

easyJet Q3 IMS Conference Call - Transcript **Wednesday 25 July 2012 – 8.30 am**

Speaker Key

JA James (operator)
CM Carolyn McCall
CK Chris Kennedy
SF Stephen Furlong
DO Donal O'Neill
UM1 Unidentified Male Speaker 1
UM2 Unidentified Male Speaker 2
UM3 Unidentified Male Speaker 3
UM4 Unidentified Male Speaker 4
AD Alexia Dogani (Liberum Capital)
AT Anand Tate
MF Member of floor
AN Andrew

JA Good morning, ladies and gentlemen and welcome to the easyJet Q3 IMS conference call. My name is James and I will be your coordinator for today's conference. For the duration of the call your lines will be on listen-only, however, you will have the opportunity to ask questions at the end of the call. If at any time you need assistance please press *0 on your telephone keypad and you will be connected to an operator. I will now hand over to Carolyn McCall, easyJet Chief Executive to begin today's conference.

CM Thanks very much. Thanks all of you for joining us on the call. We have our presentation on the website so I hope all of you can refer to that; it will be easier as I go through, there are only a few slides. I'm going to keep this very short as a presentation so that we have lots of time to answer your questions. As you can see, we've had a strong quarter completely consistent with guidance that we gave at the half year.

Revenue per seat, as you can see, up 4.7% on a constant currency basis. There is an impact of foreign exchange on revenue but that is more than offset by the impact on [unclear] due to timing. We have maintained, as you can see, our industry leading on time performance and we intend to keep that. There's strong evidence of cost control; cost per seat is at guidance.

Revenue growth has completely covered the year-on-year fuel cost increase and has allowed us to maintain returns. It is important to note, I think, that we have had in this quarter a very benign operating environment so some ATC strike actions have nowhere near what we experienced two years ago, for instance, and also, of course helpful that we've seen a fall in the price of fuel.

Our full year guidance we expect to deliver profits before tax for the full year between £280/300 million. On the revenue, slide three in the presentation, strong growth in passenger numbers. Load factors continue to improve and we can touch on those factors perhaps in the Q&A. The obvious question is should you be taking more yields? We are confident that we've done everything we can to optimise our yields in this quarter; perhaps it's going to help [?] in answering those questions afterwards.

You will also notice there's a slight sector length decrease and that is entirely to do with the fact that we're doing more mainland Europe flying; we've put more of our capacity into mainland Europe, shorter distances flown, particularly an increase in French domestic. That really accounts for that.

If you continue on to the next slide, this is the breakdown on revenue so you can see seat revenue grew by £2.70 or 4.9% at constant currency in the quarter, again in line with guidance. Strong demands on beach routes as you would expect, our top three beach routes being Alicante, Malaga and Faro. First bag and season charges constituted £1.56 of the constant currency growth.

Negative impact from the timing of Easter and if you remember that really benefited us in Q2 so there's just a timing issue there. Just also to remind you all that we're up against very tough comparators for last year because you will remember that we put our first bag fee up in April 2011 and we put our booking fee up quite significantly in May 2011. I think that's important to remember that we're up against those tough comps.

There's no question that the Europe by easyJet campaign is making a real difference and helping to boost demand. [Inaudible] revenues are entirely impacted by the structural decline in insurance. Again, we can talk a little bit about that; that's 5 pence a seat decline and we're doing what we can to mitigate that decline by looking at new product development. We've got a new insurance policy now for people who miss their flight; a more common thing than you might expect. We've got an enhanced hotels offer and also we've had a great focus on in-flight and our in-flight revenues will be up year-on-year in real terms.

I won't say anything more about that. I just wanted to expand a little bit on the mobile application that we launched in December. It's been downloaded by over 2 million customers, already. It already accounts for 20 million of revenue and recently exceeded 2% of e-commerce sales. A significant proportion of booking through the incremental and not cannibalising other channels. I think you will see quite a lot of enhancement to this as we go through in the pipeline.

I think one of the important things here is this is about two things; it's about optimising revenue that we can take from passengers so that they can book and they can add a bag up to two hours before they fly, wherever they are, whenever they

want, which is a fantastic functionality. But it also helps to reduce costs, particularly in times of disruption. So it does two really important things for us.

