



Final Transcript



 InterCall[®]

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Corporate Participants

Carolyn McCall

easyJet plc - Chief Executive

Chris Kennedy

easyJet plc - Group Finance Director

Rachel Kentleton

easyJet plc - IR

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Presentation

Operator

Thank you for standing by, and welcome to the easyJet Q3 IMS conference. At this time, all participants are in a listen-only mode. There will be a presentation followed by question and answer session, at which time if you wish to ask a question you will need to press star * and one on your telephone. I would like to advise you that this conference is being recorded today on Wednesday July 28 2010. I would like now to hand the conference over to your first speaker, Carolyn McCall, please go ahead.

Carolyn McCall - *easyJet plc - Chief Executive*

Hello everyone. Thank you all for being with us this morning, as you've just heard, it's the easyJet conference call. I'm Carolyn McCall, Chief Executive of easyJet, and this is Chris Kennedy, Group Finance Director. Just a few logistics, we're going to run through the slides to give you the Q3 results, we emailed this to you this morning, they're also available on the Investor Relations page of easyjet.com. Then we're going to do a Q & A with people in the room, and then we'll open it up to those of you on the phone. So the first thing to say is, I said to a couple of you earlier this morning that this is our fourth week, we're going to stop counting after this week, but it is our fourth week. If you ask any questions that are so detailed that we can't give you the answer this morning, we will take them offline and come back to you.

As you can imagine we've got very immersed very quickly in the business, and we've had to and we will come on to that in a minute. So our induction plan really has been really about the operational side of the business. The one thing to say is that everybody at easyJet has been incredibly welcoming, very open, no resistance, they're very pleased to see us there. And the people there are really committed and very passionate about easyJet and it's one of the great strengths, I think, of the airline.

My priorities have been to really, really spend as much time as I possibly can with staff, I've been out to at least... well I've been to four or five bases, Milan, Madrid, Berlin, Gatwick clearly, Luton obviously, and I've also met customers, suppliers, and both Chris and I have met with all our key

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shareholders. As I said, the area of focus, very quickly, has been to get on top of the operational issues and we're going to talk to you a little bit about that in some detail a bit later.

The other thing I think you'd expect from a new CEO and FD, is we are going to take a fresh look at the plan and obviously at the business, so wider than the financial plan. And we're about to kick start a process to do that, and that will be a three or four month process and we will come back to you in November and we will share our findings with you. And I think one of the things you can say, we can say very early on is that the one thing that strikes you immediately other than the people and the passion, is that easyJet has the most amazing network and it really is a great strength. So this flying into primary airports, low fares, and having market-leading positions is a real strength for easyJet.

So the business has delivered robust results in the face of some huge external challenges, which you all know about, snow, volcano, recession, and of course, widely publicised a series of management changes, and I think the opportunity there is for Chris and I to bring back some much needed stability to the management side of the business. And I'm spending quite a lot of time as you can imagine working and thinking about that.

So on to slide three, the results continue to deliver a good commercial performance, total revenue up 5.3%, with revenue per seat up 3.6%. Continued to expand the footprint in mainland Europe, 7% growth in non-UK originating passengers. Market share gains all over Europe but particularly for example in France. You all know a great deal about the volcano which erupted in April, it closed airspace for about six days, in fact precisely six days, and it did have a significant impact on our bottom line, 7000 flights cancelled, and one million passengers were affected.

At the interims you were given a range of financial impacts, between £50 million and £70 million, and we now estimate that loss contribution and additional cost associated with the volcano is £65 million. Chris will give you a lot more detail on that shortly. So despite the financial impact of the volcano and recent operation issues that you will have read about and that I am going to talk about in a bit more detail, we are maintaining our guidance for a pre-tax profit of £100 million to £150 million up from £44 million last year. The board is also committed to achieving the target of 15% ROE which I know you're all very familiar with. I'm going to hand over to Chris now to have a look at numbers in more detail.

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Chris Kennedy - *easyJet plc - Group Financial Director*

Okay, so looking at the volcano, as Carolyn said, the impact now is £65 million, it's our latest estimate. We getting in low, continuing low small level claims coming through so, you know, it will... we'll firm that up for November, but it's not going to be more that 65 I wouldn't anticipate. Break down of that, we've got the loss revenue of £68 million with an associated contribution of £29 million. So that's due to obviously the 7000 flights cancelled. The passenger growth would have been 10% against the reported 1.7% post volcano. We then had additional costs of £8 million around the call centre, and also airport and ground handling costs directly associated with flights affected. And most painfully we've got £28 million of customer compensation which we're liable for under EU261. The Government has said that they're not going to make any financial compensation for airlines which is obviously disappointing. And that gives a total profit impact, as I said, of £65 million.

