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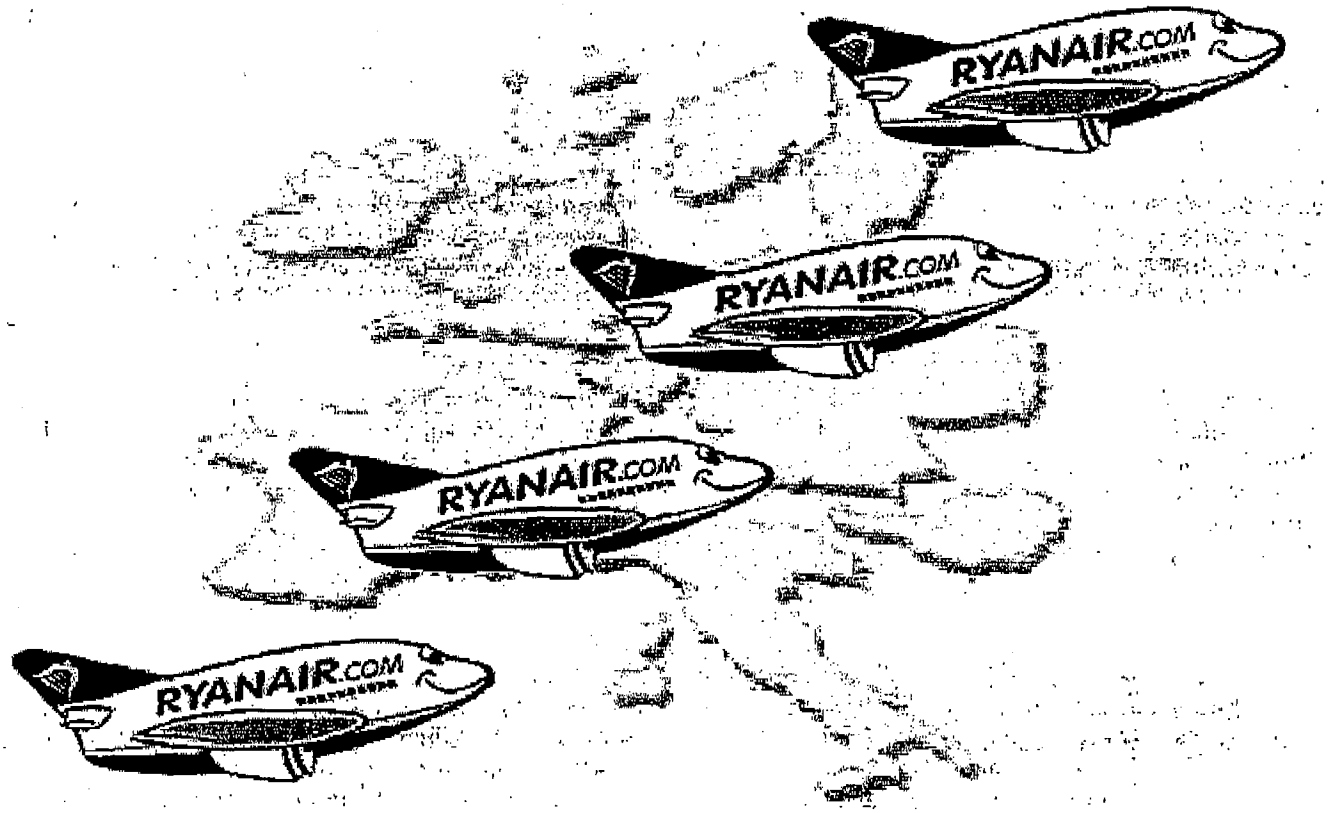
Flying Cheaper and Cheaper



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THE LOW FARES AIRLINE

This case was prepared by Anne Julien, Professor of Marketing, and Raymond Ouellet, Associate Professor of Marketing, Reims Management School (RMS) with the assistance of Deirdre Mathelin, a participant in the RMS Executive MBA programme. The case is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The information in this case has been obtained from Ryanair Holdings Plc, public sources and industry reviews.

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'We bow down to nobody. We'll stuff every one of them in Europe, we won't be second or third and saying "Didn't we do well?"'

Michael O'Leary, CEO, Ryanair

In June 2004, Michael O'Leary, a fiery Irishman clad in his uniform plaid shirt, jeans and tennis shoes, sat frustrated at his desk in his sparsely decorated office in Dublin airport. On January 28th, Ryanair had issued its first profit warning since the company was founded 19 years earlier, an event that had jolted confidence in the low cost airline industry and caused Ryanair's shares to dive 30% in one day. Around the same time, the European Commission had released its probe into whether or not the airline received illegal state subsidies at its Belgian hub in Charleroi. On June 1st, Ryanair announced results for 2004 (See Exhibit 11), which while not as bad as the original warning promised, seemed to hint at a slowdown in the phenomenal growth of Ryanair up to that time.

The Ryanair we know today started out life in 1985 as an impoverished Irish airline competing with Aer Lingus, Ireland's flagship carrier. By 2004, under O'Leary's leadership Ryanair had grown into Europe's largest low cost airline, achieving a valuation higher than that of British Airways. His main concern now was how he could meet his objective of making Ryanair Europe's largest international scheduled airline. Convinced that the regulatory battle about Charleroi was a temporary obstacle, he was more concerned about issues such as seat capacity, which was not expected to rise significantly over the next year, and yield capacity, which was expected to take a hit with an increase in competition. Growing widespread concern about rising oil prices did not help.

History of Ryanair

Founded by Irish businessman Dr. Tony Ryan, Ryanair had started out in 1985 as a traditional airline with a single 15-seat propeller aircraft that ran one daily flight between Waterford airport in southeast Ireland and Gatwick airport in London.

Ryanair grew very rapidly from 1986 to 1990, originally setting out to challenge Aer Lingus and British Airways on the Dublin to London route. From 1989, and over the next three to four years, a succession of management changes was made and a number of CEOs took over for short periods. Ryanair began to open many new routes, taking on new aircraft, and essentially paying little attention to costs as Tony Ryan's other business, Guinness Peat Aviation, was generating considerable profits at the time. Aer Lingus and British Airways were competing heavily with Ryanair during this period by offering cheap fares on common routes and expensive ones on routes Ryanair did not fly.

Michael O'Leary joined Ryanair as financial director in 1988. However, it is as deputy chief executive officer, a post he assumed in 1991, that O'Leary is credited with turning Ryanair around in a period of two to three years. O'Leary believed that Ryanair could not compete with Aer Lingus or British Airways in terms of service and that the new strategy should be to follow the low cost strategy pioneered by Southwest Airlines in the US. (See page 3 and Exhibit 7)

Later, under O'Leary's guidance, Ryanair Holdings Plc was floated on the Dublin and New York (NASDAQ) Stock exchanges, joining the NASDAQ Top 100 in December 2002. In June 2004, Ryanair posted revenue of €1074.2 million for the year ending March 31st 2004.

Southwest Airlines, an Imitable Model

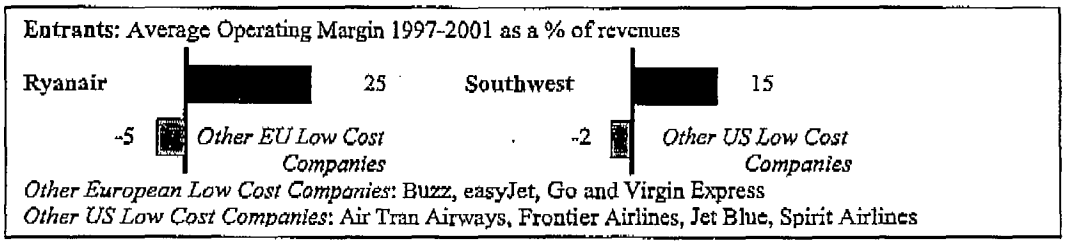
Today, we can see that low cost companies have invaded a multitude of industries (besides airlines) and many different consumer market segments including groceries, on-line travel, textiles, and distribution. While these firms are applying some form of "low cost model", the key point is their ability to provide a supplementary service to customers, such as home delivery or planes which depart on time, while at the same time achieving substantial operating cost reductions that permit low prices to consumers.

Southwest Airlines pioneered the concept for the US airline industry, developing a business model which was afterwards imitated in Europe, Asia and Australia and by others in the US, to varying degrees of precision and success. Created in 1971 by Irish-American Herb Kelleher and Rollin King, the company took advantage of deregulation to achieve a presence all over the US. They set up a network of point-to-point destinations instead of the hub and spoke system employed by traditional airlines. (See Exhibit 5) In 1990, Southwest exceeded the one billion dollar revenue mark. In 2002, it was the only large American airline company to declare a profit (not benefiting from federal aid like the other large airlines after September 11) and by 2004, it was one of the largest American airlines, with a 12% share of the US domestic market.

In 2004 Southwest had 33,000 employees and 400 planes allowing it to transport 64 million passengers to over 50 destinations in 30 states. The book written by the founder tracing the airline's success story is called 'Nuts' in reference to the peanuts given out during the flight and the crazy atmosphere within the company.

While the opinion of analysts varied regarding the potential of the low cost market, the success of Southwest had led to a lot of interest in Europe. According to a number of experts (including Mercer Management Consulting and the Boston Consulting Group), low cost airlines would dominate 25% of the European sky within ten years, compared to 2003's figure of about 9%. The penetration rate, nevertheless, differed from one country to another. Analysts at JP Morgan felt that the fact that Southwest had taken twenty years to cover the American market without reaching the saturation point indicated that low cost airlines in Europe could count on at least fifteen years of growth. Goodbody Stockbrokers suggested that with a population density over 100% greater than that of the US, and a broader spread of larger cities, [Europe] was ideally suited for short-haul (one hour) point-to-point services. According to other experts, though, the European environment did not favour an expansion of European low cost airlines to the same degree as in the US.