The mobile website went live last week. You can now get it on BlackBerry as well as all the other devices; BlackBerry came later than iPhone and you don't need any software to download this so it's a very easy thing to do. I just give you that as an example of how we're optimising revenue and we're also looking at costs. We've also just launched, I think it was going live last night, yes last night where we've got the flight checker. So wherever you are, if you are an easyJet passenger you can just look at flight checker and it will tell you exactly what's going on with your flight in live time, so in real time. Which I think from a passenger's perspective is really useful.

I'll just go into a little bit of detail now on the next slide on the countries that we are putting capacity in and give you a little bit of flavour as to why. We know there are profitable growth opportunities in the markets we're already in; organic profitable growth is extremely important to us. We're investing in areas where we know we're going to get the return. In March we launched two new regional bases; Nice and Toulouse in France. We are the number two carrier there, as you know. I think FR is still in a state of restructuring and intensely internally focused. France has also got very low cost penetration. We believe, for all those reasons that it's a good market for us to continue to put capacity in. Early indications are that both Nice and Toulouse are performing strongly already, although they are very new bases.

Switzerland you will all be very familiar with; we've been there for the last 15 years. We are a very established brand presence there. Low cost penetration remains very low; it's in the late 20s rather than somewhere like Spain which is over 50%. We have a cost [inaudible] there against the incumbent and we are strong number two in Switzerland and number one in Geneva.

Portugal, again although economically very challenged as a country we're up against a weaker competitor in TAP, but also we are able, I think, to connect Portugal with the rest of the world in a way none of the other operators out there can do because of our very strong network. There are reasons, as you can see, that we're putting capacity into all of those markets.

Finally, Italy, we are focused on Northern Italy. We are seeing quite a distinction between Northern Europe and Southern Europe and we think there are some opportunities in Northern Italy, especially where the Competition Commission, for the first time ever looking at monopolies and monopolistic routes. You can see Linate/Manciano [?] which is a prime route and has been a monopoly for a long time and is just about opening up now. There are just some interesting things we're keeping an eye on there.

I'm going to hand over to Chris now to talk about how we're taking some of those decisions on capacity [?].

CK Slide 7, just want to share with you, it's another one of the ways that we look at the network; we look at it as a portfolio, as you know, we look at the route portfolio and here's another way that we cut it which is to look at our major network points. This chart is simply on the Y axis you've got the potential for easyJet in the market; so is this a market where we think easyJet will win and succeed and that's based on a number of metrics like the GDP, the revenue pool and so on and so forth.

Then, on the right, it is what returns we are actually getting right now. Clearly what you want is either a high opportunity where we're earning low returns in which case we stay and we sit, or, you want a high return. It was just really to highlight that this is one of the ways that we could easily see that Madrid was something that we needed to address because of low returns and we felt that, relatively speaking it wasn't the best opportunity for us in Europe.

That's the thinking behind Madrid. The other outlier, in case you ask a question, is Liverpool and that's as a result of a long-term deal that was entered into in 2001; it's still got 8.5 years to run. So we're managing that against that long-term deal. We are actually going to pull out some more capacity from Liverpool; going to take out another two aircraft from there for the winter. I just wanted to share with you another of the tools that we're using to work on the network.

Next slide, on slide 8 this is in response to an easyGroup question; their challenge to us was what contribution are you earning for each aircraft as it is actually flown? We've pulled this together for them.

A word about the colours; obviously you've got aircraft coming into the flight during the year and they're only flying for a part year so they'll earn less contribution those are the green lines. Then you've got aircraft exiting the fleet during the year and, again, they're only flying for part year and those are the black lines. We've segmented it between the 320s and the 319s and, again, in answer to easyGroup's question we've just ranked them from oldest to newest aircraft.

I think, unsurprisingly, given that we fly the networks, we're operationally drive so one of the great benefits of easyJet is we can move aircraft around the network. So pretty much over time every aircraft will fly on every route because they're not allocated to routes; we do a cooperation [?] efficiency. You'll see that on average pretty much all of the 319s with a few exceptions are earning average rates and the 320s are earning average rates.

What is clear is that the 320s are earning a higher overall contribution than the 319s and that's driven by the lower cost of seats and the fact that we can fly them on the fixed [?] routes where the yields aren't impacted. And that contribution more than offsets the increased capital invested in those aircraft; they are returning both contribution and a higher return on capital.

We've done it this time, we still believe that the best way for us to manage the network is to use that route map that we've shown you, the portfolio of routes and

we'll give you an update on that at the full year to show how we're making progress on improving the returns overall.