Important to note that, firstly, although the Government is not giving us direct financial compensation now, what it's really encouraging is it does agree that 261 as currently drafted is not fit for purpose for these events. So at least we will have their support in our lobbying efforts to get that changed in the future. The fact is that we estimate that the impact would only have been £20 million if the current no-fly rules had been enforced when the volcano erupted. So clearly there's £45 million additional costs we believe due to the rules in place at the time, and we will continue to look at other options for compensation for that.

So that's volcano, if we then turn the page onto the revenue growth. Passengers were up 3.5%, and load factor up 1.4 points. So that gives us a revenue percent growth of 3.5% reported. There's very little currency impact on the [unclear] constant currency, the Euro [unclear] for '09 and '10 is [unclear] so very little impact for currency. Similarly sector length, it's 1.8%, so no real significant impact on the revenue per seat.

I think what's really pleasing about this set of results is, we've got the growth on top of a very strong Q3 '09, so if you remember Q3 last year was 4.8% up, and we've grown 3.5% on top of that growth from last year. So we're very pleased with the overall revenue performance. And if you want to drill down into the components of that, passenger revenue is particularly pleasing, it's up 4.5% per seat, and that's despite obviously the impact of the APD rise in November 2009, and the consequent effect that has on overall passenger spend. Ancillary revenue is behind plan for the quarter, a number of issues at work there, the changes in insurance regulation from opt out to opt in has hurt us, it's about £2.5 million. There have been some VAT changes on in-flight, now

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this is affecting us in particular because we classify our in-flight offer as catering and that has become a liable for VAT at the rate of the country of departure, so that's hurting us at the moment. We've got mitigating actions to correct that. And the other notable thing in ancillaries is, our bag charge is down year on year. There's a very good reason for that which is that we waived bag charges after the volcano for passengers we were repatriating. So we chose to improve the customer experience there and get people back quickly, and I think will pay dividends in the future.

Despite all of that, we are still ahead for the year on the ancillary revenue growth, so we have a target of 50, yesterday it was 68 pence per seat, so we are still ahead of our target on ancillary.

Carolyn talked a little bit about progress in Europe. I mean, we see three ways of growing profitably, we're consolidating in the UK and optimising it, we are basing more aircraft in Europe where it makes sense to capture those markets and capture the EU originating passengers, and in other markets we'll maximise our inbound traffic. So in terms of the UK, as you know, we closed East Midlands and we have terminated some under-performing routes in Luton. Gatwick is going well for us, we're adding new routes and Aer Lingus and BA are continuing to retreat there, so that our share of Gatwick is increasing. And Scotland is also performing well for us, as competition comes out of there.

In terms of basing aircraft in Europe, the three primary markets are Italy, France, and Switzerland. Italy we now have 20 aircraft in Rome and Milan. France, as Carolyn said, our share has gone up 15% against a market at 1%. And in Switzerland we're reinforcing Geneva and Basel. And then in terms of inbound traffic, Spain has got a really competitive local market, but the inbound city and beach routes are working really well for us. Germany, we've improved capacity, and that's important, that's a stable revenue market for us.

That's the geographies. Cost obviously is a real focus for Carolyn and I coming in. The cost excluding the volcanic ash is up 1.8%. As we said earlier, the volcano has cost us £36 million, so the £8 million of direct cost, and the £28 million of compensation, so with that we're at 1.8% year on year.

The other thing to say about the volcano obviously is that because we've flown fewer passengers on a per seat basis, that's fewer seats [unclear] by overhead crew, and ownership costs, so the impact of the volcano is both in the direct costs of £36 million, but also in the amortization of the fixed cost. We're making really good process on the £190 million cost target, ownership and

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maintenance costs have already come down, and we're managing to hold the airport costs flat overall despite the regulatory increases. We've managed to do some really good airport deals in Italy, and we've improved our handling situation in France as well.

We will be reviewing, Carolyn and I, all the costs programmes as part of the review of the assumptions, we're absolutely committed to the £190 million, we do believe it's achievable, and so we'll give you a more detailed view in November, but on first review we're absolutely confident that we can that.

