



JET-SETTING FOR THE MASSES

Cheap airfares are redrawing the map of Europe, meaning Polish doctors can commute to Nottingham and British brides-to-be can hold hen parties in Latvia. Not everyone is thrilled.

By Vernon Silver

◆ Andrzej Majewski, a Pole who works as a thoracic surgeon in the U.K., catches a ride to the airport in Wrocław on Sundays and hops a Ryanair Holdings Plc flight to his hospital in Nottingham, England. Most Fridays he commutes home to southwest Poland. The flights cost him about \$50 each way. "It takes about three hours, and I'm eating lunch at my house," Majewski, 47, says.

Dublin-based Ryanair, Europe's biggest budget airline, and its main rivals, No. 2 EasyJet Plc and No. 3 Air Berlin Plc, are drawing a new map of how people and money travel in Europe. Fares as low as 1 euro cent, or \$0.013, plus tax, encourage workers to

Ryanair passengers board a flight at Brussels South Charleroi Airport. The airline uses both doors to save time.

jump borders for jobs, pump up real estate prices in France and—to the horror of residents of towns newly served by the carriers—spur British bachelors to shop for cheap beer and strippers in Prague and Riga, Latvia.

No-frills airlines also let Europeans seek cut-rate health care in Malta, Poland and Spain. An implant and crown that cost €2,500 in the U.K. go for €1,400 in a Polish dentist's office, says Marcin Gaborski, a board member of Dental Clinic HAHS in Szczecin. English patients have boosted the clinic's income by as much as 10 percent in the past year. "Fifty people come a week from all over Europe," Gaborski says. "They book a cheap flight by Ryanair."

Cross-border job commutes and international dental visits were impractical a few years ago. In July 2000, airlines ran five routes between the U.K. and Poland, serving Gdańsk, Krakow and Warsaw. Poland joined the European Union in 2004. In 2006, airlines had 37 routes linking 10 Polish cities to 13 U.K. airports, the U.K.'s Civil Aviation Authority says.

"The low-cost airlines really facilitate a type of hypermobility for the public at large to do anything from leisure to business, to new careers," says Steven Vertovec, a professor of transnational anthropology at the University of Oxford in England and director of Oxford's Centre on Migration Policy and Society.

Today's cheap air travel has its roots in the birth of the EU and the goal of a united Europe. Government officials, led in part by economist Jean Monnet, who was France's planning commissioner after World War II, wanted to phase out trade barriers and create a common economic market as Western Europe rebuilt. The 1957 Treaty of Rome laid the foundation for today's EU by forming the European Economic Community and requiring free movement of people and access to each country's transportation. At the time, governments owned a stake in national carriers—and they largely locked out competition. "You didn't have quality service; some routes didn't exist," says Gilles Gantelet, who's responsible for Europe's aviation market at the European Commission, the executive body of the EU. "For a majority of routes, the price was high, which meant that they were reserved for privileged passengers."

In the 1980s, the European Parliament pushed to turn the Rome treaty into policy, starting with highways and then moving on to aviation and shipping, Gantelet says. In 1992, the European Economic Community agreed to form the EU. That year, it also deregulated the airline industry, allowing carriers from any member state to fly any route in the EU. "Now, from Brussels to Barcelona, you pay three or four times less than used to be the case," he says.

Ryanair, started in 1985 to fly between Ireland and the U.K., jumped at the opportunity. Founder and namesake Tony Ryan, 71, and Chief Executive Officer Michael O'Leary, 46, borrowed the low-cost tactics of Herb Kelleher, the CEO who'd built Southwest Airlines Co. into the most profitable U.S. airline.

Ryanair takes Southwest's no-frills mantra a step further. It makes money by charging for every imaginable extra—from €2.50 for a bottle of water to as much as €10 for each piece of checked luggage. Buying a round-trip ticket by credit card costs

€5. Ryanair keeps planes in the air where they make money. It pulls off 25-minute turnarounds at tiny, far-flung airports such as Treviso, Italy, outside Venice, and Beauvais Airport, 50 miles (80 kilometers) from Paris. It saves time by shuttling passengers through the front and back doors of a jet and encouraging them to race for unassigned seats.

