easyJet Q1 IMS Call Transcript
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Speaker key

CO	Coordinator
CM	Carolyn McCall
CK	Chris Kennedy
JC	Jarrod Castle - UBS
NG	Neil Glynn - Credit Suisse
SF	Stephen Furlong - Davy Research
PH	Peter Hyde - Liberum Capital
TM	Tim Marshall
AL	Andrew Light
DB	Damien Brewer
ALO	Andrew Lobbenberg
DO	Donal O'Neill
GC	Geof Collyer

CO Good morning, ladies and gentlemen, and welcome to the easyJet Q1 IMS conference call. My name is Dave, and I'll be your coordinator for today's conference. For the duration of the call you will be on listen-only, however at the end of the call you'll have the opportunity to ask questions. If at any time you need assistance, please press star zero on your telephone keypad and you will be connected to an operator.

I'm now handing you over to Carolyn McCall to begin today's conference. Thank you.

CM Thank you, good morning everyone. Thank you for joining me this morning to discuss our IMS and first quarter 2012/13. With me this morning is Chris Kennedy, our CFO, who I know you all know. You should have been sent the slides along with the IMS, and the slides are also available on our corporate website. I intend to keep the presentation quite brief this morning to give time for plenty of questions that you may have.

We've made a strong start to the new financial year, making progress against our four key strategic objectives, which are to drive demand, conversion, and yields across Europe, to maintain our cost advantage, and to build strong number one and two airport positions, and also to have a very strong disciplined use of capital.

Q1 revenue and costs are ahead of the H1 guidance issued in November for several reasons. We saw continued benefits from management action, including the absolute focus on network returns. The Europe by easyJet campaign, and the ongoing cost savings from easyJet lean.

We also benefited from another quarter with low levels of disruption, and industry capacity constraint with further competitive retrenchment on our routes. We've successful completed the operational roll out of allocated seating across the easyJet network, with the service now being offered on all easyJet flights since the end of November.

As we discussed with you in November, our focus has been on minimising the operational impact of the change, initiatives such as easyJet turn have ensured that on time performance was better than we expected.

It is worth noting that all the major airlines experienced fall on OTP in December following heavy snowfalls in parts of Continental Europe, and easyJet's OTP remains industry leading.

So we had a strong quarter of revenue growth, as you can, load factors rose by four percentage points to 88.6%. Q1 revenue per seat grew by 8% on a constant currency, 3.9% on reported basis, to £53.87. As you can see as well, currency movements had a significant negative impact on RPF, the effective euro/sterling exchange rate for revenue in quarter one moved by 7.3% year-on-year, from 1.14 to 1.23.

It is worth noting however that the euro/sterling movements causing the negative impact on revenue gives us a cost benefit. The effective euro/sterling exchange rate for cost moved by 6% year-on-year, from 1.16 to 1.23.

The net impact of currency in Q1 was an adverse £15 million. As planned, the average sector length declined by 2.4% and this is entirely about the introduction of shorter French domestic routes.

The strong revenue performance was driven by seat revenue, ticket pricing, bags, fees, and charges, rose by £2.20 to £53.07 a seat. Our seat revenues and load factors benefited from continuing to re-orientate the network to drive up returns, a good example of this is year-on-year changes to the network including the new French bases in Nice and Toulouse. Also higher than anticipated competitive retrenchments on our routes, competitors removed 800,000 seats on our routes in this quarter.

A good start to the skew season on the back of a strong end of summer season in October, and finally the ongoing success, which I've mentioned of the Europe by easyJet campaign. And improvement to the website including Inspire Me, the functionality that gives people the opportunity to browse and pay on the web very quickly for things that they search for.

We expected non-seat revenue to reduce in the quarter, and the 17 pence fall to 80 pence per seat was predominantly driven by the continuing structural decline in the travel insurance market. To combat this we have worked with our partners to launch a range of new accommodation and insurance products, which will deliver benefits later in the financial year.

The capacity discipline chart demonstrates the overall reduction in industry capacity this winter, shows that competitor capacity on our routes is expected to decline by 2.5%. On the same routes we will add in 3.6% of profitable new capacity, with an overall decline of 0.8% of total capacity.

Since we updated you at the full year, further competitor capacity has come out in the UK, in Spain, and also in Germany. We expect 1.8 million competitor seats to come off our routes this winter, a further decline of 600,000 seats since November.

The growth in the French market is driven by Air France's regional base programme, which I know you're all familiar with, and as you also know they have stated that this part of their strategy is under review.