Fleet plan, there's no change. The fleet plan that was agreed last year is in place. Obviously we're reviewing again, as we go into November. But there'll be no... we're not reducing our flexibility around the fleet by delaying decisions come November. So for the moment it's on track.

New news, we're very pleased we've succeeded in selling the four GBA321s, they'll be going at book value. There will be a £3.3 million additional cost this year, because we chose to fly them, so we've got the additional revenue for them in the year, and there's an associated cost of £3.3 million. And we announced this morning that we have secured financing for 16 aircraft, so it's \$450 million, and the rates we've achieved are really very good on that, they're market leading rates. So we're pleased with that.

I think on that I'm going to pass back to Carolyn to go through the operation issues.

Carolyn McCall - *easyJet plc - Chief Executive*

Yes, thanks very much, Chris. Well, of course, when we look forward, clearly the issue front of mind at the moment for us is the recent operational issues. And the thing to say about this is that we've been very open internally, and of course we are being with you. The on time performance has not been up to standard, and therefore it's not been very good for our passengers recently, and it's certainly not something that the easyJet team want. So we are doing two things, we are conducting longer term a root cause analysis because actually we need to get the bottom of something, and the most important thing is to make sure that we fix this for the longer term, and that this doesn't recur. Many of you will remember this happened in 2006, actually it happened in 2002 as well. And actually so... I actually really believe that getting to the bottom of what this is, and why this is is really, really critical to the long-term sustainable kind of operation of the business. So that's the first thing. And we will do that, we will talk to you more about that in

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November. Because we need to be accurate about those findings, and we need to be considered about that.

The other thing we're doing as a matter of absolute priority is we're taking some short-term measures to fix this, so for the next eight to ten weeks, we've got short-term measures in place which I will talk to you now about. So there are some key things that we can do, we have to focus on the early wave, so when we say that early wave we know that that is in the first three hours of departure. And the reason for that is if you get your early wave right, your whole day goes well. If you get your early wave wrong, if you have a lot of delay from the early wave, particularly for easyJet, it is a big issue. And the reason for that is we have a very tight schedule, right, that huge strength of our kind of positioning really is that we fly big routes and we fly them frequently, and we fly into primary airports. And therefore if we're delayed in the morning, we knock up against slot delays in the evening, and we knock up against curfews. So BA will fly two flights, we will fly six, do you see what I mean? So there's a massive difference. And the other thing is other local carriers will fly to tertiary airports, we fly into primary airports. So if you're flying into a tertiary airport, you don't come up against curfews, we have curfews in France, Geneva, Italy. So for easyJet the first wave of being delayed is a much bigger issue operationally than it would be for any of the other airlines. So that's one of the things we're focusing on, we're putting a little bit more resource into that to get that right. And the second thing to get an absolute focus on is Gatwick. We have 42 planes in Gatwick, it is our biggest base. I'm sure you all know this, but I didn't know this until I joined easyJet that Gatwick is the busiest single runway in the world. And easyJet has in the early wave 50% of the traffic is easyJet traffic, 50%, 15% is BA. So you can see how if you focus on the early wave, and you focus on Gatwick and get those two things operationally better, you will have an effect on the entire network.

The third thing we're doing is we're changing our timings on the schedule so that we are retiming quite a lot of our schedule in the summer months, in the peak period, so that we have some buffers in our schedule. Now we also have had some fire breaks in the schedule, but this is much more about giving us a more comfortable buffer, so we get some more flexibility into the schedule. And that is very important.

And the other thing we can do about on time performance is we are an extremely fuel-efficient airline, again it's a massive strength. We will continue to aim to be fuel efficient, but in the summer period we will be saying to pilots that they can use their discretion to fly faster so that they don't miss their slots on arrival and that they actually get to places on time. Because you can be delayed but actually you can make up as you all know time in the air. And at the moment

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we have very clear policies about how fast we fly. So we will unlock those, and pilots will be able to use their discretion.