Nevertheless, compared to the US, European pioneers were able to take advantage of the most profitable routes and within Europe a clear advantage could be seen for those who were first.



Source: Airlines Business, Association of European Airlines, US Department of Transportation, McKinsey Analysis 2002

The Political and Economic Environment

While deregulation of the air travel industry took place in the US in 1978, it was not until April 1986 that deregulation occurred in Europe. In both cases, the intent of the governments was to end domestic monopolies and by liberalizing air travel, to encourage lower consumer prices. In Europe, the deregulation was phased in over 5 years (1987-1992), beginning with market access and relaxed price controls and ending with price setting by the airlines. The airline sector of the travel industry has always been very reactive to economic changes: within a favourable economic environment, the sector increases significantly. On the other hand, air traffic decreases sharply when faced with dramatic world events such as terrorism, the Iraq war, and the SARs epidemic. (See Exhibit 1) In the aftermath of the events of September 11th 2001, airlines were forced not only to evaluate the factors affecting consumer demand for air travel, but also to increase the research into better management of travel costs and higher security with a particular focus on how to reduce transaction costs. (See Exhibits 3 and 4)
As a consequence, while traditional airlines suffered huge losses from cancelled flights and excess capacity, the excellence in cost and operations management of low cost companies provided them with high market capitalisations. Still, the challenge remains: whether they can maintain a strong market position as their success constantly attracts new and aggressive players to the market, ready to engage in a price war for their piece of the cake.

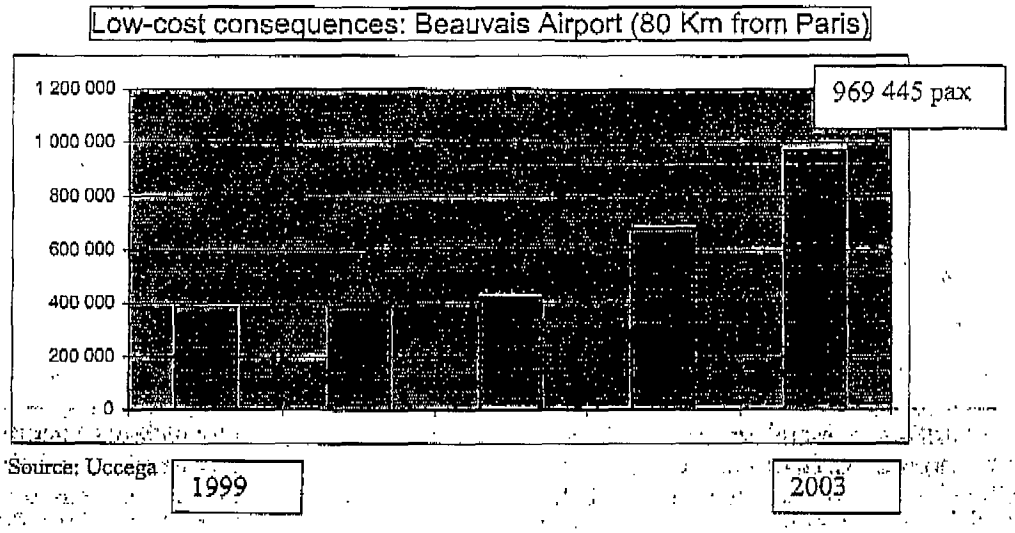
The Market and Low Cost Trends

In 2003, there were 38 low cost airlines operating in Europe. They covered 1,300 routes, a figure which could be compared to the 25,000 destinations offered by traditional airlines.(1) A year later that number had swelled to 65 as companies like Wizz Air, GermanWings, and Globespan joined the low cost ranks. They had succeeded in securing funds from banks, venture capitalists or established airlines to challenge the hegemony of Ryanair and easyJet, often replacing low costs that had failed previously (2).

In many instances, established airlines were also being forced to reinvent themselves in the "low cost" mode or at least try to achieve lower costs. Aer Lingus, for example, the national airline that the Irish government was not willing to support, went through wrenching change to avoid bankruptcy. Stealing a page from Ryanair's playbook, Aer Lingus CEO, Willie Walsh, appointed one month after September 11, 2001, refashioned the company as a budget carrier: "Aer Lingus would have died. Sabena, Swissair and Aer Lingus: We were the third airline mentioned as the one that was next to go."(3) In his first press conference after being appointed he told reporters that he would be ruthless in cutting costs, "even selling the paintings on the walls".(4) Gone were the days of full-service: he removed business class from European flights, cancelled offering free drinks for passengers, ceased short-haul cargo services, and cut fares. He also fired staff (from 6000 employees in 2001, the company expected less than half that number by 2007). "We make no apologies for focusing on profit" said Walsh(5). Even though revenues decreased, load factors went up, operating margins increased more than 10 percent and the operating loss of €52 million of 2001 was replaced by an operating profit of nearly €100 million in 2004.

France also provides an excellent example of the consequences of the "low cost" phenomenon. Exploding in 2002, the growth in strength of the low cost airlines in France was confirmed in 2003 with an increase from 5.55 million to 7.85 million passengers.

Low cost companies already represented 29% of the total traffic from Nice, the third largest French airport. Ryanair represented 80% of flights from Beauvais-Tillé airport. (See below)



Source: Uccega

In 2004, the largest charter airline company in France was Corsair which transported 751,000 charter passengers and 1,322,000 passengers by regular airline. Some low cost companies were attached to large tour operators like TUI with its Hapag Lloyd Express. In many cases, by simply shifting to scheduled operations a charter airline became classified as low cost. This was the case in Italy where Volare, in challenging Alitalia, Italy's national carrier, head-on was aggravating Alitalia's already weak financial performance. Charters continued to be indispensable as long as a number of European travel agencies were without their own airline.

The high speed train (TGV in France) also represented a significant competitor. The success of these trains would only increase as the European network expanded, the trains became more frequent, and the duration of the trips became shorter: for example, in 2003, the London to Paris trip decreased from three hours to two hours and 35 minutes.

According to a survey by the Business Travel Coalition, conducted on travel managers at over one hundred American and Canadian companies, 76% of companies gave preference to low cost companies in 2004. 75% of these companies had accelerated their use of on-line reservations, with the same number putting strategies in place to limit the amount of travel required. According to another survey performed by American Express, 53% of American business travellers and 35% of French would accept non-refundable tickets while 42% US and 21% French would be willing to make their reservations themselves.

In 2004 the business travel budget in France (50% of which was for air travel) was on the decrease since 2000. Large companies spent 46% of the revenues on business travel, while medium size companies and small companies spent 22% and 21% respectively.

Low cost airlines particularly target adult customers who are very sensitive to price, expanding to include the young who are well-educated and very fond of good internet websites. In fact, the low cost phenomenon, with its attractive prices and point-to-point destinations had succeeded in developing the air travel market by inducing new segments of travellers that would never have considered flying before. In a 2003 survey sponsored by the Chamber of Commerce of Reims/Epernay to study the London to Reims route opened in April 2003, the

results showed that the majority of travellers were English or of Anglo-Saxon nationality. 35% were French with fewer than 11% locals; 70% were under 40 years of age, while 55% travelled alone or as a couple. A large majority booked return flights, being mostly students or from high socio-professional classes. The average increase in passenger traffic for low cost airlines for 2005 was expected to be 20%, whereas for other traditional operators, it was expected to be between 3% and 4.5%.

Cost Control

Not all companies have the same approach to low cost. For example, easyJet (See Exhibit 6) had a higher seat occupancy rate than Ryanair but its cost per seat kilometre was as high as traditional airlines. Ryanair's operating margin was significantly higher than easyJet's (25% compared to 11% in 2002, according to Morgan Stanley).

Nonetheless basic cost control is central to the success of low cost European airlines and the following are some of the policies facilitating cost savings over traditional airlines:

- Service on board is not free and ground service is at the expense of the airport authorities. The fact that service on board is pay-as-you-go reduces personnel costs as well as costs for drinks, snacks and newspapers. The airline companies simply respect the security standards.
- Seats are sold direct and without tickets. Selling direct allows the airlines to avoid paying agency commissions (around 8% of the price or on a large agency reservation system, around €3.50 per transaction). The low costs promote reservations by internet, even though there are also call centres. In some cases, there is a supplement for reservations made by phone. Travel is ticketless, i.e. passengers receive a reservation number which they cite on arrival for check-in.
- A minimum of information is maintained. Companies do not record any information on their customers and in Europe they have not tried to establish expensive loyalty schemes. This reduces large overheads in terms of data management.
- Secondary airports are generally used and a network is organised in a point-to-point manner or around a base or a number of bases. The airports used are either close to capital cities or in small provincial towns. The airport charges are low and stopovers could be as short as 25 minutes. These airports have not always been modernised. For example, it wasn't until 2004 that the departure lounge in Beauvais was to be overhauled. Because the low cost company's network is not organised around a hub as in the case of large international companies, flight management is less complex and planes do not need to wait for one another as in the case of operators within the traditional SkyTeam, StarAlliance and OneWorld alliances.
- The fleets at low cost companies are generally quite young and often with little variation in the type of plane used. Planes are bought or leased depending on company policy. A fleet of identical planes ensures low maintenance costs and reduces the cost of training pilots and cabin staff. Because new planes are more fuel efficient, using new planes allow the airlines to economise in terms of fuel costs. Seating can also be optimised. For example, by introducing the new Boeing 737-800, each new Ryanair plane would provide 45% more seating than the older 732-200 models, resulting in a 5% to 10% cost reduction.
- Low cost airlines' planes have a faster turn around time than traditional companies. They leave the tarmac as soon as possible, essentially spending more time in the air. This enables load factors for individual planes to be as high as possible.