Slide 9, just to go through the scores on hedging. We are very well hedged for the rest of the year and pretty well hedged for the next fiscal year as well. For this year it will be 79% hedged on fuel at 964 and the dollars needed for that fuel are all at 1.59 and Euro which is particularly important for us at the moment was 77% hedged at 1.14 this year and 59% at 1.15 next year which provides a bit of a buffer against what is quite a strong headwind for us for next year.

Fuel price has come back in recent weeks and we have had a benefit in the quarter; we've had about a 5.5 million benefit on fuel on the price. I'm going to hand back to Carolyn now.

CM Forward booking falls in line with last year. The Olympics will have, or has had an effect in July/early August. We will be roughly flat across the network. We will be slightly down in London. We are confident we will recover that in late August and September; September is already looking stronger than it would have normally done as a result of people shifting things round. This is a London effect, nothing else.

With around three-quarters of summer seats sold we are cautiously confident for the remainder of the summer. The continued strong operational performance that you can see and financial performance of the business combined with the fall in price of jet fuel means that, as I said, that PBT [?] for the year ending 30 September 2012 is anticipated to be in the range of £280/300 million, assuming normal levels of disruption.

On that note I'll close this part of the call and open it up for questions. Shall we take questions from the call first to begin with and then we'll take some questions in the room as well, if that's all right?

JA Ladies and gentlemen, if you would like to ask a question please press *1 on your telephone keypad. If you change your mind and want to withdraw your question please press *1 again. You will be advised when to ask your question. We have two questions coming through, the first of those comes from the line of Stephen Furlong from Stephen Furlong from Davy Research in Dublin; please go ahead.

SF Good numbers; where would you say you are in the journey in terms of development of the business product? There's been a lots of things done over the last year/18 months and is it something that you think is going to incrementally start coming through in 13 or it's a slow-burning so 14 and onwards?

CM I think that we are at the early stages of what we're doing on business. As I said to you the last time when we presented it's taken a good year to put the building blocks in place. They're still not all in place; the Amadeus technology doesn't come on stream until the end of December for us. They're doing particular

technology for easyJet to be more accessible on Amadeus. That takes a year so they started that when we signed the contract in January.

I would say this is a slow-burner and we've always said it's a five year plan on business because we're having to put in place some things, the actual things that need to be done they're quite tangible before we can start seeing incremental [inaudible]. I have to say, although I say that we're increasing our share of business in a tough market and we are seeing some trading down, I think, where people are being much more cost conscious on business travel in Europe.

We're doing fine but it is a slow-burn. I think you will see some benefit in 2013 but you will certainly see more benefit in 2014 and 15.

SF That's really clear, thanks a lot.

JA Our next question comes from the line of Donal O'Neill from Goodbody in Ireland; please go ahead.

DO Two questions from me; on the sector length obviously, as you said, there's an impact from flying more domestic France and continental Europe, will that kind of trend continue on into Q4 or will we see a pickup in that given the natural growth in the summer routes?

CK Yes, I think the trend will continue so you'll see a slight shortening of the sector length simply as we add those city pairs and those domestics.

DO And on load you mention that you expect load to be slightly higher in Q4; you averaged about 91.2% last year so when you say slightly higher can you put any kind of a quantum on that?

CM On our load factor?

DO Yes.

CM I'd rather not to be honest with you, at this stage, because we're still at the stage where we're working out load versus yield so it would be foolish for me to do that.

CK Because what we do is we maximise revenue for the aircraft and that can be through more passengers or a higher ticket price and it really depends on the booking trend as to whether that results in a high load factor or not. What's important is we expect the most revenue from each aircraft, their contribution, I should say.

DO Just one last question on Spain; obviously it's a very difficult market at the moment. What is the short and medium term outlook there in terms of demand and pricing?

CM The reason we've taken the decision, or we've proposed to the union in Spain that we're going to take that decision is that we don't see, for the medium term much improvement in Spain. Because I think Aena, for instance, are completely stuck with having to increase charges. The national Government, I think, has no choice but to try and gain some... they have to make the money and so this is an extra increase in Aena charges.

It makes those airports, before you've even started in Spain, extremely expensive to operate out of and, if you combine that with the fact that it's a very low-yielding market and always has been because there's capacity still in the market, there's a lot of local low cost competition. You've got high/low cost penetration, consumer issues around spending, low yields anyway, over-capacity and Aena charges going through the roof. It just makes it, I think, a very unattractive market.