At its extreme, Ryanair undercuts the competition by practically giving away tickets. At a base rate of 1 euro cent each way, a round-trip fare between Pisa, Italy, and London cost a total of €51.05 when booked on Feb. 2, including taxes and fees. Ryanair levies the fees to cover insurance and the cost of providing free wheelchair service to disabled passengers, among other items. Rome-based Alitalia SpA was charging €214.27, and Harmondsworth, England-based British Airways Plc was asking €333.13, all for travel on Feb. 9 and a return on Feb. 13.

Fliers love Ryanair's prices. The number of passengers surged 26 percent to 34.8 million in the fiscal year ended on March 31, 2006. The increase helped profit jump 9.5 percent to €306.7 million on €1.69 billion of revenue. Ryanair expects fiscal 2007 earnings to soar 27 percent to €390 million, the company said in a statement on Feb. 5.

Investors love Ryanair, too. From May 29, 1997, when the company sold shares to the public, to Feb. 7, Ryanair stock increased 18-fold. The company planned to carry out a 2-for-1 stock split on Feb. 26. By contrast, British Airways stock fell 24 percent in U.K. pound terms during that period. On the Dublin Stock Exchange, Ryanair shares gained 59 percent to €12.05 in the 12 months ended on Feb. 7. On the Nasdaq Stock Market, Ryanair's American depository receipts, which represent five ordinary shares, jumped 80 percent to \$93.95.

Ryanair's success is spurring changes in both Europe's airline industry and the way people live, says Guy Lermينياux, a managing director at Brussels-based Petercam Asset Management. "It's a transformation," says Lermينياux, whose firm has €16 billion under management, including shares of Ryanair and rivals Air France-KLM Group and Deutsche Lufthansa AG. "They've made people much more mobile and opened up new countries."

Doug McVitie, managing director at Arran Aerospace Ltd., a consulting company based in Pluduno, France, says having a Ryanair flight come to a nearby airport boosts a region's economy. "It's seeding Europe in terms of tourism, which brings hotels, bars and employment and lets workers in those areas go somewhere else for higher wages."

Not everyone is happy with Europeans' unchecked mobility. People in countries newly served by budget airlines complain that British bachelor and bachelorette parties are taking over Eastern European cities such as Riga. European Weekends, a Nottingham-based events coordinator, offers one package that features a "Soviet nurse banquet," with prices starting at 55 pounds (\$108) per person. The cost covers five shots of vodka, five female entertainers, a "lesbian nurse show" and a meal.

"I know about guys who go to Prague for a weekend of cheap beer, prostitutes and fighting," Vertovec says. "People there really complain about it—and that's due to low-cost airlines."

The route maps of budget carriers largely determine where

European Weekends offers its deals, company manager Caroline Brooks says. "The airlines are a major factor," she says. "All of them tend to lead where the hen and stag parties go."

Ryanair's CEO has a mouthful for critics. "If the worst they can complain about is a couple of hen or stag parties, how bad is it?" O'Leary asks. "We'd like a lot of ballet-loving, opera-attending visitors," says the CEO, who has dressed as a gondolier to promote a route to Venice and a Roman Catholic cardinal to sell flights to Rome.

Elsewhere, some people in wealthy enclaves in long-established destinations such as Deauville, on France's northern coast, are fighting the pending arrival of the low-budget hordes. "People won't want these sorts of tourists," says Christiane Célice, a former antiques dealer who leads the Deauville Airport Residents Association, which claims 500 members and tried in local court to block the planned March 1 start of Ryanair flights from London. "We have nothing against Ryanair. We just want them to go elsewhere." For now, Célice has won her battle. On Feb. 6, Ryanair said it was withdrawing the proposed London Stansted to Deauville service to accommodate the expansion of routes to other destinations.

British vacationers already entrenched abroad have been burned when airlines change the cities they serve. From 2000 through 2005, Ryanair and other carriers flying from budget travel hub Stansted Airport, 30 miles north of London, cut 65 routes. They added 123 new ones, reflecting a willingness to chuck unprofitable segments and go where the money is, according to a Nov. 15 CAA study titled "No Frills Carriers: Revolution or Evolution?"