Ongoing high fuel costs have increased the marginal cost of flying an aircraft, as a consequence we fully expect there to be further medium term retrenchment from competitors on our routes, as competitors of higher cost bases cannot profitably offer comparable low fares to easyJet.

On costs, reported cost per seat excluding fuel grew by 0.5% in the quarter, cost per seat growth at constant currency was 2.9%, better than guidance for the half between 4% to 5%. Dysfunction this favourable variance, there was benign weather in the UK and most of Northern Europe, and limited levels of external industrial action.

In the quarter we cancelled 64 flights, against 236 flights cancelled in the same quarter last year. A significantly lower disruptions were over £9 million, or 1.6% cost saving against expectations. If we had experienced normal levels of disruption we would have been within the H1 guidance range of 4% to 5%.

We've rolled forward some of the provision into Q2, and disruption costs have increased in the last week following the recent cold snap, which you are more than aware of. In the first 17 days of January we cancelled only 13 flights. In the period of heavy snow from Friday to Sunday evening, we had to cancel over 200 additional flights at a cost of approximately £1.5 million. We've experienced further disruption from snow, fog, and freezing temperatures at the start of this week, we'd expect additional cancellations and ongoing disruption costs until weather conditions improve across Europe.

This year-on-year increase in cost per seat was driven by cost at regulated airports. On a separate point, in Q1 we incurred £16 million of the £17 million annual airport cost increase flagged in November. As you are aware inflationary cost pressures are partially offset by easyJet lean savings. In the quarter we saw further benefits from negotiating new ground handling contracts, and concluding airport deals with non-regulated airports. For example, we've recently announced a long-term deal with Edinburgh Airport. We've delivered £12 million of the targeted £35 million easyJet savings in the year to date.

On networks, if you look at the slide, our Pan-European network, as you all know, has a significant competitive advantage. We remain absolutely committed to improving returns across the network. We've launched some new routes, which I think will excite consumer interest, for example from Manchester now we fly to Moscow, Reykjavik, Tel Aviv, Venice, and Basel. Our new French regional bases in Toulouse and Nice are performing well, and they've attained number two market position with over 20% market share.

So we continue to make progress during the quarter to attract more passengers. Travelling on business to the airline in December easyJet reached the milestone of carrying 10 million business passengers during the previous 12 months.

On capital our balance sheet remains, as you know, one of the strongest in European aviation, this gives us a competitive advantage through access to funding at a lower cost, on the ability to withstand significant cost or revenue shocks.

We remain absolutely committed as I said to generating return in excess of our cost of capital, and the easyJet board aims to fund dividends and profitable growth for the cash flows of the business.

This disciplined approach of capacity deployment has driven a significant proportion of the improved revenue and load factor performance in the quarter. We continue to target routes achieving at least 12% ROCI, including leases, which is approximately 15% excluding leases.

We are in the process of closing the sale and leaseback for 12 new A320s and the 12 oldest A319 aircraft. The lease agreements in respect of nine A320 and 12 A319s have been signed. Negotiations of the remaining three A320 leases are at an advanced stage, and targeted to conclude within the next month.

I'm now going to hand over to Chris to talk about fleet, hedging, and forward bookings.

CK Our evaluation of new generation of short haul aircraft is progressing well. All three air trains and both engine manufacturers can fulfil our technical and network needs, and both engines demonstrate a cost saving over the current technology. We've got a complete understanding of the risk and costs of transitioning to a different manufacturer. So the final decision on whether to place an order, and if so which manufacturers, will be solely determined by the economics of the deal.

It's important to stress that a new fleet order would be entirely consistent with our existing prudent, flexible, and targeted approach to capacity growth of 3% to 5% per annum. And it would have a significant amount of flexibility built in.

It's clear that the more fuel efficient aircraft will enable us to improve on our current cost advantage over competitors on our routes. The new order would also provide the opportunity to continue to replace 156 seat aircraft with 180 plus seat aircraft, which we know, gives us a lower operating and capital cost per seat.

It'll enable easyJet to retain its leading market position as its existing fleet ages, and give it the ability but not the obligation to capitalise on profitable opportunities to grow.

To maximise the benefits from next generation aircraft, we'll minimise expenditure on current generation aircraft from now until 2017. It's also vital that any new fleet order contains sufficient flexibility to meet our fleet planning arrangements, so ensuring that we maintain the ability to phase timing of aircraft deliveries to reduce the risk of holding surplus capacity. To allow the time necessary to secure the right deal, we may consider converting options to three A320 aircraft under the current framework agreement with Airbus. This will ensure there is sufficient capacity to fly the planned 2014 summer programme whilst the proposal to shareholders covering both the next generation of deliveries, which is likely to be after 2017, and the plan for the bridging period from 2015 to 2017 is finalised.