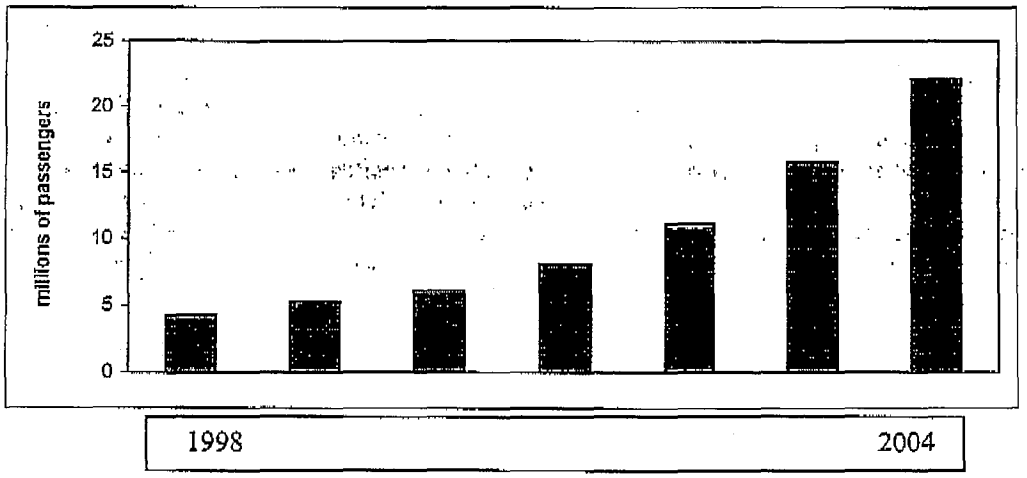
- Fare structures are simple. Only one class is available and seats generally cannot be reserved. Yield management is not very sophisticated, resulting in relatively low Information Technology investment requirements. The low fare range of prices, due essentially to a simplified yield on a given flight, means the low cost airlines generally offer a maximum of about ten different fares. The more a customer books in advance, the better chance they have of taking advantage of special offers, and the longer he/she waits, the more the fare increases. In Europe there is no special inscription system and no loyalty programs. The actual pricing system used depends on each company's policy; Ryanair prefers an American approach of €9.99. According to Michael O'Leary, Europeans think in terms of tens of euros. For a €29 ticket, why not charge the extra 99 cents and make them pay €29.99? On the other hand, it is more difficult to communicate four figures instead of two as Buzz does. easyJet appears to prefer round figures such as €25.

Ryanair's Strategy and Objectives

Ryanair's goal is to become the number one international scheduled airline by 2010, with 40 to 60 million passengers flown from around fifteen bases in Europe. Apart from the four bases in Ireland and the UK (Dublin, Shannon, London Stansted and Glasgow), the airline also had key bases in Frankfurt-Hahn, Germany, Brussels-Charleroi, Belgium and Beauvais-Tillé, France, among others. Since 1998, Ryanair's airport expansion has been phenomenal. (See Exhibit 9)

In 2003, Ryanair purchased Buzz from KLM and significantly restructured it, reducing the number of aircraft from ten to eight. They eliminated the CDG-Roissy, Marseille, Toulon, Tours, Bergerac, Caen, Dijon, and Chambéry routes. In total, only 13 of the original 24 routes survived. Almost 400 employees were fired, leaving Buzz with a staff of 170.

Table 2: A high passenger growth rate



The number of passengers transported by Ryanair from 1998 to 2004 progressed as shown in Table 2 above. However, the strategy at the time of increasing the number of routes inhibited the company from achieving the seat occupancy rate of the early 2000s. From October to December, the number of travellers increased by 54%, but the average fare also decreased by 11%. Nonetheless, in 2004, Ryanair had 11 bases and 149 routes to cover 84 destinations across 16 European countries. (See Exhibit 8)

Communications Style

Ryanair's style of communications is very much in line with the personality of Michael O'Leary (See Exhibit 10). Ryanair uses comparative advertising, a weapon rarely used in Europe. For example, advertisements were published in Italy claiming that the fares they offered were more than 90 percent cheaper than Alitalia. Italy's competition authority rejected Alitalia's complaints.

Ryanair's provocative style has led to run-ins with Advertising Standards authorities. An example was an advertisement featuring the Pope who whispers into the ear of a nun 'Psst, Ryanair.com guarantees the lowest fares'. This advertisement cost around €400 but 'has the international press talking about it which must be the equivalent of a budget of 5 million €' according to O'Leary.

In support of their new Belgian operation in 2001, Ryanair took out several ads in Belgian national newspapers. One ad featured O'Leary and three employees wearing Ryanair sweatshirts. Under the photo was the caption: 'Welcome Ryanair and really lowest prices. Goodbye Sabena and its really expensive flights'. Ryanair also published price comparisons indicating the vast differences between the two airlines' one way fares. Sabena took its case to court and won. O'Leary, claimed a victory in terms of the vast 'free' publicity provided by the case. Like Richard Branson, the founder of Virgin Airlines, Michael O'Leary enjoys staging outrageous publicity stunts. In 2003, dressed in military attire, he drove a World War II tank to Luton airport in London, and roused the crowds with 'I've been told and it's no lie, easyJet's fares are way too high'. All sung, of course, to a well know military tune. This was widely relayed by the media and did not cost him very much.

Ryanair also taunts other airlines by playing on their slogans. For example, BA's 'to make the sky the nicest place on earth', became Ryanair's claim to make the sky 'the cheapest place on earth', but this practice is a source of contention. Court cases and awards against Ryanair for false publicity are on the increase. Danish courts banned advertising fares without VAT or airport taxes as illegal when a complaint was filed by SAS. The airline was also condemned by German courts which concluded that Ryanair was not entitled to claim a route from London to Düsseldorf because planes actually landed in Niederrhein, 70 km away. Ryanair was banned from using the slogan 'Lufthansa wants no competition' by the German court.

The lowest fares are promoted on the multilingual website, with heavy promotions particularly on the home page. In contrast to other companies which practise e-business, it is not possible to reserve directly on the home page.

Fare Strategy

Ryanair can propose free places on their flights, though generally they offer fares which are up to 50% cheaper than easyJet. However, customers cannot count on charitable help from the company. In one example that received heavy media attention, Ryanair was roundly criticised for forcing a handicapped passenger to pay €26 for the use of a wheelchair at Stansted airport. According to Ryanair, it was up to the airport authorities to provide that kind of service.

In addition, €6.50 is charged for every transaction carried out with a bank card. This practise is forbidden by French legislation but is allowed in Great Britain where the sites are located. As

of relatively recently, it is possible to change a ticket, for a fee of course. In a further effort to reduce costs, in July 2004, the company announced that it was considering prohibiting large luggage in the hold of its planes, thus limiting passengers to small carry-on bags.(6)

Ryanair also proposes a number of sub-contracted services to their customers. For example, British customers can purchase insurance, telephone cards and even pay in the form of a loan. Other services, complementary to air transport, include hotels, cars, other means of transport, and parking. However, the company remains clearly focussed on its core business, preferring not to diversify in car rental or internet cafés as easyJet had done.

Government Aid

In general, low cost airlines expect rather substantial financial aid from airports and Chambers of Commerce. Acquiring favourable state aid in Ireland has been a constant battle for Ryanair. Michael O'Leary has had a number of run-ins with the Irish government in an attempt to secure favourable long term deals from the state-owned airport authority Aer Rianta, which also happens to own Aer Lingus. During this campaign, he personally attacked the Irish Minister for Transport Mary O'Rourke (1997-2002) by taking out a series of newspaper advertisements when she refused to break up the Aer Rianta monopoly. Since then, O'Leary scaled back operations in Dublin, expanded first to London Stansted airport and afterwards, in 2001, to Charleroi, Belgium.

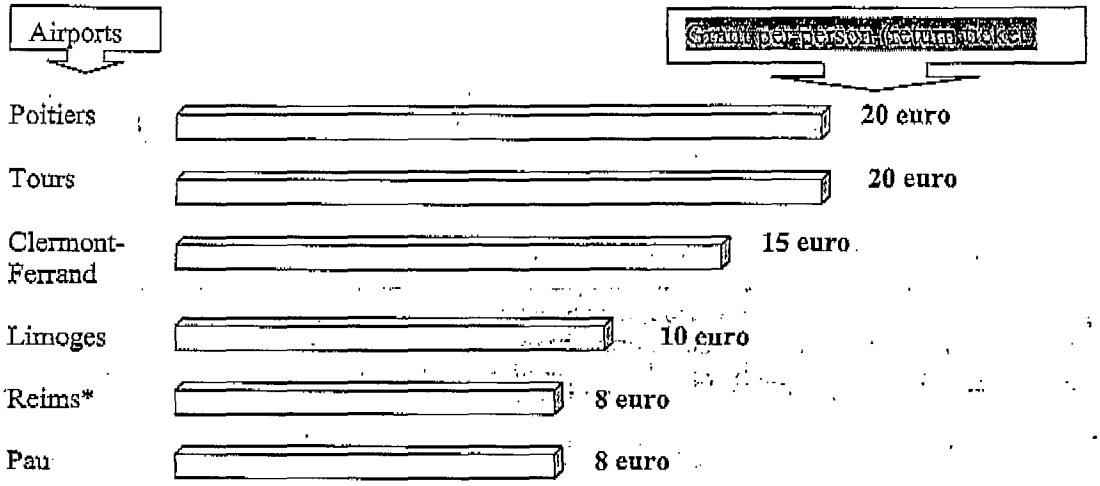
To open a route, Ryanair demands a contribution of between €300,000 and €800,000 per year from the various authorities, which works out to around €25 per passenger, claiming to bring 100,000 passengers into the region. After negotiations, O'Leary generally receives between €10 and €12 per person. He demands that the landing charges be minimal and the assistance charges, as low as possible. This was by and large the case when the Reims/London route was opened in April 2003, an agreement that was to last 15 years. Initially between 7300 and 8000 seats were offered per month. By August, the load factor had attained 76%, but without the impulse of summer travel, this dipped to 62.5% in October. With one month's notice, Ryanair abruptly pulled the plug, citing the lack of traffic, and the lack of commitment on the part of local authorities to upgrade the runways at Reims-Champagne airport to accept Boeing 737-800s, the airliner that makes up the bulk of Ryanair's fleet. Whether the termination was a bad thing for Reims is subject to debate: the summer survey pointed out that the majority of passengers considered Reims simply an entry to Paris, while 20% didn't anticipate spending any money in the region and 30% stated that their stay in the region lasted less than a day.