Briton Julie Millar invested in a vacation house in northwest Brittany only to have Ryanair cancel the run she'd counted on. Millar, who lives in Essex, not far from Stansted, chose her house in France partly because Ryanair flew to nearby Brest. When Ryanair dumped the route in April 2004, she was forced to fly into Dinard—3½ hours by car from the property. "We were not happy," she says. Now she sometimes leaves from Luton Airport, which is farther from her home than Stansted, to catch a direct flight.

Ryan, who began his career in aviation by leasing planes to airlines through his Guinness Peat Aviation, has a history of shaking up air travel. He and his family founded Ryanair, starting with flights between Waterford in southeast Ireland and Gatwick Airport, 28 miles south of London. Ryanair began life as a full-service airline flying propeller planes. In 1990, five years after its founding, Ryan and O'Leary, who was then his adviser and a company director, visited Southwest Airlines' Kelleher in Dallas to learn how to profit from cutting frills. They held their meeting in a bar over "watery American beer," O'Leary says. By the end of the year, they'd begun overhauling Ry-

anair, scrapping free drinks and meals and re-branding it as a low-fare airline.

In 1995, EasyJet started flying between its base at Luton and Edinburgh and Glasgow in Scotland. Like Ryanair, it's raking in cash. It boosted earnings by 60 percent in the fiscal year ended on Sept. 30 to £94.1 million. Norwegian Air Shuttle ASA, based outside Oslo in Fornebu, Norway, started flying in 2002 to cities such as Madrid and Stockholm. It became profitable in 2005. SkyEurope Holding AG, which is based in Vienna and has its main hub 30 miles away in Bratislava, Slovakia, has lost money since it started flying in 2002 as it spends to rent planes and pay salaries to expand routes.

Today, at least two dozen budget airlines serve Europe, overtaking traditional companies to become the dominant carriers between the U.K. and other EU cities. No-frills airlines carried 51.5 million passengers in 2005, a 16-fold surge from 3.1 million in 1996, according to the CAA. The budget lines have added passengers mostly by taking market share from their full-service brethren, which had 47.2 million passengers flying between the U.K. and EU cities in 2005. Charter flights had 25 million passengers.

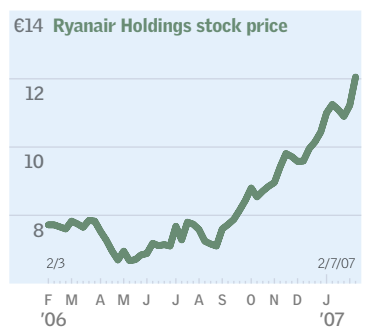
O'Leary says his new competitors—"all these idiots starting up low-fare airlines," as he calls them—are doomed. Many don't offer low-enough prices. And they've missed the boat on buying aircraft, which have to be ordered years in advance, O'Leary says. "You're not going to survive in competition with Ryanair over the next several years," he warned rivals during a Feb. 5 presentation to investors in London.

Ryanair's onboard experience drives home how different O'Leary's airline is from full-service carriers. Ryanair planes generally have no seat-back pockets, reducing cleaning time. After takeoff, the flight crew starts selling. On a 6:35 a.m. flight in January from Rome to London, a prerecorded announcement rouses dozing fliers with a pitch for phone cards. Flight attendants, who make about a 10 percent commission from onboard sales, walk the aisle with "Fly to Win" scratch-off lottery cards for €2 each.

The company hawks 2-for-1 shots of vodka and gin with ads pasted to the underside of overhead compartments. The shots, called Bullseye Baggies, come in 25-milliliter (0.85-fluid-ounce) plastic pouches for €5. If you think you might consume too many, the crew sells LifeLine "hangover preventer" for €3. Ryanair also offers gambling on its Web site, including online card games and slot machines. In all, nonairfare income made up 15 percent of 2006 revenue, of which gaming is a small portion. Car rental, baggage fees, travel insurance and hotels supply most of Ryanair's ancillary income," O'Leary says. He plans to boost sideline revenue, starting with the charge for checking luggage, which can cost as much as €10 for a 15-kilogram (33-

Taking off

Shareholders are profiting from new routes and full planes.



Source: Bloomberg

Extras add up

Ryanair passengers pay additional fees for baggage, food and other items included in the price of a British Airways ticket.