We've taken our time throughout the process to ensure that the fleet evaluation has been detailed, robust, and thorough, and we'll continue to take the time necessary to ensure that we do the right deal at the right price. We will not do a deal if we can't get the right price.

Moving to hedging, we're well hedged for the remainder of the year, and all the positions listed are within our policy. We’ve hedged 78% of the 2013 fuel requirements at $985 per tonne, 82% of dollar at $1.60 to the pound, and 75% of euro at €1.18.

Moving on to forward bookings. We're pleased to report that forward bookings for H1 are 72%, 2% ahead of the same period last year. These numbers include a benefit in H1 from the timing of Easter, which fell in April in 2012, and will fall on March 31st this year. And with that I'll hand back to Carolyn to take you through the outlook.

CM You will have seen our outlook in the IMS obviously. Our H1 capacity will grow by around 3.5% year-on-year. We are planning on growing H2 capacity by around 3.2%; full year capacity will be just before 3.5%.

Following on from the strong Q1 revenue performance we expect H1 revenue to see a constant currency to be between 6% and 8% up assuming normal levels of disruption. Cost per seat excluding fuel will increase by 3.5% to 4.5% in H1 at constant currency, assuming normal levels of disruption with a slightly lower increase for the full year.

It's estimated that at current exchange rates, and with fuel remaining within the $1,000 to $1,100 metric tonne trading range, easyJet's unit fuel bill 2013 financial year will be between £5 million and £25 million higher.

In addition exchange rate movement, excluding those related to fuel, are likely to have a £35 million to £45 million negative impact in the 2013 financial year.

We expect our first half loss to be in the range of £50 million to £75 million, assuming normal levels of disruption. This is a strong performance in a challenging market, with only around 15% of summer seats sold; it's too early to give guidance for the full year. However, the structurally advantaged position that easyJet occupies in the European short haul market, and the continued successful implementation of the current strategy means we remain confident in our outlook for the business, and will continue to deliver sustainable returns and profitable growth for our shareholders.

Thank you, over to you for questions.

CO Thank you. Ladies and gentlemen, if you'd like to ask a question, please press star one on your telephone keypad. If you change your mind and want to withdraw your question, please press star one again. You will be advised when to ask your question.

The first question is from Jarrod Castle from USB. Please go ahead, Jarrod.

JC Good morning. If I could just ask three quick questions. You give a little bit of details on reserved seating, and in terms of on-time performance, it seems like it's not having much of an impact if any at this stage I guess. But can you give any colour in terms of just take up of reserved seating and what you're seeing there?

Secondly, can you also talk a little bit about Europe by easyJet, that initiative? I'm just wondering what was the cost in Q1, and how much money will you be spending on increased marketing for 2013 versus 2012. It seems so far to be paying off.

Lastly, can you talk a little bit about sale and leaseback rates; has it been in line with your expectations?

CM I'm going to take the first couple, and I'm going to hand over to Chris for the sale and leaseback.

On allocated seating, as we've said, the whole focus of the airline has been on operationally getting it right. I think you're right, we've had an OTP of 86%, its industry leading, slightly marginally down year-on-year, but actually its better than we had anticipated. So it's better than our own plans. So we are very pleased, we think that the ground ops team, and the cabin crew, are implementing it well, and will continue to be trained and evaluated to implement that well. So we're very focused on that.

In terms of take up, what I can say is that we're not surprised by the take up, so we are confident of covering the speedy boarding revenues with the extra leg room seats, and we are monitoring carefully all of the other take ups of the other levels of seats. As I've said right from the very start, we need a little bit of a run in at this to really see what patterns are emerging on take up and revenue trends. So we will give you much more colour on that at the half year, and certainly at the full year, so that you will get a sense of where we will be able to be going with this on the revenue trend. Suffice to say that we are pleased with allocated seating and the way it is going.

On Europe by easyJet, in the quarter clearly we've done a little bit of marketing in Q1. It's more about how we've developed the website with functionality like Inspire Me in Q1. In Q2 you will see more TV advertising, quite a lot of advertising about allocated seating at all the airports from the perimeters from the airports, which will be about easyJet. But we'll always sell allocated seating, because remember from April this year, when you come onto the website, you will know about allocated seating when you are booking. Whereas previous to this a lot of people have booked their flights already with easyJet and will not know about allocated seating necessarily. So there's a whole range of things on that.

The TV advertising has conclusively and measurable worked very, very well for easyJet, whether that is in the UK, Italy, or France. We've never done TV advertising in Italy, or France. The return on that has been very, very strong. So we will continue to do that, you'll see that. In fact we've started the campaign in January, so that will be as of Q2 you will start seeing that.