Having said that, it is clearly still a strong inbound market; lots and lots of people want to go to Spain and so we will be serving Spain and in fact we'll be taking 12 million passengers to and from Spain next year. But we will be doing that in a way that is more profitable for us because we will be doing a lot more reverse flying but we will be bringing a lot of people into Spain.

DO Great, thanks guys.

JA I have one further question and it comes from the line of Anand Tate from Deutsche Bank; please go ahead.

AT Morning, everyone. I was just wondering, are there any comments you can make on your winter capacity plans? I'm just thinking that this winter was quite benign so it will be interesting to see what everyone's doing.

CK I think unchanged from what we said at the half-year which is we're going to be pretty tight on winter capacity. We're going to constrain it well for us this year in giving us... reducing the first half losses so we'll continue to take a very cautious view in the winter.

AT Does that mean you'll be grounding a certain number of planes?

CK We don't ground planes. It's all to do with the utilisation for the... it's a question of just lowering the utilisation but the planes keep flying.

CM Well, we've put a lot more planes into maintenance over the winter period so we have a lot less planes flying... a lot of our planes so we absolutely shift our maintenance programme to winter and we're doing that increasingly, and, secondly, just remember we are serving city pairs which are often business routes, our prime business routes, and therefore we need to serve those routes; even though we'll reduce frequency on those routes, we have to serve those routes so we want the

business passengers to take us seriously; we can't thin our programmes so much that there wouldn't be a business service or a schedule.

AT Okay, great. Thank you.

JA And we have no further questions from the phone lines so one reminder, ladies and gentlemen, if you'd like to ask a question, please press *1 now.

CM Okay, James, we've got some questions round the table so I'm going to take those now.

MF Could I just ask about Spain and the restructuring process I think you've taken in this quarter? You haven't said very much about how big they are, so first what they are from that, and what do you think the disruption benefit relative to last year in this quarter?

CK So on Spain restructuring we have taken an estimate of what it might cost. Clearly, what we're doing is we're offering everybody who worked in the Madrid base the opportunity to work elsewhere in the network so we're going through that process at the moment, so really the exact cost will depend on how many people choose to move and how many people choose to leave, so we've got an estimate in there. It's not a significant impact on the quarter's results so that's where we are on the restructuring.

On disruption, I don't know the number for the quarter but certainly our estimate, our rule of thumb is that you... normal disruption is around 15-20 million a year. Last year was much higher than that. This year has been much lower than that so that's the order of magnitude of the benefit we're getting from disruption.

MF And can you say, sorry, one follow-up; the increase that you've seen in business to the beach routes because of the poor weather here, what sort of impact do you think that's had on the profit margins?

CM I think we're been offset, to be honest, with the weaker city to city so beach has been very, very strong, but city has been weaker than last year, but I think there's just been offset there.

JC Jarrod Castle from UBS. Couple if I may: do you care to make any comment on 2013 outlook in terms of where consensus is on Bloomberg 310 of CBT.

CM No.

JC I'll try again. Just from your fuel cost 2012-13, if you could maybe comment on that, and then just also you mentioned airport fees: could you just give some magnitude in terms of the different markets, what the fees have gone from?

CK Yes, so just in terms of fuel year on year, with current prices and where we're hedged we think it's around a 13 million headwind for next year again. Clearly if prices go up further that's going to be worse so that's the fuel, and sorry...?

JC Airport.

CK Airport fees: well, with sporty [?] defence increase this year, the Italian contractor when it eventually comes in will be double digit so those are the two big set change fees that we've suffered. Airport charges around Europe vary quite widely. I think the issue that Ayena [?] have is that they think they can charge Heathrow [unclear] fees from Madrid and that clearly not possible for them.

JC Thank you.

MF Can you just talk a bit more about whether you think... or over the last year the relationship between the fare and other ancillary revenue, other revenue and how that's moved, and then within that can you just flesh out a bit more this insurance product that you're offering; what exactly do you get in terms of fees, benefits and how it might roll out over the next 12 months?

CM Yes, I think we made this distinction now between pure ancillary and anything related to fees. I think what we're finding on what you would have considered to be ancillary previously, ie, bags, are pricing and being quite common sensical about that pricing on bags, is really working, so people, if they're going for two weeks and they're going a longer distance they're happy to pay. I think on short distances the... even though the price band can be anything between nine and 11, people will try and avoid taking a bag.

