



ICM

MARCH 2017

OPERATIONS MANAGEMENT – PRE-ISSUED CASE STUDY & GUIDELINES

Important notes for candidates regarding the pre-issued case study

The case study is designed to assess knowledge and understanding of the Operations Management syllabus in the context of the relevant case study. The examiners will be marking candidates' scripts on the basis of the questions set. Candidates are advised to pay particular attention to the mark allocation on the examination paper and to plan their time accordingly.

In order to prepare for the examination, candidates will need to carry out a detailed analysis of the case material ahead of the examination. Candidates have sufficient time during the examination to answer all the questions, but this means that detailed analysis has taken place before commencing the examination. The examiners are looking for clear evidence that candidates have a good understanding of the case and can apply and interpret the concepts and ideas learned from a study of the syllabus when answering the questions. Candidates are advised not to waste valuable time collecting unnecessary data but are permitted to conduct additional research into the case study organisation from relevant sources outside of the content of the attached pre-issued case study. Such additional research should attempt to identify significant characteristics and approaches to Operations Management taking place within the case study organisation, together with any particular issues, problems or challenges faced by the organisation. This may help inform any analysis carried out within the examination session. Any notes, including references drawn from this additional research, must be contained within the notes permitted in the examination room (see below).

The copying of pre-prepared 'group' answers, including those written by other third parties, is strictly forbidden and will be penalised. Thus, questions will demand analysis in the examination itself and individually composed answers are required in order to pass.

Candidates are only allowed to take up to two pages (four sides) of A4 notes into the examination room. These notes should be securely attached to the answer script at the end of the examination and returned. Your prepared notes will count for 15% of the overall mark for this unit and therefore it is important that you ensure that these notes are included with your answer script.

The notes will be assessed as follows:

- Relevant and broad research into conceptual framework through recommended academic sources [5 marks]
- Broad and appropriate summarisation and abbreviation of main features of case study [5 marks]
- Clearly structured and effectively organised notes, providing evidence of sound analytical approach and clear focus on relevance and significance [5 marks]

A copy of this case study will be available in the examination. Therefore, you will NOT be allowed to bring this case study into the examination room.



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OPERATIONS MANAGEMENT
CASE STUDY – RYANAIR – ANNUAL REPORT 2015

Chief Executive's Report (extract)

Dear Shareholders,

We are pleased to present Ryanair's 2015 Annual Report. In 2015 we delivered a record 66% increase in profits, from €523m in FY2014 to €867m this year. We are pleased that most of this growth came from lower operating costs (including fuel) while our average fares remained relatively flat. We intend to keep our fares low while competitors are raising prices, as this will underpin strong traffic growth over the coming years. Last year Ryanair opened 143 new routes, and 8 new bases.

30 Years of Low Fares in Europe

Since we are Europe's favourite airline, and the world's largest international carrier, this is a year of celebration and growth. We mark our 30th birthday this summer (our inaugural flight took off from Waterford to London Gatwick on 8 July 1985) and over the year we hope to carry over 100m customers who will save over €11 billion by choosing Ryanair over the higher fares of other European airlines. Last year Ryanair's unique low fare/low cost business model was significantly improved by our 'Always Getting Better' (AGB) program which saw our traffic grow 11% to 90.6m customers, our load factor jump 5% points to 88%, and our customer satisfaction and brand reputation improve significantly.

New Aircraft Orders and Eurobond Financing

In March 2013 we announced an order for 180 new B737-800 NG aircraft with our partner Boeing. The first of these units delivered in Sept 2014 and will continue until the end of 2018. With end of line pricing and advantageous US\$ hedges (in 2013) these aircraft will lower our operating costs for the next 5 years and will allow Ryanair to grow strongly.

Our partners Boeing have redesigned and improved the B-737, and we are delighted to be selected as the launch customer of Boeing's new 737 MAX 200 aircraft which we call 'The Gamechanger'. We placed orders for 100 firm and 100 option units. These aircraft which deliver from Sept 2019, will offer 197 seats (8 more than our NG's) which will help us lower fares by 4% for all customers. They also have new CFM LEAP 1B engines, which will reduce fuel consumption by approx. 18% per seat. This combination of weaker US\$ rates, more seats and efficient engines will significantly reduce our operating costs from 2019 onwards. If we take delivery of all 200 'Gamechanger' aircraft, and assume a reasonable rate of retirements, our fleet growth will allow Ryanair to carry more than 160m customers p.a. by full year 2024.

We know our customers will enjoy flying on these aircraft which will feature new Boeing Sky Interiors with roomier, more modern cabins, LED lighting, and slimline seats which offer more comfort and leg room, while adding 8 more seats, and lowering air fares to save our customers even more money.

Last year Ryanair issued our first two Eurobonds. The first unsecured Eurobond (June 2014) raised €850m at a coupon of 1.875% p.a. Then in March 2015 we raised another €850m at a coupon of just 1.125% p.a. These unsecured Eurobonds will materially lower our aircraft financing costs.