We are not spending more money on marketing; we're spending less money on marketing, so in the full year you'll see a benefit on the marketing spend of around a 5% reduction in the marketing budget. And that is because through what Pete Duffy[?] has been able to do, with the use of a couple of relationship management tools and techniques, and data base, we're just much, much more efficient in how we target and market to our customers and potential customers.

CK	And, Jarrod, and sale and leaseback, I'm very pleased with the financing, both with the appetite from banks of the new A320s and the older A319s, which is great news. Lease rates are better than we they were last time we went to market. So again in this environment I think it's a testament really to the fact that money is available, there aren't that many strong airlines, people want to do the sale and leaseback. If you've got a covenant like easyJet has got, then actually the rate, and as importantly the redelivery condition, are both very advantageous to us.

JC	Okay, thank you very much.

CM	Okay.

CO	The next question is from Neil Glynn from Credit Suisse. Please go ahead, Neil.

NG Good morning everybody. I wanted to start by if I rewind back to your last capital markets day, you'd highlighted potential for future profitable growth in one helpful chart. But since then we've obviously had a lot of competitive retrenchments, competitors have been effectively pulling out of your way. So I'm just wondering what your latest take is in terms of what the potential is for you to grow in the future, whether it's expanding into new bases, or just adding frequency at existing bases.

The second, the second of two. I guess since you've introduced allocated seating in November, you've obviously had a bit of time for the corporates that you're pitching to to digest the new and improved easyJet product. Have you seen any improvements in terms of take up or in terms of prospective deals through the start of this year?

CM Lets take the first point about retrenchment of competitors in H1. I think it is worth us saying, Neil, that in H2, where there is a lot of demands currently. I don’t think any airline at the moment would see in Europe that there's less demand in peak summer than we've seen historically. We are being very cautious about making any assumptions that there will be any capacity coming out of the market in the peak summer slot, and therefore that's where we are at the moment on H2.

What I would say is clearly we are very clear about where we can organically grow profitably and make those targeted ROCI returns. As I've said, we would say France, Switzerland; we're seizing opportunities, Italy, although Italy is more fragmented. We've just heard that Vilenata[?] [unclear] that was an appeal by other airlines, and we've just won that. So that's good for Italy.

In terms of expanding bases, there's no change there really, it will be more of what we are doing because our strategy is very, very clear. In terms of expanding to new bases, because we want to be number one or number two at every airport we operate out of, we will be very, very prudent about the bases we put aircraft in. Also we will make sure that we get our cost advantage if we do so.

So I would say the most obvious example of that would be somewhere like Amsterdam where we get asked all the time internally and externally why we don't have a base in Amsterdam. The very simple answer is the pricing is not right. Until that pricing is right, we won't open a base there. So that's what we make our evaluation on really, it's the [unclear], and the cost advantage we will get at an airport.

On the corporate side, it's gone well this quarter, actually, in terms of take up. We can't announce what it is, but we’re just about to sign a couple of deals with two great big TMCs in the UK as well.

We did the Scottish public sector deal, which is a very, very good for them, as well as for us. So, yes, I would say now that we have the sales teams who are really embedded, they've been trained, they're embedded, and they’re getting used to it. The attraction around corporates is increasing, and I think the increasing economic change, the fact that things are not really improving in Europe, is also giving us that window to go in and sell easyJet as a business.

NG Great. Thank you, Carolyn.

CO The next question is from Stephen Furlong from Davy Research. Please go ahead, Stephen.

SF Morning. I just want to quickly go through a bit on the cost side. In Q1 the costs were spectacular in terms of the cost receipt, it just increased by 0.5% on a reported basis. Is that more just a disruption, because I see on a full year basis you've pretty much given the same cost guidance as before. So you might just flesh that through a bit please. Thank you.

CK In the quarter, 0.5% on a reported basis, obviously helped by the euro moving the right way on costs, on constant currency basis it was 2.9. As we said in the presentation, that is almost entirely driven by lower than anticipated disruption. So if disruption had been at the level we thought it would be, our costs would have been 4.5% up on constant currency, which is right in the middle of the guidance that we gave. That increase, by the way, is all regulated airports, so the Spanish AENA charges coming through and it's also the Italian Terminal Naviad as well.

In terms of the guidance, what we're simply assuming is that the disruption will happen at some point, and as seen in the weekend just gone, it happens very quickly when it does. So that's why we've kept the full year guidance the same, which is saying there will be disruption, and just because it didn't happen in Q1 doesn't mean it won't happen in Q2.