The issue there now is that we have an issue on handbags so we're kind of looking at the whole of bags. The most important thing I think on bags is that we can now yield-manage them, and so we are absolutely optimising busy times of year when the whole [unclear] involved, you'll pay a range, a reasonable range and for the longer sectors you are going to put a bag in the hold, the range might be 13-15 for the first bag, so that I think is the key difference in what we're doing.

On fees and charges, our experience of the admin fee, and we do debate this very, very hard, but actually we did not see any dilution in our booking results of that admin fee increase so that I think shows that people understand that because it's booking, it's not the way other airlines have been doing it. Some other airlines do it per passenger per sector and that can really ramp up the price of a package so I think...

So if you're asking about things like insurance, I can't tell you the details on the margin but there will be a good margin on that insurance product, otherwise we wouldn't bother doing... not worth the time. And it's just looking for new products that will... because insurance, everybody has travel insurance with some other scheme whether it's your health insurance, your credit card or whatever, which is

why people are not taking up flight insurance, the opt in, opt out and all of that, so on insurance product, just looking for lots of different things. We've got some other ideas in the pipeline.

MF But in terms of timing it's really just coming in, isn't it?

CM Yes, just been launched.

MF You're just getting the fee I presume.

CM Yes, it's just like a fee for selling the product.

MF And so the first people buying it have just bought it for flights and [overtalking].

CM Exactly so it's too early but it's an example of how we're trying to mitigate the effects [unclear] flying.

MF Hi, can I just follow-up from Deutsche? So I wanted to follow on from Peter's; what have you done on the hotel front? Have you used a different company altogether, and secondly, going back to your graph on page seven, if you haven't seen the end of the year passengers decrease in Spain, would you have done what you've done in Spain anyway, given where your Madrid spot is always that where you think it is [unclear]?

CM I think on Spain, if I take Spain and ask Chris to come in on bookings.com which is the new help provider, I think on Spain if I [inaudible] Spain consistently in Spain [inaudible] is a very big decision. It's a number of different factors, not simply Ayena. If the government change their minds tomorrow would we want to move all our planes back – no, so I think it was a complicated, and it's an inter-dependence kind of decision so I don't think it's simply about the charges; it's about the economy, it's about the fact that Spanish people are not travelling out of Spain so it's a very weak outbound market; it's about capacity, it's about the fact that you've got all of the other operators in there so it's that combination of factors, not one thing would change the decision.

CK Yes, and then on the hotel offer, we've... as Carolyn said we've now switched to booking.com. We did a [inaudible] deal in that we get a fee on hotels booked through that service. I think we've... it's very early days. We're doing integration with them at the moment but very, very promising working with them. They're very receptive. We think their offer is far more attuned to the EasyJet demographic than the previous offer so very early days but so far the working relationship is really good and we should see an improvement there.

CM Andrew?

AN Can I ask about your frequency of ETM? You're doing very well on frequency performance here. To what extent is it still a drain on management and the board and what, what is really motivating the thinking at the moment? And then as a second question, could you give us an update, sorry, I meant that on the assigned seating trial?

CM You didn't miss it, actually; so, look, we're disappointed that we are, you know, in the, it's not the normal course of events that you have to get your resources together to kind of, you know, spend time working on a new gem and is it time, and it is time consuming; we're disappointed about that. But, you know, as I've said repeatedly, you know, we are very focussed on the airline and on driving returns on the business and I think the performance kind of speaks to that, so we don't allow ourselves to be distracted; it would be very easy to be distracted actually, but actually there's no point second guessing motives, there's no point trying to guesstimate where it... I think the key thing is that the management team are just very focussed, get on with it and it feels a bit like business as usual, so we just, it's routine for us now; so kind of, we know what we're doing, we know how to do it and we just get on with it. And I'm not going to second guess motives because I don't know, you'll have to ask Easy Group.

On assigned seating, trial is well underway at the moment; clearly we are trialling our peak season, which is very good, I mean, that is the right time to be trialling this, and early indications are positive, but until I get to the end of August, Andrew, I won't really want to commit whether, you know, this is going to go ahead or not, because, you know, we need to really make sure operationally when we have very high load factors in the nineties, that we can deliver it on time. So, the most important thing for us is to get returns right and to get [unclear] time performance right. So if we can do that, we can remain as efficient as we are, then it will be worth doing, but if we can't do that, it won't be worth doing. Even if our passengers love it.