Those measures we put into place about a week ago and they are already paying off, so we are already this week having a much better week in terms of on time performance, and therefore operational performance. So the thing to stress here is that at all times safety has been absolutely number one, as you would expect, but it is work reiterating at no time is safety slipping at any time. The second thing is we need to care for our customers. So we have put more resources to customer service centre, it's open seven days a week. We're trying to get them to open from four in the morning until midnight, instead of their normal eight to eight. We're already expanded that from six to 12, so we're doing quite a lot for customers. Every single customer will get an email and a text message, so there'll be personal contact with any passenger affected. So we'll do everything we can firstly not to cancel, but if we have to cancel it will be done with customer care in mind. So the cost of all of this, the mitigating actions, and the cost of compensation for disrupted passengers are covered in the guidance outlined in the IMS. So I think you should be able to see that.

So looking forward, when you look at our forward bookings, they're absolutely in line with expectations, and they're in line with what we did last year. So 64% of quarter four seats are already booked.

Moving to slide 12, and the outlook. As I've just said forward bookings are in line with the prior year. Total revenue per seat growth for quarter four at constant currency is expected to be in the range of 2% to 3%. Therefore full year total revenue per seat at constant currency is expected to increase by about 2.5%, which is a better performance than originally expected.

Total operating costs excluding fuel at constant currency, before volcanic ash costs of £36 million and before snow disruption costs of £21 million will be up by 2% to 3% per seat for the full year. Now this is one-off, so this one-off incremental cost year on year is because easyJet has put in place, as I've just described, mitigating actions to minimise the impact to our customers during the busy summer period. And as I've said, this is a combination of air traffic control disputes as well as some crewing issues in parts of our network. So it's very hard, I think, for easyJet to kind of completely disentangle one from the other, it's a combination of factors. There is not question, we've had some crewing shortages in parts of our network. It's not expected that these mitigating costs will continue into full year '11.

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Despite these additional one-off costs, and the uncertain economic outlook, the company continues to expect to make a pre-tax profit for the year of between £100 million and £150 million at current exchange rates and fuel prices.

I think if we could take questions from those of you in the room first, and then we'll go to everybody on the phone. Thanks for listening.

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Questions and Answers

Unidentified Male

Just two questions from me. The [unclear] of the slide with regard to forward bookings, give us the flavour of just [unclear] from the [unclear] is possible. Then perhaps with regard to Gatwick, obviously, [unclear], but you guys have had operational problems. Can you elaborate on how that is playing out? Are you still net gaining at Gatwick, or very much a status quo?

Chris Kennedy - *easyJet plc - Group Finance Director*

So when you said from a [unclear] perspective, what did you mean?

Unidentified Male

As if in we look down, or if you look up the forward booking curve, are we seeing a gradual improvement, or are we seeing any sign of concern, or...?

Carolyn McCall - *easyJet PLC - Chief Executive*

In fares, in yields?

Unidentified Male

In yields.

Chris Kennedy - *easyJet plc - Group Finance Director*

The yield is ahead of last year, and ahead of plan. So no we're not... if your question is, are we having to reduce fares in order to sell seats, the answer is no.

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Unidentified Male

And had you seen of that through the concern over potential future [unclear] other airlines across Europe [unclear]?

Carolyn McCall - *easyJet PLC - Chief Executive*

No, I don't think so, actually, at the moment. There doesn't seem to be any evidence of that at the moment. Our yield performance has been very strong, and it's continuing, the underlying yield performance is strong. On the BA point, I mean, you've seen in our statement that we've said there's about £7 million pump benefits from BA strike action to easyJet. I would very much hope that we can retain some of that benefit of passengers who have switched from BA to easyJet. I do think that's one of the strengths of the easyJet brand, that people are comfortable about making that switch, and that's largely about customer service. In fact it is known to be [unclear] crew customer focused. So I think that that is an opportunity in the future.

Unidentified Male

Can I just follow on from that question. You said just last week that they're keeping forward bookings back by about a percentage point [unclear].

Carolyn McCall - *easyJet PLC - Chief Executive*

No, that wasn't us.

Unidentified Male

No, Ryanair. As you doing something similar as well?

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Carolyn McCall - *easyJet PLC - Chief Executive*

The thing is Ryanair did that, and are we following?

Unidentified Male

No, are you doing something similar, that's why they're seeing potential quarter on quarter yield increase?

Carolyn McCall - *easyJet PLC - Chief Executive*

No, we're not doing that. And I think one of the things that perhaps we haven't conveyed, is that one of the differences between easyJet and Ryanair is that Ryanair's performance has been strong, but it's been out of the cycle, i.e., it's come out of the cycle with a strong performance. And easyJet's performance has been [unclear] cycle. So actually easyJet's revenue performance has been very strong all the way through the recession. And we're now growing on growth, is that makes sense, whereas I think Ryanair are growing from a minus 15, I think it is, isn't it? Yes.