Nevertheless, in many cases, local authorities love to emphasize the increase in economic activity provoked by a connection with England. In 2004, Limoges, France provided upwards of €500,000 to Ryanair while more than 100,000 English residents were transported during this period. These British travellers bought houses, food and pets and had medical treatments. The benefit to the area was estimated to be in the order of €100,000,000 at the time.

So, while the offer of air service and expected economic benefit were tantalizing, not all airports accepted Ryanair's proposals. Toulon, for example, refused. In Corsica, negotiations never materialised due to a charge which all airlines serving the island have to pay. And, Brussels-Charleroi became contentious because Ryanair transported over 1.7 million passengers in and out of Charleroi annually.

While heated debate was raging on both sides of the Channel, O'Leary's ingenious business plan had succeeded in transforming cost centres (airport charges represent on average 20% of traditional companies' costs) into profit centres, thanks to local grants. An estimation was made concerning the grants received by Ryanair as shown in Table 3 below:

Table 3 : Estimation of amounts received by Ryanair



**only for a departure from Reims*

Source : Le figaro Entreprise 2003

Ryanair and the European Commission

In February 2004, the European Commission ruled that Charleroi airport gave Ryanair illegal subsidies and ordered the airline to pay back approximately €4 million in subsidies. The Belgian authorities who offered the subsidies considered appealing the ruling because of the approximate €45 million the airline brought to the area every year. The local Walloon government hoped to get around the decision and keep Ryanair by offering the same subsidies to all airlines. The commission ratified around 70% of the sum received by Charleroi airport and the Walloon region. Start-up grants for launching a new route (including hotel charges and staff costs, recruitment expenses and training of pilots and crew) were authorised, but limited to 50%. A contribution of €4 per person for advertising and publicity was also allowed, but limited to five years and not fifteen as specified in the initial contract between Ryanair and Charleroi. However, Ryanair was ordered to refund aid in the order of €1,000,000 for landing fees and between €3,000,000 and €4,000,000 for reductions on charges for stopovers. The impact was estimated at between €6 and €8 per person according to European Commissioner Loyola de Palacio. This decision did not address one of the principal advantages accorded to Ryanair, i.e. marketing and advertising grants. In France, these grants were judged illegal by the French legal authorities whose decision forced the airline to suspend flights between London and Strasbourg. But the issue is far from resolved as the president of the Montpellier Chamber of Commerce stated that marketing assistance is understandable considering that the company undoubtedly creates a new tourist influx'.

Human Resources

As mentioned earlier, subcontracting of check-in and control of airport facilities is standard. Ryanair uses external IT services provided by an American company called Navarque, an outsourcing policy that results in the fact that only 2,300 people work directly for Ryanair.

In describing the early days, not long after Michael O'Leary became CEO, one employee was quoted as saying "now Ryanair is known to be brutal to its customers, but that wasn't the case back then. There was no rudeness. The place was very small and there was a very positive atmosphere." Former associates say O'Leary created a volatile atmosphere at the airline and instilled fear in the workforce. Many blamed O'Leary's tough style on the high turnover of senior and middle management over the years. Others say he was a great motivator, despite sometimes appalling behaviour. Over the years, O'Leary's aggressive management style became increasingly adopted throughout the company as he and his management team became more and more focused on their number one priority: to make Ryanair an efficient airline with flights which arrived and departed on time.

Ryanair's pilots work more hours than pilots working for traditional airlines (e.g. around 800 hours compared to 600 hours at Air France). A significant part of their salary is variable, linked to production, particularly to sales made during a flight, something which is permitted by British and Irish authorities.

Unions are regarded very negatively. O'Leary's tough stance against costs has led to run-ins with a powerful Irish labour union which was not well received by the largely pro-labour Irish press. O'Leary has always maintained that Ryanair prefers to deal directly with employees. Furthermore, he claims that all employees are highly paid and highly profitable. Each employee, from in-flight staff to pilots to baggage handlers to telephone reservations staff, holds share options in Ryanair.

In 1998, he refused to recognise the airline's baggage handler's union and paid for it with largely negative coverage. During negotiations, O'Leary became 'unavailable' when the Irish Prime Minister Bertie Ahern tried to intervene. Ahern publicly attacked O'Leary and Ryanair for practicing 'tooth and claw capitalism'. Despite these apparent problems with his staff, O'Leary is known to play soccer regularly with his baggage handlers, pilots and in-flight people. As seen in Table 4, Ryanair claims that their salary per employee is around 40% higher than that of the largest airlines.

Table 4

BOOK NOW

Ryanair No. 1 for Staff Salaries

1. Ryanair	€ 50,582
2. easyJet	€ 41,384
3. Lufthansa	€ 41,377
4. Aer Lingus	€ 38,929
5. British Airways	€ 37,602

RYANAIR.com

Customer Relations

To quote Keith Betton, Head of Corporate Affairs at the Association of British Travel Agents (ABTA) "Both he (O'Leary) and his brand have demonstrated a clear lack of regard for the customer". The whole issue of disregarding the customer complaints, too, is a dangerous short-term view. There are a number of internal problems which are eroding customer service, indicating that staff are not very happy." O'Leary had his own interpretation of the Southwest Airlines model. While he enthusiastically took on board the cost savings ideas, he ignored their high regard for customers. Southwest Airlines is known for its customer orientation and while employees can be trained to develop knowledge and 'know how', the same cannot be done to ensure a friendly, caring and genuine attitude. O'Leary's opinion on the other hand, was that customers were paying so little that they should just put up with the problems. There were stories of people being stranded in isolated airports overnight (even groups of teachers with very young students) with little or no alternative solutions. Simon Calder, a journalist at The Independent newspaper was quoted as saying, "I shall fly Ryanair despite, rather than because of, its brand". And, Kevin Thomson, President of Enterprise IG felt: "If Ryanair's personality is regularly seen as lousy, when rough times hit, O'Leary's business model could implode". Ryanair applied the letter of the law, even the small print, often appearing inflexible in front of the customer. While Ryanair acknowledged that customers were complaining, they claimed, however, that they received 'less than one' complaint per thousand passengers and that all complaints were answered within seven days.

The Future

As Michael O'Leary reviewed the financial results for the year ended March 31st 2004, he was pleased to note that Total Operating Revenues had increased 27.5% due largely to the growth in Scheduled Revenues. Furthermore, having hedged the price of airline fuel through October, he knew Ryanair could afford his ambitious price promotions planned for the fall. Still, he had to be vigilant. Total Operating Expenses had grown 38.7% with 35.8 % alone coming from increases in Fuel & Oil, despite his hedging strategy. Conflict in the Middle East continued to compromise the region's ability to supply world oil demand, most notably that of China. In Europe, the economy was expected to grow modestly and competition was heating up. Looking out from his office window, Michael O'Leary tried to imagine what it would be like sitting atop Europe's largest international scheduled airline.

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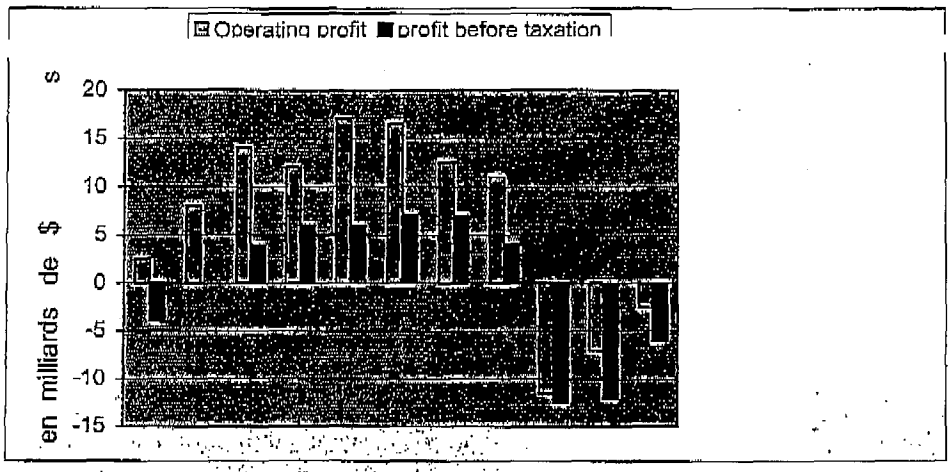
Endnotes

1) Carson WagonLit Travel, October 2003
2) International Herald Tribune, September 29, 2004
3) International Herald Tribune, October 2-3, 2004
4) Ibid
5) Ibid
6) International Herald Tribune, July 10-11, 2004