AN So the decision comes in the autumn?

CM It'll come in the autumn, yes.

UM1 Just following on from the question there, I mean, in terms of you speaking to all your other shareholders, are Easy Group sort of increasingly looking as a lone voice in terms of, you know, how do we go, given your performance and given those other issues? And the second one, I mean, how much importance do you put on developing that sort of hotels dynamic packaging side, I mean, if you can give any sort of figures on how much you make out of and it would be helpful to sort of, what went wrong with the last people and therefore what you expect from the Group?

CM Mmm hmm. You'll have to judge whether Easy Group are a lone voice or not; I do, you know, I do know that our top shareholders are very supportive, of course. I mean, I do remember that in February at the AGM every single director puts them up for, puts themselves up re-election in line with the corporate governance and

every single one of them were voted back in. That was as recently as February, so I think that kind of speaks for itself. On the hotel front we can talk about...

UM1 Yes, I mean, hotel rooms, I don't think anything particularly went wrong with the last deal, it just came to the end of its, end of its life and naturally we looked outside and went to the markets to see what we could do. It's all wrapped into, [unclear] in in-flight revenue which is at roughly a pound a seat that you see in the numbers, so it, it's a, you know, a few tens of pence per seat, is the magnitude of it. We've also, clearly we've got the holiday offer as well, separately from the accommodation offer, so the bookings [unclear] into the accommodation and then we've got Easyjet holidays on top, which provides additional revenue as well.

UM1 So the hotels alone was about, let's say 30 pence per seat; is that what you're telling us?

UM1 It's, no, I said a few tens of pence, it's not, we've got a pound [unclear] in flight, so, you know, within that component you've got accommodation, Easyjet holiday, insurance cards and in-flight, so it's not as high as you're saying, no.

CM Any other questions?

UM1 Just going back to that point on partner revenue, are you willing to give an indication of the take-up of all sources of partner revenue, from the car hire, hotels or holidays; in what sense your passengers are doing something in that category? And how has that changed over time?

UM1 We haven't disclosed that in the past and we, I don't think we will, but what we have seen is an increase in conversion on that, simply because of the website revamp which allows us to do that multivariant testing that we talked about before, so when you come to the website, we will trial the layout and you'll have two or three different versions of the site going at the same time, and so by moving the call to action around within in the booking funnel or on the page, we can see marked differences in the take-up for each of the products. And actually it's, you know, it's a balance, so you can move your insurance in one place, and you get an up-take on insurance but your cars go down because you've moved them somewhere else, so it's, you know, it's quite an interesting and complex.... But Peter Duffy, and that's what Peter brings to the organisation, he's well versed in all of that, he has made a real difference on conversion.

CM And the website is just so much better, it's easier to use, we've upgraded it a couple of times now, it's just a much easier thing which does help, it really helps conversion. Tim?

TI What do you think the [unclear] is doing on the routes that you're operating in terms of capacity, if you go from the space that you have, at the last results?

CM It's pretty flat on our routes actually, so, I mean, I think that's partly constraint, really, on the routes that we fly, has certainly helped us to cover costs [unclear] actually, so our yields have gone up, which allows us to cut the cost of fuel, so it's been helpful.

TI And do you see that continuing into the summer, or do you think that's a winter story, do you think it's going to come down, and you'll actually see a reduction?

UM1 We don't have the winter view, but certainly for the rest of the summer we see flat capacity on our routes, so once we're increasing, and this is, as you know Tim, it's very much, this is a network average, so you've got, you know, differences around the network. But it's, for the rest of the summer it appears that people are being very tight.

TI [Unclear] competition flat [unclear] because you're up, or overall flat?

UM1 Overall flat, [unclear] competition down, we're up.

CM Overall flat, yes.

UM1 Just a question on Easyjet holidays. Halfway through the summer, is that contributing, and is it meaningful?

CM It is contributing, and all contributions are meaningful, I said, in this economic climate, so it is contributing; I mean, you know, it's an interesting one, Easyjet holidays. It's a brand in its own right, Easyjet, and all our effort and focus really, is on the Easyjet.com brands, which is, we want people to book direct, and I think it is definitely giving the charters a little bit of a run for their money, and it is providing a service to Easyjet passengers and people who might not have come into Easyjet, because they like to have a package, but it's a very flexible, contemporary way of doing a package holiday. So I think what it does, it just gives us a different channel to gaining new customers, so from that point of view, it's definitely a contribution.