SF That makes sense. Great, thanks.

CO The next question from Peter Hyde from Liberum Capital. Please go ahead, Peter.

PH A couple of points really, firstly on the provision roll forward, could you just talk a bit more about what that is exactly. I think you mean from Q1 through to Q2 or the rest of the year?

CM You mean on disruption, Peter?

PH Yes, I think so.

CM Yes, that's the roll forward.

PH Secondly, I noticed you haven't done any more fuel hedging as far as I can make out, and I just wondered if Chris could give us a view on where the policy is, what he's thinking over the next six to nine months about hedging fuel. I don't think he's done any more in the last three months.

Then looking a bit more medium term, you're talking about growth to 3% to 5%, is that an indefinite target, or is it just literally for the next couple of years, or how do you see that growth panning out?

CM Again, let me start with the... I'll start with the medium-term target because that's very... is very quick and then Chris can go through the other two things. It's not a target, Peter, it's what we believe we can do sustainably, get the ROCE returned. We believe that is absolutely doable over the foreseeable future, and that's two to three years, medium term. If indeed the market changes you know that we negotiate, and have always negotiated actually since we've been around, that flexibility on fleet. And we have exercised that flexibility actually in recent times. So we have moderated the growth in order to take the maximum amount of return because of actually being quite disciplined about our own capacity. So we would do that again, but if things suddenly bounce back in Europe we would have the flexibility to go further up from the three to 5%.

So it is not a target, it is a planning assumption for us to go through the plan of the year that we are currently in and the year ahead, but that's all it is and that's to give you guidance as to where we think it is.

CK Yes, so, Peter on this roll forward, that's exactly what I was saying to Stephen, which is that we've simply assumed that the disruption that didn't happen in the first quarter will happen in the second. So that's the £9 million that we have just simply said for guidance purposes, it'll happen in Q2.

On the fuel hedging, fuel has been trading between 1,000 and 1,100. It's actually been quite benign in terms of volatility in the last few months, which is helpful. By the way, we like high fuel because it keeps [unclear] the market and it's a competitive advantage to us. And we'll continue just to hedge in mechanically, if you like, at this level. It's all about smoothing, as you know. It's not about trying to play the market. So we'll just keep mechanically averaging in.

UM And I'm really sorry, could I just ask one last, final question? Sorry about that. Route churn, I just did mean to ask about route churn, which is slightly similar to Neil's question, which is given you're only growing at three to 5%, do you think you will at the edge churn quite a lot of routes and change capacity? Have you got more time to focus on that than you have done historically?

CK Certainly I think part of the success in Q1 has been around being really forensic about the routes we fly in H1. It's not so much... there is route churn and we regularly review the underperforming routes and we have targets that they need to be fixed or exited every year. So you're... yes, it's around the three to 5% mark. We are very forensic when we go onto a route, so we don't go onto a route expecting to come off, we expect to stay on and win, but when market dynamics change then we do review and we'll come off if it's not working.

UM Yes, thanks.

CO We now have a question from Tim Marshall from Redburn. Please go ahead, Tim.

TM Hi there, Carolyn. Hi, Chris.

CM Morning.

TM Just two questions. Firstly, you gave some quite useful data on the return on capital employed in Switzerland, France and Italy. I was just wondering if you might give the UK number as well and then perhaps where the returns are lower and give us the characteristics of those markets. I was somewhat surprised to see France as high as it was.

CM Tim, where are you looking? I think you might... tell us the site, because I don't think we've given ROCE by market. I'm pretty sure. In fact I know we haven't, so I think it might be capacity. I think you're looking at how much capacity we've put into the market.

TM	Apologies, I may have read it wrong.

CM	Yes, I think its capacity.

TM	Okay, so let's just move onto the second one. You said about business passengers being up to 10 million, was it, Carolyn?

CM	Yes.

TM	In terms of where you'd expect the percentage to be by the end of this year, do you think that that could be above the 18% that it's been at for the last couple of years?

CM	Not necessarily. I think that... as I've... very, very important this point, which is it's more important for us to be getting the yield benefit from our existing customers with, say, allocated seating, the extra legroom, the flexi fare, the fixed flexi fare, etc., than it is necessarily to grow share. We can grow share very, very quickly by doing some very bad deals, but some TMCs, and we won't do that. So we've held off with two or three quite large TMCs because they want to do volume deals with us and we don't want the volume. You can see our load factor, very, very strong. We don't want the volume, we want the yield benefit, and so we will hold out to get a yield benefit with all of the TMCs.