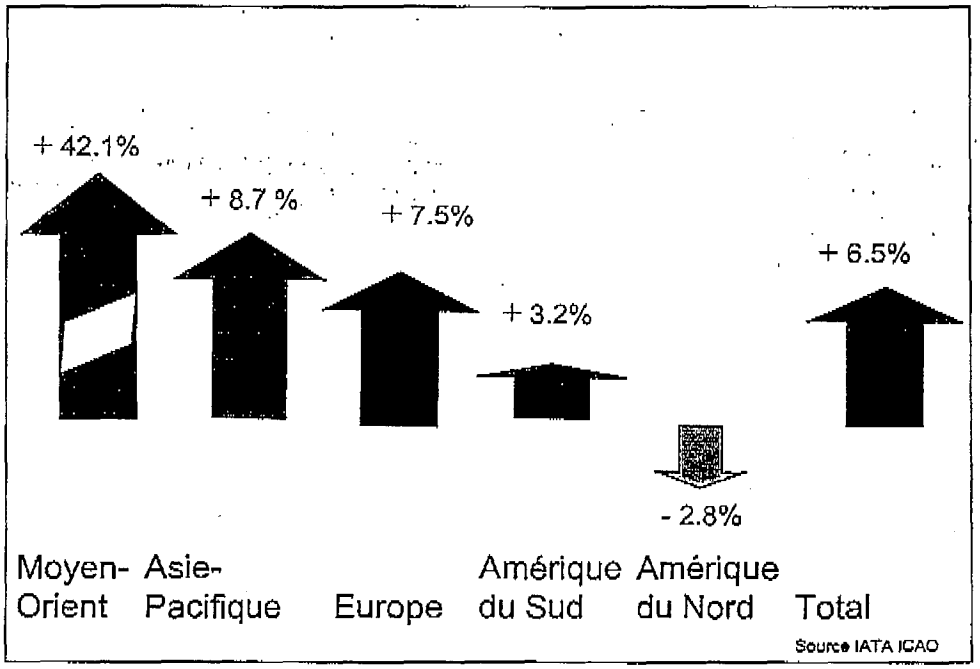
Exhibits

General Context in airline sector from 1993 to 2003

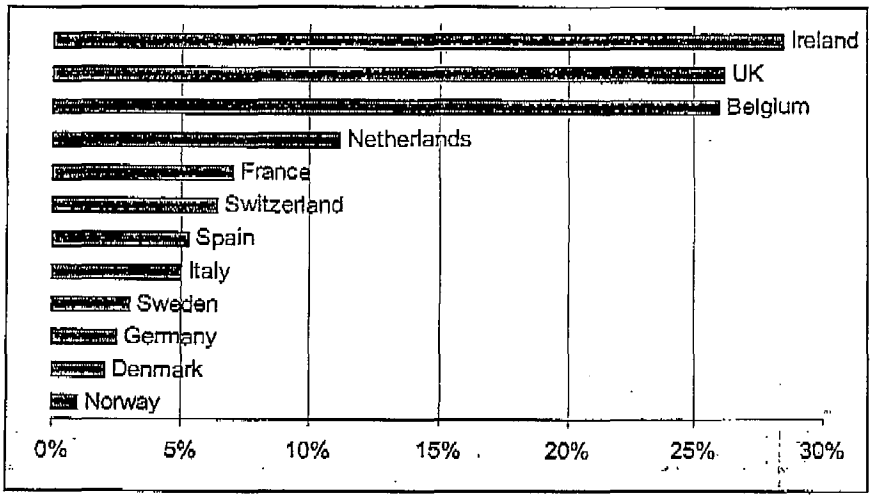


Source IATA

Geographical contrasts: Traffic evolution between Q1 2001 and Q1 2004

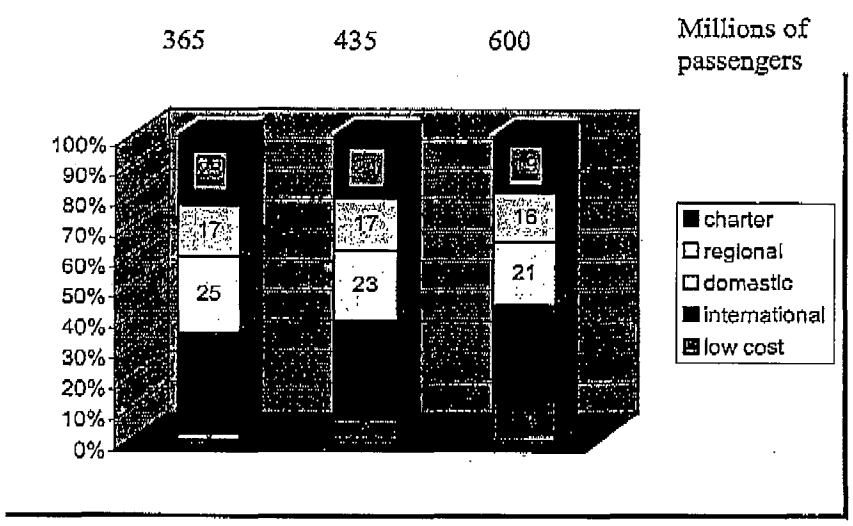


Penetration of low cost airlines



Source: easyJet.com 2002

Tendencies in Europe



Source: Airlines Business, Air Transport World, Association of European Airlines, Civil Aviation Authority, European Regions Airlines Association, OAG, MC Kinsey Analysis.

Cost per available-seat kilometre (ASK)/cents 2003

Traditional	Unit cost *	Low-cost	Unit cost *
EUROPE			
British Airways	7,9	**Ryanair**	**4,4**
KLM	8,3	**Go**	**5,5**
Air France	9,3	**easyJet**	**6,9**
Lufthansa	10,5		
ASIE			
MAS	4,3	**Virgin Blue**	**3,8**
Thai			
Singapore	5,1		
Cathay	5,6		
Qantas	5,8		
Korean Air	8,7		
Jal	8,9		
ETATS-UNIS			
Delta	6,1	**Jet Blue**	**4,3**
Northwest	6,4	**Southwest**	**4,5**
Continental	6,4	**Frontier**	**5,7**
United	6,9	**AirTran**	**5,8**
American	7,0		

*Source: Centre for Asia Pacific Aviation. 2003

Cost per available-seat kilometre (ASK)/cents 2001

	3 MAJOR International flight	RYANAIR Flight
General Administrative	1.1	(0.5)
Sales, marketing, distribution	1.9	(1.7)
Passenger services	0.8	(0.8)
Crew costs	1.4	(0.6)
Maintenance	1.2	
Fuel	0.6	
Ground handling	2.3	
Airport charges, air traffic control	1.5	(2.6)
Aircraft ownership	1.2	
Seat density		(1.3)
	12	12- (7,5)= **4,5**

Source: Association of European Airlines; Civil Aviation Authority, Mc Kinsey analysis

Ryanair E.B.E.: calculations for the route: Stansted to Frankfurt-Hahn 2002

Products	€
Ticket sales	6327.00
Beverage...	505.50
Total products	6832.50
Charges	€
Crew costs	556.50
Ground handling	187.50
Depreciation	562.50
Fuel	721.50
Maintenance	355.50
Sales, Marketing, distribution	126.00
Aircraft rentals	487.50
Air traffic control	487.50
Stansted miscellaneous charges	1030.50
Frankfurt-Hahn miscellaneous costs	00.00
Others	514.50
Total charges	5029.50
E.B.E.	1803.00

Source: Financial Mail on Sunday 15 December 2002

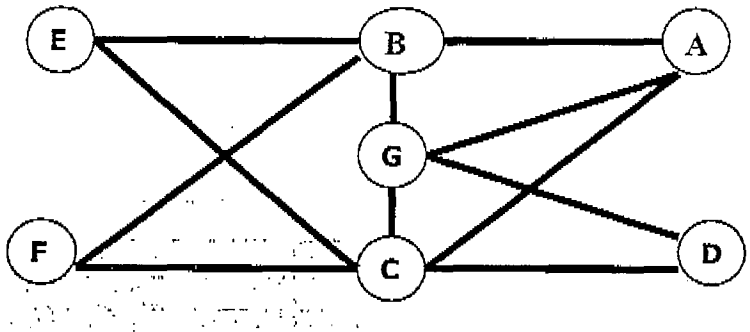
Costs/ask/2003

Ryanair	3.5 cents	easyJet	6 cents

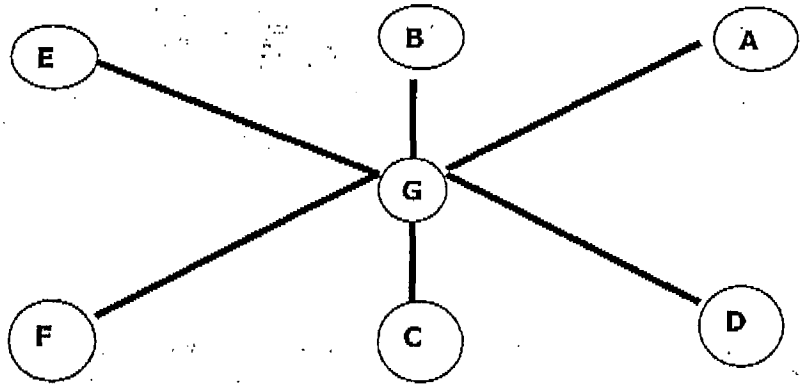
Source: Ryanair results

Structure of Low Costs versus Flag Carriers

Low Cost: Point-to-Point Network:



Traditional: Hub and Spoke System:



About easyJet

Stelios Haji-Ioannou founded easyJet, and the family remains the major shareholder (41%).

Since its first flight in November 1995, the airline has grown from a Luton base offering two routes from Luton to Glasgow and Edinburgh, served by two Boeing 737 aircraft. Its merger with Go (another low cost operating out of the Netherlands) in August 2002 boosted the phenomenal growth of easyJet.

The growth of Passengers ('000)

Full year	Annual total
1995	30
1996	420
1997	1,140
1998	1,880
1999	3,670
2000	5,996
2001	7,664
2002	11,400
2003	20,300

Currently, the company has 45 Boeing 737-300 aircraft and 19 Boeing Next Generation 737-700s, with an additional 24 Boeing 737-300 aircraft in the Go fleet. In October 2002, the airline signed a deal to purchase 120 Airbus jets, which will facilitate the airline's ongoing growth strategy.