Unidentified Male

Can you just talk a bit about return on capital employed, how quickly you think it's necessary to get return on capital employed? I don't know whether I need 15% but certainly trending upwards quite strongly. And also on the kind of Stelios cure 90-day licence, how seriously do you think you're having to take potentially a new name for easyJet, given what he's kind of [unclear]?

Carolyn McCall - *easyJet PLC - Chief Executive*

We'll do that in two parts, okay. Chris, do the first. I'll do the second.

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Chris Kennedy - *easyJet plc - Group Finance Director*

Yes, so on the return on capital employed, we're keeping the 15% target. I think obviously what we're doing with the review of assumptions and looking at it in the current environment, let's see how quickly we get there. Current projections it's not far out, but that's something that will be an output from the review and we'll give you more detail in November.

Carolyn McCall - *easyJet PLC - Chief Executive*

Okay. On the cure notice, we've just said that we believe our on time performance is not up to standard, and we are all working very, very hard to fix that, that's why I told you exactly the measures we're taking to improve that, we will do that short term and in the long term. You know that there is... the court case is now over, the Judge should judge on the brand dispute either in July or September, and we await that judgment. And in the meantime, Mike Rake, Chairman of easyJet and I have made it really clear to all staff at easyJet that we are trying to resolve this, and we are trying to resolve this quickly in the interests of all shareholders, and the interests of the company. So it would absolutely not be... it's something we would want to do, to change the brand, it absolutely wouldn't be. There is a contingency plan, but that's about all I would say about that.

Chris Kennedy - *easyJet plc - Group Finance Director*

And I think I would just add that this 90 day for on time performance, we don't believe that there are grounds.

Carolyn McCall - *easyJet PLC - Chief Executive*

Well, legally, we are being advised that there aren't grounds, but we take it seriously, because on time performance is important to an airline right, so it's not about... particularly about that, it's about going the operational...

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Unidentified Male

And just to follow up on that, [unclear] whole issue, rather than just the 90-day cure.

Carolyn McCall - *easyJet PLC - Chief Executive*

Yes, of course I am. Yes.

Unidentified Male

Can I ask on the guidance, you've maintained the guidance £100 to £150 million, but there are only two months left of the year, you've got your bookings, you know what the [unclear] is more than you did a few months ago. Why still such a wide range?

Chris Kennedy - *easyJet plc - Group Finance Director*

I suppose two reasons, at the end of June we were still in net loss, so it is the quarter where we do make a profit. And secondly we know that a very big contributory factor to the current disruption levels is air traffic control, and we don't have visibility, forward visibility on what level of disruption there will be in particularly France.

Carolyn McCall - *easyJet PLC - Chief Executive*

John, can I just give you an example of that. I mean, we're not hiding behind air traffic control disputes, but full year '09 there were eight industrial actions in Europe over air space. And this year there's 48 today, 48. So it's a massive increase in disruption. On Friday we thought we were having quite a good day, and we were told unequivocally that Greece would not go on strike, air traffic control, they all walked out on Friday evening. Of course there were some really rather large problems on Friday night. So no one could have predicted that, you know, when

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you're being told absolutely this is not going to happen, they've resolved it, they're not going to strike, and they unofficial walked out. So that's just to describe how difficult it is to actually say it won't happen.

Unidentified Male

Can I ask another question, you've already touched on a little bit, and you've mentioned that you're reviewing all the assumptions in the business at the moment. But can you give us an initial view on the issues that dispute with Stelios, or which Stelios has been raising for some time, specifically fleet growth, and dividend payment. What's your kind of early view on those questions?

Carolyn McCall - *easyJet PLC - Chief Executive*

Well, do you know, I don't think we should give you too early a view, I think they're too important for us to say to you after three weeks, here's a view. I think they need to be very carefully considered, and I think we really need this properly and thoroughly and you'll get an absolute clear answer from us in November.

So shall we take one more question, and then open it up to the phone.

Unidentified Male

On ancillary revenues, maybe slightly weaker than expected on one or two specific issues. Can you give us any more colour maybe on the outlook, what you're doing just now to mitigate some of those issues [unclear] effect? Any positive initiatives you've taken that might help this?