So our internal metric around business passengers is not about share and driving the market share, it is entirely about getting the yield benefit, and that is what we're doing at the moment. So it may well... because what we're doing is currently our numbers are going up because our passenger numbers overall are going up and our business numbers are going up and therefore we are increasing our share stealthily, if you like, just simply because of that trend. We're not taking big step changes in share because of the reason I've just given, because to do that you would have to make some very poor commercial decisions which would be based on volume rather than on yield.

So no, I don't necessarily expect to move from 18 to 19 or 18 to 18.3 in the next quarter or even in the full year. It's entirely about what I've just said.

TM	It sounds like the right strategy. Thank you very much.

CM	Cheers, Tim.

CO	The next question is from Andrew Light from Citigroup. Please go ahead, Andrew.

AL	Good morning. Yes, a couple of questions, first of all on the sale and leasebacks. So those 12 new A320s, is that just, is that just the deliveries for this year and would you be expecting to be doing more sale and leasebacks going into next year? In which case I imagine the cash balance is going to mushroom.

And then secondly, Manchester Airport taking over Stansted, you have a relationship with them already. Do you have any expectations there given that it seems like they overpaid for an asset that doesn't earn its cost of capital?

CM	Chris will do the sale and leaseback, but I'll just talk about Manchester. Yes, we have a good relationship with Manchester Airport. As you know, we've put more capacity into Manchester. We've got a healthy airport deal there. We work well with them. As for

Stansted, everything we are discussing with them remains confidential at this moment in time.

CK And on the sale and leasebacks, Andrew, it was last year and this year, so if you remember at the full-year results we were slightly under on the lease percentage. So I'm not anticipating doing any more in the near future, although I think, again, as we said in the full year, it's likely that the proportion of leased aircraft in the fleet will go up slightly as we take the time to review new generation.

AL Okay, thanks. Can I just ask a question about Moscow? You've launched a couple of routes there, which is quite a new development I guess. Do you see much more upside there? Because I expect it's a very restricted market and you can only fly probably from the UK and Switzerland and nowhere else.

CM Yes, it was a scarce capacity hearing that we had to do. So what that means is that the yield on that route is very, very good because it's been a monopoly route. So we have a good yields environment, but we're not naive about the things that we will have... we have to have some deals in place with partners in Moscow in order to get an outbound market as well as an inbound market. So it's not as straightforward as some of the other routes that we fly, but it's a high-yielding market, which makes it worthwhile.

So, as you know, we're doing Gatwick to Moscow, Manchester to Moscow and then we'll take it from there. Our entire network strategy is to connect places with each other in our network. So we will review how that goes and as and when we can apply we will do so. [Overtalking]. Manchester to Moscow, for instance, didn't need... didn't have a scarce capacity hearing, we could just do that, but it wouldn't have made sense to do a Manchester Moscow without having a Gatwick Moscow. And that's what we did need a license to do.

AL But would I be right in saying that because you're AOC only in the UK and Switzerland that you can only fill those places [?] from Russia and not your other European base?

CM At the moment I think that is right.

AL Okay, thanks.

CO The next question from Damien Brewer from RBC. Please go ahead, Damien.

DB Yes. Good morning. Thanks for taking the question. Most of mine have been answered, but just one really remaining. Can you give some idea of how much of the fleet is going to be based at Gatwick this coming summer? I think from Gatwick Airport presentations it looked like about a quarter last year. And how you're thinking about the capacity actions by competitors there and how you respond to that.

CM It is roughly a quarterly. GAL would obviously tell the truth on that. And it's no different really to what's... as our fleet has gone up marginally, Gatwick reflects that, so it's gone up marginally in terms of the assets they're putting in there. In terms of competitors going into Gatwick, we like competition. We don't have a problem with it and we will fight hard and we will protect our position, and we are fierce competitors. So our approach is we have a plan for every route that a competitor comes on and our approach will be, if it's a route worth fighting for, otherwise it wouldn't be in our portfolio, we will fight for it.

DB Understood. And then just one very final add-on, on the A320 fleet, could you give us a feel of how much of that is the mix of fleet at the end of the first quarter - and obviously that brings some substantial couriering [?] benefits - and how much that's contributed to the cost-per-seat performance, please?

CK Yes, we haven't given any specific guidance on the 320 mix benefit in the quarter. It's moved up from roughly 25% and into the late 20s percent now. So we took delivery of two 320s and two 319s went back. As you say, there's a clear benefit, but it's not only restricted to crew, it's also on airport charges and on fuel. And that's an important component of Easyjet lean, is getting that year-on-year cost improvement from the 320 up-gauging.

DB Great. Thank you.