BRITISH AIRWAYS		TOTAL: €338.09
ROME-LONDON ROUND TRIP		
RYANAIR THE LOW FARES AIRLINE		
ROME-LONDON ROUND TRIP		€106.88
EXTRA CHARGES		
Fee for buying tickets with credit card	5.00	
Fees for one checked bag each way and excess weight*	148.00	
Snack pack, bagel, water, coffee	20.20	
Priority boarding to guarantee seat choice	6.00	
Value of frequent-flyer miles not earned	13.50	
TOTAL: €299.58		

*Bag fee of €10 covers 15 kg. Each extra kilogram costs €8. British Airways allows 23 kg. A Ryanair passenger may pay less by dividing the 23 kg between two bags. Fares are lowest found online on Jan. 31 for travel Feb. 2, returning Feb. 5. Sources: Bloomberg, British Airways, Ryanair

pound) bag. O'Leary uses the fee not just as a moneymaker but also as a disincentive for passengers to use baggage services that cost the airline money. "We intend to keep driving up the bag fees to get people to stop traveling with bags," he says.

For Majewski, the Polish surgeon, Ryanair might as well be a commuter railroad. When Poland joined the EU, the U.K. gave Poles the chance to seek work in the country. Ryanair made cross-border job hunting practical by adding its first flights between the two nations that year. "In Poland, I could make £500-£700 a month," says Majewski, who wears hiking boots and a navy peacoat as he heads for a midday flight home after a week of work. "Here, it's 10 times better."

Before Ryanair, Majewski spent 20 years working in Wrocław at the Lower Silesian Center for Lung Disease. The hospital paid him about €500 a month, forcing him to look for additional employment. "I had an extra job as a surgeon in jail and at another hospital," he says. In all, he cobbled together the equivalent of up to £700 a month, he says.

Commuting by air had never entered Majewski's mind until he was scanning the classified ads in a British medical journal. He spotted a hospital in Nottingham seeking a thoracic surgeon. "I sent my CV," he says.

Majewski got the job and started in August 2005. At first,

each time he went home to Poland, Majewski had to drive south to London and catch a plane to Warsaw, the Polish capital. From there, he'd commute five or six hours to Wrocław. "Traveling through Warsaw was a nightmare," he says. Majewski flew back only once a month.

Ryanair relieved Majewski's longing to be with his family seven months into the job when it started four weekly flights between Wrocław and East Midlands Airport, about 20 kilometers from the hospital. "This flight from East Midlands to Wrocław is quite fantastic," he says of the direct service that departs at 11:20 a.m. "I go to the airport, I have to be there 40 minutes before

the flight, I board the plane and 1½ hours later I'm in Poland."

Door to door, the trip takes at most 3½ hours, Majewski says. He and his wife, Maria, who works as an electrocardiographer administering EKGs and X-rays, decided the cheap, frequent trips would make the distance between home and work tolerable. "I'm not so desperate," he says.

As Majewski heads to the U.K. for work, planes flying in the opposite direction carry British investors and tourists to continental Europe. These travelers are snapping up vacation homes, aided by a British pound that's worth about \$2. The international influx is distorting the housing markets in the seaside villages and mountain hamlets newly served by discount airlines. "Where Ryanair is going into small airports, the value of properties is significantly higher," says Nigel Drewek, a real estate developer in Eastbourne, England.

House prices rose 144 percent in Montpellier, in the south of France, and 126 percent in La Rochelle, in the west, from 2001 through 2005, according to Moneycorp, a London-based currency exchange company. Both towns are served by discount airlines. That compares with a 65 percent increase nationwide, according to France's government statistics institute.

Drewek, who turns 50 in April, is counting on the Ryanair price bump to help his latest venture, Bulgarian Country Cottages BG EOOD. The company is building homes near a ski resort and national park in Razlog in Bulgaria, one of the EU's newest members. "It's part of the pitch," he says of the expectation that low-cost carriers will fly into remote airfields. "It will be a second wave of property increase."