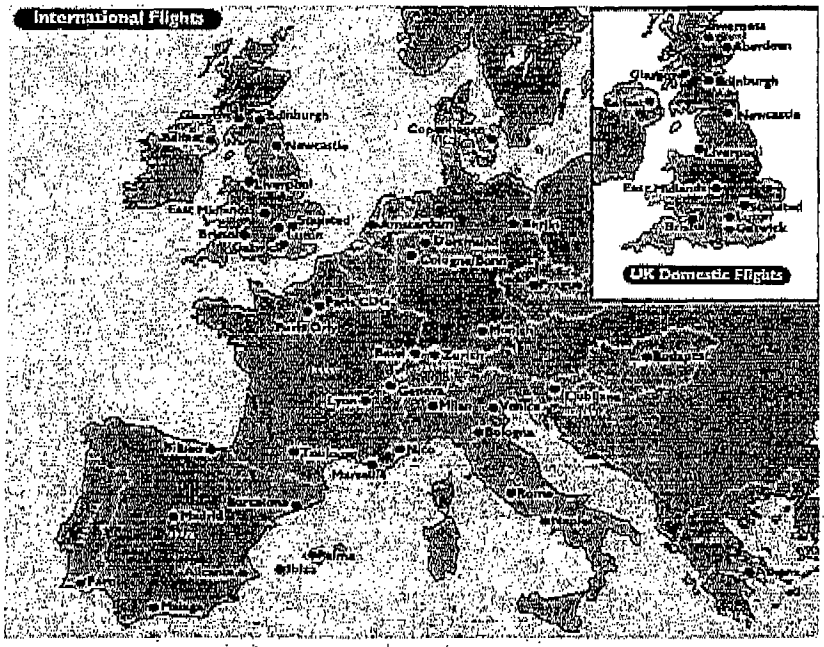
During the financial year to 30 September 2003, the company reported pre-tax profits of £52.0 million on a turnover of £932 million and carried 20.3 million passengers. The airline's shares were formally admitted to the London Stock Exchange on 22 November 2000 at a price of 310 pence per ordinary share. Currently, however, due to the growing cost of airline fuel and the arrival of numerous low cost companies, the share is trading at about 145 pence.

EasyJet, combined with Go, employs 2,870 people

EasyJet offers 158 routes between 44 key European airports (see below)

A total of six new routes, to start with Krakow and Warsaw, are being added to the easyJet network. This will bring to 17 the number of easyJet routes serving Eastern Europe, including seven from Budapest alone. In total, well over 2 million passengers will fly with easyJet to/from the region in the coming 12 months starting from 31 October 2004.

Cities served by easyJet



easyJet.com

Latest passenger statistics:

Month ending

June 2004	2 241 252	passengers	Load Factor	86%	Change + 28%
June 2003	1751 860	passengers	Load Factor	86%	

Rolling 12 month

June 2004	22 877 710	passengers	Load Factor	84%	Change + 21%
June 2003	18 939 545	passengers	Load Factor	84%	

Source: easyJet.com

About Southwest Airlines

In 1971, Rollin King and Herb Kelleher decided to start a new kind of airline based in Dallas.
The policy was (and still is):

- The lowest possible fares
- Good time doing it
- On time
- Destinations where passengers want to go
- Short haul, high-frequency
- Point-to-point

MILESTONES

1977 Southwest carries its five millionth passenger, and Southwest stock is listed on the New York Stock Exchange

1979 Self-ticketing machines are introduced in 10 cities

1984 Southwest is ranked number one in Customer Satisfaction for the fourth consecutive year

1987 Weekend Fun Packs, which include roundtrip airfare and hotel, are introduced

1990 A billion dollar revenue mark, so Southwest becomes a 'Major' airline

1995 Ticket-less travel becomes available system-wide in January

2000 Southwest introduces "SWABIZ" a tool that assists company travel managers in booking and tracking trips made through its website, southwest.com

2002 it offers self-service check-in kiosks in nearly 250 airports

2003 Air Transport World selected Southwest Airlines the Airline of the Year for 2003, and Southwest Airlines' Rapid Rewards Program is honoured with first place awards for Best Customer Service, Best Bonus Promotion, and Best Award Redemption by Inside Flyer magazine's 15th annual Freddie Awards.

2004 Southwest Airlines operates 2800 daily flights to 60 airports in 59 cities across the United States, with 400 jets. (Boeing 737 aircrafts with an average age of 9.6 years). It's the 31st consecutive year of profitability. It begins offering online boarding passes via southwest.com

Growth Chart

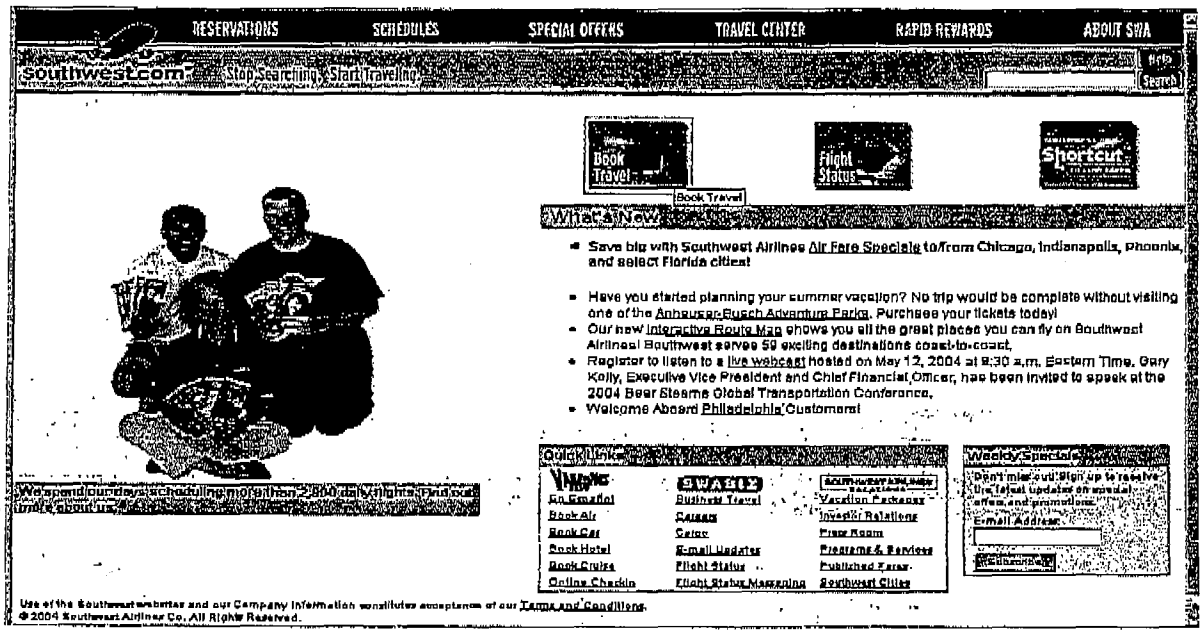
1971 – 1st aircraft
1981 – 25th aircraft
1984 – 50th aircraft
1990 – 100th aircraft
1993 – 150th aircraft
1995 – 200th aircraft
1997 – 250th aircraft
1999 – 300th aircraft
2001 – 350th aircraft
2004 – 400th aircraft

	Net margin
1999	10.0 %
2000	11.1 %
2001	9.2 %
2002	4.4 %
2003	7.4 %

The company was the first airline to win the Triple Crown for a Month- Best on-time Record, Best Baggage Handling, and Fewest Customer Complaints- in 1988. Since then, they have won more than thirty times. Southwest has one of the best overall Customer Service records. LUV is their stock exchange symbol, selected to represent their home at Dallas Love Field, as well as the theme of their Employee and Customer relationships.

Southwest also operates a frequent flyer program, which gives credit for the number of trips taken and not the number of miles flown. They also pioneered senior discounts.

Homepage Southwest Airlines April 2004



From the chapter "About us"

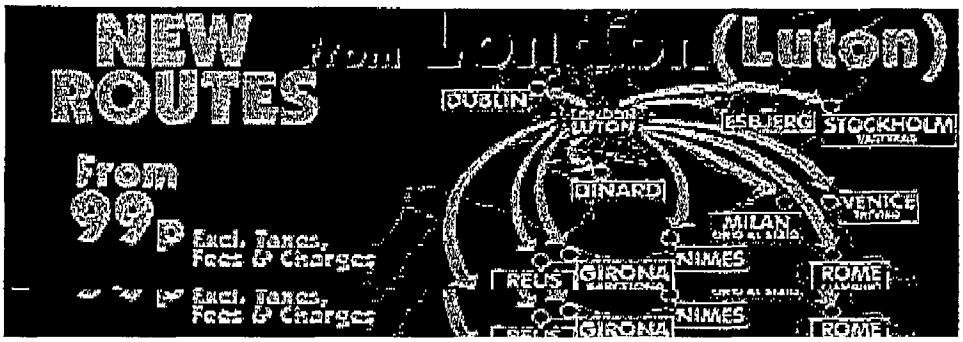
Natalie Rapp

The first thing that you notice about Natalie Rapp is her beautiful smile and the twinkle in her eyes. Her zest for life and her love for her job as a Southwest Customer Service Agent are evident in the way she interacts with her co-workers and Customers. When Natalie was chosen to represent the Boise team in Seattle to pick up our 400th aircraft, she quickly pointed out how many other deserving and wonderful Employees she works with. "I am very honored for this once-in-a-lifetime opportunity," exclaims Natalie. "The new friendships that were formed on the trip made it twice as memorable." For Natalie, these new friends are welcome additions to her Southwest family, which she holds dear to her heart. The love and support of her co-workers is priceless to Natalie. She is a cancer survivor and is currently going through intensive chemotherapy. "My family has been so blessed by Southwest Airlines. From our Boise Employees holding fundraisers and helping with my work schedule, all the way to Headquarters in Dallas, where co-workers are regularly checking up on my family and sending notes of encouragement, the outpouring has been priceless. Southwest always has made me feel like an important part of our airline and like Natalie Rapp, not just an Employee number."