CO The next question is from Andrew Lobbenberg from HSBC. Please go ahead.

ALO Hello. Good morning. Can I just ask you...? You mentioned, Carolyn, about the flexi fare. Is there... are we seeing much traction and take-up on that or is that still very small beer? And then separately on another issue which you previously referred to as fairly small beer, but again with potential, the cooperation with Thomas Cook, is there any sign of how that's going and what the potential is to develop that?

CM On flexi fare, its small beer in terms of the overall revenues that we make in Easyjet, but it's not small beer given that it is a new market and we're fishing in a new port. So anything we get on flexi fare is utterly incremental margin and therefore it's not small beer when you look at how hard it is to get yield sustainably in the aviation industry. So it is going well. And I think the fixed flexi, which we're doing with some companies, so, for instance, the Scottish public sector, if they want to do this... to buy with us regularly they have a fixed flexi fare so they know exactly what it's going to cost them if they fly with us at various... two or three times of the year. And that seems to work better for some corporates or public sector institutions than having a variable flexi fare. So we've refined the flexi proposition and that seems to be working much better now.

On cooperation with Thomas Cook, there's serious... it's a serious deal. It's going well. I think they're happy with it and we're happy with it because our view there is that working with them is good. And if there are any other opportunities that are mutually beneficial then we will clearly look at them and if there aren't then we won't. So we're very pragmatic and clinical about that. But it's going well at the moment. It's a serious deal.

ALO Lovely. Thanks so much.

CO The next question is from Donal O'Neill from Goodbody. Please go ahead, Donal.

DO Hi, guys. Good morning. A few questions from me, please. The first one is quite simple. Just in terms of load factors, and I know you don't manage the plane on a load factor basis, but with any percent of the passengers booked now for the remainder of the first half, is it fair to say that we would see a higher load factor in January, February, March than we saw last year?

The second question, just in terms of capacity growth, you talk about being able to convert three options on A320 aircraft. How many more...? Assuming you don't... if you were to assume you don't do an aircraft order, how many more options would you need to convert in the years beyond 2014 in order to achieve your capacity target growth rate?

And the last question is just on the aircraft order itself. When you look back obviously over the course of the previous set of deliveries, clearly the returns on capital were the weakest or approaching the weakest during the highest delivery phase or years where there were greater deliveries. Have you looked at what impacts the aircraft order, having done a commercial review, what impact that might have on your returns on capital going forward?

CM So your first question is about load factor. Chris, have you got the sheet there? I think you will see in January load factors will be slightly up year on year. So is your question around load factors about the volume yield debate that we have almost on a three-times-a-day basis at Easyjet?

DO Yes, kind of, but even more simple. Just I would have thought with 80% passengers booked for the second half that load factor will be... rather than 81% might be 83%. A very, very simple [overtalking].

CK Well, certainly first-half loads will be up because of... mainly because of Easter, so you've got effectively half of Easter in H1 this year versus last year. And also we are seeing loads and yields increase in Q1. We saw that... and that is all about having the discipline around the network and the schedule, importantly, is the frequency on the routes we fly, to the routes that we fly. So the revenue team work very hard to maximise the contribution from each flight, and that at the moment is involving high loads and high yields.

CM On the capacity growth and the three options, so as you heard us say, we're not confirming that we will convert these options, we're saying it is possible we will need to do that to secure the summer 2014 plan. And that will only be if we can't do the bridge plan and the new generation order in one class one transaction, which is our aim and remains our aim. What we don't want to be is disadvantaged in any way on timing or on actually the deal itself. So we want to give ourselves space to do that deal, which is, as you know, a very long-term deal, well.

If indeed we don't do an aircraft order at all, as you said, then we have the current airframe deal with Airbus and we have over 40 options that we would be able to exercise in order to make the plan over 2014, because the three options are for 2014, and 2017, 18, which is when we'd have to review our position on new gens because a lot of other people would be buying new gen aircraft.

CK So yes, as Carolyn said, the framework deal, we have options available to support that strategy of very prudent, profitable growth, and the replacement of the 319 would be more cost efficient. And actually the capital cost of the 320 per seat is lower as well. So, as I said, 320 replacement is an important part of Easyjet lean and we have the framework deal to see us through at least to 2017, 2018 if we need it, which puts us in a good position around the new engine negotiation, so it enables us to have a very measured view of that. We don't need that deal and we'll only do it if it's the right price.

CM And your third question was really related to the balance sheet, which was... I think you said that whenever there's been aircraft being delivered in the past the ROCE was at its lower levels. Is that right? Yes.