UM1 And just to touch on marketing [unclear] it seems quite plain, the visibility of yourselves and BA spanned across London, seems quite obvious, can you touch on just how much you're having to spend to continue to generate revenue?

CM We're well within budget, I mean, in fact our marketing spends, our spends per seat on marketing are down [unclear] so it will be much, much more efficient use, so it's fantastic to hear you say how visible we are, because I think we are very visible in all our markets, but actually we're doing that so much more efficiently than has ever been done before at Easyjet, so we're using CRN, you know, database now, in a really brilliant way; we are getting very good deals with media across Europe because we've centralised our media spend with one big European agency, so, you know, there are so many ways you can improve your efficiency of spend, and we've taken all of those opportunities and there's still a bit more to come.

UM1 Is the unit media pricing coming down across the board, or is it more just in terms of the approach you're taking?

CM Mmm, I mean, it depends on the media, so I can't make a comment on, you know, media spend, all I would say is that because of what we're doing and the way we're doing it, we're getting good efficiency on media spend.

UM1 Thank you.

UM1 Carolyn, a quick question. It's, with the [unclear] coming off the royalty [unclear] next year, can you remind me whether that, the royalty is paid on every single pound revenue or whether there are things that it doesn't matter what you do, you've got to pay?

UM1 Yes. That will be about five million [unclear] on the air increase.

CM Any other questions?

UM1 Maybe just to follow on. Just on the cost of seats – there's been very good [unclear] cost control. Can you talk about some of the items, I guess, because I noticed your airport fees are going up. Are you seeing some good stuff on the other items? And secondly, you mentioned baggage, cabin baggage, as an issue there. Is that...?

CM I wish I hadn't, actually.

UM1 Yes, sorry. I do know some airlines in the US, like Spirit [?], actually charge for cabin baggage.

CM Yes, charge. So are [unclear] at the moment.

UM1 Yes, so would it be something you'd consider?

CK As long as your cabin bag isn't over the top [?].

CM I thought you'd say that. Funny that. EasyJet Lean has really easy storage [unclear] actually, compared to cabin bags. I think we have to be careful on cabin bags because it's become a very habitual way of travelling now. It's become very entrenched. But there's no question that it is an issue for all airlines, not just the low fares airlines. It's an issue now for all airlines, cabin baggage. And we are working and we will be able to tell you what we're doing on that later. It does not involve charging for cabin bags. We think being a first mover in that would really, really hack off passengers, really hack them off, because we charge for [unclear]. So, I think that you have to be very careful and sensitive about that. It's quite a fine tipping point about where you just tip them over the edge and they just go, right, I'm not using

you again. So we have got some good solutions to that, but they're not about charging. We're watching this with interest [unclear]. They're the first to move in this market on the charging for cabin.

CK And then EasyJet Lean, I think as we said, at the half year, the programme is well in place, so we're making progress on all costlines. I think the notable successes this year and in Q3 have been in the airport in ground handling, so negating effective airport inflation, and actually getting reductions in ground handling costs. So, that's a big win, and then what we're also seeing – and again, as we said at the half year – is that the crew costs, which were up at the half year, and now we're getting the benefit of quota efficiency over the summer flying, so the crew costs that have tended to encroach on Q3 are very low.

UM2 Can I just ask a question about capacity for next year, and when you'll firm up on your thinking, or what your thinking is for the [unclear] next year?

CK Cautious, I think is a better way to describe it. We talked about winter where we're going to be very careful about [unclear] the capacity, and clearly we've got the capacity that we're freeing up from Madrid, so the bit that we're not flying with [unclear] flying. We haven't given any public statements around capacity for next summer, but we remain cautious with the environment that we're in.

UM2 That's great. [Unclear] on cost of seats. What else can you do, and so what should we expect over the next 12 months?

CK There's a whole variety; there's an array of initiatives. I think the thing about Lean is it's lots and lots of small things being done which incrementally add up to a sizeable number. So this year we talked about 90 million savings; we're well on track to deliver those. I would imagine, and we're still pulling all the numbers together for next year, that it would be the same order of magnitude next year in terms of more incremental savings.

UM2 Right, okay.