Ryanair Destinations

Place your mouse pointer over one of Ryanair's 84 destinations to show the routes to and from that airport. Click on the airport to see more detailed information.

Source Ryanair website



Ryanair: Number of flight reservations in 2003

Passengers				Seat Occupancy / Load Factor		
	2002	2003	12 month Rolling	2002	2003	12 month Rolling
January	807.828	1.251.641	14.931.825	72%	76%	85%
February	886.320	1.292.057	15.337.562	82%	81%	85%
March	1.016.170	1.415.544	15.736.936	79%	78%	85%
April	1.103.201	1.474.338	16.108.073	80%	79%	85%
May	1.192.977	1.828.454	16.743.550	83%	77%	84%
June	1.245.416	1.829.692	17.327.826	88%	79%	83%
July	1.456.771	2.038.896	17.909.951	93%	85%	83%
August	1.487.976	2.141.664	18.563.639	95%	90%	82%
September	1.355.423	2.024.572	19.232.788	89%	85%	82%
October	1.379.292	2.067.612	19.921.108	89%	84%	82%
November	1.249.186	2.001.077	20.672.999	84%	83%	82%
December	1.307.452	2.006.544	21.372.091	85%	83%	82%

Source : Ryanair website

	2003	2004	Rolling 12 months	2003	2004	Rolling 12 months
January	1,251,641	1,705,954	21,862,404	76 %	71 %	81 %
February	1,292,057	1,876,946	22,411,293	81 %	77 %	81 %
March	1,415,544	2,137,187	23,132,936	78 %	78 %	81 %
April	1,474,338	2,142,545	23,801,143	79 %	82 %	81 %
May	1,828,454	2,170,381	24,143,070	77 %	81 %	81 %

Aggressive communication

Italian website 2003

German website 2003

English website 2003

Ryanair Financial Results

Ryanair Holdings plc and Subsidiaries

Consolidated Profit and Loss Accounts in accordance with UK and Irish GAAP (unaudited)

	Year ended March 31, 2004 €'000	Year ended March 31, 2003 €'000
Operating Revenues		
Scheduled revenues	924,566	731,951
Ancillary revenues	149,658	110,557
Total operating revenues -continuing operations	1,074,224	842,508
Operating expenses		
Staff costs	123,624	93,073
Depreciation and amortisation	98,130	76,865
Other operating expenses		
Fuel & Oil	174,991	128,842
Maintenance, materials and repairs	43,420	29,709
Marketing and distribution costs	16,141	14,623
Aircraft rentals	11,541	-
Route charges	110,271	68,406
Airport and Handling charges	147,221	107,994
Other	78,034	59,522
Total operating expenses	803,373	579,034
Operating profit before non-recurring items, and Goodwill	270,851	263,474
Aircraft retirement costs	(16,552)	-
Buzz re-organisation costs	(3,012)	-
Amortisation of goodwill	(2,342)	-
	(21,906)	-
Operating profit after non-recurring items, and Goodwill	248,945	263,474
Other income/(expenses)		
Foreign exchange gains	3,217	628
(Loss) on disposal of fixed assets	(9)	(29)
Interest receivable and similar income	23,891	31,363
Interest payable and similar charges	(47,564)	(30,886)
Total other income/(expenses)	(20,465)	1,076
Profit before taxation	228,480	264,550
Tax on profit on ordinary activities	(21,869)	(25,152)
Profit for the year	206,611	239,398
Earnings per ordinary share		
-Basic (Euro cent)	27.28	31.71
-Diluted (Euro cent)	27.00	31.24
Adjusted earnings per ordinary share*		
-Basic (Euro cent)	29.91	31.71
-Diluted (Euro cent)	29.61	31.24
Number of ordinary shares (in 000's)		
-Basic	757,447	755,055
-Diluted	765,131	766,279

*** Calculated on Profit for the year before non-recurring items (net of tax) and Goodwill.**

Ryanair Holdings plc and Subsidiaries

Consolidated Balance Sheets in accordance with UK and Irish GAAP (unaudited)

	March 31, 2004 €'000	March 31, 2003 €'000
Fixed assets		
Tangible assets	1,576,526	1,352,361
Intangible assets	44,499	-
Total fixed assets	1,621,025	1,352,361
Current assets		
Cash and liquid resources	1,257,350	1,060,218
Accounts receivable	14,932	14,970
Other assets	19,251	16,370
Inventories	26,440	22,788
Total current assets	1,317,973	1,114,346
Total assets	2,938,998	2,466,707
Current liabilities		
Accounts payable	67,936	61,604
Accrued expenses and other liabilities	338,208	251,328
Current maturities of long term debt	67,986	63,291
Short term borrowings	345	1,316
Total current liabilities	474,475	377,539
Other liabilities		
Provisions for liabilities and charges	94,192	67,833
Other creditors	30,047	5,673
Long term debt	884,996	773,934
Total other liabilities	1,009,235	847,440
Shareholders' funds - equity		
Called - up share capital	9,643	9,588
Share premium account	560,406	553,512
Profit and loss account	885,239	678,628
Shareholders' funds - equity	1,455,288	1,241,728
Total liabilities and shareholders' funds	2,938,998	2,466,707

Ryanair Holdings plc and Subsidiaries

Consolidated Cashflow Statements in accordance with UK and Irish GAAP (unaudited)

	Year ended March 31, 2004 €'000	Year ended March 31, 2003 €'000
Net cash inflow from operating activities	462,063	351,003
Returns on investments and servicing of finance	(20,313)	608
Taxation	(2,056)	(3,410)
Capital expenditure (including aircraft deposits)	(331,599)	(469,847)
Acquisitions and disposals	(32,697)	-
Net cash inflow/(outflow) before financing and management of liquid resources	75,398	(121,646)
Financing	122,705	286,778
(Increase) in liquid resources	(249,220)	(166,329)
(Decrease) in cash	(51,117)	(1,197)
Analysis of movement in liquid resources		
At beginning of year	982,352	816,023
Increase in year	249,220	166,329
At end of year	1,231,572	982,352
Analysis of movement in cash		
At beginning of year	76,550	77,747
Net cash (outflow) during year	(51,117)	(1,197)
At end of year	25,433	76,550

Ryanair Holdings plc and Subsidiaries

Consolidated Statement of Changes in Shareholders' Funds - equity in accordance with UK and Irish GAAP (unaudited)

	Ordinary shares €'000	Share premium account €'000	Profit and loss account €'000	Total €'000
Balance at April 1, 2003	9,588	553,512	678,628	1,241,728
Issue of ordinary equity shares	55	6,894	-	6,949
Profit for the year	-	-	206,611	206,611
Balance at March 31, 2004	**9,643**	**560,406**	**885,239**	**1,455,288**

Reconciliation of adjusted earnings per share (unaudited)

		Year ended March 31, 2004 €'000	Year ended March 31, 2003 €'000
Profit for the year under UK and Irish GAAP		**206,611**	**239,398**
Adjustments			
Aircraft retirement costs	-Depreciation	3,261	-
	-Lease costs	13,291	-
		16,552	-
Buzz re-organisation costs		3,012	-
Amortisation of goodwill		2,342	-
Taxation adjustment for above		(1,967)	-
Adjusted profit under UK and Irish GAAP		**226,550**	**239,398**
Number of ordinary shares (in 000's)			
	-Basic	757,447	755,055
	-Diluted	765,131	766,279
Adjusted earnings per ordinary share			
	-Basic (€ cent)	**29.91**	**31.71**
	-Diluted (€ cent)	**29.61**	**31.24**

INTERNATIONAL
Herald Tribune

Ryanair sues France, seeks EU help in hope of overturning French labor law

The Associated Press
Wednesday, January 3, 2007

DUBLIN, Ireland

Ryanair Holdings PLC announced a lawsuit Wednesday against the French government, arguing that newly imposed labor taxes are illegally hampering the budget airline's operations.

Ryanair said it also has petitioned European Union competition authorities in Brussels, Belgium, in hopes of overturning the application of tax and other French labor standards on Ryanair employees based in France.

Jim Callaghan, Ryanair's director of regulatory affairs, said France "tries to force foreign airlines to apply French labor laws when they base aircraft in France."

"This is contrary to European laws on free movement of labor and services and the freedom of establishment, and is also contrary to the liberalized air transport market," Callaghan said. "This decree is clearly designed to discourage foreign airlines from establishing a base of operations in France in order to compete with the high-fare monopoly, Air France."

Dublin-based Ryanair, which is the fastest-growing airline in Europe, said it had filed its suit in the Council of State, France's highest administrative court.

Last month rival budget airline easyJet PLC filed its own challenge to the tax in the same court. EasyJet spokesman Toby Nicol said the airline took its action shortly before French prosecutors opened a probe into the alleged employment of 130 easyJet staff under British labor contracts at Orly Airport south of Paris.

Ryanair runs services to and from 18 French airports, and last year opened its first French hub in Marseilles that operates routes to 14 European destinations. Ryanair previously has claimed France was seeking to hamper Ryanair's expansion on French soil, an accusation rejected by French authorities.

A French government spokesman did not immediately return calls Wednesday seeking comment on the Ryanair move.

Ryanair's lawsuit takes issue with a Nov. 23 government decree requiring foreign airlines to pay French labor taxes on employees working inside the country.

A spokeswoman for Air France-KLM, Veronique Brachet, refused to comment on Ryanair's claims or on its lawsuit.

But she said CityJet, an Irish-based carrier owned by Air France-KLM, soon would begin paying full labor taxes on its French staff to comply with the law.