'Always Getting Better' (AGB)

In September 2013, Ryanair announced our AGB customer experience program. This strategy committed the entire business from our board, management team and 9,500 aviation professionals to listen to our customers, fix the things they don't like, improve the inflight experience, transform our digital platform, and introduce new services, but without compromising our low fares and on time flights which our customers love.

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We continue to listen and respond to customer feedback using our 'Tell MOL' website. We changed policies which were previously tablets of stone for over two decades. Customers wanted allocated seating and a free second carry-on bag, so we introduced them. We cut some airport and bag fees, improved our website, launched a new mobile app, introduced 'quiet flights', designed new Business Plus, and Family Extra products, returned to GDS distribution and relationships with Corporate Travel Agents. We also opened a Groups travel department which is on track to deliver sales of over €25m in its first year.

Year 1 of our AGB program has been so successful that we extended it to a 3-year program of continuous listening and improving our customer experience. In year 2, we launched a US website, a new customer charter, and we further cut airport bags and sports equipment fees. Later this year, we will deliver an improved mobile app, desktop and tablet site which will give customers a personalised digital experience. Customers will also enjoy new aircraft interiors, new crew uniforms, healthy inflight menus and we will even drop our famous 'on time' bugle and replace it with something new!

AGB remains our unrelenting commitment to lower costs and keeping Ryanair's fares low while our competitors raise prices. Our budget next year assumes fares will fall by 2% to 4% as we pass on lower oil prices, and financing to deliver more value for customers, especially as our service improves at every touch point from booking, to check in, to boarding, and inflight.

New Routes and Bases

One of the significant developments over the past 18 months under AGB has been our many new bases at primary airports including Athens, Bratislava, Brussels, Cologne, Gdansk, Glasgow, Lisbon, Rome, Thessaloniki and Warsaw. At some of these cities we also operate to the secondary airport, but our experience has shown that our low fares and business schedules at the primary airports, allows us to win significant new traffic from incumbent competitors.

There is a growing trend of primary airports in Europe suffering traffic declines as their incumbent carriers report losses and restructure. These airports are incentivising Ryanair to open new routes/bases and deliver them traffic growth. We see this continuing especially in Central Europe, Germany, Italy, Spain and the UK which is why we expect our combination of lower fares and 'AGB' customer service will maintain strong traffic growth at both primary and secondary airports to justify our order for up to 380 new Boeing 737 aircraft.

Digital

The development of our Ryanair Labs digital innovation team accelerated last year. In July 2014 we released our first native Mobile app which has been a great success with over 6m downloads to date. We transformed our website in Sept 2014 and since then have continuously improved it, by making it faster and easier for customers to find flights, check prices, book ancillary services and manage their bookings.

The pace and scale of Ryanair Labs development continues. In May 2015 we released a 5th upgrade of our mobile app which includes new ancillary products, flight info, check in, mobile boarding passes and optional services such as reserved seats, checked bags etc. In October we plan to release a new personalised website which will be tailored to meet individual customer's needs and travel preferences. This will enable customers registered on 'My Ryanair' to make bookings in just three clicks if they so wish.

Our new website, which will be designed to fit desktop, tablets, and mobile devices will also allow us to offer tailored services and benefits at all stages of each customer's journey, and will also allow customers to directly feedback flight reviews, complaints and compliments. In time, we expect Ryanair.com will develop from being Europe's largest travel website to being its leading digital platform for all products and services relating to travel and tourism.

Our People

Over the past year Ryanair has created almost 1,000 new jobs as our headcount rose to 9,500 highly skilled aviation professionals. We're delighted that over 750 of our outstanding team were promoted to more senior positions. We welcomed over 200 new people to the Ryanair Labs team where they are doing cutting edge digital development to make Ryanair.com Europe's 'go-to' travel platform. Ryanair's growth is generating thousands of new jobs in Europe's tourism industry. Airport statistics suggest that approx. 1,000 new jobs are created for every 1m international passengers at Europe's airports. As we grow from 100m to 160m customers p.a. over the next 8 years, Ryanair will be directly responsible for creating over 66,000 new jobs in Europe tourism.

At a time when many European economies are struggling with high youth unemployment, we urge European governments and institutions to support low fare airline growth, so that together we can get Europe's young people, especially Greece, Italy and Spain, well-paid jobs in our tourism industry.

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Our Shareholders

This past year was a rewarding one for our shareholders, who continue to enjoy industry leading returns. In February we paid our 3rd special dividend of €520m (€0.375 per share) and shortly after we commenced our 6th share buyback of €400m which we expect to conclude in August. This latest buyback, when completed, means we have returned over €2.9bn to shareholders over the past 8 years, an impressive 5 times the €560m we originally raised when we floated in 1997 and in 2 subsequent secondary issues.

I hope that our long-standing and loyal shareholder base will continue to enjoy superior returns on their investment over the coming year, as we continue to grow our low fare model safely and in the best interests of our customers, our people and our shareholders.

Yours sincerely,

Michael O'Leary
Chief Executive