Chris Kennedy - *easyJet plc - Group Finance Director*

In terms of the outlook, I would anticipate performance in Q4 being similar to Q3. In terms of what we're doing about it, there is a programme, Dana Dunne, the Commercial Director is completely focused on ancillaries. He outlined quite a few initiatives at the Investor Day, and the

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[unclear] Day, and at the half year. So there's really nothing more to add than it's business as usual on those initiatives that he's got in place.

Carolyn McCall - *easyJet PLC - Chief Executive*

Shall we open it up. Lee, hello, can we take some questions on line, please?

Operator

[Operator instructions] Your first question comes from the line of Douglas McNeill at Charles Stanley. Please go ahead.

Douglas McNeill - *Analyst - Charles Stanley*

Hi, good morning. Can I ask about the comments from Balpar[?] a few days ago, in which they talked about a major review of pilot numbers and rostering practices to tackle these operational issues you're having. That would seem to point towards significant recruitment, which is indeed what it took to fix the crew shortage that occurred in 2007. Is that a fair working assumption, do you think, looking at next year, or have Balpar just got it wrong when they say it's a major review?

Carolyn McCall - *easyJet PLC - Chief Executive*

I don't think they've got it wrong, I think we are looking at an end-to-end process review, easyJet knows this, internally that's what we've committed to doing. And it is a process review that covers at least three different areas, and you're right to say we have a... we have got some new systems, the rostering optimiser system is a new system relatively speaking, and it was bedding in... it has been tested for a long time, but it went live in May 2010. So we are looking at that and how that's working. So I don't think the natural conclusion would be it means we have to definitely have more numbers, I think it's the use of resource, and it's the use of standby cover, and have we got enough standby cover. So I think we are going to look at it end to end, and we will come back, and we will work with Balpar on this so we have a very open and constructive relationship with Balpar from what I can gather. And I'm meeting with Balpar in the next few

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weeks, so we will continue to discuss with them what we're doing. But it is a thorough review of crewing and rostering. It's both those issues combined.

Douglas McNeill - *Analyst - Charles Stanley*

And Balpar also talked of an initial injection of £5 million. Is that a pay rise for the privates, or...?

Carolyn McCall - *easyJet PLC - Chief Executive*

For what have they said that? I'm not sure what the context of that is?

Douglas McNeill - *Analyst - Charles Stanley*

They said it in their press release on Sunday. They said that the major review would entail a £5 million cash injection.

Carolyn McCall - *easyJet PLC - Chief Executive*

I haven't yet gone back to them and asked them what they're referring to. Because that isn't a number that I recognise, but that could be something that our HR director's been talking to them about and I'll have to check on that and come back to you.

Douglas McNeill - *Analyst - Charles Stanley*

Okay, that's very clear, thank you.

Operator

Next question comes from the line of Stephen Furlong, of Davy. Please ask your question.

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Stephen Furlong - *Analyst - Davy*

Hi, there. I just wanted to ask you about just generally about growth and geographies, and were you see maybe further potential to add aircraft going forward, I mean, maybe France, maybe Germany's a little less interesting with the ABD taxes potentially there. And more generally just with maybe some recovery in traffic, do you see an issue whereby it will be difficult to get slots in some of these primary slot constrained airports which is something you did very well in the downturn? Thank you.

Carolyn McCall - *easyJet PLC - Chief Executive*

I'll just answer the general point and see if Chris has anything to add. And we're finding that airports in Europe are really, really wanting to talk to us about increasing what we do at all the airports. So despite them being slot constrained, despite them being primary airports. I mean, I was in Milan meeting the airport management, and they're keen to have further discussions with us about how we can expand there. I think it's too early to tell you where we're going to put more resource, or how we're going to put more resource, just too early to say that. That is going to be part of what we're looking at over the next three to four months, it's very much part of the plan going forward. And you'll have far more clarity on that in November. Anything to add to that?

Chris Kennedy - *easyJet plc - Group Finance Director*

No. I think just to reiterate, I guess we are continuing to look into optimising the network throughout, so this doesn't mean that we're stopping making all the right tactical choices around where to base the aircraft and keep pursuing. And you're right to point out it's difficult to get slots and we have played a long game in building up this network, and we'll continue to do that, and optimise that.

Stephen Furlong - *Analyst - Davy*

Okay, thank you.