CM But it's important to stress, as you said before, that we don't come up with targets that are not completely embedded in the business. So we don't have a target of costs that you can gain and then the unit costs actually go up because someone else is spending it somewhere else. It's really all about net cost reduction [?] and it's embedded in everything we're doing. That's what EasyJet Lean is about. It's just a way of cost reduction all the time. It's a way of thinking of costs all the time.

UM2 Great.

UM3 Maybe let's go back to the Olympics operationally. What are you doing differently in London now versus what you would have a year ago?

CM Warwick will be so happy you asked that question, because we're doing loads, actually. We've been very... We've always said, we said at the beginning of the year, although we've never worked through an Olympics in our own backyard, clearly, we expected it to be operationally challenging. And so with that in mind, we're very prepared, and we're not spending any more money on this preparation, but we have... For instance, unfortunately in the OCC, there won't be many summer holidays. So we've strengthened our rostering over that period, so we bought in more of the people that would have... In summer, we would always rotate people more so that they get breaks. We've strengthened the rosters there. We have got the Met Office sitting in the OCC, so we've got two or three people from the Met Office sitting in there, helping out...

UM3 [Unclear] going to rain?

CM We don't mind rain; what we really mind is thunderstorms which really havoc, for instance, at Gatwick, they're doing some runway work that Gatwick says they have to do, and that can really cause a lot of problems. So the Met Office has very kindly given us people to sit with us to really assess what the weather is going to do to our operation and how we can manage that. We've also got permission from [unclear] to join their [unclear] conference call every day, so the OCC, a member of the OCC, will always join the [unclear] teleconference every day so we know exactly what's happening with airspace and congestion. And, as you'd expect, we have a business disruption call every... It's not disrupted, but we call it BDT. We'll do an Olympics call every single day so that everyone in the network is just aware of what's happening in the London area. So there's a lot of focus and effort on how we manage our way through the next two and a half weeks.

UM4 How many additional staff will you have at London Airport for the duration?

CM We will expect Menzies and our other suppliers to have more staff at the airports, and they will do so because they have committed to covering that. Remember it's not actually to deal with more people. So we don't need extra staff dealing with more passengers. We haven't got more passengers; we've got high loads, but we'd expect to have high loads in July. It is our peak period anyway, so it's not about staffing. And what you'd hope is that, I think, they've got the message now in immigration on security. It's the airports that have the staff for that. Any other questions? If there aren't any other questions... James, could you just ask if there are any other questions on the call before we wrap up?

JA Certainly. So, ladies and gentlemen, another reminder. If you would like to ask a question, please press star one. We have one more question now. It comes from the line of Alexia Dogani, from Librum Capital. Please go ahead.

AD Hi, I have three questions if possible. Firstly, I just wonder if you could give us an update post the BA acquisition of BMI, and one, whether you have valued the opportunity of getting some [unclear], and two, what's happening on Gatwick with regards to them and also with regard to your plans to ultimately grow that base.

Then secondly, just a brief comment on South End, I guess. What's your view from the first summer operation? And then, thirdly, I might be slightly overthinking this a bit, but the lines of flying charge, how have you attributed... According to which schedule have you attributed a line of flying, or have you just chosen this line of flying operates this during the winter, and something else during the summer? Thanks.

CK So, BMI and... Heathrow is not an EasyJet airport – highly congested, high charges, so highly unlikely that we would...

CM Yes, absolutely right. Highly, highly unlikely, although of course we evaluate spots wherever they come up, so we will have... We looked at BMI as you'd expect us to. It was not at all relevant for us. It's worth saying that the BA acquisition of BMI has made past [?] the discipline in the UK much, much better, from our point of view. So, it has benefitted us inadvertently, I guess. Heathrow, yes, as Chris says...

CK Yes, and Gatwick, we're just keeping a close eye on what's happening there, but no firmness at all there. On the line of flying, I'll do that and then maybe hand back to Carolyn for South End. Line of flying – the actual... What we did was we looked at what each aircraft actually flew in the 12 months to 31 March, so it's the tail by tail registration by registration. What schedule did they actually fly, including when they were... down time for maintenance and so on.

CM On South End, yes, having a good first summer, so it's from an operational point of view going very well, and commercially it's doing what it should do. So, we're quite happy with South End.

AD Okay, great. Thank you.

CM If there are no more questions, James...

JA We have no further questions coming through.

CM Okay, great. Can I just say thanks to everybody on the call and also everyone for joining us for breakfast? Thanks for your time. Bye.

JA Ladies and gentlemen, thank you for joining today's conference. You may now replace your handsets.