of the more popular routes multiplying the number of passengers carried.

With plans to buy an additional 112 aircraft from Boeing the phenomenal growth is planned to continue. We forecast that by 2008 Ryanair will have 118 planes in operation with an option to increase this number further.

---

28 See financial section “Income Statement”.

Appendix 2: The Management Team at Ryanair

• Michael O'Leary (42)
  Chief Executive Officer

  Since November 1988, Michael O'Leary has been a Director of Ryanair. He then served as Deputy Chief Executive from 1991 to 1993 and spent a brief period as Chief Operating Officer from June 1993 to December 1993. He was appointed Chief Executive Officer on January 1 1994.

• Michael Cawley (49)
  Deputy Chief Executive and Chief Operating Officer

  Michael Cawley has been Chief Operating Officer since January 2003. He previously held positions as CFO and Commercial Director. From 1993 to 1997, Michael served as Group Finance Director of Gowan Group Limited, one of Ireland's largest private companies and the main distributor for Peugeot and Citroen automobiles in Ireland.

• Howard Millar (42)
  Deputy Chief Executive and Chief Financial Officer

  Howard Millar has served as CFO since Jan 2003. He previously held positions as Director of Finance and Financial Controller with Ryanair. He was the Group Finance Manager for the Almarai Group, from 1988 to 1992.

• David O'Brien (39)
  Director of Flight Operations and Ground Operations

  David O'Brien has been the Director of Operations since December 2002. He has previously held positions with Ryanair as Director of Flight Operations, Director of UK Operations and as Director of Ground Operations and Inflight.

• Michael Hickey (40)
  Director of Engineering

  Michael Hickey has served as the Director of Engineering and Chief Engineer since January 2000. He has held many senior positions in the Engineering Department including a term as Deputy Director of Engineering.

• Ray Conway (48)
  Chief Pilot

  Captain Ray Conway has been the Chief Pilot since June 2002. With Ryanair since 1987 he has held many senior positions including Head of Training.

• Edward Wilson (40)
  Director of Personnel and In-flight

  Edward Wilson has been the Director of Personnel and Inflight since December 2002. He was previously the Head of Personnel since 1997.

• Ray Callaghan (35)
  Head of Regulatory Affairs and Company Secretary
Jim Callaghan has been the Company Secretary since June 2002. He previously served as Head of Regulatory Affairs since May 2002.

- Caroline Greene (40)
  Head of Customer Service

  Caroline Greene has been the Director of Customer Service since February 2003. She was previously the Chief Executive of Ryanair.com since 1996.
Appendix 3: Route Charges

a) Weight factor

From: KTHY Virtual airlines

Maximum take-off weight (MTOW) = 75 Metric Tons (found in aircraft configuration of the Boeing 737-800). The weight factor is calculated by taking the weight of the heaviest aircraft of the same type known to exist.

b) Unit Rates

The following chart shows Eurocontrol in route unit rates for 2004 (€)
**Appendix 4: Benchmarks**

<table>
<thead>
<tr>
<th>Business Field</th>
<th>Low Fare Carriers</th>
<th>Flag Carriers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ryanair</td>
<td>Easy</td>
</tr>
<tr>
<td>Number of planes</td>
<td>54</td>
<td>74</td>
</tr>
<tr>
<td>Number of Passengers (Mio)</td>
<td>15,7</td>
<td>20,3</td>
</tr>
<tr>
<td>Load factor</td>
<td>83,0%</td>
<td>84,1%</td>
</tr>
<tr>
<td>Average Fare (€)</td>
<td>46</td>
<td>65</td>
</tr>
<tr>
<td>Revenues (Mio €)</td>
<td>842</td>
<td>1393</td>
</tr>
<tr>
<td>Revenues per passenger (€)</td>
<td>54</td>
<td>69</td>
</tr>
<tr>
<td>Number of employees</td>
<td>1,897</td>
<td>3372</td>
</tr>
<tr>
<td>Passenger per employee</td>
<td>8,276</td>
<td>6020</td>
</tr>
<tr>
<td>Revenues per employee</td>
<td>443,859</td>
<td>413,021</td>
</tr>
<tr>
<td>Number of employees per plane</td>
<td>35</td>
<td>46</td>
</tr>
<tr>
<td>Net Profit (Mio €)</td>
<td>239</td>
<td>48</td>
</tr>
<tr>
<td>Net Profit Margins</td>
<td>0,28</td>
<td>3%</td>
</tr>
<tr>
<td>Assets (Mio €)</td>
<td>1,352</td>
<td>651</td>
</tr>
<tr>
<td>Asset Turnover</td>
<td>0,62</td>
<td>2,14</td>
</tr>
<tr>
<td>Number of destinations</td>
<td>125</td>
<td>41</td>
</tr>
<tr>
<td>Number of shares (Mio)</td>
<td>755</td>
<td>391</td>
</tr>
<tr>
<td>Share Price (€)</td>
<td>5,00</td>
<td>4,47</td>
</tr>
<tr>
<td>Market Capitalisation (Mio €)</td>
<td>3,775</td>
<td>1747</td>
</tr>
<tr>
<td>Cash Reserve (Mio €)</td>
<td>1,060</td>
<td>500,6</td>
</tr>
</tbody>
</table>
Bibliography

- www.ryanair.com
- Article 87(1) of the EC Treaty.
- Brady, Daragh, Marketing Department, Ryanair, Dublin Airport.
- Central Route Charges Office EUROCONTROL, Conditions of Application of the Route Charges System and Conditions of Payment, November 2002 Doc. No. 02.60.02/1 (BP).
- Gering, David, BeNeLux Manager, Ryanair, Charleroi Airport.
- IAA - Corporate - Irish Air Navigation Route Charges; www.iaa.ie/corporate/charges/, table of unit rates per country.
- NCB Stockbrokers, Company Report, Ryanair, 22/09/03.
- Public CCE Decision Ryanair; Brussels, 3 February 2004.
- Raymond James, Equity research, 6 November 2003.
- Ryanair holding plc, Purpose of Purchase of up to 150 Boeing "next generation" 737-800 aircraft, Notice of extraordinary general meeting, 18 July 2002.
- The European airline industry: from single market to world-wide challenges, European Commission.
- http://finance.yahoo.com