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Operator

Next question comes from the line of Johannes Braun of Commerz Bank. Please go ahead.

Johannes Braun - Analyst - Commerz Bank

Yes, hi, good morning everybody. Just a question on the announcement of Air Berlin yesterday that they were joining the One World Alliance. The idea might be that they feed traffic to London, London Gatwick, London Heathrow for BA or for the One World Alliance long haul traffic. I know it's still early days but maybe some comments on the impact on the easyJet outbound travel from Berlin to London. Would that have any impact on your business out of Berlin?

Chris Kennedy - easyJet plc - Group Finance Director

This whole question of whether low cost should be a feeder airline for the long haul it's an old question. I know that easyJet were approached in the past and concluded it wasn't worth the operational difficulties. So I don't think it will. I think our view at the moment is if you've got a deep enough, and thick enough, route into the primary airports which we do, then organically you end up getting feeder traffic without having to make specific arrangements.

Carolyn McCall - easyJet PLC - Chief Executive

I agree with that, I would say there's no complacency though in Berlin about what we're doing, and how we're doing it. And we will be watching it closely, and Berlin is important to us, so we will watch that closely.

Johannes Braun - Analyst - Commerz Bank

All right. Thank you.

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Carolyn McCall - *easyJet PLC - Chief Executive*

Shall we take one more question by phone, and then we'll open it up again.

Operator

Your last question comes from Joe Gill of Bloxham. Please go ahead.

Joe Gill - *Analyst - Bloxham*

Good morning. Just a couple of points, please. First off could you just confirm what your capacity increase year on year will be in the fourth quarter. Secondly in relation to the costs regarding logistics at the moment, have you made a reference to a £15 million cost for wet-leasing aircraft, and is that relating to the 757s, or is that separate from that? And is that number going to be treated as an exceptional, or is it taken as part of your overall cost guidance?

And finally in relation to your disposed four A321s, what's the total sum being received for those, and the £3.3 million cost you refer to in relation to that disposal, will that be treated as an exceptional in the full year accounts? Thank you.

Carolyn McCall - *easyJet PLC - Chief Executive*

So the three questions were capacity growth, wet-leasing, and the 321s.

Chris Kennedy - *easyJet plc - Group Finance Director*

So on capacity growth, it's 8%, it's what would be the guidance is based on.

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On wet-leasing it's very unlikely that we'll treat those as exceptional in the full year, we're certainly not treating them as exceptional in our guidance [unclear], measures we've put in place.

On the 321s similarly, the cost of flying those planes is part of operating costs, and we got the revenue associated with it. And in terms of the proceeds on that, I'm not going to disclose that at the moment.

Joe Gill - Analyst - Bloxham

Okay. And clarifying the wet-leasing point is that cost of £15 million in relation to these 757s you've had in since early summer, or is it on top of that?

Carolyn McCall - easyJet PLC - Chief Executive

No, it's all of it.

Chris Kennedy - easyJet plc - Group Finance Director

Yes. It's the aircraft June through September.

Carolyn McCall - easyJet PLC - Chief Executive

Okay. Shall we ask more questions in the room? And see if there are any others.

Unidentified Male

Can I just pick up on Joe's point in terms of the 757s that you're wet-leasing. How much extra wet-leasing is there on top of that from where necessary for other aircraft that you are using at the moment? Is that just a very small amount, or...?

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Carolyn McCall - *easyJet PLC - Chief Executive*

Yes, very little. There's the three aircraft that we originally intended to wet-lease which was agreed in May actually before we arrived. We then increased that by one, so we've gone from three to four. There are four.

Unidentified Male

That's also a 757?

Carolyn McCall - *easyJet PLC - Chief Executive*

Yes I think it is, isn't it? The fourth aircraft?

Chris Kennedy - *easyJet plc - Group Finance Director*

We were looking at options on that.

Carolyn McCall - *easyJet PLC - Chief Executive*

Yes, that was not confirmed. That hasn't been confirmed yet, but we know we can get it. And that won't be until August, the fourth aircraft. And then I think as and when required there'll be ad hocs, but that is what airlines do as a matter of course, as you probably know, so that's nothing in that.

Chris Kennedy - *easyJet plc - Group Finance Director*

We'll confirm to you, but my impression, certainly my feeling is that the ad hoc leasing is no more than usual when you have an AOG or whatever.

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Unidentified Male

Stelios also had a cure notice on the wet-leasing of non-easyJet branded aircraft.