CK Yes, again, our strategy is that growing slightly ahead of market with the three to 5% growth is exactly that. We think that that is the sweet spot where we can maximise returns for shareholders, so we can provide returns and growth. Previously, when you look back, the company was growing in double-digit percentage terms, so a very different environment from where we are today.

DO Yes. That's great. Thanks for that, guys.

CO We now have a question from Geof Collyer from Deutsche Bank. Please go ahead, Geof.

GC Yes. Hi. Morning, everybody. A lot of my questions have been answered, but just quickly going back to Tim's question on business passengers, you gave the 10 million figure for 2012 business passengers, can you just remind us what it was for 2011?

And then secondly, can you confirm that all the GDS software has now been completed, so you're completely up and running on attacking the business market?

And then just a quick third point, presumably, given the potential for the new aircraft order, part of the rationale for upping the dividend profile last year from 20% to a third pay-out is [overtalking].

CM Can you just say that again, the third question? Sorry, you broke up a minute.

GC Sorry. Given the impending discussions on the class one transaction for new aircraft, presumably part of the rationale for upping the dividend pay-out last year from 20% to a third is that that's what shareholders are going to get rather than utilising any surplus capital in any further special dividends until the aircraft situation is resolved.

CM Let's go with the class one first on the rationale. The board took a view and has consistently said that it will review the balance sheet every year at least once a year, and it does so actually more frequently, to see what the right level of dividend cover is. And there was... 20% was... when we said it we said it was going to be the minimum level, and we've now put that up. I don't think you should assume that in the next four years nothing else would happen to the dividend. I think it entirely depends on how much cash is in the balance sheet. So I wouldn't assume anything at the moment because we will keep that under review and we will talk to you about that as and when the board has made a decision around that.

I'm just taking your questions backwards there, Geof. On GDS, no, it's not all up and running. I think this has been one of the reasons why the real traction on revenue is going to be this calendar year, and Q1 has started it off quite well. But actually Amadeus, the technology they are paying for and delivering for us to make Easyjet easy to use for the TMCs on their system won't be with us 'til March, and it's the same with Travelport, and actually Sabre are slightly behind them. So actually the technology barrier to getting into this has been quite high.

And remember, we are doing this in an Easyjet way. We are not changing our system to be more complex or complicated in order to fit in with actually what we see as quite arcane technology. GDS is a very clunky, old technology, 30 to 40 years old. And we have decided not to go full GDS because of that, because it would affect our own IT systems and would be costly and actually complicated. So we've waited for them to do modifications, effectively, to make us easy to use on their system, and that has taken time. I think by spring I'm pretty sure that we will be up and running with Amadeus and Travelport, which will be very good news indeed.

On business passengers, it will be an increase of about 1.6%. Oh sorry. Hang on, let me just see if I've got that right. It's about 6%. It's approximately 6% against last year in terms of the increase.

GC Thanks very much indeed.

CO Ladies and gentlemen, as a reminder, if you have a question or a comment please press star on your keypad, star one. I have a question again from Jarrod Castle from UBS. Please go ahead Jarrod.

JC Yes, sorry, just a follow-on question with regards to the potential airplane deal, and you might have answered this. Sorry, I might have missed it. But can you just give, in the broad sense now, just timeline between I guess board evaluation completing and sign-off given by the board, then going towards the class one and hopefully then reaching some form of contract conclusion or I guess rather you get to a point with the companies you're looking at and talking to about a deal and then bring it before the board.

CM Yes. Well, because we're in the middle of the commercial process at the moment we don't... we have our own timelines, but it's not appropriate really to communicate that with you because it could be completely wrong because it will entirely depend on the negotiation process and so to put a timeline would be false. And so all I can say is that we are... the commercial process is going to plan. As you know, the technical evaluation has been done and it has been rigorous, as Chris said. So really the board will be completely flexible as to what timing it will give. It will give it a considerable amount of time and the time will depend on how the negotiations go with the manufacturers, and we are dealing with five manufacturers at the moment. So can't really communicate that timeline.

JC And then... I probably should know this, but I'll demonstrate my ignorance. Just on the class one, if Stelios came out and said he's not happy with progressing and used his family stake to say no, would you still be able to push it through if you got enough votes from the other shareholders?

CK Class one is an ordinary resolution, so it's a simple majority of the shareholders.

JC Okay.

CO Ladies and gentlemen, as a reminder, if you have a question or a comment please press star one now on your keypad. At the moment we have no further questions, so I'll hand back to your host.

CM Thanks very much, everybody. As you know, we're very happy to take questions whenever you've got them. So thank you very much for your time. Bye for now.

CO Thank you for joining today's call. You may now replace your handsets.