Ryanair shares fell 1.4 percent to €10.50 (US$13.90) in broadly negative trading on the Irish Stock Exchange.

—

AP Business Writer Laurence Frost in Paris contributed to this report.

INTERNATIONAL
Herald Tribune

Ryanair moves to take over Aer Lingus

The Associated Press

THURSDAY, OCTOBER 5, 2006

DUBLIN Ryanair Holdings, Europe's largest discount airline, launched a takeover bid Thursday for its Irish rival, Aer Lingus Group, in a deal that would value the formerly state-owned carrier at €1.48 billion, or $1.88 billion.

Ryanair's chief executive, Michael O'Leary, said his company had bought more than 16 percent of Aer Lingus over the past week and wanted to buy the rest at €2.80 each, a 27 percent premium over Aer Lingus' Sept. 27 IPO price of €2.20.

Aer Lingus shares soared 12 percent to €2.81 in frenetic trading on the Irish Stock Exchange, while Ryanair slid 2.9 percent to €8.45.

O'Leary pledged to keep Aer Lingus running as a separate company and to respect the powerful role of labor unions in the Dublin-based operation. He said Ryanair's offer, if accepted, would mean more than €220 million in profit for an Aer Lingus employee share-ownership trust - or more than €60,000 per employee.

"We believe it's a unique opportunity to put the two leading Irish airlines together into one strong group that would be able to compete with Europe and the world," O'Leary said in an interview. He said the combination would carry more than 50 million passengers annually and, through Aer Lingus' existing trans-Atlantic routes, expand the range and quality of its services to the United States.

O'Leary said he wanted to buy 100 percent of the company if possible and had more than €2 billion in cash reserves to make it happen.

He said he had already telephoned senior Irish Cabinet ministers to bid for the government's remaining 28 percent stake. But he said acquiring 50.1 percent would be sufficient for Ryanair to forge a new aviation alliance with Aer Lingus.

Aer Lingus refused to comment. The Irish government immediately ruled out a deal with Ryanair.

Finance Minister Brian Cowen and Transport Minister Martin Cullen said in a statement that the government "remains fully and firmly committed to competition in aviation markets. It will not sell its shares in Aer Lingus."

The government has previously said it will retain its stake to safeguard Irish economic interests.

O'Leary said a Ryanair-controlled Aer Lingus would cut its short-haul fares 10 percent within four years; retain its slots at Heathrow - the only major London airport that Ryanair does not use - and upgrade Aer Lingus' long-haul fleet serving U.S. routes.

Labor leaders in Ireland denounced Ryanair's gambit and said they didn't believe O'Leary's promise to retain the Aer Lingus brand.

"Mr. O'Leary is doing what comes naturally to him - taking out the only real competitor on his main (Irish) routes as well as acquiring the very valuable slots at Heathrow," said Jack O'Connor of Ireland's largest union, SIPTU.

O'Leary said he expected that it would be European competition regulators that would rule on the deal and did not envisage a problem.

Aer Lingus came close to bankruptcy in 2002 because of a bloated payroll and lost business following the Sept. 11 terrorist attacks in the United States, traditionally its key profit-making destination. But it managed a swift turnaround by slashing staff and moving to a low- frills model emphasizing European routes - essentially emulating Ryanair's formula.

Aer Lingus, which in Gaelic means "air fleet," was founded by the government in 1936. The airline initially

offered flights only to England but now connects Ireland to more than 50 European cities; directly to the U.S. cities of Boston, Chicago, Los Angeles and New York; and to the Middle-East emirate of Dubai.

IHT

http://www.iht.com/

Deeper integration for Air France-KLM

Three-year plan to cut €1.4bn costs

Operating profit up 32% to €1.24bn

By Kevin Done in Paris

Air France-KLM, the world's largest airline by turnover, increased its operating profit strongly last year and raised its profitability targets for the next three years.

Three years after Air France's takeover of KLM, the Dutch flag-carrier, the group said the first phase of the merger was over and it revealed plans for a "deeper integration" of the strategic functions of the two airlines.

It also announced a three-year €1.4bn ($1.8bn) cost-cutting programme.

It is maintaining the two separate brands and separate flying operations but said it still expected to achieve synergies from the merger of €1bn a year by March 2011, €557m in cost savings and €443m in increased revenues.

It had reached €325m by March 2007.

Operating profit rose by 32.5 per cent in the 12 months to the end of March from €936m to €1.24bn while turnover rose by 7.6 per cent from €21.5bn to €23bn.

The group announced a 60 per cent increase in the dividend from 30 to 48 cents per share.

Take-off: Jean-Cyril Spinetta

Jean-Cyril Spinetta, Air France-KLM chief executive, forecast an improvement in operating profit in the year to the end of March 2008.

In contrast to recent reports from leading low-cost airlines such as Ryanair and EasyJet of "softer" market conditions, Air France-KLM said there was a "positive trend" in forward passenger bookings, although cargo operations were under pressure and had made a loss in the last quarter.

The company said it had placed significant orders for short-haul aircraft with Airbus and for long-haul jets with Boeing, largely to replace ageing aircraft.

It said it was also ordering two new A380s, taking its total order from 10 to 12 as part of the settlement of its claims against Airbus for penalty payments for the late delivery of the super-jumbos.

The settlement has been reflected in lower prices agreed with Airbus both for the two A380s and for some of the short-haul aircraft.

It is acquiring 30 A320 family jets, 18 directly from Airbus and 12 via aircraft lessors.

Mr Spinetta said the group had hoped to order new generation short-haul jets planned by both Airbus and Boeing in the next decade.

It has also ordered 18 Boeing 777s, 13 777-300ER passenger jets and five 777-200 freighters, for delivery between 2009 and 2012 to replace the last 18 747-400 jumbo jets in the Air France fleet.

The eight-member strategic management committee set up in 2004 with equal representation from both airlines is being replaced by a 12-member group level executive committee.

Group executives responsible for functions ranging from finance and strategy to network and marketing, commercial, fleet and purchasing and information technology are being appointed.

All eyes f on the 'o skies' priz

NEWS ANALYSIS

The US/EU deal to free up aviation across the Atlantic opens up new opportunities for Air France-KLM, writes Kevin Done

Three years after Air France's pioneering acquisition of KLM, the Dutch national carrier, Jean-Cyril Spinetta, chairman and chief executive of Air France-KLM, was in buoyant mood yesterday.

The group has defied the critics and doubters.

The acquisition of KLM marked the first takeover of a flag-carrier in Europe.

It broke the mould but was necessarily a complex deal as Air France sought inventive ways of circumventing tight restrictions imposed by the regulation of the international aviation industry.

In three years, operating profit has more than doubled from €553m in 2004-05 to €1.24bn ($1.67bn) in 2006-07.

It has been gaining market share and opening up a widening gap ahead of its nearest rivals, Lufthansa and British Airways.

The Air France-KLM share price rose by 72 per cent last year.

Admittedly the timing of the deal made by Mr Spinetta could hardly have been

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Low-cost airlines

Fare game

Feb 15th 2007
From The Economist print edition

Budget airlines take on long-haul routes

Get article background

EXACTLY 25 years have passed since the final grounding of Skytrain, Freddie Laker's populist attempt to bring low-cost travel to transatlantic flights. Since then, low-cost carriers have taken a big share of the short- and medium-haul markets in America, Europe and, increasingly, Asia. But few have dared to follow Mr Laker's flightpath to confront the established carriers on scheduled long-haul routes.

Now a group of new low-cost airlines, many of them based in Asia, is targeting the market for long-haul flights—those lasting more than six hours. Oasis Hong Kong Airlines started a daily service between Hong Kong and London in October and is planning to launch flights to America this summer. Prices on Oasis start from £75 ($145) for a one-way trip in economy class and £470 in business. Zoom operates flights from Canada to destinations in Britain and France. AirAsia X, an offshoot of a successful Malaysian low-cost carrier, is to launch cut-price services to Europe and distant parts of Asia in July.

Part of the formula is familiar: flying one type of aircraft to reduce maintenance costs, landing at second-division airports, vigorous outsourcing and so on. But translating the low-cost model to long-haul markets is hard. Airliners are already in the air much of the time, reducing the scope to work them harder. Rules on night flights and rest periods for cabin crew stretch turnaround times. And passengers enduring a 12-hour flight are less willing to skimp on food and legroom.

Setting up a long-haul network also takes tiresome negotiations with aviation authorities in many countries. Oasis's inaugural flight was cancelled because it did not have rights to fly over Russian airspace. Most long-haul routes still rely on connecting traffic to fill seats, whereas low-cost airlines offer point-to-point routes.

High-paying business-class passengers at the front of the aircraft enable established carriers to compete fiercely on bargains at the back. According to Nigel Dennis of the University of Westminster, the best that low-cost airlines can hope for on an all-economy long-haul service is a slender 20% price advantage over the established carriers.

"We ran the numbers for an economy service and they didn't add up," agrees Stephen Miller, chief executive of Oasis. His answer is to combine a low-cost approach with a continued focus on high-margin activities where there is more fat to trim. Oasis's business-class service accounts for just over one-fifth of seat capacity and 60% of revenues. Cargo, traditionally disregarded by low-cost carriers in short-haul markets, brings in another 15-20%.

Other airlines have stripped economy passengers out of the equation altogether. Silverjet, MAXjet, Eos Airlines and L'Avion, all recent entrants to the transatlantic market, have filled their planes with business-class seats, which they offer at lower prices than established rivals do.

For bigger carriers, the new entrants are not yet much of a threat. The most profitable

business-class travellers will be loth to give up either frequent-flyer miles or the convenience of a full timetable. But the cheaper long-haul alternatives inject more urgency into the big carriers' efforts to cut costs. Mr Laker would surely have been pleased by that.