Carolyn McCall - *easyJet PLC - Chief Executive*

Yes, which is why we're branding them.

Unidentified Male

Is it an issue with the ad hoc?

Carolyn McCall - *easyJet PLC - Chief Executive*

No. That's normal operational practice.

Unidentified Female

Of the £68 million lost revenue for the volcano, can you quantify how much of that will be ancillary including the check back charge?

Chris Kennedy - *easyJet plc - Group Finance Director*

I don't think we've done that, have we, Rachel?

Rachel Kentleton - *easyJet PLC - IR*

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Check back charge isn't in the £68 million [unclear].

Unidentified Female

Is that just passenger revenue lost?

Rachel Kentleton - *easyJet PLC - IR*

Broadly, yes.

Unidentified Male

If we look at the [unclear] it's advanced quite a lot I think, about 30% to 70%. So that seems quite a rapid advance in a relatively short period of time. Has there been any change to your policy, or where we just moving from the short of low end of your range to the high end of the range?

Chris Kennedy - *easyJet plc - Group Finance Director*

We were moving from the low to the high, and we did that because the prices were favourable for us.

Unidentified Male

But no change in policy?

Chris Kennedy - *easyJet plc - Group Finance Director*

No change in policy.

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Unidentified Male

But that will be part of the review as well, presumably?

Chris Kennedy - *easyJet plc - Group Finance Director*

Yes.

Unidentified Male

And then can I just ask on the short term mitigation stuff. You're talking about focusing on the early wave, what can you change to focus on the early wave? I thought it was [unclear] if the first bloody flight of the day goes on time, or is meant to.

Carolyn McCall - *easyJet PLC - Chief Executive*

Well, you change your weekend. So, if for instance, you have a... if your schedule is so tight on Sunday that you have a lot of planes out of position on Sunday night, you start your Monday early wave with some problems, because you're positioning a lot of people, you're trying to get people into the right place for the right time. So what I've learned very quickly is that the weekend matters a great deal because it's your busiest time, and if you end your weekend and you have [unclear] planes, so you've got everyone there, but they're all out of position, because they've been delayed, or because you've got other issues, air traffic issues or whatever. You start Monday late, because you can't your crew to the right place for the planes. So you can do some things about the early wave. You can also put a bit more resource for instance into check in, so you can make sure that you are speeding up check in so you don't have delayed passengers. One of the big problems with early wave is you can often have 15 passengers not on the plane, that can mean you have to take their bags off the plane, or they're running to get to the gate, and you're waiting for them for 10, 15 minutes. So it's both... it's all of that kind of thing. So we're working with Menzies for instance and Gatwick in particular, to reduce the check in queues at Gatwick to 30 minutes maximum so that we make sure people get on the plane quickly.

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Unidentified Male

And just in terms of the short term measures also, you talk about bigger fire breaks. So it that cancelling flights, is that lowing production in the quarter?

Carolyn McCall - *easyJet PLC - Chief Executive*

It's retiming flights as far as we can possibly manage to retime. There have been some cancellations, [unclear] that have been done early. We've done those on multiple routes so that passengers have either other easyJet times to go on, or other airlines to fly on. But we've tried to minimise that as we go forward.

Rachel is going like this. That means...

Unidentified Male

A lot of these measures that you're talking about to improve the operational performance, it sounds as though they... obviously they've got short term costs, but it sounds as though a lot of it is sort of unbinding some of the efficiency moves that were being put in place to get to the £190 target. Yet, you seem committed to that target. You're clearly seeing other stuff that you think you can yield benefits to offset. Can you give us a bit of a clue?

Chris Kennedy - *easyJet plc - Group Finance Director*

I mean, firstly I think it's far too early to say we're putting extra costs in. We've got to do the root cause analysis and work out... it's around flexibility. We've got the same number of crew per aircraft this summer as we did last summer. So it's not a given, the cost increase. In terms of the £190 target, we're three and a half weeks in, but it is the initial impression that there is more to come in a lot of cost categories that will compensate if there is a cost increase in the crew. Again, I think this is very much more detail in November. These are first impressions.

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Rachel Kentleton - *easyJet PLC - IR*

Okay. I think if there are no more questions in the room, and there are no more questions over there on the phone, then I'd just like to thank you all very much for coming, it's very good to meet all of you, and thank you all on the phone as well.