Some Central and Eastern European countries have already had it with foreigners, particularly stag and hen parties for the

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years,' CEO O'Leary warned his rivals in February.



soon-to-be-married. Cheap beer is encouraging a booming industry in boozy road trips. Britons who want to party all night can practically save money by heading to Prague, where a pint of beer costs as little as 50 pence compared with as much as £3 in London. After drinking six pints, a bride- or groom-to-be will have saved about £15—which, multiplied over a few nights, can defray the cost of a flight and hotel.

The ensuing drunken behavior has provoked local authorities and, in one case, required intervention by U.K. diplomats. Police in Riga arrested a British national on Nov. 11 after he urinated on the country's Freedom Monument on what happened to be a Latvian national day of remembrance for a World War I battle. Three weeks later, the British embassy in Riga cited the growth of low-cost airlines when it issued a notice on its Web site warning travelers to behave themselves. "Do not urinate in public—always use a toilet," the notice says. "It is not worth going to jail or paying an expensive fine. Respect others, do not use abusive language (many people speak or understand English in Latvia)."

Some Latvians have responded by targeting British tourists with attacks and robbery. "The guy who peed on the Freedom Monument, that set the stage," says Mike Johnson, general manager of the Patricia Tourist Office, a travel agency founded in 1991, in Riga. His company discontinued services for stag party groups.

That hasn't stopped promoters such as European Weekends. In Bratislava and other Eastern European destinations, tours

start at the airport, where a stripper accompanies the lads in a champagne-packed limousine for the drive to town. Some packages include "mud fighting" from £40 per person, depending on whether two or four women will wrestle the men—and whether the women will wear bikinis or be naked, according to the company's Web site. Photos on the site show the nude version.

Women's options involve spa days, wine tasting and, at the most risqué, pole dancing lessons in Riga and Budapest for budding amateur strippers. Brooks, the company's manager, declined to say how much money European Weekends makes on such tours or how many it organizes each year.

Welcomed or not, the discount airlines and the changes they bring are linking the 27 EU member countries. "They should be able to keep going," says Petercam Asset Management's Lerminiaux, who started buying Ryanair shares about four years ago—and more recently has bought Ryanair tickets for trips from Brussels. "If you don't know where you want to go for the weekend, you can go to Rome or Pisa," he says. "It's like taking a bus."

Majewski's \$100 commute between Wrocław and his U.K. job makes the high prices and infrequent flights of former airline monopolies as outdated as steam locomotives. For Europe, which has been convulsed by wars hot and cold, jet-setting commuters like Majewski and, yes, bands of drunken partyers who head to Latvia for a weekend are further signs that the unification dreamed of half a century ago is becoming a reality. ▶

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BLOOMBERG TOOLS

Tracking No-Frills Airlines

You can use the Financial Analysis (FA) function to find airline industry-specific data for Ryanair. Type RYA ID <Equity> FA <Go>, and click on the Industry-Pg3 tab at the bottom of the screen. Click on Airlines, tab in to the PERIOD field and enter 5. Click on the arrow to the right and select Years to see a table of five years of annual data, as shown below. The airlines template includes data such as yield, which is a measure of average revenue per seat per mile or kilometer flown. For the fiscal year ended in March 2006, Ryanair's yield was 76 euro cents per kilometer.

The template also displays data on an airline's fleet, which is listed in the Airlines-Actual Size of Fleet row. To compare Ryanair's fleet with that of other airlines, type RV <Go>. Click on the arrow to the right of Sector, select BICS Subgroup and press <Go>. Click on the Template List button on the red tool bar, and select Operating Performance. Click on the Edit button, and select

Data Columns. Tab in to the SEARCH field, enter FLEET and press <Go>. In the list of results, click on Airlines-Actual Size of Fleet so that it appears in the list of Data Items Selected on the right of the screen. Click on the Save/Return button.

Ryanair had 86 planes at the end of fiscal 2006 and had added 34 as of early February, according to the company's Web site. By comparison, EasyJet had 114 and British Airways had 284 planes.

Type WNAV <Go> for a menu of commercial airline Web sites, publications and organizations. Type 14 <Go>, for example, to access the Professional Pilots Rumour Network, an aviation-related forum site.

JON ASMUNDSSON

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For a list of Ryanair executives and directors, type RYA ID <Equity> MGMT <Go>.